About this report

This year’s Sustainability Report explores how the EBRD is promoting sustainable development across its 29 countries of operations. The spotlight is on projects with a strong environmental component that were launched in 2007, but there are also evaluations of how the environmental and social impacts of the Bank’s projects have been addressed over a longer timeframe.

This year’s Report is in two parts:

**Part 01: Investing sustainably** reviews the EBRD’s investment strategy and the projects that received finance in 2007. It includes a special focus on water and waste water.

**Part 02: Working sustainably** reviews how the Bank operates, including our internal environmental performance, and outlines the Bank’s dialogue with stakeholders during the year.

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Key performance indicators
The Report includes the following indicators of the EBRD’s performance:

Management/process indicators
– monitoring and appraisal process, including monitoring visits
– staff training on the Bank’s Environmental Policy
– performance rating of EBRD-financed projects
– disclosure and consultation process

Portfolio and environmental indicators
– sector breakdown of portfolio
– environmental expenditure
– proportion of projects with potentially high environmental benefits
– proportion of projects with potentially high social benefits
– greenhouse gas emissions
– evaluating environmental performance and change rating

About the EBRD
The European Bank for Reconstruction and Development (EBRD) invests in the businesses and financial institutions that form the core of strong market economies in 29 countries from central Europe to central Asia. Our capital is provided by 61 governments and two intergovernmental institutions.

The EBRD invests in virtually every kind of enterprise and financial institution, mainly in the form of loans and equity. Investments are designed to advance the transition to market economies, to set the highest standards of corporate governance and to promote environmentally sound and sustainable development. We seek to finance only those projects that will benefit from EBRD involvement and which cannot be funded on equivalent terms by the private sector.

Sustainability underlies all EBRD investments: the Bank applies sound banking principles to all its operations, considers environmental, social and governance issues when approving new projects and encourages open dialogue and participation with key stakeholders.

The EBRD’s Environmental Policy is the umbrella for much of the Bank’s mission to work in a socially and environmentally responsible way. In support of our investment activities, the EBRD conducts policy dialogue with local and national authorities to develop the rule of law and democracy.

The annual Sustainability Report focuses on the Bank’s impact on people and the environment in its countries of operations and also describes how the Bank operates internally.

For more information about the EBRD, visit the web site at: www.ebrd.com
The EBRD is a sustainability bank. It encourages innovation and the most sustainable approaches to transition across its 29 countries of operations from central Europe to central Asia.

Since its beginning the Bank has sought to promote environmentally sound and sustainable development across its wide range of activities. Environment, health and safety, labour and social issues – all key aspects of sustainability – have been the specific focus of a number of publications over the years. In 2004 we introduced the annual Sustainability Report to highlight the EBRD’s positive impact on people and the environment in its countries of operations and to convey how the Bank operates internally. This, the fourth Sustainability Report is a reflection of our continued commitment to advancing dynamic growth in the transition region in an environmentally and socially responsible way.

The full scope and impact of EBRD activities in the development of the water and waste-water sectors across the transition region is the special theme of this year’s Sustainability Report. Whether improving water supply in Tajikistan, cleaning up waste water in Russia, or modernising infrastructure in Montenegro – sustainability is at the core of the EBRD’s operations.

Indeed, the Bank has taken the lead in demonstrating that what is good for the environment is also good for business, by integrating sustainability into all investments with partners. In 2006, for example, the Bank launched its ground-breaking Sustainable Energy Initiative to improve energy efficiency and reduce energy use. That Initiative demonstrates the potential for investors to benefit by working sustainably.

The EBRD is a bank for sustainability but also for entrepreneurship. It delivers sustainability in the transition region through private sector finance and support for small enterprises. A business can only be truly sustainable if it is run in a responsible way, applying practices and approaches that meet the needs of local economies, people and their environments. That philosophy underlies the EBRD’s microlending programme which promotes easier access to finance, irrespective of the borrower’s gender, religion or ethnic origin. Indeed some of the biggest beneficiaries of the Bank’s financing to micro, small and medium-sized enterprises are women. The EBRD works to encourage female entrepreneurship in energising transition economies.
While the EBRD invests sustainably, it also works sustainably. Talking and listening to people is an important part of the process. We consult with local communities, NGOs, professional and business associations and local government and community leaders. We listen to their comments on country strategies and sensitive projects such as large-scale infrastructure. And the EBRD has a mechanism for communities affected by projects to express their concerns.

Our channels for consultation have been especially active this year as we updated the Environmental Policy which, since 1993, has underpinned the activities to appraise, monitor and respond to the environmental and social impacts of our projects. The Policy was revised in early 2008 and renamed the Environmental and Social Policy, underscoring the Bank’s commitment to people-focused transition and giving more prominence to central elements of the Policy such as labour conditions and occupational health and safety.

Apart from promoting health and safety standards in our projects, the Bank has moved to making investments that provide financing purely for upgrades in health and safety. And the Bank oversees one of the region’s most important projects for improving the safety: making the site of the Chernobyl nuclear accident safe. I recently visited the Chernobyl site to witness at first-hand the working conditions of those involved in making the damaged power plant and nuclear waste safe. All the works are undertaken in compliance with best practice in health and safety standards and radiation protection for workers on site. It is an important achievement that the works (including the challenging tasks of the shelter stabilisation work), altogether representing about five million man hours, have been completed without any significant accident. The EBRD manages the donor funds that finance these works, and recently took the unprecedented step of making a €135 million contribution to the Chernobyl funds from the Bank’s own 2007 profits.

It is a source of pride for the Bank that it is making such a significant contribution to a safer and more sustainable future for the people and environments of Ukraine and Europe.

As I leave the Bank after eight years, there are clear signs that the Bank’s clients are attaching ever more importance to environmental and social issues, and are recognising the links with better business performance. I am confident that the EBRD – a bank of sustainability – has the vision and commitment to continue guiding countries on a sustainable road to transition.

Jean Lemierre President
WHERE WE OPERATE

1 Albania
2 Armenia
3 Azerbaijan
4 Belarus
5 Bosnia and Herzegovina
6 Bulgaria
7 Croatia
8 Czech Republic
9 Estonia
10 Former Yugoslav Republic of Macedonia
11 Georgia
12 Hungary
13 Kazakhstan
14 Kyrgyz Republic
15 Latvia
16 Lithuania
17 Moldova
18 Mongolia
19 Montenegro
20 Poland
21 Romania
22 Russia
23 Serbia
24 Slovak Republic
25 Slovenia
26 Tajikistan
27 Turkmenistan
28 Ukraine
29 Uzbekistan

€1.1 billion cumulative net business volume in Czech Republic to end-2007: by agreement with the Czech authorities, no further investments will be made in this country
€2.96 billion

the Bank’s cumulative net business volume in Ukraine to end-2007

€36.8 million

invested in seven projects in Mongolia, which became the Bank’s newest country of operations in late 2006
**EBRD COMMITMENTS**

**€5.6 billion**

financed 353 projects, a 17 per cent increase on the 301 projects signed in 2006.

**€1.35 billion**

of this amount financed environmental improvements in projects. Of this:

**€1.0 billion**

went to projects with a specific focus on the environment, including sustainable energy and municipal infrastructure.

**€329 million**

was invested in environmental improvements as part of other projects across all sectors.

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**PROJECTS WITH A SPECIFIC FOCUS ON THE ENVIRONMENT**

<table>
<thead>
<tr>
<th>Sector</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>Agriculture</td>
<td>2</td>
</tr>
<tr>
<td>Energy efficiency credit lines</td>
<td>13</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21</td>
</tr>
<tr>
<td>Municipal and environmental infrastructure</td>
<td>32</td>
</tr>
<tr>
<td>Natural resources</td>
<td>13</td>
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<tr>
<td>Power</td>
<td>19</td>
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### SUSTAINABLE ENERGY

**€934 million**

Invested in energy efficiency and renewable energy activities across all sectors in 2007, comprising over 16 per cent of all EBRD investment for the year and amounting to €1.7 billion invested since the Sustainable Energy Initiative was launched in May 2006 (see page 12).

### EARLY TRANSITION COUNTRIES

**€416 million**

Invested in 105 new projects (excluding oil and gas deals, up from 80 in 2006 and 61 in 2005) in the eight early transition countries (ETCs), the poorest nations where the Bank operates.

ETCs: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Uzbekistan.

### MUNICIPAL INFRASTRUCTURE

**€318 million**

Invested in 19 projects, with an additional €173 million provided through co-financing, to improve water supply, water management, district heating, urban gas distribution and urban public transport (see pages 19 and 34-43).

€143 million of this total was specifically for energy efficiency improvements.

### DONOR FUNDING

**€41.5 million**

Of donor funding to support environmental activities connected with EBRD-financed projects and for specific programmes. (This does not include donor support for nuclear safety programmes – see page 27 for the Bank’s work on nuclear safety.)

### FINANCING FOR SMALL BUSINESS

**€209 million**

Invested in 69 projects. The EBRD’s Micro and Small Business Programme operated in 18 countries in 2007, through 103 local banks and specialised microfinance organisations (see page 20).

As part of its ongoing support for small and medium-sized enterprises (SMEs) the EBRD signed 30 new projects with local banks, with credit lines totalling €131 million.

### ENVIRONMENTAL MONITORING AND DUE DILIGENCE

143

Environmental visits were carried out by EBRD specialists and consultants, of which 87 were due diligence visits for 73 projects and 56 were monitoring visits for 52 projects (see pages 48-49).
Channelling international investment to help nurture market economies and democracies from central Europe to central Asia has been the EBRD’s mission since it was founded in 1991.
Through its investments, the Bank has played a key role in promoting stronger institutions and legal systems, fostering entrepreneurship and business and developing vital infrastructure across the region. Common to all projects and activities has been a commitment to sustainable development – monitoring and responding to the environmental and social impacts of projects, including health and safety, labour and community issues. This has been guided by the EBRD’s Environmental Policy, which is currently being revised to take into account the increased focus on environmental and social issues as key aspects of the transition process. For more information visit: www.ebrd.com/about/policies/enviro/policy/review/index.htm

As awareness of the threat of climate change has grown in recent years, the number of EBRD-financed projects specifically designed to reduce carbon emissions, cut pollution and boost energy efficiency has risen sharply. In 2007 the Bank provided financing of just over €1 billion to support projects with a specific environmental focus in the energy, manufacturing, municipal infrastructure, natural resources and forestry sectors (see Table 01 and Table 02). This accounted for 18.2 per cent of the EBRD’s total investment of €5.6 billion.

Direct investment in sustainable energy projects (mainly energy efficiency schemes, but also renewable energy developments) surged to €934 million in 2007, a 25 per cent increase year-on-year, owing to the Bank’s Sustainable Energy Initiative (SEI). Since it was launched in May 2006, some €1.7 billion has been committed to the SEI. Key signings in 2007 include a long-term €150 million energy efficiency loan to Russia’s leading steel maker, Severstal, and credit lines amounting to €25 million for housing associations and individuals in Bulgaria, the Slovak Republic and Ukraine to purchase energy efficient boilers, heat pumps and double glazing. Substantial loans were given to upgrade inefficient thermal power stations in Russia and Kazakhstan. Investment in renewable energy projects continued, albeit slightly more slowly than was hoped, notably through the construction of nine innovative mini-hydroelectric power plants in northern Bulgaria.

Access to safe, clean water and effective sanitation remains a serious challenge in many of the Bank’s countries of operations, where ageing infrastructure is frequently inadequate and has often been neglected. The EBRD disbursed around €212 million in loans in 2007 to meet this challenge, including an investment of €105 million for a 10 per cent stake in Veolia Voda to boost water and waste-water services across Russia and Ukraine – see the special focus on water and waste water on page 34. Other key investments in the water sector in 2007 included €8 million to provide drinking water from Lake Skadar to the Montenegrin coast, and a programme to bring cleaner water to Oradea, building on 15 years of EBRD-financed water initiatives in Romania (see page 40). In Bulgaria loans were made to water companies in Stara Zagora (€9 million) and Plovdiv (€11 million) for infrastructure improvements.
Beyond the water sector, substantial municipal infrastructure financing in 2007 was targeted at private sector companies in south-eastern Europe, Russia and Ukraine. This included a 700 million rouble (€19.5 million) loan for new municipal housing in Surgut, western Siberia, that will be warmer and 30 per cent more energy efficient than the existing Soviet-era apartment blocks. The Bank also signed its first two equity investments in private district heating companies operating in Russia and Ukraine.

In urban transport, the EBRD financed two major projects in Kiev, Ukraine, to finance new metro trains, trams and buses. A loan of €10 million was made to the municipal authority of Iasi in Romania to renovate the city’s trams.

Regarding the natural resources sector, the most significant project in 2007 was a €102 million loan to the Russian oil company LUKOIL to help finance its long-term programme to reduce pollution and save energy throughout its activities in the countries where the EBRD invests. There was also a €30.5 million loan to Clean Globe International for oil-spill response (see page 25).

| Table 01: EBRD commitments to projects with a specific focus on the environment, 2006-07 (€ million) |
|----------------------------------|--------|--------|
| Sector                           | 2007   | 2006   |
| Agribusiness                     | 21.0   | 26.4   |
| Energy efficiency and renewable energy credit lines | 136.3 | 71.1 |
| Manufacturing                    | 217.9  | 77.2   |
| Municipal infrastructure (district heating, water supply, waste water, solid waste and urban transport) | 317.7 | 307.1 |
| Natural resources                | 136.2  | –      |
| Power and energy (including renewable energy) | 194.8 | 389.8 |
| Total                            | 1,023.9 | 871.6 |

| Table 02: Environmental improvements by sector, 2006-07 (€ million) |
|---------------------------------------------------------------|--------|--------|
| Environmental component                                      | 2007   | 2006   |
| Air emissions/greenhouse gas reduction                       | 28.7   | 2.7    |
| Drinking water management                                    | 2.6    | 1.6    |
| Energy efficiency                                            | 236.3  | 86.0   |
| Environmental clean-up                                       | 6.9    | 0.1    |
| Environmental Management Systems                             | 2.3    | 3.1    |
| Hazardous waste management                                   | 1.1    | 0.9    |
| Health and safety                                            | 13.6   | 0.4    |
| Labour and social improvements                                | 1.8    | 0.004  |
| Renewable energy sources                                     | 28.0   | 1.3    |
| Solid waste management                                       | 1.0    | 0.8    |
| Training and institutional strengthening                      | 0.3    | 0.07   |
| Waste-water treatment                                        | 5.9    | 7.7    |
| Total                                                        | 328.5  | 104.7  |
The rapid economic growth experienced by most of the EBRD’s countries of operations in the past decade has been accompanied by a growing thirst for energy, much of which is generated by imported fossil fuels. Transition countries are much more energy intensive than their western European counterparts – all exceed the EU average and many consume around five times as much energy per person. Amid spiralling fuel prices, worries about energy security and increasing concern about the impact of carbon emissions on climate change, it has become clear that promoting the efficient use of energy and developing renewable sources of energy are a high priority both for the region as a whole and the Bank.

Reflecting the increasing importance of energy efficiency to its countries of operations, and the call of the G8 at the 2005 Gleneagles Summit for international financial institutions (IFIs) to scale up their activity to address climate change, the EBRD launched the Sustainable Energy Initiative (SEI) in May 2006. The SEI is focused on enhancing energy efficiency in the industrial power and municipal infrastructure sectors, developing renewable energy supplies and supporting the development of the carbon credit market in the EBRD’s countries of operations. The SEI has the following objectives:

- to scale up EBRD sustainable energy investments to €1.5 billion between 2006 and 2008
- to put sustainable energy objectives into the mainstream of the Bank’s operations
- to build up policy dialogue in support of the scaling-up of investments
- to work with other multilateral development banks and institutions to enhance the impact of its policy dialogue and share best practice
- to establish a broad partnership with donors to mobilise grant funds required to scale up public and private sector financing.

All of these objectives have been supported by the Bank’s energy efficiency and climate change team, which was first established in 1994, but restructured and strengthened in connection with the SEI. The team has 16 specialists who work with bankers to make sustainable energy part of mainstream banking activities. The team includes experienced professionals in banking, engineering, climate policy and carbon finance.

**Results**

In 2007 the EBRD signed 51 projects under the SEI and committed €934 million, up from €748 million in 2006 and representing over 16 per cent of the Bank’s total investment. From its launch in May 2006 to the end of 2007, SEI financing reached a total of over €1.7 billion, already exceeding the SEI three-year target of €1.5 billion. By the end of the first quarter of 2008, SEI financing reached close to €2 billion. These results have been achieved through 102 projects across all SEI sectors with a total project value reaching around €7.8 billion. In many cases, parts of investments were for non-SEI purposes and these are excluded from these numbers.

This was due to a combination of increased support from the Bank’s energy efficiency team to bankers, increased demand both from the region and the Banks’ shareholders for energy efficiency projects and more grants received to support energy efficiency projects. The scope of the SEI covers a broad range of the Bank’s activities, including industrial, municipal and domestic energy efficiency, cleaner energy generation and renewable energy projects (see Chart 02). In 2007 more than 60 per cent of the projects signed were directed towards demand-side energy efficiency.

Since its launch, the SEI has received strong support from donors with total donor contributions of over €96 million including €38 million for technical assistance and €58 million for grant investment co-financing. As of the end of 2007, 15 donor countries (Austria, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), the European Union (EU) and four multilateral donors had committed funds to specific projects supporting SEI activities. To date, the EU has been the major donor to contribute to SEI projects by providing a total of €78 million either directly or through its EBRD-managed nuclear decommissioning funds.

**Industrial energy efficiency**

Industrial processes such as steel manufacturing, aluminium smelting, cement and glass production are highly energy intensive, but recent technological advances coupled with spiralling prices for fuel and electricity mean that there is both the potential and the demand for energy savings across the region. Steel producers, for example, are keen to embrace the advanced
energy and gas management systems that re-use gaseous by-products as fuel. In 2007 the EBRD signed 15 industrial efficiency projects amounting to €313.3 million, of which a significant share was for loans to the steel industry, reflecting its energy intensity. This EBRD funding has been significantly leveraged with other commercial banks through the Bank’s syndication activities. By far the largest single direct investment in 2007 was to Severstal, Russia’s biggest steelmaker (see page 15). A further large investment in 2007 to cut energy wastage in the steel industry was the €78 million lent to the Celsa Huta Ostrowiec steel mill in south-eastern Poland. The plant, which was acquired in 2003 by the Spanish steel group, Celsa, has benefited from EBRD financing since 1997, when an environmental action plan (EAP) was developed. Celsa Huta Ostrowiec has diligently implemented all environmental requirements agreed with the Bank as part of the most recent project.

**Energy efficiency and renewable energy credit lines**

In 2007 the EBRD increased its commitment to credit lines for projects targeting energy efficiency and the use of renewable energy sources to €136.3 million, an increase of 66 per cent on 2006. The credit lines are provided through local banks, with loans to companies ranging from €50,000 to €2.5 million, with an average loan size of €500,000. Average loans to households are below €1,500. In certain cases, companies and households are eligible for one-off payments once the project is completed and audited (for example, ranging from €200 to €850 for households). These incentives are targeted at changing behaviour and overcoming barriers. In other cases, the credit lines have been structured without incentives and are supported with technical assistance and long-term funding. Credit lines have so far been targeted at Bulgaria, Georgia, Russia, the Slovak Republic and Ukraine, but their success has prompted plans to extend similar facilities to other countries of the region.

Investment in the Bulgarian Energy Efficiency and Renewable Energy Credit Line (BEERECL) continued in 2007, with two loans of €5 million disbursed through MKB Unionbank and Piraeus Bank. The loans bring the total investment in the BEERECL to €105 million since it was launched in 2004 to tackle energy wastage; Bulgaria consumes 2.5 times more energy per head than the European average. The initiative was also designed to compensate for the loss of energy-generating capacity caused by the closure of four Soviet-designed nuclear reactors at Kozloduy. The two oldest reactors were permanently shut down in 2002 and the closure of Units 3 and 4 was a condition of Bulgaria’s entry to the EU on 1 January 2007. Since its inception the facility has received €25.2 million in grant funds from the Kozloduy International Decommissioning Support Fund (Kozloduy IDSF). It is estimated that the BEERECL is bringing energy savings of around 750,000 MWh per year, enough to cover the electricity consumption of about 250,000 households and a reduction in CO₂ emissions of 400,000 tonnes a year. There is an additional programme for Residential Energy Efficiency which is anticipated to save 106,000 tonnes of CO₂ per year (for more information visit: www.reecl.org).

In December 2007, the EBRD approved an EU Energy Financing Facility credit line (EU EEFF) for €100 million for industrial energy efficiency projects in Romania and Bulgaria. This is supported by €24 million from the European Commission’s Phare Regional Facility for technical assistance and incentives. To date, €35 million has been signed with three Romanian banks and in Bulgaria €20 million has been signed with two banks.

The EBRD’s largest investment in energy efficiency credit lines in 2007 was the €60 million loaned under the Slovak Energy Efficiency Financing Framework (SEEFF), which comprised four €15 million loans. These were to be disbursed through local banks to local enterprises and housing associations wishing to carry out energy-saving measures, such as the insulation of apartment blocks (for more information visit: www.sloveseff.eu). The launching of the SEEFF is closely linked to the ongoing programme to decommission the remaining nuclear reactor at Bohunice, which currently generates around 20 per cent of the country’s electricity. As such, the project has also benefited from a €15 million grant from the Bohunice International Decommissioning Support Fund (Bohunice IDSF). Unit 1 at Bohunice was shut on 31 December 2006 and Unit 2 is scheduled to close in 2008.
The EBRD invested €66 million in renewable energy schemes across the transition countries in 2007 as part of its effort to ensure that the region takes full advantage of the increased global appetite for energy produced from renewable sources.

Meanwhile in Ukraine, progress was made in implementing a €100 million facility of energy efficiency credit lines, including the signing of loans amounting to €34 million to UkrExim Bank for on-lending to private sector companies. A substantial proportion of the €67 million lent by the EBRD to Kreditprombank is also targeted at reducing the notoriously high levels of energy wastage in Ukraine’s residential and industrial sectors.

The EBRD’s first credit line in Russia with an energy efficiency component was signed in 2007. The €14 million loan to CenterInvest Bank, a regional bank based in Rostov-on-Don, will enable the company to offer loans to achieve energy efficiency savings, along with other loans to small and medium-sized enterprises (SMEs) and mortgages.

A similar energy efficiency credit line initiative got under way in Georgia in 2007, with two loans each worth €3.4 million made available to Cartu Bank and TBC Bank.

**Energy efficiency in public buildings**

Enemona, a Bulgarian construction and engineering company, became the first dedicated energy service company (ESCO) in the Bank’s region for over 10 years in 2007. ESCOs specialise in energy efficiency projects and organise the financing, installation and maintenance of energy efficient equipment as well as monitoring subsequent energy savings. The EBRD lent €7 million to the Bulgarian Fund for Energy and Energy Savings to encourage private sector investors to develop ESCO contracts in the industrial and public sectors, including schools, hospitals and other municipal buildings. These ESCO contracts will be implemented by Enemona. The EIB/KIDS Fund Energy Efficiency Facility for Bulgaria, which was established in close cooperation with the EBRD-managed Kozloduy IDSF, will support the increase of energy efficiency in public buildings in Bulgaria.

**Renewable energy**

The EBRD invested €66 million in renewable energy schemes across the transition countries in 2007 as part of its effort to ensure that the region takes full advantage of the increased global appetite for energy produced from renewable sources. Growth has been so rapid in the past two years (globally, more than €48 billion was injected into wind power, solar power and biofuels in 2006, a 43 per cent increase on 2005) that in 2007 the UN predicted clean energy could provide almost a quarter of the world’s electricity by 2030. The EBRD is actively seeking new opportunities to support renewable energy development, but in some cases it has been limited by conservative attitudes among energy suppliers. Legislation that encourages a market for green technologies, as has been developed in Denmark, Germany and Japan, has been slow to appear in transition countries but this looks likely to change amid rising prices for fossil fuels and concerns about energy security and global warming.

The EBRD’s largest direct investment in 2007 was a €34 million loan (€20 million of which was syndicated to a commercial bank) to finance the construction of nine small hydropower plants along the River Iskar in northern Bulgaria (see page 16). Additionally, the Bank committed €25 million to the regional EnerCap Power Fund I, a 10-year €100 million private equity fund dedicated to developing wind, solar and biomass energy generation, along with bioethanol and small-scale hydroelectric developments in central and south-eastern Europe. Financing from other institutional investors, along with that of the EBRD, means that contributions totalled €75 million. Also signed in 2007 was a commitment of €1.2 million to support the construction and operation of a small hydropower plant on the Argishi river in Armenia.

**Cleaner energy in the power sector**

Thermal power stations continue to generate the majority of energy across the transition countries. However, the infrastructure is often highly inefficient, polluting and is an impediment to economic growth. As in previous years, EBRD financing in 2007 was used to modernise various thermal power plants, bringing improved efficiency and a reduction in carbon emissions per megawatt (MW) of energy produced. Engaging in dialogue with governments on how to improve power-sector management and cross-border electricity sharing to increase energy security remain important areas of focus for the EBRD’s sustainable energy team. Initiatives to develop so-called “clean coal technology” and reduce gas flaring are also progressing.

The Bank’s largest investment in 2007 to upgrade thermal power stations was the €139.1 million lent to TGK-9, one of Russia’s territorial generating companies formed in the process of unbundling the state-controlled monopoly.
CASE STUDY 01: CUTTING COSTS AND CO₂ AT A RUSSIAN STEEL GIANT

The giant steel plants that loom over Cherepovets in the north west of Russia have been privatised and partly modernised in recent years, but their glowing furnaces remain the city’s lifeblood, directly and indirectly employing over a third of its 300,000 people.

Owned by Severstal, one of the four companies that dominate Russia’s steel sector, the mills churn out vast quantities of metal for the country’s booming transport and construction sectors. However, they have a colossal appetite for energy, consuming six million megawatt-hours (MWh) of electricity annually, which is more than Moldova uses in a year. Aware that investment in energy efficiency measures could bring substantial savings, experts at the EBRD – who have been involved in four joint-venture modernisation projects with Severstal since 1996 – worked with Severstal’s specialists to identify ways to cut energy consumption and reduce greenhouse gas emissions while saving money and improving power supply reliability.

“Severstal had always dealt with energy efficiency projects from a maintenance perspective, for example if a boiler broke down, but not with the specific intention of saving energy,” says the EBRD’s Peter Hobson. “We showed them that an investment would have a payback of as little as one year for some of the projects and that this would be very attractive in the context of rising energy prices.”

In December 2007, after 18 months of preparations, a loan of €300 million was signed. This was a syndicated loan with €150 million from the EBRD and €150 million from other lenders. The syndication was increased by a further €300 million in early 2008, providing €600 million in loans – one of the biggest energy efficiency schemes ever funded by a development bank – for 11 different projects at Cherepovets over the next few years. These include the construction of a new high-efficiency combined cycle gas turbine; a system for collecting waste gases for use in power generation; and the modernisation of boilers and substations. In addition, the company plans to implement an Energy Management System (EMS) to measure precisely how much energy is used throughout the plant and to set ongoing targets for cutting consumption.

The cumulative effect of these projects is expected to give a 10 per cent reduction in the amount of electricity used at Cherepovets and a 3.5 per cent cut in the amount of natural gas consumed. Furthermore, the plant will generate 75 per cent of its own electricity, up from the current level of 50 per cent, improving the reliability of the power supply. Carbon dioxide emissions, meanwhile, are expected to fall by around one million tonnes a year. It is predicted that by 2012 this will be equivalent to the annual domestic CO₂ emissions of a city the size of Manchester.
The EBRD has been able to facilitate this by approving a €34 million loan to build nine mini hydropower plants in the gorge of the River Iskar to the north of the capital, Sofia. The signing followed close consultation with the Bank’s Environment and Sustainability Department (ESD) to ensure that the environmental impact assessment (EIA) reflected the scope of project, supplementing the EIA process undertaken by local regulators. The construction arrangements, for example, include specific measures to protect wildlife such as “fish ladders”, which enable fish to bypass the dams.

With a combined installed capacity of 26 megawatts (MW), the nine plants will be constructed along a 33 kilometre stretch of the river. The majority stake in the hydropower stations will be owned by Vez Svohe, a subsidiary of the Italian Petrolvilla and Bortolotti group, which is primarily engaged in the provision of energy and energy-related products and services in northern Italy. The minority stake will be owned by the municipality of Svohe. Grants of around €60,000 from the UK’s Department for International Development (DFID) and from the Italian government were provided for environmental and technical due diligence. Construction of the first two power plants is under way, partially financed under the Bulgarian Energy Efficiency and Renewable Energy Credit Line (see page 13 and visit: www.beerecl.com), which helped to create a market for small renewable energy projects. Work on the other seven barrages will take place over the next few years.

The company supplies power to the northern Urals and the Komi Republic, resource-rich regions that have experienced massive economic growth in recent years. While people do not face regular blackouts, the ageing power system is operating close to full capacity and threatening to slow economic growth. The EBRD will acquire a stake of up to 12 per cent in TGK-9 as part of the privatisation process set in motion under the third and final phase of Russia’s power sector reform. The investment will enable the company to finance improvements that will result in a 66 per cent increase in electricity production and a 10 per cent increase in heating provision, although bills may increase to recover investment.

The hope is that the deal will set the standard for private investment in Russia’s power sector and for the upgrade of thermal power plants in other countries.

**Promoting a carbon credit market**

Carbon credits are created when a project reduces or avoids the emission of greenhouse gases, such as carbon dioxide and methane. These carbon credits can be then be traded between governments and private enterprises, either to create finance for those generating the credits to invest in other sustainable energy projects, or to help those buying the credits to meet their own emission-reduction targets.

In October 2003 the Dutch government and the EBRD created one of Europe’s first carbon trading funds, the Netherlands Emission Reduction Cooperation Fund. Through this fund the EBRD has procured carbon credits from emission-reducing projects for the Netherlands. This is done under the Joint Implementation (JI) mechanism of the Kyoto Protocol. In 2007 the fund signed four projects for an aggregate of 2.1 million tonnes of carbon credits. The fund’s investment period closed at the beginning of December 2007, and its delivery period started for a portfolio of seven projects with an aggregate of 3.5 million carbon credits with a total contract amount of €23.6 million.

The EBRD, together with the European Investment Bank (EIB), established the Multilateral Carbon Credit Fund (MCCF) in 2006 as a key instrument in their strategy for combating climate change. The MCCF is one of the few carbon funds dedicated specifically to countries from central Europe to central Asia and now has €190 million under management. The Bank and the
MCCF’s three regional carbon managers have put together a significant pipeline of projects, which includes renewable energy (especially hydro), energy efficiency in industry and power generation, and the avoidance of methane emissions in wastewater treatment. A mandate has been agreed for six projects for an aggregate of 5.9 million tonnes of carbon credits.

**Assessing greenhouse gas emissions and emissions savings**

**SEI investments**

In 2007 the EBRD signed 38 direct SEI investment projects. There were also a further 13 signed projects through financial intermediaries (FIs) fully dedicated to sustainable energy. These 51 projects were assessed for energy savings and CO₂ emission savings. Where project specifics have yet to be fully developed (especially among the FI projects) no estimates of the likely emission reductions have been included. Where energy savings were expected to be very small in comparison with the major projects in the portfolio, these projects were not subject to detailed quantification.

Of the SEI projects signed in 2007, the energy-saving measures financed would, for the same level of economic activity, reduce primary energy use by almost 26.7 million MWh per annum, equivalent to about 1 per cent of the primary energy demand of the UK, and save over 6 million tonnes per year of CO₂. The potential impact of the 13 dedicated credit lines signed in 2007 will increase this figure further. The actual results from the energy efficiency and residential energy efficiency credit lines included in the aggregated figures above are indicative of what can be achieved (a combined annual CO₂ emission reduction of 500,000 tonnes) and the credit line business volume has expanded significantly in 2007 – an increase of 66 per cent from 2006.

The rationale for many of the Bank’s investments is to assist economic development by raising the productivity of underperforming facilities and systems. In such cases, improved efficiency generally facilitates increased production, which necessarily involves increased energy use and emissions. The efficiency gains may be sufficient to allow the increased output to be achieved while retaining an overall reduction in energy use and CO₂ emissions. Even if not, the increase in energy use and emissions will be less than would have occurred in the absence of the efficiency investments. The SEI portfolio is expected to achieve annual net savings of primary energy exceeding 4.4 million MWh and 0.5 million tonnes of CO₂ following the increased production that the investments will bring about.

**Non-SEI investments**

Outside of the SEI, the EBRD seeks to increase economic growth and expansion as part of its normal business, with an associated incremental increase in energy use. In the 2007 direct investment portfolio, four industrial projects have potential for significant emissions. These include greenfield glass and brick manufacturing facilities. Together these investments are estimated to lead to emissions of 0.3 million tonnes per year of CO₂.

**Projects with significant greenhouse gas emissions or emissions savings**

For comparison with previous years, the Bank’s financed SEI and non-SEI projects were screened for significance in terms of CO₂ emissions or emissions savings, with those having pre- or post-investment emissions over 20,000 tonnes of CO₂ per year selected for inclusion in the overall portfolio analysis. More than half of the 22 projects identified are projected to have reduced greenhouse gas (GHG) emissions after project implementation than before, even allowing for increases in product output. Across the 22 projects, the reduction of emissions in 13 projects and increases in 9 roughly cancel each other out, with an aggregate reduction in CO₂ emissions of 0.2 million tonnes per year projected. This result is typical of recent years, indicating that the economic and social benefits associated with the Bank’s investments can be achieved without any significant change in greenhouse gas (GHG) emissions, although whether in any particular year the aggregate is a small reduction or small increase in emissions depends on the precise make-up of the portfolio.

The aggregated results hide the significance of certain individual projects in terms of the scope of the energy and emission reductions expected to be achieved and these are highlighted below.

- The investment programme at Russian steelmaker Severstal’s plant at Cherepovets is totally devoted to energy efficiency and is expected to reduce CO₂ emissions by around 1 million tonnes per year (see page 15).
To meet current and future heat and electricity demands, the power sector needs to modernise, improve its environmental performance and increase overall energy efficiency. The EBRD’s €30 million loan to PavlodarEnergo to upgrade the company’s 440 MW coal-fired power plant is at the forefront of this process. The project, which includes the purchase and installation of a new turbo generator, will greatly improve the plant’s fuel efficiency and reduce CO₂ emissions. The company will also implement a comprehensive environmental action plan (EAP) to improve the environmental performance of the combined heat and power (CHP) technology and install additional energy-saving equipment, going beyond the requirements of current Kazakh legislation. Although the agreed EAP will not allow the plant to attain EU environmental standards in the short-to-medium term, because of the required high costs and low tariffs that do not cover operating costs, the implementation of the EAP will significantly benefit the environment by reducing dust and carbon emissions. The project will lead to a generation efficiency improvement of 7 per cent, so specific fuel consumption and CO₂ emissions per MWh produced will be decreased by 7 per cent. At the current level of power generation, the emission reductions are around 150,000 tonnes of CO₂ per year.

The government of Kazakhstan and the EBRD are jointly developing a sustainable energy action plan as part of a wider effort to put the economy on the right track for sustainable growth, economic diversification and competitiveness. Erkyn Amirkhanov, Chairman of PavlodarEnergo’s Board of Directors, said that “the financing we are receiving from the EBRD constitutes an important milestone in our development, in particular our company’s ability to attract competitive long-term financing from international financial institutions.”
– Refurbishment and replacement of electricity generating equipment at Russia’s TGK-9 power company should allow a 20 per cent increase in power output with only a 3.6 per cent increase in CO₂ emissions (see page 16). Put another way, the existing level of electricity production should in future be achieved with a saving of 3 million tonnes per year of CO₂ compared with present operations.

– Renewable energy developments, both through direct investment and credit lines through financial intermediaries, will begin to make an increasing contribution to CO₂ savings. Savings approaching 1 million tonnes per year of CO₂ are projected from the investments approved in 2007.

It is evident from the earlier analysis that the impact of projects yielding big savings will be offset by those leading to net emission increases.

– Refurbishment of the electricity generation capacity at district heating facilities in Kazakhstan will increase output by 45 per cent, but although the associated increase in emissions will be partially offset by a 10 per cent improvement in energy efficiency, the project will still contribute around 0.8 million tonnes-per-year in increased CO₂ emissions to the SEI portfolio.

– Similarly, the increase in emissions associated with capacity expansion at a cement works – also in Kazakhstan – will be reduced, but not eliminated, by improvements to energy efficiency. A net increase of 0.7 million tonnes per year of CO₂ is anticipated here.

**MUNICIPAL INFRASTRUCTURE**

In addition to supporting vital water and waste-water sectors across the transition countries (see focus section on page 34), the EBRD provided €211 million for municipal and environmental infrastructure (MEI) projects, spanning housing, district heating and public transport. The Bank continued to follow its policy of supporting decentralisation, commercialisation and environmental improvement, ensuring that the vast majority of financing was provided without the need for state guarantees. Over 90 per cent of the Bank’s financing was in the private sector or on a non-sovereign basis in the public sector. Activities in 2007 focused increasingly on private sector companies in south-eastern Europe, Russia and Ukraine.

In Russia the EBRD signed its first municipal housing project – a €19.5 million loan to finance the construction of new municipal housing in Surgut (see page 21).

The Bank also signed its first two equity investments in private district heating companies operating in Russia and Ukraine. It invested almost €4 million in Taganrog TeploEnergo, a privately owned district heating company, which is currently providing heating and hot water services to both residential and industrial customers in Taganrog, southern Russia. This is the Bank’s first investment in a dedicated heating network in Russia and will increase private sector participation in the district heating market. A similar investment of €5 million was made in the Lithuanian company, E-Energija, to help it expand its operations in Ukraine and support energy efficiency improvements in Latvia and Lithuania. In both investments, the EBRD will use its position on the board of directors to encourage improvements in corporate governance and sound business standards.

In urban transport, the EBRD financed two major projects in Kiev, Ukraine, for new metro trains, trams and buses. A loan of €10 million was made to the municipal authority of Iasi in Romania to renovate the city’s trams and other public transport infrastructure.

**NATURAL RESOURCES**

Support for the environment, energy efficiency and sustainability were the focus of the EBRD’s investments in natural resources in 2007.

The most significant project was a €102 million loan to the Russian oil company, LUKOIL, to help finance its long-term pollution reduction and energy-saving programme where it operates in the EBRD’s region. The programme will cover pipeline replacement, gas flaring reduction, health and safety improvements and energy efficiency, and is viewed as a model for other companies to follow. The financing comprised the EBRD loan and a further €102 million syndicated among commercial banks, with tenors of 10 and seven years respectively, making this one of the longest unsecured facilities ever arranged in corporate Russia.

In the EBRD’s newest country of operations – Mongolia – the Bank provided a €13.6 million loan to Mongolyn Alt Corporation (MAK), a medium-sized Mongolian coal mining company. The financing will enable MAK to restructure its balance sheet, introduce better management information systems and increase production of cleaner, higher-quality coal. Not only will this investment support the development of the private sector in Mongolia, it will also set new standards in terms of transparency, good business practice and environmental conduct.

In Romania, the EBRD helped the national gas transmission operator, Transgaz, to reduce carbon emissions. The project was financed by an initial public offering, in which the Bank participated as a long-term investor. The project will be one of the largest emission reduction projects in Romania to date. Over 10 years, the project aims to reduce over 3.5 million tonnes of CO₂ emissions – equivalent to the annual household emissions of a major city such as Düsseldorf.

Looking ahead, the EBRD will continue to invest in projects that enhance energy efficiency and sustainability and promote the security of energy supply, while continuing to ensure that the highest standards of corporate governance, health and safety and environmental practice are applied. The Bank will also be looking to invest further in the more recently established oil, gas and mining companies. By engaging with younger companies, the EBRD can incorporate its environmental standards into projects at a much earlier stage of development.
In Tajikistan, the Bank approved the Tajikistan Agricultural Finance Facility, an innovative lending programme designed to support the restructuring of the country’s agricultural sector, including the cotton sub-sector, as part of a multilateral effort.

**PROJECTS WITH POSITIVE SOCIAL IMPACT**

The Bank recognises that the financing it can provide to micro, small and medium-sized enterprises (MSMEs) has the greatest impact on people in the transition region. In many of the Bank’s countries of operations, access to finance is particularly limited for micro and small enterprises (MSEs). This is for a number of reasons, including a historically low appetite in the local banking and investor community for MSE lending due to a perception of the higher risks and costs involved. Lack of collateral and difficult access to financing institutions in rural locations are also factors.

Access to finance for MSEs has been seen to play a role in poverty alleviation: enabling entrepreneurs to start and build their business has knock-on effects such as raising household income as well as facilitating access to improved healthcare, nutrition and education. Women in particular benefit from access to MSE finance; their status is often enhanced when they are seen to have responsibility for managing loans and generating their own income.

**Supporting entrepreneurial activity**

The EBRD’s Micro and Small Business Programme operates in 18 countries with a portfolio of nearly €578 million. The programme provides partner lending institutions with different financial products and tailored technical assistance. EBRD financing is provided through 103 local banks and specialised microfinance organisations that disburse loans to MSEs through almost 2,000 branches.

In 2007 the programme continued to expand, with the Bank committing €209.4 million through 69 projects. The EBRD worked with 63 institutions, 32 of which were new. The total number of loans disbursed by EBRD partner institutions reached nearly 3.1 million with a total value of over €14.8 billion, a year-on-year increase of 45 per cent. Repayment of these loans remained consistently above 99 per cent. Three guarantees and a €34 million framework for Mongolia, the Bank’s newest country of operations, were also established.

In the early transition countries (ETCs), the EBRD financed 29 new projects supporting MSEs. In Tajikistan, the Bank approved the Tajikistan Agricultural Finance Facility (TAFF), an innovative lending programme designed to support the restructuring of the country’s agricultural sector, including the cotton sub-sector, as part of a multilateral effort. The lending programme will contribute to the reform by providing revolving credit lines of up to €24 million for as many as 10 commercial banks and non-bank financial institutions which will provide loans to small farmers for working capital purposes (with average loan sizes of €6,800). In order to provide the maximum support, up to €14 million is being syndicated. For the first time, the Bank will also be taking direct risk on the final beneficiaries through a risk-participation credit line included in the project. The lending programme is accompanied by intensive technical assistance to both the banks and small farmers. To date, €745,000 has been provided by the multi-donor ETC Fund and US$ 600,000 (£408,000) has been provided by the United States.

The Bank also participated in the establishment of ProCredit Bank Armenia by providing an equity investment of AMD 965 million (approximately €2.1 million). This continued the EBRD’s support for the ProCredit Bank group – a group of 22 microfinance banks operating in transition economies and developing countries across the globe that specialise in providing finance to small and very small businesses. The investment is expected to have a high transition impact by contributing to the development of the MSE sector in this country and further demonstrating the viability of MSE lending activities to local banks. Technical assistance of €0.3 million has been provided by Canada to enable ProCredit Armenia to start its institution-building process with a focus on establishing key management structures, to establish its first branches and build up lending capacity in these outlets.

In Tajikistan, the Bank approved the Tajikistan Agricultural Finance Facility, an innovative lending programme designed to support the restructuring of the country’s agricultural sector, including the cotton sub-sector, as part of a multilateral effort.
The village of Surgut, in the Khanti-Mansii region, mushroomed from just 8,000 inhabitants in 1965 to 70,000 in 1975 and to around 300,000 today. Housing and amenities were erected quickly – at one point, the local authority was building 300,000 square metres of residential housing every year. Most of it was the standard Soviet-era apartment blocks, built with pre-fabricated slabs of concrete. Thirty years on from the height of the building boom, a large proportion of the town’s housing stock is in a dilapidated state – a legacy of the speed of construction and Siberia’s climatic extremes. Cement is crumbling, causing cracks and icy draughts and balconies and roofs often show signs of subsidence and imminent collapse. “If we don’t do anything now, in seven or eight years we will have very dangerous housing on our hands” says Surgut’s mayor, Alexander Sidorov.

In a pioneering programme that the Russian authorities hope will become a blueprint for other cities, the EBRD is providing the municipality of Surgut with a €20 million loan to finance the construction of four new housing blocks and the demolition of two old concrete-panel apartment blocks. The new buildings will be safer, warmer, and 30 per cent more energy efficient. Of the 800 new apartments, most will be sold on the private market, while up to 25 per cent will be reserved for low-income families.

The project is about more than building apartments – it is about transforming the way the municipal government is structured to handle housing issues. The scheme’s key component is the city’s review of its housing policy, which involves defining roles for the public and private sectors in the housing market and establishing a special municipal housing authority to manage the project. This authority will eventually take the EBRD loan onto its own balance sheet and will be run by residents’ associations.
Like many of the region’s transport hubs, it has become increasingly busy in recent years, not least because it is at the beginning of the trans-European corridor, linking Croatia and Bosnia and Herzegovina to Hungary and the growing markets of central Europe. With annual cargo volume expected to increase from 2 million tonnes in 2004 to 7.2 million tonnes in 2010, it has become vital to upgrade the port’s infrastructure and operational capabilities. It has been made clear, however, that any development needs to respect the environment as the Neretva river delta has been included in the Ramsar Convention list of wetlands of international importance. The viability of the region’s increasingly lucrative tourism sector is linked to perceptions of a protected natural environment.

The EBRD is lending €11.2 million to the Port of Ploče Authority to contribute to the construction of a new bulk cargo terminal, but the loan was only agreed after an environmental impact assessment (EIA) had been carried out in accordance with EBRD and World Bank requirements. The EIA revealed several aspects of the port’s current operations that have negative impacts on the town’s population and the coastal environment, as well as potential hazards from the proposed development. The construction of a new terminal will allow for the elimination of most of the current environmental problems by relocating the terminal further away from Ploče itself and introducing cleaner bulk cargo handling and storage technology. Special attention has been paid to the protection of the ecologically valuable Neretva river delta.

Before the project began, local stakeholders, NGOs and relevant authorities were engaged in a series of consultations regarding the project generally and the EIA specifically. This resulted in changes to the design of the project, including shifting the berth of the new terminal to reduce the size of the area needing dredging and avoiding any intrusion into the Ramsar site.

CASE STUDY 05:
RESPECTING THE NATURAL ENVIRONMENT OF A PORT IN CROATIA

Located at the mouth of the River Neretva on Croatia’s beautiful Dalmatian coast, is the port of Ploče.
This initiative will greatly benefit MSEs as Armenia currently has very low levels of access to finance for small businesses. This new bank should provide an effective medium through which the smallest businesses can access financial services.

In Belarus, the Bank led the effort to bring together private and public sector investors for the establishment of the Belarusian Bank for Small Business (BBSB), a greenfield microfinance bank. Along with The Netherlands Development Finance Company (FMO), International Finance Corporation (IFC), Kreditanstalt für Wiederaufbau (KfW), Commerzbank, SwedFund, ShoreCap and ShoreBank, a €7 million equity investment will be provided. The establishment of BBSB will complement the use of local commercial banks to provide MSE finance particularly in the regions outside of the capital. BBSB expects to open in 2008 and a key component of the project will be the €3 million technical assistance provided by the governments of Austria, Japan, Luxembourg and the Netherlands and the IFC.

To leverage its resources and increase its impact, the EBRD works closely with commercial banks, increasing financial support to small businesses through syndication. Through this effort, the Bank was successful in mobilising additional financing for its clients in 2007, often matching the longer tenors which regular commercial bank syndications could not provide. These transactions included two loans in Armenia, one in Georgia, one in Romania and one in Russia.

The EBRD’s microfinance programme has been supported by a number of donors. One of the most successful initiatives is the US/EBRD SME Finance Facility, which assists lending schemes in 15 countries. It was established in 2000 to promote private sector growth and economic development in south-eastern Europe and in countries at the earlier stages of the transition process, such as Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan and Ukraine.

Much of the approximately €30 million committed by the United States is used to train staff in local banks and non-bank financial institutions as well as to reduce legal and regulatory obstacles to small business finance. Recently, the Facility has also been crucial in supporting the transformation of non-bank financial institutions into full commercial microfinance banks in Kosovo and FYR Macedonia in the Western Balkans. By the end of September 2007, the partners supported by the facility had provided over 1.6 million loans totalling €8 billion.

The EBRD’s micro and small business lending programme in Russia is supported by the Russia Small Business Fund (RSBF). The RSBF was established in 1994 by the EBRD, with support from the G7 countries and Switzerland and additional support from the EU. The RSBF operates through a number of carefully selected partner banks which receive long-term financing as well as tailored technical assistance in order to improve their MSE lending.

Partner banks offer a diverse range of products, including express micro loans (typically disbursed within 24 to 48 hours) and loans in rural communities. As of December 2007, over 421,226 loans totalling €3.5 billion had been disbursed since the inception of the RSBF in 1994.

A total of 17 Russian banks, including six new partners, are taking part in the EBRD’s MSE development programme in Russia, which reaches 161 cities across Russia’s 11 time zones. The initiative includes some of the country’s least developed regions, such as Russia’s Far East, where a new partner bank, Vostochny Express Bank, is now providing financing to entrepreneurs with the help of an EBRD loan and a dedicated technical assistance programme. In 2007, the Bank signed 13 MSE transactions in Russia.

Investing through financial institutions
In addition to the work of the micro and small business programme, the EBRD mobilises funding through local banks and other non-bank financial institutions for projects that are too small for it to handle directly. The Bank provides finance to SMEs in various ways, such as credit lines to local banks for on-lending, trade guarantees (see page 24), equity investments in banks and equity funds, and loans to leasing companies. The EBRD also provides loans and/or equity directly to small companies through the Direct Lending Facility and Direct Investment Facility respectively.
The EBRD has directed over €2.9 billion towards small business projects via SME-focused loan facilities and currently has projects in 25 countries involving over 150 financial intermediaries.

To enhance the impact of this financing, the EBRD makes use of donor funds to provide training to financial institutions on how to assist small businesses in the most effective way. The Bank can also provide individual enterprises with industry-specific assistance from the TurnAround Management and Business Advisory Services (TAM/BAS) Programme, ranging from complete restructuring through to short, highly-specific projects with rapid payback (see page 28).

The Bank supports small business mainly through credit lines to local banks. In 2007, the EBRD signed 30 new projects with local banks totalling €131 million. Half of these projects also provided an MSE facility to the banks. The EBRD signed nine SME-related leasing projects amounting to over €54 million. In addition, the Bank signed a convertible loan for on-lending to MSMEs in Uzbekistan, a syndicated SME loan in Ukraine, seven equity transactions with banks whose business is primarily SME-focused and committed financing to two equity funds with investment strategies that will target SMES in central Europe.

One of the ways the Bank has supported SMEs is through the EU/EBRD SME Finance Facility, which was established in 1999. It is the Bank’s main instrument for financing small businesses in central and south-eastern Europe. The programme is currently focusing on Bulgaria, Croatia and Romania. EBRD funding available through this facility is €1.4 billion, at least €80 million of which has been earmarked for farmers and small businesses in rural areas where access to financing is very limited.

The programme is extremely effective in encouraging local financial institutions to lend to small enterprises. By the end of 2007 the EBRD had provided 110 credit lines totalling €1.2 billion to 42 banks and 39 leasing companies in the 11 countries covered by the programme. In total over 95,000 transactions worth more than €2 billion have been undertaken with small businesses throughout the region. The average loan size for each business is as low as €22,500, while leases average €20,500. These low levels ensure that even very small businesses are able to benefit.

In addition to loan financing, four equity funds totalling €32.5 million have been established under the facility to provide much-needed equity support to small enterprises. Many of the banks and leasing companies supported by the programme have indicated that they will continue to make small business a significant part of their portfolio once the facility comes to a close.

Support from the EU comes as grant funding in the form of performance fees and technical assistance. While the performance fee is a way of encouraging banks and leasing companies to make small loans or leases, the technical assistance provides training to local staff to improve credit analysis skills and the quality of service provided to SMEs.

Leasing is an important form of financing for SMEs. It allows SMEs with limited or no access to debt financing to renew equipment and expand their operations. Those SMEs that do not have strong balance sheets or that cannot pledge assets for bank financing are good candidates for leasing. Often, in spite of their weak balance sheets, they have a strong enough cash flow to meet lease payments. Leasing can provide the first step in financing for SMEs, allowing them to gain a foothold to further expand. As such it is an important component of the market for SME finance.

Supporting foreign trade

The EBRD’s Trade Facilitation Programme (TFP) guarantees trade transactions to support import and export trade. By encouraging an increase in trade, the TFP helps to foster cooperation and understanding between countries as well as creating jobs.

Through the TFP, the EBRD provides guarantees to international confirming banks and factoring companies, taking the political and commercial payment risk of international trade transactions undertaken by banks in the countries of operations (the issuing banks). In addition, the EBRD grants short-term loan facilities to banks and factoring companies for the purpose of funding sub-loans to their clients.

In 2007 the TFP completed 1,056 transactions, including its 6,000th transaction. Over 40 per cent of guarantees were for transactions under €100,000 and many would not have been possible without the programme.
Part 01: Investing sustainably

New TFP facilities were signed with 15 banks in 10 of the Bank’s countries of operations. They included four new facilities with banks in four ETCs, as well as the first facilities for funding factoring operations in Romania and Russia. Under a TC project funded by the EU, the EBRD supported financing of the first factoring transaction ever undertaken in Georgia.

Through factoring, a bank can provide its clients – for example manufacturers – with a way to obtain funding without having to use property as security. The bank will (for a fee) take on a company’s commercial risk when selling goods to a buyer. It is a fast and flexible way of improving that company’s cash flow and providing working capital by allowing the company immediate access to cash for its deliveries rather than waiting for payment from its clients.

The TFP financed 259 transactions between EBRD countries of operations in 2007. Examples included the import of grain and food products from Romania, Russia and Ukraine to Armenia, FYR Macedonia, Georgia and Moldova, machinery and other equipment from Poland, the Slovak Republic and Estonia to Bosnia and Herzegovina, Belarus and Russia or pharmaceutical products from Croatia to Tajikistan.

The programme currently has 109 issuing banks in the Bank’s countries of operations and over 640 confirming banks globally.

CASE STUDY 06: PARTNERING TO IMPROVE THE ENVIRONMENTAL FOOTPRINT OF OIL AND GAS

The EBRD, the Finnish Fund for Industrial Cooperation (Finnfund) and the Nordic Environment Finance Corporation (NEFCO) are investing €47.5 million to mitigate the impact of oil spills.

The three groups will make loans to and take equity stakes in Clean Globe International, a subsidiary of Finland’s Lamor, one of the world’s largest providers of oil spill equipment. Investment in such projects is central to the EBRD’s policy of striving to improve the environmental footprint of the oil and gas industries while fostering sustainable development. EBRD funds will be used for the establishment of crude oil spill response centres and the provision of training, prevention and remediation equipment and services in key oil producing locations in the Bank’s countries of operations.

The EBRD will make a €30.5 million loan to Clean Globe International and take a €3 million equity stake. Complementing these investments are a €10 million loan and a €1 million equity investment from Finnfund and a €3 million equity investment by NEFCO. In addition to the environmental impact of supporting oil spill clean-up programmes, the project benefits from long-term EBRD financing that would not be available on the commercial market. According to Kevin Bortz, director of the EBRD’s natural resources team, this project is an important joint initiative to help reduce the environmental footprint of vital natural resource development, and could establish a model for improving local access to ongoing environmental training, waste-management practices and services as well as improving emergency response capabilities.

Clean Globe International will initially set up a Tier II response centre – for oil spill protection operations – in Russia. Further centres are being considered in Croatia, Georgia and Kazakhstan as well as locations outside the EBRD’s region. The Clean Globe centres will provide significant local resources to be shared by multiple users and supported by ongoing training, remediation and waste management activities.
Case Study 07: Developing Agricultural Business in Tajikistan

Tajikistan is primarily an agricultural country with most people living in rural communities and most of the workforce employed in agriculture.

The introduction of agricultural lending through the EBRD’s Tajikistan Micro and Small Enterprise Finance Facility (TMSEFF) in 2005 proved crucial and timely for the development of agricultural businesses such as cattle breeding, crop raising and horticulture. Since 2002, the facility has been accompanied by intensive technical assistance of €3.4 million, provided by the ETC Fund, the European Commission, United Kingdom and United States.

Take Mr Kamolkhodzhi Madumarov as an example. After 36 years as a brigade leader on a collective farm in the Tursunzade region, Mr Madumarov decided to lease some land and study the cultivation of grapes. His years of experience stood him in good stead and in 1996 he built up his own farming and viticulture business, which consists of 44 hectares of land, 25 of which are vineyards. Mr Madumarov’s varieties of grapes, such as “Victory”, “Khusayni”, “Black Beauty” and “Lady Finger”, are famous beyond the borders of Tajikistan; each year the Madumarov family exports more than 2,000 tonnes of selected grapes to Russia.

However, Mr Madumarov wanted to expand, and so in May 2007, after hearing that Agroinvestbank in the city of Tursunzade was offering micro loans to farmers, he applied for a €6,800 loan to purchase fertilizer to increase his grape yield.

Mr Madumarov was very pleased with the services offered by the bank under the TMSEFF, particularly the fast loan processing and the grace period for repaying the loan. “Because of the agricultural loan from Agroinvestbank I was able to considerably develop my farming business,” says Mr Madumarov. He plans to continue his cooperation with the bank to build up his business even further.

The year 2007 was marked by major breakthroughs in the donor-funded Chernobyl programmes managed by the EBRD. Contracts for the design and construction of a new confinement to safely enclose the destroyed reactor Unit 4 and for the completion of a spent fuel storage facility (ISF 2) were signed in September.
Donors provide support to the EBRD’s operations in two ways: through nuclear safety funds, which are designated for specific purposes and managed by the EBRD, and via the Technical Cooperation Funds Programme.

NUCLEAR SAFETY

The EBRD manages six nuclear safety funds on behalf of 29 donor governments and the EU: the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF), three international decommissioning support funds (IDSFs) for Bulgaria (Kozloduy), Lithuania (Ignalina) and the Slovak Republic (Bohunice), and the Nuclear Window of the Northern Dimension Environmental Partnership (NDEP). Donors have contributed more than €2 billion to these funds. Projects financed by these funds are subject to the same rules and policies which apply to the EBRD’s loan-funded projects, in particular with regard to procurement rules and environmental policies and standards.

Chernobyl

The year 2007 was marked by major breakthroughs in the donor-funded Chernobyl programmes managed by the EBRD. Contracts for the design and construction of a new confinement to safely enclose the destroyed reactor Unit 4 and for the completion of a spent fuel storage facility (ISF 2) were signed in September.

Following the completion of complex stabilisation measures inside and outside the Chernobyl Shelter (the structure hastily built around reactor Unit 4, destroyed in the 1986 accident), the Shelter Implementation Plan (SIP) is entering its final phase. The contract for the New Safe Confinement (NSC), which is the largest project within the SIP, was awarded after completion of a thorough process of selecting the most appropriate technical approach as well as the evaluation of technical and commercial proposals. When completed, the NSC will prevent the ingress of water as well as the release of contaminated dust and will provide equipment and a safe working environment for future dismantling and waste-management activities. The NSC is designed to have a life of at least 100 years.

It is a high priority for the Bank that all works are carried out in compliance with best practice in the application of health and safety standards and radiation protection for workers on site. It is an important achievement that the works (including the challenging tasks of the shelter stabilisation work) altogether representing about five million man hours, were able to be completed without any significant accident. In 2007 an update of the health, safety and environmental audit for the SIP concluded that earlier recommendations made to achieve a satisfactory standard had been successfully addressed.

The other large Chernobyl project, funded by the Nuclear Safety Account (NSA), is an interim dry storage facility for 20,000-plus spent fuel assemblies resulting from the operation of reactor units 1-3 and currently stored in inadequate conditions for the long term. The contractor will use existing buildings and concrete storage modules constructed under a previous contract. The new facility will process and then store spent fuel for 100 years. Currently the spent fuel is contained in the fuel ponds of reactor units 1, 2 and 3 and in an old wet-storage building. Only after the fuel is removed can the decommissioning of these facilities begin. Completion of this project is therefore a prerequisite for improving nuclear safety at the site. Donors to the NSA have approved funding of the design phase for this project which could cost in total over €150 million.

Both Chernobyl programmes are under-funded and donors have started preparations to raise the missing funds. The G8 countries and the EU have already renewed their commitment to help close the funding gap. The latest expression of this commitment was made in a statement at the 2007 summit in Heiligendamm.

Bulgaria, Lithuania and the Slovak Republic

Work through the IDSFs, which assist Bulgaria, Lithuania and the Slovak Republic with the decommissioning and early closure of first-generation nuclear power plants, has continued in 2007. The IDSFs are funded by donor countries and the EU. The project pipelines supporting the actual decommissioning of the designated power plants, such as facilities and equipment for the management of radioactive waste and spent fuel, are by now well-developed and are being implemented according to respective plans.
In 2008 the second reactor of the Slovak Republic’s Bohunice V1 nuclear plant will be shut down. Ignalina 2 in Lithuania will close in 2009. In Lithuania the procurement process for a 400 MW combined cycle, gas-fired plant has been launched, and donors to the Ignalina IDSF have approved a €260 million contribution towards the completion of Ignalina and the environmental upgrading of the existing units at Elektrine between 2007 and 2010. In Bulgaria, the results of the government’s energy sector survey were published in December 2007, serving as a basis for further projects to be approved by the Kozloduy IDSF.

Projects supporting the energy sector in compensating for the loss of generating capacity continue to make good progress. Energy efficiency credit lines – which allow local banks to borrow and then lend money on to end-users to increase energy efficiency or use renewable sources of energy – were first introduced in Bulgaria with the help of the Kozloduy IDSF Assembly. They are now being replicated in many of the Bank’s other countries of operations, such as the Slovak Republic, which receives grant support from the Bohunice IDSF.

North-western Russia
The Nuclear Window of the NDEP reached a crucial milestone in 2007 with the completion of the Strategic Master Plan (SMP), which provides a roadmap on how to deal with the nuclear legacy of the Soviet Northern Fleet in north-western Russia. Donors to the NDEP, including Russia, have praised the SMP as an invaluable tool for coordinating ongoing programmes and deciding on further assistance. The SMP builds on the first ever Strategic Environmental Impact Assessment, completed previously. Donors have also approved grant agreements to fund two major projects: the upgrading of the heavily contaminated abandoned fuel store at Andreeva Bay, which risks leaking its radioactive inventory into the Barents Sea; and the defuelling and decommissioning of the former service ship, Lepse, which currently contains damaged spent fuel and radioactive waste and is moored in Murmansk.

Energy efficiency credit lines – which allow local banks to borrow and then lend money on to end-users to increase energy efficiency or use renewable sources of energy – were first introduced in Bulgaria with the help of the Kozloduy IDSF Assembly.

Donor support for nuclear safety and other environmental activities is managed through separate programmes (see page 27).
funding from the EBRD to be used for BAS in 13 countries. Since it began in 1993, the TAM/BAS Programme has mobilised over €160 million from donors in more than 20 countries, the EU (which is the largest single donor), and various multilateral funds and initiatives.

In 2007, TAM started more than 120 projects, mainly in the Western Balkans, Central Asia and the Caucasus. BAS began some 950 projects, most of which were in the ETCs. A new BAS programme began in Tajikistan and an additional office was opened in the Kyrgyz Republic during 2007. Approximately 650 consultants were engaged in the projects that began in 2007. BAS was assessed by the EBRD’s Evaluation Department and was rated as “Successful.”

The TAM/BAS Programme is at the forefront of business development in the EBRD region. In October 2007 a new strategy for 2008-10 was approved. It envisages TAM/BAS extending into regions where intensive support is needed for MSMEs – in particular in rural areas of Russia and Ukraine. The Bank is looking to improve the Programme’s accounting of transition impact, which is the key principle governing the Bank’s project activities. The focus will be on market development activities, such as training for MSMEs and consultancies, and the sustainability of advisory services through institutional strengthening. TAM/BAS will also further its support to relevant local institutions and contribute to policy dialogue between the EBRD and governments.

In addition, TAM/BAS will further expand its activities in such pressing issues such as energy efficiency, environmental protection, gender equality, rural development and fostering young entrepreneurs.

### Table 03: Technical cooperation funding for environmental and social activities, 2007 (€ million)

<table>
<thead>
<tr>
<th>Sector</th>
<th>TC funds</th>
<th>Source of funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>27.1</td>
<td>Austria, BP, Canada, ETC Fund, EU, Finland, France, Germany, Italy, Japan, Mongolia Cooperation Fund, NDEP, Netherlands, Spain, Sweden, Switzerland, Taipei China, United Kingdom, Western Balkans Fund</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>11.3</td>
<td>Austria, Bohunice IDSF, Canada, Central European Initiative, ETC Fund, EU, Kozloduy IDSF, Netherlands, Italy, Sweden, United Kingdom</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>1.2</td>
<td>Canada, Luxembourg, Spain, Switzerland, United Kingdom</td>
</tr>
<tr>
<td>Forestry</td>
<td>0.4</td>
<td>Austria, Finland</td>
</tr>
<tr>
<td>Mining</td>
<td>0.5</td>
<td>Japan</td>
</tr>
<tr>
<td>Project Preparation Committee</td>
<td>0.1</td>
<td>United Kingdom, Netherlands, Sweden</td>
</tr>
<tr>
<td>Global Environment Facility</td>
<td>0.03</td>
<td>Global Environment Fund</td>
</tr>
<tr>
<td>Transport</td>
<td>0.02</td>
<td>ETC Fund</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.004</td>
<td>Japan</td>
</tr>
<tr>
<td>Social</td>
<td>0.001</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Electrical safety</td>
<td>0.2</td>
<td>Western Balkans Fund</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40.8</strong></td>
<td></td>
</tr>
</tbody>
</table>
It sought help from the TAM/BAS Programme to help reduce energy usage. The TAM team analysed the company’s energy usage, proposed energy-saving measures and assisted in energy saving activities. These included utilising the waste heat from exhaust gas in the drying tunnel to reduce costs, and controlling the airflow of the ventilator in the tunnel kiln.

In addition, the TAM consultant suggested ways of reducing moisture levels in the raw material, thus reducing the heat necessary to dry it. The company’s old boiler systems, which were used to supply heat and hot water, were too large and inefficient. The company wanted to replace these with a cogeneration facility, but in light of recent increases in the cost of gas, TAM researchers concluded that this was not feasible. Instead, the company opted for a small-scale heat supply system, which reduced gas usage by 40 per cent. The TAM consultant also gave advice on the supply of new transformers to improve electricity transmission which the company is considering introducing.

The company is now a qualified BAS engineering consultant and is experiencing a significant increase in demand, which has helped to finance its research programme. BAS has also helped the company to expand into neighbouring countries.

The company required help with a project to improve one aspect of the biogas creation technology. Ceramic discs used in the production of biogas technology had always been imported from Ukraine, which was very expensive, so the company decided to produce them locally. The BAS consultant identified fire-clay deposits suitable for production of the discs, developed and tested the technology in the production cycle and provided advice on building kilns and on the development of the production line (forming, drying and baking).

The company began to produce the ceramic discs, which resulted in decreased costs for customers and, most importantly, generated additional income for the company through the sale of a new product – gas heaters. After some time, the company began working with a porcelain production plant to prepare the ceramic paste according to a mixture developed by the BAS consultant. This is more economically effective than preparing the paste themselves.

The project helped the company to reduce costs, which it passed on to its customers, and to reduce the need for expensive international transport of goods. It was also able to begin local production of new products, such as radiators.
Energy efficiency and environmental protection
The EBRD’s countries of operations use up to seven times more energy to produce each unit of GDP compared with countries in western Europe. They also emit more greenhouse gases per unit of GDP. Efficient use of energy is essential if enterprises are to keep their product prices competitive. Furthermore, SMEs are increasingly required by law to limit pollution of water, land and air. Compliance with local and international regulations will be essential and is already a prerequisite for exporting to the EU and further afield.

As part of its support to SME development, the TAM/BAS Programme identifies energy-saving opportunities, advises on reducing environmental pollution and helps SMEs to comply with environmental regulations. This hands-on assistance provided by TAM/BAS allows companies to recognise the long-term benefits of investing in energy and environmental projects, although this understanding takes time, especially in the ETCs. These areas are often addressed together in order to find comprehensive solutions to overcoming environmental degradation and/or inefficient energy usage.

To date, TAM/BAS has carried out over 170 projects to help companies improve energy efficiency and/or to use renewable energy sources. A further 200 projects have addressed environmental protection while more than 1,200 projects are directly assisting enterprises in complying with environmental regulations and obtaining certification.

Most energy efficiency and environmental projects have been in south-eastern Europe or in central Europe and the Baltic states. However, the focus now is very much on Central Asia, the southern Caucasus and underdeveloped regions of Russia. The assisted enterprises are mainly in the manufacturing and agribusiness sectors.

As part of the energy efficiency and environmental focus, three distinct TAM and BAS programmes have evolved.

– The TAM Environmental Protection Programme, funded by the Japan-Europe Cooperation Fund, is working in heavily polluted regions and promotes international environmental certification. It is increasingly innovative in terms of utilising Kyoto Protocol mechanisms.

– The BAS Slovenian Global Environmental Facility (GEF) is reducing waste-water discharge to the Danube River. Some 29 enterprises have been assisted by TAM and BAS to date, and 23 of these have been able to attract €60 million of investment, including from the EBRD/GEF Credit Facility, enabling them to meet the required environmental standards.

– The EAR-funded BAS Environmental Programme in FYR Macedonia is training local consultants and assisting SMEs to comply with the Integrated Pollution Prevention and Control Directive, which has been incorporated in the country’s environmental legislation.

Women in business
Increasing emphasis is being placed on helping women to realise their potential to contribute more to economic development in emerging markets. Encouraging female participation in business is a priority for TAM/BAS, and for the Bank as a whole.

The TAM/BAS Women in Business initiative brings support to female entrepreneurs with new business ideas and assists the growth of established enterprises owned by women. Through workshops and tailored consultancy projects, assistance has focused on business planning and marketing, obtaining financing and improving financial and cost controls. In addition, TAM/BAS works closely with the EBRD’s banking teams to improve access to finance from micro-lending institutions for female entrepreneurs.

The Women in Business initiative started in the southern Caucasus. Within a year, BAS offices had established 15 focus groups and workshops for women in business and had undertaken 30 projects with women in MSMEs.
The EBRD works closely with other international bodies, such as the Global Environment Facility, to tackle global environmental issues, such as water pollution, climate change and biodiversity.
on the future work of the facility and how to use its investments to improve the environmental situation in the Bank’s countries of operations. The first EBRD/GEF co-financed project, the Slovenia Credit Line, finished disbursing in 2007. The facility has funded over 40 investments by local businesses and small municipalities in Slovenia to reduce water pollution. These projects have significantly reduced the quantities of heavy metals, nutrients and other pollutants into the Danube river basin. To facilitate the development of new GEF projects, the Bank has employed the services of a consultant to advise on GEF policies and procedures and to assist in the drafting of project proposals. A number of ways of tackling climate change have been formulated, one of which was submitted to the GEF Secretariat as a project proposal. The Bank is also exploring other areas in which to develop projects, either alone or in partnership with other GEF agencies.

**Biodiversity**

All EBRD-financed projects are expected to include measures to safeguard and, where possible, enhance natural habitats and the biodiversity that they support. The Bank is also committed to supporting investments that specifically promote biodiversity.

As part of the revision of the 2003 Environmental Policy, the Bank has drafted a document entitled *Performance requirement six on biodiversity, conservation and sustainable management of living natural resources* outlining the issues that Bank clients should consider when undertaking projects which have an impact on biodiversity and setting the requirements that need to be met.

Options to put together a biodiversity financing mechanism in a number of countries are being examined. Linked to this is the EU-funded project to set up Biodiversity Technical Assistance Units in Bulgaria, Hungary and Poland, preparing the way for any such biodiversity financing mechanisms. The EBRD is represented on the steering committee of this project, which met twice during 2007.

The EBRD continues to be involved in the EU-funded “Pro-biodiversity business in the steppe zone of the Eurasia region” project. This aims to identify and support MSEs located in the steppe ecosystems in parts of Kazakhstan, Moldova, Russia and Ukraine. It aims to establish an operating structure for assessing companies that show interest in creating biodiversity-friendly businesses. Consultants to run this programme have been selected by the Bank and work on this has begun.

**European Principles for the Environment**

The European Principles for the Environment (EPE) is a major joint initiative, launched in May 2006, between the EBRD and four leading European-based multilateral financing institutions (MFIs) launched in response to the drive for increased harmonisation of environmental principles, practices and standards associated with the financing of projects. The initiative is founded on the commitment of MFIs to ensuring environmental protection and promoting sustainable development globally and across all sectors of their activities. The EPE promotes the EU approach to environmental sustainability, and commits the signatories to applying EU principles, practices and standards to all projects financed by the signatory institutions.

The Bank has also participated in a variety of meetings, among others, the MFI Working Group on Environment (MFI-WGE), the IFI Social Practitioners Working Group, the EC’s Danube and Black Sea taskforce (DABLAS), the EC’s Regional Environmental Reconstruction Programme for south-eastern Europe (REREp), the EC/World Bank office for south-eastern Europe, and the IFI Advisory Group on environment. Within the context of the EPE the Bank has been collaborating with the other European-based IFIs in the preparation of a *Handbook on EU Environmental Law, Principles and Standards* which will facilitate project appraisal and consistency of approach.
A reliable supply of clean drinking water and efficient sanitation is vital to everyday human life and economic development, and is a priority for governments globally.
For countries in central and eastern Europe, the Caucasus and Central Asia, improvement of the water infrastructure has been a prerequisite for the flow of investment and growth that have underpinned the transition to a market economy. As such, improving water and waste-water systems across the region has been, and remains, a key part of the EBRD’s strategy, channelled through its municipal and environmental infrastructure (MEI) team. To date, the Bank has financed 78 projects with a total value of €1.3 billion, bringing benefits to millions of people and widespread environmental improvements. However, significant challenges remain.

At first glance, the transition region appears to have a good record on water provision – according to the UN around 91 per cent of the population has access to improved drinking water and 82 per cent benefit from improved sanitation facilities. A closer look, however, reveals huge variations in coverage, from almost universal supply in the large towns and cities in central and eastern Europe, the Western Balkans and Russia to very patchy provision in many rural areas, especially in the Caucasus and Central Asia.

In many cases, water infrastructure is now dilapidated, with municipalities lacking the technical skills and finance for repairs and upgrades. This has often been compounded by municipal utilities continuing to embrace a centralised management system, allowing excessive consumption and wastage, without passing on the costs to the consumer, with tariffs frequently well below cost-recovery levels. Water infrastructure in the Western Balkans suffered serious damage during the violent disintegration of Yugoslavia, and supplies to many rural areas remain uneven.

Great efforts have been made to improve the supply of potable water in cities across central and eastern Europe and Russia in recent years – with significantly increased levels of metered water connections, decreasing levels of wastage and improved rates of bill collection. However, there is evidence that the situation has deteriorated across many countries in the Caucasus and Central Asia since 2000. In some cases a significant maintenance backlog means that water systems are reaching crisis point, with discontinuous supply, drinking water significantly below health standards, and accident rates 10-100 times higher than in the Organisation for Economic Cooperation and Development (OECD) countries. Many city dwellers in the Caucasus and Central Asia receive water for much less than 24 hours a day, which is often the result of authorities switching off pumps to reduce costs or water usage.

Provision of waste-water services has long been neglected in the transition region, even in the wealthiest central European states, and serious challenges remain. In the former Soviet republics, municipal water utilities have now overtaken industry as the main polluters of surface water. Leakages from sewers result in significant amounts of effluent reaching surface and ground waters, with serious health implications. In Russia, communal water systems account for almost 90 per cent of waste-water discharges, of which only around 10 per cent are treated according to EU standards. They are also the source of more than half of key water pollutants such as phosphorus, nitrates and lead.
This was the legacy of a seriously neglected infrastructure supplying drinking water. As well as the inconvenience, families had to contend with the risk of contracting an infection from the stored drinking water, especially during hot summer months.

Responding to the critical situation, the EBRD launched the first phase of a major water supply improvement project for the city in 2004. The initiative, covering the upgrading of water supply for a third of the city’s inhabitants, was the Bank’s first such project in Central Asia and it was financed by a €0.8 million loan, along with a grant from the Swiss State Secretariat for Economic Affairs (SECO) of €1.9 million.

A second phase of the project, with contributions of up to €1.5 million from the EBRD and €3.5 million from SECO, is currently being considered by the Bank to finance investments in water pipes, pumping stations and other essential infrastructure across the city. Most districts now have access to 24-hour water supplies, and it is hoped that the success of this project will act as a model for others across Tajikistan, where up to 50 per cent of the population are still without mains drinking water, and supplies for others are often sporadic.

The EBRD has a strong track record of investing in water infrastructure across the transition countries since 1995, as part of its strategy of promoting greater efficiency and higher quality in the provision of local authority services (see map on page 41). Investment in the water and waste-water sector has accounted for around 60 per cent of the Bank’s MEI portfolio, with an emphasis on the efficient provision of drinking water in the larger towns and cities of the most developed countries. It is estimated that over 30 million people have benefited from the Bank’s support of the water sector across the region, including a highly successful project in one of the poorest countries, Tajikistan (see left).

The EBRD’s approach to improving municipal infrastructure supports the decentralisation of service responsibilities to local or regional levels, the commercialisation of the operating companies providing local services and environmental improvement as a consequence of investments that conserve environmental resources and reduce pollution.

Experience has shown that when responsibility for municipal services is placed closer to the point of delivery, suppliers are more likely to respond to the needs of their constituents. Decentralisation of water and waste-water services has occurred most rapidly in central and eastern Europe and it has generally led to significant performance improvement by:

- enabling predictable sources of local government revenue and clear rules governing tax sharing and transfer payment arrangements between national governments and local authorities
- allowing control of local government borrowing through disclosure, reporting and statutory limits rather than ad hoc political decisions
- improving corporate governance of local operating companies allowing commercialisation
- creating independent regulatory arrangements governing the setting of tariffs, with associated improvements in service standards
- encouraging innovation, with successful models emulated and extended to new locations.
In many early transition countries (ETCs), however, the process of
decentralisation is incomplete and often is not accompanied by a
clear delegation of regulatory or fiscal authority. As a consequence,
decision-making can be subject to local politics and election cycles.

The EBRD’s success in water sector projects is due to its ability
to work with municipal authorities or utilities that are commercially
and financially viable, and to the ability to make rapid progress
towards cost recovery and revenue collection within the limits
of affordability. This has become possible once clear legal and
regulatory conditions have been established, and it explains why
the majority of projects have been in the larger towns and cities
of central and eastern Europe. Such reform is still lacking in many
countries in the Western Balkans, the Caucasus and Central Asia,
where tariffs typically cover only 30-80 per cent of operating costs.

Commercialisation is also associated with:

– ensuring that management is independent while holding utility
  managers accountable for delivering an acceptable quality of
  service

– encouraging a transparent and competitive procurement
  process for goods and services to ensure good value for money
  and to avoid opaque practices and corruption

– promoting appropriate regulatory supervision by contract or
  otherwise, whenever business activities are not subject to
  competition, in order to protect consumer interest and stimulate
  efficient provision of services.

In some cases, commercialisation can be introduced best
through private sector involvement, which can bring expertise
and established business practices that focus on efficiency, cost
control and improved service levels. Indeed, the Bank has been
involved in most of the private sector participation (PSP) projects
in this sector. Major private sector concessions supported by the
EBRD have been awarded in the larger cities, including Bucharest,
Sofia, Tallinn and Zagreb. In 2007, the Bank committed up to
€105 million for a 10 per cent stake in Veolia Voda, with the aim
of boosting the role of the private sector in the provision of water
and waste-water services, focusing on Russia and Ukraine. Veolia
Voda is the central and eastern European arm of French company
Veolia Water, and has made successful entries into the markets
of the Czech Republic, Hungary, Poland and the Slovak Republic.

The EBRD will continue to devote significant efforts to improving
performance and promoting commercialisation within the context
of municipal ownership and operation. The Bank will also
encourage private sector participation by both local and
international operators wherever possible.

The Bank’s investments in the water and waste-water sectors
have a direct positive impact on the environment by:

– achieving environmental standards that are in line with best
  international practice, in compliance with EU directives

– encouraging conservation through the appropriate pricing
  of environmental goods

– reducing energy use and pollution through the use of new,
  higher quality infrastructure and technology

– building sustainable institutional structures to enforce higher
  environmental standards.

As outlined, the Bank’s countries of operations have significant
problems to overcome in order to meet internationally accepted
environmental standards, including those of the EU. Moreover,
environmental effects often have a cross-border component –
addressing pollution in the Danube river basin, for example,
is a major international environmental priority. It flows through
18 European countries and is home to a population of
approximately 81 million people.

The EBRD has supported international action to address
environmental problems in the Danube basin since 1993, in
coordination with the International Commission for the Protection
of the Danube River, and the EC’s Danube and Black Sea Task
Force (DABLAS). DABLAS has enabled the EBRD to coordinate its
investments in water supply and sanitation in the Danube basin
with donors and other IFIs. This has included working together with
the EC’s Danube Investment Support Facility to prepare water and
sanitation investments in Bosnia and Herzegovina and Croatia.
Wherever possible, the Bank attracts other banks or investors to co-finance projects and uses a variety of funding methods such as loans, equity, risk-sharing and local currency lending. This process promotes the reform of water providers to increase their creditworthiness, as well as promoting local capital markets.

The Bank has worked closely with other EC project preparation facilities, including the Black Sea Investment Facility and the Environmental Project Preparation Facility for the Western Balkans, as well as the EU Water Initiative (EUWI), which includes the €5 million co-financing grant for the Lake Sevan environmental project in Armenia.

Pollution in international waters in the eastern Baltic Sea prompted a number of Nordic countries to join forces to help the authorities in St Petersburg to modernise waste water infrastructure – projects that have received substantial EBRD investment over the past decade (see page 39).

Improvements in environmental management are clearly essential to the development of a well-functioning private sector economy. Decentralisation has meant that much of the responsibility for the implementation of national environmental requirements is now in the hands of local governments and individual companies. By emphasising commercialisation, the Bank can ensure that maintaining high environmental standards is cost effective while ensuring the sustainability of the institutions responsible for meeting and maintaining those standards.

In addition, increased transparency in establishing the economic cost and benefits of environmental improvements will enable governments to develop appropriate cost-recovery mechanisms. These mechanisms will allow local governments to allocate costs better to those who cause the environmental impacts through the “polluter pays” principle.

During the early years of transition (and still in many of the ETCs) the EBRD has made loans to centrally controlled municipal providers with a sovereign guarantee. As municipal authorities have been reformed and made financially sustainable – frequently with the help of the EBRD and other IFIs – water projects have been financed with only local authority guarantees. Romania, where a legal framework for municipal finance was established in 1995, is a good example of a country where water-sector renovation projects have been successful, and where they have directly contributed to the reform and modernisation of municipal authorities (see page 40).

In situations where a municipal utility has demonstrated sufficient financial stability, the EBRD has made loans directly without a local authority financial guarantee. Examples include loans to Riga Water Company in Latvia and Wroclaw Water in Poland. Where possible or legally required, such as in Russia, the Bank has provided local currency financing to municipalities and to water utilities, to better match the currency of their cash flows.

Wherever possible, the Bank attracts other banks or investors to co-finance projects and uses a variety of funding methods such as loans, equity, risk-sharing and local currency lending. This process promotes the reform of water providers to increase their creditworthiness, as well as promoting local capital markets. It also provides technical assistance and has mobilised grant funds from other agencies – which is increasing as municipalities become more creditworthy. Good practice is encouraged through professional dialogue during the course of visits, reinforced by the Bank’s presence in local offices, and by formal conditions inserted into project agreements.
Sweden’s Commission on the Marine Environment warned in 2003 that the eastern Baltic was in a “critical” condition, with fish and plant life decimated by algal blooms and oxygen depletion. This was widely blamed on St Petersburg’s cash-strapped Vodokanal, the utility in charge of the region’s largest city by far and saddled with the ageing infrastructure that had never been able to cope with five million people.

The main problem was the repeated delays to the completion of a large waste-water treatment facility that had been left half finished in the 1990s. Organising the finance for such a vast and complex infrastructure project was anything but straightforward, although St Petersburg’s special status meant that its authorities had access to the syndicated loan market and Eurobonds. These options were not open to other Russian cities – from 2001 they were banned from incurring foreign currency liabilities, including guarantees. The St Petersburg Municipal Support Project was established in June 1997, and it enabled the financial foundations to be laid through an extensive series of technical assistance projects to reform municipal accounting, investments and legal and regulatory aspects.

The €193 million south-west waste-water treatment plant eventually opened in September 2005, financed by a range of IFIs, including a grant of €5.8 million from NDEP. Capable of treating 330,000 cubic metres of waste water a day in line with EU standards, the plant is drastically reducing pollution in the Gulf of Finland.

Since 1994, the EBRD has financed a total of four projects in St Petersburg’s water and waste-water sectors, which have played a key role in bringing the infrastructure of Russia’s second city closer to the standard of other leading European conurbations. In 2007 an NDEP grant of €6.4 million was provided to St Petersburg Vodokanal to complete the construction of a state-of-the-art sludge incinerator, solving the twin problems of a full landfill site and preventing the discharge of heavy metals into the Neva. Work is also under way to eliminate all the remaining direct discharges of waste water into the Neva.
CASE STUDY 12: TRANSFORMING ROMANIA’S WATER SUPPLY

In the early 1990s much of Romania’s infrastructure, including the water supply, was in desperate need of repair after decades of underfunding.

Only around 85 per cent of the urban population and 16 per cent of the rural population had access to tap water. In many areas, including parts of the capital, Bucharest, the supply was intermittent and the water polluted. Furthermore, the system of financing municipal utilities remained highly centralised, budgeting was not transparent and there was little long-term planning or income stability.

A turning point was reached in 1995 when the government launched a water strategy, which led to a new legal framework for municipal finance. Under the Municipal Utilities Development Programme (MUDP), the EBRD made a series of sovereign-guaranteed loans, totalling €51 million, to enable critical investments in the water infrastructure of 17 cities across the country. Inhabitants of the Jiu valley, 300 kilometres north-west of Bucharest, for example, saw the installation of new pipelines and more efficient pumping stations in 1996, bringing 24-hour-a-day water supplies for the first time. Setting realistic tariffs based on the amount of water used and reducing costs by tackling leakages improved the creditworthiness of local suppliers, eventually ensuring that services were self-financing.

By 2000 many municipal authorities had begun to operate on a sounder financial footing and the EBRD launched its innovative €80 million Municipal Environmental Loan Facility (MELF), which represented a move away from loans based on sovereign support. The MELF was extended to €130 million in 2004 to provide co-financing to EU-funded projects for water and waste-water investments across nine cities. The facility has been supported by a dedicated team of EBRD staff based in Bucharest.

The most recent EBRD-financed project in Romania’s water sector is an €18 million loan, signed in 2007, to bring cleaner water to 26,000 people in the district of Oradea, near the Hungarian border. The Bank has worked with the Oradea water utility company since 1997, when it lent €6.5 million to finance critical water and waste-water investments. Environmental benefits associated with this include the reduction of cross-border ground water pollution affecting the Crisul Repede river. The latest investment will be the first step in this local company’s transformation into a sustainable regional operator – an additional €200,000 of technical cooperation funds for consultancy services will bring substantial efficiency gains and greater access to commercial capital, in line with the government’s recent drive to establish true regional operators. Although Romania has seen notable successes in the provision of drinking water and waste-water services in many of its large cities over the past decade, significant work is still required in the remoter regions.

In the early 1990s much of Romania’s infrastructure, including the water supply, was in desperate need of repair after decades of underfunding.
Water and waste-water projects by country, 1994-2007

- **18 projects**
- **12 projects**
- **8 projects**
- **5 projects**
- **3 projects**
- **2 projects**
- **1 project**

- Armenia: 1
- Tajikistan: 1
- Ukraine: 2
- Russia: 12
- Uzbekistan: 1
- Bosnia and Herzegovina: 1
- Georgia: 2
- Azerbaijan: 1
- Croatia: 5
- FYR Macedonia: 1
- Serbia: 4
- Montenegro: 1
- Lithuania: 2
- Latvia: 2
- Poland: 8
- Estonia: 3
- Czech Republic: 2
- Hungary: 3
- Moldova: 1
- Romania: 18
- Bulgaria: 5
- Slovenia: 1
- Armenia: 1
In 2007 the EBRD signed 12 water and waste-water projects totalling €212 million (see Table 04). This included a €7 million loan to improve the purity of Armenia’s Lake Sevan through the upgrading of waste-water collection and treatment facilities (see page 43), a €7 million loan to the water authorities in Bijelina, Bosnia and Herzegovina, and a major loan to Montenegro to provide reliable, clean water from Lake Skadar to the coastal towns (see page 41).

The Bank continued its municipal operations in Bulgaria through the signing of two major regional projects. The loans were made available to water companies in Stara Zagora (€9 million) and Plovdiv (€11.4 million) to finance water supply and waste-water infrastructure improvements. In Croatia, the Bank supported the recently formed Zagreb Holding, financing investments in the water and waste-water sectors.

The EBRD will continue to use its financial resources and influence, together with other key donors and agencies, to upgrade the vital water and waste-water sectors in all its countries of operations. In line with the Bank’s overall strategy, the focus will increasingly shift eastwards to the ETCs, where the need for institutional reform and improved infrastructure is greatest. The Bank hopes to raise co-financing and grants to carry out more technical cooperation in the region, as well as to assist some of the poorer countries in reaching the ambitious Millennium Development Goals (MDGs) for 2015. While many of the Bank’s countries of operations are nearer to meeting the MDGs than many developing economies, the World Bank estimates that three million new water supply connections and two million sewer connections will be needed annually in the EBRD’s region to meet the water-related goals. The Camdessus Panel in its report of 2003 identified ways in which IFIs could work better to improve the situation. It recommended an increase in lending to local authorities and utilities, local currency funding and the introduction of tariff structures to enable cost recovery.

### WATER AND WASTE-WATER PROJECTS SIGNED IN 2007

<table>
<thead>
<tr>
<th>Project name</th>
<th>EBRD finance</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Sevan</td>
<td>7.0</td>
<td>Armenia</td>
</tr>
<tr>
<td>Bijelina Waste-water Collection System</td>
<td>7.0</td>
<td>Bosnia and Herzegovina</td>
</tr>
<tr>
<td>Plovdiv Water Investment Project</td>
<td>11.4</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>Stara Zagora Water and Waste Water</td>
<td>9.0</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>Zagreb Holding Water Project</td>
<td>30.0</td>
<td>Croatia</td>
</tr>
<tr>
<td>Riga Water III</td>
<td>0.4</td>
<td>Lithuania</td>
</tr>
<tr>
<td>Montenegro Regional Water Project</td>
<td>8.0</td>
<td>Montenegro</td>
</tr>
<tr>
<td>Oradea Water and Waste-water Extension</td>
<td>4.0</td>
<td>Romania</td>
</tr>
<tr>
<td>Timisoara Aquatim Refinance</td>
<td>6.5</td>
<td>Romania</td>
</tr>
<tr>
<td>Kazan Municipal Water and Waste Water</td>
<td>9.7</td>
<td>Russia</td>
</tr>
<tr>
<td>Ufa Water</td>
<td>13.9</td>
<td>Russia</td>
</tr>
<tr>
<td>Veolia Voda</td>
<td>105.0</td>
<td>Regional</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>211.9</strong></td>
<td></td>
</tr>
</tbody>
</table>

Notwithstanding the investments that have been made for particular countries, the coverage of the population with water supply, sewerage and waste-water treatment infrastructure is far from complete. Those affected include several of the more advanced transition countries, which have been given varying deadlines for compliance with EU directives (for example, five of the new EU member states have until 2015 to meet the Urban Waste-water Treatment Directive).

### IMPLICATIONS OF CLIMATE CHANGE FOR WATER USE

There appears to be unequivocal evidence that the world’s climate is warming up, with projections from the Intergovernmental Panel on Climate Change (IPCC) forecasting a global mean temperature increase of 3.4 degrees Celsius by 2080. Europe is also being affected: it has already warmed by more than 1 degree Celsius over the past decade. These projections mean that water will become even scarcer in regions such as south-eastern Europe, the Caucasus and Central Asia, as rainfall and hydrological patterns change. This may increase the need for investment in water infrastructure, including water conservation measures such as leakage reduction and water pricing. These regions have more limited resources to pay for investments in infrastructure, so more grant co-financing may be needed to meet future challenges in the water sector.
In 2007 more than 600,000 people visited the Montenegrin coast, doubling the population of the fledgling nation, but the sheer volume of visitors is putting serious strain on an infrastructure that is barely sufficient for its residents. This is especially true of the water supply, an increasingly serious issue in the dry summer months. In 2007 some coastal towns endured severe water shortages for up to three months; a situation that is clearly impeding the development of tourism, the engine of the country’s economy. The EBRD, together with the World Bank, has stepped in to provide finance and expertise to help the Montenegrin authorities to revive a long-planned scheme to channel water from the hinterland around Lake Skadar.

A €15 million EBRD loan to the Montenegrin regional water company will finance the modernisation and construction of the northern branch of the system, supplying the towns of Budva, Tivat, Kotor and Herceg Novi. The World Bank will finance water extraction from springs around Lake Skadar, water treatment, construction of the mainland part of the network and the southern branch supplying Bar and Ulcinj. The EBRD loan programme carries a sovereign guarantee from the Montenegrin government. It is being disbursed in two loans over two years to match the profile of the country’s investment requirements. Additional technical assistance support will be provided by both the EBRD and the World Bank for overall project management, monitoring and implementation support.

Over the past decade most of the region’s small waste-water treatment plants have fallen into disrepair and a number of new plants remain unfinished. As a result, the lake’s waters have become polluted by effluent from the towns that encircle it, upsetting the ecological balance and threatening its natural beauty.

An action plan to address these issues was put together by the EBRD’s Project Preparation Committee (PPC), the Armenian water and waste-water authorities and other national bodies. The plan identified a number of waste-water treatment plants that were in need of urgent repair – specifically the construction of a new mechanical treatment capability at the waste-water treatment plant in Gavar, together with the modernisation of the sewerage system. The waste-water plants in the cities of Vardenis and Martuni will undergo renovation of their biological treatment capabilities as well their sewage collection networks. There will also be improvements made to the sewerage systems in the towns of Sevan and Jermuk.

Financing for the project included an EBRD loan of €7 million in April 2007, complemented by an investment grant of €5 million from the EU and a €1.2 million grant for technical assistance from the multi-donor ETC Fund.

The challenge has been to provide the much-needed infrastructure improvements and institutional support, all within affordability constraints and the requirement for concessional lending agreed between Armenia and the IMF. The project was modelled on two previous water projects in Georgia that used an affordable loan combined with investment grants and technical cooperation targeted at a local authority to achieve transition impact and address implementation risk.
The EBRD’s Environmental Policy is the umbrella for much of the Bank’s mission to work in a socially and environmentally responsible way.
Part 02: Working sustainably
Article 1 of the Agreement Establishing the EBRD commits the Bank to fostering the transition to market-oriented economies and to supporting private entrepreneurial initiative in countries committed to multi-party democracy. Article 2 of the Agreement states that the Bank promotes environmentally sound and sustainable development in all its activities. This section of the report describes the way in which the EBRD carries out this part of its mandate.

Since the establishment of the EBRD’s Environmental Policy, environmental and social issues in the countries where the Bank operates have changed. Attention is focusing increasingly on energy efficiency and renewable energy. As the EBRD’s activities move further south and east, including to some of the poorest of the Bank’s countries of operations, social issues, such as labour standards, the effect of the Bank’s projects on indigenous people, resettlement and gender equality are increasingly important and a key component of sustainable development.

In 2007, good progress was made in revising the Bank’s Environmental Policy. It has been proposed that it should be renamed the Environmental and Social Policy to reflect the social impact of the Bank’s activities. The proposed draft Policy outlines the Bank’s overall requirements and commitments and is supported by 10 performance requirements that aim to provide a greater degree of clarity for clients and the Bank. Guidance notes explaining the Policy and performance requirements will be developed once the new Policy is approved.

Consultation began in 2006 with expert working groups meeting to discuss changes in IFI requirements, labour issues, public health and the impact of EBRD projects on indigenous people. This work continued in 2007 with the publication of an issues paper in English and Russian on the Bank’s web site. This paper contained an outline of the key topics to be considered in the new Policy, such as defining project boundaries and clarifying responsibility for disclosure and public consultation.

Key topics were also discussed during the NGO programme at the Bank’s annual meeting in Kazan (Russia) in May 2007 (see pages 54-55). The Bank was encouraged to engage with all affected groups and to consider the impact of EBRD projects on local communities. In addition, Bank staff held meetings with indigenous people in Murmansk (north-western Russia), Petropavlovsk (Russia’s Far East) and Irkutsk (Siberia) in late 2007 and early 2008. The EBRD also consulted with banks and IFIs, the World Health Organization (WHO), the International Labour Organization (ILO), the EBRD’s Environmental Advisory Council (ENVAC, see page 58) and the EU on the Policy Review. A survey was also carried out to seek input from the Bank’s clients.

Following the release in February 2008 of a draft Policy on the EBRD’s web site in English and Russian, it was discussed at a series of public consultation workshops in six locations: Belgrade, Bishkek, Budapest, London, Moscow and Tbilisi. Once the new Policy has been approved, it will be posted on the EBRD’s web site in English and Russian later in 2008.

Following the Policy’s approval there will be a six-month period before the Policy is implemented for procedures and tools to be developed and to allow for a training and awareness-raising programme for Bank staff.

BRINGING GENDER INTO THE MAINSTREAM OF EBRD ACTIVITIES
In 2006 the EBRD commissioned a study to examine how gender affects EBRD activities, particularly in transition counties. The independent study, funded by DfID and the Canadian International Development Agency (CIDA), recommended a number of ways to bring gender issues into mainstream activities so as to maximise the potential benefits of EBRD-financed projects.

During 2007, the Bank’s Environment and Sustainability Department and Office of the Chief Economist worked together to build on the recommendations of the study to give the Bank a better understanding of where issues related to gender equality arose in the EBRD’s countries of operations. A Working Group comprising representatives from different Bank departments has been set up to identify potential opportunities for investment projects that would contribute towards gender equality as well as other initiatives that promote good practice among clients, and will be finalised in 2008.
The EBRD has rigorous procedures to ensure that Bank staff carry out their work in accordance with the Bank’s mandate and in line with the Bank’s Environmental Policy and Public Information Policy. These policies apply to all projects.

In order to measure how the Bank implements its Environmental Policy commitments, the EBRD uses key performance indicators. In particular, the Bank measures greenhouse gas emissions associated with projects that it has financed (see page 17).

The Bank is working to develop ways of analysing performance data in order to quantify the impact of its investment at grassroots level. The success of the Bank’s MSE lending programmes can be measured by charting the progress of EBRD-backed businesses in terms of profitability, job creation, labour costs (relative to productivity), survival rates and the ability to access further financing.

To ensure that EBRD financing is used for its intended purpose, the Bank works hard to combat money laundering and to promote integrity and good governance in its projects. The in-house Chief Compliance Office (CCO) has overall responsibility for integrity issues, both to do with projects and within the Bank. It advises on the suitability of prospective Bank clients and investigates allegations of fraud, corruption and misconduct.

**CONDUCTING DUE DILIGENCE**

Before investing in any project, the EBRD conducts “due diligence” to identify the potential environmental and social impact of its projects — which includes health, safety, labour and community impacts. It also identifies action that a project sponsor or client may need to take to comply with the EBRD’s Environmental Policy and further measures that could improve the livelihood and quality of life of people affected by the project.

Due diligence focuses not only on issues of environmental and social impacts but also on identifying environmental and social opportunities. Actions needed to mitigate negative impacts and to achieve opportunities can be built into environmental action plans (EAPs) which form part of the legal agreements with clients or project sponsors. Feasibility and due diligence studies are sometimes financed through donor-funded technical assistance projects.

For more information about how the Bank conducts environmental and social due diligence and assigns screening categories visit the Bank’s web site at: [www.ebrd.com/enviro/policy/index.htm](http://www.ebrd.com/enviro/policy/index.htm)

The EBRD’s Environment and Sustainability Department (ESD) conducts due diligence on labour issues associated with the Bank’s projects in accordance with the Environmental Policy. Key issues are compliance with the ILO’s core conventions on forced labour, child labour and discrimination in the workplace as well as compliance with national labour laws, including those on working hours, overtime pay and holiday entitlements. Projects are screened with reference to the country, sector, client reputation (or track record) and the impact on employment. Follow-up due diligence may involve detailed discussions with the client’s human resources manager, a review of the results of previous inspections by the labour authorities or, if significant issues are identified, a site visit by an independent labour expert. Undertakings by clients often relate to improving the company’s human resources management or ensuring contractor compliance with labour standards.

Clients have generally responded positively to the EBRD’s concerns about labour issues. During project implementation, clients are required to submit information on labour issues as part of their annual reports on environmental and social performance. Where the risk of regulatory non-compliance is high, and the national enforcement system is seen as comparatively weak, the EBRD may require more frequent and more detailed labour reports, and/or independent labour audits to be carried out during project implementation.

The EBRD has worked with expert labour consultants for several years and retains consultants to support the Bank’s staff. In 2007, a two-day training course on labour issues with an emphasis on labour auditing and monitoring was held for all ESD staff.
Mitigating the effects of job losses

Sometimes commercial development requires that there should be a reduction in the number of workers employed at an enterprise. If the client anticipates collective dismissals, the EBRD expects it to develop a plan to mitigate the adverse impacts of retrenchment, in line with national law and good industry practice and based on the principles of non-discrimination and consultation. This consultation normally involves reasonable notice of employment changes to the workers’ representatives and, where appropriate, relevant public authorities, in order to mitigate the adverse effects of job losses on the workers concerned.

The EBRD works with its clients to mitigate the effects of job losses on occasions where these are necessary. This can include assistance with plans to implement collective redundancies, consultations with the workforce and working with state agencies to provide training or retraining to workers who are likely to lose their jobs. For example, a manufacturing plant in the Ukraine received a loan from the EBRD to modernise its production lines. Unfortunately, this led to a reduction in the number of workers needed. The company consulted with local trade unions to assess the impact of this on the individuals concerned and took steps, including assistance with retraining, to mitigate the impact on the workers involved.

On a number of occasions in 2007, the EBRD obtained specific undertakings from clients in relation to the reporting of future job losses, consultation with workers and their representatives and the development of a specific action plan.

Environmental and social monitoring

In 2007 the EBRD continued to increase the amount of time and effort it devotes to monitoring the environmental and social performance of projects, with a total of 77 monitoring visits to 56 projects. Monitoring has three principal aims; to maximise project benefits, to verify compliance with the Bank’s Environmental Policy, and to learn lessons for future projects. Monitoring happens in a number of ways. The first is through the Annual Environmental Reports that all clients are required to provide to the Bank. In addition, every year there are visits to a number of sites, carried out either by the Bank’s environmental or social specialists, or by consultants contracted directly by the EBRD. Finally, the most sensitive projects have bespoke monitoring programmes, which typically involve independent consultants visiting the project several times a year and carrying out in-depth assessments of their performance.

At the start of 2007, the Bank’s ESD introduced an updated monitoring strategy. Under this strategy, projects are given an environmental and social risk rating on a four-point scale. Available resources are then matched to project risk. Projects with the highest perceived environmental and social risks receive the closest attention and are visited the most frequently. Projects that have fewer risks are visited less often. Self-reporting by the client is the main means of tracking those with the lowest risks. At the end of 2007, EBRD had around 1,386 active transactions in its portfolio. Some 38 of these are judged to be “high risk”, 165 are “high-medium risk”, 615 are “low-medium risk” and 567 are “low risk”.

These risk ratings are intended to be flexible and are updated in response to changing circumstances in individual projects. A major challenge for the Bank going forward is to ensure that the “high-medium risk” and “low-medium risk” projects receive an appropriate level of attention and support.
Occupational health and safety is the most common challenge, particularly for older industrial plants with well-established operations. There is a need for many clients to be more systematic in addressing health and safety, in monitoring their own performance, and in learning the lessons from past incidents and “near misses”.

Of the 77 monitoring visits carried out in 2007, 56 were carried out either by EBRD environmental and social specialists, or by the Bank’s monitoring consultants. Several of the highest risk projects were visited more than once. The projects visited were located in 15 different countries and covered the full range of business sectors. In addition, 23 projects were visited by independent consultants as part of a major evaluation of how the Bank’s Environmental Policy is implemented (see page 53).

Each of the EBRD’s environmental and social specialists is responsible for monitoring a portfolio of projects, and undertaking site visits is standard practice for these staff members. In addition, the EBRD retains expert consultants funded from its own budget to undertake monitoring site visits. These consultants have been focusing on the high-medium and low-medium risk projects, largely in the agribusiness, manufacturing and water and wastewater sectors. During 2007 they visited a number of projects in Croatia, Romania, Russia and Ukraine. The output from each visit includes a detailed report that forms the basis of feedback to clients and makes recommendations for improving performance. The emphasis is very much on providing benefits for clients by helping them to identify potential efficiency savings and reduce the risks of non-compliance with environmental, health, safety and labour legislation.

The findings from both the Bank’s own environmental and social monitoring and that carried out by the monitoring consultants are consistent. Clients are generally successful at managing environmental issues. Few significant environmental or social issues have been identified, although achieving full compliance with EU waste-management standards is a specific issue that some clients find difficult, due to the lack of local waste-management systems operating to international standards.

Occupational health and safety is the most common challenge, particularly for older industrial plants with well-established operations. There is a need for many clients to be more systematic in addressing health and safety, in monitoring their own performance, and in learning the lessons from past incidents and “near misses”. Achieving improvements in this area is not just a question of financial investment, but depends crucially on changing management systems and working culture. Staff training and the use of personal protection equipment also need more attention. As a direct result of lessons learned from monitoring, the EBRD is making occupational health and safety a priority and is working to develop training programmes and implementation tools, both for the Bank’s staff and its clients.

The Bank has also identified client reporting and tracking the implementation of Environmental and Social Action Plans as areas that it needs to give increased attention to. As a consequence, the Bank has developed reporting templates for clients and is working on new guidance for developing action plans. This work will continue into 2008. Environmental and social monitoring objectives for 2008 will also include an increased focus on financial intermediaries, with a series of targeted country visits planned. The Bank is also providing funding for a major training initiative aimed at helping financial intermediaries to implement the EBRD’s environmental and social requirements for IFIs.

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1 This included both direct investments and investments in financial intermediaries. In some cases there are multiple transactions relating to one project or client.
2 Three projects were visited both by Bank staff and evaluation consultants.
The EBRD has loaned €106 million in support of the BTC pipeline, which opened in May 2005. Environmental and social monitoring visits are undertaken by the Bank to check compliance with EBRD policy and international standards, as set out in the Environmental and Social Action Plan (ESAP). Through these visits, the EBRD also ensures that commitments made by the client to mitigate the project’s environmental and social impact are being met.

EBRD experts made three monitoring visits to the BTC pipeline in 2007 to assess environmental and social issues. The environmental visits covered the entire pipeline but focused on returning land around the pipeline and construction workers’ camps to their former uses and reclaiming quarries used during pipeline construction. One of the major remaining environmental issues in Georgia is that of waste management. The available local infrastructure does not satisfy the strict project standards so BTC has been reviewing various alternatives and pursuing these with the regulators. This has taken longer than anticipated although efforts are ongoing and recently progress has been made.

Georgia’s Ministry of Environment was consulted about its monitoring of the project and the performance of the client. Social monitoring focused on land reinstatement, restoration of community infrastructure, unresolved issues relating to resettlement and compensation, the resolution of grievances and the implementation of community development programmes. An assessment was made of the extent to which special provisions have been implemented to ensure that vulnerable groups are not disproportionately affected by the pipeline and that they are able to benefit from community investment programmes.

The reinstatement and return of land has almost been completed in Azerbaijan but some work still remains in Georgia. In Azerbaijan, some problems related to severance of land were identified and are to be addressed. While the community investment programme has matured further, attention still needs to be given to ensuring that the most vulnerable members of affected communities receive their compensation and are not left worse off. More land is needed in Azerbaijan to facilitate security of the pipeline and an access strategy is being developed.

**CASE STUDY 15: MONITORING THE BAKU-TBILISI-CEYHAN OIL PIPELINE**

The EBRD’s involvement in the Baku-Tbilisi-Ceyhan (BTC) oil pipeline aims to ensure that it does not have an adverse impact on the environment and that its construction will benefit local communities and promote economic development in Georgia and Azerbaijan in the long term.
RESSETLEMENT
Ensuring that those affected by the EBRD’s projects are compensated for any loss of assets, income or land is the most time-consuming aspect of social due diligence. It can encompass a range of scenarios – from ensuring people who live within a sanitary protection zone (an area around a project that is free from residential dwellings) are moved to alternative accommodation of an equivalent standard to assessing the income of women who make a living from land that is to be acquired by a developer.

An example of the type of resettlement work that the Bank undertakes relates to the Belgrade Bypass and Highway and urgent upgrading of the Gazela Bridge and approach roads, supported by loans from the EBRD and EIB, respectively. Before loan disbursement can take place, and so as to comply with the Bank’s Environmental Policy, it is essential to prepare and implement a Resettlement Action Plan (RAP) because about 1,000 Roma living under the bridge need to be resettled (see photograph above). The UK’s DfID is funding consultants to develop the RAP, which needs to be agreed with the city of Belgrade, the EBRD and the EIB. The initial stage of RAP preparation involves a census of the people affected: this was completed for the Gazela Bridge in the latter half of 2007.

The final RAP will determine how, where and when the Roma will be resettled. It has been a challenge to ensure that all parties are able to participate in the process and how sustainable, improved living conditions and access to infrastructure and services can be achieved.

ENVIRONMENTAL REQUIREMENTS FOR FINANCIAL INTERMEDIARIES
All new and existing financial intermediary (FI) projects remain subject to the EBRD’s environmental requirements for FIs which include the adoption of environmental due diligence procedures satisfactory to the Bank, annual environmental reporting, adherence to the Bank’s FI Environmental Exclusion and Referral List and the requirement that clients comply (at a minimum) with host country health, safety and environmental regulations and standards.

The EBRD requires all of its partner FIs that on-lend EBRD financing to integrate environmental risk management into their lending and investment operations. In 2007 environmental due diligence training workshops supported by EU funding were held with representatives from 16 FIs in the Kyrgyz Republic and Russia.

EBRD staff conducted one-day environmental training workshops for credit staff in four of its partner FIs in Bosnia and Herzegovina. EBRD staff also carried out a half-day training programme with a regional fund manager.

Since the programme started in 1995, it has provided environmental training to 316 FIs in the Bank’s 29 countries of operations.

The main objectives of this environmental due diligence training is to raise environmental awareness and commitment within the FIs, to help the FIs to adopt environmental procedures using the EBRD’s electronic manual on environmental risk management, to develop or update tools to assist in the implementation of the environmental procedures and to train FI staff in their use. The EU has been the main contributor, with total funding of €6.1 million committed to date. For 2008, environmental training for FIs will be covered by the EBRD’s own funding.

The EBRD’s electronic manual Environment Risk Management for Financial Institutions contains the Bank’s environmental procedures for financial institutions, guidance materials and other practical tools.
CASE STUDY 16: MODERNISING TIRANA INTERNATIONAL AIRPORT

In 2005, EBRD provided €21 million for the extension, repair and modernisation of Tirana’s international airport (TIA).

With its involvement, the EBRD aims to ensure that the project is environmentally sound and sustainable and that it is designed and operated in compliance with applicable national and EU requirements. An environmental and social monitoring visit was carried out by the Bank in November 2007 to ensure that commitments made by the client have been met and to check compliance with the Environmental, Health and Safety and Social Action Plan (EHSAP) that was developed in 2005.

During the visit it was observed that, since 2005, TIA has managed to establish an integrated environment, health and safety management system which aims to improve continuously. TIA is updating the EHSAP every year with new targets to be achieved, programmes and actions to be undertaken, schedules for implementation and the respective departments or persons responsible for this, for all management issues. All emissions and discharges are in compliance with Albanian regulatory requirements and EU Directives.

Still, the company is looking for further improvements to benefit the environment, as well as the health and safety of workers and nearby communities. One initiative has been to sponsor the preparation of a tourism development plan for the community of Preza with the aim of transforming the area into a cultural asset of regional and national significance. The energy conservation, waste minimisation and recycling campaigns at the airport and the waste recycling programme in settlements near the airport are other initiatives that are planned.

The e-manual helps FIs to implement an environmental management system that complies with good practice and EBRD requirements. It is published on the Bank’s web site (www.ebrd.com/enviro/tools/fi.htm) and is available in English as well as Bulgarian, Czech, Latvian, Lithuanian, Polish, Romanian and Russian.

In 2007 EBRD staff made monitoring visits to FIs and their clients in Lithuania, Poland and Romania. The FIs visited were found to comply with the Bank’s environmental requirements.

Collaborating with the UNEP Finance Initiative

The United Nations Environmental Programme Finance Initiative (UNEP FI) was launched in 1991 to encourage financial markets to consider environmental issues. The EBRD was the first multilateral financial institution to sign its Statement on Environment and Sustainable Development. The Bank also helps its partner FIs (that on-lend EBRD financing) to become signatories. The EBRD is currently chair of the Central and Eastern European Task Force (CEETF) within the UNEP FI.

In 2007 the CEETF organised awareness raising conferences in Athens (Greece), Sofia (Bulgaria) and Bucharest (Romania). The conferences attracted senior-level representatives from the financial sector, government, academia, consultancies and NGOs to learn more about the opportunities for sustainable finance. Presentations covered EU environmental regulations affecting financial institutions, climate change, environmental and social risk management in banks, environmental risk in project finance, environmental insurance, the Equator Principles and corporate social responsibility reporting. Similar events are scheduled for the Czech Republic and Turkey with follow-up workshops in Romania and Bulgaria in 2008. As Chair of the CEETF, the EBRD was represented at the 2007 UNEP FI Global Roundtable.
All aspects of EBRD-financed activities are evaluated, including consultant assignments funded through donor funding.

EVALUATING EBRD ACTIVITIES
The Evaluation Department (EvD) evaluates selected EBRD-financed projects to establish how well the projects meet their objectives and comply with the Bank’s mandate, including environmental, social and sustainability parameters. The EBRD draws on the lessons learned to improve the way it selects and implements future operations. EvD operates independently from banking operations. The Chief Evaluator reports directly to the Bank’s Board of Directors.

All aspects of EBRD-financed activities are evaluated, including consultant assignments funded through donor funding. The evaluation considers the project’s environmental performance, including health and safety, labour and other relevant issues, and the extent of environmental change achieved over the lifetime of the project.

Projects are assessed usually one to two years after final disbursement. Assessments are made against the objectives established for each EBRD-financed project, the requirements of the Bank’s 2003 Environmental Policy and the relevant country and sector strategies.

Since 1996 EvD has assessed 574 operations. Of these, 55 per cent achieved a rating of “Good” or “Excellent” in terms of their impact on the transition process, and a further 23 per cent were assessed as “Satisfactory”. In 2007, some 85 per cent of the EBRD’s evaluated projects had an “Excellent-Satisfactory” impact on the transition process while 15 per cent of evaluated projects were given a transition impact rating of “Marginal-Negative”. This is similar to the results observed in previous years.

Projects evaluated in 2007
Of the 54 projects evaluated in 2007, three were not rated for environmental performance. Of the remaining 51 projects, the environmental performance of the client and the EBRD was rated “Excellent” in 10 per cent of cases, “Good” in 49 per cent, “Satisfactory” in 25 per cent, “Marginal” in 10 per cent and “Unsatisfactory” in 6 per cent. This represents a decrease in performance compared with projects evaluated in 2006, but is in line with outcomes over the period 1996-2006 in general.

With regard to environmental change, the differences observed in 37 per cent of projects were rated “Substantial” or “Outstanding”; “Some” differences were found in 37 per cent, and a total of 22 per cent of projects recorded a “None-Negative” change in 2007.

Special studies in 2007 – Environmental Policy
EvD conducts a number of special studies every year. In 2007 it undertook a review of the 2003 Environmental Policy. This review focused on effectiveness and efficiency of achieving the Bank’s environmental mandate through direct investments. The study found several examples of positive environmental performance, in particular, the planning of projects to reduce risks in terms of environmental protection. In addition, there are several very positive examples of environmental change that have resulted or will result from these projects. There were also several positive examples of environmentally orientated investments. The report also identified areas where further improvements are needed, including the health and safety and social aspects of projects during planning.

The report makes numerous recommendations for changes to the Bank’s Environmental Policy – almost all of which have been accepted by management and will be incorporated in the Bank’s new Environmental and Social Policy.

Due to the nature of the Bank’s countries of operations, the EBRD adopted an approach that is mainly focused on management of risks – the risk-based mitigation approach – and has, historically, put less focus on the realisation of additional environmental benefits and promotion of environmentally orientated investments. The study highlights that a shift in the ESD’s approach towards additional environmental benefits and environmentally orientated investments is the most important change needed to address the shortfalls in policy implementation. As well as recommending changes to content, the report provides several key recommendations for improving the Bank’s effectiveness and efficiency in implementing the Environmental Policy.

The full study and management comments are available at: www.ebrd.com/projects/eval/showcase/special.htm
The EBRD consults regularly with the people and organisations affected by the projects that the Bank finances.

**WORKING WITH NON-GOVERNMENTAL ORGANISATIONS**

The EBRD is fully committed to engaging in an ongoing dialogue with a variety of civil society stakeholders potentially affected by its activities, notably those focused on the environment, human rights and democracy, social issues and business development. The Bank also engages in dialogue with think-tanks, professional associations and academics, and benefits greatly from the exchange of views – making use of invaluable local knowledge and expertise to develop policies and design projects. Throughout 2007, through its NGO Relations Unit and increased involvement of Resident Offices (ROs), the EBRD continued to inform relevant civil society stakeholders and facilitate consultation meetings with the Bank’s staff, senior management and Board directors.

**OBTAINING INFORMATION**

The EBRD is dedicated to openness and transparency, as reflected in its Public Information Policy (PIP). It routinely publishes institutional and operational information on the Bank’s web site (www.ebrd.com/about/policies/pip/index.htm). To enhance understanding of the Bank’s work and enable a meaningful dialogue with civil society groups, an area of the web site is dedicated to providing e-mail notifications and alerts about the latest opportunities for consultations, including invitations to comment on major policies and country strategies.

There is also an EBRD-NGO Newsletter, published in English and Russian. Topics covered in 2007 included reviews of the PIP and the 2003 Environmental Policy, the Bank’s increased investments in municipal infrastructure, energy efficiency and microfinance and the signing of a new deal to build a safe confinement shelter and storage facilities for nuclear waste at Chernobyl. Additional information about the Bank’s activities is available to NGOs on request. During 2007 the NGO Relations Unit coordinated with various teams across the Bank to prepare comprehensive responses to queries.

**DIALOGUE WITH CIVIL SOCIETY**

International and national NGOs and other civil society groups exchanged views during meetings with EBRD staff, management and Board Directors at the Bank’s London Headquarters and ROs throughout 2007. The Bank’s political councillors and economists maintain ongoing informal contacts with think-tanks and NGOs to grasp local expertise in relation to a range of policy issues. As part of an ongoing policy dialogue with civil society groups, the Yerevan RO held its annual breakfast meeting with local NGOs and discussed a range of topics, including the EBRD’s strategy and activities in Armenia, especially projects affecting SMEs, the IT sector and business transparency. EBRD staff reached out to Kazakh organisations to exchange views on a range of issues including ongoing projects, reviews of the PIP and Environmental Policy, social issues and energy efficiency.

**Written comments**

During 2007 the Bank invited public comments on draft country strategies for Azerbaijan, Bosnia and Herzegovina, Croatia, the Kyrgyz Republic, Moldova, Montenegro, Serbia and Ukraine and the Czech Republic graduation paper. A small number of written public comments – four for Azerbaijan’s, three for Croatia’s and Ukraine’s and two for Serbia’s strategies – were received from NGOs, members of the public, government officials and businesses. As required by the PIP, these comments were examined by the relevant banking teams and management and the response was provided in the addendum to each country strategy subsequently approved. In terms of policy reviews, NGOs were invited to send written comments on the basis of the current policies and respective discussion papers. Limited feedback was received by the Bank. At a project level, relevant NGOs were systematically informed about the release of environmental and social impact assessments for Category A projects and invited to send their comments to our clients and to the Bank.

**NGO programme at the Annual Meeting**

In May every year, civil society stakeholders have an opportunity for face-to-face discussions about the Bank’s policies and major investment projects with EBRD staff, senior management and Board Directors during the NGO programme which is organised alongside the Annual Meeting and Business Forum. As part of the 2007 Annual Meeting in Kazan, Russia, the Bank organised a comprehensive NGO programme between 19 and 22 May. NGOs had been consulted on the agenda for discussion ahead of the meeting through emails and preparatory meetings with civil society stakeholders in Baku, Moscow, Sofia, St Petersburg and Tbilisi in February and March 2007.
The NGO programme in Kazan included discussions about the Environmental Policy and the social and environmental aspects of projects, human rights issues, the PIP, transparency and access to information, energy efficiency and municipal infrastructure projects and the Bank’s evaluation activities. Representatives of NGOs also met the Bank’s President, Board Directors, the Acting Secretary General and other key staff. A group of NGOs presented an open letter to the Board and the President asking for a special fund to be set up to finance the introduction of energy efficiency in housing across the region. NGOs also participated as panellists on several sessions of the Business Forum – “Scenarios for the future”, “Sharing the benefits of natural resources” and “Women in business and government”. Around 80 NGO representatives from 75 international and local organisations from 21 countries attended the NGO programme in Kazan.

Board Consultation Visits
During Board Consultation Visits (BCVs) to EBRD countries of operations, Board Directors regularly meet with major national and international civil society organisations active in the country concerned. In 2007 this occurred during BCVs to Croatia, Hungary, Moldova, Mongolia, Russia and Ukraine. In Croatia, the focus was on the development of civil society and public-private partnerships as well as the need to improve public participation in decision-making on projects carried out by local authorities. In Ukraine, NGOs were particularly interested in the EBRD’s role in improving energy efficiency and renewable energy. In Russia, the focus was on environmental issues and the national energy strategy, while in Mongolia the debate centred on the transparency and fairness of mining-sector deals and pollution deriving from small-scale artesian mining. Hungarian think-tanks gave their account of the country’s socio-economic transition and the challenges that lay ahead. Moldovan NGOs and EBRD representatives exchanged views on a range of issues including media freedom, anti-corruption activities and human trafficking, judicial reform, the government’s environmental policies and the assistance that the EBRD and other IFIs are providing to the Moldovan government.

In an attempt to compensate for the energy involved and the associated carbon emissions in transporting thousands of people to Kazan in Tatarstan for its Annual Meeting, the Bank decided to sponsor an energy-saving project at the city’s Central Children’s Hospital. On 18 May 2007 the EBRD signed a grant agreement with the city of Kazan to make a gift of 5 million roubles (about €140,000) to install modern, energy-saving insulation and siding panels on all external walls of this city-owned hospital for abandoned children with severe illnesses. This will mean a decrease of approximately one-third in heat loss for the building, with the consequent real reduction in heating costs. The energy efficiency improvements were successfully completed by the end of January 2008.
EBRD meetings and events

The Bank hosted a number of events in 2007 relating to environmental and social sustainability (see Table 05).

Relevant civil society participants are occasionally invited to attend various events in the Bank, including in-house seminars and monthly President’s breakfasts. EBRD staff also participate in conferences organised by NGOs, which in 2007 included the “Baltic Sea Day” conference in St Petersburg, the “Central Asia Microfinance” seminar in Tajikistan, the “Early Mortality in Russia” seminar in London and Transparency International’s “Corruption Perception Index” launch in London. Furthermore, the EBRD is a supporter of the John Smith Fellowship Programme and annually hosts several events as part of the programme. In 2007, the John Smith Foundation brought young professionals – including NGO leaders – from Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Russia and Ukraine to London for an intensive five-week course on good governance, democracy and social justice.

DISCLOSING INFORMATION ON EBRD-FINANCED PROJECTS

The Bank publishes a Project Summary Document (PSD) for all projects that might receive EBRD financing in order to give interested parties an opportunity to comment. The PSD discloses the main aim of the project, its financial details and a summary of the environmental and social issues and mitigation measures.

PSDs are published on the Bank’s web site for a specific period before the EBRD’s Board of Directors meets to discuss financing the project. The PSD must be disclosed at least 30 days before Board review for private sector projects and at least 60 days before Board review for public sector projects, subject to certain exceptions outlined in the PIP. These include:

– legitimate client concerns about confidentiality

– concern about the likelihood of substantial changes or rejection at the Board’s final review stage of a project proposal, which might embarrass the sponsor and prejudice alternative sources of funding

– concern about financial market sensitivity if capital transactions are involved.

In 2007 the EBRD published 169 PSDs for projects under consideration for financing (138 private sector and 31 public sector projects). All complied with the PIP’s publishing requirements. There were 12 deferrals of disclosure of the PSD for reasons meeting the criteria above. This concerned 10 private sector projects and 2 public sector projects.

ENVIRONMENTAL IMPACT ASSESSMENTS

Projects that may result in potentially significant adverse future environmental impacts are defined as Category A according to the Bank’s Environmental Policy and as such require an Environmental Impact Assessment (EIA). These require a public consultation period before the project is considered for approval. The client must release the EIA for public comment in the local area near the project, in the EBRD’s relevant local office and in the Bank’s Headquarters. A copy of the EIA is provided to the EBRD’s Board of Directors and a notice of the availability of the document in the Bank’s Business Information Centre and local office is posted on the Bank’s web site. This disclosure is without endorsement by the Bank.

The disclosure period varies from project to project. The minimum set by the EBRD’s Environmental Policy is 60 days before Board review for private sector projects and 120 days for public sector projects. For complex projects, a longer disclosure period can be required.

During the public consultation period, interested parties – from locally affected people to the wider public – can raise any problems that they have identified. Clients are required to provide information on how these comments will be taken into account or why they are not applicable.

Once the public consultation process is completed, a summary is included in the information provided to the EBRD’s Board of Directors, which they can consider before deciding whether to approve EBRD financing.

Category A projects

There were eight Category A projects which initiated disclosure or went to Board in 2007 (see Table 06). All eight projects had full EIA documentation available in local language and had EIA executive summaries available on the EBRD’s web site.
Projects that may result in potentially significant adverse future environmental impacts are defined as Category A according to the Bank’s Environmental Policy and as such require an Environmental Impact Assessment.

Electronic availability of information:
– Six of the eight projects had full documentation available on a web site
– One project had planned to set up a web site for this purpose which is currently under construction
– One project sponsor did not have a web site
– For the project that was cancelled, the link is not included.

Five of the eight projects progressed to the Board during 2007 and one project was cancelled. All of the projects which proceeded to Board complied with the number of days required for public consultation prior to Board.

Table 06: Summary of Category A disclosure, 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Project name</th>
<th>Sector</th>
<th>Date EIA made available in HQ/Resident Office</th>
<th>Board date</th>
<th>Days available (before Board)</th>
<th>Language of EIA in region</th>
<th>Electronic availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>ChTPZ Steel</td>
<td>Private</td>
<td>6 March 2007</td>
<td>14 May 2007</td>
<td>70 days</td>
<td>Russian</td>
<td><a href="http://www.pntz.ru/espk/docs.htm">www.pntz.ru/espk/docs.htm</a></td>
</tr>
<tr>
<td>Ukraine</td>
<td>Rivne-Kyiv Line High Voltage</td>
<td>State</td>
<td>4 June 2007</td>
<td>6 November 2007</td>
<td>156 days</td>
<td>Ukrainian</td>
<td><a href="http://www.ukrenergo.energy.gov.ua">www.ukrenergo.energy.gov.ua</a></td>
</tr>
<tr>
<td>Serbia</td>
<td>Duboko Solid Waste</td>
<td>State</td>
<td>14 June 2007</td>
<td>23 October 2007</td>
<td>132 days</td>
<td>Serbian</td>
<td>No web site</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Vez Svozhe mini-hydro plants</td>
<td>Private</td>
<td>3 August 2007</td>
<td>6 November 2007</td>
<td>95 days</td>
<td>Bulgarian</td>
<td><a href="http://www.vezsvoghe.com/index.php?m=986&amp;lang=1">www.vezsvoghe.com/index.php?m=986&amp;lang=1</a></td>
</tr>
<tr>
<td>Ukraine</td>
<td>RKTK-II</td>
<td>Private</td>
<td>7 September 2007</td>
<td>N/A Project cancelled</td>
<td>N/A</td>
<td>Ukrainian</td>
<td>(Link removed due to status)</td>
</tr>
<tr>
<td>Albania</td>
<td>Vlorë Coastal Terminal</td>
<td>Private</td>
<td>18 October 2007</td>
<td>N/A Project cancelled</td>
<td>N/A</td>
<td>Albanian</td>
<td><a href="http://www.gruppopir.com/opencms/default/pirgroup/en/pia/about.html?id=4">www.gruppopir.com/opencms/default/pirgroup/en/pia/about.html?id=4</a></td>
</tr>
<tr>
<td>Hungary</td>
<td>M6-M60 Motorway</td>
<td>Private</td>
<td>20 December 2007</td>
<td>N/A Project cancelled</td>
<td>N/A</td>
<td>Hungarian</td>
<td>Web site under construction</td>
</tr>
</tbody>
</table>
In 2007 the EBRD approved financing for a 750 kilovolt high-voltage power line from Rîvne nuclear power plant in western Ukraine to Kiev following an Environmental and Social Impact Assessment (ESIA) process that included public disclosure and consultation in line with the Bank’s Environmental Policy and EU requirements. Following the development of a Public Consultation and Disclosure Plan in 2006, initial consultation meetings were held in the affected regions.

A number of civil society stakeholders raised the need for additional meetings to be held in Kiev for both better understanding of the project and an opportunity to raise concerns. In order to facilitate this process, the client, Ukrenergo, a state-owned company responsible for high-voltage electricity transmission in Ukraine, organised an additional meeting in Kiev on 3 April 2007. This enabled stakeholders to review the plans and to provide practical input about possible environmental and social issues associated with constructing this greenfield transmission line.

The pragmatic approach adopted by civil society stakeholders and Ukrenergo’s staff proved to be highly successful and a good working relationship was established between stakeholders and the ESIA team. This resulted, among other things, in the re-routing of the line in certain locations to avoid locally sensitive habitats or cultural heritage areas, as well as explaining in detail the planned compensation plan. The ESIA document was subsequently disclosed and a public consultation was conducted in late July 2007.

The ESIA and public consultation process was viewed as highly successful by civil society groups. It was one of the first to be undertaken on such a level in Ukraine and it has set a precedent for stakeholder engagement and undertaking meaningful public consultation in future projects.

LISTENING TO EXPERT ADVICE – THE ENVIRONMENTAL ADVISORY COUNCIL
The Environmental Advisory Council (ENVAC) is a body of prominent independent social and environmental specialists representing a wide range of interests from the private sector, NGOs, academia and policy-based institutions who advise the EBRD on environmental matters such as strategic sectoral and policy issues, technical development, international standards, emerging trends and future opportunities (see Table 07). Through the two formal meetings, as well as regular informal contact with ENVAC members throughout the year, Bank staff receive advice regarding policy reviews, public health and occupational health and safety, changes in environmental legislation and the implications of this for EBRD investments.

ENVAC met in May and December 2007 at the EBRD’s Headquarters in London. The main focus was the Environmental Policy revision process and consultation plan related to the Environmental Policy review. Other topics discussed at the May meeting included public health and occupational health and safety, as well as changes in Russian environmental legislation and their implications for EBRD investments. The December meeting focused on discussing a draft of the revised EBRD Environmental and Social Policy. Other topics discussed at the meeting included developments on the Sustainable Energy Initiative, the implementation of a sustainability agenda for the Bank’s operations together with climate change and adaptation matters. ENVAC members welcomed the broad range of issues presented in the draft Policy and praised the Bank for addressing the key challenges and issues of concern such as climate change and adaptation, biodiversity and renewable energy sources, gender and the effect of projects on indigenous peoples and vulnerable groups.

A summary of the ENVAC meetings is available on the EBRD web site at: [www.ebrd.com/enviro/disclose/envac.htm](http://www.ebrd.com/enviro/disclose/envac.htm)

HANDLING COMPLAINTS
The Independent Recourse Mechanism (IRM) gives local people and groups that may be adversely affected by an EBRD-financed project a means to raise concerns about whether the Bank has followed its relevant policies, or to indicate that they would like the Bank’s assistance in resolving problems experienced during
the course of project implementation. During the review of a registered complaint, an independent expert is involved in assessing the issues and the Bank’s actions. The IRM has Guidelines and Rules of Procedure that define who may make a complaint and what an affected group may make a complaint about. It is administered by the Chief Compliance Office (CCO) which works independently from banking operations and ESD.

In 2007, the CCO received four new IRM complaints. It was decided that two were “manifestly ineligible” for registration; one because the complaint related to a disagreement between contractor and project sponsor having nothing to do with the Bank, and the other because it was submitted by NGOs which, alone, do not qualify as an affected group. The remaining two complaints were duly registered for further processing, as detailed below.

On 19 April 2007, a complaint was registered under the IRM relating to the Vlorë Thermal Power Generation Project (Vlorë TPP). The complaint, submitted by members or supporters of the Civic Alliance for the Protection of the Vlorë Bay, relates to the construction of the Vlorë TPP by Korporata Elektroenergjetike Shqiptare (KESH), an Albanian state-owned power utility company, on Treport Beach. The affected group claims that the construction of this project on this “historic beach” will adversely affect the environment as well as the tourism and fishing activities of the region and consequently the livelihood of its members. The group alleges non-compliance by the Bank with its 2003 Environmental Policy pertaining to, among other things, the precautionary approach to the management and sustainable use of natural biodiversity resources, as well as meaningful public consultation. Alongside the EBRD, the Vlorë TPP has obtained funding from the EIB and the World Bank.

The Eligibility Assessment Report (EAR) recommended that the complaint was eligible and that it warranted a compliance review, the first of its kind since the inception of the IRM, without prejudice to the ability of the CCO to recommend a problem-solving initiative (PSI) as well. This recommendation was approved by the Board and the compliance review is currently ongoing.

On 6 July 2007 a complaint submitted by seven residents of Atskuri Village, in the Akhaltsikhe District of Georgia was registered. The members of the affected group claim, among other things, that they have been denied compensation, or have been insufficiently compensated, for the damages suffered to their plots, dwellings and crops as a consequence of the construction of the BTC pipeline.

The EAR prepared with respect to this complaint recommended that the complaint was eligible but did not warrant a compliance review in light of the fact that the complaint essentially relates to the actions of the project sponsor and does not otherwise involve a material failure by the Bank under a relevant EBRD policy. This recommendation, accepted by the Board, was made subject to the right of the CCO to make a separate recommendation as to whether a PSI should be undertaken. The PSI report has subsequently been finalised and recommends that a PSI should be undertaken. This has since been approved by the President. The initiative is expected to be undertaken in the first quarter of 2008.

Also completed in 2007 was the consideration of the complaint submitted by a group of 10 residents of the Akhali Samgori Village in the Garabani District of Georgia. Similar to the above claim, the affected group complained that they had been denied compensation, or adequate compensation, for the damage and blight suffered to their land and livelihoods as a consequence of the construction of the BTC pipeline.

The EAR, finalised in February 2007 and approved by the Board in March 2007, recommended that the complaint was eligible for further processing towards a PSI but did not warrant a compliance review. However, BTC declined to participate in any PSI due, in large measure, to the risk of contrary findings in respect of a civil suit covering similar items of complaint pending before the local courts. Given the inability to separate the issues raised in the IRM complaint from the ongoing court action, a PSI report was submitted to the President recommending that the PSI did not proceed. That recommendation was accepted. All avenues of processing the complaint under the IRM are now exhausted and no further action will be taken by the Bank.

For more information about the IRM and the complaints procedure visit: www.ebrd.com/about/integrity/irm/about.htm

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**Table 07: ENVAC members, end-2007**

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Urkhan Alakbarov</td>
<td>Azerbaijan</td>
<td>Chairman, Azerbaijan National Man and Biosphere Committee, UNESCO</td>
</tr>
<tr>
<td>Dr Andrej Kassenberg</td>
<td>Poland</td>
<td>President of the Institute for Sustainable Development (NGO think-tank)</td>
</tr>
<tr>
<td>Professor Jacqueline McGlade</td>
<td>Canada and United Kingdom</td>
<td>Executive Director of the European Environment Agency</td>
</tr>
<tr>
<td>Professor Dr Andjelka Mihajlov</td>
<td>Serbia</td>
<td>Former Serbian Minister for the Protection of Natural Resources and the Environment</td>
</tr>
<tr>
<td>Professor Nicholas A. Robinson</td>
<td>United States</td>
<td>Pace University School of Law, specialist in environmental law issues in the Bank’s region</td>
</tr>
<tr>
<td>Dr Roustam Sagitov</td>
<td>Russia</td>
<td>Director of the Baltic Fund for Nature</td>
</tr>
<tr>
<td>Mr Marko Slokar</td>
<td>Slovenia</td>
<td>President of the Management Board of the Environmental Fund of the Republic of Slovenia</td>
</tr>
<tr>
<td>Dr Jan-Olaf Willums</td>
<td>Norway</td>
<td>Chairman of Inspire, a venture capital group set up to invest in companies that generate an environmental and social dividend</td>
</tr>
<tr>
<td>Mrs Marta Szigiti-Bonifert</td>
<td>Hungary</td>
<td>Executive Director of the Regional Environmental Centre for Central and Eastern Europe</td>
</tr>
<tr>
<td>Dr Lea Kauppi</td>
<td>Finland</td>
<td>Director General of the Finnish Environmental Institute</td>
</tr>
</tbody>
</table>
As part of its commitment to staff development, the EBRD offers a comprehensive range of learning opportunities.

THE EBRD’S INTERNAL PERFORMANCE

The EBRD has a responsibility to treat all staff fairly, ensure that staff can work safely, and that they have opportunities for continuous learning and development. It also has a responsibility to manage the environmental impact of the Bank’s buildings and operations and to achieve high standards of energy efficiency, waste management and recycling.

DEVELOPING HUMAN RESOURCES

Human resources strategy

The EBRD has a dedicated human resources strategy. Its fundamental principles are positive engagement with staff, responsiveness to departments’ needs, innovation, professionalism and transparency. As an important component of the Bank’s overall business model, the human resources strategy ensures that quality, performance and satisfaction of staff are constantly aligned with business needs.

As part of the EBRD’s support for its staff, the Bank’s work-life balance programme includes home-office working, flexible working hours, part-time working, job sharing and parental, study and unpaid holiday arrangements.

Staffing and recruitment

At the end of December 2007, the EBRD had 1,052 employees based in London compared with 1,018 in 2006. Resident Office staff totalled 297, compared with 261 the previous year. The ratio of male to female professional staff in the EBRD is approximately 1.58:1. The ratio of male to female senior management is approximately 3:1.

Recruitment of external candidates in 2007 was the highest in the last five years, totalling 202 candidates. This was driven not only by turnover (amounting to 11 per cent in December 2007) but also by an increase in headcount. In line with the requirements of the business model, new staff were recruited both in London and the countries of operations (two-thirds and one-third respectively), focusing on high-quality, skilled individuals with an entrepreneurial spirit. As in previous years, the Bank recruited mostly from the private sector, but also from other IFIs, academia and other industries. This ensures a diverse mix of skills, experiences and perspectives within the organisation.

The EBRD recruits staff without gender, racial or religious bias. It recruits from a variety of backgrounds in our member countries, to achieve a multinational and diverse workforce. Diversity in all its forms among employees is a key part of achieving the Bank’s mission. At the end of 2007 the Bank employed 1,349 people across 32 offices in 26 countries. A total of 57 nationalities are represented, with staff having different backgrounds and expertise but sharing the same keenness for challenging jobs, professional growth and the purpose of the organisation.

Mobility

More than 60 employees took up an assignment to a different location in 2007, moving either from the Bank’s London Headquarters to one of the local offices or vice-versa. This was supported by a revised policy providing a clear, complete and consistent regulation of all aspects associated with geographic assignments.

Geographic mobility of staff is crucial for the Bank. It supports the strategic goal to increase the number of Banking professional staff deployed in Resident Offices, which at the end of 2007 totalled approximately half of banking professional staff. In addition, mobility provides employees with the opportunity to achieve their professional goals and personal fulfilment by working in different countries.

Compensation

The Bank’s compensation and benefits package reflects the individual characteristics of the various EBRD locations. With buoyant job markets in London and most of the countries where the Bank operates, the Bank ensured that salaries remained competitive in London and across the region. In addition, the Bank continued to strengthen a performance culture, rewarding individuals according to their level of performance and contribution. This commitment is confirmed by the significant level of differentiation achieved in the distribution of bonuses for professional staff in 2007.

Learning and development

As part of its commitment to staff development, the EBRD offers a comprehensive range of learning opportunities (see Chart 03). In 2007 there was a marked increase in the number of training courses delivered, reflecting the rise in the number of people recruited by the Bank.
In total, more than 3,400 training days were undertaken in 2007, which represents an increase of 15 per cent on the previous year.

A significant number of EBRD staff are now located in the resident offices (ROs), which has led to the decentralisation of training courses. As well as running more training courses in ROs, the EBRD is expanding its eLearning and distance learning tools. In 2007 the Open Learning Centre was greatly enhanced with free web-based language training resources and an intranet-based toolkit for managers. For new staff, new eLearning modules were under development that will accelerate the induction of new staff in the region and at Headquarters. These modules will be rolled out in 2008.

Retirement arrangements and benefits
The EBRD’s retirement plans are overseen by the Bank’s Retirement Plan Committee, which retains specialist advisers selected from industry leaders to administer the plans, to provide investment advice and to ensure prudent and responsible management of the plans’ funds. From September 2007, an “Engagement Overlay” was implemented on the assets of the two Retirement Plans to encourage these companies to adopt the principles of good corporate governance.

Dispute resolution
Ombudsman
An independent Ombudsman appointed by the EBRD provides an advisory service for all staff members on matters and issues related to their employment with the Bank. The service is completely confidential and can include advice for staff members on how to resolve issues as well as intervention to help the parties reach a satisfactory agreement.

Grievance and appeals
The EBRD is an international organisation with a number of privileges and immunities. In employment disputes, this includes immunity from the jurisdiction of the employment tribunals and courts of the EBRD’s member states. To give employees an independent process through which to air their employment-related concerns, the Bank has implemented a three-stage grievance resolution system through its employee grievance and appeals procedures.

Following an extensive review, two new sets of procedures – the Grievance Procedures and the Appeals Procedures, became effective on 1 February 2007 and 3 December 2007, respectively. The Grievance Procedures provide for three stages:

- a review through an employee’s normal administrative channels
- the possibility of mediation conducted by an independent mediator
- an administrative review by the President of the Bank, acting on the recommendation of the EBRD’s Grievance Committee, which consists of a Chair and two staff assessors (drawn from a panel of eight). The Chair of the Grievance Committee must be an experienced lawyer from outside the Bank.

The final stage of appeal under the Appeals Procedures is to the EBRD Administrative Tribunal. The role of the Administrative Tribunal is to decide, on the relative merits of the case, whether to uphold the staff member’s appeal. The Judges of the Administrative Tribunal are all external to the Bank and must be persons of high moral character. They must possess qualifications required for appointment to high judicial office or be lawyers or arbitrators who are experts in the areas of employment relations, international civil service or the administration of international organisations.

STAFF COUNCIL
The EBRD’s Staff Council is a group of 14 volunteers elected by staff and representing all professional and support staff levels in London and in the Bank’s local offices. Its role is to “promote the rights, interest and welfare of staff members through collaborative problem solving and consultation”. The Staff Council voices the views of staff and works with management on all aspects of staff working conditions and welfare.
HEALTH AND SAFETY

During 2007 the separate Health and Safety and Security units were combined into one operating division. This has resulted in a number of refinements to the operating systems to give clarity and clear authority for decisions relating to physical health, safety and security issues experienced by staff.

In association with this merger the Bank commissioned a first independent review of the physical security policies, systems and procedures operating at the Bank, conducted by independent consultants. This review has made a number of recommendations for change, particularly in the areas of central security control and in aspects of operating region security controls relating to both ROs and expatriate residencies. Actioning these recommendations will form a major activity for the new combined division in 2008.

The new medical room in the EBRD Headquarters opened early in 2008, and already there has been a marked increase in on-site medical services delivered to staff, resulting in better preventative care services provided to both resident and travelling members. Towards the end of the year the tender process for main Bank medical services was concluded with the appointment of a single medical provider, combining the medical services previously delivered by two separate medical clinics. This will provide a more focused and integrated medical service to Bank staff.

The Bank operates a system of giving priority to selecting scheduled aircraft for staff travel based on the safest performance of individual carriers. During 2007 a refinement of the system for selecting scheduled aircraft was undertaken, particularly to incorporate and give priority to those carriers that have been included in the International Air Transport Association safety auditing programme.

A review of contractor safety at the Headquarters building has resulted in a decision to enhance the control of contracts through an improved electronic permit-to-work system. The existing paper-based system will eventually be replaced with a new electronic system, giving improved approval processes and contractor management. This will help to ensure that the various activities of service contractors do not interfere with one another, so improving the general safety of all concerned.

CODING OF CONDUCT

The EBRD’s Chief Compliance Office (CCO) has ultimate responsibility for all matters to do with preserving integrity, including within the Bank. EBRD personnel are required to abide by a code of conduct, which stipulates general standards of conduct as well as specific references to duties, financial dealings, conflicts of interest and whistleblowing.

Recognising that whistleblowing is an important way of ensuring good governance, the Bank has published a Whistleblower Protection Statement on its web site (www.ebrd.com/about/strategy/general/whistle.htm). The statement is designed to encourage employees to disclose information that may not otherwise be discovered.

The statement confirms the EBRD’s commitment to maintaining a working environment that protects employees who report suspected misconduct. This is defined as an “intentional or negligent failure” by an employee to observe the rules of conduct or standards of behaviour prescribed by the EBRD.

An employee who reports suspected misconduct and discloses information to the CCO in good faith will be protected by the EBRD from “pressure, retaliation or reprisal” in connection with this cooperation.

WORKING ENVIRONMENT

Renovation of the London Headquarters building was completed in November 2007. The project involved carrying out essential engineering and refurbishment works over 24 months. The project needed to take into account compliance with current health and safety regulations and best practice, staff needs and concerns, energy savings and higher environmental standards. The building has now been brought up to the latest standards, including better lighting, ventilation and security, resulting in an improved and healthier working environment for staff and visitors.

Sourcing energy needs

In 2005 the EBRD’s management considered a study by the Bank’s energy consultants on the availability and cost implications of purchasing a percentage of the Bank’s London Headquarters energy requirements from renewable sources. A decision was taken to source at least 10 per cent of the Bank’s electricity...
needs from renewable energy sources for the supply contract, starting in October 2005. In 2006, the options for the purchase of renewable energy were reviewed, after which the Bank decided to purchase all of its energy needs from hydroelectric generators. This contract is due to end in 2008 and the Bank is currently looking at the options for a new energy supply contract.

Energy and environment management working group
The Bank has a multi-department energy and environment management working group which considers ways to reduce the impact of its operations, such as increasing energy efficiency and recycling. In 2007 the group explored options to reduce paper use, increase the number of waste streams it recycles and to increase the amount recycled at its Headquarters. Cardboard is now separated, collected and recycled. The options for the Bank to introduce plastic and metal can recycling are currently being reviewed in conjunction with the management of the estate where the Bank is located. The destination of waste is looked at when considering new schemes to minimise any negative environmental impact. The Bank undertakes to use recycling facilities that are UK-based and will not ship waste abroad.

Managing sub-contractors
Cleaning and catering at the Bank’s Headquarters are both outsourced to contractors. The contractors are committed to high health, safety and environmental standards. The catering contractor promotes healthy eating and sustainable sourcing of produce. Waste, where possible, is separated and re-used, composted or recycled – this includes food, vegetable oil, glass, paper and cardboard. The catering company is currently looking at providing biodegradable salad containers and cutlery.

Business travel
After lighting, heating and cooling its buildings, the Bank’s biggest use of energy and associated emissions of carbon dioxide is through business travel. Business travel by air and rail is essential for Bank business. Using rail over air where possible and video-conferencing are two ways in which the Bank tries to limit its travel impacts. During the refurbishment of Headquarters three additional meeting rooms were equipped with video conferencing facilities, bringing the total number to five. These rooms were used for approximately 260 hours in 2007, compared with 235 in 2006. The majority of the Bank’s Resident Offices are equipped with video conferencing facilities.

Paper usage
In 2007 the EBRD used just over 16 million sheets, which was a slight reduction on 2006 (see Table 10). The white paper the Bank uses contains recycled fibre and is produced by a local mill (within 74 kilometres of Headquarters) that has ISO 9001/14001 accreditation and holds the FSC and PEFC Chain of Custody standards. Interestingly the paper-recycling contractor retained by the EBRD at its Headquarters collects the Bank’s waste paper, shreds it and delivers it to the same mill that makes the Bank’s paper.

Recycling
The EBRD recycles paper, light bulbs, printer and toner cartridges and glass at Headquarters (see Table 11). At the beginning of 2008 cardboard recycling was introduced. The Bank uses certified companies that follow the required environmental standards to dispose of obsolete IT equipment, such as computers and copy machines.

The Bank increased its paper, glass and toner recycling in 2007. This may be, in part, a result of a renewed campaign in 2007 at Headquarters to increase recycling.

To date the Bank has focused its recycling efforts at Headquarters but will seek to expand recycling initiatives to the ROs where local schemes are available. Wherever possible the offices recycle: a good example of this is the Bank’s Bucharest Office. It collects waste paper, newspapers and magazines which are then collected and sold by a small environmental NGO, Copacul de Hartie (The Paper Tree). The money raised from the sale of the scrap paper goes towards buying and planting trees. Through this initiative the Bucharest Office is supporting Copacul de Hartie’s efforts to decrease the amount of paper waste going to landfill, reinstate green areas in Bucharest, raise awareness about environmental issues and educate local people about the benefits of recycling.

Refrigerants
The EBRD’s refrigerants comply with EU regulations. The Bank employs a refrigerant recovery unit to retrieve and re-use refrigerant gas and disposes of redundant refrigerators using licensed contractors.

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<td>Printer and toner cartridges</td>
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<td>Glass</td>
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GUIDELINES COMPARISON TABLE

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting guidelines. The guidelines are for voluntary use by organisations for reporting on the economic, environmental and social dimension of their activities, products and services. The table below compares the content of the EBRD’s Sustainability Report 2007 with the GRI 2002 Guidelines and Financial Services Supplement. In 2006 GRI revised its guidelines, known as “G3”. The EBRD is currently exploring if and how it might apply “G3” and its new financial sector supplements to its next Sustainability Report.

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This annex gives additional information about responsibilities, organisation and procedures within the EBRD.

RESPONSIBILITY FOR SUSTAINABILITY MANAGEMENT
The Environmental Policy and other EBRD policies, country strategies and the Bank’s budget are approved by the EBRD’s Board of Directors. All projects submitted for approval to the EBRD’s Board of Directors include a summary of the environmental and social issues associated with the project and how these will be addressed to ensure that the objectives of the Environmental Policy are achieved. Responsibility for implementing the Bank’s mandate lies with the Executive Committee. It comprises: the President; the Chief Economist; the First Vice President, Banking; the General Counsel; the Secretary General; the Vice President, Finance; the Vice President, Risk Management, Human Resources and Nuclear Safety; and the Vice President, Environment, Procurement and Administration. Prime responsibility for the implementation of the Bank’s Environmental Policy lies with the Environment, Procurement and Administration Vice Presidency and its Environment and Sustainability Department. The Vice President, Environment, Procurement and Administration, is primarily responsible for health, safety and security aspects relating to Bank staff and the management of the Bank’s Headquarters and resident office premises and transport.

Senior management within the Banking Vice Presidency ensure that environmental issues are taken into consideration in project preparation and implementation and in the preparation of country strategies and sector policies.

PROJECT APPROVAL
All potential EBRD projects are reviewed by the Bank’s Operations Committee. The Committee comprises: the First Vice President, Banking (Chair); the Vice President, Finance; the Vice President, Risk Management, Human Resources and Nuclear Safety; the Business Group Director, Monitoring; the General Counsel; the Chief Economist; and the Director, Risk Management. The Operations Committee approval process is normally based on a Concept Review and a Final Review before a project is submitted to the Board of Directors for approval. After a project has been approved and signed by the EBRD Board, with financing fully or partially disbursed, the Committee remains involved by approving material changes to the project.

PROJECT DEROGATIONS
A derogation is when the EBRD’s Board of Directors decides that it is prepared to waive a condition of the Bank’s Environmental Policy. If in any project going before the Board there are areas where full compliance with our policy has not been reached, it will be flagged to our Board before their decision-making session as a potential derogation from our policy. The Board considers derogations from our environmental policy as extremely serious and the intention is that all projects should comply fully.

HARMONISING STANDARDS
In our general consultation with stakeholders we include IFIs and environmental bodies. To help develop a consistent approach to environmental issues among IFIs we participate in the Multilateral Financial Institutions Environmental Working Group and the Development Financing Institutions Social Issues Working Group. Part of this relationship is the harmonising of standards and approach. We are also in regular dialogue with the UN Environment Programme’s Financial Institutions Initiative that promotes sustainability in the financial community.

FINANCIAL REPORTING
Treasury Risk Management is responsible for identifying, controlling and managing risks incurred by Treasury. The EBRD has adopted the “Internal Control – Integrated Framework” to certify internal controls over external financial reporting. The framework was issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), has been adopted by other IFIs and represents the broadest international best practice. COSO and Operational Risk Management is responsible for coordinating and developing operational risk Bank-wide (reporting to Risk Management). It also manages the Bank’s certification process over internal controls on financial reporting (reporting to Finance).
CAPITAL MARKET INVESTMENTS
The EBRD’s Treasury Department undertakes capital market investments for the Bank. Environmental or social criteria are not explicit investment parameters but form part of the investment decision. The average rating of the portfolio is AA/Aa or better: over 75 per cent of the investment exposures are to regulated financial industries with the remainder largely invested in AAA/Aaa assets. Treasury’s credit parameters allow investment in sovereign and sovereign-guaranteed paper with a minimum rating of A-/A3. In accordance with these parameters, limits have been established for 22 countries, all of which are members of the Financial Action Task Force (FATF), an intergovernmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing.

RETIREMENT PLAN COMMITTEE FOR EBRD STAFF
The EBRD’s Retirement Plan Committee oversees the retirement arrangements and benefits for EBRD staff. It is made up of: two elected staff members; the President; the Vice President, Finance; the Secretary General; the Vice President, Human Resources and Administration; the General Counsel; and two representatives of the Board of Directors.
WEB SITE
The EBRD web site (www.ebrd.com) contains comprehensive information on every aspect of the Bank’s activities. It includes a range of publications, policies, country strategies and full contact details for the Bank’s local offices.

EXCHANGE RATES
Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2007. (Approximate euro exchange rates: £0.73, US$1.47, ¥164.87.)

ABBREVIATIONS AND ACRONYMS

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