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PARTNERSHIPS

In 2016, partnerships with donors were more important than ever in fostering sustainable market economies. Cooperation with fellow multilateral development banks, other external partners and civil society was also central to the success of Bank activities. Work with donors to promote nuclear safety remained a priority for the EBRD.



Gender equality and green growth in Turkey's energy sector

The EBRD is spurring efforts to make the Turkish power sector more environmentally friendly and inclusive with a US\$ 135 million (€128 million equivalent) loan to subsidiaries of electricity company IC Elektrik. The financing will help power distribution firm TREDAS and retail sales firm TREPAŞ to significantly improve the efficiency and reliability of the power network in north-western Turkey. The reduction in energy losses is expected to save 90,000 MWh and cut CO₂ emissions by 45,000 tonnes.

Turkey exhibits one of the lowest rates of female labour-force participation (32 per cent) in the EBRD region and the country's power and energy sector in particular is dominated by men. As a condition of the financing, the companies will introduce corporate standards and practices that strengthen women's access to employment and skills. In addition, they will undertake gender-sensitive employee surveys, review payroll data to ensure equal pay for work of equal value, and receive TC-funded advice to implement a comprehensive gender action plan.

Lastly, TREDAS and TREPAŞ will enhance their compliance procedures, including by strengthening anti-corruption policies and adopting enhanced codes of conduct.

Donor partnerships

During 2016 donors continued to work closely with the EBRD to address the transition challenges in its region. They signed agreements to contribute €445 million¹ in new donor financing, extending the range and depth of the Bank's investments, balancing risks and rewards, compensating for market failures and fostering the development of market-based institutions, skills and behaviour.

EBRD products blend commercial financing with grant-funded elements. These integrated instruments enable the Bank, and ultimately its clients and beneficiaries, to achieve impact on a greater scale than would otherwise be possible. Infrastructure, small firms and the sustainable use of resources remained the central focus of donor activity in 2016. Initiatives with a strong element of policy dialogue delivered through grant co-financing continued to grow in significance. Good governance and local currency were two examples of this type of initiative. Other areas of emphasis for donors included promoting private sector competitiveness, economic inclusion and gender equality. In keeping with the revised transition concept of the Bank, donor activities recognise that a market economy should be competitive, well-governed, green, inclusive, resilient and integrated.

¹ In addition, €114 million was raised for multi-donor funds managed by the EBRD but also benefiting other IFIs. Including this figure, the total funding mobilised in 2016 was €559 million (excluding funding for nuclear safety).





Grant instruments

Donor funding at the EBRD takes the form of technical cooperation (TC), co-investment grants and concessional finance. By working with innovative financing instruments, the EBRD can mobilise substantial investment opportunities on the basis of limited donor grants. On average, each euro of grant funding is associated with €30 or more of investment.

TC grants cover specific tasks that support a particular project or programme, such as project preparation and implementation, training, sector support, building a client's expertise and technical skills, policy dialogue and other forms of assistance. In 2016, donor grants worth €242 million financed TC projects.

In addition, donor funds were used for co-investment grants worth a total of €167 million. The main kinds of co-investment grant included:

- capital investment grants that reduce the capital costs of a project. These are most common in the low carbon, energy efficiency and municipal infrastructure sectors.
- incentives that encourage financial institutions to extend loans to sub-borrowers, based on agreed terms. Incentives benefit partner financial institutions or sub-borrowers and are common in our green economy financing facilities.
- risk-sharing facilities to expand investment outreach in countries or sectors where poor market conditions make financing difficult for borrowers. These facilities include, for example, first-loss cover for the EBRD's Women in Business programmes.

The EBRD also uses donor funds in the form of:

- concessional finance for clients, together with EBRD loans. These products include extended tenors, grace periods and below-market interest rates. At present, these are funded mainly from global climate funds and support the transition to a green economy.
- co-lending and equity investments that help the Bank make larger and more beneficial offers to clients as well as undertake deeper capital exposure with clients.

Donors to the EBRD

Bank activities are complemented by support from the EU, bilateral donors, multilateral donor funds (including global climate funds and World Bank Facilities), and the shareholders of the EBRD, as well as from the private sector.

The European Union (EU) is the EBRD's largest single donor, contributing close to 50 per cent of donor funding received over the last five years in support of Bank activities. In recent years, the EU has increasingly channelled its funding through regional facilities created to blend EU grants with investment financing from financial institutions such as the EBRD. These facilities include the EU Neighbourhood Investment Facility and the EU Investment Facility for Central Asia. In 2016 the EU provided support worth €289 million.

Bilateral donors are governments and other partners. In 2016 the following donors signed agreements to contribute additional resources to the EBRD: Albania, Austria, Finland, France, Germany, Italy, Japan, Kazakhstan, Luxembourg, Norway, Republic of Korea, Romania, Slovak Republic, Sweden, Switzerland, Taipei China, United Kingdom and the United States of America. This list includes countries that contributed to EBRD-managed multi-donor funds. 2016 saw bilateral donors provide support worth €125 million.

Multilateral donor funds feature the involvement of not only various donors but typically also a number of IFIs as recipients and often see significant involvement from beneficiary countries. In 2016, the EBRD received grants from global and multilateral donor funds such as the Climate Investment Funds, the Global Environment Facility, the World Bank Concessional Finance Facility and the Middle East and North Africa Transition Fund, as well as the Eastern Europe Energy Efficiency and Environment Partnership, the Northern Dimension Environmental Partnership and the Western Balkans Investment Framework (the EBRD also manages these last three funds). Furthermore, the Bank's Nuclear Safety team manages the nuclear safety and international decommissioning support funds, which donors set up for specific work on nuclear safety in the region (see page 49).

Bank shareholders allocate funds from net income to a number of funds, the largest of which is the EBRD Shareholder Special Fund (SSF), established in 2008. The SSF complements other donor funds by providing TC and co-investment grants.

How donors provide support

Donors offer support directly or through a range of funds, such as bilateral and multilateral donor funds. The Bank also manages multi-donor funds, which pool resources for specific purposes to meet strategic objectives on a larger scale than would otherwise be possible. The most active in 2016 were, among others, the Early Transition Countries (ETC) Fund, the Southern and Eastern Mediterranean (SEMED) Multi-Donor Account (MDA), the Ukraine Stabilisation and Sustainable Growth MDA and the Small Business Impact Fund.

Donor priorities

Donor funds are used in all EBRD countries of operations. However, there is a greater focus on the ETCs, the SEMED region and the Western Balkans as projects in these markets often require donor-funded assistance in order to achieve the Bank's aims. Strategic areas for which donors allocated resources in 2016 were:

- accelerating infrastructure development through projects in the municipal and environmental infrastructure, transport, power and energy, and natural resources sectors
- promoting low-carbon growth, including energy efficiency and renewable energy investments
- diversifying economies by providing finance and advisory support for small firms
- building a stable financial sector by supporting financial institutions and the development of local capital markets
- nurturing trade and investment in agricultural value chains for improved food security as well as generating job opportunities
- strengthening the business environment through regulatory reform
- integrating considerations of gender and social inclusion into EBRD projects.

Reforming the management of donor funds

Recognising the growing role that donors play in supporting its objectives, the EBRD is committed to being a selective and strategic user of grants; a modern development partner to its donors, operating in line with best international practice and with a firm focus on countries; and an efficient manager of grant activities. Consistent with this vision, in 2016, the Bank launched a new, integrated IT system for donor fund management and updated its donor fee policy. The Bank also improved management of the SSF to align the Fund more closely with the EBRD's strategic priorities and thus maximise efficiency.



For more information see the EBRD annual reporting on donor partnerships at dr-ebrd.com

Preparing small business for trade with the EU

In order to bolster economic integration, the EBRD and the EU are preparing firms in Georgia, Moldova and Ukraine to take full advantage of the Deep and Comprehensive Free Trade Area (DCFTA) established by the Association Agreements between each of these countries and the EU, the world's largest market.

Joint EBRD-EU programmes of activities combine direct and indirect lending with EU-funded technical assistance, investment incentives and risk-sharing activities. An example of direct financing on a risk-sharing basis in 2016 was a joint EBRD-TBC Bank loan of US\$ 14.3 million (€13.5 million equivalent) to Rustavi Group in Georgia for the construction of a medium-sized hydropower plant. Among other benefits, the transaction will stimulate competition in the Georgian power-generation sector. The EBRD financing was extended through the Bank's DCFTA SME Direct Finance Facility and supported by the EU through a risk-sharing facility.

With regard to indirect financing, in 2016 the EBRD signed its first deals under the EU4Business-EBRD credit line, part of the joint programmes of activities. These included a US\$ 50 million (€47 million equivalent) facility with Bank of Georgia and a €10 million facility with Mobiasbanca - Groupe Société Générale in Moldova. SMEs in various sectors will use this financing to modernise their production and service standards in readiness for trade with EU clients. In addition, close to 70 enterprises across the three countries benefited in 2016 from EU-funded business advice to help them achieve this goal.





Cooperation with external partners

Throughout 2016 the EBRD continued to work with other multilateral development banks (MDBs) to enhance coordination and collaboration and to agree on common actions in support of the 2030 Agenda for Sustainable Development, which includes the 17 UN Sustainable Development Goals. Critical issues under discussion included forced displacement, infrastructure, urbanisation, climate finance and private investment.

The EBRD shared its expertise and operational experience with the newly established Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) across a range of areas. A Memorandum of Understanding that sets out a framework for strategic and operational cooperation was signed in May by EBRD President Suma Chakrabarti and Jin Liqun, President of the AIIB. The EBRD and AIIB also signed their first joint project, a road reconstruction venture in Tajikistan (see page 26).

As in previous years, the EBRD engaged strongly with the G20 forum of the world's leading economies, in close partnership with other MDBs. Core areas of focus in 2016 under the Chinese presidency were infrastructure, SMEs, energy efficiency and increasing the capacity of MDBs to lend without substantially increasing the risks they face or damaging their credit ratings.

Extensive work with the EU on policy and operations took place in 2016. The two institutions held joint Country Days to consider shared priorities in Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkey and Ukraine. President Chakrabarti signed a Memorandum of Understanding with the European Energy Commissioner to intensify EU-EBRD collaboration on energy issues. The Bank strengthened its representative office in Brussels to bolster cooperation with EU institutions, including the European Parliament.

Engaging with civil society

A vibrant civil society is an essential component of an open democracy and of a sustainable, inclusive and well-governed economy. Civil society organisations (CSOs) in the EBRD region bolster demand for reforms that reflect the concerns of ordinary citizens and ensure that the interests of marginalised groups are taken into account.

The EBRD engages with a wide range of CSOs as part of its commitment to democracy and good governance. This dialogue contributes significantly to improving the quality, effectiveness, and sustainability of EBRD activities. In 2016, almost 3,400 civil society representatives were registered with the EBRD, compared with some 3,100 in 2015. Registration on the Bank's database allows CSOs to receive regular updates about developments that may be of interest to them.

Capacity enhancement

The Civil Society Capacity Enhancement Framework is a donor-funded programme that seeks to raise awareness, transfer skills, and improve technical knowledge and organisational capacity among community-based CSOs. This facilitates their engagement with EBRD investment projects and policy dialogue activities. The programme focuses on three areas: sustainable energy and resources, economic inclusion and good governance. By the end of 2016 the Framework had launched 15 technical assistance projects worth around €3 million and these had benefited more than 8,000 civil society and community representatives, often through tailored activities to enhance capacity.

An ongoing project in Ukraine is dedicated to improving the transparency and effectiveness of the public procurement system through cooperation with civil society (see case study on page 48). Another project saw the EBRD collaborate with the Organization for Security and Cooperation in Europe (OSCE) in Albania to support anti-corruption efforts. The project includes training for individuals, civil society groups and local authorities on reporting and handling complaints of corruption, and also covers the creation of a consultation mechanism for civil society.

In addition, the EBRD and OSCE helped the Albanian School of Public Administration to develop anti-corruption training programmes for civil servants and supported the Albanian government's establishment of a code of conduct for businesses. The Bank will apply lessons learned from Albania to other countries in the Western Balkans through a regional project to be implemented from January 2017 in partnership with the United Nations Office on Drugs and Crime.



Dialogue

The EBRD's senior management and Board of Directors are committed to broadening the Bank's engagement with civil society. The EBRD President and other representatives of senior management and the Board routinely meet with CSO representatives during their visits to countries of operations. In 2016, such meetings were held with CSOs in Azerbaijan, Egypt, Kazakhstan, Montenegro, Serbia, Tajikistan and Ukraine. The Bank also consulted intensively with civil society on its first strategy for Greece and on the reviews of country strategies for Belarus, Egypt, Georgia, Kazakhstan, Kosovo, Mongolia and Montenegro.

The Civil Society Programme, the flagship event of the Bank's engagement with civil society, was held on 11 and 12 May in London alongside the EBRD Annual Meeting and Business Forum 2016. On the occasion of the Bank's 25th anniversary, the Programme attracted around 100 civil society representatives from 22 countries.



For further information see ebrd.com/civilsociety

Equipping civil society to monitor public procurement in Ukraine

The EBRD is working to give civil society the tools it needs to effectively monitor Ukraine's new electronic public procurement system, ProZorro. In cooperation with NGOs Transparency International Ukraine and the Partnership for Transparency Fund and the Kiev School of Economics, the Bank is developing monitoring tools and providing training for CSOs so that they can use them to monitor local and municipal procurement as effectively as possible. The TC project is funded by the Czech Republic and the EBRD-Ukraine Stabilisation and Sustainable Growth Multi-Donor Account.

Civil society activists initiated and led the development of ProZorro, which became mandatory for all purchases by public bodies in Ukraine in 2016 and aims to vastly improve the transparency and cost-effectiveness of the country's procurement processes. The EBRD played a key role in designing the electronic procurement model that ProZorro uses. Now that the system is in place, robust independent monitoring is important for its credibility and for building confidence in the wider investment climate.

Nuclear safety

The EBRD plays a leading role in efforts to address major safety issues surrounding nuclear legacies. As a manager of multilateral nuclear-safety donor funds, it helps to make the Chernobyl site safe and secure. It also supports the decommissioning of first-generation Soviet-designed nuclear power plants in the new EU member states, works to remediate the environmental legacy of the Soviet-era nuclear-powered fleet in north-western Russia and of uranium mining in Central Asia, and carries out other nuclear safety activities.

On behalf of more than 40 donors, the EBRD manages seven multilateral nuclear-safety donor funds and associated programmes. Donors have together contributed more than €4 billion for the purpose, including almost €2 billion to complete projects in Chernobyl. In addition to its role as fund manager, the EBRD has committed €715 million of its own resources for the two main Chernobyl projects.

In 2016, work on the Chernobyl New Safe Confinement reached a defining moment when the arch-shaped steel structure was moved to its final position above the destroyed reactor 4 covered by the temporary shelter built in 1986 (see Box: “The EBRD and Chernobyl” on page 9). Also at Chernobyl, work continued on constructing the €400 million Interim Spent Fuel Storage Facility which will treat more than 20,000 fuel assemblies from units 1 to 3 and store them for a minimum of 100 years. The facility, due for completion in 2017, is financed by the Nuclear Safety Account.

The EBRD manages the Nuclear Window Support Fund of the Northern Dimension Environmental Partnership. This receives contributions from nine countries and the EU and finances vital projects to remove spent nuclear fuel and other radioactive waste from unsafe facilities in north-western Russia. Building of the infrastructure and systems to retrieve and transport the 22,000 submarine spent-fuel assemblies stored in Andreeva Bay finished in 2016. The retrieval of fuel will start soon and a first shipment of casks loaded with spent fuel is planned for July 2017.

A €53 million grant, also from the Fund, is allocated to efforts to dismantle the Lepse service ship and safely dispose of its cargo of spent nuclear fuel and radioactive waste from the Soviet-era nuclear-powered fleet. In 2016 the Lepse was dismantled at the Nerpa shipyard on the Kola peninsula and workers conducted the first shipment of its packaged remains to the solid-waste storage facility at Sayda Bay. Preparation of special equipment and a facility for the retrieval of fuel from the Lepse is set for completion by the end of 2017. The Lepse and Andreeva Bay pose a significant environmental threat to the marine environment of the northern Atlantic and surrounding countries.

Also last year, the EBRD hosted the first donor meeting of a new fund established to finance the rehabilitation of Soviet-era uranium mines in Central Asia. A large number of potential donors attended the event. In addition, legal arrangements were agreed with the Kyrgyz Republic and Tajikistan to prepare for mine remediation projects. The EU is providing an initial €16 million to the fund, with a further amount under consideration, and efforts are under way to secure pledges from other donors. The rehabilitation programme aims to reduce the environmental risk posed by disused and deteriorating sites containing radioactive materials in the Kyrgyz Republic, Tajikistan and Uzbekistan.

The EBRD continued to manage programmes that help Bulgaria, Lithuania and the Slovak Republic with the decommissioning of their Soviet-era nuclear power plants. Donors have contributed almost €2.5 billion to this programme, with the vast majority of funds coming from the EU. A major milestone in 2016 was the entry into service of a €200 million facility to retrieve and store spent fuel at the closed Ignalina plant in Lithuania. Dedicated donor funds finance these programmes as part of assistance agreed during EU accession negotiations. As well as supporting decommissioning, the funds contribute to energy sector projects that help countries cope with the loss of generating capacity.

