We invest in changing lives
The Bank’s 2012 Sustainability Report

This Sustainability Report has been prepared using the framework of the Global Reporting Initiative (GRI) G3 Indicator protocols and the GRI Financial Sector Supplement. The Bank has self-declared a “B” rating according to the GRI application levels shown at www.ebrd.com/gri. The GRI Content Index is also published at the same address.

Front cover: Tajik woman participating in a local festival, Tajikistan.
INTRODUCTION

Environmentally sound and sustainable development is central to the EBRD’s activities. This Report looks at three vital elements of the Bank’s contribution to sustainability – Assurance, Impact and Engagement.

All EBRD-financed projects must meet rigorous environmental and social standards in accordance with the Bank’s Environmental and Social Policy and are subject to detailed due diligence and monitoring. In this way the EBRD provides Assurance to its shareholders, management, and other stakeholders that the Bank’s projects will contribute to sustainable development and avoid or minimise environmental and social risks.

The Bank aims to achieve Impact by integrating sustainability into its investment strategies, departmental scorecards, due diligence standards, portfolio supervision systems and technical assistance. This forms an important part of the value that it brings to its clients and countries of operations, as well as delivering a high level of environmental and social quality assurance.

The Bank places a strong emphasis on Engagement with stakeholders and is an active participant in international sustainability initiatives and policy development. The EBRD also operates a robust independent complaints mechanism.

In this way, the EBRD seeks outcomes that not only protect and benefit society and the environment, but which also promote transition to market oriented economies and more democratic, pluralistic societies. Helping clients to manage environmental and social risk, improve energy efficiency, increase female participation in the workforce or involving community groups in project development are fully aligned with the EBRD’s central mandate and purpose.

Suma Chakrabarti
EBRD President
WHAT WE DO

CHANGES LIVES

The EBRD is investing in changing people's lives from central Europe to central Asia and the southern and eastern Mediterranean. Working primarily with the private sector, we invest in projects, engage in policy dialogue and provide technical advice that fosters innovation and builds sustainable and open market economies.
ASSURANCE

The Bank’s policies, procedures and management systems for environmental and social issues continued to deliver a high standard of assurance in 2012 through robust due diligence of new projects and effective monitoring of portfolio quality.

THE BANK’S POLICIES AND PROCEDURES

The Bank’s Environmental and Social Policy requires that all projects are assessed, structured and monitored to ensure that they are environmentally and socially sustainable, respect the rights of affected workers and communities, and are designed and operated in compliance with applicable regulatory requirements and international good practice. This Policy works in conjunction with other Bank policies – particularly the Public Information Policy and the Project Complaint Mechanism – to provide a high level of assurance, transparency and accountability.

The Bank’s Environmental and Social Policy – last updated in 2008 – will be the subject of a periodic review in 2013. Other important policies that are also scheduled for review in 2013 include the Public Information Policy and the Project Complaint Mechanism. Stakeholder consultation will form an important part of these reviews.
Environmental and Social Category

<table>
<thead>
<tr>
<th>Category</th>
<th>€m</th>
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<th>No. of projects</th>
<th>% by no. of projects</th>
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The environmental and social category – A, B, C or FI (Financial Institution) – reflects the potential impacts associated with a proposed project and determines the nature of the environmental and social appraisal, information disclosure and stakeholder engagement required.

ENVIRONMENTAL AND SOCIAL MONITORING OF THE PORTFOLIO IN 2012

Clients are required to report to the EBRD at least once a year on their environmental and social performance and the implementation of their Environmental and Social Action Plan (ESAP). Across the portfolio, 95.2 per cent of projects have fulfilled this environmental and social reporting requirement within the last two years.

At the start of 2012, the EBRD’s portfolio included 50 Category A projects. Based on monitoring and supervision during the year, 86 per cent of these projects were considered by the Bank to meet or exceed our environmental and social requirements. We provide enhanced supervision and assistance for projects that currently do not fully meet the Bank’s requirements.
The R1 motorway in the Slovak Republic is an important transport link and a key section of the European road corridor E58. The project includes construction of a total of 52 km of highway. The total cost of the project is approximately €1.3 billion, of which the EBRD is providing €200 million via a loan to Granvia, which holds the 30-year concession to build, finance, operate and maintain four sections of the R1. Effective monitoring and supervision by the EBRD since approval in 2009 confirms that the project meets applicable environmental and social standards and Granvia’s commitment to good practice.

Granvia’s commitment to EHS and community awareness included interactive training ‘Alive on Site’ for all R1 on-site workers; measures to protect birds agreed with the local nature conservation authority; and routine stakeholder engagement activities with the public and relevant authorities. Granvia has a grievance mechanism in place and the Bank’s monitoring confirms that problem-solving initiatives following complaints were effective. A transport management plan was developed for the project to cover a range of risks both on and off-site, including effective control measures to reduce the risk of traffic incidents such as radar speed signs located on local community roads used by R1 construction traffic to access work fronts.

The EBRD’s experience with projects such as R1 underlines the importance and value of open discussion and frequent reporting on EHS issues, enabling all parties to understand the constraints of the work programme and to anticipate and respond to challenges on site.
In June 2012, the EBRD committed to a loan of up to €200 million to fund a key section of an important new toll road that will bypass the historic centre of St. Petersburg. It joined four other banks in raising a total of nearly 59 billion roubles (equivalent to €1.5 billion) for a project which could divert up to 140,000 vehicles a day from this World Heritage site.

The WHSD is a by-pass motorway, designed to relieve pressure from the road network and improve passenger and cargo flow by connecting the city’s major commercial port with the St. Petersburg Ring Road in the south and with the Scandinavia motorway to Finland in the north. The motorway will have a total length of 46.6 km, with four to eight lanes (depending on the section), 14 traffic interchanges and with estimated daily traffic of over 100,000 vehicles.

The Environmental and Social Impact Assessment (ESIA) for the project was prepared to international standards. It focused on the impact of the construction of the central section, as well as reviewing the environmental and social impacts of constructing the southern and northern sections of the motorway. The ESIA demonstrated that the potential impacts on residential areas, such as noise and air quality, could be effectively mitigated by noise screens and improved road layout. The road is planned to be built in an open trench/tunnel through much of Vasilievsky Island, which will prevent visual blight and reduce significant noise and atmospheric pollution.
The EBRD invested €8.9 billion in new projects in 2012, helping clients achieve a wide range of positive environmental and social outcomes, from the introduction of best practice management systems or improved energy efficiency, to social protection for affected communities or increased economic empowerment of women.

ENERGY AND CLIMATE CHANGE

The EBRD addresses climate change and energy efficiency through its Sustainable Energy Initiative (SEI). The SEI aims to scale up sustainable energy investments, improve the business environment for sustainable energy investments, and develop effective measures to address key barriers to market development. In 2012 the Bank’s SEI financing volume reached €2.28 billion, with a total project value of €13.9 billion. In a challenging environment, SEI investments accounted for 26 per cent of the Bank’s total annual business volume in 2012. Sustainable energy was a feature in 35 per cent of new projects signed by the Bank in 2012, with investments being made across a broad range of sectors and countries.

The year 2012 was a milestone for SEI, as the financing volume since its launch in 2006 reached €10 billion as at the end of October. This corresponds to more than 550 projects and a total project value of about €55 billion. The cumulative emission reductions resulting from SEI investments since its start in 2006 are estimated at about 50 million tonnes per year, once all of the investments are implemented and operational.

CLIMATE ADAPTATION

In 2012, the Bank continued to expand its adaptation projects further. In doing so, the EBRD finances “hard” adaptation measures (including physical modifications and additional infrastructure/technology) and also supports “soft” adaptation measures (such as adaptive management to provide improved flood or hydrological monitoring and emergency response plans).

BOSNIA AND HERZEGOVINA: FINANCING ADAPTATION IN THE PULP AND PAPER INDUSTRY

In 2012 the EBRD financed the €11 million rehabilitation of Natron Hayat, a pulp and paper factory located in Maglaj, in central Bosnia and Herzegovina. This is a highly water-intensive industry, in a region where surface run-off is projected to decrease by 12.5 per cent by 2050 and by 19 per cent by 2100. The preparation of this investment included an energy and water use audit, which was funded through the EBRD-Western Balkans Fund and aimed at identifying efficiency opportunities for both energy and water that could be implemented in connection with the company’s investment plan. This included a water availability stress test using climate scenarios up to 2050. The investment programme developed should result in water savings of 6.3 million m³ per year, to be achieved through water recycling and loss reduction.

MOROCCO: ENHANCING ENERGY EFFICIENCY FOR AN OIL PRODUCER

The EBRD is financing the construction of a €2.5 million biomass boiler for Lesieur Cristal, the leading edible oil producer in Morocco. The biomass boiler will contribute positively to the company’s goals of energy cost optimisation and sustainability, thereby improving the energy efficiency and overall profitability of its operations and will avoid annual emissions of 12,700 tonnes of CO₂. In addition, the EBRD will deliver an energy and water efficiency audit for Lesieur Cristal within the framework of the Bank’s regional Energy Audits Programme to help identify other areas of potential improvements.
GREENHOUSE GAS ASSESSMENT RESULTS 2006-2012
AGGREGATE CHANGE IN CO₂E (M TONNES)

<table>
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<td>-6.1</td>
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<tr>
<td>2012</td>
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</table>

GREENHOUSE GAS ASSESSMENT 2012
The GHG Assessment methodology is applied only to projects that have been identified as having a significant GHG impact (either positive or negative).

Out of 380 commitments signed by the Bank in 2012, 31 projects met the criteria for inclusion in the GHG Assessment. The remaining projects were reviewed and estimated to be below the Bank’s screening threshold of 20kT CO₂e per year. The EBRD estimates that the projects above this threshold contribute 80-90 per cent of total GHG emissions or savings.

The overall impact of these 31 projects is expected to be a net change in GHG emissions of approximately 2.0 million tonnes of CO₂ per year.

This is an ex-ante estimate of carbon savings that will be achieved in the future once the projects have been implemented. The actual carbon savings that are realised in practice may be higher or lower than the estimates calculated under the GHG Assessment methodology.

This is the tenth year that the EBRD has published GHG forecasts and the seventh consecutive year that the overall impact of our investments has been a net GHG saving.
WATER AND WASTE MANAGEMENT

Investments in water and wastewater are important elements of the Bank’s operations in the municipal and environmental infrastructure (MEI) sector, which accounted for €228 million of the Bank’s new business in 2012.

Throughout 2012, the EBRD continued to develop innovative projects, deliver policy dialogue successes and expand support for small and medium-sized municipalities, with a strong focus on those countries with the greatest need, particularly in Central Asia, the Western Balkans, Russia and SEMED. The Bank’s financing mobilises significant additional investment, particularly from the EU Cohesion Funds.

The Bank updated its MEI Strategy in 2012. The new strategy underlines the EBRD’s commitment to deliver tangible benefits to communities across the region, including increased emphasis on integrating policy dialogue alongside investment; more robust measuring of progress achieved towards sustainability; a greater focus on climate resilience; and the mainstreaming of gender and inclusion considerations in project design.

ARMENIA: PROTECTING LAKE SEVAN’S WATERS

The EBRD is helping people living around Lake Sevan, Armenia’s major water basin, to preserve their environment and health with a much-needed upgrade of wastewater services.

Since the Soviet era, profligate use of the lake’s water for irrigation and electricity generation had caused the level of the lake to drop by 20 metres, with dramatic consequences for the natural environment. Today, thanks to a rescue plan, the water level is rising again, giving hope that the lake can regain its original shape.

To help the Armenian government bear the high costs of a wastewater system upgrade in five municipalities around the lake, the EBRD has provided a €7 million loan and the European Union has contributed a €5 million capital expenditure grant. The project includes sewer pipe repairs in the Sevan and Jermuk area and construction of sewer networks and wastewater treatment plants to serve the towns of Gavar, Vardenis and Martuni.

THE EBRD HAS PROVIDED A €7 MILLION LOAN AND THE EUROPEAN UNION HAS CONTRIBUTED A €5 MILLION CAPITAL EXPENDITURE GRANT.
COMMISSION FOR GLOBAL ROAD SAFETY

In 2012, the Bank hosted the Annual Meeting of the Commission for Global Road Safety. The aim of the Commission is to make road safety issues a priority for governments and international organisations.

The Bank signed an MoU with the International Road Assessment Programme (iRAP) at the Annual Meeting, underscoring its commitment to invest in road projects that meet recognised safety standards. Plans were outlined to engage further with private sector clients to develop public awareness and road safety campaigns.

As one example, the EBRD Republic of Serbia Rehabilitation and Safety Project (to be signed in 2013) will finance the rehabilitation of 2,500 km of roads, with explicit road safety targets, and plans to identify a private sector partner to fund a targeted road safety awareness campaign.

MAKING ROADS SAFE ACROSS THE REGION

Road safety in the EBRD’s region is a major problem, with some 50,000 annual fatalities and 500,000 casualties. The socioeconomic cost of road accidents is also a very real factor for the victims and their families.

The EBRD is trying to improve road safety investments in road infrastructure that meet best practice standards. Road safety considerations are an important and integral component of the project preparation and due diligence process for all Bank-financed transport projects. In addition, the Bank operates road safety technical cooperation programmes which can deliver targeted support – such as training – where it is needed.
GENDER: PROMOTING GENDER EQUALITY AND EMPOWERMENT

The EBRD’s work on promoting gender equality is a good example of how social sustainability can align with the transition to open, market-oriented economies. Increasing economic opportunities for women will not only improve the lives of those who benefit directly from those opportunities, but will also increase availability of labour and enhance the skills base in transition economies.

The EBRD launched a Gender Action Plan (GAP) in 2009 to: “promote equality of opportunity and women’s empowerment through its projects and seek to prevent gender discrimination and mitigate inequalities”.

The EBRD is now developing its first Gender Strategy, building on the lessons learned over the last three years and intended to significantly increase this aspect of the Bank’s transition impact. The main purpose of the strategy is to assess existing gender gaps both in countries of operations and the potential recipient countries of EBRD operations in SEMED, and identify how the Bank can help to address these gaps through its projects, technical assistance and policy dialogue. The Gender Strategy is expected to focus on three key themes: access to employment, access to finance, and access to services and will be agreed in the first half of 2013.

YAPI KREDIT BANK (YKB) SME ASSET-GUARANTEED BOND

The Yapi Kredi Bank (YKB) SME Asset-Guaranteed Bond (approved in 2012) is one of the first and most recent examples of successful efforts to promote women entrepreneurship in Turkey. The Bank’s investment will be used to expand YKB’s SME lending operations to finance (1) SMEs operating in agribusiness in the priority regions and (2) SMEs which are managed or owned by women. The EBRD will help YKB to establish a sub-SME segment, reaching the underserved women-managed and owned SMEs and effectively “mainstreaming” gender into the Bank’s operations. The Women in Business (WiB) initiative that the Bank has proposed will enhance YKB’s internal capacity to identify women-owned and managed businesses specifically in the agribusiness sector as well as in more general SMEs and increase their share in YKB’s loan portfolio. This will be achieved through enhancement of the IT system, data analysis, business advisory services and support in developing dedicated products and/or more general products/approaches that would overcome some of the barriers faced by women entrepreneurs in accessing credit.

TURKEY: ENCOURAGING WOMEN’S ENTREPRENEURSHIP

A recycling centre that earned Serbia’s capital Belgrade a top award from the Council of Europe for promoting social protection for Roma people was brought into the limelight by the visit of a high-profile international delegation, headed by the UN’s Secretary General Ban Ki-Moon.

The EBRD has played a key role in placing the issue of Roma people high up on the city’s agenda, when it agreed to finance the roads surrounding Belgrade’s Gazela Bridge, alongside the European Investment Bank, which financed the reconstruction of the crumbling bridge. The project included an important social component aimed at resettling and restoring the livelihoods of 175 Roma families that used to live under the bridge.

In addition to offering temporary alternative accommodation to Roma families, the international community and Belgrade authorities worked together to provide them with personal identification documents that many Roma people did not possess. This ensured that their basic civil rights were protected and that they had access to social services, such as education and health care. Over 90 per cent of the children are now attending school in Belgrade.
SUSTAINABILITY IN SEMED

The southern and eastern Mediterranean (SEMED) is the latest region in which the Bank is working to boost economic and democratic change. Egypt, Jordan, Morocco and Tunisia have all asked to become EBRD countries of operations, requests which will require the Bank’s founding articles to be ratified accordingly.

The EBRD’s shareholders approved the creation of a €1 billion special fund to launch investments in the four countries at its Annual Meeting in London in May 2012. The first investments in Jordan, Tunisia and Morocco were given the go-ahead in September 2012. Eventually, the EBRD expects to be able to invest up to €2.5 billion a year in the region.

Environmental and social sustainability issues were an integral part of the Transition to Transition Initiative during 2012, a framework within which the EBRD is facilitating and developing a peer-to-peer exchange of transition and reform experience between the Bank’s current countries of operations and countries of the SEMED region. Events have so far taken place in Egypt and Tunisia, with events in Morocco and Jordan to come, involving in-depth discussion on key sustainability issues such as food security, water scarcity, climate adaptation, sustainable energy financing, gender and inclusion.

ENVIRONMENTAL SUSTAINABILITY BONDS

The EBRD funds its lending operations primarily through the issuance of bonds on the international capital market. The Bank’s debt instruments take the form of Eurobonds, global bonds and domestic issues in selected markets. In 2012, the Bank’s total issuance under the borrowing programme amounted to €6.3 billion.

The Bank issued two new “Environmental Sustainability Bonds” in 2012, targeted at Japanese retail investors. The bonds are denominated in Indonesian Rupiah (IDR 61 billion each), pay a fixed rate of interest monthly and mature in 2016. In total, the EBRD has now issued eight green bonds for an equivalent of €125 million.

NUCLEAR SAFETY

The EBRD plays a prominent role in promoting nuclear safety in central and eastern Europe, working in close collaboration with donor governments and other international agencies. The EBRD manages six donor funds providing support to enhance nuclear safety. Some 30 donors, including the G8 countries and the European Commission, have pledged more than €3 billion so far to funds that include:

- the Nuclear Safety Account (NSA)
- the Chernobyl Shelter Fund (CSF)
- three international decommissioning support funds for Bulgaria, Lithuania and the Slovak Republic
- the “Nuclear Window” of the Northern Dimension Environmental Partnership Support Fund (NDEP).

UKRAINE: ENSURING SAFETY AT CHERNOBYL

A major step towards ensuring the long-term safety at Chernobyl Nuclear Power Plant has been achieved with the successful completion of the first lifting stage of the New Safe Confinement.

When fully assembled the New Safe Confinement structure will have a span of 257 metres, a length of 164 metres, a height of 110 metres and a weight of 29,000 tonnes. It will then be slid over the Object Shelter covering the destroyed Unit 4 of the Chernobyl Nuclear Power Plant. During the initial lifting operation around 5,000 tonnes of steel was raised to a preliminary height of up to 22 metres. The successful implementation of the New Safe Confinement will both significantly reduce the risk of further radiological contamination, and provide equipment and facilities to address the challenges of long term deconstruction of the Object Shelter and its inventory.

The New Safe Confinement contract is funded through contributions by over 40 donor nations to the EBRD Chernobyl Shelter Fund. The Fund is expected to disburse around €1.54 billion in support of the Shelter Implementation Plan. It is expected that the New Safe Confinement, which will cost about two-thirds of this amount, will be completed in 2015.
The Bank held dialogue with over 400 civil society organisations in 2012 and played an active role in environmental and social policy and international cooperation, both in its countries of operations and at the global level. Open and transparent engagement with civil society, local communities and other stakeholders is an important aspect of the EBRD’s mandate to promote the transition to democratic, pluralist and market-oriented economies.

ENAGENG WITH CIVIL SOCIETY
As part of our commitment to democracy and good governance, we believe that open and inclusive dialogue with a wide range of external stakeholders is fundamental to achieving sustainable development. The EBRD’s engagement with civil society in 2012 broadly covered the impact of the Bank’s operations in countries from central and eastern Europe to central Asia and the southern and eastern Mediterranean (SEMED).

In 2012 over 1,900 civil society organisations (CSOs) were registered with the EBRD and over 400 CSOs participated in thematic meetings with the Bank’s staff.

The 2012 Civil Society Programme held at the London Annual Meeting (17-19 May) saw the participation of around 60 civil society representatives from the Bank’s countries of operations as well as the SEMED region. The main focus included the expansion into the SEMED region, political aspects of the EBRD mandate, energy sector investments and the EBRD’s first Mining Operations Policy.

INTERNATIONAL COOPERATION AND POLICY AND DIALOGUE
The EBRD maintains regular dialogue with other multilateral development banks (MDBs), UN agencies and international organisations on a range of key issues, including environmental and social matters.

The Bank participated in several MDB working groups in 2012. Key meetings and initiatives included cooperation on the development of common MDB protocols for tracking finance in the climate mitigation and climate adaptation spheres; improving the methodologies used by MDBs for GHG assessment; and strengthening systems for the evaluation of Climate Investment Funds. The EBRD is also actively involved in work to strengthen the gender component of the Climate Investment Funds, and currently chairs the MDB working group on gender and employment.
SUPPORTING SUSTAINABLE DEVELOPMENT AT RIO+20

The United Nations Conference on Sustainable Development – or Rio+20 – took place in Rio de Janeiro, Brazil on 20-22 June 2012 under the theme “The Future We Want”. Among the key outcomes, member states decided to launch a process to develop a set of Sustainable Development Goals, which will build upon the Millennium Development Goals and converge with the post-2015 development agenda, and also adopted important new guidelines on green economy policies.

A joint statement from the EBRD and other MDBs highlighted a number of priority topics for the core green growth agenda, including climate change, ‘sustainable energy for all’, sustainable cities, sustainable transport, food security and ‘water for all’.


COLLABORATING WITH PARTNERS TO STRENGTHEN THE CLIMATE INVESTMENT FUNDS

The EBRD is one of the five multilateral development banks that work with the US$ 7.2 billion Climate Investment Funds (CIF) to channel financing to developing countries for the mitigation and management of the challenges of climate change.

In implementing CIF-financed projects, MDBs are collaborating as never before with each other, governments, and other key stakeholder groups. Leveraging the strengths of each group, these partnerships are developing and demonstrating new instruments, approaches, and practices for sustainable, low carbon and climate resilient pathways that advance the development objectives of governments and communities.

The EBRD’s role in the CIFs goes beyond the level of investment projects, and the Bank has been actively involved in a number of strategic and policy initiatives during 2012 in collaboration with other CIF partners. In November 2012, for example, the EBRD partnered with the Climate Investment Fund (CIF) to co-host the 2012 Partnership Forum in Istanbul, and played an active part in the Civil Society Observers Forum that preceded the main meeting. The EBRD is also closely involved in policy dialogue initiatives focusing on the gender dimension of the CIFs, with the aim of improving the way the CIF projects are structured, implemented and evaluated with regard to equality of opportunities for both men and women.
RECOGNISING EXCELLENCE AT THE EBRD’S SUSTAINABILITY AWARDS

The EBRD’s Sustainability Awards took place during the Bank’s Annual Meeting in London in May. The award for Excellence in Sustainable Energy and Climate Change went to Turkey’s DenizBank in recognition of its success in sustainable energy financing and to acknowledge the leadership demonstrated by DenizBank in becoming the first bank in Turkey to adopt the Equator Principles. The award for Excellence in Environmental and Social Performance went to the Irkutsk Oil Company, Russia, recognised for going well beyond EBRD requirements and taking a ‘best practice approach to a number of key issues, including stakeholder dialogue, the management of associated gas, and its success in generating and selling carbon credits.