POLICY DIALOGUE AND INITIATIVES

POLICY DIALOGUE AND INITIATIVES

Policy dialogue with governments, regulatory authorities and other international institutions is a vital part of the EBRD's work. To re-energise the transition process, the Bank has developed a set of Medium-Term Directions and related initiatives in areas of strategic importance. The initiatives combine investments with policy dialogue and technical assistance in a highly coordinated manner to increase economic resilience, foster integration and address common global and regional challenges such as climate change. Under one of these initiatives, 2014 saw record sustainable resource financing of over €3 billion.

SUSTAINABLE RESOURCES AND CLIMATE CHANGE

With the publication of the Fifth Assessment Report of the UN Intergovernmental Panel on Climate Change, which states that atmospheric and oceanic warming threaten irreversible impacts, and with the upcoming UN climate conference in Paris, there is a greater urgency to address the challenge of climate change. This is particularly true for the countries in which the EBRD works. Many of these lag behind economies at a similar level of development when it comes to the sustainable use of energy, water and other resources. To help mitigate the economic, environmental and social risks this creates for the region, the EBRD launched the Sustainable Energy Initiative (SEI) in 2006.

The SEI aims to reduce carbon emissions, make the region's economies more energy efficient and independent and help them adapt to climate change. In 2013, its scope was broadened with the launch of the Sustainable Resource Initiative (SRI) to promote the efficient use of water and materials. The EBRD undertakes climate projects across all of the sectors and countries in which it invests. Transactions range from support for wind, solar and hydropower generation to investments in industrial and residential resource efficiency, green transport and municipal infrastructure, the reduction of transmission losses, and cleaner power plants.

Between 2006 and the end of 2014, the EBRD invested €16.4 billion in projects supporting the sustainable use of energy and other resources. In 2014, these accounted for a record €3.03 billion of climate finance committed in 168 transactions, representing 34 per cent of total annual Bank investment (ABI). These should result in 7.3 million tonnes of annual CO_2 emissions reductions, or a saving of 2.7 million tonnes of oil equivalent.

Of this €3.03 billion, the EBRD invested €433 million in 38 water and materials efficiency projects that are expected to result in annual water savings of 10 million cubic metres. Furthermore, 26 climate investments signed in 2014 and worth a total of €169 million included activities aimed at assisting clients as they adapt to a changing and more variable climate.

The organisation invested €490 million in 16 resource efficiency projects in Turkey, including the EBRD's first sustainable resource credit line (with TSKB) and the Şişecam resource efficiency project (see case study on page 38). Sustainable energy investments in the southern and eastern Mediterranean (SEMED) region increased sharply, reaching €467 million for 17 projects including energy efficiency projects in Egypt and renewable energy projects in Jordan. Energy efficiency financing in Ukraine reached €274 million, including the Naftogaz pipeline upgrade (see case study on page 29) and district heating projects in Ivano-Frankivsk and Lutsk.

The EBRD business model for climate finance combines: commercial project financing; technical assistance to overcome barriers through market analysis, energy audits, training, awareness-building and grant co-financing; and policy dialogue to support the development of a strong institutional and regulatory framework that incentivises sustainable resource projects. Donor support remained crucial, with €54.9 million of technical cooperation (TC) plus additional grant co-financing and incentive grants supporting the preparation and implementation of projects.

BUILDING SUSTAINABLE MARKETS THROUGH INTERMEDIARIES

EBRD sustainable energy financing facilities (SEFFs) unlock energy-saving potential and build expertise by extending credit lines to financial institutions. They provide these institutions and their clients with expert guidance on designing lending products and assessing opportunities to turn sustainable energy projects into sound investments. Through these facilities and the EBRD's direct sustainable energy lending, companies of all sizes can pursue energy efficiency or small-scale renewable energy projects that boost profitability and increase competitiveness while also reducing their carbon footprint. Loans to the residential sector, meanwhile, contribute to reducing energy consumption and utility bills.

In 2014, the EBRD invested €504 million in 39 energy efficiency projects through financial institutions, including a US$ 282.5 million (€232.5 million equivalent) Bank contribution to a US$ 350 million (€288.0 million equivalent) residential energy efficiency programme in Turkey.

BLENDING CLIMATE FINANCE FOR IMPLEMENTATION

The EBRD responded to calls for multilateral development banks (MDBs) to finance clean energy projects through participation in multi-donor funds such as the Climate Investment Funds (CIF) and the Global Environment Facility (GEF). These seek to leverage global climate finance through risk sharing, technology transfer, advisory support and concessional financing. The EBRD blended its commercial financing with CIF grant co-financing and technical assistance to improve the affordability and accelerate the implementation of projects, such as the modernisation of the Qairokkum hydropower plant in Tajikistan (see case study on page 13). Between 2006 and the end of 2014, donors provided a total of €1.05 million in grant contributions in support of EBRD climate projects.

COOPERATION WITH MULTILATERAL PARTNERS

The Bank maintained a prominent role in international efforts to address climate change. It participated in the UN Climate Summit in New York in September and President Suma Chakrabarti accepted an invitation to join the advisory board of the UN's Sustainable Energy for All (SE4All) Initiative which promotes energy access for all, energy efficiency and renewable energy. Regarding the Bank's commitment to SE4All, set at the Rio +20 Conference in 2012, the EBRD exceeded its US$ 8 billion (€6.58 billion equivalent) target for the end of 2014 by US$ 2 billion (€1.65 billion equivalent).

President Chakrabarti attended the Global Green Growth Forum in Copenhagen in October to take part in discussions on investing for a low-carbon future and sustainable urban development. EBRD delegates participated in December's UN Climate Change Conference in Lima, Peru, in preparation for the 2015 conference in Paris.

The EBRD and other MDBs leverage large volumes of private investment through their climate finance activities. In 2014 they pledged to track these investments in the same way, with a view to cooperating more closely on climate action. The EBRD also worked on improving its internal monitoring and reporting of climate investments.

EARLY TRANSITION COUNTRIES

2014 marked the 10th anniversary of the Early Transition Countries (ETC) Initiative, which was established in order to accelerate transition, increase financing and strengthen the business climate in the EBRD's less-developed recipient countries. The Initiative aims to mobilise more financing and donor funds to improve the economies and living standards of people in this region, which includes Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Mongolia, Moldova, Tajikistan and Turkmenistan – all of which are recipients of Official Development Assistance (ODA).

The annual percentage of financed projects in the ETCs increased from 8 per cent of the EBRD's total in 2003 to 33 per cent in 2014 while the region's share of annual Bank investment (ABI) rose from less than 3 per cent to 13 per cent over the same period. In total, the Initiative has accounted for more than 1,100 financing projects and a total of approximately €7.9 billion in financing. Over the last decade, the number of Bank projects in Tajikistan and the Kyrgyz Republic – the EBRD's two lowest-income countries – has increased from fewer than 5 per year to 11 and 19 respectively in 2014.

In 2014 the EBRD invested more than €1.1 billion in the ETCs, a record figure for its activities in the region – and signed 124 projects. More than 80 per cent of projects supported locally owned companies – mostly micro, small and medium-sized enterprises (MSMEs) – in line with the Initiative's priorities. The Bank was particularly active in the agribusiness, financial, manufacturing and services, municipal and environmental infrastructure, and power and energy sectors. The EBRD provided €195 million in Trade Facilitation Programme (TFP) financing in the ETCs.

Strong partnerships and commitments from the donor community have complemented this financing activity since the start of the Initiative. The multi-donor Early Transition Countries Fund (whose contributors include Canada, Finland, Germany, Ireland, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), the EBRD Shareholder Special Fund (SSF), the European Union (EU) and bilateral donors have provided a total of more than €400 million in grants to support the countries. The EU has designed mechanisms – such as the Investment Facility for Central Asia (IFCA) and the Neighbourhood Investment Facility (NIF) – to mobilise additional funding to cover development and investment needs in infrastructure, energy, environmental projects, financial institutions and small and medium-sized enterprise (SME) support and financing. These facilities cover most of the ETCs.

Priority areas for EBRD financing and transition activity and for donor support in the ETCs are private sector and SME development, capital market development and municipal and environmental infrastructure. In the latter area, thanks to projects of the Bank and donors, millions of people in 80 municipalities in the region now have access to better water supplies, improved waste services and modern public transport.

Another important focus for donors and the Bank is catalysing local currency lending and developing local capital markets to reduce systemic foreign exchange risk in the ETCs, many of which have large current account deficits and a high percentage of unhedged MSMEs. Through the US$ 320 million (€263 million equivalent) ETC Local Currency Programme in Armenia, Georgia, Kyrgyz Republic, Moldova, Mongolia and Tajikistan, the Bank addresses overreliance on foreign exchange financing, which is exacerbated by the lack of conventional sources of local currency funding. Donors – the ETC Fund, the US Treasury, the Swiss State Secretariat for Economic Affairs (SECO) and the EBRD SSF – have supported the Programme by allocating US$ 40 million (€32.9 million) of risk-sharing funds. The Programme has financed US$ 269 million (€221 million equivalent) of local currency loans, which partner banks and microfinance institutions have on-lent to more than 450,000 MSMEs. The largest number of beneficiaries have been in the Kyrgyz Republic and Tajikistan and the Programme has helped more than 120,000 MSMEs borrow in the same currency as their revenues and avoid foreign exchange risk.

The Bank and donors also support investment councils in Armenia, Kyrgyz Republic, Moldova and Tajikistan. These councils, chaired by the president or prime minister of each country, are vehicles for fostering public-private sector dialogue to improve the business environment through changes to legislation and regulation. In 2014 the EBRD participated in Tajikistan's first foreign-investment conference.

LOCAL CURRENCY AND CAPITAL MARKETS

The EBRD Local Currency and Capital Markets (LC2) Development Initiative is one of the Bank's strategic initiatives and a major focus of EBRD efforts to revitalise and deepen the transition process in countries in which it invests. Launched in 2010 in the wake of the financial crisis, it aims to establish viable local currency financing and contribute to the development of efficient and self-sustaining local capital markets, thereby mitigating key vulnerabilities in the EBRD region. Banks in most EBRD countries of investment continue to face significant challenges that make capital market development very important.

The LC2 Initiative focuses on the following interrelated areas that contribute to the broader use of local currencies and the development of local capital markets: building stable and sustainable macroeconomic policy frameworks; improving the legal and regulatory environment to support capital market activity; promoting the use of local currency; developing financial market infrastructure, including exchanges, clearing

CASE STUDY
POLISH PORT BUILDS CLIMATE CHANGE RESILIENCE

The EBRD is supporting the expansion of Poland's only deep-water container port facilities, located in Gdansk. A gateway port for the country, the city is also a major transhipment hub for the southern and eastern Baltic region. The Bank invested €31 million to co-finance the construction of a second deep-water terminal at the port operated by DCT Gdansk.

As well as creating much-needed extra capacity, the transaction supports measures to boost the terminal's resilience to climate change and sea level rise. For example, work will be undertaken to increase the height of the quay and establish channels for receiving information about sea-level extremes and wave-overtopping of port structures. As part of the project, which is backed by €259 million in commercial financing, DCT Gdansk has also committed to improving its energy efficiency through the use of state-of-the-art technologies.

and settlement; developing the institutional investor base; promoting a more efficient transaction environment; and expanding product range.

The Initiative combines policy dialogue, transaction support and advice and technical assistance. It also supports knowledge-building and sharing through seminars and other outreach activities that develop institutional capacity.

A dedicated team of LC2 experts coordinates the Initiative, working with – and supported by – all departments of the EBRD. LC2 activities range from loans in local currency to investments in equity and debt capital-market instruments, capital market infrastructure and the EBRD's own issuing of local currency bonds. The Bank closely coordinates its LC2 actions with those of other international financial institutions (IFIs).

In 2014, the Bank signed the equivalent of almost €1.2 billion in 81 local currency loan and bond transactions – 24 per cent of the total number of debt transactions by the EBRD in that period. Since 1994, the EBRD has advanced local currency loans and bonds in 24 countries.

Highlights of the Initiative in 2014 included strong growth in the number of bond transactions in countries such as Morocco, Poland, Romania and Turkey, in the financial sector in particular but also in other sectors. The Bank invested in 13 bond issues last year, nine in local currency and four in foreign currency.

The EBRD worked with stock exchanges in south-eastern Europe (SEE) to establish an order-routing trading platform aimed at facilitating cross-border trading and improving liquidity in equity markets. It also acquired a 4.99 per cent equity stake in the Bucharest Stock Exchange to help strengthen Romania's capital markets.

The Bank has been an active issuer in local currency markets in a number of countries since 1994 and continued expanding its ability to fund projects in local currency. In 2014, the Bank for the first time issued bonds in Armenian dram and Georgian lari in the domestic market. In Kazakhstan, two facilities with the National Bank of Kazakhstan will enable the EBRD to lend up to US$ 1 billion (€823 million equivalent) in Kazakh tenge, while in Morocco the financial market regulator granted domestic banks authorisation to conduct currency swaps with the EBRD, allowing the Bank to offer financing in Moroccan dirham.

Policy dialogue and TC projects are an essential part of the Initiative. Many of the policy dialogue and capacity-building activities related to LC2 are linked to the conduct of country assessments and the implementation of assessment recommendations. By the end of 2014, the LC2 team had assessed 20 countries.

In 2014, the Bank also undertook significant policy dialogue in various countries, notably in Morocco, Poland and Turkey,

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The Bank signed 12 investments with a gender focus or component in 2014.

focusing on the legal and regulatory framework of capital markets, working closely with private investors and other market players. It pursued work under the Early Transition Countries Local Currency Programme aimed at helping countries in that region improve their monetary policy management in a way that encourages greater use of local currency. As an example of targeted analytical work, a comparative study of local capital market transaction costs for debt securities was completed covering nine countries, and has already resulted in the review and adjustment of issuance charges in Romania and Turkey.

SMALL BUSINESS INITIATIVE

Working to create the conditions in which SMEs can flourish is firmly anchored in the EBRD's transition mandate and business model. This commitment was re-emphasised in 2014 with the creation of the SME Finance and Development group within the EBRD's Banking department to implement the Small Business Initiative, which aims to streamline and strengthen the support that the EBRD provides to SMEs. (For more information on the Initiative, see “SME Finance and Development” on page 24).

GENDER EQUALITY

The EBRD recognises that equality of opportunity for women and men is a fundamental aspect of a modern, well-functioning market economy. Through its investments and other activities the Bank is committed to addressing gender inequality in the economies of countries where it works.

The Strategic Gender Initiative sets out how the Bank promotes women's socio-economic empowerment, equality of opportunity and participation in the labour market. The Bank works with clients on tailor-made solutions to ensure the promotion of gender equality in the workplace, in customer service provision, in access to finance and in the design and delivery of infrastructure, thereby promoting economic opportunities for both women and men.

In 2014 the Bank signed 12 investments with a gender focus or component, including credit lines extended under Women in Business programmes launched in Egypt, Turkey and the Western Balkans. These programmes address the supply and demand side of financing for women-led businesses and combine financing with capacity-building and advisory services (see case study on page 14).

The EBRD helps clients put in place human resources and equal opportunity policies that meet international standards of best practice while also supporting the design of training and skill-enhancement packages. A recent example is a €140 million financing package for Turkish vehicle-maker Ford Otosan.

Safe and efficient access to public transport is an important issue for all. But for women in many parts of the SEMED region and Central Asia the lack of safe access to public transport is a barrier to free movement and full economic engagement. EBRD support for the modernisation of Egypt's national railway system will include capacity-building and other measures to help the company respond appropriately to the needs of all passengers, including women.

The EBRD's Gender team uses TC projects for due diligence purposes and to implement the gender component of Bank investments with funds provided by a range of donors in addition to the Clean Technology Fund. (For more on TC-funded activities, see “Donor partnerships” on page 42).

The Bank engages in policy dialogue with stakeholders and takes an active part in international dialogue on the promotion of gender equality. The EBRD chairs the MDB working group on gender and co-organised the last MDB workshop held in Manila. It also hosted the London launch of the World Bank report *Voice and Agency: Empowering Women and Girls for Shared Prosperity* in September 2014.

ECONOMIC INCLUSION

Economic inclusion – the opening up of economic opportunities to previously underserved social groups – is now fully integrated into the EBRD's assessment of transition impact. Promoting economic inclusion has become imperative for the Bank in view of growing youth unemployment, the low participation of women in the workforce – especially in SEMED countries – and the stark differences in economic performance between regions, particularly in SEE.

Investments with inclusion components are operational in many sectors across large parts of the EBRD region, particularly Turkey, SEMED, the Western Balkans and Central Asia. In 2014, the Bank initiated retail developments, such as the Arabian Centres project in Egypt, that help young people gain skills and find jobs. In addition, it launched Women in Business programmes combining finance and advice in Egypt, Turkey and the Western Balkans, and introduced partnerships between schools and businesses, including Atlantic Grupa in Croatia, to facilitate transition routes for young people from training into jobs. The main inclusion impact of these projects stems from their fostering of systemic changes that increase the economic opportunities available to women, young adults and people in rural areas.

The EBRD's approach to economic inclusion creates value for clients, particularly those who seek to reach new customer segments, diversify their workforce, improve the skills of their staff and reach out to new talent through links with local schools and universities. In 2014, the Bank was approached by clients in sectors such as retail or agribusiness for advice on how to set up job fairs or links to vocational schools because they recognise the value that such measures add to their operations and the support that the EBRD can offer.

Economic inclusion is increasingly a priority at the country strategy level, particularly for Jordan, Morocco and Turkey, where the Bank is strengthening its focus on policy dialogue. Building on its strong private sector engagement and expertise, the Bank works with local and international partners to address, through vocational and work-based learning, the skills mismatch that prevents many young people in the EBRD region from finding jobs.

The Bank sets operational priorities based on inclusion gap analyses in relation to youth, regions and gender equality. These analyses include an assessment of the specific constraints faced by women entrepreneurs within the wider business environment. Further details on the inclusion methodology and project examples are presented in the Bank's newly launched economic inclusion section on **www.ebrd.com**.

INVESTMENT CLIMATE AND GOVERNANCE

The Investment Climate and Governance Initiative (ICGI) was launched in 2014 as part of the Bank's efforts to re-energise transition by reaching beyond projects to encourage broader systemic change. The ICGI was designed to strengthen the Bank's capacity to enhance the investment climate and good governance institutions and address the stalling of transition in many countries where the EBRD works.

The ICGI approach combines existing tools and instruments – such as platforms for public-private dialogue, dispute resolution, reform of procurement systems, judicial capacity-building and corporate governance enhancements – with new instruments addressing issues such as business regulation, licensing and customs administration, transparency, freedom of information and business registration. The ICGI functions in a multi-stakeholder framework involving other IFIs, intergovernmental organisations and domestic and international NGOs specialised in this field.

ICGI country programmes are developed only in those countries where there is strong demand for EBRD engagement, demonstrable political will to introduce reforms that can improve the investment climate and governance, and a clear role for the Bank to add value to reform of the investment climate. The Initiative consists of tailored programmes in selected countries that are articulated in memoranda of understanding with governments.

KYRGYZ COMPANY EXPANDS WITH EBRD LOAN

Granit Yug, a Kyrgyz company that specialises in quarrying and processing decorative stone, has weathered an earthquake, avalanches and political upheaval since its creation in 2001. Now it is seeking to increase production and exports to Kazakhstan and Uzbekistan by purchasing a fleet of trucks and processing equipment with the help of a loan.

The EBRD is providing half of the US$ 500,000 (€411,472 equivalent) loan from the Kyrgyz Investment and Credit Bank (KICB) through the Medium Sized Co-Financing Facility (MCFF), which co-finances up to 50 per cent of loans extended by partner banks.

Loans to companies like Granit Yug constitute part of the EBRD's strategy to support SME development. In the early transition countries, the MCFF is supported by donors to the ETC Fund who finance training programmes for credit officers from partner banks. The loan is also part of a programme with the EU Investment Facility for Central Asia (IFCA) to strengthen small and medium-sized enterprises in Central Asia.

In 2014 ICGI country programmes were developed for Albania, Moldova and Serbia. The specific interventions for each country – enshrined in memoranda of understanding signed by the EBRD and prime ministers – were designed to build on the Bank's ongoing policy dialogue and technical cooperation work in the area of the investment climate while also providing new, concrete reform initiatives. The Bank also signed an Anti-Corruption Initiative with the new government of Ukraine, focused on establishing an independent Business Ombudsman Institution.

LEGAL TRANSITION PROGRAMME

The Legal Transition Programme (LTP) is the Bank's initiative to promote a better legal environment for businesses in transition countries. The programme aims to reduce legal impediments to investment and encourage the creation of the rules and institutions that a vibrant market economy needs.

LTP activities match EBRD investment strategies and complement strategic initiatives such as the Local Currency and Capital Markets Development Initiative, the Sustainable Resource Initiative or the Early Transition Countries Initiative. They include the preparation of diagnostic tools and the provision of advisory services to governments and regulators in transition countries.

In 2014 the LTP facilitated the adoption of important pieces of legislation in the countries where the Bank invests, including:

- a law on factoring in Croatia, regulating for the first time this new sector for the Bank
- a crops receipt law in Serbia that helps unlock lending for primary agriculture
- new legal provisions for secured transactions in the Russian Civil Code, accompanied by the launch of the first collateral register in the country
- a brand-new corporate governance code adopted by the Central Bank of Russia that aims to increase transparency
- a law on energy performance in buildings in Moldova to boost energy efficiency in the residential sector
- public procurement legislation in the Kyrgyz Republic, prepared under a joint programme between the Bank and the United Nations Commission on International Trade Law (UNCITRAL)
- instruments leading to the accession of Montenegro to the World Trade Organization (WTO) Government Procurement Agreement, completed under a joint initiative between the Bank and the WTO.

In November 2014, the Interparliamentary Assembly of the CIS adopted a model law on public-private partnerships (PPP), prepared with EBRD assistance. It is expected that this new standard will play a crucial role in modernising PPP frameworks in CIS countries.

As part of its efforts to address cross-cutting problems in the business environment, the LTP also aims to strengthen contract enforcement, including by the courts. In 2014 the Bank trained some 900 judges in nine countries on matters of commercial law and started work on strengthening the profession of bailiff in Mongolia.

CASE STUDY
INVESTING IN RECYCLING IN TURKEY

As part of wider efforts to promote the sustainable use of resources, the EBRD is supporting an investment in energy efficiency and glass recycling by Turkey's Şişecam Group, one of the world's leading glassware manufacturers.

The Bank's €30 million loan will support the expansion of a pilot glass-recycling scheme by financing an awareness-raising campaign and the acquisition of bottle banks, collection vehicles and glass bottle crushers. Şişecam will also invest in a range of energy efficiency measures at several plants, thereby setting a standard for environmental performance in Turkey's manufacturing sector.

Also in 2014, the EBRD took a €125 million equity stake in Paşabahçe, a subsidiary of Şişecam that specialises in glass tableware. As a shareholder, the Bank will support efforts to improve Paşabahçe's corporate governance and help it to attract more women employees by boosting its equal opportunity policies.

CASE STUDY
PROMOTING FOOD QUALITY IN SERBIA

The EBRD is supporting the efforts of Serbian fruit juice producer Nectar to develop food quality labels that recognise premium local products. Nectar is taking a leading role in promoting the certification of raspberries from the Arilje region in western Serbia under the Geographical Indications (GIs) project of the EBRD and Food and Agriculture Organization (FAO) of the United Nations. Some 100 farmers are involved and stand to benefit from improved sales of their high-quality products once they receive GI certification.

As Nectar is the leading fruit juice producer in the Western Balkans, its support will help raise awareness of the GI concept in Serbia and the wider region. It will set an example that can be replicated in other food sectors, boosting the attractiveness of local products on domestic and international markets.

EBRD financing worth €30 million will ensure Nectar's continued backing for the GI concept by refinancing its existing debt portfolio and supporting the stability of its operations. The investment will also finance future energy efficiency improvements and other capital expenditure.

The LTP contributed to the Vienna Initiative (see below), which has made tackling the large number of non-performing loans (NPLs) a high priority, by working with officials on legal and regulatory obstacles to NPL resolution. In February, together with the Bank's Office of the Chief Economist, it conducted a conference on corporate debt restructuring in Slovenia. The LTP also prepared a diagnostic tool on the legal and regulatory obstacles to NPL resolution in Hungary, which has been endorsed by that country's central bank. The EBRD assisted with the implementation of the Consensual Financial Restructuring Law in Serbia – promoting out-of-court multi-creditor restructuring via a mediation system.

Lastly, 2014 saw the first LTP TC projects in the SEMED region, including work on secured transactions and derivatives (Morocco), SME development (Egypt) and judicial capacity-building (Jordan).

FOOD SECURITY

The growing global population and changing dietary habits are increasing demand for food at a time when climate change and water scarcity have put food supply under pressure worldwide. Consumers are also increasingly aware of food safety and quality issues. In order to help meet the world's need for more and better quality food, in 2011 the EBRD launched the Private Sector for Food Security Initiative to unlock the agricultural potential of the countries where it invests.

The Initiative seeks to overcome constraints on market supply and improve the efficiency and quality of food production and distribution through investment, technical assistance, policy dialogue and coordinated action with our partners. This work helps to ensure increased and more efficient agricultural output, which will ultimately contribute to greater food security. The Initiative benefits from the generous support of donors and in 2014 they contributed €4.4 million to its work.

In 2014, the Initiative increased its focus on food quality and animal welfare, while maintaining the original emphasis on food security. The EBRD and the Food and Agriculture Organization (FAO) of the United Nations worked with clients on developing Geographical Indications or other premium labels as a way to boost sales of high-quality products and exports to the EU. The two organisations maintained their support for the EastAgri Network for eastern Europe, the Caucasus and Central Asia, which held its annual meeting in Belgrade in March 2014 on the theme of raising food quality. The EBRD continued its work with producers on adding value to olive oil exports from Morocco and Tunisia.

Higher standards of animal welfare respond to growing consumer concerns about food traceability and safety, as well as being of intrinsic value. 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. The Bank supported animal welfare improvements through investments and technical assistance projects in Turkey and Ukraine.

Water scarcity is an acute worldwide challenge and agribusiness is particularly water-intensive. A forum in Amman attended by policy-makers and investors in March 2014 looked at increasing water efficiency along the food chain in Jordan. The EBRD also worked with the FAO on the efficient use of water in the food sector in the Kyrgyz Republic, Turkey and Ukraine.

The Initiative continued to facilitate more liquidity in primary agriculture, enabling producers to invest in their farms and boost output. It did this by supporting legal frameworks for pre- and post-harvest financing mechanisms, such as grain warehouse and crop receipt systems, in Croatia, Russia, Serbia and Ukraine. The Bank also increased its cooperation with a number of banks to implement agriculture and agribusiness credit lines.

The EBRD supported dialogue between the public and private sectors. In Ukraine, a consultation with the private sector, led by the EBRD in collaboration with the FAO and the International Finance Corporation, identified investment constraints that need swift resolution. The Bank worked on facilitating a high-level meeting between officials and companies on agribusiness sector reform.

Successful grain and dairy working groups in Ukraine, which the EBRD and FAO lead together, were replicated in Serbia in 2014 to help raise food safety and quality standards and facilitate exports to the EU. The EBRD and FAO also promoted public-private sector dialogue on food safety in Georgia and the grain sector in Kazakhstan.

A conference in Ankara in November 2014 focused on facilitating access to finance for farmers and improving government policies on agriculture. In Egypt, a joint study by the EBRD and FAO highlighted barriers to strengthening the country's grain import infrastructure and, as a result, its food security. This informed ongoing public-private sector dialogue about increasing investment in this area.

In Kazakhstan, Turkey and Ukraine, the Bank launched a technical assistance programme to provide companies with expert advice so that they can upgrade their operations, access finance and ultimately produce more food. A similar programme is active in all SEMED countries and in the ETC region.

At the global level, the EBRD participated in the Aspen Institute's global Food Security Strategy Group in Morocco with leading private sector companies.

VIENNA INITIATIVE

The European Bank Coordination "Vienna Initiative", a unique private-public coordination platform created to safeguard financial stability in emerging Europe, pursued several major priorities during 2014.

The first was to support the set-up of the Banking Union, acting as an advocate for central, eastern and south-eastern European countries. A working group, led by the EBRD, analysed issues pertinent to this region and informed EU decisions on opting-in conditions for non-eurozone EU members. The Initiative's focus then moved to non-EU members in SEE, whose banking sectors are mostly owned by eurozone-based parent banks but cannot opt into the Banking Union's single supervisory mechanism (SSM), which was launched in November. The Initiative had a productive dialogue with the European Banking Authority (EBA) and other European institutions on creating the conditions for enhanced regulatory cooperation between SEE countries and the institutions of the Banking Union, including the EBA and the European Central Bank.

The Initiative also made strides in creating the conditions for credit recovery. A region-wide NPL action plan is being developed. The objective is to start reducing the very high levels of NPLs in the region, which are a major obstacle to new credit and ultimately to economic growth. The Initiative analysed credit enhancement mechanisms and proposed measures to increase their effectiveness and use, so as to reduce risk perceptions which remain high in some countries and sectors. Lastly, the Initiative continued to closely monitor deleveraging and credit trends in emerging Europe.

Using the platform of the Vienna Initiative, a Ukraine Financial Forum was launched by the Ukrainian authorities, commercial banks, IFIs and other key stakeholders to enhance dialogue between the public and private sectors in support of major reforms in Ukraine's financial sector. The first meeting took place in Kiev in June 2014 and another in Brussels in November 2014 under the aegis of the European Commission.

JOINT IFI ACTION PLAN

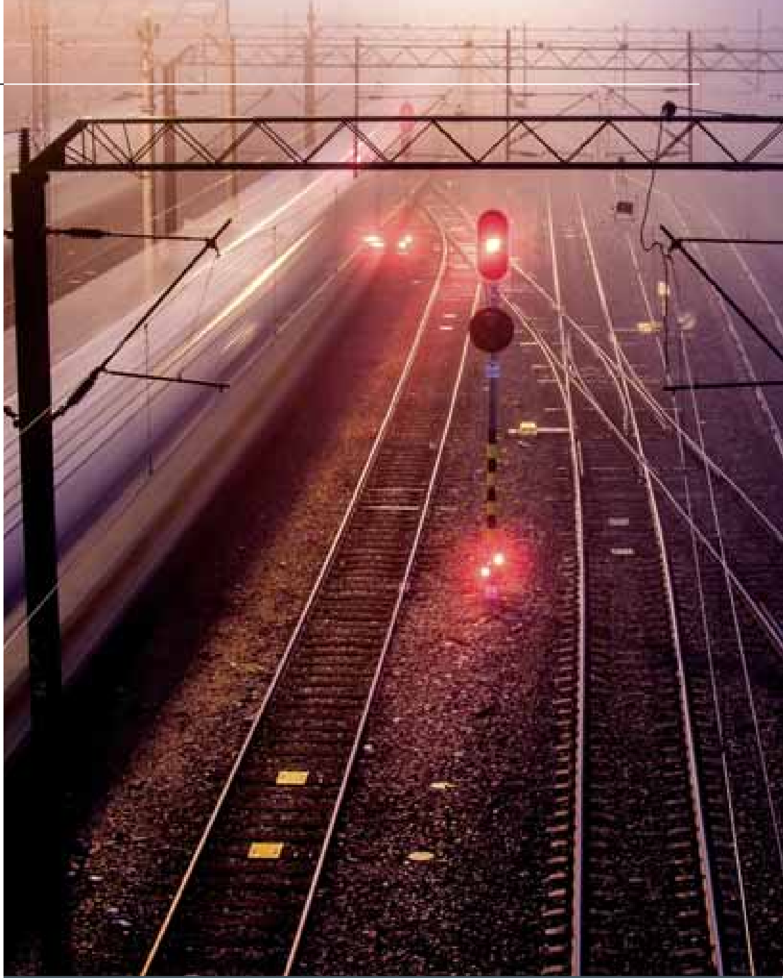
The Joint IFI Action Plan for Growth in Central and South Eastern Europe is a shared initiative between the EBRD, the European Investment Bank (EIB) and the World Bank, and was launched in response to the impact of eurozone problems on the economies of emerging Europe. By July 2014 these institutions had invested €33.6 billion (compared with an original target of €30 billion by the end of 2014) to help countries in this region reorient their growth strategies towards greater competitiveness and increased exports. This was equivalent to 1.5 per cent of regional GDP and came at a time when private inflows were significantly reduced.

Assistance under the Action Plan targeted key sectors of these economies. Support for the financial sector aimed to strengthen financial institutions and enable them to lend to businesses – SMEs in particular. The Action Plan helped to increase the competitiveness of the region by supporting export facilitation and innovation while major investments in the energy sector fostered energy security, increased the use of energy markets, promoted more efficient energy use and raised the share of renewables in consumption.

The initiative also supports longer-term projects integrating these countries more fully with European infrastructure networks. For example, the EBRD and EIB are financing key sections in Bosnia and Herzegovina of the Trans-European Corridor Vc and a motorway between Banja Luka and Doboj that will ultimately connect link to Pan-European Corridor X. Large infrastructure projects such as these have a stronger positive effect on national income levels compared with other forms of public investment.

COORDINATION WITH EXTERNAL PARTNERS

In 2014 the External Policy Coordination team stepped up its engagement with EU institutions to promote a better understanding of strategic priorities in common regions and sectors. This also served to outline joint policy agendas as new EU legislative and financing cycles got underway. Following the



CASE STUDY

IMPROVING RAIL LINKS IN THE WESTERN BALKANS

The EBRD delivered a boost to regional integration in the Western Balkans and beyond by financing the construction of part of a key rail corridor linking Albania's Adriatic coast to the Black Sea coast in Bulgaria. The Bank extended a €145 million loan to finance the completion of a 34 km stretch of railway in north-eastern FYR Macedonia that will form a section of Trans-European Rail Corridor VIII.

This is the second phase of an EBRD project to modernise the international corridor and upgrade the country's rail infrastructure in order to improve trade routes within the region; phase one in 2012 saw the Bank finance the construction of a 30.8 km section of Corridor VIII within FYR Macedonia.

Under the latest transaction, the Bank will facilitate agreements with Serbia and Kosovo to simplify border-crossing procedures and encourage more freight transport by rail. The investment also promotes improved corporate governance, better environmental management and increased private sector involvement in rail sector of FYR Macedonia.

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announcement of the EU support package for Ukraine in March 2014, the EBRD worked closely with the EU to foster the reform agenda in the country, improve its business climate, support small firms and reform the energy sector.

The team coordinates the EBRD's relationship with other IFIs. An important area of collaboration between multilateral development banks last year was a financing framework for the UN post-2015 Sustainable Development Goals (SDGs). The EBRD's expertise in the private sector is well aligned with the emerging consensus that private finance will be essential to the SDGs.

In 2014 the EBRD hosted the Secretariat of the IFI Coordination Platform for the Arab Transition Countries under the Deauville Partnership. The platform uses the collective resources of the 10 IFIs working in the region to encourage reforms that foster job creation and inclusive growth. Last year, areas of focus included SME development, developing local capital markets, and improving investment climates.

The EBRD made progress in reaching out to potential partners in the Gulf, including donors, private companies and sovereign wealth, pension and development funds. President Suma Chakrabarti visited the United Arab Emirates, Kuwait and Saudi Arabia in December in the first trip to the Gulf by a serving EBRD president.

WESTERN BALKANS

In 2014 the EBRD continued paying special attention to the Western Balkans with the aim of promoting stability, regional integration and economic development. The Bank plays a central role in fostering regional dialogue and in February 2014 hosted a gathering of all seven prime ministers of the Western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia) and Croatia to discuss economic cooperation and investment opportunities in the region.

Last year the Bank invested €1 billion and signed 52 projects in the Western Balkans. A large proportion of this amount supported improvements to transport and power networks in order to boost regional integration. The Bank extended a €145 million loan to finance the completion of a 34 km stretch of railway in FYR Macedonia that forms part of a key rail corridor linking the Adriatic coast to the Black Sea. The EBRD also financed major road projects in Bosnia and Herzegovina and FYR Macedonia and supported major investments in power transmission and distribution in Kosovo and Montenegro.

Another important focus of the Bank's work in the Western Balkans was increasing confidence in the financial sector and facilitating access to finance for SMEs, which continue to suffer from restricted credit opportunities in the wake of the global financial crisis. The EBRD also extended direct financing to private SMEs through a number of facilities, including the Local Enterprise Facility.

Extensive policy dialogue complements EBRD investments in the Western Balkans and focuses on improving the investment climate. In 2014 the Bank signed a memorandum of understanding with Albania aimed at cooperation to support the investment climate and good governance.

SUSTAINABLE ENERGY

The Western Balkans Sustainable Energy Direct Financing Facility (WeBSEDFF) provides direct debt financing of between €1 million and €6 million to local enterprises pursuing industrial energy efficiency and small renewable energy projects. WeBSEDFF also provides TC related to project preparation, plus incentive payments upon completion based on the quantity of CO_2e emissions avoided by each project. To date, the Facility has financed 15 projects for €63.9 million, and the expected CO_2e emission reductions total 446,765 tonnes a year on average.

WORKING WITH THE EU

The EU launched the Western Balkans Investment Framework (WBIF) in December 2009. This key instrument of support to socio-economic development and preparation for EU accession provides finance and technical assistance for priority infrastructure investments in the transport, energy, environment and social sectors as well as private sector development. The Framework pools resources from the EU, IFIs and bilateral donors. In 2014, six grants amounting to €11 million were approved.

Another EU initiative, the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), is expected, over the period 2011-15, to mobilise €145 million of initial capital from the European Commission, the EBRD, the EIB Group and bilateral donors. This will leverage over €300 million for SMEs. The EBRD plays a central part in this Facility and its Enterprise Expansion Fund (ENEF), which are flexible channels for pooling and leveraging financing. For more details of EU work with the EBRD, see page 43. ●