Policy dialogue, initiatives and impact

To maximise the impact of its operations, the EBRD conducts policy dialogue and initiatives in areas of strategic importance to the countries in which it invests. Aimed at addressing key transition challenges, these benefit from strong donor support and they blend investments, technical cooperation and knowledge and capacity-building. 2013 was notable for the way in which anti-corruption became an increasingly important strategic focus for the Bank.

SUSTAINABLE ENERGY

Countries where the EBRD invests continue to face significant climate change and energy intensity challenges, creating economic, environmental and social risks for their people, businesses and governments. The Bank launched the Sustainable Energy Initiative (SEI) in 2006 to address these challenges by reducing carbon emissions and making the region's economies more energy-efficient and independent. Between 2006 and the end of 2013, the EBRD invested €13.5 billion in sustainable energy projects.

In 2013, the second year of the three-year SEI Phase 3, the Bank financed 154 sustainable energy projects providing €2.4 billion of climate mitigation investment. These accounted for 28 per cent of annual Bank investment (ABI) and should result in 6.84 million tonnes of annual CO_2 emission reductions, or a saving of 1.9 million tonnes of oil equivalent. Furthermore, 20 projects included climate adaptation activities, representing an additional investment of €95 million.

The SEI business model for climate change mitigation and adaptation combines commercial project financing; technical assistance to overcome barriers through market analysis, energy audits, training, awareness-building and grant co-financing; and policy dialogue to support the development of a strong institutional and regulatory framework that incentivises sustainable energy projects. Donor support remained crucial, with €39 million of technical cooperation (TC) and €104 million of grant co-financing and incentive grants supporting effective enabling environments for sustainable energy, and the successful implementation of projects.

With this array of instruments, the EBRD undertakes sustainable energy work across all of the sectors and countries in which it invests.

Building sustainable markets through intermediaries

The EBRD's Sustainable Energy Financing Facilities (SEFFs) unlock energy-saving potential and build expertise by extending credit lines to financial institutions. They provide these institutions and their clients with expert guidance on designing lending products and assessing opportunities to turn sustainable energy projects into sound investments. Through these facilities and the EBRD's direct sustainable energy lending, companies of all sizes can pursue energy efficiency or small-scale renewable 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 2013, the EBRD invested €454 million in 47 energy efficiency projects across these financing facilities.

While Turkey continued to lead in overall SEFF business volume, this year saw growth of more than 136 per cent in disbursements to Russian businesses through the Russia Sustainable Energy Financing Facility (RuSEFF). The Bank achieved this through effective targeting of small and mid-sized banks and the integration of sustainable energy lending products into their existing portfolio.

Blending climate finance for implementation

The EBRD also responded to calls for multilateral development banks to engage in the financing of clean energy projects through participation in multi-donor funds such as the Climate Investment Funds (CIF) and the Global Environment Facility (GEF). These seek to leverage global climate finance through information sharing, technology transfer, advisory support and concessional financing.

The EBRD blended its commercial financing with CIF grant co-financing and technical assistance to increase the affordability and accelerate the implementation of projects such as the modernisation of the district heating network of CAEPCO, Kazakhstan's largest private heat and power company. As part of its work on climate change adaptation, the EBRD provided a €2 million loan to the municipal authority of Talas in the Kyrgyz Republic to upgrade its water supply and make it more resilient to climate change (see case study opposite). This project benefited from a further €3 million of grant and co-financing from other multilateral and multi-donor funds.

Partnerships with donors and multilateral funds helped the EBRD to expand its industrial energy efficiency core business while also developing innovative new projects. In cooperation with the GEF and the EBRD Shareholder Special Fund (SSF), the Bank established the Finance and Technology Transfer Centre for Climate Change (FINTECC). This supports EBRD clients as they introduce innovative technologies to reduce greenhouse gas emissions or water consumption.

Broadening the scope into resource efficiency

To address other key sustainability issues while enhancing business competitiveness, in 2013 the EBRD approved the Sustainable Resource Initiative (SRI). This is an umbrella initiative that builds on the experience of the Sustainable Energy Initiative to promote the efficient use of materials and water, particularly in the water-scarce SEMED region. The full rollout of the SRI is expected in 2014. It will build on the successful experience of incorporating sustainable energy work into the entire spectrum of Bank activities.

LOCAL CURRENCY AND CAPITAL MARKETS

The EBRD's Local Currency and Capital Markets (LC2) Development Initiative is one of the Bank's key strategic initiatives and 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 mitigating the key vulnerabilities that emerged in the EBRD region.

The LC2 Initiative focuses on the following interrelated areas that strengthen the business climate: building stable and sustainable macroeconomic policy frameworks; improving the legal and regulatory environment to support capital market activity; promoting local currency usage; developing financial market infrastructure, including clearing and settlement; developing the institutional investor base; and promoting a more efficient transaction environment and expanding product range.

The Initiative is supported by all departments within the EBRD as well as by a dedicated team of LC2 experts who focus on longer-term development strategies based on needs assessments in individual markets. From there, the Initiative's contribution and added value come in the form of policy dialogue, transaction support and advice and technical cooperation work. It also supports knowledge-building and sharing through seminars and other outreach activities that develop institutional capacity.

Projects range from loans and equity investments in local currency to participation in emerging capital markets and the issuing of local currency bonds. The Bank closely coordinates its LC2 actions with those of other IFIs. In 2013, the Bank signed the equivalent of almost €1.5 billion in local currency loan and bond transactions – 26 per cent of all debt extended by the EBRD in that period.

Highlights of the Initiative in 2013 included the development of bond frameworks to promote participation in pilot local currency debt market issues in countries such as the Kyrgyz Republic, Poland, Romania and Turkey, as well as participation in local equity initial public offerings (IPOs) in some countries. Under these integrated facilities, the EBRD helps the issuer, the investors and the regulator to improve issuance standards and enhance corporate governance. The Kyrgyz bond deal was supported by the ETC Local Currency Loan Programme.

In 2013, the EBRD launched work with stock exchanges in south-eastern Europe (SEE) on establishing an order-routing trading platform aimed at facilitating cross-border trading and improving liquidity in equity markets. The Bank was also active as an issuer in local currency markets, for example by issuing bonds in Russian roubles. These included the first bonds linked to the three-month rate for Russia's RUONIA Overnight Interest Rate Swaps (ROISfix), a benchmark supported by the Central Bank of Russia. The EBRD has taken an active part in developing money-market indices, through such issuance, as well as through the swaps market. Further issues are planned in other markets in 2014.

Last year the Bank also undertook policy dialogue in countries including Morocco, Poland, Russia and Ukraine on the legal and regulatory framework of capital market development, working closely with private investors and other market players.

CASE STUDY

ADDRESSING WATER SUPPLY NEEDS

Kyrgyz Republic

The city of Talas' water and wastewater systems are deteriorating due to limited fundraising capability for new investment, operations and maintenance. Like much of the Kyrgyz Republic, Talas is extremely vulnerable to climate change. It will be the first Kyrgyz city to implement adaptation and climate resilience activities as part of its water and wastewater investment plan.

The project is expected to improve the climate resilience of the city's water supply by reducing water demand from 4.8 million m^3 in 2012 to 1.7 million m^3 in 2017, switching to more sustainable and climate-resilient water sources and better protecting the water infrastructure against extreme events such as floods. After the full implementation of the project, expected water use per person will be comparable to that of the UK.

The analytical work undertaken as part of this project has also informed further EBRD-led initiatives for adaptation and climate resilience activities in the water sector across the country. With support from the GEF's Special Climate Change Fund (SCCF) and US bilateral funds, the EBRD is able to further support much-needed adaptation activities in other cities in the Kyrgyz Republic. Through implementing capacity-building, technical cooperation and awareness-raising alongside investment interventions, the EBRD is mainstreaming climate change considerations into water infrastructure rehabilitation.

CASE STUDY

BOOSTING RENEWABLE ENERGY PRODUCTION

Ukraine

Supported by the Clean Technology Fund (CTF) and the Global Environmental Facility (GEF), the Ukraine Sustainable Energy Lending Facility (USELF) has enabled the first non-recourse financed renewable energy projects in Ukraine. These are projects for which loans are only secured by the project collateral itself. The USELF has supported seven projects, covering a range of renewable technologies.

A good example is the EBRD's support to CKSC Ecoprod – a large agricultural and dairy producer – with a €3.1 million USELF loan to construct a biogas plant that will use 44,500 tonnes of agricultural waste per year to produce 5.8 million m^3 at standard temperature and pressure (STP) of biogas per year, resulting in 10 GWh per annum of electricity for sale to the grid, and heat for internal drying processes. This will lead to emission reductions of 9,800 tCO_2e per annum and energy savings of €35,000 per annum, and reduce the amount of organic waste going to landfill, leading to further reductions in greenhouse gas emissions from avoided methane emissions from landfill. Additional support for successful implementation was received from the CTF, in the form of concessional grant co-financing, and from the GEF for policy dialogue and project implementation support for renewable energy feed-in-tariffs in Ukraine.

TC projects are an essential part of the Initiative. Related TC activities cover all key areas of the capital market development process, including policy dialogue, knowledge and capacity-building, legal and regulatory reform, transaction-enabling and support for specific LC2-related transactions.

Since 1994, the EBRD has advanced local currency loans worth a total equivalent to €8 billion in 21 currencies.

FOOD SECURITY

The rising global population and changing dietary habits are creating greater demand for food at a time when climate change and water scarcity are putting worldwide food supply under pressure. In order to help meet the world's growing need for food, in 2011 the EBRD launched the Private Sector for Food Security Initiative to unlock the agricultural potential of the countries where it invests.

The Initiative seeks to overcome constraints on market supply and improve the efficiency of food production and distribution through investments, technical assistance, policy dialogue and coordinated action with our partners. Generously supported by donors, this work helps to ensure increased and more efficient agricultural output, which will ultimately contribute to greater food security.

In 2013, the Initiative facilitated more liquidity in primary agriculture to enable producers to invest in their farms and boost output. It did this by supporting legal frameworks for pre- and post-harvest financing mechanisms, such as warehouse and crop receipt systems, in Russia, Serbia and Ukraine. The Bank also increased its cooperation with a number of banks to implement agriculture and agribusiness credit lines.

The EBRD continued to support dialogue between the public and private sectors. For example, the Ukraine Grain Working Group, which the EBRD and the FAO lead together, resulted in public officials agreeing to notify the grain industry in advance if they plan to introduce export restrictions. Policy dialogue in this area has enabled the EBRD to invest more than €400 million in Ukraine's grain sector and stimulated private sector investments. The EBRD and FAO created a similar working group for the Ukraine dairy sector at the request of the country's dairy industry and government.

The Private Sector for Food Security Workshop held in Cairo in June 2013 brought together grain exporting and importing countries and fostered dialogue between Egypt's public and private sectors. In 2013 the EBRD and the FAO conducted a joint in-depth review of the olive oil sector in Morocco and Tunisia. They also launched the MedAgri Network to facilitate knowledge sharing between international financial institutions (IFIs) and private banks investing in agriculture in the SEMED region. This complements the EastAgri Network for eastern Europe, Central Asia and the Caucasus.

In the ETCs, the Bank launched a technical assistance programme to provide companies with expert advice so that they can upgrade their operations, access finance and ultimately produce more food. A similar programme is active in all SEMED countries and paved the way for EBRD investments, such as a loan to Moroccan juice maker Citruma.

To widen export opportunities for Serbian producers, the Bank began TC work promoting compliance with higher food safety and quality standards in the meat and horticultural sectors – a necessary first step for prospective exporters. The EBRD and FAO also worked with clients on developing Geographical Indications or other premium labels as a way to boost sales of high-quality products.

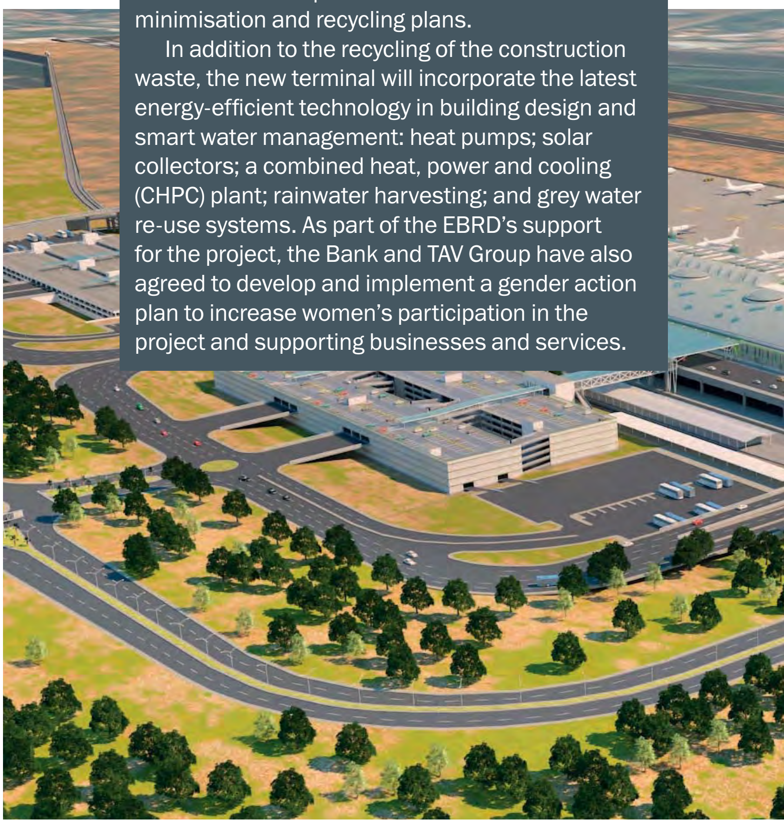
At the global level, the EBRD continued co-chairing the Multilateral Development Banks Working Group on Food and Water Security and participated in the Aspen Institute's global Food Security Strategy Group in Morocco with leading private sector companies.

CASE STUDY
WINNING SUSTAINABILITY AWARDS
Turkey

TAV Group, Turkey's leading airport operator, has been honoured with a sustainability award from the Turkish branch of the World Business Council for Sustainable Development. The award praises its "innovative sustainability practices" in building the new terminal for domestic flights at Adnan Menderes airport in Izmir, the country's third-largest city.

TAV Group, which received a €145 million financing package from the EBRD last year for the €250 million project, is recycling and reusing 99 per cent of the old terminal building to construct the new one. The Bank has continued to work closely with the TAV Group on its sustainability agenda during 2013, including monitoring the successful implementation of their waste minimisation and recycling plans.

In addition to the recycling of the construction waste, the new terminal will incorporate the latest energy-efficient technology in building design and smart water management: heat pumps; solar collectors; a combined heat, power and cooling (CHPC) plant; rainwater harvesting; and grey water re-use systems. As part of the EBRD's support for the project, the Bank and TAV Group have also agreed to develop and implement a gender action plan to increase women's participation in the project and supporting businesses and services.



GENDER

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

The Strategic Gender Initiative, which was approved in April 2013, sets out how the Bank promotes women's socio-economic empowerment, equality of opportunity and participation in the labour market. In particular, the EBRD will focus on supporting access to employment, skills development, finance and services to ensure that women and men benefit equally from Bank investments.

The Initiative draws on the experience of the three-year Gender Action Plan, under which the Bank identified and introduced gender considerations in 15 projects in a variety of sectors, from natural resources to financial institutions. Under the Initiative, the Bank has widened its approach. As well as assessing the direct impact of projects on women so it can mitigate any adverse effects they might have had, the EBRD now considers how its investments can play a systemic role in promoting economic opportunities for both women and men.

A newly-created Gender team performs this task by screening all EBRD projects in the preparatory phase. As a result, the Bank signed five investments with a gender focus or component in 2013. These included two projects in Turkey providing dedicated credit lines for women; a natural resources project in Egypt; and a retail property project in Jordan that has a wider impact on employment prospects. The Gender team also carries out TC projects for due diligence purposes and to support the implementation of Bank investments. These are in addition to eight TC assignments under the Clean Technology Fund. (For more on TC-funded activities, see Chapter 4: "Donor partnerships")

As well as supporting project work, the Gender team commissions research, engages in policy dialogue with stakeholders and takes an active part in international dialogue on the promotion of gender equality. In 2013, it commissioned a report on legal barriers to women's access to credit in the Kyrgyz Republic and Morocco. This found that legal provisions – such as restrictions on inheritance rights for women in Morocco or the presumption of shared property ownership for married Kyrgyz women – limit the ability of women entrepreneurs in these countries to accumulate the collateral they need to obtain loans.

The report inspired a conference entitled 'Bridging the Gap' (EBRD Headquarters, London, September 2013). The NGO Women for Women International co-hosted the event, which brought together representatives from the World Bank, the International Labour Organization, private enterprise and civil society. The EBRD will use the report and the conference findings to structure relevant investments in a way that ensures fair and equitable access to finance, services and employment.

The work of the Gender team benefits significantly from the support of donors. In 2013, donor contributions included, among others, a €1.5 million grant for the Gender Advisory Services Programme and a €300,000 grant from the Climate Investment Fund.

SMALL BUSINESS

SMEs are an important source of jobs and growth and an essential part of a healthy modern economy. In the countries where the EBRD invests, they also make a major contribution to the transition process by promoting and consolidating reforms that contribute to long-term economic development. At the same time, SMEs are particularly vulnerable to some of the transition gaps that exist in the region, such as financing constraints, difficult business conditions and an economic legacy dominated by large state-owned companies. There is a pressing need to improve the business climate in many countries, which includes supporting governments to tackle corruption at all levels. (Read more in the EBRD's *Integrity and Anti-corruption Report 2013*.)

The EBRD is dedicated to creating conditions in which SMEs can flourish. This commitment is firmly anchored in the Bank's

"The Private Sector for Food Security Initiative helps unlock the agricultural potential in countries where the EBRD invests."

transition mandate and business model. As part of an institution-wide modernisation plan, in December 2013 the Board approved the launch of the Small Business Initiative (SBI) to strengthen its support for SMEs by bringing a more coordinated and country-focused strategic approach to the EBRD's many activities in this area.

Small businesses have long constituted a major focus for the Bank and its donors, who generously support the EBRD's efforts in this field. Just under one-half of Bank projects and around one-fifth of its ABI are directed at SMEs. These investments take the shape of direct financing and indirect financing via partner institutions, with local currency lending playing an important role. In addition, the EBRD engages in co-financing and risk-sharing with SMEs and provides business advisory services. It also conducts non-financial activities such as policy dialogue and support for legal reform.

The SBI aims to build on this work by developing SME action plans in the context of EBRD country strategies. It will also improve information management systems to better track the large number of SME financing activities across the Bank and their impact, streamline decision-making processes for relevant projects and create a dedicated SBI team.

In this way, the EBRD plans to deliver greater impact in the field of SME support. By making it easier for small and medium-sized businesses to access finance, overcome regulatory hurdles and emerge from the informal economy, the SBI will make a significant contribution to re-energising the transition process across the region.

VIENNA INITIATIVE

The EBRD continued to play a vital role in the re-launched European Bank Coordination "Vienna" Initiative, originally created to safeguard financial stability in emerging Europe in response to the global economic crisis. Vienna 2 addresses the conflicts of interest between the banking sector's home and host countries. Countries in which foreign banks' subsidiaries or branches are systemic face particular challenges in safeguarding financial stability and ensuring adequate credit supply for their economies. The re-launched Vienna Initiative has two principal objectives: to avoid disorderly deleveraging and to achieve policy actions that are in the best joint interests of home and host countries.

In line with the first objective, Vienna 2 provided regular updates on deleveraging trends in the region through the Deleveraging and Credit Monitor, a quarterly report that is widely publicised and followed by markets, and issued quarterly bank surveys. The Initiative also looked at ways of addressing the high level of non-performing loans (NPLs) and continued weakness in credit growth in emerging Europe. Both of these represent significant structural challenges for the region's banking sector. Recommendations for action in these two areas should be published in 2014.

In line with its second objective, Vienna 2 continued to play a very active role in facilitating coordination between home and host countries on policy actions. It was a key participant in the debate on the shaping of the Banking Union, acting as an advocate for central, eastern and south-eastern European countries and in particular those outside the EU. The EBRD chaired the Initiative's work in this area.

"Nearly 50 per cent of all EBRD projects are directed at small and medium-sized enterprises."

As well as the aforementioned issues, the Vienna Initiative 2 Full Forum in Brussels in October 2013 drew special attention to the challenges facing south-eastern Europe. This is the region most affected by the fallout from the eurozone crisis, particularly as non-EU members are excluded from the EU's home-host country coordination mechanisms. Over the year the Initiative also organised events in Albania, Bosnia and Herzegovina, Croatia, Serbia and Slovenia, focused on encouraging stakeholders to work together on reducing financial stability risks.

Vienna 2 brings together all the key stakeholders in the EU-based cross-border bank groups that are active in emerging Europe. These include international financial institutions (the International Monetary Fund, the EBRD, the European Investment Bank and the World Bank); European institutions (European Commission, and the European Central Bank as observer); home- and host-country regulatory and fiscal authorities of large cross-border banking groups; and the largest banking groups operating in the EBRD region. The Initiative has been widely credited with helping to avoid a potential region-wide systemic crisis in emerging Europe's banking sector following the global economic downturn.

JOINT IFI ACTION PLAN

The second Joint IFI Action Plan for Growth in Central and South Eastern Europe is a shared initiative between the EBRD, the European Investment Bank (EIB) and the World Bank, launched in response to the impact of eurozone problems on the economies of emerging Europe. These institutions are likely to invest around €30 billion by the end of 2014 to help countries in this region reorient their growth strategies towards greater competitiveness and increased exports. The Action Plan's first progress report, issued in mid-2013, showed that the IFIs had so far made €16 billion available for private and public sector initiatives.

The EBRD has signed up to €2.48 billion worth of projects from its total commitment of €4 billion over this period. This includes corporate and SME investments in the form of debt, equity and trade financing, as well as investments in sustainable energy and national and municipal infrastructure. In the financial sector, the EBRD is helping countries deal with high levels of NPLs and foreign exchange-denominated loan stocks. The Bank also supports corporate and bank restructuring.

The Initiative is modelled on the previous, successful 2009-10 Joint IFI Action Plan which made available more than €33 billion in crisis-related support for financial sectors in central and south-eastern Europe, Turkey and the former Soviet countries of the Commonwealth of Independent States (CIS).

CLOSER COORDINATION WITH EXTERNAL PARTNERS

In 2013, the EBRD created an External Policy Coordination team and opened an office in Brussels to enhance collaboration with key external partners, including other IFIs and EU institutions, in support of the Bank's mandate. The team also coordinates the Bank's participation in global discussions and processes such as the G8 Deauville Partnership, the Global Partnership for Effective Development Cooperation and discussions on a post-2015 development framework.

EARLY TRANSITION COUNTRIES

In order to accelerate transition, increase financing and strengthen the business climate in the EBRD's less advanced countries of operations, in 2004 it established the Early Transition Countries (ETC) Initiative. The Initiative works to mobilise more financing and donor funds to improve the economies and living standards of people in this region, which includes Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Mongolia, Moldova, Tajikistan and Turkmenistan – all of which are recipients of Official Development Assistance (ODA).

Financing activity in the ETC region has been a major growth area for the Bank since the Initiative began. The annual percentage of financed projects in these countries has increased from 8 per cent of the EBRD's total in 2003 to 30 per cent or more in 2008-13. In total, the Initiative has accounted for more than 940 projects worth a total of approximately €6.5 billion in financing.

2013 saw strong activity in the ETCs, with the Bank providing financing in 115 projects for €970 million. More than 89 per cent of projects supported micro, small and medium-sized enterprises (MSMEs), in line with the Initiative's priorities.

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

Priority areas for EBRD financing and transition activity and for donor support in the ETCs are private sector and SME development, capital market development and municipal and environmental infrastructure. Thanks to Bank projects and donors, millions of people in 64 cities in the region now have access to better water supplies, improved waste services and modern public transport.

Another important focus for donors and the Bank is catalysing local currency lending and developing local capital markets. Through the US$ 320 million (€232 million equivalent) ETC Local Currency Programme in Armenia, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Mongolia, the Bank addresses the over-reliance on foreign exchange financing, which is exacerbated by the lack of conventional sources of local currency funding. Donors to the ETC Fund, the US Treasury, the Swiss State Secretariat for Economic Affairs (SECO) and the SSF have supported the Programme by allocating US$ 37 million (€27 million) of risk-sharing funds.

The Programme has financed more than US$ 220 million (€160 million) of local currency loans, which partner banks and microfinance institutions have on-lent to more than 150,000 MSMEs. The largest number of beneficiaries have been in the Kyrgyz Republic and Tajikistan – the Bank's two lowest-income countries – helping more than 70,000 MSMEs borrow in the same currency as their revenues and avoid foreign exchange risk. The Bank and donors also support investment councils in Armenia, Kyrgyz Republic, Moldova, Mongolia 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 investment climate through changes to legislation and regulation.

WESTERN BALKANS

In 2013, the EBRD continued paying special attention to the Western Balkans with the aim of promoting stability, regional cooperation and economic development. A series of initiatives lent support to SMEs and the wider private sector, fostering sustainable energy projects and promoting strategic investments in infrastructure and other areas. The EBRD works closely with the EU and other donors on these programmes.

Last year the Bank invested €943 million in 66 projects in the Western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia). The impact of the global financial crisis remains strong in these countries with no visible sign of sustained recovery. Domestic demand is sluggish as financial systems continue to unwind imbalances, and consumer and investor confidence remain low. Consequently, transition lags in comparison with the neighbouring countries in the region.

Long-term financing for SMEs

The EBRD has concentrated on the promotion of private sector development in the region through the Local Enterprise Facility (LEF). LEF is a €400 million investment vehicle for SMEs in the Western Balkans, Croatia, Bulgaria, Romania, Turkey and the SEMED region. It provides long-term financing to such businesses because their needs are not sufficiently addressed by existing financing instruments. LEF also provides them with pre- and post-investment support to deliver transition impact. Established in 2006, the Facility includes a €20 million contribution from the Italian government and €380 million from the EBRD. Since its launch, LEF has financed projects in a broad range of sectors such as agribusiness, manufacturing, natural resources, property and telecommunications.

CASE STUDY

STRENGTHENING JUDICIAL TRAINING

Tajikistan

The EBRD is helping to train more than 200 judges in Tajikistan in key areas of business law as part of its Commercial Law Judicial Training Project. This is a topic that concerns the whole country, yet the problems facing judges and businesses in remote areas can differ greatly from those arising in the main cities.

That is why in 2013 the Bank sponsored a conference on commercial law reform in the least developed region of the country, the Gorno-Badakhshan Autonomous Oblast (GBAO).

The main objective of the conference in Khorog, the regional capital, was one of inclusion – to ensure the involvement of the GBAO in the national discussion about commercial law reform. The event was attended by the head of the regional government, representatives from the Presidential Administration, local business leaders, bankers, judges and lawyers. It was organised by the Council of Justice and the Judicial Training Centre of Tajikistan, the EBRD Legal Transition team's counterparts in its judicial training project.

Many of the judges at the conference had undergone the training and spoke about how their increased knowledge had helped them in their work, especially in ruling on land law disputes. In the past two years, the Bank has supported similar conferences in the Tajik capital Dushanbe and in the northern city of Khujand.

CASE STUDY

DIVERSIFYING SOURCES OF FUNDING

Romania

Efforts to develop Romania's capital markets and make it easier for local businesses to obtain financing received a significant boost in 2013, when the EBRD launched a €150 million programme to back medium to long-term bonds issued by Romanian financial institutions.

Under this programme, known as the Financial Institutions Bond Market Framework for Romania, the EBRD subscribed to 20 per cent of a bond issue by UniCredit Tiriac Bank worth 550 million lei (equivalent to €121 million). It also subscribed to 25 per cent of Raiffeisen Bank Romania's bond issue equivalent to €49.5 million.

By backing these bonds, the EBRD is helping Romania's financial institutions diversify their funding sources and ensure a better match between their assets and liabilities.

The programme comes under the Joint IFI Action Plan for Growth in Central and South Eastern Europe launched in 2012 (see page 38).

Promoting green investments

The Western Balkans Sustainable Energy Direct Financing Facility (WeBSEDFF) is a regional facility for providing direct debt financing, including on a project finance basis, of between €1 million and €6 million to local enterprises pursuing industrial energy efficiency and small renewable energy projects. In addition to financing, WeBSEDFF also provides TC related to project preparation, plus incentive payments upon completion based on the quantity of CO_2e emissions avoided by each project. To date, the Facility has financed 15 projects for €63.9 million and with expected CO_2 emission reductions amounting to a total of 446,765 tonnes a year.

The EBRD has also undertaken an institutional capacity-building programme in the region. Its objective is to propose new and/or refine existing mechanisms, procedures and standards in the area of sustainable energy. The capacity building also supports local governments and others in incorporating and implementing sustainable energy development measures into energy market design and regulatory development.

Working with the EU

The EU launched the Western Balkans Investment Framework (WBIF) in December 2009. This has developed rapidly, becoming a key instrument of support to socio-economic development and EU accession across the Western Balkans. It provides finance and technical assistance for strategic investments, particularly in infrastructure, energy efficiency and private sector development.

The Framework pools resources from the EU, international financial institutions (IFIs) and bilateral donors and has amalgamated stakeholder resources (grants and loans) and expertise to prepare and finance strategic projects, as well as to strengthen overall strategy and policy coordination. A total of 24 grants were approved under the framework for €22.1 million in 2013. Of these, 23 grants concern technical assistance with one focused on investment co-financing, altogether corresponding to investments with an estimated total value of €1.2 billion.

Another EU initiative, the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), is expected, over 2011-15, to mobilise €145 million of initial capital from the European Commission, the EBRD, the EIB Group and bilateral donors. This will leverage over €300 million for SMEs. The EBRD is playing a key role in the launch and development of this Facility and its Enterprise Expansion Fund (ENEF), which are expected to become flexible channels of pooling and leveraging financing.

LEGAL TRANSITION PROGRAMME

Through its Legal Transition Programme (LTP), the EBRD aims to improve the investment climate in the countries where it invests by helping to develop the laws and institutions upon which a vibrant market-oriented economy depends. In other words, the programme operates as a trouble-shooter for regulatory impediments to investment. The LTP is promoted by the EBRD's Office of the General Counsel and its activities range from assisting governments with the drafting of new legislation to designing new institutions (for example, pledge registries) and training public officials and judges.

During 2013 the LTP pursued many different avenues:

As part of wider EBRD efforts to re-energise the transition process and stimulate growth, the LTP worked to increase access to credit by helping countries develop more efficient regimes for secured transactions. The Bank advised the Moroccan and Russian authorities on pledge law reform; helped to increase the availability of securitised pre- and post-harvest financing instruments in Serbia, Russia and Ukraine; and assisted Croatia in establishing a factoring framework to aid companies faced with liquidity problems.

The EBRD sees the promotion of better corporate governance in commercial and financial companies as a key priority and the LTP plays a vital role in this effort. Last year's highlight was the programme's contribution to the preparation of a new corporate code for Russia, at the request of the Russian Financial Markets Service. Implementation of the code is expected to begin in 2014. The LTP also introduced new internal procedures to promote better corporate governance in the Bank's investee companies, for example by encouraging them to adopt corporate governance action plans.

One legacy of the global financial crisis is the presence of significant NPLs on the balance sheets of many banks in the EBRD region. In 2013 the LTP advised Serbia, Slovenia and Tunisia on legislative measures to address these pools of bad assets and on reorganising insolvent entities.

Another bottleneck to investment in the region is the difficulty businesses have with enforcing contracts through judicial channels. The Bank works to improve the efficiency of court systems by organising training programmes for judges. In 2013, a total of 900 judges underwent EBRD-sponsored training sessions in Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Mongolia, Montenegro, Russia and Tajikistan, including 200 Mongolian and over 200 Tajik judges.

In addition, the LTP looked at the enforcement of court decisions. The Programme found that a lack of appropriate training, among other issues, undermined the effectiveness of court bailiffs in the countries of the CIS and Mongolia. The Bank began a pilot project to help the Mongolian authorities improve training for bailiffs and redesign their system for enforcing court decisions. The EBRD hopes to launch similar actions elsewhere in future.

Transparent public spending remains at the top of the LTP's agenda, in particular in the Caucasus and Central Asia where collaboration with UNCITRAL, the UN's international trade law commission, reached new heights in 2013. The Bank helped Armenia, Kyrgyz Republic, Mongolia and Tajikistan to begin reforming their public procurement legislation and adopt electronic procurement tools. In a similar context, the Bank intensified its assistance to Mongolia to implement the Extractive Industries Transparency Initiative (EITI), which aims to encourage transparent financial practices in the mining sector.

During 2013, the Bank used its legal journal *Law in Transition* as a platform to deliver key messages to policy-makers in the region. The spring issue was dedicated to financial law reform in transition countries, whereas the autumn edition focused on current reform agendas in the public procurement sector.

For more information go to:
www.ebrd.com/pages/sector/legal/what.shtml