Overview

In 2015 the EBRD overcame considerable economic and political challenges to deliver a record annual investment of €9.4 billion committed through 381 operations across 35 emerging economies. Bank activities make a significant contribution to the transition process, by strengthening the private sector, promoting sustainable development, combating corruption and encouraging inclusive growth.

Operational results

2015 saw the EBRD intensify efforts to maximise impact in the countries where it operates and provide shareholders with better value for money. In addition to raising annual Bank investment (ABI)[12] to a record €9.4 billion, the institution placed greater emphasis on policy dialogue to support the reforms needed to create systemic, long-lasting change in emerging economies and revitalise the transition process.

In order to guide investment and policy activities towards this goal of re-energising transition, in 2015 the Bank introduced, with shareholder approval, a Strategic and Capital Framework for the period 2016-20. This roadmap focuses on three main themes: fostering the economic resilience of countries of investment; improving their integration into the regional and global economies; and addressing global and regional challenges, such as climate change and energy security. In meeting these objectives the EBRD will continue to be guided by its key operating principles of transition impact, sound banking and additionality.

To equip the EBRD with the additional tools required to deliver more impact, last year the Board approved a Green Economy Transition (GET) approach, due for rollout in 2016, which seeks to raise the level of environmental investment to 40 per cent of total EBRD financing by 2020. It also approved the EBRD’s first Strategy for the Promotion of Gender Equality, which sets out how the Bank will seek to increase women’s empowerment and equality of opportunity over the next five years. The EBRD continued to strengthen its engagement in equity financing to help provide diversified funding options and improve the corporate governance of

[12] See footnote 1 on page 3.

Annual Bank investment reached a record

€9.4 billion.

investee companies. The institution received Board approval to create an Equity Participation Fund that will provide global institutional investors with access to the EBRD's portfolio of direct equity investments across the region. These innovations complement a range of other measures taken by the EBRD in 2015 to enhance transition in its recipient countries.

In operational terms, the EBRD delivered strong results in 2015 despite a notably difficult economic and political context in the Bank's region and beyond. Annual growth in the region slowed for the fourth successive year to negligible levels, as final data for 2015 was expected to show. The EBRD sought to overcome this challenging investment environment by increasing its support for transition and recovery, with total ABI for 2015 of €9.4 billion, compared with €8.9 billion the previous year and a previous record of €9.1 billion set in 2011. The rise in EBRD financing occurred despite the Bank making no new investments in Russia. This followed guidance from a majority of shareholders in July 2014 that for the time being they would not consider new projects in the country.

Investments were made to 381 operations in 2015, compared with 377 in 2014. In February 2015 the EBRD welcomed Greece as a temporary recipient country and in November the Bank signed its first transaction in Greece by taking stakes worth a total of €250 million in its most important banks (see case study on page 9). The EBRD continued to increase its investment levels in the southern and eastern Mediterranean (SEMED) region, signing 37 operations and investing close to €1.5 billion in 2015. In December 2015 shareholders approved a request for membership by China. They also approved a request for membership by Lebanon with a view to conducting operations there in future.

Business activity was strong in Turkey during 2015, with €1.9 billion invested and 43 transactions signed across a wide range of sectors. The EBRD continued to offer support to Ukraine with new lending – as well as renewed commitments – of close to €1 billion.

Altogether, the EBRD invested in 35 countries in 2015, with investments by region as follows: Central Asia €1.4 billion, central Europe and the Baltic states €1.2 billion, Cyprus €33 million, eastern Europe and the Caucasus €1.7 billion, Greece €320 million, south-eastern Europe €1.3 billion, SEMED €1.5 billion and Turkey €1.9 billion. In addition, the Bank supported three existing operations in Russia with €106 million of investment.

The EBRD continued to support key economic sectors in line with its operational strategy. ABI in the financial sector reached €3.0 billion in 2015 (with SME financing a priority), in the energy sector €2.6 billion, in the diversified corporate sectors €2.1 billion and in the infrastructure sector €1.8 billion.

The transition relevance of projects signed in 2015 reflected this strategy, with 95 per cent of them assessed as having good, very good or excellent transition impact potential. Some 95 per cent of active projects well into implementation were assessed as generally on track to achieving the transition objectives envisaged for them (see transition impact charts on page 5).

The EBRD's mandate to foster transition and reform by working with the private sector was reflected in the private sector share of ABI, which was 78 per cent in 2015, up from 72 per cent in 2014. This private sector focus was supported by the Bank's ability to offer equity investment alongside traditional debt financing, with the EBRD providing €1.3 billion of equity to 55 companies in 2015 (2014: €1.2 billion and 39 companies).

Through the application of strategic initiatives the EBRD seeks to deepen the impact of its activities. These initiatives are designed to promote the sustainable use of resources, support early transition countries (ETCs), create conditions in which small and medium-sized enterprises (SMEs) can flourish and stimulate the development of local capital markets. Engagement in these four areas is tracked in the corporate scorecard, which from 2016 will also monitor the promotion of gender equality in the Bank's activities.

The EBRD's Sustainable Resource Initiative (SRI) promotes sustainable energy, climate change resilience and resource efficiency, which are important components of EBRD transition strategy in the countries where it works. As well as tackling water and materials efficiency, it supports energy efficiency, renewable energy and climate change adaptation. During 2015 the EBRD invested €2.8 billion in 154 projects under the SRI, accounting for 30 per cent of total annual Bank investment. This is estimated to yield annual reductions of 7.4 million tonnes of CO_2 emissions.

The ETC Initiative aims to increase financing and strengthen the business climate in the EBRD's less economically advanced countries of investment. More than one-quarter of the Bank's transactions in 2015 were undertaken in the ETCs, with record investment of close to €1.4 billion. Since most firms in these countries are locally owned, and considered to be SMEs by international standards, 81 per cent of operations had a value of less than €10 million, with an average investment size below €3 million.

Working to establish the conditions in which SMEs can succeed is anchored in the EBRD's transition mandate and business model and this is the purpose of the Small Business Initiative, which aims to streamline and strengthen the support that the EBRD provides to SMEs. In 2015, in addition to investments of €1.1 billion in 82 financial intermediaries for on-lending to SMEs, the Bank invested directly in 62 SMEs, providing more than €250 million of investment.

The EBRD's Local Currency and Capital Markets (LC2) Development Initiative seeks to establish viable local currency financing and to encourage the

> "In 2015 the EBRD invested in 381 operations across 35 countries."

Case study

EBRD seeks to boost the Greek banking sector

As part of efforts to strengthen Greece's banking sector and support the recovery of the wider Greek economy, the EBRD purchased equity stakes worth a total of €250 million in the country's four systemic banks. It invested €65 million in Alpha Bank, €65 million in Eurobank, €50 million in the National Bank of Greece and €70 million in Piraeus Bank. As a shareholder the EBRD will play an active role, in particular by enhancing the banks' corporate governance.

The investments will give these banks a more robust capital base and facilitate their return to private ownership. The stabilisation and restructuring of the Greek banking sector is needed to restore depositor and investor confidence, re-establish credit flows and improve access to finance for the real economy.

The financing assists efforts by Greece's four systemic banks to strengthen their capital base to levels prescribed by the Single Supervisory Mechanism and the Bank of Greece. It complements a memorandum of understanding between the Greek authorities and the European Commission.

development of efficient and self-sustaining local capital markets, thereby reducing key vulnerabilities in the EBRD region. Banks in most EBRD recipient countries continue to face significant challenges, making local capital market development more important than ever. In 2015, the Bank signed 80 local currency loan and bond transactions – 25 per cent of the total number of debt transactions by the EBRD during the year.

In addition to these strategic initiatives, the EBRD engaged in targeted programmes to bolster food security, encourage the economic and financial inclusion of under-served sections of the population, stimulate the development of an innovation-based knowledge economy and promote a better legal environment for business.

As well as supporting individual transactions and

€41.6 billion portfolio of investment operations at the end of 2015.

wider initiatives linked to investments, policy work addressed key weaknesses in the business climate. In particular, the EBRD pursued efforts to combat corruption and foster good governance through its regional Investment Climate and Governance Initiative, which includes a programme for the improvement of the business environment in Ukraine (see page 11).

The Bank's portfolio of investment operations (including undisbursed commitments) increased from €38.7 billion in 2014 to €41.6 billion at the end of 2015, with finance provided through new investment operations exceeding reflows from existing investment operations and cancellations of unused amounts.

Gross disbursements reached €6.5 billion in 2015, equivalent to the 2014 level, with loan repayments of €4.3 billion and equity divestments of €1.0 billion resulting in operating assets of €28.6 billion at end 2015, up from €27.2 billion at end 2014. In accordance with the aspects of its mandate that cover the mobilisation of domestic and foreign capital for clients, the EBRD maintained a robust record of raising debt and grant co-financing from a variety of sources, despite difficult economic and geopolitical circumstances.

Projects signed in 2015 included additional non-EBRD finance of around €21.8 billion (2014: €13.9 billion), with the EBRD directly mobilising €2.3 billion of investment from co-financiers – principally through €1.6 billion of syndicated loans using the Bank's A/B loan structure (2014: €0.9 billion) in 16 transactions. These spanned numerous sectors and brought private finance to borrowers in Azerbaijan, Bulgaria, Croatia, Kazakhstan, Mongolia, Romania, Turkey and Ukraine.

2015 also saw the EBRD raise €0.8 billion for 26 projects from bilateral or other lenders, either through parallel loans or through its Special Funds structures. EBRD activities enjoyed strong support through donor funding, including the Special Funds programme and technical and investment cooperation funds.

These operational results reflect an ongoing commitment to countries in the EBRD region as they build and strengthen open-market economies.

Financial results

The EBRD recorded a net realised profit in 2015 of €0.9 billion before provisions, unrealised losses on share investments and other unrealised amounts (2014: €0.9 billion profit). The main contributor to realised profit is the Bank's strong net interest income.

Including provisions and unrealised amounts, the EBRD recorded a net profit of €0.8 billion for 2015 (2014: €0.6 billion net loss). The turnaround was due mainly to a return to profitability of the Bank's equity investment portfolio, together with a strong performance by Treasury and a release of general provisions owing to a revision to the Bank's provisioning policy.

The ratio of non-performing loans increased slightly to 5.9 per cent at year-end (2014: 5.6 per cent) and the average credit rating of the loan portfolio overall continued to equate to B+.

For 2015, general administrative expenses were €431 million (2014: €355 million), reflecting the weakening of the euro relative to sterling, the currency in which expenses were predominantly incurred. Sterling general administrative expenses for 2015 totalled £315 million (2014: £300 million).

The Bank's reserves increased to €8.4 billion at the end of 2015 (2014: €7.9 billion), reflecting both the net profit for the year and net income allocations.

The EBRD maintained its triple-A rating, reaffirmed by all three major rating agencies in 2015.

The geopolitical uncertainty in the EBRD region is likely to continue contributing to volatility in the Bank's earnings. Full details and financial statements are provided in the EBRD's *Financial Report 2015* (see **ebrd.com**).

EBRD joins global transparency initiative

Transparency and accountability have been key principles guiding the EBRD's work since the establishment of the institution in 1991 and occupy a prominent place in its Public Information Policy.

In 2015, the EBRD took a major step forward in the way it discloses information about its operations by starting to publish data in line with the standards of the International Aid Transparency Initiative (IATI).

IATI aims to make information about aid and development spending easier to access for the general public, including civil society organisations. It provides common definitions and publishing standards for the activities of more than 300 institutions – including the EBRD and other development finance institutions (DFIs).

The EBRD now publishes information about its work in IATI's agreed electronic format (XML) and links it to the IATI registry. The Bank also publishes its IATI implementation schedule, in line with the agreed standards for DFIs and international financial institutions.

Since the launch of IATI in 2008, its initial remit covering aid spending has grown to include organisations similar to the EBRD which primarily focus on private sector development and do not provide aid.

“The EBRD now discloses information about its work in line with IATI standards.”

Donor-funded activities

During 2015 donors provided crucial support for EBRD efforts to re-energise the transition process. They signed agreements to contribute €359 million in new grant financing and the EBRD used €405 million of donor funds in support of investment projects last year. Donor funds extend the range and depth of EBRD investments, help compensate for market failures and foster the development of market-based solutions to economic challenges. EBRD products blend commercial financing with grant-funded elements for risk mitigation, advisory support, technology sharing and concessional financing. These instruments enable donors to achieve impact on a greater scale than would otherwise be possible and deliver better value for taxpayers' money. Typically, donor funds support one-third of EBRD investment projects per year.

Infrastructure, small firms and the sustainable use of resources remained the central focus of donor activity. Other areas that received strong donor support over the past year included promoting good governance, private sector competitiveness, gender equality and economic inclusion. The EU remained the EBRD's largest single donor and last year made a record contribution of €179 million to the Bank.

For more information on donor activities see page 47.

Ukraine crisis response

The EBRD maintained its strong commitment to supporting Ukraine amid continuing difficulties for the country, which in 2015 saw its GDP shrink by 11 per cent. The Bank signed 29 transactions worth almost €997 million while its policy dialogue efforts contributed to the reform process and to significant improvement in Ukraine's business climate and export potential.

The largest deal was a US$ 300 million (€276 million equivalent) loan to the national gas and oil company Naftogaz for winter heating purchases. Substantial investments were also made in the agribusiness sector (€184 million), and in the financial sector (€386 million), including through the Bank's Trade Facilitation Programme as well as several equity transactions. The EBRD remained active in transport (€17 million) and in the MEI sector, signing five transactions worth a total of €38.4 million and approving a €100 million facility for public transport improvements in Ukrainian municipalities.

The Bank provided its own funds and helped secure donor funding for essential undertakings such as the Business Ombudsman Council for Ukraine, which became operational in 2015 (see page 46), and the National Reform Council. Significant resources were committed to supporting a transparent and competitive legislative regime for the privatisation of state-owned enterprises. The EBRD also pursued efforts to modernise Ukraine's agribusiness sector and maximise its export potential. These resulted, among other achievements, in Ukrainian companies obtaining permission to export dairy products to China.

Lastly, the EBRD continued to administer donor funds to make the Chernobyl site safe and secure. Construction of the New Safe Confinement reached a major milestone last year when the two halves of the structure were joined together. In addition to its role as fund manager, the Bank has committed €675 million of its own resources to support Chernobyl projects (see page 52).

Case study

Helping Jordan's water infrastructure cope with the refugee crisis

The EBRD responded to the refugee crisis in the Middle East by financing the upgrade of Jordan's water infrastructure, which is struggling to cope with the influx of people from neighbouring Syria.

A loan of up to US$ 14 million (€12.9 million equivalent) to the Water Authority of Jordan (WAJ) will support urgently needed modernisation of the sewage network. An estimated 1.4 million people have fled from Syria to Jordan, mainly to the north of the country. This is equivalent to nearly 20 per cent of Jordan's total population before the refugee crisis and puts a serious burden on the kingdom's resources and infrastructure.

The EBRD investment will enable the WAJ to construct a wastewater pipeline from East Zarqa pumping station to As-Samra Wastewater Treatment Plant and rehabilitate an existing water pipeline and related infrastructure. The loan is co-financed by an investment grant of US$ 5.5 million (€4.6 million equivalent) from the Bank's Shareholder Special Fund. The EU Neighbourhood Investment Facility (NIF) funded associated technical assistance and environmental assessments.

"The Bank is a reliable partner in challenging times."

Southern and eastern Mediterranean region

In 2015 the EBRD substantially increased its investments in Egypt, Jordan, Morocco and Tunisia, signing 37 projects worth a total of €1.47 billion (€1.07 billion in 2014) and bringing the overall amount it has invested in the SEMED region since it began operating there in 2012 to €3.4 billion. 2015 saw the Governors of the EBRD vote to make Egypt a formal recipient of Bank finance.

This strong financial engagement, amid considerable geopolitical tensions and economic uncertainty in the region, demonstrates that the Bank is a reliable partner in challenging times. Illustrating this support, last year the EBRD held its first SEMED Business Forum to promote investment opportunities in the private sector in these countries.

Important areas of focus for the EBRD's work in SEMED include assisting financial institutions, developing infrastructure, supporting SMEs and other private enterprises and promoting the sustainable use of energy, water and other resources. In 2015 the EBRD and partners launched a US$ 250 million (€230 million equivalent) financing framework for private sector renewable energy generation in the SEMED region, which still relies overwhelmingly on fossil fuel imports for its energy requirements.

Notable investments included a loan of up to US$ 200 million (€184 million equivalent) for the construction of a new 1.8 GW combined-cycle gas-fired power plant to help alleviate Egypt's energy shortages, up to €200 million in financing for the construction of a new port close to the town of Nador, Morocco, and financing for the modernisation of wastewater infrastructure in Jordan to help cope with the refugee crisis.

A wide range of donor-funded activities were carried out, many of which sought to facilitate project preparation and implementation and build capacity. Technical cooperation (TC) funds for the region are provided from the SEMED Multi-Donor Account and by EBRD shareholders through the SEMED cooperation funds account.

2015 saw the launch of a
US$ 250 million
financing framework for renewable energy in the SEMED region.

Measuring results

The EBRD measures the transition impact of its work at the institutional, country and project levels. As part of institution-wide modernisation efforts, the Bank is engaged in improving and streamlining its results architecture to give stakeholders a clearer picture of how the EBRD is performing.

The corporate scorecard provides a framework for aligning the organisation to the strategy set out by the Bank's shareholders. It tracks the performance of the Early Transition Countries, Sustainable Resource, Local Currency and Capital Markets Development, and Small Business initiatives. From 2016 it will be expanded to include the promotion of gender equality. In addition to operational, financial and organisational performance parameters, the scorecard sets targets for the transition impact objectives of investments at their approval stage; measures how successful their implementation has been against these objectives; and tracks the proportion of successfully completed TC assignments.

Last year the Board approved eight new country strategies, all of which featured a results framework based on a structure introduced in 2014. This includes clear and measurable objectives for each country, based on an analysis of challenges, opportunities and risks. Each framework reflects the Bank's specific transition mandate and business model and helps guide the EBRD's activities in the countries where it invests.

At the project level, the EBRD measures the results of investments and TC projects. In 2015 it worked to enhance assessment of the transition impact of investment projects at the conceptual stage to ensure greater transparency, consistency and strategic relevance.

The organisation also strengthened its systems for monitoring success and reporting aggregate transition results. Using a results framework introduced in 2014, the Bank started tracking the outcome of TC projects. This framework specifies the results expected and enhances the flow of information to donors and other stakeholders.

Lastly, the EBRD engaged with other IFIs to harmonise metrics for their activities and develop a common approach for measuring and reporting on value for money.

Case study

Bank signs 1,000th sustainable resource investment

A loan to Ege Profil, the second-largest maker of polyvinyl chloride (PVC) windows and door systems in Turkey, marked the 1,000th EBRD investment in the area of energy and resource efficiency.

Ege Profil will use a €26 million financing package from the Bank and the Clean Technology Fund (CTF) to construct a new, state-of-the-art and environmentally friendly production plant in Izmir province.

The facility will feature photovoltaic solar panels, wastewater treatment facilities and a combined cooling, heating and power plant as well as infrastructure that will enable Ege Profil to carry out more recycling.

The loan was extended under the EBRD's Near-Zero Waste programme in Turkey and Ege Profil is expected to recycle at least 800 tonnes more PVC per year as a result of the investment.

Democratic and market reforms

Article 1 of the Agreement Establishing the Bank states that the EBRD invests in countries "committed to and applying the principles of multiparty democracy, pluralism and market economics". The Political Affairs team in the Vice Presidency - Policy and Partnerships group monitors compliance with Article 1 and reports to the Board regularly on political developments throughout the year.

Formal political assessments for each country are prepared as part of the country strategy process, following a methodology approved by the Board of Directors in 2013 which is available on **ebrd.com**. The assessment covers 14 criteria related to free elections and representative government; civil society, media and participation; rule of law and access to justice; and civil and political rights.

In 2015 the following country strategies were approved by the Board, including the political assessments found in Annex 1 of each strategy: Armenia, Bulgaria, Cyprus, Kyrgyz Republic, Morocco, Romania, Tajikistan and Turkey.

Across most of the EBRD region, the political and economic environment remained challenging. However, the outlook for market reforms appears to have improved over the past year. This observation is borne out by the EBRD's annual analysis of structural reforms, as reported in the EBRD *Transition Report 2015-16*. The Report took a slightly different approach to those of previous years, by pointing to major changes across the region that could potentially – but will not necessarily – warrant an upgrade or downgrade in EBRD sector-level transition scores in the future.

This "watch list" was, on balance, mainly positive. The largest number of positive developments was in the area of infrastructure, with 14 scores on positive watch and just two on negative watch. However, positive developments also outnumbered negative developments in the corporate sector (by four to one), the financial sector (by seven to four) and even the energy sector (by five to one), reflecting a more favourable outlook than in recent years.

In infrastructure, there was significant progress in the roads sector of several countries, including Albania, Kazakhstan and Poland, indicating an increasing interest in fostering private-sector involvement in the building of new roads or in the maintenance of existing networks. There were also notable improvements in the railways sector in several EU countries, as well as in Serbia.

In the energy sector, the governments of Egypt and Ukraine have introduced measures to reduce state subsidies related to energy prices, as a result of which there has been a sharp rise in prices for consumers.

> **"BEEPS is a crucial instrument for assessing the state of transition across our region of operations."**

BEEPS reveals obstacles facing businesses

The Business Environment and Enterprise Performance Survey (BEEPS), a joint initiative of the EBRD and the World Bank, is a crucial instrument for assessing the state of transition across the region, identifying obstacles firms face in their day-to-day operations and determining where additional operations and policy dialogue are most needed.

2015 saw BEEPS completed for the first time in the SEMED region and work started on extending the fifth round of the survey, previously conducted in 30 countries, to include Cyprus and Greece.

Based on BEEPS, the EBRD published overview reports on the business environment. These showed that firms in SEMED complained most about political instability, corruption, and unfair competition from the informal sector. In the rest of the EBRD region, excluding Cyprus, Greece and Turkmenistan, for which data was unavailable, firms identified unfair competition from the informal sector, lack of access to finance and an unreliable or costly electricity supply as the top three obstacles to their operations. Country profiles discussing the top business environment obstacles in each country[13] accompanied the reports, which the EBRD used to inform its investment and policy dialogue activities.

In the SEMED region, BEEPS work came under the Middle East and North Africa Enterprise Surveys (MENA ES), conducted jointly by the EBRD, the World Bank and the European Investment Bank (EIB) between 2013 and 2015. A joint World Bank, EBRD and EIB MENA ES report, which will cover more countries than the SEMED overview reports, is due to be launched in mid-2016.

[13] The reports on business environment and country profiles are available at **http://ebrd-beeps.com/reports/**

While such measures are unpopular with the general public, they can help to remedy large deficits, allow state resources to be used for other, more pressing matters and help to attract investment in the sector.

Elsewhere, there were important advances in the financial sector in Cyprus, Slovenia and Ukraine, as well as in Greece, where the four main banks were successfully recapitalised towards the end of 2015. Several countries have also made important steps towards improving the business climate.

A more detailed perspective on the political and economic environment in EBRD recipient countries is available on **ebrd.com**, including the dedicated country pages and country strategies, as well as the individual country assessments in the *Transition Report 2015-16*.

Case study

Oyu Tolgoi offers Mongolia a brighter future

The Oyu Tolgoi mine in Mongolia boasts one of the world's largest undeveloped copper and gold deposits. Once the underground mine is fully operational, Oyu Tolgoi is expected to generate up to one-third of Mongolia's GDP and make a significant contribution to raising living standards in the country.

In 2015 the EBRD helped to bring this economic boon closer to realisation by arranging a US$ 1.2 billion (€1.08 billion equivalent) syndicated loan to the company operating the mine. This was the largest syndicated deal the Bank has arranged and included US$ 400 million (€368 million equivalent) of EBRD financing.

Oyu Tolgoi is already producing copper from an open-pit mine, but more than 80 per cent of its value lies in the proposed underground mine. The Bank's financing is part of a US$ 4.4 billion (€4.05 billion equivalent) package extended by international financial institutions, export credit agencies, development banks and commercial banks. The EBRD played a leading role in arranging the package and worked extensively with the government, local communities and other lenders to minimise environmental and social impacts of the project.