Strategic engagement

Through its strategic initiatives, the EBRD mobilises resources from across the organisation to address specific transition challenges in a targeted and highly effective manner. Engagement in the areas of resource efficiency and resilience to climate change, the development of a healthy SME sector, stronger financial intermediation and transition in the less-advanced economies of the region was tracked in the corporate scorecard in 2015. From 2016, this will also monitor the promotion of gender equality. The Bank also fosters inclusive growth, the emergence of a knowledge economy and legal reform.

Sustainable resources and climate change

In 2015 the EBRD pledged its commitment to successful implementation of the historic agreement on fighting global warming adopted by more than 190 countries at the UN climate conference in Paris. With its Green Economy Transition (GET) approach, approved by the Board in September 2015 and due for rollout in 2016, the EBRD aims to raise the level of environmental investment to 40 per cent of its total financing by 2020. This would correspond to a GET investment of €18 billion over the period 2016-20 and bring a major contribution to efforts by the Bank's countries of investment to move towards a low carbon economy, in line with the Paris accord.

The GET approach will build on a strong track record under the Sustainable Resource Initiative (SRI) of financing projects that promote the sustainable use of energy, water and other resources as well as projects that improve resilience to climate change.

The EBRD's business model in this area is now tried and tested. It combines commercial project financing; technical assistance to overcome barriers through market analysis, resource audits or training and awareness-building; and policy dialogue to support the development of strong institutional and regulatory frameworks that incentivise sustainable resource projects.

EBRD projects that promote the sustainable use of energy, water and other resources are diverse. They range from the financing of wind, solar and hydropower generation to energy efficiency improvements in the corporate sector. They also include green transport and efficiency improvements in municipal infrastructure.

The Bank uses different financing modes, including the direct provision of debt and equity to its clients and credit lines to local financial institutions which on-lend funds to small and medium-sized enterprises (SMEs), the residential sector and other investors for sustainable resource projects. It has a robust accounting mechanism under which the finance provided to and the outcomes generated by these projects can be tracked and reported on, often jointly with other MDBs.

Between 2006 and the end of 2015, the EBRD invested €19 billion in projects supporting the sustainable use of energy and other resources. In 2015, the Bank signed its 1000th investment in this area – a loan to Turkish plastic-goods manufacturer Ege Profil (see case study on page 13).

“Since 2006 €19 billion has been invested in the sustainable use of energy and other resources.”

Projects signed under the SRI – which will be replaced by the broader GET approach in 2016 – accounted for €2.8 billion committed during 2015 in 154 transactions, representing 30 per cent of total annual Bank investment (ABI). These should reduce annual CO_2 emissions by 7.4 million tonnes and create an energy saving of 30 million gigajoules or 715 kilotonnes of oil equivalent. In addition to cutting greenhouse gas emissions, ventures signed under the SRI in the municipal sector bring environmental benefits by reducing the levels of fine particulate matter emitted by urban bus fleets and by decreasing the amount of untreated effluent entering bodies of water.

Of this €2.8 billion, the EBRD invested €425 million in 34 water- and materials-efficiency projects that are expected to result in annual water savings of 11.6 million cubic metres. Furthermore, 32 climate change adaptation investments signed in 2015 and worth a total of €1.1 billion, including €211 million of dedicated adaptation finance, assisted clients as they adapted to a changing and more variable climate.

Donor support remained crucial, with more than €200 million of technical cooperation (TC), concessional co-financing and incentive grants supporting the preparation and implementation of projects in 2015. The EBRD implements some projects with support from donor funds such as the Climate Investment Funds (CIF) and the Global Environment Facility (GEF). These multilateral funds seek to augment global climate finance through risk sharing, technology transfer, policy dialogue, advisory support and concessional financing.

For instance, the EBRD combined its commercial financing with CIF concessional co-financing and technical assistance to improve the affordability and accelerate the implementation of projects, such as the Burnoye Solar renewable plant in Kazakhstan (see case study).

Building sustainable markets through intermediaries

EBRD sustainable energy financing facilities (SEFFs) unlock the energy-saving potential of smaller projects and build expertise by extending credit lines to financial institutions for on-lending in support of green projects. 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 September 2015, the EBRD, in partnership with the United Nations Environment Programme Finance Initiative, hosted an event in Istanbul that saw delegates from more than 70 financial institutions share knowledge and successful business strategies relating to energy efficiency finance. The participants also endorsed a statement pledging to further integrate this area of business into their operations and channel an increased volume of finance into low-carbon investments. During the run-up to the Paris conference, the initiative grew to include more than 100 financial institutions.

During 2015, the EBRD invested €507 million through sustainable energy financing facility programmes in 23 countries and in collaboration with more than 100 local financial institutions. The EBRD launched its first financing facility specifically designed to support climate change adaptation projects in the residential, SME and agricultural sector, signed in Tajikistan (see case study on page 46).

“Small and medium-sized firms are an essential source of jobs and growth.”

Case study

First large-scale solar project in Kazakhstan

The 50 MW Burnoye solar plant will be the first large-scale facility for solar generation in Kazakhstan.

The EBRD provided a 14 billion tenge (€38 million equivalent) loan in support of the landmark venture, which is pioneering the use of a non-recourse project finance structure. This is expected to open the door to more private investment in renewable energy in Kazakhstan.

Work on Burnoye was made possible by the adoption in 2014 of a new law on renewable energy generation, on which the EBRD cooperated closely with the Kazakh government. The plant, which is owned by UK-based United Green Energy Limited and the investment arm of Kazakhstan's sovereign wealth fund, also benefits from a €13.8 million loan from the Clean Technology Fund.

Small Business Initiative

The EBRD applies a streamlined and strategic approach to working with SMEs to maximise the support it provides to this vital sector in collaboration with donors and external partners.

Small and medium-sized firms are an essential source of jobs and growth but are particularly vulnerable to some of the obstacles to transition that exist in the EBRD region, such as financing constraints, difficult business conditions and an economic legacy dominated by large state-owned companies.

Building on its longstanding support for SMEs, the EBRD launched the Small Business Initiative in 2013 to promote conditions in which small and medium-sized firms can flourish. The SME Finance and Development group leads implementation of the Initiative by departments throughout the Bank.

This work focuses on five areas: financing through financial institutions; co-financing with partner institutions; direct financing for SMEs; business advice; and policy dialogue. The business climate remains challenging in many parts of the region and last year the Bank continued to support governments as they tackled corruption at all levels.

Finance

In 2015, the EBRD extended €1.3 billion in direct and indirect finance to small firms in 144 transactions, accounting for 38 per cent of its projects. Local currency lending played an important role, representing 28 per cent of debt transactions in the SME sector. The Bank continued to deploy a combination of instruments to provide finance tailored to the needs of SMEs, including debt, equity, mezzanine finance and other forms of risk capital.

In the Western Balkans, for example, the Bank continued to manage and invest in the Enterprise Expansion Fund (ENEF), which provides equity and quasi-equity financing for SMEs that have high potential for growth. The fund made its first investment in 2015 by purchasing a stake in retail company Viva Fresh in Kosovo. The EBRD is also an investor in the Enterprise Innovation Fund (ENIF), a sister fund focused on companies in the start-up and early expansion stages.

During the past year, in order to provide more uniform and efficient support for small firms, the Bank amalgamated many of its financing facilities for SMEs and expanded its direct risk-sharing programme to cover the entire EBRD region. As a result, the Bank now provides support for SMEs via three region-wide frameworks covering direct financing, indirect financing and risk sharing.

Advice

Addressing areas ranging from business strategy to marketing, quality management, export promotion or energy efficiency, in 2015 the Bank drew on the expertise of thousands of local consultants and international advisers to help small firms reach their potential for growth and employment.

It also worked to build a strong, competitive market for business advice in each of the 26 countries where it provides advisory services, through training courses to build the capacity of local consultants, and through workshops, seminars and other activities. The Bank conducted 81 courses for local consultants as well as launching a suite of courses designed for women entrepreneurs and a course for export-oriented SMEs.

The EBRD carried out more than 1,780 projects in 2015 connecting SMEs to local consultants for specific business advice, and over 160 projects providing medium-sized firms with the industry expertise of international advisers. The impact of these projects is clear: from 2013 to 2015, 76 per cent of enterprises surveyed showed increased turnover in the year following their projects. In addition, 58 per cent increased their staff numbers, creating 21,644 jobs. Greater access to finance for SMEs also remains a key goal of these activities.

Over the past year the Bank also launched a series of workshops to help develop the automotive sector. These were held in Belgrade and Cairo, bringing together experts from the sector and entrepreneurs from across the car industry value chain. Events of this type put firms in touch with the latest developments within the industry and help the EBRD to target its advisory services more accurately. More workshops are planned for other countries and sectors in 2016.

More than
1,780
projects in 2015 connected SMEs to local consultants for business advice.

Integrated products

The EBRD increasingly delivers support to SMEs through products that combine access to finance with business advisory support and risk-sharing elements for partner financial institutions. Examples of this integrated approach include the Women in Business programmes (see case study on page 39). To help women entrepreneurs identify their business needs, the Bank last year launched Business Lens, an online platform that assesses their strengths and highlights suitable opportunities for development available through the Women in Business programme.

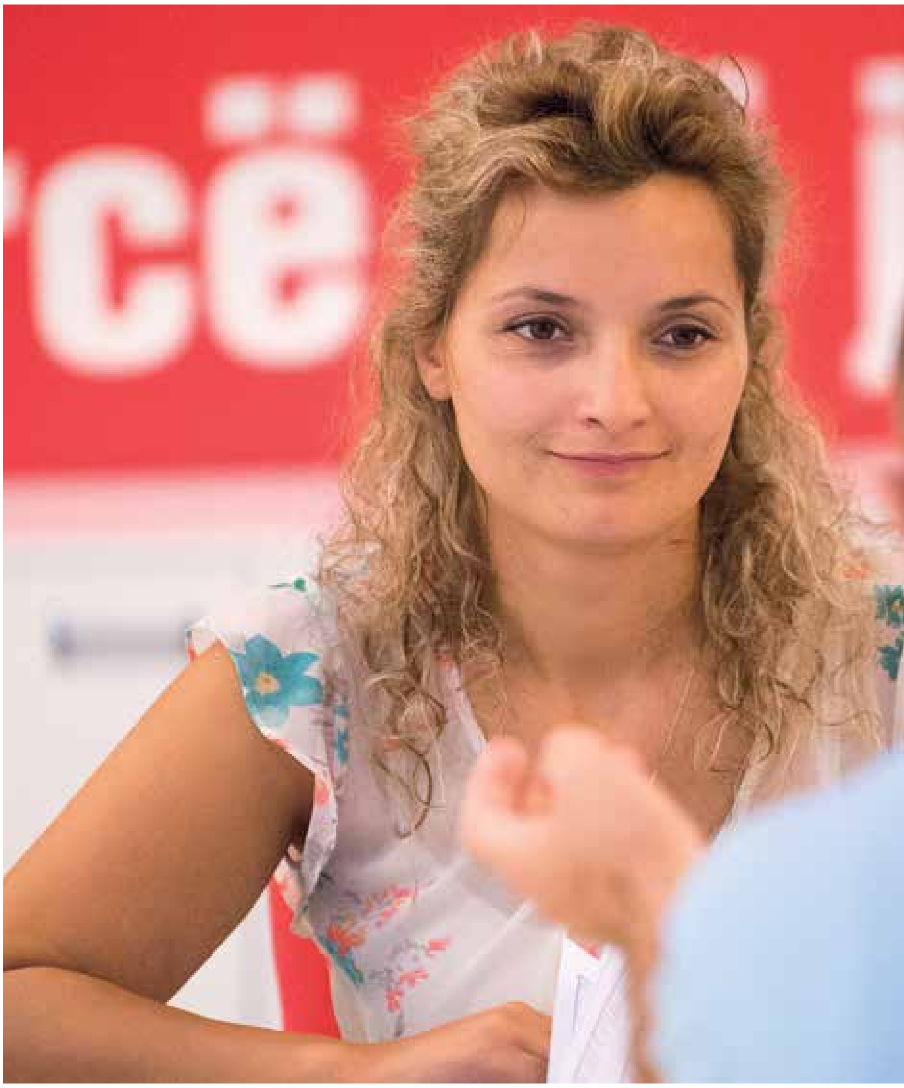
Integrated products for small businesses constituted one of the main themes of the SME Finance Forum hosted by the EBRD in June 2015. The event drew together representatives of leading IFIs, development agencies, the European Union (EU) and Turkey to discuss ways of improving access to finance and support for SMEs. The EBRD will introduce more integrated products in 2016.

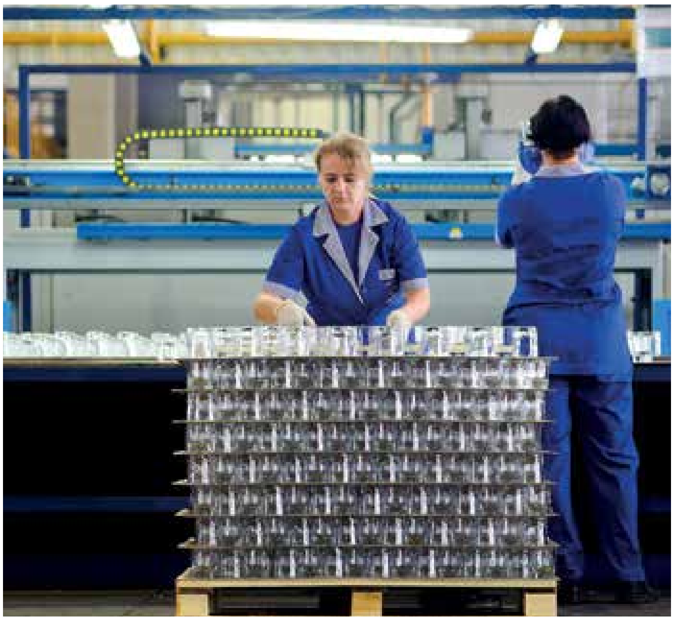
Working with donors

Donor assistance is crucial to all aspects of the EBRD's work with small companies. In 2015 the Bank established the Small Business Impact Network and the associated Small Business Impact Fund to bring together donor financing in support of SMEs. A new information management system, introduced by the SME Finance and Development team to track the Bank's small business activities more effectively, will also provide donors with clearer data on how their funds are used and the impact they generate.

All advisory projects operate on a cost-sharing basis and are possible thanks to the continued support and engagement of a wide range of donors, including the EU and over 20 bilateral donors and other organisations. In 2015, the Bank raised €96.7 million in new financial commitments from donors for advisory projects. The EU was the largest donor, with important contributions also coming from BG Kazakhstan, the governments of Kazakhstan and Luxembourg, the EBRD Shareholder Special Fund (SSF), the Early Transition Countries Fund, and Tengizchevroil (TCO). Donors also continued to contribute strongly to the Bank's SME activities through financial institutions (see page 18) and the Early Transition Countries Initiative (see page 38).

The Bank also mobilised €1.3 billion in private capital to its SME support activities.





2015 saw the equivalent of almost **€1.4** billion signed in 82 local currency loan and bond transactions.

> “The EBRD has been an active lender in local currency markets since 1994.”

Local currency and capital markets

The Local Currency and Capital Markets (LC2) Development Initiative is a major focus of EBRD efforts to revitalise and deepen the transition process in countries where 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 lessening key vulnerabilities in the EBRD region.

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

The Bank has been an active lender in local currency markets in a number of countries since 1994. In 2015, it signed the equivalent of almost €1.4 billion in 82 local currency loan and bond transactions – 28 per cent of the total number of debt transactions by the EBRD in that period. Local currency lending was particularly strong in Kazakhstan, Poland, the Kyrgyz Republic, Romania and Tajikistan, and in the southern and eastern Mediterranean (SEMED) region.

To support the development of capital markets and strengthen corporate governance, the Bank increased its equity investments in listed companies, signing seven transactions worth a total of €332.3 million. The EBRD also invests in debt capital-market instruments, including swaps and bonds. In 2015, the Bank invested in four swaps and 11 bond issues. Eight of these transactions were in local currency and seven were in foreign currency. An innovative deal in this area was the purchase of bonds issued by the City of Bucharest to finance improvements to municipal services.

The EBRD continued to invest in capital market infrastructure, notably in Turkey, where the Bank acquired a 10 per cent stake in Borsa İstanbul, and in Croatia, where it purchased a stake in Zagrebačka Burza. An investment in Frontclear will support access to interbank markets for local financial institutions in developing economies (see case study on page 42). The EBRD also issues its own local currency bonds.

A dedicated team of LC2 experts leads implementation of the Initiative, working with – and supported by – all departments of the EBRD and in coordination with other IFIs. 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 team’s country assessments and the implementation of assessment recommendations. With EBRD technical assistance, Poland and Romania passed new laws on covered bonds that make it easier for banks to raise funding and offer mortgage financing to citizens.

A major focus of the Initiative’s policy dialogue and investment work is the development of Romania’s capital markets. In 2015 the Bank helped the Bucharest Stock Exchange (BVB) develop a new corporate governance code for companies whose shares are traded on the bourse. The EBRD is a shareholder in BVB and supports reforms aimed at promoting Romania from frontier to emerging market status on the FTSE and the S&P Dow Jones indices, among others.

The EBRD pursued its work with stock exchanges in south-eastern Europe (SEE) to establish an order-routing trading platform, SEE Link, that facilitates cross-border trading. The Bank carried out research on the benefits of creating a regional Central Counterparty (CCP) for central and eastern Europe to foster the integration of local capital markets in this region. Work in these two areas will continue in 2016.

> "2015 saw a record €1.4 billion invested in the early transition countries."

Early transition countries

The Early Transition Countries (ETC) Initiative 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, Moldova, Mongolia, Tajikistan and Turkmenistan – all of which are recipients of Official Development Assistance (ODA).

The annual percentage of financed projects in the ETCs has increased from 8 per cent of the EBRD's total in 2003, the year before the Initiative was launched, to 32 per cent on average in 2012-15. The region's share of annual Bank investment (ABI) has risen from less than 3 per cent to 11 per cent over the same period.

In 2015 the EBRD signed 102 projects and invested a record €1.4 billion in the ETCs (compared with a previous record of €1.1 billion in 2014). More than 65 per cent of these ventures supported locally owned companies – mostly micro, small and medium-sized enterprises (MSMEs) – in line with the Initiative's priorities. Although Bank investments in the ETCs are typically smaller than in other parts of the EBRD region, they are more significant as a share of GDP.

The Bank was particularly active in the financial sector, which accounted for 40 per cent of transactions in the ETCs. Agribusiness, manufacturing and services, municipal and environmental infrastructure and power and energy were also important areas of investment. Meanwhile, the EBRD provided €136 million in Trade Facilitation Programme financing in the ETCs.[14]

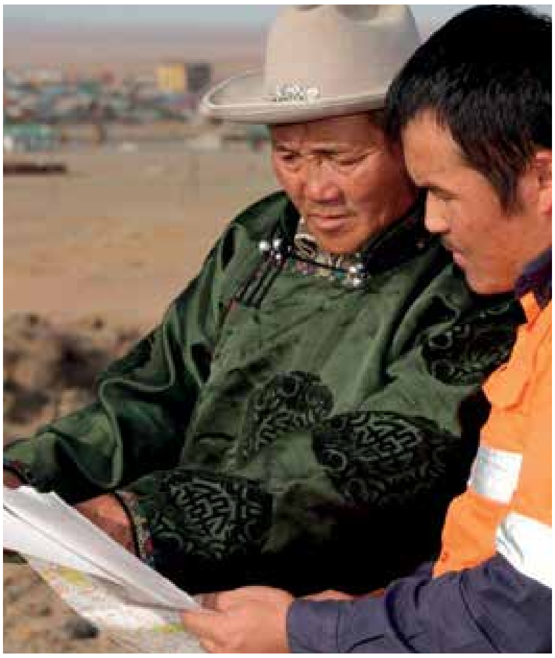
Strong partnerships and commitments from the donor community have complemented this financing activity since the start of the Initiative. The multi-donor Early Transition Countries Fund (whose contributors include Finland, Germany, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), the EBRD SSF, the EU and bilateral donors have provided a total of almost €100 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 SME support and financing. These facilities cover most of the ETCs. In 2015, the EBRD and the EU, via its Asia Investment Facility, agreed a new programme to support small businesses and economic development in Mongolia.

Priority areas for EBRD financing and transition activity and for donor support in the ETCs include private sector and SME development and municipal and environmental infrastructure. In the latter area, thanks to projects of the Bank and donors in 110 municipalities, 2.7 million people in the region now have access to improved solid waste services, 900,000 citizens enjoy better water and wastewater facilities and more than 22 million passengers a year benefit from modern public transport as a result of EBRD operations.

Another important focus for donors and the Bank is catalysing local currency financing 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 (€294.6 million equivalent) ETC Local Currency Programme in Armenia, Georgia, the Kyrgyz Republic, Moldova, Mongolia and Tajikistan, the Bank addresses over-reliance 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 (€36.8 million equivalent) of risk-sharing funds.

The Programme has financed a cumulative US$ 360 million (€331.4 million equivalent) of local currency loans, which partner banks and microfinance



[14] See footnote 1 on page 3.

Case study

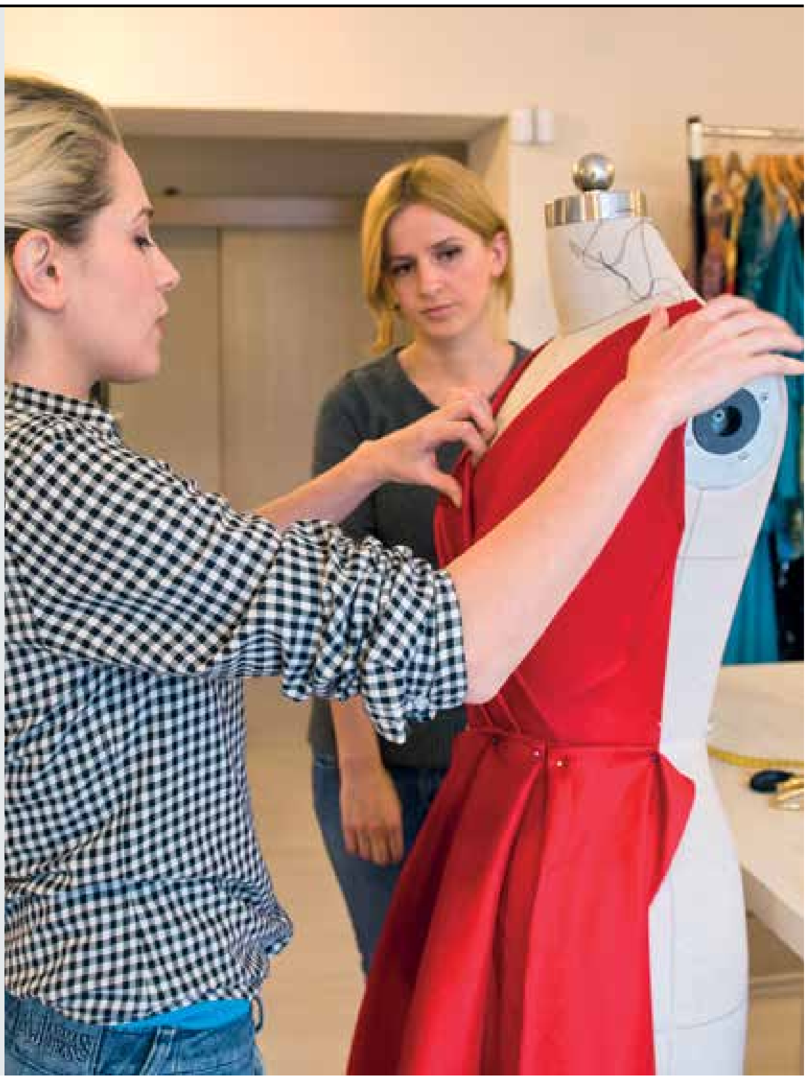
Unleashing the potential of women entrepreneurs in the Western Balkans

In 2015 the EBRD provided €11.5 million in financing as part of its Women in Business programme to help women entrepreneurs in the Western Balkans access the finance and advice they need to grow their business.

For the first time, the EBRD extended credit lines under the programme in Albania, FYR Macedonia, Kosovo and Serbia. The Bank's first loan under the Women in Business programme in the Western Balkans was a €2 million credit line in Bosnia and Herzegovina in late 2014.

Although the importance of women in the economy is generally acknowledged, women-led businesses in the Western Balkans often face obstacles in obtaining credit and developing managerial skills. The Women in Business programme combines support for partner financial institutions and women entrepreneurs to unleash the economic potential of a section of the population that has traditionally been underserved by the financial sector (see page 18 for more information).

Women in Business programmes are also active in Croatia, the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), Egypt, Kazakhstan and Turkey. During 2015, the EBRD extended its first credit lines through the Women in Business programme to local financial institutions in Croatia and Kazakhstan and provided financing worth some €100 million to partner lenders in Turkey as part of the initiative.



institutions have on-lent to more than 320,000 MSMEs. The largest number of beneficiaries have been in the Kyrgyz Republic and Tajikistan. Currencies in the ETCs depreciated by around 25 per cent on average in 2015, highlighting the vulnerabilities associated with high levels of dollarisation. The Programme allowed the EBRD to finance 29 new local currency transactions in the region for a total amount of around €72 million.

The Bank and donors also support investment councils in Armenia, Georgia, the 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 and investment climate through changes to legislation and regulation.

Investment councils are one example of successful ETC initiatives that the Bank has since implemented in other parts of the EBRD region. Further examples include local currency funding for SMEs and certain financing instruments.

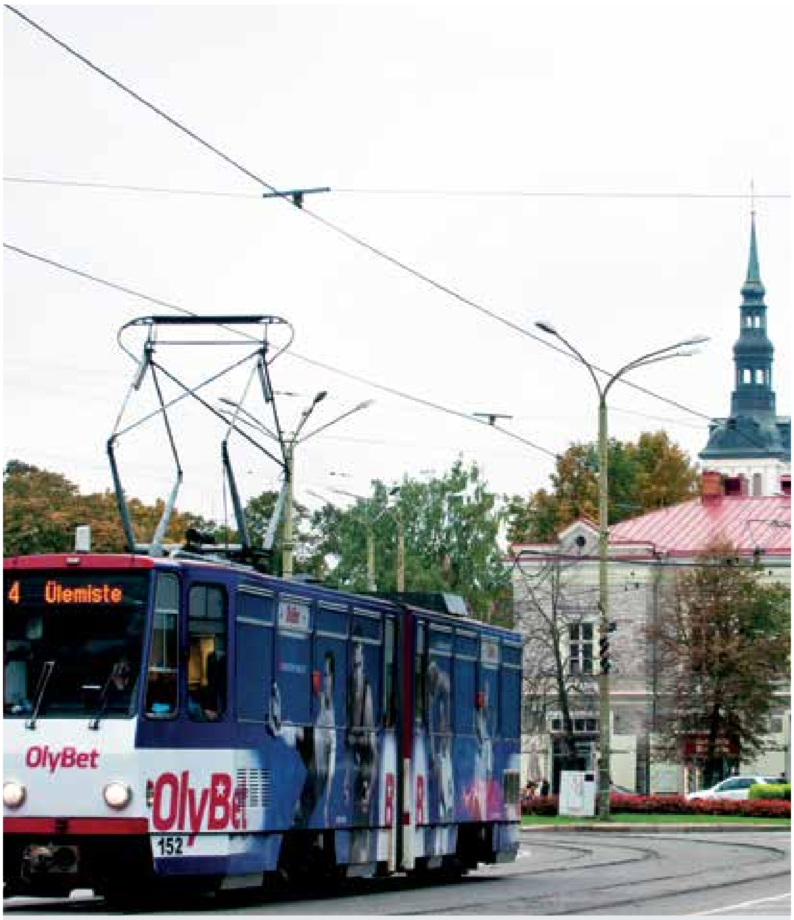
Gender equality

In 2015 the Board approved the EBRD's first Strategy for the Promotion of Gender Equality, which sets out how the Bank will seek over the next five years to increase women's empowerment and equality of opportunity in the countries where it invests.

Modern market economies thrive when women and men can participate equally in the workplace and enjoy the same freedom to make use of financial and other services. Promoting gender equality is therefore an essential part of the transition process and crucial to building inclusive societies.

The Strategy broadens and deepens the EBRD's commitment to addressing gender inequality through its investments and other activities. It builds on the Strategic Gender Initiative (SGI), established in 2013, and will add engagement in this field to the corporate scorecard from 2016.

"The Board approved the EBRD's first Strategy for the Promotion of Gender Equality."



Case study

Public transport app gets backing for growth plans

The purchase of an equity stake in the Lithuanian company that operates TRAFI, a mobile application for planning travel by public transport, will support its owners' ambitious plans for international expansion.

TRAFI allows users to receive real-time updates on public transport schedules based on publicly available transport authority data, crowdsourcing and predictive modelling algorithms. It is owned by Trafi Limited, which launched the application in Estonia, Latvia, Lithuania and Turkey and aims to expand across eastern Europe and other emerging markets.

The EBRD acquired a stake in Trafi Limited through its Venture Capital Investment Programme, a €100 million facility dedicated to direct equity investments in early and growth-stage technology companies. By championing these businesses, the EBRD aims to encourage international venture capitalists to enter the region and foster a VC financing ecosystem. The VCIP is an important part of the Bank's Knowledge Economy Initiative, which supports innovation and technological dynamism.

"The EBRD aims to encourage international venture capitalists to enter the region."

The EBRD focuses on three areas in its work towards gender equality: access to finance, access to employment and skills, and access to services. The Bank helps clients remove barriers in the provision of loans and other financial products, in recruitment procedures and the workplace, and in the design and delivery of customer services and infrastructure.

During 2015 the Bank signed 23 investments with a gender focus or component under the SGI, including credit lines through the Women in Business programme in Croatia, Kazakhstan, Turkey and the Western Balkans. The programme is also active in Egypt and the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). It addresses the supply and demand side of financing for women-led businesses and combines financing with risk-sharing, capacity-building and advisory services (see case study on page 39).

The Bank 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 case in point is a €50 million loan to Turkish white goods producer Vestel, which is conditional on the client introducing an equal opportunity action plan to address gender gaps in this male-dominated sector.

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 public transport is a barrier to free movement and full economic engagement. EBRD support for the modernisation of Cairo's public transport system will include capacity-building and other measures to help the company respond appropriately to the needs of all passengers, including women.

The EBRD uses TC projects to support the due diligence, implementation and monitoring of its gender projects. These are funded via the EBRD's Gender Advisory Services Programme which benefits from the support of the Bank's SEMED Multi-Donor Account, the EBRD SSF and the TaiwanBusiness-EBRD Technical Cooperation Fund, or on a standalone basis by donors such as the EU. (For more on TC-funded activities, see "Donor partnerships" on page 47).

The Bank engages in policy dialogue with stakeholders and takes an active part in international dialogue to promote gender equality. The EBRD chairs the MDB working group on gender and in 2015 contributed to the growing body of MDB research in this area by publishing, for instance, the report "Enhancing Women's Voice, Agency and Participation in the Economy: Studies in Egypt, Jordan, Morocco, Tunisia and Turkey".

"Policy dialogue on inclusion expanded throughout 2015."

Economic inclusion

In 2015, the EBRD signed 17 projects with an economic inclusion component across a wide variety of sectors and many parts of the Bank's region, particularly Central Asia, SEMED, Turkey and the Western Balkans. The main inclusion impact of these projects stems from their fostering systemic changes that increase the economic opportunities available to women, young adults and people in economically less-developed areas.

Notable investments included financing for a new tourism destination in Jordan that will support the development of a training programme for unemployed young people and women which is based on the needs of employers (see case study on page 43). A €100 million loan for the upgrade of the Cairo metro will help establish on-site training opportunities for young adults through the introduction of inclusive procurement models. Furthermore, investments of €125 million in the automotive sector in Turkey will showcase the importance of vocational education and training for the sector and facilitate access to jobs for young people, blue-collar workers and women.

Since 2013 economic inclusion has been fully integrated into the EBRD's assessment of transition impact. This means that inclusion impact is one of the factors that the Bank takes into account as part of the design and selection process for projects as well as related policy dialogue. Most projects with an inclusion component achieve a particularly high score for transition impact and are among the EBRD's most profitable investments.

Donor support is key to the success of the EBRD's work on inclusion. In 2015 the Bank launched an Inclusion Technical Assistance Framework (€2.5 million over three years) to provide targeted technical assistance for projects seeking to improve the economic opportunities of young adults and people in less-developed regions.

Inclusion policy dialogue expanded substantially throughout 2015. The Bank launched programmes focused on strengthening private sector engagement in the development of standards for vocational and technical skills in manufacturing, tourism and hospitality in Jordan and Turkey. This work aims to ensure that the education of young people is more relevant to the needs of industry and will benefit job seekers and businesses alike.

The EBRD established partnerships with international agencies, such as the European Training Foundation, to enhance private sector involvement in reducing the persistent mismatch between the skills of school leavers and the demands of the labour market. The Bank also signed a partnership agreement with the World Tourism Organization (UNWTO) that commits both organisations to the promotion of inclusive and sustainable tourism as a source of socio-economic growth.

Knowledge economy

Established in 2014, the Knowledge Economy Initiative helps businesses to improve their productivity and contribute to sustainable economic growth. It brings a more targeted approach to the EBRD's longstanding support for innovation and technological dynamism.

Development of the knowledge economy is particularly important in the countries where the Bank invests, as many of them have a legacy of energy waste, labour-intensive production processes and over-reliance on natural resources.

Under the Initiative, the Bank uses investments and related activities to support the development of information systems and infrastructure (such as broadband), technological upgrades for industry, and financing for small, ground-breaking technology companies, for example through the Bank's Early Stage Innovation Facility (ESIF) and the Venture Capital Investment Programme (VCIP). The EBRD also uses policy dialogue to foster appropriate innovation policies. This approach takes into account the different levels of technological development in the region, helping each country develop its own knowledge economy.

In 2015, the EBRD invested €418 million in 21 projects that supported the knowledge economy, with six investments in information infrastructure, eight in technological upgrades in manufacturing and seven in finance for small, innovative tech companies.

Examples included participation in a €200 million syndicated loan to Turkish automaker Tofaş Türk Otomobil Fabrikası A.Ş to finance the production of two new models of passenger cars for export to foreign markets. Tofaş's own research and development centre will lead the process, which will involve Turkish universities and the company's suppliers and give them access to the latest knowledge and pioneering technologies. Another significant transaction was a €50 million investment in the bond issue by OTE, Greece's largest telecommunications operator.

In addition, last year the Bank signed six projects through its VCIP, including an equity investment in the Lithuanian company that operates TRAFI, a mobile application for planning travel by public transport (see case study on page 40). It signed an investment in Revo Capital Fund 1, an early-stage venture capital fund, under the ESIF.

The EBRD also engaged in policy dialogue and provided technical assistance to advance the region's knowledge economy. In 2015 the Finance and Technology Transfer Centre for Climate Change (FINTECC) programme, which operates in the ETCs and SEMED, was expanded to Ukraine. FINTECC offers technical assistance provided by the Bank and international consultants and is funded by the Global Environment Facility, the EU NIF and the EBRD SSF.

Last year, the EBRD and the Wageningen University and Research Centre (WU) in the Netherlands launched the Innovation for Agribusiness pilot programme to support the transfer of know-how to the sector. Under the programme, WU will provide advice to selected Ukrainian companies on new products, processes and technologies and on upgrading food quality standards to facilitate access to EU markets. Work in the Western Balkans will focus on linking agribusiness SMEs to food processing firms and retailers by promoting the adoption of international best practice in supply chain management.

Policy work included assisting countries to accelerate broadband rollout and develop more competitive regulatory regimes, and supporting the government of Jordan to establish a National Centre for Innovation (financed through the Middle East and North Africa Transition Fund). The Bank facilitated dialogue with producers and governments in Turkey and the Western Balkans to improve legal frameworks for the registration and protection of Geographical Indications, which are origin-based food-quality labels that enable producers to access high-value markets. Meanwhile, policy dialogue in the Baltic states helped prepare market participants for new EU structural funds which will be available to support innovative SMEs.

"Policy work included helping countries develop more competitive regulatory regimes."

Case study

Improving access to funding for local banks

2015 saw the EBRD invest up to US$ 33 million (€30.4 million equivalent) in Frontclear, a new company that aims to establish more stable and inclusive access to local and global interbank markets for financial institutions in developing markets.

Properly functioning interbank markets can improve the capacity of local banks to manage risk, thereby improving access to finance for local firms and stimulating activity in the real economy.

Frontclear, which provides guarantees to cover counterparty risk, also offers training and advice to financial institutions and regulators to boost their risk management capacity and conducts research at the client and market levels. The company provided its first guarantee in September and has an ambitious deal pipeline in the EBRD region and other countries.

Legal transition

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

Activities under the LTP 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 also support the Bank's efforts to improve the investment climate and promote good governance (see page 45).

Work carried out under the LTP includes the preparation of diagnostic tools and the provision of advisory services to governments and regulators. In 2015 the LTP facilitated the adoption of significant pieces of legislation, including:

- a law on public procurement and related secondary legislation in the Kyrgyz Republic, prepared under a joint programme between the Bank and the United Nations Commission on International Trade Law (UNCITRAL)
- a mortgage law in Serbia
- reformed laws on covered bonds in Poland and Romania, aimed at developing the market for these debt securities
- a banking law in Slovenia and a new supervision methodology for the Bank of Slovenia
- amendments to the law on consensual financial restructuring of companies in Serbia.

The Programme also assisted with the preparation of a new corporate governance code in Romania, adopted by the Bucharest Stock Exchange. In addition, it helped prepare instruments leading to the accession of Moldova and Ukraine to the World Trade Organization (WTO) Agreement on Government Procurement, under a joint initiative between the Bank and the WTO.

In October 2015, the finance committee of the Tunisian parliament approved a new draft law on public-private partnerships (PPPs), incorporating LTP advice. Parliament is expected to adopt this legislation in the near future.

As part of efforts to address cross-cutting problems in the business environment, the LTP also aims to strengthen contract enforcement, including by the courts. In 2015 the Bank trained some 340 judges in Bosnia and Herzegovina, Croatia, Jordan, Montenegro and Serbia on matters of commercial law. In addition, it trained 200 civil bailiffs in Mongolia on enforcing judgements.

Case study

Tourism project brightens job prospects for young Jordanians

Ayla Village is the name of a tourist resort that will form the heart of an urban regeneration project in the Jordanian port city of Aqaba.

The venture seeks to develop the waterfront at Aqaba into a vibrant, sustainable destination that will serve tourists visiting the nearby sites of Petra and Wadi Rum. The EBRD is supporting Ayla Village with a US$ 60 million (€55 million equivalent) loan.

Donor-funded technical assistance will help establish a training programme to improve the employment prospects of local young people. Working closely with vocational schools and national education authorities, the project will offer work-based learning opportunities in the area. These will create direct progression routes to potential employment and support the improvement of national skills standards so that they reflect employer's needs.