European Bank for Reconstruction and Development
Annual Report 2010

Securing the recovery

The EBRD is an international financial institution that supports projects in 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.

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The Annual Report 2010 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.
## EBRD commitments in 2010 (€ million)

### Central Europe and the Baltic states

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2009</th>
<th>Cumulative 1991-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>386</td>
<td>248</td>
<td>2,463</td>
</tr>
<tr>
<td>Czech Republic¹</td>
<td>0</td>
<td>8</td>
<td>1,135</td>
</tr>
<tr>
<td>Estonia</td>
<td>8</td>
<td>28</td>
<td>518</td>
</tr>
<tr>
<td>Hungary</td>
<td>178</td>
<td>582</td>
<td>2,483</td>
</tr>
<tr>
<td>Latvia</td>
<td>104</td>
<td>115</td>
<td>557</td>
</tr>
<tr>
<td>Lithuania</td>
<td>99</td>
<td>29</td>
<td>596</td>
</tr>
<tr>
<td>Poland</td>
<td>643</td>
<td>394</td>
<td>4,662</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>63</td>
<td>227</td>
<td>1,544</td>
</tr>
<tr>
<td>Slovenia</td>
<td>3</td>
<td>16</td>
<td>634</td>
</tr>
<tr>
<td>Total</td>
<td>1,485</td>
<td>1,647</td>
<td>14,592</td>
</tr>
</tbody>
</table>

¹ Since 2008 the EBRD has not made any new investments in the Czech Republic.

### South-eastern Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2009</th>
<th>Cumulative 1991-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>75</td>
<td>59</td>
<td>575</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>190</td>
<td>111</td>
<td>1,308</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>546</td>
<td>233</td>
<td>2,422</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>44</td>
<td>81</td>
<td>716</td>
</tr>
<tr>
<td>Montenegro</td>
<td>135</td>
<td>32</td>
<td>240</td>
</tr>
<tr>
<td>Romania</td>
<td>593</td>
<td>721</td>
<td>5,101</td>
</tr>
<tr>
<td>Serbia</td>
<td>598</td>
<td>444</td>
<td>2,432</td>
</tr>
<tr>
<td>Total</td>
<td>2,182</td>
<td>1,682</td>
<td>12,794</td>
</tr>
</tbody>
</table>

### Eastern Europe and the Caucasus²

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2009</th>
<th>Cumulative 1991-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>53</td>
<td>85</td>
<td>403</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>59</td>
<td>161</td>
<td>1,224</td>
</tr>
<tr>
<td>Belarus</td>
<td>60</td>
<td>52</td>
<td>551</td>
</tr>
<tr>
<td>Georgia</td>
<td>349</td>
<td>81</td>
<td>1,453</td>
</tr>
<tr>
<td>Moldova</td>
<td>97</td>
<td>57</td>
<td>549</td>
</tr>
<tr>
<td>Ukraine</td>
<td>952</td>
<td>1,013</td>
<td>6,435</td>
</tr>
<tr>
<td>Total</td>
<td>1,570</td>
<td>1,449</td>
<td>10,614</td>
</tr>
</tbody>
</table>

² Formerly Western CIS and the Caucasus.

### Central Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2009</th>
<th>Cumulative 1991-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>668</td>
<td>436</td>
<td>3,942</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>86</td>
<td>56</td>
<td>338</td>
</tr>
<tr>
<td>Mongolia</td>
<td>185</td>
<td>31</td>
<td>306</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>22</td>
<td>24</td>
<td>214</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>6</td>
<td>4</td>
<td>135</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>4</td>
<td>16</td>
<td>743</td>
</tr>
<tr>
<td>Total</td>
<td>970</td>
<td>567</td>
<td>5,678</td>
</tr>
</tbody>
</table>

### Russia

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2009</th>
<th>Cumulative 1991-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>2,309</td>
<td>2,366</td>
<td>17,671</td>
</tr>
<tr>
<td>Total</td>
<td>2,309</td>
<td>2,366</td>
<td>17,671</td>
</tr>
</tbody>
</table>

### Turkey

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2009</th>
<th>Cumulative 1991-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>494</td>
<td>150</td>
<td>627</td>
</tr>
<tr>
<td>Total</td>
<td>494</td>
<td>150</td>
<td>627</td>
</tr>
</tbody>
</table>

³ Cumulative finance at end-2010 exchange rates.

Note: Financing for regional projects has been allocated to the relevant countries.
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
2010 in numbers

EBRD commitments by sector in 2010

<table>
<thead>
<tr>
<th>Sectors</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Corporate</td>
<td>25</td>
</tr>
<tr>
<td>2 Energy</td>
<td>21</td>
</tr>
<tr>
<td>3 Financial</td>
<td>34</td>
</tr>
<tr>
<td>4 Infrastructure</td>
<td>20</td>
</tr>
</tbody>
</table>

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

EBRD annual business volume (commitments) 2006-10*

<table>
<thead>
<tr>
<th>€ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>2006</td>
</tr>
</tbody>
</table>

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

Gross annual disbursements 2006-10

<table>
<thead>
<tr>
<th>€ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>2006</td>
</tr>
</tbody>
</table>

For further detail on EBRD gross annual disbursements between 2006-10 go to: www.ebrd.com
Annual investments 2006-10

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects(^a)</td>
<td>386</td>
<td>311</td>
<td>302</td>
<td>353</td>
<td>301</td>
<td>3,119</td>
</tr>
<tr>
<td>– Stand-alone projects</td>
<td>197</td>
<td>184</td>
<td>161</td>
<td>187</td>
<td>167</td>
<td>1,984</td>
</tr>
<tr>
<td>– Investments under frameworks</td>
<td>189</td>
<td>127</td>
<td>141</td>
<td>166</td>
<td>134</td>
<td>1,135</td>
</tr>
<tr>
<td>EBRD commitments(^b)</td>
<td>9,009</td>
<td>7,861</td>
<td>5,087</td>
<td>5,583</td>
<td>4,936</td>
<td>61,975</td>
</tr>
<tr>
<td>Resources mobilised(^b)</td>
<td>13,174</td>
<td>10,347</td>
<td>8,372</td>
<td>8,617</td>
<td>7,645</td>
<td>115,012</td>
</tr>
<tr>
<td>Total project value(^b) (€ million)</td>
<td>22,039</td>
<td>18,087</td>
<td>12,889</td>
<td>13,809</td>
<td>12,014</td>
<td>178,832</td>
</tr>
</tbody>
</table>

\(^a\) 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.

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

Financial results 2006-10

<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>927</td>
<td>849</td>
<td>849</td>
<td>973</td>
<td>1,691</td>
</tr>
<tr>
<td>Net profit/(loss) for the year before transfers of net income approved by the Board of Governors</td>
<td>1,377</td>
<td>(746)</td>
<td>(602)</td>
<td>1,884</td>
<td>2,389</td>
</tr>
<tr>
<td>Transfers of net income approved by the Board of Governors</td>
<td>(150)</td>
<td>(165)</td>
<td>(115)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net profit/(loss) for the year after transfers of net income approved by the Board of Governors</td>
<td>1,227</td>
<td>(911)</td>
<td>(717)</td>
<td>1,884</td>
<td>2,389</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>6,197</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>6,780</td>
<td>6,317</td>
<td>6,552</td>
<td>8,676</td>
<td>6,974</td>
</tr>
<tr>
<td>Total members’ equity (€ million)</td>
<td>12,977</td>
<td>11,515</td>
<td>11,750</td>
<td>13,874</td>
<td>12,172</td>
</tr>
</tbody>
</table>

\(^c\) Upon early adoption of IFRS 9 on 1 January 2010, comparatives for 2009 are not required and as such, IFRS 9 has an impact on year-on-year comparisons of the Bank’s financial results.

ANNUAL BUSINESS VOLUME: 9.0 € billion

NET PROFIT: 1.3 € billion (before transfers of net income approved by the Board of Governors)

For further information on the EBRD’s financial results, please see the Financial Report 2010.
In 2010 the EBRD region returned to growth. Following the worst economic decline since the beginning of the transition process, the countries in which our Bank invests staged a robust comeback with estimated growth of 4.2 per cent. Although we expect a similar expansion of output this year, significant challenges remain.

The aggregate growth rate disguises a growing divergence of economic performance in the EBRD region. Resource-rich countries are benefiting from rising world market commodities prices, while the export-oriented countries of central and eastern Europe are profiting from the resurgence of demand in the advanced economies. In lesser-integrated countries, especially those in south-eastern Europe, however, growth prospects remain subdued with weaker external and domestic demand still below pre-crisis levels.

As governments worldwide embark on painful, yet unavoidable measures to repair their balance sheets, our priority in 2011 and beyond is to strengthen and bolster private sector-driven growth. The crisis has strongly underlined the need for further reforms in this area to increase the competitiveness of emerging Europe. This is especially pertinent as the EBRD region is facing rapidly increasing competition for foreign direct investment from other emerging markets around the world.

In this situation decisive and far reaching steps need to be taken towards a knowledge-based economy and high-technology production. This can only be achieved through improvements in education and training systems and will in many cases require additional funds.

The resource-rich countries of the EBRD region still need to introduce comprehensive measures towards the diversification of their economies. This is often not for want of trying, but is a very complex undertaking which requires fundamental changes that can only be implemented successfully over a longer period. The way the crisis exposed the dangers of over-dependence should serve as a strong incentive here.

Another area where emerging Europe and central Asia face continuing room for improvement is the business environment. The latest Business Environment and Enterprise Performance Survey shows serious concerns among investors and entrepreneurs in regards to the availability of skills; the lack of transparency of the tax administration and other state bodies; and the serious problem of corruption in the transition region.

To regain its attractiveness to investors, governments across our region must implement and enforce measures to strengthen investor confidence. The first and crucial step, however, is not taken by the passing of a law or the establishment of yet another state body: reform and change begin in the mindset of the people and their institutions. For 20 years the transition countries have impressively demonstrated how much the region can achieve and 2011 will be an important year to regain this momentum.

The EBRD remains committed to supporting the region by building on the successes achieved last year, when the Bank continued its vigorous response to the impact of the global financial crisis and its aftermath on its countries of operations. We made a record number of 386 individual investments, committing an unprecedented level of financing of €9.0 billion, compared with €7.9 billion in 2009.

While continuing to provide strong support to the financial sector, in 2010 the EBRD shifted its focus more to financing the real economy, with direct investment in corporates accounting for over one-quarter of total new commitments.

There was also significant growth in three key strategic initiatives in 2010. Investments in the EBRD’s early transition countries rose by 37 per cent to €920 million with 114 projects. The Bank financed 71 projects in the Western Balkans, 37 per cent more than in 2009, with business volume there exceeding €1 billion for the first time. Investments under the Sustainable Energy Initiative rose 64 per cent to almost €2.2 billion and accounted for nearly one-quarter of total EBRD financing in 2010.

The EBRD also returned to strong profits. The surplus of €1.4 billion will strengthen our position and bolster our ability to support the economies and peoples of emerging Europe to transform the nascent recovery into strong and sustainable long-term growth.

Thomas Mirow
President
European Bank for Reconstruction and Development
As governments worldwide embark on painful, yet unavoidable measures to repair their balance sheets, our priority in 2011 and beyond is to strengthen and bolster private sector-driven growth.
The EBRD is supporting the people and economies of emerging Europe to transform recovery into strong and sustainable long-term growth.
OPERATIONAL RESULTS

After a severe slump in 2009 the EBRD region returned to growth last year. With a projected output expansion of 4.2 per cent, the economies of the east again outperformed most of the advanced western economies. Foreign direct investment returned to the region, yet the inflow was uneven, largely focused on commodity-rich or larger countries and remained behind other competing emerging market regions of the world.

The EBRD’s strategic priority last year was to support and sustain the nascent recovery in the region. The successful implementation of this approach is reflected in the Bank’s results for 2010. With €9.0 billion in annual business volume the Bank reported its highest investment level in its history – and an increase of 15 per cent compared with 2009.

The Bank also achieved a record number of projects, with 386 operations – an increase of 24 per cent compared with 2009.

Not only did the number of projects increase, the quality improved also: 93 per cent of the new signings received a transition impact rating of “good” or “excellent” (compared with 89 per cent in 2009). The private sector share of annual business volume was 74 per cent in 2010 after 83 per cent the year before.

In its activities over the past year the EBRD paid special attention to a number of strategic initiatives deepening and widening its activities in the lesser-developed countries and tackling energy security and energy efficiency as key challenges of the transition region.

These strategic priorities have been successfully implemented: the number of operations signed in the early transition countries (ETCs) in 2010 increased by 37 per cent to 114 from 83 in 2009, with investments soaring from €512 million in 2009 to €920 million last year.

In the Western Balkans region investments also rose sharply: the number of projects increased by 37 per cent to 71 in 2010 (after 52 investments in 2009) and the business volume passed the one billion-milestone with €1.04 billion (€762 million in 2009).

Investments under the Sustainable Energy Initiative (SEI) reached almost €2.2 billion in the second year of Phase 2 of the Initiative, which addresses the challenges of climate change and energy efficiency by integrating these issues into all operations as a core strategic component and competence of the Bank. This represents an increase of 64 per cent over the €1.3 billion invested in this area in 2009.

The scaling up of activities in this sector was a key component of the medium-term strategy in 2009 which was unanimously approved by the Board of Governors, then later as a core sector of activity of the Bank in the fourth Capital Resources Review (CRR4), which was approved in 2010 for 2011-15.

The Bank’s key objectives are to promote economic competitiveness and energy security improvements in the region, while contributing to the global fight against climate change. These are closely associated with improving energy efficiency, and it will be a key challenge to ensure that future growth is placed on a solid, low-carbon foundation.

In Russia, the EBRD invested €2.3 billion in 2010, 2 per cent below the 2009 level of €2.4 billion and 26 per cent of 2010’s business volume.

The advanced transition countries received €1.5 billion or 16 per cent of the Bank’s investments after €1.6 billion in 2009.

In Turkey, investments reached €494 million, which represented 5 per cent of all investments and a strong increase over the €150 million invested in 2009.
The record number of projects also had consequences for the size of individual projects which decreased by 9 per cent to €22.0 million in 2010 from €24.2 million in 2009. This reflects the EBRD’s efforts to design tailor-made solutions especially for smaller enterprises in the region who after the crisis often find access to finance very difficult.

The sector breakdown of the 2010 investments will be examined more closely in this chapter. The composition was 25 per cent in the corporate sector; 22 per cent in the financial sector; 21 per cent in the energy sector; 20 per cent in the infrastructure sector; and 12 per cent in financing micro and small enterprises.

Trade finance saw a considerable recovery from the steep fall in 2009 when global trade suffered severely, also affecting the Bank’s region strongly. Total turnover in EBRD trade financing in 2010 was €774 million with 1,274 transactions; a healthy increase over the total volume of €573 million and 886 transactions in 2009.

The Bank also managed to reach a new record level of disbursement, with €6.0 billion paid out during 2010, a 10 per cent increase from the 2009 level of €5.5 billion.

In an important sign that investors are returning to the region, albeit more reluctantly and more cautiously than in the past, the mobilisation ratio increased from 1.3 in 2009 to 1.5 in 2010. This means that for every euro invested by the EBRD the Bank mobilised an additional 1.5 euros from other sources.

New projects signed in 2010 include external finance of €13.3 billion. Total project value in 2010 (EBRD investments and external finance together) was €22.0 billion, the first time the €20 billion-mark had been exceeded in the Bank’s 20-year history (2009: €18.1 billion).

**FINANCIAL RESULTS**

After two years of substantial losses the EBRD returned to profit in 2010. Including unrealised amounts, the Bank recorded a net profit of €1.3 billion for 2010 before transfers of net income approved by the Board of Governors, compared with a net loss of €746 million for 2009. The result mainly reflects an increase in the value of the Bank’s share investments holdings and lower loan loss provisions.

During the year, a new accounting standard International Financial Reporting Standards 9 (IFRS 9) Financial Instruments was adopted by the Bank. The main impact to the Bank’s financial results was a net gain to the income statement of €302 million (resulting from the re-classification of available-for-sale share investments and certain Banking loans to fair value through profit loss) and a net increase to reserves of €233 million.

Before payment for the increase in paid-in capital and the transfer to the EBRD Shareholder Special Fund, the Bank’s reserves were €7.9 billion at the end of 2010, an increase of €1.6 billion for the year.

While the Bank is expected to continue to remain profitable in 2011, the EBRD’s results remain vulnerable to changes in the financial markets, with the fair value of the Bank’s share investments portfolio and the level of specific debt impairment having particular influence on the Bank’s profits.

**SECTORS**

**Industry, commerce and agribusiness**

The EBRD’s activities in the industry, commerce and agribusiness sector focused on developing the natural strengths of its countries of operations. Following the adoption of a new agribusiness sector strategy the Bank achieved a new record in the sector with the signing of 63 new projects worth €836 million (2009: 59 projects for €639 million). The projects were spread across 20 countries, with continued emphasis on countries at an earlier stage of transition, where a record number of 39 transactions was signed.

While 2010 was the year when most countries in eastern Europe overcame the financial crisis, it was also the year when the world suffered a recurrence of the food crisis. This put a spotlight on large producers in the EBRD region such as Kazakhstan, Russia and Ukraine and demonstrated not only the large role these countries have earned in the international agribusiness arena, but also that much remains to be done to fulfil their potential.

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**Launch of the EBRD’s Environmental Sustainability Bonds**

December 2010 saw the launch of the Bank’s Environmental Sustainability Bonds – the first EBRD bond issue designed specifically to finance environmental projects and reduce greenhouse gas emissions in the Bank’s countries of operations.

The key feature of the bond issue is that the proceeds are specifically earmarked to support a portfolio of projects aimed at promoting sustainable development and clean energy technologies, while improving energy efficiency, water and waste management, environmental services and public transport.

The AUD 25 million (€18.1 million) issue, maturing in 2014, was launched under the EBRD’s Global Medium-Term Note Programme, pays a fixed rate coupon of 4.80 per cent and is rated AAA. The issue was arranged by Deutsche Bank and distributed by SMBC Friend Securities Co., Japan to Japanese retail and institutional investors.

As part of the Global Medium-Term Note Programme the Bank also combined, earlier in 2010, with Daiwa Securities Group to launch the inaugural issuance of the EBRD’s Microfinance Bonds to support the development of micro and small enterprises (MSEs) in the EBRD’s region.

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12 Trade Facilitation Programme (TFP) transactions are excluded from the number of operations count and average project size but are included in business volume amounts.

13 On early adoption of IFRS 9 on 1 January 2010, re-statement of comparatives for 2009 is not required and as such, IFRS 9 has an impact on year-on-year comparisons of the Bank’s financial results. For details on the impact of IFRS 9, please refer to “A. Basis of preparation – New and amended standards adopted by the Bank” in the Financial Report 2010.
In response, the EBRD, with the support of the UN Food and Agriculture Organization (FAO), organised a workshop in October with senior representatives from some of the largest global and local companies in the sector. The meeting adopted recommendations to help boost investment and unleash the still-untapped potential of the region.

Supporting the real economy has been one of the strategic priorities for the EBRD in overcoming the crisis and the Bank sees the strengthening of the manufacturing basis as key to sustainable growth. Accordingly, the EBRD stepped up its efforts and invested €849 million across the entire transition region in 46 projects.

As in other sectors the EBRD works with foreign investors and domestic companies and serves as a link between both parties. A recent example is the Bank’s role in providing a €150 million syndicated loan to Ford Otosan, a joint venture between the US Ford Motor Company and Turkey’s Koç Holding. The project will significantly boost opportunities for local suppliers of the car producer which currently has four production facilities in Turkey, a rapidly growing market.

The EBRD investments in manufacturing covered a wide range of subsectors. They were also characterised by the wide variety of size, ranging from €1 million to €100 million per project. Special emphasis within this wide field of activities was put on energy efficiency-related investments and the development and strengthening of local supply chains.

Although the property and tourism sector remained seriously affected by the financial crisis and its aftermath, the EBRD managed to invest €258 million. Reflecting the continuing scarcity of commercial funding for the sector, 66 per cent of the Bank’s investment in a total of six countries was provided in the form of loans, while 34 per cent was equity-linked. In line with the EBRD’s focus on energy efficiency, each direct investment was the subject of an energy efficiency audit.

The EBRD continued to deliver important technical assistance to micro, small and medium-sized enterprises (MSMEs) in 2010 through its donor-funded TurnAround Management (TAM) and Business Advisory Services (BAS). Thanks to continuing strong donor support the Bank was able to start 93 new TAM projects and 1,365 new BAS projects in 20 countries committing over €6 million in donor funding and €5.5 million client contributions.

The activities of TAM/BAS were boosted by the adoption of a new strategy which aims to move the Bank’s efforts closer to the corporate sector. The TAM programme will assist emerging mid-sized companies in improving their creditworthiness, while BAS will focus more closely on working towards facilitating access to finance for viable enterprises, especially in the Western Balkans and the ETCs.

Financial institutions

The financial sector traditionally plays a core role in the EBRD’s activity and, buoyed by a renewed strategy, the Bank intensified its efforts in 2010 with new projects worth €3.0 billion in 27 countries of operations. The EBRD Trade Finance Programme (TFP) recorded a turnover of €774 million via 1,274 transactions last year – a significant recovery compared with 2009.

The activities in the financial sector were driven by the market’s renewed demand for loan financing to reignite commercial lending. As banks’ needs for new capital decreased, the EBRD expanded its loan programmes, particularly in the areas of trade finance, energy efficiency and financing of MSMEs.

This focus on the most pressing needs is illustrated by the geographical distribution of the EBRD’s investments in the financial sector in 2010: the volume of signed projects in south-eastern Europe increased significantly in 2010 and there was also increased activity in the ETCs, with 48 new investments.

Equity investments in banks continue to play an important role in the EBRD’s activities in the financial sector. In 2010 new commitments totalling €16 million in two banks were made in Azerbaijan and Poland. In addition, more capital was provided to seven existing investments and Tier II instruments to two banks to strengthen their capital bases.

Despite the improved global economic outlook, the international markets remained frozen for many of the EBRD countries of operations. For a few selected countries and for prime bank clients only, commercial loan syndication re-opened. The EBRD completed two syndications in Russia, three in Turkey, two in Armenia and one in Moldova.

"The financial sector traditionally plays a core role in the EBRD’s activity and, buoyed by a renewed strategy, the Bank intensified its efforts in 2010 with new projects worth €3.0 billion in 27 countries of operations."

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As a key lesson from the crisis, strong emphasis will be placed in this recovery period on the development of local capital markets and the reduction of foreign currency lending to unhedged borrowers. Fostering and strengthening local currency and capital markets is also a main pillar of the Bank’s strategy for the sector. In 2010 the EBRD was able to provide 14 local currency loans to banks for on-lending to enterprises. Loans were extended in Hungarian forint, Polish zloty, Russian roubles and Kazakh tenge from funding directly raised by the Bank.

Natural resources
Huge reserves of natural resources are major assets in many of the EBRD’s countries of operations and, consequently, the development of the sector has always been an important task for the Bank. In 2010, 14 new projects amounting to approximately €693 million in debt and equity investments were signed in eight countries stretching from Albania to Mongolia.

The EBRD’s operations in natural resources include all activities in the hydrocarbons and mining sectors. Special attention is given to energy efficiency, energy security and environmental standards. A key project signed last year was a €19 million loan to support the largest extension of the natural gas network in Bosnia and Herzegovina since the war of the 1990s. The new pipeline will combine significant energy efficiency with considerable environmental improvements.

In the mining sector the EBRD encourages sustainability by promoting the introduction of new mining technologies and encouraging both governments and companies to sign up to the Extractive Industries Transparency Initiative (EITI). The Bank also ensures that a high-level of environmental and social due diligence is carried out for each mining project and monitors that recommendations are implemented.

Power and energy
Despite challenging circumstances the EBRD increased its investments in the power sector in 2010 and reached a new historic peak in the sector. The Bank signed 21 projects in 13 countries with a total value of more than €1.2 billion, approximately one-third more than in 2009 in terms of the level of investment and number of projects.

The role of renewable sources of energy in tackling climate change and enhancing energy security is widely recognised today. Yet the investment climate remains fragile and investor confidence was impacted last year by continuing uncertainty about the future of the Kyoto Protocol mechanisms.

To help overcome these challenges the EBRD stepped up its activities and increased its funding for renewable energy by more than 70 per cent. The Bank is especially strong in project financing for wind farms and, for example, last year provided funding for the largest wind farm in Poland, the 120MW Margonin project.

Infrastructure and transport
Supporting critical infrastructure projects has been one of the key tenets of the EBRD’s crisis response and the need for the Bank’s involvement in the sector hardly decreased in 2010. The Bank focused on public-private partnerships (PPPs), support for small and medium-sized municipalities and policy reform. The Bank typically invests in water supply, wastewater treatment, solid waste management, district heating and urban public transport. In total, the EBRD signed 32 new projects worth €486 million.

In the transport sector the EBRD has established itself as a leading force in refurbishing and supporting transport networks in its countries of operations. In 2010 the Bank invested close to €1.3 billion, with a significant increase in finance to support the railways sector across the region. A key goal is to bring the transport network to EU safety and quality standards. Not only will this significantly improve peoples’ lives but it will also boost cross-border trade, an essential element of economic development.

ENVIRONMENTAL AND SOCIAL DEVELOPMENT

Nuclear safety
26 April 2011 will mark the 25th anniversary of the Chernobyl accident. After finishing the groundwork, construction of the New Safe Confinement for the damaged unit 4 can now begin, pending regulatory approval. The design for the completion of the spent fuel storage facility was approved in October 2010 and work can now commence.

With the finalisation in 2010 of projects such as the spent fuel storage facilities at Lithuania’s nuclear power plant Ignalina and Bulgaria’s Kozloduy decommissioning can now move ahead. The decommissioning funds are also supporting EBRD energy projects which aim to compensate the affected countries for the loss of generating capacity.

Under the NDEP “Nuclear Window” progress was made last year in defuelling and decommissioning nuclear submarines in the north west of Russia. This process is now essentially complete and the emphasis is now on coastal bases and storage of waste and spent fuel.

Donor-funded activities and official co-financing
Donor support played a critical role in helping the countries of the EBRD region to recover from the crisis, and it has been equally important last year. By the end of 2010 donor funding was being fully utilised, with €14.7 million under procurement, deployed or spent. Technical assistance, financed by donors, played a crucial role in infrastructure and transport projects, energy efficiency and security and in the financial sector.

In 2010 the EBRD introduced an integrated approach which combines coordinated investment, technical assistance, policy dialogue and cooperation with other international financial

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14 For more information, see the EBRD’s Sustainability Report 2010 and the Donor Report 2011.
In 2010 the EBRD introduced an integrated approach which combines coordinated investment, technical assistance, policy dialogue and cooperation with other international financial institutions and both the private and public sectors.
institutions (IFIs) and both the private and public sectors. This new approach has already been applied to two projects – one in Kazakhstan, one in Ukraine – and aims to address broader transition challenges which go beyond the scope of individual projects. Donor-funded grant support is essential for the implementation of this approach.

The EBRD Shareholder Special Fund

The EBRD Shareholder Special Fund, established in 2008 with €112.5 million from the EBRD’s net income, serves to facilitate donor funding to projects which are otherwise difficult to realise. Support from the Fund is traditionally used to complement financing from other sources such as the European Western Balkans Joint Fund or the Early Transition Countries Multi-Donor Fund. In 2010 the EBRD Shareholder Special Fund was replenished in the context of the Bank’s fourth review of capital resources by €150 million.

Civil society and gender

The EBRD promotes dialogue with civil society. Non-governmental organisations (NGOs), interest groups, research institutions or community-based organisations play an integral role in informing decisions that affect the lives of people and environments and also in holding government, policy-makers and investors publicly accountable. For the EBRD the dialogue with civil society enriches the Bank’s activities and is of great importance for the fulfilment of its mandate.

During 2010 the EBRD made significant progress in implementing the first phase of its Gender Action Plan to support equal opportunity and promote female entrepreneurship and women’s empowerment. Projects in seven countries and in various sectors as diverse as agribusiness, financial institutions and infrastructure are under way, which have been prepared with special consideration to women’s concerns.

ASSESSMENT AND EVALUATION

The EBRD’s activities are subject to various forms of scrutiny, analysis and examination. At the same time the Bank also monitors and assesses developments in its countries of operations very carefully under a variety of aspects. This is crucial for the EBRD to fulfil its mandate in the best possible way.

The EBRD is committed to the highest standards of corporate governance. The concept of good corporate governance is at the heart of all of the EBRD’s activities but principally where it acts as an investor and as a law reformer.

Policy dialogue between the Bank and the governments of its countries of operations is an essential element in ensuring that the projects and strategy implemented will have a lasting impact in supporting the market transition of the EBRD’s countries of operations.

As an instrument of change, it can deliver a transformational impact that is bigger than the sum of the impact from individual projects by shaping the legal and regulatory environment to be more conducive to investments in sustainable energy, for example.

Democratic reform

Despite its severity the global financial crisis of 2008-09 has not brought any major reversals of reforms. Domestic political stability has been maintained. However, in 2010 social tensions built up in some countries, especially as governments embarked on spending cuts and austerity measures. A shift towards more populist and nationalist politics was evident in some countries, while others strengthened reform-minded forces. Similar to the macroeconomic development of the EBRD region this indicates a growing political fragmentation.

However, as demonstrated in the case of the Western Balkans, the EU approximation process continues to serve as a strong external anchor. Encouragingly, the region also has not suffered a reversal of the integration process and a return to isolationism and protectionism has been averted.

Economic reform

For the first time the EBRD Transition Report 2010 presented a new set of scores to examine the progress of the reform process in the Bank’s 29 countries of operations. The analysis found that significant challenges remain in all countries, especially in the area of sustainable energy, transport and parts of the financial sector.

Judicial capacity-building is another key element of the EBRD’s efforts. In 2010 the Bank prepared plans for the training of commercial judges in Mongolia and Tajikistan.

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The level of economic reform across the EBRD region continued to vary in 2010. Financial sectors continued to feel the impact of the global crisis and in some countries laws have been adopted that clearly are a set-back in the reform process. The spirit of cooperation and coordination which in 2009 allowed for the “Vienna Initiative”,16 was weaker last year. Developments around the pension systems in some countries have also given rise to concern.

Despite these developments on the whole the EBRD’s countries of operations have largely refrained from any reform reversals as they are fighting for recovery. Even in those few cases where the process of liberalisation was reversed, some steps have generally been taken to restore some of the previously introduced reforms.

**Legal reform**

The EBRD supports the reform process through its Legal Transition Programme which supports the development of a sound legal environment for business. In 2010 one of the main activities was a comprehensive review of the public procurement laws. The assessment identified an acute need for reforms in countries of the former Soviet Union and south-eastern Europe and also provided a roadmap for policy dialogue and technical assistance. Following this finding, a first project was launched in Albania.

Judicial capacity-building is another key element of the EBRD’s efforts. In 2010 the Bank prepared plans for the training of commercial judges in Mongolia and Tajikistan.

The Inter-Parliamentary Assembly of the Commonwealth of Independent States in October adopted a model company law prepared with EBRD assistance. The cooperation with Russia to help the country with its financial legislation was also intensified last year. In addition, the EBRD’s Legal Transition Programme is working on the regulatory aspects of strengthening the local capital markets in several transition countries.

**Evaluation**

The EBRD subjects all its operations, programmes, strategies and policies to the scrutiny of an independent evaluation department. The process serves to establish accountability and allows lessons to be learned from past experiences. The examination analyses the transition impact of EBRD projects.

The results presented by the Evaluation department in 2010 show that 59 projects had been examined, of which 80 per cent were rated “excellent-satisfactory” for transition impact, while the remaining 20 per cent were “marginal-negative”. This was a slight improvement over 2009 and in line with the average for the entire period 1996-2010.

The Evaluation department in 2010 also conducted an in-depth evaluation of the EBRD’s response to the financial crisis. It found that the Bank responded well, but faced capital and staffing constraints to its crisis response. The report recommended preparations for future crises and improvements for its risk management.

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16 The EBRD played a key role in the inception of the Vienna Initiative, also known as the European Bank Coordination Initiative, in 2009. This brought together the combined forces of the governments, central banks and authorities from western banking groups and their eastern subsidiaries, the IMF, European institutions and multilateral development banks such as the EBRD, in the context of IMF-supported stabilisation programmes.
Securing recovery ranges from expanding lending programmes for energy efficiency to supporting micro, small and medium-sized enterprises, developing local currency markets and providing financial packages to strategic banks.

Financial sector

17 Banking
17 Trade finance
18 Joint IFI Action Plan
18 Energy efficiency
19 Loan syndications
19 Bond issuance
19 Local currency markets
19 Equity investments in banks
20 Other financial services
20 Support for micro, small and medium-sized enterprises
With a renewed financial sector strategy in place, the EBRD shifted its focus in 2010 to completing the crisis response, as well as strengthening the financial system post-crisis. The Bank’s projects concentrated on mobilising finance to the real economy and addressing sector vulnerabilities. Against a backdrop of varied economic recovery across its countries of operations, the EBRD has delivered a wide range of projects that reflect the local conditions.

In 2010 the Bank signed new business in the financial sector worth €3 billion covering 27 countries. Business in south-eastern European countries increased significantly, as the Bank continued to implement crisis response projects in that region. Activity in the early transition countries (ETCs) improved, with 48 projects signed with 38 clients. In addition, the Trade Facilitation Programme (TFP) handled over 458 transactions in the ETC region worth €163 million.

In 2010 there was less need for banks to raise capital for crisis-response balance sheet strengthening and a significant increase in the need for debt financing to reignite commercial lending activity to all business segments. The Bank continued to provide crisis response packages to those strategic banks with subsidiaries in the EBRD’s region. There were also opportunities for the Bank to be involved with projects that tackled the legacies of the crisis.

Following another strong year of new business activity, the financial sector portfolio grew by 21 per cent to €8.4 billion and operating assets grew by 27 per cent to €6.9 billion.

Policy dialogue with governments and regulatory authorities and other international financial institutions (IFIs) continued to be a vital aspect of project facilitation. The main themes of the Bank’s activity were financial inclusion, the strengthening of deposit insurance systems in Central Asia, and an increased emphasis on developing local currency lending and local capital markets.

The EBRD continued to provide significant levels of targeted technical assistance to the financial sector alongside its investment activity. Technical cooperation projects provided support to financial intermediaries to alleviate the impact of the financial crisis and to bridge skills gaps.

BANKING

Following the crisis, the banking sector is now working within an altered operating environment, with greater focus on regulatory and supervisory oversight. Banks are looking to implement new funding models to reflect greater reliance on domestic financial resources as external funding is likely to continue to be restricted. In addition, approaches to risk and credit management have also been revisited in order to closely manage loan portfolios and strengthen balance sheets.

As the level of non-performing loans (NPLs) stabilised in 2010, generally banks no longer required additional capital. The EBRD was thus able to expand its lending programmes, particularly in the areas of trade finance, energy efficiency and micro, small and medium-sized enterprise (MSME) financing. The Bank also sought to re-establish the syndications market for some of its partners – as well as to promote local currency lending.

BANK OF GEORGIA

The EBRD extended three facilities to the Bank of Georgia to develop its lending programme countrywide: credit lines to support small and medium enterprise (SME) financing; financing for corporate and residential energy efficiency projects; as well as a co-financing facility to provide essential longer-term financing of corporates.

TRADE FINANCE

Trade finance is an essential element in responding to the financial crisis and in accelerating recovery.

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.

In 2009 the Bank acted quickly 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 or partly suspended trade lines to banks in the EBRD’s countries of operations.

In 2010 the appetite for trade finance improved and business volume increased significantly compared with the previous year. In total the EBRD financed 1,274 trade transactions worth €774 million. The main countries generating business were Georgia, Kazakhstan, Russia and Ukraine.

**Chart 2.1: Annual business volume by sub region (2010)**

<table>
<thead>
<tr>
<th>Sub region</th>
<th>Business Volume</th>
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<tbody>
<tr>
<td>Central Asia</td>
<td>3%</td>
</tr>
<tr>
<td>Central Europe and the Baltic states</td>
<td>16%</td>
</tr>
<tr>
<td>Eastern Europe and the Caucasus</td>
<td>14%</td>
</tr>
<tr>
<td>Russia</td>
<td>28%</td>
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<tr>
<td>South-eastern Europe</td>
<td>29%</td>
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<tr>
<td>Turkey</td>
<td>10%</td>
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</tbody>
</table>
In total there are 96 issuing banks in the EBRD’s countries of operations who participate in the TFP, together with over 730 confirming banks throughout the world. Since its inception in 1999, the TFP has facilitated more than 10,000 foreign trade transactions worth a total of €6.5 billion.

**E-learning school in trade finance**

To ensure lasting transition impact and skills transfer to the TFP’s issuing banks, the Bank launched its e-learning school in trade finance. Financed by the EBRD Shareholder Special Fund, the online programme offers four modules with two basic and two advanced trade finance subjects, with content fully approved by the International Chamber of Commerce (ICC). The curriculum provides staff of issuing banks with an opportunity to broaden their academic horizons and prepare trade finance specialists to structure complex deals. The programme already includes over 100 students from more than 45 banks. This project is an efficient and progressive tool which has a direct impact on the quality standards of trade transactions and, as a consequence, the sector’s development in the region.

**JOINT IFI ACTION PLAN**

The Bank continued to fulfil its two-year commitment to the Joint IFI Action Plan, a crisis response initiative involving collaboration between the European Investment Bank (EIB), World Bank and the EBRD to support banks investing in central and eastern Europe (CEE) countries.

Within this initiative the Bank provided a number of comprehensive financial packages to strategic parent banks and local banks with a systemic presence in the region. One such package involved four Greece-based banking groups (Alpha, Piraeus, Eurobank EFG and National Bank of Greece) with loans to subsidiaries in Albania, Bulgaria, Romania and Serbia. The main objectives were to strengthen the subsidiaries’ ability to weather the effects of macroeconomic difficulties in both home and host countries by providing medium-term senior funding (and in some cases trade finance limits in addition to the loans) to diversify and extend the maturity of liabilities and assist the banks to continue lending to local economies and maintain a long-term presence in markets to which they have made a strategic commitment.

**ENERGY EFFICIENCY**

A core component of the EBRD’s Sustainable Energy Initiative (SEI) is the provision of financing for sustainable energy projects through financial intermediaries. The Bank’s Sustainable Energy Financing Facility (SEFF) is a dedicated credit line to local financial institutions for financing sustainable energy investment projects. It provides not only funding but support to overcome the barriers which hinder the financing of such investment opportunities. Building on the EBRD’s relationship with local financial institutions and making use of the latter’s established distribution networks and credit discipline, SEFF has proven to be an effective financing mechanism for small energy efficiency and renewable energy investment by bundling technical assistance, funding, market/distribution channels and financial incentives into one structure.

Energy efficiency lending through partner banks expanded significantly in 2010 with the introduction of three new SEFF frameworks. The EBRD sought to deepen market penetration in existing markets such as Bosnia and Herzegovina, Bulgaria, Georgia, Romania, Russia, Serbia and Slovak Republic, as well as expanding geographic coverage into new markets.
such as Armenia, FYR Macedonia, Moldova, Poland and Turkey. In total, new credit lines worth €451.5 million were provided to 29 banks in 12 countries. These dedicated credit lines will provide finance to energy efficiency projects in the corporate, industrial, municipal and residential sectors or for small-scale renewable energy generation projects. In some cases, the lines are directing financing to projects undertaken by SMEs. Recent SEFF frameworks also support the development of local manufacturers, suppliers and installers of energy efficiency and renewable energy equipment and technology to assist their activity in the local market.

An innovative framework was introduced in Turkey to promote a wide range of sustainable energy investment projects by mobilising concessional loan funds from the Clean Technology Fund, a recently established multilateral fund to promote scaled-up deployment and transfer of clean technologies. This was followed by another framework which will involve the Bank investing in Diversified Payment Rights (DPR) notes of partner banks, with the funds raised being on-lent to the private sector for investments in renewable energy, industrial energy efficiency and waste-to-energy projects.

Currently there are SEFF frameworks operating in 15 countries. By the end of 2010 the EBRD had provided loans to 46 partner banks which had on-lent to sub-borrowers supporting over 29,000 sustainable energy projects and produced projected lifetime energy savings of 78 million MWh and projected emission reductions of 33 million tonnes of CO₂ equivalent.

**LOAN SYNDICATIONS**

Although the EBRD completed eight syndications in the financial institutions sector in 2010 (including two syndications in Russia, three in Turkey, two in Armenia and one in Moldova), the international financial markets for financial institutions remained frozen for many of the EBRD’s countries of operations. The ongoing de-leveraging of commercial banks in the region, combined with banks’ efforts to improve credit quality following a prolonged period of increasing non-performing loans, continued to adversely affect many banks, especially those of lower credit quality.

However, in Russia the EBRD acted as a catalyst in the re-opening of the syndicated loan market for privately owned financial institutions. The EBRD’s US$ 250 million (€186.4 million equivalent) syndicated loan to Promsvyazbank in June 2010, the first loan to be syndicated to a private commercial bank in Russia since the onset of the financial crisis, and the Bank’s US$ 164 million (€122 million) syndicated loan to Transcapitalbank, triggered the revival of syndicated bank lending to private Russian financial institutions in the second half of 2010. By year-end 2010, seven additional private transactions had closed, raising in excess of US$ 1.5 billion (€1.1 billion).

Noteworthy EBRD-syndicated loan transactions in 2010 were ACBA Credit Agricole, Procredit Bank Moldova and DenizBank.

**BOND ISSUANCE**

The Bank continually assesses opportunities to establish where it can provide support, financing and assistance in the development of its region. As the debt and equity capital markets of the Bank’s countries of operations develop and recover from the financial crisis, in addition to its own borrowing programme, the Bank selectively subscribes to issues which help its clients to diversify their sources of funding and to galvanise interest in the local capital markets. While the scale of its investments in such products remains modest compared with its lending programme, it is nevertheless crucial that the Bank supports the markets’ evolution.

**LOCAL CURRENCY MARKETS**

The post-crisis period presents an opportunity to reduce undue reliance on foreign savings, develop the local currency markets, and cut back on lending in foreign exchange to unhedged borrowers in the transition region. The EBRD is allocating considerable resources to the development of financial instruments denominated in local currency thereby reducing the foreign exchange rate risk for partner institutions and their clients.

In 2010 the EBRD was able to provide 14 local currency loans for a range of financing purposes including MSMEs and leasing. Loans were provided in Hungarian forint, Polish zloty, Russian roubles and Kazakh tenge from funding directly raised by the Bank. The Bank also continued to respond to currency mismatch issues faced by some financial institutions by providing a series of cross-currency swaps. It is anticipated that this financial instrument will be offered to other clients in 2011 as banks seek to better match the currency and terms of their assets and liabilities.

**EQUITY INVESTMENTS IN BANKS**

Equity investment continues to be a key tool used by the Bank to promote transition and additionality. By supporting banks through equity investments, the Bank can influence business strategy, strengthen corporate governance and promote institution-building and best practice.

In 2010 the EBRD committed a total of €16 million in two banks in Azerbaijan and Poland, and provided additional capital (€19 million) to seven existing investments in Armenia, Belarus, Bulgaria, Georgia, Lithuania, Romania and Serbia. In addition, the Bank provided Tier II instruments to two banks in Poland and Ukraine to strengthen their capital bases. The EBRD currently has investments of over €1.1 billion in 51 banks in 25 countries.
OTHER FINANCIAL SERVICES

A main pillar of the new strategy is to strengthen and develop local financial infrastructure and local capital markets. The EBRD is supporting a broad range of financial services in order to expand the products and services market.

Support for institutions outside the banking sector was maintained in 2010, with 21 projects signed for €453 million. There was strong focus on leasing transactions, which broaden the availability of financing sources, particularly for SMEs who have found accessing funds even harder during an economic crisis. The Bank signed nine leasing deals in eight countries.

The Bank was also able to support the local financial infrastructure in the Western Balkans, through a new product that provides additional security to bank depositors (see below).

DEPOSIT INSURANCE FUNDS (DIFs)

The EBRD has provided credit lines for deposit insurance funds in Bosnia and Herzegovina and Montenegro to the value of €50 million and €30 million, respectively. These projects will support increased deposit insurance coverage in these countries by providing additional resources to the DIFs.

The Bank has long recognised the importance of supporting those vehicles that encourage and facilitate domestic savings such as insurance companies. In 2010 the EBRD made a commitment to invest in a new transaction in Turkey (see below) and it also provided additional capital to four existing insurance investments in Armenia, Russia and Ukraine.

NEW INSURANCE INVESTMENT

The EBRD is developing a new strategic partnership with Sompo Japan, the second largest non-life insurance company in Japan. Sompo Japan is making its first insurance acquisition in the EBRD region by acquiring Fiba Sigorta A.S. (FS) in Turkey. The Bank has signed an investment agreement to purchase an equity stake of 9.99 per cent in the company, which is one of Turkey’s leading non-life insurers, with a focus on retail and small business sector segments.

SUPPORT FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

The EBRD has a long history of support to micro, small and medium-sized enterprises (MSMEs) in its countries of operations. These sectors provide important sources of entrepreneurship, innovation and job growth, and have traditionally suffered from limited access to finance due to their small size, difficulties in screening quality, lack of collateral and short credit histories. Despite many private financial institutions entering this market segment and building institutional capacity for their dealings with small borrowers, access to credit for small enterprises has suffered as banks have restricted their lending. Improving MSMEs’ access to finance is a crucial aspect of the Bank’s effort to provide sustainable sources of lending to the real economy.

Small and medium-sized enterprises

Providing credit lines to local banks and leasing companies has been the main method the Bank has used to target finance to support small business. Such provision of small and medium-sized enterprises (SME) financing has been the main driver of the EBRD’s activity in 2010 and 17 countries received financing lines.

Through these transactions, the Bank intends to increase the level of financial intermediation for financing SMEs, to broaden the geographic and sectoral coverage and to encourage female entrepreneurs. The projects provide intermediaries with important financing that is often limited in availability and can also diversify and lengthen their funding base. Another goal is to expand the outreach of SME financing to under-served regions outside major cities and to agricultural areas. Integral to the long-term sustainability of these SME projects is the technical cooperation (TC) component, which focuses on institution-building. In 2010 the Bank signed 49 new projects with local financial intermediaries totalling €761 million.

CREDIT EUROPE BANK (RUSSIA) SME SENIOR LOAN

The EBRD approved an unsecured senior loan to Credit Europe Bank (Russia) to the value of up to 2.9 billion roubles (€76 million equivalent). The first tranche, for half the amount, was signed in 2010 and will provide long-term financing to SMEs in the Russian regions, as well as diversifying the client’s loan portfolio and enhancing its competitive position.

The EBRD currently has SME projects in 26 countries, involving over 130 financial intermediaries.

The EU/EBRD SME Finance Facility is a significant component of the SME portfolio. In 2010 the facility was amended to allow financing of sustainable energy investments to SMEs under the new energy efficiency sub-window. Within this structure, the EBRD established a new credit line called the Polish Sustainable Energy Efficiency Financing Facility, providing €150 million of financing supported by grants and technical assistance to three to five local participating banks in Poland for on-lending to SMEs to finance commercial energy efficiency and small scale renewable energy investments. In 2010 two loan agreements were signed (Millennium Bank and BGŻ) for €85 million. More banks are expected to join in the first half of 2011.

Under the original EU/EBRD SME Facility over 103,000 subloans worth over €2.3 billion were extended to SMEs throughout the region. These transactions were supported by 129 credit lines totalling more than €1.2 billion, which were directed to 44 banks and 40 leasing companies in 11 countries.

Microfinance

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

Following a year where partner institutions experienced substantial deterioration of MSE portfolios and increased financing costs, 2010 saw signs of recovery with some renewed
lending activity – although growth rates differ from country to country and across the type of institution. Post-crisis challenges remain in this sector. Many partner institutions face substantial levels of arrears, even if non-performing loans (NPLs) have stabilised; and with stringent lending criteria, new growth is limited owing to the lack of high quality borrowers.

The Bank maintained its support to microfinance operations in 2010, signing 36 projects for €180 million. Over half of the transactions completed during the year were in the early transition countries (ETCs). The EBRD has not only provided investment but partner institutions have benefited from technical assistance to enhance credit risk management, thereby enabling them to return to lending.

As many recipients of MSE financing do not generate hard currency income, the EBRD is encouraging local currency lending and, where possible, is providing credit lines in local currency. The Bank is committed to the broader and systematic development of local currency loans to insulate vulnerable banks, microfinance institutions and local private enterprises from foreign exchange volatility.

**LOCAL CURRENCY FINANCING**

KazMicroFinance, the largest non-bank microfinance provider in Kazakhstan, has been an EBRD client since 2005. In 2010 a second tranche of 225 million tenge (€1.1 million) was made available to this key partner to expand its operations. Since the start of this cooperation, KMF has provided 233,000 loans worth US$ 385 million (€270 million) to MSEs across Kazakhstan.

The EBRD’s MSE finance programmes are actively lending through over 112 partner institutions in 22 countries, including 13 microfinance banks, 32 non-bank microfinance institutions and 67 universal banks, many of which have introduced MSE loan products as a result of the Bank’s technical assistance and donor support. Extending the outreach of the programme is an integral component of enabling people and businesses outside of the capital cities to have access to finance. Seven new partner institutions from Albania, Armenia, Belarus, Serbia, Tajikistan and Turkey joined programmes in 2010 and there are now 3,000 branches of partner-lending institutions providing small business financing in the smaller cities and regions.

**Technical cooperation**

In 2010 the EBRD provided TC funding for 119 consultancy contracts for a total of €39 million, covering 26 countries of operations. In addition to crisis response measures, broader institutional strengthening and comprehensive support for MSMEs and energy efficiency credit lines continued.

The crisis response programme launched in 2009 provided assistance to the areas of risk management, non-performing loan work-outs and corporate recovery, with most projects concentrated in the Caucasus, central Asia, eastern Europe, Russia and Ukraine.

Projects in the ETCs have focused on institution-building as well as developing under-served segments, such as the Agricultural Finance Facility in Tajikistan. Technical assistance in advanced countries continued to be directed towards energy efficiency programmes, with Bulgaria and Poland, in particular, receiving new funding. Turkey also received substantial TC assistance for the new Private Sector Sustainable Energy Facility and MSME credit advisory services to EBRD partner banks.

In addition, grant funding was available in the form of incentive payments when additional support was needed for EBRD clients and their borrowers. Nearly €17 million was disbursed in performance fees and incentive payments to participating banks and sub-borrowers – notably for sustainable energy financing and SME finance facilities.
The transition region has some of the most energy-intensive economies in the world. A key challenge is to ensure that economic competitiveness and future growth is built on a solid, low-carbon foundation.
Climate change mitigation and sustainable energy are key tenets of the EBRD's strategy throughout the region.

The EBRD’s Sustainable Energy Initiative (SEI) aims to mitigate climate change and improve energy efficiency. In 2010 the Bank’s sustainable energy investments reached a record of almost €2.2 billion, up 64 per cent from €1.3 billion in 2009. These investments accounted for 24 per cent of the Bank’s total annual business volume and were made across various sectors within the Bank.

THE CHALLENGES OF ENERGY EFFICIENCY AND CLIMATE CHANGE

The EBRD region has some of the most energy-intensive economies in the world, in particular: Azerbaijan, Kazakhstan, Ukraine and Uzbekistan. The region is heavily reliant on fossil fuels as well as on obsolete systems for energy production and delivery to customers. Carbon intensity is also with few exceptions very high. Addressing these high energy and carbon intensities is a key challenge in progressing the region’s transition and economic competitiveness.

There was a significant decrease in emissions between 1990 and 2000 due to the economic contraction. However, since that time the pattern reversed and emissions from the region rose steadily until the onset of the latest financial crisis. The crisis has delayed important investments in modernisation and efficiency, and the recovery will therefore start from a basis of continued high levels of energy and carbon intensity. The region has an important potential contribution to make to the international effort to combat climate change.

In the Bank’s countries of operations, energy efficiency is the instrument with the largest potential for carbon reduction in the short to medium term, while renewables also have a role to play in providing a clean and diversified energy supply. The high energy intensity of the region stems not only from wasteful practices or the region’s economic structure, climate and geography, but policy decisions and ingrained behaviours can account for the lack of incentives to invest in climate mitigation. Problems include distorted energy prices; a lack of modern energy efficiency regulations and standards; an inability or lack of willingness to replace obsolete technologies; and a general lack of awareness of the potential for investment in sustainable energy. Such issues can lead to a limited political or managerial focus on energy savings and climate policy.

HOW THE BANK IS RESPONDING

There is a growing understanding that well-functioning market economies use energy efficiently and internalise the cost of carbon emissions. The EBRD’s mandate to foster transition to an open market economy directly supports climate change mitigation through energy efficiency and renewable energy.

Such a mandate provides a strong basis for the rapid scaling-up of the EBRD’s activities in addressing energy efficiency and climate change (E2C2) in the context of the SEI. This has led to the adoption of E2C2 in the medium-term strategy of the Bank in 2009, and a core section of activity has been added to the Fourth Capital Resources Review, for 2011-15.

The EBRD has sought to integrate E2C2 into the design and implementation of all its operations since 2005. It 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 E2C2 activities of the Bank now cover 29 countries of operations, with a good geographical spread of projects across the region.
As well as using its own funds, the Bank is an active participant in the Climate Investment Funds (CIFs) to provide substantial finance for climate change mitigation in the region. The first projects in Turkey and Ukraine commenced implementation in 2010, with Kazakhstan and Tajikistan to follow in 2011. The experience of implementing these funds will provide important lessons for future climate finance projects. The EBRD is using policy dialogue and direct project-related technical assistance to address these issues and help countries raise awareness and take the necessary steps for policy changes.

THE SUSTAINABLE ENERGY INITIATIVE: RESULTS AND ACTIVITIES

Results and activities
The Bank’s energy efficiency- and climate change-related investment strategy is delivered within the framework of the SEI, which was launched in 2006 with the aim of increasing financing to address climate change.

OVERALL SEI RESULTS 2006-10

- Investment of €6.1 billion, for a total project value\(^{17}\) of over €32 billion.
- Investment in 353 projects, covering 29 countries.
- Estimated annual emission reduction of 37.2 million tonnes of CO\(_2\). These overall CO\(_2\) savings are equivalent to the level of the Slovak Republic’s emissions.

In 2010 the Bank further increased its industrial, power and municipal infrastructure energy efficiency activities, and continued to develop renewable energy and carbon markets throughout the region. It also expanded further into new areas, such as energy efficiency in buildings, biomass for power, and climate change adaptation. As a consequence, the SEI is now firmly rooted not only in the energy sector but in all sectors of EBRD activity, including the industrial, property, financial and infrastructure sector activities.

SEI financing in 2010 reached almost €2.2 billion, rising by 64 per cent from €1.3 billion in 2009, and reaching within a single year over 80 per cent of the combined volume of SEI’s Phase I. Altogether in 2010 there were 116 operations, a 63 per cent increase on the 71 projects financed in 2009. SEI investments accounted for a record 24 per cent of the Bank’s 2010 annual business volume. It is estimated that the carbon reduction impact of the EBRD’s SEI portfolio in 2010 will reduce annual global emissions by 11.4 million tonnes of CO\(_2\). The SEI has been a key factor in keeping the CO\(_2\) emissions of the EBRD’s investment portfolio neutral or negative since 2006.\(^{18}\)

SEI 2010 RESULTS

- Investment of almost €2.2 billion in SEI projects
- SEI investments accounted for over 24 per cent of the Bank’s annual business volume
- A total of 116 SEI projects were signed
- The carbon emission reductions of projects signed in 2010 is estimated at 11.4 million tonnes of CO\(_2\) annually once fully implemented.

SEI areas

<table>
<thead>
<tr>
<th>SEI category</th>
<th>2010 SEI results</th>
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<tbody>
<tr>
<td></td>
<td>Signed (€ million)</td>
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<tr>
<td>SEI 1 – Industrial energy efficiency</td>
<td>445</td>
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<tr>
<td>SEI 2 – Sustainable energy financing facilities</td>
<td>452</td>
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<tr>
<td>SEI 3 – Cleaner energy production</td>
<td>671</td>
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<tr>
<td>SEI 4 – Renewable energy</td>
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<td>SEI 5 – Municipal and environmental infrastructure</td>
<td>234</td>
</tr>
<tr>
<td>Total</td>
<td>2,165</td>
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INTERNATIONAL COOPERATION AND POLICY DIALOGUE

The aim of operational policy dialogue within the context of SEI is to strengthen policy and regulatory frameworks to support transactions and investments. It is an essential element to ensure that the projects and strategy implemented through the SEI will have a lasting impact.

The Bank increased policy dialogue activities in 2010 with a view to creating a better enabling environment for the SEI and to strengthen policy relationships in key countries of SEI activity. In 2010 activities were implemented for example in Ukraine, where under the Carbon Market Facilitation Programme,

\(^{17}\) Total project value includes project elements not related to sustainable energy investments.

\(^{18}\) The portfolio emissions cover all projects with emissions larger than 100kt CO\(_2\)/yr. The EBRD and the other multilateral development banks are working on the definition of a carbon accounting system.

For more information on each strand of the Sustainable Energy Initiative, see Sustainability Report 2010. Alternatively, for more information go to: the relevant pages on our web site at www.ebrd.com/sei
the EBRD and the National Environmental Investment Agency of Ukraine is jointly developing the legal and regulatory basis for Green Investment Scheme (GIS) contracts. In Bulgaria, the EBRD supported the development of a Renewable Energy Action Plan, while in Kazakhstan, it provided advice to the government on revisions of the energy efficiency and renewable legislation. Reflecting its focus on addressing housing energy efficiency, the Bank has begun work in Ukraine to support changes to the legal framework governing housing associations, enabling them to borrow money for refurbishment.

The aim of policy dialogue is to improve the investment framework for sustainable energy in the Bank’s region. The EBRD wishes to enable its countries of operations to implement support policies for sustainable energy that are at a similar level compared with those of, for example, International Energy Agency (IEA) member countries, and to address the persistent effects of distorted energy prices in the same region.

CLIMATE CHANGE ADAPTATION

The EBRD has continued to develop approaches towards climate change adaptation that are consistent with its transition mandate, project-based approach and private sector focus.

In 2010 the Bank conducted a review of its recent investments, which led to a number of project case studies across a range of sectors and countries: from the expansion of a copper mine in Bulgaria to the construction of flood defences in Russia. This resulted in the adoption of guidance on the integration of climate change adaptation into technical due diligence, environmental and social due diligence, and on the use of climate models as inputs to project development.

The Bank then began to pilot these approaches in a number of new projects under development, including investments in water supply systems, hydropower, port infrastructure and the promotion of industrial water use efficiency. One of the pilot projects launched involved the integration of a climate change assessment impact and climate resilience features into the North Tajikistan Water Rehabilitation Project, which will result in more climate-resilient drinking water systems. A further pilot project launched during 2010 involved integrating water efficiency audits into the development of an investment in a pulp and paper mill in Bosnia and Herzegovina. This approach is particularly relevant to water-intensive industries in countries that are predicted to become more water-scarce as a consequence of climate change.
The EBRD is stepping up its support for renewable energy. At the same time activities in the hydrocarbon and mining sectors pay particular attention to energy efficiency, energy security and environmental standards.
In 2010 the EBRD maintained the momentum of the previous year with its highest ever level of support to the power sector. While the immediate funding crisis abated, the investment climate, especially for renewable energy, remained fragile. In this context the EBRD invested more than €1 billion in the power sector, spread across 21 transactions in 13 different countries. This was approximately one-third more than the volume invested by the Bank and the number of transactions and countries it supported in 2009 and is reflective of the breadth and depth of its support.

MAJOR INCREASE IN SUPPORT FOR RENEWABLE ENERGY

The EBRD’s work in the area of climate change and energy efficiency is described in Chapter 3 and support for renewable energy is central to these efforts. Although lower energy prices, austerity measures and the continued uncertainty over the future of the Kyoto Protocol mechanisms have weakened investor confidence in the renewables sector, its long-term importance in efforts to mitigate climate change and strengthen energy security remains. The Bank has therefore focused on continuing the momentum of investment in this area and in 2010 nearly tripled its funding for renewable energy, investing €363 million in nine projects. This follows a more than 70 per cent increase in 2009 on the previous year’s funding for renewable energy. In total, projects financed by the EBRD in 2010 are expected to result in a CO₂ emissions reduction of 11.4 million tonnes annually.

Historically the EBRD has supported wind power mainly through the provision of limited-recourse project finance. This continued in 2010, for example with funding for the 120 MW Margonin plant, the largest operating wind farm in Poland. However this year also saw the Bank use equity to scale up investment in larger portfolios of wind farms, notably by making a €125 million equity investment in the Polish and Hungarian subsidiaries of Iberdrola Renovables, resulting in a 25 per cent equity stake in each.

This project reinforces Iberdrola Renovables’s existing position and makes funding available for new investments. The transaction highlights the catalytic role the EBRD continues to have when cooperating with major companies and in countries at the forefront of transition. In central Europe and many other countries the Bank is working closely with the regulatory authorities to ensure that support mechanisms for renewable energy are robust and sustainable in times of austerity. In its partnership with Iberdrola Renovables, the EBRD was able to combine deep-seated policy engagement with its capital to support the momentum of the critical but fragile transition to a low-carbon energy sector.

Building the framework – support for networks

Within this sector, power generation often attracts the most attention but the hidden side of the business – the transmission and distribution of energy from generators to consumers – is every bit as important. The role of smart grids in the electricity sector of the future is discussed in more depth in the Sustainability Report 2010. Policy-makers and the power industry recognise that power will increasingly be transmitted on a network that is intelligent, flexible and robust. On the demand side this will result in reduced waste as customers understand and take control of their consumption. On the supply side it will accommodate the installation of more intermittent power sources such as wind and solar energy, more distributed generation and more efficient use of conventional generation capacity.

For more information on the role of smart grids see page 47 of the Sustainability Report 2010 or go to: www.ebrd.com/sustainabilityreport
Reflecting such a transformation, nearly half of the EBRD’s 21 power sector investments in 2010 were made in the transmission and distribution networks. At one end of the spectrum these included a €80 million loan to fund the construction of a high voltage connection between Georgia and Turkey. This project will open up a route for generators in Georgia and throughout the Caucasus to sell clean hydropower to Turkey. In the distribution sector the EBRD’s investments included a PLN 300 million (€75.8 million) loan to Poland’s Energa group which will support the reinforcement and extension of the company’s network in order to accommodate more renewables connections. Lastly, two transactions in the Western Balkans – loans to Serbia’s Elektroprivreda Srbije and Montenegro’s Elektroprivreda Crne Gora – will fund the installation of smart meters aimed at facilitating demand side management, reducing losses and improving payment discipline.

The wider context
The power sector is a major component of any country’s economy and investments therein have also played a role in supporting the EBRD’s wider objectives and strategies. For example two loans in the Baltic states – one of €150 million to Latvia’s Latvenergo and one of €71 million to Lithuania’s Lietuvos Elektrine – aim to fill the capacity gap left by the closure of Lithuania’s Ignalina nuclear power plant (see Chapter 7: Nuclear safety on page 48).

Another key priority for the EBRD, especially in the aftermath of the financial crisis, is to support the development of local capital markets (see Chapter 2: Financial sector). The Bank’s subscription for two rouble-denominated bonds issued by Russian power companies formed a substantial part of those efforts. It participated as a key investor in two bond issues in 2010, providing RUB 4.5 billion (€110 million) to RusHydro, the Russian hydropower company and RUB 3.7 billion (€89 million) to Federal Grid Company, the Russian transmission system operator. The proceeds of these issues will fund much-needed investments in Russia’s ageing power infrastructure. The RusHydro bond issue will support the rehabilitation of a major hydropower plant, increasing its safety and output, while that to Federal Grid Company will help reduce transmission bottlenecks in the Moscow region.

The transactions are also landmarks in opening up new sources of funding for Russian corporates and developing a deeper and more liquid capital market in the country. Federal Grid Company’s bond breaks new ground by having a seven-year tenor, the longest non-banking tenor issued in roubles since the financial crisis.

Looking ahead
The dominant themes for the EBRD’s investment in the power sector over the last few years were the rapidly growing importance of renewable energy and the very large need for infrastructure investments to catch up with 20 to 30 years of under-investment. Such themes look set to grow in prominence, both following the continuing global commitment to reduce greenhouse gas emissions restated at the United Nations Climate Change Conference in Cancún in December 2010, and as economies return to growth, putting ever greater pressure on ageing infrastructure.

More specifically the EBRD expects to see increasing diversity in both the size and fuel source of renewable energy projects, as solar, small hydropower and biomass technologies enter the mainstream; along with an emphasis on the rollout of smart grids; and a surge of investment in state-of-the-art conventional generation sources to replace dirty, obsolete assets. The Bank’s policy engagement combined with significant financing resources positions it to meet these growing and diversifying challenges.

NATURAL RESOURCES
As the crisis response period continued, the EBRD once more achieved record business volumes in the natural resources sector in 2010. Fourteen transactions were signed, amounting to approximately €693 million in debt and equity investments in countries such as Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Mongolia, Russia and Serbia.

The Bank’s operations in this sector encompass all upstream and downstream activities in the hydrocarbons and mining sectors. As in 2009, addressing European energy security concerns remained a key focus in 2010 and there was renewed activity in projects that resulted in improved environmental standards and greater energy efficiency. There was also an increase in the number of projects financed in the mining sector, which is likely to be due to the recovery in coal and metals prices.

In the mining sector the EBRD encourages sustainability by promoting the introduction of new mining technologies and encouraging both governments and companies to sign up to the Extractive Industries Transparency Initiative (EITI). The Bank also ensures that a high-level of environmental and social due diligence is carried out for each mining project and monitors that recommendations are implemented.
As the crisis response period continued, the EBRD once more achieved record business volumes in the natural resources sector in 2010.
**Significant projects**

A key transaction addressing energy security, energy efficiency and environmental concerns was a €19 million loan to support the largest expansion of the natural gas network in Bosnia and Herzegovina since the war in the 1990s. The 40-kilometre pipeline will supply gas for the first time to four municipalities in the Central Bosnia Canton of the Federation of Bosnia and Herzegovina. This will reduce pollution and bring considerable environmental benefits to the area by switching from oil, coal and wood burning to a cleaner and more efficient heating fuel. This investment is the first step in a long-term investment programme to supply natural gas across the entire territory of Bosnia and Herzegovina and contribute to energy security by developing multiple interconnections of the country’s natural gas transmission network with Croatia and Serbia. The project will also improve the regulatory framework for natural gas supply in the country and aid convergence with EU standards. In particular, the project will be associated with the unbundling of the country’s trading and transmission system operations, the establishment of independent regulatory authorities for the gas market and the opening up of the construction and management of gas distribution networks to private operators.

Another significant energy efficiency project for the year was a US$ 55 million (€41 million) syndicated loan to ZAO UgrGaz of Russia, financing the construction of gas processing and power generation facilities using associated petroleum gas from existing oil-producing fields. The project will result in a substantial reduction in gas-flaring and consequent pollutant emissions. It will also increase energy efficiency by providing new power-generating capacity fuelled by associated petroleum and dry-stripped gas, which would otherwise have been lost.

Similarly, the EBRD provided €210 million under an A/B loan structure to Croatia’s INA to enable the company to complete the first stage of a two-phase modernisation programme of its Croatian refineries. The financing will assist the company to introduce modern technologies and improved business practices, making it more competitive within its core markets and generating significant energy efficiency gains. EBRD financing is linked to the implementation of a comprehensive programme of environmental remediation, prevention of past environmental legacies, health and safety enhancement and improvement of environmental standards at INA refineries (see the case study on page 43 of the Sustainability Report 2010).

Meanwhile, in Serbia the EBRD is assisting energy sector reform through conditionality linked to a €150 million corporate loan to Srbijagas, the national gas transmission and supply company. The loan will be used to undertake a pipeline maintenance programme and to build a new underground gas storage facility, thus contributing to the security and independence of the energy supply in Serbia and neighbouring Bosnia and Herzegovina. In addition, the Bank has obtained the commitment of Srbijagas to:

(i) pursue organisational and financial restructuring
(ii) increase standards of transparency, corporate governance and business conduct and the commitment of the Serbian government to accelerate reforms in the energy sector.

These are reforms are aimed at:

(i) achieving harmonisation with the relevant EU Directives
(ii) enhancing the independence of the energy regulator
(iii) supporting the unbundling of the Company’s natural gas transmission, distribution and trading activities.

Energy efficiency improvements in 2010 were not restricted to hydrocarbons projects as a new loan for an existing client, Bulgaria’s Chelopech Mining, demonstrated. The Bank arranged an initial US$ 48.75 million (€36.34 million), seven-year term loan to finance a project that will result in doubling of the mine’s production capacity. New production processes should result in substantial cost savings, with energy efficiency improvements and emissions reductions achieved through dramatically reduced diesel fuel consumption. Unicredit Bulbank joined the transaction, making it the first syndicated loan in the mining sector in south-eastern Europe outside of Greece and Turkey.

The Bank also provided a regional facility of US$ 150 million (€112 million) for Centerra Gold, to support the company’s development in the Bank’s countries of operations and sustainable mining. This includes various forms of support to local small and medium-sized enterprises (SMEs) working with the company, as well as the mobilisation of technical assistance for the further roll-out of the EITI in the Kyrgyz Republic.
In Mongolia, the Bank is providing term financing for Leighton Asia and Energy Resources, to support what many consider to be the first international-style mine development in the country since the start of the transition process. In particular, the project commissioned the first ever Environmental and Social Impact Assessment (ESIA) in the country, and conducted a landmark public consultation that is expected to have a high demonstration effect for future mining projects.

During the year the EBRD also continued its activities in promoting sector reform through policy dialogue. For instance, gas transit from Russia to Europe has long been a linchpin of the Ukrainian economy and a centrepiece of its domestic and foreign policy. For many years the EBRD has been at the forefront of the official policy dialogue between Ukraine and the foreign community on this important issue which has gained increasing prominence due to wider energy security concerns. Together with other relevant international financial institutions (IFIs) and the World Bank and European Commission, the EBRD has played a key role in channelling aid to identify priority infrastructure investments and build consensus on reforms essential to securing the necessary financing.

"In Mongolia, the Bank is providing term financing for Leighton Asia and Energy Resources, to support what many consider to be the first international-style mine development in the country since the start of the transition process."
Infrastrucure

Supporting critical infrastructure projects is one of the key tenets of the EBRD’s crisis response, with a focus on public-private partnerships, support for small and medium-sized municipalities and policy reform.
MEI

The EBRD’s work in the municipal and environmental infrastructure (MEI) sector covers investments and services under the responsibility of local government (public or private sector entities) and typically includes water supply, wastewater collection and treatment, solid waste management, district heating and urban public transport.

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

The need for the EBRD’s investments in the MEI sector has never been greater given budget constraints and the scarcity of commercial lending for such projects in the post-crisis recovery period. As a result, MEI experienced record activity, with 32 operations signed, amounting to a business volume of €486 million, which compares with 27 operations and €479 million in 2009, itself an exceptional year.

As a whole, 2010 was marked by a strong focus on policy reform, public-private partnerships (PPPs), environmentally friendly investments in wastewater or clean urban transport and support to small and medium-sized municipalities in the EBRD’s countries of operations. In central and southern Europe, the Bank has moved to help clients effectively absorb EU funds, with five such projects signed, mobilising almost €400 million of EU funds for the region. Elsewhere, the Bank has further expanded business in the early transition countries (ETCs) and the Western Balkans, with a record 10 projects signed in 2010. In doing so, almost 50 per cent of the financing in 2010 has been directed towards energy efficiency and sustainable energy-related activities.

Water and wastewater

There is strong demand for large capital expenditure projects to build and rehabilitate the water and wastewater sector throughout the region. In response, the EBRD has provided funding for water and wastewater treatment projects (representing 40 per cent of MEI business in 2010), combined with support for much-needed policy reforms and company restructuring.

In Moldova, for example, the EBRD is supporting the modernisation of the country’s water system with a €10 million sovereign loan to co-finance a water utilities development programme across the country. The proceeds of the loan will benefit water companies in six reform-minded localities (outside the capital Chisinau) to finance the upgrade and extension of the water and wastewater systems in these towns. It is the first water project in the country to focus on the regionalisation of water services and the consolidation of water companies. With a total cost of €30 million, the programme is co-financed by a €10 million loan from the European Investment Bank (EIB) and a €10 million grant from the EU’s Neighbourhood Investment Facility (NIF). The EBRD is providing an additional €2 million in technical assistance grants to support the projects’ implementation.

In 2010 the Bank further developed private sector involvement in the MEI sector with a breakthrough in Turkey. Indeed, the EBRD and TASK Group, a privately owned company specialising in water and wastewater management, joined forces to expand private sector participation in the water market in Turkey. The Bank’s €16 million investment in TASK will finance the company’s plans to rehabilitate water supply networks and construct wastewater treatment facilities at its concessions across the country.
During the year the EBRD continued innovations for the support of critical investments, notably facilitating the absorption of EU funds. In Romania, a €200 million co-financing framework was launched to back the EU-funded programme of modernisation and regionalisation of water utilities in the country. A first project was signed under the framework for the water company operating in the Constanța and Ialomita counties on the Black sea coast of Romania, and several other projects are under active preparation. Through the new framework – the Romania EU Cohesion Fund Co-financing Framework (R2CF) – regional Romanian water companies can access grant funding from the Cohesion Fund and align their water and wastewater services to EU environmental standards. The financing under the framework is provided on a non-recourse basis, which demonstrates the Bank’s confidence in the sector. It is estimated that the €200 million framework will mobilise nearly €1.5 billion in investments in Romanian water and wastewater infrastructure.

**Urban transport**

Energy efficiency is a central objective in MEI operations, with almost half of the 2010 MEI investments afforded energy efficiency and CO2 emission benefits. This drive is particularly significant in urban transport where the Bank has systematically pursued clean and low carbon projects with seven operations signed in 2010, focusing on electric systems (metro, tram, trolleybus) and vehicles fuelled by compressed natural gas (CNG).

In Poland the EBRD is supporting the modernisation of urban transport with a syndicated loan of PLN 200 million (approximately €50 million) to Warsaw Tramways, financing the acquisition of 186 energy-efficient, modern trams, the modernisation of 29 kilometres of tram tracks and the refurbishment of tram stops and related infrastructure. Structured under the EBRD’s A/B loan scheme, the Bank is retaining PLN 100 million (€25 million) on its own account, with the rest being syndicated to commercial banks. With a total cost of PLN 1.9 billion (approximately €480 million), the project is co-financed by EU Cohesion Funds and the EIB.

The Warsaw Tramways project is part of the city’s Sustainable Urban Transport Strategy, which aims to expand clean public transport services and encourage a modal switch from private cars to public transport, thus reducing the city’s carbon footprint. The Warsaw project is just one of a series of projects in clean urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, 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broader transition challenges beyond the scope of individual projects, while maintaining the core EBRD project approach. This strategy relies on substantial donor-funded grant support. For example, the EBRD’s €60 million loan to the city of Belgrade, signed in 2010 to complete the construction of a major cable-stayed bridge over the Sava river, was part of such an integrated approach to modernise public transport, traffic management and parking facilities in the Serbian capital. The Sava project is the first of a series of projects envisaged with the municipality and these investments will be combined with donor-funded technical assistance and policy dialogue to help the municipality improve the sector’s regulatory framework and reorganise and upgrade the public transport system. During 2010 similar integrated approaches were also used in the municipal sector in Kazakhstan and Tajikistan.

Donor TC funding also continues to enhance MEI project design and implementation and to improve corporate governance and institutional development. For example in 2010 the Bank developed initiatives to integrate a gender component into pilot MEI projects. Under a technical cooperation agreement funded by the SSF, a gender analysis was undertaken to identify women’s considerations and inform project design and implementation for a street and lighting rehabilitation project in Sfantu Gheorghe (Romania). Similar pilot gender projects in the MEI sector were initiated in Georgia, Kyrgyz Republic, Romania and Tajikistan. It is hoped that successful components from these pilot initiatives can be adapted and incorporated in future into selected projects to be financed by the EBRD.

**TRANSPORT**

The EBRD is taking the lead in upgrading and modernising transport infrastructure in transition countries and emerging Europe, reinforcing its commitment to supporting sector reform and commercialisation of transport operations as it strives to ensure the provision of safe and efficient transport networks.

In total, since the beginning of 2010 the EBRD has invested close to €1.3 billion in transport infrastructure projects in its countries of operations. These projects help countries align their transport networks to international quality and safety standards and boost cross-border trade links that are key to the development of the region’s economies. At the same time these projects bring significant long-term benefits for future potential investors and for the sustainable development of these economies.

The year 2010 saw an increasing proportion of finance to support the railway sector across the region, both in the numbers of projects and volume of finance. Furthering the EBRD’s commitment to rail sector reform and based on long-standing support to the provision of an efficient rail network in the Western Balkans, the EBRD provided a €100 million loan to support further modernisation of rail infrastructure in Serbia. This is the second €100 million loan offered by the Bank to Serbian Railways in the recent past to support its modernisation programme and is just the latest in a range of infrastructure investments across the Western Balkans.
This most recent loan to Serbian Railways will finance the renewal of over 111 kilometres of rail track along Corridor X, one of the 10 pan-European transport routes and a key transit stretch in Serbia, providing vital links to FYR Macedonia and Greece in the south and to Croatia, Hungary and western Europe in the north. The modernisation of Serbian Railways is supported by donor funds from the Central European Initiative (CEI), the German government and the EBRD Shareholder Special Fund (SSF).

The EBRD’s support to strategic European Network corridors was further advanced with the provision of a €17.6 million loan to Macedonian Railways, which will be used to renew track along key sections of Corridor X as well as to support sector restructuring and the development of the east-west railway link known as Corridor VIII. In Montenegro the EBRD is providing financing of up to €13.6 million for priority passenger fleet modernisation at the national passenger carrier, ZPCG, ensuring safe and efficient movement of passengers.

The Bank’s focus on passenger safety continues not only in rail but also in road projects, with a €50 million EBRD sovereign loan to Albania to provide for the rehabilitation of the country’s regional and local roads, including the refurbishment of up to 500 kilometres in rural areas. The poor condition of rural roads in the country is hindering the development of the private sector in small towns and villages and limiting the competitiveness of agribusiness companies. The European Investment Bank (EIB) will provide a similar-sized loan to the EBRD to co-finance the project, and it is also being supported by €33 million in grant financing from the European Commission under the Instrument for Pre-Accession Assistance (IPA) 2010-11 programme, and an additional €4 million technical assistance grant from the Western Balkans Investment Framework (WBIF).

Again, passenger safety and security remains at the forefront of the Sarajevo International Airport Project (Bosnia) where the €25 million financing provided by the EBRD will enable the airport to upgrade its facilities for passenger services, including the passenger terminal, where sustainable energy initiatives will be introduced; as well as the apron and taxiway.

Support to sector reform in the Western Balkans also took the form of pre-privatisation support being provided to the strategic port of Bar in the form of a €8.5 million loan to finance part of the pre-privatisation programme of the Container and General Cargo Operator – one of the two majority state-owned port operators at that port.

In Croatia, where reform of the port sector remains critical to boosting economic growth – in particular within the tourism sector – the EBRD provided financing to both the port of Dubrovnik to assist with the finalisation of the significant upgrade that started, again with EBRD support, in 2005 and to the port of Sibenik in the form of a €12 million loan to reconfigure the port space allowing for expansion of its ferry and cruise passenger operations in support of the growing tourism industry in the area. The last quarter of the year saw the EBRD
In 2010, the EBRD further promoted public-private partnerships (PPPs) in the transport sector by providing €200 million under an A/B loan structure to construct, expand, and operate Pulkovo airport in Russia under the terms of a PPP agreement signed with the city of St Petersburg and Pulkovo Airport Company. The first part of the project calls for a new terminal at Pulkovo for both international and domestic passengers to be completed by 2013. What makes this deal unique is that it is the first airport sector PPP in Russia to be structured in accordance with international standards, including in the area of sustainable energy. It is also the first in Russia involving an experienced international partner, the Frankfurt airport operator, Fraport. The success of this project could therefore have far-reaching effects on the way many other major infrastructure projects in Russia are financed.

Lastly during 2010, alongside our engagement with some of the largest transport providers in the region, the Bank has also continued to support corporate borrowers in the shipping sector, with a particular focus on sustainable energy initiatives, and the rail and port sectors.

**Donors and transport**

In 2010, the Bank's transport clients received approximately €6.3 million in technical cooperation (TC) funding from donors in support of 19 projects in countries ranging from the Western Balkans to Kazakhstan. These projects are focusing on the reform and commercialisation of transport operations.

Key beneficiaries in the rail sector, for example, have been Georgian Railways (with €1.5 million) and Macedonian Railways (€1.15 million), in line with the Bank’s efforts to maintain restructuring momentum in the early transition countries (ETCs) and the Western Balkans. Donor funding has also supported the establishment of institutional authorities to oversee rail safety and market competition, such as a rail regulator in Serbia.

The Bank has meanwhile provided support to Kazakh Railways for a regulatory review to instil best international practice in its corporate governance, and secured donor assistance for the company’s freight subsidiary with a corporate development strategy.

In the road sector donor funds have been assisting the development of corporate strategies for national road companies, such as Croatian Motorways Limited.
Industry, commerce and agribusiness

Developing the natural strengths of countries means supporting their real economies, with a focus on manufacturing and services, property and tourism, equity funds and agribusiness.
The industry, commerce and agribusiness (ICA) business group was formed at the beginning of 2010 in response to one of the key lessons of the financial and economic crisis – the substantial need for further diversification of the real economy in the EBRD region. The group thus includes all the Bank’s activities which contribute to the growth of the real sector – industrial manufacturing and non-financial services, agriculture, agribusiness and retail, equity funds and venture capital, property and tourism, information and communication technology, and the TurnAround Management and Business Advisory Services (TAM/BAS) programme. These activities, previously overseen by various business groups, are now handled together, thus enabling the Bank to have a strategic and integrated overview of work in those sectors.

This organisational adjustment is consistent with the emphasis placed on the corporate sector and economic diversification by the Bank’s shareholders in the medium-term strategy of the Capital Resources Review (CRR4).

A lot of progress towards the CRR4-recommended shift to the corporate sector has been made in 2010, with the Bank committing around €2.3 billion through 141 projects, €560 million and 17 projects more than in 2009, when corporate sector activities were not yet integrated.

AGRIBUSINESS

In 2010 there was an unprecedented level of activity in the agribusiness sector, with a record 63 transactions signed, translating into record annual commitments of €836 million. These projects were spread across 20 countries, from central Europe to central Asia. Continued emphasis was placed on those countries at the earlier stages of transition, in which a record 39 transactions were signed.

The backdrop to the Bank’s extremely robust performance was an agribusiness sector hit by severe droughts – especially in the Black Sea region, which affected the 2010 harvest and led to the introduction of protectionist policies in Russia and Ukraine. The resulting sudden and sharp rise in international wheat prices in the summer of 2010 served as a reminder of the region’s growing role in today’s global grain market. In response, the EBRD, with the support of the UN’s Food and Agriculture Organization (FAO), held a workshop in London in October 2010 with senior representatives from the largest global and local companies in the grain and oilseed industry. The aim of the workshop was to make recommendations to policy-makers to help boost agriculture investment in eastern Europe and unleash the still significant, untapped potential of the region.

The year 2010 also saw the approval of the EBRD’s new Agribusiness Sector Strategy, which outlines the Bank’s revised approach to tackling the diverse challenges present in the sector. The approach can be summarised thus:

(i) food security through promotion of market-orientated systemic change
(ii) increased regional differentiation, including a focus on smaller countries
(iii) promotion of sustainable investments that address environmental and social issues
(iv) continuation of the policy dialogue agenda, in particular to improve legal frameworks to promote asset base lending through grain warehouse and crop receipts for pre- and post-harvest financing.

Also noteworthy is the success the Bank enjoyed in its activity in the Western Balkans, where it committed a record 13 transactions for €54 million. This included transactions and events that supported the growth of trade links between the former Yugoslavia’s seven successor states, for example by helping finance a landmark transaction via Croatian Atlantic Grupa’s take-over of Slovenian Droga Kolinska. In line with this theme the Bank also organised the highly successful Western Balkans Food, Beverage and Retail Conference in Zagreb. Lastly, the Bank began its successful Warehouse Receipt Programme in Serbia in 2010, which has incorporated two banks to date.

Table 6.1: Geographical diversification of activities (Actual 2010)

<table>
<thead>
<tr>
<th>Region</th>
<th>Transactions</th>
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<tbody>
<tr>
<td>South-eastern Europe</td>
<td>365</td>
</tr>
<tr>
<td>Western Balkans</td>
<td>152</td>
</tr>
<tr>
<td>Eastern Europe and the Caucasus</td>
<td>407</td>
</tr>
<tr>
<td>Central Asia</td>
<td>164</td>
</tr>
<tr>
<td>Russia</td>
<td>829</td>
</tr>
<tr>
<td>Turkey</td>
<td>105</td>
</tr>
<tr>
<td>Central Europe and the Baltic states</td>
<td>252</td>
</tr>
</tbody>
</table>

Total: 2,294
The Bank’s loans and investments focused on securing the region’s recovery, including for example by concentrating on areas of natural competitiveness. In Ukraine a US$ 50 million (£37 million) loan to Nibulon, a leading grain trader was signed in 2010. The loan financed inland and river silos, river terminals and a fleet of river-sea barges and tugboats, which will all play an important role in the development of a functional storage and shipment infrastructure along the Dnieper river, which had not previously been used for active cargo transportation.

The Bank also stepped up its investments in primary agriculture, including a loan to UkFarm Funding, the proceeds of which will be on-lent to some 60 agricultural companies located across the country to help boost agricultural output and restore production on unused land. The Bank also provided a loan of US$ 50 million (£37 million) to poultry producer JSC Myronivskyi Hiboprodukt (MHP) in Ukraine, consisting of US$ 35 million (£26 million) for working capital and US$ 15 million (£11 million) for energy efficiency improvements including a biomass boiler and the modernisation of cold storage units at MHP’s plant.

Among the 26 projects signed across eight of the Bank’s 10 early transition countries (ETCs), the Bank provided finance to a diverse range of subsectors including soft drinks, beer, ice cream, food packaging, dairy products and flour. The Bank’s volume of commitments of €63 million in 2010 was 12 per cent greater than the €56 million in 2009, demonstrating its increasing commitment to the agribusiness sector in the smaller countries in which the EBRD operates.

The Bank continued to invest heavily in a number of policy dialogue initiatives in addition to those mentioned above, including in the dairy sector and agricultural education systems in Russia, the implementation of a crop receipts system in the EBRD region based on the example set in Brazil, and the potential introduction of systems of regional provenance for the EBRD region based on the example set in Brazil, and the potential introduction of systems of regional provenance for smallholder farmers in Russia, the implementation of a crop receipts system in the EBRD region based on the example set in Brazil, and the potential introduction of systems of regional provenance for foods in Croatia (similar to the French “appellation” system).

MANUFACTURING AND SERVICES

In 2010 the EBRD invested €849 million in manufacturing and services projects across its entire transition region. Ranging from less than €1 million to €100 million per project, a record 46 projects focused on addressing key challenges by supporting post-crisis financing and investment needs, energy efficiency initiatives for a total of €225 million and development of local supply chains to increase efficient production. Half of these projects are in the ETCs and the Western Balkans.

The EBRD’s involvement in the sector spans a wide range of subsectors, covering heavy/light industry, processing/production of goods and ancillary activities. Subsectors of particular focus include metals, capital and intermediate goods, automotives, forest products, construction and materials, chemicals, health care and pharmaceuticals, consumer goods and retail. Clients are multinational companies, large local companies looking for cross-border opportunities, joint ventures, and local companies focused on domestic markets.

A €150 million syndicated loan to Ford Otosan in Turkey will help strengthen the role of its domestic suppliers who will provide various parts of components for the production of the “Future Transit” project and implement several new production technologies. This important investment will expand Ford Otosan’s backward linkages with its suppliers.

In another large syndicated loan transaction, the EBRD raised €125 million of long-term funding to finance key components of an energy efficiency programme at the Russian steelmaker, NLMK. The programme aims to cut NLMK’s greenhouse gas emissions by over 15 per cent by 2015 thanks to cutting edge technology to be used in Russian iron and steelmaking for the first time. It also aims to increase energy self-sufficiency at its main production site in Lipetsk. The project will, once implemented, cut NLMK’s greenhouse gas emissions at the basic level by 1.5 million tonnes a year.

The EBRD provided a US$ 180 million (£134 million) syndicated refinancing package to Alro, a European aluminium producer. The EBRD loan refinanced Alro’s existing debt, leading to a longer-term restructure and consolidation. The project will improve the company’s cash flow, helping to finance its investment programme. Through this project, the EBRD is supporting one of Romania’s leading private sector companies, helping it to produce higher value-added products and improve its energy efficiency, thus reducing carbon emissions by 10 per cent.

The EBRD also continued to support the Ukrainian packaging sector by extending a €29.8 million loan to Ukplastic, a family-owned producer of flexible plastic packaging in Ukraine and the former Soviet countries. Ukplastic will use the loan proceeds to improve its energy efficiency and environmental standards, invest in new technologies and restructure its balance sheet. The company’s latest investment programme will support its drive to remain competitive both in the domestic market and internationally. Through its cooperation with the EBRD, Ukplastic will improve its corporate structure and governance and launch new international quality products, which are currently not available in Ukraine.

At the other end of the project size, the EBRD granted US$ 8 million (£6 million) in debt and equity financing to Monos Holding, the largest pharmaceutical company in Mongolia. The financing will support the expansion of the company’s wholesale and manufacturing activities, including the construction of a greenfield pharmaceutical production facility.

PROPERTY AND TOURISM

In 2010 the EBRD committed over €258 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. The EBRD financed property projects in Armenia, Bulgaria, Croatia, Montenegro, Russia and Serbia. Investment was provided in the form of loans (66 per cent) and equity-linked investments (34 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 2010, while equity funds had a hard time attracting institutional investors who were strapped for liquidity and struggled to assess the impact of the turmoil on their portfolios. The EBRD continued to respond swiftly to the crisis, supporting existing clients and responding to new clients who faced fewer opportunities.
One of the biggest regional projects in 2010, spanning several countries, was a €75 million equity investment in the regional Hines Property Fund. The Fund will focus on buying assets from distressed sellers and lenders and pursuing distressed development projects. It aims to capitalise on the unique acquisition and development opportunities resulting from the current financial crisis, which generated re-pricing across all asset classes. The Fund will invest in institutional-quality developments, re-developments, and income-producing assets, primarily in Russia and Poland.

Technopolis is a €22 million project financed by the Bank in St Petersburg, which will develop and introduce to the Russian market the operation of a commercially funded science and technology park. The park will support the growth of knowledge-intensive companies, including promising start-ups and will promote the competitiveness of the St Petersburg region. It will contribute to the evolution of the Russian economy from a raw-material-intensive model to a service and knowledge-based model, with a better capacity to absorb innovation.

In Montenegro the Bank is providing financing of €37 million to support the re-development of the Sveti Stefan hotel and surrounding infrastructure on the Montenegrin coast into a high-end resort which will set a benchmark for low-density, sustainable tourism. This is a highly visible, landmark coastal project, considered by many in the country to be a national treasure and of strategic importance to Montenegro. It is expected that due to its high visibility, the project's impact will reach beyond Montenegro's borders and set quality standards for the tourism industry in the whole eastern Mediterranean region, including Albania.

The year 2011 is predicted to be challenging, with a continued lack of commercial debt. The property sectors of nearly all ETC countries still continue to suffer from a difficult business environment and require further regulatory reform. The EBRD will seek to support the development of regional logistics, hotel, retail, office and mixed-use facilities by the provision of long-term debt and/or equity funding. The Bank will prioritise financially viable projects whose development has been interrupted by a withdrawal of financing, hence restoring activity and liquidity to the region's markets. Geographical focus will remain on southern and eastern Europe, the Caucasus and Central Asia.
EQUITY FUNDS

In 2010 the EBRD committed €301.8 million to nine private equity funds.

With a total of 133 funds invested through 85 fund managers since 1993, the EBRD has the largest Private Equity Fund investment programme dedicated to central and eastern Europe (CEE) and central Asia. In addition to making commercial returns commensurate with the risks undertaken, the Bank’s developmental objectives in investing in this asset class are to:

- foster the establishment of a private equity industry and capacity in the region by promoting structural depth in private equity through sector, strategy and product diversification
- support first-time and innovative funds
- maintain and build on its existing relationships with successful fund managers
- provide active supervision and set high standards on integrity, process and environmental issues.

In 2010 the Equity Funds team became part of the newly formed industry, commerce and agribusiness business group (ICA) as part of the Bank’s revised focus on financing the real economy. Within ICA, the Equity Funds team can now better target investment opportunities between the equity funds and the Bank’s direct business.

Globally and in the region, the fund raising market for new private equity funds remained challenging in 2010. In this context the team’s strategy was to be highly selective and support only those funds that can reach a respectable minimum “first close” to mitigate the risk of viability and style drift.

The Bank backed nine funds during the year (including the Bank’s first ever fund in Turkey), representing a total commitment of €301.8 million and a combined target value of over €1.5 billion. Each of these nine funds has reached either a successful first or a final closing. The team’s business volume represented a significant increase over the previous two years (€178 million signed in 2008, €172 million in 2009) and marks a record year of commitments for the Bank in equity funds. The results underline the Bank’s catalytic role in mobilising funds and supporting this asset class under difficult market conditions and a tendency for investors to reduce their commitments to the region.

By investing in a wide range of private equity funds, the EBRD supports both first-time and established fund managers, promoting strong sponsors from outside the Bank’s countries of operations to expand into the EBRD region, achieving product diversification and penetration (equity, quasi-equity, structured debt) and promoting good corporate governance and an entrepreneurial culture.

The EBRD’s nine investments in equity funds included its commitments to four new relationships and four existing ones. Half of the new relationships are first-time managers that meet the Bank’s demanding standards in terms of highly qualified teams with substantial collective experience in private equity and other relevant professions such as investment banking and corporate finance.

The Bank’s investments include two corporate recovery funds managed by ADM Capital. These funds – one focusing on Kazakhstan and the other covering central and eastern Europe, central Asia and Turkey – will contribute to crisis recovery by investing in operationally sound but financially distressed companies or those looking for growth opportunities in distressed sectors, while simultaneously building local capacity in corporate finance and special situations.

Crisis recovery also formed a key part of the rationale for the Bank’s cornerstone investment in the Alpha Russia & CIS Secondary Fund. The fund will generally focus on purchasing private equity interests in existing funds in the secondary market, thus introducing much-needed liquidity at a time when many existing investors are finding it challenging to meet capital calls.

The EBRD’s three commitments to first-time managers with qualified local and independent investment teams in 2010 included the SME-oriented Eurasia Capital Partners Fund.

For further information see Tables 6.3 to 6.5 opposite or go to: www.ebrd.com/pages/sector/equity.shtml
Table 6.3: The EBRD’s commitments signed in 2010 (€ million)

<table>
<thead>
<tr>
<th>Fund name</th>
<th>General partner</th>
<th>Strategy</th>
<th>EBRD commitment</th>
<th>Target fund size</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADM CEECAT Recovery Fund</td>
<td>ADM Capital</td>
<td>Special situations and growth focused; investing in CEE, Central Asia and Turkey</td>
<td>60.0</td>
<td>300</td>
<td>1,3</td>
</tr>
<tr>
<td>Kazakhstan Capital Restructuring Fund</td>
<td>ADM Capital</td>
<td>Kazakhstan-dedicated; investing in special situations and growth</td>
<td>53.7</td>
<td>138</td>
<td>1,3</td>
</tr>
<tr>
<td>Alpha Russian &amp; CIS Secondary Fund</td>
<td>Alpha Associates</td>
<td>Secondaries-focused, also primary commitments and directs; regional investor in fund positions</td>
<td>37.7</td>
<td>115</td>
<td>1</td>
</tr>
<tr>
<td>Bancroft 3</td>
<td>Bancroft Private Equity</td>
<td>CEE, SEE, Baltic states and Turkey-focused; generalist investor</td>
<td>30.0</td>
<td>113</td>
<td>1,3,4</td>
</tr>
<tr>
<td>Emerging Europe Accession Fund</td>
<td>Axess Capital</td>
<td>Baltic states and Turkey-focused; generalist investor</td>
<td>25.0</td>
<td>175</td>
<td>1</td>
</tr>
<tr>
<td>Accession Mezzanine Capital III</td>
<td>Mezzanine Management Central Europe</td>
<td>Product-focused, mezzanine and equity financing instruments targeting CEE, Baltic states and Turkey</td>
<td>50.0</td>
<td>350</td>
<td>1</td>
</tr>
<tr>
<td>Eurasia Capital Partners</td>
<td>Eurasia Capital</td>
<td>Turkey dedicated; generalist investor, growth capital and selective buy-out investments into SMEs</td>
<td>8.0</td>
<td>60</td>
<td>2</td>
</tr>
<tr>
<td>Europe Virgin Fund</td>
<td>Dragon Capital</td>
<td>Ukraine focused; generalist investor</td>
<td>22.4</td>
<td>115</td>
<td>2</td>
</tr>
<tr>
<td>Resource Eastern European Equity Markets</td>
<td>Resource Partners</td>
<td>Sector-focused; food and agribusiness in Poland and new EU member states</td>
<td>15.0</td>
<td>158</td>
<td>2,5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>301.8</td>
<td>1,524</td>
<td></td>
</tr>
</tbody>
</table>

Notes
1. Established manager with demonstrable track record.
2. First-time manager.
3. New relationship for the EBRD.
5. Additional commitment to previously bridge fund. Resource Eastern European Equity Partners that had first closing in 2009 (total EBRD commitment: €40 million). Fund size is reflected in Chart 6.2 in 2009 based on fund vintage. SMEs: small and medium-sized enterprises.

Table 6.4: Net internal rate of return (IRR) based on net asset value (NAV) since inception as of June, 2006-10

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>11.3%</td>
<td>11.8%</td>
<td>11.7%</td>
<td>9.5%</td>
<td>9.7%</td>
</tr>
<tr>
<td>US dollar</td>
<td>13.5%</td>
<td>14.2%</td>
<td>14.9%</td>
<td>11.9%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

Table 6.5: Returns as at 31 December 2009

<table>
<thead>
<tr>
<th></th>
<th>One year</th>
<th>Three years</th>
<th>Five years</th>
<th>Ten years</th>
<th>Since inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>US dollar</td>
<td>EBRD Private Equity Portfolio&lt;sup&gt;19&lt;/sup&gt;</td>
<td>6.4%</td>
<td>5.2%</td>
<td>25.0%</td>
<td>16.9%</td>
</tr>
<tr>
<td>US dollar</td>
<td>Cambridge Emerging Markets Venture Capital &amp; Private Equity Index&lt;sup&gt;20&lt;/sup&gt;</td>
<td>8.3%</td>
<td>3.5%</td>
<td>20.6%</td>
<td>15.0%</td>
</tr>
<tr>
<td>US dollar</td>
<td>S&amp;P 500&lt;sup&gt;21&lt;/sup&gt;</td>
<td>26.46%</td>
<td>-5.63%</td>
<td>0.42%</td>
<td>-0.95%</td>
</tr>
<tr>
<td>Euro</td>
<td>EBRD Private Equity Portfolio&lt;sup&gt;19&lt;/sup&gt;</td>
<td>3.6%</td>
<td>2.4%</td>
<td>27.4%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Euro</td>
<td>EVCA, All Private Equity&lt;sup&gt;20&lt;/sup&gt;</td>
<td>7.7%</td>
<td>-3.9%</td>
<td>6.5%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Source: Cambridge Associates, EVCA/Thomson Reuters, Bloomberg and the EBRD.

<sup>19</sup> EBRD-tracked portfolio pooled end-to-end return, net of fees, expenses, donor grants and carried interest. Excludes property funds and includes liquidated partnerships.
<sup>20</sup> Pooled end-to-end return, net of fees, expenses, and carried interest. “The “since inception” figure represents the net pooled IRR since inception for funds formed between 1980 and 2009.
<sup>21</sup> Calculated assuming the same investment (cash flow) pattern as the EBRD’s portfolio of private equity funds since the relevant horizon.
the Bank’s first fund project in Turkey and an investment in Dragon Capital’s Europe Virgin Fund, the Bank’s first primarily Ukraine-focused fund since 2005.

Since 1993, the Bank’s equity funds portfolio has invested in a total of 1,116 companies over the region and has exited from 754. Overall returns have been very positive, showing a five-year net internal rate of return (IRR) of 27.4 per cent, a 10-year net IRR of 11.8 per cent and a net IRR 9.7 per cent since inception based on euro returns, as at December 2009. The net IRR, as of June 2010, is 9.7 per cent in euro terms and 11.2 per cent based on US dollars.

**TAM/BAS: TURN-AROUND MANAGEMENT AND BUSINESS ADVISORY SERVICES**

The Bank’s Capital Resources Review 4 (CRR4) called for substantially increased capacity within the Banking department to support corporate capacity-building and governance and transition-oriented client relationship work, particularly in the context of developing productive sectors such as manufacturing and services as part of the Bank’s focus on helping the region’s economies to diversify. As part of this evolution the ICA group was formed in 2010, facilitating closer work to support corporate sector clients.

In 2010 the donor-funded TurnAround Management (TAM) and Business Advisory Services (BAS) Programme, which delivers important technical assistance to micro, small and medium-sized enterprises (MSMEs) joined the ICA group. In the second half of the year, a new Strategic Plan for the TAM/BAS Programme was approved by the Bank’s Board of Directors.

Under the new Board-approved Strategic Plan of 2011-15, the TAM programme will assist emerging mid-sized corporates to become more creditworthy and therefore more bankable. To achieve this, the Bank will use the TAM Programme in a more targeted way, with Banking teams playing a greater role in project selection. Sector dissemination activities will be increased to share knowledge within a market. The BAS programme will focus more closely on working with the Bank’s partner financial intermediaries (FIs) in order to promote access to finance for BAS clients and to facilitate the engagement of advisory services by SMEs receiving funding from FIs. To enable prioritisation of BAS interventions and to guide exit strategies from countries, BAS will develop a benchmarking tool to measure the adequacy of infrastructure for MSME support and the maturity of the local consultancy market.

The TAM and BAS programmes are complementary to one another and work across a broad range of MSME industry sectors in the entire EBRD region. TAM focuses on substantial managerial and structural changes within mid-sized companies by providing advice from experienced international executives and industry experts in projects typically lasting 12-18 months. BAS provides grants to MSMEs to engage local consultants for short-term projects, and in this way also helps to build local consulting capacity for small business.

The Bank began 93 new TAM projects in 2010. The year saw further consolidation of the TAM programme in the Western Balkans with the signing of two new EC Agreements in FYR Macedonia and Bosnia and Herzegovina, and expansion of TAM operations in locations such as Belarus, the northern Caucasus and Turkey. BAS completed its operations in Bulgaria after 10 successful years, launched a new programme in Ukraine and moved forward with plans to establish operations in Turkey and Turkmenistan. In 2010 BAS started 1,365 new projects with SMEs in 20 countries of operations, committing over €6.3 million in donor funding and €5.7 million in client contributions. At the same time it completed 1,306 projects disbursing a total of over 66 million.

The Bank continued to enjoy strong donor support for the TAM/BAS Programme in 2010 through substantial new grant funding commitments. In line with the Bank’s strategy for enhancing the quality, effectiveness and efficiency with which donor funds are managed, it implemented a new management information system (MIS) for BAS in 2010 to strengthen centralised control and monitoring and to provide additional assurance that relevant policies and procedures are applied consistently across all countries of operations.

A key objective of the TAM/BAS Programme is to help prepare enterprises for investments, whether by the Bank or other financial intermediaries. In 2010, 23 investments were signed by the Bank with TAM/BAS-assisted companies for approximately €106 million, and a further 18 companies have reached the concept review stage and are due to sign over €59 million in 2011 with TAM and BAS clients. In addition, the TAM/BAS teams continue to refer investment-worthy enterprises to the EBRD Resident Offices and other FIs in the hope that more investments will materialise. These linkages illustrate the ability of the TAM/BAS Programme to operate in alignment with the work of the EBRD’s Banking department and to contribute to the Bank’s corporate goals in an integrated way.

Financial stability for TAM and BAS for the period 2011-15 will be provided through a combination of continued support from bilateral and multilateral donors (including the EBRD Shareholder Special Fund), cost recovery from beneficiary companies, greater use of local managers and experts, and increased cost-sharing with the Bank’s budget.

**TELECOMMUNICATIONS, INFORMATICS AND MEDIA**

Another priority for the ICA group was to re-evaluate the Bank’s operations in the telecommunications, informatics and media (TIM) sector. The Bank’s activities in this market have declined significantly in recent years but given the importance of fostering a knowledge economy in the EBRD region, a strategy is in development.

In late 2010 a 450 million rouble loan was extended to LLC Prestige Internet, a leading Russian wireless broadband operator and a fully owned subsidiary of the Netherlands-registered Enforta B.V., to expand its network to nearly 130 Russian cities. This was an excellent example of the Bank’s efforts to promote a competitive landscape in wireless broadband in Russia. Other projects include the Technopolis project, (mentioned previously on page 41) a €22 million project financed by the Bank in St Petersburg, which will develop and introduce to the Russian market the operation of a commercially funded science and technology park.

For further information on selected TAM/BAS highlights of the year, see pages 46-7.
In late 2010 a loan was extended to a leading Russian wireless broadband operator to expand its network to nearly 130 Russian cities.
TAM/BAS Programme: selected highlights

KEY

TAM  BAS

01 TURKEY
Commencement of TAM’s first programme in Turkey, with seven projects started in 2010 and development of a healthy pipeline of future projects for 2011 (EU funding).

02 BELARUS
Renewal of TAM operations in Belarus, with funding from the Central European Initiative (CEI) fund. More TAM projects will commence in 2011 under EU Eastern Partnership Funds.

03 NORTHERN CAUCASUS
Increased activity in the north Caucasus region, expanding from North Ossetia to Stavropol and other neighbouring approved regions, with five projects supported under EC funding in collaboration with the Group for Small Business. The programme will be expanded in 2011 to other regions within the Northern Caucasus.

04 ALBANIA
Successful completion of TAM’s EU-funded programme in Albania. The Bank is now seeking further EU funding to continue operations in the country.

05 UKRAINE

06 BOSNIA AND HERZEGOVINA
New agreements signed with the EU IPA Programme for the implementation of TAM projects.

07 TURKMENISTAN
Expansion of TAM operations with strong support from Early Transition Countries Initiative funds and bilateral donors including Belgium, Finland, Japan, Korea, Luxembourg, Portugal and Taipei China.
Feasibility study in November 2010 identified the need for a BAS programme, especially in eastern Turkey. BAS operations planned to begin in the first half of 2011.

Launch of BAS operations with the May 2010 official opening of the Ukraine BAS office in the EBRD’s Resident Office in Kiev.

Completion of three-year Women in Business Programme funded by Canada, Taipei China and the EBRD’s Early Transition Countries Initiative fund. BAS supported 85 women-owned and women-managed projects, resulting in an average increase in turnover of 63 per cent.

Feasibility study in July 2010 demonstrates the need for a BAS programme in the country. The Bank intends to commence BAS operations in Turkmenistan in the first half of 2011.

Completion of BAS programme after 10 years of operation.

Completion of three-year Women in Business Programme funded by Canada, Taipei China and the EBRD’s Early Transition Countries Initiative fund. BAS supported 85 women-owned and women-managed projects, resulting in an average increase in turnover of 63 per cent.
Nuclear safety

As fund manager for the international donor community, the EBRD contributes to the enhancement of nuclear safety, the decommissioning of old reactors and supports the sustainable and efficient use of energy in its countries of operations.
In decommissioning work at the Bohunice nuclear power plant (NPP) in the Slovak Republic, Ignalina NPP (Lithuania) and Kozloduy NPP (Bulgaria) the focus has shifted to dismantling and waste management tasks. Residential and industry energy efficiency projects made an important contribution in 2010 to compensate for the closure of these plants. The two key projects at the Chernobyl reactor site have reached important milestones.

The year 2010 was a transitional one for the six nuclear safety and decommissioning funds, which comprise the Nuclear Safety Account, the Chernobyl Shelter Fund, three international decommissioning support funds (IDSFs) and the nuclear window of the Northern Dimension Environmental Partnership (NDEP).

**Decommissioning support funds**

The closure of the second unit of the Ignalina Nuclear Power Plant (NPP) in late 2009 means that all first-generation Soviet-designed reactors, which were closed in line with European Union accession treaties, are now out of operation. The large infrastructure projects necessary for the decommissioning process, such as the spent fuel storage facilities at the Kozloduy site in Bulgaria and the Ignalina site in Lithuania, were largely completed in 2010 and are due to start operation in 2011. This is despite difficulties and delays attributable to a large extent to the unique legacies of these sites. The EBRD, in its role of fund manager, remains strongly engaged with clients, contractors and donor governments with the objective of moving these projects and overall decommissioning programmes forward.

As planning and preparatory phases (including infrastructure works) are gradually winding down at all three sites, the emphasis shifts to dismantling and waste management tasks. Kozloduy NPP has been particularly successful in employing its existing workforce for this work.

Residential, public and industrial energy efficiency projects, financed by the Decommissioning Support Funds to help the three countries cope with the loss of generating capacity, continue to produce outstanding results. Construction of a 450MW combined cycle plant in Lithuania, which is co-financed from the Ignalina International Decommissioning Support Fund (IDSF), is progressing ahead of schedule and is due to be completed by the end of 2011. Energy efficiency credit lines in Bulgaria and the Slovak Republic, which receive grant support from the Bohunice and Kozloduy IDSFs, respectively, are very popular and helped save hundreds of megawatts in installed capacity equivalent in both countries.

**Chernobyl projects**

In 2010 a number of smaller but significant projects were completed. One is the integrated automated monitoring system, which provides essential data on the radiation situation inside the object shelter surrounding Chernobyl’s destroyed reactor 4.

The new safe confinement will enclose the destroyed reactor and the old shelter. The site has been cleared and excavation works for its foundations have been completed. Piling for the foundation has started. The structure’s design is due to receive regulatory approval early in 2011.

For further information on the EBRD’s Chernobyl projects go to: www.ebrd.com/pages/research/publications/brochures/chernobyl.shtml
In October 2010 design of the interim spent fuel storage facility, which will safely store more than 20,000 spent fuel assemblies at the site for a period of 100 years, received regulatory approval.

26 April 2011 will mark the 25th anniversary of the Chernobyl accident. International donors, which to date have mobilised more than €1 billion for the EBRD-managed Chernobyl projects, are expected to announce their decision on provision of additional required funds at that time.

**Nuclear safety in Ukraine**

Energoatom, which operates Ukraine’s four nuclear power plants, has approached the EBRD and the European Commission with a proposal to finance an upgrade programme to bring 13 units up to internationally accepted safety levels. The Bank is considering providing a loan to co-finance the programme.

The two other units in Ukraine (K2/R4) have been modernised with the assistance of an EBRD/Euratom loan and serve as a benchmark for the wider upgrade programme. The K2/R4 project was successfully completed in 2010.

**Northern Dimension Environmental Partnership (NDEP)**

The defuelling and decommissioning of nuclear submarines in the north west of Russia is complete. The emphasis of Russian and international projects is now on coastal bases and storage of waste and spent fuel.

The Northern Dimension Environmental Partnership-funded installation of a radiation and environmental monitoring system for the Arkhangelsk region was completed in 2010. The Assembly of Contributors approved additional funds to place a derelict service ship, previously used as floating storage for spent fuel, in a safe dock along with provision of facilities for spent fuel retrieval and handling at one of the coastal bases and to support the regulatory authorities.

**The Northern Dimension Environmental Partnership-funded installation of a radiation and environmental monitoring system for the Arkhangelsk region was completed in 2010.**

For further information on nuclear safety go to: www.ebrd.com/nuclearsafety
Site preparation for the assembly of the New Safe Confinement, which will cover Chernobyl unit 4 and the old shelter, was completed in 2010.
Special activities and initiatives

Donor partnerships play a critical role in helping countries in the EBRD’s region recover from the crisis. They bring additional resources and expertise to tackle challenges that investments alone cannot meet.
DONOR FUNDING IN 2010

Donors contributed €215 million to EBRD projects in 2010, an 18 per cent increase on the previous year, allowing the Bank to undertake 524 technical assistance (TA) assignments and commit to a growing volume of grant and concessional co-financing. This increased cooperation reflects not only the growth of the Bank’s business volume, but also the intensification of our partnerships with donors, be it in the field of crisis response, climate change projects or new EBRD initiatives (such as the integrated approach or the Gender Action Plan).

The magnitude of the leveraging effect can be estimated by comparing technical cooperation (TC) expenditure with signed investments. In 2010 the Bank’s TC commitments directly supporting investments totalled €139 million. Each euro of TC funds has mobilised 65 euros of investment financing. The leveraging principle extends beyond mobilisation of investment capital. It also has an impact on human skills development and skills transfer, although this can be more indirect and harder to measure. Despite facing multiple challenges at home, EBRD bilateral donors still proved generous last year, allocating €78 million for grant co-financing with the Bank for TA or other forms of co-investment. They thus remain the central pillar of the Bank’s donor-funded activities, providing not only funds but also policy guidance, diplomatic know-how and intellectual stimulus. Their contribution is increasingly complemented by multilateral frameworks: the European Union continued in 2010 to provide substantial support to the Bank across the region, while the World Bank’s multi-donor climate change partnerships gained pace, heralding a new trend for the years ahead.

In the context of the fourth Capital Resources Review (CRR4), the Board of Governors made available an allocation to the EBRD Shareholder Special Fund (SSF) of €150 million. The EBRD is determined to ensure that the SSF should continue to play its role as a strategic instrument that catalyses and complements, but does not displace, donor support.

OVERVIEW BY SECTOR

Agribusiness

The EBRD’s strong performance in the agribusiness sector in 2010 would not have been possible without the support of donor-funded TC. The Bank has relied heavily on donor finance for various policy dialogue initiatives, for the introduction of a system of regional provenance for foods in Croatia (similar to the French “appellation” system for wine), and for TC input into glass recycling and agricultural education projects in Russia. One notable impact achieved through past TC assignments was that the Bank successfully implemented a warehouse receipt system in Serbia, which led to the signing of two warehouse financing projects in 2010. The EBRD works closely with the UN Food and Agriculture Organization (FAO) on a large number of projects in the agribusiness sector, leveraging both FAO’s extensive expertise and its co-financing for joint projects.

Energy efficiency and environmental sustainability

Multilateral and bilateral donors have continued to play an instrumental role in the success of the Sustainable Energy Initiative (SEI). In 2010, 24 donors committed funds to SEI assignments. Since the SEI’s launch in 2006, a total of €117.3 million has been committed to fund TC activities. Donor funds committed for assignments in 2010 totalled €37.9 million, a 50 per cent increase on 2009. This increase partly reflected the fruition of the first Global Environment Facility (GEF)-funded technical cooperation (TC) programme supporting the Ukraine Sustainable Energy Lending Facility, of which just under €6.3 million was committed to three assignments. A second GEF-funded TC programme worth €4.9 million and approved in December 2010, will become operational in the second quarter of 2011. The assignments aim to promote energy efficiency in carbon-intensive industries in Russia and are being conducted by the EBRD in collaboration with the UN Industrial Development Organization (UNIDO).
Financial institutions
In 2010 the EBRD provided TC funding for 119 consultancy contracts for a total of €39 million (a 33 per cent increase compared with 2009), covering 26 countries of operations. In addition to crisis-response measures, broader institutional strengthening and comprehensive support for micro, small and medium-sized enterprises (MSMEs) and energy efficiency credit lines continued. In addition, grant funding was available in the form of incentive payments when additional support was needed for EBRD clients and their borrowers. Nearly €17 million was disbursed in performance fees and incentive payments to participating banks and sub-borrowers – notably for sustainable energy financing and small and medium-sized enterprises (SME) finance facilities.

Municipal infrastructure
A more ambitious investment agenda in the MEI sector needs significant donor TC support to achieve the reforms necessary for its effective implementation. The EBRD is adopting an integrated approach to MEI project development in some countries (for example, in Kazakhstan, Serbia and Tajikistan) and developing framework facilities in others (such as Belarus and Romania) in order to promote the coordinated and balanced application of TC assistance. Grants for co-financing remain indispensable to some MEI projects, particularly in the early transition countries (ETCs), where affordability constraints remain a significant barrier. For instance, the Bank’s integrated approach to water and wastewater investments in Tajikistan, which will benefit the capital, Dushanbe, and other cities, would not have been possible without substantial grant funds.

Other areas, including gender
In addition to the aforementioned sectors, donors have supported TC assignments in areas such as legal transition, sector and transition-related analytical studies led by the Office of the Chief Economist, and gender.

Power and energy
TC funding provided preparatory technical and environmental assistance for a project in Montenegro and Serbia to introduce advanced electricity meters (“smart meters”) and for hydropower schemes in FYR Macedonia and Ukraine. It also became apparent that governments and electricity transmission companies, notably in Croatia, Romania and the Western Balkans, needed technical help and investment to incorporate wind power safely into their networks. In addition, TC assistance helped EBRD clients to improve their corporate governance and environmental and social performance – for instance, through the AstanaEnergoService Corporate Development Programme in Kazakhstan, and by aiding capacity development for occupational health and safety management in Serbia.

TAM/BAS programme
In 2010, the TurnAround Management Programme (TAM) raised €5.7 million through the Early Transition Countries Initiative (ETCI) funds and bilateral donors and began its first programme with EU funding in Turkey, while the Business Advisory Services Programme (BAS) team raised more than €8 million from the EBRD Early Transition Countries Fund, the EU-IPA and EU Eastern Partnership, Luxembourg, Portugal, Switzerland and Tapei China to secure operations for 2010 and beyond. The funding enabled...
the programme to initiate operations in Ukraine and undertake feasibility studies in Turkmenistan and Turkey, where operations are planned to start in 2011. The structure of funding available to support TAM and BAS field activities is set to change significantly in the coming years, with the European Union becoming the most important source of funding, accounting for more than one-third of a total annual budget of around €25 million.

Transport
In 2010 the Bank’s transport clients received approximately €6.3 million in TC funding from donors in support of 19 projects in countries ranging from the Western Balkans to Kazakhstan. These projects are focusing on the reform and commercialisation of transport operations. Key beneficiaries in the rail sector, for example, have been Georgian Railways (with €1.5 million) and Macedonian Railways (€1.15 million), in line with the Bank’s efforts to maintain restructuring momentum in the ETCs and Western Balkans. Donor funding has also supported the establishment of institutional authorities to oversee rail safety and market competition, such as a rail regulator in Serbia. In the road sector, donor funds have been assisting the development of corporate strategies for national road companies, such as Croatian Motorways Limited.

OVERVIEW BY DONOR

EU multi-donor facilities
The European Union remains the EBRD’s largest individual donor, reflecting the strong synergies between the Bank’s transition mandate and EU external assistance priorities.

Investment Facility for Central Asia (IFCA)
Launched in June 2010, IFCA covers Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan, providing grant funding for blending with financial institution lending in the fields of energy and environmental sustainability. The initial financial allocation to the IFCA is €20 million; this is expected to be supplemented in the coming years, given the substantial grant needs in this region.

Neighbourhood Investment Facility (NIF)
The NIF was established in mid-2008 as part of the new European Neighbourhood Policy Instrument (ENPI). Since the implementation of the Facility, the EBRD has benefited from nearly €100 million (€25 million in 2008; €50 million in 2009; €25 million in 2010), equally split between technical assistance (TA) and grants. The budget available in the coming years should amount to approximately €50 million per year (from both the EU Budget and the Member States Trust Fund). The year 2010 was a record year in terms of projects signed (eight), ranging from Yerevan Metro Rehabilitation in Armenia to Chisinau Public Transport in Moldova. Infrastructure projects benefited the most from donor funding by coordinating IFI interventions in the ETCs and Western Balkans. Donor funding has also supported the establishment of institutional authorities to oversee rail safety and market competition, such as a rail regulator in Serbia. In the road sector, donor funds have been assisting the development of corporate strategies for national road companies, such as Croatian Motorways Limited.

Multi-donor funds

Early Transition Countries Fund
Coordinated TC and grant support for the ETCs is mainly channelled through the multi-donor ETC Fund which, in 2010, also extended its assistance to Belarus and Turkmenistan. Since its establishment in 2004, the following bilateral donors have contributed to the Early Transition Countries Fund (ETC) Fund: Canada, Finland, Germany, Ireland, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. During 2010 the ETC Fund approved projects to the value of €139 million, benefiting from significant co-financing leverage from the EBRD SSF (over €5 million).

The Eastern Europe Energy Efficiency and Environment Partnership (E5P)
The E5P is a new fund for investment in energy efficiency and environmental projects to reduce greenhouse gas emissions in Ukraine and the countries of the Eastern Partnership (Armenia, Azerbaijan, Belarus, Georgia and Moldova). The EBRD acts as manager of the Fund. Technical assistance provided by the Partnership covers a range of tasks, including feasibility studies, energy audits, project implementation and institutional capacity-building. Total pledges amount to €95 million, coming primarily from the European Union, Sweden, Ukraine and United States with a number of other contributing donors.

EBRD Water Fund
The multi-donor EBRD Water Fund, focusing on water projects in official development assistance (ODA) countries, was established in 2010 with an initial focus on Central Asia. Projects concentrate predominantly on providing assistance and support to the governments of the recipient countries
in carrying out regulatory work and reforms. They use the guidance of the UNECE/WHO Protocol on Water and Health and the EU Water Directive that relate to the management, use and preservation of water resources and activities regarding the development and sustainable maintenance of safe water and sanitation facilities.

**Northern Dimension Environmental Partnership Fund**
The Northern Dimension Environmental Partnership (NDEP) co-finances investment to minimise environmental and nuclear safety risks, including improving energy efficiency measures, in the Northern Dimension Area which covers the Baltic and Barents Seas region. The Partnership is preparing a new replenishment round to finance its activities, which have been extended until 2017. The European Union (EU) has already agreed to replenish the fund with €14 million (including €2 million for Belarus). NDEP grants totalling €100 million have been approved for 17 non-nuclear projects, mainly for wastewater treatment in the Baltic Sea.

**Bilateral donors**
Bilateral donors have been and remain the core support to the Bank’s grant activities. These donors bring not only financial support but also knowledge from different perspectives, which enrich the assistance that the Bank provides to clients. New bilateral donor contributions to the Bank totalled €78 million in 2010, with the European Union contributing an additional €59 million. The largest contributions came from Austria, Czech Republic, Germany, Italy, Korea, Norway, Sweden and the United Kingdom.

**Global trust funds**
Partnerships with global trust funds, such as the Climate Investment Funds (CIFs) and the Global Environment Facility (GEF), have ensured that the EBRD has access to an unprecedented level of grant and concessional loan resources. Several of the EBRD’s bilateral donors contribute to these global funds through their national budgets.

**Climate Investment Funds (CIFs)**
The Climate Investment Funds (CIFs) are financing instruments designed to promote and sustain the transition to low-carbon and climate-resilient development with investments channelled through multilateral development banks (MDBs). They include the Clean Technology Fund for climate mitigation actions in middle-income countries (the EBRD participated in three CTF Investment Plans – in Kazakhstan, Turkey and Ukraine – during 2009-10), and the Strategic Climate Funds for investments in adaptation measures, forestry and renewable energy sources in the least developed countries. The Bank has been involved in the development and implementation of CIFs since late 2007 and, in October 2009 approved the establishment of the EBRD CIF Special Fund.

**Global Environment Facility (GEF)**
The EBRD, as one of the GEF implementing agencies, has been receiving project-specific TC and grant co-financing through the GEF since 2004. In the second half of 2010 the EBRD started to develop two new projects with GEF co-financing: a programme in Kazakhstan to ensure efficiency in resource utilisation (the so-called “RESET” programme) for US$ 7 million (€5 million); and in support of water management in North Tajikistan, with a US$ 3 million (€2 million) grant co-financing through the Special Climate Change Fund.

**The EBRD Shareholder Special Fund**
The EBRD Shareholder Special Fund (SSF) was established in 2008, endowed with the resources of the Bank’s net income. In date, the Board of Governors has approved an allocation of €295 million for both TC and non-TC assignments, which includes the €150 million approved in May 2010. The ETC region has benefited the most, as well as the infrastructure sector. Looking ahead the priority for the EBRD SSF will be to support the ETC and Western Balkans regions, climate change/environment, as well as gender projects. The Fund exists to catalyse and complement – and not to displace – donor cooperation.

**EARLY TRANSITION COUNTRIES INITIATIVE**
The Early Transition Countries (ETC) Initiative was launched in 2004 to accelerate market activity in the Bank’s countries which still face the most significant transition challenges. It uses a streamlined approach to finance smaller projects, mobilise more investment and encourage ongoing economic reform. Before the Initiative, the EBRD’s activities in these countries had been limited to less than 10 per cent of the Bank’s annual transactions for a total of €50 to €100 million per year. In contrast: in 2007-10 the Bank averaged over 100 transactions for almost €600 million annually. This success has led to the expansion of the Initiative beyond the original countries of Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan to Mongolia (in 2006), Belarus (2009) and Turkmenistan (2010).

The global economic and financial crisis had a material impact on the ETCs in 2009, thus depressing the Bank’s activities in the region, but in 2010 the Bank achieved excellent results – including a record number of 37 transactions in the Bank’s lowest-income Central Asian countries, supporting the Bank’s objectives of moving further east and south east. In 2010 the Bank achieved the following results:

- 114 transactions and annual business volume of €920 million, including record transaction numbers in the two ETC regions
- ETC transactions represented 30 per cent of the EBRD’s total number of transactions
- 22 very small ETCI Corporate Product transactions below €1 million went to SMEs
- 97 per cent of transactions in ETCs were rated “good” or “excellent” in terms of transition impact.

For further information on the ETC Initiative go to: www.ebrd.com/pages/about/where/etc/news.shtml
In 2010 the Bank identified the provision of local currency loans as a pressing priority: borrowing in foreign currency in the ETCs is risky for small- and medium-sized entrepreneurs, and reducing the use of foreign currency in domestic financial and corporate sectors should thus be at the forefront of the policy agenda. In response, the Bank has developed two local currency programmes: (i) a local currency mezzanine capital programme providing long-term capital to local enterprises; and (ii) a programme to extend local currency loans to financial institutions and the private sector.

The Bank’s success in achieving transition in ETC countries would not have been possible without the generous support of technical cooperation funds and grants from the special-purpose, multi-donor ETC Fund, the EBRD Shareholder Special Fund and bilateral donors. In 2010 the Bank mobilised around €48 million of technical cooperation funds for almost 180 projects.

### Key components of the ETC Initiative

- **strategy to accelerate transition and support the realisation of country strategies**
- **operational priorities related to the largest transition challenges**
- **appetite for taking higher commercial and financial risk**
- **objective to increase the Bank’s human resources in the ETCs**
- **better coordination with the donor community via a multi-donor fund (the ETC Fund) to finance technical assistance/cooperation projects and grants**
- **each Banking department sector team has an annual objective to complete a minimum number of transactions in the ETCs as a part of the teams’ performance assessment**
- **tailor-made products to directly and indirectly finance MSMEs thorough various financing facilities** (see www.ebrd.com/pages/about/where/etc/financing.shtml for more information)
- **streamlined approval procedures to accelerate decision-making**
- **a dedicated banking team to champion transactions in the ETCs and coordinate the EBRD’s direct loans and equity activities to private sector SMEs**
- **an action plan for local currency lending**
- **establishment and proactive leadership of investment councils to realise transition at the national, non-project level through policy dialogue.**

### WESTERN BALKANS

Transition in the Western Balkans is less advanced than in those neighbouring countries that have become new EU members. To support the region’s further growth, the EBRD has invested about €5.35 billion since 1991 in more than 374 projects.

The EBRD launched its Western Balkans Initiative (WBI) at its Annual Meeting in Belgrade in 2005. Since then, under the Initiative’s framework, the EBRD has developed and launched a number of new instruments and mechanisms that have become critical to increasing its delivery in the region and boosting transition impact:

- the Western Balkans Fund, which has been the major instrument in providing funding for technical assistance assignments to support the Bank’s projects
- the EBRD-Italy Local Enterprise Facility, a proprietary investment fund to support expansion of local enterprises in Bulgaria, Croatia, Romania, Turkey and the countries of the Western Balkans
- a number of new facilities for financial institutions (especially for micro, small and medium-sized enterprises)
- two new, innovative sustainable energy instruments to support energy efficiency investments
- the Western Balkans Investment Framework (WBIF; – see also page 41 of the Donor Report 2011).

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 international financial institution (IFI) action in the region. The Western Balkans Fund has now been transformed into the Western Balkans European Joint Fund, which receives contributions from a wider group of donors. 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 is immense.

The WBI has allowed the Bank to achieve a material increase in its systemic delivery capability, which grew from €530 million in 41 deals in 2008 to over €1 billion in 71 deals in 2010. Most of this growth has come from business with local enterprises and financial institutions, critical in the context of the EBRD’s efforts to mitigate the impacts of the economic crisis in the region.

Donors continue to play a crucial role in the region, in particular through the WBIF, where grant resources can be utilised with a very high leverage ratio and with the right blending of resources from international institutions.
Environmental standards, legal and regulatory frameworks, good governance, anti-corruption measures, policy dialogue and public engagement in projects – these are essential components in the transition from centrally planned to open market-based economies.
The EBRD supports progress in democratic reform in its countries of operations, in keeping with its Article 1 mandate, which states that the Bank’s purpose is to foster transition in countries committed to applying the principles of multi-party democracy, pluralism and market economics. Most countries in the transition region have adopted the basic tenets of democratic rule and have enshrined these in written constitutions and other recognisably democratic institutions, although developing the substance and effective implementation of democratic principles is still a work in progress.

The global financial crisis has had a severe impact on the EBRD region, testing not only the transition countries’ commitment to markets but also to democratic institutions. The effects of the crisis are still being felt in many countries across the transition region, and the impact on democratic reform has varied.

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 in regional and international organisations, first and foremost in Euro-Atlantic institutions. Although there has been no major reversal of reforms and domestic political stability has been maintained in all countries, social tensions mounted in the course of 2010 as governments endeavoured, with various degrees of commitment, to implement austerity measures. A shift towards more populist and nationalist policy solutions was evident in some countries, notably Hungary, while voters in Latvia, Poland and the Slovak Republic showed confidence in reform-minded parties and platforms.

In the Western Balkans, commitments related to the EU approximation process continue to serve as strong external anchors for democratic reform. However, concerns related to public governance, administrative capacity, judicial reform, media independence and freedom, and the fight against corruption remain throughout south-eastern Europe.

In the course of 2010 one country – Montenegro – formally obtained the status of an EU candidate country. The European Commission also started the preparation of its “Opinion” regarding Serbia’s membership application. Sitting pro-reform governments are relatively strong in the Western Balkans, and they continue to enjoy significant popular support. Inter-ethnic tensions persist in some countries, in particular Bosnia and Herzegovina, where they are complicated by the ongoing search for the optimal internal organisation of the country.

The strength of democratic institutions varies significantly across countries in the Commonwealth of Independent States (CIS) and Mongolia, where some countries made modest progress in strengthening democracy in 2010, while others experienced some backsliding. In Ukraine, the free and fair presidential election of early 2010, a step towards democratic consolidation, was partially offset by a ruling of the Constitutional Court to reverse constitutional amendments introduced in 2004 and new restrictions on the media – both of which have the potential to weaken the checks and balances in Ukraine’s political system. In Belarus the campaign environment for the December 2010 presidential election was more competitive and open than in the past, but the conduct of the election itself was heavily criticised by international monitors, and the mass arrests of demonstrators and disproportionate use of force against leading opposition figures, political activists and independent journalists is a significant setback for the development of democratic governance in Belarus. In Moldova parliamentary elections in November 2010 were deemed the most democratic and competitive in a decade. However, the continuing impasse on the indirect election of the president has undermined the authorities’ capacity for effective decision-making and stalled institutional reforms. In Russia despite reforms of the police and internal security services intended to strengthen the rule of law initiated by President Dmitry Medvedev, this has yet to result in any substantive improvements in democratic accountability. Violent assaults on journalists and civil society activists, as well as attacks on ethnic minorities, continue to mar the social environment, and corruption remains a major challenge.
In the Caucasus and Central Asia, the Kyrgyz Republic and Mongolia have each developed parliamentary forms of government, providing more democratic accountability, though in the former case this is at a very early stage and stable democratic governance is far from assured. Elsewhere in the region, political systems are characterised by strong presidencies, weak parliaments and judiciaries that are prone to corruption. Democratic development in this region is hampered by the absence of strong political parties, under-developed civil society networks, lack of independent media and poor human rights conditions. In Uzbekistan the Bank remains concerned about the lack of progress in building democratic and market institutions.

In countries where there are significant concerns regarding the application of Article 1 principles, the Bank has adopted a “calibrated strategic approach”, allowing it to adjust its operational scope in a measured and incremental way depending on political and economic conditions. For example, in Belarus and Turkmenistan, the Bank monitors a set of political and economic benchmarks and actively engages with the authorities in high-level policy dialogue to promote market-based and democratic reform.

**ECONOMIC REFORM**

A commitment to economic reform is an essential component of the transition from centrally planned to open, market-based economies. 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 the areas most in need of reform and can act as the basis for the EBRD’s dialogue with governments.

For the first time, the Transition Report published in 2010 presented a new set of sectoral transition scores for 16 different sectors in each country, on the same 1 to 4+ scale as that used for the traditional transition indicators. The ranking of countries under the new system is similar to that obtained under the old one, with the highest scores typically in central Europe and the Baltic states, followed by Turkey, and the lowest scores uniformly in Central Asia. However, the analysis shows that significant challenges remain in all countries, especially in the areas of sustainable energy, transport, and parts of the financial sector.

One of the most encouraging aspects of the region’s response to the crisis continues to be the near-absence of reform reversal. Even in those few cases where the process of liberalisation was reversed, steps have generally been taken to restore some of the previously introduced reforms. An example of this is Ukraine, a World Trade Organization (WTO) member, where the authorities have reversed some of the foreign exchange controls introduced during the worst stage of the crisis and have taken steps to further liberalise the foreign exchange market (although some important restrictions remain).

The level of economic reform across the region continued to vary in 2010. There was further progress in price liberalisation in Belarus and Tajikistan, two countries that in many respects are still at an early stage of transition. In the case of Belarus, the past year saw the removal of restrictions on price and trade margins for many goods and services and the substantial reduction in the list of minimum export prices. In Tajikistan there has been progressive liberalisation in the important cotton sector. Elsewhere, the EBRD’s latest survey of competition authorities in the region has revealed positive developments in Romania, where there have been continuous improvements in law enforcement, and in Serbia, where important changes have been made to competition law to harmonise it with European Union (EU) regulations and strengthen the powers of the competition commission.

In the area of infrastructure, there was progress in a number of countries in transport, especially in the railways sector, usually reflecting the introduction of new laws to strengthen institutions or a significant increase in private sector involvement and competition in the provision of services. Notable examples include Mongolia, where a formal Railway Policy was adopted, and Bosnia and Herzegovina, where public service obligations have been signed, increasing the accountability and transparency of services to railway passengers and aligning regulations to European standards.

Financial sectors across the region are still coping with the aftermath of the global financial crisis, and in certain countries some steps have been taken that have set back the course of reform. In Hungary the government’s decision to impose a temporary but substantial levy on banks and other financial institutions reflects an urgent fiscal need but is widely considered to be disproportionate compared with similar measures under consideration in other countries. This step, along with the recent decision to effectively nationalise the private pension system, may discourage the financial deepening and international financial integration that have served Hungary well during the crisis. In other countries, the regulatory environment for private pension funds is similarly in flux, which may put at risk local capital market development. Moreover, the high level of government ownership of banks poses risks of directed lending and unfair competition. A more positive development occurred in Poland with the successful introduction of a new bond trading platform, an innovation that is expected to stimulate the development of local capital markets. In addition, a number of countries have shown a willingness to work with the EBRD and other international financial institutions in developing local currency lending and local capital markets.

**LEGAL REFORM**

In 2010 the EBRD strengthened its legal policy dialogue and technical assistance activities with a view to accompanying transition countries on the road to recovery. This effort was led by the EBRD Legal Transition Programme in the Office of the General Counsel.

**New horizons**

Since 2009 the Bank has become active in public procurement law reform. In the Transition Report 2010, it published the first results of a comprehensive assessment gauging the status of public procurement legislation throughout the transition region. This assessment provides a roadmap for policy dialogue and technical assistance in that area of law, where an acute need for reforms was identified in Central Asia, the Caucasus and south-eastern Europe. An initiative was launched in Albania...
The EBRD monitors economic progress in all the countries in which it invests and each year publishes its analysis in the *Transition Report*. 
to improve public procurement legal frameworks for utilities and to strengthen recourse mechanisms. The Programme is preparing to follow with more public procurement reform assistance in Ukraine.

The EBRD judicial capacity-building actions gained momentum with the preparation of action plans for training of commercial judges in Mongolia and Tajikistan. Despite the political changes in the Kyrgyz Republic, the new training programme for candidate judges was re-activated towards the end of the year and will be implemented during 2011 in collaboration with the International Development Law Organization (IDLO). Further, the Bank has assessed the quality of commercial courts decisions in selected Central Asian countries, as well as Moldova, Russia and Ukraine, thus gathering statistical and analytical data ready to be published in early 2011. Here too, the assessment will prove a useful tool to guide EBRD technical assistance efforts in the judicial sector.

**CIS model law**

For the past 12 years the Bank has been cooperating with the Inter-Parliamentary Assembly of the Commonwealth of Independent States on the development of some key model laws in that region. In October the Assembly adopted a model company law prepared with the assistance of the EBRD. The new text is expected to inspire law-makers in the region to modernise legislation for companies.

**Cooperation with Russia**

During 2010 the EBRD Legal Transition Programme made special efforts to assist Russia with its financial legislation. Following an intense policy dialogue with the Ministry of Economic Development and other stakeholders, the Bank launched a technical cooperation project to overhaul the Russian legislation on secured transactions. A draft pledge law was prepared in the second part of the year, which will be followed in 2011 with a draft mortgage law. The Bank also helped the Ministry by preparing new standards for insolvency administrators. In September the standards were forwarded by the Ministry to the Union of Self-Regulatory Organisations of Insolvency Administrators for adoption. The Bank also organised with the Ministry and the professional association INSOL International a roundtable in Moscow to review investigatory powers of insolvency administrators, thus helping create the momentum for further legislative reforms in this area in 2011. During 2010 the Bank also provided assistance to the Russian authorities in connection with legislation on grain warehouse receipts, corporate governance, concessions, and accession to the Cape Town Convention on Security Interests over Mobile Equipment and Aircraft Protocol.

**Local Currency Initiative**

At the Bank’s Annual Meeting in 2010 an initiative to promote local capital markets and local currency operations in transition countries was launched. The EBRD Legal Transition Programme is in charge of regulatory aspects of the initiative. Towards the end of the year, it introduced a regulatory diagnostic of selected countries and gathered an advisory panel of recognised specialists to provide additional input in its findings. First results and recommendations on how to boost local capital markets in those countries will be published at the EBRD’s Annual Meeting in May 2011.
Infrastructure regulation and natural resources

The Bank has put in place a regulatory training programme for telecommunications officials in the CIS. The first round of training was completed in Georgia, and more sessions are under way in Armenia and Azerbaijan. Preparations were made to roll out the initiative to Belarus, Turkmenistan and Ukraine in 2011. Energy efficiency is increasingly on the Legal Transition Programme’s radar, with first reform activities in Moldova in connection with regulations applying to residential buildings. In an attempt to assist in the fight against corruption in the mining sector, the Bank has helped Mongolia to align itself with the Extractive Industries Transparency Initiative (EITI) and has taken steps to do the same in the Kyrgyz Republic.

ENVIRONMENTAL AND SOCIAL REFORM

The Bank’s Environmental and Social Policy and Performance Requirements ensure that Bank-financed projects are socially and environmentally sustainable; that they respect the rights of affected workers and communities; and that they are designed and undertaken in compliance with regulatory requirements and good international practice. This is implemented by fully integrating environmental and social issues into the Bank’s project cycle, from planning to financing and implementation. The EBRD’s policies, procedures and Performance Requirements in this regard are consistent with the Equator Principles, the financial sector’s internationally recognised benchmark for management of environmental and social issues in project financing.

The EBRD’s Environmental and Social Policy came into force in November 2008, and the Bank completed a smooth and effective transition to the new policy in 2009 through the delivery of training and guidelines to staff, clients and consultants. The Bank therefore began 2010 with a firmly anchored Policy – and the objective of deepening its investment in human capital with regard to Policy implementation and sustainability objectives.

Internally, the Bank has integrated sustainability into the curriculum of its Banking Academy programme, a compulsory course for all new Banking staff. Other internal capacity-building actions in 2010 included the formation of a Health and Safety Steering Group to further strengthen the Bank’s management of health and safety risks in investments, and the recruitment of a new occupational health and safety specialist to work on project due diligence and monitoring. The Bank has continued to make more tools, guidance and systems available across the organisation and externally. This includes an eManual and online training course to help the Bank’s financial sector clients to implement the Environmental and Social Policy in their own lending and investment operations.

Other resources introduced in 2010 include new tools for the implementation of the Bank’s Gender Action Plan, for example by integrating gender issues into public consultation on new projects in ways that help to optimise project design from a gender equality perspective. The Bank also provided gender equality guidelines and training to those men and women nominated by the EBRD to serve on the boards of companies where the EBRD is a shareholder. Some parts of the Bank’s region continue to have capacity weaknesses in the use and enforcement of environmental and social standards. To address this, the Bank provides a range of capacity-building programmes for local partners. Examples in 2010 include support from the Bank’s European Western Balkans Joint Fund to deliver training to local and regional authorities on managing the resettlement of people affected by different types of projects.

Best practice is also promoted through the EBRD’s Energy Efficiency and Sustainability Awards, which publicly recognise the achievements of Bank clients who demonstrate excellence in business areas such as environmental and social performance.

An important area of work for the Bank in 2010 – and a topic of ongoing activity for 2011 – is climate change adaptation and resilience. This refers to the assessment and management of both short- and long-term risks that climate change issues may pose to Bank-financed projects, particularly in relation to critical infrastructure. In 2010 the Bank completed a series of case studies on selected EBRD investments ranging from copper mining in Bulgaria to flood defence schemes in Russia. This information was then used by the Bank to develop guidance on new approaches for integrating climate change adaptation into technical due diligence and the application of the Bank’s Environmental and Social Policy, and for using climate models as inputs to project development. The Bank then piloted these approaches in a number of new projects under development during the year, including investments in water supply systems, hydropower, port infrastructure and industrial water use efficiency. The results and lessons of pilot projects launched in 2010 will be used by the Bank in 2011 to further refine its approach to climate change adaptation in a manner that is consistent with the EBRD’s transition mandate, project-focused approach and private-sector focus.
Good corporate governance is at the core of the EBRD’s activities. All operations, programmes, strategies and policies are scrutinised by independent evaluation, which ensures accountability and allows lessons to be learned.
GOVERNANCE AND INTEGRITY

Office of the Chief Compliance Officer

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.

The Bank’s resident Board of Directors approves all stand-alone projects financed by the EBRD, all frameworks, policies and strategies and monitors the Bank’s overall performance to ensure it meets the high standards set by the shareholders. National parliaments and other oversight bodies within the member countries also ensure a high level of accountability of staff and management of the Bank.

Within the Bank, the Office of the Chief Compliance Officer (OCCO), headed by the Chief Compliance Officer who reports directly to the President and the Audit Committee of the Board of Directors, ensures that the highest standards of integrity are applied to all staff and throughout the Bank’s activities in accordance with international best practice.

OCCO provides a range of advice and assistance across Bank departments in assessing and evaluating integrity and reputational risks relating to proposed and ongoing Bank transactions. In addition, it investigates allegations of misconduct along with fraudulent and corrupt practices both with regard to Bank staff, as well as in relation to Bank projects or counterparties. OCCO ensures that allegations of fraudulent or corrupt practices are processed in compliance with the Bank’s Enforcement Policy and Procedures (EPPs). The EPPs were most recently amended following signature by the EBRD, World Bank, Asian Development Bank, African Development Bank and InterAmerican Development Bank to the Agreement for Mutual Enforcement of Debarment Decisions in April 2010 to facilitate the enforcement of the debarment decisions of the other participating institutions across the Bank’s region.

During the course of this year, of note are two particular investigations by the OCCO into allegations of fraud and corruption on the part of one staff member and one Board Official. Matters arising out of the first investigation were referred by the Bank to the City of London Police, who initiated an investigation into possible unlawful activities. Related to the second matter, the Bank agreed, in early 2011, to waive the immunities with respect to the Board Official and certain others in the constituency office concerned, upon requests from the Foreign and Commonwealth Office of the United Kingdom and the authorities of the shareholder.

Project Complaint Mechanism

OCCO also oversees the effective administration of the Bank’s accountability mechanism, the Project Complaint Mechanism (PCM), launched in early 2010 to replace the Independent Recourse Mechanism (IRM) in force since July 2004. Similar to the IRM, the PCM reviews complaints that the Bank has failed to adhere to applicable policies in approving a particular project and affords members of the affected community the opportunity to obtain the Bank’s assistance in a problem-solving initiative with the project sponsor.

- Following a thorough review process, including extensive public consultation, the PCM includes features that make it more accessible and also strengthen the Bank’s ability to monitor clients’ commitment under the relevant EBRD policies.
- In particular, the new Mechanism benefits from an improved and more user-friendly registration system and a wider universe of potential complainants – the Mechanism is now open to individuals, groups and civil society organisations directly located or with interests in an EBRD-funded project.
- The Mechanism also considerably enhances transparency by providing more opportunities for consultations with all relevant parties and publication of monitoring reports.

A dedicated PCM Officer, appointed by the President, is responsible for the day-to-day administration of the Mechanism.

For further information on the Project Complaint Mechanism go to: www.ebrd.com/pages/project/pcm/about.shtml

For more information on corporate governance, see page 7 in the Financial Report 2010 www.ebrd.com/financialreport

For further information on the Project Complaint Mechanism, see the EBRD’s Sustainability Report 2010 or go to: www.ebrd.com/sustainabilityreport
Offshore jurisdictions

A significant measure to promote integrity in EBRD-financed projects was the Board approval of the Bank’s new policy on “Offshore Jurisdictions in EBRD Projects”, which applies to all EBRD lending and investment operations for entities that are established in a jurisdiction different from the country where the project is located, or that are controlled by entities established in such a jurisdiction.

The policy builds on the Bank’s long-standing practice regarding the use of offshore jurisdictions and reflects best practice as it has evolved at the international level. It places reliance on the assessment of jurisdictions by expert bodies, notably the Global Forum on Transparency and Exchange of Information. A key innovation of the new policy is that its sphere of concern and enquiry extends beyond the offshore jurisdiction in which a borrower, investee or guarantor is established to also capture the parties that control them.

Public Information Policy

The EBRD is strongly committed to the principles of accountability and transparency. The Public Information Policy (PIP) is the EBRD’s main policy governing disclosure to the public. It is reviewed every three years, with the next review occurring in 2011.

The PIP sets out how the EBRD discloses information and consults with its stakeholders so as to promote better awareness and understanding of its strategies, policies and operations. At the same time, the PIP establishes clear lines of demarcation to distinguish information which is made publicly available (either on a routine basis or on the Bank’s request) from information which may not be disclosed on the grounds of confidentiality. This is to ensure that mutual trust is maintained between the Bank, its business clients and other partners.

Whenever possible, information concerning the Bank’s activities is made available to the public unless there is a compelling reason for confidentiality. This openness enhances the Bank’s impact on transition in the region, improves the stability and efficiency of markets and encourages adherence to internationally recognised standards.

In the interests of greater transparency, the EBRD Board of Directors publishes its schedule of policy and strategy discussions on the Bank’s web site as well as project evaluation reports.

Stakeholder Relations department

In 2010 as part of an internal reorganisation to enable the Bank to better meet the objectives of its medium-term strategy of 2011-15 (the Capital Resources Review or CRR4), the Stakeholder Relations department was created. This new department also plays an important role in promoting accountability and stronger engagement with the EBRD’s main external stakeholders, including donor agencies, the institutions of the European Union, other international organisations, and civil society organisations and policy-making agencies in the Bank’s countries of operations. Stakeholder Relations will also coordinate the country strategy preparation process, and ensure that relevant stakeholders are engaged in the formulation, consultation and implementation of country strategies.
CIVIL SOCIETY ENGAGEMENT

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 participants. 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.

One example of the work undertaken by the Civil Society Engagement Unit concerns the Turkmenistan country strategy (CS). In consideration of the sensitivities related to that country strategy, the EBRD took a proactive approach to the public consultation process, beyond the standard practice and PIP requirements. A series of meetings were held with the government stakeholders, civil society organisations and local communities.

In February to March 2010, Ashgabat Resident Office together with the Civil Society Engagement Unit organised a number of consultation meetings with local and international civil society organisations in Ashgabat and London to provide an additional opportunity for an exchange of views. Going beyond PIP requirements, the Bank had earlier provided local NGOs with an unofficial Russian translation of the draft CS to enable easier understanding of the text. The main issues discussed ranged from human rights and transparency, to the Bank’s potential investments in the oil and gas sector in Central Asia. Proactive consultations with civil society stakeholders led to a large number of civil society organisation comments which resulted in changes to the draft text of the country strategy for Turkmenistan.

INDEPENDENT EVALUATION

Evaluating the EBRD’s activities

The Evaluation department (EvD) provides an independent analysis of Bank operations, programmes, strategies and policies in order to assess performance and to identify insights and lessons from experience that may be used by the institution to improve the effectiveness of future operations.

Independence and accountability

Evaluation has two core objectives, which are to contribute to:

- institutional accountability through rigorous and independent ex post evaluation of the results and effects of the Bank’s projects and programmes
- improved operational effectiveness by extracting significant and operationally relevant lessons and communicating them effectively across the organisation.

Implementation of the EBRD’s Gender Action Plan

The Bank’s Gender Action Plan (GAP) was approved by management in May 2009. The overall purpose of the GAPs is to organise the Bank’s actions to ensure that institutional commitments undertaken regarding gender find concrete application, both internally and in the Bank’s investments and technical cooperation projects. Gender equality is recognised as an important component of the development and transition processes, in particular to better leverage the untapped potential of women in the labour force, as entrepreneurs and in social and political life.

In the past year, the Gender unit in the Bank, which is part of the newly created Stakeholder Relations department, oversaw effective implementation of several important actions under the GAP. This included a number of gender pilot projects, designed to support the EBRD’s clients, partners and local financial institutions to strengthen their policies on equal opportunity, promoting female entrepreneurship and women’s empowerment. The year 2010 saw implementation of two projects in Romania – the Sfantu Gheorghe street and lighting rehabilitation project and the Equal Opportunities Human Resources project with the oil and gas company Petrom – as well as projects in the municipal sector in Georgia and the Kyrgyz Republic, in agribusiness in Bulgaria, Poland and Romania and in the financial institutions sector in Azerbaijan and Turkey.

To assist with the “mainstreaming” of gender in the Bank, specific tools and guidance notes were developed in 2010, particularly for the due diligence and project design phase of projects, and gender country profiles have also been developed to assist bankers and non-bankers in identifying country-specific gender issues. Lastly, a toolkit and guidance notes for nominee directors was prepared in 2010 to promote equal opportunities and best HR practices within the Bank’s investee companies and was presented to nominee directors in October.

Several projects are being implemented to increase the Bank’s capacity to obtain gender-disaggregated data, which will assist in identifying gender gaps and increase visibility on gender issues. Gender-disaggregated data will be used to elaborate on country strategies and sector policies and to more concretely measure the relationship between gender and the Bank’s mandate to promote transition impact. Projects include the EBRD/World Life in Transition Survey II and the Women’s Economic Opportunities Index compiled by the Economist Intelligence Unit.

For project evaluation reports go to: www.ebrd.com/pages/about/what/evaluation/reports.shtml or see the Evaluation section on this page.

For further information on civil society engagement go to: www.ebrd.com/pages/about/workwith/civil/ebrd.shtml

For more information the Bank’s Gender Action Plan go to: www.ebrd.com/pages/about/principles/gender/plan.shtml
Reporting directly to the Board of Directors since 2005, the Evaluation department is institutionally well positioned to produce the objective and independent assessments that are at the centre of its mandate, and central to the Bank delivering products and services of highest value to the Board, management and multiple clients.

EvD’s evaluation practices reflect, wherever possible, a set of Good Practice Standards for Private Sector Evaluation which has been developed jointly by the evaluation departments of major multilateral financial institutions under the auspices of the Evaluation Cooperation Group.

**Impact on the transition process**

EvD evaluations may focus on the results of specific EBRD projects relative to their design objectives; on results obtained through Bank transactions in a particular sector; and on specific issues identified as of particular interest or where especially useful findings might be developed. Individual projects are normally evaluated one to two years after full disbursement of funds, once investment has been completed. The criteria used to determine a project’s impact on the transition process are those applied during the project identification, selection and approval. Key indicators include the degree to which the project promotes private sector development, develops skills, encourages competition and supports market expansion. In the course of evaluation each project is assigned an overall transition impact rating from a six-point scale: excellent, good, satisfactory, marginal, unsatisfactory and negative.

Chart 10.1 shows that of the 59 projects evaluated in 2010, 80 per cent were rated “excellent–satisfactory” for transition impact, while the remaining 20 per cent were “marginal–negative”. This is a slight improvement on the results for 2009, a little lower than in previous years, and in line with the average for 1996-2010. Over that period, 738 projects were evaluated, of which 56 per cent achieved a transition impact rating of “good” or “excellent,” while a further 24 per cent were rated “satisfactory”.

**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 degree to which Bank investment triggers or complements rather than substitutes for private finance).

Overall ratings of “successful” or “highly successful” have been earned by 57 per cent of evaluated projects since 1996 (see Chart 10.2). After falling for the last couple of years within the context of the economic and commercial difficulties faced by projects in the region, the proportion of projects rated “successful” or better rose again, to 61 per cent, in 2010.

Based on these findings, and bearing in mind the difficult environment in which the Bank works, EvD concludes that the EBRD has been successful overall in delivering on its mandate.

**Evaluating technical cooperation activities**

EvD has evaluated around 750 consultant assignments funded through the EBRD’s technical cooperation (TC) programme. These assignments have been supported by over €230 million funding from over 30 donors. When combined with TC assignments evaluated through special studies, this figure rises to over 1,850 assignments involving around €550 million of funding. TC assignments are selected for evaluation based on their potential for generating useful
Applying lessons to new projects

EvD has a critical institutional role to ensure that the findings and lessons extracted from past experience are used to inform and constructively shape operational work going forward. This includes effective and timely consultation between operations teams and EvD, and encapsulation and dissemination of relevant lessons in a useful and accessible form. EvD makes presentations to management and to the Board of Directors on the evaluation of individual projects and focused workshops are held with banking teams, in which lessons relevant to the sector or region are discussed. Process improvements and new products are under discussion in EvD to improve performance in this area, including with respect to the Lessons Learned Database whose primary purpose is to capture in a single location lessons from previously evaluated projects.

Evaluation activities in 2010

Project evaluations conducted during 2010 covered all of the EBRD’s main sectors and 21 of its 29 countries of operations. EvD also conducted a number of broader, thematic studies. These included a study of the Bank’s activities in the area of policy dialogue, an evaluation of the use of the EBRD Shareholder Special Fund since its establishment in 2008, and a review of the EBRD’s response to the financial crisis of 2008-09. The latter was launched at a joint workshop held with other multilateral development banks at the November 2010 meeting of the Evaluation Cooperation Group in London.

RESULTS FRAMEWORK

Among the multilateral development banks (MDBs), the EBRD is a leader in designing and monitoring results. In the mid-1990s, the EBRD started building its capacity to measure and report on the transition impact of its operations. The “Transition Impact” methodology allows for a quality-at-entry assessment of all projects. Each project presented to the Board is rated as having “satisfactory”, “good” or “excellent” transition impact potential. The Transition Impact Monitoring System (TIMS), launched in 2003, monitors transition impact over the life of the investment against specific pre-set targets. The EBRD was the first MDB to put in place such a system and now possesses a time-series that is robust enough to conduct in-depth results analysis.

Published in 2000, 2005 and 2009, the Transition Impact Retrospective reviews the EBRD’s overall impact by sector and country. A key lesson in 2009 was the need to develop a strategic approach to institutional quality and reform to address weaknesses revealed by the financial crisis. During the Capital Resources Review (CRR4) period of 2011-15, the Bank will attempt to tackle regulatory quality in the financial sector alongside investments in the banking sector and, more generally, to develop integrated approaches that combine projects, policy advice and technical assistance in targeting reform objectives.

The results framework is integrated into the EBRD’s banking operations. Using the transition impact ratings of projects, scorecards with specific quantitative and qualitative targets with respect to the quality at entry and portfolio performance are agreed with each banking team and staff compensation is linked to meeting transition impact goals. This allows close cooperation between the Bank’s overall objectives, which are guided by shareholders, and the day-to-day work of the banking teams.

An edited version of the database is available on the Bank’s web site here: www.ebrd.com/pages/about/what/evaluation/lessons.shtml

In line with the Public Information Policy, key evaluation reports and summaries of project evaluations are published on the Bank’s web site and are also freely available to operational staff: www.ebrd.com/pages/about/what/evaluation/reports.shtml
The EBRD is enhancing organisational capacity to keep activities attuned to and focused on the needs of its 29 countries of operations and the Bank invests in staff to foster business performance and individual growth.
The EBRD’s achievements during 2010 in an uncertain economic environment are testament to the commitment of the Bank’s mission-conscious and dedicated staff. In preparation for the fourth Capital Resources Review (CRR4) period (2011-15) the Bank has focused efforts on organisational capacity-building and strengthening the leadership competencies of its staff.

**STAFFING OVERVIEW**

As of 31 December 2010, EBRD staff totalled 1,526 with employees coming from 58 of the 61 Bank’s member countries. Of these staff members, 1,172 (or 77 per cent) were based in the London Headquarters. There were 354 employees (compared with 352 in the previous year) working across 34 Resident Offices in 26 of the 29 countries of operations.

**RECRUITMENT OVERVIEW**

Recruitment in 2010 was at a similar level to 2009, with 159 hires in 2010 (of which 80 per cent were at professional level), up slightly from 154 in 2009.

In 2010 there were 77 new hires in the Banking department compared with 96 in the previous year. In total, 116 of the 159 new hires were recruited in London and 43 in the EBRD’s countries of operations.

**COMPENSATION AND BENEFITS**

The EBRD’s compensation and benefits framework aims to be competitive enough to be able to attract and retain high-calibre employees from a wide range of member countries.

In 2010 the Bank reviewed the benefits provided to staff in Resident Offices with changes to be implemented in 2011. In addition, contractual arrangements for staff employed on short-term contracts were reviewed, with changes to be applied in 2011.

**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.

**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 leadership roles. Overall, approximately 50 different training courses were offered in 2010 and over 100 training sessions delivered. The course enrolments in the Bank increased by 28 per cent and resulted in 1,559 workshop enrolments in 2010.

The Management Development Programme offered a suite of courses for those managing people, covering two key areas: managing within a matrix organisational structure and managing difficult conversations. The banking skills portfolio continued its structured approach to training EBRD bankers through the Banking Academy, which is the key programme for new bankers. Accessibility to a large number of training programmes has also been enhanced through the introduction of e-learning training modules available to all staff.

**ACTIVE ASSIGNMENTS AS AT 31 DECEMBER 2010**

<table>
<thead>
<tr>
<th>Assignment Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ to RO</td>
<td>64</td>
</tr>
<tr>
<td>RO to HQ</td>
<td>4</td>
</tr>
<tr>
<td>RO to RO</td>
<td>18</td>
</tr>
</tbody>
</table>

**Chart 11.1: Proportion of staff based in London and the Resident Offices**

<table>
<thead>
<tr>
<th>Offices</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Headquarters</td>
<td>1,172</td>
</tr>
<tr>
<td>Resident Offices</td>
<td>354</td>
</tr>
</tbody>
</table>

**Chart 11.2: Change in recruitment of banking staff compared with total staff between 2009 and 2010**

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total staff</td>
<td>159</td>
<td>154</td>
</tr>
<tr>
<td>Banking staff</td>
<td>77</td>
<td>96</td>
</tr>
</tbody>
</table>
Strong leadership and management is the cornerstone of any effective organisation. The EBRD is committed to building on its leadership capacity through dedicated executive development initiatives such as leadership coaching, for which there was a strong uptake in 2010, and this will be further rolled out in 2011.

**ORGANISATIONAL CAPACITY-BUILDING**

In 2009 the EBRD began to identify and consider opportunities to enhance the Bank’s organisational capacity and processes. This organisational capacity-building (OCB) exercise focused initially on the Banking department, resulting, among other things, in the implementation of a strengthened overall matrix management structure, and the creation of a new business group for Industry, Commerce and Agribusiness (ICA). The exercise was further rolled out in 2010 to other departments such as the Office of the Chief Economist (OCE) and the Human Resources (HR) department, where resources have been better aligned for increased effectiveness in meeting the Bank’s overall strategic objectives.

The OCB is a continuing process of refinement to keep the EBRD’s activities attuned to and focused on the needs of its 29 countries of operations.

### Table 11.3: Number of staff in each of the Resident Offices; percentage change 2009-10

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>9</td>
<td>55.6%</td>
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<td>0%</td>
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<td>15</td>
</tr>
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<td>0%</td>
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<td>7</td>
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<tr>
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<td>3</td>
<td>0%</td>
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<td>7</td>
</tr>
<tr>
<td>Belgrade</td>
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<td>11.1%</td>
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<td>5</td>
<td>-20.0%</td>
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<td>14</td>
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<td>4</td>
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<td>4</td>
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<td>0%</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Bratislava</td>
<td>2</td>
<td>2</td>
<td>0%</td>
<td>1</td>
<td>2</td>
<td>-50.0%</td>
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<td>4</td>
</tr>
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<td>Bucharest</td>
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<td>0%</td>
<td>5</td>
<td>5</td>
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<td>16</td>
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<td>2</td>
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<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Chisinau</td>
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<td>0%</td>
<td>3</td>
<td>3</td>
<td>0%</td>
<td>6</td>
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</tr>
<tr>
<td>Dushanbe</td>
<td>4</td>
<td>4</td>
<td>25.0%</td>
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<td>0%</td>
<td>8</td>
<td>7</td>
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<tr>
<td>Istanbul</td>
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<td>5</td>
</tr>
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<td>Kiev</td>
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<td>23</td>
<td>4.3%</td>
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<td>10.0%</td>
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<td>33</td>
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<td>2</td>
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<td>1</td>
<td>1</td>
<td>0%</td>
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</tr>
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<td>London22</td>
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<td>0</td>
<td>0</td>
<td>0%</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Minsk</td>
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<td>4</td>
<td>25.0%</td>
<td>3</td>
<td>2</td>
<td>50.0%</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Moscow</td>
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<td>49</td>
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<td>25</td>
<td>25</td>
<td>0%</td>
<td>77</td>
<td>74</td>
</tr>
<tr>
<td>Podgorica</td>
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<td>2</td>
<td>0%</td>
<td>2</td>
<td>2</td>
<td>0%</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Pristina</td>
<td>1</td>
<td>1</td>
<td>0%</td>
<td>1</td>
<td>1</td>
<td>0%</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Roslov</td>
<td>2</td>
<td>2</td>
<td>0%</td>
<td>1</td>
<td>1</td>
<td>0%</td>
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<td>3</td>
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<tr>
<td>Samara</td>
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<td>0%</td>
<td>1</td>
<td>1</td>
<td>0%</td>
<td>3</td>
<td>3</td>
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<tr>
<td>Sarajevo</td>
<td>3</td>
<td>5</td>
<td>-40.0%</td>
<td>2</td>
<td>2</td>
<td>0%</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Skopje</td>
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<td>6</td>
<td>0%</td>
<td>3</td>
<td>3</td>
<td>0%</td>
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<td>9</td>
</tr>
<tr>
<td>Sofia</td>
<td>7</td>
<td>6</td>
<td>16.7%</td>
<td>2</td>
<td>3</td>
<td>-33.3%</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>St Petersburg</td>
<td>5</td>
<td>5</td>
<td>0%</td>
<td>4</td>
<td>4</td>
<td>0%</td>
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<td>9</td>
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<tr>
<td>Tashkent</td>
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<td>-80.0%</td>
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<td>8</td>
</tr>
<tr>
<td>Tbilisi</td>
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<td>9</td>
<td>0%</td>
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<td>6</td>
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<tr>
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<td>Ulaanbaatar</td>
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<td>0%</td>
<td>6</td>
<td>5</td>
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<td>1</td>
<td>0%</td>
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<td>-25.0%</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Vladivostok</td>
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<td>2</td>
<td>0%</td>
<td>1</td>
<td>1</td>
<td>0%</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Warsaw</td>
<td>11</td>
<td>10</td>
<td>10.0%</td>
<td>6</td>
<td>6</td>
<td>0%</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Yekaterinburg</td>
<td>3</td>
<td>2</td>
<td>50.0%</td>
<td>2</td>
<td>2</td>
<td>0%</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Yerevan</td>
<td>5</td>
<td>4</td>
<td>25.0%</td>
<td>3</td>
<td>3</td>
<td>0%</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Zagreb</td>
<td>6</td>
<td>5</td>
<td>20.0%</td>
<td>3</td>
<td>3</td>
<td>0%</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>226</td>
<td>219</td>
<td>3.2%</td>
<td>128</td>
<td>129</td>
<td>-0.8%</td>
<td>354</td>
<td>348</td>
</tr>
</tbody>
</table>

22 These numbers represent those who were on assignment to Headquarters from various Resident Offices.

### Table 11.4: Movement of staff from between offices

<table>
<thead>
<tr>
<th>Office 1</th>
<th>Movement</th>
<th>Office 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yekaterinburg</td>
<td>to Moscow</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>to Yerevan</td>
<td>1</td>
</tr>
<tr>
<td>Bishkek</td>
<td>to Ashgabat</td>
<td>1</td>
</tr>
<tr>
<td>Istanbul</td>
<td>to London</td>
<td>1</td>
</tr>
<tr>
<td>London</td>
<td>to Baku</td>
<td>2</td>
</tr>
<tr>
<td>London</td>
<td>to Kiev</td>
<td>5</td>
</tr>
<tr>
<td>London</td>
<td>to Ashgabat</td>
<td>1</td>
</tr>
<tr>
<td>London</td>
<td>to Sofia</td>
<td>2</td>
</tr>
<tr>
<td>London</td>
<td>to Vilnius</td>
<td>2</td>
</tr>
<tr>
<td>London</td>
<td>to Pristina</td>
<td>1</td>
</tr>
<tr>
<td>London</td>
<td>to Belgrade</td>
<td>2</td>
</tr>
<tr>
<td>London</td>
<td>to Zagreb</td>
<td>3</td>
</tr>
<tr>
<td>London</td>
<td>to Podgorica</td>
<td>3</td>
</tr>
<tr>
<td>London</td>
<td>to Tbilisi</td>
<td>2</td>
</tr>
<tr>
<td>London</td>
<td>to Dushanbe</td>
<td>2</td>
</tr>
<tr>
<td>London</td>
<td>to Chisinau</td>
<td>1</td>
</tr>
<tr>
<td>London</td>
<td>to Bishkek</td>
<td>1</td>
</tr>
<tr>
<td>London</td>
<td>to Ulaanbaatar</td>
<td>1</td>
</tr>
<tr>
<td>London</td>
<td>to St Petersburg</td>
<td>1</td>
</tr>
<tr>
<td>Minsk</td>
<td>to Moscow</td>
<td>1</td>
</tr>
<tr>
<td>Moscow</td>
<td>to Kiev</td>
<td>2</td>
</tr>
<tr>
<td>Moscow</td>
<td>to London</td>
<td>3</td>
</tr>
<tr>
<td>Moscow</td>
<td>to St Petersburg</td>
<td>1</td>
</tr>
<tr>
<td>Moscow</td>
<td>to Minsk</td>
<td>1</td>
</tr>
<tr>
<td>Moscow</td>
<td>to Yekaterinburg</td>
<td>1</td>
</tr>
<tr>
<td>Moscow</td>
<td>to Vladivostok</td>
<td>1</td>
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<tr>
<td>Moscow</td>
<td>to Samara</td>
<td>1</td>
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<tr>
<td>St Petersburg</td>
<td>to Moscow</td>
<td>1</td>
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<tr>
<td>Tashkent</td>
<td>to Dushanbe</td>
<td>1</td>
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<tr>
<td>Tashkent</td>
<td>to Ashgabat</td>
<td>1</td>
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<td>Tashkent</td>
<td>to Dushanbe</td>
<td>1</td>
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<td>Tashkent</td>
<td>to Astana</td>
<td>1</td>
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<tr>
<td>Vilnius</td>
<td>to Minsk</td>
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<tr>
<td>Vladivostok</td>
<td>to Moscow</td>
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### Table 11.5: Gender analysis of staff numbers, as at 31 December 2010

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>Professional</th>
<th>Support</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
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<tr>
<td>Professional</td>
<td>43%</td>
<td>57%</td>
<td>38%</td>
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<tr>
<td>Support</td>
<td>91%</td>
<td>9%</td>
<td>75%</td>
</tr>
<tr>
<td>Total</td>
<td>56%</td>
<td>44%</td>
<td>51%</td>
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</table>
EMPLOYEE ENGAGEMENT

In 2009 the EBRD conducted a Bank-wide staff survey, which yielded a 73 per cent response rate (compared with 64 per cent for the previous survey carried out in 2006). The results showed that staff feel proud to work for the EBRD because of the Bank’s ethics, mission and ability to respond quickly to a changing business environment. In 2010 two working groups comprising a cross-section of employees across all departments and job levels were set up to provide recommendations on how to improve the less favourable survey results. Many of the recommendations have been or will be implemented during the course of 2011.

WORKING ENVIRONMENT

The EBRD is committed to providing a working environment where staff excellence is encouraged through a variety of flexible means. When work is healthily integrated into life as a whole, both people and the organisation benefit. The Bank’s work-life balance programme helps managers and staff to pursue balanced working lives and excellent business performances.

In 2010 the EBRD embarked on the implementation of its Gender Equality Initiative for staff. It focuses on ensuring a greater gender balance at all levels, and enhancing the working environment where staff feel valued and enjoy equal opportunities to contribute and fulfil their potential.
EBRD management, 31 December 2010

President: Thomas Mirow
President’s Office: Hans Peter Lankes
Communications: Vacant
Internal Communications: Lawrence Sherwin
Media Relations: Anthony Williams
Multimedia: Jane Ross

Internal Audit:
Head: Ray Portelli
Deputy Head: Pedro Reis

Office of the Chief Compliance Officer:
Chief Compliance Officer: Enery Quinones
Deputy Chief Compliance Officer: Judith Shenker

BANKING:
First Vice President: Varel Freeman

FRONT OFFICE:
Adviser to the FVP: James Hyslop
Chair, Operations Committee Secretariat: Holger Muent

Turkey, Eastern Europe and Central Asia:
Managing Director: Olivier Descamps
Turkey (Istanbul): Mike Davey
Ukraine (Kiev): André Kuusvek
The Caucasus, Moldova and Belarus (Tbilisi): Paul-Henri Forestier
Central Asia: Masaru Honma
Kazakhstan (Almaty): Michael Weinstein
Mongolia (Ulaanbaatar): Philip ter Woort
Early Transition Countries (ETC) Initiative: Chris Clubb

Russia:
Managing Director: Natasha Khanjenkova
Corporate Sector: Eric Rasmussen
Government Relations: Alexander Orlov
Financial Institutions: George Orlov
Energy and Infrastructure: Zhanar Rymzhanova
Regional Development: Bruno Balvanera

Central and South-Eastern Europe:
Managing Director: Peter Reiniger
Poland (Warsaw): Lucyna Stanczak
Czech Republic, Hungary, Slovak Republic and Slovenia: Vacant
Serbia (Belgrade): Hildegard Gacek
Croatia (Zagreb): Zsuzsanna Hargitai
Western Balkans: Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro, Serbia: Claudio Viezzoli
Romania (Bucharest): Claudia Pendred
Bulgaria (Sofia): Dan Berg

Monitoring:
Managing Director: Gavin Anderson

Financial Institutions:
Managing Director: Nick Tesseyman
Western Balkans, Belarus, Moldova and Turkey: Francis Malige
Russia (Moscow): George Orlov
Central Asia, Caucasus and Mongolia: Mike Taylor
EU and Ukraine: Jean-Marc Peterschmitt
Insurance and Financial Services: Noel Edison
Small Business Finance: Henry Russell
Planning, Portfolio Management and Trade Finance: Allan Popoff

Industry, Commerce and Agribusiness:
Managing Director: Alain Pilloux
Agribusiness: Gilles Mettetal
Property and Tourism: Sylvia Gansser-Potts
Manufacturing and Services: Frederic Lucenet
Telecommunications, Informatics and Media: Alain Pilloux
TurnAround Management and Business Advisory Service (TAM/BAS): Charlotte Ruhe
Equity Funds: Anne Fossemalle

Infrastructure:
Managing Director: Thomas Maier
Municipal and Environmental Infrastructure: Jean-Patrick Marquet
Transport: Sue Barrett

Energy:
Managing Director: Riccardo Puliti
Natural Resources: Kevin Bortz
Power and Energy Utilities: Vandita Parshad

Energy Efficiency and Climate Change:
Corporate Director: Josué Tanaka
Energy Efficiency: Terry McCaillion

Corporate Equity:
Director: Lindsay Forbes

Corporate Planning (Joint report to Finance):
Corporate Director: Josué Tanaka
Operational Planning and Reporting: Dan Green

Corporate Recovery:
Director (Joint report to Risk and Resources): Kamen Zahariev
Business Development: Olena Koval

FINANCE:
Vice President and Chief Financial Officer: Manfred Schepers

Treasury:
Treasurer: Axel van Nederveen
Deputy Treasurer, Head of Funding: Isabelle Laurent

Client Risk Management: Grant Metcalfe-Smith
Head, Investments-Credit: Neil Calder
Balance Sheet Management (Acting Head): Axel van Nederveen

Budget and Financial Policy:
Corporate Director: Chris Hoyoak
Deputy Director: David Brooks

Strategic and Operational Planning (Joint report to Banking):
Corporate Director: Josué Tanaka
Operational Planning and Reporting: Dan Green
**ORGANISATION AND STAFFING**

**Loan Syndications**
- Director: Lorenz Jorgensen

**Controller's Office**
- Controller: Nigel Kerby

**COSO and Operational Risk Management**
- (Joint report to Risk Management)
  - Director: Julie Williams

**Accounting**
- Controller: Glenn Bruce

**Financial Control**
- Controller: Terry Cullen

**Middle Office**
- Controller: Bertrand de Saint-Viance

**Operations Banking**
- Controller: Mark Smith

**Operations Treasury and Control**
- Controller: Chris Swinchatt

**RISK AND RESOURCES**

**Vice President**
- Horst Reichenbach

**Risk Management**
- Director: Mike Williams

**Credit/Transaction Analysis**
- Director: David Klingenorman

**Credit/Portfolio Review**
- Director: Irena Postlova

**Corporate Recovery**
- Director (Joint report to Banking): Kamen Zahariev

**Treasury Credit Risk**
- Director: Andrea Leon

**Portfolio Risk Management**
- Director: Miguel Iglesias

**COSO and Operational Risk Management**
- Head: Julie Williams

**Administration Department**
- Director: Jaroslaw Wojtylak

**Human Resources**
- Director: Anne Sahl

**Compensation and Benefits**
- Director: Matthew Drage

**Information Technology**
- Director: Tim Goldstone

**Business Systems Development and Support**
- Director: Marco Minchillo

**Customer Services and Technical Development**
- Director: Stuart McQueen

**Nuclear Safety**
- Director: Vince Novak

- Deputy director: Balthasar Lindauer

**OPERATIONAL POLICIES**

**Vice President**
- Jan Fischer

**Stakeholder Relations**
- Corporate Director: Alan Rousso

**Official Co-Financing Unit**
- Director: Richard Jones

**Civil Society Engagement, Gender Action Plan**
- Head: Biljana Radonjić Ker-Lindsay
  - (Alessandro Delprete, Acting)

**Environment and Sustainability**
- Corporate Director: Alistair Clark

**Policy and Project Oversight**
- Director: Mark King

**Project Appraisal**
- Director: Dariusz Prasek

**Procurement**
- Corporate Director: Alexander Auboeck

- Director: Jan Jackholt

**Consultancy and Corporate Procurement**
- Corporate Director: Alexander Auboeck

- Director: Dilek Macit

- Corporate Procurement: Tom Husband

**OFFICE OF THE SECRETARY GENERAL**

**Secretary General**
- Enzo Quattricciocche

**Deputy Secretary General**
- Nigel Carter

**Assistant Secretary General**
- Colm Lincoln

**Annual Meetings, Protocol and Event Management**
- Head: Stefania Galbiati-Ball

**Board and Institutional Affairs**
- Head: Colm Lincoln

**Language Services**
- Head: Mike Tigar

**OFFICE OF THE GENERAL COUNSEL**

**General Counsel**
- Emmanuel Maurice

**Deputy General Counsel**
- Stephen Petri

**Deputy General Counsel**
- Gerard Sanders

**Deputy General Counsel**
- Norbert Seiler

**Legal**
- Laura Campbell
  - Remy Cottage-Stone
  - Mary Faith Higgins
  - Thomas Hammack
  - Giel Hoogeboom
  - Paul Kearney
  - Michel Nussbaumer
  - Christoph Sicking
  - Brian Young
  - Rudiger Woggon

**Chief Counsels**
- Laura Campbell
  - Remy Cottage-Stone
  - Mary Faith Higgins
  - Thomas Hammack
  - Giel Hoogeboom
  - Paul Kearney
  - Michel Nussbaumer
  - Christoph Sicking
  - Brian Young
  - Rudiger Woggon

**Operations Administration Unit**
- Director: Peter Robinson

**Records Management and Archives**
- Manager: Anne Créta

**OFFICE OF THE CHIEF ECONOMIST**

**Chief Economist**
- Erik Berglöf

**Deputy Chief Economist and Director of Research**
- Jeromin Zettelmeyer

**Country Strategy and Policy**
- Piroksa Nagy

**Project and Sector Assessment**
- Andrew Kilpatrick

**Evaluation Department**
- Chief Evaluator (Reports to the Board of Directors): Fredrik Korfer
**EBRD Governors and Alternate Governors, 31 December 2010**

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<tr>
<th>Member</th>
<th>Governor</th>
<th>Alternate Governor</th>
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<td>Albania</td>
<td>Ridvan Bode</td>
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<td>Samir Sharifov</td>
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<td>Nikolai Snopkov</td>
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<td>Aleksandar Dzombić</td>
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<td>Miroslav Singer</td>
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<td>Mugur Isărescu</td>
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<td>Dmitry Pankin</td>
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<td>Mitja Mavko</td>
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<td>Jose Manuel Campa</td>
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<td>Susanne Ackermann</td>
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<td>Andrew Mitchell</td>
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<td>Robert D. Hormats</td>
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<td>Shakvat Tulaganov</td>
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<td>Olli Rehn</td>
<td>Marco Buti</td>
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<tr>
<td>European Investment Bank</td>
<td>Dario Scannapicco</td>
<td>Anton Rop</td>
</tr>
</tbody>
</table>
**Chair of the Board of Governors**

*2009-10:* Governor for France (Madame Christine Lagarde)

*2010-11:* Governor for Korea, Republic of (Jeung-Hyun Yoon)

**Vice Chairs of the Board of Governors**

*2009-10:* Governor for Sweden (Ms Susanne Ackum) Governor for the Slovak Republic (Mr Ján Počiatek)

*2010-11:* Governor for Bosnia and Herzegovina (Sven Alkalaj) Governor for Portugal (Fernando Teixeira dos Santos)

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

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

**EBRD Directors and Alternate Directors, 31 December 2010**

<table>
<thead>
<tr>
<th>Director</th>
<th>Alternate</th>
<th>Constituency</th>
</tr>
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<tbody>
<tr>
<td>Pavel Štěpánek</td>
<td>László Urbán</td>
<td>Czech Republic, Hungary, Slovak Republic, Croatia</td>
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<tr>
<td>Kurt Bayer</td>
<td>Golan Benita</td>
<td>Austria, Israel, Cyprus, Malta, Kazakhstan, Bosnia and Herzegovina</td>
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<td>Stefania Bazzoni</td>
<td>Gianluca Grandi</td>
<td>Italy</td>
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<td>Thomas Hackett</td>
<td>Dominique de Crayencour</td>
<td>European Investment Bank</td>
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<td>Ib Katznelson</td>
<td>Eoin Ryan</td>
<td>Denmark, Ireland, Lithuania, FYR Macedonia</td>
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<tr>
<td>Alain de Cointet</td>
<td>François Lefebvre</td>
<td>France</td>
</tr>
<tr>
<td>Stefka Slavova</td>
<td>Krystyna Gawlikowska-Hueckel</td>
<td>Bulgaria, Poland, Albania</td>
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<tr>
<td>Werner Gruber</td>
<td>Memduh Akçay</td>
<td>Switzerland, Turkey, Liechtenstein, Uzbekistan, Kyrgyz Republic, Azerbaijan, Turkmenistan, Serbia, Montenegro</td>
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<tr>
<td>Sven Hegelund</td>
<td>Kalle Killar</td>
<td>Sweden, Iceland, Estonia</td>
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<td>Etsuro Honda</td>
<td>Tatsuhiko Kasai</td>
<td>Japan</td>
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<td>Jari Koskinen</td>
<td>Ole Hovland</td>
<td>Finland, Norway, Latvia</td>
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<td>Brian Parrott</td>
<td>Canada, Morocco</td>
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<td>In-chang Song</td>
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<tr>
<td>Elena Kotova</td>
<td>Vacant</td>
<td>Russian Federation, Belarus, Tajikistan</td>
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<td>Vassili Lelakis</td>
<td>Peter Basch</td>
<td>European Union</td>
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<td>Pedro Moriyón</td>
<td>David Martínez Hornillos</td>
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<tr>
<td>James Hudson</td>
<td>Vacant</td>
<td>United States of America</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>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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<tr>
<td>Jan Willem van den Wall Bake</td>
<td>Jan Maas</td>
<td>Netherlands, Mongolia</td>
</tr>
<tr>
<td>João Cravinho</td>
<td>Stefanos Vavalidis</td>
<td>Portugal, Greece</td>
</tr>
</tbody>
</table>
Composition of Board of Directors’ committees, 31 December 2010

**AUDIT COMMITTEE**
- Werner Gruber (Chair)
- João Cravinho (Vice Chair)
- John Eyers
- Thomas Hackett
- Sven Hegelund
- Vassili Lelakis
- Jan Willem van den Wall Bake

**BUDGET AND ADMINISTRATIVE AFFAIRS COMMITTEE**
- Stefka Slavova (Chair)
- Alain de Cointet (Vice Chair)
- Suzanne Hurtubise
- Jari Koskinen
- Pedro Moriyón
- Igor Podoliev
- Joachim Schwarzer

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.

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**
- Stefania Bazzoni (Chair)
- Jean-Louis Six (Vice Chair)
- Kurt Bayer
- Etsuro Honda
- James Hudson
- Ib Katznelson
- Elena Kotova
- Pavel Štěpánek

**BOARD STEERING GROUP**
- Kurt Bayer (Chair)
- Stefania Bazzoni (Vice Chair)
- Jean-Louis Six
- Alain de Cointet
- Werner Gruber
- Jean-Louis Six
- Stefka Slavova
- Enzo Quattricocche
- Nigel Carter

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.

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

Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</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>
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<tr>
<td>CEB</td>
<td>Central Europe and the Baltic states</td>
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<tr>
<td>CEI</td>
<td>Central European Initiative</td>
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<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<td>CRR4</td>
<td>The fourth Capital Resources Review</td>
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<td>DIF</td>
<td>Direct Investment Facility</td>
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<td>EC</td>
<td>European Commission</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<tr>
<td>ESIA</td>
<td>Environmental and Social Impact Assessment</td>
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<tr>
<td>ETC</td>
<td>Early transition countries</td>
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<td>EU</td>
<td>European Union</td>
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<td>EWBGF</td>
<td>European Western Balkans Joint Fund</td>
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<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>FYR Macedonia</td>
<td>Former Yugoslav Republic of Macedonia</td>
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<td>GAP</td>
<td>Gender Action Plan</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IFI</td>
<td>International financial institution</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>MDB</td>
<td>multilateral development bank</td>
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<tr>
<td>MEI</td>
<td>municipal and environmental infrastructure</td>
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<tr>
<td>MSME</td>
<td>Micro, small and medium-sized enterprise</td>
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<tr>
<td>NDEP</td>
<td>Northern Dimension Environmental Partnership</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
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<tr>
<td>NIF</td>
<td>Neighbourhood Investment Facility</td>
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<td>PCM</td>
<td>Project Complaint Mechanism</td>
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<td>PIP</td>
<td>Public Information Policy</td>
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<td>PPP</td>
<td>Public-private partnership</td>
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<tr>
<td>RSBF</td>
<td>Russia Small Business Fund</td>
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<tr>
<td>SEE</td>
<td>South-Eastern Europe</td>
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<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
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<td>SSF</td>
<td>EBRD Shareholder Special Fund</td>
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<td>TAM</td>
<td>TurnAround Management</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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<tr>
<td>WBIF</td>
<td>Western Balkans Investment Framework</td>
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</tbody>
</table>

Exchange rates
Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2010. (Approximate euro exchange rates: £0.86, US$ 1.34, ¥108.80).

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.
Highlights of 2010

**JANUARY**
The EBRD and Intesa Sanpaolo to focus on the acquisition, turnaround and resolution of corporate distressed assets in central and eastern Europe.

**FEBRUARY**
100

**FINANCING FOR MICROFI NANCE IN KIRGHIZSTAN**
The EBRD and IFC jointly raise €200 million for on-lending to microfinance institutions in Krygyzstan.

**MARCH**
150

**GAS TURBINE STATE-OF-THE-ART FACILITY IN LATVIA**
The EBRD steps up its support for the development of energy-intensive industries by signing a loan for the construction of a state-of-the-art gas turbine facility in Latvia.

**APRIL**

**A NEW FOCUS ON MICROFI NANCE**
The EBRD signs three credit lines of up to €24.5 million each, for micro, small and medium-sized enterprises (MSMEs) in Turkey, with special focus on more remote regions. All transactions are part of the EBRD's Access to Finance Action Plan.

**MAY**
A fi nancing facility of up to US$ 185 million ($146 million equivalent) is launched by the EBRD and local banks to support the development of financial institutions offering small and medium-sized enterprises (SMEs) access to fi nance in the Kyrgyz Republic.

**JUNE**

**ACTION PLAN 24.5**
The EBRD launches its Local Currency Financing Facility for on-lending to small and medium-sized enterprises (SMEs) in central and eastern Europe, Russia, and the Mediterranean region. The EBRD provides €200 million to fund the Facility, which is designed to support economic and social development in central and eastern Europe, Russia, and the Mediterranean region, and to improve access to fi nance for businesses in these countries.

**JULY**

**INVESTMENT IN HERZEGOVINA, HUNGARY AND SERBIA**
The EBRD and IFC jointly raise €200 million for on-lending to small and medium-sized enterprises (SMEs) in Herzegovina, Hungary and Serbia.

**AUGUST**

**ACTION PLAN 24.5**
The EBRD signs three credit lines of up to €24.5 million each, for micro, small and medium-sized enterprises (MSMEs) in Turkey, with special focus on more remote regions. All transactions are part of the EBRD’s Access to Finance Action Plan.

**SEPTEMBER**

**A NEW FOCUS ON MICROFI NANCE**
The EBRD signs three credit lines of up to €24.5 million each, for micro, small and medium-sized enterprises (MSMEs) in Turkey, with special focus on more remote regions. All transactions are part of the EBRD’s Access to Finance Action Plan.

**OCTOBER**

**THE EBRD AND IFC JOINTLY RAISE €200 MILLION FOR ON-LENDING TO MICROFINANCE IN KIRGHIZSTAN**
The EBRD and IFC jointly raise €200 million for on-lending to microfinance institutions in Krygyzstan.

**DECEMBER**

**THE EBRD AND IFC JOINTLY RAISE €200 MILLION FOR ON-LENDING TO MICROFINANCE IN KIRGHIZSTAN**
The EBRD and IFC jointly raise €200 million for on-lending to microfinance institutions in Krygyzstan.
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.