We invest in changing lives
The EBRD is investing in changing people’s lives and environments from central Europe to central Asia and the southern and eastern Mediterranean. Working together 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.

We provide funds for well-structured, financially robust projects of all sizes (including many small businesses), both directly and through financial intermediaries such as local banks and investment funds.

The Bank works mainly with private sector clients, but also finances municipal entities and publicly owned companies. Our principal financing instruments are loans, equity investments and guarantees.

We maintain close policy dialogue with governments, authorities, IFIs, and representatives of civil society, and provide targeted technical assistance using funds donated by member governments and institutions.

For more case studies, an organisation chart, a highlights timeline for 2012, a timeline of our SEMED involvement in 2012, and other items, please see the digital report, located at www.ar.ebrd.com.

Front cover: Mushroom factory worker, Rustavi, Georgia.
The EBRD’s Annual Report provides a comprehensive overview of the Bank’s activities and achievements in its region of operations over the past year.

The 2012 edition demonstrates that, amid economic turbulence and the deterioration of economies, the EBRD remains a strong, resilient and trusted partner in a region that stretches from central Europe to central Asia, the Western Balkans and the southern and eastern Mediterranean.

The report describes the transition impact of the Bank’s investments, projects and policy work, highlights its innovation in key sectors and geographical initiatives, and shows how the Bank continues to improve lives, environments and opportunities for sustainable growth in a challenging economic climate.
## EBRD ANNUAL BUSINESS VOLUME IN 2012¹
*(€ MILLION)*

### Central Europe and the Baltic states

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>210</td>
<td>158</td>
<td>2,749</td>
</tr>
<tr>
<td>Czech Republic²</td>
<td>0</td>
<td>0</td>
<td>1,137</td>
</tr>
<tr>
<td>Estonia</td>
<td>4</td>
<td>20</td>
<td>543</td>
</tr>
<tr>
<td>Hungary</td>
<td>75</td>
<td>124</td>
<td>2,663</td>
</tr>
<tr>
<td>Latvia</td>
<td>4</td>
<td>19</td>
<td>575</td>
</tr>
<tr>
<td>Lithuania</td>
<td>37</td>
<td>2</td>
<td>640</td>
</tr>
<tr>
<td>Poland</td>
<td>672</td>
<td>891</td>
<td>6,093</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>185</td>
<td>68</td>
<td>1,787</td>
</tr>
<tr>
<td>Slovenia</td>
<td>28</td>
<td>103</td>
<td>765</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,215</td>
<td>1,385</td>
<td>16,952</td>
</tr>
</tbody>
</table>

### South-eastern Europe

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>69</td>
<td>96</td>
<td>732</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>125</td>
<td>94</td>
<td>1,474</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>246</td>
<td>92</td>
<td>2,661</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>157</td>
<td>220</td>
<td>1,085</td>
</tr>
<tr>
<td>Kosovo³</td>
<td>5</td>
<td>N/A</td>
<td>66</td>
</tr>
<tr>
<td>Montenegro</td>
<td>39</td>
<td>43</td>
<td>323</td>
</tr>
<tr>
<td>Romania</td>
<td>612</td>
<td>449</td>
<td>6,110</td>
</tr>
<tr>
<td>Serbia</td>
<td>260</td>
<td>533</td>
<td>3,106</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,522</td>
<td>1,527</td>
<td>15,557</td>
</tr>
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</table>

### Eastern Europe and the Caucasus⁴

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>94</td>
<td>93</td>
<td>613</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>83</td>
<td>289</td>
<td>1,554</td>
</tr>
<tr>
<td>Belarus</td>
<td>185</td>
<td>194</td>
<td>1,049</td>
</tr>
<tr>
<td>Georgia</td>
<td>103</td>
<td>187</td>
<td>1,719</td>
</tr>
<tr>
<td>Moldova</td>
<td>102</td>
<td>69</td>
<td>733</td>
</tr>
<tr>
<td>Ukraine</td>
<td>934</td>
<td>1,019</td>
<td>8,148</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,500</td>
<td>1,851</td>
<td>13,817</td>
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</table>

### Russia

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>2,582</td>
<td>2,928</td>
<td>22,943</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,582</td>
<td>2,928</td>
<td>22,943</td>
</tr>
</tbody>
</table>

### Central Asia

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>374</td>
<td>289</td>
<td>4,588</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>16</td>
<td>66</td>
<td>414</td>
</tr>
<tr>
<td>Mongolia</td>
<td>419</td>
<td>62</td>
<td>690</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>46</td>
<td>28</td>
<td>285</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>14</td>
<td>23</td>
<td>172</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>2</td>
<td>3</td>
<td>741</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>871</td>
<td>470</td>
<td>6,891</td>
</tr>
</tbody>
</table>

### Turkey

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>1,049</td>
<td>890</td>
<td>2,576</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,049</td>
<td>890</td>
<td>2,576</td>
</tr>
</tbody>
</table>

N/A – not applicable

¹ “Annual business volume” – volume of commitments made by the Bank in the year to finance investment operations, including to restructured operations, less cancellations or sales of such commitments within the same year.

² Since 2008 the EBRD has not made any new investments in the Czech Republic.

³ Kosovo became an EBRD recipient country on 17 December 2012.

⁴ Formerly Western CIS and the Caucasus.

⁵ In May 2012, the EBRD Board of Governors allocated funds from the Bank’s net income to implement early investment operations. The Board of Governors also granted the four countries the status of potential recipient countries under Article 18 of the Agreement Establishing the Bank. Full-scale activities will be launched once the Bank’s founding Articles have been fully ratified.
In 2011 the EBRD launched donor-funded activities in the southern and eastern Mediterranean (SEMED) region, in support of the countries which are undergoing important political and economic reforms.

⁴ Since 2008, the EBRD has not made new investments in the Czech Republic.
2012 IN NUMBERS

EBRD ANNUAL BUSINESS VOLUME 2008-12
(€ BILLION)

2008: 5.1
2009: 7.9
2010: 9.0
2011: 9.1
2012: 8.9

GROSS ANNUAL DISBURSEMENTS 2008-12
(€ BILLION)

2008: 5.0
2009: 5.5
2010: 6.0
2011: 6.7
2012: 6.0
### EBRD ANNUAL BUSINESS VOLUME BY SECTOR 2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORPORATE(^7)</td>
<td>28%</td>
</tr>
<tr>
<td>ENERGY(^8)</td>
<td>20%</td>
</tr>
<tr>
<td>FINANCIAL INSTITUTIONS(^9)</td>
<td>32%</td>
</tr>
<tr>
<td>INFRASTRUCTURE(^10)</td>
<td>21%</td>
</tr>
</tbody>
</table>

\(^7\)Corporate comprises agribusiness, manufacturing and services, property and tourism and telecommunications.

\(^8\)Energy comprises natural resources and the power sector.

\(^9\)Financial sector includes investments in micro, small and medium-sized enterprises via financial intermediaries.

\(^10\)Infrastructure comprises municipal environmental infrastructure and transport.

For further detail on EBRD gross annual disbursements between 2008-12, visit: [www.ebrd.com](http://www.ebrd.com).
### OPERATIONAL RESULTS 2008-12

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects</td>
<td>393</td>
<td>380</td>
<td>386</td>
<td>311</td>
<td>302</td>
<td>3,644</td>
</tr>
<tr>
<td>Annual business volume</td>
<td>8,920</td>
<td>9,051</td>
<td>9,009</td>
<td>7,861</td>
<td>5,087</td>
<td>78,916</td>
</tr>
<tr>
<td>(€ million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-EBRD finance</td>
<td>17,372</td>
<td>20,802</td>
<td>13,174</td>
<td>10,353</td>
<td>8,372</td>
<td>155,644</td>
</tr>
<tr>
<td>(€ million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total project value(^{11})</td>
<td>24,871</td>
<td>29,479</td>
<td>22,039</td>
<td>18,087</td>
<td>12,889</td>
<td>235,387</td>
</tr>
</tbody>
</table>

\(^{11}\) “Total project value” is the total amount of finance provided to a project, including both EBRD and non-EBRD finance, and is reported in the year in which the project first signs. EBRD financing may be committed over more than one year with “annual business volume” reflecting EBRD finance by year of commitment. The amount of finance to be provided by non-EBRD parties is reported in the year the project first signs.

### FINANCIAL RESULTS 2008-12

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Realised profit for the year before impairment(^{12})</td>
<td>1,006</td>
<td>866</td>
<td>927</td>
<td>849</td>
<td>849</td>
<td></td>
</tr>
<tr>
<td>Net (loss)/profit for the year before transfers of net income approved by the Board of Governors</td>
<td>1,020</td>
<td>173</td>
<td>1,377</td>
<td>(746)</td>
<td>(602)</td>
<td></td>
</tr>
<tr>
<td>Transfers of net income approved by the Board of Governors</td>
<td>(190)</td>
<td>–</td>
<td>(150)</td>
<td>(165)</td>
<td>(115)</td>
<td></td>
</tr>
<tr>
<td>Net (loss)/profit for the year after transfers of net income approved by the Board of Governors</td>
<td>830</td>
<td>173</td>
<td>1,227</td>
<td>(911)</td>
<td>(717)</td>
<td></td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>6,202</td>
<td>6,199</td>
<td>6,197</td>
<td>5,198</td>
<td>5,198</td>
<td></td>
</tr>
<tr>
<td>Reserves and retained earnings</td>
<td>7,808</td>
<td>6,974</td>
<td>6,780</td>
<td>6,317</td>
<td>6,552</td>
<td></td>
</tr>
<tr>
<td>Total members’ equity (€ million)</td>
<td>14,010</td>
<td>13,173</td>
<td>12,977</td>
<td>11,515</td>
<td>11,750</td>
<td></td>
</tr>
</tbody>
</table>

\(^{12}\) Realised profit is before unrealised fair value adjustments to share investments, provisions and other unrealised amounts.

For further information on the EBRD’s financial results, refer to the Financial Report 2012.
2012 was a momentous year for the EBRD but also one that heralded the challenges lying ahead. The test of the Bank’s ability to respond was felt on two fronts: the difficult European economic environment; and the aftermath of the revolutions and evolutions in the Middle East and North Africa. In both cases, the Bank lived up to its reputation of providing a consistent and high-quality response. We continued to invest in changing lives when many private sector financial players had to hold back. Maximising our impact on the transition process remained our focus.

Despite the weak and turbulent economic conditions in many countries, the Bank stood firm in its commitment to provide the support necessary for building resilience and eventual recovery. We invested in nearly 400 companies and projects across our 30 countries of operations and our four potential recipient countries.

Our impact on transition stretched over a huge distance from Mongolia, through Russia, central and south-eastern Europe, Turkey and all the way to Morocco. The almost €9 billion of EBRD investment went into a wide range of sectors, reflecting our responsiveness to the needs of the market, as well as the Bank’s strategic priorities and long-term goal of promoting transition and reform. It is a record that the Bank can be proud of, at a time when other sources of long-term finance are scarce. In another challenging year for the people, markets and governments of the EBRD’s countries of operations, we carried on helping to build and strengthen open-market economies.

There is no room for complacency, however. 2013 will not be easy, with many investors reluctant to take decisions on whether to proceed with projects. We know we will have to redouble our efforts if we are to help our countries make progress.

Another page was turned in the Bank’s history in 2012. Egypt, Jordan, Morocco and Tunisia were granted the status of potential recipient countries under Article 18 of the Agreement Establishing the Bank in November, enabling the Bank to conclude its first transactions in its new southern and eastern Mediterranean (SEMED) region by the year end. Kosovo also became a country of operations in December.

The investments we made in countries old and new were only one component of the EBRD’s work. Technical assistance, policy dialogue and international cooperation play equally important parts in pursuing our goal of transition. A key achievement during the year was the agreement to a Joint International Financial Institutions’ Action Plan for Growth in Central and South-Eastern Europe. It includes a combined IFI commitment of more than €30 billion of investment over 2013 and 2014, as well as an emphasis on pushing for further economic reform.

Our external impact was being felt as we also began a process of modernising the way that the Bank operates internally. The aim is to ensure that we maximise efficiency and deploy our investment, policy dialogue, technical cooperation and leadership to the greatest effect. This work will continue in 2013 and beyond. By the end of the year, we should be able to measure our results and deliver our activities even more effectively.

A lot of the groundwork for the Bank’s success during the year was laid by my predecessor, Thomas Mirow. His term as President came to an end in the summer of 2012 but without his efforts over the years, much of what the Bank is now achieving would not be possible. Praise must also go to First Vice-President, Varel Freeman. It was his last year heading the Banking operation and we owe him a debt of gratitude as he retires after almost seven years of service.

I and my colleagues are prepared for the many challenges ahead, both in our traditional region and in our new one in the southern and eastern Mediterranean. I can promise you that the EBRD’s focus will remain on delivering impact – just as the Bank has done for more than two decades.

Suma Chakrabarti
President, European Bank for Reconstruction and Development
2012 was a challenging operating environment for the countries where the EBRD invests. The Bank’s priority throughout the year was to maintain its position as a reliable partner that is able to help its clients and countries of operations restore a path of sustained economic growth in the future. The Bank delivered another year of strong performance, providing financing of €8.9 billion to nearly 400 clients across more than 30 countries, expanding its mandate into new potential recipient countries, and ending the year in a strong position for the work ahead.

Of annual business volume was directly related to sustainable energy initiative activity
OPERATIONAL RESULTS

The EBRD continued to deliver strong operational performance in 2012, providing effective support in an economic climate that continued to present major challenges for the Bank’s countries of operations. In an historic year for the EBRD, Egypt, Jordan, Morocco and Tunisia were granted the status of potential recipient countries under Article 18 of the Agreement Establishing the Bank and the Bank continued to lay the foundations for future growth in the southern and eastern Mediterranean (SEMED) region by creating the SEMED Investment Special Fund (SEMED ISF) to enable financing of projects within the region until such time as they become full countries of operations.

For the third consecutive year, the EBRD sustained its annual business volume at close to €9 billion (€8.92 billion compared with €9.05 billion in 2011), delivered via a record number of 393 operations, up from 380 in 2011. This total included the Bank’s first six commitments of €181 million to the four potential recipient countries of the SEMED region, with project approvals beginning in earnest in the final quarter of the year following the necessary resolutions of each country’s membership status.

Focus was maintained on the transition impact potential of the Bank’s activities, with 92 per cent of projects signed in 2012 considered to have good or excellent transition impact potential. The Bank’s mandate to deliver transition and reform by working with the private sector was reflected in 2012’s private sector share of the Bank’s annual business volume of 80 per cent, a rise on 2011’s 77 per cent.

The Bank seeks to maximise the impact of its activities through several strategic initiatives which are designed to underpin the Bank’s work in less-developed countries, as well as pursuing the challenges of climate change mitigation and sustainable energy, which are key tenets of the EBRD’s strategy throughout its region of operations.

The EBRD’s Sustainable Energy Initiative (SEI) aims to mitigate and adapt to climate change and improve energy efficiency. In 2012 the Bank delivered strong results under the SEI, with €2.3 billion of annual business volume directly related to SEI activity. This will result in 8.8 million tonnes of CO\textsubscript{2} emissions reductions and a saving of 2.79 million tonnes of oil equivalent in energy consumption. Of particular note was that the SEI passed the €10 billion EBRD business volume mark since its inception in 2006. 2012 saw the launch of SEI (Phase 3) which will operate from 2012 to 2014, underpinning the Bank’s key objective of promoting economic competitiveness and growth which needs to be based on a low-carbon foundation.

For the fifth consecutive year, more than 30 per cent of the Bank’s annual transactions were undertaken in the early transition countries (ETCs) with record business volume of €1.1 billion in 2012. Since most companies are locally owned, and considered to be small and medium-sized enterprises (SMEs) by international standards, the EBRD has become more innovative and efficient at delivering financing in small amounts – 85 per cent of financings have been less than €10 million, with the average commitment size around €2.5 million.

Around a quarter of ETC transactions were completed in local currency, demonstrating the importance the Bank places on the creation of conditions and financial infrastructure that make local capital markets viable and local currency debt attractive for lenders, borrowers and investors. The Local Currency and Capital Markets Development Initiative (LC2) is one of the key strategic priorities of the Bank, providing a coordinated approach to policy dialogue, the Bank’s investment and Treasury operations, and legal and regulatory technical assistance.

Projects were undertaken in each of the Bank’s existing 30 countries of operations and in each of the four potential recipient countries in the southern and eastern Mediterranean region. Business volume in the Central Asia region accounted for 10 per cent of 2012 activity; eastern Europe and the Caucasus: 17 per cent; south-eastern Europe: 17 per cent; Russia: 29 per cent; central Europe and the Baltic states: 14 per cent; Turkey: 12 per cent; and the southern and eastern Mediterranean region: 2 per cent. The Bank continued to support key economic sectors in line with its operational strategy. Projects in the diversified corporate sectors accounted for 28 per cent of 2012 business volume; 32 per cent went to the financial sector, with a priority for SME financing; and the energy and infrastructure sectors accounted for the remaining 41 per cent.

Gross disbursements reached €6.0 billion in 2012 compared with €6.7 billion in 2011, reflecting the high level of signings late in the year which will disburse in 2013. As a result, the Bank’s operating assets increased to €26.5 billion at end 2012, up 7 per cent compared with the end-2011 level of €24.8 billion.

The Bank’s activities continued to be strongly supported by donor funding, including the Special Funds programme and Technical and Investment Cooperation Funds.

These broad-based results reflect the EBRD’s ongoing commitment to support its countries of operations in helping to build and strengthen open-market economies.
The Bank under the Medium-sized Co-Financing Facility co-financed a US$ 500,000 (€378,788 equivalent) loan with Kyrgyz Investment and Credit Bank, one of the EBRD’s partner banks in the Kyrgyz Republic to Osko LLC, a producer of dried fruits and natural compote and bio kvas (traditional Russian beverages) in the Kyrgyz Republic. The company exports around 85 per cent of its total production, of which 70 per cent is exported to Russia and 15 per cent to Kazakhstan; with the remaining 15 per cent of products sold in the Kyrgyz market.

The project involved the purchase of a new packing line for dried fruits, which will enable the company to improve the quality of its packaging (as per market requirements) and increase its sales of dried fruits as finished products and an extension of maturity of its short-term debt.
CASE STUDY

ADDRESSING ENERGY SUPPLY AND SECURITY
Jordan

The EBRD is providing a US$ 100 million (€76 million equivalent) loan for the construction and development of the Al Manakher power plant in Jordan, in a transaction aimed at helping to address the country’s acute energy shortages and ensuring the security of future energy supplies. The construction of the new plant, located 15 km east of the Jordanian capital, Amman, is urgently needed to provide extra capacity to prevent blackouts at times of peak demand and to secure short-term electricity supplies to Jordan at a time when demand is growing rapidly. In the medium term it will also help prepare the Jordanian electricity grid for the greater use of renewable energy sources. Jordan currently imports over 95 per cent of the energy it consumes.

CASE STUDY

PROVIDING EQUITY FOR SMEs
Morocco, Tunisia and Egypt

The Maghreb Private Equity Fund III (MPEF III) is the third Maghreb-focused fund managed by AfricInvest-TunInvest, one of the most established local private equity players in the region. MPEF III, which has a target size of €200 million, will focus primarily on providing equity, quasi-equity and equity-linked debt financing to SMEs. The EBRD is participating in the fund with €20 million commitment for investment in Morocco, Tunisia and Egypt.
**FINANCIAL RESULTS**

The Bank continued in 2012 to experience good financial health with a strong capital position, high levels of liquidity and continued strong support from its shareholders.

The Bank recorded a net realised profit of €1.0 billion before provisions, unrealised losses on share investments and other unrealised amounts (2011: €86 million). Including provisions and unrealised amounts, net profit rose to €1.0 billion for 2012 compared with €173 million for 2011. The increase compared with 2011 reflects the change in unrealised equity fair values, which registered a gain of €57 million in 2012 compared with a loss of €586 million in 2011. This portfolio is valued at €0.4 billion above cost. The contribution from share investments to the Bank’s income statement is expected to continue to show significant variability from year to year, given the volatility of equity markets and the timing of exits.

The Bank’s portfolio of investment operations (including undisbursed commitments) increased to €37.5 billion by the end of 2012, an 8 per cent uptick on the 2011 year-end level of €34.8 billion. Reflows were 19 per cent higher than in 2011 as a consequence of both robust repayment levels from the Bank’s loan portfolio and divestments of around €0.6 billion from the Bank’s equity portfolio. Gross disbursements reached €6.0 billion in 2012 compared with €6.7 billion in 2011, reflecting the high level of signings later in the year which will disburse in 2013. The Bank’s projects attracted additional financing of €17.4 billion during 2012 (2011: €20.8 billion) with the Bank directly mobilising €1.2 billion of syndicated loans (2011: €1.0 billion).

The performance of the Bank’s loan assets still remains relatively strong; the average credit profile of the portfolio has been improving since 2009 and was relatively stable in 2012, and the non-performing loan ratio remained at 3 per cent.

The value of assets under Treasury management at 31 December 2012 was €20.5 billion compared with €17.6 billion at the end of 2011. Treasury operations reported an operating profit of €202 million before hedge accounting adjustments, compared with €113 million in 2011. Despite continued rating downgrades of Treasury counterparties, the EBRD continued to maintain a superior average credit risk during 2012 by investing new liquidity in triple-A rated sovereign and other highly rated assets. Credit quality was also enhanced by increasing the Bank’s senior collateralised exposures (such as covered bonds) while reducing investments in subordinated debt. Non-performing assets in the Treasury portfolio are very low at €52 million, or 0.3 per cent of the portfolio. This represents an improvement since 2011 as the Bank has managed down several legacy assets from the 2009 crisis.

The Bank’s capital strength is reflected in its triple-A rating, with a stable outlook, which was reaffirmed by all three major rating agencies in 2012. The Bank raised €6.3 billion of long-term funding in 2012 under its annual borrowing programme, with an average maturity of 4.1 years. The bonds were issued in 12 currencies, with US dollar issuance accounting for 60 per cent of the total. This included two new five-year benchmark bonds of US$ 3 billion (€2.3 billion equivalent) and US$ 1.5 billion (€1.1 billion equivalent), which saw significant demand from a global investor base comprising predominantly central bank investors.


Overall, the EBRD’s reserves increased to €7.8 billion at the end of 2012 (2011: €7.0 billion), reflecting the net profit for the year.

Full details and the financial statements are provided in the EBRD’s Financial Report 2012.

**DONOR-FUNDED ACTIVITIES**

Grants from donor countries, co-financing with other international financial institutions (IFIs) and funding from the EBRD Shareholder Special Fund (SSF) are crucial in addressing transition challenges in the EBRD’s countries of operations. In 2012, these funding sources supported vital programmes and key strategic initiatives across almost all parts of the EBRD’s activities. Total donor funding contributed in 2012 amounted to almost €178 million.

Donor-funded operations in 2012 reflect both the region’s needs and the Bank’s emphasis on deploying an integrated approach that combines investment, technical cooperation and policy dialogue to pursue reforms on a transformational scale. Focus areas included sustainable energy; structural reform in the transport sector; institutional and operational improvements to municipal and environmental services; gender equality; and small business finance and advisory support. Moreover, donor support has been critical to the achievements made by the Bank in 2012 in sustaining and expanding its impact in early transition countries (ETCs) and laying the necessary foundations for success in the new SEMED region. Donor funding for activities in the SEMED region stands at nearly €60 million.

The Bank’s Donor Report for the year provides further information, including details of key measures introduced by the Bank following the completion of the Grant Co-Financing Strategic Review. These measures expand on the three principles of effective grant management employed by the Bank which include: strategic alignment in planning and prioritisation; quality and efficiency in reporting; and responsiveness to donors.

**EXPANSION INTO SEMED**

The southern and eastern Mediterranean is the latest region in which the EBRD is working to support economic change in emerging democracies. It was a key focus for the Bank during 2012 in the wake of the historic changes that took place across the Middle East and North Africa in the previous year.

In response to calls from the international community and from emerging Arab democracies themselves, in May 2012 the EBRD’s shareholders gave unanimous backing to the expansion of the Bank’s mandate, allowing future activities in the southern and eastern Mediterranean (SEMED) region which includes Egypt, Jordan, Morocco and Tunisia. The EBRD is applying the lessons of over 20 years of experience gained through supporting the process of economic and democratic change in its current countries of operations into this new region.

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13 This figure includes undrawn commitments of €11.0 billion and operating assets at €26.5 billion.
The Bank moved swiftly and effectively in 2012 to implement a three-stage process for launching activities in the SEMED region; assisted by strong support from donors. The first three quarters of the year focused on the initial phase, during which cooperation funds allowed the Bank to start research work, identify and prepare investment projects, build the capacities of prospective clients and foster cooperation with other institutions active in the region. The Bank also engaged with governments, business, civil society representatives and international financial institutions (IFIs) to develop its understanding of country priorities, including a well-attended series of high-level stakeholder conferences under the “Transition to Transition” Initiative.

The EBRD opened its first office in the SEMED region in Egypt in January 2012, followed shortly thereafter by Morocco, Tunisia and Jordan. The Bank appointed a managing director for the region in April 2012 and has started to build a team, both through local recruitment and the use of existing staff with transferrable expertise.

At the Bank’s Annual Meeting in May 2012, the EBRD Board of Governors allocated €1 billion from the Bank’s net income to implement early investment operations. The Bank moved into the second phase with the initialisation of investments through these Special Funds following the EBRD’s Board of Governor’s decision in September 2012 to grant Jordan, Morocco and Tunisia the status of potential recipient countries under Article 18 of the Agreement Establishing the Bank, followed by Egypt in November 2012.

As of 31 December 2012, the Bank had signed six investment transactions, representing a total EBRD commitment of €181.0 million.

The final and third phase will launch full-scale activities once relevant changes to the Bank’s founding Articles have been fully ratified. Subject to this ratification, the EBRD has the capacity to invest up to €2.5 billion in the SEMED region by 2015.

THE EBRD’S PRIORITIES IN THE SEMED REGION

The Bank’s overall goal in the SEMED region is to improve financing of the private sector, in particular small and medium-sized enterprises (SMEs), via investments in loans and equities, while providing support and expertise through policy dialogue, capacity building and other forms of technical assistance. More specifically, foundation work conducted by the Bank during 2012 has identified the following initial priorities:

- support renewable energy and energy efficiency investments. The Bank will assist governments in unbundling and gradually liberalising the sector while strengthening regulatory agencies. Energy efficiency practices should be introduced throughout all sectors of the economy
- develop non-sovereign solutions for infrastructure. There are significant investment needs in infrastructure which cannot be financed from fiscal sources alone. Decentralisation of municipal services, the involvement of the private sector and other approaches, together with solid regulation in order to ensure best value for users will be important in all SEMED countries in the coming years.

INVESTMENT DEVELOPMENT AND POLICY DIALOGUE INITIATIVES

With strong support from its donors and in cooperation with other IFIs and a wide range of other partners and stakeholders, the EBRD worked on a number of important strategic initiatives in 2012.

These included technical cooperation programmes such as the Private Sector for Food Security Initiative, which is now operational throughout the EBRD region (including the SEMED countries), and the Local Currency and Local Capital Markets Development Initiative (LC2), where highlights in 2012 include the facilitation of pilot corporate bond issues in several early transition countries. The Bank continued to expand its Gender Action Plan during 2012 and, as a result, is now planning to scale up this area through the development of a complete Gender Strategy in 2013.

TOTAL DONOR FUNDING IN 2012 AMOUNTED TO ALMOST €178 MILLION
International cooperation and policy dialogue activities during 2012 saw the Bank continuing to play a leading role in The European Bank Coordination Initiative, also known as the Vienna Initiative. Launched in January 2009 at the height of the financial crisis, the Vienna Initiative brings together all the key stakeholders in the EU-based cross-border bank groups that are active in emerging Europe. The EBRD has been actively involved in 2012 in shaping “Vienna 2.0”, shifting the focus of collaboration from crisis response to crisis prevention and financial stability.

An important step for the Bank in the context of the Vienna Initiative was agreement with the European Investment Bank (EIB) and the World Bank in November 2012 on a Joint IFI Action Plan for Growth in Central and South Eastern Europe. The Action Plan, a direct response to the continuing impact of eurozone problems on the economies of emerging Europe, includes more than €30 billion of joint commitments for the period 2013-14 (for more information on the breakdown of commitments, see Chapter 4: “Governance and cooperation”).

**TRANSITION PROGRESS IN THE EBRD REGION: DEMOCRATIC AND MARKET REFORMS**

The EBRD promotes democratic reform in the region in which it operates in accordance with its Article 1 mandate, which states that the Bank’s purpose is to foster transition to open markets in countries committed to and applying principles of multi-party democracy, pluralism and market economics. In 2012, progress in democratic reform in some parts of the EBRD region was strong, while elsewhere reforms stagnated. Reform progress was most pronounced in countries starting out on the democratic path, such as post-revolutionary Egypt and Tunisia, although there have been setbacks and episodes of turbulence along the way. The democratic transition process is likely to remain uneven for all countries in the southern and eastern Mediterranean (SEMED) region. Countries in the Western Balkans region remained on the democratic reform track, supported by the process of EU integration and by intensified regional cooperation. However, populism and inter-ethnic tensions continue to hamper the democratic consolidation process. Several countries in the European Neighbourhood – Armenia, Georgia, Moldova – strengthened their democratic credentials with free and fair elections and the formation of reform-minded governments, and two countries in Central Asia – the Kyrgyz Republic and Mongolia – made further democratic gains.

Elsewhere in the EBRD region democratic reforms were more mixed. At the end of 2011 and in 2012, the new generation of Russia’s urban middle class began to position itself as a more determined political force. The authorities responded at first with a willingness to advance certain democratic reforms and organised more open presidential elections in March 2012, but other measures – such as laws that threaten to limit the freedom of assembly and association and infringe on civil society – went in the opposite direction. In Ukraine, the significant progress made towards strengthening democratic institutions and revitalising civil society in recent years has been dented by perceptions of the selective application of justice and pressure on independent media. Democratic progress in most other CIS countries was at best slow, and concerns regarding widespread corruption, weak adherence to the rule of law, and human rights violations were noted by prominent international organisations and civil society representatives. The Bank continued to be seriously concerned about the lack of democratic reform progress in Belarus and Turkmenistan and continued to employ a calibrated strategic approach to operations, matching its activities to progress against well-defined political and economic benchmarks.

The Bank’s Transition Report 2012 found that the year to mid-2012 was another difficult one for reform in the transition region as growth prospects had again weakened and the economic outlook had worsened. Some countries have not yet fully recovered from the impact of the 2008-09 crisis, and a few have slipped into recession again. There have also been isolated signs of populist dissatisfaction with painful economic adjustments. However, despite an exceptionally difficult few years, most of the reforms introduced in the previous two decades are still intact. There has not been a significant reversal of transition in any country in response to the crisis. Policy-makers are still broadly committed to the principles of markets, competition and open trade; Montenegro and Russia have joined the World Trade Organization (WTO) in the past year, and Croatia is on the verge of accession to the European Union (EU).

However, there has been more regression in certain respects than in previous years, especially in the energy and financial sectors where state involvement has extended beyond what can be justified in the context of crisis response. Most importantly, there is no sign of the major reform drive that is still needed in most countries to boost growth rates towards their long-term potential.

To better define the transition goals and prioritise its activities as countries make progress, the EBRD makes an annual assessment of transition progress and remaining challenges for 15 sectors in all EBRD countries of operations. This assessment of “transition gaps” (classified as either “negligible”, “small”, “medium”, or “large”) is done in terms of the changes to market structure or market-supporting institutions necessary to bring them up to the standards of the most advanced market economies (for an extensive discussion of the methodology and all the scores, see the EBRD Transition Report 2012 or visit: www.ebrd.com/pages/research/publications/flagships/transition.shtml). While transition gaps are largely modest in central and eastern Europe and the Baltic states, the Bank remains additional in certain sectors. Credit to the private sector has been contracting in all countries except Poland and the Slovak Republic, and country authorities are seeking to develop alternative funding sources. All countries in south-eastern Europe still face a major transition agenda, notwithstanding the strong cumulative progress this region has made in the past years. This region is particularly vulnerable to fallout from the eurozone crisis and may need significant short-term assistance, especially in the financial sector. Transition gaps throughout the Western Balkans are assessed as medium or large in almost all cases, while those in Bulgaria and Romania, both EU members since January 2007, are lower on average but still significant in most sectors.

For further information see Chapter 4.
MEASURING IMPACT

The strategic portfolio management framework includes a continuous assessment of the Bank’s contribution to the transition process. In line with the internal transition impact rating methodology introduced in 1999, the institutional scorecard (approved annually as part of the budget process) contains a quantitative quality-at-entry target for transition impact potential for the new operations. It also quantifies a stock target related to the transition impact performance of projects during their implementation.

The results in 2012 show substantial transition impact potential of the new operations signed by the EBRD, similar to previous years. The achievement of transition objectives is tracked by the set of measures/benchmarks for each sector. All projects are regularly monitored against established targets to ensure that the envisaged potential is ultimately achieved. Throughout 2012, the performance of the EBRD’s portfolio from the transition perspective has been good and within the institutional targets established in the scorecard.

ENHANCING THE EBRD’S RESULTS FRAMEWORK

To reflect the ever increasing importance of the institutional results, the Bank undertook a thorough review of the way the organisation can enhance effective results management mechanisms through a number of internal task forces. The main focus of the review was enhancing a results framework for assessing and measuring the transition impact of all operations and activities – not only investment projects – and identifying the best measures to improve the external communication of the impact of activities. Work is currently under way on reviewing the internal procedures, incentive structure and measures of institutional performance, to ensure the effectiveness of results at the operational and institutional level.

In addition, an important aspect of this work was a review of the transition impact concept in light of evolving challenges in the region. The reshaping of the EBRD’s Evaluation Policy and the introduction of more refined donor reporting are also part of this complex exercise. The outcomes of this internal review of the EBRD’s managing-for-results system and enhanced communication of transition impact results will be reflected in next year’s Annual Report.
## ACTIVITIES BY SECTOR

<table>
<thead>
<tr>
<th>17</th>
<th>Financial sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Industry, commerce and agribusiness</td>
</tr>
<tr>
<td>26</td>
<td>Transport</td>
</tr>
<tr>
<td>28</td>
<td>Municipal and environmental infrastructure</td>
</tr>
<tr>
<td>30</td>
<td>Power and energy</td>
</tr>
<tr>
<td>32</td>
<td>Natural resources</td>
</tr>
<tr>
<td>32</td>
<td>Nuclear safety</td>
</tr>
</tbody>
</table>

## CASE STUDY

### LOCAL CURRENCY FINANCING

**FYR Macedonia**

In April 2012, the EBRD signed the agreement for a local currency loan equivalent to €5 million to long-standing client, ProCredit Bank Macedonia, for on-lending to MSMEs. The loan is extended under the EBRD-Italy Local Enterprise Facility and will help ProCredit Bank Macedonia diversify its funding base and maintain access to credit for FYR Macedonian MSMEs in the current challenging environment. The proceeds will be used to finance investments and working capital of local businesses in rural and urban areas with long-term loans. The facility will support further development of FYR Macedonian MSMEs and help them reduce foreign exchange risk.
The EBRD’s countries of operations present significant needs and opportunities for private sector development and the delivery of sustainable transport and utilities. Changing people’s lives and environments for the better requires the sustained and integrated use of investment, technical cooperation and influence in key parts of the economy, including the financial, SME and corporate sectors, infrastructure, power and natural resources.

FINANCIAL SECTOR
The EBRD’s financial team signed a wide spectrum of projects in the financial sector in 2012, reflecting the broad scope of the Bank’s mandate. Eurozone issues and macroeconomic weaknesses in many countries continued to dominate the sector. The EBRD has been helping to fill financing gaps by providing stable sources of funding both in foreign and local currency through key programmes, such as trade finance, micro, small and medium-sized enterprise (MSME) and energy efficiency lending, and by positioning itself at the forefront of renewed interest in capital market products.

The Bank continued to play an important high-level international role in alleviating the effects of the ongoing eurozone financial crisis. The Bank has been active in the Vienna 2.0 Initiative, has consulted with governments, and on the ground, has spent time with strategic clients to encourage their continued engagement with the region.

In 2012 the Bank signed business volume in the financial sector worth €2.85 billion in 26 countries, with business particularly strong in Russia, Poland and Turkey. There was continued focus on the early transition countries (ETCs) to provide access to financing for the real economy. The Bank has been active in the Vienna 2.0 Initiative, has consulted with governments, and on the ground, has spent time with strategic clients to encourage their continued engagement with the region.

Foundation work in the SEMED region continued in 2012 with a number of technical cooperation (TC) projects implemented and a healthy pipeline of investment projects developed. The Bank’s first signing in the region involved Investbank, Jordan which joined the TFP and later in the year a €10 million SME loan and a TFP line were signed with Société Générale Marocaine de Banques (Morocco).

It was another outstanding year for TFP in terms of business volume and the number of transactions resulting from a recovery of trade activity, which the reduced availability of trade finance from private sector banks struggled to meet.

The Bank expanded its equity portfolio by making new investments in three banks in Poland and Russia and in two ground-breaking investments for the EBRD: Moscow Stock Exchange and a start-up factoring company in Turkey.

Annual business volume by sub region (2012)

Annual business volume by product (2012)

14 The early transition countries are the Bank’s countries of operations which still face the most significant transition challenges. They are: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.
The financial sector portfolio now stands at €9.89 billion, a 5 per cent increase on 2011 and, with strong disbursements, operating assets have also grown at a similar rate to €8.68 billion.

POLICY DIALOGUE
Good quality and targeted policy dialogue with governments and regulatory authorities and other international financial institutions (IFIs) continued to be a vital aspect of project facilitation. The main themes of FI activity have been: (i) strengthening the safety net of the banking system particularly with regard to the deposit insurance agencies in Albania, the Kyrgyz Republic and Mongolia; (ii) strengthening the SME legal framework in various ETCs and in south-eastern Europe (SEE); (iii) financial inclusion by training educators to provide financial education to remittance receivers in Tajikistan and the Kyrgyz Republic; and (iv) exploring new areas such as mobile banking in Romania, Russia, Turkey and Ukraine.

LOCAL CURRENCY AND LOCAL CAPITAL MARKETS DEVELOPMENT INITIATIVE
The EBRD remained committed to the Local Currency and Local Capital Markets Development Initiative, launched in 2010 in cooperation with other IFIs. Activities have included country assessments, strengthened policy dialogue, as well as the delivery of investment projects that directly address the fundamental vulnerabilities that form the basis of this initiative.

Using funding directly raised by the EBRD, 18 local currency loans were provided in Russian roubles, Kazakhstani tenge, Polish zloty and Turkish lira for a range of financing purposes. In addition, 27 loans were extended to FIs via utilisation of the Currency Exchange Fund in which the EBRD invests.

BANKING
Building sustainable local funding bases remained an important theme given reduced external sources of finance, including those from European banking groups operating in the EBRD’s countries of operations. Deterioration of loan book quality in a number of countries as well as lack of balance sheet growth remain areas of concern.

TRADE FINANCE
The EBRD’s Trade Facilitation Programme (TFP) guarantees trade transactions to stimulate import and export trade. It also provides short-term loans to selected banks and factoring companies for on-lending to local exporters, importers and distributors of imported products.

In 2012 the demand for TFP continued to grow and in total the EBRD financed an unprecedented 1,870 trade transactions with 75 banks across 16 countries worth over €1.1 billion. In particular, there was significant uplift in support for intra-regional trade with 455 transactions.

The increases in the number of transactions and greater utilisation of limits illustrate that trade has recovered in many countries of operations and client banks are more willing to take on new business for their local exporters and importers. However, for small and medium-sized banks in the region and banks in ETCs the TFP remains a major source of financing for their international trade finance business.

For more information go to: www.ebrd.com/tpf.

E-LEARNING SCHOOL IN TRADE FINANCE
The Bank’s e-learning school in trade finance goes from strength to strength and is helping to ensure lasting transition impact and skills transfer to the TFP’s issuing banks. Since its launch in 2010, over 500 students from more than 136 banks in 24 countries have signed up. This e-learning programme has been expanded to include issuing banks in the southern and eastern Mediterranean (SEMED) and 67 trainees from this region have enrolled.

ENERGY EFFICIENCY
Sustainable Energy Financing Facilities (SEFFs), dedicated credit lines to local financial institutions for financing sustainable energy investment projects, continued to be a core component of the EBRD’s Sustainable Energy Initiative.

Growth in energy efficiency lending through the SEFF model continued in 2012 with new loans worth €421 million provided to 33 financial institutions across 12 countries. In addition to the corporate, industrial and residential sectors, the EBRD widened its outreach by extending financing through banks to local municipalities and by increased activities in the agricultural sector. By the end of 2012, the EBRD had provided loans to 75 partner financial institutions which had on-lent to sub-borrowers supporting over 41,900 sustainable energy projects and produced projected lifetime energy savings of more than 140,000,000 MWh and projected emission reductions of 55,000,000 equivalent.

The SEFF programme is expanding with new frameworks or extensions to existing frameworks being approved in 2012 in Belarus, Bulgaria, the Kyrgyz Republic, Moldova, Russia and Ukraine.

SYNDICATION
The Bank signed three new syndicated loans with financial institutions in Russia, Mongolia and Armenia. The syndicated loan raised by the EBRD for private bank, Rosbank, in Russia, had particular commercial success – it was oversubscribed, attracting US$ 230 million (€174 million equivalent) against an initial target of US$ 150 million (€114 million equivalent) — and it marked a major step towards the reopening of international debt markets for Russian private banks.
**EQUITY INVESTMENTS**

Equity investment continues to be a key tool used by the Bank to promote transition. By supporting banks and other financial institutions through equity investments, the Bank can influence business strategy, strengthen corporate governance and promote institution-building and best practice.

There was significant uplift in new commitments to equity with half a billion euros directed to five new investments in Poland, Russia and Turkey. 12 capital increases and a restructuring. In Poland, the Bank signed its first deal with Santander, with an investment in BZWBK to support the merger with Kredyt Bank; an opportunity to support one of the main banks in Poland.

**OTHER FINANCIAL SERVICES**

With the first signs of a return in demand for simplified and transparent forms of structured finance, the EBRD is supporting a number of capital market products, thus playing an important role in re-introducing these financing tools to the region. In 2012, the Bank participated in the first listed and locally distributed Polish zloty asset-backed security auto loan issue and the first post-crisis Russian diversified payment rights securitisation, for regional mortgage development.

**SUPPORT FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES**

The EBRD has a long history of support for MSMEs in its countries of operations. Small businesses are a vital contributor to economic growth as they provide important sources of entrepreneurship, innovation and job creation. They require reliable access to a range of financial services from the formal financial sector. Improving MSMEs’ access to funding and financial services is a crucial aspect of the Bank’s effort to provide sustainable sources of lending to the real economy.

The provision of credit lines to local banks, leasing companies and specialised microfinance institutions has been the main method the EBRD has used to target finance to support small business. In 2012 the Bank continued to facilitate credit flow to MSMEs by extending more than 80 credit lines for over €700 million to partner institutions across 23 countries of operations. In addition, a number of the energy efficiency credit lines are directing finance to SMEs. Through these transactions, the Bank continued to support financial intermediation for MSMEs, to broaden the sectoral coverage and to encourage female entrepreneurs. Furthermore, it continued to provide local currency financing in order to reduce the foreign exchange risks for clients. Over 34 of the transactions completed during the year were in the ETCs, with a significant number extended in local currency.

**TECHNICAL COOPERATION**

Technical cooperation (TC) remains an important element of sustainable transition and as in previous years, TC assignments continued to play an important role supporting the EBRD’s investment activities and policy dialogue. In 2012 the Bank provided TC funding for 82 consultancy contracts totalling €24 million covering 19 countries of operations. The TC funding was also complemented by the use of non-TC grants, to the value of €24.7 million, in the form of incentive payments to the Bank’s clients and their sub-borrowers for sustainable energy financing and SME competitiveness in particular.

Existing and newly established SEFFs required most TC resources in 2012 while TC programmes in support of MSME lending and trade finance also continued across countries of operations (CoOs). TC reflected the Bank’s engagement in SEMED and a range of activities were launched in support of project preparation, client engagement and broader sector initiatives. TC initiatives continued or commenced during 2012 to promote financial inclusion, innovative banking approaches, local currency and local capital markets development, and development of legal and regulatory frameworks conducive to improved access of MSMEs to finance. Further efforts were also made to enhance collaboration with the EU, European Investment Bank, International Finance Corporation, KfW and Agence Française de Développement to ensure effective and complementary use of donor resources in CoOs.
INDUSTRY, COMMERCE AND AGRIBUSINESS

The industry, commerce and agribusiness (ICA) group comprises six sector teams and two regional teams which bring together the Bank’s activity in the corporate sector: agribusiness, equity funds, information and communication technologies (ICT), manufacturing and services, property and tourism and small business support (SBS). Together with the ICA SEMED and ICA Russia teams, ICA works to help support diversification of the real economy and promote socially inclusive growth and innovative and sustainable development.

Capitalising on the CRR4-recommended shift to the corporate sector, in 2012 ICA accounted for 28 per cent of the EBRD’s annual business volume and more than 35 per cent of the number of operations (including 37 per cent of early transition countries (ETC), 28 per cent of Western Balkans and 55 per cent of equity transactions), with the Bank committing around €2.5 billion through 143 projects.

CASE STUDY

BRINGING BROADBAND INTERNET TO THE REGIONS

Turkey

The EBRD is supporting the expansion of broadband internet services in the eastern regions of Turkey with a €100 million loan to Türk Telekomünikasyon, the country’s leading telecommunications group, providing integrated telecommunications services from traditional phone and mobile to broadband internet. With its fast-growing economy and young population, Turkey needs significant investment to catch up with western Europe in terms of availability of broadband internet services. Turkey’s total broadband penetration, both fixed and mobile, is less than 15 per cent, compared with 40 per cent in western Europe. Internet coverage varies significantly from region to region, with considerable discrepancies between the Istanbul area and the eastern regions. Expanding Internet broadband infrastructure beyond the large cities of Turkey is critical for the growth of the Turkish economy and for further development of the country’s ICT sector and will support its efforts towards developing its knowledge economy.
IN 2012 ICA ACCOUNTED FOR 28% OF THE EBRD’S ANNUAL BUSINESS VOLUME AND MORE THAN 35 PER CENT OF THE NUMBER OF OPERATIONS

ICA SEMED
In line with the Bank’s commitment to the southern and eastern Mediterranean (SEMED) region, the ICA SEMED team was established in 2012, modelled on the successful ICA Russia team. The ICA SEMED Director is an investment professional from the region with significant transactional experience in SEMED countries. Each of the ICA sector teams has dedicated bankers to cover the region and the group has been instrumental in helping to develop a strong pipeline there.

ICA signed one of the first deals in SEMED in 2012, demonstrating its strong support for the development of the private equity sector in Morocco and Tunisia and for the growth of equity funding for small and medium-sized enterprises (SMEs) in those economies. The EBRD committed €20 million to the Maghreb Private Equity Fund III (MPEF III). The Fund will focus primarily on providing equity, quasi-equity and equity-linked debt financing to SMEs.

Other SEMED projects approved and/or signed in 2012 included two projects in the agribusiness sector: foreign direct investment (FDI) investment in olive oil origination in Tunisia and a biomass boiler for an edible oil producer in Morocco; and in the manufacturing and services sector: a commitment to finance a white goods producer in Egypt. These projects highlighted the Bank’s ability to react swiftly to changes in mandate and business opportunities and its continuous commitment to promote transition to market economies.

ICA RUSSIA
ICA Russia has, for the second year in a row, exceeded €1 billion of new commitments through 38 projects, 14 of which were equity investments in addition to managing a significant portfolio of existing investments. These commitments have supported a wide range of foreign direct investment (FDI) and growth of local businesses with special emphasis on energy efficiency, high technology and regional expansion. While there have been a number of larger projects with FDI sponsors, in approximately 50 per cent of the projects, the Bank’s investment was below €10 million and with local counterparties.

The range of clients reflects the Bank’s strategic objective of supporting diversification of the Russian economy. In the agribusiness sector, transactions included a bakery project, a salad/vegetable processing factory and a pasta maker in the Altai region. In the manufacturing sector, there was a strong focus on the automotive sector, both at the original equipment manufacturer and supplier level, but transactions also covered pharmaceutical distribution and a dedicated energy saving company. In the ICT sector, mobile phone masts and IT programming projects were undertaken. In the property sector there was additional investment in regional retail centres.

The EBRD also continued its support for deepening and strengthening the private equity markets by investing in equity funds with both first-time and existing fund managers.

The Bank continued its policy dialogue engagement in the forestry sector, participating in the Russian National Forestry Council and completing a study on FDI, corporate governance and the investment climate in the forestry industry.
AGROBUSINESS
The EBRD has delivered record-breaking total annual business volume in the agribusiness sector, including significant investments in support of the Bank’s Sustainable Energy Initiative.

In 2012, despite the continuing global economic crisis the Bank kept its levels of annual commitments and projects at historically high levels, demonstrating that the agribusiness sector remains an attractive area for investment. The Bank committed a total of €875 million through 62 transactions in the sector in 2012, while mobilising an additional €379 million in commercial syndication, resulting in record total commitments of over €1.3 billion. This provided confirmation, if needed, that investment in the Bank’s region can provide a partial solution to the issue of global food security.

To underline this, in September 2012 the EBRD and the Food and Agriculture Organization (FAO) organised a conference with a unique role in addressing food security through investments along the food chain. The conference’s high level of attendance in terms of CEOs and policy-makers marked it as probably the largest gathering of private sector players discussing global food security to date. As an immediate response to the expansion of the Bank’s mandate to the SEMED region, two projects were signed in the region’s agribusiness sector (see ICA SEMED box). At the same time, transition challenges in countries in the Bank’s historical region, such as the early transition countries and the Western Balkans, continued to be addressed via a total of 30 agribusiness deals, equal to 48 per cent of the total number of agribusiness operations signed in 2012.

The EBRD, in line with its Sustainable Energy Initiative, in 2012 committed a record €164 million to 20 sustainable energy projects in the agribusiness sector, thus ensuring development while simultaneously minimising pressure on natural resources and the environment. Given water’s vital role in increasing agricultural production, the Bank has mobilised technical cooperation (TC) assistance funds of €0.46 million from the EBRD Shareholder Special Fund and the SEMED Multi-Donor Account, aimed at improving water efficiency in food production and enhancing the role of the private sector in achieving more water-efficient food production in four of the most water-constrained countries in the Bank’s region (Jordan, Kyrgyz Republic, Turkey and Ukraine).

The EBRD has also worked with agribusiness clients in pursuit of its gender equality initiative. Croatia’s Atlantic Grupa is fostering even greater diversity and equal opportunities in the work environment by becoming the first agribusiness client to commit to undertaking improvements to its HR policy as part of its recent project, which was the largest syndicated deal in the region in the corporate sector in 2012.

EQUITY FUNDS
With a total of 142 funds invested through 92 fund managers since 1993, the EBRD has the largest private equity fund investment programme dedicated to central and eastern Europe (CEE) and central Asia.

Despite the increasingly challenging fundraising environment in the region in 2012 the EBRD continued to play a leading role in the industry by committing €334 million to 11 private equity funds. A total of 1,222 investee companies benefited from our funds in the first half of 2012.

The geography of new fund investments reflected the difficult fundraising environment in CEE, with Russia-, CIS- and Poland-focused funds constituting a large share of this year’s commitments. At the same time the EBRD continued to pursue opportunities in the new (SEMED) and more challenging (Caucasus) regions. Several strategic initiatives aimed at developing a sustainable and sophisticated private equity and venture capital industry in the region were pursued in 2012.

AN “INTEGRATED APPROACH” IN POLAND
During the year the Bank developed an integrated approach to private equity as an asset class, which is closely linked to, and supportive of the Bank’s commitment to strengthen and deepen the local capital markets through its Local Currency and Local Capital Markets Initiative. The approach in this case encompasses: (i) increased participation by local institutional investors in private equity as an asset class; and (ii) increased participation by international institutional investors in Polish and CEE funds, thereby creating a sustainable private equity market. Both pillars will be supported by policy dialogue, raising stakeholder awareness and capacity building.

One of the first investments under the integrated approach was in the Polish Enterprise Fund 2012 which will invest across the CEE region in mid-market buyouts and expansion capital opportunities.

SOUTH CAUCASUS
The Bank committed to the first institutional equity fund focused solely on providing finance to SMEs in the south Caucasus (Armenia, Azerbaijan and Georgia). The fund is sponsored by SEAF and will provide a combination of debt and equity financing.

RUSSIA
Consistent with the Russia country strategy to assist in financing the diversification of the economy, support enterprises in the regions of Russia and strengthen the private equity markets, the EBRD invested in two Russia and CIS-focused private equity funds raised by its long-standing partner Baring Vostok. The Baring Vostok funds will target firms operating in Russia, Kazakhstan and Ukraine, as well as other CIS countries and Mongolia.

SEMED
The EBRD has demonstrated its strong support for the development of the private equity sector in Morocco and Tunisia and for the growth of equity funding for SMEs in those economies. In 2012, the Bank signed its first investment in SEMED: the Maghreb Private Equity Fund III. Investee companies will, typically, be well-established, family-owned companies with the potential to scale up their activities at the regional or international level and achieve long-term capital growth. The Bank’s support will help to increase investor awareness in the SEMED region and strengthen the private equity industry there.

TURKEY
The Bank supported Turkven, a well-established private equity firm raising its third fund in Turkey. The investment is expected to achieve strong transition impact by leveraging Turkven’s deep operational expertise and commitment to corporate governance.
INFORMATION AND COMMUNICATION TECHNOLOGIES

In 2012 the Bank closed its first financing under the Venture Capital Investment Programme and continued to support the rollout of broadband and ICT infrastructure to underdeveloped regions.

The fostering of a knowledge economy in the EBRD region is one of the Bank’s key objectives. The spread of knowledge through an economy creates value, promotes productivity and growth while diversifying an economy, creating higher-valued jobs and promoting social cohesion. The EBRD actively invests in ICT in countries from central Europe, central Asia and SEMED. The Bank aims to improve ICT services and access to these throughout these countries, focusing on network expansion, innovation and advanced communication services and the development of the sector beyond basic services. We also work on devising appropriate regulatory and legal frameworks for the overall sector.

In 2012 the EBRD re-evaluated its position in the market and built on the Bank’s strength in the telecommunications sector and re-focused efforts to develop its expertise in related ICT subsectors, such as ICT production (IT systems, software) and ICT services (IT services, internet firms). As a result, there was a strong level of activity in the ICT sector in 2012, with over €213 million in commitments for 9 projects across the region.

MANUFACTURING AND SERVICES

For the third year running, the EBRD invested close to €900 million in 50 manufacturing and services projects across its entire region from Croatia to Mongolia. As capital investments are being delayed or reduced, our strategic answer to the deepening crisis is to:

- mobilise long-term finance when other debt, equity and foreign direct investment (FDI) are more scarce
- mitigate risks as they arise, whether legal, political or commercial
- provide expertise and solutions for operational and balance sheet restructurings.

Ranging from €0.3 million to €300 million per project, the Bank serves local entrepreneurs as well as multinational groups such as Continental and Hitachi. In a challenging market, manufacturing and services succeeded in syndicating 20 per cent of project debt to commercial banks. Consistent with the Bank’s objective of working with the SME sector, 50 per cent of our transactions in 2012 were smaller (less than €10 million) SME projects located in the early transition countries and the Western Balkans. As the portfolio grows, monitoring becomes even more critical with over €3 billion in operating assets (an increase of 12 per cent in 2012, due to a record €1 billion in disbursements).

The Bank’s strategy for its investments in the manufacturing and services sector is to help diversify economies, modernise production through resource efficiency, bring technological innovation to customers and improve corporate governance and skills.

In SEMED, the first project committed for financing by the Board in Egypt was in the “real economy” to provide financing for a manufacturing facility for washing machines, which are in high demand in the country and for export to neighbouring Middle Eastern and African countries.

In support of inclusive employment, the Board also approved a large cement project in Mongolia, with a gender dimension, which will serve the increasing needs of infrastructure and mining investment. The company is a model for inclusion and gender demonstration impact.

For more information on the Bank’s impact through its investment in a glass producer in the Kyrgyz Republic and its work with small private clinics to improve health services such as Mediclub in Georgia see: http://bcove.me/khi5ww4c and http://bcove.me/awy9ufyo
PROPERTY AND TOURISM

The Bank is still facing an extremely challenging environment in the property and tourism sector but amid that has been able to commercially syndicate many of its projects. Property and tourism projects have successfully supported the Bank's efforts to invest in regional development in some of the more under-served regions of countries of operations. Elsewhere, the priority has been in monitoring the existing portfolio and working with clients as real estate projects suffer significantly as a result of the economic downturn.

In 2012, the EBRD committed a total of €148 million to eight projects located in Russia, Ukraine, Croatia and the Kyrgyz Republic. Of this amount €124 million was debt and the remainder equity.

Concerning new developments, the Bank deepened its relationship with three existing clients for their expansion in Russia in line with three key ICA objectives in the country: investing in the knowledge economy; support for regional development; and deepening the local private equity capital markets. In St Petersburg, the Bank provided a €17 million syndicated loan to finance the second phase of Technopark Pulkovo, a modern office development that combines flexible business space with business incubation and acceleration services. In the regions, the Bank supported a modern shopping centre to help regenerate Yaroslavl’s historic city centre.

In Central Asia, the Bank committed development financing to three projects in the Kyrgyz Republic. The property sectors of ETC countries generally suffer from a difficult business environment and a lack of long-term financing essential for real estate developments. In the case of the Kyrgyz Republic, however, an improved business environment since 2010 has led to increased demand from travellers to Bishkek, resulting in an under-supply in the hotel segment. The EBRD supported two hotels – a mid-market hotel in the city centre, owned by two local entrepreneurs; and the development of a 50-room budget hotel. These new hotels will increase the range of options open to business and leisure travellers alike.

Outside prime capital cities, real estate projects continue to suffer from the economic downturn. Furthermore, low economic growth and consumer spending rates continue to put pressure on rental rates for existing property space, while suppressing demand for new developments. Occupancy and rent collection are also key challenges for building owners. The Bank’s role under these conditions is to leverage its experience in the region and to provide support to its clients. This included market insights, asset management guidance and selective loan restructuring designed to position assets for medium-term recovery.

The prospect of recovery in the region’s real estate markets in 2013 is moderate. Against this backdrop, the Bank will continue to focus on those projects whose commercial viability allows development and investment to proceed, including in the SEMED region; and it will support its existing clients in working towards medium-term stability and seek to reanimate markets where possible by exploring new products such as urban regeneration, logistics and IT parks.

SMALL BUSINESS SUPPORT

Small Business Support (SBS) is comprised of two main programmes: the Enterprise Growth Programme (EGP) and the Business Advisory Services (BAS). This rebrand (from late 2011) has helped attract interest from clients in SEMED where EGP has made a particularly strong start. Both BAS and EGP are key components of the EBRD’s overall strategy for micro, small and medium-sized enterprises (MSMEs).

With the expansion to SEMED in 2012, SBS is now operating in 25 countries in south-eastern Europe, eastern Europe and the Caucasus, Central Asia, Russia and SEMED. In total in 2012, SBS carried out 122 EGP projects and 1,360 BAS projects, which include the first EGP projects in Morocco, Tunisia and Jordan, and the first BAS projects in Egypt and Morocco. In SEMED, the EGP began at the end of 2011, thanks to quick mobilisation of donor funding and of experts to work in the region. As of end of 2012, EGP had begun 28 and BAS 29 projects in SEMED, in sectors ranging from transport to textiles and food processing.

SBS has focused increasingly on helping its clients gain access to finance. As part of this effort, BAS provides SME clients of the EBRD and its partner banks in early transition countries and in the Western Balkans with assistance in financial management and reporting through the Accounting Improvement Programme. EGP helps potential Bank clients to improve their operations and corporate governance before Bank investment. In many cases, EGP also assists clients in managing capital investments and developing export markets post-Bank investment.

In Central Asia, export promotion has been a top priority for SBS in 2012, with more than 30 projects with clients in Kazakhstan, the Kyrgyz Republic and Tajikistan seeking to improve clients’ quality management, packaging, marketing and business processes in order to facilitate export expansion. The programme is a combined effort between EGP and BAS, as clients are often in need of the advice of international EGP experts as well as local BAS consultants. SBS is working with the EBRD’s Legal Transition team to support policy dialogue specifically targeted at SMEs, in particular in Mongolia where a policy adviser works with SBS. The Bank assists business associations serving SMEs to identify priorities and works with them to focus on improvement to the legal and regulatory environment.

In the Western Balkans, BAS has launched a programme for women in business with the involvement of local banks in order to facilitate access to finance for the participants. In addition SBS is preparing Women in Business programmes for launch in 2013 in Turkey, Armenia, Azerbaijan, Georgia and Egypt.

As part of the internal SBS governance, BAS created a Best Practice Guide for their projects and developed an operations manual; and EGP has a new management information system (MIS) up and running to better facilitate results reporting.

SBS would not be the success it is without the contributions, both strategic and financial of the donor community. In 2012 SBS raised €15.6 million in donor funding from bilateral sources including Austria, Czech Republic, Kazakhstan, Luxembourg, Norway and Taipei China, multilateral sources including the Bank’s ETC Fund, the EBRD Shareholder Special Fund and the SEMED Multi Donor Account, as well as two private-sector donors. The European Union remains the single largest donor and the Bank is discussing multi-year funding programmes for the Eastern Partnership countries and the Western Balkans.
HARNESSING THE SUNSHINE
Croatia

SBS projects in Croatia are increasingly seeking to unlock the potential of advisory assistance to support highly innovative companies using advanced technologies. The core business of Petrokov, a Croatian company, is to supply, sell, install and service heating, cooling, gas, water, sewerage and solar systems. It is ranked among the leading providers of central heating equipment and gas appliances, plumbing and sanitary equipment, and its heating and thermal solar product lines are expanding rapidly.

While the core business is to sell materials, such as solar panel systems, Petrokov wished to implement a system to reduce internal energy costs. The BAS programme helped the company to install photovoltaic solar panels on the roof of its premises. The project engaged a local consultant to conduct a feasibility and technology study, as well as to help with obtaining permits and submitting all necessary documentation to the Ministry of Economy and other relevant authorities.

One year after successful completion of the BAS project, Petrokov had completed the installation of solar power technology on the roofs of six of their premises, in cooperation with an investor, for a total project value of €600,000. These installations produce 35,500 kWh of electricity in peak season and 11,000 kWh in winter. Moreover, Petrokov signed a guaranteed 12-year contract with the Croatian Electrical Company (HEP) for a special feed-in tariff, with an expected payback period of no more than 10 years.

CONNECTING EUROPE AND ASIA
Turkey

The EBRD’s participation in a landmark transaction in Turkey will see a major infrastructure project – the Eurasia Tunnel – built under the Bosphorus straits. The EBRD’s US$ 150 million loan (€114 million equivalent) will complete the US$ 1.4 billion (€1.1 billion equivalent) financing together with a US$ 350 million loan (€265 million equivalent) from the EIB and a package of financing and guarantees from Korea’s Eximbank and K-Sure with SMBC, Standard Charter and Mizuho participation. The hedging facility for the transaction is provided by some of the lenders as well as Deutsche Bank.

The Eurasia Tunnel is designed to improve traffic management in this highly congested city of 13 million, on completion in 2017. It will connect Istanbul’s European and Anatolian sides – and, wider, Turkey’s European and Asian road networks. As the first major PPP in the road sector with predominantly foreign financing, it will open the way for the financing of Turkey’s impressive pipeline of infrastructure projects.

With the expansion to SEMED in 2012, SBS is now operating in 25 countries in south-eastern Europe, eastern Europe and the Caucasus, Central Asia, Russia and SEMED.
TRANSPORT

The EBRD supports the development of efficient, reliable and secure transport systems in its countries of operations along predominantly six lines of transport: aviation, ports, railways, roads, shipping and logistics.

For the last four years, its investment in the transport sector has consistently been in excess of €1 billion annually. The Bank signed 26 transactions in 2012 for a total EBRD commitment of €1.3 billion. New business was geographically and sectorally diverse, ranging from relatively small road improvement projects in early transition countries such as Tajikistan, to large infrastructure projects in Turkey and Russia that will shape those regions for decades to come.

The development of safe and efficient transport networks is fundamental to economic growth and well-functioning markets in the EBRD’s region. The Bank’s activities in 2012 continued to focus on actively addressing the constraints on commercial activity and competitiveness caused by inadequate transport systems, with a particular emphasis on supporting public-private partnerships (PPPs) and private sector operations. The proportion of financing to sovereign clients increased slightly from 40 per cent in 2011 to 50 per cent in 2012, largely as a result of the Bank’s €107.7 million loan to the government of Kazakhstan for upgrading the Shymkent-Tashkent Road. While the Bank’s transport sector projects continued to mobilise significant co-financing with other international financial institutions (IFIs) such as the European Investment Bank (EIB), 2012 saw a substantial step-up in private capital mobilisation.

Sustainability is a key investment theme for the Bank in the transport sector. In addition to securing the financial sustainability of transport operators through measures such as corporate governance improvements, sector reform and policy dialogue, the Bank also focuses on environmentally responsive and sustainable transport systems. Key elements of the Bank’s impact in this sector include regional integration, intermodal transport systems, energy efficiency, road safety and stakeholder engagement.

ROAD

The road sector provided two of the Bank’s largest infrastructure projects during 2012, with a €200 million transaction for the Western High Speed Diameter (WHSD) project in St Petersburg, Russia, and €114 million for the Eurasia Tunnel in Turkey. Both projects pioneer the use of PPP in their respective markets. The WHSD project will divert up to 140,000 vehicles a day from the city centre and connect 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 Eurasia Tunnel will be constructed under the Bosphorus straits to address growing congestion in the Istanbul region, strengthening Istanbul’s position as an international air hub by allowing faster transport possibilities from airports on either side of the Bosphorus (refer to box on page 25).

Smaller road transactions signed in 2012 included projects in Albania, Armenia, Bosnia and Herzegovina, Moldova and Tajikistan. The impact of these projects – including the Bank’s role in mobilising co-financing – is illustrated by the Armenia Northern Corridor Modernisation Project to modernise cross-border infrastructure at Bagrataashen on Armenia’s frontier with Georgia.

RAIL

The Bank’s largest rail sector project in 2012 was a €95 million sovereign-guaranteed loan to JSC Serbia Railways for the rehabilitation of sections of Corridor X, the main north-south route running through Serbia and a key regional link with neighbouring countries. Other sovereign loans signed in 2012 include support for the emergency rehabilitation of rail infrastructure in Montenegro, and a commitment of approximately €100 million for railway corridor rehabilitation and the purchase of modern, energy-efficient rolling stock. In Serbia and FYR Macedonia in particular, the Bank has engaged with the rail companies and supported their efforts to build capacity on energy management through technical cooperation funds for the implementation of energy management systems.

Rolling stock renewal is also the objective of the Bank’s additional €47 million loan to the State Administration for Railway Transport of Ukraine. This funding increases the loan to one of a similar size and purpose provided by the Bank in 2009, demonstrating the progress of sector reform achieved by the national rail operator with the EBRD’s support.

Underlining the importance of private sector participation in the reform of railways in the EBRD’s region, as well as its ability to mobilise local currency financing, the Bank signed up to a 2.5 billion Russian rouble loan (€60 million equivalent) to Globaltrans to assist one of Russia’s leading private freight trail transportation groups in the modernisation of the Russian freight rail industry. This is the EBRD’s first rouble-denominated transaction using the RoiSfix index. 2012 also saw the EBRD participate in Brunswick Rail’s US$ 600 million Eurobond debut, with an amount of US$ 25 million (€19 million equivalent).

MARITIME AND INTERMODAL

The maritime and intermodal sectors offer significant growth potential in many of the EBRD’s countries of operations, and the Bank continued to support liberalised transport activities and privatisation in 2012 through investments to remove capacity constraints and drive down supply chain costs. Key projects signed during the year included a €32 million loan for the expansion of container handling operations at Klaipeda port, Lithuania, providing additional gateway capacity for Lithuania and transit markets, and transforming the current terminal into a regional trans-shipment hub at the leading edge of port technologies. In the Autonomous Republic of Crimea, Ukraine, the Bank is extending a US$ 10 million loan (€7.6 million equivalent) to the Sevastopol-based shipping company Yugreftransflot to support the acquisition of two multi-purpose dry cargo vessels.
BOOSTING TOURISM INFRASTRUCTURE
Croatia
The EBRD is financing the expansion of ferry and cruise passenger operations in a country looking to accommodate growing tourism. This contract is expected to be tendered towards the end of 2013 and awarded in early 2014. The works will be carried out over a three-year period and are expected to be completed in early 2017.

The €18.8 million sovereign-guaranteed loan to the Port of Split Authority will be used to extend and reconfigure the passenger wharves.

At present, Split is unable to benefit from growing cruise traffic due to its inadequate berthing infrastructure. The extension and rehabilitation of the wharves will increase capacity to enable handling of large and medium-sized ships and relieve congestion at the existing ferry berths.

The project will also enable the Port of Split to become the first cruise port member of EcoPort in the Adriatic Sea and the first port to receive Port Environmental Review System (PERS) certification in the EBRD region, both factors which should have a positive demonstration effect in the region.

DELIVERING IMPACT THROUGH THE NEW MEI STRATEGY

Under its new strategy, MEI will afford even greater tangible benefits across the region. The three pillars of MEI will remain as decentralisation (to be responsive to people’s aspirations as citizens), commercialisation (to promote efficient services assisting people as economic agents), and environmental improvement including climate change mitigation (to address people’s concerns as infrastructure users).

Beyond these pillars, the new strategy seeks to mainstream certain areas of focus, in particular policy dialogue to leverage transition, robust measurement of results, more work with smaller municipalities, gender and inclusion building on MEI’s early successes, and climate change mitigation to support resilience measures.

This agenda faces challenges due to economic conditions, public budget constraints and the dearth of commercial capital, which makes the financing of infrastructure projects more difficult. MEI therefore will continue to mobilise partners, notably donors without which MEI would not exist; the European Union whose structural funds as well as environmental standards have a major impact; and other IFIs.

AVIATION
The EBRD increased its activities in the aviation sector in 2012 with the approval of two projects representing a total commitment of €111.2 million. In Ukraine, the Bank provided a €41.2 million loan to UkSATSE, the Ukrainian air navigation services provider, to finance the technological update of its equipment and operations to comply with European industry standards and in Turkey supported private sector engagement in the development of a new domestic passenger terminal at Izmir Airport with a €145 million syndicated loan.

DONOR COMMUNITY
The generosity of the Bank’s donor community underpins the ability to provide significant support to the transport sector, ensuring the successful delivery of key transport infrastructure projects and sector reform. For further information, refer to the Donor Report 2013. The EBRD’s donors provided total funding of €14 million during 2011 covering all subsectors and supporting 25 assignments.
MUNICIPAL AND ENVIRONMENTAL INFRASTRUCTURE
The Bank’s operations in the municipal and environmental infrastructure (MEI) sector make a significant difference to people’s welfare and quality of life by helping local governments and private operators deliver essential urban services such as water and wastewater, public transport, urban roads and lighting, solid waste management, district heating and energy efficiency.

The Bank financed 33 projects in the MEI sector during 2012 (2011: 35 transactions), representing a total EBRD commitment of €554 million (2011: €596 million) and leveraging significant volumes of loan and grant co-financing from the European Union and other sources (€895 million in 2012). The integrated use of technical cooperation and policy dialogue alongside these investments continued to form a key part of the Bank’s work in the MEI sector, and important progress was also made during the year to develop the EBRD’s role and project pipeline in the SEMED countries. The Bank’s continued commitment to innovation, transition and sustainability in the MEI sector was underlined by the approval of its new MEI strategy in June 2012.

The EBRD’s countries of operations face significant challenges in their municipal infrastructure due to decades of under-investment, limited access to finance as a result of the economic crisis, and emerging sustainability pressures such as urbanisation, water scarcity and climate resilience. An estimated 26 million people in the EBRD’s region do not have access to an improved water supply; 86 million only have access to sub-standard or shared sanitation; and tens of thousands of towns and cities await rehabilitation of their district heating systems on which many people in the EBRD’s countries of operations depend. Although the Bank’s potential recipient countries – Egypt, Jordan, Morocco and Tunisia – have a very different set of needs compared with other parts of the EBRD’s region, the challenges – and opportunities – are no less significant.

The EBRD helps its clients to respond to people’s needs for municipal and environmental services through more effective, efficient and financially sustainable delivery. Since entering the MEI sector in 1994, the EBRD has signed 327 transactions and committed €5.3 billion of its own resources. Since inception, some 220 cities across the EBRD region have benefited from an MEI investment.

Donor generosity continues to be central to the Bank’s operations and impact in the MEI sector. (Refer to the Donor Report 2013.)

WATER AND WASTEWATER
Projects in the water and wastewater sector accounted for around 40 per cent of MEI operations signed in 2012, a clear increase from 2011. The Bank signed 25 projects during the year for a total commitment of €228 million to improve the quality and efficiency of drinking water, sewage and effluent treatment services for under-served populations in Belarus, Bosnia and Herzegovina, Croatia, Kazakhstan, the Kyrgyz Republic, Romania, Serbia, Tajikistan, Turkey and Ukraine. In Romania, the Bank’s strategy focused on helping regional water companies access grant funding from the EU Cohesion Fund and align their water and wastewater services with EU standards: the Bank’s operations mobilised over €560 million in such grant co-financing in 2012 (2011: €642 million). New transactions in 2012 included the Bank’s first ever major project in the Crimean Republic in Ukraine: a €10 million loan for water and wastewater infrastructure that will help to clean up the Black Sea resort area in the Greater Yalta region.

The transition impact of the Bank’s operations in the water and wastewater sector continued to be significant. The Crimea project, for example, will not only improve people’s access to quality services and address important environmental and health issues, but will also improve the efficiency and competitiveness of the utility through the implementation of a new tariff methodology and meter-based billing for all customers. In Tajikistan, the transactions signed by the Bank in 2012 are part of a longer-term EBRD programme of upgrading the country’s water supply systems in 23 cities: making safe drinking water available to 960,000 people, and helping water companies improve their performance through better corporate governance, transparency and financial sustainability.

URBAN TRANSPORT
Repeating the trend of 2011, urban transport represented a third of MEI’s investments in 2012 with €191 million committed (representing 34 per cent of total commitments) across six operations. The EBRD’s activities in the urban transport sector continued to focus on green investments that maximise energy efficiency or low-carbon transport. The Bank’s €20 million loan to the Romanian city of Arad, for example, includes the acquisition of new energy-efficient trams, the modernisation of the main depot infrastructure and the introduction of e-ticketing.

ENERGY EFFICIENCY
The EBRD committed a total of €113 million to five energy efficiency projects in 2012. The sector provides significant opportunities to improve people’s lives through more efficient and reliable services that also help to mitigate and adapt to climate change. For this reason, the Bank focuses on innovative projects where technical cooperation, policy dialogue and sector reform play a key role alongside capital investment.

Notable projects in 2012 include two projects in district heating and waste-to-energy with the city of Aktau, Kazakhstan, where the Bank is providing much-needed local currency financing that will also mobilise significant co-investment from the multilateral Clean Technology Fund (CTF). The Aktau water and district heating company will receive an EBRD loan of up to 1.2 billion Kazakh tengi (€6 million equivalent) and up to US$ 4.3 million (€3.2 million equivalent) from the CTF to modernise the city’s infrastructure and so reduce energy losses, lower carbon emissions and improve environmental standards. The Bank is also extending a 2.4 billion Kazakh tengi (€12.7 million equivalent) loan to establish a modern integrated waste management facility that will generate electricity from landfill gas recovery and the anaerobic digestion of organic waste. The CTF is co-financing this project with an US$ 8 million (€6 million equivalent) loan.
DELIVERING MODERN HEATING SYSTEMS
Russia

The EBRD is providing up to 3 billion roubles (€75 million equivalent) to modernise and increase the energy efficiency of district heating systems in a permafrost area in the Far Eastern part of Russia, where the heating season lasts 10 months a year and winter temperatures drop to minus 50 degrees Celsius for extended periods. The proceeds of the Bank’s 13-year loan will fund a capital investment programme in a number of northern settlements in the Republic of Sakha, also known as Yakutia.

The cost of heating services per square metre in Yakutia is the highest in Russia. Fuel and transport account for 75 per cent of such operational costs. But there is a large potential for savings, particularly if locally sourced fuels can substitute expensive sea-borne oil supplies. In particular, the loan will finance the replacement of both heat-generating facilities and heat-distribution systems in the ports of Tiksi and Cherskiy in the Arctic region.

These two ports provide a lifeline for remote inland communities, storing supplies that are shipped by sea during the summer for onward transportation into the interior along frozen roads once winter sets in. Due to the permafrost, no roads exist for the rest of the year.

SUPPORTING PRIVATE SECTOR PARTICIPATION
Egypt

In 2012, the EBRD initiated an equity investment in the New Cairo wastewater treatment plant in Egypt, one of the country’s first public-private partnerships (PPPs). Developed by the government of Egypt, the project is a 20-year concession to build, own and operate a €101 million, 250,000 m³ per day wastewater treatment plant which was awarded to Orasqualia in 2008.

The presence of the EBRD in the concessionaire is expected to be a stabilising force with strong demonstration effects to ensure the success of this PPP in the post-“Arab uprising” era. It should also enhance the prospects for Egypt’s ambitious PPP programme, which is at the core of the Bank’s approach to infrastructure in the country.

CASE STUDY
SUPPORTING PRIVATE SECTOR PARTICIPATION
Egypt

CASE STUDY
DELIVERING MODERN HEATING SYSTEMS
Russia

SMALLER MUNICIPALITIES

The EBRD continued to expand its focus on smaller municipalities in 2012. Many smaller municipalities in the Bank’s countries of operations face specific challenges in financing the renewal and improvement of public infrastructure, requiring innovative responses to support project preparation as well as access to finance, ideally in local currency. Where affordability issues are at play, the Bank works with donors such as the EU Investment Facility for Central Asia (IFCA), the Netherlands, the EBRD Shareholder Special Fund and Switzerland, sometimes through framework approaches, to ensure the most efficient use of scarce grant resources.

In 2012 MEI also pioneered regional risk-sharing facilities involving commercial banks in order to extend the EBRD’s reach while upholding high standards.

A key project in 2012 in this respect was a municipal infrastructure facility of up to 3,900 million Russian roubles (€95 million equivalent) with Raiffeisen Bank Russia (RBRU) to finance small and mid-sized municipal infrastructure projects in Russia (see also the Donor Report 2013).
POWER AND ENERGY

2012 was a sobering year for the power sector. Not only was it the final year of the first Kyoto Protocol commitment period it was also the year in which the International Energy Agency announced that annual global CO₂ emissions from fossil fuel combustion had reached a record high. In this context there was a continuing trend of worsening availability of capital for major investments and pushback in many countries against renewable energy subsidies.

Despite these headwinds the EBRD invested nearly €1.1 billion in 24 projects across 13 different countries. Amid growing regulatory uncertainty in many countries, more than half of those transactions were investments in renewable power generation – 14 projects totalling more than €300 million. The bulk of the rest were in conventional generation, with two investments in transmission and distribution networks.

RENEWABLES

Decarbonising the electricity sector is an essential part of the long-term transition to a low-carbon economy. This is a lengthy and increasingly challenging process, particularly as the percentage of renewables in electricity supply reaches levels that create significant demands for backup power and network capacity. For the EBRD the initial challenge is to help establish the first renewables projects in its region – to build confidence among investors, regulators and industry participants that such projects can be implemented. Then the EBRD’s role is to support the roll-out of such projects, helping them become routine and widely accepted. Lastly the EBRD works to entrench and optimise the renewables sector – supporting updated regulatory frameworks, more diverse financing techniques and a mature, liquid market. The goal is that renewable energy ceases to be a niche area, reliant on subsidies and special treatment, and instead becomes a participant in the energy market on equal terms with conventional generation.

The EBRD’s activities in 2012 spanned this entire range. Notably the Bank financed the first ever wind farm in Mongolia (see case study) as well its first wind farm and first solar project in Ukraine. The Ukrainian projects are closely linked to years of policy dialogue and technical cooperation. The €4 million funding for a 4.5 MW solar project in Vinnitsa, south Ukraine, was also a landmark as the EBRD’s first solar project – in a sector that is becoming increasingly mainstream.

In more mature markets the EBRD funded a series of large wind farms, maintaining the momentum of this sector amid the challenges of capital scarcity and regulatory uncertainty. Elsewhere the EBRD continued to make good use of sustainable energy frameworks to fund small-scale renewable projects, notably a further four small hydropower projects in the Western Balkans and a biomass project in Croatia.
CONVENTIONAL GENERATION – THE MODERNISATION CHALLENGE

Despite the recent surge in renewables, conventional generation remains the backbone of the power system. In the EBRD’s countries of operations it is therefore crucial to renew ageing infrastructure in order to ensure a supply that is sustainable, affordable and secure. A landmark transaction in this context was the EBRD’s 4 billion Russian rouble (€100 million equivalent) loan to Russia’s Far East Energy Company, which is responsible for providing heat and power in eastern Siberia. The loan will fund the construction of a state-of-the-art gas-fired combined heat and power plant at the port of Vladivostok to replace decades-old coal-fired capacity. It will be the first new plant built in the region in the last 30 years and will result in major environmental improvements – reducing CO₂ emissions by 700,000 tonnes annually and dramatically cutting emissions of local pollutants such as dust and nitrogen oxides.

The modernisation of the power sector requires more than just physical renewal. The right role needs to be found for the private sector and for commercial incentives to drive efficiency and innovation. The EBRD’s transition mandate recognises this close link between market structures and physical outcomes. Another 2012 transaction in the Russian power sector reflected this agenda directly: namely a 9.6 billion Russian rouble (€240 million equivalent) convertible loan to the state-owned generator InterRAO. The loan is linked to a package of corporate governance and environmental reforms geared to prepare the company for a possible international public offering.

NEW BEGINNINGS – THE SOUTHERN AND EASTERN MEDITERRANEAN

2012 was also the year in which the EBRD started operating in four countries in the SEMED region. In these countries the power sector presents enormous challenges – the young, growing societies of the region are driving demand up, high subsidy levels obstruct both energy efficiency and investment incentives, and the nexus between water and energy is particularly acute. At the same time the region has some of the best wind and solar resources in the world.

The EBRD signed its first power transaction in the new region of operations in December. Alongside the US Overseas Private Investment Corporation, the EBRD provided €125 million of debt and hedging facilities to the AES-Mitsui sponsored Al Manakher IPP4 power project in Jordan. This 240 MW plant will use state-of-the-art engine technology to provide highly flexible peaking power – capable of responding rapidly to changes in demand. This will meet Jordan’s urgent need for power, as its growing society and economy strain the existing system beyond its capacity. But in the medium term the plant is also essential to facilitate Jordan’s ambitious programme to install over 1 GW of renewable capacity by 2020. Jordan has great potential in this area – it is particularly suited to solar power but the intermittency of wind and solar requires highly flexible backup power such as that provided by IPP4.

As in previous years the range of the EBRD’s activities in the power sector spanned countries of operations that are early or advanced in the transition process and that have many different challenges. But common themes emerge – the urgency of the decarbonisation agenda, the challenge of integrating new sources of energy, the difficulty of finding the right market and regulatory framework for such a complex sector and the scale of investment needs. These themes will dominate the EBRD’s work in this area in 2013 and beyond.
NATURAL RESOURCES
For those countries with natural resources, production can be a major contributor to economic growth. In addition, to sustain development, all countries need safe and secure access to clean and efficient fuel.

This is a vital sector for many transition countries. The Bank’s operations within natural resources encompass all upstream, midstream and downstream activities in the hydrocarbon and mining sectors.

About one-third of the EBRD’s projects are in the “resource-rich” countries of Russia and Central Asia, and for those countries the development of these resources contributes greatly to economic growth and social development.

As in previous years, in 2012 the EBRD continued its focus on the following critical issues: improved environmental, social, corporate governance, transparency standards, enhanced energy efficiency and energy security.

Although still representing a smaller proportion of the natural resources portfolio, the EBRD has also continued expanding its involvement in the mining sector. The mining sector is a major contributor to economic growth in several of the EBRD’s countries of operations, with many local communities often being entirely dependent on it for their livelihood. This applies particularly to countries such as Russia, Mongolia or the Kyrgyz Republic where mining is not only one of the main contributors to economic growth and fiscal revenues but also a major source of export revenues.

But the potential benefits from relying on natural resources are dependent on the extractive industries and associated revenues being developed and managed responsibly. In 2012, the EBRD concluded its first Mining Policy, distinct from its existing Energy Policy, incorporating these concepts of responsible development. Over the last two decades, international understanding of how drilling and mining operations can be better run has improved, with more attention to sustainability. Best practices in addressing environmental, health and safety and social issues have made significant advances, and good governance and economic management are now regarded as key issues. For example the Extractive Industries Transparency Initiative (EITI) has become the global standard for transparency and reporting in this area. In this respect the Bank will continue to focus on significant transition challenges that still exist across several of its countries of operations, including promoting a balanced development of the sector with that of the wider economy, the needs of local communities and environmental and social considerations, the application of the newest technologies and of higher governance standards.

In addition, in 2012 the EBRD again moved to ease the pressure posed by continuing financial market turbulence. While experiencing high commodity price levels, natural resources companies have not been immune to the economic crisis. EBRD financing has prevented natural resources clients from postponing critical investment plans and from compromising on the environmental and energy efficiency standards of their investments.

In 2012 the EBRD again signed 17 transactions, for a new record overall volume of approximately €673 million in debt and equity investments in countries such as Albania, Armenia, Belarus, Bulgaria, Kazakhstan, Mongolia, Poland, Russia and Ukraine. These results partly reflect the EBRD’s support in these turbulent times to smaller, private companies operating in a still state-dominated sector, including a significant amount of equity investments.

NUCLEAR SAFETY
The EBRD manages six nuclear safety donor funds and their associated programmes on behalf of more than 40 donor governments who have provided more than €3.5 billion for the purpose. In addition the EBRD’s shareholders provide €325 million of the Bank’s capital towards the completion of projects in Chernobyl.

There have been significant milestones in 2012 and a number of important projects have been successfully completed. The largest project to be financed is the construction of a New Safe Confinement (NSC) to cover the destroyed unit 4 of Chernobyl nuclear power plant (NPP). In November 2012 the first segment of the arch-shaped confinement was assembled at a safe distance from the unit and lifted to an intermediate height of 22 metres. The successful operation was the culmination of years of meticulous planning, design and preparatory works as well as the manufacturing and transport of steel elements. Five thousand of the overall required 29,000 tonnes of steel have been assembled. Once completed the NSC will have a span of 257 metres, a length of 164 metres and a height of 110 metres and will be slid over the destroyed unit. It will protect the environment from radioactive materials and provide equipment to safely dismantle the existing structure built after the 1986 accident and eventually remove the radioactive inventory. Completion of the NSC is currently scheduled for the end of 2015.

On 14 September 2012 the nuclear safety programme, financed from the Northern Dimension Environmental Partnership (NDEP) Nuclear Window, achieved a crucial point when the service ship Lepse was safely transported from its mooring place in Murmansk to a specialised shipyard. The Lepse is an ageing ship that has in the past been used to transport nuclear fuel from and to nuclear submarines of the former Soviet northern fleet. For the last few decades, however, it has been a floating spent fuel storage vessel,
NATURAL RESOURCES

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But the potential benefits from relying on natural resources are dependent on the extractive industries and associated revenues being developed and managed responsibly. In 2012, the EBRD concluded its first Mining Policy, distinct from its existing Energy Policy, incorporating these concepts of responsible development. Over the last two decades, international understanding of how drilling and mining operations can be better run has improved, with more attention to sustainability. Best practices in addressing environmental, health and safety issues as have made significant advances, and good governance and economic management are now regarded as key issues. For example, the Extractive Industries Transparency Initiative (EITI) has become the global standard for transparency and reporting in this area. In this respect the Bank will continue to focus on significant transition challenges that still exist across several of its countries of operations, including promoting a balanced development of the sector with that of the wider economy, the needs of local communities and environmental and social considerations, the application of the newest technologies and of higher governance standards.
DONOR ACTIVITIES AND POLICY INITIATIVES

35 Donor funding in 2012
35 Donor partnerships
36 Sustainable Energy Initiative
37 Food security
37 Local Currency and Capital Markets Development Initiative
37 Gender
37 Early Transition Countries Initiative
38 Western Balkans

CASE STUDY
REDUCING CARBON EMISSIONS
Ukraine

The EBRD has provided €13.3 million for a wind farm in western Ukraine to improve power-supply reliability and reduce carbon dioxide emissions. The loan showcases the SEI integrated approach to sustainable energy including policy dialogue, project funding and global climate finance. The financing consists of a €9.5 million loan from the EBRD and €3.8 million loan from the Clean Technology Fund (CTF). Eco-Optima, the company implementing the project, will use the funds to build and operate a wind farm with a capacity of 12.5 MW, supplying power to more than 10,000 households. When the plant becomes fully operational, the expected carbon emission reductions will amount to about 26,000 tonnes a year.

This is the first project under the €70 million EBRD-led Ukraine Sustainable Energy Lending Facility, which aims to foster private sector renewable energy projects in Ukraine. The EBRD contributes €50 million and €20 million comes from the CTF, with the Global Environment Facility (GEF) providing €5.7 million of technical assistance funding for project preparation and regulatory work.
Climate change, sustainable energy, food security, opportunities for women and access to local currency finance are key investment themes and reform priorities across all parts of the EBRD’s region. But the EBRD’s countries of operations vary widely in their transition challenges, requiring in-depth country knowledge and targeted geographical initiatives to overcome the obstacles to recovery and growth. The Bank works closely with its donor governments to apply catalytic grant funding to initiatives and operations where it can have the greatest added value and impact.

**DONOR FUNDING IN 2012**

Close donor relations and access to donor grants remained vitally important for the Bank’s activities across its region of operations in 2012. Twenty-three bilateral and multilateral donors contributed almost €178 million. This funding helps to extend the range and depth of the Bank’s investments, balancing risks and rewards, temporarily compensating for market failures and supporting the development of market-based institutions, skills and behaviour. The EBRD’s donor funds portfolio is currently weighted towards bilateral (80 per cent by volume) and project-specific (62 per cent by funding). Last year donor funding supported 562 technical cooperation projects for €128.7 million.

The European Union (EU) is the EBRD’s largest single donor, contributing 45 per cent of donor funding received over the last five years in support of the Bank’s activities across the EBRD region. In 2012 the EU provided support worth over €92 million, over half of the donor funding provided to the EBRD. Bank projects in EU member states have also benefited from funding through the Structural and Cohesion Funds. In recent years EU funding has increasingly been channelled through a number of regional facilities created to blend EU grants with investment financing from European financial institutions. These facilities include the: Neighbourhood Investment Facility, the Investment Facility for Central Asia and the Western Balkans Investment Framework.

In 2012 the EBRD Shareholder Special Fund (SSF) continued to complement contributions from donors with total commitments of €35.3 million for 166 projects.

For more detailed information on the donors involved, see Donor Report 2013.

**DONOR PARTNERSHIPS**

Generous donor support enabled the Bank to start technical cooperation (TC) activities in the SEMED region in 2011, and this activity stepped up significantly in 2012. Funding for around 60 TC projects was approved during the year, and over €25 million worth of TC projects was in the implementation and procurement process as of the year end. Through this funding, the EBRD is providing expertise to SMEs. The Bank is also focusing on project preparation in order to be ready for investments. One such project is the agribusiness framework established during 2012 in all four countries with companies in the food sector, and a local enterprise facility to prepare small direct financing operations. Other projects that commenced in 2012 include preparing for investments in utility companies in Jordan and Morocco.

The Bank carried out numerous sector assessments in 2012 focusing on issues such as private sector transport opportunities in Egypt, Morocco, Tunisia, and Jordan, market demand studies for sustainable energy investments in all four countries; and a commercial law assessment completed for Egypt and more are under way in Morocco, Tunisia and Jordan. Capacity building activities carried out or begun in 2012 include training of professionals of potential partner banks, technical assistance to banks to improve microfinance products and risk and balance sheet management.

The Bank is working closely with other IFIs, especially the Arab Monetary Fund, in a local capital market development initiative. This is a longer-term proposition but a particularly important area if there is to be sustainable funding for investment and growth.
SUSTAINABLE ENERGY INITIATIVE

Climate change mitigation and sustainable energy are key tenets of the EBRD’s strategy throughout its region of operations. The EBRD’s Sustainable Energy Initiative (SEI) aims to mitigate and adapt to climate change and improve energy efficiency.

In 2012 the Bank’s SEI performed strongly, achieving €2.3 billion of investment, with a total project value of €13.9 billion. This will result in 8.8 million tonnes of annual CO₂ emissions reductions and a saving of 2.79 million tonnes of oil equivalent in energy consumption. SEI investments accounted for 26 per cent of the Bank’s total annual business volume (ABV) and were spread evenly across a broad range of sectors and countries. Of particular note in 2012 was that the SEI passed the €10 billion EBRD investments mark since beginning in 2006, and also the signing of the first SEI project in the southern and eastern Mediterranean (SEMED) region, in Morocco. Donors have contributed greatly to the success of the SEI, with over €201 million in technical cooperation (TC) funding.

The EU, key donor to the SEI, is scaling up its contribution, not only for technical assistance but also for grant co-financing, in particular through frameworks such as the Neighbourhood Investment Facility (both in the eastern and SEMED region), the Investment Facility for Central Asia, and pilot projects with Structural Funds.

SEI 3

2012 was the first year of the SEI (Phase) 3 which will operate from 2012 to 2014, and will work in the following two ways:

• further development of energy efficiency and climate change mitigation, including: industrial energy efficiency, sustainable energy financing facilities, cleaner energy supply, renewable energy, municipal infrastructure energy efficiency, support to carbon market development, building energy efficiency and energy service companies (ESCOs) activity

• increased emphasis on climate change adaptation reflecting the likelihood of a significant rise in temperature, independent of further mitigating action, and the relevance of adaptation issues in the SEMED region.

The following targets were adopted for SEI 3:

• financing target of €4.5 to €6.5 billion

• annual carbon emissions target of 26 to 32 million tonnes.

SEI 3 continues relying on the EBRD’s proven business model for sustainable energy finance, which combines investments with technical assistance and policy dialogue.

INVESTING IN SUSTAINABLE ENERGY IN A CRISIS ENVIRONMENT

2012 saw a reduction in the SEI volume and the share of EBRD annual business volume (ABV) compared with 2011 (from 29 per cent in 2011 to 26 per cent in 2012). This was primarily driven by a strong fall in investments in renewable energy, which suffered owing to the economic crisis and austerity measures across the regions. Nevertheless, 2012 was notable for the first project-financed renewables projects being signed in Ukraine (see case study on page 34).
In response to the reduction in renewable energy investment volume, the EBRD managed to increase those of its sustainable energy investments directed towards municipal, transport and industry/agribusiness, by increasing client support to enhance projects with sustainable energy aspects.

Rather than fewer large projects, the EBRD found SEI volume in a wider range of smaller projects. While the SEI share of ABV was reduced, the share of EBRD projects with SEI elements increased from 29 per cent to 35 per cent. This was driven by higher SEI investments in transport and municipal infrastructure, as well as the industrial sector.

DEVELOPING A HOLISTIC APPROACH TO SUSTAINABLE RESOURCE MANAGEMENT

The imperative to address resource efficiency is now a global priority in a way that few predicted even a decade ago. Within the business culture – and in the EBRD countries of operations, the transition culture – little attention was paid to resource efficiency and waste generation went unchecked.

Long-term sustainable economic development in an era of growing scarcity of resources is fully dependent on making use of these resources in the most efficient way possible. Nevertheless, in the Bank’s region the development of these legislative frameworks and management capacity for resource efficiency remain weak, and are sometimes lacking altogether.

Recognising these challenges, the EBRD is in the process of developing and launching a Sustainable Resource Initiative, based on the proven SEI model, and set to be approved in 2013. It plans to add water and materials use within a holistic framework.

For more information, go to: www.ebrd.com/sei.

FOOD SECURITY

The donor-backed Private Sector for Food Security Initiative gained momentum in 2012 and is now operational throughout the EBRD region, including the SEMED countries. The programme mainly focuses on helping companies modernise their operations and improve their access to finance; facilitating more liquidity in primary agriculture by supporting pre- and post-harvest financing mechanisms such as warehouse and crop receipts systems; promoting private sector investment in food production and water-efficient technologies; and enhancing public-private sector policy dialogue.

Highlights in 2012 included the launch of the Direct Company Assistance (DCA) programme in the SEMED region. The goal is to enable companies to upgrade their operations and their access to financing, which will ultimately allow them to produce more food. The DCA, financed by the EU Neighbourhood Investment Facility (NIF) and the SEMED Multi-Donor Account, enables the introduction of international best practice to potential EBRD clients by engaging senior executives and specialists with extensive experience in the agribusiness sector.

Funding from the EBRD Shareholder Special Fund (SSF) enabled the Bank to continue to address cross-cutting structural issues in the agribusiness sector by supporting the introduction of warehouse and crop receipts programmes. In September 2012 the Bank and FAO organised a donor-funded conference in Istanbul to discuss global food security and to promote private agricultural investment and trade from the Black Sea to the Mediterranean.

LOCAL CURRENCY AND CAPITAL MARKETS DEVELOPMENT INITIATIVE

The Local Currency and Capital Markets Development Initiative (LC2) was launched by the Bank in 2010 with the objective of promoting the development of local capital markets and local currency lending. The initiative is now one of the key priorities of the EBRD, following the impact of the financial crisis on the economies of central and eastern Europe and the SEMED region. The Bank supports the initiative through policy dialogue, banking projects, its Treasury operations and legal and regulatory technical assistance.

An important element is the creation of the conditions and financial infrastructure that make local capital markets viable and local currency debt attractive for lenders, borrowers and investors. Assignments under the initiative in 2012 included an in-depth analysis of debt market transaction costs in countries of operations; and the facilitation of pilot corporate bond issues in several early transition countries.

GENDER

As part of the Gender Action Plan, work has continued in 2012 on pilot and demonstration projects that have further helped to position the issue for mainstreaming into the Bank’s operations. Ten investment projects in a variety of sectors (MEI, natural resources, agribusiness and financial institutions sectors) have now been identified and are being implemented. Reference to gender issues is now made in country strategies, and gender is an integral component in the new MEI strategy approved by the Bank in 2012.

Work has been done to identify gender gaps in relation to employment, pay, access to credit and property rights, which has been informed in part by the Economist Intelligence Unit’s Women’s Economic Opportunity Index for 2012 (co-financed by the Bank).

Further information can be found in the Sustainability Report 2012.

EARLY TRANSITION COUNTRIES INITIATIVE

In 2004 the EBRD established the Early Transition Countries (ETCs) Initiative to improve transition and increase financing in the Bank’s low-income, low-transition countries. The Initiative has been a strategic partnership between the EBRD and donors to mobilise higher amounts of financing and donor funds to improve the economies and standards of living of people in the ETCs. The ETC Initiative now comprises Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Mongolia, Moldova, Tajikistan, Turkmenistan and Uzbekistan – all recipients of Official Development Assistance (ODA).

Since the launch of the ETC Initiative, the annual number of projects has increased from 10 in 2003 (8 per cent share) to more than 100 in 2012 (30 per cent share). Annual business volume in the early transition countries has increased from €84 million in 2003 (2 per cent share) to over €1 billion in 2012 (12 per cent share). Since 2004, more than 650 operations have been supported by the Bank, with total financing of over €5 billion provided.

In 2010 the fund extended its assistance to Belarus and Turkmenistan.

ibid.
This financing activity has been combined with strong commitments from the donor community. The multi-donor ETC Fund, the EBRD Shareholder Special Fund, the European Union and other bilateral donors have provided around €225 million of grants. The EU has specifically designed mechanisms – the Investment Facility for Central Asia (IFCA) and the Neighbourhood Investment Facility (NIF) – to mobilise additional funding to cover investment needs in infrastructure, energy, environment and small and medium-sized business support. The facilities cover most of the ETCs.

A recent collaboration was the ETC Local Currency Loan Programme to improve local capital markets and increase local currency loans to small and medium-sized enterprises (SMEs). Prior to the large currency depreciations in ETCs during the peak of the crisis in 2008-09, all the Bank’s financing for SMEs was in foreign currency (for example, US dollars and euros). The Bank has materially reversed this trend in 2011-12. The Programme includes the Bank entering into a Memorandum of Understanding (MoU) with a country to improve local capital markets, with the Bank and donors teaming up to provide loans in local currency at affordable interest rates. MoUs have been signed in Armenia, Georgia, the Kyrgyz Republic, Moldova and Tajikistan. A broader benefit is the de-risking of the financial sector since the percentage of sector assets in foreign currency decreases. Other donor-Bank innovations during 2012 include the following:

• working with the Ministry of Finance and central banks to identify and initiate improvements to the local capital markets in the MoU countries
• implementing two new EBRD/EU programmes: (i) the SME Finance Facility for Central Asia and (ii) the Tajikistan Agricultural Programme. Both programmes include the Bank and the EU risk-sharing on a portfolio of loans targeted to micro, small and medium-sized enterprises (MSMEs) as well as mobilising technical assistance to help companies implement investment programmes
• supporting Investment Councils in Armenia, Tajikistan, the Kyrgyz Republic and Mongolia. These councils, chaired usually by the President or Prime Minister are vehicles to foster public–private sector dialogue to improve the investment climate through changes to legislation and regulation. The EBRD and donors will support the new Moldova Investment Council in 2013 following a decision by the Prime Minister to improve the investment climate and boost SME activity
• an integrated approach to deliver higher-quality water and wastewater services to the people of Tajikistan and the Kyrgyz Republic, with financing delivered to almost 20 municipalities in that period.

The Bank’s financing activity in ETCs is uniquely balanced across all sectors – a good mix of private sector and the public sector. The largest area of increased activity during the ETC Initiative has been private sector development – around 95 per cent of the projects financed have been to support the private sector. The EBRD is committed to mobilising the type and amounts of financing required by the private sector in these countries – regardless of size. Since most companies are locally owned, and considered to be SMEs by international standards, the EBRD has become more innovative and efficient at delivering financing in small amounts – 85 per cent of financings have been less than €10 million and median size has been around €2.5 million.

Operational highlights in 2012 included:

• 118 financing transactions, the third consecutive year where more than 30 per cent of the EBRD’s transactions were completed in the ETCs
• a record €1.1 billion annual business volume
• 97 per cent of the transactions, were rated by the EBRD’s Office of the Chief Economist as “good” or “excellent” for transition impact potential
• a record 25 per cent of the transactions were completed in local currency thanks to donors to the ETC Local Currency Loan Programme
• 77 per cent of transactions were targeted at SMEs – 50 financings to banks and microfinance institutions for on-lending and 41 direct financings to SMEs
• five large financings for the aggregate amount of €350 million supported the critical Mongolian mining and infrastructure sectors
• finalising the staffing for the ETC Istanbul Hub – bankers focused on financing transactions in Central Asia and Mongolia.

WESTERN BALKANS

In 2012, the EBRD has continued paying special attention to the Western Balkans, via a series of initiatives, with the aim of promoting stability, regional cooperation and economic development.

Since 1991 the Bank has invested about €6.8 billion in more than 431 projects. The impact of the crisis continues to be strong in the Western Balkans countries: with no visible sign of sustained recovery; domestic demand remaining sluggish as financial systems continue to unwind imbalances; and consumer and investor confidence remaining low. Consequently, transition lags behind compared with the region’s neighbouring countries.

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, Turkey, Bulgaria and Romania which has also been recently expanded to the SEMED region. It provides long-term financing to such businesses because their needs are not sufficiently addressed by existing financing instruments, as well as providing 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 manufacturing, agribusiness, telecommunications, property and natural resources.
The Western Balkans Sustainable Energy Direct Financing Facility (WeBSEDFF) is a regional facility for providing direct debt financing between €1 million and €6 million to local enterprises pursuing industrial energy efficiency and small renewable energy projects. WeBSEDFF provides loans, incentive payments and technical cooperation (TC) funds. To date, the Facility has financed 15 projects for €63.9 million. Eleven of these projects feature the development of small hydropower plants (SHPPs), two are biomass projects and the remaining two feature comprehensive industrial energy efficiency measures. Thanks to the WeBSEDFF financing, some 31 SHPPs will be built in Albania, FYR Macedonia, Kosovo and Serbia with an expected annual electricity generation of 386.4 GWh and expected CO₂ emission reductions amounting to 446,765 tonnes a year. The EBRD has also undertaken an institutional capacity-building programme. The objective is to propose new and/or refine existing mechanisms, procedures and standards in the area of sustainable energy, as well as to support local governments and others in incorporating and implementing sustainable energy development measures into energy market design and regulatory development.

The Western Balkans Investment Framework (WBIF) was launched by the EU in December 2009 and has developed rapidly, becoming a key instrument of support to socio-economic development and EU accession across the Western Balkans through the provision of finance and technical assistance for strategic investments, particularly in infrastructure, energy efficiency and private sector development. The framework pools resources from the European Union, 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 31 grants were approved under the framework for €59.5 million in 2012. Of these, 29 grants concern technical assistance and two focus on investment co-financing, altogether corresponding to investments of an estimated total value of €3.0 billion.

The Western Balkan Enterprise Development and Innovation Facility, an EU initiative, is expected, over 2011-15, to mobilise €1.45 million of initial capital from the European Commission, the EBRD, the European Investment Bank (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.

For further information on donor support see Donor Report 2013.
For the fourth year in succession, the Transition Report was written in the shadow of an economic crisis in the region. This year’s report analysed the importance of economic integration, arguing that the continuing turmoil in the European Union’s single currency bloc, the eurozone, was continuing to have a major impact on economies across the whole EBRD region, but especially in central and south-eastern Europe. The report assessed the potential impact of a eurozone-based banking union and asked whether this major new development will address the deficiencies of previous national-based regulatory models. The report also considered the various benefits of trade integration and the extent to which they are likely to apply in the new Customs Union between Russia, Belarus and Kazakhstan.

The Transition Report’s standard analysis of progress in country- and sector-level reforms was for the first time extended to the EBRD’s “new” countries in the southern and eastern Mediterranean (SEMED) region. For further information go to: www.ebrd.com/tr
Beyond its investments and support for economic diversification, the EBRD plays a crucial role in corporate governance and policy dialogue – areas where it plans to intensify its activity. The Bank seeks to provide a voice for its region’s prosperity and financial stability in international fora and offers leadership within its region through its engagement with government and business leaders.

**POLITICAL ANALYSIS**

The Bank’s political counsellors in the Stakeholder Relations department (SRD) provided regular updates and insights on critical political developments in the transition countries, thus contributing to policy dialogue with governments and informing the EBRD’s operations.

In 2012, SRD led a review of the Bank’s political methodology – the tools and criteria it uses to assess countries’ compliance with the political aspects of the Article 1 mandate. The review was prompted in part by the extension of the Bank’s operations to the SEMED region, and a request by the Board to review whether the methodology and criteria for applying the political aspects of the Bank’s mandate, devised and approved by the Board in 1991 in the Procedures to Implement the Political Aspects of the Mandate, allow for comparability across countries and over time and take account of specific aspects of the extended region.

The process for conducting the review involved extensive engagement with external experts and stakeholders – including UN agencies, the Organization for Security and Co-operation in Europe (OSCE), Council of Europe, the European Union, reputable think-tanks, civil society organisations and academics – to assess the functionality of existing approaches as well as to consider new approaches and features of the Bank’s political assessments. Experts from the region in which the Bank operates were also involved in the review.

The review proposed ways to update the existing methodology, as set out in the 1991 policy paper. The core elements of the existing methodology – the listing of factors that define what a pluralistic multi-party democracy is, the use of credible international reference points to inform the assessment of progress along these factors and the reliance on qualitative political judgement – remain firmly in place. As a result of the review, the Bank’s political assessments now cover more systematically the issues of political accountability, civil society and political participation, the rule of law (including control of corruption), and civil and political rights (including the rights of women and minorities).

**ECONOMIC ANALYSIS**

Economic analysis by the Office of the Chief Economist (OCE) remained at the core of the Bank’s activities in 2012, informing project selection and design, country and sector strategies, and policy dialogue with clients and governments in the EBRD’s countries of operations. OCE also continued to shape the wider debate about transition and development through its regular publications: quarterly assessments of economic prospects and forecasts, working papers, impact briefs and blogs, and the annual flagship publication, the Transition Report (see Box opposite).

Highlights of OCE’s research and analysis included:

- In 2012, the 5th round of the Business Environment and Enterprise Performance Survey (BEEPS) – a joint EBRD and World Bank project – was completed among a large sample of firms in Russia. For the first time the Russian BEEPS was representative at the regional level. The results (along with those from other surveys) were analysed extensively in a major new publication: Diversifying Russia (see page 42). Preparations were started for rolling out BEEPS V in all other EBRD countries of operations and the results are expected to be available towards the end of 2013.

- EBRD research published in 2012 using a parallel survey – the Management, Organisation and Innovation (MOI) survey) – uncovered a surprisingly wide variation in management quality across Russian firms, which may explain part of the substantial variation observed in firm-level productivity.

- In 2012, the EBRD undertook the second round of the Banking Environment and Performance Survey (BEPS), interviewing over 500 bank CEOs across almost all of the EBRD’s countries of operations. Preparations were also made to extend the BEEPS and the Life in Transition Survey (LITS) to the Bank’s new SEMED region countries.

- OCE published two Impact Briefs on recently finalised randomised control trials (RCTs), one in Bosnia and Herzegovina (go to: www.ebrd.com/pages/research/publications/special/bosnia_micofinance.shtml) and the other in Mongolia (go to: www.ebrd.com/downloads/research/economics/publications/specials/impact_ass.pdf), both in the area of micro credit.

- Significant research focused on the behaviour of international bank lending in the aftermath of the Lehman Brothers shock. For more information go to: www.ebrd.com/downloads/research/economics/workingpapers/wp0142.pdf

- OCE carried out important research on the natural resources boom in Mongolia, where two very large mining projects are expected to reach full production this decade. For more information go to: www.ebrd.com/downloads/research/economics/workingpapers/wp0138.pdf
LEGAL TRANSITION PROGRAMME

The EBRD’s Legal Transition Programme (LTP) contributes to the improvement of the investment climate in the Bank’s countries of operations by helping create an investor-friendly, transparent and predictable legal environment. The LTP is promoted by the EBRD’s Office of the General Counsel as one of its three missions, the others being (i) to provide legal advice and assistance on all aspects of the Bank’s activities and (ii) to develop a coherent jurisprudence within the Bank and assist in the development of the Bank’s strategies, policies and procedures. LTP activities focus on the development of legal rules and the establishment of the legal institutions and culture on which a vibrant market-oriented economy depends.

The Bank’s work with the LTP has continued to focus on the promotion of efficient and transparent public expenditure in a number of countries. In Albania, the Bank worked during the year to strengthen the country’s utilities procurement legislation. Similar work took place in Ukraine to improve the capacity of its public procurement review body. In addition, the Bank aided Ukraine in implementing a new national policy for public procurement and, under the joint EBRD-UN Commission on International Trade Law (UNCITRAL) initiative, to promote better public procurement in member countries of the Commonwealth of Independent States. As a result, a new legal reform project commenced in Armenia during 2012.

The LTP has also worked to improve the private sector supporting legislation in Russia through a contribution to the legislative reform regarding pledges and mortgages, as well as a new law on warehouse receipts. In Ukraine, the Bank helped with the preparation of a new law on derivatives.

With the backing of donors, the EBRD has additionally been focused on improving court performance in the area of commercial law during 2012. The EBRD Shareholder Special Fund and the ETC Fund financed initiatives in Mongolia and Tajikistan to enhance the skills of local judges when dealing with commercial matters. A number of targeted projects were also initiated in Albania, Bosnia and Herzegovina and Bulgaria to develop judicial skills in specialised topics linked to investment activities. In Moldova, the EBRD began implementing a restructuring programme aimed at merging commercial courts into the courts of general jurisdiction in an effort to curb corruption in the judiciary. The Bank also undertook work to promote mediation in commercial disputes in Moldova.

DIVERSIFYING THE RUSSIAN ECONOMY

Russia, the largest economy where the Bank operates, faces a very specific and difficult challenge – the task of diversifying the economy and ending its heavy reliance on exports of oil, gas and other minerals. The Bank’s new publication, Diversifying Russia, looks in detail at policies that can help to achieve economic diversification. The report, funded by the government of Japan, pays particular attention to Russia’s regional diversity and uses evidence from a number of surveys conducted jointly by the EBRD and the World Bank, including the latest round of the Business Environment and Enterprise Performance Survey which, for the first time, covered 37 different regions in Russia in a statistically representative way.

Despite wide recognition of the need for change, little diversification has occurred in Russia to date. The report argues that Russia needs to broaden and refocus its diversification strategy. For more information go to: www.ebrd.com/downloads/research/economics/publications/specials/diversifying-russia.pdf.

CASE STUDY

DIVERSIFYING THE RUSSIAN ECONOMY

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In the infrastructure sector, donor funding enabled the Bank to support reforms in the regulation of information and communication technology in Armenia and Georgia. The Bank also launched initiatives to help improve legislation on the energy efficiency of residential buildings in Armenia and Moldova.

In the SEMED region, the LTP has engaged in policy dialogue on improving access to finance for SMEs through reforms of pledge laws and insolvency laws (Morocco and Tunisia); promoting public-private partnerships (Egypt); and improving development and investment in the telecommunications sector (all four countries).

2012 also saw the completion and publication of the Bank’s independent evaluation report on the LTP’s activities from 2001-10. Conducted by the EBRD’s Evaluation department in conjunction with external experts, the study was conducted through a review of a sample of 30 legal reform projects and advisory projects in Armenia, Hungary, Mongolia, Russia and Serbia. Overall the programme was found to be successful due to its strong synergy with the Bank’s activities, and highly relevant due to its support of the Bank’s investments through contributions to legal improvements. The programme’s projects have made a core contribution to the transition process, influencing domestic policy formulation and contributing to stronger free market economies. The transition impact and sustainability of the programme were found to be excellent.

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

The Evaluation department’s report on the programme can be found here: www.ebrd.com/downloads/about/evaluation/121109legal.pdf

**FINANCIAL STABILITY AND ECONOMIC GROWTH**

**VIENNA INITIATIVE**
The EBRD continued to play a leading role in The European Bank Coordination (Vienna) Initiative in 2012 as a key part of the Bank’s international cooperation and policy dialogue on crisis response, crisis recovery and crisis prevention. A framework for safeguarding the financial stability of emerging Europe, the Vienna Initiative was launched in January 2009 at the height of the global economic crisis. Originally conceived as an emergency response to the threat of an exodus from emerging Europe by Western banks, it has now evolved to assume a permanent role in addressing dangers faced by the region’s financial sector. The EBRD was a lead founder of the Initiative, using its unique relationships with the private sector as well as governments and its mandate to promote transition and development through the private sector.

The Vienna Initiative 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, 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, and has now achieved its key initial objectives, including:

- the prevention of a large-scale and uncoordinated withdrawal of cross-border banking groups from the region, which could have triggered systemic bank crises not only in individual countries but in emerging Europe as a whole
- ensuring that parent bank groups maintain their exposures and recapitalise their subsidiaries in emerging Europe
- ensuring that national support packages of cross-border banking groups benefited their subsidiaries in emerging Europe and thus avoided a “home bias”
- agreement on, and the implementation of, basic crisis management principles in the EBRD region.

2012 marked a defining moment for the Vienna Initiative with the launch of “Vienna 2.0” in January 2012. The financial crisis has brought conflicts of interest between the banking sector’s home- and host-countries sharply into focus. Countries where foreign banks’ subsidiaries or branches are systemic face particular challenges in safeguarding financial stability and ensuring adequate credit supply for their economies. Vienna 2.0 was created to avoid disorderly deleveraging; ensure that potential cross-border financial stability issues are resolved; and achieve policy actions, notably in the supervisory area, that are taken in the best joint interests of home and host countries.

**JOINT IFI ACTION PLAN FOR GROWTH IN CENTRAL AND SOUTH EASTERN EUROPE**

In November 2012 the EBRD joined with the World Bank Group and the World Bank in creating a new Joint IFI Action Plan for Growth in Central and South Eastern Europe.

The Action Plan, a direct response to the continuing impact of eurozone problems on the economies of emerging Europe, includes more than €30 billion of joint commitments for 2013-14 (namely €20 billion from the EIB Group; about €6.5 billion provided by the World Bank Group and €4 billion from the EBRD). It aims to rekindle growth in the region by supporting private and public sector initiatives, including the financial sector, but also the corporate and infrastructure sectors. The initiative is modelled on the previous, successful 2009-10 Joint IFI Action Plan that made available more than €33 billion in crisis-related support for financial sectors in central and south-eastern Europe, Turkey and the former countries of the CIS.
ORGANISATION AND STAFFING

47 Corporate leadership and management structure
47 Staffing overview
49 Environmental and social sustainability
49 Engaging with civil society
50 Governance and integrity
50 Independent evaluation
53 EBRD Governors and Alternate Governors
54 EBRD Directors and Alternate Directors
55 Composition of Board of Directors’ committees
56 Further information

www.ebrd.com/loremisumdolor
Delivering the Bank’s mandate efficiently and effectively in a changing and increasingly complex world requires greater capacity for innovation and a permanent focus on continuous improvement. The EBRD’s corporate leadership, internal structure and stewardship of its human capital lie at the heart of continued success, together with an unwavering commitment to achieving the highest standards of governance, integrity and transparency in the conduct of its business.

CORPORATE LEADERSHIP AND MANAGEMENT STRUCTURE

The EBRD Board of Governors elected Sir Suma Chakrabarti as President of the Bank in May 2012. He replaces Thomas Mirow, who led the Bank from 2008. Sir Suma assumed the EBRD presidency in July and his appointment is for four years.

The Bank initiated an internal change management and modernisation process during the second half of the year to ensure that the Bank continued to be well equipped to cope with the challenges and complexities expected in the future. Actions included the formation of a new Corporate Leadership Group and the establishment of a number of consultative internal taskforces focusing on the Bank’s organisational structure and management committees; its framework for measuring the impact of EBRD operations; and a range of other operational issues including leadership and people management; and diversity and inclusion.

This work will continue into 2013, but key decisions were made in 2012. Proposals from the organisational structure taskforce (which was comprised of staff from across the EBRD) received the formal agreement of both the Board and the Bank’s management in October. The changes are evolutionary rather than revolutionary but will enable the Bank to deliver in a more effective way, enhancing the development and coordination of the strategic and policy objectives that support the EBRD’s operational activities in the region. In particular, the Board has approved a reorganisation of the roles and responsibilities of the Bank’s Vice Presidencies and an increase in the number of Vice Presidencies from four to five through the creation of a new Vice Presidency for Policy.

The creation of a Vice Presidency for Policy reflects the Bank’s intention to increase policy dialogue with governments, providing them with the support and advice that they need to reform their economies ahead of an eventual recovery. Beyond its investments and support for economic diversification, the Bank plays a crucial role in corporate governance and policy dialogue – areas where it plans to intensify its activity.

STAFFING OVERVIEW

As of 31 December 2012, EBRD staff totalled 1,649 with employees coming from 58 of the Bank’s 64 member countries. Of these staff members, 1,257 (or 76 per cent) were based in the London Headquarters. There were 392 employees (compared with 408 in the previous year) working across 35 Resident Offices in 27 countries of operations.

| PROPORTION OF STAFF BASED IN LONDON HEADQUARTERS AND THE RESIDENT OFFICES |
|-----------------------------|-----------------|-----------------|----------------|
| HQ/RO                       | Professional    | Support         | Total          |
| London Headquarters         | 940             | 317             | 1,257          | 76%           |
| Resident Offices            | 270             | 122             | 392            | 24%           |
| Total                       | 1,210           | 439             | 1,649          |               |
STAFF ENGAGEMENT
Good staff engagement is crucial to sustaining high productivity and staff satisfaction. This year the EBRD conducted a Bank-wide staff survey and achieved the highest response rate ever of 82 per cent. Henceforth, staff surveys will be conducted annually, rather than every three years, to be more responsive to staff needs and feedback.

GEOGRAPHIC MOBILITY
Bank staff may be assigned temporarily from the London Headquarters to another office in a country of operations (Resident Office), vice versa, or between two Resident Offices. These assignments are essential to the Bank’s operational focus while offering individuals the opportunity to fulfill professional goals by working in a different location.

ACTIVE ASSIGNMENTS AS AT 31 DECEMBER 2012

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Total</th>
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<tr>
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<tr>
<td>RO to HQ</td>
<td>5</td>
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<tr>
<td>RO to RO</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72</strong></td>
</tr>
</tbody>
</table>

LEARNING AND DEVELOPMENT
The range and diversity of the Bank’s learning and development portfolio aims to support excellence across disciplines and staffing levels. In 2012, a management development curriculum was introduced to augment the Bank’s leadership and management capacity in the areas of diversity and inclusion, performance management and encouraging constructive feedback.

REWARDS AND BENEFITS
The Bank aims to recruit, motivate and retain high-performing individuals on a diverse basis from across its member countries. Reward and benefit policies are designed to encourage superior performance, promote career development and provide support and security for employees and their families. In 2012, the Bank introduced a flexible benefits scheme to provide a greater degree of choice for employees in how their benefits are received.

RECRUITMENT
Recruitment was at a higher level compared with 2011 as a result of the planned expansion into the southern and eastern Mediterranean (SEMED) region. In 2012 there were 162 new hires in the Banking department compared with 141 in the previous year. In total, 232 of the 311 new hires were recruited in London and 79 in the EBRD’s countries of operations. Forty-five staff were hired specifically to focus on the new region.

The International Professionals Programme, launched in 2011 and designed to develop a diverse group of 12 talented individuals into high-potential staff and possible future leaders of the EBRD, successfully launched its second campaign in 2012. The Programme consists of a 23-month assignment whereby each participant rotates across key function areas of the Bank and into a Resident Office. For further information, visit: www.ipp.ebrd.com or view: http://bcove.me/og4hx064.

IN TOTAL,

232

OF THE 311 NEW HIRES WERE RECRUITED IN LONDON AND 79 IN THE EBRD’S COUNTRIES OF OPERATIONS. FORTY-FIVE STAFF WERE HIRED SPECIFICALLY TO FOCUS ON THE NEW REGION.
ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

Environmental and social sustainability is central to the EBRD’s activities. Through its investments in projects and its technical cooperation (TC) programmes, the Bank is making a real difference to environmental and social conditions in its countries of operations, which in turn is improving the quality of life for people across the region. In 2012 the EBRD continued to invest in energy efficiency, renewable energy, water supply and wastewater treatment systems, waste management and sustainable agriculture. An example of this work is the Lake Sevan water protection project in Armenia, where the EBRD has provided a loan alongside an EU capital expenditure grant. The project includes sewerage pipe repairs and construction of sewerage networks and wastewater treatment plants. It will help safeguard Lake Sevan, one of the largest high-altitude lakes in the world, which is a major source of livelihood for local people.

The Bank is also engaged in sustainability-related capacity building and policy dialogue across a range of issues including gender, public safety and environmental training. These initiatives often benefit from the availability of donor funding. For instance, during 2012 the EBRD undertook a comparative legal assessment of national occupational health and safety laws in Kazakhstan, Russia, Turkey and Ukraine to identify gaps which exist in national laws compared with EU requirements. The outcome of the study was a detailed analysis for each country which would assist in the development of national laws and regulations. Funding from the EBRD Shareholder Special Fund allowed this valuable study to identify a number of gaps in all four national laws compared with EU Standards, including those related to migrant workers, temporary and mobile construction sites and hazardous substances.

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 – last updated in 2008 – will be the subject of a review in 2013, which will incorporate stakeholder consultation.

More details of the Bank’s environmental and social activities and results are available in the Sustainability Report 2012.

ENGAGING 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 southern and eastern Mediterranean (SEMED).

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

The Civil Society Programme is the flagship event of the Bank’s engagement with civil society and takes place alongside the EBRD Annual Meeting and Business Forum. It provides a high-level platform for dialogue between civil society representatives and the President and the Board of Directors, senior management and Bank staff.

For further information go to: www.ebrd.com/pages/about/workwith/civil.shtml.


PROJECT DIALOGUE

In 2012 international and local CSOs engaged in dialogue with the EBRD’s representatives on a wide range of issues related to the planning, implementation and monitoring of the Bank’s investment projects in the following sectors and countries:

- natural resources and heavy industries sector in Mongolia and Armenia
- power, energy and energy efficiency sector in the Western Balkans, Georgia, Poland, Russia and Ukraine
- transport and municipal and environmental infrastructure sector in Armenia, Ukraine and the Kyrgyz Republic
- agribusiness sector in the Western Balkans.

For further information go to: www.ebrd.com/pages/project/psd.shtml.

EXPANSION TO NEW REGION OF OPERATIONS

In 2012 the Bank made a special effort to disseminate information about projects, policy and strategy reviews and activities in the southern and eastern Mediterranean (SEMED) by using social media platforms such as Facebook and Twitter to reach out to a broad range of civil society stakeholders.

From January to September 2012 the Bank organised a series of face-to-face meetings between senior management and over 150 CSOs on the ground in Jordan, Tunisia, Morocco and Egypt as well as at the EBRD Headquarters in London.


For a timeline of the department’s meetings throughout the year, see the digital edition of this report at www.ar.ebrd.com.
GOVERNANCE AND INTEGRITY

The EBRD is committed to achieving the highest standards of governance, integrity and transparency in the conduct of its business and continues to strengthen key policies and mechanisms in support of these goals.

Within the Bank, the Office of the Chief Compliance Officer (OCCO), headed by the Chief Compliance Officer who reports directly to the President and the Audit Committee of the Board of Directors, ensures that the highest standards of integrity are applied to all staff and throughout the EBRD’s activities in accordance with international best practice.

OCCO provides a range of advice and assistance in assessing and evaluating integrity and reputational risks relating to proposed and ongoing Bank transactions. It is also responsible for the investigation of allegations of misconduct with regard to staff. The types of acts or omissions by staff members that may be considered as misconduct, as well as the principles to be observed and steps to be taken with respect to reporting, investigating and, where appropriate, sanctioning the behaviour are set out in part in the Code of Conduct for EBRD Personnel and in part in the Conduct and Disciplinary Rules and Procedures introduced in 2011.

The Code of Conduct for EBRD Personnel as well as the Code of Conduct for Officials of the Board of Directors were last reviewed in 2006 and provided that the code would be reviewed no later than five years thereafter. The review exercise formally began in March 2011. Its main purpose was to evaluate whether, in light of experience, the standards of behaviour required by the Codes were sufficiently clear and robust and in line with the codes of comparator institutions. Revised codes for both staff and Board Officials were adopted by the Board of Governors and entered into force on 29 February 2012. These codes represent and articulate clearly the values, duties and obligations, as well as the ethical standards that the EBRD expects of its officials and staff. Significantly, the Codes:

- have been aligned with the current best practice of comparator organisations
- have clarified and simplified certain of the provisions of the previous Codes while providing guidance on compliance
- recognise the duty of loyalty owed by officials and staff to the Bank
- reaffirm, and in the case of Board Officials establish, the obligation to report suspected misconduct and the concomitant duty to refrain from retaliation against whistleblowers
- allow for the possibility of disclosure of alleged misconduct to local, national or supranational authorities where there is reason to believe that the laws of a member country may have been violated
- provide for a more transparent procedure for dealing with alleged breaches of the Codes.

In addition to allegations of staff misconduct, OCCO is responsible for investigations into allegations of fraud and corruption in relation to Bank projects or counterparties. In the course of 2012, OCCO received 36 separate allegations of fraud and corruption of which 24 allegations were subject to investigation under the Bank’s Enforcement Policy and Procedures (EPPs), although no Enforcement Proceedings were instituted by the Bank during the year. In addition, following the entry into force of the Agreement for the Mutual Enforcement of Debarment Decisions in June 2010, in 2012 the Bank cross-debarred 45 entities and 32 individuals based on 21 debarment notices received from the World Bank Group, 4 notices received from the Asian Development Bank and 15 notices received from the Interamerican Development Bank. The list of all EBRD debarred entities and persons can be found at www.ebrd.com/pages/about/integrity/list.shtml.

PROJECT COMPLAINT MECHANISM

OCCO also oversees the effective administration of the Bank’s accountability mechanism, the Project Complaint Mechanism (PCM), launched in 2010 to replace the Independent Recourse Mechanism (IRM). Like its predecessor, the PCM reviews complaints that the Bank has failed to adhere to applicable policies in approving a particular project and affords members of the affected community the opportunity to obtain the Bank’s assistance in a problem-solving initiative (PSI) with the project sponsor.

For further information on the PCM, see the Sustainability Report 2012.

Details of all the complaints and available reports can be found at: www.ebrd.com/pages/project/pcm/register.shtml.

Alongside the Bank’s Environmental and Social Policy and the Public Information Policy the PCM is subject to review in 2013, and at that time public consultation will be undertaken.

INDEPENDENT EVALUATION

EVALUATING THE EBRD’S ACTIVITIES

The Bank’s shareholders and management both view a credible and independent evaluation function as critical to accomplishing the institution’s core purposes.

Evaluation at the EBRD is a Bank-wide effort, incorporating multiple and interconnected roles and responsibilities for the Evaluation department (EvD), the Board of Directors and management. EvD is primarily responsible for evaluation policy and procedures, and for monitoring and delivering the Bank’s overall evaluation programme. It validates and reviews self-evaluations prepared by management, assesses the adequacy of the self-evaluation process, and conducts independent evaluations of Bank operations, programmes, strategies and policies. Its analysis is used to assess performance and identify insights and lessons from experience that the institution can then use to improve the effectiveness of future operations.
INDEPENDENCE AND ACCOUNTABILITY
Evaluation serves its core purpose in two ways:
• contributing to institutional accountability
• providing operationally relevant insights that help improve organisational learning and performance.

EvD’s evaluation practices reflect, wherever possible, a set of good practice standards which have been developed jointly by the evaluation departments of major peer multilateral financial institutions under the auspices of the Evaluation Cooperation Group.

EvD produces a range of evaluation products intended to serve different purposes. Project-specific evaluations have traditionally been the core EvD product, focusing on specific EBRD investments to assess performance and outcomes relative to design objectives and to identify lessons learned to have wider applicability. Other evaluations take a broader perspective, looking for findings and insights at a sectoral, thematic or country level by examining groups of related transactions; still others may explore issues identified as being of particular interest or topicality, and which might yield findings that help illuminate particular policy or operational challenges. Individual projects are normally evaluated one to two years after funds have been fully disbursed, once investment has been completed.

TRANSITION IMPACT AND OVERALL BANK PERFORMANCE
The criteria used to determine a project’s impact on transition typically include the degree to which the project is expected to promote private sector development, develop skills, encourage competition, support market expansion and/or contribute to transition at the policy or institutional level. During evaluation, each project is assigned an overall transition impact rating from a six-point scale: excellent, good, satisfactory, marginal, unsatisfactory and negative.

Chart 5.1 shows historical data for the transition impact ratings of evaluated projects approved between 1992 and 2008.

Of a sample of 763 projects, 56 per cent achieved a transition impact rating of “good” or “excellent,” while a further 23 per cent were rated “satisfactory”.

EvD also provides an overall performance rating which includes, in addition to transition impact, other important indicators such as the fulfilment of project objectives, financial performance, environmental performance and additionality. This final metric is an effort to gauge the degree to which Bank investment triggers or complements, rather than substitutes, private finance. Chart 5.2 shows that overall ratings of “successful” or “highly successful” have been earned by 57 per cent of evaluated projects approved between 1992 and 2008.

Aggregate results from evaluated projects are presented in more detail in the Annual Evaluation Review. In line with the Public Information Policy, key evaluation reports and summaries of project evaluations are published on the Bank’s web site and are freely available to operational staff and the public. Go to: www.ebrd.com/pages/about/what/evaluation/reports.shtml.

The evaluated performance of the EBRD’s operations has not varied much over the last 20 years, remaining generally in the range of 50-60 per cent rated “successful” or “highly successful”. The observed stability in rated performance and the lack of a trend towards rising success invites attention. EvD believes that there are probably opportunities to achieve an improved trend in evaluated performance.

APPLYING LESSONS TO NEW OPERATIONS
One of EvD’s most important and challenging tasks is to contribute to processes through which evaluation findings and lessons are used to inform and shape future operational work. This includes effective consultation between operations teams and EvD, and encapsulating and disseminating relevant lessons in a useful and accessible form. EvD discusses with management and the Board of Directors the evaluation results of individual projects, or at a more thematic or topical level. EvD also maintains an extensive database containing the findings and recommendations of its individual evaluations.

NEW DIRECTIONS FOR EVD
In 2011, following a review of its key products and processes, EvD developed a two-year Action Plan aimed at increasing the contribution of evaluation to organisational performance. In 2012, EvD made progress on the implementation of this Action Plan. The key pillars were:

• The approval of a new Evaluation Policy in December 2012. The new Policy sets out the principles guiding evaluation at the EBRD. It establishes the principle that evaluation is a bank-wide effort and not solely the responsibility of the Evaluation department. For the first time, EvD conducted a public consultation on the draft policy and received interest and comments from civil society organisations.

• The development of a new self-assessment template. A key finding of the review was that the existing templates and processes through which bankers were evaluating their own projects were inadequate for the task and in need of significant strengthening. EvD, in close cooperation with management, developed a new self-assessment template and introduced it on a pilot basis in 2012. Experience thus far suggests that improvements in quality and consistency are beginning to emerge.

• Greater involvement in staff training. EvD has worked closely with the Bank’s Learning and Development team to introduce a greater evaluation component into internal Bank training courses. A new, web-based evaluation module will become part of the compulsory training for new bankers, while the Chief Evaluator now participates in the core Banking Academy training course.

17 An edited version of the database is available on the Bank’s web site here: www.ebrd.com/pages/about/what/evaluation/lessons.shtml.
5.1: Transition impact ratings of evaluated EBRD projects shown on a three-year rolling basis by approval year, 1992-2008

5.2: Overall performance ratings of evaluated EBRD projects, shown on a three-year rolling basis by approval year, 1992-2008

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18 In 2012 EvD moved from reporting by evaluation year to reporting by approval year. Projects are evaluated a few years after approval. 2008 is the most recent approval year from which a substantial number of operations have subsequently been evaluated.
**EBRD GOVERNORS AND ALTERNATE GOVERNORS**
31 December 2012

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<th>Member</th>
<th>Governor</th>
<th>Alternate Governor</th>
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<td>Albania</td>
<td>Ridvan Bode</td>
<td>Nezir Haideda</td>
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<td>Tigran Davtyan</td>
<td>Vardan Aramyan</td>
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<td>Australia</td>
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<td>Bernie Ripoll</td>
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<td>Edith Frauwaldner</td>
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<td>Saleh Al-Khabashah</td>
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<td>Bolat Zhamishev</td>
<td>Abai Iskandirov</td>
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<tr>
<td>Korea, Republic of</td>
<td>Jae-Wan Bahk</td>
<td>Choongsoo Kim</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Vacant</td>
<td>Vacant</td>
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<td>Djoomart Otorbaev</td>
<td>Akiybek Djaparov</td>
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<td>Andris Vilks</td>
<td>Daniels Pavjuts</td>
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<td>Martin Meyer</td>
<td>Roland Marxer</td>
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<td>Inginda Simonyte</td>
<td>Rolandas Kriščiunas</td>
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<td>Luc Frieden</td>
<td>Arsène Jacoby</td>
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<td>Josef Bonnici</td>
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<td>Fernando A. Rodriguez</td>
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<td>Valeriu Lazar</td>
<td>Marin Molosag</td>
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<td>Ulaan Chultem</td>
<td>Naidansuren Zoïjargal</td>
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<td>Nemanja Pavličić</td>
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<td>Driss E. A. El Idrissi</td>
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<td>Lilliane Ploumen</td>
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<td>Robert Taylor</td>
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<td>Jacek Dominik</td>
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<td>Portugal</td>
<td>Vitor Gaspar</td>
<td>Maria Luis Albuquerque</td>
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<td>Florin Georgescu</td>
<td>Mugur Iasaescu</td>
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<td>Russia</td>
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<td>Sergey A Storchak</td>
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<td>Serbia</td>
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<td>Mladjan Dinkic</td>
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<td>Peter Kažimir</td>
<td>Jožef Makuch</td>
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<td>Janez Šušteršić</td>
<td>Mitja Mavko</td>
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<td>Luis de Guindos Jurado</td>
<td>Fernado J. Latone</td>
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<tr>
<td>Sweden</td>
<td>Anders Borg</td>
<td>Susanne Ackum</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Johann N. Schneider-Ammann</td>
<td>Beatrice Maser Mallor</td>
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<tr>
<td>Tajikistan</td>
<td>Farrukh</td>
<td>Jamshed Z. Yusufyon</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Riadh Bettaieb</td>
<td>Alaya Bettaieb</td>
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<tr>
<td>Turkey</td>
<td>Ibrahim H. Canakci</td>
<td>Cavit Dağdaş</td>
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<td>Muratniyaz Berdyev</td>
<td>Merdan Annadurdyev</td>
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<td>Ukraine</td>
<td>Yury Kolobov</td>
<td>Serhiy Arzubov</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>George Osborne</td>
<td>Justine Greening</td>
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<tr>
<td>United States</td>
<td>Timothy F. Geithner</td>
<td>Robert D. Hormats</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Rustam S. Azimov</td>
<td>Shavkat Tulyaganov</td>
</tr>
</tbody>
</table>

**CHAIR OF THE BOARD OF GOVERNORS**
2011-12: Governor for Austria (Dr Maria Fekter)

**VICE CHAIRS OF THE BOARD OF GOVERNORS**
2011-12: Governor for Norway (Mr Sigbjørn Johnsen) Governor for Slovenia (Dr Janez Šušteršic)

All the powers of the EBRD are vested in the Board of Governors. The Board of Governors has delegated many of its powers to the Board of Directors, which is responsible for the direction of the general operations of the Bank and, among other activities, establishes policies and takes decisions concerning loans, equity investments and other operations in conformity with the general directions of the Board of Governors.

The President chairs the Board of Directors. Under the direction of the Board, the President conducts the business of the Bank and, as head of staff, is responsible for its organisation and for making staff appointments.
# EBRD DIRECTORS AND ALTERNATE DIRECTORS

31 December 2012

<table>
<thead>
<tr>
<th>Director</th>
<th>Alternate</th>
<th>Constituency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memduh Akçay</td>
<td>Virginia Gheorghiu</td>
<td>Turkey, Romania, Azerbaijan, Kyrgyz Republic</td>
</tr>
<tr>
<td>Kurt Bayer</td>
<td>Eran Pollak</td>
<td>Austria, Israel, Cyprus, Malta, Kazakhstan, Bosnia and Herzegovina</td>
</tr>
<tr>
<td>Alain de Cointet</td>
<td>Jérôme Baconin</td>
<td>France</td>
</tr>
<tr>
<td>Toshiyuki Furui</td>
<td>Nobuyuki Oyama</td>
<td>Japan</td>
</tr>
<tr>
<td>Michel Grilli</td>
<td>Dominique de Crayencour</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>Werner Gruber</td>
<td>Artem Shevalev</td>
<td>Switzerland, Ukraine, Liechtenstein, Turkmenistan, Serbia, Montenegro, Moldova</td>
</tr>
<tr>
<td>Zbigniew Hockuba</td>
<td>Stefka Slavova</td>
<td>Poland, Bulgaria, Albania</td>
</tr>
<tr>
<td>Ole Hovland</td>
<td>Jorma Korhonen</td>
<td>Norway, Finland, Latvia</td>
</tr>
<tr>
<td>James Hudson</td>
<td>Vacant</td>
<td>United States of America</td>
</tr>
<tr>
<td>Suzanne Hurtubise</td>
<td>Brian Parrott</td>
<td>Canada, Morocco, Jordan, Tunisia</td>
</tr>
<tr>
<td>András Kármán</td>
<td>Klára Król</td>
<td>Hungary, Czech Republic, Slovak Republic, Croatia, Georgia</td>
</tr>
<tr>
<td>Giorgio Leccesi</td>
<td>Marco Mancini</td>
<td>Italy</td>
</tr>
<tr>
<td>Vassili Lelakis</td>
<td>Peter Basch</td>
<td>European Union</td>
</tr>
<tr>
<td>Abel Mateus</td>
<td>Anthony Bartzokas</td>
<td>Portugal, Greece</td>
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<tr>
<td>Pedro Moriyón</td>
<td>Enrique Bal</td>
<td>Spain, Mexico</td>
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<tr>
<td>Denis Morozov</td>
<td>Sergey Verkashanskiy</td>
<td>Russian Federation, Belarus, Tajikistan</td>
</tr>
<tr>
<td>Jonathan Ockenden</td>
<td>Hannah Robinson</td>
<td>United Kingdom</td>
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<tr>
<td>Eoin Ryan</td>
<td>Ole Blöndal</td>
<td>Ireland, Denmark</td>
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<tr>
<td>Joachim Schwarzer</td>
<td>Joachim Steffens</td>
<td>Germany</td>
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<tr>
<td>Jean-Louis Six</td>
<td>Irena Sodin</td>
<td>Belgium, Slovenia, Luxembourg</td>
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<tr>
<td>In-chang Song</td>
<td>Bob McMullan</td>
<td>Korea, Australia, New Zealand, Egypt</td>
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<tr>
<td>Eva Srejber</td>
<td>Kalle Killar</td>
<td>Sweden, Iceland, Estonia</td>
</tr>
<tr>
<td>Paul Vlaanderen</td>
<td>Jan Maas</td>
<td>Netherlands, Mongolia, FYR Macedonia, Armenia</td>
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</tbody>
</table>
### COMPOSITION OF BOARD OF DIRECTORS’ COMMITTEES

31 December 2012

<table>
<thead>
<tr>
<th>Audit Committee</th>
<th>Budget and Administrative Affairs Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul Vlaanderen (Chair)</td>
<td>Memduh Akçay (Chair)</td>
</tr>
<tr>
<td>Abel Mateus (Vice Chair)</td>
<td>Giorgio Leccesi (Vice Chair)</td>
</tr>
<tr>
<td>Alain de Cointet</td>
<td>Toshiyuki Furui</td>
</tr>
<tr>
<td>Michel Grilli</td>
<td>Ole Hovland</td>
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<tr>
<td>Pedro Moriyón</td>
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<tr>
<td>In-chang Song</td>
<td>Vassili Lelakis</td>
</tr>
<tr>
<td>Eva Srejber</td>
<td>Eoin Ryan</td>
</tr>
<tr>
<td></td>
<td>Jean-Louis Six</td>
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The **Audit Committee** considers the appointment and scope of work of the external auditors. It also reviews financial statements and general accounting principles, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation.

<table>
<thead>
<tr>
<th>Financial and Operations Policies Committee</th>
<th>Board Steering Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonathan Ockenden (Chair)</td>
<td>Suzanne Hurtubise (Chair)</td>
</tr>
<tr>
<td>András Kármán (Vice Chair)</td>
<td>Joachim Schwarzer (Vice Chair)</td>
</tr>
<tr>
<td>Kurt Bayer</td>
<td>Memduh Akçay</td>
</tr>
<tr>
<td>Werner Gruber</td>
<td>András Kármán</td>
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<td>Zbigniew Hockuba</td>
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<td>Jonathan Ockenden</td>
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<td>Joachim Schwarzer</td>
<td>Paul Vlaanderen</td>
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<tr>
<td></td>
<td>Enzo Quattrociocche</td>
</tr>
<tr>
<td></td>
<td>Nigel Carter</td>
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</tbody>
</table>

The **Financial and Operations Policies Committee** reviews financial policies, including borrowing policy and general policies relating to operations, as well as reviewing procedures and reporting requirements.

| The **Audit Committee** considers the appointment and scope of work of the external auditors. It also reviews financial statements and general accounting principles, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation. |
| The **Budget and Administrative Affairs Committee** considers general budgetary policy, proposals, procedures and reports. It also considers personnel, administrative and organisational matters, and administrative matters relating to Directors and their staff. |

The **Financial and Operations Policies Committee** reviews financial policies, including borrowing policy and general policies relating to operations, as well as reviewing procedures and reporting requirements.

The **Board Steering Group** facilitates coordination between the Board of Directors and management on arrangements for meetings of the Board, Committees and workshops.
FURTHER INFORMATION

EXCHANGE RATES
Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2012. (Approximate euro exchange rates: £0.82, US$ 1.32, ¥ 113.58).

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABV</td>
<td>Annual business volume</td>
</tr>
<tr>
<td>BAS</td>
<td>Business Advisory Services</td>
</tr>
<tr>
<td>CRR4</td>
<td>The fourth Capital Resources Review</td>
</tr>
<tr>
<td>EBRD</td>
<td>The European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>CTF</td>
<td>Clean Technology Fund</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
</tr>
<tr>
<td>ETC</td>
<td>Early transition countries</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>Former Yugoslav Republic of Macedonia</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communication technology</td>
</tr>
<tr>
<td>IFCA</td>
<td>Investment Facility for Central Asia</td>
</tr>
<tr>
<td>IFI</td>
<td>International financial institution</td>
</tr>
<tr>
<td>LEF</td>
<td>Local Enterprise Facility</td>
</tr>
<tr>
<td>MEI</td>
<td>Municipal and environmental infrastructure</td>
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<tr>
<td>MSME</td>
<td>Micro, small and medium-sized enterprise</td>
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<tr>
<td>NIF</td>
<td>Neighbourhood Investment Facility</td>
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<tr>
<td>OCCO</td>
<td>Office of the Chief Compliance Officer</td>
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<tr>
<td>OCE</td>
<td>Office of the Chief Economist</td>
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<tr>
<td>PCM</td>
<td>Project Complaint Mechanism</td>
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<td>PPP</td>
<td>Public-private partnership</td>
</tr>
<tr>
<td>SBS</td>
<td>Small Business Support</td>
</tr>
<tr>
<td>SEFF</td>
<td>Sustainable energy financing facility</td>
</tr>
<tr>
<td>SEI</td>
<td>Sustainable Energy Initiative</td>
</tr>
<tr>
<td>SEMED</td>
<td>Southern and eastern Mediterranean region</td>
</tr>
<tr>
<td>SHPP</td>
<td>Small hydropower plant</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<td>SSF</td>
<td>EBRD Shareholder Special Fund</td>
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<td>TC</td>
<td>Technical cooperation</td>
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<td>TFP</td>
<td>Trade Facilitation Programme</td>
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<td>WBIF</td>
<td>Western Balkans Investment Framework</td>
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<td>WeBSEDFF</td>
<td>Western Balkans Sustainable Energy Direct Financing Facility</td>
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