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Activities by sector

The EBRD delivers transition impact through its investments, mostly in the private sector, and by conducting project-related technical assistance and policy dialogue. The Bank is active in the financial and corporate sectors and in infrastructure, power and natural resources.





Financial sector

In 2015 the financial sector in the EBRD region continued to face notable challenges. The slow crisis-recovery in many countries, the impact of Russia's recession on neighbouring economies, 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 worth €2.95 billion in 2015 covering 133 projects in 30 countries (2014: €2.8 billion covering 135 projects in 30 countries) the Bank supported lending to the real economy and fostered strong financial institutions. It provided 34 loans financed through local currency instruments in order to reduce foreign exchange risks for partner institutions and their clients.

The EBRD undertook financial sector projects across the whole region (see charts on page 18). A high level of activity took place in Poland and Turkey, where 22 transactions were signed across both countries for combined annual Bank investment (ABI) of €1 billion. The Bank invested in a new country of operations, Greece, expanded its activities in Bosnia and Herzegovina, Egypt, and Jordan, and remained active in the early transition countries (ETCs) where it invested €307 million in the financial sector. At a time of geopolitical and macroeconomic uncertainty, the EBRD continued to support financial institutions in Ukraine.

MSME financing

In line with the EBRD's Small Business Initiative (SBI), the Bank promotes financing for micro, small and medium-sized enterprises (MSMEs) in order to stimulate the real economy. Small firms are a traditional driver of economic growth in EBRD recipient countries but have been particularly affected by the shortage of credit.

In 2015 the Bank concluded 51 MSME-focused operations for over €689 million to partner institutions such as banks, leasing companies and specialised microfinance institutions across 25 countries. An example was the €30 million loan to Banque de Tunisie in Tunisia for on-lending to SMEs. Energy-efficiency credit lines and financing programmes for women entrepreneurs also supported finance for small businesses. The EBRD supports MSMEs through over 190 partner institutions in 28 countries. At mid-2015, these partner institutions had portfolios of 2.3 million MSME loans totalling €9.7 billion.

Women in business

Consistent with the Bank's Strategic Gender Initiative (SGI), and to help strengthen the role of women entrepreneurs, in 2015 the EBRD signed its first credit line under the Women in Business programme in Kazakhstan. Similar programmes are active in Croatia, the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), Egypt, Turkey and the Western Balkans (see case study on page 39). These integrated programmes provide MSMEs run by women with advice and finance via credit lines to local banks. They also offer participating financial institutions technical assistance and, for some programmes, risk mitigation in the form of first-loss cover. Donors fund the risk mitigation, technical assistance and advisory elements of Women in Business programmes.

In addition, the Bank offers credit lines that feature targeted finance for women entrepreneurs outside the Women in Business programmes. In 2015 the EBRD signed a total of 11 projects providing financing for companies run by women.

Sustainable energy and resource financing

Dedicated credit lines to local financial institutions for investments in sustainable energy and resource projects remained a core component of the EBRD's Sustainable Resource Initiative (SRI), which builds on the Sustainable Energy Initiative (SEI) launched in 2006. Donor funds that accompany these loans enable the Bank to provide expert advice to partner banks and private companies seeking financing for energy- and resource-saving projects.

Notable transactions in 2015 included US\$ 290 million (€267 million equivalent) in financing to the Turkish banks Akbank, Garanti and Yapı Kredi to fund mid-sized renewable energy projects undertaken by private companies. In Poland, the EBRD extended a total of €100 million to BZ WBK Leasing and Bank Millennium under a new framework that provides leasing finance for energy efficiency investments. A loan to Bank Eshkata in Tajikistan was part of the EBRD's first financing mechanism aimed at building resilience to the effects of climate change (see case study on page 46).

Since 2004, the EBRD has disbursed green financing worth over €3 billion to partner institutions, which have on-lent €2.3 billion to sub-borrowers, thereby supporting almost 100,000 sustainable energy and resource projects.

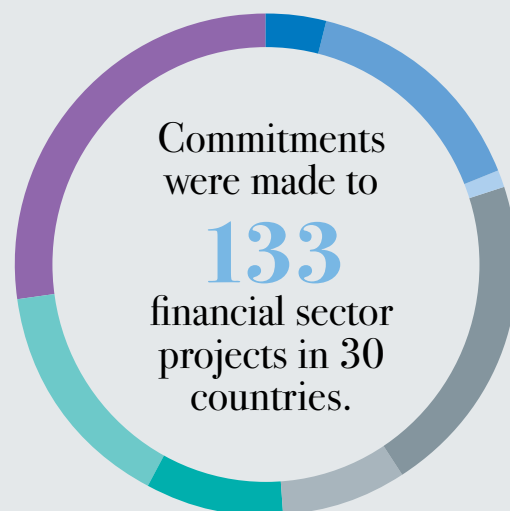
Chart 2.1. Financial sector annual Bank investment by product, 2015

Bank and other equity investments	24%	Sustainable energy and resources	17%
MSME financing	23%	Trade finance	20%
Women in Business programmes	5%	Capital markets	2%
		Other finance	9%



Chart 2.2. Financial sector annual Bank investment by sub-region, 2015

Central Asia	4%	Greece	8%
Central Europe and the Baltic states	15%	South-eastern Europe	9%
Cyprus	1%	Southern and eastern Mediterranean	15%
Eastern Europe and the Caucasus	21%	Turkey	27%



“Dedicated credit lines are available to local financial institutions for investments in sustainable energy and resource projects.”

Equity in the financial sector

The Bank increased its equity investment activity in the financial sector during 2015 to help strengthen banks in the region. As part of its commitment to supporting reforms and a revitalisation of the country’s financial sector the EBRD invested in four Greek banks (see case study on page 9). The Bank also acquired shares in Hellenic Bank of Cyprus as part of efforts to restructure the institution, while in Turkey the EBRD bought a minority stake in Fibabanka to support its growth plans. With regard to exits, the Bank secured 10 full and five partial divestments from a range of institutions in its portfolio. The EBRD has investments of €1.96 billion in 67 financial institutions across 25 of the countries where it works.

Capital markets and 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. The acquisition of senior bonds issued by Warsaw Stock Exchange and equity investments in two further exchanges – Borsa İstanbul and Zagrebačka Burza, Croatia – demonstrated support for the development of market infrastructure and capital markets. The Bank also participated in two Polish zloty bonds issued by banks to provide them with medium-term funding and to strengthen local-currency debt capital markets. It continued to respond to the currency mismatch faced by some financial institutions by offering its cross-currency swap product to Romanian and Serbian financial institutions.



Case study

Equity stake in Borsa İstanbul finances expansion plans

The EBRD signalled its support for the development of Turkey’s capital markets and its confidence in the wider Turkish economy by purchasing a 10 per cent stake in Borsa İstanbul, the sole exchange entity in the country.

The Turkish government has a comprehensive capital market reform programme that aims to make Istanbul a major financial centre for Central

Asia, North Africa and south-eastern Europe. The EBRD investment will support this endeavour by financing plans to improve the efficiency and liquidity of Borsa İstanbul and help it become a leading exchange in terms of the number of listed companies and market capitalisation.

The Bank is committed to strengthening bond, equity and securities markets as part of its strategic initiative for local currency and capital markets development.

Trade finance

The Trade Facilitation Programme (TFP) provides short-term trade finance facilities 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 hesitate to engage in trade finance because of higher levels of risk.

In 2015 the EBRD financed 1,035 trade transactions worth a total of €868 million, working with 65 banks across 23 countries. In response to the current difficulties in Ukraine, the Programme strengthened its support for local businesses by processing trade transactions worth €183 million. The Bank concluded its first TFP transactions in Cyprus and the Programme remained an important means for the EBRD to establish banking relationships in the southern and eastern Mediterranean (SEMED) region. The ETCs continued to have a significant share of trade finance business, accounting for 48 per cent of the number of TFP transactions (and 22 per cent of the volume).

Technical cooperation

Thanks to donors, technical assistance supported EBRD investments and policy dialogue in priority areas. Sustainable energy and MSME lending, the Women in Business programmes and activities promoting the Bank's Local Currency and Capital Markets (LC2) Development Initiative and trade finance featured prominently. In 2015 there were 102 technical cooperation (TC) assignments issued in the financial institutions sector with a total value of €27 million. In addition, donors funded €27 million of incentive payments to participating institutions and their clients for energy and resource efficiency and SME competitiveness.

Extensive preparatory work continued towards the launch of a three-year programme dedicated to supporting SMEs via local financial institutions in Georgia, Moldova and Ukraine. This programme is part of a broader EU facility aimed at fostering economic development in the Deep and Comprehensive Free Trade Area (DCFTA) established by agreements between the EU and those countries.

TC projects enabled the Bank to support the National Bank of Ukraine as it develops a strategy for banking system reform and undergoes reorganisation and modernisation.

Policy dialogue

Policy dialogue activities played an important role in the areas of non-performing loan (NPL) resolution, support for the deposit insurance system, corporate governance, access to finance and capital market infrastructure in line with the LC2. The EBRD worked on developing an electronic platform linking stock exchanges in Bulgaria, Croatia and FYR Macedonia to promote regional integration of their capital markets.

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.

Case study

Every grain counts: improving Egypt's food logistics

Egypt is a major importer of grain, so the efficient storage and handling of this commodity holds great importance for the country's economy. To improve operations in this area, the EBRD agreed to extend a US\$ 20 million (€18.4 million equivalent) loan to Medsofts, a family-owned company that is one of the key agricultural importers and supply chain managers in Egypt.

The loan will finance the company's working capital, which is growing due to the completion of a grain-storage and handling terminal, 50 per cent owned by Medsofts, in the port of Alexandria. The investment will increase the terminal's utilisation rate and set a standard for efficient grain logistics operations in Egyptian ports. Technical assistance linked to the project will help Medsofts implement international standards for corporate governance and risk management.



Industry, commerce and agribusiness

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

During 2015 the Bank invested €2.11 billion in 140 ICA projects. The sector accounted for 22 per cent of annual Bank investment and 37 per cent of the number of operations (including 43 per cent of ETC transactions and 53 per cent of pure equity transactions).

Agribusiness

In the agribusiness sector EBRD investments and policy dialogue aim to unlock the enormous agricultural potential of the Bank's region while promoting sustainable production and distribution methods, higher standards of animal welfare and better quality food.

In 2015 the organisation invested a total of €770 million (2014: €859 million) through 51 transactions in agribusiness, including €131 million in support of the SRI. The Bank used debt and equity investments (both direct and indirect) and financing in local currency to foster a stable and competitive private agribusiness sector. An example of an indirect equity transaction was a participation in the buyout of Danube Foods Group in Serbia by the Mid Europa Partners private equity fund. Technical assistance funded by donors deepened the impact of projects, for instance by promoting the economic inclusion of underserved sections of the population.

The EBRD expanded its presence in Turkey's agribusiness sector and worked with the government on reforms to increase the competitiveness of the food production and distribution industry. Among notable projects in Turkey was a €50 million loan to finance the expansion of tea and snack producer Doğuş Çay.

The Bank increased its support for agribusiness companies in Ukraine through investments and policy dialogue to maximise their export capacity and diversification following the loss of the Russian market. In 2015, the EBRD provided more than €184 million in financing for Ukraine's agribusiness sector through seven projects. For example, the Bank arranged a syndicated loan to a Ukrainian sunflower oil producer and exporter which will also help provide much needed pre-harvest financing to local farmers.



With donor funding, the EBRD initiated a partnership between the Ukrainian government and private companies to work together on priority reforms that will help meet international standards in the agribusiness sector. In September, the Bank hosted a meeting at its London headquarters with international investors, government representatives and agribusiness firms to discuss how they could speed up reforms, tackle corruption and boost investment in Ukraine's agri-food sector.

In the SEMED region, the EBRD continued its innovative engagement with the agribusiness sector. Investments included a loan in support of a privately owned grain-handling terminal in Egypt to increase import efficiency, and financing for the modernisation of a poultry production company in Jordan.

The Private Sector for Food Security Initiative remained an important focus for investments in agribusiness. The Initiative seeks to overcome constraints on market supply and improve the efficiency and quality of food production and distribution through technical assistance, policy dialogue and coordinated action with our partners. This work helps to increase agricultural output and quality within the EBRD region at a time of growing global demand for food. The Initiative benefits from

“During 2015 the Bank invested €2.11 billion in 140 ICA projects.”

the generous support of donors and in 2015 they contributed €6.9 million to its work.

Under the Initiative, the EBRD and the Food and Agriculture Organization (FAO) of the United Nations supported dialogue between the public and private sectors in Egypt, Kazakhstan, Serbia, Tunisia and Ukraine. They made progress on removing regulatory constraints to investments, improving food distribution networks and facilitating exports to new markets. In 2015, the Ukraine Dairy Working Group facilitated by the EBRD and FAO helped Ukrainian companies obtain permission to export dairy products to China.

A policy forum in Barcelona in May 2015 focused on promoting resource-efficient production and enhancing food security in the SEMED region, which is characterised by population growth, natural-resource constraints and inefficient production of staple foods. The forum was organised by the EBRD, FAO and the Union for the Mediterranean. In parallel, the EBRD and FAO worked with producers in Tunisia on adding value to olive oil exports. In Egypt they supported private sector efforts to improve the efficiency of the grain supply chain.

The EBRD continued work to upgrade food quality standards and foster resilient value chains across the region. In Croatia, Montenegro and Serbia the Bank worked with producers to develop Geographical Indications or other premium labels as a way to boost sales of high-quality products and exports to the EU.

The Initiative continued to facilitate more liquidity in primary agriculture, enabling producers to invest in their farms and boost output. It achieved this by supporting legal frameworks for pre-harvest financing mechanisms, crop receipt systems, in Serbia and Ukraine. In 2015, with EBRD and FAO support, Serbia and Ukraine issued their first crop receipts. The EBRD also increased its cooperation with a number of banks to implement agriculture and agribusiness credit lines.

Manufacturing and services

The EBRD's activities in the manufacturing and services sector promote the sustainable use of resources as well as the development of the knowledge economy and innovation. The Bank invests in a broad spectrum of industries, including (in 2015) automotive manufacturing, aerospace, chemicals, forestry products, construction materials, consumer and capital goods, health care and pharmaceuticals and retail.

During 2015 the EBRD invested €765 million in the manufacturing and services sector, signing 53 projects (compared with €890 million for 50 transactions in 2014). Investments varied in size from €0.2 million to €100 million and helped mobilise €116 million of syndicated financing.

Of these transactions, 33 were for €10 million or less and the vast majority of these were in the

ETCs (20 in total), the Western Balkans and SEMED. Projects with SMEs accounted for 19 investments in this sector. Bank ventures in manufacturing and services foster gender equality in the workplace and promote inclusion by creating job opportunities for women and young adults.

Policy dialogue focused on creating a regulatory environment that encourages sustainable and resource-efficient practices in industries including cement production and wood processing. The EBRD provided €191 million in financing for innovative resource-efficient industrial projects. An example was the financing, arranged with the Clean Technology Fund (CTF), for the construction of an environmentally friendly plant by Ege Profil, a Turkish company that makes insulated plastic windows and doors (see case study on page 13).

The Bank also invested in research and development and technology upgrades that enhance the productivity and competitiveness of manufacturing and service companies. Notable transactions included financing for hospitals in Montenegro and Poland and pharmaceutical companies in Croatia, Egypt, Georgia and Jordan. A €200 million syndicated loan to Turkish automaker Tofaş supported the design and production of two new car models targeted for export.

In addition, the Bank continued its work to attract foreign direct investment in the region, provided local currency financing to limit client exposure to foreign exchange risk and promoted the development of local capital markets, for instance through bond investments. The purchase of bonds issued by Synthos, a Polish chemicals manufacturer, illustrates this work. Improving corporate governance was another focus of the Bank's activities in this sector, including through the six equity capital transactions closed in 2015. Equity represents a quarter of the Bank's €3.4 billion in operating assets in the manufacturing and services sector.

Equity

The EBRD takes both direct and indirect equity positions in companies and projects. It is a major investor in private equity and venture capital funds across the region and focuses primarily on growth and expansion capital. In 2015 the Bank continued efforts to strengthen its own capacity to identify and pursue direct investment opportunities and maximise the value of equity transactions. The institution received Board approval to create an Equity Participation Fund that will enable global institutional investors, such as sovereign wealth funds, to access a diversified portfolio of direct equity investments across the EBRD region.

Direct equity

Through its direct equity investments the organisation works to improve the corporate governance of investee companies and deepen the transition impact of Bank activities. The investments help support a market which is notable for the lack of available equity and provide reassurance to international co-investors entering the EBRD region.

In 2015 the EBRD increased its direct equity activity, investing €1.1 billion in 51 transactions across nearly all sectors. Since 1992, the Bank has invested over €11.5 billion in more than 660 direct equity investments across the region. At the end of 2015, its direct equity exposure was €4.6 billion in 221 investments. 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, technology, property, tourism and agribusiness.

Noteworthy transactions in 2015 included the purchase of growth equity stakes in a subsidiary of Moroccan food retailer Label'Vie and in Egyptian pharmaceutical distribution company Ibn Sina Pharma. The number of investments under the EBRD's Venture Capital Investment Programme (VCIP) grew from four in 2014 to six in 2015. The Bank also secured a full exit from Poland's Bank Zachodni WBK and further reduced its stake in Russian hypermarket chain Lenta.

Equity funds

With investments in over 170 funds since 1993, the EBRD has a large private equity and venture capital fund investment programme. Through investments in private equity and venture capital funds, the Bank seeks to build investment capacity, providing growing companies across all sectors with much-needed equity finance and improving their corporate governance. By mid-2015 over 1,350 investee companies had benefited from EBRD funds.

In 2015 the EBRD committed €223 million to nine private equity funds (compared with €185 million for nine funds in 2014). The Bank invested €17 million in the Livonia Partners Fund I, which provides equity financing, principally for SMEs, in Estonia, Latvia and Lithuania, under the Integrated Approach for the Further Development of the Venture Capital and Private Equity Ecosystem in the Baltic States (the Baltics IA). Underlining its support for Turkey's knowledge economy, the Bank invested in the Revo Capital Fund I, an early-stage venture capital fund, under the Early-Stage Innovation Facility. It also invested in three other Turkish funds dedicated to companies at different stages of the business life-cycle. The Bank also made a commitment of up to US\$ 12.5 million (€11.5 million equivalent) to Zubr Capital Fund I, the first fund for Belarus.

The institution underscored engagement with its new regions by committing up to US\$ 25 million

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The Report
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from some 300
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private equity
funds in
the region.”



Transition Report 2015-16

The *Transition Report 2015-16* looks at the post-crisis evolution of finance in the region where the EBRD invests and considers ways to stimulate growth.

The publication documents a significant drop in levels of investment for many parts of the region and warns that this puts convergence with advanced economies at risk. At the same time, the Report finds that levels of public debt have increased rapidly since the crisis and that some parts of the private sector are over-indebted. Meanwhile, unique data from the Business Environment and Enterprise Performance Survey (BEEPS) suggests that for many SMEs access to credit or equity is limited or non-existent.

The Report concludes that finance needs to be rebalanced in order to provide diversified funding options and increase investment levels in the region. In particular, equity financing needs to become more prominent. Using data from some 300 investments by private equity funds in the region, the Report documents the special role that equity financing can play in supporting investment, raising productivity and strengthening firms.

Redressing the balance between foreign and local currency financing is another priority: on average around 50 per cent of the total debt of households, firms and governments in the region was denominated in foreign currency in 2014. The *Transition Report* urges local banks to increase their reliance on domestic funding sources and calls for more diversified foreign direct investment flows in which other emerging markets and non-European advanced economies play a greater role. See tr-ebd.com

(€23 million equivalent) to Foursan Capital Partners II, a fund dedicated to investments in Jordanian SMEs, and €20 million to the Diorama Hellenic Growth Fund. This marked the Bank's first commitment to a Greek fund.

Specific focal points for policy dialogue related to private equity and venture capital included looking at the legal framework for investment vehicles and procurement regimes in the Baltic States in anticipation of additional EU structural funding becoming available. Cooperation continued with other development finance institutions, both on individual transactions and through knowledge and best practice-sharing workshops organised and led by the EBRD.

Information and communication technologies

The EBRD promotes the development of a modern information and communication technologies (ICT) sector that enables citizens and firms to benefit fully from the digital and mobile revolutions. Activities in this sector, including projects under the VCIP, are a critical element of the Bank's Knowledge Economy Initiative.

Last year the EBRD invested €155.8 million in the ICT sector through 14 projects in the region (2014: €158 million for 10 projects). Equity transactions accounted for €37.6 million of this amount and the rest was debt. Notable transactions included a €50 million investment in the bond issue by OTE, Greece's largest telecommunications operator, which constituted the first Greek corporate bond issue in over a year.

The Bank signed three new projects in Poland's fast-growing technology sector. These included the purchase of bonds issued by pay-TV provider Cyfrowy Polsat and the acquisition of shares in online media

platform Wirtualna Polska Holding. The Bank also increased its stake in Virgin Mobile Central and Eastern Europe, a mobile virtual-network operator, to support its activities in Poland.

The VCIP contributes to the development of a venture capital ecosystem that can support innovative, high-growth technology companies. Six new investments under this programme were signed in 2015. Examples included the purchase of a stake in the Lithuanian company that operates TRAFI, a mobile application for planning travel by public transport, and an equity investment in the owner of GoOpti, a Slovenian web platform that offers low-cost, long-distance shuttle services between airports and cities in seven European countries.

The Bank supported the distribution of cutting-edge communications technology in the ETCs and Western Balkans. A loan to Mongolian mobile operator Mobicom will help it to offer higher-speed broadband and data services to a wider population. A €1.3 million loan to local broadcaster Stereo+ will facilitate the switchover from analogue to digital broadcasting in Georgia.

Case study

Taking high-speed broadband to Poland's remote regions

An investment in local currency bonds issued by Cyfrowy Polsat, a leading Polish telecommunications and media company, will support the delivery of high-speed mobile broadband to areas outside Poland's main cities and encourage the development of a local corporate bond market.

The EBRD holds a 4.9 per cent stake in the company, which is listed on the Warsaw Stock Exchange, with the majority of its capital privately controlled.

Proceeds from the bond issue will support the expansion of the company's telecommunications networks and technologies and increase mobile broadband coverage in remote areas in Poland. Broadband networks are an important part of the infrastructure needed to foster an innovative, high-tech economy.

The investment also supports the Bank's Local Currency and Capital Markets (LC2) Development Initiative as it fosters the growth of the corporate bond market in Poland. The sizeable bond issue by Cyfrowy Polsat is expected to act as a catalyst for similar placements by other private companies.

As part of the transaction, Cyfrowy Polsat committed itself to using the proceeds of the EBRD investment to strengthen the company's social and environmental performance and its corporate governance.



Property and tourism

In property and tourism, the EBRD finances private projects that promote job creation, urban regeneration, economic inclusion and resource efficiency. It invests in hotels, offices, retail centres, logistics and mixed-use facilities that stimulate the growth of a modern tourism industry and a sustainable property sector.

In 2015 the EBRD committed a total of €172 million to 13 property and tourism projects (2014: €227 million for 11 projects). Of this amount, €125 million was debt and the remainder equity. Investments in equity included the purchase of a stake in a subsidiary of food retailer Label'Vie, which is the exclusive franchisee of the French hypermarket chain Carrefour in Morocco. Enhancing its reputation as a reliable partner in challenging times, the Bank provided loans to Polish developer Global Trade Centre to finance the restructuring of projects in Bulgaria and Romania.

The Bank contributed to economic inclusion by investing in property projects that improve routes from training to employment for women and young adults. Examples included a US\$ 60 million (€55 million equivalent) loan for the construction of tourism infrastructure in the Jordanian port city of Aqaba. This project will establish a training programme to help address the issue of youth unemployment in the area (see case study on page 43). The EBRD signed an agreement with the UN World Tourism Organization (UNWTO) to work together to promote inclusive and sustainable tourism, with a particular emphasis on youth inclusion.

Recognising that buildings are heavy consumers of energy and water, the EBRD supports property projects that make efficient use of power and other resources. For example, the investment in the subsidiary of Label'Vie will help the firm to introduce energy- and water-efficiency measures, waste minimisation and recycling processes to the Moroccan retail sector.

Projects in the ETCs included a loan to finance improvements to the Ak Bermet hotel on the shores of Lake Issyk-Kul in the Kyrgyz Republic and an investment in the development of a hotel under the InterContinental brand in the Georgian capital, Tbilisi.

“The Bank supported the distribution of cutting-edge communications technology.”

“35 million people are expected to benefit from MEI investments signed in 2015.”

Infrastructure

Improved infrastructure, including transport networks and municipal and environmental utilities, is crucial for returning the EBRD region to a path of sustained economic growth. Public financing alone, however, will not suffice to meet the huge infrastructure needs of the countries where the Bank invests and the EBRD is committed to mobilising private sector financing to meet this shortfall.

In 2015 the EBRD joined the new Global Infrastructure Facility (GIF), launched by the World Bank to harness private and institutional financing to close the infrastructure funding gap. In particular, it facilitates the preparation and structuring of complex infrastructure public-private partnerships (PPPs). The GIF complements the Infrastructure Project Preparation Facility, approved by EBRD Governors in 2015 to meet infrastructure challenges in the Bank's region over the period 2015-17.

Municipal and environmental infrastructure

EBRD operations in the municipal and environmental infrastructure (MEI) sector promote access to safe drinking water, sanitary waste management, green urban transport, energy-efficient heating and cooling, high-quality hospital facilities and other urban infrastructure. 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 45 projects in MEI during 2015 (41 transactions in 2014), representing a total EBRD commitment of €713 million (€726 million in 2014). Significant transactions included a €74 million equivalent investment in the City of Bucharest's ground-breaking bond issue and a €125 million loan to support the development of a high-tech hospital near the Turkish capital, Ankara. The Bank made nine investments in the MEI sector in Kazakhstan as part of an enhanced partnership with the Kazakh government.

The sustainable energy components of MEI projects accounted for €470 million in 2015, 66 per cent of total commitments in the sector. MEI investments made in 2015 should reduce annual carbon emissions by 878,000 tonnes of CO₂ equivalent. The Bank's investments in water and sanitation services, waste management, district heating and other municipal infrastructure in 2015 are expected to benefit more than 35 million people, while investments in urban transport systems will improve travel conditions for an estimated 531 million passengers every year. In addition, projects to modernise urban bus fleets typically help to reduce fine particulate-matter emissions, which

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Metro Line 2
capacity will
increase by
around
23 per cent.”

Case study

A better metro service for Cairo's commuters

Millions of commuters in Cairo will benefit from a €100 million sovereign loan that will enable the Egyptian National Authority for Tunnels (NAT) to procure 13 new trains to be operated on the Cairo Metro.

Traffic congestion in Cairo has been increasing at a rapid pace, leaving people immobile, particularly during peak hours, at substantial cost to the Egyptian economy. There is a clear and urgent need to increase the number of higher capacity and low-emission public transport vehicles to reduce congestion and pollution levels.

Used by over 2.4 million passengers per day, the Metro is one of the key modes of public transport in the city. The EBRD funds will increase the capacity of Metro Line 2 by approximately 23 per cent.

The Bank will assist NAT in incorporating gender and disability considerations into the planning and provision of services for passengers. Furthermore, the public procurement process for the Metro upgrade will lead to the creation of an on-site training programme that will offer unemployed young people the opportunity to enhance their technical skills and improve their job prospects.



create smog and are particularly harmful to children and elderly people, by some 80 per cent compared with the pre-investment situation. Promoting the economic inclusion of underserved social groups through improved access to essential services was an important focus of MEI activity.

MEI investments by the EBRD leveraged considerable volumes of loan and grant co-financing from the EU and other sources. The integrated use of technical cooperation, frameworks (covering a number of projects with similar themes) 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 47).

Since entering the MEI sector in 1994, the EBRD has signed over 360 transactions and committed nearly €5.84 billion of its own resources – while leveraging a further €9.4 billion from other financiers – to urban projects that support more efficient, reliable, financially sustainable and environmentally friendly services.

Water and wastewater

The Bank signed 19 projects in the water and wastewater sector in 2015, investing €143 million to improve the quality and efficiency of drinking-water, sewage- and effluent-treatment services for underserved populations. Ventures in this sector also benefit the local environment by reducing the volumes of untreated effluent entering bodies of water.

These projects included the Bank's first MEI investment in Tunisia – a €20 million loan to finance the upgrade of wastewater treatment in the Bizerte region – and the first non-recourse loan in Serbia to Belgrade's water company.

In addition, the Bank extended a US\$ 14 million (€12.9 million equivalent) loan complemented by US\$ 5 million (€4.6 million equivalent) in grant funding to finance a new wastewater pipe in Jordan which will help address rapidly increasing wastewater flows caused by the recent refugee crisis.

Solid waste

By helping cities to collect refuse and dispose of it in a sanitary way that also protects the environment, the Bank makes a considerable difference to the welfare of people in countries where it invests. In 2015 the EBRD signed seven operations in the solid waste sector for a total investment of €40.5 million. For example, Georgia will receive a tranching sovereign loan worth up to €7 million to finance the introduction of a modern solid waste management system that will benefit five municipalities in the southern Kvemo Kartli region. In Jordan, a tranching loan worth up to US\$ 13 million (€12 million equivalent) to the administration of the capital, Amman, will finance a landfill-gas recovery system. Investment grants provided by donors supported the affordability of these projects.

Urban transport and roads

The EBRD invested €221.4 million in urban transport and roads in 2015 (2014: €320 million) across 10 projects. Its activities focused on reducing carbon emissions by supporting greener modes of transport such as electric trams. The Bank also helped clients to improve the accessibility of their services for under-served social groups, including women, the elderly and people with disabilities.

For example, the EBRD launched the Cairo Urban Transport Integrated Approach (IA) to address key challenges in the Egyptian capital's transport system such as the lack of safe travelling conditions for female passengers (see case study on page 26). The Bank also approved a €100 million financing facility for public transport improvements in Ukrainian municipalities and a €120 million facility in Romania for sustainable mobility and access to road transport.

Street lighting

Street lighting is another sector where the Bank is increasing its activity. It signed a first project in Yerevan, Armenia, and envisages similar projects in the future as municipalities seek to control rising electricity costs through energy efficiency measures.

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 €33 million to four projects in 2015 (2014: €91 million). A district heating modernisation programme in Ukraine is supported by grants from the Eastern Europe Energy Efficiency and Environment Partnership (E5P) and concessional financing from the Clean Technology Fund (CTF).

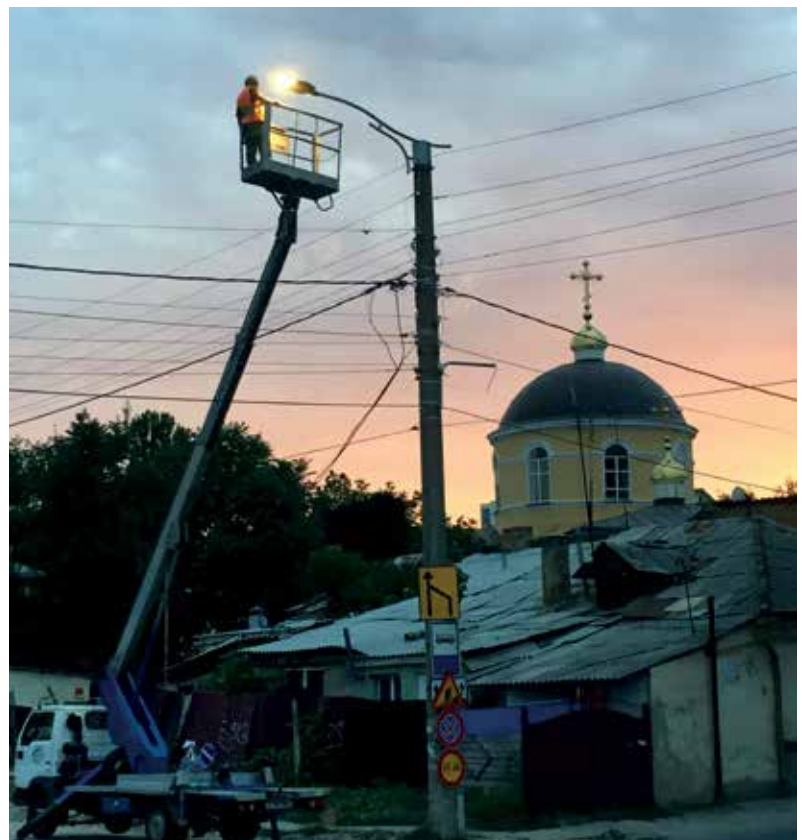
“**€221.4 million was invested in urban transport and roads in 2015.**”

Facility management of public buildings

The EBRD extended €125 million and mobilised another €131 million in syndicated financing to support a €1.12 billion hospital construction project in Etlük, near Ankara. The Bank provided the financing under a €600 million investment framework, launched in 2014, to help fund Turkey's €12 billion hospital infrastructure PPP programme. The framework is supported by a comprehensive technical assistance package to build the Turkish Ministry of Health's capacity to assess and monitor hospital facility-management PPPs. In 2015, the Bank invested a total of €198 million in three hospital infrastructure projects.

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. Examples for 2015 included the modernisation of street lighting in Yerevan, the expansion of water supply in Bosnia and Herzegovina and four projects to improve water services in the Kyrgyz Republic. During the year, the EBRD invested €66 million in 13 projects that benefit those challenged communities.



Transport

The EBRD invests in transport projects that give people access to essential services and economic opportunities and connect businesses to suppliers and consumers. Creating sustainable transport networks and promoting road safety, developing the private market for transport services, fostering regional integration and supporting capital market financing for the transport sector are priorities for the Bank in this field.

In 2015 the Bank signed 27 transactions in the transport sector for a total EBRD investment of €1.047 billion. Non-sovereign projects accounted for 54 per cent of Bank ventures in the aviation, maritime, rail, road and intermodal sectors by value. The organisation provided debt and equity financing and signed five transactions in local currency. Projects signed under the SRI accounted for €312 million of the EBRD's investment in this sector, bringing to €1.738 billion the total committed by the Bank to energy efficiency and mitigation projects in transport since 2009.

Intermodal transport and logistics

Major areas of focus for EBRD efforts to promote sustainable transport are the investments in logistics and projects that support the more efficient movement of cargo across different modes of transport. These reduce energy consumption by streamlining the movement and storage of freight and are particularly important given the growing use of intermodal containers around the world.

During 2015 the Bank extended a €100 million loan to Polish freight transport company PKP Cargo to finance the acquisition of Advanced World Transport and promote the development of intermodal services in central and eastern Europe. A €5 million loan to PIMK Holding Group will help the Bulgarian company build an intermodal cargo terminal in the city of Plovdiv while a €7 million loan to Turkish logistics firm TLS will strengthen its financial position. The Bank also acquired a stake in InPost, Poland's largest private postal service, at the company's initial public offering on the Warsaw Stock Exchange.

Aviation

An EBRD loan worth 8.5 billion tenge (equivalent to €22.8 million) will support the modernisation of Astana airport and promote tariff reforms within Kazakhstan's air transport sector. Another local currency loan will finance Air Astana's expansion plans, which include the construction of Central Asia's first maintenance facility capable of serving large aircraft.

The Bank extended a €41.2 million loan to the national air traffic services company of Ukraine to upgrade its communication, navigation, surveillance

and data processing equipment in line with EU standards. Aviation projects were also signed in Armenia and Tajikistan.

Maritime

Investments in maritime transport included a loan of up to €200 million to finance the construction of a new port close to the town of Nador in Morocco (see case study) and the purchase of a stake in Turkish port operator Global Ports. The Bank also financed the development of a new liquid-cargo terminal in Ploče, Croatia and the construction of a grain drying and purification facility in the port of Odessa, Ukraine, as well as investing in the expansion of a leading ship-management company based in Cyprus.

Case study

New port to stimulate economy in Morocco's north-east

The EBRD is investing in the construction of a new port on the Mediterranean coast of Morocco, 30 km from the town of Nador in the east of the country. A loan of up to €200 million to Nador West Med (NWM) will finance the construction of a breakwater, quays, dredging and related infrastructure work.

The port will feature terminals for the storage and handling of containers and bulk cargo. It will contribute to the economic development of Morocco's north-eastern Oriental region, where unemployment is a problem.

NWM, which is owned by the Moroccan government, will incorporate environmental protection measures into the construction process, including the use of lower-carbon cement. In addition, €1 million of technical assistance funded by the EBRD Shareholder Special Fund and the SEMED Multi-Donor Account will provide management support and facilitate the implementation of an environmental and social action plan.



“**In 2015 the Bank provided up to €214 million for improvements to arterial transport routes in the Western Balkans.**”



Rail

The EBRD sustained its longstanding cooperation with Kazakhstan's national rail company, KTZ, by arranging a US\$ 180 million (€163.3 million equivalent) syndicated loan in support of a modernisation and restructuring programme. KTZ will use the loan to refinance its eurobonds and to carry out tariff reforms and sustainable energy improvements as part of the financing agreement. In Kosovo, the Bank signed its first transport deal for the country, a €19.2 million loan to improve the national rail network and its connection with neighbouring countries and the rest of Europe.

Road

To support regional integration, the EBRD invests in road infrastructure in the Western Balkans. In 2015 the Bank provided financing of up to €214 million for improvements to arterial transport routes in Bosnia and Herzegovina, FYR Macedonia, Kosovo and Montenegro. In Moldova, the Bank contributed €47 million to a €315 million financing package for the construction and rehabilitation of the country's road network. The EBRD provided financing alongside the European Investment Bank and the EU, which extended a €15 million grant through its Neighbourhood Investment Facility.

In addition, the EBRD supported the development of a secondary equity market for PPPs by purchasing equity stakes totalling €30.1 million, alongside

institutional investors, in the M6 Duna and M6 Tolna motorway concessions in Hungary. The Bank signed these transactions under the Framework for Development of a Secondary Market for Maturing Infrastructure PPPs, which was approved by the Board in 2015.

Natural resources

The EBRD invests in the oil, gas, and mining sectors to help countries realise the benefits of their natural resources in a responsible and transparent manner. If managed properly, natural resources can be a major source of jobs, government revenue and a wide array of other advantages. The Bank recognises that climate change, energy security and affordability are challenges that require a long-term, strategic response from the natural resources industry.

Providing finance and advice for private and public sector clients, the EBRD 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.

In 2015, although the price of energy and mineral commodities continued to fall, the EBRD signed 16 transactions in the natural resources sector for a record overall volume of €1.36 billion (compared with €634 million in 2014 and a previous record of €693 million in 2010). This result reflected the Bank's engagement with robust clients in support of long-term projects that promote sustainable practices.

Notable ventures included the arrangement of a US\$ 1.2 billion (€1.08 billion equivalent) syndicated loan to Oyu Tolgoi in Mongolia to help bring into operation an underground mine which is one of the world's largest undeveloped copper and gold deposits (see case study on page 15). In Egypt, the EBRD signed three transactions to support responsible exploitation of energy and help the country meet rising domestic demand for oil and gas. These projects feature a strong emphasis on environmental management and health and safety.

The EBRD participated in a US\$ 2.4 billion (€2.2 billion equivalent) financing package for the development of the Shah Deniz II offshore natural gas field in Azerbaijan. A network of pipelines will transport the gas via Georgia and Turkey to south-eastern Europe, boosting energy security in that region and bringing Europe closer to a common gas market.

The Bank pursued its work in favour of gas sector reform in Ukraine. A US\$ 300 million (€276 million equivalent) loan to Naftogaz to finance the purchase of gas for winter consumption will also help the country diversify sources of supply through its interconnections with Europe. Under the terms of the loan, the state-owned energy company must improve its corporate governance and follow best European procurement practice when purchasing gas with EBRD funds.

Policy dialogue work in the sector over the past year focused on improving health and safety within the extractive industries, raising standards of corporate governance, and promoting gender equality. With donor support, the EBRD is helping the Kyrgyz government identify ways of lifting legal barriers to women's employment in the labour force, including in the natural resources industry.

“**In 2015 more than two-thirds of EBRD investments in the power sector supported renewable energy projects.**”

Power and energy utilities

In 2015 more than two-thirds of EBRD investments in the power sector supported renewable energy projects. This prominence anticipated the UN climate conference held in Paris in December, which reaffirmed the global commitment to combat climate change and move towards renewable energy sources.

Last year the EBRD invested nearly €1.2 billion in 20 projects from the power sector, across 13 different countries. Of these projects, 15 supported renewable or low-carbon energy generated by wind, solar or hydropower, biogas, biomass or geothermal technology.

Notable transactions included a 561 million dirham (€52 million equivalent) project-finance loan alongside a local commercial bank to support construction of the 120 MW Khalladi wind farm in Morocco. The wind farm does not rely on any public support or subsidy and will sell energy to private purchasers, competing on price with conventional generation. This is the first time that the Bank has financed a renewable project on this basis,



and a demonstration of the newfound maturity and competitiveness of the renewable-energy market.

In Kazakhstan the EBRD provided a 14 billion tenge (€38 million equivalent) loan to finance the 50 MW Burnoye plant, the first large-scale facility for solar generation in the country (see case study on page 34). This project, together with the Yereymentau wind farm financed by the Bank in 2014, supports Kazakhstan's new regulatory framework for renewables, which was structured and put in place with extensive support from the EBRD. As with the Khalladi wind farm, this project shows the importance the EBRD places on strengthening local capital markets and providing local currency financing wherever possible.

The Bank supported the construction of the first wind farm in the Balkans, the 72 MW Krnovo project in Montenegro, building on many years of work with the Montenegrin government to develop a regulatory framework for renewable power. The project has the potential to catalyse similar work across this region, which faces the challenge of replacing ageing coal-fired plants with more sustainable generation.

The EBRD continued to support Turkey's efforts to improve the security and sustainability of its energy supply in the face of sustained growth in demand. The Bank arranged more than US\$ 700 million (€663 million equivalent) in financing for the

country's largest geothermal plant, and invested US\$ 115 million (€106 million) in the renewable energy arm of the Akfen conglomerate to support a portfolio of wind, solar and hydropower ventures.

Recognising the efficiency and security gains that accompany cross-border energy trade, the EBRD extended a US\$ 110 million (€101 million equivalent) loan to the Tajik national power company, to finance its share of a transmission line that will allow Tajikistan and the Kyrgyz Republic to sell clean hydro-generated electricity to Pakistan and Afghanistan (see case study below).

Similarly, a €37 million loan to fund a high-voltage interconnection between Albania and FYR Macedonia will complete the east-west corridor across the southern Balkans and help build a more interconnected energy market in this region. This has been a priority for the EBRD over many years, most recently through its 2013 financing of the Montenegro-Italy electricity interconnection. A €200 million loan to the Serbian state power company in 2015 will promote the same aims of sector reform and greater interconnection in the Western Balkans and help achieve liberalisation of the Serbian energy market, an important condition for EU accession.



Case study

Tajik hydropower to help light up neighbouring countries

A US\$ 110 million (€101 million equivalent) loan to Tajikistan's national electricity company will help the Central Asian nation further unlock its hydropower potential and export electricity to neighbouring Afghanistan and Pakistan, both of which rely heavily on fossil fuels.

The loan to state-owned utility Barki Tojik will finance the construction of a power converter station and related infrastructure that will form part of a high-voltage transmission line venture known as the Central Asia South Asia Electricity and Trade Project, or CASA-1000.

Thanks to CASA-1000, Tajikistan and the Kyrgyz Republic will be able to sell more of their summer electricity surplus to Afghanistan and Pakistan. By importing zero-carbon hydropower to replace carbon-intensive electricity, Pakistan will cut its CO₂ emissions by more than 1.5 million tonnes per year, which is equivalent to the carbon emissions of more than 750,000 cars.

The EBRD financing is conditional on Barki Tojik implementing reforms including the establishment of an independent energy regulator and third-party access rules for the cross-border transmission line.

Nearly **€1.2 billion** was invested in 20 power sector projects during 2015.