INVESTING FOR SUSTAINABLE GROWTH

The renewables challenge
Helping Egypt meet ambitious targets

Promoting olive oil
Supporting a strategic sector in Tunisia

Refugee crisis
The EBRD responds
Welcome to Cairo for the second EBRD SEMED Business Forum, marking six years of EBRD engagement in the southern and eastern Mediterranean region. The year 2017 has been a momentous one for us in the region. Two new economies have joined the SEMED family – Lebanon and the West Bank and Gaza.

We have also opened regional offices in Egypt, Morocco and Tunisia, becoming the first multilateral development bank to take this step. These offices promote regional inclusion and strengthen our activities and our support to small businesses. This brochure provides a short summary of some of our main activities in the region including:

• How we have helped drive forward reforms to create the right regulatory environment for renewable energy programmes in Egypt, Morocco and Jordan, paving the way for major investments in the renewable sector.

• How our refugee response in Jordan is helping to create economic opportunities for the host populations and refugees and to develop the infrastructure in the capital, Amman.

• How we have supported the development of the olive oil sector in Tunisia, one of the five largest olive oil producers in the world. This strategic sector of the Tunisian economy plays a key role in promoting regional integration and strengthening competitiveness on external markets.

Our total investments are already at almost €6 billion across the region, and we look forward to signing many more projects at this Forum and in the months and years ahead.
The EBRD, set up a quarter of a century ago to help central and eastern Europe’s formerly communist countries move to a sustainable market economic model, began its engagement in the southern and eastern Mediterranean (SEMED) in May 2011.

After the Arab uprising of 2011, the world’s eight leading economies announced their backing for countries witnessing dramatic political change. At a G-8 meeting in Deauville, France, leaders asked the EBRD – a “unique instrument” for its work in “European countries engaged in the same dynamics” – to step in to support the SEMED region’s transformation.

EBRD shareholders agreed. In 2012, they approved a €1 billion special fund to launch investments in Egypt, Jordan, Morocco and Tunisia before the EBRD started using its own capital.

As of 2017, the EBRD has invested almost €6 billion in more than 130 SEMED projects, of which 71 per cent are in the private sector. The Bank has also spent well over €250 million in technical assistance funded by EBRD donors and shareholders.

The EBRD focuses on developing open, sustainable market economies and boosting growth, both through expanding the private sector and policy dialogue. Alongside the region’s governments, the Bank supports the growth of small and medium-sized enterprises (SMEs), boosting agribusiness, improving banking services, creating local capital markets and supporting renewable energy and energy efficiency. The EBRD’s Inclusion Strategy aims to open up economic opportunity to underserved groups including young people and women. Gender equality is emphasised, including through the Women in Business programme for entrepreneurs.

The EBRD also aids international efforts to tackle the refugee crisis resulting from civil war in Syria. It helps host countries in the region cope with the economic strains of large-scale migration and engage the private sector to provide sustainable livelihoods for local communities and refugees. The Bank is working on a pipeline of projects potentially worth €900 million, including EBRD finance and grant blending. And the Bank has initiated investments in the private sector and infrastructure projects to support refugee-hosting communities in Jordan and Turkey. Here, too, expanding economic inclusion is a priority.

The EBRD is consolidating its physical presence in the SEMED region. Permanent EBRD offices were opened in Tunis and Amman in 2013, Cairo in 2014 and Casablanca in April 2015. The Bank engaged in the West Bank and Gaza in May 2017 for an initial period of five years. And Lebanon became a country of operations in September 2017.

The first EBRD SEMED Business Forum was held in Morocco in 2015.
OUR WORK IN THE SOUTHERN AND EASTERN MEDITERRANEAN

Sustainable energy
Engaging with the private sector, the EBRD is leading a shift to renewables. Projects financed by the Bank in its countries of operations have created well over 1GW of capacity to date.

Regional reach
We opened additional offices in Alexandria, Sfax and Tangiers to better serve regional markets. The new offices will focus on reaching small businesses.

Inclusive economies
Through financing, advice and support we are building economies that work for all – especially youth and women. More inclusive economies create employment opportunities, especially in small businesses, and underserved regions.
Expanding horizons
Earlier this year, the EBRD started its operations in Lebanon and in West Bank and Gaza. Building on strong entrepreneurial traditions, our goal is to strengthen the private sector.

EBRD Annual Meeting 2018
In May 2018, business leaders, officials and stakeholders will gather in Jordan to discuss Energising Economies. Find out more and register: www.ebrd.com/am

SEMED IN NUMBERS
€5.7 bn
Total Bank Investment
74%
Private sector share of investment

ACTIVE PORTFOLIO
%
1 Financial Institutions ......................... 23
2 Energy ................................................. 30
3 Industry, Commerce and Agribusiness .... 17
4 Infrastructure ...................................... 30

TOTAL BANK INVESTMENT
€ million
1 Egypt .................................................. 3,034
2 Jordan ............................................... 917
3 Morocco ............................................. 1,399
4 Tunisia ............................................... 374

As of October 2017
Countries across the world must ensure that they deliver energy that is secure, affordable and sustainable. Egypt, faced with rising energy demand and a dependence on hydrocarbons, but also possessing world class wind and solar resources, is at the forefront of meeting that challenge.

Egypt has adopted an ambitious goal of sourcing 20 per cent of its electricity from renewables by 2022, and plans to rely on the private sector for the money, innovation and resource that this requires. In November 2017 the first wave of this investment will begin when construction starts on more than 25 solar projects located on a vast desert site near Benban in Upper Egypt. When complete this will be one of the largest solar-generating plants in the world, with a capacity of 1,800 MW. Investments are worth more than US$ 2 billion. The EBRD is leading the way in supporting these investments, with a plan to invest more than US$ 350 million in 2017 to support 750 MW of new solar capacity. The Bank has also mobilised more than US$ 150 million from the Green Climate Fund (GCF), as well as partnering with a range of co-financiers and investors.

Egypt has adopted an ambitious goal of sourcing 20 percent of its electricity from renewables by 2022

Harry Boyd-Carpenter, Director, EBRD Head of Power and Energy, called the move "a major milestone" and "a tribute to the Egyptian government’s sustained commitment to making the best use of their abundant solar and wind resources to move to a more diverse and sustainable energy sector.” Elsewhere in the SEMED region the EBRD has already financed wind and solar projects in Jordan and Morocco worth €700 million. In Jordan, the Bank has financed eight large-scale renewable projects with a combined capacity of nearly 300 MW.

The first of 16 projects -- expected to reduce carbon dioxide emissions by 900,000 tonnes a year -- were signed in August, with the rest expected to follow in September and October.

The Bank has also launched a framework blending EBRD lending with climate financing to support private renewable projects that are particularly innovative or challenging in their structure in the region. •
In Morocco, extreme water scarcity is being exacerbated by the impact of climate change, and the unsustainable use of groundwater is leading to a reduction in groundwater reserves, posing a severe threat to agricultural production and rural livelihoods. The Saïss aquifer has been particularly overexploited in the last 15 years. Stopping its depletion and restoring its level has been a priority. In this context and to help protect the country’s agricultural sector from the impact of climate change, the Saïss Water Conservation Project was launched.

In June, the EBRD provided a €120 million sovereign loan and succeeded in mobilising a substantial co-financing grant amounting to €32 million from the Green Climate Fund (GCF). The GCF is a unique global initiative responding to climate change by investing in low-emission and climate-resilient development.

It was established by 194 governments to limit or reduce greenhouse gas emissions in developing countries and to help adapt vulnerable societies to the impacts of climate change.

The Bank’s investment in this project aims at improving climate resilience by supporting the development of a transformative water transfer scheme that will deliver more than 100 million cubic metres of irrigation water from the M’Dez dam to the Saïss plain each year. It will thus enable a significant switch from highly unsustainable groundwater to the use of sustainable surface water resources, as well as improving access to best practice and efficient irrigation techniques.

Through this project the EBRD is also fostering greater private-sector involvement and is contributing to the development of agriculture in the country, a key sector in Morocco that provides about 40 per cent of total employment.

Lastly, the project is also an opportunity to bolster community involvement in water governance by scaling up technical skills and institutional capacities and promoting private sector involvement in the adoption of improved, modern irrigation infrastructure and equipment. This will increase the efficiency of water use and services and promote drip irrigation and modern water demand management methods, strengthening the capacity for climate change adaptation in the Sebou-Saïss basin.
A key element in the EBRD’s ability to start in a new region in 2011 was donor-funded activities to support southern and eastern Mediterranean countries. These activities laid the foundations for the full-scale investments that followed.

Once shareholders had mandated the expansion of operations to Egypt, Jordan, Morocco and Tunisia, the EBRD set out a three-phase programme supported by donors. The first phase was to identify and prepare investment projects, building prospective clients’ capacity and fostering cooperation with other institutions.

The second phase used the EBRD Shareholder Special Fund to implement early investment operations before the final phase (requiring shareholder ratification) launched full-scale activities.

Today, donor-funded activities support the small business, agribusiness and power sectors. In one example, the EBRD and donors back the Moroccan government’s plan to bring 24/7 electricity to over 1,200 villages for the first time.

The development of energy efficiency and renewable energy is another focus. Donor funding helps strengthen national energy regulators, implement tariff reforms to deter wasteful consumption and support affordability studies. A further donor focus is promoting gender equality and civil society, helping consolidate democracy.

Donor funding also supports the development of fiscal decentralisation plans and provides technical assistance for transport and municipal projects. Importantly, EBRD donors make significant contributions to efforts to tackle the refugee crisis caused by Syria’s civil war, helping host countries cope with the economic strains of large-scale migration and engaging the private sector to provide sustainable livelihoods for refugees.

The EBRD manages the SEMED Multi-Donor Account’s funds, contributed by Australia, Finland, France, Germany, Italy, the Netherlands, Norway, Sweden, Taiwan China and the United Kingdom, and the resources of the Shareholder Special Fund and SEMED cooperation funds account, which are dedicated to donor activities in the region from its own net income. The European Union, the Global Environment Facility and the Climate Investment Funds also help strengthen the region’s economies, as well as tackling the transition to a greener economy.

Donors and shareholders have contributed more than €270 million in technical cooperation and instruments such as risk sharing and capital grants, for specific investments.

Testimonials

Michael A. Köhler, Director Neighbourhood, Directorate-General for Development Cooperation, European Commission, said:

“Ever since the EBRD started its activities in Europe’s Southern Neighbourhood, the EU has contributed around €200 million to EBRD-operated projects in sustainable growth through major joint investments in the energy sector, in the green economy and to private sector development. These investments are the results of an excellent cooperation between our two institutions, based on common values, common objectives and a continuous dialogue on country and sector challenges.”

Chedly Ayari, Governor of the Central Bank of Tunisia, said:

“In the last few years, the EBRD has been an important partner in developing and strengthening the financial sector in Tunisia, through both its financing and technical assistance to financial institutions, as well as its support to key reforms, particularly in supporting the legal framework for the creation of a deposit guarantee fund, improving the regulatory environment to facilitate NPLs resolution, developing the non-banking financial sector and deepening capital markets.”

Image: Chedly Ayari, Governor of the Central Bank of Tunisia By Ashoola via Wikimedia Commons
Responding to the refugee crisis in the region

In Jordan, the EBRD has worked since 2014 on responding to the refugee crisis resulting from the war in Syria.

A municipal infrastructure investment framework, covering Jordan and Turkey (and now Lebanon), allows the EBRD to help improve services such as wastewater and solid waste handling.

“The strain on the wastewater network was very high even before the influx of 1.3 million Syrians. We have been working with the Ministry of Water and Irrigation to increase the capacity of the network,” explained Esther Griffies Weld, EBRD Associate Banker in Amman.

The municipal framework allows an unusually high proportion of grants – up to 85 per cent – in effect enabling donors to support the government to provide affordable basic services. This reflects the needs of the vulnerable, who have little ability to pay for services.

The EBRD has financed two large pipelines taking wastewater to the country’s biggest treatment plant at As-Samra, which serves half the population. In Irbid, Jordan’s second-largest city, a project under preparation will create a network for first-time wastewater connections for 100,000 people.

Expanding access to finance is another priority. A US$ 4 million facility with a microfinance institution, MicroFund for Women, has for two years provided small loans to Jordanian women entrepreneurs. In 2017, the facility was replicated with an extra US$ 2 million: in a first for banks and microfinance institutions, this is available to refugees, including Syrians. This is important, says Ms Griffies Weld, because there are many women-led households, especially among Syrians, and “a huge need for women to generate their own livelihoods.”

Among economic inclusion programmes, an EBRD-financed mall in Amman’s Abdali development included a training centre for young Jordanians wanting to work in its shops and hotels. The centre is now also open to Syrians, the first of whom have found jobs.
Olive oil is a strategic sector of the Tunisian economy, with the country being in the top five exporters of olive oil worldwide. The sector accounts for 57 per cent of Tunisia’s agricultural output, 45 per cent of its agricultural exports, and 6 per cent of the country’s total exports, making it a large source of hard currency for the country.

Olive oil’s history in the country dates back to the ancient Phoenicians, founders of Carthage. Since then, throughout Mediterranean history, the Carthaginians, Romans, Arabs and all other civilisations that have dominated the region have passed down cultivation know-how from one generation to the next.

Right after starting operations in Tunisia, the EBRD financed its first corporate sector project in 2012 with Borges, an international olive oil player with a strong footprint in Tunisia (€15 million). The working capital financing facility was then renewed in 2015 following three years of successful cooperation with Borges. A third financing was subsequently signed with Sovena Group, the world’s largest private label supplier of olive oil, for €5 million. Other projects are being considered in the sector with both Tunisian and international sponsors.

The EBRD has also established a policy dialogue by preparing a detailed olive oil sector study, which was conducted under the Private Sector for Food Security Initiative and implemented under a framework shared between the EBRD and the UN’s Food and Agriculture Organization (FAO). The well-received study was presented in a workshop with the Tunisian authorities and other private sector players in November 2014.

Building on the study’s success, the EBRD has fostered further policy dialogue engagement through the creation of a working group of stakeholders in the Tunisian olive oil sector, grouping farmers, mills, bottlers, exporters, ministry representatives, the EBRD and the FAO. Another initiative is the development of an action and recommendations plan for submission to the Tunisian government. Following the study, a second technical cooperation programme was launched. This focused on the sharing and disseminating of skills for farms, through the transfer of best agricultural practices to Tunisian olive farmers.

GROWING TUNISIA’S OLIVE INDUSTRY
youtu.be/HI6KBpIOQVU
In 2017, the EBRD developed two new relationships in the SEMED region. In May, the Board of Governors approved engagement in the West Bank and Gaza to support developing the economy with investments through trust funds. In September, the Bank announced that investments would begin shortly in Lebanon.

As SEMED Managing Director Janet Heckman said: “Our entry into Lebanon and West Bank and Gaza raises by 50 per cent the number of territories we work in.”

In Lebanon, the EBRD will soon establish an official representation. In the West Bank and Gaza, it will operate from Amman.

“We are excited to start operations,” said Amman-based Director, Regional Head of Eastern Mediterranean, Heike Harmgart: “We see many opportunities for SME support, renewable energy, energy efficiency and tourism. We are looking to replicate part of the successful Jordan story in the broader Levant region.”

“These two areas are particularly interesting. Both have a rich entrepreneurial culture, a high education level and a prominent diaspora investing funds,” said Janet Heckman.

On the EBRD’s broader future, Ms Heckman added: “I see SEMED as the EBRD’s engine of growth. We have very quickly geared up in four operational years. We have become one of the largest investors nearly everywhere we work. In Jordan we are the largest investor. In Egypt this year we will be at a credible scale in excess of €1 billion.”

The EBRD’s growing role is particularly evident in Egypt, she said. “Egypt’s government has for 12 months pursued a dramatic economic reform agenda including the removal of subsidies; switching from a fixed currency to inflation targeting; and consolidation of a new investment law to attract foreign investors. We have worked hand in hand with the government on these types of initiatives to help reform the economic landscape. Going forward, we will support a Foreign Investment Council in Egypt as a communication channel between private investors and the authorities.” The Bank is also establishing direct links with secondary cities and recently opened an Alexandria office, the first outside Cairo for an international financial institution (IFI).

“IN EGYPT THIS YEAR WE WILL BE AT A CREDIBLE SCALE IN EXCESS OF €1 BILLION”

“The kind of work we do in opening up the economy, in encouraging private enterprise, is critical. So is our work on inclusion.”

“It is in SEMED there are huge opportunities for policy dialogue, and much in common with our traditional countries of operations 20 years ago – a very regulated system, currency controls. The kind of work we do in opening up the economy, in encouraging private enterprise, is critical. So is our work on inclusion.”

Janet Heckman EBRD Managing Director Southern and Eastern Mediterranean (SEMED)