



European Bank
for Reconstruction and Development

ANNUAL REPORT 2016



ar-ebrd.com





Contents

02 About the EBRD

04 2016 in numbers

06 Overview

14 Activities by sector

30 Strategic themes

42 Partnerships

50 Governance

These icons indicate (left to right) digital and print versions, video and audio content, and downloads



ar-ebrd.com

About this report

The EBRD's *Annual Report* provides a comprehensive overview of the Bank's activities and impact during the past year in the countries where it invests.

The report describes the impact of the EBRD's investments, projects and policy work in 2016, highlights its innovation in key sectors and initiatives, and shows how the Bank continues its drive to promote sustainable growth.

President's message

It is fitting that in the year of its 25th anniversary, the EBRD once again proved capable of navigating a challenging world to deliver strong results. High levels of transition impact arose from the Bank's increased support for policy reform in combination with investments. During 2016, robust policy engagement accompanied €9.4 billion of investment in 378 projects – equalling the record amount invested in 2015.

Highlights of the year included a large number of operations in countries at earlier stages of the transition process, a 33 per cent share of Annual Bank Investment in support of transition to a green economy, numerous projects that further gender equality, and innovative ventures that seek to develop local currency lending and capital markets.

Between now and 2020, I have pledged to deliver still greater transition impact in our region, which stretches from Mongolia in Central Asia to Morocco on the Atlantic coast. In order to help us do that, we have adopted a fresh approach to defining transition that clarifies how the EBRD should fulfil its mission of developing strong market economies. The Bank's activities can help countries become more competitive, better governed, greener, more inclusive, more resilient and better integrated. Under the EBRD's revised concept of transition, these six qualities will inform our investment decisions and policy dialogue engagements.



This sharpening of our focus comes as global economic challenges continue to affect the regions where we invest. Geopolitical and security concerns also weigh heavily on the economies of some EBRD countries of operations. It is a demanding environment that requires a flexible approach on the part of the Bank. Accordingly, in 2016 we launched a programme to ensure we are as lean and responsive as possible in order to maximise our external effectiveness. I am pleased to report that this is already yielding good results.

We are flexible – but also steadfast. There can be no greater example of that than our role in making safe the Chernobyl nuclear power station in Ukraine, the site of the 1986 accident. The successful sliding into place of the New Safe Confinement (NSC), a dome to encase the damaged building and stop radiation leaking out, was one of the high points of 2016 for me. The EBRD manages the NSC project and has heavily funded it along with other donors. The NSC is an engineering marvel and a tribute to internationalism that the *New York Times* described as “a model ... of what humanity can do in the face of a real danger that no one country ... could manage”.

Internationalism and multilateralism drive our desire to help our countries of operations improve and succeed. Chernobyl is a potent symbol of the values that we bring to all aspects of our mission.

Suma Chakrabarti

President, European Bank
for Reconstruction and Development

About the EBRD

Who we are

The EBRD is investing in changing people's lives from central Europe to Central Asia, the Western Balkans and the southern and eastern Mediterranean region. With an emphasis on working with the private sector, we invest in projects, engage in policy dialogue and provide technical advice which fosters innovation and builds modern economies that are competitive, well-governed, green, inclusive, resilient and integrated.

What we do

We provide financing for well-structured, financially robust projects of all sizes (including many small businesses), both directly and through financial intermediaries such as local banks and investment funds. The Bank works mainly with private sector clients, but also finances municipal entities and publicly owned companies. Our principal financing instruments are loans, equity investments and guarantees.

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

Where we invest

EBRD Annual Bank Investment 2016¹ (€ million)

Central Europe and the Baltic states

Map ref.	Country	2016	2015	Cumulative to end-2016
01	Croatia	311	198	3,570
02	Estonia	1	48	615
03	Hungary	127	79	2,943
04	Latvia	3	61	653
05	Lithuania	2	8	655
06	Poland	776	647	8,406
07	Slovak Republic	165	87	2,251
08	Slovenia	53	77	946
Total		1,438	1,204	21,268²

South-eastern Europe

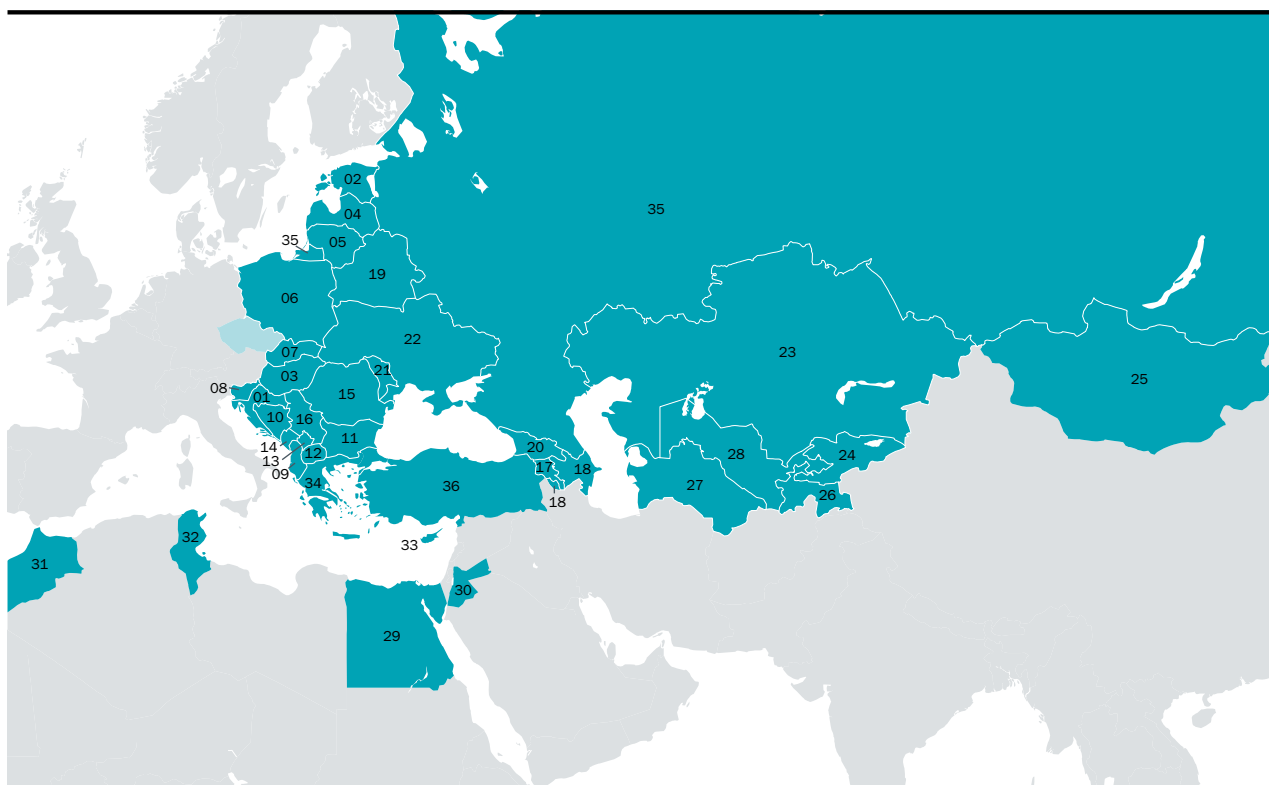
Map ref.	Country	2016	2015	Cumulative to end-2016
09	Albania	178	10	1,023
10	Bosnia and Herzegovina	199	138	2,010
11	Bulgaria	621	82	3,633
12	FYR Macedonia	19	158	1,612
13	Kosovo	47	56	227
14	Montenegro	6	99	511
15	Romania	201	260	7,488
16	Serbia	304	478	4,428
Total		1,576	1,282	20,931

Eastern Europe and the Caucasus

Map ref.	Country	2016	2015	Cumulative to end-2016
17	Armenia	63	138	1,133
18	Azerbaijan	63	269	2,660
19	Belarus	124	53	1,929
20	Georgia	248	116	2,973
21	Moldova	86	98	1,191
22	Ukraine	581	997	12,358
Total		1,166	1,671	22,244

¹ "Annual Bank Investment" (ABI) is the volume of commitments made by the Bank during the year. This includes: (i) new commitments (less any amount cancelled or syndicated within the year); (ii) restructured commitments; and (iii) amounts issued under the Trade Finance Programme (TFP) during the year and outstanding at year-end.

² This figure includes investments totalling €1,229 million made in the Czech Republic before 2008.



Central Asia

Map ref.	Country	2016	2015	Cumulative to end-2016
23	Kazakhstan	1,051	709	7,384
24	Kyrgyz Republic	111	48	678
25	Mongolia	152	467	1,498
26	Tajikistan	45	166	651
27	Turkmenistan	9	12	254
28	Uzbekistan	0	0	906
Total		1,369	1,402	11,371

Southern and eastern Mediterranean

Map ref.	Country	2016	2015	Cumulative to end-2016
29	Egypt	744	780	2,326
30	Jordan	403	163	906
31	Morocco	158	431	1,179
32	Tunisia	61	82	353
Total		1,367	1,456	4,764

Cyprus³

Map ref.	Country	2016	2015	Cumulative to end-2016
33	Cyprus	64	33	218
Total		64	33	218

Greece⁴

Map ref.	Country	2016	2015	Cumulative to end-2016
34	Greece	485	320	810
Total		485	320	810

Russia

Map ref.	Country	2016	2015	Cumulative to end-2016
35	Russia	0.5	106	26,220
Total		0.5	106	26,220

Turkey

Map ref.	Country	2016	2015	Cumulative to end-2016
36	Turkey	1,925	1,904	9,038
Total		1,925	1,904	9,038

³ Cyprus became an EBRD recipient country on 15 May 2014, on a temporary basis.

⁴ On 29 March 2015 Greece became an EBRD recipient country on a temporary basis until 2020.

2016 in numbers

EBRD Annual Bank Investment by sector 2016

33%

Financial institutions

Includes investments in micro, small and medium-sized enterprises via financial intermediaries.

26%

Industry, commerce and agribusiness

Comprises agribusiness, manufacturing and services, property and tourism, equity funds, and information and communication technologies.

23%

Energy

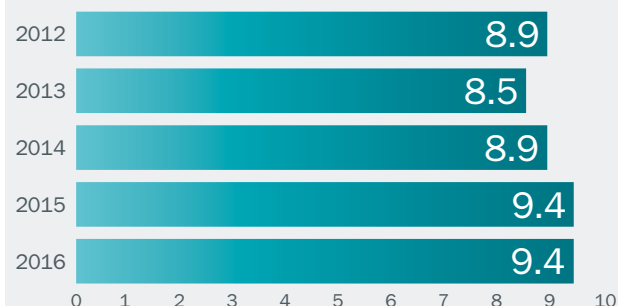
Comprises investments in the natural resources sector and in power and energy utilities.

18%

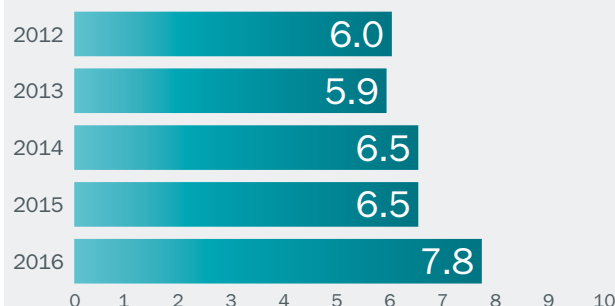
Infrastructure

Comprises municipal and environmental infrastructure and transport.

EBRD Annual Bank Investment 2012-16 (€ billion)



Gross annual disbursements 2012-16 (€ billion)



Operational results 2012-16

	2016	2015	2014	2013	2012
Number of projects ⁵	378	381	377	392	393
Annual Bank Investment (€ million)	9,390	9,378	8,853	8,498	8,920
Annual mobilised investment ⁶ (€ million)	1,693	2,336	1,177	862	1,063
of which Private Direct Mobilisation	1,401	2,138	1,014	769	1,009
Total project value ⁷ (€ million)	25,470	30,303	20,796	20,527	24,871

Financial results 2012-16 (€ million)

	2016	2015	2014	2013	2012
Realised profit before impairment ⁸	642	949	927	1,169	1,007
Net profit/(loss) before transfers of net income approved by the Board of Governors	985	802	(568)	1,012	1,021
Transfers of net income approved by the Board of Governors	(181)	(360)	(155)	(90)	(190)
Net profit/(loss) after transfers of net income approved by the Board of Governors	804	442	(723)	922	831
Paid-in capital	6,207	6,202	6,202	6,202	6,202
Reserves and retained earnings	9,224	8,384	7,947	8,674	7,748
Total members' equity	15,431	14,586	14,149	14,876	13,950

For further information on the EBRD's financial results, refer to the *Financial Report 2016*.

⁵ The number of projects to which the EBRD made commitments in the year.

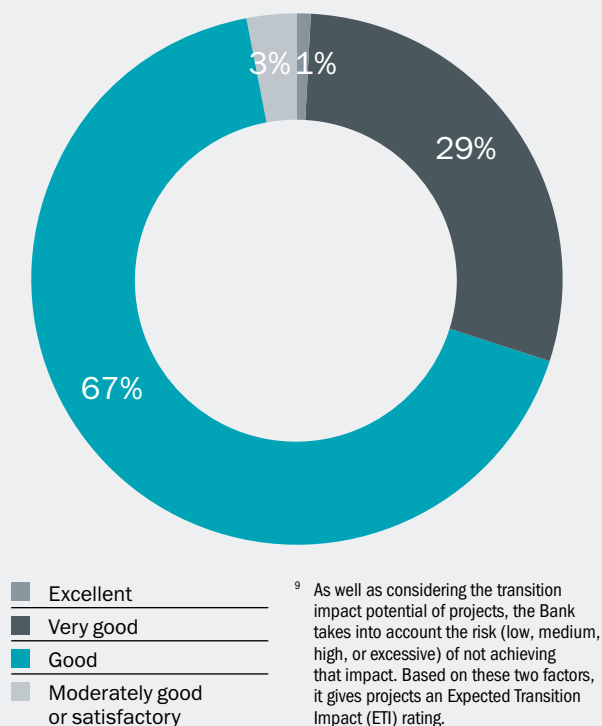
⁶ The "annual mobilised investment" measure was first introduced in 2014. Figures for previous years comprise syndicated loans and EBRD-administered Special Fund amounts only. Annual mobilised investment is the volume of commitments from entities other than the Bank made available to the client due to the Bank's direct involvement in mobilising external financing during the year.

⁷ "Total project value" is the total amount of finance provided to a project, including both EBRD and non-EBRD finance, and is reported in the year in which the project first signs. EBRD financing may be committed over more than one year with "Annual Bank Investment" (ABI) reflecting EBRD finance by year of commitment (see footnote 1). The amount of finance to be provided by non-EBRD parties is reported in the year the project first signs.

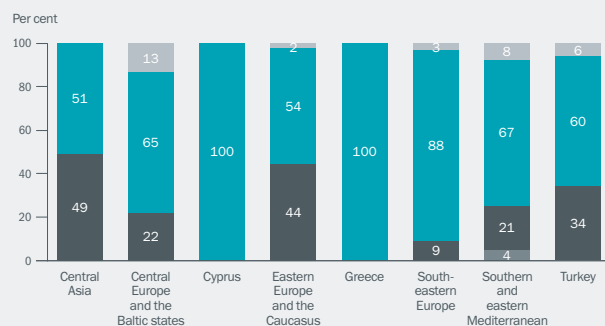
⁸ "Realised profit before impairment" is before unrealised fair value adjustments to share investments, provisions, loan write-offs, other unrealised amounts and transfers of net income.

Transition impact

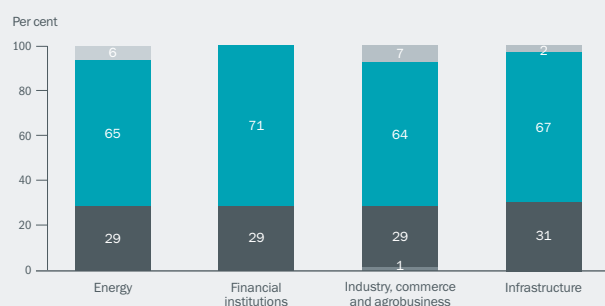
Transition impact potential of new project signings in 2016⁹



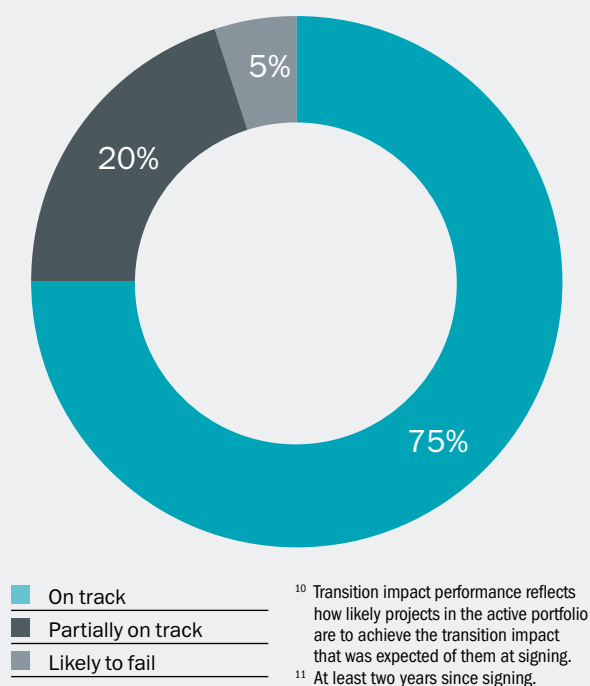
Transition impact potential of new project signings in 2016, by region



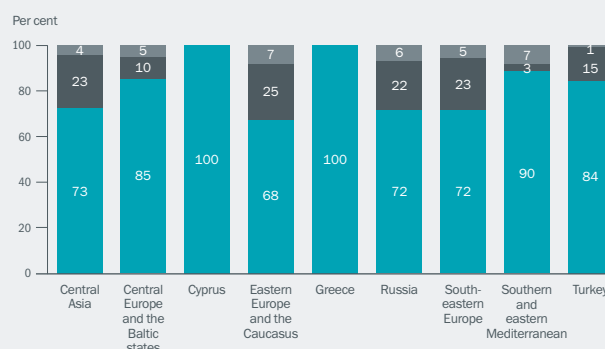
Transition impact potential of new project signings in 2016, by sector



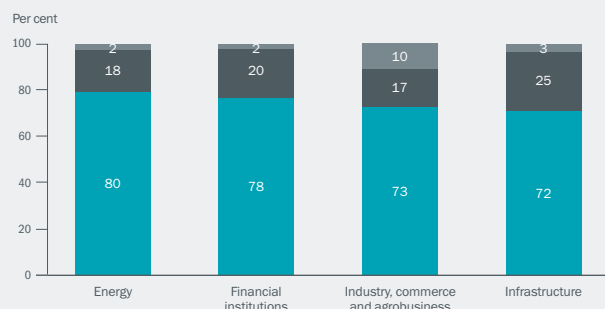
Transition impact performance¹⁰ of active portfolio¹¹ at end-2016



Transition impact performance of active portfolio at end-2016, by region



Transition impact performance of active portfolio at end-2016, by sector

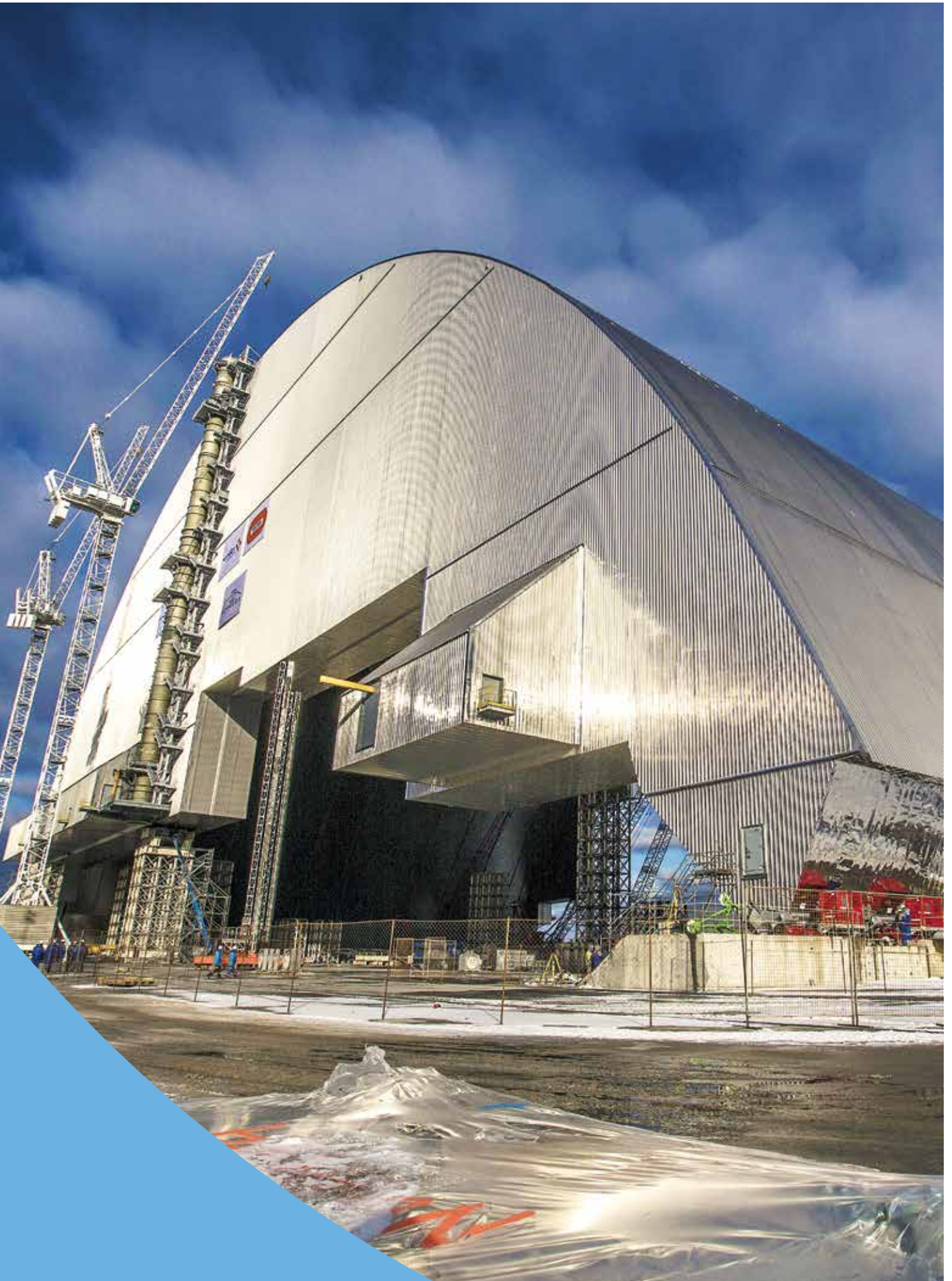




08	Operational results
09	Financial results
10	Transition concept review
11	Refugee crisis response
12	Donor-funded activities
12	Democratic reforms
13	Market reforms

OVERVIEW

During 2016 the EBRD bolstered the process of transition and economic recovery by investing a record-equalling €9.4 billion through 378 projects across 35 countries and a variety of sectors. Increased policy dialogue and support from donors strengthened the Bank's efforts to make economies in the region competitive, well-governed, green, inclusive, resilient and integrated.



Operational results

In 2016 the EBRD responded to ongoing economic and geopolitical uncertainty with increased efforts to re-energise the transition process and create sustainable growth for the benefit of millions of people across the region where it operates. Annual Bank Investment¹ (ABI) reached €9.4 billion, matching the record level of financing seen in 2015. This was accompanied by intensified policy dialogue in support of deep and durable reforms in emerging economies. Donor assistance proved to be more important than ever in helping the Bank achieve these objectives.

The number of EBRD projects remained high at 378, compared with 381 in 2015. Business activity was strong in Turkey, with €1.9 billion invested and 43 projects signed across a variety of sectors. The Bank continued to increase its investments in Kazakhstan (€1.05 billion), Poland (€776 million) and temporary recipient country Greece (€485 million). It remained a major investor and champion of reform in Ukraine at a time of ongoing severe difficulties.

Altogether, the EBRD invested in 35 countries in 2016, with investment by region as follows: Central Asia €1.4 billion, central Europe and the Baltic states €1.4 billion, Cyprus €64 million, eastern Europe and the Caucasus €1.2 billion, Greece €485 million, south-eastern Europe €1.6 billion, southern and eastern Mediterranean €1.4 billion and Turkey €1.9 billion.

In line with its operational strategy, the EBRD continued to support sectors that are important to regional recovery and growth. ABI in the financial sector reached €3.1 billion in 2016, in the diversified corporate sectors (covering industry, commerce and agribusiness) €2.5 billion, in the energy sector €2.2 billion, and in the infrastructure sector €1.7 billion.

Projects remained highly relevant to the transition process. Of those signed in 2016, 97 per cent were assessed as having good, very good or excellent transition impact potential. Some 95 per cent of active projects well into implementation were assessed as generally on track to achieving the transition objectives envisaged for them (see transition impact charts on page 5).

The private sector share of ABI was 76 per cent in 2016, compared with 78 per cent in 2015, reflecting the EBRD's mandate to foster transition and reform by working with the private sector. The Bank provided €725.6 million of equity directly through investments in 21 companies (€506.1 million) and indirectly via seven equity funds (€219.5 million).

2016 marked the first year of implementation of the Green Economy Transition (GET) approach, which helps EBRD countries of operations deliver the emission reductions pledged at the United Nations climate conference in Paris in 2015. GET expands the scope of EBRD climate finance activities, tackling water and materials efficiency, energy efficiency, renewable energy and climate resilience. During 2016, the Bank invested €2.9 billion in 151 projects under the approach, accounting for 33 per cent of total Annual Bank

Investment and generating estimated annual reductions of 5 million tonnes of CO₂ emissions.

The Small Business Initiative streamlines and bolsters EBRD assistance to small and medium-sized enterprises (SMEs). In 2016, in addition to investments of €1.0 billion in 81 financial intermediaries for on-lending to SMEs, the Bank directly invested a total of more than €400 million in 66 SMEs.

Establishing viable local currency financing and nurturing the development of efficient and self-sustaining local capital markets are vital to ensuring economic resilience. This is recognised by the EBRD's Local Currency and Capital Markets Development Initiative, under which the Bank signed 93 local currency loan and bond projects – 29 per cent of the total number of debt transactions by the EBRD during the year.

The Strategy for the Promotion of Gender Equality 2016-2020, rolled out in 2016, seeks to economically empower women in the EBRD region and foster more equality of opportunity to benefit all members of society. Of the projects undertaken by the Bank in 2016, 29 incorporated a component promoting gender equality.

Working in the EBRD's less economically advanced countries of investment, the Early Transition Countries (ETC) Initiative seeks to increase financing and strengthen the business climate. The Bank signed 114 projects, many of them in support of SMEs, and invested €902 million in the ETCs in 2016.

Other strategic themes of Bank activities are the promotion of economic inclusion, the development of knowledge-based economies, improving the investment climate and governance, fostering a better legal environment for businesses and bolstering food security.

At the end of the year, the Bank's portfolio of investment operations (including undisbursed commitments) had increased from €41.6 billion in 2015 to €41.8 billion.

Gross disbursements reached a record €7.8 billion in 2016, compared with €6.5 billion in 2015, with loan repayments of €6.0 billion and equity divestments of €0.7 billion resulting in operating assets of €29.7 billion at end-2016, up from €28.6 billion at end-2015.

In keeping with the aspects of its mandate that cover the mobilisation of domestic and foreign capital for clients, the EBRD maintained a strong record of raising debt and grant co-financing from a variety of sources, despite difficult economic and geopolitical circumstances. Projects signed in 2016 mobilised non-EBRD finance of around €11.4 billion (2015: €14.0 billion). The Bank directly mobilised €1.7 billion of investment from co-financiers, of which €1.4 billion came from private sources. Private direct mobilisation was principally achieved through 24 projects that incorporated €1.0 billion of syndicated loans using the Bank's A/B loan structure (2015: €1.6 billion in 16 projects).

¹ See footnote 1 on page 2.

Financial results

The EBRD recorded a net realised profit in 2016 of €0.6 billion before provisions, unrealised gains on share investments and other unrealised gains (2015: €0.9 billion profit). The main contributor to realised profit is the Bank's strong net interest income with variability primarily attributable to its equity portfolio, where profits on divestments were lower than the previous year.

Including provisions and unrealised amounts, the EBRD's overall net profit before income allocations of €1.0 billion showed an improvement on the €0.8 billion profit recorded for 2015. Excluding the one-off release in 2015 of general provisions of €0.3 billion following a revision to the estimation methodology, net profit improved by €0.5 billion, with both Banking and Treasury activities delivering improved financial performance in 2016.

The ratio of non-performing loans decreased slightly to 5.5 per cent at year-end from 5.9 per cent at the end of 2015, while the average credit rating of the loan portfolio overall continued to equate to B+.

General administrative expenses for 2016, inclusive of depreciation and amortisation, were €467 million (2015: €431 million). The increase was mainly due to the higher conversion rate from pounds sterling, in which expenses are predominantly incurred, into euros, reflecting the rate at which the Bank hedged its 2016 budget at the end of 2015. The pound sterling equivalent of this figure was £343 million (2015: £332 million).

The Bank's reserves increased to €9.2 billion at the end of 2016 (2015: €8.4 billion), reflecting both the net profit for the year and net income allocations. The EBRD's capital strength is illustrated by the level of members' equity, which represented 27.4 per cent of total assets at 31 December 2016 (2015: 26.5 per cent), including Treasury assets with an average risk rating between AA and AA- and an average maturity of 1.3 years, unchanged from 2015. Members' equity represented 56.3 per cent of Banking assets ('development-related exposure') at 31 December 2016 (2015: 55.8 per cent).

The EBRD maintained its triple-A rating, reaffirmed by all three major rating agencies in 2016.

The geopolitical uncertainty in the EBRD region is likely to continue contributing to volatility in the Bank's earnings, particularly in the valuations of its equity portfolio and the level of provisioning against its loan book.



Full details and financial statements are provided in the EBRD's *Financial Report 2016* (see fr-ebd.com).

The EBRD and Chernobyl

In the 30th anniversary year of the Chernobyl nuclear accident, the arch-shaped steel structure designed to enclose the remains of the power plant's destroyed reactor 4 reached its final resting place. The achievement was a defining moment in one of the most ambitious projects in engineering history.

The EBRD played a vital role in securing the Chernobyl site through its management of international funds for decommissioning activities. It is also the largest single contributor to Chernobyl-related projects.

The New Safe Confinement (NSC) is the biggest moveable land-based structure ever built, with a span of 257 metres, a length of 162 metres, a height of 108 metres and a total weight of 36,000 tonnes when equipped. With a lifetime of 100 years, the NSC will make the accident site safe and allow for the eventual dismantling of the temporary shelter put up in 1986 as well as supporting the management of radioactive waste.

In November, workers moved the NSC 327 metres from the area where it was assembled to its end position above reactor 4 in a unique sliding operation. Remaining tasks include the completion of a building that will serve as the control centre for future operations of the NSC, the installation and testing of systems and connections between the NSC and other facilities, and the handover to Ukrainian operators that is scheduled for late 2017.

Since 1997, the EBRD has managed the Chernobyl Shelter Fund, which finances the €1.5 billion NSC and related projects. Their combined cost is expected to reach €2.1 billion. (For more information about the EBRD's work on nuclear safety, see page 49.)



Backing the first wind farm in Georgia

The EBRD is helping to introduce wind power to Georgia with a venture in the central municipality of Gori that will serve as a model for other projects in the renewables sector.

The wind power plant, the first in Georgia and the first commercial wind farm in the Caucasus region, will have a total installed capacity of 20.7 MW and an expected electricity output of 85 GWh per year. Around one-third of this will be exported to neighbouring Turkey while the rest will help Georgia to meet its winter energy needs without additional carbon emissions. The project encourages the diversification of renewable resources in the country, which relies heavily on hydropower generation.

The Bank extended a US\$ 10 million (€9.6 million equivalent) loan and arranged an additional US\$ 12 million (€11.5 million equivalent) in syndicated lending from three commercial co-investors to the state-owned firm Qartli Wind Farm under a project finance structure. This will fund the construction and operation of the power plant. The EBRD also facilitated technical assistance funds to help the Georgian government design and implement an electricity trading platform.



Transition concept review

In 2016 the EBRD Board of Directors approved a new way of conceptualising the transition to a market economy, the process that the EBRD seeks to promote through investment projects and policy dialogue. This change reflects the global evolution, since the Bank was established 26 years ago, in the definition of a successful market economy to include an emphasis on strong markets as well as state institutions.

The modernised transition concept gives more weight to the desired outcome of the transition process. In other words: what does a sustainable market economy look like? As EBRD countries of operations each have diverse needs for reform, the answer to this question requires country-specific responses.

Drawing on the recommendations of external experts and following extensive consultations with the Board, the revised transition concept argues that a well-functioning, sustainable market economy should be more than just competitive. In order to avoid reform reversals and to address weaknesses highlighted by the 2008 financial crisis, market economies should also be well-governed and resilient. Moreover, to ensure the long-term sustainability of the transition process, markets need to be inclusive, for instance by taking into account the needs of women and disadvantaged groups, and green – that is, environmentally friendly. Lastly, it is desirable for market economies to be integrated, as internal and cross-border connectivity promote competitiveness and resilience.

All six qualities (competitive, well-governed, green, inclusive, resilient and integrated) are implicit in the founding articles of the EBRD. They have been reflected in the evolving activities of the Bank since its creation, with some receiving focused attention earlier than others. In 2016, the Bank explicitly attended to each quality through its investments and policy dialogue.

The process of revising the transition concept began in 2015 with the appointment of an external panel chaired by Professor Tim Besley (London School of Economics) and including Beata Javorcik (Oxford University) and Sergei Guriev, who was a professor of economics at Sciences Po, Paris, before joining the EBRD as Chief Economist in 2016. The panel provided recommendations and engaged in extensive discussions with the Board before Directors approved the new concept.

Formal implementation of the revised transition concept from 2017 will take place through individual country strategies, for which a new methodology is being prepared. The EBRD is also designing a fresh way of assessing the expected transition impact of engagements to reflect the revised transition concept.

Refugee crisis response

In line with its mandate, and joining international efforts to tackle the refugee crisis caused by the civil war in Syria, in 2016 the EBRD announced a financing package of up to €900 million. The package will support private sector and infrastructure projects in Turkey and Jordan, which host some 2.8 million and 1.4 million Syrian refugees, respectively.

In order to help build economic resilience in these countries and support refugee-hosting communities, the EBRD committed over €70 million alongside €50 million of grants in 2016, the first year of the financing package. The Board pledged €100 million in grant financing over three years, contingent on the Bank's profitability, to be administered through a separate window in the EBRD Shareholder Special Fund (SSF). Of this amount, €35 million was allocated from net income in the first year, running from mid-2016 to mid-2017.

Examples of refugee response investments in 2016 included a loan worth the equivalent of €22.5 million to the Water Authority of Jordan for improvements to wastewater treatment infrastructure that serves 690,000 people, including some 250,000 refugees. Donor co-financing for the investment was provided by the United Kingdom (for the equivalent of €16.3 million), the EBRD SSF (€4.7 million equivalent) and the World Bank Concessional Finance Facility (€1.89 million equivalent).

In addition, the EBRD provided 40 million Jordanian dinars (€53 million equivalent) as part of a tranching loan to the Greater Amman Municipality to finance better solid waste infrastructure in the Jordanian capital. An associated £5 million (€5.8 million equivalent) grant from the UK complemented the loan.

Furthermore, a €5 million extension to an existing EBRD loan and a €5 million grant from the SSF to the city of Gaziantep in south-eastern Turkey will fund an expansion of the local bus fleet that travels to underserved areas in the city, providing refugees with greater access to schools, safer journeys, jobs and services.



Unleashing the potential of Kazakh businesswomen

Providing women with the finance and advice they need in order to grow their businesses is a priority for the EBRD in Kazakhstan. In 2016, the Bank extended the equivalent of €23 million in local currency financing as part of its Women in Business programme in the country.

Credit lines under the initiative were signed with CenterCredit, ForteBank, the microfinance organisation KMF and Shinhan Bank. The first Women in Business credit line in Kazakhstan was extended to CenterCredit in late 2015.

The programme combines support for partner financial institutions and businesswomen to unleash the economic potential of a section of the population that has traditionally been underserved by the financial sector. Although conditions are improving, women-led firms in Kazakhstan often face obstacles in obtaining credit and developing managerial skills.

Energising telecommunications in Greece

A €389 million financing package arranged by the EBRD for OTE, the leading telecommunications operator in Greece, will support the company's ambitious investment plans, including the development of next-generation networks chiefly targeting regions with relatively low broadband coverage.

The EBRD provided €150 million as part of a €339 million syndicated loan, which supported the re-opening of the loan syndications market in Greece and is aimed at helping the country return to growth. In parallel, the Black Sea Trade and Development Bank provided a €50 million loan to OTE.

In 2015 the EBRD started investing in Greece on a temporary basis to support the country's economic recovery.



Boosting Ukraine's grain export sector

Grain exports are a vital source of foreign revenue for Ukraine at a time of ongoing economic uncertainty and the agribusiness sector is important for attracting foreign direct investment to the country. Last year, the EBRD invested in two projects aimed at easing transport bottlenecks in Ukraine's grain export sector.

A US\$ 40 million (€38 million equivalent) loan to G N Terminal Enterprises will enable the company to expand the capacity of the grain terminal it operates in the port of Odessa. The Bank also extended a US\$ 34 million (€32 million equivalent) loan to local company MV Cargo for the development of a modern, deep-water grain terminal in the port of Yuzhny.

Donor-funded activities

The EBRD relies on support from donors to successfully fulfil its mission of advancing transition. Donors provide funds that act as a catalyst for Bank investments and support other activities. They are particularly active in those parts of the EBRD region facing the biggest obstacles to recovery and growth and in the infrastructure, sustainable energy and small business sectors.

In 2016, donors signed agreements to contribute €445 million in new grant financing for EBRD use. During the year, the EBRD used €409 million of grants in support of its work. The Bank increasingly used products that blend commercial financing with grant-funded elements in order to maximise the impact of EBRD investments. Typically, donor funds support a third of EBRD investment projects per year.

For more information on donor activities, see "Donor partnerships" on page 44.

Democratic reforms

Article 1 of the Agreement Establishing the Bank states that the EBRD operates in "countries committed to and applying the principles of multiparty democracy, pluralism and market economics".

The Governance and Political Affairs team, in the Vice Presidency - Policy and Partnerships group, monitors and assesses compliance with Article 1.

Formal political assessments for each country are prepared as part of the country strategy process and are included in each country strategy, following an updated methodology approved by the Board of Directors in 2013 which is available on ebrd.com.

The assessment covers 14 criteria related to free elections and representative government; civil society, media and participation; rule of law and access to justice; and civil and political rights.

In 2016, the following country strategies were approved by the Board, including the political assessments found in Annex 1 of each strategy: Albania, Belarus, Estonia, Georgia, Greece, Hungary, Kosovo, Latvia and Lithuania.

Market reforms

During the year, the overall outlook for market reforms improved across the EBRD region, although reversals occurred in isolated cases and the challenging context in some countries should be recognised. The Bank continues to encourage governments to pursue reforms that will support the business climate. These observations are borne out by the EBRD's annual analysis of structural reforms, as detailed in the EBRD *Transition Report 2016-17* and in the online country pages of the publication. The Report contains an updated assessment of transition challenges. This highlights reforms and other significant developments of the past year that warranted either an upgrade or downgrade in the relevant scores, or placement on positive or negative watch for future adjustments to the scores.

There was a noticeably positive set of developments in the infrastructure and energy sectors. Highlights included the ongoing extension of electronic tolling in Belarus so that it now covers significant sections of the country's road network. Reforms have advanced in the energy sector in numerous countries in recent years, reflecting a continued appetite for change. Progress in the past year was particularly noticeable in south-eastern Europe (SEE), with important restructuring efforts under way in Albania, Bulgaria and Serbia. Also noteworthy in 2016 were the efforts of the Ukrainian government to tackle inefficiencies in the governance of the energy company Naftogaz. In July, the authorities approved Naftogaz's plan to unbundle the firm.

Some financial sectors remained rather vulnerable and fragile. High levels of non-performing loans – a legacy of various crises during the past decade – held back credit growth and confidence in many countries. However, developments in the private equity and capital markets were mostly positive. The SEE Link platform for stock markets in south-eastern Europe was launched in the past year, linking stock exchanges in Bulgaria, Croatia, FYR Macedonia, Serbia and Slovenia.

With regard to the business environment and reforms in the corporate sector, progress was mixed. Egypt restricted imports and rationed access to foreign exchange for some time, although the devaluation of the national currency in November and the signing of a new arrangement with the International Monetary Fund should restore macroeconomic stability and promote growth and employment. In the ICT field, the Slovak Republic was upgraded as the completion of Slovak Telekom's privatisation in 2015 had addressed one of the key remaining challenges to transition in this sector.

Transition for all: Equal opportunities in an unequal world

The EBRD's *Transition Report 2016-17* focuses on inequality and several key aspects of inclusive growth: the distribution of income, the impact of transition on people's well-being and happiness, equality of opportunity, and financial inclusion. The analysis in this report draws on the third *Life in Transition Survey*, a household survey conducted by the EBRD and the World Bank in 34 countries during late 2015 and the first half of 2016.

The publication reiterates that the process of transition from planned to market economies has been far from smooth. In the early years of transition, the social, economic and even physical costs of reforms were so substantial that people born at the time of price liberalisation are an average of around 1 cm shorter than their peers born just before or after that period. It is no wonder, then, that most people in the transition region were, until recently, less happy than people with similar income levels elsewhere. Now, though, that is no longer the case: the happiness gap has finally closed.

The EBRD region has not only caught up with richer countries in terms of happiness; it has also closed some of the income gap. Not everybody, however, has benefited equally from economic progress: only 44 per cent of all men and women in post-communist countries have enjoyed total income growth that is higher than the average for the G7 advanced economies. The report discusses ways to spread the benefits of growth more equally.



Read the full *Transition Report 2016-17* at tr-ebrd.com





16	Financial sector
18	Industry, commerce and agribusiness
24	Infrastructure
27	Energy

ACTIVITIES BY SECTOR

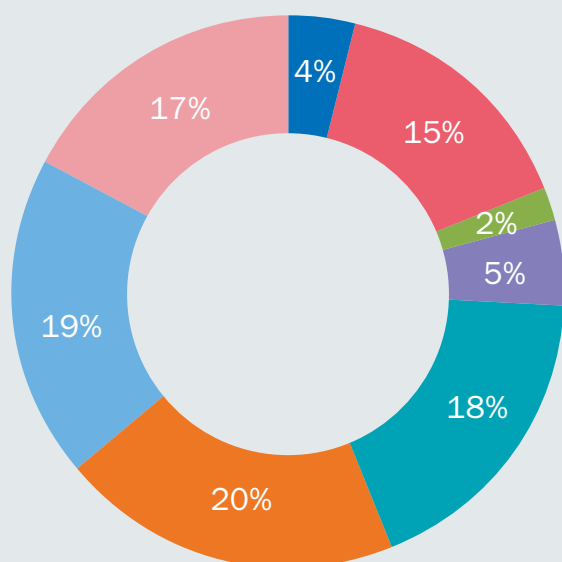
Through investments in the financial and corporate sectors, infrastructure and energy, the EBRD helps to build sustainable, well-functioning market economies with high levels of private ownership.





Chart 2.1.

Financial sector Annual Bank Investment by sub-region, 2016



- Central Asia
- Central Europe and the Baltic states
- Cyprus
- Greece
- Eastern Europe and the Caucasus
- South-eastern Europe
- Southern and eastern Mediterranean
- Turkey

Financial sector

In the countries where it invests, the EBRD plays a leading role in the development of a strong, sustainable and inclusive financial sector. The Bank combines debt, equity and trade finance projects with extensive policy dialogue, cooperation with external partners and donor-funded activities to support banks and non-bank financial institutions, mostly in the private sector.

In 2016, the EBRD signed new business worth €3.06 billion in the financial sector, covering 120 projects in 30 countries (2015: €2.95 billion for 133 projects in 30 countries). Turkey was the biggest recipient of investment in this sector, followed by Egypt and Bulgaria. Innovative projects and policy dialogue sought to reduce the burden of non-performing loans (NPLs) and diversify the funding base of financial institutions. Countries in the Caucasus, Central Asia and the southern and eastern Mediterranean (SEMED) continued to face significant challenges and EBRD transactions in many countries in those regions focused on support for small businesses and trade finance.

Throughout its countries of operations, the Bank increasingly used integrated products that blend indirect financing with elements funded by donors.

MSME financing

Many countries in the EBRD region continue to rely heavily on micro, small and medium-sized enterprises (MSMEs) for jobs and growth, but these firms often struggle to access the finance they need to operate or expand. EBRD credit lines to banks and non-bank financial institutions, and loans to providers of leasing or factoring services, increase the amount and range of financing available to MSMEs.

In line with the EBRD's Small Business Initiative (SBI), in 2016 the Bank financed 76 MSME-focused projects for €892 million. Among these was a local-currency loan package worth US\$ 50 million (€47.3 million equivalent) to the Bank of Georgia for on-lending to small businesses in that country. The EBRD made available the equivalent of €23.7 million in funding for the National Bank of Kuwait - Egypt to finance a credit line for Egyptian SMEs. It also extended loans worth a total of €95.4 million to leasing subsidiaries of Raiffeisen Bank International for operations in Bosnia and Herzegovina, Bulgaria, Croatia and Poland. Meanwhile, the purchase of a TRY 263 million (€79 million equivalent) stake in Odea Bank will support the Turkish bank's efforts to increase access to finance for SMEs.

The EBRD launched dedicated programmes to support agribusiness companies, including SMEs, in Albania and Tajikistan. These blended finance facilities, delivered through partner banks and microfinance institutions, with risk-sharing protection and other financial incentive elements that benefit from donor support.

In Georgia, Moldova and Ukraine, the EBRD and the EU have established programmes of joint activities dedicated to supporting SMEs. The programmes seek to improve the export potential of small firms in the Deep and Comprehensive Free Trade Area (DCFTA) established by Association Agreements between the EU and those three countries. Lending to partner

banks in Georgia and Moldova under the programme began in 2016 (see case study on page 46).

Green financing

The EBRD is a world leader in the provision of credit lines for investment in sustainable energy and resource and climate resilience projects. In 2016, projects under the Green Economy Transition (GET) approach accounted for 17 per cent of signings in the financial sector. The Bank financed water efficiency and waste minimisation investments in the Kyrgyz Republic and Turkey, which were new areas for Bank financial-sector ventures, and continued to increase its level of energy-efficiency and renewable-energy commitments.

In Poland, the Bank provided a €50 million loan to Bank Zachodni WBK under a framework aimed at financing investment in the energy and resource efficiency of residential buildings. A loan worth US\$ 2 million (€1.9 million) to ACBA-Credit Agricole's leasing subsidiary in Armenia will support SMEs wishing to reduce their energy costs by investing in more energy-efficient equipment. The EBRD also provided sustainable energy and resource credit lines in Belarus, Bulgaria, Egypt, Georgia, Kosovo, Morocco, Mongolia, the Slovak Republic and Tajikistan.

Strengthening financial infrastructure

In large parts of the EBRD region, the financial sector is still recovering from the effects of the 2008 crisis and its ability to lend to the real economy remains constrained. In 2016 the Bank deepened efforts to stabilise financial institutions and make them more resilient to future shocks. Notable ventures included a €300 million loan to the Bulgarian Deposit Insurance Fund to boost confidence in that country's banking sector (see case study on this page) and the purchase of a 15 per cent stake in Erste Bank Hungary to facilitate its support for businesses.

Efforts to restructure the financial sector in Greece continued with the acquisition of a stake in the insurance company European Reliance. The EBRD also increased its equity participation in Victoriabank, Moldova's third-largest lender, to strengthen its corporate governance and shareholder transparency.

The Bank works with public officials and other stakeholders on policy dialogue aimed at speeding up the resolution of NPLs across the region and reducing the likelihood of high NPL levels in the future. Legal reform work in this area concentrated on Serbia. On the project side, the EBRD invested TRY 30 million (€8 million equivalent) in a bond issued by Turkasset, an NPL asset manager, to help finance the expansion of its operations in Turkey.

Capital markets and local currency financing

To assist in diversifying the funding base of financial institutions and encourage lending to businesses, the EBRD supports bond issues and securitisation projects. In 2016, the Bank participated in SME securitisations originated by the National Bank of Greece and Alpha Bank, also in Greece. The Bank engaged in its first covered bond transactions, subscribing to issues by PKO Bank Hipoteczny in Poland and VakifBank in Turkey. The EBRD provided 40 loans financed



Bolstering the Bulgarian financial sector

In order to boost the resilience of the financial sector in Bulgaria, in 2016 the EBRD extended a €300 million loan to the country's sole deposit insurer.

The financing will help the Bulgarian Deposit Insurance Fund, an independent public institution, optimise its funding structure and replenish its funding base following a major bank failure in 2014. The loan was conditional on the Fund implementing measures in line with new legislative frameworks for deposit insurance and bank recovery and resolution.

The project increases the financial independence and long-term sustainability of the Fund. By reinforcing the deposit insurance system, it also raises confidence in the Bulgarian banking sector and supports the efficient functioning of the country's financial market.



through local currency instruments in order to minimise the exposure of partner institutions and their clients to foreign exchange risks.

Women in business

In 2016, the Bank expanded its Women in Business programmes with 15 new projects in eight countries: Armenia, Belarus and Georgia in the Eastern Partnership; Kazakhstan (see case study on page 11); FYR Macedonia, Kosovo and Serbia in the Western Balkans; and Turkey. Similar programmes are active in other countries in the Eastern Partnership (Azerbaijan, Moldova and Ukraine) and the Western Balkans (Albania and Bosnia and Herzegovina) as well as in Croatia and Egypt. Women in Business programmes provide women-led MSMEs with advice and indirect finance. They also offer participating financial institutions technical assistance and, for some programmes, risk mitigation in the form of first-loss cover.

Meanwhile, in Bosnia and Herzegovina, a €3 million loan to MI-BOSPO will help the microfinance provider expand its support for micro and small enterprises, especially those run by women.

Trade finance

The Trade Facilitation Programme (TFP) operates in countries where foreign banking groups hesitate to engage in trade finance because of higher levels of risk. It provides short-term trade finance facilities to selected banks for on-lending to local exporters, importers and distributors of imported products. In 2016, the EBRD financed 1,359 trade transactions worth a total of €1.5 billion, working with 71 banks across 24 countries.

The Programme enables partner banks to continue to support local businesses in those countries and regions experiencing difficulties: in Central Asia, SEMED and Ukraine, the EBRD processed trade transactions worth over €920 million during 2016. The early transition countries (ETCs) continued to have a significant share of trade finance business, accounting for 34 per cent of the number of TFP transactions.

Last year, the TFP launched two new initiatives: Trade Ready, which blends trade finance and trade-related advisory services to boost the trade potential of SMEs; and Green TFP, a marketing initiative that seeks to promote the use of trade finance for the import and export of products and services that use environmentally friendly technology.

Industry, commerce and agribusiness

EBRD investments in industry, commerce and agribusiness (ICA) promote competition and foster resilience by helping to develop a private corporate sector that is strong and well-governed and by encouraging economic diversification. These ventures also generate sustainable and inclusive growth and contribute to the emergence of an integrated knowledge economy. The Bank uses loans, bonds, equity investments, participation in equity funds, policy dialogue and donor-funded technical assistance to support clients.

During 2016 the Bank invested €2.46 billion in 137 ICA projects. The sector accounted for 26 per cent of Annual Bank Investment and 36 per cent of the number of operations.

Agribusiness

The EBRD works with producers, processors and retailers to maximise the export potential of the agribusiness sector while ensuring that local consumers have access to high-quality, competitively priced food and beverages. Combining investments with policy dialogue and grant-funded activities, the Bank supports the development of strong supply chains that boost value, promote the economic inclusion of underserved communities and meet stringent environmental and animal welfare standards.

In 2016, the EBRD invested a total of €817 million (2015: €770 million) through 51 projects in agribusiness. These included debt and equity ventures in local and foreign currency. An example of an equity project was the purchase of a US\$ 100 million (€94 million equivalent) stake in the United Sugar Company of Egypt. As part of that transaction, the Bank also converted an earlier loan for the same amount into equity in the sugar refinery. This financing will help the company maintain its exports and local sales in extremely difficult market conditions.

EBRD agribusiness ventures promote the use of local currency: in the Kyrgyz Republic, the Bank converted an existing euro-denominated loan to beer and bottled-water producer Bear Beer into Kyrgyz som.

The EBRD financed projects in countries whose agribusiness industries are at very different levels of development. In Poland, a €100 million loan to German retailer Schwarz Group will support the expansion of its Kaufland chain of stores, while in Serbia another €100 million loan to the same group will finance the development of its outlets under the Lidl brand. In Turkey, the Bank extended a €50 million loan to fruit and juice company Anadolu Etap (see case study on page 19).

In Turkmenistan, meanwhile, the EBRD extended a US\$ 2.8 million (€2.6 million equivalent) loan to Berk Group to help it launch a range of salty snacks in addition to its beer production. The SME investment received co-financing from the Taiwan International Cooperation and Development Fund through its contribution to the EBRD's Financial Intermediary and Private Enterprises Investment Special Fund.

Improving the environmental performance of agribusiness clients remained a priority for the Bank. In Ukraine, for example, a US\$ 20 million (€18.9 million equivalent) loan to the agricultural holding company Astarta will support efforts to make its sugar production process more energy and water efficient, while also increasing productivity and raising quality standards.

EBRD ventures that help countries to further unlock their export potential also play a part in efforts to address global food security challenges. G N Terminal Enterprises, which operates a grain terminal open to third-party users in the Ukrainian port of Odessa, benefited from a US\$ 40 million (€38 million equivalent) loan (see case study page 12). A €5 million loan to the Tunisian subsidiaries of Sovena Group, the leading Portuguese producer of olive oil, will support the growth of Tunisia's olive oil exports.

The EBRD engages extensively with donors and in 2016 launched technical assistance and agribusiness advisory programmes on topics including export promotion, corporate governance, the development of cooperatives, alliances with universities and direct advisory support for agribusiness firms. Much of this work focused on creating strong value chains linking producers to processors, retailers and ultimately consumers, as well as on raising the quality standards of food. The Bank's Advice for Agribusiness programme continued to provide targeted international advice to agribusiness SMEs in underserved markets in the ETCs, SEMED and Ukraine.

Under its Private Sector for Food Security Initiative, the Bank collaborated with the Food and Agriculture Organization (FAO) of the United Nations to facilitate dialogue between producers and governments in the grain sector in Egypt, the meat and dairy sectors in Serbia, and the meat sector in Ukraine. The EBRD and FAO also worked on raising skill levels in the dairy and grain industries in Kazakhstan and in the olive oil sector in Morocco and Tunisia; local sourcing of fruit and vegetable production in Moldova and Tajikistan; and supporting innovation in the dairy industry in Armenia, Georgia and Ukraine. The EBRD and FAO assisted Serbia with the launch of its first voluntary food-labelling scheme for meat products to enhance the sales potential of locally made, premium goods.

Equity

In order to help compensate for the lack of equity financing in EBRD countries of operations, the Bank makes direct and indirect equity investments in companies that are private, listed or about to be listed. These projects contribute to the development of local capital markets and provide reassurance to foreign investors who may be unfamiliar with this region.

Continued economic instability and market volatility in countries where the EBRD invests required a revamped approach to equity and highlighted the importance of attracting new equity capital to the region. Accordingly, in 2016 the EBRD strengthened its processes of equity pipeline and portfolio management. It also mobilised financing from global institutional investors through the Bank's Equity Participation Fund (EPF). Last year, the Fund secured a total of €350 million from China's State

Raising skill levels in Turkish farming

A €50 million loan to Anadolu Etap will help the Turkish fruit juice and fresh fruit producer expand its business while also raising skill levels in the Turkish farming industry, promoting rural development and fostering gender equality.

The EBRD loan will finance investments in new fruit farms, sophisticated machinery and packing facilities. A technical assistance programme will support the company's efforts to secure a sustainable supply of high-quality raw materials. This will feature training opportunities with a special focus on increasing the skills of female farmers. As a condition of the financing, Anadolu Etap will also align its corporate governance standards with international best practice.



Administration of Foreign Exchange and the State Oil Fund of the Republic of Azerbaijan in its inaugural round of fundraising. The EPF enables investors to access a diversified portfolio of direct equity investments in the EBRD region.

Direct equity investments by the EBRD in 2016 totalled €506 million for 21 projects across a wide variety of sectors. Since 1992, the Bank has invested over €12 billion in more than 650 direct equity investments across the region. At the end of 2016, its direct equity exposure was €4.6 billion in 210 investments. The Bank takes only minority positions and during the year these ranged in value from €500,000 to €80 million. Notable projects included the purchase of a stake in one of the largest banks in Turkey and a co-investment alongside private equity funds in Allegro Group, owner of the largest online marketplace in Poland.

The Bank signed four investments under the EBRD's Venture Capital Investment Programme (VCIP): one new project and follow-on funding for three existing investee companies. VCIP transactions supply the financing that innovative companies need in order to grow and to attract capital from strong strategic investors.

Significant exits included the sale of stakes in Moldova's leading cable and TV operator Sun Communications to Orange Moldova and in Sampo Japan Sigorta in Turkey. These highlighted the EBRD's role as a bridge for companies entering the region. Moreover, they created strong demonstration effects for local businesses through the introduction of best practices in corporate governance and the successful pursuit of market expansion despite the challenging business environment.

Indirect equity investments by the Bank involve participation in private equity and venture capital funds. These operations mobilise institutional investors' capital alongside that of the EBRD and offer beneficiary companies transformative equity finance, which is often lacking in the region. With its deep, regional knowledge and ability to combine finance with policy dialogue, the EBRD is a strong partner for private equity and venture capital firms in its countries of operations.

In 2016, the EBRD committed €219.5 million to seven private equity funds (compared with €223 million for nine funds in 2015). Investments included a €100 million participation in Meridiam Infrastructure Europe III, an infrastructure fund that will invest in greenfield projects in the EBRD region such as hospitals and motorways. The Bank also invested in SME-focused funds in Egypt, Greece and Poland, as well as a venture capital fund that specialises in early-stage technology companies in Egypt.

In addition, the EBRD signed an agreement with INVEGA, the Lithuanian guarantee agency, under which the Bank will cooperate with INVEGA on the implementation of SME-targeted risk capital funds that benefit from EU structural funding.

Since 1993, the Bank has invested in over 175 funds and by mid-2016 more than 1,400 investee companies had benefited from EBRD indirect equity financing.



Manufacturing and services

EBRD investments in manufacturing and services foster diversification, thus strengthening the resilience of countries to economic shocks, and support industries with high levels of added value. Bank activities in this sector also promote the transition to a green economy, innovation, foreign direct investment and capital market development. The Bank invests in a broad spectrum of industries, including (in 2016) automotive manufacturing, aerospace, chemicals, construction materials, consumer and capital goods, forestry products, health care, pharmaceuticals and retail.

During 2016 the EBRD invested €773 million in the sector, signing 55 projects (compared with €765 million for 53 projects in 2015) worth between €0.4 million and €134.2 million. SME development remained a strong focus, with 22 transactions.

Projects in this sector delivered €340 million of investment in the sustainable use of energy and resources under the GET initiative, reducing CO₂ emissions by an estimated 1.15 million tonnes every year. These included a €75 million loan to the Erdemir Group, Turkey's largest steelmaker, to finance measures aimed at improving the company's energy and resource efficiency, and financing to help the TAMEH power plant in Poland switch from coal to gas as its main source of fuel.



The manufacturing and services sector is both a vital contributor to and a major beneficiary of the knowledge economy. EBRD investments in research and development and technology upgrades enhance the productivity and competitiveness of firms. Notable transactions in 2016 included financing for a Romanian supplier to the aerospace industry.

The Bank continued its work to attract foreign direct investment in its region, for example through a US\$ 150 million (€142 million equivalent) loan to tyre company Brisa in Turkey (see case study on page 38). A €40 million subscription to a Schuldschein loan – a type of fixed-debt instrument in Germany – issued by automotive supplier Draexlmaier Group will help the German firm expand production capacity in FYR Macedonia, Moldova, Romania, Serbia and Tunisia.

EBRD investments in the manufacturing and services sector assist capital market development, opening up alternatives to loans from banks as sources of financing for growing businesses. A €5.9 million participation in a bond issue by Greek retailer Housemarket and a €15 million subscription to the Eurobond issue by the cement company Titan, for its operations in Egypt, illustrated the Bank's work in this area. The EBRD also purchased a stake in MS Pharma, a leading pharmaceutical company based in Jordan. Equity represents a quarter of the Bank's €3.4 billion of operating assets in the manufacturing and services sector.

In addition, Bank ventures in manufacturing and services foster gender equality in the workplace and promote inclusion by creating job opportunities for women and young adults and for people living in remote regions. Policy dialogue in the sector concentrated on creating a regulatory regime that encourages sustainable and resource-efficient practices in industries including cement production and pharmaceuticals.

Information and communication technologies

The EBRD more than trebled its investment in the information and communication technology (ICT) sector in 2016, committing €516 million through 13 projects in the region (2015: €156 million for 14 projects). Of this amount, €475 million was debt and the rest was equity. These ventures help businesses compete successfully in a technology-driven global economy while ensuring that citizens from all sections of society enjoy the benefits of the digital and mobile revolutions. Activities in this sector, including projects under the VCIP, are a critical element of the Knowledge Economy Initiative, which last year reached €1.3 billion in cumulative investment levels.

Notable transactions included a €114 million debt and equity investment in leading Polish online marketplace Allegro and a €339 million syndicated loan to OTE, Greece's largest telecommunications operator. The Bank provided €150 million of the financing to OTE and arranged the remaining €189 million from other lenders (see case study on page 11).

The Bank also extended two new loans to Türk Telekom, a formerly state-owned telecommunications company that is still the leading operator in the sector in Turkey. The dollar-denominated loans worth a total of €142 million

Improving the business climate in the Middle East and North Africa

The private sector can be an important driver of growth and prosperity in the Middle East and North Africa (MENA) if effective policies are put in place to address obstacles, according to a joint report from the EBRD, the European Investment Bank and the World Bank.

The report, titled *What's Holding Back the Private Sector in MENA?*, presents the findings of surveys conducted in 2013 and 2014 among the top managers of more than 6,000 firms in Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, the West Bank and Gaza, and Yemen.

The publication provides insights into the key factors that determine firms' performance and the challenges of the business environment in which they operate. Many firms cite political instability, corruption, frequent power cuts and inadequate access to finance as factors that hold them back. SMEs face a particularly challenging operating environment.

There is considerable scope for improvements in policies on education, employment and skills, according to the report. Notably, policies should remove barriers to women entering the labour market and provide more targeted education for young people. They should also provide incentives to increase the intensity of training that firms offer.

The report notes that increased productivity by firms requires greater openness to international trade, which in turn would benefit from more effective customs and trade regulations for imports and exports. Reducing restrictions on starting and closing a business, and on foreign investment, could also bring greater competition.



will support the development of advanced 4.5G mobile broadband services, which is particularly important given Turkey's low levels of fixed-line penetration. They will also help to finance the laying of a high-capacity, fibre-optic submarine cable connecting Turkey to western Europe and South-East Asia, thereby supporting high-quality access to international data traffic.

The purchase of euro-denominated bonds worth €12 million issued by Telekom Slovenije will finance the company's investments in essential ICT infrastructure in Kosovo. The operator is seeking to improve the coverage and penetration of advanced fixed and mobile broadband services, which will enhance the competitiveness of Kosovo's economy.

The EBRD supports the convergence of fixed and mobile telephony and the expansion of broadband services in the ETCs. A US\$ 75 million (€71 million equivalent) loan to MagtiCom enabled the Georgian telecommunications company to acquire the country's second-biggest broadband internet network. This will allow MagtiCom to become the first Georgian operator to offer bundled internet, mobile phone and TV services. The Dutch development bank FMO contributed US\$ 25 million (€23.7 million equivalent) to the financing package.

The VCIP contributes to the development of a venture capital ecosystem that can support innovative, high-growth technology companies. Four investments were signed under this programme in 2016. They included a follow-on investment in DocPlanner, an online medical care scheduling service based in Poland.

Property and tourism

The EBRD bolsters the resilience of countries by supporting projects in the property and tourism sector, which is a vital source of jobs and foreign revenue for many economies in the region. Bank investments in hotels, offices, retail centres, logistics and mixed-use facilities also stimulate urban regeneration, economic inclusion and resource efficiency.

In 2016, the EBRD committed a total of €138 million to 11 property and tourism projects (2015: €172 million for 13 projects). Investments included the purchase of preferred stock worth US\$ 50 million (€47 million) issued by Turkish restaurant operator TFI TAB Gıda to finance its growth plans. TFI will foster the economic inclusion of young people by creating job and training opportunities and by working with the Bank to establish occupational standards for the fast-food industry.

The Bank made its first investment in private student accommodation with a €27.6 million loan to a company developing student housing projects across Poland (see case study on page 23). In Georgia, a €2.2 million loan to a subsidiary of the Adjara Group Hospitality firm in support of a hostel in Tbilisi was the EBRD's inaugural investment in this type of affordable accommodation. Elsewhere, the EBRD provided a €14 million loan to Sigur Retail Group, owned by the private equity fund Polish Enterprise Fund VII, for the acquisition and expansion of sports retailer Intersport ISI in Croatia, Slovenia and the Western Balkans.



Lastly, a local currency loan worth the equivalent of €7.6 million will finance the refurbishment of buildings in the centre of Egypt's capital, Cairo, and their conversion into commercial and entertainment spaces. Austria provided €610,000 in donor funding to support a strategic plan for downtown Cairo's regeneration and related energy audits and policy dialogue.

The EBRD worked with the UN World Tourism Organization on promoting inclusive and sustainable tourism in the SEMED region (see Economic Inclusion on page 38). A Memorandum of Understanding signed by the World Green Building Council and the Bank aims to promote energy efficiency in real estate in countries where both institutions operate.

Providing sustainable housing for students in Poland

Poland has the sixth-highest number of students in higher education in Europe. The current student housing stock mainly consists of university-owned dormitories and limited private accommodation offered by local individuals and small-scale private investors.

But now the EBRD is supporting the development of a network of privately owned, purpose-built student housing in Poland. A loan in local currency worth up to the equivalent of €27.1 million to a Polish-owned company controlled and managed by Griffin Real Estate and Oaktree Capital Group will finance a portfolio of student housing assets and developments. These will be located in Łódź, Lublin, Poznań, Warsaw and other Polish cities.

The student housing projects will be designed to be as energy efficient as possible. This is particularly significant given that buildings are estimated to be responsible for 41 per cent of energy consumption and 36 per cent of CO₂ emissions in Poland. Griffin will operate the assets in a sustainable manner and will implement a community engagement plan to encourage students to save energy.



Backing Turkey's first greenfield infrastructure project bond

The EBRD provided €89 million in standby liquidity facilities to support a €288 million bond for the construction and operation of a state-of-the-art hospital with more than 1,000 beds in the city of Elazığ in eastern Turkey. The project was part of an innovative credit-enhancement mechanism developed jointly with the World Bank's Multilateral Investment Guarantee Agency (MIGA).

The EBRD liquidity and MIGA political-risk insurance were instrumental to achieving an investment-grade rating for Turkey's first greenfield infrastructure project bond, making the issuance more attractive to buyers. The project bond was issued by a joint venture between leading global infrastructure investor Meridiam and Rönesans Holding, a major Turkish construction company.

Infrastructure

Integration is central to a market economy's competitiveness, growth and ability to create jobs. By improving transport networks and municipal and environmental utilities, infrastructure investments deliver a vital contribution to efforts to strengthen integration in the EBRD region at the national, regional and urban levels.

In 2016, the Bank deepened its support for infrastructure projects, responding to the need for innovative ventures that mobilise private sector resources, as recognised by the Sustainable Development Goals of the UN and the G20. Highlights included a risk-mitigation scheme for bonds for greenfield infrastructure projects and the development of a Green Cities Framework (see below).

The Infrastructure Project Preparation Facility (IPPF), created to improve the efficiency and replicability of infrastructure projects, completed its first full year of operations in 2016. Combined with a focus on strategic projects, the IPPF helps to deepen the Bank's impact and responsiveness to its clients.

Municipal and environmental infrastructure

EBRD investments in municipal and environmental infrastructure (MEI) help lead to cleaner air, better waste collection and safer drinking water, a more reliable supply of heating, improved urban mobility, and increased access to modern hospital care. MEI investments also seek to make the utilities that deliver these services more sustainable and environmentally friendly and help them to address the needs of underserved sections of the population.





A major focus of MEI investments in 2016 was the response to the Syrian refugee crisis. The displacement of millions of people is placing enormous strain on the municipal infrastructure of neighbouring countries Jordan and Turkey. The Bank signed three projects under its new Municipal Resilience Refugee Response Framework, a €375 million facility for fast-tracking MEI investments in those urban areas in Jordan and Turkey hosting the largest refugee communities. (See “Refugee crisis response” on page 11.)

In total, the EBRD committed €664 million to 50 projects in the MEI sector in 2016 (compared with €713 million for 45 projects in 2015). These investments in municipal infrastructure (including water and sanitation services, waste management and district heating) are expected to benefit an estimated 24 million people, while investments in urban transport systems will improve travel conditions for more than 312 million passengers every year.

Bank ventures in the municipal sector also promote more environmentally friendly services, for example by improving the energy efficiency of district heating or water treatment facilities. MEI signings in 2016 should reduce annual carbon emissions by 358 tonnes of CO₂ equivalent. Projects to modernise urban bus fleets or encourage the use of trams generally help to reduce emissions of fine particulate matter, which create smog and are especially harmful to children and elderly people, by up to 90 per cent compared with the pre-investment levels.

The components of MEI projects that contributed to the Bank’s Green Economy Transition approach accounted for €467 million in 2016, 58 per cent of total commitments in the sector. Notable transactions included a €15 million loan to the wastewater treatment company in the Ukrainian city

of Lviv for the installation of a biogas-fuelled heat and power plant. In the Georgian capital, Tbilisi, a €27 million sovereign loan financed the acquisition of up to 140 buses that will be powered by compressed natural gas to reduce local emissions (see case study on page 37).

In 2016 the EBRD also launched a Green Cities Framework to help municipalities address their environmental priorities in a more systematic way. The region-wide Framework’s initial focus is on Armenia, Georgia and Moldova. The first project signed under it was a €10 million loan to the administration of the Moldovan capital Chisinau for energy efficiency improvements to public buildings.

An area of considerable growth for MEI investments by the Bank in recent years has been the hospital infrastructure sector. In 2016, the EBRD provided €194 million in financing for three hospital construction projects in Turkey that follow the public-private partnership (PPP) model. All three ventures came under an EBRD investment framework launched in 2014 to help fund Turkey’s €12 billion hospital infrastructure PPP programme. In the cities of Izmir and Kocaeli, the Bank provided financing through syndicated loan structures. In Elazig, meanwhile, the Bank worked closely with the Multilateral Investment Guarantee Agency to develop an innovative credit-enhancement mechanism in support of Turkey’s first bond for a greenfield construction project (see case study on page 24).

The Bank also continued to support capital markets as a means of financing critical infrastructure. It was a key investor in a local currency bond issued by the Croatian capital Zagreb’s municipal holding company, as well as in local currency bonds issued by Turkish construction firms Rönesans Holding and YDA to finance hospital infrastructure projects.

In Kazakhstan, the Bank continued to develop projects in water and district heating under enhanced partnership framework arrangements (EPFAs) with the government. Significant signings included six loans worth a total of 15.7 billion Kazakh tenge (equivalent to €45.3 million), co-financed with government grants under EPFAs, for the rehabilitation of water and/or district heating systems in Kostanay, Pavlodar, Petropavlovsk, Shymkent and Ust-Kamenogorsk. The EBRD also signed its first solid-waste management project in the country.

MEI ventures in the early transition countries (ETCs) help utility companies to modernise infrastructure after decades of underinvestment. They also assist these companies in establishing tariff systems that ensure the long-term financial sustainability of their operations. The Bank invested in its first solid waste project in Mongolia and invested in improvements to essential urban services in Armenia, Belarus, Georgia, Moldova, the Kyrgyz Republic and Tajikistan.

Transport

Investments in the transport sector foster integration by supporting improvements to road, rail, maritime, aviation, logistics and intermodal networks. The Bank also promotes transport projects that foster the use of energy efficient technology and assist countries in adapting to climate change. Road safety is a priority for EBRD policy dialogue related to transport ventures.

In 2016, the Bank signed 23 projects in the transport sector for a total EBRD investment of €1.05 billion (matching 2015's investment volume). Non-sovereign projects accounted for 44 per cent of Bank ventures in transport by value. Projects under the GET approach accounted for €160 million of the EBRD's investment in this sector, bringing to a total of €1.9 billion the Bank's commitment to energy efficiency and mitigation projects in transport since 2009.

Investments in road infrastructure were particularly important in 2016. The EBRD extended a €200 million loan to Croatia's motorways agency to support the financial and operational restructuring of the national highways sector. The project, which benefits from consultancy services funded by donors under the IPPF, will improve the financial sustainability of the agency. In the Slovak Republic, the Bank provided €148.4 million in debt financing for the construction of new sections of the D4 and R7 motorways under a PPP contract (see case study on page 27).

Two loans worth a combined total of US\$ 189 million (€179 million equivalent) will help Kazakhstan's national road operator upgrade a stretch of road linking the capital, Astana, to Almaty. In their first joint project, the EBRD and the Asian Infrastructure Investment Bank (AIIB) each committed US\$ 27.5 million (€26 million equivalent) for the rehabilitation of a key section of the motorway connecting the capital of Tajikistan, Dushanbe, to neighbouring Uzbekistan.

The EBRD invested in its first climate resilience project in the road sector by providing a €65 million sovereign loan to Bosnia and Herzegovina for road repairs and upgrades that will strengthen the road network's flood resilience. Moreover, a €76 million loan will bolster the development of the

Pan-European Corridor Vc in Bosnia and Herzegovina, which will in turn reinforce regional integration.

Signing its first rail project in Albania, the EBRD provided a sovereign loan worth nearly €37 million for the rehabilitation of the railway line between the capital, Tirana, and the port city of Durres. The investment will also support the development of a new rail link between the centre of the capital and Tirana International Airport.

In Kazakhstan, the Bank signed an amendment to previous loans to the national rail company KTZ, a longstanding client. This will allow KTZ to convert US\$ 181 million (€171.3 million equivalent) of debt into local currency with funding from the Bank's first consumer price index-linked bonds in Kazakh tenge.

Ventures in maritime transport included the EBRD's first engagement with a private client in the transport sector of Azerbaijan. The Bank extended a US\$ 20.4 million (€19.3 million equivalent) loan to Caspian Marine Services, an operator of supply vessels for oil and gas platforms in the Caspian Sea, for the purchase of a fast boat to transport crew. A €10 million loan to improve facilities at the river port of Brčko in Bosnia and Herzegovina constituted the first inland waterway investment by the Bank.



Improving Slovak road connections

The EBRD is supporting the construction of new sections of the D4 highway and the R7 expressway in the Slovak Republic with debt facilities of up to €150 million. The funds are part of a larger package totalling €875 million provided to the concessionaire Zero Bypass under a public-private partnership scheme. Other participants include the European Investment Bank, the Slovak Investment Holding, Spain's Instituto de Credito Oficial and commercial lenders.

The new road sections will play an important role in easing traffic congestion around the capital Bratislava, improve connections between industrial zones and urban districts, open up access to other parts of the country and connect the Slovak Republic with Trans-European Networks.

In order to ease transport bottlenecks in Ukraine's grain export sector, the Bank invested in grain terminals in the ports of Odessa (in a joint venture between the Agribusiness and Transport teams within the EBRD) and Yuzhny (see case study on page 12).

Investments in logistics and projects that support the more efficient movement of cargo across different modes of transport contribute significantly to regional integration. They also help to combat climate change by reducing the amount of energy consumed in the carriage and storage of freight. A project that promoted green logistics was a US\$ 8.2 million (€7.8 million equivalent) loan to postal and logistics company Meest Express in Ukraine. Additional funding for the project was provided under the Green Logistics Programme initiated by the EBRD and the Global Environment Facility.

Energy

Power and energy utilities

In 2016, the EBRD signed a record number of investments in the power sector as it increased efforts to integrate energy infrastructure in the region, boost competition and help countries reduce their greenhouse gas emissions in line with the Paris Agreement on combating climate change.

During the year, the Bank invested nearly €1.2 billion in 31 projects across 15 countries. Projects that contributed to the GET approach accounted for 87 per cent of EBRD financing committed to the power and energy sector.

Notable signings included a US\$ 135 million (€127 million equivalent) loan to aid modernisation of the power distribution network in north-western Turkey. The financing will enable TREDAS and TREPAS, subsidiaries of electricity company IC Elektrik, to expand, upgrade and increase the efficiency of their grid, thereby reducing power losses (see case study on page 44).

The Bank provides strong support for the emergence of a modern power sector and a green economy in Kazakhstan. A loan worth the equivalent of €100 million in Kazakh tenge or Russian roubles will assist the ambitious privatisation programme of national energy company Samruk-Energy. And a project aimed at modernising the gas distribution network will reinforce Kazakh efforts to switch to less carbon-intensive energy sources (see case study on page 28). Following extensive policy dialogue between the EBRD and the Kazakh authorities, the Board approved a financing framework of up to €200 million for primarily private renewable-energy projects in Kazakhstan.

A series of innovative, renewable power projects across the region confirmed the Bank's position as a leader in this field. The EBRD backed the development of the first commercial wind farm in the Caucasus by arranging a syndicated loan for the construction of a wind power plant at Gori in Georgia (see case study on page 10).

In Jordan, meanwhile, the EBRD arranged a syndicated loan that will finance a new solar power plant in the country's northern Mafraq region. A notable feature of



Helping Kazakhstan to go green

Natural gas produces nearly half as much CO₂ per unit of energy compared with coal. It is widely considered a bridge fuel that can help countries reduce their carbon emissions while they move from fossil fuels to renewable, carbon-neutral forms of energy.

In order to help Kazakhstan reduce its dependence on coal and use more domestically produced natural gas, the Bank invested in two projects by subsidiaries of national gas firm KazTransGas. Total EBRD financing, mainly in local currency, was equivalent to €319 million.

The first project will increase the capacity of a natural gas storage facility in Bozoi in western Kazakhstan to ensure a reliable supply of the fuel to the densely populated south-east of the country. The second venture involves the expansion and upgrade of the natural gas distribution network in several regions of Kazakhstan.



the project is that it will supply electricity at a cost of a US\$ 0.61 (€0.57 equivalent) per kilowatt hour, which is the lowest wholesale rate seen in an EBRD country of operations and cheaper than electricity from competing thermal sources.

The EBRD and the Japan International Cooperation Agency (JICA) jointly financed the construction of a 50 MW wind farm in southern Mongolia. The Tsetsii wind farm could form part of the proposed Asia Super Grid that would transmit electrical power from renewable sources in areas such as the Gobi Desert to China, Japan, the Republic of Korea and Russia.

The EBRD financed its first projects in the power sectors of Greece and Tunisia during 2016. A €46.5 million loan to the Société Tunisienne de l'Electricité et du Gaz, a state-owned utility company, will finance improvements to the Tunisian transmission grid. The investment, complemented by a European Investment Bank (EIB) loan for the same amount, will increase the reliability of the power network and prepare it for additional generation capacity from renewable and other sources.

The large potential for low-carbon energy generation in Greece received a boost in the form of a €50 million EBRD loan to Terna Energy. The loan will help the company expand its portfolio of wind farms, small hydroelectric plants and waste-to-energy units.

Natural resources

EBRD investments in the natural resources sector strengthen the resilience and competitiveness of countries by reducing their reliance on imports of oil, gas or minerals and, where appropriate, by enabling them to export these commodities. These projects also seek to make economies greener by fostering the use of less carbon-intensive energy sources. Through its financing and extensive use of policy dialogue, the Bank promotes adherence to the best international standards in the areas of corporate governance, energy efficiency, the environment, health and safety, and socially responsible development.

In 2016, the EBRD signed 17 projects in the natural resources sector for an overall volume of €964 million (compared with the 2015 record of €1.36 billion). Bank ventures in the sector are in line with the transparency and disclosure principles of the Extractive Industries Transparency Initiative, which requires companies to reveal what they pay to governments to extract natural resources.

The EBRD delivered a major contribution to Kazakhstan's efforts to combat climate change, providing the equivalent of €262 million, principally in local currency, to a subsidiary of national gas company KazTransGas for the modernisation of an underground gas storage facility in Bozoi in the west of the country (see case study on this page).



In Turkey, the Bank funded an ambitious resource-efficiency programme at oil refiner Tüpraş with a US\$ 150 million (€142 million equivalent) loan, 100 per cent of which was signed under the GET approach. The upgrades to refineries will reduce CO₂ emissions by 270,000 tonnes per year and generate significant water savings.

The Bank bolstered the export potential of the Kyrgyz Republic and Mongolia by extending a US\$ 150 million (€142 million equivalent) loan to Canadian gold-mining company Centerra Gold, which operates in both countries. A second loan, worth US\$ 75 million (€71 million equivalent), will support the development of Centerra's Öksüt gold deposit in Turkey. With the EBRD's help, Centerra will explore ways of offering greater opportunities to female employees and to suppliers in Turkey led by women.

Two loans worth a total of US\$ 95 million (€90 million equivalent) to Energean Oil & Gas, the only oil and gas producer in Greece, will facilitate the development of offshore projects and reduce gas flaring, which is the burning of gases in crude-oil production. In Moldova, the EBRD enhanced the security of the country's gas supply by extending a €41 million loan for the construction of a 120 km pipeline that will bring gas to the capital, Chisinau, from Romania.

Policy dialogue in Kazakhstan focused on helping the government to implement international reporting standards for mining and hydrocarbon reserves and on removing legal barriers to the employment of women in mining. In Egypt, the EBRD held a workshop with senior public and private stakeholders on reducing gas flaring and

began a study of regulatory barriers to investments that would support flaring reduction. Also in Egypt, the Bank launched a plan to bolster efforts by a leading international oil and gas company to counter the under-representation of women in technical and leadership roles in the sector. In Ukraine, meanwhile, the Bank pursued extensive corporate governance reform efforts linked to a loan to the national energy company Naftogaz signed in 2015.



32	Green Economy Transition
33	Small Business Initiative
34	Local currency and capital markets
36	Early transition countries
37	Gender equality
38	Economic inclusion
39	Knowledge economy
40	Investment Climate and Governance Initiative
41	Legal transition

STRATEGIC THEMES

The growing importance of policy dialogue in EBRD activities is reflected in our initiatives. These combine reform efforts, investments and technical cooperation to address themes of strategic significance for our countries of operations. Among these themes are the green economy, small firms, local currency and capital market development, growth in economies at an earlier stage of the transition process, and the promotion of gender equality.





Green Economy Transition

Through its Green Economy Transition (GET) approach, the EBRD helps countries contribute to the collective effort against global warming agreed at the 2015 UN climate conference in Paris.

Under the GET approach, rolled out in 2016, the EBRD aims to raise the level of environmental investment to 40 per cent of its total financing by 2020. This would correspond to a GET investment of €18 billion over the period 2016-20.

GET projects signed in 2016 accounted for €2.9 billion committed in 151 projects, representing 33 per cent of total Annual Bank Investment. These ventures should reduce CO₂ emissions by 5 million tonnes per year and create an energy saving of 29 million gigajoules or 694 kilotonnes of oil equivalent. Of this €2.9 billion, the EBRD invested €629 million in 34 resource-efficiency projects that should bring annual water savings of 29 million m³.

The GET initiative recognises that environmental sustainability is a crucial feature of a well-functioning market economy. It builds on the EBRD's record of investing in projects that advance the sustainable use of energy, water and other resources. These range from the financing of wind, solar and hydropower generation to energy- and resource-efficiency improvements in the corporate sector.

Green transport and efficiency improvements in municipal infrastructure are also included. In 2016, the Bank launched a Green Cities Framework that combines strategic planning, technical assistance and donor support with EBRD finance to help cities identify and invest in priority environmental infrastructure.

The Bank signed 36 climate-resilience projects in 2016 worth a total of €1.16 billion, including €186 million of finance dedicated to climate-change adaptation. For instance, a climate-resilience financing facility in Tajikistan is helping small businesses – including farmers – and households counter the effects of climate change, such as soil erosion and increased water shortages. And a €65 million sovereign loan to help upgrade Bosnia and Herzegovina's flood-damaged road network marked the Bank's first climate resilience project in the road transport sector.

Also last year, the Bank expanded the scope of its climate finance activities in line with the GET approach, which emphasises the importance of innovation. The Finance and Technology Transfer Centre for Climate Change (FINTECC) programme supports firms implementing cutting-edge technologies that reduce greenhouse gas emissions or increase climate resilience. Among the projects to benefit from FINTECC grants in 2016 was a loan to the Glass Container Company, a Moldova-based producer of glass bottles that will invest in lightweight glass container production.

Geothermal projects in their initial stages typically face high investment costs, development risks and very limited access to project finance once drilling has confirmed the resource. In Turkey, a new US\$ 125 million (€118 million equivalent) framework, supported by the Climate Investment

Funds (CIF), will provide finance and advice to private developers to help minimise these risks.

Technical cooperation (TC), concessional co-financing and incentive grants underpinned the preparation and implementation of GET projects in 2016. Important projects are implemented with support from donor funds such as the CIF and the Global Environment Facility.

Between 2006 and the end of 2016, the EBRD invested €22 billion in projects supporting the sustainable use of energy and other resources, bringing estimated reductions in greenhouse gas emissions of around 85 million tonnes per year. The Bank has a sound accounting mechanism under which the financing and the outcomes of these projects are tracked and reported in line with the MDB climate-finance tracking methodology.

Building sustainable markets through intermediaries

The Bank's sustainable energy financing facilities (SEFFs) unleash the energy-saving potential of smaller projects and build expertise by extending credit lines to financial institutions for on-lending in support of green investments. Through SEFFs and the EBRD's direct sustainable-energy lending, companies of all sizes can pursue energy efficiency or small-scale renewable energy projects that boost profitability and increase competitiveness while also minimising their carbon footprint. Meanwhile, loans to the residential sector reduce energy consumption and utility bills.

During 2016, the Bank expanded the scope of two SEFFs in Turkey to include resource efficiency components. It also launched the Green Trade Facilitation Programme (Green TFP) marketing initiative to promote the use of trade finance for the export and import of environmentally friendly products and services. In 2016, the Bank financed 150 Green TFP transactions in 13 countries.

Policy dialogue

The EBRD engages in policy dialogue activities to help countries increase their levels of green financing. Examples in 2016 included an assessment of legal, regulatory and institutional barriers to investment in sustainable energy or resource projects in Jordan, Morocco and Tunisia.

At the international level, the EBRD participated in the UN climate conference in Marrakesh, Morocco. It also worked with other IFIs in Europe to summarise their experiences of climate resilience projects to help investors contemplating new ventures in this area.

Small Business Initiative

The Small Business Initiative (SBI) applies a streamlined, strategic approach to promote the conditions in which small and medium-sized enterprises (SMEs) can flourish, thereby enhancing the competitiveness and resilience of economies in the region in line with the Bank's revised concept of transition.

In collaboration with donors and external partners, the SBI focuses on five areas: financing through financial institutions; co-financing and risk-sharing with financial institutions; direct financing for SMEs; business advice; and policy dialogue.

Finance

In 2016, the EBRD extended €1.4 billion in direct and indirect finance to small firms in 180 projects, accounting for 15 per cent of Annual Bank Investment and 48 per cent of projects. It provided debt, equity and mezzanine finance as well as other forms of risk capital. Loans in local currency represented 28 per cent of debt transactions in the SME sector. There were seven signings with partner financial institutions under the Risk Sharing Facility, which reduces the risk taken by partner financial institutions in providing funding for, or guaranteeing, a portion of their loans to local enterprises.

A new US\$ 500 million (€473 million equivalent) SME Local Currency Programme, available for 21 countries, combines EBRD capital, donor resources and policy dialogue. It provides financial institutions and SMEs with access to affordable funding in local currency, while also supporting reforms for capital market development. The Bank signed 24 local currency operations in 2016 for the equivalent of €42 million under the Programme, which expands an earlier initiative that was limited to the ETCs.

Advice

The EBRD provides advice for SMEs through local consultants and international advisers on numerous topics, including business strategy, export promotion, financial management and reporting, marketing, brand development and quality management. In 2016, the Bank carried out over 2,200 projects connecting small and medium-sized firms to local consultants, and 177 projects linking medium-sized companies with international advisers. From 2014 to 2016, 74 per cent of businesses surveyed saw increased turnover in the year following their engagement with EBRD advisory projects. Furthermore, 51 per cent expanded their business, 25 per cent accessed external finance, for a total of €1.12 million, and 24,512 jobs were created.

In order to develop local consultancy markets in the 26 countries where it provides advisory services, the EBRD organises training for local experts, conferences, workshops and other activities. In total, the Bank ran 60 courses for over 750 consultants in 2016. A conference on competitive consulting, held in Tbilisi, Georgia, was one of the key events of the year.

Championing small business in Egypt

In order to bolster the private equity industry in Egypt, the Bank invested US\$ 20 million (€18.9 million equivalent) in the Ezdehar Egypt Mid-Cap Fund. The Fund focuses on investment in Egyptian SMEs in various sectors, including education, food and beverages, health care, manufacturing and retail. It seeks to support companies in realising ambitious growth plans.

The Fund achieved a first closure with commitments of US\$ 85 million (equivalent to €80.5 million). The EBRD's co-investors included the European Investment Bank, the Dutch development bank FMO, and CDC, the development finance institution of the UK, as well as Egyptian investors.



The Bank also held 32 sector-specific workshops across the EBRD region that brought together industry experts and entrepreneurs from the agribusiness, automotive, consumer goods, health, ICT and pharmaceutical sectors. These helped local firms access technical expertise and meet potential investors, including the EBRD.

Integrated products

The EBRD offers products that blend finance with business advisory support, investment incentives and training for small firms, as well as risk-sharing elements and technical assistance for partner financial institutions. Examples of this integrated approach include the Women in Business programmes (see page 11); a programme of common activities with the EU in Georgia, Moldova and Ukraine (see case study on page 46); and the SME Finance Facility for Central Asia funded by the EU's Investment Facility for Central Asia.

In addition, during 2016 the Bank launched Trade Ready, which blends trade finance available under the Bank's Trade Facilitation Programme with trade-related advisory services for SMEs, training courses for local banks and policy dialogue that seeks to improve the institutional and regulatory environment for trade finance.

Integrated products that support SMEs are an important part of the EBRD's refugee crisis response in Jordan and Turkey (see "Refugee crisis response" on page 11). The EBRD also launched a Blue Ribbon network that offers finance and advisory services for selected enterprises with high growth potential over five years. Last year, four companies in the Western Balkans joined the programme, which will be extended in 2017.

Policy dialogue

The Bank provided support for legal and regulatory reforms that seek to improve access to finance for SMEs. Examples included work on reforms linked to factoring and leasing in Mongolia, Montenegro and Tunisia and on SME-specific capital market instruments in Croatia. The Bank also contributed to the SME Policy Index for the Western Balkans and Turkey, which it developed with the OECD, the EU and others to identify obstacles to small business development in the policy frameworks of those regions.

Working with donors

The Small Business Impact Fund (SBIF) brings together donor financing in support of SMEs. In 2016, its first year of operation, the Fund raised €10.2 million. It funded programmes including a small business guarantee scheme in Ukraine; an integrated finance and advisory support initiative in the Kyrgyz Republic and Tajikistan; and support for the EBRD's Risk Sharing Facility.

All advisory projects operate on a cost-sharing basis and are possible thanks to the continued support and engagement of a wide spectrum of donors, including the EU, more than 20 bilateral donors and other organisations. During 2016 the Bank raised €57 million in new financial commitments from donors for advisory projects and through the SBIF. The EU was the largest donor, with significant contributions also provided by the EBRD Shareholder Special Fund (SSF), Switzerland, the United States of America, Italy, Taipei China, the Republic of Korea and Shell Kazakhstan. Moreover, donors contributed to the Bank's SME activities through financial institutions (see page 16) and the Early Transition Countries Initiative (see page 36).

Local currency and capital markets

The Local Currency and Capital Markets (LC2) Development Initiative aims to boost resilience in the region by establishing viable local currency financing and contributing to the development of efficient and self-sustaining local capital markets. It also contributes to: the integration of markets, by promoting cross border investment and trade; competitiveness, by promoting alternative sources of financing; and good governance, through higher standards of reporting and governance for publicly listed companies and instruments.

The Initiative combines policy dialogue, investments, transaction support and advice, and technical assistance. It offers local currency loans, and issues and invests in local currency bonds, including in domestic markets. Furthermore, the Initiative supports knowledge-building and sharing through seminars and other outreach activities that develop institutional capacity.

The Bank has been an active lender in local currency markets in a number of countries since 1994. In 2016, it signed the equivalent of almost €1.6 billion in 93 local currency loan and bond projects – 29 per cent of the total number of debt projects by the EBRD in that period.

The EBRD also issues its own local-currency-denominated bonds, or bonds linked to local currency, on the international and domestic markets. During 2016, the Bank issued the equivalent of €509 million denominated in or linked to eight local currencies. These 26 projects included the first Georgian lari bond to be listed on the Georgian Stock Exchange; the first Eurobond in Kazakh tenge to be linked to the local consumer price index; and the first issue of a supranational bond in Serbian dinars listed on the Belgrade Stock Exchange. All three focused on domestic investors, thereby contributing to local capital market development.



Last year the Bank also continued to diversify its hedging as well as its funding base, including through swaps with new counterparties in Croatian kuna, Mongolian tugrik, Moroccan dirham and Tunisian dinars. The Bank's proactive hedging activities and borrowing in local currency have enabled the EBRD to offer more flexible and attractive loan features to borrowers in the 25 local currencies in which it has made loans for a total value of €10.8 billion since 1994.

The aforementioned SME Local Currency Programme encourages local currency intermediation and capital market development in the 21 countries where it is available. As of end-2016, Armenia, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Tunisia and Ukraine had signed Memoranda of Understanding with the Bank, allowing them to benefit from the Programme.

The EBRD invests in debt capital-market instruments as well as equity. These transactions promote higher standards of corporate governance while also fostering capital market development and alternative sources of financing. In 2016, the Bank invested in 16 bond issues. Of these transactions, nine were in local currency. A notable deal in this area was the purchase of Turkish floating-rate, lira-denominated bonds issued by construction and infrastructure company Rönesans Holding.

With EBRD technical assistance, new covered-bond laws came into effect in Poland and Romania. These will facilitate the growth of the covered bond markets and open new sources of financing to banks and local governments. The EBRD was also active in policy dialogue that resulted in municipal bonds being accepted as collateral for repurchase order operations with the Central Bank of Romania. With Bank support, Armenia passed a package of laws regulating the financial markets and amendments to the law on the securities market to provide validity and enforceability in derivatives transactions.

A major outcome of the Initiative's policy dialogue work and technical assistance in 2016 was the launch of an order-routing trading platform, SEE Link, which facilitates cross-border trading between stock exchanges in south-eastern Europe (SEE). The platform links domestic stock markets in Bulgaria, Croatia, FYR Macedonia, Serbia and Slovenia that have a combined equity market capitalisation of US\$ 38.5 billion (€36.5 billion equivalent) and over 500 securities eligible for trading.

Local currency and capital market development in Armenia

The LC2 Initiative enjoyed a remarkably successful year in Armenia during 2016. A reform project initiated in January contributed to the adoption of new derivatives legislation in October. The Bank renewed a Memorandum of Understanding with the government that signals Armenia's commitment to engage in reforms supporting the use of local currency and the development of domestic capital markets. The signing allows Armenia to benefit from the EBRD SME Local Currency Programme, which seeks to mitigate the exposure of small businesses to exchange rate movements.

Moreover, the EBRD and the Central Bank of Armenia organised a seminar in the capital Yerevan on strengthening the local capital market and increasing local currency lending. The event drew more than 100 participants, including regulators and market representatives.

Ongoing efforts in 2017 will include TC assistance for the development of a local repurchase order agreement, which will increase interbank and money market activities in Armenia. This project is funded by a €55,000 contribution from Japan, part of the €2.35 million it allocated in 2016 for TC projects under the SME Local Currency Programme for the LC2 Initiative in the ETCs.

Early transition countries

The Early Transition Countries (ETC) Initiative works to improve the economies and living standards of EBRD countries of operations that still face the most significant transition challenges, by strengthening private sector and SME development and municipal and environmental infrastructure. The Initiative covers Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Turkmenistan – all of which are recipients of Official Development Assistance (ODA).

The annual percentage of financed projects in the ETCs has increased from 8 per cent of the EBRD's total in 2003, the year before the Initiative was launched, to 30 per cent on average in 2014-16. The region's share of Annual Bank Investment has risen from less than 3 per cent to 10 per cent over the same period.

2016 saw the EBRD sign 114 projects and invest €902 million in the ETCs. Over 60 per cent of these activities supported locally owned firms – including micro, small and medium-sized enterprises (MSMEs) – in keeping with the priorities of the Initiative. Although Bank investments in the ETCs are generally smaller than in other parts of the EBRD region, they continue to be more significant as a share of GDP.



The financial sector accounted for 38 per cent of projects in the ETCs. Other significant areas of business included agribusiness, manufacturing and services, municipal and environmental infrastructure and power and energy. Meanwhile, the EBRD provided €143 million in Trade Facilitation Programme financing in the ETCs.¹

This financing activity has been complemented by strong partnerships and commitments from the donor community since the start of the Initiative. The multi-donor Early Transition Countries Fund (whose contributors include Finland, Germany, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), the EBRD SSF, the EU and bilateral donors have given a total of almost €100 million in grants to support the ETCs.

The EU has developed mechanisms – such as the Investment Facility for Central Asia, the Neighbourhood Investment Facility and the Asia Investment Facility – that mobilise additional funding to cover development and investment needs in infrastructure, energy, environmental projects, financial institutions and SME support and financing. These facilities cover most of the ETCs.

In the municipal and environmental infrastructure sector, thanks to projects of the Bank and donors, 2.3 million people in the region now have access to better solid-waste services, over 430,000 benefit from improved access to tap water, over 500,000 enjoy better wastewater facilities and more than 59 million a year benefit from upgraded public transport.

The SME Local Currency Programme, mentioned above, is an expansion of the ETC Local Currency Programme that was launched in 2011 and it benefits the following ETCs: Armenia, Georgia, the Kyrgyz Republic, Moldova, Mongolia and Tajikistan. The Programme addresses the over-reliance of these economies on foreign exchange financing, which the lack of conventional sources of local currency funding exacerbates. Support has come from donors – the ETC Fund, Japan, the US Treasury, the Swiss State Secretariat for Economic Affairs (SECO) and the EBRD SSF – which have allocated more than US\$ 50 million (€47.4 million equivalent) of risk-sharing funds to the Programme.

A cumulative US\$ 385.4 million (€365 million equivalent) of local currency loans have been financed by the Programme in the ETCs since 2011. Partner banks and microfinance institutions have on-lent these funds to more than 400,000 MSMEs. Most beneficiaries have been in the Kyrgyz Republic and Tajikistan. In 2016, the Programme enabled the EBRD to finance 23 new local currency projects in the region for a total of approximately US\$ 41 million (€38.7 million equivalent).

In addition, the Bank and donors continue to support investment councils in Armenia, Georgia, the Kyrgyz Republic, Moldova and Tajikistan, another initiative that has now been extended to other EBRD countries of operations. Chaired by the president or prime minister of each country, these councils foster dialogue between the public and private sectors to improve the business environment and investment climate through changes to legislation and regulation.

¹ See footnote 1 on page 2.

Gender equality

Increasing women's economic empowerment and equality of opportunity is a core element of EBRD efforts to make the countries and clients it supports more inclusive. Economies thrive when women and men participate equally in the workplace and enjoy the same freedom to use financial and other services. Fostering gender equality contributes to sound and sustainable businesses and is critical to the advancement of transition, as recognised by the Strategy for the Promotion of Gender Equality 2016-2020 and the Bank's revised concept of transition.

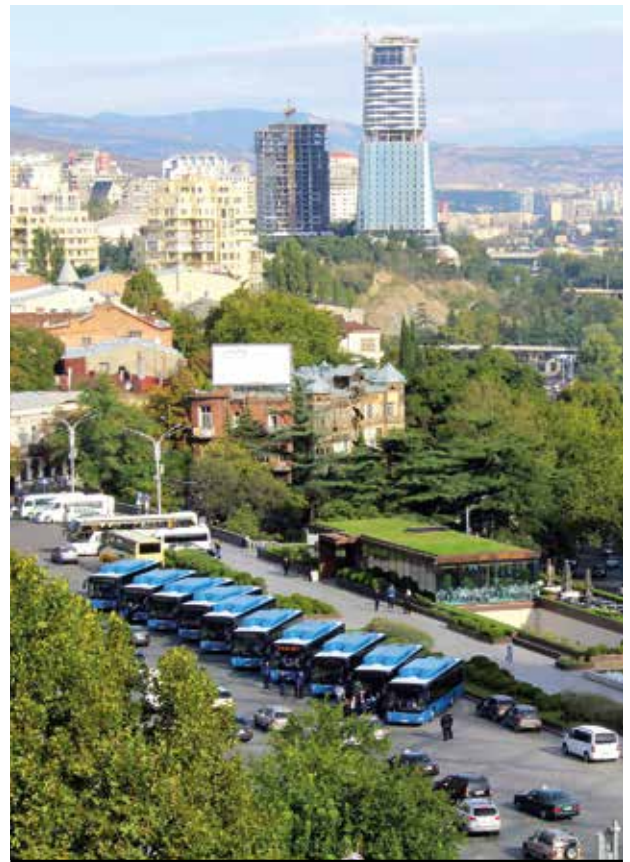
The Strategy focuses on three areas: access to finance, access to employment and skills, and access to services. Through its Women in Business programmes, the EBRD addresses structural barriers to economic empowerment by making it easier for women entrepreneurs to obtain financing and know-how. Equal-opportunity programmes and other tailored interventions aid EBRD clients to unleash the full potential of the women they employ and to enhance recruitment processes. These corporate commitments boost business performance, improve customer focus and raise the quality of decision-making. Bank investments in infrastructure help to ensure that transport and municipal services are accessible and safe for all users.

In 2016, the first year of implementation of the Strategy, the EBRD signed 29 investments with a gender focus or component, including credit lines under the Women in Business programmes in Armenia, Belarus, Egypt, FYR Macedonia, Georgia, Kosovo, Kazakhstan (see case study on page 11) and Turkey.

The Bank financed projects with a significant gender component in the natural resources and power and energy sectors, which are traditionally male-dominated and constitute strategic areas of focus for EBRD work on gender equality. Ventures with Canadian mining company Centerra Gold will support efforts to offer greater opportunities to women employees and women-led suppliers at its gold mine in Turkey. They will also enhance equal opportunities at the firm's operations in the Kyrgyz Republic and Mongolia. Meanwhile, a loan to Kazakhstan's national energy company Samruk-Energy will boost its plans to provide more employment and, critically, career growth opportunities for women.

In the municipal and environmental infrastructure sector, a €27 million sovereign loan to Georgia to upgrade the bus fleet in the capital, Tbilisi, will also help the city's bus company increase the number of women it employs (see case study).

The EBRD uses TC projects to support the due diligence, implementation and monitoring of many of its gender projects. These are typically funded through the EBRD's Gender Advisory Services Programme, which benefits from the support of the Bank's SEMED Multi-Donor Account, the EBRD SSF and the TaiwanBusiness-EBRD Technical Cooperation Fund. In 2016, both the SSF and Japan further replenished this Programme. (For more on TC-funded activities, see "Donor partnerships" on page 44). A €500,000 gender programme, funded by the SSF, was approved as part of the Bank's overall response to the refugee



Greener, more inclusive public transport in Georgia

The EBRD is helping to bring modern buses to the fast-growing Georgian capital, Tbilisi, as part of the Bank's Green Cities Framework. Up to 140 new vehicles financed by the EBRD will feature lower floors, making public transport easier for passengers with limited movement, including elderly and disabled people. The buses will run on compressed natural gas, which generates much lower levels of particulate emissions than other fuels. This will help to improve air quality in the city of 1.2 million people.

As part of the project, the bus company will introduce an equal opportunities programme and seek to increase the number of women it employs in technical positions such as that of bus driver. In addition to the €27 million sovereign loan, the EBRD is providing €1.5 million in TC funds to assist Tbilisi in developing a plan to address its environmental priorities.

The Bank loan is supported by a capital grant of up to €7 million from the Eastern Europe Energy Efficiency and Environment Partnership, a multi-donor fund managed by the EBRD.

Boosting tyre production in Turkey

The Brisa tyre company is a joint venture between Turkish conglomerate Hacı Ömer Sabancı Holding and Japan's Bridgestone Corporation, the largest tyre producer in the world. An EBRD loan of US\$ 150 million (€142 million equivalent) will support the construction of a new plant in central Turkey that will serve as Brisa's strategic hub and boost the local economy. It will also finance the expansion of production at Brisa's factory in north-western Turkey.

As part of the loan, Brisa and the EBRD will develop technical and vocational training programmes that will provide young people with skills that are currently in demand.



crisis, to ensure that investments in this area address the needs of women and men.

Policy dialogue activities included work with the Kyrgyz government on removing legal barriers to women's participation in the workforce. In the international sphere, the Bank chairs the MDB working group on gender and in this capacity contributed to the Expert Panel at a meeting of the UN Commission on the Status of Women in 2016.

Economic inclusion

An inclusive economy ensures that anyone – regardless of their gender, place of birth, socio-economic environment, age or other circumstances – can access labour markets, entrepreneurship and, more generally, economic opportunities.

EBRD investments seek to promote the economic inclusion of women, young adults and people living in economically less-developed regions through direct engagement with the private sector and associated policy dialogue. Since 2013, economic inclusion has been fully integrated into the EBRD's assessment of transition impact. Inclusion impact is therefore one of the factors that the Bank takes into account in the design and selection of projects and related policy dialogue.

In 2016, the Bank signed 22 projects with an inclusion component across a wide variety of sectors and many parts of the EBRD region, particularly Central Asia, SEMED, Turkey and the Western Balkans. These projects foster systemic changes that increase the economic opportunities available to women, young adults and people in less-developed areas. Donor support remained key to the success of these ventures by mobilising client contributions to the inclusion elements of projects.

Notable investments included financing for Turkish tyre company Brisa, which will develop vocational training programmes to help young people acquire the skills they need to secure jobs in manufacturing (see case study on this page) and a loan to Anadolu Etap, a fruit juice and fresh fruit producer, that will raise skill levels in the Turkish farming industry (see case study on page 19). The Bank also signed a Memorandum of Understanding with the Turkish government on developing skills standards and apprenticeship models in partnership with the private sector. In this regard, the EBRD cooperates with the European Training Foundation, with which it has a partnership agreement covering SEMED, Turkey and the Western Balkans. This collaboration seeks to enhance private sector involvement in reducing the persistent mismatch between the skills of school leavers and the demands of the labour market.

A key milestone in 2016 was the opening of an on-site training facility in the Abdali Mall project, a highly sustainable retail and entertainment centre in Amman financed through a US\$ 80 million loan (€76 million equivalent) provided by the Bank. The facility provides local young people with training programmes and job-matching opportunities at the shopping and entertainment complex. By the end of the year, 100 young people had completed the hospitality and retail training programmes, including work placements with employers.

Policy dialogue on inclusion expanded substantially throughout 2016. The Bank launched a programme to strengthen private sector engagement in the provision of high-quality, work-based learning opportunities for young people in Croatia. The initiative, which also seeks to remove obstacles to employment for women, attracted more than 100 employers who pledged to offer 500 internships and mentoring. This work aims to ensure that young people gain practical experience during their education so that the skills they acquire are more relevant to the needs of industry. This will benefit job seekers and businesses alike.

In Jordan, the EBRD worked with the government and the World Tourism Organization (UNWTO) to provide better training and jobs for young people, women and local firms through tourism.

Knowledge economy

The Knowledge Economy Initiative builds on the EBRD's longstanding support for innovation and technological dynamism by helping businesses to improve their productivity and grow sustainably. It takes into account the different levels of technological development in the region, helping each country develop its own knowledge economy.

Development of the knowledge economy enhances the competitiveness and resilience of EBRD countries of investment, many of which have a legacy of labour and resource-intensive production processes and over-reliance on extractive industries. It also fosters integration by strengthening information technology networks.

Last year, the Initiative passed a major milestone by reaching an overall investment level of €1.3 billion since its launch in 2014. These debt and equity transactions and related activities support the development of information systems and infrastructure (such as broadband), technological upgrades for industry, and financing for small, ground-breaking technology companies, for example through the Bank's Venture Capital Investment Programme (VCIP). The EBRD also uses policy dialogue to stimulate appropriate innovation policies.

Significant transactions included two new loans to Türk Telekom, the leading telecommunications company in Turkey, to support the development of advanced 4.5G mobile broadband services and a €339 million syndicated loan to OTE, Greece's largest telecommunications operator, to bolster its investment plans. There were four investments under the VCIP, an example of which was a follow-on investment in DocPlanner, an online medical care scheduling service based in Poland.

In the manufacturing and services sector, the Bank provided financing for Universal Alloy Corporation, a Romanian supplier to the aircraft industry (see case study on page 40). A €40 million subscription to a Schuldschein loan – a type of fixed debt instrument in Germany – issued by automotive supplier Draexlmaier Group will help the German company bolster vocational training and the development of knowledge-intensive industries in FYR Macedonia, Moldova, Romania, Serbia and Tunisia.

Life in Transition Survey

In order to understand how people's lives have been affected by changes since the fall of communism, the EBRD and the World Bank established the *Life in Transition Survey* (LiTS) – a large-scale, comprehensive study of the attitudes of individuals and households across the transition region.

The third round of LiTS was conducted during late 2015 and early 2016 in 34 countries, comprising 32 countries where the EBRD invests and two western European comparators, Germany and Italy. The exercise did not cover SEMED or Turkmenistan.

The latest LiTS report shows that people's degree of life satisfaction has increased across the former communist bloc compared with 2006 and 2010 levels and has moved towards that of individuals in the comparator countries. Another encouraging finding is that perceptions and experiences of corruption have decreased since 2006 in many countries where the EBRD operates. However, while educational attainment is relatively similar across genders in the region, labour-market outcomes do not yet reflect this: when it comes to paid work, women are less likely to work full-time, and are less engaged in the workforce than men.

A separate chapter on Greece indicates that the impact of the economic crisis on Greek households has been deep and widespread. Over 92 per cent of Greek respondents believe that the crisis has affected them, and 76 per cent of Greek households have suffered a negative income shock such as reduced wages or pensions, job losses, delayed or suspended wages or decreased working hours.

Lastly, although attitudes towards democracy and the market economy have become less positive or remained stable relative to 2010, there is still widespread support for both in the transition region, despite the difficult economic circumstances of the recent past.



See litsonline-ebrd.com



Romanian aerospace industry takes flight

The EBRD provided support for Romania's aerospace industry by extending a €25 million loan to Universal Alloy Corporation (UAC), which makes aluminium parts for leading aircraft manufacturers such as Airbus, Boeing and Bombardier. UAC is expanding its production in response to increased demand from these companies.

The financing will enable UAC to increase production capacity and introduce innovative technologies, such as the full recycling of metal chips. The company will also bring the latest know-how to Romania with its training programme for local staff, thereby contributing to the growth of a knowledge-based economy in the country.



The EBRD also used policy dialogue and technical assistance to advance the region's knowledge economy. An assessment of the legal and regulatory frameworks related to information and communication technology infrastructure in 20 countries where the Bank invests was completed in 2016. This will inform policy work aimed at helping countries to accelerate broadband rollout and develop more competitive regulatory regimes.

Investment Climate and Governance Initiative

Launched in 2014, the Investment Climate and Governance Initiative (ICGI) aims to improve the investment climate and strengthen national and corporate governance in the Bank's countries of operations by encouraging systemic change beyond individual investment projects. In 2016, the EBRD continued to implement the ICGI to support reform-minded governments to strengthen institutions of economic governance, and the Bank's corporate clients in their efforts to increase transparency, good governance and healthy competition.

The ICGI helps to establish platforms for public-private dialogue in the shape of investment councils as well as business ombudsman institutions that provide recourse mechanisms for firms. It also promotes the use of dispute resolution mechanisms, the reform of procurement systems, judicial capacity-building, and enhancements to corporate governance. EBRD staff carry out this work in countries where the Bank has signed a Memorandum of Understanding (MoU) on ICGI cooperation (namely, Albania, Moldova, Serbia and Ukraine) as well as in other countries (for example, Armenia, Georgia, the Kyrgyz Republic and Tajikistan).

2016 marked the first full year of operations for the EBRD-supported Business Ombudsman Council (BOC) in Ukraine. The BOC addresses complaints about unfair treatment of firms by the authorities and promotes reforms to support private business. During its first 18 months, the Council successfully completed almost 700 investigations. Recommendations for systemic reform that were made to the authorities resulted in the adoption of changes to laws, regulations and administrative procedures. Project-specific recommendations were successfully implemented in 75 per cent of cases. Overall, the BOC has contributed to an improvement of the business environment in Ukraine, including by helping to decrease levels of corruption in the country.

Last year the EBRD also sought to enhance economic governance by strengthening the capacity of state administrations to design and implement reforms; helping to simplify procedures for business registration, regulation and licensing; providing support for improved customs administration; working to increase transparency on the part of public and private bodies; and promoting freedom of information. The Bank continued to expand its targeted ICGI interventions beyond those countries that have signed MoUs.

The EBRD's new concept of transition counts being well governed among the six qualities of a successfully functioning market economy. In light of this, the Bank renewed its examination of how policy work can support better governance and address shortcomings. The launch of the EBRD-UK Investment Climate and Governance Fund in 2016, supported by the UK's Good Governance Fund, provided significant donor support for the Bank's activities in this area. The EBRD created a dedicated Governance and

Political Affairs (GPA) team, within its Vice Presidency - Policy and Partnerships, to lead implementation of the ICGI. The GPA includes the Bank's governance experts as well as political counsellors, who help to strengthen the design and delivery of ICGI reforms.

Public procurement

EBRD efforts to strengthen procurement governance and maximise the efficiency of public contracting in the region bring savings that leave more public financing available for vital services including schools and hospitals.

An international master's programme in public procurement management, jointly established by the Bank and the University of Rome Tor Vergata, allows public sector officials in the Bank's countries of operations to acquire the skills they need to conduct procurement effectively. In 2016, the EBRD provided 25 donor-funded scholarships for public procurement officials enrolling on the programme. In its four years of existence the course has produced 120 graduates. Last year, the University of Rome Tor Vergata and the University of Belgrade signed an agreement to offer a similar programme in the Western Balkans that will also benefit from EBRD support.

The EBRD and the African Development Bank agreed on a co-financing framework in 2016 that establishes how the two institutions will conduct procurement associated with jointly financed contracts. This and a similar accord signed with the EIB in 2015 are the first two agreements of their kind concluded by MDBs. The EBRD peer-reviewed the procurement policies of the newly created Asian Infrastructure Investment Bank to ensure their compatibility with EBRD policies, allowing the two institutions to co-finance projects in the future. The EBRD Procurement Policy Department also supported the Islamic Development Bank's procurement reform programme.

The EBRD is a member of the OECD working group for the revision and launch of the new Methodology for Assessing Procurement Systems (MAPS Plus), a tool for accelerating the implementation of efficient, sustainable and more inclusive public procurement systems.

Highlights in 2016 included:

- help with Ukraine's accession to the World Trade Organization (WTO) Agreement on Government Procurement and the introduction of electronic procurement for the purchase of goods, works and services by public bodies (see case study on page 48)
- an analysis of impediments to the sale of non-performing loans in Serbia and support for a new law on financial restructuring in Ukraine, which came into force in October
- an assessment of ICT sector regulation in 20 EBRD countries of operations
- a high-level forum in Minsk on commercial mediation and how to promote its use in eastern Europe and Central Asia
- a review of how Jordan, Morocco and Tunisia must implement the Paris Agreement on climate change
- support for corporate governance improvements at Greece's four systemic banks and ongoing assistance to Ukrainian national energy company Naftogaz for corporate governance reforms
- the publication of corporate governance sector assessments for 34 countries
- training for 200 judges on commercial law matters in the Kyrgyz Republic, Montenegro and Tunisia, as well as training for 200 court bailiffs in Mongolia.



More details about these initiatives and other EBRD work on legal reform are available in *Law in transition* at lit-ebd.com



Legal transition

The Legal Transition Programme (LTP) helps to create an investor-friendly, transparent and predictable legal environment in countries where the Bank invests. It contributes to international standard-setting initiatives; assesses laws and practice; and aids governments to design and implement legal, regulatory and institutional reforms.

Major areas of focus include encouraging access to finance, in particular for SMEs; strengthening corporate governance; promoting resource efficiency and renewable energy; supporting the development of the ICT sector; supporting debt resolution and restructuring; strengthening the performance of commercial courts and fostering alternative methods of dispute resolution; promoting public-private partnerships in public infrastructure projects; and strengthening public procurement.



44	Donor partnerships
47	Cooperation with external partners
47	Engaging with civil society
49	Nuclear safety

PARTNERSHIPS

In 2016, partnerships with donors were more important than ever in fostering sustainable market economies. Cooperation with fellow multilateral development banks, other external partners and civil society was also central to the success of Bank activities. Work with donors to promote nuclear safety remained a priority for the EBRD.



Gender equality and green growth in Turkey's energy sector

The EBRD is spurring efforts to make the Turkish power sector more environmentally friendly and inclusive with a US\$ 135 million (€128 million equivalent) loan to subsidiaries of electricity company IC Elektrik. The financing will help power distribution firm TREDAS and retail sales firm TREPAS to significantly improve the efficiency and reliability of the power network in north-western Turkey. The reduction in energy losses is expected to save 90,000 MWh and cut CO₂ emissions by 45,000 tonnes.

Turkey exhibits one of the lowest rates of female labour-force participation (32 per cent) in the EBRD region and the country's power and energy sector in particular is dominated by men. As a condition of the financing, the companies will introduce corporate standards and practices that strengthen women's access to employment and skills. In addition, they will undertake gender-sensitive employee surveys, review payroll data to ensure equal pay for work of equal value, and receive TC-funded advice to implement a comprehensive gender action plan.

Lastly, TREDAS and TREPAS will enhance their compliance procedures, including by strengthening anti-corruption policies and adopting enhanced codes of conduct.

Donor partnerships

During 2016 donors continued to work closely with the EBRD to address the transition challenges in its region. They signed agreements to contribute €445 million¹ in new donor financing, extending the range and depth of the Bank's investments, balancing risks and rewards, compensating for market failures and fostering the development of market-based institutions, skills and behaviour.

EBRD products blend commercial financing with grant-funded elements. These integrated instruments enable the Bank, and ultimately its clients and beneficiaries, to achieve impact on a greater scale than would otherwise be possible. Infrastructure, small firms and the sustainable use of resources remained the central focus of donor activity in 2016. Initiatives with a strong element of policy dialogue delivered through grant co-financing continued to grow in significance. Good governance and local currency were two examples of this type of initiative. Other areas of emphasis for donors included promoting private sector competitiveness, economic inclusion and gender equality. In keeping with the revised transition concept of the Bank, donor activities recognise that a market economy should be competitive, well-governed, green, inclusive, resilient and integrated.

¹ In addition, €114 million was raised for multi-donor funds managed by the EBRD but also benefiting other IFIs. Including this figure, the total funding mobilised in 2016 was €559 million (excluding funding for nuclear safety).





Grant instruments

Donor funding at the EBRD takes the form of technical cooperation (TC), co-investment grants and concessional finance. By working with innovative financing instruments, the EBRD can mobilise substantial investment opportunities on the basis of limited donor grants. On average, each euro of grant funding is associated with €30 or more of investment.

TC grants cover specific tasks that support a particular project or programme, such as project preparation and implementation, training, sector support, building a client's expertise and technical skills, policy dialogue and other forms of assistance. In 2016, donor grants worth €242 million financed TC projects.

In addition, donor funds were used for co-investment grants worth a total of €167 million. The main kinds of co-investment grant included:

- capital investment grants that reduce the capital costs of a project. These are most common in the low carbon, energy efficiency and municipal infrastructure sectors.
- incentives that encourage financial institutions to extend loans to sub-borrowers, based on agreed terms. Incentives benefit partner financial institutions or sub-borrowers and are common in our green economy financing facilities.
- risk-sharing facilities to expand investment outreach in countries or sectors where poor market conditions make financing difficult for borrowers. These facilities include, for example, first-loss cover for the EBRD's Women in Business programmes.

The EBRD also uses donor funds in the form of:

- concessional finance for clients, together with EBRD loans. These products include extended tenors, grace periods and below-market interest rates. At present, these are funded mainly from global climate funds and support the transition to a green economy.
- co-lending and equity investments that help the Bank make larger and more beneficial offers to clients as well as undertake deeper capital exposure with clients.

Donors to the EBRD

Bank activities are complemented by support from the EU, bilateral donors, multilateral donor funds (including global climate funds and World Bank Facilities), and the shareholders of the EBRD, as well as from the private sector.

The European Union (EU) is the EBRD's largest single donor, contributing close to 50 per cent of donor funding received over the last five years in support of Bank activities. In recent years, the EU has increasingly channelled its funding through regional facilities created to blend EU grants with investment financing from financial institutions such as the EBRD. These facilities include the EU Neighbourhood Investment Facility and the EU Investment Facility for Central Asia. In 2016 the EU provided support worth €289 million.

Bilateral donors are governments and other partners. In 2016 the following donors signed agreements to contribute additional resources to the EBRD: Albania, Austria, Finland, France, Germany, Italy, Japan, Kazakhstan, Luxembourg, Norway, Republic of Korea, Romania, Slovak Republic, Sweden, Switzerland, Taipei China, United Kingdom and the United States of America. This list includes countries that contributed to EBRD-managed multi-donor funds. 2016 saw bilateral donors provide support worth €125 million.

Multilateral donor funds feature the involvement of not only various donors but typically also a number of IFIs as recipients and often see significant involvement from beneficiary countries. In 2016, the EBRD received grants from global and multilateral donor funds such as the Climate Investment Funds, the Global Environment Facility, the World Bank Concessional Finance Facility and the Middle East and North Africa Transition Fund, as well as the Eastern Europe Energy Efficiency and Environment Partnership, the Northern Dimension Environmental Partnership and the Western Balkans Investment Framework (the EBRD also manages these last three funds). Furthermore, the Bank's Nuclear Safety team manages the nuclear safety and international decommissioning support funds, which donors set up for specific work on nuclear safety in the region (see page 49).

Bank shareholders allocate funds from net income to a number of funds, the largest of which is the EBRD Shareholder Special Fund (SSF), established in 2008. The SSF complements other donor funds by providing TC and co-investment grants.

How donors provide support

Donors offer support directly or through a range of funds, such as bilateral and multilateral donor funds. The Bank also manages multi-donor funds, which pool resources for specific purposes to meet strategic objectives on a larger scale than would otherwise be possible. The most active in 2016 were, among others, the Early Transition Countries (ETC) Fund, the Southern and Eastern Mediterranean (SEMED) Multi-Donor Account (MDA), the Ukraine Stabilisation and Sustainable Growth MDA and the Small Business Impact Fund.

Donor priorities

Donor funds are used in all EBRD countries of operations. However, there is a greater focus on the ETCs, the SEMED region and the Western Balkans as projects in these markets often require donor-funded assistance in order to achieve the Bank's aims. Strategic areas for which donors allocated resources in 2016 were:

- accelerating infrastructure development through projects in the municipal and environmental infrastructure, transport, power and energy, and natural resources sectors
- promoting low-carbon growth, including energy efficiency and renewable energy investments
- diversifying economies by providing finance and advisory support for small firms
- building a stable financial sector by supporting financial institutions and the development of local capital markets
- nurturing trade and investment in agricultural value chains for improved food security as well as generating job opportunities
- strengthening the business environment through regulatory reform
- integrating considerations of gender and social inclusion into EBRD projects.

Reforming the management of donor funds

Recognising the growing role that donors play in supporting its objectives, the EBRD is committed to being a selective and strategic user of grants; a modern development partner to its donors, operating in line with best international practice and with a firm focus on countries; and an efficient manager of grant activities. Consistent with this vision, in 2016, the Bank launched a new, integrated IT system for donor fund management and updated its donor fee policy. The Bank also improved management of the SSF to align the Fund more closely with the EBRD's strategic priorities and thus maximise efficiency.



For more information see the EBRD annual reporting on donor partnerships at dr-ebrd.com

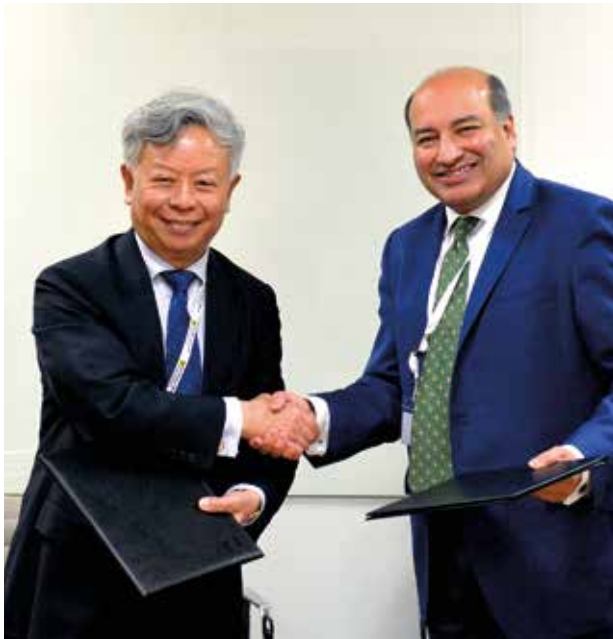
Preparing small business for trade with the EU

In order to bolster economic integration, the EBRD and the EU are preparing firms in Georgia, Moldova and Ukraine to take full advantage of the Deep and Comprehensive Free Trade Area (DCFTA) established by the Association Agreements between each of these countries and the EU, the world's largest market.

Joint EBRD-EU programmes of activities combine direct and indirect lending with EU-funded technical assistance, investment incentives and risk-sharing activities. An example of direct financing on a risk-sharing basis in 2016 was a joint EBRD-TBC Bank loan of US\$ 14.3 million (€13.5 million equivalent) to Rustavi Group in Georgia for the construction of a medium-sized hydropower plant. Among other benefits, the transaction will stimulate competition in the Georgian power-generation sector. The EBRD financing was extended through the Bank's DCFTA SME Direct Finance Facility and supported by the EU through a risk-sharing facility.

With regard to indirect financing, in 2016 the EBRD signed its first deals under the EU4Business-EBRD credit line, part of the joint programmes of activities. These included a US\$ 50 million (€47 million equivalent) facility with Bank of Georgia and a €10 million facility with Mobiasbanca - Groupe Société Générale in Moldova. SMEs in various sectors will use this financing to modernise their production and service standards in readiness for trade with EU clients. In addition, close to 70 enterprises across the three countries benefited in 2016 from EU-funded business advice to help them achieve this goal.





Cooperation with external partners

Throughout 2016 the EBRD continued to work with other multilateral development banks (MDBs) to enhance coordination and collaboration and to agree on common actions in support of the 2030 Agenda for Sustainable Development, which includes the 17 UN Sustainable Development Goals. Critical issues under discussion included forced displacement, infrastructure, urbanisation, climate finance and private investment.

The EBRD shared its expertise and operational experience with the newly established Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) across a range of areas. A Memorandum of Understanding that sets out a framework for strategic and operational cooperation was signed in May by EBRD President Suma Chakrabarti and Jin Liqun, President of the AIIB. The EBRD and AIIB also signed their first joint project, a road reconstruction venture in Tajikistan (see page 26).

As in previous years, the EBRD engaged strongly with the G20 forum of the world's leading economies, in close partnership with other MDBs. Core areas of focus in 2016 under the Chinese presidency were infrastructure, SMEs, energy efficiency and increasing the capacity of MDBs to lend without substantially increasing the risks they face or damaging their credit ratings.

Extensive work with the EU on policy and operations took place in 2016. The two institutions held joint Country Days to consider shared priorities in Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkey and Ukraine. President Chakrabarti signed a Memorandum of Understanding with the European Energy Commissioner to intensify EU-EBRD collaboration on energy issues. The Bank strengthened its representative office in Brussels to bolster cooperation with EU institutions, including the European Parliament.

Engaging with civil society

A vibrant civil society is an essential component of an open democracy and of a sustainable, inclusive and well-governed economy. Civil society organisations (CSOs) in the EBRD region bolster demand for reforms that reflect the concerns of ordinary citizens and ensure that the interests of marginalised groups are taken into account.

The EBRD engages with a wide range of CSOs as part of its commitment to democracy and good governance. This dialogue contributes significantly to improving the quality, effectiveness, and sustainability of EBRD activities. In 2016, almost 3,400 civil society representatives were registered with the EBRD, compared with some 3,100 in 2015. Registration on the Bank's database allows CSOs to receive regular updates about developments that may be of interest to them.

Capacity enhancement

The Civil Society Capacity Enhancement Framework is a donor-funded programme that seeks to raise awareness, transfer skills, and improve technical knowledge and organisational capacity among community-based CSOs. This facilitates their engagement with EBRD investment projects and policy dialogue activities. The programme focuses on three areas: sustainable energy and resources, economic inclusion and good governance. By the end of 2016 the Framework had launched 15 technical assistance projects worth around €3 million and these had benefited more than 8,000 civil society and community representatives, often through tailored activities to enhance capacity.

An ongoing project in Ukraine is dedicated to improving the transparency and effectiveness of the public procurement system through cooperation with civil society (see case study on page 48). Another project saw the EBRD collaborate with the Organization for Security and Cooperation in Europe (OSCE) in Albania to support anti-corruption efforts. The project includes training for individuals, civil society groups and local authorities on reporting and handling complaints of corruption, and also covers the creation of a consultation mechanism for civil society.

In addition, the EBRD and OSCE helped the Albanian School of Public Administration to develop anti-corruption training programmes for civil servants and supported the Albanian government's establishment of a code of conduct for businesses. The Bank will apply lessons learned from Albania to other countries in the Western Balkans through a regional project to be implemented from January 2017 in partnership with the United Nations Office on Drugs and Crime.



Dialogue

The EBRD's senior management and Board of Directors are committed to broadening the Bank's engagement with civil society. The EBRD President and other representatives of senior management and the Board routinely meet with CSO representatives during their visits to countries of operations. In 2016, such meetings were held with CSOs in Azerbaijan, Egypt, Kazakhstan, Montenegro, Serbia, Tajikistan and Ukraine. The Bank also consulted intensively with civil society on its first strategy for Greece and on the reviews of country strategies for Belarus, Egypt, Georgia, Kazakhstan, Kosovo, Mongolia and Montenegro.

The Civil Society Programme, the flagship event of the Bank's engagement with civil society, was held on 11 and 12 May in London alongside the EBRD Annual Meeting and Business Forum 2016. On the occasion of the Bank's 25th anniversary, the Programme attracted around 100 civil society representatives from 22 countries.



For further information see ebrd.com/civilsociety

Equipping civil society to monitor public procurement in Ukraine

The EBRD is working to give civil society the tools it needs to effectively monitor Ukraine's new electronic public procurement system, ProZorro. In cooperation with NGOs Transparency International Ukraine and the Partnership for Transparency Fund and the Kiev School of Economics, the Bank is developing monitoring tools and providing training for CSOs so that they can use them to monitor local and municipal procurement as effectively as possible. The TC project is funded by the Czech Republic and the EBRD-Ukraine Stabilisation and Sustainable Growth Multi-Donor Account.

Civil society activists initiated and led the development of ProZorro, which became mandatory for all purchases by public bodies in Ukraine in 2016 and aims to vastly improve the transparency and cost-effectiveness of the country's procurement processes. The EBRD played a key role in designing the electronic procurement model that ProZorro uses. Now that the system is in place, robust independent monitoring is important for its credibility and for building confidence in the wider investment climate.

Nuclear safety

The EBRD plays a leading role in efforts to address major safety issues surrounding nuclear legacies. As a manager of multilateral nuclear-safety donor funds, it helps to make the Chernobyl site safe and secure. It also supports the decommissioning of first-generation Soviet-designed nuclear power plants in the new EU member states, works to remediate the environmental legacy of the Soviet-era nuclear-powered fleet in north-western Russia and of uranium mining in Central Asia, and carries out other nuclear safety activities.

On behalf of more than 40 donors, the EBRD manages seven multilateral nuclear-safety donor funds and associated programmes. Donors have together contributed more than €4 billion for the purpose, including almost €2 billion to complete projects in Chernobyl. In addition to its role as fund manager, the EBRD has committed €715 million of its own resources for the two main Chernobyl projects.

In 2016, work on the Chernobyl New Safe Confinement reached a defining moment when the arch-shaped steel structure was moved to its final position above the destroyed reactor 4 covered by the temporary shelter built in 1986 (see Box: “The EBRD and Chernobyl” on page 9). Also at Chernobyl, work continued on constructing the €400 million Interim Spent Fuel Storage Facility which will treat more than 20,000 fuel assemblies from units 1 to 3 and store them for a minimum of 100 years. The facility, due for completion in 2017, is financed by the Nuclear Safety Account.

The EBRD manages the Nuclear Window Support Fund of the Northern Dimension Environmental Partnership. This receives contributions from nine countries and the EU and finances vital projects to remove spent nuclear fuel and other radioactive waste from unsafe facilities in north-western Russia. Building of the infrastructure and systems to retrieve and transport the 22,000 submarine spent-fuel assemblies stored in Andreeva Bay finished in 2016. The retrieval of fuel will start soon and a first shipment of casks loaded with spent fuel is planned for July 2017.

A €53 million grant, also from the Fund, is allocated to efforts to dismantle the Lapse service ship and safely dispose of its cargo of spent nuclear fuel and radioactive waste from the Soviet-era nuclear-powered fleet. In 2016 the Lapse was dismantled at the Nerpa shipyard on the Kola peninsula and workers conducted the first shipment of its packaged remains to the solid-waste storage facility at Sayda Bay. Preparation of special equipment and a facility for the retrieval of fuel from the Lapse is set for completion by the end of 2017. The Lapse and Andreeva Bay pose a significant environmental threat to the marine environment of the northern Atlantic and surrounding countries.

Also last year, the EBRD hosted the first donor meeting of a new fund established to finance the rehabilitation of Soviet-era uranium mines in Central Asia. A large number of potential donors attended the event. In addition, legal arrangements were agreed with the Kyrgyz Republic and Tajikistan to prepare for mine remediation projects. The EU is providing an initial €16 million to the fund, with a further amount under consideration, and efforts are under way to secure pledges from other donors. The rehabilitation programme aims to reduce the environmental risk posed by disused and deteriorating sites containing radioactive materials in the Kyrgyz Republic, Tajikistan and Uzbekistan.

The EBRD continued to manage programmes that help Bulgaria, Lithuania and the Slovak Republic with the decommissioning of their Soviet-era nuclear power plants. Donors have contributed almost €2.5 billion to this programme, with the vast majority of funds coming from the EU. A major milestone in 2016 was the entry into service of a €200 million facility to retrieve and store spent fuel at the closed Ignalina plant in Lithuania. Dedicated donor funds finance these programmes as part of assistance agreed during EU accession negotiations. As well as supporting decommissioning, the funds contribute to energy sector projects that help countries cope with the loss of generating capacity.



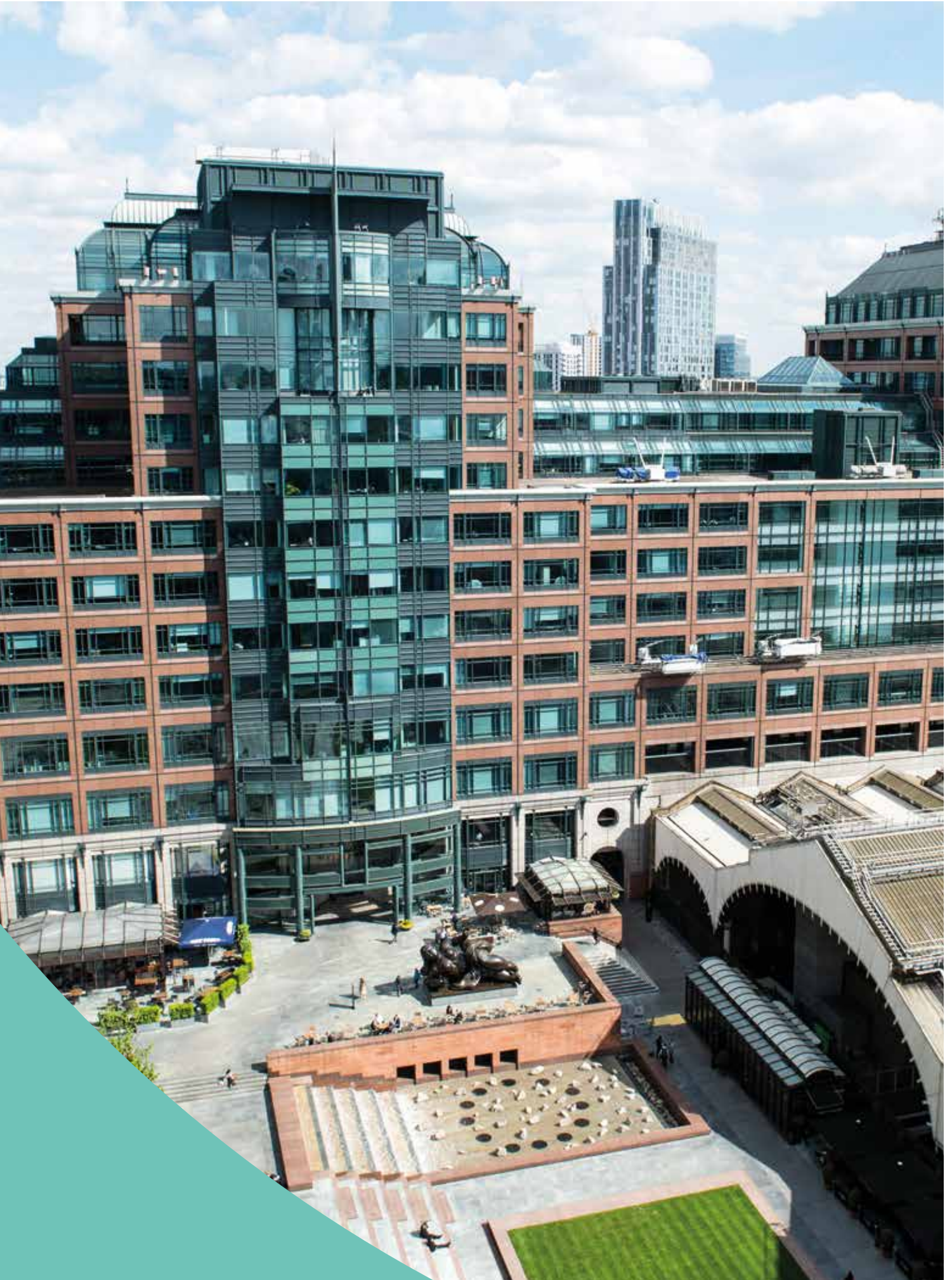


52	Corporate leadership
53	Staffing
54	Integrity and accountability
55	Environment and sustainability
55	Independent evaluation



GOVERNANCE

The EBRD maintains the highest standards of integrity, accountability and environmental and social responsibility in the conduct of its business. In 2016, we continued to modernise our internal processes. The independent Evaluation Department monitored the effectiveness of Bank investments and programmes for the benefit of shareholders and the public.



Corporate leadership

Launched during 2016, the Operational Effectiveness and Efficiency programme aims to increase the impact of the EBRD in its countries of operations by improving the Bank's internal processes. There is also a fresh focus on ensuring the financial sustainability of the organisation.

Work to extend the Bank's success after its first 25 years yielded tangible results. A revised concept of transition was approved by the Board in November following work involving Sergei Guriev, who in 2016 became the EBRD Chief Economist. The transition concept identifies the six desirable qualities of a well-functioning, sustainable market economy: competitive, well-governed, green, inclusive, resilient and integrated (see page 10).

The updated concept has far-reaching consequences for the way in which the Bank devises strategies and assesses, monitors and reports on operations. The Strategy Implementation Plan 2017-19, agreed in 2016, includes a significant restructuring of the Bank's corporate scorecard so that transition impact will be reported in terms of the six aforementioned qualities.

EBRD Governors voted to elect Sir Suma Chakrabarti as President of the Bank for a second four-year term. In addition, the EBRD restructured its top-level management, bringing together the Banking and Policy Vice Presidencies within a First Vice Presidency, Client Services; creating a Finance and Operations Vice Presidency, composed of the Finance Department and the Human Resources and Corporate Services Vice Presidency; and forming a Vice Presidency that groups together the Bank's Risk,





Procurement and Environment and Sustainability functions. These changes support the EBRD's mission by uniting investment and policy engagement activities under one roof, while emphasising financial sustainability and risk management. They also allow the President to devote more time to external and strategic issues, while retaining oversight of operational matters.

Lastly, in order to preserve and create the maximum value from its institutional expertise, in 2016 the EBRD launched a project to build a comprehensive framework for knowledge management. This will improve the way critical knowledge is collected, managed and shared within the organisation. As part of this endeavour, the Bank also began work to establish 'communities of practice' that focus on specific areas of the institution's work. The communities of practice are composed of EBRD staff members who have expertise in these areas and are pooling their knowledge for the benefit of the Bank.

Staffing

The EBRD fulfils its mission through a highly-skilled, dedicated and diverse workforce.

1,591

Bank-funded staff based in the EBRD's London Headquarters in December 2016.

565

Bank-funded staff based in the EBRD's Resident Offices.

3,062

Overall workforce including individuals working under non-staff contracts or externally funded contracts.

34

The EBRD has Resident Offices in 34 of the countries where it invests.

63

Employees originate from 63 of the EBRD's member countries.

2016

In 2016, the Bank pursued efforts to attract and develop candidates from a wide range of nationalities and backgrounds, in line with the EBRD's Diversity and Inclusion Policy.

50:50

The EBRD's Strategy for the Promotion of Gender Equality 2016-2020 notes that the Bank will work towards the aspiration of having women in half of all roles in the Corporate Leadership Group (CLG), which consists of managers at the level of Director and above. In support of this aspiration, the Bank aims to have a gender balance of 50:50 in its succession plans for the CLG by the end of 2018.

Integrity and accountability

The mission of the Office of the Chief Compliance Officer (OCCO) is to protect the integrity and reputation of the EBRD, promote ethical standards of behaviour and strengthen the Bank's accountability and transparency. Throughout the region, OCCO plays a vital role in EBRD efforts to promote integrity and strengthen governance, which the Bank's revised transition concept recognises as an essential feature of a market economy.

The Chief Compliance Officer (CCO) reports directly to the President and the Audit Committee of the Board of Directors, as described in the Integrity Risks Policy and Terms of Reference for OCCO, available online. These also set out how OCCO fulfils its mission and helps the EBRD manage integrity risks related to clients and to the personal conduct of Bank staff. Thorough integrity due diligence is integrated into the approval of new business and the monitoring of ongoing operations. Furthermore, OCCO enhances the transition impact of projects by providing advice on integrity concerns and by recommending and monitoring improvements to the corporate governance and anti-corruption strategies of Bank counterparties.

OCCO is responsible for investigating allegations of staff misconduct as well as allegations of fraud and corruption in relation to EBRD projects and counterparties. Allegations of staff misconduct are investigated under the Conduct and Disciplinary Rules and Procedures (CDRPs). These were revised in 2015 and the changes took effect in 2016, along with the new Harassment-Free and Respectful Workplace Procedures.

Allegations of misconduct on the part of Board Officials on the one hand, and on the part of the President, Vice Presidents, Chief Evaluator and the CCO on the other, are dealt with in accordance with the provisions of the Code of Conduct for EBRD Board Officials or the Code of Conduct for EBRD Personnel, respectively.

Allegations of fraud and corruption in relation to activities financed from the EBRD's ordinary capital resources (such as the purchase of goods, works or services for the Bank) or from Special Funds resources, or from cooperation funds administered by the Bank, are investigated under the EBRD's Enforcement Policy and Procedures (EPPs).

The EPPs were revised in 2015 and the changes took effect during 2016. They now provide a more robust and efficient system with enhanced due process rights for entities and individuals subject to investigation, and a two-tier decision-making structure. The update also introduced two new sanctionable practices, namely obstruction and misuse of EBRD resources.

The EPPs describe the process by which the EBRD applies sanctions imposed by other multilateral development banks pursuant to the Agreement for Mutual Enforcement of Debarment Decisions. In 2016 the Bank cross-debarred 183 corporations and 94 individuals following debarment decisions issued by the World Bank Group, the Asian Development Bank, the Inter-American Development Bank



and the African Development Bank. OCCO also submitted 4 cases to the EBRD Enforcement Commissioner requesting enforcement action against 10 entities and 12 individuals. Details are posted at ebrd.com/ineligible-entities.html

In addition, the EBRD concluded settlement agreements with 3 corporations. Each agreement contains requirements to improve corporate governance and anti-corruption compliance.

The annual *Integrity and Anti-Corruption Report*, available online, describes the EBRD's strategy to promote integrity and prevent fraud and corruption and highlights the most recent measures taken.

Project Complaint Mechanism

The Project Complaint Mechanism (PCM) is the EBRD's accountability mechanism for addressing complaints about Bank-financed projects. It gives individuals and local groups that may be affected by an EBRD project, as well as civil society organisations, a means of raising complaints or grievances with the Bank. The PCM has two functions. Through a Compliance Review (CR) function, it examines complaints that the EBRD has failed to follow applicable policies in a particular project. And through a Problem-solving Initiative, the PCM affords community members an opportunity to obtain the Bank's assistance in addressing their grievances with the project sponsor. Affected parties can request one or both functions of the Mechanism.



During 2016, the PCM registered one new complaint and continued to work on different stages of eight ongoing complaint processes. The PCM also published its biannual monitoring reports about findings of non-compliance relating to EBRD-funded projects. These covered the EPS (Serbia), Boskov Most Hydro Power (FYR Macedonia), Ombla HPP (Croatia) and Paravani HPP (Georgia) projects. The complaint about Ombla HPP was closed in 2016 after the Bank fulfilled the actions requested in the PCM findings.

The PCM also finalised two CRs, for the South-West Corridor Road Project (Kazakhstan) and the IPP4 Al-Manakher Power Project (Jordan), as well as completing a successful Problem-solving Initiative with regard to the South-West Corridor Road Project (Kazakhstan).



Details of all complaints and published PCM reports are available at ebrd.com/pcm

Environment and sustainability

Since its establishment the EBRD has recognised that promoting sustainability is essential to achieving the organisation's transition mandate. It has a successful track record of helping to introduce environmental and social good practice in countries that previously suffered from environmental degradation and a lack of transparency or stakeholder engagement.

The EBRD takes a comprehensive approach to sustainability that includes:

- setting rigorous environmental and social requirements for Bank-funded projects, based on EU standards and international best practice
- providing finance and technical assistance that specifically target environmental issues such as sustainable energy, climate change, environmental infrastructure and nuclear safety
- promoting social inclusion and increasing access to community services such as water and public transport
- supporting projects that promote gender equality
- encouraging public participation, consultation and disclosure with regard to investment projects.



The Bank's progress and achievements in implementing this approach are detailed extensively in the EBRD's *Sustainability Report 2016*, at sr-ebrd.com

Independent evaluation

The shareholders and management of the EBRD see independent and effective evaluation as critical to fulfilling the core purposes of the Bank. It provides a mechanism for accountability and generates lessons and recommendations for future strategies, policies and operations. Having an independent Evaluation Department (EvD) is one way in which the EBRD itself manifests the quality of being well-governed that it seeks to nurture within its countries of operations.

Evaluation at the EBRD involves many interconnected roles and responsibilities for EvD, the Board of Directors and management, as laid out in the Evaluation Policy (see www.ebrd.com/evaluation). EvD operates independently of management, reporting directly to the Board of Directors.

The Department is responsible for evaluating Bank operations, programmes and strategies. Projects are normally evaluated one to two years after the full disbursement of funds, beginning with self-evaluation by the management team.



EvD findings, recommendations and evaluation results are available at www.ebrd.com/evaluation

EBRD Governors and Alternate Governors

31 December 2016

Member	Governor	Alternate Governor
Albania	Arben Ahmetaj	Erion Luci
Armenia	Vache Gabrielyan	Vakhtang Mirumyan
Australia	Scott Morrison	Kelly O'Dwyer
Austria	Johann Georg Schelling	Edith Frauwallner
Azerbaijan	Shahin Mustafayev	Samir Sharifov
Belarus	Vladimir I. Semashko	Vladimir Zinovskiy
Belgium	Johan Van Overtveldt	Alexander de Croo
Bosnia and Herzegovina	Mirko Šarović	Adil Osmanović
Bulgaria	Vladislav Goranov	Dimitar Kostov
Canada	Bill Morneau	Daniel Jean
China	Xiaochuan Zhou	Gang Yi
Croatia	Zdravko Marić	Željko Tufekčić
Cyprus	Harris Georgiades	Christos Patsalides
Czech Republic	Andrej Babiš	Jiří Rusnok
Denmark	Brian Mikkelsen	Michael Dithmer
Egypt	Sahar Nasr	Vacant
Estonia	Sven Sester	Veiko Tali
European Investment Bank	Pim van Ballekom	Vacant
European Union	Jyrki Katainen	Marco Buti
Finland	Petteri Orpo	Matti Anttonen
FYR Macedonia	Kiril Minoski	Vladimir Pesevski
France	Michel Sapin	Odile Renaud-Basso
Georgia	Dimitry Kumsishvili	Kova Gvenetadze
Germany	Wolfgang Schäuble	Thomas Steffen
Greece	Dimitri Papadimitriou	Ilias Xanthakos
Hungary	Mihály Varga	László Balogh
Iceland	Bjarni Benediktsson	Guðmundur Árnason
Ireland	Michael Noonan	Derek Moran
Israel	Karnit Flug	Yoel Naveh
Italy	Pier Carlo Padoan	Filippo Giansante
Japan	Taro Aso	Haruhiko Kuroda
Jordan	Imad Najib Fakhoury	Saleh Al-Kharabsheh
Kazakhstan	Bakhyt T. Sultanov	Marat Kusainov
Korea, Republic of	Ilho Yoo	Juyeol Lee
Kosovo	Avdullah Hoti	Vacant
Kyrgyz Republic	Arzybek Kozhoshev	Adylbek Aleshovich Kasymaliev
Latvia	Dana Reizniece-Ozola	Arvils Ašeradens
Liechtenstein	Thomas Zwiefelhofer	Roland Marxer
Lithuania	Vilius Sapoka	Algimantas Rimkūnas
Luxembourg	Pierre Gramegna	Arsène Jacoby
Malta	Edward Scicluna	Mario Vella
Mexico	José Antonio Meade Kuribreña	Vanessa Rubio Márquez

EBRD Governors and Alternate Governors

31 December 2016

Member	Governor	Alternate Governor
Moldova	Octavian Calmîc	Marin Moloşag
Mongolia	Choiijilsuren Battogtokh	Bayartsaikhan Nadmid
Montenegro	Darko Radunović	Nikola Vukičević
Morocco	Mohammed Boussaid	Driss El Azami El Idrissi
Netherlands	Jeroen Dijsselbloem	Lilianne Ploumen
New Zealand	Murray McCully	Robert Taylor
Norway	Siv Jensen	Dilek Ayhan
Poland	Adam Glapiński	Piotr Nowak
Portugal	Mário Centeno	Álvaro Matias
Romania	Anca Dana Dragu	Mugur Isarescu
Russia	Vacant	Sergey Storchak
Serbia	Dušan Vujović	Željko Sertić
Slovak Republic	Peter Kažimír	Jozef Makúch
Slovenia	Mateja Vraničar Erman	Irena Sodin
Spain	Luis de Guindos Jurado	Irene Garrido Valenzuela
Sweden	Magdalena Andersson	Karolina Ekholm
Switzerland	Johann N. Schneider-Ammann	Raymund Furrer
Tajikistan	Jamoliddin Nuraliev	Jamshed Karimzoda
Tunisia	Fadhel Abdelkefi	Fethi Ben Mimoun
Turkey	Osman Çelik	Ahmed Genç
Turkmenistan	Muratniyaz Berdiyev	Merdan Annadurdyev
Ukraine	Oleksandr Danylyuk	Valeria Gontareva
United Kingdom	Philip Hammond	Priti Patel
United States	Jacob J. Lew	Vacant
Uzbekistan	Rustam Sadykovich Azimov	Shavkat Tulyaganov

Chair of the Board of Governors

2015-16: Governor for Italy (Pier Carlo Padoan)

Vice Chairs of the Board of Governors

2015-16: Governor for Belgium (Johan Van Overtveldt)
Governor for Jordan (Imad Najib Fakhoury)

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

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

EBRD Directors and Alternate Directors

31 December 2016

Director	Alternate	Constituency
Scott Allen	Vacant	United States of America
Phillip Barresi	Soomin Park	Australia, Korea, New Zealand, Egypt
Anthony Bartzokas	Abel Mateus	Greece, Portugal
Raphaël Bello	Gustave Gauquelin	France
Evren Dilekli	Dragoş Andrei	Turkey, Romania, Azerbaijan, Kyrgyz Republic
Raffaella Di Maro	Dante Brandi	Italy
Harold Freeman	Claire Wren	United Kingdom
Jörgen Frotzler	Arnar Mátsson	Sweden, Iceland, Estonia
Zbigniew Hockuba	Kalin Mitrev	Poland, Bulgaria, Albania
Ove Jensen	Aloyzas Vitkauskas	Denmark, Lithuania, Ireland, Kosovo
Heinz Kaufmann	Artem Shevaleyev	Switzerland, Ukraine, Liechtenstein, Turkmenistan, Serbia, Montenegro, Moldova
Yosuke Kawakami	Makoto Honda	Japan
Johannes Koskinen	Dag Holler	Finland, Norway, Latvia
Klára Król	László Havas	Czech Republic, Hungary, Slovak Republic, Croatia, Georgia
Denis Morozov	Sergey Verkashanskiy	Russian Federation, Belarus, Tajikistan
Douglas Nevison	Greg Houlahan	Canada, Morocco, Jordan, Tunisia
Antonio Oporto	Pablo Gasós	Spain, Mexico
Horst Reichenbach	Peter Basch	European Union
Johannes Seiringer	Eddy Azoulay	Austria, Israel, Cyprus, Malta, Kazakhstan, Bosnia and Herzegovina
Jean-Louis Six	Miguel Marques	Belgium, Luxembourg, Slovenia
Klaus Stein	Johann Ernst	Germany
Andris Vilks	Michel Grilli	European Investment Bank
Frans Weekers	Jaap Rooimans	Netherlands, Mongolia, FYR Macedonia, Armenia, China

Composition of Board of Directors' Committees

31 December 2016

Audit Committee	Budget and Administrative Affairs Committee
Evren Dilekli (Chair)	Klaus Stein (Chair)
Ove Jensen (Vice Chair)	Johannes Koskinen (Vice Chair)
Yosuke Kawakami	Raphaël Bello
Denis Morozov	Jörgen Frotzler
Douglas Nevison	Klára Król
Jean-Louis Six	Horst Reichenbach
Andris Vilks	Johannes Seiringer
	Frans Weekers
<p>The Audit Committee reviews financial statements and accounting, financial reporting and disclosure policies and practices. It also reviews internal control systems; compliance, internal audit, evaluation and risk management functions; and the independence, qualifications and performance of the external auditors.</p>	
<p>The Budget and Administrative Affairs Committee considers general budgetary policy, proposals, procedures and reports. It also considers personnel, administrative and organisational matters, and administrative matters relating to Directors and their staff.</p>	
Financial and Operations Policies Committee	Board Steering Group
Zbigniew Hockuba (Chair)	Raphaël Bello (Chair)
Scott Allen (Vice Chair)	Klára Król (Vice Chair)
Phillip Barresi	Scott Allen
Anthony Bartzokas	Evren Dilekli
Rafaella Di Maro	Zbigniew Hockuba
Harold Freeman	Ove Jensen
Heinz Kaufmann	Johannes Koskinen
Antonio Oporto	Klaus Stein
	Enzo Quattrocio
	Colm Lincoln
<p>The Financial and Operations Policies Committee reviews financial policies, including borrowing policy and general policies relating to operations, as well as reviewing procedures and reporting requirements.</p>	
<p>The Board Steering Group facilitates coordination between the Board of Directors and management on arrangements for meetings of the Board, Committees and workshops.</p>	

Abbreviations and acronyms

ABI	Annual Bank Investment (see footnote 1 on page 2)
The Bank, EBRD	The European Bank for Reconstruction and Development
CDRPs	Conduct and Disciplinary Rules and Procedures
CIF	Climate Investment Funds
CSO	Civil society organisation
EvD	Evaluation Department
EIB	European Investment Bank
ETCs	Early transition countries
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FI	Financial institution
FYR Macedonia	Former Yugoslav Republic of Macedonia
GEF	Global Environment Facility
GET	Green Economy Transition
ICT	Information and communication technology
ICGI	Investment Climate and Governance Initiative
IFCA	Investment Facility for Central Asia
IFI	International financial institution
IPPF	Infrastructure Project Preparation Facility
LC2	Local Currency and Capital Markets Development Initiative
MDB	Multilateral development bank
MEI	Municipal and environmental infrastructure
MoU	Memorandum of Understanding
MSMEs	Micro, small and medium-sized enterprises
NIF	Neighbourhood Investment Facility
OCCO	Office of the Chief Compliance Officer
OCE	Office of the Chief Economist
PCM	Project Complaint Mechanism
PPP	Public-private partnership
SBI	Small Business Initiative
SBIF	Small Business Impact Fund
SEFF	Sustainable energy financing facility
SEMED	Southern and eastern Mediterranean region
SMEs	Small and medium-sized enterprises
SSF	EBRD Shareholder Special Fund
TC	Technical cooperation
TFP	Trade Facilitation Programme
VCIP	Venture Capital Investment Programme
WBIF	Western Balkans Investment Framework

Exchange rates

Non-euro currencies have been converted, where appropriate, into euros on the basis of the exchange rates current on 30 December 2016. (Approximate euro exchange rate: US\$ 1.06.)

Editorial

Writer: Mike McDonough
Editors: Cathy Goudie, Jane Ross

Design and production

Gaëlle Alliot @ à.côté design
Dan Kelly

Photography

GettyImages/Arctic-Images – Cover
Andy Lane – p1, p52
Novarka/Francis Vigouroux – p7
Dermot Doorly – p9, p15, p25, p29, p43, p45, p47, p51, p53, p54
EBRD – p10, p17
Forte Bank – p11
iStockphoto/James Brey – p12
iStockphoto/Drazen – p17
iStockphoto/Madzia71 – p19
iStockphoto/SergeyVButorin – p20
iStockphoto/donvictorio – p22
iStockphoto/IPGGutenbergUKLtd – p23
Elazığ Integrated Health Campus – p24
Martin Zilka – p26
iStockphoto/HAYKIRDI – p28
Alexander Grigorian – p31
iStockphoto/Cheger – p33
iStockphoto/ET1972 – p35
Maxim Shubovich – p36
Loretta Martikian – p37
iStockphoto/LuckyBusiness – p38
Wolfram Schroll/studioSchroll – p40
iStockphoto/Aydinmutlu – p44
iStockphoto/Xavierarnau – p46
iStockphoto/komyvgory – p48
Anna Carlson – p49

Photo editors

Chris Booth, Dermot Doorly

© European Bank for Reconstruction and Development
All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder.

Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

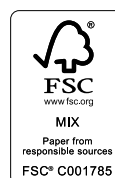
Terms and conditions

Full terms and conditions can be found on ebrd.com.

Designed and produced by à.côté design and the EBRD.

Cover photograph: GettyImages/Arctic-Images.

762 Annual Report 2016 (E/4,000)



Printed in England by Park Communications Ltd, which operates an environmental waste and paper recycling programme.

The *Annual Report 2016* is printed on Galerie Satin containing 15 per cent recycled fibre and 85 per cent virgin fibre sourced from responsibly managed, FSC® certified forests. The pulp used in this product is bleached using an Elemental Chlorine Free (ECF) process, and the inks are vegetable oil based and environmentally friendly. The cover is printed on Galerie Satin.

Park Communications is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

We invest in changing lives

**European Bank for Reconstruction
and Development**

One Exchange Square
London
EC2A 2JN
United Kingdom

Switchboard/central contact

Tel: +44 20 7338 6000
Fax: +44 20 7338 6100

Project enquiries

Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
Email: projectenquiries@ebrd.com

EBRD publications

Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
Email: pubsdesk@ebrd.com

Website

www.ebrd.com
ar-ebrd.com

ANNUAL REPORT 2016



ar-ebrd.com



European Bank
for Reconstruction and Development

