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.
The Annual Report 2009 provides a comprehensive overview of the Bank’s activities across all sectors in its region of operations over the past year. It features sectoral summaries, key facts and figures and thematic case studies.

A complete list of all projects signed by the Bank since 1991 can be found on the EBRD’s web site at www.ebrd.com.
President’s message

We expect 2010 to be just as challenging as the previous year... but the EBRD is well prepared to assist countries in their efforts to overcome the crisis and its consequences.

Twenty years after the fall of the Iron Curtain, 2009 was again a year of historic significance as the world economy faced one of its deepest crises on record.

For the EBRD countries of operations the global financial and economic crisis meant a dramatic halt to the rapid growth they had enjoyed previously. It caused severe slumps in output and employment and a deterioration of many countries’ fiscal positions. While the crisis has not led to reform reversals, it has exposed or accentuated weaknesses and vulnerabilities which will take considerable time to overcome.

Recovery and repair will thus be key challenges for the EBRD region in 2010 and the years ahead. During this process it will be particularly important to implement the lessons learned during the crisis. The inflow of external funds and the opportunity to export commodities and goods led to rapid economic expansion, but it also acted as a disincentive to economic diversification and to the development of strong domestic capital markets. And it exposed many countries to contagion from a crisis that had started elsewhere.

A short-to mid-term challenge for the EBRD region is therefore to create conditions under which integration can remain a driver of growth while mitigating the adverse consequences. More than anything else, this is about creating strong private and public institutions supporting the market – an objective that is also at the core of the Bank’s transition mandate.

Credible macroeconomic frameworks and institutions that support sustainable and prudent development are needed. It is encouraging that cooperation with and integration into European and global institutions helped to protect the EBRD region in 2009 from even more severe impacts. The EBRD takes pride in having played a proactive role in this – through key investments and through vital policy initiatives.

Continuation of these efforts in the immediate future will be of the utmost importance. Although we expect the EBRD region to return to growth in 2010, any increase will be modest and far from secure. The global economic outlook remains fragile and many domestic challenges have yet to be addressed. Some fallout from the crisis, including the social impact, will deepen. We thus expect 2010 to be just as challenging as the previous year.

The EBRD is well prepared to assist the countries of the region in their efforts to overcome the crisis and its consequences. Our €7.9 billion record investment in 2009 is a declaration of intent, a determination which is equally shared by our shareholders, donors, management and staff. In line with the region’s needs we intend to keep our business volume around or slightly above that level in 2010.

The adverse economic circumstances and our increased engagement, however, have also been exacting for the Bank. For the second year in a row we have recorded a net loss in 2009. While the EBRD remains a sound and well-capitalised institution, upholding the present level of investment will require an enhancement of our capital resources. This even more so for the period 2011-15, for which our Governors have defined an ambitious set of priorities, including an emphasis on sustainability, support for financial sector stability and financing the real economy, the development of diversified and knowledge-based economies, the shift towards energy efficient low-carbon economies and the acceleration of infrastructure investment.

Amidst the current turbulence we must not forget that our region is rich in human and natural resources and potential. Today, it is more important than ever to channel these forces towards sustainable growth and development. We remain committed to contributing and delivering in line with our mandate and mission.

Thomas Mirow
President
European Bank for Reconstruction and Development
During 2009 the EBRD helped to reduce the impact of the crisis in its countries of operations.
EBRD commitments in 2009

### CENTRAL EUROPE AND THE BALTIC STATES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>248</td>
<td>105</td>
<td>2,082</td>
</tr>
<tr>
<td>Czech Republic¹</td>
<td>8</td>
<td>20</td>
<td>1,130</td>
</tr>
<tr>
<td>Estonia</td>
<td>28</td>
<td>1</td>
<td>509</td>
</tr>
<tr>
<td>Hungary</td>
<td>582</td>
<td>80</td>
<td>2,492</td>
</tr>
<tr>
<td>Latvia</td>
<td>116</td>
<td>0</td>
<td>455</td>
</tr>
<tr>
<td>Lithuania</td>
<td>29</td>
<td>0</td>
<td>493</td>
</tr>
<tr>
<td>Poland</td>
<td>394</td>
<td>109</td>
<td>4,060</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>227</td>
<td>3</td>
<td>1,471</td>
</tr>
<tr>
<td>Slovenia</td>
<td>16</td>
<td>10</td>
<td>628</td>
</tr>
<tr>
<td>Total</td>
<td>1,647</td>
<td>328</td>
<td>13,319</td>
</tr>
</tbody>
</table>

¹ From 2008 the EBRD no longer makes new investments in the Czech Republic.

### SOUTH-EASTERN EUROPE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>59</td>
<td>88</td>
<td>518</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>111</td>
<td>249</td>
<td>1,054</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>233</td>
<td>207</td>
<td>1,920</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>81</td>
<td>55</td>
<td>527</td>
</tr>
<tr>
<td>Montenegro</td>
<td>32</td>
<td>16</td>
<td>103</td>
</tr>
<tr>
<td>Romania</td>
<td>721</td>
<td>318</td>
<td>4,435</td>
</tr>
<tr>
<td>Serbia</td>
<td>444</td>
<td>127</td>
<td>1,829</td>
</tr>
<tr>
<td>Total</td>
<td>1,682</td>
<td>1,059</td>
<td>10,385</td>
</tr>
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</table>

### EASTERN EUROPE AND THE CAUCASUS²

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>85</td>
<td>52</td>
<td>373</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>161</td>
<td>81</td>
<td>971</td>
</tr>
<tr>
<td>Belarus</td>
<td>52</td>
<td>20</td>
<td>262</td>
</tr>
<tr>
<td>Georgia</td>
<td>81</td>
<td>215</td>
<td>681</td>
</tr>
<tr>
<td>Moldova</td>
<td>87</td>
<td>107</td>
<td>348</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1,013</td>
<td>835</td>
<td>4,760</td>
</tr>
<tr>
<td>Total</td>
<td>1,449</td>
<td>1,310</td>
<td>7,395</td>
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</table>

² Formerly Western CIS and the Caucasus

### CENTRAL ASIA

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>438</td>
<td>434</td>
<td>2,385</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>56</td>
<td>12</td>
<td>216</td>
</tr>
<tr>
<td>Mongolia</td>
<td>31</td>
<td>51</td>
<td>132</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>24</td>
<td>35</td>
<td>95</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>4</td>
<td>10</td>
<td>122</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>16</td>
<td>33</td>
<td>548</td>
</tr>
<tr>
<td>Total</td>
<td>567</td>
<td>574</td>
<td>3,502</td>
</tr>
</tbody>
</table>

### RUSSIA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>2,366</td>
<td>1,816</td>
<td>12,934</td>
</tr>
<tr>
<td>Total</td>
<td>2,366</td>
<td>1,816</td>
<td>12,934</td>
</tr>
</tbody>
</table>

### TURKEY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>150</td>
<td>n/a</td>
<td>150</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>n/a</td>
<td>150</td>
</tr>
</tbody>
</table>

www.ebrd.com
EBRD countries of operations

Central Europe and the Baltic states
01 Croatia
02 Czech Republic
03 Estonia
04 Hungary
05 Latvia
06 Lithuania
07 Poland
08 Slovak Republic
09 Slovenia

South-eastern Europe
10 Albania
11 Bosnia and Herzegovina
12 Bulgaria
13 FYR Macedonia
14 Montenegro
15 Romania
16 Serbia

Eastern Europe and the Caucasus
17 Armenia
18 Azerbaijan
19 Belarus
20 Georgia
21 Moldova
22 Ukraine

Central Asia
23 Kazakhstan
24 Kyrgyz Republic
25 Mongolia
26 Tajikistan
27 Turkmenistan
28 Uzbekistan

29 Russia
30 Turkey
Highlights of 2009

**JANUARY**
The EBRD develops financial crisis response packages for countries and clients in the region. Twenty projects worth €800 million are approved or are under consideration to stimulate businesses affected by the crisis.

**FEBRUARY**
The EBRD joins the European Investment Bank (EIB) and the World Bank Group in a pledge to provide up to €24.5 billion to support banking sectors in the region and fund lending to businesses hit by the global economic crisis.

**MARCH**
The Bank launches new sustainable energy financing facilities worth a total of £1.1 billion for the Western Balkans. It also makes a loan of up to €300 million to Romanian oil company Petrom to help set new environmental and health and safety standards for the industry.

**Total worth of projects approved**
€ million

**800**

**JULY**
A US$ 500 million long-term loan to Russian Railways (RZD) is approved by the EBRD’s Board of Directors.

As part of its priority to support the real economies in central and eastern Europe, the EBRD provides a senior loan of €100 million to Erste Bank Hungary, its second largest retail bank, for on-lending to small and medium-sized enterprises (SMEs).

**AUGUST**
The joint EBRD-EIB Multilateral Carbon Credit Fund (MCCF) purchases carbon credits generated by cutting gas-flaring at an eastern Siberian oilfield. This is the Fund’s first venture in Russia.

**SEPTEMBER**
The EBRD increases its annual investment volume to €8 billion.

The EBRD’s Board of Directors approve a €150 million financing package for three subsidiaries of Raiffeisen International, complementing the group’s own continued provision of capital and funding of its banks in eastern Europe.

**Slovak Republic’s first public-private partnership project – the construction of the R1 motorway – receives backing from the EBRD.**
€ million

200

**The EBRD increases its annual investment volume to €8 billion, thus investing around 55 per cent more than in 2008**
% 55
APRIL
With a 64 per cent increase in financing to countries of eastern Europe, EBRD investments hit a record €1.1 billion in the first quarter of 2009.

The EBRD acquires a 25 per cent plus one share equity stake in Parex Bank in Latvia, the country’s second largest bank, and provides a €22 million loan.

MAY
The EBRD and UniCredit Group join forces to secure the flow of credit to SMEs across central and eastern Europe. EBRD investments worth a total of €432.4 million benefit UniCredit subsidiaries across eight eastern European countries.

JUNE
The EBRD launches two rouble bond issues, underscoring the Bank’s commitment to developing the domestic capital market and supporting local currency lending in Russia. It also provides a loan to MOL Hungarian Oil and Gas Company worth €200 million, for investments aimed at upgrading the environmental performance of the company’s operations.

OCTOBER
With commitments already at €16.3 billion, the EBRD, EIB and the World Bank pledge renewed action to support the region’s return to growth. The Joint IFI Action Plan supports the banking systems and lending to the real economy in central and eastern Europe.

NOVEMBER
The EBRD’s Transition Report 2009 addresses the implications of the financial crisis both for the transition region and for the process of economic transformation itself. It concludes that despite the severe blow to economies of the region the transition process will survive the onslaught of the worst global economic downturn for generations.

DECEMBER
A joint statement with other leading international financial institutions (IFIs) in anticipation of the Copenhagen Conference calls for a comprehensive agreement to combat climate change. IFI leaders also agree to further coordinate their own efforts to help achieve the meeting’s ambitious goals.

The Western Balkans Investment Framework (WBIF) – launched by the EBRD, the European Commission, the EIB and the Council of Europe Development Bank, and with the endorsement of EU member states – will pool and coordinate different sources of finance and leverage loans with grants for priority projects in countries of the Western Balkans.
### EBRD commitments in 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>€ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>7.9</td>
</tr>
<tr>
<td>2008</td>
<td>5.1</td>
</tr>
<tr>
<td>2007</td>
<td>5.6</td>
</tr>
<tr>
<td>2006</td>
<td>4.9</td>
</tr>
<tr>
<td>2005</td>
<td>4.3</td>
</tr>
</tbody>
</table>

1 “Commitments” signifies EBRD financing committed under signed agreements.

### Gross annual disbursements 2005-09

<table>
<thead>
<tr>
<th>Year</th>
<th>€ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5.5</td>
</tr>
<tr>
<td>2008</td>
<td>5.0</td>
</tr>
<tr>
<td>2007</td>
<td>4.1</td>
</tr>
<tr>
<td>2006</td>
<td>3.8</td>
</tr>
<tr>
<td>2005</td>
<td>2.3</td>
</tr>
</tbody>
</table>

1 For further detail on EBRD gross annual disbursements between 2005-09, see www.ebrd.com.

### EBRD commitments by sector in 2009

1. Corporate comprises agribusiness, manufacturing, property and tourism and telecommunications.
2. Energy comprises natural resources and the power sector.
3. Financial sector includes investments in micro, small and medium-sized enterprises via financial intermediaries.
4. Infrastructure comprises municipal environmental infrastructure and transport.

<table>
<thead>
<tr>
<th>Sector</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>20</td>
</tr>
<tr>
<td>Energy</td>
<td>19</td>
</tr>
<tr>
<td>Financial</td>
<td>39</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>22</td>
</tr>
</tbody>
</table>
Number of projects signed in 2009

311

Annual investments 2005-09

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects¹</td>
<td>311</td>
<td>302</td>
<td>353</td>
<td>301</td>
<td>276</td>
<td>2,835</td>
</tr>
<tr>
<td>– Stand-alone projects</td>
<td>184</td>
<td>161</td>
<td>187</td>
<td>167</td>
<td>156</td>
<td>1,830</td>
</tr>
<tr>
<td>– Investments under frameworks</td>
<td>127</td>
<td>141</td>
<td>166</td>
<td>134</td>
<td>120</td>
<td>1,005</td>
</tr>
<tr>
<td>EBRD commitments (€ million)²</td>
<td>7,861</td>
<td>5,087</td>
<td>5,583</td>
<td>4,936</td>
<td>4,277</td>
<td>47,684</td>
</tr>
<tr>
<td>Resources mobilised (€ million)²</td>
<td>10,347</td>
<td>8,372</td>
<td>8,617</td>
<td>7,645</td>
<td>5,846</td>
<td>98,797</td>
</tr>
<tr>
<td>Total project value (€ million)²</td>
<td>18,087</td>
<td>12,889</td>
<td>13,809</td>
<td>12,014</td>
<td>9,784</td>
<td>147,435</td>
</tr>
</tbody>
</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. 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” includes incremental EBRD finance on existing operations.

Financial results 2005-09

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Realised profit for the year before impairment</td>
<td>849</td>
<td>849</td>
<td>973</td>
<td>1,691</td>
<td>1,691</td>
</tr>
<tr>
<td>Unrealised (losses)/gains on equity investments</td>
<td>(630)</td>
<td>(1,092)</td>
<td>773</td>
<td>754</td>
<td>375</td>
</tr>
<tr>
<td>Impairment (charge)/credit</td>
<td>(823)</td>
<td>(720)</td>
<td>210</td>
<td>196</td>
<td></td>
</tr>
<tr>
<td>Fair value movement on non-qualifying and ineffective hedges</td>
<td>123</td>
<td>361</td>
<td>(72)</td>
<td>(14)</td>
<td>6</td>
</tr>
<tr>
<td>Net (loss)/profit for the year before transfers of net income approved by the Board of Governors</td>
<td>(746)</td>
<td>(602)</td>
<td>1,884</td>
<td>2,389</td>
<td>1,522</td>
</tr>
<tr>
<td>Transfers of net income approved by the Board of Governors</td>
<td>(165)</td>
<td>(115)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net (loss)/profit for the year after transfers of net income approved by the Board of Governors</td>
<td>(911)</td>
<td>(717)</td>
<td>1,884</td>
<td>2,389</td>
<td>1,522</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>5,198</td>
<td>5,198</td>
<td>5,198</td>
<td>5,198</td>
<td>5,198</td>
</tr>
<tr>
<td>Reserves and retained earnings</td>
<td>6,317</td>
<td>6,552</td>
<td>8,676</td>
<td>6,974</td>
<td>4,684</td>
</tr>
<tr>
<td>Total members’ equity</td>
<td>11,515</td>
<td>11,750</td>
<td>13,874</td>
<td>12,172</td>
<td>9,881</td>
</tr>
</tbody>
</table>

For further information on the EBRD’s financial results, please see the Financial Report 2009.
Overview
Introduction

After years of rapid growth the EBRD region was hit hard by the global financial and economic crisis in 2009. The transition region initially displayed remarkable resilience but eventually succumbed to the massive external turbulence emanating from advanced economies in the West. Between the fourth quarter of 2008 and the second quarter of 2009, the EBRD region suffered the steepest economic contraction since the early years of transition.

This was the result of the rapid sequence of external shocks that hit the EBRD region. Commodity prices fell rapidly, which led to sharp decreases in output and revenue in the resource-rich countries of the region. Exporters and suppliers suffered from a severe slump in western markets, the main destination for their products. External capital inflows came to a sudden halt and credit dried up. Many local stock markets lost their value, some local currencies suffered devaluations and servicing foreign currency loans held by companies and households became a serious problem in many countries.

All this led to dramatic output declines in many countries of the region with an average drop of around 6 per cent in 2009 and double-digit declines in five of the 29 EBRD countries of operations (Armenia, the Baltic states and Ukraine). One of the consequences was a significant loss of investors’ confidence in the region: net foreign investment inflows fell by more than 50 per cent from US$ 108 billion (around €75 billion) in 2008 to US$ 50 billion (around €35 billion) last year.

Under these circumstances it was necessary to take rapid and decisive action which the EBRD has done with its crisis response. As the institution charged with assisting central, eastern and south-eastern Europe, Turkey, Russia, the Caucasus and Central Asia, the Bank takes its responsibility for the region very seriously. The record level of investment in 2009 of €7.9 billion is a direct result of this.

When the EBRD designed its crisis response it had three overriding concerns:

- maintaining the flow of finance to the region in support of local banks and viable enterprises
- preventing the withdrawal of Western-owned parent banks from the region
- upholding critical infrastructure and sustainable energy projects.

The Bank has tackled these challenges with a combination of investments, consultations with governments, authorities and regulators (policy dialogue), and technical assistance. Responding to the crisis quickly and flexibly also meant reacting most forcefully where the EBRD was needed most urgently. Therefore, as a temporary measure, 2009 brought a massive increase of investments to central Europe and the Baltic states.

A year on, the Bank may report that it – in concert with other international financial institutions (IFIs) such as the International Monetary Fund and the World Bank, as well as the European Investment Bank (EIB) and EU institutions – has achieved considerable success. Collapses of local banking systems and currencies have to date been largely avoided and there has so far been a near absence of transition reversals.
Immediately after the global crisis hit the EBRD region, management and Board drafted the Bank’s response to arguably the biggest challenge since the beginning of the transition process. While upholding the EBRD’s core operating principles of transition impact, additionality and sound banking, the crisis response is focused on a bottom-up approach based on the Bank’s knowledge of countries and clients, on its delivery capacity and its ability to tailor its financing products to the needs and circumstances of individual clients.

As an immediate impact of the crisis the EBRD witnessed a sharp increase in the demand for its financing. Accordingly, the planned annual business volume for 2009 was initially raised to €7 billion and later further increased to €7.9 billion. Taking into account the Bank’s capacities in terms of capital constraints and what can be delivered with a lean number of staff the crisis response identified four priorities:

- support for the financial sector through strengthening balance sheets and ensuring banks’ liquidity and capacity to continue lending
- in the enterprise sector the crisis response is focused on the short-term refinancing needs of viable enterprises hit by the crisis
- continued support of critical infrastructure to avoid the abandonment of essential projects because of a lack of funds
- increased dialogue and cooperation with other IFIs, joining forces in investments and policy dialogue.

A core aspect in tackling the crisis was the establishment of an international framework under which key issues could be addressed and tackled. Under the “Vienna Initiative” (currently coordinated by the European Banking Coordination Initiative), all financial sector players – domestic and international banks, governments, supervisors, national banks, IFIs and the European Union – came together to create conditions that allowed Western-based parent banks to continue their activities through subsidiaries in the EBRD region, where they play a key role in many countries.

A second direct outcome of this unprecedented coordination and cooperation among the IFIs was the adoption of the Joint IFI Action Plan by the EBRD, EIB and World Bank in February 2009. Under the programme, €25 billion will be invested in the financial sectors of the countries worst affected by the crisis in 2009 and 2010.

The joint initiative had an immediate impact that is also reflected in the EBRD annual results: new projects signed in 2009 include external finance of €10.4 billion, compared with €8.4 billion in 2008, an increase of 24 per cent that was mostly driven by co-financing by IFIs.
2009 results

Number of stand-alone projects in 2009

184

OPERATIONAL RESULTS

The EBRD’s reported annual business volume for 2009 was €7.9 billion, an increase by around 55 per cent on 2008. The record level of investments reflects the Bank’s active response to the financial crisis and robust support to the countries of operations. Sixty-four per cent of business volume in 2009 was classified as “crisis response”.

The number of operations reached 311, an increase of 3 per cent over 2008. The number of stand-alone projects was 184, the number of investments under frameworks was 127.

Investment in countries at the early and intermediate stages of transition was €3.7 billion in 2009, 26 per cent above the 2008 level of €2.9 billion. Within this group €512 million was invested in 83 projects in the early transition countries (ETCs), compared with €586 million in 101 projects in 2008.

Investments in the Western Balkans increased to €727 million, up by 36 per cent on 2008, in 51 projects (plus 10 over 2008). In December, together with the European Commission, the European Investment Bank and the Council of Europe Development Bank, the EBRD launched the Western Balkans Investment Framework, which is coordinating IFI lending and donor funding and is expected to generate projects worth more than €2 billion in the region over the coming years.

In Russia, annual business volume was €2.4 billion for 56 projects, 33 per cent above the 2008 level of €1.8 billion.

In the advanced transition countries, annual business volume was €1.6 billion compared with a 2008 level of €328 million.

In Turkey, the Bank ended its first year of operations with a €150 million business volume in accordance with the approach approved by the EBRD Board of Directors when Turkey became a country of operations in late 2008.

As a result, the geographical composition of the 2009 business volume was 47 per cent in early and intermediate transition countries, 30 per cent in Russia, 21 per cent in advanced countries and 2 per cent in Turkey.

The sector composition was 26 per cent in the financial sector, 22 per cent in the infrastructure sector, 20 per cent in the corporate sector, 19 per cent in the energy sector and 14 per cent in financing micro and small enterprises.

Reflecting the strategic focus on energy efficiency and climate change mitigation, and the implementation of the Sustainable Energy Initiative (SEI), investments for the first year of SEI Phase 2 are estimated at around €1.3 billion in 2009, up from €1 billion a year earlier. For more information, see page 60.

The volume of equity investments increased marginally from €1.1 billion in 2008 to €1.2 billion in 2009 while the number of such investments decreased from 76 in 2008 to 56 in 2009. The equity share of annual business volume in 2009 was 15 per cent, down from 21 per cent in 2008.
The Bank committed close to €897 million of subordinated debt in 2009, up from €231 million in 2008. Trade finance reached a total 2009 turnover of €573 million. This represents a steep decline from previous years, when trade was rapidly expanding throughout the region. For comparison, in 2008 the EBRD Trade Facilitation Programme (TFP) had a turnover of €890 million.

The private sector share of annual business volume remained constant at around 83 per cent. The private sector share of the EBRD's project portfolio at the end of December 2009 increased to 75 per cent from 73 per cent at the end of 2008. Driven by the high level of commitments in 2009 and reflecting the high demand for EBRD financing, the volume of disbursements (that is, money actually paid out by the Bank) amounted to €5.5 billion in 2009. This represents an increase of 10 per cent over the 2008 level of €5.0 billion.

The mobilisation ratio decreased from 1.8 in 2008 to 1.3 in 2009. This means that for every 1 euro the EBRD invested, other investors put 1.3 euros into any given project. The decrease of the ratio reflects the strong expansion of EBRD investments and at the same time the sharp fall in private sector financing in the region. Total project value – the amount of new EBRD investment plus co-financing – in 2009 was €18.1 billion, a 40 per cent increase over the €12.9 billion total project value in 2008.

Support from international donors to the EBRD almost doubled to €174 million. More than 500 technical assistance assignments providing essential support to Bank operations were undertaken.

FINANCIAL RESULTS

For a second consecutive year the EBRD recorded a loss in 2009. The net loss before transfers of net income was €746 million last year, compared with a net loss of €602 million in 2008. This result is a direct reflection of the global crisis on the Bank’s loan and equity portfolio: banking loan provisions amounted to €535 million, an increase of €430 million over the previous year. This was partially offset by a decrease in net equity losses of €369 million mainly due to the recovery of share prices.

As a result, the Bank’s reserves decreased by €0.3 billion during the year to €6.3 billion (2008: €6.6 billion). This reflects the net loss for the year, offset by an improvement in the fair value of available-for-sale share investments through reserves. Unrestricted general reserves decreased by €233 million (2008: decrease of €259 million).

The 2009 result was largely shaped by an increase in the impairment of loan investments, an increase in amounts set aside in relation to the loan loss reserve and a decrease in fair value of some equity investments below cost totalling €1.2 billion (2008: €0.9 billion). These items more than offset the net realised profit before impairment of €849 million for the year, in line with the realised profit recorded in 2008.

For more detailed information see the Financial Report 2009.
Overview

TRANSITION RESULTS

In 2009 the EBRD contributed to transition through two channels. First, as in every year, through the direct transition impact of its projects. Notwithstanding the expansion of project volume, the bank did not lower the standard it applies to project selection. The share of new projects approved in 2009 that were given a “good” or “excellent” transition impact rating by the Office of the Chief Economist was unchanged compared with 2008 (about 89 per cent).

That said, the economic crisis did affect the risk that projects – particularly projects that were approved before the crisis – might not be successfully completed, and hence might not achieve their expected transition impact. As a result, the share of the project stock that received a good or very good combined potential transition impact and risk rating (score 1-4 on an 8-point scale) dropped from about 60 per cent in 2008 to about 53 per cent in 2009.

The second channel through which the EBRD promoted transition in 2009 was through its crisis response as mentioned earlier. While it is too early to assess the full fall-out of the crisis as serious challenges remain, the Bank’s crisis response played a successful role in preventing worse during 2008. Thanks to joint international endeavours a withdrawal of international banks has not happened and the policy response to the crisis has generally been measured and mature (see Chapter 3 for details).

EVALUATION RESULTS

The EBRD continually reviews its operations to assess their effectiveness and impact on transition to learn from past experience and to improve the development of future projects and policies. These assessments are undertaken by the Bank’s independent Evaluation Department. One important aspect of this task is to evaluate EBRD projects after they are completed, particularly with respect to their transition impact. In 2009 the share of completed projects which according to the Evaluation Department deserved an “excellent-satisfactory” transition impact rating was 75 per cent, while 25 per cent of the evaluated projects were rated “marginal-negative” for transition impact.

This result is a little below average for recent years, but still compares well with the period 1997-2002, when higher numbers of projects were rated “marginal-negative”. Given the particularly difficult economic conditions in 2008-09, it is not surprising to see a slight increase in the proportion of projects achieving lesser transition impact (see Chapter 11 for details).
The EBRD’s activities in the financial sector in 2009 were focused on supporting and stabilising financial institutions and financial systems in the region as they underwent the most severe crisis since the beginning of transition.

The EBRD signed 123 new projects in the financial sector worth €3.1 billion in 28 countries. Following the most urgent needs and demand, 2009 saw a shift towards more advanced countries with 31 per cent of all new financial sector investments.

Technical cooperation (TC) continued to support financial sector investment. In 2009, 175 contracts worth €31 million were signed. In particular, TC has focused on crisis response measures, such as credit advisory services to small businesses, debt restructuring and institutional reform (see page 87).

The Bank adapted its product focus in accordance with the needs of its partners. Mortgage and consumer finance were drastically reduced, fundraising for new equity funds became more difficult and commercial loan syndication was massively affected by the crisis. The EBRD’s investments changed in favour of subordinated debt and credit lines for small and medium-sized enterprises (SMEs).

The EBRD is making recapitalisation investments and providing additional support in countries with IMF programmes, for example in Ukraine, or in those with joint EU-IMF and World Bank programmes, such as Hungary, Latvia and Romania. The Bank is also coordinating measures aimed at rebuilding the financial sector and designing complementary activities with IFIs and has been a driving force in the €25 billion Joint IFI Action Plan.

As banks continued the process of deleveraging their balance sheets and remained risk-averse throughout 2009, the global loan markets continued to weaken. This also strongly affected EBRD activities in loan syndications. Global syndicated lending decreased by 39 per cent to US$ 1.81 trillion (approximately €1.33 trillion), the lowest annual volume since 2002. The average loan tenor dropped to four years, the lowest on record.

In the EBRD region risk aversion led to a clear tendency towards high-quality borrowers. Loan spreads were approximately 10 times higher than before the crisis. The Bank responded to these challenging conditions by adopting a flexible approach, trying to align circumstances in the market with client needs. Seventeen projects were signed in 2009, with a total value of €1.8 billion. Emphasis was placed on developing closer ties with official and bilateral agencies whose mandates and missions converge closely with the EBRD’s.

The provision of financing for small and medium-sized enterprises through local banks has been a central element of the EBRD crisis response in 2009. The Bank undertook major efforts to keep credit available at a time when vital finance was scarce or often unavailable from commercial banks. In total, the Bank signed 36 projects for a value of €753 million in 17 countries.
Equally affected by the adverse economic conditions was microfinance where liquidity constraints were felt in many countries. Responding to the challenging conditions, the EBRD remained engaged and invested in 42 projects for €260 million, with nearly half the transactions taking place in the early transition countries.

TRADE FINANCE

International and regional trade was also hit heavily by the crisis. Many foreign commercial banks and private insurance underwriters suspended their trade finance facilities for banks and importers in the Commonwealth of Independent States (CIS) and south-eastern Europe in 2009 and were ready to consider new business only with risk cover by export credit agencies or under the EBRD’s TFP.

The Bank therefore in early 2009 increased the TFP programme exposure limit from €800 million to €1.5 billion. However, contrary to the Bank’s expectations, TFP client banks were unable to utilise the increased TFP programme limit. This was mainly due to a dramatic fall in the amount of foreign trade but also TFP client banks’ reluctance to take on more client risk. As a result, in 2009 the TFP supported only 886 foreign trade transactions (2008: 1,115) for a total amount of €576 million (2008: €890 million).

INDUSTRY, COMMERCE AND AGribusiness

The EBRD is investing in the manufacturing and services sector of the transition countries with the aim of supporting diversification from heavy industries towards the production of goods and services. As the crisis put many companies under pressure the Bank stepped up its activities and invested €679 million in the sector in 2009, almost twice as much as in 2008. Investments were made across the region, with almost half (€382 million) in Russia.

For the agribusiness sector the crisis meant that expansion plans had to be halted and companies that had relied heavily on short-term funding had difficulties refinancing because of the drought in commercial lending. Despite these challenging conditions a record 59 projects for €639 million were signed in the sector in 2009. Investments were made in 19 countries, with a focus on countries at an earlier stage of transition, where 24 projects were signed.

The EBRD invested €202 million in property and tourism projects in 2009 in eight countries of operations. The sector was severely hit by the crisis as commercial banks were reluctant to finance real estate developments and equity funds struggled to attract institutional investors. The Bank addressed these problems through its investments, but expects the lack of commercial funding to persist in 2010.

The telecommunications, informatics and media sector felt the crisis primarily through a shortage of private equity capital. The media sector was much more severely hit due to a dramatic global slump in advertising, while the telecommunications sector proved to be much more resilient. The EBRD signed nine projects for €42 million, focusing on new clients which were building or expanding their businesses.
ENERGY AND NATURAL RESOURCES

In the power sector the EBRD moved quickly to respond to the withdrawal of other sources of credit due to the financial crisis, which threatened the momentum of sector reform and infrastructure renewal. At the same time the EBRD retained its long-term focus on climate change mitigation and promoting greater energy efficiency in its countries of operations.

The Bank invested €836 million in 14 projects in the sector in 2009, increases of 38 per cent and 100 per cent, respectively, over 2008. The projects spanned the transition region – from Mongolia to Poland – and ranged from large-scale support for new, efficient generation capacity through renovation of distribution networks to early-stage development of wind projects and the EBRD’s first biomass project in (Poland). Indeed, 2009 demonstrated the Bank’s focus on the promotion of renewable sources of energy: the number of renewables projects tripled and the volume grew by 45 per cent. Among these projects were the first EBRD investment in Turkey and the first investment in the Mongolian power sector.

The EBRD achieved record levels in the natural resources sector in 2009, with 13 investments for a total of €671 million in countries from Hungary to Mongolia. The Bank’s involvement spans all activities in the oil, gas and mining sectors but in recent years this has led to a particular focus on projects that improve environmental standards and promote energy efficiency. In 2009 such projects were joined by loans to ease the pressure of the financial crisis and to address energy security concerns provoked by interruptions to gas supplies to central and south-eastern Europe in January 2009.

Oil and gas companies were hit twice in the crisis by lower crude oil prices and the withdrawal of commercial bank liquidity. The EBRD stepped in to safeguard investment plans designed to improve environmental standards and promote energy efficiency in Romania, while investments with a similar aim in Russia allowed for the construction of facilities to capture or use associated gas that would otherwise have been flared.

Similarly, the prioritisation of projects to address gas supply problems was also affected by insufficient liquidity. The EBRD stepped in to provide finance for the construction of underground gas storage facilities in Hungary and Croatia, which will improve the ability to withstand short-term supply interruptions in the future. Such financings are likely to be a strong feature of the Bank’s activity in the oil and gas sector in 2010 and beyond.
INFRASTRUCTURE

With 22 per cent of the EBRD total business volume, infrastructure was the Bank’s second largest sector for investments in 2009. The EBRD strongly stepped up its infrastructure activities by increasing business volume by around 81 per cent to a total amount of more than €1.7 billion and reaching out to 30 per cent more clients.

The impact of the economic crisis on the infrastructure sector has been significant through reduced levels of activity by transportation service providers and through lower levels of tax revenues of municipal and regional authorities. However, 2009 has shown that even in this difficult macroeconomic environment, well-structured infrastructure investments still make good financial sense, providing a solid basis for increased business activity when the economic upturn arrives.

When the EBRD designed its crisis response in late 2008, the focus on critical municipal infrastructure projects was defined as one of the Bank’s priorities. A combination of debt, equity and grant financing prevented the abandonment or postponement of key investment projects: in total, 27 projects in 10 countries were signed in the municipal and environmental infrastructure sector in 2009 for a total of €479 million, an increase of more than 70 per cent over 2008. This increased support has been focused mainly on private sector clients and on supporting non-sovereign investments with municipalities and municipal utility companies.

In the transport sector the crisis led to a sharp decline in freight volumes, making it necessary in many cases to re-design projects to fit the new economic realities through downsizing and phasing. At the same time the dearth of commercial funding for well-structured projects made it necessary for the EBRD to step in and fill financing gaps. Consequently, the business volume in the transport sector almost doubled over 2008 to €1.2 billion for 17 projects in 10 countries. Also EBRD support was vital to keep priority investments on track, such as landmark public-private partnership projects in the road sector, further private investment in port infrastructure and critical support for railway operators across the region.
Environmental and social development

The EBRD 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. In addition to supporting “green development” through individual projects, the EBRD has also developed special initiatives and is managing international programmes to tackle specific issues.3

CIVIL SOCIETY DIALOGUE AND GENDER
Maintaining and cultivating an ongoing dialogue with a wide range of civil society groups – from environmental NGOs to think-tanks, professional associations and chambers of commerce – is a policy cornerstone of the EBRD. Their experience and expertise provides a valuable contribution to the development of the Bank’s policies and country strategies, the implementation of projects, particularly on sensitive projects such as large-scale infrastructure, and consideration of the implications of the global economic crisis on the Bank’s activities (see page 33).

In 2009 the EBRD also enhanced its support for gender equality in the region recognising it as vital to advancing sustainable growth in transition economies. Bank activities throughout the year ranged from providing dedicated financing to female entrepreneurs to setting up pilot projects that promote gender equality in agribusiness and municipal and environmental infrastructure in central and eastern Europe and Central Asia.

SUSTAINABLE ENERGY INITIATIVE
In 2009 the EBRD launched the second phase of its Sustainable Energy Initiative (SEI) and invested €1.3 billion under the framework. The initiative addresses climate change and energy efficiency challenges by bringing these issues into the mainstream of all EBRD operations and integrating them as a core strategic component and competence of the Bank. The SEI focuses on sectors (industry, power and municipal infrastructure), the promotion of renewable sources of energy and the development of carbon markets in the EBRD region and the provision of financing.

Phase 1 started in 2006 and was successfully completed in 2008. Investments reached €2.7 billion through 166 projects in 24 countries of operations, exceeding the original target of €1.5 billion by 77 per cent.

For a complete overview of the EBRD’s environmental activities, see the Sustainability Report 2009.

Amount invested in the second phase of the EBRD’s Sustainable Energy Initiative (SEI)
€ billion
1.3
Building on this success, Phase 2 sets even more ambitious targets with planned investments of between €3 and €5 billion in the period 2009-11. With this the EBRD aims to achieve carbon emission reductions of 25-35 million tonnes per year. Donor funding is essential for the success of the SEI: technical assistance programmes and investment grants play a crucial role in overcoming barriers and improving regulatory frameworks and technical know-how.

It was anticipated that the global financial crisis would also have a major impact on energy efficiency investments, which can be very capital-intensive. However, energy security and/or climate change mitigation today are at the top of the agenda of many countries in the EBRD region. Therefore no significant projects in the sector were abandoned in 2009. Countries will benefit from their commitment through cheaper, cleaner and more secure energy supplies.

**NUCLEAR SAFETY**

The last remaining Chernobyl-type nuclear reactor operating in the European Union was permanently shut down in Ignalina, Lithuania, on 31 December 2009. The EBRD has been involved in this process through its Ignalina International Decommissioning Support Fund, which the Bank manages in addition to five other similar funds.

The biggest fund is dedicated to transforming the site of reactor 4 in Chernobyl, which was destroyed in the 1986 accident, into an environmentally safe condition. The design of the spent fuel facility was completed in December 2009 and donors are expected to decide in 2010 on the implementation of the project. Work on the design of the new confinement that will enclose the reactor and the current, interim shelter continues. Both projects will rely on the international community to raise additional funds in 2010.

**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 by providing grants for project implementation. Belarus joined the Fund in 2009 to seek co-financing for municipal environmental projects. So far, north-west Russia has been the main beneficiary of NDEP, with new projects signed last year in St Petersburg and Kaliningrad.
DONOR COOPERATION AND TECHNICAL COOPERATION FUNDS

Donor governments and international institutions play an important role in enabling the EBRD to implement its mandate and mission. In addition to individual contributions, the EBRD is also managing multinational donor funds such as the Early Transition Countries (ETC) Fund and the Western Balkans Fund.

Responding to the crisis, donors stepped up their contributions to €174 million in 2009, well above the average of €90 million usually raised annually. This allowed the EBRD to meet the significantly higher demand for grant funds and to commit €102 million in technical cooperation funds, an increase of almost 25 per cent over 2008. Key areas of activity were the financial sector, municipal infrastructure and sustainable energy projects.

Read more on donor support in chapter 9 on page 86 and in the Donor Report 2010.

SHAREHOLDER SPECIAL FUND

The EBRD set up its Shareholder Special Fund with €112.5 million from the Bank’s net income in 2008 to complement technical assistance from donor countries. The ETCs and the Western Balkans have benefited most from the fund with €45.5 million and €25 million, respectively going towards these regions, while infrastructure, enterprises and sustainable energy were the sectors that received most help. The Fund has also put aside €1 million for investments that promote gender equality.

EARLY TRANSITION COUNTRIES INITIATIVE

The EBRD’s Early Transition Countries Initiative was launched in 2004 to accelerate market activity in the Bank’s countries which still face the most significant transition challenges. Under the Initiative the EBRD is able to finance more and smaller projects in line with the capacities and needs of those countries. In 2009 Belarus became the latest country to join the programme, which now includes Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan.

Although the crisis affected these countries less than others that are more integrated into the world economy, these ETC countries also felt the impact of the global economic downturn. This has been most notable in a sharp reduction of bank lending to the vital SME sector. The EBRD intervened by providing 40 loans and equity investments directly to affected enterprises, accounting for a record 45 per cent of the Bank’s ETC projects in 2009. In total, the EBRD invested €477 million in 83 projects under the Early Transition Countries Initiative in 2009, compared with €496 million in 101 projects in 2008.

The Initiative’s success would not be possible without the support of technical cooperation funds and grants from the ETC Fund, to which 14 governments have contributed more than €60 million to date. Since the launch of the Initiative in 2004, donors have in total provided €112 million to finance 595 projects. Since July 2008 the EBRD has matched donors’ contributions to the ETC Fund through its Shareholder Special Fund.
Bustling market in Zagreb, location of the Bank’s 2010 Annual Meeting.
WESTERN BALKANS

Transition in the Western Balkans is less advanced than in the neighbouring countries that have become new EU members. To support the region’s further growth, the EBRD has invested about €3 billion since 1991 in more than 280 projects.

Donors continue to play a crucial role. The Western Balkans Fund has been the major instrument for providing funding for technical assistance assignments. A major recent development was the launch in November 2009 of the Western Balkans Investment Framework (WBIF – see also page 92). The WBIF was conceived as a means of joint EU-European financial institutions cooperating to optimise the use of donor funding and financing by coordinating IFI action in the region.

As a lending facility, the WBIF is important for the Western Balkans because funding resources are scarce while the need for investment in sectors such as energy, transport and infrastructure are immense. For example, the World Bank estimates that over €30 billion is required for critical energy investments in south-eastern Europe in the next five to 10 years. This means there will be competition for financing and priority will be given to projects that benefit regional integration and to countries that make most progress in their EU accession efforts.

TAM/BAS

Thanks to support from donor governments the EBRD is able to provide two business development programmes: TurnAround Management (TAM) and Business Advisory Services (BAS). TAM focuses on the managerial and structural design of companies, while BAS helps micro and small enterprises to improve their performance. The programme emphasises issues that cut across all sectors, such as energy efficiency or gender.

In response to the crisis the programme in 2009 developed priorities which included human resources management, organisational and financing restructuring and improved legal knowledge.
Although the EBRD expects the transition region to return to growth in 2010, the year will be just as challenging for the countries and the Bank as 2009 was. Growth will remain below previous levels and will be largely dependent on the global economic climate. Repair and recovery from the – in some countries – dramatic losses in 2009 will thus remain the first priorities. As the real economy will continue to suffer from the impact of the crisis an increase in non-performing loans and company defaults has to be expected. This in turn will again put pressure on the financial sector which is still in a prolonged and painful phase of adjustment.

The EBRD remains committed to meeting these challenges. Following the massive increase of investment in 2009 the Bank intends to keep its business volume at approximately the same level in 2010. Investment will be focused on supporting financial institutions and companies in the post-crisis phase. Enterprises will benefit from increased equity investments, while critical infrastructure and sustainable energy remain priorities.

Equity investments will remain a key instrument for building confidence in the financial sector. These investments will support balance sheet restructuring, provide medium-term capital and encourage sound business practices and reforms. The EBRD will also offer products, such as risk-sharing mechanisms, to reduce some of the barriers to lending and encourage improvements in financial infrastructure and local currency lending. Trade finance will be vital in the post-crisis period and beyond to support large resumption of activity in this sector.

In support of the real economy the EBRD will further increase its efforts to assist viable companies which have been hit by the crisis. To meet the challenges ahead the Bank has restructured its internal organisation and merged industry, commerce and agribusiness into a new business group. This will allow for a tailor-made and targeted approach to meet the sectors’ needs and circumstances throughout the EBRD region.

The Bank will remain equally committed to infrastructure. Budgetary constraints in many countries mean a lack of available funds and the EBRD will remain active in offering its services to bridge this gap. Commercialisation of utility companies, decentralisation of financing, institutional reform and effective regulation will continue to be key themes. Energy efficiency and climate change mitigation will remain priorities of the Bank.

These are but a few examples of how the EBRD aims to continue to contribute to laying the foundations for more sustainable growth in its region in the future. As a further consequence of the challenges posed by the crisis the Bank has started its next Capital Resources Review one year earlier than initially scheduled. This review process has received strong support from the shareholders: At the EBRD’s 2009 Annual Meeting in London the Governors approved medium-term priorities for the period 2011-15 which include an emphasis on institutional and environmental sustainability, support for financial sector stability and financing for the real sector, the development of diversified and knowledge based economies, the shift towards an energy efficient low carbon economy and the acceleration of infrastructure investment based on a mix of ownership, management and financing models.

One option under review in this context is a capital enhancement which would allow the EBRD to maintain an increased business volume until a recovery from the financial crisis has been secured.
Governance

The EBRD is committed to achieving the highest standards of governance, integrity and transparency in the conduct of its business and continues to strengthen key policies and mechanisms in support of these goals.
Good governance, integrity and transparency

OPENNESS
The Public Information Policy (PIP) promotes disclosure and transparency, guided by the presumption that, whenever possible, information concerning the Bank’s activities will be made available to the public unless there are compelling reasons for confidentiality. The Bank reviews the PIP every three years. The most recent review was in 2008, in parallel with the review of the Environmental and Social Policy (ESP), and the next review is due to take place in 2011.

INTEGRITY
The EBRD holds itself to the highest standards of integrity, ethics and business practice in all its activities. The Bank’s Office of the Chief Compliance Officer (OCCO) is a key participant in this effort: it advises on the selection of project sponsors, clients and co-financiers, handles complaints by those adversely affected by EBRD projects and investigates allegations of fraud, corruption and misconduct.

In 2009 OCCO provided advice on approximately 385 projects compared with 280 projects in 2008. This increased volume of advice is consistent with the rise in the Bank’s overall business volume.

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

Policies
In April 2009 the Bank adopted its first Integrity Risks Policy, which details how OCCO can help protect the EBRD’s reputation. Risks to integrity can stem from investment activities and improper behaviour of employees, and failure to recognise and address these risks can damage the EBRD’s name and standing. The new policy is available at www.ebrd.com/about/integrity/

The Enforcement Policy and Procedures (EPPs), approved in December 2008, entered into force in March 2009 following the establishment of the Enforcement Committee, which determines whether an allegation of fraud, corruption, collusion or coercion has been substantiated. The EPPs apply across all the activities and projects financed from the EBRD’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.

Since the EPPs came into force, OCCO has dealt with seven complaints regarding procurement exercises and seven complaints concerning the Bank’s private sector operations. Of these 14 complaints, all but two were dismissed following preliminary assessment. The remaining two (one involving an allegation of a fraudulent practice and the other, a collusive practice) are undergoing further investigation. Depending on the outcome, a recommendation may be made to the Enforcement Committee as to whether formal enforcement proceedings should ensue. If the alleged prohibited practice is found to have occurred, enforcement actions range from reprimand to cancellation of financing, restitution and/or debarment.

Approximate number of projects that benefited from advice from OCCO in 2009

385
Also in this past year the EBRD introduced its policy on workplace harassment, sexual harassment and abuse of authority as part of ongoing efforts to ensure that staff conduct themselves with the highest possible standards of behaviour.

Last year also saw the conclusion of the review of the Bank’s accountability mechanism, the Independent Recourse Mechanism, and the approval of its successor, the Project Complaint Mechanism (PCM). For further information on the review and the new mechanism see the Sustainability Report 2009.

Looking to 2010, the EBRD will finalise its review of PRISM and Disciplinary Procedures, as well as reviewing its Whistleblowing Policy. The Bank, as a member of the Joint IFI Anti-Corruption Task Force, will also be considering better ways to deter and prevent corrupt practices, including, for example, how an enforcement decision made by one IFI (such as the World Bank) can be implemented by others.

**Information and training**

Sharing information and knowledge with those who carry out work for the EBRD is an essential part of promoting and maintaining high ethical working standards. For example, in 2009 the Bank hosted an anti-money-laundering training programme for external participants in Krasnoyarsk, Russia, and provided funding for 30 EBRD representatives from its countries of operations to attend a seminar on countering terrorist financing organised by the Basel Institute on Governance held in December.

Training EBRD staff members is equally important and in 2009 courses were run on anti-money laundering, countering the financing of terrorism and integrity due diligence, as well as the Bank’s Integrity Matters! Programme. In addition, 40 employees received training on their role as nominee director on the boards of some of the Bank’s investee companies.
Improving corporate governance in banking

The current financial crisis has emphasised the need for sound corporate governance practices for achieving and maintaining confidence in the banking system. Corporate governance of banks is especially important in the EBRD’s countries of operations, where the majority of stock markets are still relatively underdeveloped and banks are the most important source of finance for companies and the main depositories for the nation’s savings.

The EBRD has set itself the target of working with banks and decision-makers in south-eastern Europe to strengthen corporate governance standards for the region’s banking system. A meeting in Belgrade in December 2009 jointly organised by the EBRD and the Global Corporate Governance Forum kick-started the discussion by bringing together banking regulators and practitioners from Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Montenegro, Romania and Serbia.

It followed the joint EBRD/OECD policy brief on corporate governance of banks in Eurasia a year earlier. The policy brief provides banks in Eurasia with some practical guidelines on how to improve their corporate governance practices. Armenia, Azerbaijan and Georgia have already drawn from the policy brief in the development of their national corporate governance codes. Moldova and Mongolia are now following suit.
The EBRD offers open and fair competition for the procurement of goods, works and services needed for EBRD-financed operations. For private sector projects, the Bank must be satisfied that procurement procedures are carried out under normal commercial practices. For public sector projects, the procurement of goods and services must meet EBRD guidelines.

The principles of non-discrimination, fairness and transparency are fundamental in all the EBRD’s procurement activities. These principles are designed to promote good practice and efficiency and to minimise risk in implementing Bank-financed projects. They are a fundamental part of the Bank’s Procurement Policies and Rules, a revised version of which was approved in May 2009. The revisions link the procurement process with the Bank’s environmental and social considerations and the Enforcement Policy and Procedures.

All participants in the procurement process are expected to observe the highest standards of ethics and conduct during contract tender and implementation. Any complaints received from aggrieved tenderers during the tender process are always reviewed by the Bank’s Procurement Complaints Committee. To enhance transparency in the procurement process and inform about tenderers’ recourse, the Bank launched a new procurement complaints section on the web site (see www.ebrd.com/oppor/).

**New standard tender documents for IFIs**

A new version of tender documents for works contracts – agreed among the IFI community – was also launched in 2009 for public sector clients. Revised harmonised tender documents for goods and design and build contracts are also expected in 2010.

**Statistics for 2009**

In 2009 EBRD-financed projects led to 84 public sector contracts for works, goods and services, valued at €395.8 million, of which €243.1 million was financed by the EBRD (representing 61.4 per cent of the total contract value). This compares with 124 contracts valued at €1.2 billion in 2008, and indicates a 67 per cent decrease in total contract value for 2009. Of the 84 contracts signed, 63 were for transport and MEI and totalled €377.0 million. This represents 75 per cent by number and 95 per cent by value of all public sector contracts awarded in 2009.

See www.ebrd.com/oppor/ for procurement opportunities concerning EBRD-financed projects.
Gender equality is key to advancing sustainable development in the EBRD’s countries of operations. The Bank seeks to empower women by investing in their businesses and promotes equality between women and men through various initiatives and activities, such as micro lending programmes, the TFP and the TurnAround Management (TAM) and Business Advisory Services (BAS) Programme.

In 2009 the Bank stepped up its support for gender equality. The Gender Action Plan, developed in 2008, was implemented from May 2009. The plan will ensure that gender equality is incorporated into all the EBRD’s activities, which will in turn benefit women and men as workers and decision-makers. It also means mitigating any negative impact that the Bank’s projects might have on men and women. For example, when a community is displaced due to a project, the Bank will focus on the needs of anyone affected.

Throughout the year the EBRD also helped to build on existing initiatives that address gender concerns. These include dedicated credit lines and microfinance for female entrepreneurs through small business finance, improving the skills of businesswomen through TAM/BAS and gender equality assessment during the project appraisal conducted by specialists in the Bank.

As part of a €50 million EBRD loan for on-lending to small businesses outside large Turkish cities, Garanti Bank committed to extend loans to female entrepreneurs wherever possible. And a €134,000 technical cooperation project was approved to help the Azerbaijan Microfinance Institution build its internal capacity to assist the Bank in increasing the number of female loan officers and women clients in EBRD partner institutions.

The EBRD also initiated several pilot projects in municipal and environmental infrastructure (an area where many women are end-users) and agribusiness (a sector in which a large proportion of the labour force is female) in three countries: Georgia, the Kyrgyz Republic and Romania. These pilot schemes will test various approaches to addressing gender priorities that could be replicated and adapted in other sectors and other countries of operations.
Empowering Turkish women entrepreneurs

The EBRD began lending to Turkey’s banking sector in late 2009 with the financing of two of the country’s most important banks. A €20 million loan to DenizBank targeted the development of the agricultural private sector, while a €50 million loan to Garanti Bank is supporting micro, small and medium-sized enterprises (MSMEs).

For the past five years, Garanti has loaned about €7 billion to 443,000 MSMEs but the sector remains hungry for finance, which has become more scarce as a result of the global financial crisis. The importance of small businesses to the Turkish economy is best told in figures. Over 1.7 million SMEs provide over 76 per cent of Turkey’s total employment, but these enterprises receive only 25 per cent of loans from the Turkish banking sector. Businesses in rural areas are particularly affected.

In November 2009 the EBRD teamed up with the Netherlands Development Finance Company (FMO), the International Co-operation and Development Fund (TaiwanICDF) and five commercial banks to lend €50 million to Garanti Bank. The financing will be available for investments in small companies operating outside the three main Turkish cities of Ankara, Istanbul and Izmir.

Another special feature of the loan is that it will promote lending to female entrepreneurs. Garanti Bank has developed the Woman Entrepreneurs’ Support Package which includes consumer loans with special rates for female entrepreneurs, letters of credit, long-term loans for small businesses and even pension programmes. And if businesswomen do not choose to take up any of the above services, they can still participate in meetings and business training sessions or enter Turkey’s Woman Entrepreneurs competition organised by Garanti Bank.

With research indicating that female entrepreneurs are missing out on opportunities to access finance, Turkey’s Garanti Bank is set to become the bank that does not just lend to women entrepreneurs but also works to empower them with knowledge.

www.ebrd.com/turkey
CIVIL SOCIETY

Civil society plays an integral role in promoting public dialogue about decisions that affect the lives of local people and environments, as well as holding governments and policy-makers publicly accountable. Open communication with non-governmental organisations (NGOs) and communities enhances the Bank’s effectiveness and impact in the transition region.

For the Bank’s purposes, civil society includes NGOs, policy and research organisations, community-based organisations, business development organisations and other socio-economic and labour-market actors. Dialogue between the EBRD and civil society has to date focused on environmental and social issues, democracy, local community, transparency and business development issues related to the Bank’s operations.

Activities in 2009

In 2009 the EBRD continued to engage with civil society through over 30 meetings, workshops and dedicated consultations in London and some of its countries of operations (Belarus, Georgia, Kazakhstan, Mongolia and Russia). These events gave civil society groups the opportunity to share their views and provided valuable input to the development of a range of Bank policies and country and sectoral strategies, as well as project implementation. And throughout the year, EBRD Board Directors travelled to Albania, Belarus, FYR Macedonia, Kazakhstan, the Kyrgyz Republic, Russia, Turkey and Ukraine to meet civil society representatives to discuss local conditions.

In March at the Bank’s London Headquarters, representatives of international civil society groups met the EBRD’s President Mirow and senior management to exchange views on the Bank’s transparency and accountability and its clients, human rights issues in Central Asia and the implications of the global economic crisis for the Bank’s activities. This was followed by a Civil Society Programme at the EBRD’s Annual Meeting in London. Here, around 40 NGOs and other civil society representatives from across the transition region and shareholder countries discussed a variety of environmental and social issues in a two-day series of meetings with Bank staff, senior management, the President and Board Directors.

Environmental and social responsibility in mining is of crucial importance in the countries where the EBRD invests, and was the theme of a special workshop hosted by the Bank at its Headquarters in late 2009. The event brought together nearly 80 participants from the international mining industry and industry associations, experts from environmental consultancies, law firms, international organisations, academia, think-tanks and the NGO community, as well as EBRD staff. The discussions, which focused on sustainability, health and safety, stakeholder engagement and artisanal and small-scale mining, provided initial input into the preparations of the Bank’s new Mining Strategy, likely to be implemented in 2010.
Reform

Reforms that are aimed particularly at shoring up the financial sector and stimulating entrepreneurship are necessary to address vulnerability to financial turmoil now and in the future in the Bank’s countries of operations.
Democratic reform

Fostering the transition to open market economies within a democratic framework is enshrined in Article 1 of the Agreement Establishing the Bank, reflecting an underlying belief that democratic and sustainable market reforms are mutually reinforcing. Twenty years after the collapse of the Berlin Wall, it is clear that this founding belief was correct: those transition countries that have gone the furthest in building democratic institutions are also the most advanced economic reformers in the region.

The year 2009 witnessed one of the most significant tests of the transition region's commitment to democracy and open market economies since the collapse of communism. Most countries in the region experienced their deepest economic contraction since the “transitional recession” of the early 1990s. At the beginning of the crisis there were concerns that a severe decline in economic performance might spark an anti-democratic and anti-market backlash in some countries, particularly in those countries where democratic institutions were weak or only partially consolidated. Fortunately, these fears have not materialised: in no countries have democratic regimes been overturned and there have been few reform reversals in the region, as highlighted by the EBRD's Transition Report 2009.

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. The spectre of anti-market populism has been given a boost by the economic crisis, but in no countries have anti-market or illiberal parties established a firm foothold or entered government.

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. The Western Balkans have shown remarkable resilience during the economic crisis, and no serious crisis-related challenges to democracy and political pluralism have occurred. Despite a slow-down in reforms, there has been no major reversal of reform, and no government in the Western Balkans has considered eschewing the development model based on market-driven forces and integration with Europe. Sitting pro-reform governments are relatively strong. The governments in FYR Macedonia, Montenegro and Serbia entered the economic crisis with particularly high levels of popular support, which has so far been maintained. In three countries – Albania, FYR Macedonia and Montenegro – the strength of the ruling parties was additionally tested in elections in 2009, which they all won.
In the Commonwealth of Independent States (CIS) and Mongolia, the depth and strength of democracy varies significantly across countries. In Ukraine, presidential elections in early 2010 demonstrated the vibrancy of Ukraine’s democracy, although it remains marred by weak rule of law and conflicting constitutional prerogatives. In Moldova, allegations of electoral fraud by the authorities sparked large street protests and violence, leading to a re-run of the election and the victory of the opposition. In Russia, strong coordination between the president and prime minister, backed by large oil fund reserves, enabled the country to weather the economic storm with limited social dislocation, but independent media and civil society organisations continued to experience extremely difficult conditions. In many countries in the region, the legitimacy of democracy is impaired by the excessive concentration of political power in the presidency.

For many years the EBRD has expressed concern about the lack of commitment to multi-party democracy and political pluralism in three countries: Belarus, Turkmenistan and Uzbekistan. In 2009 Belarus took some important steps towards political and economic liberalisation, enabling the Bank to adopt a new “calibrated” Country Strategy that expands the scope of its engagement in Belarus conditional on the implementation of sector-specific, market-oriented reforms. Turkmenistan also continued the process of slowly opening up to the outside world after many years of isolation, warranting increased EBRD engagement. In Uzbekistan, the Bank remains concerned about the lack of progress in building democratic and market institutions.
Countries need to be committed to economic reform in order for their economies to move from being centrally planned to open and market-based. The EBRD monitors economic progress in all the countries in which it invests and each year publishes its analysis in the Transition Report. This assessment identifies areas most in need of reform and can act as the basis for the EBRD’s dialogue with governments.

The level of economic reform across the region continued to vary in 2009. During the year, the EBRD carried out a detailed sector-level analysis of the region’s major remaining transition challenges, according to criteria such as efficiency, competition and transparency. The analysis shows that the remaining transition gaps – that is, between where countries presently stand and the “end-zone” of transition – in market structure and institutions are mostly small in EU member countries, with medium gaps remaining in energy efficiency, transport infrastructure and in the financial sector. Gaps are typically medium in Armenia, Georgia, Kazakhstan, Russia and most countries in south-eastern Europe, and predominantly large elsewhere.

**PROGRESS DESPITE THE CRISIS**

In general, progress in transition was limited during 2009, as governments throughout the region concentrated on coping with the worst effects of the global crisis. Nevertheless, there was evident progress in a number of countries.

In Belarus, where the extent of reforms has been limited, the past year saw welcome progress in price liberalisation, where requirements on firms to register price increases of many new goods and services above certain thresholds were relaxed; and in the banking sector, where several important steps towards liberalisation were introduced.

In the Western Balkans, the prospect of eventual EU membership continued to spur reform efforts. For example, the Montenegrin government, in line with EU directives, made progress in the difficult area of restructuring the railways. In Serbia, the government signed a major trade agreement with the European Union and decided to implement it unilaterally, even though implementation was temporarily blocked on the EU side. Albania also made important advances in large-scale privatisation and in reforming its road and energy sectors, while FYR Macedonia continued to improve its business environment, resulting in a major leap in its ranking in the World Bank’s Doing Business scores. Elsewhere, advances in transition were limited.
One of the most encouraging features of 2009 was the near-absence of backtracking on previously introduced, market-oriented reforms. In a few cases, such as Kazakhstan and Latvia, the authorities were effectively forced into re-nationalising systemically important banks. Similarly, the Ukrainian authorities temporarily reintroduced currency controls. These actions, however, should be viewed in the context of the crisis: they were designed to mitigate the worst effects of the crisis rather than signal a reversal in reform commitment.

**BEEPS IV**

In 2009 the EBRD and World Bank completed the fourth round of the Business Environment and Enterprise Performance Survey (BEEPS). The survey gained feedback from over 11,000 enterprises from 29 transition countries on the state of the private sector and business development.

The results for the transition region as a whole suggest that the business environment is no worse than in other developing countries. However, there is large heterogeneity within the region. Countries in central Europe and the Baltic states tend to have a better business environment than other emerging market regions, while Russia and countries in eastern Europe and the Caucasus and Central Asia tend to have weaker environments.

In some categories – such as access to land, some infrastructure constraints and workforce education – there is a new phenomenon of comparatively high average scores regarding obstacles to doing business, but these are likely to reflect fast recent growth rather than the legacy of central planning. For the most part, however, the weaknesses are in areas in which the transition economies have traditionally lagged.
During 2009 the EBRD boosted its efforts to help create a predictable, investor-friendly legal environment in the transition countries. While pursuing its well-established activities of standard setting, assessment, technical assistance and outreach, the EBRD’s Legal Transition Programme (LTP) also aligned itself with the Bank’s overall crisis response strategy. This effort, which will be pursued during 2010, translated into specific directions.

RESTORING INVESTOR CONFIDENCE THROUGH LEGAL AND INSTITUTIONAL REFORM

The 2008-09 global financial crisis highlighted the importance of strengthening market-supporting institutions – such as sound and well-functioning legal systems in transition countries – to minimise risk, restore confidence and ensure an attractive investment climate as the global economy recovers.

Institutional quality has been highlighted by the international community as the key area of unfinished business in transition. It is also the first time since transition began that the EBRD’s countries of operations have tested the efficiency of their legal systems on a real, systemic scale. This offers the EBRD an opportunity to monitor and evaluate how the systems actually fare and, as a result, allows the Bank to encourage a number of reforms and priorities that might not have received the same attention in more favourable economic circumstances.

Over the past year the EBRD has aimed to address legal reform challenges in the areas directly relevant to creditor rights: corporate governance, insolvency and secured transactions. Technical assistance for the licensing and monitoring of insolvency administrators (in Russia and Serbia, for example) was increased, and the Bank staged a series of public events focused on corporate governance of banks (see box on page 29). There was also a high-level discussion dedicated to the theme of corporate governance of financial institutions at the EBRD’s Annual Meeting in London in May 2009.

See Law in transition for more information on this topic.
IMPROVING PRIVATE SECTOR ACCESS TO FINANCE

The financial crisis caused serious liquidity problems for most banks and their clients in the EBRD region. As IFIs were pumping money into the region, the LTP intensified its support for legislation encouraging innovative financing instruments. A new law on corporate and municipal bonds, prepared with the Bank’s help, was approved by the Albanian parliament in October 2009. The EBRD also initiated a technical cooperation project to introduce grain warehouse receipt legislation in Russia, an instrument that will support investment in the agribusiness sector. Assistance was also given to the Mongolian authorities to improve their legislation on pledges.

SUPPORTING INVESTMENTS IN INFRASTRUCTURE AND ENERGY

The LTP’s legal and regulatory assessments guide the EBRD’s policy dialogue with governments. Results of the 2008 EBRD Telecoms Regulatory Assessment were disseminated during a regional conference in Tbilisi in May 2009 and a new assessment of power sector regulation was published. The EBRD also continued progress on its Ulaanbaatar Clean Air Initiative, which promotes regulatory measures designed to curb pollution levels in the Mongolian capital.

In line with the EBRD’s mandate, the LTP continued to encourage public-private partnerships as a good alternative to the public funding of infrastructure. A great deal of the related policy dialogue in 2009 focused on Russia. An educational manual in Russian, *Public-Private Partnerships in Russia: how to improve the legal framework*, was launched in cooperation with the Russian Duma in June and widely distributed to public officials and other stakeholders in Russia. The Bank also closely collaborated with the Russian authorities in charge of concession law reform.
Environmental and social issues are taken into account throughout the EBRD project cycle, from planning to financing and implementation. This is done in line with the Bank’s Environmental and Social Policy (ESP) and Performance Requirements, which ensure that the projects financed by the Bank are socially and environmentally sustainable, that they respect the rights of affected workers and communities, and that they are designed and operated in compliance with applicable regulatory requirements and good international practice.

The year 2009 was the first full year of operation under the new ESP (it became effective in November 2008). The ESP Performance Requirements detail the environmental and social standards applicable to each project and describe the mechanisms used to appraise, monitor and report on a project’s environmental and social performance. The performance requirements are consistent with the internationally recognised Equator Principles – the benchmark for the financial industry to manage social and environmental issues in project financing.

Effective transition to the new policy was carried out through training and guidelines to staff, clients and their consultants.

The EBRD has promoted the management of environmental and social risks in partner financial institutions (FIs) – one of the policy’s performance requirements – since the early 1990s. In 2009, about 750 people in some 65 partner FIs were provided with in-house training on environmental and social risk management as a means to help them support environmentally and socially sustainable development; improve their client’s environmental, health and safety, labour and working conditions; avoid backing businesses with poor environmental and social practices; and lessen vulnerability to environmental and social risks and liabilities.

In addition to the in-house training programme for FIs, the Bank continued to collaborate with other organisations in 2009 by supporting a number of conferences and joint training events to improve financial institutions’ handling of environmental and social risks.

For more information see the Bank’s Sustainability Report 2009.
Financial sector

The EBRD’s activities in the financial sector in 2009 were focused on supporting and stabilising financial institutions and financial systems in the region as they underwent the most severe crisis since the beginning of transition.
Restoring confidence and financial stability has been the main aim of the financial sector’s response to the crisis in 2009. The EBRD has played a key role by providing funds for well-structured, financially robust projects, it has intensified policy dialogue with governments and other IFIs and given targeted technical assistance.

In 2009 the Bank signed new business in the financial sector worth €3.1 billion. There were 123 new projects covering 28 countries. However, the geographic breakdown of business shifted away from the trend of recent years that focused on countries at the earlier stages of transition, back towards the more advanced transition countries to support their institutions in the crisis (see Chart 1). The portfolio grew by 19 per cent to €8.3 billion and operating assets grew by 16 per cent to €6.1 billion.

Reflecting the crisis, the EBRD adapted its product mix to meet client needs. Borrowers found that mortgages and consumer finance became scarce as commercial banks restricted credit risk. Raising capital for new equity funds became more difficult as private equity finance evaporated and, as international finance markets remained frozen, commercial loan syndication was impossible. Although the range of EBRD products remained varied, the mix changed in favour of capital-supporting subordinated debt (25 per cent of annual business volume) and credit lines to SMEs (24 per cent of ABV).

Chart 2 illustrates the change in product mix from 2007, before the crisis, to 2009 when the Bank was in full crisis response mode.

Since the beginning of the crisis the EBRD has concentrated on not only assisting its clients with short-term financing, but also on building stronger institutions that will provide sustainable finance to the real economy. The EBRD initially focused on liquidity and capital support because many countries experienced a “credit crunch”. But with the resulting economic downturn, the EBRD has been helping banks cope with rising non-performing loans and introducing measures to reignite lending to the real economy.
A coordinated response

In 2009 initiatives bringing clients, other IFIs and home-host authorities together were employed to coordinate the response to the crisis.

One example is the Joint IFI Action Plan – a collaborative effort by the European Investment Bank (EIB), World Bank and the EBRD to support banks investing in central and eastern Europe. The participating IFIs took part in discussions with investee parent banks and home and host authorities to identify and tackle the financial issues in the region. The EBRD’s response has been to introduce financial packages for strategic parent banks and local systemically important banks (see also Banking section on page 47).

The EBRD is also making recapitalisation investments and providing additional support in countries that are undergoing IMF or joint EU-IMF adjustment programmes. The Bank has been coordinating with the IMF and World Bank in Georgia and Ukraine (see case study on page 45) and several south-eastern European countries, and also with the European Commission regarding Hungary, Latvia and Romania. In the cases of Bosnia and Herzegovina, Hungary, Latvia, Romania and Serbia, this coordination took place under the framework of the Joint IFI Action Plan, which committed international banking groups to maintaining exposure levels in these countries during the crisis, and sought to coordinate home and host country authorities.

The Bank has also conducted policy dialogue with governments and regulatory authorities on a number of issues, from improving the scope of instruments available to banks to implementing strategies to stabilise banking sectors.

Technical cooperation (TC) continued to play an essential role in supporting financial sector investment projects. In 2009, 175 contracts worth €31 million were signed. In particular, TC has focused on crisis response measures such as credit advisory services to micro and small enterprises, debt restructuring and institutional reform (see page 56).

Although the operational environment has changed, the EBRD’s objectives remain to foster competitive, efficient and sustainable financial systems.
Restoring confidence in banks in Ukraine

Over the years, the EBRD has become Ukraine’s largest financial investor, a longtime partner helping to facilitate economic growth and increasing investor confidence in the country. As the financial crisis unfolded in 2008 and 2009, it was important for Ukrainians to know that this commitment and confidence was not only for the good times.

With a US$ 134.5 million (€93 million) loan to Ukreximbank and the willingness to invest some US$ 500 million (€365 million) in the country’s banking sector for the year, the EBRD has contributed to banking sector stability while ensuring business continuity. This loan was the first syndicated transaction since the beginning of the crisis and brought on board a number of well-known international commercial banks. It built on the success of several prior transactions with Ukreximbank, including a US$ 250 million (€174 million) subordinated loan in May.

Domestic and international confidence in the Ukrainian banking system will be essential if the country is to return to economic growth. Add to that the fact that Ukreximbank is a key systemic bank, a vital cog in Ukraine’s real economy, and it is easy to see the importance of the EBRD’s timely financial support. The loans underscore the EBRD’s confidence in Ukreximbank which has continued domestic lending at this crucial juncture. In short, Ukreximbank has served as an anchor of stability in a system badly hit by the crisis.

Helping to recapitalise key local financial institutions is not just good for the financial sector. A renewal of confidence and a return to lending will put the economy back on the right track. Ukreximbank continues to work with the EBRD to do just that.

www.ebrd.com/ukraine
www.ebrd.com/fi
The nature of the EBRD’s work changed in 2009 as the Bank responded to the effects of the financial crisis in each of the countries in which it invests.

Taking equity stakes in banks has been one method of response to the crisis. By supporting banks in this way, the EBRD has been able to strengthen capital positions and aid resumption in lending to the real sector, as well as providing a capital cushion in the event of portfolio deterioration. In 2009 the EBRD made new investments totalling €249 million in seven banks in Albania, Georgia, Hungary, Latvia, Russia, Tajikistan and Ukraine, and provided additional capital (€92 million) to five existing investments in Azerbaijan, Kazakhstan, Montenegro, Russia and Serbia. The EBRD currently has investments of over €1 billion in 53 banks in 23 countries.

A key instrument employed by the Bank in 2009 to help banks recapitalise is the provision of Tier 2 capital in the form of subordinated debt. This type of instrument addresses both risk and/or valuation concerns. There were nine projects signed for €758 million.

One such project involved acquiring a 25 per cent plus one share equity stake for €82 million in Parex Bank, the second largest bank in Latvia. Parex Bank suffered a run on deposits early in the financial crisis, which caused a severe liquidity shortage and ultimately led to the bank being nationalised. Failure of the bank would have had a catastrophic effect on the Latvian economy. Parex Bank currently serves the corporate, SME and retail sectors, as well as offering leasing and asset management services. As part of the support to Parex Bank, the EBRD also provided a €22 million subordinated loan and technical assistance to address non-performing loans and corporate work-outs.

In the context of the Joint IFI Action Plan, the EBRD put together a facility for Italian banking group Unicredit. This project consists of 12 loans totalling €432.4 million to the group’s banking and leasing subsidiaries in eight transition countries.

The project aims to support Unicredit’s subsidiaries by assisting the parent bank in its country risk management and maintaining some of its lending activity in the region, while diversifying the funding base of its network operations. The focus will be on providing medium- and long-term debt for Unicredit’s network, such as financing for SMEs, including lease finance and energy efficiency projects.
Promoting recovery and confidence in the financial sector

The year 2009 was tough for the small and medium-sized enterprises (SMEs) that make up the economic backbone of the EBRD’s countries of operations. The global downturn led to dwindling orders, while the liquidity shortage forced creditors to tighten lending at precisely the worst moment.

And it was a difficult time for banks in the region, including the subsidiaries of western European financial institutions. Depositor confidence was on the edge, while banks faced solvency threats with mounting numbers of borrowers defaulting. Ultimately, that risked causing serious problems for the subsidiaries’ parent banks, many of whom were key players in the European financial market. The stakes were huge.

Recognising the need for swift and decisive action, the EBRD joined the World Bank Group and European Investment Bank in pledging €24.5 billion over two years in support of the region’s banking sector and SMEs.

In a single approval, the EBRD agreed to invest more than €400 million in subsidiaries of Italian banking group UniCredit in eight countries, providing loans for SMEs and much-needed capital for lenders. In Ukraine, the EBRD provided a subordinated loan worth US$ 150 million (€104 million) to a subsidiary of Austria’s Raiffeisen International, boosting its financial strength and helping it to continue lending to cash-starved businesses.

In Hungary and Romania, meanwhile, the local subsidiaries of Austrian bank Erste received a €100 million loan each for on-lending to SMEs. In Croatia, the subsidiary of Intesa SanPaolo received €100 million funding in support of SMEs and trade finance.

Thanks to the extra funds and the international show of support, as well as to the parent banks’ strong continued commitment to their subsidiaries, the region’s banking sector held steady throughout 2009 and can look to 2010 with more confidence.
Financing for SMEs has always been one of the main pillars of the financial sector portfolio. In times of crisis, when access to vital credit often disappears for small companies, the EBRD takes steps to ensure that channels remain open. In 2009, 36 projects to the value of €753 million were signed and covered 17 countries (see page 55).

The EBRD continues to expand its local currency lending to financial institutions across its countries of operations in order to reduce foreign exchange rate risk. In 2009 the EBRD was able to provide six local currency loans for lending to micro and small enterprises in Polish zloty, Turkish lira, Russian roubles and Kazakh tenge from funding directly raised by the Bank. In addition, the EBRD signed nine loans to financial institutions in Azerbaijan, Georgia, the Kyrgyz Republic and Moldova via the Currency Exchange Fund (TCX), in which the EBRD is an investor.

The EBRD has responded effectively to the financial crisis by providing funding at a time of market dysfunction through a series of cross-currency swaps with Hungarian and Polish financial institution clients. These currency swap mechanisms allowed these banks to better match the currency and term of their assets and liabilities.

**ENERGY EFFICIENCY**

As part of the EBRD’s Sustainable Energy Initiative, the Bank continued to expand its energy efficiency lending through banks, with nine transactions in seven countries (Bulgaria, Bosnia and Herzegovina, Hungary, Kazakhstan, Russia, Serbia and Ukraine) and an investment in a debt fund that will provide finance to energy efficiency projects in south-eastern Europe.

These targeted credit lines to local banks are dedicated for on-lending to energy efficiency projects in the corporate, industrial, municipal and residential sectors or for small-scale renewable energy generation projects.
The availability of financing for trade is an essential element in responding to the financial crisis and in accelerating the recovery process.

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.

The Bank took early steps to increase the availability of financing under the TFP from €800 million to €1.5 billion. This was in response to the dramatic reduction in risk-taking capacity in the market as international banks, insurance underwriters and export credit agencies withdrew trade lines to banks in the EBRD’s countries of operations.

During the first part of 2009 trade volumes fell dramatically as the EBRD’s client banks showed reluctance to take risk and provide financing to their own clients. However, as the appetite for trade finance improved towards the fourth quarter of 2009, business increased significantly and one-third of the year’s business was handled during that period. In total the EBRD financed 886 trade transactions worth €573 million in 2009. Most transactions originated from five countries: FYR Macedonia, Georgia, Kazakhstan, Russia and Ukraine.

In Kazakhstan, for example, the EBRD guaranteed a €5 million letter of credit issued by Kazkommertsbank (in Almaty) and confirmed by Bank Hapoalim (in Tel Aviv). The transaction is part of a larger deal facilitating the import of agricultural equipment from Israel for a turkey meat production complex in Kazakhstan. In such a time of crisis, when most foreign confirming banks have closed lines for Kazakhstan, the TFP is often the only solution.

In all, there are 115 issuing banks in the EBRD’s countries of operations participating in the TFP, together with over 700 confirming banks throughout the world. Since its start in 1999, TFP has facilitated 8,700 transactions for more than €6 billion.
Support for equity funds continued in 2009, despite the difficult fund raising environment. The EBRD committed €172 million to seven private equity funds. These commitments were a mix of new transactions that involved existing relationships and emerging managers, and funds addressing the crisis.

As part of dealing with the crisis, some funds focused on enterprise restructuring with fund managers who have the appropriate local presence and hands-on restructuring expertise. In 2009 the Bank made an equity investment of up to €20 million in CRG Capital Special Situations Fund, which will invest in central and south-eastern Europe. The EBRD's support will enable the Fund to make equity investments in underperforming middle-market companies with the objective of restructuring and improving their operations, thereby increasing net asset values for successful exits.

By investing in these funds the EBRD is not only supporting the private equity industry itself, but also promoting good corporate governance and an entrepreneurial culture in those companies receiving investment. The Bank will remain a key investor in private equity funds in 2010 to maintain the flow of equity to medium-sized companies.
Support for institutions outside the banking sector was maintained in 2009, with 13 projects signed for the value of €295 million.

The focus was on leasing transactions that broaden the availability of financing sources, particularly for small and medium-sized enterprises which find accessing funds even harder during an economic crisis. To provide further support to insurance investments, additional equity was committed to four clients in Armenia, Azerbaijan and Russia.

One example in 2009 was the EBRD’s investment of nearly €375,000 to maintain its 35 per cent stake in Armenia’s Cascade Insurance, bringing the Bank’s total investment to €834,000. Cascade was founded in 2004 and has quickly become one of the top Armenian insurers and its reputation for best practice has helped set the benchmark for the local industry.

The EBRD’s portfolio in the sector for other financial services continues to grow and has now reached €973 million, with projects in 23 countries.
Support for micro, small and medium-sized enterprises

Ensuring that micro, small and medium-sized enterprises (MSMEs) continue to have access to finance is a crucial aspect of the Bank’s response to the financial crisis. They contribute fundamentally to transition towards a full market economy and hold the key to sustainable jobs.

MICROFINANCE

Small businesses are vital for economic growth and so need reliable access to funds from the formal financial sector. The EBRD achieves this mainly by providing finance for on-lending through partner local banks and specialised microfinance institutions.

During 2009 this sector suffered considerably as a result of the ongoing difficult market conditions and liquidity constraints in many countries, especially in the regions outside the main cities.

Responding to the challenging conditions, the Bank maintained its support to microfinance operations, signing 42 projects for €260 million. Nearly half of the transactions completed during the year were in the early transition countries, attracting five new partner institutions in Azerbaijan, Georgia, the Kyrgyz Republic and Tajikistan.

The Bank successfully completed two MSE loan transactions with Turkish banks Deniz Bank (€20 million) and Garanti Bank (€20 million). The purpose was to expand the banks’ franchises in the under-served regions of Turkey and to diversify and lengthen their funding bases.

Investing equity in banks is another way the EBRD can support small businesses. In 2009 the Bank committed to invest €1.4 million in a start-up microfinance bank in Tajikistan – AccessBank – and provided additional capital to three other microfinance banks in Mongolia, Romania and Ukraine. The AccessBank project will serve as a model for similar projects, as it shows the benefits of high corporate governance standards and the presence of strong international shareholders.
Expanding microenterprise in the Kyrgyz Republic

In the current tight credit market, in which banks are reducing their lending activities, microfinance institutions remain a key source of funds for the development of Kyrgyz micro and small enterprises (MSEs).

The EBRD has stepped in to provide a US$ 1 million (€0.69 million) loan in Kyrgyz som to Mol Bulak Finance for on-lending to local entrepreneurs in efforts to boost the availability of finance to private businesses in remote areas of the country. Provided in the local currency, the loan helped Mol Bulak Finance to reduce foreign exchange risk.

Mol Bulak is a dynamic company that has significantly expanded over the last two years to become one of the largest microfinance institutions in the Kyrgyz Republic. With a wide-ranging network of offices, the company is particularly active in rural areas where access to financing remains limited.

The financial crisis as it affects Russia and Kazakhstan in particular has had a knock-on effect on the Kyrgyz Republic. The country’s banking system is dominated by banks with foreign capital and the reduction of support to Kyrgyz subsidiaries has a detrimental effect on the access to finance for local MSEs. This highlights the need to support these enterprises under the current credit conditions. Mol Bulak has helped to fill this gap: it has continued its support to existing as well as new clients and managed to substantially increase its client base.

Given Mol Bulak’s small average loan amount, the EBRD’s credit line is expected to reach more than 2,000 Kyrgyz businesses. The main beneficiaries of the loans will be local tradesmen, small business entrepreneurs and rural farmers. Mol Bulak provides lending services mainly through group methodology, which requires borrowers to form solidarity groups with each member guaranteeing loans within the group. Group loans are targeted towards the poorer, under-served entrepreneurs, which underscores Mol Bulak’s strong commitment to provide finance to very small entrepreneurs and enterprises in the Kyrgyz Republic.

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As well as lending through banks, the EBRD works with non-bank microfinance institutions (NBMFs) such as JSC MFO Crystal in Georgia. In December 2009 the Bank signed a local currency loan in Georgian lari (equivalent to €0.7 million) with this new client to increase MSE access to finance in Georgia. This was possible through the Bank’s investment in The Currency Exchange Fund (TCX), which provides the hedging of the Georgian lari financing for the EBRD. TCX was established in 2007 in collaboration with other IFIs and investors to help reduce the foreign exchange risk of clients by being able to provide local currency financing.

The EBRD's MSE finance programmes are actively lending through over 100 partner institutions, many of which have introduced MSE loan products thanks to EBRD technical assistance and donor support.

Reaching people and businesses outside of the capital cities is fundamental to keeping the economy afloat and there are now 3,000 branches of partner lending institutions providing small business financing to smaller cities and regions. Innovative tools such as “credit mobiles” (cars or vans adapted by partner lending institutions) are used to service clients in outlying areas – often in agricultural or seasonal businesses – where it may not be economically viable to maintain branches.

With the economic downturn, partner institutions inevitably experienced a significant deterioration in the quality of their MSE loan portfolios. Coupled with this, the number and volume of loans on-lent by the partners declined, although there was a moderate increase in the second half of 2009. As part of its crisis response the EBRD worked with its partners to improve portfolio monitoring, asset and liability management and enhanced credit risk management. This was supported by a generous pool of technical assistance funding with MSE credit advisory programmes in Armenia, Azerbaijan, Belarus, Mongolia, Romania, Russia, Tajikistan and Ukraine.
The Bank’s SME lending programme is designed to serve the needs of small and medium-sized businesses and includes a range of financial products, such as loans to local banks for on-lending to small businesses, trade guarantees, equity investments in banks and equity funds, and loans to leasing companies. The EBRD also provides equity directly to small companies through the Direct Investment Facility (DIF).

Providing credit lines to local banks and leasing companies is the main way the EBRD has targeted finance to support small business as part of its crisis response.

In 2009 the Bank signed 36 new projects with local banks totalling €753 million. Projects were undertaken in all regions (from early to advanced transition countries) reflecting the need to stimulate the SME sector across the board. The EBRD also signed seven SME-related leasing projects amounting to €158 million.

Bank Vozrozhdenie (V-Bank), a new client benefiting from EBRD support, was provided with a mix of products that were structured to address its funding needs during the crisis and to increase its lending to the real economy within its core business lines, primarily SMEs.

V-Bank is a leading, privately owned bank with 82 per cent of its business generated outside of Moscow. The EBRD extended a long-term SME senior loan for US$ 35 million (€24 million), thereby helping V-Bank to continue lending to SMEs in the medium to longer term, as well as contributing to a balanced and stable funding mix.

In addition, a US$ 16 million (around €11 million) senior loan under the Russia Small Business Fund programme will support V-Bank’s strategy to reach out to micro enterprises. And a trade finance line of up to US$ 30 million (around €21 million) under the TFP will help V-Bank to continue offering trade finance products to its clients in an environment where foreign banks’ appetite for Russian risk is significantly reduced.
By the end of 2009, the EBRD had directed over €6 billion towards small business projects and it currently has projects in 25 countries. The Bank’s SME portfolio involves over 160 financial intermediaries.

The EU/EBRD SME Finance Facility remains a significant component of the SME portfolio. Although there were fewer new commitments under this facility in 2009 than in 2008 (four additional tranches to existing clients in Bulgaria and Croatia) by the end of the year the EBRD had provided 126 credit lines totalling €1.2 billion to 43 banks and 39 leasing companies in the 11 countries covered by the programme since 1999. In total, over 100,000 transactions worth more than €2.3 billion have been undertaken with small businesses throughout the region.

TECHNICAL COOPERATION

In 2009 donor funding for technical cooperation (TC) was approved to address issues related to the financial crisis and to bridge the skill gaps. Most TC assignments involved looking at risk management, non-performing loan work-outs and corporate recovery. In addition, comprehensive support for MSME and energy efficiency credit lines, continued to be a large part of TC activity. Beneficiaries of TC assignments were mainly the early transition countries, the Western Balkans countries, Latvia, Russia and Ukraine.

Key donors throughout 2009 were the ETC Fund, the European Union, the Russia Small Business Fund and the Shareholder Special Fund. For more information on donor support of Bank projects in 2009, please see page 87 and the Donor Report 2010.
Supporting the real economy in Moldova

As a result of the global credit crisis, Moldovan banks have significantly limited their lending activities – a fact that particularly affected small and medium-sized enterprises (SMEs). In this context, the EBRD provided a €15 million loan to C. B. Moldindconbank (MICB) to support the development of its portfolio of SME credits. The transaction underscores the EBRD’s commitment to support the real economy in Moldova. More concretely, the project has created some tangible results and 14 projects have already benefited from the first tranche of the EBRD’s loan to MICB. The loan to MICB not only improved finance, but also led to important improvements in corporate governance. Among other achievements, the EBRD’s project helped modernise MICB’s charter and led to critical changes to the company’s shareholder structure. MICB benefits from an extensive network of branches and is well connected to SMEs, which has provided a good basis for successfully implementing the project. Overall, the company is the fourth largest bank in Moldova by assets and the third by gross loans and total deposits, holding approximately 11 per cent of domestic market share. To date the Bank has committed more than €350 million in various sectors of the Moldovan economy and mobilised additional investments in excess of €240 million.

The new credit line consists of medium- to long-term foreign and domestic currency loans worth up to €1 million and serves to provide external financing to Moldovan private-sector SMEs in the current tight credit market.
Climate change and sustainable energy

The EBRD addresses the challenges of climate change and energy efficiency by integrating these issues into all of the EBRD’s operations as a core strategic component and competence of the Bank.
Despite growing awareness about the causes and consequences of climate change, carbon emissions have continued to increase. After the United States and China, transition economies are among the highest greenhouse gas emitters, accounting for 13 per cent of the global total. The most energy-intensive economies of the world are in the transition region and include Azerbaijan, Kazakhstan, Ukraine and Uzbekistan. The energy intensity of Uzbekistan, for example, is almost nine times that of Switzerland.

High energy intensity in the region stems not only from specific climate circumstances but also from a range of other factors, including the structure of the economy, distorted energy prices, general lack of energy efficiency regulations and standards, obsolete technologies and lack of awareness.

For the past 10 years emissions have been rising rapidly throughout the transition region. Moreover, there is a strong correlation between economic growth and increases in CO$_2$ emissions. By investing in energy efficiency and renewable energy countries will be able to decouple economic growth from rising carbon emissions.

CLIMATE FINANCING
Since 2005 the EBRD has sought to integrate energy efficiency and climate change mitigation into the design and implementation of all its operations. The Bank has gained specific and valuable expertise in the financing of climate change mitigation in general, and of energy efficiency in particular. This enables the Bank to contribute in a meaningful and practical manner to the global policy agenda.

The financial crisis has highlighted even further the importance of good practice and low-carbon growth across the region, and the energy efficiency and climate change activities of the Bank now cover 27 countries, with a good geographical spread across the transition region.

Furthermore, the Bank has participated in the design of the Climate Investment Funds – a new multi-donor funding initiative providing substantial finance for climate change mitigation and adaptation, managed by the World Bank and executed by the multilateral development banks. The EBRD has contributed in particular to its private sector perspective. Kazakhstan, Tajikistan, Turkey and Ukraine are expected to benefit from these funds, and the first project in Turkey is being prepared for implementation in 2010.

THE SUSTAINABLE ENERGY INITIATIVE
The Bank’s investment strategy is delivered within the framework of the Sustainable Energy Initiative (SEI), which was launched in 2006 with the aim of increasing financing to address climate change.
Since its launch, SEI financing has reached around €4 billion through 237 projects covering 27 transition countries.

Based on the SEI’s success during its first three years of operation, the EBRD’s Board of Governors in May 2009 approved the medium-term objectives and “Phase 2” of the Initiative for the period 2009 to 2011. Phase 2 sets a target to invest between €3 billion and €5 billion in projects by 2011 and to reduce carbon emissions by between 25 million and 35 million tonnes a year.

During Phase 2 the Bank will boost its industrial, power and municipal infrastructure energy efficiency activities, and continue to develop renewable energy and carbon markets. It will also expand further into new areas, such as energy efficiency in buildings and climate change adaptation.

The SEI is now firmly rooted not only in the energy sector but in all sectors of EBRD activity, including the industrial, financial and infrastructure sectors.

Despite the financial crisis SEI activities continued to grow throughout 2009. SEI financing exceeded €1.3 billion, increasing by more than one-third from €1 billion in 2008. Altogether there were 71 operations, an 11 per cent increase on the 64 projects financed in 2008. SEI investments accounted for 17 per cent of the Bank’s 2009 annual business volume.

It is estimated that the carbon reduction impact of the EBRD’s SEI portfolio in 2009 will reduce emissions by 4 million tonnes of CO₂, which is equivalent to Albania’s annual greenhouse gas emissions.

THE EFFECTIVENESS OF THE EBRD’S APPROACH TO CLIMATE CHANGE IS EMBODIED IN THE FOLLOWING MAIN FEATURES

- Investment in projects that are geared to reduce carbon emissions across a broad range of sectors, including industrial, power, municipal infrastructure, housing and transport.
- A strong focus on and experience of energy efficiency financing where emissions can be reduced in the short term with existing technology.
- A business-driven approach, with most projects developed and managed by private sector companies.
- The use of technical assistance for project development and implementation, with bilateral support from over 20 countries and donor funds.
- A strategic partnership on energy efficiency and climate change with the European Union, the largest grant donor.
- The development of a range of innovative financing instruments for climate change mitigation, including the selective use of investment grants to address barriers to implementation.
- The management of a carbon fund with the European Investment Bank, including both Joint Implementation and Green Investment Schemes.
- A strong record of leveraging scarce public funds with private sector finance.
- A policy-based approach with governments that builds on the operational delivery of results.
ENERGY EFFICIENCY

Energy efficiency has risen rapidly to the top of the climate change agenda, since it is perceived as potentially the most effective way to reduce carbon emissions in the short to medium term.

Improvements in energy efficiency provide an opportunity to mitigate climate change and to strengthen the region’s economic competitiveness and energy security. The potential gains are significant in all sectors of the economy.

The promotion of low-carbon growth, economic competitiveness and energy security gains generated by improved energy efficiency is a key business driver in the Bank’s approach to increased investments in this area.

For example, the Ukraine Energy Efficiency Programme (UKEEP) – a credit line for private sector investment in energy efficiency or renewable energy projects – is proving to be a powerful tool in financing demand-side industrial energy efficiency. Its initial framework amount was €100 million (since increased to €150 million) and technical assistance funds have been provided by Austria and Sweden for programme implementation. To date, UKEEP has been financially intermediated through four banks, and some 39 sub-projects have been approved totalling €73 million. It is already helping to overcome market imperfections that hold back the smooth functioning of the energy conservation market in Ukraine.

RENEWABLE ENERGY

Renewable energy production, such as wind, solar and biomass, is making only a small contribution to the energy supply of the EBRD’s countries of operations. There is also considerable potential in refurbishing obsolete hydropower, which would lead to increased clean energy production and safety. The EBRD is engaged in upping the contribution of renewable power in its region and the Bank works on all levels to achieve this, from policy dialogue to shape the regulatory framework supporting investments to project finance for wind farms (see the case study on page 66).
POLICY DIALOGUE
Discussions with governments have become an important way for the Bank to support the long-term growth of sustainable energy production and use throughout the transition region. The EBRD is engaging in Sustainable Energy Action Plans, which provide the Bank and governments with an enhanced platform to pursue policy improvements and increased investments in support of ever more ambitious climate financing objectives. During 2009 such plans were signed with the governments of Bulgaria, Kazakhstan, Russia and Ukraine.

CARBON FINANCE
The Multilateral Carbon Credit Fund (MCCF), jointly managed with the European Investment Bank (EIB), is one of the few carbon funds dedicated to countries from central Europe to central Asia.

By joining the MCCF, private and public companies, as well as EBRD and EIB shareholder countries, can purchase carbon credits from emission reduction projects financed by the EBRD or EIB to meet their mandatory or voluntary greenhouse gas emission reduction targets. In addition to project credits, countries can also participate via the MCCF in Green Investment Schemes. This is an innovative way to facilitate government-to-government trade in carbon credits, where the selling country uses the revenue from the sale of carbon credits to support investments in climate-friendly projects.

In 2009 the EBRD further promoted and facilitated the development of the carbon market in its countries of operations. Carbon finance activities rose sharply in 2009 with the signing of seven emission reduction purchase agreements (ERPAs) and a first greenhouse investment scheme – Poland to Spain – to create a 2009 carbon portfolio of €80 million.

Read more in the Sustainability Report 2009.
Cutting carbon emissions in Kazakhstan

After decades of under-investment, northern Kazakhstan’s coal-fired power plants are prone to failing to supply local inhabitants with constant heat during bitterly cold winters and coating the surrounding area with coal dust. The Central-Asian Electric Power Corporation (CAEPCO) is a privately owned company that operates four combined heat and power plants in northern and central Kazakhstan.

With help from the EBRD in the form of an equity investment, CAEPCO is planning to revamp its units to ensure residents remain warm in winter and breathe cleaner air, while factories have enough energy to keep running.

The project, which represents the Bank’s first equity investment in the Kazakh power sector, has the advantage of cutting CAEPCO’s carbon emissions by improving the efficiency of its energy production and distribution facilities.

As well as producing less CO$_2$, CAEPCO aims to slash dust and sulphur oxide emissions by 80 per cent and 40 per cent, respectively.

The EBRD is buying a stake worth €46 million in CAEPCO, which accounts for 6 per cent of Kazakhstan’s electricity. The capital will be used for the company’s investment programme up to 2013, including the upgrade of generation and distribution assets to boost efficiency and reliability.
Power and natural resources

The year 2009 was marked by significant increases in business volume in power and natural resources, as well as a focus on renewable sources of energy and projects that improved environmental standards and promoted energy efficiency.
Two themes characterised the power sector in 2009. First, a dramatic increase in the volume and number of transactions, as other sources of financing disappeared due to the financial crisis; and second, an ever greater focus on renewable energy as the climate change agenda took centre stage, culminating in the Copenhagen discussions in December 2009.

In 2009 the Bank invested €836 million in the power sector – an increase of 38 per cent on 2008. The rise in renewable energy financing was even steeper – the number of projects tripled and the volume increased by 75 per cent. The projects in nine different countries included the EBRD’s first deals in the Mongolian and Turkish power sectors.

Power sector projects are by their nature long term and capital intensive; project development is measured in years and a project’s life in decades. The process of upgrading and replacing the ageing, inefficient infrastructure of the transition countries was therefore particularly vulnerable to the financing gap caused by the financial crisis. The EBRD stepped into that gap to sustain the momentum of sector reform and infrastructure renewal.

In Turkey, this involved providing €45 million for a 135MW wind farm in the south of the country. The project was struggling for funds after the commercial banks mandated to finance it withdrew, so the EBRD took action to provide its support to what will be Turkey’s largest wind farm. Read more information on this project in the case study on page 66 and in the Sustainability Report 2009.
Boosting green energy in Turkey

Turkey became an EBRD country of operations in October 2008 and is the second largest economy in the Bank’s region. In its first project in Turkey, the Bank is supporting the development of the country’s largest wind farm, which will be built by Rotor Elektrik, a member of the Zorlu Energy Group.

Zorlu Energy’s proposal was already at an advanced stage of preparation when the company first approached the EBRD. Most environmental and technical work had already been completed. In common with many other businesses, however, financing for the project suddenly became uncertain with the onset of the financial crisis.

IFIs stepped in, with the EBRD providing €45 million, the International Finance Corporation (IFC) €55 million and the European Investment Bank (EIB) €30 million to help finance the project. Turkey relies heavily on gas imports from Russia and the project also helps to strengthen the country’s energy security.

Wind power comprises less than 0.5 per cent of total electricity consumed in Turkey and the Zorlu Energy project is the largest renewable energy enterprise undertaken so far on a project finance basis. When completed, this project will act as a model for similar energy projects, especially as Turkey has committed to increase the share of renewable energy in its energy portfolio.

Wind power is expected to play a significant role in this plan and the country aims to generate 10,000 MW through wind farms by 2020.

www.ebrd.com/turkey
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In Mongolia, the Bank invested US$ 700,000 (€486,000) in equity in the Salkhit wind farm to be built outside the capital, Ulaanbaatar. Mongolia has great potential for renewable energy but also a critical need to improve its obsolete and dirty existing capacity, which is fuelled entirely by coal. Once constructed, this project will be not only the first wind farm in Mongolia but also the first private generator.

Another major project in 2009 was providing €200 million to Romanian oil and gas company Petrom for an 800MW gas-fired power plant. This project will be the first privately owned generation facility in Romania as well as providing the first new-build, clean capacity in the country in over a decade (see case study on page 69).

In total, projects funded by the EBRD in the power sector in 2009 are expected to reduce greenhouse gas emissions by the equivalent of up to 2.8 million tonnes of CO₂ annually.

PROMOTING REFORM
The EBRD not only supports individual projects but it also seeks to participate in the wider reform of the power sector, particularly in sustainable and renewable energy.

To this end, the Bank hosted an Energy Forum in Sarajevo with the South Eastern Europe Energy Community in March 2009. The forum drew policy-makers, financiers and industry participants from across Europe to discuss prospects and challenges for power sector projects in countries still grappling with the environmental and economic legacy of 20 years of almost no investment.

The EBRD also holds discussions with national governments to encourage reform. For example, in 2009 it signed a Sustainable Energy Action Plan with the government of Ukraine, setting out a coordinated programme of investments and regulatory reform. A similar Energy Efficiency Action Plan was also signed with Russia, and in Serbia the EBRD worked with the government to refine the country’s first renewable energy tariffs, which were implemented in November 2009.
In 2009 the EBRD achieved record business volumes in natural resources. Thirteen transactions were signed representing €671 million in debt and equity investment. Projects were throughout the Bank’s countries of operations, including Albania, Croatia, Hungary, Kazakhstan, Mongolia, Romania, Russia and Ukraine.

The Bank’s involvement spans all activities in the oil, gas and mining sectors. In recent years this has resulted in a focus on projects that improved environmental standards and promoted energy efficiency. In 2009 such projects were joined by loans to ease the pressure of the financial crisis and to address energy security concerns provoked by interruptions to gas supplies to central and south-eastern Europe in January 2009.

SIGNIFICANT PROJECTS
One major project in 2009 involved providing €90 million to Irkutsk Oil and Gas Company in Russia. Half the funds will allow the company to restructure its balance sheet by extending its debt maturity, while the other half will go towards eliminating wasteful gas-flaring at the company’s facilities, thereby providing a substantial environmental benefit.

Similarly, Romania’s Petrom, 51 per cent-owned by OMV of Austria, would ordinarily have relatively easy access to debt markets. However, a combination of much reduced crude oil prices and limited liquidity raised concerns about an ambitious capital expenditure programme (see case study on page 69).
Enhancing environmental performance in Romania

The EBRD stood by its clients as the financial crisis took hold in early 2009. In Romania, for example, the country’s largest energy company Petrom approached its long-standing partner, the EBRD, to secure a €300 million A/B loan safeguarding capital investment.

The loan will finance a range of subprojects necessary for the company’s adoption of industry-wide environmental and health and safety (EHS) standards, including the remediation of refinery sludge lagoons, soil decontamination and the replacement of old boilers to increase efficiency and cut emissions. Importantly the investment is expected to enhance the environmental performance of Petrom operations but also encourage other oil and gas companies to put in place similar environmental programmes.

A second EBRD loan will finance the construction of a new gas-fired power plant with an 860MW combined cycle gas turbine – the first private power generation project in Romania. The total value of this project is around €500 million, with the EBRD and the European Investment Bank (EIB) providing €200 million each under parallel loans and the rest being funded by the company.

Its state-of-the-art power generation facility meets EU environmental standards allowing for a minimal emission of pollutants and an efficiency that should lead to greater competitiveness. Once operational, the new plant alone will account for between eight and nine per cent of the installed power in Romania.

These two loans are part of the EBRD’s commitment to the IMF/EU €19.95 billion financial support package for Romania, whereby the Bank will lend over €1 billion to Romania over the next two years.

www.ebrd.com/romania
www.ebrd.com/power
Interruptions to gas supplies in January 2009 that left millions of eastern Europeans freezing in sub-zero temperatures and prompted industrial stoppages pushed energy security projects high up the EBRD’s investment agenda.

One of these was a €200 million loan to Hungarian energy group MOL to provide financing for an underground gas storage facility. It aims to boost Hungary’s energy independence and will make central Europe better equipped to address any future shortages of gas supply.

Forged out of a reservoir in the depleted Algyő oil field in southern Hungary, the storage is designed to provide additional gas storage capacity that can be quickly mobilised in the case of supply emergencies in Hungary and neighbouring countries.

The new facility, which saw the injection of 1.2 billion cubic metres of strategic reserves completed by the end of 2009, is aimed at ensuring a continuous supply of gas for at least 45 days during a period of peak consumption. The facility will also be used for commercial storage, which will boost competition in this sector in Hungary.

The MOL deal followed a €70 million investment to finance the acquisition of a gas storage facility in Croatia by Plinacro, the company that runs the country’s gas transmission services.

The EBRD’s financial support for these projects complements the Bank’s Sustainable Energy Initiative, a major plank of which is to improve energy security via energy efficiency and the development of renewables. The Bank has triggered spending of over €14 billion over the last three years in helping countries reduce their dependence on energy imports from a very restricted number of gas suppliers, both by cutting back on energy wastage and by building up new domestic supplies of sustainable energy.
Another significant transaction was arranged for MOL, Hungary’s leading integrated oil and gas company. Although a regular in the international debt markets, MOL turned to the EBRD in the financial crisis to provide a €200 million corporate loan to be used to finance the construction of gas storage facilities. These will increase Hungary’s ability to withstand short-term interruptions to gas supplies.

Such was the impact of the financial crisis that most of these facilities were funded solely by the EBRD, which meant cooperating closely with other international financial institutions. For example, US$ 60 million (€43 million) in debt facilities to Patos Marinza, an oilfield rehabilitation project in Albania, was split with the International Finance Corporation (IFC), while Black Sea Trade & Development Bank provided €25 million of the Petrom loan.

There was some success on the commercial debt market, though, with €125 million of the Petrom loan being syndicated to international banks and US$ 175 million (€125 million) syndicated for Russia’s Integra in a transaction originally signed in 2008. The success of these syndications went against the prevailing trends in 2009.
The financial crisis had a significant impact on the infrastructure sector in the EBRD’s countries of operations. But the Bank is ensuring that well-structured investments provide a solid basis for increased business activity when the economic upturn arrives.
As for many sectors, 2009 was a particularly challenging year for municipalities and local utilities. Normal challenges resulting from years of under-investment and unsustainable tariff policies were compounded in 2009 for three main reasons: (i) eroding commercial bank interest for municipal financing; (ii) a deteriorating public finance environment due to falling fiscal revenues; and (iii) higher social expenditures and increasing affordability constraints associated with rising unemployment.

The Bank’s response to these challenging times was bold and quick. In 2009 it raised investments in municipal and environmental infrastructure (MEI) by signing 27 projects for a total of €479 million in 10 countries from across the transition region – an increase of more than 70 per cent on 2008. Ninety per cent of this financing went to private or sub-sovereign borrowers in a wide range of sectors and, as far as possible, did not rely on sovereign credit that was already under stress.

**SAVING ENERGY AND IMPROVING SERVICES**

Energy efficiency is a theme common to almost all EBRD projects, and in the MEI sector significant savings can be made in water, wastewater, district heating and urban transport. During 2009, 20 MEI projects included energy efficiency considerations valued at €163 million.

One project with this goal was in the Ukrainian city of Ivano-Frankivsk, where the EBRD loaned €11.7 million to the municipally owned district heating company so it could partially convert its energy supply to biomass. This reduced gas usage by 5.2 million cubic metres annually, a quantity sufficient to provide heat to a 10,000 strong community in Ukraine.

The company’s willingness to reform kept the project on track despite the financial crisis. As a result the EBRD was able to mobilise further grant funding from the Swedish International Development Agency. The project also served as a template for the Eastern Europe Energy Efficiency and Environment Partnership (E5P), which was developed by Sweden during its EU presidency and established by eight donor countries. E5P will promote energy efficiency in Ukraine, with a focus on district heating.
Cleaning up the Baltic Sea

In its 43rd investment in St Petersburg, the EBRD is backing the city’s efforts to cut the amount of untreated sewage that is discharged into the Baltic Sea. About 85 per cent of wastewater collected in the city is already being biologically treated but the rest is discharged directly without treatment into the Neva River in north-western Russia. From there the untreated sewage reaches the Baltic Sea, around whose shores 55 million people live.

But now St Petersburg’s ambitious water utility, Vodokanal, has embarked on a project that when completed by 2012 will see St Petersburg treat 94 per cent of all effluent being discharged into the Baltic Sea biologically. The city’s ultimate goal is to eliminate all discharges of untreated sewage.

Vodokanal has long been a pioneer not only in environmental projects but also in pushing through reforms to ensure its financial viability. This is why the EBRD stepped in with a 15-year loan of €17.5 million and a €6 million grant from its Shareholder Special Fund to the €187.1 million cost of this project. The Nordic Investment Bank (NIB) is also lending €25 million and the European Investment Bank (EIB), another €17.5 million. For the first time in Russia, loans are made without any financial guarantees being provided by the city of St Petersburg because of the impeccable credentials of Vodokanal.

EBRD funds are upgrading St Petersburg’s Northern Wastewater Treatment Plant and financing the construction of a tunnel pumping station in the main underground sewage collector for the north of the city. This is the fourth EBRD investment to increase the Russian city’s capacity to treat wastewater.

The project is part of a programme launched by the Northern Dimension Environmental Partnership (NDEP) and is backed by a €24 million grant, the largest ever allocated for a single project by the NDEP Support Fund.
REACHING OUT TO SMALLER MUNICIPALITIES, FURTHER EAST AND THE PRIVATE SECTOR

Last year the EBRD also met the challenge of upgrading municipal services in the early transition countries (ETCs), focusing on smaller projects, often phased, with matching grant support to enhance the utilities’ creditworthiness and operational sustainability during and after project implementation. In 2009 the Bank signed four municipal infrastructure projects in four of the ETCs for loans amounting to €10.2 million, co-financed by €10.6 million of investment grants. These projects cover water supply improvements in the Kyrgyz Republic and Tajikistan, and a solid waste management project in Georgia.

The latter, the first sanitary landfill in the Caucasus, is expected to serve as a model for the region. The newly established landfill operating company will work on commercial terms within the affordability constraints of the population. In addition to pioneering the establishment of sanitary landfills in the ETCs, the project is also the first to be co-financed with a private sector grant. The EBRD also signed its first transaction with a private bus operator in Khujand, Tajikistan, to improve bus services.

In southern Tajikistan, the EBRD combined a US$ 2 million (€1.4 million) loan with over €2.9 million in capital grants from the Bank’s Shareholder Special Fund to finance critical investments in the water supplies to small cities in southern Tajikistan. At a later stage the gradual introduction of a new tariff policy will help the local water companies to cover operating costs and generate income, while protecting low-income households. A further step will lead to cost reductions, efficiency measures and transparency.

The Bank also increased its support to small and medium-sized municipalities by doubling its funding to the Fund for Local Authorities and Governments (FLAG) in Bulgaria. This has allowed the municipalities to mobilise co-financing for projects under the EU Cohesion Funds programme, such as energy efficiency in municipal buildings, road rehabilitation, water and wastewater. To date, 67 sub-loans ranging from €40,000 to €2 million have been extended to 59 municipalities, showing the broad reach of FLAG. The €35 million extension — necessary because of such rapid uptake of funds by the original FLAG programme – will help sustain achievements to date and pursue remaining transition goals, despite the economic downturn and difficult market conditions.

Neighbouring governments are considering replicating this innovative fund structure as it proved an effective tool to finance smaller municipalities that are traditionally not well served by financial markets.
By working with the private sector, the EBRD is encouraging better corporate governance and higher quality services. In 2009 two EBRD projects with an aggregate commitment of €150 million involved equity investments in private sector participants seeking to expand in the Bank’s countries of operations. At a time when many corporates curtailed investments and focused their financial resources on their traditional markets, these important equity commitments will allow market participants to continue to expand their operations further east. The progression of these sponsors in the region is expected to improve standards of service delivery and should act as benchmarks for both municipal operators and other private operators.

**DONOR SUPPORT**

MEI projects benefit heavily from donor support for both technical cooperation (TC) and capital expenditure. In 2009 donors contributed €19.4 million for TC assignments and €22 million in investment grants. Key donors include the European Union, the Northern Dimension Environmental Partnership and countries including Austria, Finland, the Netherlands, Spain, Sweden and Switzerland.

See chapter 9 for more information on donor support of EBRD-financed projects, or the Donor Report 2010.

**INITIATIVES**

As well as providing funds, the EBRD also promotes sector reform. To improve road maintenance at the local level, for example, the Bank has started to include private sector participation in performance-based multi-year road maintenance contracts for all its local road projects. This will serve as a model for new ways to structure municipal investment and management.

The Bank continues to work with governments to promote reform in the water and wastewater sector. Key themes are consolidation of smaller municipal water companies and regionalisation, whereby a metropolitan water company expands its coverage to surrounding municipalities or an entire region. This will ensure sustainability and give smaller municipalities better access to finance and investment, as the larger water companies have the financial strength to borrow from local or international lenders. Ultimately the result will be improved service levels for a wider population.
Building partnerships for development

Good transport links are vital for promoting economic growth. So even when a country such as the Slovak Republic sees GDP fall as a result of the global downturn and state funds are constrained, its roads still need to be modernised to stimulate the economy.

Public-private partnerships (PPPs) are a useful way of mobilising private funds to invest in infrastructure and speed up the implementation of government modernisation programmes. In 2009 the EBRD played a key role in supporting the development of a PPP for the construction of 52 kilometres of motorway in the south-west of the Slovak Republic, part of the country’s east-west national corridor.

As well as providing a €200 million loan to Granvia, the concessionaire tasked with financing and building four sections of the R1 motorway, the EBRD played a key honest-broker role to ensure that the country’s first PPP road project remained on track and achieved successful financial closure.

The R1 project makes the Slovak Republic the first country in the EBRD region after Hungary to initiate a competitively tendered motorway construction programme based on an availability-payment structure. As such, it provides an important benchmark for subsequent concession projects in the Slovak Republic and the rest of the region, including Romania and the Baltic states, where similar road PPPs are being developed.

By supporting the project, the EBRD ensured the survival of the Slovak PPP programme and reduced the reliance on state budget financing of road development. The project also sent a very strong signal that well-structured and executed PPP projects remain a viable alternative for developing public infrastructure, even under adverse market conditions.

www.ebrd.com/transport
www.ebrd.com/slovak
The past year was challenging for the transport sector in the EBRD’s countries of operations but the Bank’s support to public and private sector clients promoted the sustainability of viable businesses and ensured that priority investments remained on track.

In 2009 business volume almost doubled on the previous year, with €1.2 billion provided for 17 projects spanning 10 countries: Armenia, Bosnia and Herzegovina, FYR Macedonia, Kazakhstan, the Kyrgyz Republic, Montenegro, Serbia, the Slovak Republic, Russia and Ukraine.

EFFECTS OF THE FINANCIAL CRISIS
Because of the crisis, some clients found they had too much short-term debt in 2009 and required refinancing support from the EBRD. In addition, the sharp decline in freight volumes and retreat of the commercial banks meant that the Bank was also needed to help finance smaller investment programmes and fill funding gaps left by other financiers. The EBRD also worked with other international financial institutions (IFIs), who provided around €2.5 billion equivalent in 2009.

Governments in the transition region have also been keen to develop large infrastructure projects to boost economic activity and prepare for recovery. One of these was the R1 motorway in the Slovak Republic, the country’s first public-private partnership (PPP) and the first PPP in Europe to be financed post-crisis without sovereign support. The project was a landmark transaction (see case study on page 77 for more detail.)

Also significant was the Osh-Isfana road project in the Kyrgyz Republic, for which the Bank provided a US$ 35 million (€25 million) loan to upgrade the highway in the south west of the country. This was the Bank’s first transport project in the Kyrgyz Republic and allowed it to open a dialogue with the Kyrgyz government on sector reform.

Another major project in 2009 was the restructuring of Russian Railways (RZD). See the case study on page 79 for more detail.

PROMOTING ENERGY EFFICIENCY
This was one of the key objectives in 2009, and will continue to be so in the coming year. By financing more energy efficient transport and encouraging large energy users to review their consumption and develop sustainable energy strategies, the EBRD’s investments in energy efficient transport reached €117 million, a 60 per cent increase on 2008.

OTHER INITIATIVES
The tendering of road PPPs in central Europe and Russia progressed well in 2009 with a number of EBRD-supported PPPs having advanced significantly in 2009 and financial close expected in 2010. In the next couple of years these projects will require debt financing of between €1 billion and €3 billion, so support from the EBRD and other IFIs will be paramount.

Following extensive dialogue with governments, there was renewed focus on railway sector reform in Kazakhstan, Russia and Serbia in particular. This is expected to create new opportunities for the Bank to finance priority investment linked to reform in 2010.
Promoting Russian railway reform

The largest non-syndicated loan in the EBRD’s history has given the Bank an opportunity to support a far-reaching reform of Russia’s railway sector. In the summer of 2009, the Bank provided a 10-year unsecured loan of US$ 500 million (around €347 million) to the state-owned Russian Railways (RZD).

The aim was to help RZD restructure its balance sheet and complete a reform launched by the government in 2001. It brought total EBRD investments in the sector to US$ 1.2 billion (around €0.83 billion) since 2001, spread over nine deals. In such a vast country covering 11 time zones, the railways play a crucial economic role and carry 85 per cent of all freight (excluding pipeline volumes) over what is the world’s second largest rail network.

Key targets in the reform agenda for Russian railways include unbundling the RZD holding and separating all its services along business lines, as well as establishing an independent regulator. The emergence of an effective regulator is key to ensuring equal access to railway infrastructure for increasingly active private operators.

The EBRD had already made major contributions to the modernisation and commercialisation of the Russian rail sector through several earlier diversified transactions.

In January 2009, for instance, the Bank provided a 10-year loan of US$ 130 million (around €90.3 million) to RZD’s subsidiary Freight One, to fund the renewal of its railcar fleet. A year earlier, the Bank invested €134 million to buy a minority equity stake in Transcontainer, the major operator of rail containers whose parent company is also RZD.

In the summer of 2008, the EBRD invested nearly US$ 50 million (around €34.7 million) to acquire a minority stake in a private Russian rail freight operator, Globaltrans. And in the autumn of 2008, the Bank loaned US$ 65 million (around €45 million) to Sinara Transport Machines, one of Russia’s biggest producers of freight locomotives and a private sector company.
Industry, commerce and agribusiness

In its response to the crisis, the EBRD stepped up investments in agribusiness, manufacturing, property and tourism, telecommunications, informatics and the media to diversify economies, promote recovery and build sustainable growth.
Despite the challenging conditions affecting the global economy, a record 59 agribusiness projects for €639 million were signed in 2009. Of these, many were crisis response operations. The projects were spread across 19 countries, from central Europe to Central Asia. Emphasis was placed on those countries at the earlier stages of transition, where 24 projects were signed.

**RESPONDING TO THE FINANCIAL CRISIS**

Business expansion plans were put on hold and companies that had relied heavily on short-term funding to finance growth had difficulties refinancing. Several companies were negatively affected by hard currency-denominated debt as well as a shrinking commercial lending sector.

In response, the EBRD increased its lending and made financing available more quickly to (mainly) existing clients. Those clients ranged from commodity traders with increased working capital needs to sustain their trading operations, to crisis-related financial restructurings of healthy but overstretched local companies.

One significant project signed in 2009 was a US$ 150 million loan (the EBRD share of which was equivalent to €52 million, as 50 per cent of the loan was syndicated) to Yug Rusi, a leading Russian edible oil company, to provide working capital, improve the company’s competitiveness and reduce energy consumption. Yug Rusi will act as a model for other industry participants through its use of modern harvesting technology, efficient procurement, collection and storage.

The Bank also provided a US$ 75 million (€53.5 million) credit line for the Ukrainian and Russian subsidiaries of leading commodity traders Louis Dreyfus Commodities. The proceeds will support local farmers by allowing Louis Dreyfus to continue to sell their crops and access the traders’ silos for storage, processing and export at a time of exceptionally tight credit.

And in Turkmenistan the EBRD supported one of the country’s first modern food retail chains with a US$ 1.9 million (€1.3 million) equity investment in Ak Enar. The project will set new standards in a sector that is still dominated by small grocery shops and open market sales, as well as increasing competition and creating jobs.

**INITIATIVES**

In response to the 2009 food crisis of rising prices and imbalances in supply and demand, the Bank took a leading role in four initiatives on how the region can contribute more significantly to global food security. Meetings took place in London, Kiev, Moscow and St Petersburg, bringing together the public and private sectors and initiating a constructive dialogue.

In addition, discussions with governments covered the introduction of legislation concerning the use of crops as lending collateral, and the Bank produced several sector- and country-specific industry analyses, for example on food retail regulation in Russia.
Manufacturing and services

Part of the transition to an open and democratic market economy is the diversification of the economy. With the financial crisis putting so many businesses under pressure, it is all the more important to support manufacturers, particularly of consumer goods, in order to keep economies afloat.

Therefore in 2009 the EBRD invested €679 million in manufacturing projects, almost twice as much as in 2008. Most of these projects were in Russia (worth €382 million), Romania (€70 million) and Ukraine (€62 million) but investments were made across the entire transition region, from Central Asia, eastern Europe and the Caucasus to south-eastern Europe.

As part of the Bank’s crisis response package, the EBRD provided a €120 million medium-term loan to Russian’s largest privately owned conglomerate, Sistema. The funds will increase the group’s liquidity and ability to support its high-tech sector, with its Sitronics subsidiary – the leading Russian electronics and technology company – as the main beneficiary.

Russian cosmetics group Kalina also benefited from EBRD support in 2009 when it received €28.5 million to refinance its short-term debts and use as long-term working capital at a time when such financing is scarce. Kalina is an important employer both in its Ekaterinburg base and in the rest of Russia, including over 200 distributors.

The construction sector has also suffered greatly due to the crisis; its seasonal nature and the shortage of available commercial lending to the building material sector had a significant impact. One company in need of help was Lafarge Ciment in Romania. The EBRD loaned €20 million in local currency, which will support the company’s working capital requirements. By enabling Lafarge to continue working with its suppliers the funds also help to support smaller local firms, which are the mainstay of a vibrant market economy.

ENERGY EFFICIENCY

Despite the crisis in 2009, and in line with the EBRD’s Sustainable Energy Initiative, the EBRD continued to focus on projects that aim to cut carbon emissions and promote a cleaner environment. One project signed in 2009 was in Belarus and involved lending US$ 15 million (around €10.4 million) to Pinskdrev, the country’s largest wood processing and furniture group, for the modernisation of its production lines and energy efficiency improvements. The group is already recycling wood waste created by its manufacturing processes to produce steam and heat in-house but thanks to the funding it can now introduce metering and monitoring systems to rationalise control over energy use.

The project will serve as a model for others in Belarus as it shows how much can be achieved when a company decides to modernise its production lines, improve its corporate governance and rationalise its energy use.
In 2009 the EBRD committed €202 million to property and tourism projects. In line with the Bank’s focus on energy efficiency, each direct investment was the subject of an energy efficiency audit and over €10 million was earmarked for sustainable energy investments.

Throughout the year, the EBRD financed property projects in Albania, Armenia, Georgia, the Kyrgyz Republic, Moldova, Romania, Russia and Ukraine. Investment was provided in the form of loans (56 per cent) and equity-linked investments (44 per cent).

The global financial crisis continued to have a severe impact on the property sector. Commercial banks were still very cautious about lending to the real estate sector in 2009, while equity funds had a hard time attracting institutional investors who were strapped for liquidity and struggled to assess the impact of the crisis on their existing portfolios. The EBRD responded swiftly, supporting existing and new clients facing funding shortages.

A good example of the EBRD’s crisis response is the €40 million financing committed to the Aura Shopping Centre, a quality retail and entertainment centre in Novosibirsk, the third largest city in Russia. The debt financing collapsed as a result of the crisis and the EBRD stepped in to support the completion of the development. Furthermore, as part of the project, the Bank will help the borrower to organise a regional workshop on energy efficiency in the property sector, as well as elaborating on corporate energy efficiency policy guidelines.

In Albania, €24 million went to support the development of a shopping mall on the outskirts of the capital, Tirana. East Gate Tirana Shopping Mall, by far the country’s largest Western-style integrated shopping mall and entertainment centre, will significantly expand the retail market in Tirana and address the substantial lack of quality real estate. The project will also use technology and practices that exceed national requirements for energy efficiency.

One of the biggest regional (that is, spanning several countries) projects in 2009 was a €75 million equity investment in Heitman Eastern European Property Fund. The Fund will invest in high-quality property developments and property assets across central and eastern Europe, Russia and Ukraine. The target portfolio consists of a mix of office, retail, industrial and residential assets.

This project has the potential to reinvigorate the property market and reintroduce liquidity at a time when the region’s real estate markets remain frozen by the effects of the credit crisis. It could also contribute to the re-opening of the acquisition and/or development markets in the Bank’s countries of operations.
The telecommunications sector suffered from the financial crisis less than other sectors, mainly because enterprises were able to reduce their capital expansion programmes and maintain cash-generative businesses. However, the sector still experienced a shortage of private equity capital.

Most of the EBRD’s business in 2009 was with new clients who were building or expanding their businesses to take advantage of market conditions. Nine projects were signed in countries across the transition region.

Economic studies and the financial results of most telecommunications companies reveal that people will reduce their spending in most other areas before their communications needs. The media sector was hit harder, though, because of its dependence on advertising-based revenue models and greenfield technology projects where there was a lack of risk capital available.

One successful project in 2009 was in Poland, where the Bank provided pre-IPO financing of €15 million to Asseco, a Poland-based software development and information technology (IT) company operating in the Balkans, which was floated on the Polish Stock Exchange in late 2009. Additional debt financing of €7 million was also provided.

South-eastern Europe is a relatively underdeveloped IT market that is dominated more by the sale of foreign hardware than the development of software and services. Proceeds from the EBRD’s investment will help the company to consolidate past acquisitions and purchase new companies in the Balkans, thus dispersing technology skills and products to other countries, with Asseco’s clients ultimately receiving a better and more comprehensive service.

While the sector as a whole was indeed less affected by the crisis, the EBRD did step in to support businesses facing difficulty. One example from 2009 is BITE Group, the regional Baltic third mobile operator. The Bank provided a small equity injection to the company, which was affected by the slowing growth in the Baltic mobile markets as a result of increasing market saturation, strong competition and deteriorating economic conditions. BITE aims to be a leader in technology and innovation and without BITE, strong duopolies would ensue in both the Latvian and Lithuanian markets, with fewer new services introduced.
OTHER ACTIVITIES AND INITIATIVES

In 2009 the EBRD began three donor-funded market studies to evaluate the technical and commercial feasibility of extending telecommunications coverage to rural and remote communities in Armenia, Azerbaijan and Georgia. The purpose of the studies is to assess the feasibility and operational requirements of combining wind, solar and power minimisation techniques into mobile base stations, thereby allowing rural facilities to be more cost effective. Results are due in 2010.

For the first time, the EBRD teamed up with the International Telecommunications Union (ITU), the United Nations’ agency for information and communications, to address the inadequacies of information communications technology (ICT) development in the transition countries. A summit – CIS Connect – was held in November 2009 in Belarus and attended by over 400 delegates. Government ministers and industry participants discussed issues such as ICT as an engine for economic growth, building and financing broadband infrastructure, moving from analogue to digital broadcasting and cyber security.
Donor-funded activities and official co-financing

Donor funding and co-financing are crucial in addressing transition challenges in the EBRD’s countries of operations: they support sustainable energy and the environment, robust financial institutions, small business growth, trade expansion and more efficient transport systems.
Grants from donor countries, co-financing with other IFIs and funding through the EBRD Shareholder Special Fund (SSF) are crucial in addressing transition challenges in the EBRD’s countries of operations. These funding sources support programmes such as the promotion of sustainable energy and the environment, robust financial institutions, small business growth, trade expansion and more efficient transport systems.

The year 2009 was a landmark year for the EBRD’s donor cooperation programme. Demand for grant funds to complement the Bank’s investment operations has increased as the EBRD responded to the global financial crisis and climate change financing moved to the forefront of the international agenda. Technical assistance projects for the year were up by more than 20 per cent and important new partnerships with donors have been forged.

The crisis affected all of the transition countries to varying degrees. With the support of donor funding and the EBRD SSF, the Bank sought to repair the damage to financial institutions and intensified support for small businesses, which are vital for recovery in the more vulnerable economies. And, as the crisis chipped away at local government budgets, support was forthcoming for crucial municipal environmental programmes.

TECHNICAL COOPERATION AND CO-FINANCING

Technical cooperation (TC) helps to prepare the way for EBRD-financed projects by funding consultants and experts to advise private and public sector enterprises, helping them to improve their business management and financial planning, ultimately improving the investment climate.

Funding for TC projects rose in 2009, with a total of €101.5 million being committed in 2009, an increase from €82 million in 2008. This was bolstered by the first full year of financing from the SSF. The financial sector was a major beneficiary of this support, with municipal infrastructure and sustainable energy also strong recipients. In addition, some €50 million of co-financing grants from donors was given to projects signed by the Bank during the year.

Grant agreements totalling €181.4 million were signed with donors for TC and grant co-financing activities. This was an increase of €87 million on 2008 and comprised new agreements worth €145.5 million and replenishments of existing funds totalling €35.9 million. A replenishment of €30 million was approved by the EBRD Board of Governors for the SSF.
Last year also saw important developments in the structures through which donors provide support to the Bank, such as the introduction of concessional financing through the Climate Investment Fund (discussed on page 59), as well as in the level of resources that have been made available.

Bilateral donors continue to underpin the Bank’s donor programme, providing €68 million for 322 projects in 2009 both through bilateral funds and multi-donor funds. The importance of bilateral donors to the Bank lies not only in the sums provided, but also in the diversity of objectives that donors have, and therefore in the range of operations that can be supported. Bilateral donors also use grants as a way to encourage the EBRD to develop business in new areas or in new ways. In 2009 the Bank launched a review of the efficiency of the management of donor funds. Results will be reported at the EBRD’s Annual Meeting in Zagreb in May 2010.

The European Union remains the Bank’s biggest donor, historically having provided around half of all donor cooperation funds to the Bank. In 2009 grant support from the European Union reached €104 million, a substantial increase from €38 million in 2008.

Much of this was channelled through the Neighbourhood Investment Facility (NIF), whose multilateral governance structure and focus on using the EU budget to leverage the resources of international financial institutions (IFIs) represent a major development in cooperation, one that is now being followed in the recently launched Western Balkans Investment Framework (WBIF – see page 92).

Italy contributes to the EBRD-Italy Local Enterprise Facility (LEF). Resources are used by clients to fund acquisitions, expansion and/or modernisation and working capital through equity, quasi-equity and debt financing. The facility was set up in 2006 with €20 million from the EBRD and €10 million from the Italian government. It has been replenished several times, most recently in 2009, and now stands at €170 million in co-financing (€150 million from the EBRD and €20 million from the Italian government) and covers the Western Balkans, Croatia and Turkey. The Italian government has also provided €6 million for technical assistance related to the implementation of the facility and support to small and medium-sized enterprises (SMEs). Importantly, the LEF includes a dedicated amount for risk-sharing between the EBRD and the donor, which allows the EBRD to make investments even in more challenging circumstances.
Other bilateral funds include those with Sweden and Germany. In 2009 the EBRD and Sweden concluded a €20 million Sida-EBRD Municipal Environment and Climate Programme Fund. It will be instrumental in providing investment grants and TC for water and wastewater projects in the European Neighbourhood region. And cooperation continued with Germany for the EBRD Sustainable Energy Initiative. Germany has provided substantial funds (about €6 million) for energy efficiency projects in Kazakhstan, Russia and Ukraine.

OFFICIAL CO-FINANCING

In 2009 co-financing – that is, joint financing with IFIs, other organisations and governments – of EBRD investment projects amounted to €2.8 billion. Contributions were distributed as follows.

- IFI and parallel loans from other organisations (€2.6 billion). These were provided mostly by the World Bank, European Investment Bank, Islamic Development Bank and the International Finance Corporation (IFC).
- Investment grants totalling €59 million from the European Union, Millennium Challenge Georgia, the Northern Dimension Environmental Partnership and the World Bank.
- Participation and/or risk participation of €35.8 million, provided through donor funds held by the EBRD, Deutsche Investitions- und Entwicklungs gesellschaft, the Netherlands Development Finance Company (FMO) and the OPEC Fund.
- IFI and other equity totalling €81.7 million, provided by the IFC, KFW Bankengruppe, local governments and investors.

The main beneficiaries of official co-financing were investment projects in Kazakhstan (€2 billion for the South-West Corridor Road Project), Romania (€245 million) and Turkey (€122 million). Official co-financing totalling €59 million has also been used at a regional level.
**THE EBRD AS A TC PROVIDER**

Through the SSF, established in May 2008, the EBRD itself became a source of donor funding. Complementing existing financing from donor countries, the Fund has enhanced support for two of the Bank’s priority regions: the ETCs and the Western Balkans. The Fund has also provided timely support for combating the effects of the economic crisis and for the Sustainable Energy Initiative.

By the end of 2009, €77.7 million of the SSF had been committed to 210 TC projects. Along with the €10 million allocated to the newly launched WBIF and the €10 million allocated to the Northern Dimension Environmental Partnership (NDEP), this amounted to the use of 82 per cent of the Fund’s original resources. The principal recipients were the ETCs with €34.2 million (for 99 projects) and the Western Balkans, which benefited from €11.7 million (for 30 projects). Other official development assistance (ODA) countries received €8.2 million (for 55 projects); Russia received €13.6 million, of which €6 million was in grant financing to the NDEP.

Importantly, the SSF has served as a “bridge” financing mechanism when donors were unable to provide their formal approvals to projects within the time-frame of the project’s needs. It is also able to fill the gaps that exist between donor priorities and the Bank’s objectives.

In May 2009 an additional allocation of €30 million from the Bank’s own reserves was approved to support the Bank’s crisis response operations.
CLIMATE CHANGE FINANCING
Climate change is a major threat to sustainable development in the EBRD’s countries of operations. Companies face increasing energy costs and intensive energy use damages the environment through high levels of greenhouse gas emissions, contributes to social hardship and weakens the competitive advantage of private companies.

To help the transition countries adapt to climate change and introduce energy efficiency measures, in 2009 the Bank expanded its relationship with the Global Environment Facility (GEF) – an international financial organisation that acts as a catalyst for improving the global environment – as well as with the Climate Investment Funds (CIF), a new multi-donor initiative to leverage climate finance from the multilateral development banks. Having previously only ever completed one project with the GEF, and none with the CIF, the EBRD now has major programmes under development in six countries in cooperation with these two funds. The Clean Technology Trust Fund approved the first CIF project, an energy efficiency credit line facility in Turkey, at the end of 2009. It will benefit from a €35 million concessional loan from the Clean Technology Fund, one of the CIFs.

The Swedish EU Presidency launched, with the support of EBRD, a new partnership for energy efficiency and the environment in eastern Europe (known as the Energy Efficiency and Environment in Eastern Europe Partnership Fund, or E5P). Some €90 million has been pledged over the next four years for projects to be co-financed by the EBRD, the European Investment Bank, the Nordic Investment Bank, the Nordic Environment Finance Corporation and the World Bank Group.

In addition to these larger frameworks, bilateral donors have in 2009 continued, alongside the SSF, to support the Bank’s climate finance operations through the Sustainable Energy Initiative, providing much-needed technical and financial support across a broad range of operations.

Read more on climate change in the Sustainability Report 2009.

MULTILATERAL FUNDS
Last year witnessed an increase in the number of multilateral funds (see below), along with the Bank’s engagement with them. Their common features include: establishment outside the EBRD; contributions from several donors; making funds available to other IFIs; and the availability of large volumes of grant or concessional finance.

Current multilateral donor financing initiatives in which the Bank is engaged include:

- the EU Neighbourhood Investment Facility (NIF)
- the EU Western Balkans Investment Framework (WBIF) – launched in November 2009
- the Climate Investment Funds
- the Global Environment Facility.
REGIONAL MULTI-DONOR FUNDS

The Bank is host to several multi-donor funds, including the NDEP Fund, the Early Transition Countries (ETC) Fund and the Western Balkans Fund.

Driven by the support of two flagship multi-donor funds – the ETC Fund and Western Balkans Fund – there was a marked increase in the Bank’s operations in these two priority regions, with commitment levels at €29 million and €20 million, respectively.

The ETC Fund approved almost €13.5 million of new projects in 2009 (including the amount co-financed by the SSF). These new projects spanned all the ETCs and most sectors, concentrating on local enterprise development and municipal and environmental infrastructure. The SSF matched this funding, which not only allowed the ETC Fund to support more projects than it would have otherwise been able, but also provided leverage for donors to increase their pledges to the ETC Fund itself.

The Western Balkans Fund has been the major instrument for funding technical assistance in Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia (including Kosovo). In 2009 funding amounted to €4.5 million for 26 TC projects, with a focus on municipal and transport projects. The SSF also provided €7 million. Importantly, the fact that funds from the SSF could be used flexibly meant there was more money available for the WBIF (see below). Total commitments to the Western Balkans in 2009 reached €20 million, with strong support from the European Union and bilateral donors such as Italy, the Netherlands and Sweden. Overall pledges to the Western Balkans Fund since it was established in November 2006 amount to €26 million.

Building on the success of the Western Balkans Fund, the WBIF was created in 2009. It pools resources at the European level, harmonises cooperation between IFIs and increases their aid and financing effectiveness in the Western Balkans. The WBIF, like the NIF, seeks to optimise the use of donor funding and financing by coordinating IFI intervention. The global financial crisis and its aftermath have given new impetus to such collaboration.

The NDEP was set up in 2002 by the European Union and donor governments, including Russia, to address some of the most pressing ecological needs facing the Baltic Sea and Barents Sea regions. The NDEP Fund, which is managed by the EBRD, promotes cooperation between the European Commission, partner governments and IFIs, making it easier to raise funds for priority projects to benefit the environment of the Northern Dimension Area. So far the Fund has concentrated on north-west Russia but in 2009 Belarus joined the Partnership, encouraged by good results achieved for wastewater treatment.

Read more on the EBRD’s donor programme and activities in the Donor Report 2010.
Building stronger businesses

| Number of projects begun by TAM in 2009 | 116 |

The EBRD’s two complementary, donor-funded business development programmes – TurnAround Management (TAM) and Business Advisory Services (BAS) – are more important than ever as a result of the financial crisis.

Smaller businesses frequently have weaker financial structures than larger enterprises and depend heavily on bank credit. But finance alone cannot solve the problems that small businesses face. Strong and competent management is vital, and this is where TAM/BAS can support them.

TAM focuses on broad managerial and structural changes within small and medium-sized enterprises, bringing in sector-specific, internationally experienced executives from economically developed countries to help the businesses develop a new management culture and skills. BAS helps micro and small enterprises improve performance by supporting local consultants in projects with narrowly defined objectives and market development activities.

Both programmes prepare enterprises for outside investment, including EBRD-financed projects. In 2009, 11 investments were signed with TAM/BAS-assisted companies for €36 million. Twenty-four recommendations of TAM advisers were also made for EBRD consultancy/due-diligence and a further six recommendations for non-executive board appointments.

In 2009, as a response to the crisis, special advisory teams were set up comprising experienced senior executives and industry experts. The teams provided enterprises with crisis-specific business support and comprehensive plans to steer them through the crisis. These plans not only allowed businesses a clear understanding of the problems, but also recommended actions and set short- and medium-term targets. The TAM teams oversaw the implementation of the plans.

TAM started 116 projects in 2009, exceeding its target of 110. The TAM programme is being widened in 2010 to start operations in Turkey, the EBRD’s newest country of operations, to renew operations in Belarus and to expand in Ukraine and Turkmenistan.
BAS started 1,256 projects in 2009, with new operations in Mongolia and a new office in Ukraine. Also in 2009, BAS drew up plans and began negotiations to open offices in Belarus, Turkey and Turkmenistan in 2010.

TAM/BAS continues to focus on issues that span all sectors. The main focus is energy efficiency and environmental protection, as well as gender and support to women entrepreneurs.

About one-third of all projects in 2009 related to development in the rural regions, creating new local businesses and trade, enhancing existing companies and helping small farmers to move away from subsistence farming, all aimed at increasing local incomes.

Contributions to EBRD policy dialogue are made through the preparation of “country briefs” in collaboration with the Bank’s Office of the Chief Economist. Eight such briefs were prepared in 2009 to guide TAM/BAS operations, assist with the planning, measurement and recording of transition impact and form part of the EBRD’s wider process of identifying priority activities in each country.

During 2009 TAM/BAS mobilised €23.3 million of funding (€16.3 million from donors and €7 million from the EBRD Shareholder Special Fund) for commitment in 2009 and future years. A priority for 2010 is to conclude present negotiations with donors for €33 million to ensure financial sustainability over the next couple of years. TAM/BAS will also prepare a strategy (covering 2011-13) for Board approval in 2010. It will set new geographical and sectoral priorities, as well as guide future relations with donors. Given the EBRD’s increased commitments, funding from donors will be more important than ever.
Empowering female entrepreneurs in Georgia

A few minutes’ walk from Stalin’s statue, Gori’s last remaining acknowledgement of its son, and past darkened apartment buildings marked with bullet holes from the 2008 Georgia-Russia conflict, the bright yellow light from a bustling grocery supermarket illuminates dozens of people walking down a sidewalk. Late into the evening, a steady stream of Gori’s residents navigate Dafne supermarket’s three rows of meticulously arranged products.

The supermarket was ransacked during the 2008 conflict, but Ana Kureli, the tireless owner of the store, quickly refurbished the premises, and then set about upgrading them. Ana Kureli had already taken giant steps in strengthening the business since she purchased it in 1997. But to really make a difference in her customers’ lives and to take her business to the next level, Ms Kureli turned to the EBRD’s Business Advisory Services (BAS) Programme to help her implement a store debit card system. This not only increased the revenue by creating a customer loyalty programme but also provided a new financial mechanism for social service providers serving the people of Gori. Ms Kureli has teamed up with a local charity providing free food for the poorest. Beneficiaries can pay by using a special store card and eligible expenses are then paid by the charity.

BAS consultants helped Ms Kureli to develop computerised management processes for trade and cash management. The supermarket has benefited from an immediate uptake in sales, and now the store is well positioned.

Over 750 micro, small and medium-sized enterprises from Albania to Tajikistan are currently benefiting from BAS support. And many of those businesses are run by female entrepreneurs.

www.ebrd.com/tambas
www.ebrd.com/georgia
Nuclear safety

In 2009 the EBRD and its partners intensified efforts to decommission Soviet-designed nuclear power plants, provide the safe treatment and storage of nuclear fuel and radioactive waste, and transform the destroyed reactor in Chernobyl into an environmentally safe state.
The EBRD manages six nuclear safety and decommissioning funds: the Nuclear Safety Account, the Chernobyl Shelter Fund, three international decommissioning support funds (IDSFs) and the nuclear window of the Northern Dimension Environmental Partnership.

On 31 December 2009 the Lithuanian authorities closed the second unit of the Ignalina Nuclear Power Plant (NPP) in line with commitments made as part of the accession process to the European Union. Therefore, as of the end of 2009, there are no more first-generation Soviet-designed reactors operating in the European Union (see case study on page 99).

Achieving the permanent closure of reactors of the Chernobyl (RBMK) and of the VVER 440-230 type, not deemed to be upgradable to sufficient safety levels, has been the primary objective of international nuclear safety cooperation for the last two decades. Virtually all Bank-financed and managed nuclear safety activities are directly or indirectly linked to this objective. Support from the EBRD-managed Nuclear Safety Account and Chernobyl Shelter Fund allowed Ukraine to close the last operating unit at the Chernobyl site in 2000.

THE IDSFs

The three IDSFs – created at the Bank in 2000 to help EU accession countries cope with the closure of their old reactors, and which are mainly funded by the European Commission – have helped achieve the agreed shut-down of four units in Bulgaria (Kozloduy NPP 1-4), two in the Slovak Republic (Bohunice V1 – both reactors) and two in Lithuania (Ignalina 1 and 2).

The decommissioning of these old plants has significantly reduced the number of nuclear hazards in Europe. The generous assistance from the international community (close to €3 billion) through these EBRD-managed programmes alone is also recognition of the burden placed on the affected countries as a result of the closures.

Decommissioning nuclear power plants is technically challenging and very costly. The EBRD-managed support funds focus on: proper decommissioning planning; the necessary infrastructure to safely treat and store radioactive waste and spent nuclear fuel; and the physical dismantling of the plants. In 2009, for example, the civil construction of an interim spent fuel storage facility at the site of the Kozloduy NPP in Bulgaria was completed and fuel from the closed reactors can be placed there from 2010.

The funds also help countries to cope with the loss of generating capacity by investing in projects such as residential and industrial energy efficiency programmes, electricity grid adaptations and interconnectors, and environmental upgrades of conventional power plants. In 2009, for example, donors to the Ignalina IDSF approved a €100 million grant for the construction of a new 450MW combined cycle gas turbine power plant in Lithuania. This plant, which is financed by commercial banks and an EBRD loan, will be a major source of clean electricity, compensating for part of the capacity lost with the closure of Ignalina.
In 2009 work on the largest EBRD-managed nuclear safety programme, the project to transform the destroyed Chernobyl reactor site into an environmentally safe condition, focused on the detailed design of the new confinement that will safely enclose the reactor and the shelter built in 1986. This task was due to be completed and approved by mid-2010. Due to the project’s complexity it is crucial to complete the design phase in a comprehensive and thorough way. Any technical issues discovered during construction could mean costly delays. Although contaminated materials are regularly discovered on the site, good progress has been made on its preparation and so works for the foundation of the new safe confinement were planned to start in mid-2010.

NUCLEAR SAFETY ACCOUNT
Design for the completion of the facility that should store, for 100 years, the spent fuel accumulated at the Chernobyl site was completed in December 2009. Following expert reviews and regulatory approval processes, donors to the Nuclear Safety Account were expected to decide early in 2010 on the implementation of the project.

Despite a grant agreement, signed in February 2009, to provide €135 million of the EBRD’s 2007 net income to support these two projects in Chernobyl, the programmes are still underfunded and will rely on the international community to raise additional required funds in 2010.
Ensuring nuclear safety

As Europe bade farewell to 2009, history was made in the far north east of the continent. With the closure of Unit 2 of Lithuania’s Ignalina nuclear power plant the last RBMK-1500 reactor in the European Union was shut down. It was an RBMK-type reactor which exploded in the 1986 Chernobyl accident and ever since efforts have been made to end RBMK and first-generation VVER reactor operations because of safety concerns.

The EBRD has been engaged in this process in Bulgaria, Lithuania and the Slovak Republic with the support of three decommissioning funds set up by the European Union and donor governments in 2001 and managed by the Bank. Unit 2 in Ignalina was the final piece of the jigsaw.

Shutting down a reactor is relatively straightforward. The entire decommissioning process, however, is extremely complex. It entails the construction of facilities for safe management and storage of radioactive waste and spent nuclear fuel, the phased dismantling of contaminated and activated systems and buildings and, finally, site restoration.

All this is being carried out with the support of EBRD-managed funds. In Ignalina, an interim storage for spent nuclear fuel and a treatment centre for solid radioactive waste are nearing completion. Other ancillary facilities are already in place.

Total costs of the Ignalina decommissioning are estimated to be around €1 billion, with final completion not expected before 2029. In order to alleviate the losses following the closure of the power plant, which once provided 80 per cent of Lithuania’s energy supplies, the EBRD and the Ignalina International Decommissioning Support Fund are providing financial support to the construction of alternative facilities.
Evaluating EBRD activities

To ensure that the EBRD invests responsibly, the Bank continually reviews its operations to assess their effectiveness, to learn from past experience and to improve the development of future projects.
The EBRD evaluates its operations in order to assess its performance and account for its decisions. Policy and project outcomes are analysed, their success determined and any lessons learned are used to improve operations in the future. Of all EBRD projects evaluated in 2009, 75 per cent received an “excellent-satisfactory” rating.

**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 evaluated usually 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. Each project is then assigned an overall performance rating of one of the following: excellent, good, satisfactory, marginal, unsatisfactory and negative.

Chart 1 shows that the share of projects with an “excellent-satisfactory” transition impact rating in 2009 was 75 per cent but that 25 per cent were rated “marginal-negative”. This result is a little below average for recent years. Projects are more likely to achieve their full potential in terms of transition impact when their financial sustainability is secure and given the difficult economic conditions in 2008-09, it is not surprising to see a slight increase in the proportion of projects achieving a less than satisfactory transition impact.

Although results in 2009 were lower than in recent years, they were close to the average for the period as a whole. In 1996-2009, 55 per cent of evaluated projects achieved a rating of “good” or “excellent” and a further 24 per cent were assessed as “satisfactory”.

---

**Chart 1: Transition impact ratings of EBRD projects 1996-2009**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of evaluated projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>(34)</td>
</tr>
<tr>
<td>1997</td>
<td>(36)</td>
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<tr>
<td>1998</td>
<td>(49)</td>
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<td>2002</td>
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<td>(52)</td>
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<td>2007</td>
<td>(54)</td>
</tr>
<tr>
<td>2008</td>
<td>(44)</td>
</tr>
<tr>
<td>2009</td>
<td>(61)</td>
</tr>
</tbody>
</table>

Figures in brackets = number of projects
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, 57 per cent of evaluated projects achieved a rating of “successful” or “highly successful” (see Chart 2). These percentages have fallen a little in the last two years in the context of the financial crisis. In particular there have been fewer projects rated “highly successful” than in previous years, but the number rated “successful” has remained high. In 2009, 52 per cent of evaluated projects were rated “successful” or better.

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 (75 per cent in 2009). This is partly because of 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 invests, 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. During 2009 only one project 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.

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### Chart 2: Cumulative overall performance ratings of evaluated EBRD projects 1996-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-1997</td>
<td>70</td>
</tr>
<tr>
<td>1996-1998</td>
<td>119</td>
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<tr>
<td>1996-1999</td>
<td>169</td>
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<tr>
<td>1996-2000</td>
<td>211</td>
</tr>
<tr>
<td>1996-2001</td>
<td>261</td>
</tr>
<tr>
<td>1996-2002</td>
<td>311</td>
</tr>
<tr>
<td>1996-2003</td>
<td>364</td>
</tr>
<tr>
<td>1996-2004</td>
<td>416</td>
</tr>
<tr>
<td>1996-2005</td>
<td>468</td>
</tr>
<tr>
<td>1996-2006</td>
<td>520</td>
</tr>
<tr>
<td>1996-2007</td>
<td>574</td>
</tr>
<tr>
<td>1996-2008</td>
<td>618</td>
</tr>
<tr>
<td>1996-2009</td>
<td>679</td>
</tr>
</tbody>
</table>

Percentage of evaluated projects

- Highly successful
- Partly successful
- Successful
- Unsuccessful

Figures in brackets represent the number of projects
Evaluating EBRD activities

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 nearly 3,000 lessons. An edited version of this is available at www.ebrd.com/projects/eval.

The evaluation results are also reflected in EvD’s input into the Bank’s country strategies and in the evaluation of sector strategies.

Some examples of lessons learned in 2009 are shown in the boxes on pages 103-105.

EVALUATING TECHNICAL COOPERATION ACTIVITIES
EvD has evaluated around 650 consultant assignments funded through the EBRD’s technical cooperation (TC) programme. These assignments have been supported by over €230 million of funding from over 30 donors. When combined with TC assignments evaluated during the EvD’s special studies, this figure rises to over 1,750 assignments involving more than €550 million of funding.

SPECIAL STUDY: EQUITY EXITS
EvD has begun a rolling study of equity exits over a cycle of two to three years. The first study, carried out in 2009, assessed the extent to which (i) equity exits in 2004-05 were consistent with or contributed to the Bank’s operational and transition impact objectives; and (ii) the handling of equity exits has conformed to market best practice, taking into account the Bank’s role as a multilateral development bank. Findings were mainly based on reviews of 39 equity investments which were fully or partially exited during the period. The sample also included seven mature investments where no exit had taken place.

Overall, the sample performed in line with the Bank’s objectives. In most cases, exits took place once the Bank’s role had been completed. Operational staff recognised the importance of improving corporate governance and the Bank sought to use its position to influence this. Aggregate financial returns were within the target range, but 62 per cent of investments in the sample achieved an internal rate of return below 10 per cent. Most investments contributed to the transition process, though the proportion for the sample was lower than among the Bank’s projects as a whole. Only 30 per cent of the sample was assessed to have adequately furthered transition and delivered a financial return. The study concluded that the varying degrees to which equity investments furthered transition may be a consequence of varying financial outcomes, as greater transition impact was achieved by financially successful operations.

The report made recommendations on investment management, reporting and operational enhancements. In particular, the Bank should subject all investments to a more thorough process of management scrutiny. Reports to the EBRD’s Board of Directors following equity exits should also focus more on the fulfilment of objectives and achievement of transition impact.
A key lesson learned from this project is that lasting transition impact may require a sequence of operations.

SUCCESSFUL PROJECT: FOOD PROCESSING IN EASTERN EUROPE
The EBRD made a series of loans to a food processor and manufacturer in eastern Europe. The loans financed working capital and investments in new processing capacity. The Bank saw the operation as an excellent opportunity to work with a leading local company that had the potential to develop into a major industrial enterprise, thereby benefiting local farmers through reliable and long-term purchasing arrangements. The company was expected to increase competition through the marketing of high-quality branded products, and to set a positive example by adopting international accounting standards, transparent contracting with local suppliers and high standards of hygiene in its production facilities.

The project was rated “successful”. As well as achieving the objectives listed, the company also helped suppliers to improve their production standards. It took part in dialogue with relevant authorities regarding the development of the sector and also contributed to skills transfer and training.

A key lesson learned from this project is that lasting transition impact may require a sequence of operations. In this case the Bank provided loans on two separate occasions to allow the company to expand and then to alter the focus of its operations. However, the EBRD ended its relationship when there was a change of majority shareholder. Continuing the relationship, and even taking an equity stake, would have allowed the Bank to continue to support both the company and the development of the food manufacturing sector in the country. It was also found that the company’s work in developing its suppliers could have been even more effective if it had been supported by TC funds from the Bank.
The European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) provided parallel financing for the upgrade of a road connecting two major cities in Central Asia. Each organisation financed separate sections of the road under separate implementation arrangements. The European Union also provided grant funding. In addition to the physical upgrade, the project aimed to initiate road sector reforms and address road maintenance issues.

The project was implemented over six years, rather than the planned three, and ran significantly over budget. As a result, the project scope was reduced and only about half the planned works took place. An important bridge on the route was not upgraded and remains a bottleneck. Similarly, the facilities and procedures at the international border hold up traffic, making the improvements to the road itself less effective. There was inadequate provision – in terms of equipment and training – for road maintenance. Nevertheless, the work that was completed was to a high standard and the project proved a valuable learning experience for the multilateral development banks and public authorities involved.

The project was rated “partly successful”. The evaluation report highlighted the shortcomings in the physical planning and implementation of the construction project and the weaknesses in maintenance planning. It also recommended that future projects should focus more on road safety and environmental impact. It found that, given the limited capacity of the road authorities, the project would have benefited from an initial assessment of implementation capability as well as from a more simple project design structure.

<table>
<thead>
<tr>
<th>LESS SUCCESSFUL PROJECT: ROAD REHABILITATION IN CENTRAL ASIA</th>
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<tbody>
<tr>
<td>The EBRD and the Asian Development Bank (ADB) provided parallel financing for the upgrade of a road connecting two major cities in Central Asia. Each organisation financed separate sections of the road under separate implementation arrangements. The European Union also provided grant funding. In addition to the physical upgrade, the project aimed to initiate road sector reforms and address road maintenance issues.</td>
</tr>
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</tr>
</tbody>
</table>
Organisation and staffing

In 2009 the EBRD turned to its multinational staff both in London and its network of regional offices to support its business through the complexity and uncertainty of the economic crisis. Focus was on enhancing technical banking skills and staff performance.
Human resources

Chart 1: Proportion of staff based in London and our Resident Offices

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
</table>
| London
Headquarters| 1,140         |
| Regional
Offices   | 352           |

**STAFFING**

EBRD staff as of 31 December 2009 totalled 1,492, with employees coming from 58 of the 60 Bank’s member countries. Of these staff members, 1,140 (or 76 per cent) were based in the London Headquarters (see Chart 1). There were 352 employees (compared with 308 in the previous year) working across 35 regional offices in 27 countries of operations.

The ratio of male to female professional staff in the EBRD is approximately 1.42:1 (down from 1.51:1 in 2008).

**RECRUITMENT**

As a result of the financial crisis, fewer staff were hired in 2009 than in the previous year: 154 in 2009 (of which 74 per cent were at professional level), down from 175 in 2008 (see Chart 2).

In particular, recruitment for non-banking and support functions declined as the number of vacancies in these areas remained static. This was mainly because of a decrease in turnover to 6.2 per cent, from 9.6 per cent in 2008.
That said, as a response to the crisis there was actually an increase in banking hires. In 2009 there were 96 hires compared with 79 the previous year with, most notably, a 13 per cent increase in the countries where the EBRD invests (see Chart 3). In total, 98 of the 154 new hires were recruited in London and 56 in the Bank’s countries of operations. New recruits came mainly from the private sector (about 73 per cent) but also from other areas, including other international financial institutions.

**COMPENSATION AND BENEFITS**

Salary increases and other performance-related compensation were awarded to staff based on their performance and contribution.

In light of the financial crisis, in 2009 the Bank reviewed the appropriateness of some elements of the compensation and benefits scheme. In particular, the retirement plans were reassessed and slightly adjusted. Changes were also made to benefits for international assignees and local staff in Resident Offices to ensure that they remained appropriate and competitive.

**GEOGRAPHIC MOBILITY**

Bank staff may be assigned temporarily from the London Headquarters to another office in a country of operations (Resident Office), vice versa, or between two Resident Offices. These assignments increase the Bank’s operational focus while offering individuals the opportunity to fulfil professional goals by working in a different location.

**Movement of staff between offices 2009**

<table>
<thead>
<tr>
<th>Movement</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almaty to London</td>
<td>2</td>
</tr>
<tr>
<td>Belgrade to Yerevan</td>
<td>1</td>
</tr>
<tr>
<td>Bucharest to London</td>
<td>1</td>
</tr>
<tr>
<td>Kiev to London</td>
<td>1</td>
</tr>
<tr>
<td>London to Almaty</td>
<td>6</td>
</tr>
<tr>
<td>London to Ashgabat</td>
<td>1</td>
</tr>
<tr>
<td>London to Baku</td>
<td>2</td>
</tr>
<tr>
<td>London to Belgrade</td>
<td>2</td>
</tr>
<tr>
<td>London to Bishkek</td>
<td>1</td>
</tr>
<tr>
<td>London to Bratislava</td>
<td>1</td>
</tr>
<tr>
<td>London to Bucharest</td>
<td>2</td>
</tr>
<tr>
<td>London to Budapest</td>
<td>1</td>
</tr>
<tr>
<td>London to Chisinau</td>
<td>1</td>
</tr>
<tr>
<td>London to Dushanbe</td>
<td>1</td>
</tr>
<tr>
<td>London to Istanbul</td>
<td>4</td>
</tr>
<tr>
<td>London to Kiev</td>
<td>6</td>
</tr>
<tr>
<td>London to Moscow</td>
<td>20</td>
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<tr>
<td>London to Podgorica</td>
<td>1</td>
</tr>
<tr>
<td>London to Pristina</td>
<td>1</td>
</tr>
<tr>
<td>London to Sarajevo</td>
<td>1</td>
</tr>
<tr>
<td>London to Sofia</td>
<td>1</td>
</tr>
<tr>
<td>London to St Petersburg</td>
<td>1</td>
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<tr>
<td>London to Tashkent</td>
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<tr>
<td>London to Tbilisi</td>
<td>3</td>
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<tr>
<td>London to Tirana</td>
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</tr>
<tr>
<td>London to Ulaanbaatar</td>
<td>2</td>
</tr>
<tr>
<td>London to Vilnius</td>
<td>2</td>
</tr>
<tr>
<td>London to Warsaw</td>
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<tr>
<td>London to Zagreb</td>
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<tr>
<td>Minsk to Moscow</td>
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</tr>
<tr>
<td>Moscow to Kiev</td>
<td>1</td>
</tr>
<tr>
<td>Moscow to London</td>
<td>4</td>
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<tr>
<td>Moscow to Samara</td>
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<tr>
<td>Moscow to St Petersburg</td>
<td>1</td>
</tr>
<tr>
<td>Tashkent to Ashgabat</td>
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<tr>
<td>Tbilisi to London</td>
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<tr>
<td>Vilnius to Minsk</td>
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</tr>
<tr>
<td>Warsaw to Kiev</td>
<td>1</td>
</tr>
<tr>
<td>Yerevan to London</td>
<td>1</td>
</tr>
<tr>
<td>Zagreb to London</td>
<td>1</td>
</tr>
</tbody>
</table>
LEARNING AND DEVELOPMENT
The EBRD continued to invest in staff training to support business performance and individual growth, targeting primarily three areas: (i) technical skills for bankers; (ii) personal effectiveness skills; and (iii) management skills for those in decision-making roles. The latter two aim to equip staff members with the skills necessary for situations such as recruiting, coaching staff, managing difficult conversations and negotiating successfully.

In these three areas, more than 120 sessions were delivered, corresponding to about 2,432 person-training days. Training on language skills, IT skills and health and safety was also provided.

Banking technical skills saw the most activity in 2009, which included a new learning framework comprising a series of 17 general and specialised courses. In addition, a new Banking Academy was launched. This is a structured course for new bankers to learn EBRD-specific banking skills in their first 12 months. Formal testing was also introduced to most training courses to ensure that the minimum standards required by the Bank are achieved.

Individuals and groups now have access to a wide range of learning methods: in-house and external training, e-learning, coaching and assistance for individual academic and professional studies (CFA, ACCA, MA and others).

WORKING ENVIRONMENT
In line with the EBRD’s commitment to gender equality in projects that it carries out in its countries of operations, the Bank launched a gender equality initiative for internal staff.

In addition, the Bank confirmed its commitment to offer a work environment free of harassment, sexual harassment or abuse of authority. A new policy was put in place in 2009 to clarify a number of important issues on conduct and behaviour in the workplace and to set out guidelines to resolve conflicts and problems.

Read more in the Sustainability Report 2009.
EBRD organisation chart
31 December 2009

1 The chart 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.

2 Chairman of the Board of Directors
President: Thomas Mirow

**PRESIDENT’S OFFICE**

Director: Hans Peter Lankes

**BANKING**

First Vice President: Varel Freeman

**Front Office**

Strategic and Corporate Planning (Joint report to Finance): Josué Tanaka

Operations Committee Secretariat: Frédéric Lucenet

Business Development (Acting): Alain Pilloux

Corporate Recovery (Joint report to Risk Management): Kamen Zahariev

Corporate Equity: Lindsay Forbes

**Energy Efficiency and Climate Change**

Corporate Director: Josué Tanaka

Energy Efficiency: Terry McCallion

**Energy**

Business Group Director: Riccardo Puliti

Natural Resources: Kevin Bortz

Power and Energy Utilities: Nandita Parshad

**Financial Institutions and Private Equity**

Business Group Director: Nick Tesseyman

Western Balkans, Belarus, Moldova and Turkey: (Acting) Kyoashi Nishimura

Russia (Moscow office): George Drilov

Central Asia, Caucasian and Mongolia: Mike Taylor

European Union and Ukraine: Jean-Marc Peterschnitt

Insurance and Financial Services: (Acting) Mike Hesketh

Small Business Finance: Cheako Kuno

Equity Funds: Anne Fossemalle

Planning, Portfolio Management and Trade Finance: Allan Popoff

**Infrastructure**

Business Group Director: Thomas Mayer

Municipal and Environmental Infrastructure: Jean-Patrick Marquet

Transport: Sue Barnett

**Central Europe, Turkey, Western Balkans and Telecommunications, Informatics and Media**

Business Group Director: Peter Reinger

Croatia (Zagreb office): Charlotte Rohr

Czech Republic, Hungary, Slovak Republic and Slovenia (Bratislava office): François Lecavalier

Director for Western Balkans, Coordinator Western Balkans, Serbia and Croatia: Claudio Vezzoli

Poland (Warsaw office): Lucyna Staniczak

Serbia (Belgrade office): Hildegard Gacek

Telecommunications, Informatics and Media: Michelle Senecal de Forges

Turkey (Istanbul office): Mike Davey

**Russia, Agribusiness and Property and Tourism**

Business Group Director: Alain Pilloux

Russia, Corporate Sector: Eric Rasmussen

Russia, Government Relations: Alexander Drilov

Russia, Financial Institutions (Moscow office): George Drilov

Russia, Energy and Infrastructure: Natasha Kharjanikova

Agribusiness: Gilles Mettetel

Property and Tourism: Sylvia Garasser-Potts

**South-eastern Europe, Central Asia and the Caucasus**

Business Group Director: Olivier Descamps

Armenia (Yerevan office): Valeri Kazloog

Ukraine (Kyiv office): Andre Kustev

Romania (Bucharest office): Claudia Penried

Bulgaria (Sofia office): James Hyslop

Central Asia: Masatoshi Honda

The Caucasus, Moldova and Belarus (Tbilisi office): Paul-Henri Forestier

Tajikistan (Dushanbe office): Ulf Hindstrom

Albania (Tirana office): Michael Wernstein

Mongolia (Ulaanbaatar office): Philip Iver Wooll

**Early Transition Countries (ETC) Initiative**

Director: Christopher Clubb

Year 2009 Initiatives: Christopher Clubb

**TAM/BAS Programme**

Director: Charlotte Salford

Uzbekistan (Tashkent office): Matthieu Le Blan

**Monitoring**

Business Group Director: Gavin Anderson

**FINANCE**

Vice President: Manfred Schippers

Treasurer: Axel van Nederveen

Deputy Treasurer, Head of Funding: Isabelle Laurent

Client Risk Management: Grant Mescall-Smith

Head, Investments-Credit: Neil Calder

**Loan Syndications**

Director: Lorenz Jorgensen

**Budget and Financial Policy**

Corporate Director: Chris Holyoak

**Strategic and Corporate Planning**

Corporate Director (Joint report to Banking): Josué Tanaka

Controller’s Department: Nigel Kerby

Information Technology: Tim Goldstone

**RISK MANAGEMENT, HUMAN RESOURCES AND NUCLEAR SAFETY**

Vice President: Horst Reichenbach

Risk Management Director: Michael Williams

Credit/Transaction Analysis Director: David Kingemsmith

**Credit Portfolio Review**

Director: (Acting) Andrew McDonald

**Portfolio Risk Management Group**

Director: Jacob Lading

**Risk Management Systems Programme**

Director: Irena Postlove

**Corporate Recovery**

Director: Kamen Zahariev

**Committee Of Sponsoring Organisations (COSO) and Operational Risk Management**

Head: Julie Williams

**Human Resources**

Director: (Acting) Horst Reichenbach

Deputy Director, Compensation and Benefits: Matthew Drape

**Nuclear Safety**

Director: Vince Navak

**Official Co-financing**

Director: Richard Jones

For an updated list see www.ebrd.com
<table>
<thead>
<tr>
<th>Organisation and staffing</th>
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<table>
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<tr>
<th>ENVIRONMENT, PROCUREMENT AND ADMINISTRATION</th>
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<tr>
<td>Vice President</td>
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<th>ENVIRONMENT AND SUSTAINABILITY</th>
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<tr>
<td>Corporate Director</td>
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<tr>
<td>Director, Project Appraisal</td>
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<td>Director, Policy and Project Oversight</td>
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<td>Corporate Director</td>
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<tr>
<td>Director, Procurement</td>
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<tr>
<td>Director, Consultancy and Corporate Procurement</td>
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<tr>
<th>OFFICE OF THE SECRETARY GENERAL</th>
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<tbody>
<tr>
<td>Secretary General</td>
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<tr>
<td>Deputy Secretary General</td>
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<tr>
<td>Assistant Secretary General</td>
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<th>OFFICE OF THE GENERAL COUNSEL</th>
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<td>General Counsel</td>
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<tr>
<td>Deputy General Counsel</td>
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<td>Assistant General Counsel</td>
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<td>Assistant General Counsel</td>
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<tr>
<th>OFFICE OF THE CHIEF ECONOMIST</th>
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<tbody>
<tr>
<td>Chief Economist</td>
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<tr>
<td>Director, Project Appraisal and Design</td>
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<td>Director, Project Monitoring and Impact Assessment</td>
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<tr>
<td>Director, Strategy and Analysis</td>
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<td>Director, Policy Studies</td>
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<th>COMMUNICATIONS</th>
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<tr>
<th>OFFICE OF THE CHIEF COMPLIANCE OFFICER</th>
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<tr>
<td>Chief Compliance Officer</td>
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<tr>
<th>EVALUATION DEPARTMENT</th>
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</thead>
<tbody>
<tr>
<td>Chief Evaluator (reports to Board of Directors)</td>
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1 For an updated list see www.ebrd.com
### EBRD Governors and Alternate Governors

#### 31 December 2009

**CHAIR OF THE BOARD OF GOVERNORS**  
Governor for France (Madame Christine Lagarde)

**VICE CHAIRS OF THE BOARD OF GOVERNORS**  
Governor for the Slovak Republic (Mr Ján Počiatek)  
Governor for Sweden (Mr Anders Borg)

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.

<table>
<thead>
<tr>
<th>Member Country</th>
<th>Governor</th>
<th>Alternate Governor</th>
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</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Kolovai Stole</td>
<td>Nezir Haldeda</td>
</tr>
<tr>
<td>Armenia</td>
<td>Nerses Yeritsyan</td>
<td>Vacant</td>
</tr>
<tr>
<td>Australia</td>
<td>Wayne Swan</td>
<td>Bob McMullan</td>
</tr>
<tr>
<td>Austria</td>
<td>Josef Fros</td>
<td>Edith Fosswiller</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Shahin Mustaphayev</td>
<td>Samir Shatilov</td>
</tr>
<tr>
<td>Belarus</td>
<td>Vladimir I. Semashko</td>
<td>Nikolai F. Zaitchenko</td>
</tr>
<tr>
<td>Belgium</td>
<td>Didier Reynders</td>
<td>Jean-Pierre Arnoldi</td>
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<tr>
<td>Bosnia and Herzegovina</td>
<td>Seni Alavdaj</td>
<td>Aleksandar Zurobli</td>
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<td>Bulgaria</td>
<td>Simeon Djankov</td>
<td>Dimitar Kostov</td>
</tr>
<tr>
<td>Canada</td>
<td>James M. Flaherty</td>
<td>Leonard J. Edwards</td>
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<tr>
<td>Croatia</td>
<td>Ivan Suher</td>
<td>Zdravko Marić</td>
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<tr>
<td>Cyprus</td>
<td>Chanioudos Stavriskis</td>
<td>UltraSt Paissides</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Eduard Janota</td>
<td>Zdenek Tuma</td>
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<tr>
<td>Denmark</td>
<td>Lene Espersen</td>
<td>Michael Dithmer</td>
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<tr>
<td>Egypt</td>
<td>Feizy Abouelnaga</td>
<td>Rachid Mohamed Kachid</td>
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<td>Estonia</td>
<td>Jürgen Ligi</td>
<td>Yea Varrak</td>
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<tr>
<td>Finland</td>
<td>Jyrki Katainen</td>
<td>Pekka Huhtaniemi</td>
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<td>Zoran Stavreski</td>
<td>Vladimir Pescevski</td>
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<tr>
<td>France</td>
<td>Christine Lagarde</td>
<td>Ramon Fernandez</td>
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<td>Kakhia Sandarashvili</td>
<td>Giorgi Karedze</td>
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<tr>
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<td>Wolfgang Schäuble</td>
<td>Jörg Asmussen</td>
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<td>Greece</td>
<td>Ioannis Papathanassiou</td>
<td>Ioannis Kitipoulos</td>
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<td>Hungary</td>
<td>Péter Gilkő</td>
<td>Zoltán Mester</td>
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<td>Yaron Ariv</td>
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<td>Vittorio Grilli</td>
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<td>Hirohisa Fuji</td>
<td>Masaaki Shirakawa</td>
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<td>Bolat Zhirmeniev</td>
<td>Tirmur Sulumenov</td>
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<td>Jeong-Jin Yoon</td>
<td>Jeong-Jin Lee</td>
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<td>Aleksy A. Eliseev</td>
<td>Marat Asipov</td>
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<td>Latvia</td>
<td>Einars Repše</td>
<td>Artis Kapsars</td>
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<td>Liechtenstein</td>
<td>Martin Meyer</td>
<td>Roland Marzer</td>
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<td>Lithuania</td>
<td>Ingrida Simonytė</td>
<td>Ramūnas Vilija ZAbubienė</td>
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<td>Luxembourg</td>
<td>Luc Frieden</td>
<td>Arsené Jacoby</td>
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<td>Malta</td>
<td>Tonio Fenech</td>
<td>Michael C. Boneillo</td>
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<td>Mexico</td>
<td>Ernesto Cordero</td>
<td>Alejandro Werner</td>
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<td>Moldova</td>
<td>Valeriu Lazar</td>
<td>Marin Mologa</td>
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<td>Mongolia</td>
<td>Bayartsogt Sangajav</td>
<td>Purevdorj Likhaaasuren</td>
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<td>Montenegro</td>
<td>Igor Lukic</td>
<td>Milan Kalnic</td>
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<td>Abdelatif Loubdy</td>
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<td>Wouter Bos</td>
<td>Maxime Verhagen</td>
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<td>Murray McCully</td>
<td>Derek Leask</td>
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<td>Sigbjorn Johnsen</td>
<td>Kåre Lind</td>
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<td>Sławomir Skrzypek</td>
<td>Jacek Dominak</td>
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<td>Fernando Teixeira dos Santos</td>
<td>Carlos Costa Pina</td>
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<td>Gheorghe Pogza</td>
<td>Mugur Isărescu</td>
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<tr>
<td>Russian Federation</td>
<td>Evdokia A. Nabulina</td>
<td>Dmitriy Parinov</td>
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<tr>
<td>Serbia</td>
<td>Diana Dragutinović</td>
<td>Mihael Dinkic</td>
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<td>Slovak Republic</td>
<td>Ján Počiatek</td>
<td>Ivan Smíklo</td>
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<td>Mitja Misek</td>
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<td>Elena Salgado</td>
<td>José Manuel Campa</td>
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<td>Sweden</td>
<td>Anders Börg</td>
<td>Per Jansson</td>
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<td>Switzerland</td>
<td>Doris Leutheusser</td>
<td>Beatrice Masier Mallor</td>
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<td>Tajikistan</td>
<td>Jamshid M. Youssufiy</td>
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<td>Turkey</td>
<td>İbrahim H. Çanakçı</td>
<td>Cavit Dağdah</td>
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<td>Dovlet Ataov</td>
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<td>Volodymyr Stelmash</td>
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<td>United Kingdom</td>
<td>Alistair Darling</td>
<td>Douglas Alexander</td>
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<td>United States</td>
<td>Timothy F. Geithner</td>
<td>Robert D. Hormats</td>
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<td>Uzbekistan</td>
<td>Rustam Sadykovich Azimov</td>
<td>Shavkat Tuyujagov</td>
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<tr>
<td>European Investment Bank</td>
<td>Danilo Scapicchio</td>
<td>Marta Gajdova</td>
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<tr>
<td>European Union</td>
<td>Joaquín Almunia</td>
<td>Mario Bultu</td>
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EBRD Directors and Alternate Directors
31 December 2009

<table>
<thead>
<tr>
<th>Director</th>
<th>Alternate</th>
<th>Constituency</th>
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<tbody>
<tr>
<td>Kurt Bayer</td>
<td>Golan Bimba</td>
<td>Austria, Israel, Cyprus, Malta, Kazakhstan, Bosnia and Herzegovina</td>
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<tr>
<td>Stefania Bazzoni</td>
<td>Gianluca Brandi</td>
<td>Italy</td>
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<tr>
<td>Terence Brown</td>
<td>Walter Cernoa</td>
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<tr>
<td>Alain de Contet</td>
<td>François Lefebvre</td>
<td>France</td>
</tr>
<tr>
<td>John Eyers</td>
<td>Tae Hwan Kim</td>
<td>Australia, Korea, New Zealand, Egypt</td>
</tr>
<tr>
<td>Werner Gruber</td>
<td>Vacant</td>
<td>Switzerland, Turkey, Liechtenstein, Uzbekistan, Kyrgyz Republic, Azerbaijan, Turkmenistan, Serbia, Montenegro</td>
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<tr>
<td>Sven Hegelund</td>
<td>Kaare Killan</td>
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<td>Tatsuro Honda</td>
<td>Tetsushiro Kawai</td>
<td>Japan</td>
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<td>Anne Courtahn</td>
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<td>Oie Hovland</td>
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<td>Vacant</td>
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<td>European Union</td>
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<td>Kristyna Cawlicka-Hueckel</td>
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<td>David Martinez Hormilla</td>
<td>Spain, Mexico</td>
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<tr>
<td>Igor Podoliev</td>
<td>Virginia Gheorghiu</td>
<td>Ukraine, Romania, Moldova, Georgia, Armenia</td>
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<td>Simon Ray</td>
<td>Alex Skinner</td>
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<tr>
<td>Joachim Schwarzer</td>
<td>Herbert Junk</td>
<td>Germany</td>
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<tr>
<td>Jean-Louis Six</td>
<td>Miguel Marques</td>
<td>Belgium, Luxembourg, Slovenia</td>
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<td>Pavel Štěpánek</td>
<td>László Andor</td>
<td>Czech Republic, Hungary, Slovak Republic, Croatia</td>
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<td>Vacant</td>
<td>Judith St George</td>
<td>Canada, Morocco</td>
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<td>Vacant</td>
<td>United States of America</td>
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<tr>
<td>Jan Willemin van den Wall Bake</td>
<td>Jan Maxx</td>
<td>Netherlands, Mongolia</td>
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<tr>
<td>Stefanos Vavalidis</td>
<td>João Cravinho</td>
<td>Greece, Portugal</td>
</tr>
</tbody>
</table>

Composition of Board of Directors’ committees
31 December 2009

**AUDIT COMMITTEE**
Jan Willem van den Wall Bake (Chair), Werner Gruber (Vice Chair), John Eyers, Jari Koskinen, Sven Hegelund, Pedro Morilyon, Simon Ray, Stefanos Vavalidis

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.

**BUDGET AND ADMINISTRATIVE AFFAIRS COMMITTEE**
Pavel Štěpánek (Chair), Etsuro Honda (Vice Chair), Kurt Bayer, Ib Katznelson, Igor Podoliev, Jean-Louis Six

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

**FINANCIAL AND OPERATIONS POLICIES COMMITTEE**
Alain de Contet (Chair), Elena Kotova (Vice Chair), Stefania Bazzoni, Terence Brown, Vassili Lelakis, Kalin Mitrev, Joachim Schwarzer

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.

**BOARD STEERING GROUP**
Kurt Bayer (Chair), Kalin Mitrev (Vice Chair), Alain de Contet, Werner Gruber, Etsuro Honda, Elena Kotova, Pavel Štěpánek, Jan Willemin van den Wall Bake, Enzo Quattrociocche, Nigel Carter

The Board Steering Group facilitates 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 2009. (Approximate euro exchange rates: £0.89, US$ 1.44, ¥ 133.08.)

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>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bank, EBRD</td>
<td>The European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>BAS</td>
<td>Business Advisory Services</td>
</tr>
<tr>
<td>CEB</td>
<td>Central Europe and the Baltic states</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>DIF</td>
<td>Direct Investment Facility</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<tr>
<td>ETC</td>
<td>Early transition countries</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>Former Yugoslav Republic of Macedonia</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<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>
</tr>
<tr>
<td>NDEP</td>
<td>Northern Dimension Environmental Partnership</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
</tr>
<tr>
<td>NSA</td>
<td>Nuclear Safety Account</td>
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<tr>
<td>RSBF</td>
<td>Russia Small Business Fund</td>
</tr>
<tr>
<td>SEE</td>
<td>South-eastern Europe</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
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<tr>
<td>TAM</td>
<td>TurnAround Management Programme</td>
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<tr>
<td>TC</td>
<td>Technical cooperation</td>
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<tr>
<td>TFP</td>
<td>Trade Facilitation Programme</td>
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