Overview

In 2013 the EBRD provided strong support to emerging economies, helping them back to a path of recovery despite a difficult business environment marked by general reticence on the part of investors. The Bank invested €8.5 billion in 392 projects across more than 30 countries. The EBRD's priority throughout the year was to maintain its position as a reliable partner while also breaking down barriers to investment, engaging in policy dialogue with stakeholders and promoting reforms that will encourage sustainable growth. Robust financial results at the end of the year put the Bank in a strong position for the work ahead.

OPERATIONAL RESULTS

During 2013 the global economic and political context continued to present major challenges for the countries where the EBRD invests, affecting the pace of transition and economic development. Despite this difficult investment environment, the Bank provided strong support for transition and recovery, with total annual investment for 2013 of €8.5 billion compared with €8.9 billion the previous year.

The number of EBRD operations reached 392, close to the record of 393 delivered in 2012. In November 2013, the Bank welcomed Jordan, Morocco and Tunisia as recipient countries and continued to increase its investment levels in the southern and eastern Mediterranean (SEMED) region, signing 21 operations for almost €450 million in 2013. This included six investments in Egypt for €151 million funded through the EBRD's SEMED Investment Special Fund (SEMED ISF).

A strong focus on transition impact was maintained, with 91 per cent of projects signed in 2013 assessed as having good or excellent transition impact potential. The EBRD's mandate to deliver transition and reform by working with the private sector was reflected in the private sector share of annual Bank investment (ABI)[9] which was 79 per cent in 2013, similar to 2012's 80 per cent figure. The volume of equity investments was €1.2 billion in 2013, (2012: €1.1 billion), and the equity share of annual Bank investment was 14 per cent (12 per cent in 2012).

The EBRD seeks to maximise the impact of its activities through strategic initiatives. These are designed to underpin its work in early transition countries (ETCs),[10] create conditions in which small and medium-sized enterprises (SMEs) can flourish and to stimulate and encourage the development of capital markets. These initiatives also promote climate change mitigation, sustainable energy and resource efficiency, which are important components of EBRD transition strategy in its region of operations.

Launched in 2013, the EBRD's Sustainable Resource Initiative (SRI) builds on the Bank's achievements under the existing Sustainable Energy Initiative (SEI). It extends the EBRD's activities to tackle water and materials efficiency in the countries where the Bank invests, while pursuing the SEI objectives of energy efficiency, renewable energy and climate change adaptation. The EBRD financed 32 projects with water and/or materials efficiency components in 2013 across 16 countries. In addition, it delivered strong results under the SEI, with €2.5 billion of ABI directly related to SEI activity. This is estimated to yield reductions of 6.84 million tonnes of CO_2 emissions.

Working to create the conditions in which SMEs can flourish is firmly anchored in the EBRD's transition mandate and its business model. This commitment was re-emphasised in 2013 with the launch of the Small Business Initiative, which aims to streamline and strengthen the support that the EBRD provides to SMEs. More than a quarter of the Bank's transactions in 2013 were undertaken in the ETCs with investment of almost €1.0 billion. Since most companies in these countries are locally owned, and considered to be SMEs by international standards, 89 per cent of operations had a value of less than €10 million, with an average investment size of under €3 million.

Around a quarter of ETC transactions were completed in local currency, demonstrating the importance the EBRD attaches to 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) provides a coordinated approach to policy dialogue, the EBRD's investment and Treasury operations, and legal and regulatory technical assistance. In 2013, 26 per cent of all loans extended by the EBRD were through local currency instruments aimed at reducing foreign exchange risk for the Bank's clients.

"The EBRD seeks to maximise the impact of its activities through strategic initiatives that are designed to underpin its work."

In 2013 the EBRD invested in more than 30 countries. Excluding investments in SEMED, ABI by region was as follows: Central Asia accounted for 7 per cent of 2013 activity, Turkey 11 per cent, eastern Europe and the Caucasus 19 per cent, south-eastern Europe 20 per cent, central Europe and the Baltic states 20 per cent and Russia 23 per cent.

The EBRD continued to support key economic sectors in line with its operational strategy. Annual Bank investment in the diversified corporate sectors accounted for 31 per cent of 2013 activity, the financial sector 28 per cent with SME financing a priority, the infrastructure sector 20 per cent and the energy sector 21 per cent.

The Bank's portfolio of investment operations (including undisbursed commitments) increased marginally from €37.5 billion in 2012 to €37.8 billion by the end of 2013. Reflows rose by 20 per cent, from €4.9 billion in 2012 to €5.9 billion in 2013, reflecting strong repayments supported by low impairment levels and high prepayment and divestment activity. Gross disbursements reached €5.9 billion in 2013, compared with the 2012 level of €6.0 billion, reflecting the rising impact of non-disbursing commitments such as trade finance, guarantees and restructurings. Operating assets remained constant at €26.4 billion at end 2013.

The Bank's projects included additional external financing of around €13.5 billion in 2013 (2012: €17.4 billion) with the EBRD directly mobilising €759 million of syndicated loans (2012: €1.0 billion). In addition, the Bank's activities remained strongly supported by donor funding, including the Special Funds programme and technical and investment cooperation funds.

These broad-based results reflect an ongoing commitment to the transition of countries in the EBRD region as they build and strengthen open-market economies.

[9] "Annual Bank investment" (ABI) – volume of commitments made by the EBRD in the year to finance investment operations, including restructured operations, less cancellations or sales of such commitments within the same year. In previous EBRD Annual Reports, ABI was shown as annual business volume (ABV).

[10] The early transition countries are those in the EBRD region which still face the most significant transition challenges. They are: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

FINANCIAL RESULTS

In 2013, the Bank continued to experience good financial health with a robust capital position, high levels of liquidity and strong support from its shareholders.

The EBRD recorded a net realised profit of €1.2 billion before provisions, unrealised losses on share investments and other unrealised amounts (2012: €1.0 billion). Including provisions and unrealised amounts, net profit was €1.0 billion for 2013, unchanged from 2012. The net realised profit of €1.2 billion is primarily attributable to net interest income of €845 million (2012: €875 million) and net gains, including dividends, on the equity portfolio of €544 million (2012: €304 million). This portfolio, including associated derivatives, is valued at €347 million 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 performance of the EBRD's loan assets remains relatively strong, with the average credit profile of the portfolio stable in 2013 and the ratio of non-performing loans at 3.3 per cent, in line with 2012.

At 31 December 2013 the value of assets under Treasury management was €20.0 billion compared with €20.5 billion at the close of 2012. Although Treasury is managed conservatively, and not to maximise profits, Treasury operations reported an operating profit of €176 million before hedge accounting adjustments, compared with €202 million in 2012. Despite the continued rating downgrades of Treasury counterparties, the EBRD maintained a superior average credit risk during 2013 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. The small number of non-performing assets in the Treasury portfolio, whose aggregate value was €52 million at the end of 2012, was disposed of during the year to leave no non-performing assets at the end of 2013.

The capital strength of the EBRD is reflected in its triple-A rating, with a stable outlook, which all three major rating agencies reaffirmed in 2013. The Bank raised €6.5 billion of long-term funding in 2013 under its annual borrowing programme, with an average maturity of 5.1 years. The bonds were issued in 14 currencies, with US dollar issuance accounting for 71 per cent of the total. This included three new five-year benchmark bonds for a total of US$ 3.25 billion (€2.5 billion equivalent) and the Bank's first seven-year benchmark for US$ 1.0 billion (€743 million equivalent). These bonds saw significant demand from a global investor base comprising predominantly central banks and bank treasuries.

Budgetary discipline and rigorous cost controls remained key areas of focus for the EBRD during 2013. General administrative expenses for 2013 were €345 million (2012: €295 million). Sterling general administrative expenses for 2013 totalled £295 million (2012: £260 million).

Overall, the Bank's reserves increased to €8.7 billion at the end of 2013 (2012: €7.8 billion), reflecting the net profit for the year.

Full details and financial statements are provided in the EBRD's *Financial Report 2013*.

The EBRD recorded a net realised profit of

€1.2 billion

At 31 December 2013 the value of assets under Treasury management was

€20 billion

DONOR-FUNDED ACTIVITIES

Donors play a major part in the transition process by providing financing and promoting policy dialogue that helps to prepare the way for Bank projects, foster reform and improve the investment climate. Grants from donor countries, the European Union (EU), multilateral donor funds and the EBRD Shareholder Special Fund, among others, act as catalysts for Bank investments and support key strategic initiatives across almost all of the EBRD's activities. In 2013, total donor funding amounted to €349 million.

Donors are active throughout the EBRD region and have a particular focus on those areas facing the biggest challenges: the early transition countries (ETCs), the Western Balkans and the SEMED region. Key priorities for donors in 2013 included tackling climate change and boosting energy efficiency and security; supporting small businesses; building a stable financial sector and promoting local capital market development; accelerating transition in infrastructure; fostering the region's ability to contribute to global food security; encouraging legal reform; and championing gender and social inclusion in Bank projects.

In 2013, the EBRD began implementing changes to the reporting process for technical cooperation (TC) projects to capture their outcome more clearly and include them in the Bank's overall scorecard. It also revised the approval process for TC activities to ensure they reflect donor priorities.

More information is available in the Bank's *Donor Report*.

CASE STUDY

EXTENDING RURAL ELECTRIFICATION

Morocco

An EBRD loan is supporting Morocco's goals for extending rural electricity supply and paving the way for smart metering and decentralised renewable energy generation.

The Bank provided a €60 million sovereign loan to the Office National de l'Electricité et de l'Eau Potable (ONEE), Morocco's national power utility, to support the last phase of its rural electrification programme, extending electricity supply to remote rural communities. The loan also finances a pilot smart metering project in order to help the Moroccan grid prepare for decentralised electricity generation, particularly rooftop solar voltaic.

The EBRD investment promotes systemic change in the Moroccan power sector in several ways. The loan requires ONEE to improve its environmental, corporate governance and accounting standards while a technical cooperation project will assess how the rural electrification programme can best take into account the needs of various social groups, including women. The programme will also cover health and safety, living conditions and education.

CASE STUDY

PROMOTING FINANCIAL INCLUSION

Early transition countries

Many people in the EBRD's early transition countries (ETCs) rely heavily on remittances – money sent by relatives working abroad – to meet their day-to-day living costs. But few of these remittance recipients have bank accounts or save with a formal financial institution.

In 2013 the EBRD completed a successful programme in several ETCs, including Azerbaijan, Georgia, Kyrgyz Republic and Tajikistan, to strengthen the financial inclusion of remittance recipients. World Bank figures show that in these four countries fewer than 20 per cent of adults have a bank account and fewer than 5 per cent save with a formal financial institution.

The programme, funded by the EBRD's multi-donor ETC Fund, helped to promote a culture of saving via the formal banking system and taught potential bank customers how to plan their budgets. Financial advisers provided free consultations to customers, giving particular attention to women to help them manage family budgets and plan for the future.

The programme has provided 120,000 remittance receivers with a financial consultation. Of these, 18 per cent opened a bank account after receiving training and deposited in their new accounts a total equivalent to US$ 20 million (or €15 million).

POLICY DIALOGUE, INITIATIVES AND IMPACT

To maximise the impact of its operations, the EBRD has developed a range of policy initiatives in areas of strategic importance to the countries where it invests. With strong support from donors, these initiatives coordinate efforts to address key transition challenges through investments, policy dialogue, TC and knowledge and capacity-building.

The Sustainable Energy Initiative (SEI) aims to reduce carbon emissions and make the economies of the EBRD region more energy efficient and independent. Since the launch of the SEI in 2006, the EBRD has invested more than €13.4 billion in sustainable energy projects. In 2013 SEI investments accounted for 28 per cent of ABI. The EBRD broadened the scope of the initiative by approving the Sustainable Resource Initiative, which also promotes the efficient use of materials and water.

The Local Currency and Capital Markets (LC2) Development Initiative works to mitigate key vulnerabilities that emerged in the EBRD region following the financial crisis. It aims to establish sustainable local currency financing and contribute to the development of efficient and self-sustaining local capital markets. The Bank undertakes a comprehensive approach to meet the objectives of the Initiative, working closely with other international financial institutions (IFIs). It supports this through projects which range from loans and equity investments in local currency to participation in emerging capital markets and the issuance of local currency bonds.

In response to the increased pressure on food supply resulting from climate change and the growing global population, the EBRD has developed a Private Sector for Food Security Initiative. This focuses on unlocking the vast agricultural potential of the countries in which the Bank invests, overcoming constraints on market supply and improving the efficiency of food production and distribution. In this area, the Bank works closely with partners, including the Food and Agriculture Organization (FAO) of the United Nations.

In 2013 the EBRD approved a Strategic Gender Initiative, which sets out how the Bank promotes women's socio-economic empowerment, equality of opportunity and participation in the labour market through its activities. The SGI recognises that equal opportunities for men and women contribute to the efficient use of all resources and are a fundamental aspect of a modern, well-functioning economy.

The EBRD also launched a Small Business Initiative in 2013 and since 2004 has promoted the Early Transition Countries (ETC) Initiative. Other areas of strategically-focused EBRD activity include a key role with partners in the Vienna Initiative and IFI Joint Action Plan, as well as the Legal Transition Programme and operations in the Western Balkans. For more information, see Chapter 3: "Policy dialogue, initiatives and impact".

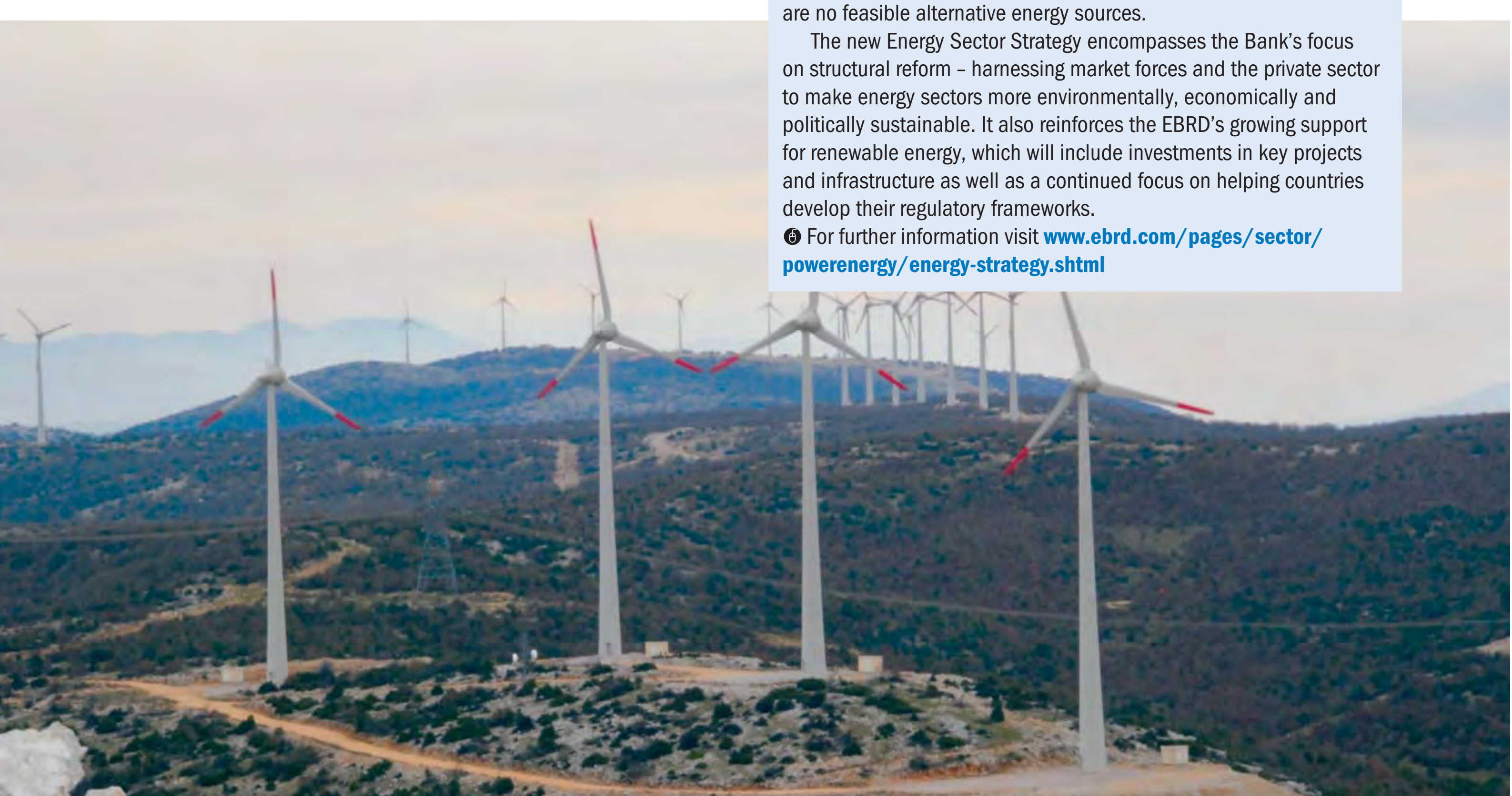
Energy Sector Strategy

In late 2013 the EBRD adopted a new Energy Sector Strategy, replacing a policy that had been in place since 2006. The Bank developed the new Strategy after more than a year of reflection and intensive consultation with civil society, academia, industry and its shareholders. In this document the EBRD, already the largest investor in renewable energy and energy efficiency in its region, sets out a commitment to helping countries move towards a sustainable energy future.

The overarching priority is energy efficiency, based on the recognition that saving energy is the first and best response to the challenge facing the EBRD region: the need to provide sustainable, secure and affordable energy. In a context in which concerns about competitiveness and affordability match the growing urgency of the transition to low carbon, energy efficiency addresses all of these issues concurrently. The Strategy also sets out a revised policy for thermal generation, highlighting that the Bank will help countries switch from coal to gas, and that it will not finance coal-fired generation except in rare and exceptional circumstances where there are no feasible alternative energy sources.

The new Energy Sector Strategy encompasses the Bank's focus on structural reform – harnessing market forces and the private sector to make energy sectors more environmentally, economically and politically sustainable. It also reinforces the EBRD's growing support for renewable energy, which will include investments in key projects and infrastructure as well as a continued focus on helping countries develop their regulatory frameworks.

For further information visit **www.ebrd.com/pages/sector/powerenergy/energy-strategy.shtml**



SOUTHERN AND EASTERN MEDITERRANEAN REGION

2013 was the EBRD's first full year of operations in the SEMED region, where it works to support economic change in the wake of the historic events that took place across the Middle East and North Africa in 2011. In this new region of investment, the Bank focuses on assisting financial institutions, developing infrastructure and supporting SMEs and other private businesses, as well as on promoting sustainable energy and energy efficiency. Through investments and other activities, the EBRD helps to address the pressing economic issues facing SEMED countries – such as high levels of youth unemployment – and contributes to a stable political future for the region.

Building on the extensive preparatory work undertaken the previous year, in 2013 the EBRD invested €449 million in 21 projects covering Egypt, Jordan, Morocco and Tunisia – commitments signed despite difficult circumstances in several of these countries.

"The EBRD helps to address pressing economic issues facing SEMED countries – such as high levels of youth unemployment – and contributes to a stable political future for the region."

The Bank opened permanent offices in Amman and Tunis while the opening of permanent offices in Egypt and Morocco is planned for 2014. It appointed heads of office and recruited staff in all four countries. In November 2013, Jordan, Morocco and Tunisia became EBRD recipient countries. Egypt continues to have potential recipient country status, which is expected to be reviewed in 2014. The Bank continues to invest in Egypt through the EBRD SEMED Investment Special Fund.

Notable investment projects in 2013 included a US$ 50 million credit line to the National Bank of Egypt to support SMEs, marking the EBRD's first investment in the Egyptian financial sector. In Jordan, the Bank invested US$ 80 million in a shopping and entertainment centre in Amman that will help regenerate the centre of the city and provide important training and work placement opportunities for young people. In Morocco, a €60 million commitment is supporting the completion of a rural electrification programme, while in Tunisia a €5 million loan went to a local software development company to support its growth. The Bank also invested in several equity funds active in SEMED countries.

The EBRD's Trade Facilitation Programme signed three agreements with banks in SEMED for a total value of US$ 175 million (€128 million equivalent) in 2013. These agreements help local companies obtain the trade finance they need to import and export goods and expand.

The Bank carried out a wide range of donor-funded activities in the new region, many of them aimed at facilitating project preparation and implementation and building institutional capacity. Since the start of EBRD operations in the region, the donor-funded Small Business Support programme has pursued 276 projects in SEMED to help SMEs access expertise and reach their growth and employment potential.

Economic inclusion

The EBRD believes that economic inclusion – the opening up of economic opportunities to previously under-served social groups – is integral to development. If people are given a chance to succeed, they are more likely to participate in the workforce, pursue education, or engage in activities that lead to economic growth. This, in turn, strengthens wider public support for economic reforms and the transition process.

For the Bank, promoting economic inclusion has become imperative in view of growing youth unemployment, the low participation of women in the workforce – especially in the SEMED countries – and the stark differences in economic performance between regions, particularly in south-eastern Europe (SEE). It also responds to the business needs of many clients, who increasingly seek ways to reach under-served groups such as women entrepreneurs or to tap under-utilised human resources.

For these reasons, in 2013 the EBRD extended its transition assessment methodology to incorporate economic inclusion into its assessment of structural transition gaps. Based on the concept of equality of opportunity, the Bank now measures the extent to which economic institutions, markets and education systems extend economic opportunities to individuals regardless of their circumstances, such as their gender, place of birth or – with regard to young adults – social background. The resulting inclusion gaps then guide the identification of projects that are either already set to narrow these gaps or that could be developed further to do so.

Economic inclusion is particularly important to four aspects of the transition process that the Bank promotes through its investments. These are market expansion (through access to labour markets and to market-based finance); skill building (at the level of clients, potential employees or suppliers); corporate standards and governance; and demonstration effects.

After a six-month pilot study ended in July 2013, the EBRD extended the inclusion methodology across all sectors and countries in which it invests. Examples of achieving inclusion impact include helping young people progress from vocational training to employment, and a project to create new credit lines for women entrepreneurs in Turkey. Other examples include water projects in rural parts of Central Asia that substantially increase access to drinking water for large sections of the local populations, thereby improving health and economic opportunities.

CASE STUDY

MAINTAINING BIODIVERSITY

Mongolia

The EBRD is the largest foreign investor in Mongolia. It works with the country's authorities and investors to develop an open, transparent market economy while caring for and managing Mongolia's environmental and socio-economic resources. For example, the Bank is carrying out technical assistance work to help the Mongolian authorities with an initiative to help maintain biodiversity and conserve the unique environment of the Southern Gobi.

Another aspect of the EBRD's technical cooperation comes in the form of support for the implementation of the Extractive Industries Transparency Initiative (EITI), a global fiscal transparency standard for the sector. Mongolia is seen as a leading EITI country. With the Bank's support, it has the potential to continue to lead global good practice in EITI implementation and broader transparency.

Among the tasks of the EBRD's Legal Transition team are the preparation of an EITI law and elaboration of an institutional framework to sustain the initiative; training; communications and public outreach; as well as the establishment of an online electronic reporting system. The Bank's backing in these areas provides the Mongolian government and civil society with key tools for the implementation of a framework for open, transparent, accountable and environmentally-sensitive extraction, benefiting all citizens.

TRANSITION PROGRESS IN THE EBRD REGION: DEMOCRATIC AND MARKET REFORMS

The EBRD monitors democratic reform in the region in which it invests, in accordance with its Article 1 mandate. The Article states that the Bank's purpose is to foster transition to open markets in countries committed to and applying the principles of multi-party democracy, pluralism and market economics. In general, countries that have joined the EU or have a strong prospect of future membership have attained a high level of democratic consolidation. Elsewhere, much of the region has seen a levelling-off of democratic progress since the early 2000s. This has been accompanied by a flattening of the market transition trajectory in the same period. These issues of countries becoming stuck in a lower-than-optimal level of political and economic reform are addressed in the EBRD's *Transition Report 2013*.

Countries in the Western Balkans region continued with democratic reforms in 2013, supported by the process of EU approximation and by intensified regional cooperation. Although inter-ethnic issues represent a long-term challenge in the Western Balkans, the process of reconciliation continued, notably through the EU-facilitated dialogue between Belgrade and Pristina. While there is no consensus in sight between the ethnic leaders and between the two entities regarding the optimal internal organisation of Bosnia and Herzegovina, progress towards a more efficient and democratic state and implementation of the EU agenda may be difficult to achieve without comprehensive reform of the constitutional set-up. In Turkey, the firm response to public protests against the demolition of Gezi Park in Istanbul raised concerns. However, Turkey's now well-established tradition of holding free elections remains intact ahead of three crucial polls in 2014-15.

The track record in the European Neighbourhood was mixed: Georgia and Moldova continued to make progress toward well-functioning democracies, which was recognised in their initialling of Association Agreements with the EU. Ukraine faced significant ongoing challenges, particularly with regard to governance and the rule of law. Towards the end of 2013, escalating popular protests called for greater democratic accountability and good governance.

"The past few years have seen a marked slowdown in economic and structural reforms, as countries in the region have grappled with the fallout from the global economic crisis."

Russia held truly competitive elections at the local level, with opposition candidates winning contests in two regions and the main opposition candidate receiving over 27 per cent of the votes in the Moscow mayor's race. However, challenges remain with regard to the enabling environment for civil society and for some minorities. Two countries in Central Asia – the Kyrgyz Republic and Mongolia – made further democratic gains. Democratic progress in most other countries in the Commonwealth of Independent States (CIS) 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 remains seriously concerned about the lack of progress on democratic reform in Belarus and Turkmenistan. It continues to employ a calibrated strategic approach to operations, matching the scope of its activities to progress against well-defined political and economic benchmarks.

The democratic transition process has been uneven in the countries in the SEMED region. In Jordan and Morocco, political reforms strengthened the role of the elected parliaments. In Tunisia, increasing polarisation led to a period of stalemate. However, an agreement reached in December 2013 indicated the willingness of the main political forces in the country to work together towards finalising the constitution and laying the groundwork for parliamentary elections in 2014. In Egypt, the political transition process that began with the uprising and change of government in 2011 was interrupted by mass demonstrations against elected President Mohamed Morsi and his ultimate removal. A period of acute violence ensued, deepening divisions within the country and raising international concerns. A new transition process and democratic roadmap were put in place, the first milestone of which – amending the 2012 constitution – was completed in December 2013. This should lay the foundations for parliamentary and presidential elections in 2014.

The *Transition Report 2013* observed that the past few years have seen a marked slowdown in economic and structural reforms, as countries in the EBRD region have grappled with the fallout from the global economic crisis. While most of the broad economic reforms introduced in the previous two decades remain intact, there are numerous examples across the region of reforms being "stuck" and failing to advance at the pace seen before the crisis. The Report analysed in detail the close interrelationships between democracy and economic reform and the reasons for the slowdown in transition-related reforms.

With regard to cross-cutting, countrywide reforms such as price and trade liberalisation, privatisation, corporate governance, and competition policy, the past year saw few significant developments in either direction. Notable positive steps that will affect the broader liberalisation agenda were Croatia's accession to the EU in July and Tajikistan's accession to the World Trade Organization in March. However, growing state interference and a weakening of institutions in charge of enforcing competition policy occurred in some of the most advanced countries in central Europe such as Hungary and the Slovak Republic.

To better define transition goals and prioritise its activities as countries make progress, the EBRD conducts an annual assessment of transition progress and remaining challenges for 16 sectors in all countries where it invests. This assessment of "transition gaps" (classified as either "negligible", "small", "medium" or "large") is made 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 a discussion of the methodology and to view the scores, see: **www.ebrd.com/pages/research/publications/flagships/transition.shtml**).

Overall, the past year saw more progress than backtracking. While deeper reforms to different corporate sectors were mostly absent, there was particularly notable progress in the financial sector, with upgrades in non-banking sectors such as capital markets, insurance and private equity. Capital market development advanced in 2013 in several countries, including Estonia and Turkey. The continued resilience of most financial sectors was encouraging, but vulnerabilities remain in a number of countries and in some cases the level of non-performing loans is still rising.

The energy sector emerged as one of the toughest policy areas in the EBRD region. The need for enhanced energy efficiency, investment in renewable energy and cost-reflective tariffs is well recognised but politically difficult to implement, particularly under economic and social pressures. As a result, political interference in the energy sector and reform reversals have become more common.

In the infrastructure sectors there are also difficult reform challenges. These are usually linked to tariff reform and the need, in many cases, for deep restructuring of large state-owned companies. Notable progress occurred in 2013 in the transport sectors of Kazakhstan and in the Slovak Republic. In the water and wastewater sector there were upgrades for the Kyrgyz Republic and Romania.

Measuring results

The EBRD has undertaken a review of how it measures its activities, with the aim of more accurately capturing the results and impact of its work and the systemic changes they bring about.

As part of its performance management system, the EBRD has revised its institutional scorecard. This provides a framework for aligning the organisation to the strategy set out by the Bank's shareholders. The EBRD has expanded its scorecard to include a results framework for the Early Transition Countries, Sustainable Resource, Local Currency and Capital Markets, and Small Business initiatives. The scorecard also includes measures for transition impact, the number of projects signed and the amount of investment provided or mobilised by the EBRD for the countries in which it works.

This review introduced a new way to measure the results of donor-funded TC projects and improve the flow of information to donors and other stakeholders. For instance, rather than simply reporting that donor funds had been used for a training programme, the results framework would also specify the expected goal of the training programme – for example, the proportion of workers able to pass a given test after training – and compare these with the actual outcome – for example, the proportion of workers that passed the test after training. Since July 2013, 100 new TC projects have been approved and their performance tracked using the new results framework.

For each project that the Bank undertakes, the EBRD's transition impact monitoring system (TIMS) tracks the results of projects under implementation and assesses their systemic impact on the transition process in countries where the Bank invests. A review of TIMS resulted in improvements to enhance the measurement of expected transition impact and actual transition results achieved for projects under implementation.

In addition, the EBRD will pilot in 2014 the introduction of a country strategy results framework which includes clear and measurable objectives for each country, based on an analysis of challenges, opportunities and risks. The framework will also take into consideration the Bank's specific transition mandate and business model and help guide the EBRD's priorities in each of the countries where it invests.

"The need for enhanced energy efficiency, investment in renewable energy and cost-reflective tariffs is well recognised but politically difficult to implement, particularly under economic and social pressures."

CASE STUDY

CUTTING ENERGY WASTE IN DISTRICT HEATING

Russia

People living in the main city on the Russian island of Sakhalin can look forward to more reliable heating and hot water services thanks to an EBRD-funded project which aims to modernise the area's district heating system. The Bank is lending 450 million roubles (€10 million equivalent) to the utility company SKK to upgrade the outdated and inefficient heating infrastructure in Yuzhno-Sakhalinsk, a city of 193,000 people.

As well as improving the service provided to residents and keeping prices at affordable levels, the investment will cut the current high rate of heat and water losses by replacing the network's old and worn-out pipes. SKK will also install heating meters in a bid to encourage residential customers to save energy. Major efficiencies in the consumption of gas, electricity, heat input and chemically-treated water are expected by 2016 as a result of the investment programme.

This project marks the first time in 20 years that Yuzhno-Sakhalinsk's district heating system has benefited from major external investment.

A technical cooperation programme funded by donors will help SKK, which is majority-owned by the city of Yuzhno-Sakhalinsk, to upgrade its pipes and other infrastructure, improve its financial and environmental management and promote service-oriented customer relations.