ACTIVITIES BY SECTOR

The EBRD invests in the financial, corporate and SME sectors and in infrastructure, power and natural resources. By combining these investments with technical cooperation and policy dialogue, the Bank makes an important contribution to sustainable growth and private sector development.

FINANCIAL SECTOR

The EBRD supports the development of a resilient and competitive financial sector in the countries in which it invests. By blending investments with donor-funded technical assistance and policy dialogue, the Bank fosters strong financial institutions that drive economic growth, promote energy efficiency and reach underserved sections of the population.

In 2014 the financial sector in the EBRD region continued to face significant challenges. A slow crisis-recovery in many countries, the ongoing cross-border deleveraging of banks, tighter regulation of the financial sector, and structural economic problems all combined to limit the amount of credit available to firms.

By signing new business in the financial sector worth €2.8 billion in 2014 covering 135 projects in 30 countries (2013: €2.4 billion covering 157 projects in 29 countries) the Bank supported lending to the real economy. It provided around 18 per cent of its loans through local currency instruments in order to reduce foreign exchange risks for partner institutions and their clients.

The EBRD delivered financial sector projects across the whole region (see chart on page 18), including a high level of activity in Poland and Turkey, where 11 transactions were signed in each country for annual Bank investment (ABI) of close to €750 million. The Bank also expanded its activities in Albania, Armenia, Croatia, Romania, Serbia, the Slovak Republic and new recipient country Cyprus.

Despite the difficult business environment in the southern and eastern Mediterranean (SEMED) region the Bank continued to develop new financial sector projects there, signing 11 transactions and trade finance for ABI of €300 million. It also remained very active in the early transition countries (ETCs), where 54 projects were signed and ABI reached €372 million.

The Trade Facilitation Programme (TFP) also made a significant contribution to the Bank's business in 2014, including in the ETC region, and was instrumental in EBRD efforts to support the Ukrainian economy.

“A resilient financial sector drives economic growth and development.

POLICY DIALOGUE

Major focus areas for policy dialogue included strengthening the infrastructure of the financial sector and improving access to long-term financing. In line with its Local Currency and Capital Markets (LC2) Development Initiative, the EBRD worked to improve the legal and operating environment to enable more local currency and capital market activity. It also combined extensive policy dialogue with investments to strengthen the deposit insurance system in Albania and Serbia.

The Bank continued policy dialogue activities aimed at promoting financial inclusion, which is the extension of financial services to people outside the formal banking system. The EBRD supported the central bank of Tajikistan in creating a regulatory framework for mobile financial services in the country. This resulted in a pilot project that allows banks and other financial institutions to deliver their services using innovative technologies.

In addition, the EBRD cooperated closely with other international financial institutions (IFIs) to support the health of the financial sector across the region. The Vienna 2.0 Initiative, the Joint IFI Action Plan for Growth in Central and South Eastern Europe and the Ukraine Financial Forum were among the main platforms for this work.

BANKING

Tighter regulation of the financial sector, along with high levels of non-performing loans (NPLs) and unprofitable assets constrained bank capital and reduced profit margins for banks in many parts of the EBRD region. Continued deleveraging by major European banking groups further reduced the availability of long-term investible capital.

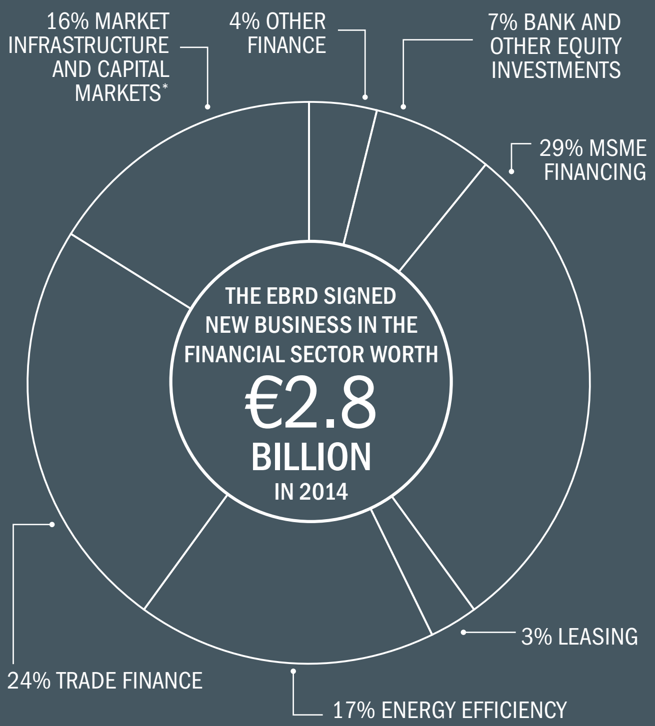
To help strengthen the banking sector, the EBRD participated in capital increases by banks in Cyprus and Poland and invested in bank bond issues in Poland and Romania. The institution encouraged bank lending to the real economy through its trade finance, micro, small and medium-sized enterprise (MSME) and energy-efficiency activities.

TRADE FINANCE

The Trade Facilitation Programme (TFP) of the EBRD 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 of imported products. The Programme plays an important role in supporting economic activity in countries where foreign banking groups are reluctant to engage in trade finance because of higher levels of risk.

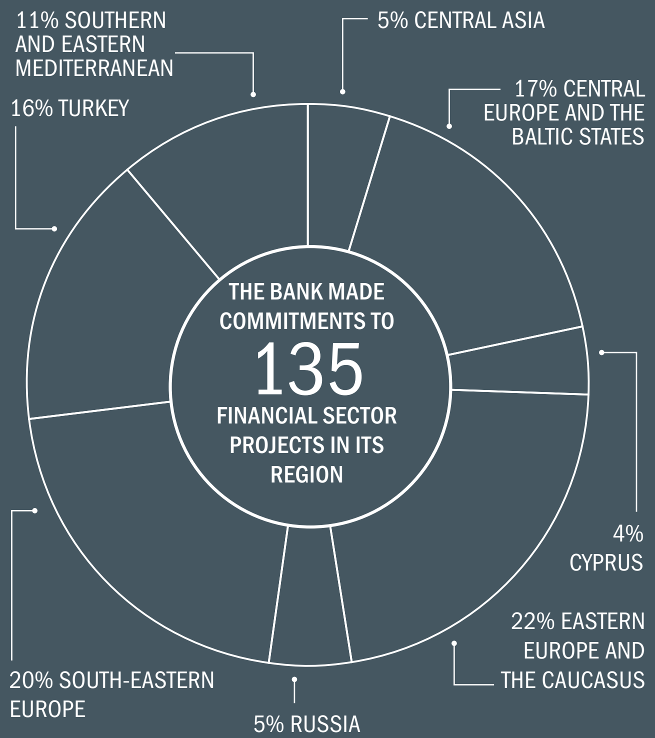
In 2014 the EBRD financed 1,756 trade transactions worth a total of €1.3 billion, working with 82 banks across 22 countries. In response to the current difficulties in Ukraine, the Programme intensified its support for local businesses by processing trade transactions worth €347.6 million. The Bank concluded its first TFP transactions in Egypt and Tunisia and the Programme remained an important means for the EBRD to establish banking relationships in the SEMED region. The ETCs continued to represent a major share of trade finance business: they accounted for 45 per cent of the number of TFP transactions (and 22 per cent of the volume).

FINANCIAL SECTOR ANNUAL BANK INVESTMENT BY PRODUCT, 2014



* The market infrastructure and capital markets segment includes bonds (not linked to SME financing), an asset-backed securitisation and credit lines to deposit insurance agencies.

FINANCIAL SECTOR ANNUAL BANK INVESTMENT BY SUB-REGION, 2014



> “Financing for MSMEs is vital to stimulate lending to the real economy.

SUSTAINABLE ENERGY AND RESOURCE FINANCING

Sustainable energy financing facilities (SEFFs) – dedicated credit lines to local financial institutions for investments in sustainable energy projects – remained a core component of the EBRD's Sustainable Resource Initiative (SRI), which builds on the Sustainable Energy Initiative (SEI) launched in 2006.

The Bank provided new loans worth a total of €479 million to 35 financial institutions across 17 countries, including Mongolia for the first time. In Turkey the EBRD contributed US$ 282.5 million (€233 million equivalent) to a US$ 350 million (€288 million equivalent) financing facility to help homeowners cut energy consumption. Launched in partnership with the multi-donor Clean Technology Fund, the facility combines long-term financial support to Turkish banks and technical advisory services for banks and homeowners. The Bank also extended a €105 million loan to Turkey's Isbank, of which €74 million is dedicated to energy efficiency loans while the remainder will finance women entrepreneurs and agricultural projects.

Between the launch of the SEFFs in 2006 and the end of 2014, the EBRD disbursed loans worth €2.1 billion to partner institutions, which on-lent €1.9 billion to sub-borrowers, thereby supporting over 73,900 sustainable energy projects.

Under the umbrella of the SRI, which launched in 2013, the EBRD last year extended its first resource-efficiency credit line to a financial institution. The €50 million loan to Turkiye Sınai Kalkınma Bankası A.S. (TSKB) will be on-lent to companies for water efficiency, waste minimisation and energy efficiency projects.

MSME FINANCING

The promotion of financing for MSMEs is central to the EBRD's efforts to stimulate lending to the real economy. Small businesses are a traditional driver of job creation and economic growth in the countries where the Bank invests but have been particularly affected by the shortage of liquidity resulting from the financial crisis.

In 2014 the Bank continued to facilitate credit flow to MSMEs by concluding 68 MSME credit lines and bonds for over €895 million to partner institutions such as banks, leasing companies and specialised microfinance institutions across 25 of the countries in the EBRD region.

To help increase and strengthen the role of women entrepreneurs in Egypt, Turkey and the Western Balkans, the Bank launched Women in Business programmes that will provide companies run by women with advice and finance via credit lines to local banks. Women in Business programmes will be launched in 15 of the countries where the Bank invests.

Energy-efficiency credit lines also supported finance to small and medium-sized enterprises (SMEs). The EBRD actively supports MSMEs through over 69 partner institutions in 25 countries. As of mid-2014, these partner institutions had portfolios of 2.5 million MSME loans totalling €16.8 billion.

EQUITY

Demand for equity investments in the banking sector remained low in 2014 due to the difficult financial environment. The EBRD participated in the recapitalisation of the Bank of Cyprus to help stabilise the bank's operations and increased its investment in Meritum Bank in Poland. In its first equity investment in an asset management company since the financial crisis, the EBRD took a stake in Altus TFI in the Polish company's initial public offering (IPO) on the Warsaw Stock Exchange.

With regard to exits, the Bank secured 10 full and 5 partial divestments from a range of institutions in its portfolio, including Bank of Georgia and Bank Intesa, Russia. The EBRD has investments of €1.74 billion in 66 financial institutions across 25 of the countries where it invests.

CASE STUDY
POLISH INSURER EYES GROWTH WITH BOND ISSUE

The EBRD backed the international expansion plans of a leading Polish insurance company, PZU, by buying €40 million of senior unsecured Eurobonds in the insurer's €500 million debut bond issue.

PZU plans to establish itself as a regional player in the fragmented insurance market of central and eastern Europe and will use the bond issue proceeds to acquire significant stakes in insurance companies or other financial institutions in the region.

This expansion will increase competition in the regional insurance market, which ultimately will benefit customers. The bond acquisition is an example of EBRD efforts to strengthen financial institutions and contribute to the development of local capital markets in the countries where it invests.

OTHER FINANCIAL SERVICES

To help diversify the funding base of financial institutions and encourage lending to the real economy, the EBRD supported bond issues and securitisation, factoring and leasing projects. Business with non-banking financial institutions grew as the Bank diversified its investments and contributed to the development of market infrastructure and capital markets. It extended funding to deposit insurance agencies in Albania and Serbia to bolster confidence in the financial sector. The acquisition of a stake in the Bucharest Stock Exchange demonstrated EBRD support for Romania's efforts to strengthen local capital markets.

The Bank strongly encourages local currency lending and financed 50 local currency loans and bonds in 2014. It continued to respond to the currency mismatch faced by some financial institutions by extending its cross-currency swap product to Romanian and Serbian financial institutions.

TECHNICAL COOPERATION

Thanks to support from donors, technical assistance supported EBRD investments and policy dialogue in priority areas such as sustainable energy, LC2, financial inclusion, trade finance and MSME lending. In 2014 there were 98 technical cooperation (TC) assignments issued in the financial institutions sector with a total value of €28.9 million. Donors funded €28.3 million of incentive payments to participating institutions and their clients in the areas of energy and resource efficiency and SME competitiveness.

Technical assistance is an important element of the Women in Business programme launched in Egypt, Turkey and the Western Balkans last year. TC assignments will help partner financial institutions reach out to companies managed by women and will provide women entrepreneurs with advice.

INDUSTRY, COMMERCE AND AGRIBUSINESS

Through investments in industry, commerce and agribusiness (ICA), the EBRD promotes the development of a strong private corporate sector that generates sustainable growth. It uses loans, bonds, equity investments, participation in equity funds, policy dialogue and donor-funded technical assistance to support clients.

In 2014 the Bank invested €2.3 billion through 136 projects in ICA. The sector accounted for 26 per cent of annual Bank investment and 36 per cent of the number of operations (including 37 per cent of ETC transactions and 78 per cent of equity transactions).

To boost the competitiveness of companies in its region, the EBRD launched its Knowledge Economy Initiative (KEI) in 2014. This promotes innovation in a systematic way across the Bank and addresses policy, financing, infrastructure and technology gaps to help clients increase productivity. (For more information on the Initiative, see the box "Knowledge Economy and Innovation" on page 11.)

"In 2014 industry, commerce and agribusiness accounted for 26 per cent of annual Bank investment.

AGRIBUSINESS

EBRD investments and policy dialogue aim to unlock the enormous agricultural potential of the Bank's region in a way that contributes to economic growth and global food security while promoting resource efficiency and animal welfare.

In 2014 the EBRD invested a total of €859 million (2013: €871 million) through 56 transactions in agribusiness, including €232 million in support of the Sustainable Resource Initiative (SRI). In Ukraine, the Bank increased its financing for agribusiness companies to make up for the reduced availability of commercial funding and engaged in extensive policy dialogue to help make the sector more attractive to investors.

The EBRD continued its innovative engagement with the agribusiness sector in Turkey. Investments included participation in a bond issue by food and beverage producer Yaşar Holding and an equity stake in dairy company Yörsan. Among the notable projects in other parts of the EBRD region were financing for the first hypermarket in Tajikistan and equity funding for the expansion of the Axereal grain collection cooperative into Croatia, Romania and Serbia.

Investments in agribusiness make an important contribution to the Bank's efforts to promote greater economic inclusion. An example is the EBRD's loan to Turkish confectionery company ETI. The Bank will support the firm's investment programme, including the commissioning of a greenfield confectionery production facility near Craiova, Romania. ETI will provide training opportunities to address regional inclusion gaps in regard to education.

The Private Sector for Food Security Initiative remained a central focus for the EBRD's work in agribusiness. Food quality and improved logistics emerged as key themes within the Initiative and this was reflected in the Bank's investments and policy dialogue. Animal welfare was also very important; the EBRD's revised Environmental and Social Policy formalised the requirement that the Bank only invest with clients who commit to bringing their animal welfare standards in line with those of the EU. Several agribusiness investments in 2014 saw the Bank support companies committed to these high standards, including Ukrainian pig farming company Nyva (see case study on page 45).

MANUFACTURING AND SERVICES

In the manufacturing and services sector, the EBRD's activities promote the sustainable use of resources as well as the development of the knowledge economy and innovation in the region. To support economic diversification, the Bank invests in a broad spectrum of industries, including (in 2014) automotive supply, capital goods, chemicals, construction materials, electronics, forestry products, glassware and pharmaceuticals.

In 2014 the EBRD invested €890 million in the manufacturing and services sector, signing 50 projects (compared with close to €900 million for 51 transactions in 2013). Transactions ranged in size from €0.2 million to €125 million and helped mobilise an additional €120 million in syndicated financing. The Bank is committed to reaching out to SMEs: 32 of the transactions in the manufacturing and services sector in 2014 were for €10 million or less, and many of these were in the ETCs and the Western Balkans.

In the SEMED region, the EBRD committed US$ 50 million (€41 million equivalent) to pharmaceutical group Hikma to finance the expansion of facilities in Jordan, Morocco and Tunisia and to support investments in intellectual property related to new, sophisticated medicines.

The EBRD backs innovative industrial projects that make efficient use of energy and other resources. Examples include the Bank's investment in energy efficiency and glass recycling at leading Turkish glass producer Şişecam and financing for the construction of an environmentally friendly cement plant by Mongolian company Senj Sant. The EBRD also invests in research and development and technology upgrades that enhance the productivity and competitiveness of manufacturing companies.

In addition, the Bank works to attract foreign direct investment to industry in the region and provides local currency financing to limit client exposure to foreign exchange risk. Improving corporate governance is another focus, including through equity capital transactions, such as the purchase of a stake in glass tableware producer Paşabahçe in Turkey.

GLOBAL INVESTMENT FIRM MAKES REGIONAL DEBUT

As part of efforts to attract major international investors to the EBRD region, and in support of its Knowledge Economy Initiative, the Bank increased its investment in SBB/Telemach, now part of the United Group, upon the acquisition of a controlling interest in the group by leading global investment firm KKR.

The EBRD invested €50 million alongside funds affiliated with KKR, which was making its first direct investment in central and eastern Europe. United Group is a leading regional provider of pay-TV platforms and telecommunications, with operations in Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia and Slovenia. With the support of KKR and the EBRD, the group will undertake ambitious expansion plans.

The EBRD investment promotes competition within the telecommunications sector in the region. It also demonstrates the appeal of the Western Balkans to world-class private equity players, who bring large amounts of capital and the highest standards of corporate governance to their investee firms.

HELPING YOUNG EGYPTIANS FIND JOBS

Through an investment in a retail and entertainment centre in a Cairo suburb, the EBRD is helping to address the skills gap among young Egyptian job-seekers while boosting retail infrastructure. Nearly two-fifths of Egyptians under the age of 24 are unemployed and a third are not in any form of employment, education or training.

The EBRD is providing US$ 60 million (€49.4 million equivalent) to fund the development of the Mall of Arabia, the first phase of the Arabian Centres development in 6th of October City, an important satellite town on the edge of Cairo. The project will create some 5,000 jobs in total. Twenty-five international and local fashion brands operating in the centre will form a partnership to provide on-site, work-based training for youth – young women in particular – that is based on best international standards and meets the needs of employers. At least 100 young job-seekers will undergo vocational training in subjects including customer relations, store and facilities management and English.

The project is expected to have a systemic impact on vocational training in Egypt. The private employers providing on-site training will help to develop national training standards for the retail sector, thereby ensuring a better match in the long term between the requirements of industry and the skills of young people.

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YOUNG JOB-SEEKERS

WILL UNDERGO VOCATIONAL TRAINING IN ENGLISH, CUSTOMER RELATIONS, STORE AND FACILITIES MANAGEMENT.

CASE STUDY
STRENGTHENING TURKEY'S KNOWLEDGE ECONOMY

Turkish electronic goods manufacturer Vestel Elektronik is investing in research for the development of energy-efficient smart TV sets and light-emitting diode (LED) products thanks to EBRD financing.

The Bank extended a €50 million loan to the company, which makes TV sets and white goods for global brands and produces tablet PCs, phones, smart boards and set-top boxes under its own brand name. Vestel Elektronik uses LEDs in most of its products and the research and development programme aims to help the company reduce the cost of these and dependence on foreign suppliers.

The firm will conduct its research with local universities, ensuring a transfer of skills that is expected to result in patents, academic publications and improved university laboratories.

INFORMATION AND COMMUNICATION TECHNOLOGIES

The EBRD promotes the development of a liberalised and financially self-sufficient information and communication technologies (ICT) sector that enables citizens and firms to benefit fully from the digital revolution. Activities in this sector are a critical element of the Bank's Knowledge Economy Initiative, launched last year. (See box on page 11).

In 2014 the Bank adopted a new ICT Sector Strategy, replacing a policy that had been in place since 1999. The Strategy, approved after public consultation, sets out three operational objectives: (i) promoting access to communications and information for more people, including through increased broadband penetration; (ii) helping incumbent telecommunications operators and governments accelerate privatisation; and (iii) fostering innovative ICT services with the potential to strengthen local innovation systems.

Last year the EBRD invested €158 million in the ICT sector through 10 projects in the region (2013: €307 million for nine projects). These included two transactions with major international private equity groups that are new to the EBRD region: a €50 million participation in the acquisition of United Group (SBB/Telemach) by KKR, the leading global investment firm; and a US$ 50 million (€41 million equivalent) loan to Turkish electronic security provider Pronet, which is majority-owned by Cinven, a leading European private equity firm.

The Bank invested €24 million in the second phase of the switchover from analogue to digital TV broadcasting in Serbia and conducted extensive policy dialogue related to the digital switchover in that country, as well as in Albania and Moldova. It provided €10 million in growth capital to help Virgin Mobile Central and Eastern Europe, a mobile virtual-network operator, expand in Poland and launch services in Turkey.

The Bank continued to implement its Venture Capital Investment Programme (VCIP), contributing to the development of a venture capital ecosystem in the region that can support innovative, high-growth technology companies. Three new investments under this programme were signed in 2014, in addition to a follow-on investment in a new financing round for an existing investee company.

PROPERTY AND TOURISM

In property and tourism, the EBRD works to support sustainable development and finances projects that promote resource efficiency, regeneration, gender equality and economic inclusion. It invests in hotels, offices, retail centres, logistics and mixed-use facilities.

In 2014 the EBRD committed a total of €227 million in 11 projects (2013: €240 million for 13 projects) in the EBRD region. Of this amount, €122 million was debt and the remainder equity. The purchase of a stake in Alliances Hotel Investment in Morocco marked the Bank's first direct equity investment in the SEMED region. It also acquired a minority stake in Amtel to support property developments in a number of countries including Belarus and Georgia.

> **“The EBRD supports property projects that make efficient use of power and other resources.**

Recognising that buildings are major consumers of energy and water, the EBRD supports property projects that make efficient use of power and other resources. An example is its US$ 60 million (€49.4 million equivalent) financing of the Arabian Centres retail and entertainment complex in the Cairo area, which will employ advanced technology to save water and energy.

The Bank contributed to economic inclusion by investing in property projects that improve routes from training to employment for women and young adults. Examples include the Arabian Centres and Alliances Hotel projects in Egypt and Morocco and an investment in the refurbishment of Croatia's Marina Dalmacija, the largest marina on the Adriatic Coast.

Projects in the ETCs and the Western Balkans included a loan to finance the completion of the Orion Hotel in the Kyrgyz capital, Bishkek. The Bank continued to support clients facing challenging market conditions, for example by restructuring its financing for the Tirana East Gate shopping mall in Albania and restructuring its loan to the Hilton Podgorica in Montenegro.

EQUITY

The Bank takes both direct and indirect equity positions in companies and projects. It is the single largest investor in private equity funds in the EBRD region and focuses mainly on growth and expansion capital. In 2014 the Bank enhanced its equity activities by bringing direct and indirect equity operations and portfolio management under a single Managing Director for Equity. It also created a network of equity specialists across the Bank. Equity investment themes have been developed and this work will be intensified in 2015.

Measures were taken to strengthen the Bank's capacity to identify and pursue investment opportunities and maximise the value of equity transactions. The Bank also increased its cooperation with global institutional investors, such as sovereign wealth funds, with a view to creating co-investment opportunities in the region. These investors can provide a major contribution to addressing the continued shortfall in long-term investment capital in many countries where the Bank invests.

DIRECT EQUITY

EBRD equity investments significantly improve the corporate governance of investee companies and are an essential instrument for deepening the transition impact of Bank activities. They also help compensate for the current lack of equity available to medium-sized enterprises in the EBRD region and provide reassurance to international co-investors entering new markets.

Since 1992, the Bank has invested over €14 billion in more than 820 equity investments across the region, including €10.8 billion in direct equity. At the end of 2014, its equity exposure was €6.1 billion in 352 investments, of which €4.6 billion was in direct equity. Taking only minority positions, the Bank makes direct equity investments ranging from €1 million to €250 million in energy, infrastructure, and the financial sector, as well as industry, commerce and agribusiness. It also supports private equity funds in the region (see below).

Noteworthy transactions in 2014 include participation in the IPOs of Romanian power distribution company Electrica and Polish asset management company Altus TFI and a significant pre-IPO equity investment in glassware maker Paşabahçe (Turkey) of up to €125 million. The Bank also successfully secured a full exit from Russian pharmaceutical company Petrovax and a partial exit from Russian hypermarket chain Lenta.

EQUITY FUNDS

With investments in over 150 funds since 1993, the EBRD has the largest private equity fund investment programme dedicated to central and eastern Europe (CEE) and Central Asia. Through its investments in private equity funds, the Bank helps to create a private equity industry in the region, as well as supporting growing companies that seek to access new sources of financing and improve their corporate governance. By mid-2014 over 1,300 investee companies had benefited from EBRD funds. Through its policy dialogue the Bank helps develop a robust private equity and venture capital ecosystem.

In 2014 the EBRD committed €185 million to nine private equity funds (compared with €334 million for 10 funds in 2013).

Enhancing its position as a reliable partner in SEMED, the Bank invested in a fund affiliated with the Abraaj Group that is dedicated to countries in the region such as Egypt, Morocco and Tunisia. The EBRD also invested in the Badia Impact Fund, an early-stage venture capital fund active in the SEMED region under the Early-Stage Innovation Facility (see case study on page 25) and increased its support for an existing fund sponsored by one of the leading private equity firms in Tunisia and Morocco.

The EBRD continued to back small companies by investing in two funds that will provide growth capital to SMEs in CEE. In addition, it participated in the restructuring of its existing commitment to the Accession Mezzanine Capital III Fund, which provides mezzanine financing to companies in the same region. The Overseas Private Investment Corporation (OPIC) contributed to the restructuring; this was the first time OPIC and the EBRD had found themselves in the same vehicle.

The Bank invested in a first-time fund, Romanian Foundations, which will provide capital to Romanian SMEs. It also invested €5 million in the Enterprise Innovation Fund (ENIF), which provides equity and quasi-equity funding for innovative SMEs in the Western Balkans. ENIF is led by a fund manager selected by a competitive process that is run by the European Investment Fund (EIF), a member of the European Investment Bank (EIB) Group.

The equity funds and agribusiness teams worked closely together on a US$ 100 million (€82.3 million equivalent) commitment to NCH Agribusiness Partners II, a private equity fund seeking to make investments in a portfolio of agricultural land and agribusiness-related assets in Ukraine and other countries. The EBRD also invested €16.5 million in the EMF

New Europe Insurance Fund, the first fund of its kind focused on investing in the insurance sector in Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkey, Ukraine and the Western Balkans.

The Bank has developed two integrated approaches aimed at building a sustainable and sophisticated private equity and venture capital industry in the region: the Integrated Approach to Supporting a Sustainable Polish Private Equity Industry (the Polish IA), approved in 2012; and the Integrated Approach for the Further Development of the Venture Capital and Private Equity Ecosystem in the Baltic States (the Baltics IA), approved in 2013. The EBRD's commitment to the BPM Mezzanine Fund, which extends financing to companies in Estonia, Latvia, Lithuania and Poland, was signed under the Baltics IA in 2014.

Policy dialogue related to equity funds concerned individual projects and cooperation with other development finance institutions (DFIs) on improving market conditions in the region. The EBRD meets DFI partners twice a year to coordinate efforts to stimulate the growth of equity fund activity in the countries where they invest.

SME FINANCE AND DEVELOPMENT

SMEs are an important source of jobs and growth and an essential part of a healthy modern economy. At the same time, they are particularly vulnerable to some of the transition gaps that exist in the EBRD region, such as financing constraints, difficult business conditions and an economic legacy dominated by large state-owned companies.

The Bank created an SME Finance and Development group in 2014 to lead implementation of the Small Business Initiative (SBI), approved the previous year as part of an institution-wide modernisation plan. The new team builds on the EBRD's support for small and medium-sized firms by gathering these activities under a single umbrella, providing a more streamlined and strategic approach. The new group works with other departments, donors and external stakeholders to promote the conditions in which SMEs can flourish.

The SME Finance and Development group prepared and began executing its operational action plan in 2014. It also began improving information management systems to better track the large number of SME financing activities across the Bank, monitor their impact and streamline decision-making processes for relevant projects.

In 2014 the EBRD extended €1.34 billion to small businesses in 126 transactions, accounting for 33 per cent of its projects.

EBRD investments in small firms take the shape of direct financing and indirect financing via partner institutions, with local currency lending playing an important role. In addition, the Bank engages in co-financing and risk-sharing with SMEs and conducts non-financial activities such as policy dialogue, the provision of advisory services and support for legal reform. There is a pressing need to improve the business climate in many countries, which includes supporting governments to tackle corruption at all levels. Donor support is crucial to many aspects of the EBRD's work with small businesses.

The first integrated product offered under the Small Business Initiative is the Women in Business programme combining access to finance with advice to support women entrepreneurs in the EBRD region. The first Women in Business programme loans were signed in Egypt, Turkey and the Western Balkans in 2014 with other regions to follow.

A major tool for promoting small business development is the Local Enterprise Facility (LEF), a €505 million investment vehicle for private SMEs in the Western Balkans, Bulgaria, Croatia, Cyprus, Romania, Serbia, Turkey and the SEMED region. It provides long-term financing in a broad range of sectors and pre- and post-investment support. Established in 2006, the Facility includes a €20 million contribution from the Italian government and €485 million from the EBRD.

> “The Bank drew on the expertise of local consultants and international advisers to help small firms reach their potential.

SMALL BUSINESS SUPPORT

The Small Business Support (SBS) team operates in 25 countries in the Caucasus, Central Asia, central and eastern Europe – including Russia – and the SEMED region and helps SMEs to access the know-how that can transform businesses. It is a pillar of the EBRD's SME strategy under the Small Business Initiative. From business strategy to marketing, quality management, export promotion or energy efficiency, in 2014 the Bank continued to draw on the expertise of thousands of local consultants and international advisers to help small firms reach their potential for growth and employment.

It worked to build a strong, competitive market for business advice in each country, through training courses, workshops, seminars and other activities. All SBS projects operate on a cost-sharing basis and are possible thanks to the continued support and engagement of a wide range of donors, including the European Union (EU) and over 20 bilateral donors and other organisations. In 2014, SBS raised €33.2 million in donor funding in new financial commitments. Sweden was the largest donor, with important contributions also coming from the EU, Italy, BG International Limited (Kazakhstan), Korea, Luxembourg, Taipei China, the United States, the Global Environment Facility, the EBRD Shareholder Special Fund, the SEMED Multi-Donor Account and the Ukraine Multi-Donor Fund. Russian projects in 2014 continued to benefit from the bilateral TC funding committed by Russia in the previous year.

The EBRD carried out more than 1,746 projects in 2014 connecting SMEs to local consultants for specific business advice, and over 166 projects providing medium-sized firms with the industry expertise of international advisers. The impact of these projects is clear: from 2012 to 2014, 82 per cent of enterprises surveyed showed increased turnover in the year following their projects. In addition, 61 per cent increased their staff numbers, creating 30,417 new jobs. Greater access to finance also remains a key goal of the SBS programme. From 2012 to 2014, 76 clients secured finance from the EBRD and 687 from local banks, including EBRD partner banks.

In 2014 the SBS team launched a 'Know How' information campaign across 25 countries to promote the value of external advice for SMEs. Through events, videos, feature stories and other communication tools, the campaign highlighted individual EBRD advisory projects and the resulting improvements in performance. It also targeted local and international consultants and showcased the vital role that SBS donors play in the success of the programme.

The EBRD pursued its work on promoting exports through its dedicated programme in three countries of Central Asia, funded by the United States SME Special Fund. The programme entered its third year, having helped more than 150 businesses to expand their export potential since 2012, with 36 projects in 2014. The EBRD also continued to support the Advice for Agribusiness programme, which helps agribusiness firms in the ETCs, SEMED and Turkey obtain international know-how as well as direct financing through the EBRD.

Furthermore, SBS introduced six new training courses to enhance the skills of local consultants. Training took place across all 25 countries in which the SBS programme operates. In the medium term the Bank will seek to engage local consulting institutes and associations to deliver the courses and ensure a sustainable source of professional development for consultants.

TRANSPORT

The EBRD invests in transport projects that connect businesses to suppliers and markets and give people access to economic opportunities and essential services. Promoting the creation of sustainable transport networks, developing the private market for transport services and fostering regional integration are key priorities for the Bank's investment and policy dialogue activities in this sector.

In 2014 the Bank signed 26 transactions in the transport sector for a total EBRD investment of €1.3 billion. Of this amount, €480 million was provided for energy efficiency and climate change mitigation investments under the Sustainable Resource Initiative (SRI). Non-sovereign projects accounted for 50 per cent of Bank projects in the aviation, maritime, rail, road and intermodal sectors by value. Transport projects were concluded across the region including, for the first time, in the SEMED countries.

SUSTAINABLE TRANSPORT

Since 2006, the EBRD has committed €1.6 billion to energy efficiency and mitigation investments in the transport sector. Flagship transport projects signed under the SRI in 2014 include a €126 million investment to help fund the modernisation of Egypt's railway system. The loan will support Egyptian National Railways as it replaces its ageing fleet with safer modern rolling stock, secures their long-term maintenance and implements an energy efficiency action plan. The Bank also provided a tranched €52.5 million loan to Moldova's national rail company to finance fleet modernisation and improved energy management.

CASE STUDY
SEMED TECH SECTOR GETS VENTURE CAPITAL BACKING

The EBRD demonstrated its support for early-stage, technology-oriented MSMEs, predominantly in Jordan but also in Egypt, Morocco and Tunisia, by investing US$ 8 million (€6.6 million equivalent) in the Badia Impact Fund, an early-stage venture capital fund focused on the southern and eastern Mediterranean (SEMED) region.

The project contributes to the expansion of the venture capital industry in SEMED, providing much-needed long-term equity financing for innovative MSMEs at an early stage of growth. The Bank made the investment under its Early-Stage Innovation Facility (ESIF), a dedicated €100 million facility through which the EBRD will selectively invest in commercially oriented early-stage venture capital funds. The transaction forms part of EBRD efforts to promote the knowledge economy in the countries where it invests, in particular by fostering the development of the early-stage venture capital ecosystem.

In Ukraine the EBRD extended a US$ 60 million (€49.4 million equivalent) loan to private stevedoring company Brooklyn-Kiev LLC to finance the development of a new grain transhipment terminal in the Port of Odessa. The new terminal will boost Ukraine's grain export potential and reduce carbon emissions thanks to the use of advanced technology and shorter distances of travel for inland grain deliveries.

Climate change mitigation and adaptation are important areas of the EBRD's work in sustainable transport. In Poland a €31 million investment in the DCT Gdansk deep-water container terminal will support measures to boost its resilience to climate change and rising sea levels. The Bank also promotes green logistics to minimise the environmental impact of logistics activities, by supporting the use of more energy-efficient practices by freight transport and storage operators. Logistics projects in 2014 included the second tranche of financing for the construction of a modern intermodal logistics terminal in Tbilisi, which will be a strategically important platform between Asia and Europe.

ROAD SAFETY

The number of traffic-related deaths per 100,000 of population is considerably higher in the EBRD region than in OECD countries and emerging markets with similar income levels. The Bank strongly promotes road safety as part of its commitment to sustainable transport. Last year it engaged in road safety campaigns in Azerbaijan, Moldova and Ukraine linked to major investments in regional roads. These campaigns aimed to improve conditions for the most vulnerable road users – including children travelling to school – and raise awareness among drivers, local officials in charge of road infrastructure, and public transport operators. The Bank works closely with local and international partners on this issue and is a founding member of the Multilateral Development Banks' Road Safety Initiative. Donors strongly support this work on road safety, including extensive policy dialogue.

CASE STUDY
SUPPORTING HOSPITAL CONSTRUCTION IN TURKEY

The EBRD is co-financing the construction of a high-tech hospital in south-eastern Turkey that forms part of a major Turkish government programme to expand the provision of quality hospital infrastructure in the country. The Bank extended a €215 million syndicated loan and €65 million notional interest rate swap to private developer ADN PPP Sağlık Yatırım, which will design, build, equip and manage the Adana hospital campus under the public-private-partnership (PPP) model. Clinical services inside the PPP hospital will remain the responsibility of Turkey's Ministry of Health.

The company is owned by a consortium of Turkish and international firms, including the biggest Turkish construction company, Rönesans Holding, and the private equity fund Meridiam in which the EBRD is an investor. As well as being the largest lender, the EBRD played a key role in securing a total of €433 million in long-term financing for the project, including €120 million in parallel financing from the International Finance Corporation, the French development agency Proparco and the German development bank DEG.

Adana hospital is one of the first to be built under a €12 billion Turkish government programme to construct or expand about 60 hospitals across the country. By tapping the know-how and resources of the private sector through the facility-management PPP model, the programme aims to build hospitals more quickly and manage them more efficiently than in the past, thereby responding to Turkey's growing need for quality hospital infrastructure. The EBRD conducted extensive policy dialogue with the Turkish Ministry of Health to facilitate the use of the PPP model in the building programme.

> “By financing key transport corridors the EBRD promotes regional integration.

REGIONAL INTEGRATION

The EBRD plays an important role in promoting regional integration by financing key transport corridors. As part of the international community's support for the Ukrainian economy, the EBRD committed €200 million to a project, financed together with the EIB, to support the rehabilitation of key road approaches to Kiev, several of which form part of Pan-European Corridor IX.

In FYR Macedonia, the Bank committed €145 million in financing for part of a key rail corridor linking the Adriatic coast to the Black sea coast (see case study on page 40) and €74 million of a €160 million tranched facility to modernise the country's national road network, linking industrial centres and tourist destinations to international corridors. Meanwhile, in Moldova a €40 million tranche was extended as part of an ongoing project to rehabilitate 200 km of the country's major motorways. The improvements will help spread economic development to remote parts of Moldova and strengthen the its ties with neighbouring countries. In Bosnia and Herzegovina, the EBRD provided a further €35 million towards financing construction of sub-sections of the Corridor Vc and the Banja Luka to Doboj motorway that will ultimately link to Pan-European Corridor X.

LOCAL CURRENCY AND CAPITAL MARKETS

The EBRD continued to encourage transport entities to reduce their exposure to foreign exchange risk by borrowing in local currency and to diversify their sources of funding by accessing the capital markets. In Kazakhstan the Bank extended a 30 billion tenge (€135 million equivalent) loan to the national rail company, Kazakhstan Temir Zholy (KTZ), to finance the purchase of equipment for logistics and infrastructure maintenance. The EBRD also participated in a Eurobond issuance by KTZ to further develop its logistics business on the critical EU-China trade route.

Meanwhile, in Turkey, the Bank subscribed to 40 million Turkish lira (€14.1 million equivalent) of a bond issue by the construction and infrastructure management subsidiary of conglomerate YDA Group to support projects under public-private partnership (PPP) arrangements. These include the construction of a new domestic terminal at Dalaman Airport, which the Bank is also supporting with a €87.3 million loan.

MUNICIPAL AND ENVIRONMENTAL INFRASTRUCTURE

EBRD operations in the municipal and environmental infrastructure (MEI) sector promote access to safe drinking water, sanitary waste-disposal, green urban transport, energy-efficient heating and cooling, and other urban facilities. The Bank works with local governments, private operators and donors to foster systemic changes that bring tangible improvements to the lives of millions of people in the EBRD region.

The Bank financed 41 projects in MEI during 2014 (36 transactions in 2013), representing a total EBRD commitment of €726 million (€556 million in 2013). These included the EBRD's first MEI transactions in the SEMED region. The sustainable energy components of MEI projects accounted for €361 million in 2014, 50 per cent of total commitments in the sector. MEI investments in 2014 should reduce annual carbon emissions by 312,000 tonnes of CO_2 equivalent.

In 2014 the EBRD responded strongly to the needs of MEI clients facing exceptional circumstances. Its crisis response in Ukraine included long-term support to projects in public transport and road repairs in Lviv as well as investments in energy-efficient district heating in Ivano-Frankivsk and Lutsk. In Serbia, the city of Belgrade benefited from a Bank investment in district heating modernisation and from help to fund a recovery plan for infrastructure affected by the spring floods.

The Bank's investments in water and sanitation services, waste disposal, district heating and other municipal infrastructure in 2014 are expected to benefit more than 5 million people in the EBRD region, while investments in urban transport systems will improve travel conditions for an estimated 36 million passengers every year. Promoting the economic inclusion of underserved social groups through improved access to essential services was an important focus of activity, particularly in the first MEI projects in SEMED.

MEI investments by the Bank leveraged considerable volumes of loan and grant co-financing from the EU and other sources. The integrated use of technical cooperation and policy dialogue remained a key part of the Bank's work in the sector and donor generosity remains central to its operations and impact in MEI (see "Donor partnerships" on page 42).

Since entering the MEI sector in 1994, the EBRD has signed over 326 transactions and committed close to €5.2 billion of its own resources – while leveraging an additional €7.4 billion from other financiers – to urban projects that support more efficient, reliable, financially sustainable and environmentally friendly services.

WATER AND WASTEWATER

The Bank signed 16 projects in the water and wastewater sector in 2014, investing €195 million in improving the quality and efficiency of drinking-water, sewage and effluent-treatment services for underserved populations. Projects included two inaugural MEI investments in the SEMED region: a €65 million loan to Morocco's Office National de l'Electricité et de l'Eau Potable (ONEE) to support the expansion of drinking water services in rural communities (see case study in on page 10); and a €55 million loan to the Kafr El-Sheikh water company in Egypt's Nile delta for an expansion of wastewater services that will benefit around 500,000 people.

The EBRD also invested in water and wastewater projects in Bosnia and Herzegovina, Jordan, Kazakhstan, the Kyrgyz Republic, Romania, Tajikistan and Turkey. Some €28 million was invested in Romania using the highly successful framework to co-finance with EU funds (€300 million invested by the Bank to date) as part of efforts to bring services in cities across the country in line with EU standards. The project enabled regional water companies to access grant funding from the EU Cohesion Fund worth €166 million in 2014 (with a cumulative €2 billion in EU funds mobilised to date). Policy dialogue work included the hosting of a regional seminar in Belgrade for Western Balkans stakeholders on improving water and wastewater management as well as co-organising with the United Nations Economic Commission for Europe (UNECE) an international workshop on private sector participation in water services held at the United Nations Office at Geneva.

SOLID WASTE

By helping cities to collect refuse and dispose of it in a way that is sanitary and protects the environment, the Bank makes a considerable difference to the welfare of people in countries where it invests. In 2014 the EBRD signed two operations in the solid waste sector – in Armenia and Tajikistan – for a total investment of €10 million (including investment grants provided by donors to support the affordability of these projects). A seminar was undertaken in Yerevan to disseminate information and policy dialogue in this expanding field.

URBAN TRANSPORT

The EBRD invested €320 million in urban transport in 2014 (2013: €253 million) across 12 projects. Its activities focused heavily on reducing carbon emissions by supporting greener modes of transport such as electric trams or buses running on clean diesel engines. In the historic Romanian city of Sibiu, the EBRD supported the construction of a new, environmentally friendly bus depot away from the medieval city centre. In Izmir, Turkey, the Bank made a strong commitment to sustainable transport with an investment in efficient urban rail. The second-biggest city of the Kyrgyz Republic, Osh, will get 20 new trolleybuses and 24 new buses thanks to a €5.7 million EBRD loan complemented by a €3.1 million donor grant. The financing package will also promote employment opportunities for women in the city's urban transport sector.

ENERGY NETWORKS

As part of the MEI contribution to sustainable energy activities, the Bank invests in district heating and cooling projects that reduce the amount of power wasted in derelict networks, outdated facilities and energy-inefficient buildings. It committed €91 million to 10 projects in 2014 (2013: €83 million). A €7 million investment in upgrading district heating in Balti, Moldova, mobilised grant funding from the EBRD-managed Eastern Europe Energy Efficiency and Environment Partnership (E5P), representing E5P's inaugural investment in Moldova.

INNOVATION IN MEI: FACILITY MANAGEMENT OF PUBLIC BUILDINGS

Last year, the MEI team opened a new area to Bank investments: facility management in public buildings through PPPs. A major policy dialogue effort resulted in a €600 million investment framework approved by the Bank to fund Turkey's hospital infrastructure PPP programme. Under the framework, a first project was signed for the city of Adana (see case study on page 26). The framework is the fruit of 18 months of policy dialogue on PPP viability with Turkey's Ministry of Health. It is supported by a comprehensive technical assistance package to build the ministry's capacity to assess and monitor hospital facility-management PPPs.

LESS-ADVANCED ECONOMIES

MEI projects have a significant impact on communities in those countries facing bigger transition challenges, namely the ETCs and the Western Balkans. The EBRD invests in projects that improve water services, rubbish collection, public transport or energy efficiency, such as the financing of a biomass boiler in the city of Prijedor, Bosnia and Herzegovina. In 2014 the EBRD invested €129 million in 15 projects that benefit those challenged communities.

> **"Over €1 billion was invested in 25 power sector projects across 12 countries.**

POWER AND ENERGY

The EBRD is the leading investor in energy efficiency and renewable energy in the countries where it works. The Bank supports power generation, transmission and distribution projects that address the region's legacy of inefficient energy use and allow it to unlock its enormous potential in wind, solar, hydro- and other forms of renewable power. By helping countries diversify their energy sources through its investments, policy dialogue and technical assistance, the EBRD boosts the energy security of the whole region and promotes the growth of a modern and sustainable energy sector in which private enterprise plays a central role.

In 2014 the energy sector faced major challenges. The crisis in Ukraine and the rise in geopolitical tensions underlined the need for countries to establish secure energy supplies, while issues of affordability continued to put pressure on investments. The UN's Intergovernmental Panel on Climate Change finished releasing the conclusions of its latest review of climate science, emphasising the urgency and scale of the challenge facing the energy sector as it moves towards a more sustainable model.

In this context, the EBRD invested over €1 billion in 25 power-sector projects across 12 countries, (2013: €1.2 billion in 24 projects). A key area of focus was the SEMED region; the Bank committed a total of US$ 75 million (€62 million equivalent) to four solar power deals in Jordan that will help the country reduce its dependence on expensive hydrocarbon imports (see case study on page 10). The Bank also supported Egypt's efforts to address its severe energy shortage by investing in efficiency improvements at two power plants.

The power sector remained the largest contributor to the EBRD's Sustainable Resource Initiative (SRI) with over 88 per cent, or €935 million, of the Bank's power-sector investments coming under this strategic initiative. These included investments in biomass, hydro-solar and wind power generation, efficient transmission systems and the optimisation of electricity distribution networks. A flagship project signed in 2014 was the US$ 50 million (€41.1 million equivalent) investment in the

CASE STUDY
SUPPORTING UKRAINE'S GAS SECTOR

As part of efforts to support the Ukrainian economy and promote reforms, the EBRD is providing a loan of up to €150 million to finance the upgrade and repair of a key section of Ukraine's gas transmission system.

The sovereign loan will be on-lent to a subsidiary of NAK Naftogaz, the national oil and gas holding company, for modernisation work on the 120 km-long western part of the Urengoy-Pomary-Uzhgorod pipeline. The pipeline transports gas from Russia towards European markets and allows for reverse gas flows from the EU to Ukraine, which has the largest gas storage capacity in Europe.

In addition to reducing gas losses by one-fifth, the project will improve the corporate governance of Naftogaz and its subsidiary and the Ukrainian government has committed to reforms in the gas market as part of the transaction. The pipeline modernisation programme is also supported by a €150 million loan from the European Investment Bank.

> “The EBRD works to ensure that local communities enjoy concrete benefits from its projects.

modernisation of the Qairokkum hydropower plant in Tajikistan. The transaction, the EBRD’s largest to date in Tajikistan, makes a significant contribution to the country’s resilience to climate change (see case study on page 13).

The EBRD provided a total of €98 million to finance windfarm projects in Poland and invested 14 billion tenge (€63 million equivalent) in a wind farm in Kazakhstan, considered a highly promising country for renewable energy development. The Bank signed wind and solar energy projects in Romania and financed the construction of a new hydropower plant in Georgia that will be one of the country’s few privately owned, greenfield hydropower plants.

Another priority in this sector is helping the countries where the EBRD invests to make the transition from their existing stock of polluting and ageing infrastructure to modern, cleaner technologies. An example of this work is a US$ 200 million (€165 million equivalent) loan to finance the construction of a high-efficiency combined-cycle gas turbine (CCGT) power plant near the city of Kirikkale in Turkey. The loan is part of a US$ 1 billion (€823 million equivalent) package arranged by the EBRD that brings together international financial institutions and commercial banks.

Reflecting the importance of developing the regional electricity market in south-eastern Europe, the EBRD provided a €30 million loan to Kosovo’s power transmission operator to finance improvements to the grid. As well as boosting the reliability of the country’s power network, the transaction will help Kosovo fulfil its potential to become a major energy transit hub for the Western Balkans. The Bank financed upgrades to Montenegro’s power distribution grid to reduce losses, foster integration of the Western Balkans’ fragmented power markets and stimulate the development of renewable energy.

Support for local capital markets was an important focus for the Bank’s work in the power sector. The EBRD financed windfarm projects in Poland and Kazakhstan and the modernisation of a hydropower plant in Kazakhstan in local currency to shield borrowers from foreign exchange risk. The Bank purchased a stake in Electrica, Romania’s major electricity distribution company, worth 320 million Romanian lei (€75.2 million equivalent) when it began trading on the London and Bucharest stock exchanges in July. The equity participation will support Electrica as it aligns its corporate governance with international standards.

The EBRD typically combines investments with policy dialogue and technical cooperation projects, using its experience as a commercially oriented investor to inform the structuring of regulatory frameworks. This work is particularly relevant in the area of renewable energy, which depends heavily on the appropriate institutional infrastructure. For example, in 2014 the Bank supported a large technical cooperation project to develop renewable energy in Poland and help that country reduce its reliance on coal-fired generation.

NATURAL RESOURCES

Responsible development of the natural resources sector can make a major contribution to sustainable economic growth for many countries in which the Bank works. If managed properly, natural resources can be a major source of jobs, government revenue and a wide array of other benefits. The Bank recognises that climate change, energy security and affordability are challenges that require a long-term, strategic response from the natural resources industry.

The EBRD’s task in the oil, gas, and mining sectors is to help countries realise the benefits of natural resources in a responsible and transparent manner. The Bank provides financing and advice for private and public sector clients and promotes the best international standards and practices in the fields of energy efficiency, the environment and health and safety protection. Its projects adhere to the best international standards for corporate governance and responsible social development.

In addition, the EBRD helps governments adopt fair and reliable regulations, strengthen their capacity to develop these industries across the value chain and manage the transition to a low-carbon economy. As well as supporting investment in the natural resources sector, the EBRD works to ensure that local communities enjoy concrete benefits from its projects. Bank efforts in this area include investing in local infrastructure and requiring transparency and disclosure in line with the Extractive Industries Transparency Initiative.

Oil prices fell in 2014, while metals prices remained low, and the operating environment continued to be very challenging for small and medium-sized companies in the EBRD region which have limited access to finance. The Bank responded by supporting smaller private firms, helping them apply the best international standards to their operations and improving the energy efficiency of their activities.

In 2014 the EBRD signed 14 transactions in the natural resources sector for an overall volume of €634 million in debt

BANK SHAREHOLDERS HAVE CONTRIBUTED ALMOST

€700 million

OF EBRD FUNDS TOWARDS THE COMPLETION OF PROJECTS IN CHERNOBYL.

and equity investments in countries including Armenia, Azerbaijan, Egypt, Georgia, Kazakhstan, Mongolia and Ukraine. In Egypt, the Bank signed two transactions to support responsible energy exploration and help the country meet rising domestic demand for oil and gas. These projects feature a strong emphasis on health and safety, environmental management and corporate governance.

The Bank supported the introduction of environmentally friendly technologies in Kazakhstan's oil sector by arranging a US$ 200 million (€165 million equivalent) syndicated financing package for private company KOM Munai, a subsidiary of Romania's OMV Petrom SA. The project will result in considerable water savings and carbon emission reductions. In Georgia, meanwhile, a US$ 40 million (€33 million equivalent) loan was provided to support the expansion of gas filling stations that offer compressed natural gas (CNG), an environmentally friendly alternative to conventional fuels.

The EBRD helped strengthen energy security in Estonia by extending a €35 million loan to oil shale processing company Viru Keemia Grupp AS to fund a major investment programme that features energy efficiency improvements and an environmental upgrade.

Policy dialogue work in the sector last year focused on improving health and safety within the extractive industries and reforming Ukraine's gas sector payment system to strengthen the government's financial position. The Bank also signed a €150 million loan to Ukraine to finance emergency repair work on a gas transit pipeline and reform of the Naftogaz group (see case study on page 29). The financing was matched by a similar-sized loan from the EIB for the same project.

NUCLEAR SAFETY

As a manager of decommissioning funds, the EBRD plays a leading role in efforts to improve nuclear safety. It administers funds to make the Chernobyl site safe and secure, supports the decommissioning of first-generation Soviet-designed nuclear power plants in eastern Europe, helps address the environmental legacy of the Soviet nuclear-powered fleet in north-western Russia and carries out other nuclear safety work in the EBRD region.

The Bank manages six nuclear safety donor funds and associated programmes. It does this on behalf of more than 40 donors, who have together contributed more than €4 billion for the purpose. Bank shareholders have contributed almost €700 million of EBRD funds towards the completion of projects in Chernobyl.

In 2014 construction of the Chernobyl New Safe Confinement (NSC) reached a major milestone when the two halves of the arch-shaped steel structure were lifted and joined together. Upon completion, scheduled for late 2017, the NSC will cover the destroyed reactor 4 at Chernobyl, the site of the 1986 nuclear accident. Workers began assembling the new structure, which will cost €1.5 billion, at a safe distance from the reactor in 2012 and then carried out a sequence of lifting operations of the two halves.

The structure will now be fitted with equipment including an automated crane and a ventilation system to prevent corrosion and ensure it lasts for 100 years. Once fully assembled, the NSC will be slid over the old shelter housing reactor 4. It will prevent the intrusion of water and snow and provide equipment for the eventual dismantling of the old shelter and the remnants of the damaged reactor.

Also at Chernobyl, a plant to treat liquid radioactive waste received its operating licence in December. The EBRD-managed Nuclear Safety Account funds the facility, which will solidify the waste currently kept in concrete tanks and prepare it for final storage. The start of operations is expected early in 2015. Construction of the treatment plant has cost more than €35 million.

Progress was also made on finalising construction of the Interim Spent Fuel Storage Facility (ISF-2), which will prepare more than 20,000 fuel assemblies from Chernobyl units 1 to 3 for final storage. Completion of the facility is scheduled for 2016. Once all the fuel has been transferred to the ISF-2, the current storage can be decommissioned. This will be a major step forward in increasing nuclear safety at the site.

In 2014, the governors of the EBRD approved additional Bank funding for the Chernobyl Shelter Fund for completion of the NSC. The EBRD will provide an extra €350 million to help close a funding gap of €615 million, in anticipation of a €165 million contribution by the G7 group of countries and the European Commission. More funding is expected from other donors in 2015, although EBRD governors agreed that the Bank would cover any shortfall left after their pledges.

In Russia, the EBRD plays a key role in efforts to dismantle the Lepse service ship and safely dispose of its cargo of spent nuclear fuel and radioactive waste from the USSR's nuclear-powered fleet. The Lepse poses a significant environmental threat to the marine environment of the northern Atlantic and surrounding countries. In 2014, work to make the Lepse safe reached a significant stage when the ship was lifted out of the water and placed in a dry dock at the Nerpa shipyard on the Kola peninsula. Preparatory work continued on installing special equipment at the shipyard that will allow workers to remove nuclear and radioactive material from the Lepse and then dismantle it. The whole project is expected to be completed by the end of 2017.

The EBRD manages the Nuclear Window Support Fund of the Northern Dimension Environmental Partnership (NDEP), which receives contributions from a number of countries and the European Union and finances vital nuclear safety projects in the Northern Dimension Area. A €53 million grant from the Fund is dedicated to work on the Lepse project.

Last year the EBRD continued to support programmes to help Bulgaria, Lithuania and the Slovak Republic deal with the decommissioning and wider consequences of the shut-down of their Soviet-era nuclear power plants. Dedicated donor funds finance these programmes as part of assistance agreed during European Union accession negotiations. As well as supporting decommissioning, the funds contribute to energy sector projects to help the countries cope with the loss of generating capacity.

Also in 2014, to help address the legacy of uranium mining in Central Asia, the EBRD undertook preparatory work for a programme to rehabilitate Soviet-era mines. The programme aims to reduce the environmental risk posed by disused and deteriorating sites containing radioactive materials.