

# SUSTAINABILITY REPORT 2008



**European Bank**  
for Reconstruction and Development

The EBRD is an international financial institution that supports projects from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters transition towards open and democratic market economies. In all its operations, the EBRD follows the highest standards of corporate governance and sustainable development.

### **About this Report**

Sustainability underlies all EBRD investments: the Bank applies sound banking principles to all its operations, considers environmental, social and governance issues when approving new projects and encourages open dialogue and participation with key stakeholders. The annual *Sustainability Report* focuses on the Bank's impact on people and the environment in its countries of operations and also describes how the Bank operates internally.



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These symbols are used throughout this report to direct you towards further information either online or within another EBRD publication.



Information online



EBRD publications

# President's foreword



The global economic and financial crisis, which reached the EBRD region in the last quarter of 2008, presents the Bank with one of its biggest challenges since it started operations in 1991. The worsening business climate is affecting our operations at a time when EBRD finance is needed more than ever. Management and the Board have developed a crisis response strategy that envisages a sharp increase in investment volumes in 2009 targeted at key vulnerabilities such as the financial sector, working capital, trade finance and critical infrastructure.

In the context of the crisis response, the Bank has continued to underline the importance of environmental and social sustainability as one of the EBRD's core principles. The Bank's new Environmental and Social Policy came into force in November 2008. It sets out the way we look at projects, what we want to achieve with our investments and how we define our position with regard to our partners and the general public. While sustainability as a goal is most prominent in our Environmental and Social Policy, it is a principle which underpins all our investments.

As this *Sustainability Report 2008* shows, we are continuing to make progress. The Sustainable Energy Initiative is continuing to achieve significant results and last year set new records, with 64 projects for a total EBRD investment of €982 million. Our activities in municipal and environmental infrastructure are also targeted at supporting the communities where we invest. In the transport sector, the EBRD region still has considerable modernisation and development needs, which we are addressing in ways that are compatible with advanced environmental standards and regulations.

For us, however, the concept of sustainability goes further. We seek to ensure that all projects – be they factories, offices or workshops – are well-designed, safely operated and protect the welfare of employees. Often this is not only a question of finance, but more of changing management culture. We are particularly grateful to the EBRD donor community for providing grants for such projects, which are expected to have significant long-term impacts. Another pressing issue for our region which we are beginning to address is gender equality, which often remains far from satisfactory.

Improving nuclear safety in the countries of our region and mitigating the environmental consequences of the legacy of the past have been at the centre of EBRD's efforts since the 1990s. The Bank is managing decommissioning support funds in Bulgaria, Lithuania and the Slovak Republic. In all countries programmes have been launched to improve energy efficiency and safety which combine EBRD finance with donor grants and which have been highly successful.

It is progress like this which gives us the impetus to try to advance sustainability even further. We launched a new phase of the Sustainable Energy Initiative in April 2009. Follow-up programmes to oversubscribed credit lines are under preparation to meet strong demand from businesses and private customers alike.

We must strive to encourage business environments which facilitate sustainable investment and meet the needs and aspirations of the region's people while maintaining our high standards. Striking this balance is needed more than ever today. A time of crisis is a time of changes and challenges, but also an opportunity to show long-term commitment to the region. Under the current circumstances the EBRD is ready to stand by its partners more than ever in order to contribute to and achieve sustainable development.

A handwritten signature in black ink, appearing to read 'T. Mirow'.

**Thomas Mirow**  
President

# Highlights

## 2008 in numbers

### EBRD COMMITMENTS

# 302

 projects

- €5.1 billion financed 302 projects, compared with €5.6 billion and 353 projects signed in 2007
- €1.16 billion of this amount (2007: €1.35 billion) financed environmental improvements in projects. Of this:

€992 million (2007: €1.0 billion) went to projects with a specific focus on the environment, including sustainable energy and municipal infrastructure

€173 million (2007: €329 million) was invested in environmental improvements as part of other projects across all sectors.

For further detail see the *Annual Report 2008*.

### SUSTAINABLE ENERGY

# €982

 million

€982 million invested in energy efficiency and renewable energy activities across all sectors in 2008, equivalent to around 20 per cent of all EBRD investment for the year and amounting to around €2.7 billion invested since the Sustainable Energy Initiative was launched in 2006 (see page 10).

### MUNICIPAL INFRASTRUCTURE

# €279

 million

€279 million invested in 19 projects, with an additional €120 million provided through co-financing, to improve water supply, water management, district heating, urban gas distribution and urban public transport (see page 17). €157 million of this amount was specifically for energy efficiency improvements.

### FINANCING FOR SMALL BUSINESS

# 107

 local banks

€210 million invested in 54 projects. The EBRD's Micro and Small Business Programme operated in 18 countries in 2008, through 107 local banks and specialised microfinance organisations (see page 31). As part of its ongoing support for SMEs the EBRD signed 29 new projects with local banks, with credit lines totalling €343 million.

### EARLY TRANSITION COUNTRIES

# 101

 projects

€496 million invested in 101 new projects (excluding oil and gas deals, compared with 105 in 2007 and 80 in 2006) in the eight early transition countries (ETCs), the poorest nations where the Bank operates. The ETCs are Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan.

### DONOR FUNDING

# €41.5

 million

€41.5 million of donor funding to support environmental activities connected with EBRD-financed projects and for specific programmes. This does not include donor support for nuclear safety programmes – see page 24 for the Bank's work on nuclear safety.

### ENVIRONMENTAL DUE DILIGENCE AND MONITORING

# 116

 visits

116 environmental or social due diligence and monitoring visits were carried out by EBRD specialists and consultants to 101 projects (see page 49).

# Where we operate

- |  |                    |
|--|--------------------|
| 1 Albania                                | 16 Lithuania       |
| 2 Armenia                                | 17 Moldova         |
| 3 Azerbaijan                             | 18 Mongolia        |
| 4 Belarus                                | 19 Montenegro      |
| 5 Bosnia and Herzegovina                 | 20 Poland          |
| 6 Bulgaria                               | 21 Romania         |
| 7 Croatia                                | 22 Russia          |
| 8 Czech Republic                         | 23 Serbia          |
| 9 Estonia                                | 24 Slovak Republic |
| 10 Former Yugoslav Republic of Macedonia | 25 Slovenia        |
| 11 Georgia                               | 26 Tajikistan      |
| 12 Hungary                               | 27 Turkey          |
| 13 Kazakhstan                            | 28 Turkmenistan    |
| 14 Kyrgyz Republic                       | 29 Ukraine         |
| 15 Latvia                                | 30 Uzbekistan      |

## UKRAINE

### Ukraine micro-lending programme

Lending to micro businesses in Ukraine celebrates its 10th anniversary.

[Read more on page 35](#)

## ALBANIA

### Cementing good health and safety practices

IFIs join together to improve health and safety practices at a cement manufacturer.

[Read more on page 49](#)

A stylized map of Eurasia in shades of blue and grey. Four callout boxes with white borders point to specific regions: Russia (top), Kazakhstan (center), Mongolia (bottom right), and Kyrgyz Republic (bottom center). Each box contains text about EBRD projects. Small numbered circles (11, 2, 3, 28, 30, 26, 14, 13, 18, 22) are scattered across the map, likely representing project locations or data points.

## RUSSIA

### Finances flow to bring cleaner water to southern Russia

Help to improve water and wastewater facilities.

[Read more on page 19](#)

## KAZAKHSTAN

### Smoothing out the Silk Road

EBRD finance helps to upgrade parts of the fabled route.

[Read more on page 21](#)

## MONGOLIA

### A breath of fresh air

EBRD helps to improve air quality in Mongolia's capital, Ulaanbaatar.

[Read more on page 22](#)

## KYRGYZ REPUBLIC

### Supporting the Kyrgyz construction sector

EBRD's Direct Lending Facility helps construction companies grow sustainably.

[Read more on page 33](#)

# Highlights

## 2008 key events



### January

The EBRD launches its first ever credit facility to finance **energy efficiency projects by private industrial companies** in Romania. Three loans signed: €20 million for Banca Comerciala Romana, €10 million for CEC and €5 million for Banca Transilvania. See page 32.

Evaluation Department publishes a review of the Bank's **2003 Environmental Policy**. See page 42.

### February

Discussions in **St Petersburg** between NGOs and bank staff about EBRD requirements regarding environmental and social standards, information disclosure and public consultations related to financing projects. See page 53.

**Bulgarian** NGOs meet Brigita Schmögnerová, Vice President for Environment and Sustainability, to discuss energy efficiency initiatives. See page 53.

The EBRD-backed **ProCredit Bank Armenia** opens, providing another channel to lend to small businesses. See page 33.

### March

Public consultation on revisions of the **Public Information Policy** and **Environmental and Social Policy** with NGOs in the region. See page 44.

President Jean Lemierre meets with NGOs in **Turkmenistan** to discuss NGO activity, individual freedoms, mass media, legal reform and education. See page 33.

**"Fighting food inflation through sustainable investment"**, joint EBRD-FAO conference in London explores public-private partnerships to boost agricultural investment and production potential. See page 29.

### April

Public consultation on revisions of the **Public Information Policy** and **Environmental and Social Policy** with NGOs in the region. See page 44.

First Vice President Varel Freeman visits **Albania** for discussions on proposed and current investments in the Vlore area. See page 53.

**Climate change adaptation workshop** organised by the EBRD in conjunction with the EC and EIB, to discuss climate risk. See page 38.

**Board Consultation Visits** to Tajikistan and Turkmenistan. See page 54.

### May

EBRD **Annual Meeting** in Kiev:

- **Gender Action Plan** presented and discussed with NGOs and other stakeholders. See page 57.
- **Women in Business** panel and awards ceremony. See page 56.
- **NGO Programme:** 100 NGO representatives from 19 countries attend meetings with staff, management and the Board of Directors. See page 53.
- **Sustainability forum** discusses the SEI, sustainable investment in water and wastewater, food security and climate change adaptation. See page 38.
- EBRD agrees to **contribute €135 million** to support international efforts to stabilise the site of the Chernobyl nuclear power plant. See page 24.

EBRD-backed **Ukraine Micro Lending Programme** celebrates its 10th anniversary. See page 35.

Approval of new **Public Information Policy** and **Environment and Social Policy**. See page 42.





## July

The EBRD hosts a **greenhouse gas accounting methodology** workshop. See page 28.

The one-day “**Making roads safe**” conference at EBRD headquarters brings together NGOs, politicians, local authorities and technical experts to discuss road safety in the region. See page 23.

## August

Completion of repairs to the **Chernobyl shelter roof** will reduce the ingress of water until the expected completion of the New Safe Confinement in 2012. See page 24.

## September

Under the EBRD Sustainability Initiatives a **workshop is convened in Tajikistan** to discuss reducing the environmental impact of heavy pesticide use and water wastage. See page 38.

The EBRD is recognised for its **commitment to gender equality** and President Mirow is awarded a **MDG3 Torch** to mark the occasion. See page 56.

## October

EBRD specialists participate in a second **GHG accounting methodology** workshop, hosted by the EIB, and a meeting of social experts from development finance institutions. See page 28.

Inauguration of the first section of **St Petersburg's Northern Tunnel Collector** which will reduce discharge of untreated wastewater into the river Neva and the Gulf of Finland. See page 26.

**RAIPON** hosts a meeting with IFIs including the EBRD and the UN to commemorate 15 years of cooperation between indigenous peoples of Russia and the UN system. The EBRD provides funding to enable 15 indigenous peoples representatives to attend and presents the EBRD's new Performance Requirement for Indigenous People. See page 30.

The EBRD and donor-backed **Belarusian Bank for Small Business** begins operations. See page 33.

NGO relations staff attend the **5th DECIM roundtable** discussion in Paris about the challenges and opportunities to enhance the sustainability of the civil society sector. See page 54.

**Turkey** becomes an EBRD country of operations.

## November

NGO relations and other staff attend the **Civil Society Forum** in Pula, Croatia. See page 54.

The new **Environmental and Social Policy** enters into force on 12 November. See page 42.

## December

Half-day workshop on “**Gender, civil society and women's entrepreneurship**” is organised at the EBRD's headquarters in London and hosted by Brigita Schmögnerová. See page 56.

At the **UN Climate Change Conference in Poznan**, the government of Ireland pledges to buy €15 million worth of Poland's carbon emission allowances under the green investment scheme window of the EBRD/EIB co-managed Multilateral Carbon Credit Fund. See page 15.

Key documentation on the design of the **New Safe Confinement** at Chernobyl is presented to Ukrainian regulators for approval. See page 24.

The EBRD organises a joint roundtable with CGAP, Citibank and DfID on the **impact of the financial crisis on microfinance**. See page 37.

EBRD is ranked second in the **Global Accountability Report**, published by One World Trust. This is the highest ranking of any IFI. See page 53.



# INVESTING SUSTAINABLY

The EBRD makes a significant contribution to sustainability through its investments. These investments aim to advance the transition to market economies, set the highest standards of corporate governance and promote environmentally sound and sustainable development.



# Sustainable energy

 [www.ebrd.com/sei](http://www.ebrd.com/sei)

Providing the energy needed to fuel growth in the transition region in a sustainable manner is one of the key elements of successful transition. Growing economies require secure supplies of energy, which in an increasingly carbon-constrained world, need to be produced and delivered as cleanly and efficiently as possible. Reliable, clean and affordable energy supply is also an important part of raising living standards in the region. Investing in sustainable energy is therefore a critical part of achieving the EBRD's mission, and its importance will only increase in the future.

While some countries in central Europe have managed to start decoupling their economic growth from emissions, energy intensity in the transition region as a whole remains on average over three times higher than in the European Union (EU), and Uzbekistan remains the most energy intensive economy in the world. Addressing energy intensity will be crucial for successful sustainable energy investment by the EBRD. Reducing energy intensity can also lower emissions, decrease the overall cost of energy supply in the economy and enhance the security of supply.

The majority of the countries in the region rely heavily on external supplies for their primary energy supply, and many have experienced shortages and interruptions. Without a secure energy supply, living standards can be sharply affected, industrial and commercial activities remain dependent on energy imports, and growth and therefore transition, can suffer. Increasing supply is made more difficult by rising concern about CO<sub>2</sub> emissions, and particularly the use of the most abundant and cheapest resource in the region – coal. In the context of the significant energy efficiency opportunities in this highly energy-intensive transition region it is also highly questionable whether increasing supply should even be the first option, rather than investing in more effective use of available energy.

To be successful in reducing energy intensity and increasing security, the volume of investment in sustainable energy will have to increase significantly. The EBRD's sustainable energy investments aim to:

- mainstream sustainable energy into its banking operations
- demonstrate that a significant scaling up of climate change mitigation investment can be achieved
- establish that a pragmatic approach to investment can address climate change across a broad range of sectors
- demonstrate and continuously develop a unique competence in sustainable energy financing
- show how a significant volume of private sector investment can be mobilised in a significant manner for sustainable energy projects.

The current crisis in financial markets has started to affect the EBRD's sustainable energy operations. Industrial companies are facing tight liquidity constraints that restrict access to the financing required for productivity improvements including energy efficiency investments; municipalities are losing tax revenue and face higher social payments to their citizens, negatively affecting investment and cost recovery capacity; and renewable investment has slowed down amid a rapid fall in prices for fossil fuels. These are grave challenges which will need to be addressed in the EBRD's operations to ensure that the momentum of sustainable energy investment achieved in Phase 1 of the Sustainable Energy Initiative (SEI) is maintained to combat the growing threat of global warming. At the same time, the EBRD is planning to build on its existing activities and develop new instruments for sustainable energy that work in the current economic environment.



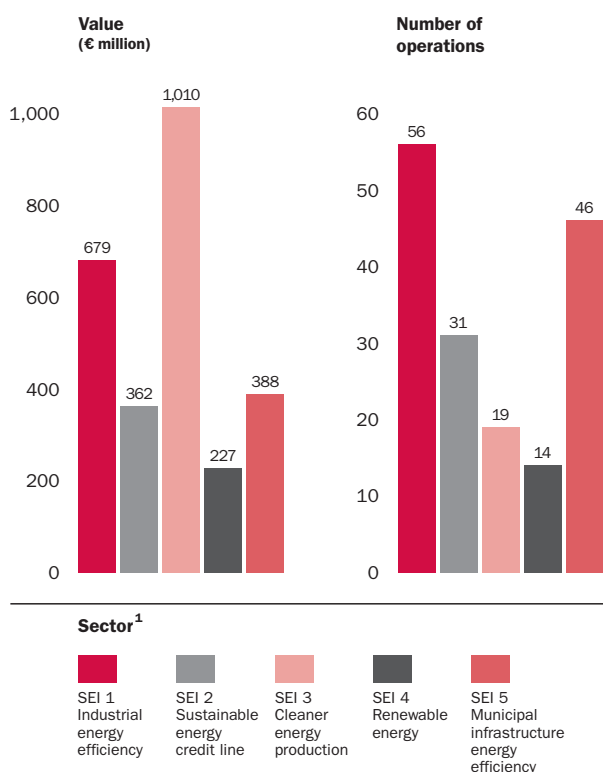
## The Sustainable Energy Initiative

The EBRD launched the Sustainable Energy Initiative (SEI) in 2006, against the backdrop of rising fuel prices, growing concern about energy security and the impact of CO<sub>2</sub> emissions on climate change. It made financing sustainable energy a fundamental aspect of EBRD projects and aimed to more than double the level of investment over a three-year period. Building on its experience in energy efficiency since 1994, the EBRD's Energy Efficiency and Climate Change team works closely with each banking team applying its expertise in engineering, banking, climate policy or carbon finance, to develop operations in the following six areas:



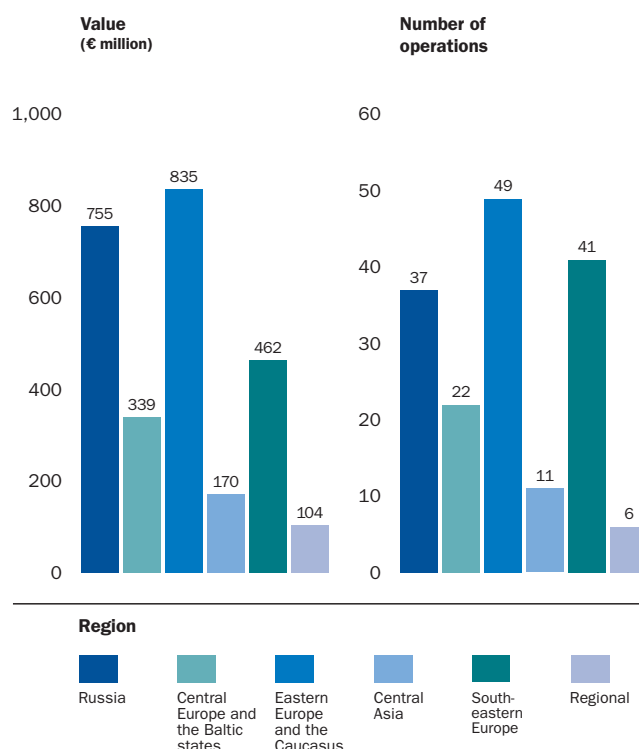
SEI 1	Industrial energy efficiency	Highly energy-intensive industrial processes such as steel manufacturing, aluminium smelting, cement and glass production. Technological advances and, until recently, soaring prices for fuel and electricity mean there is both the potential and the demand for energy savings.
SEI 2	Energy efficiency and renewable energy credit lines	Households and small businesses are frequently confronted with the high costs of heating poorly insulated buildings. Loans disbursed through local banks enable them to install energy efficiency measures or finance small-scale renewable solutions.
SEI 3	Cleaner energy in the power sector	Thermal power stations generate the majority of energy in the region, but ageing infrastructure can mean high running costs and excessive pollution and greenhouse gas (GHG) emissions.
SEI 4	Renewable energy	Renewable energy technology has developed slowly in the transition region. The institutional and regulatory framework for renewable energy remains weak. While investment in renewable energy has risen, much has been in hydroelectric power generation and the crisis impact may be significant.
SEI 5	Energy efficiency in municipal infrastructure	Upgrading neglected municipal infrastructure to provide clean water supplies, efficient district heating and reliable transport networks is central to the EBRD's mission. The policy has been to support decentralisation and commercialisation, with an increasing emphasis on energy efficiency across municipal utilities.
SEI 6	Carbon-market development	Transition countries have the potential to become some of the largest suppliers of carbon credits in the market for GHG emission reductions under the Kyoto Protocol. But this requires the creation of new institutions, clear regulatory frameworks and a critical mass of investments.

Chart 1  
**SEI investments by sector**  
June 2006-December 2008



<sup>1</sup> The value of carbon finance transactions under SEI 6 has been allocated to the relevant category SEI 1-5 in the table above so does not appear as a separate entry.

Chart 2  
**SEI operations by region**  
June 2006-December 2008



### What has the SEI achieved so far?

By the end of 2008, cumulative investments in the SEI had reached close to €2.7 billion for over 166 projects in 24 countries – 77 per cent beyond the original target. These results have been achieved with strong donor support for TC and investment grants including 23 bilateral donors and five multi-donor funds.

The overall SEI impact is estimated at 21 million tonnes of CO<sub>2</sub> emission reductions and over 8 million tonnes of oil equivalent in energy savings, which is equivalent to over three times the energy demand of Albania.

 [www.ebrd.com/sei](http://www.ebrd.com/sei)

# EBRD investments in sustainable energy in 2008

In 2008 the EBRD signed 64 projects under the SEI and committed €982 million, up from €934 million in 2007 and representing close to 20 per cent of the Bank's total investment.

## Industrial energy efficiency

In 2008 the EBRD signed 25 industrial energy efficiency projects amounting to €178 million, including projects in the transport and agribusiness sectors.

Project name	Country	EBRD finance	Key sustainability feature
Lafarge	Ukraine	€55 million	Doubling production capacity by 2011 through the construction of a new, highly efficient dry kiln.
Far Eastern Shipping Company	Russia	€33 million	Creating a new, efficient and innovative integrated transport provider.

## Energy efficiency and renewable energy credit lines

The Bank increased its commitment to credit lines targeting energy efficiency and using renewable energy to €145 million, up from €136 million in 2007. The credit lines are provided through local banks, with loans to companies ranging from €50,000 to €2.5 million, with an average loan size of €500,000. Average loans to households are below €1,500. New credit lines opened in 2008, complementing those already existing in Bulgaria, Russia and the Slovak Republic.

Project name	Country	EBRD finance	Key sustainability feature
New credit lines	Georgia Kazakhstan Romania Ukraine	€145 million	Credit lines provided through local banks build capacity as well as improving energy efficiency in both the business and home environments.

## Cleaner energy

Thermal, coal-fired power stations continue to generate the majority of energy across the transition countries. However, the infrastructure is often polluting and highly inefficient. This limits output which can be an impediment to economic growth. As in previous years, EBRD financing in 2008 was used to modernise various thermal power plants, bringing improved efficiency and a reduction in carbon emissions per megawatt (MW) of energy produced. Engaging in dialogue with governments on how to improve power-sector management and cross-border electricity sharing to increase energy security remain important areas of focus for the EBRD.

The Bank's total investment in the power sector reached €423 million in 2008, easily the largest share of the SEI loans and up from €276 million last year.

Project name	Country	EBRD finance	Key sustainability feature
Rivne Kiev High Voltage Line	Ukraine	€150 million	Improving efficiency in the transmission of electricity.
Irkutsk Oil	Russia	€54 million	Reducing the amount of gas flaring and oil wastage.



# The Index of Sustainable Energy allows experts and policy-makers to benchmark individual countries' progress in reform of three key areas.

## Renewable energy

Renewable energy is energy generated from resources such as wind, rain, sun, tides and geothermal heat. Challenges for renewable energy in the Bank's countries of operations include i) renewable energy is more expensive than conventional energy ii) the regulatory framework for renewable energy is not in place in many countries iii) preferential tariffs are not always adequate to provide developers with the appropriate level of return and iv) there may be a technical and financial skills gap that has not been filled.

In addition to the stand-alone renewable energy projects that the EBRD signed (see table), the Bank has also structured credit lines that finance small renewable energy projects through local banks.

Name	Country	EBRD finance	Key sustainability feature
Saint Nikola	Bulgaria	€70 million	Wind farm in Bulgaria
Lüganuse wind	Estonia	€1 million	Wind farm in Estonia
Renewable energy projects under SEFFs	Bulgaria Slovak Republic Ukraine Georgia	€70.3 million	Small scale renewable projects in small hydro, wind, solar, biomass and geothermal energy. Total capacity of the projects: 125.3 MWe and 93.4 MWth.

## Index of Sustainable Energy

The EBRD has published a new indicator to monitor progress in sustainable energy policies. The Index of Sustainable Energy (ISE) allows experts and policy-makers to benchmark individual countries' progress in reform of three key areas – energy efficiency, development of renewable energy sources and policies to address climate change. In particular, the Index provides a way of assessing how closely a country's policies, institutions, practices and performance follow international best practice and serves as a guide for pinpointing areas of potential improvement.

The ISE, developed by the Office of the Chief Economist, shows that most countries in the former Soviet Union lag behind EU and eastern European nations, particularly in the policy framework for sustainable energy. Some Central Asian countries continue to be highly energy intensive (up to six times less energy efficient than the EU average). However, the good news is that energy intensiveness levels in south-eastern Europe and new EU member states are converging with the OECD average.

The Index is a first attempt to capture these differences across countries and there is room for refining the individual components and measuring the enforcement of laws and regulation better. The results must be assessed against the conditions in individual countries, but the EBRD is convinced that the ISE will generate a valuable discussion of appropriate policies to encourage energy efficiency, renewable energy and climate change mitigation.

In the future the ISE will not only support long-term economic growth but also contribute to improved energy security: more efficient generation and energy use, combined with the further development of renewable sources, open the way for non-depletable, domestically available and diversified energy resources that are affordable and have a smaller environmental footprint.

 [www.ebrd.com/pubs](http://www.ebrd.com/pubs)



## Energy efficiency in municipal infrastructure

There is still much that can be done to reduce energy wastage and CO<sub>2</sub> emissions across the transition region, by upgrading public buildings and modernising district heating systems. Energy losses can be reduced by as much as 60 per cent with relative ease and at minimal cost. Total EBRD lending in this sector reached €157 million in 2008, up from €143 million in 2007.

Project name	Country	EBRD finance	SEI investment	Key sustainability feature
Odessa district heating	Ukraine	€21.9 million	€21.9 million (100% energy efficiency)	Reduce natural gas consumption by the district heating system, improve quality of service, and partial metering of consumption in the city of Odessa.
Lipetsk	Russia	€17.9 million	€15.2 million	Renew and upgrade essential infrastructure, reduce service costs and significantly improve quality of municipal service provision in the city.
Khanty-Mansi	Russia	€8.5 million	€8.5 million	Improve provision of essential municipal water, wastewater and district heating services in the city of Nefteyugansk.
Batumi	Georgia	€2.5 million	€0.5 million	Purchase of up to 100 mid-size buses and maintenance equipment. A new Public Service Contract will be introduced between the company and the city of Batumi as part of the operation.
Kiev transport	Ukraine	€15.0 million	€3.0 million	Enables company to upgrade traffic management systems in the city, reduce congestion levels significantly and improve safety.

## Promoting a carbon credit market

Carbon credits are created when a project reduces or avoids the emission of GHGs. Such credits can then be traded between governments and businesses, either sold to invest in other sustainable energy projects or bought to help meet emissions targets under the Kyoto Protocol. Under the Protocol, 37 industrialised countries are required to reduce their GHG emissions to 5 per cent below 1990 levels, on average, over the 2008-12 period.

In 2008 the EBRD signed four carbon credit projects, involving energy efficiency improvements and greenhouse gas reductions in Armenia and Ukraine. The resulting carbon credits from its energy saving investments will be purchased by participants in the Bank's €190 million Multilateral Carbon Credit Fund (MCCF), which was created jointly with the European Investment Bank (EIB) in 2006.

To date the EBRD has achieved the following:

- The first carbon transactions under the MCCF have been signed for a total of 790,000 tonnes of CO<sub>2</sub> equivalent. These savings were achieved from EBRD-financed investments.
- The official UN registration of the second Joint Implementation project in the world for a cascade of hydropower plants along the river Iskar in Bulgaria, for which the carbon credits are being purchased by the Bank-administered Netherlands Emissions Reduction Cooperation Fund.

In 2008 Ireland, Spain and Poland agreed to work together in developing a Green Investment Scheme (GIS). Poland intends to sell assigned amount units under the Kyoto Protocol to both Ireland and Spain in 2009. The transaction proceeds will then be used to co-finance EBRD and/or EIB projects in Poland that would contribute to mitigating climate change. The GIS development is being facilitated by the MCCF.



### Assessing greenhouse gas emissions

The EBRD's GHG assessment, which follows its GHG methodology, screens all projects signed by the EBRD during the year and selects for a more detailed study those projects which are potentially associated with significant GHG emissions or emissions savings.

 [www.ebrd.com/enviro/tools/other.htm](http://www.ebrd.com/enviro/tools/other.htm)

In 2008, 91 projects were eligible for screening against the sector and "size of emission" category criteria adopted in the EBRD GHG methodology. Fourteen of these were considered likely to yield significant emissions savings or incremental emissions at or in excess of 20 kilotonnes CO<sub>2</sub>e<sup>1</sup> per year (experience has shown that only one or two per cent of the portfolio emissions are accounted for by projects below this threshold). This relatively low number of significant projects, as compared with recent years, reflects the increasing emphasis on developing projects focused on energy saving within the SEI and a reduction in the number of large, energy-intensive, greenfield projects.

### SEI projects

Eleven SEI projects have the potential for significant energy and GHG savings. In addition, the assessment has included the aggregate annual emissions savings projected from newly signed sub-projects funded by the energy efficiency credit lines. These were specifically established with local banks to encourage the roll-out of small and medium-sized energy saving projects in eastern and south-eastern Europe. For the purposes of GHG accounting these are treated as a single additional project. Together, these 12 SEI projects are expected to yield GHG savings totalling around 9 million tonnes (Mt) CO<sub>2</sub>e per year.

The most significant outcomes of these projects in terms of predicted GHG savings are:

- replacing the flaring of associated gas and natural gas with its beneficial use and/or re-injection, dominated by an estimated 4.8 Mt CO<sub>2</sub>e per year savings from two Russian oil fields<sup>2</sup>
- upgrading electricity transmission networks, including an estimated 2.5 Mt CO<sub>2</sub>e per year savings resulting from transmission system improvements, in Ukraine. This will remove the need to use fossil fuel generation to compensate for the forced under-utilisation of existing nuclear capacity due to transmission bottlenecks.

### Greenfield projects

Three greenfield projects, in the cement, steel and glass sectors, are estimated to contribute new GHG emissions totalling 1.2 Mt CO<sub>2</sub>e per year. Some of these emissions may well be offset by the closure of older, less efficient plants in these sectors, although there is insufficient evidence to include such offsets in the account.

### Net portfolio GHG savings

Taking emissions savings and new emissions together, the overall portfolio of 2008 signed projects is expected to result in net GHG savings of around 8 Mt CO<sub>2</sub>e per year.

<sup>1</sup> Carbon dioxide equivalence (CO<sub>2</sub>e) is a quantity that describes, for a given greenhouse gas, the amount of CO<sub>2</sub> that would have the same global warming potential, when measured over a specified timescale (generally, 100 years).

<sup>2</sup> Annual average savings 2010-17, against a baseline which assumes that the amounts of associated gas and natural gas currently forecast for this period would otherwise be flared.

# Municipal infrastructure

Investment in municipal and environmental infrastructure (MEI) promotes energy efficiency improvements, and provides better sanitation, a regular supply of clean drinking water, safer and cleaner buses and trams, less noise and better air quality in cities, as well as better waste collection and management.

The core objective of the Bank's MEI operations is to promote greater efficiency and higher quality in the provision of local authority services through investment and the promotion of independent, well-managed and financially sustainable operations provided on commercial principles and in a market-oriented institutional and regulatory framework.

The EBRD's approach is strongly supportive of the transition towards decentralisation of service responsibilities to local or regional levels; commercialisation of the operating companies providing local services; and environmental improvement as a consequence of investments that conserve resources and reduce pollution.

In 2008 the EBRD invested in 19 MEI projects amounting to €279 million across seven countries. The projects cover district heating, public transport, solid waste, drinking water, wastewater, traffic management, and energy efficiency improvements (see table on page 18).



In 2008 the EBRD invested in 19 MEI projects amounting to €279 million across seven countries.

#### MEI projects signed during 2008

Country	Project name	Description	EBRD finance (€ million)
Bulgaria	FLAG infrastructure	Identification, development and implementation of local infrastructure projects	18.0
Bulgaria	Sofia water system concession	Assistance to the concessionaire to achieve compliance with EU directives and restructure existing debt	20.6
Croatia	Velika Gorica urban transport	Development of local urban transport through financing new vehicles and improved organisation	9.0
Georgia	Kobuleti water	Upgrading of local water supply and wastewater treatment facilities	1.5
Georgia	Batumi public transport	Finance to buy new vehicles and renovate existing facilities	2.5
Georgia	Borjomi water	Upgrading of local water supply and treatment facilities	1.5
Montenegro	Montenegro regional water supply	Provision of potable water from Lake Skadar to municipalities along the coast	7.0
Russia	Novogor Prikamie	Improvements to water and district heating services, operated by a private company, to cut pollution	18.1
Russia	Rosvodokanal	Investment in water infrastructure linked to long-term improvements in best practice	36.3
Russia	Russian communal systems	Equity investment in consolidated utility	75.0
Russia	Khanty-Mansi municipal services development	Investment in municipal services company to improve efficiency	8.5
Russia	Taganrog district heating	Improvements to district heating infrastructure	5.3
Russia	Lipetsk municipal infrastructure	Upgrading of electricity, water and sewage infrastructure	17.9
Serbia	Duboko solid waste	Construction of a regional solid waste landfill	5.0
Tajikistan	Khujand water II	Further improvement of water supply network	1.5
Tajikistan	Dushanbe solid waste	Improvements to solid waste collection and disposal	2.8
Ukraine	Cherkasy energy efficiency	Improving energy efficiency of local district heating network	11.2
Ukraine	Kyiv city traffic management	Design and implementation of traffic management system to improve traffic flows and reduce congestion	15.0
Ukraine	Odessa district heating	Upgrading of 40-year-old district heating systems to improve energy efficiency	21.9
<b>Total</b>			<b>278.7</b>



## Finances flow to bring cleaner water to southern Russia



The Rosvodokanal Group (RVK) is one of the first Russian private operators to assume responsibility for water and wastewater infrastructure in Russia. As part of the largest, and only the second, public-private partnership (PPP) project in this sector in Russia to date, RVK has leased the assets from eight municipalities that include the cities of Krasnodar, Kaluga, Tyumen, Orenburg, Barnaul, Tver and Omsk and the Lugansk region in Ukraine.

The water supply in these municipalities has not been modernised for several decades and requires urgent attention and investment. With increasing urbanisation and new industries, the systems need to be both rehabilitated and extended. RVK's aim is to bring more reliable, cleaner water supplies and the benefit of modern wastewater treatment facilities to over 5.5 million people in the region. In 2008, a €42 million loan from the EBRD was signed, and a second, larger loan is expected in 2009. For the follow-on loan, the Bank will try to mobilise commercial funding for half of the amount through syndication with commercial banks.

The EBRD is also providing technical support for the local authorities where Rosvodokanal operates, to help them set up monitoring units and develop a monitoring methodology. Russia currently lacks a model best-practice long-term lease agreement that is based on actual experience. Neither Russian public authorities nor emerging private operators have the experience of structuring and negotiating long-term agreements of this type, which can lead to inefficiency and a lack of investment.

Untangling the legal discrepancies between the EBRD's requirements and that of the Russian legislation has been challenging, but ultimately the project will ensure that contracts between RVK and the municipalities are close to international practice, and will lead to a clear tariff mechanism and customer service standards such as a customer call centre and a complaints review system. In addition, RVK will be required to publish service levels on its web site.

 [www.ebrd.com/russia](http://www.ebrd.com/russia)

# Transport

There is a significant need for the modernisation and development of transport infrastructure in the Bank's countries of operations, following years of under-investment and limited maintenance of existing assets. Well-developed transport networks are essential to support economic growth, including private sector development, and regional integration.

As most transport projects create a whole stream of benefits, of which energy efficiency is just one, estimating the investments associated with sustainable energy components will almost always involve allocating the total investment of any given project between "energy efficiency" and "non-energy-efficiency". This can be done by identifying the energy efficiency benefits of a project and then calculating the investments that would be required to generate those benefits, assuming a standard discount rate, which is the methodology applied to transport projects.

In 2008 the EBRD signed seven projects across four countries amounting to approximately €484 million. The projects cover rail, aviation, logistics and roads and ports, and promote energy efficiency.



Country	Project name	Description	EBRD finance (€ million)
Bosnia	Corridor Vc	Upgrading to motorway standard, specific sections of Corridor Vc, together with measures aimed at improving the institutional capacity of the recently established motorway agency	180.0
Hungary	M6-M60 Motorway	Construction of M6-M60 Motorway under concession	75.0
Moldova	Road rehabilitation	Rehabilitation of main roads in Moldova together with institutional strengthening to improve the efficiency of the sector	17.5
Russia	FESCO	Purchase of equity in a Russian logistics company	77.4
Russia	IPL	Leasing of rolling stock for private freight operators	9.9
Russia	Globaltrans	Purchase of equity in private freight operator	31.9
Russia	JSC Freight One	Financing of rolling stock	92.5
<b>Total</b>			<b>484.2</b>

# Smoothing out the Silk Road



Long-held dreams of creating a modern, efficient version of the fabled silk route, linking Europe with China, are moving closer to reality. Nowhere is this more true than in south-western Kazakhstan, where a 100-kilometre stretch of road between the Russian border and the city of Aktobe is about to be upgraded thanks to a sovereign loan of €128 million from the EBRD to be signed in early 2009.

The World Bank, Asian Development Bank, Islamic Development Bank and the Kazakh government are financing upgrades to other sections of the road. Working together, these institutions have developed a joint environmental assessment review framework to ensure that environmental and social assessment are undertaken consistently along the different sections of the road, regardless of the source of finance.

The EBRD contracted an independent consultant to undertake an environmental and social analysis to assess the current environmental and social conditions of the project sites. The analysis will look at the potential environmental and social

impacts of the project and propose mitigation and monitoring measures during the design, construction and operation stages of the project.

Land use change, noise, atmospheric and water pollution are issues that may be encountered in any similar road development project. In this project, additional specific issues need to be considered such as: how to deal with possible heavy metal contamination along some parts of the road; the possible effect on the migration paths of the endangered Saiga antelope; the impact of the road improvements on vulnerable local people, such as the largely poorly educated Oralmans; and the siting of underpasses that take into account the grazing patterns of local cattle farmers who use communal pastures on either side of the road. The EBRD's consultant also identified particular recommendations for environmental and social enhancement measures and road safety improvements as well as a public disclosure and stakeholder engagement programme.

 [www.ebrd.com/kazakhstan](http://www.ebrd.com/kazakhstan)



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## A breath of fresh air



Ulaanbaatar is the coldest capital city in the world, with temperatures plunging as low as -40°C during Mongolia's six-month long winters. Around half of the city's million-strong population live in gers, tent-like structures that are heated by coal stoves. Given the poor quality of the local coal, the city spends most of its winters enveloped in a pall of smog, with severe consequences for peoples' health – reportedly contributing to the death of as many as 600 people a year and 2,500 new cases of child asthma annually.



This worrying situation prompted the Mongolian government to request the EBRD's help. In response, a team of staff from across the Bank has drawn up a programme aimed at helping people living in gers switch to cleaner forms of fuel. Mongolia does produce clean coal but most of this is exported to China. This lack of availability reinforces the price differential between the two kinds of fuel.

Part of the aims of the EBRD's Ulaanbaatar City Clean Air Initiative is to seek ways in which the government can help the poorest households to switch to smokeless coal, which is about 30 per cent more expensive than raw coal. Affordability is the central issue. Over the next three to five years, the Bank aims to help Mongolia increase its supply of smokeless coal so that it will become more widely available and therefore cheaper.

An important element of the Bank's assistance programme will be a public awareness campaign aimed at highlighting the health benefits of using smokeless coal. The project will also undertake environmental monitoring to measure pollution levels in ger areas; provide legal expertise in developing clean air legislation; and run a pilot scheme in a small part of the ger community.

The initiative has been funded by the Early Transition Countries (ETC) Fund.

 [www.ebrd.com/mongolia](http://www.ebrd.com/mongolia)



# Health and safety in EBRD-financed projects

Supporting development in transition countries means seeking to ensure that all places of work, be they factories, offices, workshops or transport systems, are well designed, safely operated and properly maintained.

## Establishing a safety culture

When the EBRD examines new project proposals it looks carefully at how health and safety issues will be considered. Accident and fatality rates remain unacceptably high across the transition region, particularly in heavy industry and mining.

The tragic death of 30 miners in an explosion at ArcelorMittal's Abaiskaya coal mine in Kazakhstan in January 2008 underlines the crucial importance of pursuing a safety culture. In this case an EBRD loan of €68 million is being targeted towards health and safety issues – for example by improving ventilation to prevent the build-up of methane in mines and training and guidance for staff.

One of the biggest challenges in the region over the past decade has been to establish safe working conditions at Chernobyl so that work to properly contain the destroyed nuclear reactor can begin. Through concerted efforts by partners, various international-standard systems, procedures and equipment are now in place. In 2008, 6 million working hours at this potentially dangerous site were completed without any serious accidents. For further information, see page 24.

The Bank also ensures that its own health and safety procedures meet international standards, notably by providing staff with a comprehensive set of guidelines on safe travel (see page 62).

## Making roads safer

Safer road infrastructure is a key element of an effective strategy to reduce the rising trend of road fatalities in transition countries. According to the International Transport Forum, while the number of people killed or injured on the roads has fallen by 13 per cent between 2000 and 2005 in EU countries, it has risen by 30 per cent in the EBRD's countries of operations. Road crashes in Russia alone took the lives of over 30,000 people in 2007 and caused injuries to another 292,000. The accident rate in the Bank's region is estimated to cost some 2 per cent of GDP every year.

In July 2008 the EBRD hosted a conference "Making roads safe", in collaboration with the FIA Foundation (a charity promoting road safety), the World Bank Global Road Safety Facility and the Commission for Global Road Safety, to develop a consensus on common systems of road infrastructure safety

design, rating and assessment. It was attended by more than 100 delegates, representing regional development banks and donor governments, ministers, officials and road directors from transition country governments, UN agencies and NGOs, as well as road safety and development experts and engineers.

Conference sessions on the global impact of road traffic injuries demonstrated how road safety is intimately connected with the international development and poverty agendas. Proper planning of infrastructure development can reduce death and injury and this in turn has a strong economic impact. At the close of the conference the EBRD affirmed its commitment to financing only the safest road designs and by introducing a systematic and coordinated approach to infrastructure safety among the IFIs.

# Donor funding in support of environmental and social investment

 [www.ebrd.com/nuclear](http://www.ebrd.com/nuclear)

Donor support is key to advancing sustainable growth and development in the transition region. Donors provide support to the EBRD's operations in two ways: through nuclear safety funds, which are designated for specific purposes and managed by the EBRD, and via the Technical Cooperation Funds Programme (TCFP).

## Nuclear safety

The EBRD has been at the centre of efforts to improve nuclear safety in the transition region since 1993. This involvement came after leaders at a G-7 summit in Munich declared their intention to help countries in central and eastern Europe reduce the risk of accidents at Soviet-designed nuclear power stations.

The Nuclear Safety Account (NSA) was the first multilateral fund set up at the EBRD – it has since been channelled into providing various types of support including: short-term safety upgrades until conditions for early closure were met; new facilities for the decommissioning of reactors; better safety procedures; greater energy efficiency and schemes for alternative power generation.

The EBRD now manages six nuclear safety funds on behalf of the European Union (EU) and 29 donor governments: the NSA, the Chernobyl Shelter Fund (CSF), three international decommissioning support funds (IDSFs) for Bulgaria (Kozloduy), Lithuania (Ignalina) and the Slovak Republic (Bohunice) and the Nuclear Window of the Northern Dimension Environmental Partnership (NDEP, see page 26).

Donors have contributed more than €2.5 billion to these funds, and in 2008 approved over €500 million in new grant allocations. Projects financed by these funds are subject to the same rules and policies that apply to the EBRD's loan-funded projects, particularly with regard to environmental policies and standards.

## Chernobyl

In May 2008 the EBRD agreed to contribute up to €135 million to support international efforts to ensure the safety of the site of the Chernobyl nuclear power plant, the scene in 1986 of the world's worst nuclear accident.

The contribution will be divided between the CSF-financed New Safe Confinement project – targeted at containing the “Shelter”, the crumbling concrete sarcophagus that was hastily built over reactor 4 after it was destroyed – and the completion of the Interim Storage Facility 2, financed under the NSA and set up to deal with spent fuel from reactors 1-3. The EBRD grant is insufficient to fund both projects, but the Bank considers it a catalyst for additional funding from donor countries.



Another significant achievement in 2008 was official acceptance by Ukrainian authorities of the stabilisation works on the Chernobyl Shelter. Improved radiological shielding enabled the repairs to the Shelter roof to be completed in August. This will reduce the ingress of water until the expected completion of the New Safe Confinement (NSC) in 2012.

### **New Safe Confinement**

The NSC is an immense steel dome that will entomb the Chernobyl Shelter, preventing the release of contaminated dust and providing equipment and a safe working environment to dismantle the wrecked reactor. It will be constructed nearby, then fitted out and slid on rails over the sarcophagus. Described as the largest moveable structure to be ever built, the NSC has been designed to last for at least 100 years.

More than 200 staff have begun design and preparatory work for the construction of the NSC. An excellent health, safety and radiation protection record was maintained throughout 2008. It is an important achievement that works (including the challenging tasks of the shelter stabilisation works), representing altogether about 6 million man hours, were completed without any significant accident.

A key document setting out the NSC's design was presented for approval by Ukrainian regulators in December 2008. The main challenge for 2009 will be to complete the detailed design, obtain approval and then proceed with construction.

### **Spent fuel storage facility**

The Interim Storage Facility (ISF) 2 is a dry storage facility for the 20,000-plus spent fuel assemblies from Chernobyl's reactors 1-3, which are currently housed in inadequate long-term storage facilities. Completion of this project is therefore a prerequisite for improving nuclear safety at the site. The ISF 2 contractor has obtained regulatory approval for the concept design and has manufactured a prototype of the cask which will safely store spent fuel for 100 years. Final designs are being prepared for approval by the Ukrainian regulators.

### **International Decommissioning Support Funds**

The EBRD's International Decommissioning Support Funds (IDSFs), which assist Bulgaria, Lithuania and the Slovak Republic with the decommissioning and early closure of older nuclear power plants, are funded by the EU and more than a dozen European countries.

 [www.ebrd.com/country/sector/nuclear/decomm.htm](http://www.ebrd.com/country/sector/nuclear/decomm.htm)

In Bulgaria, Lithuania and the Slovak Republic, the project pipelines supporting the actual decommissioning of the designated power plants, and facilities and equipment for the management of radioactive waste and spent fuel, are well-developed and are being implemented.

Reactor 2 of the Slovak Republic's Bohunice V1 nuclear plant was shut down in late December 2008, as agreed when the country joined the EU in 2004.

Projects helping to compensate for the loss of generating capacity continue to make progress. Energy efficiency credit lines – which allow local banks to borrow and then lend money on to end-users to improve energy efficiency or use renewable sources of energy – were first introduced in Bulgaria with grant support from the Kozloduy IDSF. They are now being replicated in many of the Bank's other countries of operations.

The upgrading of the Elektrine thermal power plant in Lithuania to comply with EU emission standards was completed in 2008. Proposals for a 400 megawatt (MW) gas-fired plant are due in early 2009. The two projects will partially compensate for the loss of Ignalina's generating capacity.

## Nuclear safety projects signed in 2008 comprised four NDEP grant agreements totalling almost €74 million.

### Northern Dimension Environmental Partnership

The EBRD is spearheading efforts to tackle the most pressing ecological problems in north-western Russia through its management and hosting of the Northern Dimension Environmental Partnership (NDEP). Since 2002 this initiative has brought together the governments of donor countries and Russia as well as representatives of the European Union and IFIs to raise grant funds for environmental projects.

 [www.ndep.org](http://www.ndep.org)

By the end of 2008 NDEP funds under EBRD management amounted to €275 million, around €150 million of which has been assigned to clean up the spent nuclear fuel and radioactive waste that is the legacy of the Soviet Northern Fleet. So far more than 120 nuclear-powered submarines and ships have been withdrawn from service and dismantled. But tough challenges remain, including reducing the environmental and security risks posed by more than 50 tonnes of nuclear waste and spent fuel that are stored in deteriorating tanks at former maintenance bases on the Kola peninsula.

The remaining €125 million of NDEP grant funds have been earmarked for projects to reduce environmental degradation in the region's seas, typically by improving wastewater treatment plants and restructuring the management of municipal and agricultural waste. These grants are intended to complement loans by IFIs.

In 2008 the Fund's non-nuclear resources received a clear boost with Russia contributing €20 million, the European Commission (EC) €10 million, Sweden €1 million and Norway €0.5 million.

NDEP extended its activities in 2008 into Russia's Vologda region by signing a grant agreement for €3.5 million with VologdaGorVodokanal, the local municipal water company. The grant is intended for upgrading the wastewater treatment plant and improving the water quality of the River Suhona, which runs through the city centre. The total investment is €18.4 million, which includes a €10.6 million EBRD loan, €4.3 million in local equity and other international grants.

During the year, NDEP donors also approved €30 million grant funding for St Petersburg which will contribute to the long-held goal of full wastewater treatment for the city by 2012. The first section of St Petersburg's Northern Tunnel Collector was inaugurated in October 2008. This reduces discharges of municipal and industrial wastewater into the River Neva and the Gulf of Finland, and is on track to be completed in 2011.

Nuclear safety projects signed in 2008 comprised four NDEP grant agreements totalling almost €74 million:

- Work has begun on the decommissioning of the Lepse, a former service ship moored off Murmansk that contains damaged spent fuel and highly radioactive waste.
- The de-fuelling of a Papa-class nuclear powered submarine near Severodvinsk is under way.
- Plans for the highly complex task of decommissioning a heavily contaminated, abandoned spent-fuel store at Andreeva Bay are being devised.
- The enhancement of radiation monitoring and emergency response systems in the Archangelsk district is in progress. This follows the successful implementation of a similar system at Murmansk.





## Technical Cooperation Funds Programme

Some 30 governments and international agencies support the EBRD's Technical Cooperation Funds Programme (TCFP). Donor agencies work closely with the Bank at the project level, supporting environmental and social initiatives in accordance with their geographic and sectoral priorities. Grants provided by donor governments and co-financing with other financial institutions help to prepare the way for EBRD-financed projects and allow clients to benefit from expert advice.

 Read more in the *Donor Report 2009*.

 [www.ebrd.com/oppo/tc/index.htm](http://www.ebrd.com/oppo/tc/index.htm)

In 2008, donors provided €33 million to support environmental and social activities linked to EBRD-financed projects. Donor funding is provided in the form of grant co-financing and TC grants that are used to support EBRD-financed initiatives such as the Sustainable Energy Initiative, and programmes in the Western Balkans Fund and the ETC Initiative.

Donor funding in 2008 has provided valuable support for projects focusing on energy efficiency and the environmental aspects of industrial production and municipal development. Donor support for nuclear safety and other environmental activities is managed through separate programmes (see page 24).

**TABLE 1**  
**Technical cooperation funding for environmental and social activities in 2008**

	<i>TC funds (€ million)</i>	<i>Source of funding</i>
Municipal and environmental infrastructure	13.80	Austria, Canada, EBRD Shareholders Special Fund, ETC Fund, Finland, France, Germany, Italy, NDEP, Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China, World Bank
Energy efficiency and Sustainable Energy Initiative	12.00	Czech Republic, EBRD Shareholders Special Fund, European Union, Global Environment Facility, Italy, Japan, Kozloduy IDSF, Netherlands, Norway, Spain, Sweden, United Kingdom, Western Balkans Fund
Renewable energy	3.80	EBRD Shareholders Special Fund, Global Environment Facility, Luxembourg, Kozloduy IDSF, Spain, USA
Forestry	0.46	Austria, EBRD Shareholders Special Fund
Environmental and social studies	0.39	Canada, Italy, Netherlands
Social	0.71	Canada, ETC Fund, Italy, Luxembourg, Western Balkans Fund
Gender	0.77	Canada, ETC Fund, Taipei China
Northern Dimension Environmental Plan	0.09	Finland
Biodiversity	0.58	European Union
REACH	0.18	EBRD Shareholders Special Fund
<b>Total</b>	<b>32.78</b>	

# International cooperation for environmental sustainability

The EBRD works in partnership with other international organisations to implement the global agreements and conventions that are essential to tackle major environmental challenges in the transition region.

## Global Environment Facility

The Global Environmental Facility (GEF) provides grants to help developing countries tackle six critical threats to the global environment: loss of biodiversity, climate change, pollution of international waters, ozone depletion, land degradation and persistent organic pollutants. Since it was established by donor governments in 1991, the GEF has served as the financial mechanism for a range of international conventions, channelled through the World Bank, various UN agencies and regional development banks including the EBRD.

 [www.gefweb.org](http://www.gefweb.org)

In 2008 the Bank continued to target GEF funds by devising four projects to reduce GHG emissions from the transition region. Three of these projects are in Russia and focus on promoting energy efficiency in public buildings, urban housing and industry. The fourth project is in Ukraine and focuses on creating markets for renewable energy.

The EBRD's Energy Efficiency and Climate Change unit has been responsible for leading all four project proposals, which amount to a request for just over €38 million. The Bank hired a specialist consultant with a detailed knowledge of the GEF and its application process to help with the preparation of these projects. The consultant has been identifying other areas where projects might be developed including, for example, International Waters and Persistent Organic Pollutants. In 2008 all four projects were accepted by the GEF.

## European banks launch joint environmental resource

The EBRD, together with the EIB, the Council of Europe Bank, Nordic Investment Bank (NIB) and Nordic Environment Finance Corporation (NEFCO), launched the joint "Sourcebook on EU Environmental Law" in December 2008. This resource outlines the environmental legislation, including principles and standards, adopted by the five multilateral financial institutions. It is a further example of cooperation to promote the European Union's approach to environmental sustainability between these institutions, building on the launch of the European Principles for the Environment (EPE) in 2006.

 [www.eib.org/epe](http://www.eib.org/epe)

The sourcebook was initiated by the EIB and funded by all the institutions. It is designed to enable project sponsors in EU member states, candidate countries, potential candidates and countries covered by the European Neighbourhood Policy to identify and understand the EU environmental standards that projects supported by the EPE banks in these regions are expected to meet. The sourcebook will also be used by EPE bank staff and third parties with an interest in the banks' project financing activities.

The focus of the sourcebook is on project-specific standards across a range of key sectors in which the EPE banks concentrate their lending activities. The sectors covered include energy, infrastructure, metal production and processing, waste management, agriculture and the chemical and extractive industries. Moreover, the Sourcebook offers cross-sector guidance on issues such as the Environmental Impact Assessment (EIA), environmental management systems and environmental liability. It will be periodically updated by the EPE banks.

## Harmonising approaches to greenhouse gas emissions

In July 2008, the EBRD hosted a GHG "Footprinting" workshop attended by representatives from the leading IFIs. This launched an initiative aimed at harmonising the different approaches that have been taken by IFIs towards GHG accounting – a worthwhile goal and one supported by the G-8 and the UN Framework Convention on Climate Change. While the development of a single, uniform approach seems unlikely, given the differences in the remits and roles of the participating organisations, this collaboration is fostering a better understanding of the different paths being followed and a recognition of the benefits to be gained from using the same methods for those elements of accounting that are common to the various approaches. The initial workshop hosted by the EBRD was followed by a more detailed examination of the many complex practical issues involved at a second workshop at the EIB in October. The next meeting of the group is planned for early 2009.



### Dialogue among social specialists

The EBRD's social specialists participated in the sixth annual meeting of social experts from development finance institutions (DFIs), which was hosted by DEG (part of KfW banking group) in Cologne. Discussions and case studies focused mainly on two project-related topics: non-employee workers and workers in the supply chain, and government-led involuntary resettlement. The meeting provided an excellent opportunity for specialists to discuss these issues in depth, exchange experiences and work together on practical solutions to complex, difficult cases. For the first time, representatives from five Equator Banks (see pages 42 and 44) also participated in the meeting, in addition to specialists from five multilateral and eight bilateral DFIs. EBRD staff members have been participating in the DFI social expert meetings since their inception; previous meetings were hosted by the EIB, EBRD, IFC, IFU and FMO.

### Public-private partnerships for agricultural investment

The rising cost of key food is hurting consumers across the world and putting pressure on governments to take action, often in the form of restrictive measures such as price controls and export quotas.



As well as posing problems, however, this situation presents eastern Europe with a unique opportunity to become an agribusiness powerhouse. To work out ways of tapping into the region's potential, representatives from business, IFIs, and governments came together at EBRD Headquarters in London on 10 March 2008 to attend an EBRD/FAO-sponsored conference, "Fighting food inflation through sustainable investment". The event brought together public and private sector representatives from the former Eastern bloc. The conference was a dialogue about creating better links between the agribusiness industry and farmers and harnessing private sector investments to improve the infrastructure for farming.

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## EBRD provides assistance to Ukraine's chemical producers

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In 2008 the EBRD launched a programme of training workshops across Ukraine to help the country's chemical and manufacturing sectors understand the impact of REACH – the new European Union regulation on the Registration, Evaluation, Authorisation and Restriction of Chemical substances. REACH aims to provide greater protection to human health and the environment where chemicals are being produced or used. It required all companies importing chemicals into the European Union to “pre-register” their substances with the European Chemicals Agency in Finland by 30 November 2008 – or to have confirmed that their European customers have done so.

The training programme ran from September to October and included a seminar for industry leaders, ministries and trade associations in Kiev as well as a series of practical workshops aimed at specific audiences, from government regulators and ministries to representatives from industry in Kiev, Lviv, Odessa, Dnipropetrovsk, Donetsk and Kharkiv. The workshops were delivered by both international and local consultants together with the Ukrainian Chamber of Commerce and an international law firm.

Protecting the environment, promoting public health and safety, and meeting EU standards will give Ukrainian firms an important business advantage and enable them to access a market of more than 500 million consumers in Europe.

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### Cooperation with indigenous peoples

In October 2008, the Russian Association of Indigenous Peoples of the North and Far East (RAIPON) and the Khabarovsk Krai region organised a meeting to mark 15 years of cooperation between the UN system and the indigenous peoples of Russia.

 [www.raipon.org](http://www.raipon.org)

The objective of this meeting was to bring together various stakeholders both from the international community and Russia to discuss how the UN Declaration on Indigenous People should be used to promote good practice as represented by the EBRD's Performance Requirement for Indigenous People. One of the Bank's Social Experts gave a presentation on EBRD's new Environmental and Social Policy and its Performance Requirement for Indigenous People.

Indigenous peoples' representatives from Khabarovsk Krai were able to attend and the EBRD provided €14,300 in TC funding from the Canadian International Development Authority (CIDA) enabling more indigenous peoples' representatives from all regions in Russia to participate. Other delegates included representatives from the UN Permanent Forum on Indigenous Issues, the Office of the High Commissioner for Human Rights and representatives of NGOs.

 [www.un.org/esa/socdev/unpfii](http://www.un.org/esa/socdev/unpfii)  
[www.ohchr.org](http://www.ohchr.org)



# Supporting lending to small businesses

Successful small businesses are the lifeblood of a vibrant market economy; entrepreneurship creates jobs and provides the basis for long-term, sustainable growth. Access to finance for micro and small business plays a role in poverty alleviation: allowing entrepreneurs to start and grow their business has knock-on effects such as raising household income, facilitating access to improved health care and nutrition and children's education. Women particularly benefit from access to micro and small business finance and their status is often enhanced when they are seen to have responsibility for managing loans and generating their own income.

The EBRD's micro and small enterprise (MSE) financing is provided through 107 local banks and specialised microfinance institutions that disburse loans to MSEs in 18 countries of operations, through some 2,700 branches. The portfolio is over €690 million and provides partner lending institutions with various financial products and tailored technical assistance. The total number of loans disbursed by EBRD partner institutions reached 4.1 million with a total value of over €20 billion. Strengthening partner institutions' ability to lend safely and efficiently to the MSE sector is a key component of the Bank's programme. During 2008, €10.4 million in TC funds was contracted to support MSE lending programmes.

The MSE lending programmes continue to expand not only through local banks but also through non-bank microfinance institutions to reach even smaller clients, particularly in rural areas. The EBRD also invests in new specialised microfinance banks where there is market need and in 2008 two new banks in Armenia and Belarus were established.

 [www.ebrd.com/sme](http://www.ebrd.com/sme)

## Investment through financial institutions

The EBRD mobilises funding for projects that are too small for it to handle directly through local banks and non-bank financial institutions. The Bank provides finance to SMEs in various ways, such as credit lines to local banks for on-lending, trade guarantees (see page 36), equity investments in banks and equity funds, and loans to leasing companies. The EBRD also provides loans and or equity directly to small companies through the Direct Lending Facility and Direct Investment Facility, respectively (see page 33).

 [www.ebrd.com/fi](http://www.ebrd.com/fi)

Maintaining a supply of credit to small businesses has become even more important in the global financial crisis, and the EBRD has made it priority to do so through credit lines to local banks. The Bank is also continuing to help small businesses gain access to credit through its TurnAround Management and Business Advisory Services (TAM/BAS) Programme (see page 34). Cross-border trade is encouraged through the Trade Facilitation Programme (see page 36).

The EBRD has directed over €3.7 billion towards small business projects via SME-focused debt facilities and currently has projects in 26 countries. The Bank's portfolio involves over 190 FIs.

The Bank supports small business mainly through credit lines to local banks. In 2008, the EBRD signed 29 new projects with local banks totalling €343 million and 10 SME-related leasing projects amounting to over €67 million. SME projects with FIs in 2008 range from a €29 million micro, small and medium-sized enterprise (MSME) loan to Caspian Bank in Kazakhstan to a €1.4 million loan to Zoos Bank in Mongolia.

The EBRD has directed over €3.7 billion towards small business projects via SME-focused debt facilities and currently has projects in 26 countries.

EU/EBRD SME Finance Facility. Established in 1999, the Facility is the EBRD's main instrument for financing small businesses in the new EU member states and candidate countries.

## European cooperation to support small businesses

One of the ways the Bank has supported SMEs is through the EU/EBRD SME Finance Facility. Established in 1999, the Facility is the EBRD's main instrument for financing small businesses in the new EU member states and candidate countries. It now focuses on Bulgaria, Croatia and Romania. The EBRD funding available through this Facility amounts to €1.35 billion supported by €180 million of EU grant funds, which are used to provide financial incentives and technical assistance to participating FIs. The technical assistance is especially valuable in improving the capacity of local FIs to provide appropriate financing products and service to SMEs on a sustainable basis.

By the end of 2008, the EBRD had provided 124 credit lines totalling €1.2 billion to 43 banks and 39 leasing companies in the 11 countries covered by the Facility. In total, over 100,000 transactions worth more than €2 billion have been undertaken with small businesses throughout the region. The average loan size for each business is as low as €23,000 while leases average €21,000; the small size of the transactions indicates that the smallest enterprises are being reached successfully by the Facility.

In 2008, the EBRD established its first credit line facility of €40 million, in partnership with two Romanian banks, to address the financing needs of SMEs in the areas of environmental protection, product safety and quality, and occupational health and safety. The Facility is supported by €10.2 million in grant resources, provided by the European Union and the Romanian government, to fund financial incentives and technical assistance support for the SMEs to improve their environmental and health and safety standards.

### Loans through commercial banks

There are currently MSE lending programmes with commercial banks in 13 countries of operations. The programmes' success is in having established permanent and sustainable lending facilities for small businesses in these countries. Furthermore, the transfer of know-how through the training of staff using proven specialist MSE lending technology has resulted in safe, efficient and high quality portfolios. As of December 2008, the outstanding MSE loan portfolio for the participating banks across these countries stood at €2.7 billion in over 395,000 loans; the quality of the portfolio remained very good at 4.3 per cent, which is slightly higher than usual, but considering the current turmoil in the financial world, is regarded to be very good. The number of trained and currently employed MSE loan officers amounted to nearly 5,500 and the regional coverage spanned 1,600 branches.

### Non-bank microfinance institutions

Non-bank microfinance institutions (NBMFIs) have proved to be efficient providers of microfinance in the transition countries, providing smaller loans and in more remote areas. The sector is rapidly evolving with new institutions opening and existing ones growing, transforming into more sustainable commercial entities and adapting to the changing environments in which they operate. The EBRD has been helping to strengthen these institutions by providing training in risk and asset management and improving operational procedures.

In 2008 a loan of €3 million was provided to MI-BOSPO, a leading NBMFI in Bosnia and Herzegovina to assist it in serving even more clients and supporting the underdeveloped market for financing female entrepreneurs. MI-BOSPO now provides loans to around 25,000 women, who typically borrow between €500 and €15,000. Many of them are investing in the development and expansion of more sophisticated businesses. The organisation is also making use of TC funds amounting to €300,000 from the Western Balkans Fund to strengthening its IT system, auditing facilities and risk management.

An MSE loan of €4 million was also provided to Prizma, another leading NBMFI in Bosnia and Herzegovina which targets predominantly the lower-end niche of the MSE market in the country and has almost half of its portfolio in the agricultural sector.

The micro credit sector in Bosnia and Herzegovina is a unique success story – in many cases private post-war humanitarian initiatives have developed into innovative financial service providers that serve an important and dynamic segment of the economy.

### Specialised microfinance institutions

To date the EBRD has made equity investments in 16 specialised microfinance banks, of which 14 are greenfield institutions. They demonstrate the viability of MSME lending to local markets.

The EBRD invested in the Belarusian Bank for Small Business (BBSB) which opened on 6 October 2008. BBSB is the result of a concerted effort of private and public sector investors as well as a joint donor initiative. Donors have committed €2.6 million (Austria, European Union, FMO, IFC, Japan, Luxembourg, Norway and SIDA/SwedFund). Donor funds will cover start-up costs and accelerate the bank's regional expansion.

ProCredit Bank Armenia (PCBA) opened on 2 February 2008. The EBRD also invested in PCBA together with KfW and ProCredit Holding. Technical assistance funds of

€356,000 were provided by Canada to cover start-up costs and accelerate the bank's regional expansion.

### Direct Lending Facility

In addition to providing credit to small and medium-sized businesses through local banks, the EBRD operates a Direct Lending Facility, focused on the so-called Early Transition Countries (ETCs): Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan.

### Direct Investment Facility

The EBRD's Direct Investment Facility (DIF) makes equity and limited debt financing available to attractive private sector businesses. Investments may be in existing enterprises proposing to expand their businesses or product lines, or start-ups with an unusually strong business plan and sponsors with relevant business experience.

## Supporting the Kyrgyz construction sector



In 2008 the EBRD provided through the Direct Lending Facility a €569,000 loan to Granit Yug, a privately owned quarry in the Djalal Abad region in the south west of the Kyrgyz Republic, for the purchase of processing and polishing equipment to make limestone tiles. Given the region's high quality stone reserves, Granit Yug is well placed to grow dynamically in the future. The EBRD's loan will support the sustainable development of the company and have an important impact in the region through skills transfers and setting standards of business conduct as well as health and safety regulations.

A second project supported by the EBRD through the DLF may well benefit from travertine quarried by Granit Yug. The Bank is providing €2 million to Global Construction, a Kyrgyz private company which is developing much needed new housing to international standards in the capital, Bishkek. The project should trigger long-term development in the construction sector by increasing demand for construction works and materials and will have linkages to the EBRD's Microfinance Facility with local banks.



Building stronger and more sustainable businesses in the transition region is at the heart of the EBRD's work. The Bank is able to provide direct help to companies through the donor-funded TAM/BAS Programme.

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### **The TurnAround Management and Business Advisory Services (TAM/BAS) Programme**

Building stronger and more sustainable businesses in the transition region is at the heart of the EBRD's work. The Bank is able to provide direct help to companies through the donor-funded TAM/BAS Programme. All TAM/BAS projects include a commitment to sustainability, whether improving energy efficiency, environmental protection or increasing gender equality.

The TAM/BAS Programme increasingly focuses on working with MSMEs in rural areas which reflects donor and EBRD priorities to assist economic development and diversification outside capital cities. There is also an increased emphasis on market development activities, such as training for MSMEs and local consultants. In 2008 BAS carried out some 40 training programmes for consultants and TAM trained 180 companies in Serbia over a series of eight training courses.

#### **Ensuring environmental sustainability**

Identifying opportunities for sustainable development is a key responsibility for TAM/BAS, whether it is revealing the possibilities of energy savings, advising on reducing pollution or helping MSMEs to comply with environmental regulations. This hands-on assistance allows companies to recognise the long-term benefits of investing to reduce energy wastage or environmental impacts, although these issues are often seen as a relatively low priority for companies, especially in the ETCs.

TAM/BAS activities with an environmental focus carried out in 2008 include seminars on the Clean Development Mechanism (CDM), as set out in the Kyoto Protocol, the use of solar panels for energy generation and biomass technology.

 [www.unfccc.int](http://www.unfccc.int)

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### **TAM/BAS Programme**

TAM brings in experienced business executives from successful Western companies to assist local managers in learning new skills such as sales and marketing strategies. It can call on more than 3,000 senior advisers and specialists from an array of industries.

BAS enlists local consultants to help small businesses to become more competitive. Both parts of the Programme focus on catalysing business growth in less developed rural areas of the transition region.

Donors have provided €167 million in total, with the largest contribution coming from the European Union. Since 2007, the TAM/BAS Programme has received funds from the EBRD, through its Shareholder Special Fund.

 [www.ebrd.com/tambas](http://www.ebrd.com/tambas)

In the Former Yugoslav Republic of Macedonia (FYR Macedonia), the BAS environmental programme is helping MSMEs to increase their compliance with the EU's Integrated Pollution Prevention and Control (IPPC) Directive. The TAM environmental programme, funded by the Japanese government and implemented in close cooperation with the EBRD's Environment and Sustainability Department, is improving the environmental and safety practices of participating enterprises without imposing a heavy financial burden on them.

#### **Empowering rural communities**

Community projects are an innovative means of TAM assistance in the most remote regions of the ETCs. The projects contribute to the reduction of poverty, supporting small farmers in their efforts to move from subsistence farming, creating new local businesses, enhancing existing companies and trade and so increasing local incomes.



# Ukraine Micro Lending Programme



Anatoliy Grigoryevich worked on a state-owned farm from 1990 to 1997. After state-owned farms were privatised, he began to grow crops on his own land. In 2005 and 2006, Anatoliy received three Ukraine Micro Lending Programme (UMLP) loans from Bank Forum totalling UAH 23,000 (€3,100), allowing him to increase the number of pigs from 10 to 60 or 70, to repair his existing pigsties and to purchase additional ones, and to buy 120 rabbits and 1,000 ducks. This expansion in his business has enabled Anatoliy to begin supplying not only retail companies but wholesalers as well, and the business now employs four people. In the near future Anatoliy plans, with the help of additional bank loans, to increase the number of pigs and rabbits he keeps so that he can raise his levels of meat production.

The UMLP celebrated its 10th anniversary at the EBRD's Annual Meeting (Kiev, May 2008). During its decade of operations, the UMLP has enabled banks and other financial institutions in Ukraine to lend money to the smallest clients, such as Mr Grigoryevich, who would have had limited access to credit from any other source.

Today the Ukraine Micro Lending Programme (UMLP) is the most successful donor-funded micro lending project in Ukraine and an example of successful cooperation between donor institutions, confirming their commitment to support the development of Ukraine's private sector as an integral step on the path to economic prosperity in Ukraine.

The programme grew from two complementary schemes: the EBRD Micro Lending Programme in Ukraine and the German government's German-Ukrainian Fund (GUF). Subsequently, further technical assistance has been provided by the European Commission and the Dutch government. Over 10 years, nine Ukrainian banks have on-lent nearly €3.1 billion through approximately 575,000 MSE loans. Micro loans are between €7,000 and €21,000 and some 3,500 experienced loan officers all over the country have been trained in credit analysis and portfolio management. Express loans of €7,000 can be disbursed within 24 hours and the maximum loan amount is €178,000.

In 2008 and 2009 the EBRD and the GUF plan to add another four to five new partner banks to the UMLP to help it focus on micro lending in rural areas of the country.

 [www.microcredit.com.ua/eng](http://www.microcredit.com.ua/eng)

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### Encouraging female entrepreneurship

The EBRD is working to help expand and develop the role of women in building successful and dynamic sustainable enterprises through the TAM/BAS Programme. In 2008 it continued the Women in Business initiative in the Caucasus, funded by the Canadian government, which supports women with new business ideas and helps established companies to grow. Workshops and training courses are being linked with EBRD-funded FIs to help entrepreneurial women gain access to microfinance institutions.

### Promoting foreign trade

The Trade Facilitation Programme (TFP) helps to develop sustainable businesses in the region by guaranteeing loans made to them by local banks. Exporters in western Europe and elsewhere often will not sell goods to importers in countries in eastern Europe and the Caucasus unless they receive a bank guarantee that the importers will pay. The TFP also grants short-term loan facilities to banks and enables factoring financing, a fast and flexible method of improving a company's cash flow.

Banks in the region have been hit particularly hard in the ongoing credit crisis as funds from their main source of financing, foreign lenders, are drying up. In the current climate, the TFP has become the only source of trade finance for some banks, bringing much-needed liquidity flowing into the economy. The TFP has seen demand for finance rise by 50 to 100 per cent in the last few months.

**The Trade Facilitation Programme helps to develop sustainable businesses in the region by guaranteeing loans made to them by local banks.**

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## Trade Facilitation Programme

The EBRD was the first IFI to establish a programme that facilitates trade with and between countries in south-eastern Europe, Central Asia, Russia and Ukraine. It is playing a vital role in driving growth by providing local banks with liquidity denied to them in the ongoing global credit crisis.

 [www.ebrd.com/tfp](http://www.ebrd.com/tfp)

### TFP in figures

The Trade Facilitation Programme now has 121 issuing banks in the EBRD's countries of operations and over 650 confirming banks globally.

In 2008 the TFP facilitated 1,115 trade financial transactions, including its 7,000th transaction since 1999. Of these transactions, 268 were between EBRD countries of operations.

The TFP has provided €4.8 billion in financing across 7,796 transactions since it was set up in 1999. In 2009, the programme's budget will see a significant increase from €800 million to €1.5 billion to boost trade with and within eastern Europe, Central Asia, Russia and Ukraine.

Over 40 per cent of guarantees were for transactions under €100,000 and many would not have been possible without the programme owing to the political and commercial risks involved.

New TFP facilities were signed with 14 banks in Belarus, Mongolia, Russia and Ukraine, including facilities in Russian roubles and facilities for factoring financing.

Following its ground-breaking multi-currency factoring financing facility in 2007 in Romania, the EBRD set up three more factoring facilities in Russia and Ukraine in 2008.

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# Endorsing client protection principles

The current financial crisis has highlighted the need for adequate client protection mechanisms particularly for the more vulnerable groups of society. In 2008 the Consultative Group to Assist the Poor (CGAP), a consortium of microfinance investors and donors whose funds are managed by the World Bank, launched the Client Protection Principles, an industry-wide initiative that encourages microfinance providers to ensure that low-income clients are treated fairly and protected from potentially harmful financial products.

 [www.cgap.org](http://www.cgap.org)

In 2008, the Bank subscribed to the Client Protection Principles. CGAP has managed to bring together all leading investors and donors working with microfinance institutions to compare experiences and establish best practice in the industry. The discussions resulted in the following six core principles to which microfinance providers (including EBRD clients) should adhere:

- Credit should only be extended if borrowers have demonstrated an adequate ability to repay it and provided that the loans will not put the borrowers at significant risk of over-indebtedness.
- Pricing, terms and conditions of financial products (including interest charges, insurance premiums and fees) should be transparent and disclosed in a form that is comprehensible to clients.
- Debt collection practices of providers should not be abusive or coercive.
- Staff of financial service providers should comply with high ethical standards in their interaction with microfinance clients and ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.
- Providers need to have in place timely and responsive mechanisms for complaints and problem resolution for clients.
- The privacy of individual client data should be respected.

All signatories have committed themselves to translating these principles into standards, policies and practices appropriate for different types of microfinance clients, products, providers and country contexts.

## The impact of the global financial crisis on microfinance

On 2 December 2008 the EBRD hosted a roundtable on the impact of the financial crisis on microfinance globally. Organised jointly with the Consultative Group to Assist the Poor (CGAP) Citibank, and DFID, the event was an opportunity for participants to discuss the impact of the global financial crisis on various regions as well as the need to work closely together to mitigate the negative impact of the crisis on microfinance.

The microfinance market has been historically resilient but systemic downturns will result in slowing of growth and the need to heighten support for both microfinance institutions as well as their borrowers. Donors and investors funding microfinance have a role to play during these difficult times, and all participants reiterated their institutions' commitment to continuing funding this key sector. For further information see pages 32-33.



# Adapting to new challenges

A focus of new sustainability initiatives at the EBRD is to identify innovative ways to respond to new environmental or social challenges.

In October 2007 Ministers at the Environment for Europe Conference in Belgrade endorsed the recommendation to internalise the functions and activities of the Project Preparation Committee (PPC) into the EBRD and placed great emphasis on the need for the Bank to provide support for environmental improvements. There was also a clear message from a number of the Bank's Governors who wanted the Bank to be more active in promoting investments with high environmental and social benefits. In May 2008 the Governors approved a work plan for the Shareholder Special Fund (SSF) which recommended that funds be made available for promoting sustainability and that the detailed programme be approved by the Bank's Board of Directors.

In response, various departments within the Bank worked together to develop a strategic approach towards promoting sustainability, which was guided by the Bank's new Environmental and Social Policy. At the start of 2008 a team was created to develop the initiatives within the Bank's Environment and Sustainability Department and to actively promote environmental and social sustainability across the Bank's operations. A number of priority themes were identified which reflect the Bank's potential impact and unique niche in the region and which complement the roles played by the EC, World Bank, UN agencies and bilateral donors.

## Progress in 2008

The EBRD organised a Sustainability Forum as part of its 2008 Annual Meeting in Kiev in May. Specific topics included the Sustainable Energy Initiative (see page 10), sustainable investment in the water and wastewater sector, food security and adaptation to climate change.

## EBRD sustainability initiatives

- improving occupational and community health and safety
- preparing for and adapting to climate change
- promoting the sustainable management of water resources
- fostering the sustainable use of agricultural and forest resources
- supporting best practice on environment and sustainability within the private sector
- helping communities benefit from transition and investment
- facilitating better environmental and social regulation and enforcement
- promoting gender equality.

Climate change adaptation was also the theme of the "Workshop on climate change adaptation and investment in Europe" (EBRD Headquarters, April 2008), in cooperation with the EC and the EIB, to exchange views on how climate risk could be factored into investments with a range of stakeholders, from commercial banks and major insurance companies to international agencies and donor countries. As a result, the Bank is now developing a technical cooperation (TC) project to address climate risk and adaptation to climate change in the EBRD's project cycle.

There is a pressing need to improve conditions for workers in Tajikistan's cotton industry as well as to reduce the environmental impact of heavy pesticide use and water wastage. In response, the EBRD convened a workshop in Dushanbe in September 2008 which attracted over 70 people, including specialists from the EBRD's ongoing Tajik Agricultural Finance Framework (TAFF), farmers and farmers' associations, trading companies and NGOs as well as representatives from international donor agencies, the Tajik government and the Better Cotton Initiative (BCI).

 [www.bettercotton.org](http://www.bettercotton.org)



The BCI, which has not previously worked in Tajikistan, encourages the adoption of better management practices in cotton cultivation through collaboration between farmers, clothes manufacturers, retailers (such as Gap and H&M) and international NGOs.

Key challenges for the cotton industry are to find affordable and appropriate ways to modernise irrigation systems, and to make the process of sorting and transporting cotton more efficient and systematic. This will ensure a better quality and more standardised crop that will be more marketable abroad, with clear benefits for farmers and their families.

The Bank now plans to form a smaller national focus group together with the BCI, with the ultimate aim of developing a plan to implement BCI principles in Tajikistan, led by the EBRD.

In 2008 the EBRD initiated or was involved in a number of other activities and TC projects that integrate environmental and social considerations into project development. A summary of these activities is shown in Table 2, with links to further information where appropriate.

**TABLE 2**  
**Development of projects with environmental and social considerations**

<i>Programme</i>	<i>Location</i>	<i>Funding</i>	<i>Description</i>
REACH training programme (see page 30)	Ukraine	Shareholder Special Fund	Training programmes and workshops to help the country's industry understand the impact of the new EU REACH laws.
Carbon finance forestry project development	Russia	Shareholder Special Fund	Development and implementation of a methodology to identify viable forest carbon finance projects in forest-based sectors in Russia.
Forest certification support	Ukraine	Shareholder Special Fund	Encouraging sustainable forest management in the Carpathian Mountains by helping to implement Forestry Stewardship Council (FSC) certification requirements in the 15 forest enterprises in the Ivano-Frankivsk oblast.
Study of telecommunications coverage in remote areas	Albania Moldova Serbia	ETC Fund; Western Balkans Fund	Study to evaluate the feasibility of extending telecommunications coverage to rural and remote communities through the use of renewable energy sources and power minimisation technology.
Pro-biodiversity business in the Eurasian steppe zone	Regional	EU Tacis	Provision of targeted technical assistance to selected micro, SMEs that are willing to work towards creating or improving pro-biodiversity businesses in the Eurasian steppes.
Gender specialist working within the EBRD's Gender Action Plan	EBRD	Shareholder Special Fund; ETC Fund	In 2009 an interdepartmental specialist will start assisting the Bank, and particularly the Gender Steering Group, in implementing the Gender Action Plan and developing a coherent gender policy for the EBRD.
Gender consultant	EBRD	Shareholder Special Fund	Assisting the Environment and Sustainability Department in identifying any gender-related risks within Bank projects and in defining either mitigating measures or related projects to promote gender equality.
RAIPON conference (see page 30)	Russia	Canada	Support for the Russian Association for Indigenous Peoples of the North and Far East (RAIPON) to hold a conference marking 15 years of cooperation with the UN system.



# WORKING SUSTAINABLY

The EBRD has policies and mechanisms to ensure that it works responsibly in all its activities. In addition to the Bank's new Environmental and Social Policy, the Bank has specific procedures that cover how it promotes transparency and access to information and how it responds to complaints.

# A new Environmental and Social Policy

The EBRD was established in 1991 to foster transition to market-oriented economies and promote private entrepreneurship in the former command economies in central and eastern Europe. Furthermore, its founding agreement states that the Bank is committed to promoting “environmentally sound and sustainable development” in the full range of its investment and TC activities. Since 1991, this commitment has been realised through the Bank’s first Environmental Policy and its successors in 1996 and 2003. The 2003 Environmental Policy expanded the scope of the term “environment” to include a number of social issues.

The EBRD undertook the latest revision to its Environmental Policy in 2007. The changes were driven by a number of key considerations:

- the nature of the EBRD’s business had changed with a greater focus on often smaller and riskier projects to the south and east of its region
- the increasing importance of better addressing the social dimension of sustainable development, such as labour standards, gender and the rights of indigenous peoples
- major policy revisions by other IFIs, notably the adoption by IFC of its new environmental and social performance standards, which were then also adopted by over 40 large commercial financial institutions for project finance and advisory services (the Equator Principles)
- many stakeholders, including shareholders, NGOs and clients, were seeking greater clarity on what the Bank needs in practice if its Policy requirements are to be met.

The main objectives of the new Environmental and Social Policy were to:

- respond to recent developments and challenges, such as climate change mitigation and adaptation, gender equality, and the 2007 UN Declaration on the Rights of Indigenous People
- reflect best practice in the financial sector, and provide affirmation to clients and co-financing/syndications partners that the EBRD’s requirements afford at least the same level of environmental and social safeguards as those of the IFC and the “Equator Banks”, whilst reflecting the EBRD’s region of operations and its commitments as a signatory to the European Principles for the Environment
- clarify the specific environmental and social requirements EBRD-financed projects are expected to meet
- strengthen procedures for the involvement of stakeholders in EBRD-financed projects.

## Key changes in the Environmental and Social Policy

Environmental and Social Policy: balanced approach

- Structure: **Policy** (for the Bank) and **10 Performance Requirements** (for clients)
- Greater clarity on **social issues and biodiversity**
- Clear commitment to all the **ILO’s core labour standards**, including **Freedom of Association and the right to collective bargaining**
- Focus on **management systems** (environment, occupational health, safety and HR)
- **Stakeholder engagement** requirements for all projects
- **Third-party performance** included
- Greater clarity on **project** and **scope of due diligence**
- **Due diligence**: substance not significantly changed, but more rigorous approach to documenting
- **Categorisation** simplified (“0/1” audit classification dropped)
- **List of Category A projects** updated to include significant adverse **social** impacts (for example, resettlement)
- **Exclusion list** (for all projects)



After a year-long consultation period, the EBRD decided to adopt an Environmental and Social Policy that addresses both impacts in an equal yet differentiated manner. The Policy was approved on 12 May 2008 and it entered into force on 12 November 2008.

It reaffirms the Bank's commitment to ensure that the projects it finances are socially and environmentally sustainable; respect the rights of affected workers and communities; and are designed and operated in compliance with applicable regulatory requirements and good international practice.

### Performance requirements for EBRD clients

The Bank has adopted a comprehensive set of ten Performance Requirements (PRs) in the Environmental and Social Policy that clients are expected to meet, encompassing environmental issues, working conditions, impacts on communities and stakeholder engagement. The Bank's requirements for FIs are summarised separately. These performance requirements are shown in the box.

The EBRD's role is to:

- review clients' environmental and social due diligence information, including engagement with stakeholders on the proposed project
- for the most sensitive projects, help clients develop ways to avoid, minimise or mitigate adverse social or environmental impacts consistent with the PRs
- help clients to identify opportunities to achieve additional environmental or social benefits
- monitor implementation of projects by clients and ensure they comply with their environmental and social obligations.

Environmental and social issues are taken into account throughout the project cycle at the planning, financing and implementation stages, in line with the new Environmental and Social Policy and its performance requirements.

In order to implement the new policy effectively a number of guidance documents or good practice notes (see page 44) are being produced by the Bank for clients.

## EBRD performance requirements

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PR 1	Environmental and Social Appraisal and Management
PR 2	Labour and Working Conditions
PR 3	Pollution Prevention and Abatement
PR 4	Community Health, Safety and Security
PR 5	Land Acquisition, Involuntary Resettlement and Economic Displacement
PR 6	Biodiversity Conservation and Sustainable Natural Resource Management
PR 7	Indigenous Peoples
PR 8	Cultural Heritage
PR 9	Financial Intermediaries
PR 10	Information Disclosure and Stakeholder Engagement

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The Bank has recently published a good practice note which looks at the promotion of gender equality, family-friendly working practices and an appropriate work-life balance.

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## EBRD Good Practice Notes: Family-friendly working and work-life balance

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The Bank has recently published a good practice note which looks at three inter-related aims of modern human resources management: the promotion of gender equality, family-friendly working practices and an appropriate work-life balance.

At the core is the principle of non-discrimination and equal opportunity in employment – a fundamental human right and a core International Labour Organization (ILO) labour standard that has been enshrined in the national legislation of the countries where the Bank operates.

All EBRD clients are required to meet this standard. In addition, clients are encouraged to work towards best practices in human resources management, particularly where it makes good business sense, as in the case of promoting gender equality, family-friendly working and a good work-life balance. The purpose of the good practice note is to explain why these are important issues, to show the business case for adopting flexible and family-friendly working practices and to provide clients with some practical examples of how general quality and family-friendly working practices can be put into place.

This note, published in November 2008, is the first in a new series of good practice notes prepared by the EBRD's Environment and Sustainability Department.

 [www.ebrd.com/pubs/general/practice08.htm](http://www.ebrd.com/pubs/general/practice08.htm)

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### Public consultation on new policies

The EBRD engages in dialogue and consultation during the preparation of its new policies. The revision of the 2003 Environmental Policy and the 2006 Public Information Policy (PIP) started in 2007 when the EBRD consulted a variety of stakeholders, including clients, relevant UN agencies, other IFIs and civil society. In 2008, the extensive public consultation process was finalised and the new revised policies approved by the Board in May.

As part of the consultation process for the Environmental and Social Policy in 2008, EBRD staff and management from the Environment and Sustainability Department, Office of the Secretary General and NGO Relations Unit undertook a series of one-day public consultation meetings in Budapest, Belgrade, Moscow, Tbilisi, Bishkek and London in March and April. The revised drafts of the PIP and the renamed and expanded Environmental and Social Policy were discussed with around 200 representatives of civil society groups from across the region, mainly those dedicated to the environment, social issues, human rights or IFI accountability, as well as representatives from governments, academia and the media.

During these meetings, the Office of the Chief Compliance Officer (OCCO) launched the review of the Independent Recourse Mechanism (see page 60). The Bank also consulted with export credit agencies and Equator Banks, other international institutions, the ILO, trade unions and employers and indigenous peoples from the region. The Bank allocated special funds to enable a number of relevant local organisations to take part in consultations in order to ensure full and accessible participation and secure optimal quality of the revision.

All the meetings were well attended. Constructive comments – around 700 for the ESP and 100 for the PIP – were taken into account and they added significantly to the policy review. The Bank's responses to comments were published online alongside the final policies.

Stakeholders valued the opportunity to have a direct dialogue with Bank officials and provide their comments on the policies.

 [www.ebrd.com/about/policies/enviro/policy/review/consult.pdf](http://www.ebrd.com/about/policies/enviro/policy/review/consult.pdf)

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## Consultation work with indigenous peoples in Russia



There are as many as 40 groups of indigenous peoples in the far eastern, northern and Siberian regions of Russia, numbering some 250,000 people. These peoples are among the most marginalised and vulnerable segments of the population in Russia. Virtually all socio-economic indicators are dramatically worse than Russian averages: life expectancy is a woeful 10 to 20 years below average and unemployment is four to five times the national average.

Although only a very small number of Bank-financed projects in Russia affect indigenous people it was for the reasons outlined above that the EBRD was particularly keen to ensure that the new Environmental and Social Policy set out requirements for projects affecting indigenous people. The Performance Requirement for Indigenous People drew on the policies and requirements of other IFIs and was tailored to the particular needs of indigenous people in the region. Staff from the Bank's Environment and Sustainability Department carried

out consultations on the policy and performance requirement over a period of 18 months. These started with an initial meeting in Moscow in December 2006, where ESD staff met with representatives from indigenous peoples organisations, academics and politicians to identify what these groups considered to be priorities for the Bank's consideration.

Once the text had been drafted, ESD staff held further consultations in Murmansk, Irkutsk and Petropavlovsk Kamtchatski with indigenous peoples, their representative organisations, and representatives from local governments across Russia. Each of these meetings gave indigenous people the opportunity to raise their concerns. Although it was not possible to incorporate all the requests and suggestions, the very process of engagement and dialogue was of great importance to all those involved.

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### **Training EBRD staff in the Environmental and Social Policy**

To assist its own staff, the Bank has produced internal environmental and social procedures which outline the process by which Bank staff process and monitor projects within the overall policy framework. The procedures apply to the full range of the Bank's activities, including direct investment operations, FI operations, TC projects, and projects financed through Special Funds.

The procedures also outline the different roles and responsibilities of the departments involved in the environmental and social appraisal and monitoring process.

In 2008 the resources of the Bank's Environment and Sustainability Department were again increased by recruiting two additional professional staff: one environmental and one social specialist.

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## Training staff in the new Environmental and Social Policy

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The EBRD's Environment and Sustainability Department (ESD) staff received training on the following to help them put the new policy requirements into practice:

- Environmental and social procedures
- Project categorisation
- Resettlement
- Community health and safety
- Occupational health and safety
- EU environmental standards (EPE/PR3)
- Stakeholder engagement and information disclosure
- Labour standards.

ESD ran 12 training sessions in 2008 on the new policy and procedures:

- Ten sessions at HQ for banking teams across all sectors (around 120 attendees)
- One training workshop in Moscow RO for Russian bankers
- One training workshop for Board Advisers.

There will be further sessions for bankers in 2009, plus training for other relevant non-banking teams (Office of the General Counsel, Office of the Chief Economist, Evaluation Department and so on).

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# Environmental and social considerations in EBRD-financed projects

## Assessing social and environmental impacts

All project proposals that the EBRD receives undergo environmental and social appraisal in addition to the usual assessment of financial and reputational risks. Initially, each proposed EBRD-financed project is categorised by the Bank's environmental and social specialists according to the level of environmental and social "due diligence" that is considered necessary.

Category A	<p>Projects with potentially significant adverse environmental or social impacts, such as greenfield developments or major expansions of activities.</p> <p>These projects require a comprehensive environmental and/or social impact assessment, which should examine technically and financially feasible alternatives.</p>
Category B	<p>Projects that potentially have some adverse environmental or social impacts.</p> <p>These projects may require a variety of due diligence investigations, depending on their nature, size and location. In addition to assessing the future environmental and social impacts of proposed new installations, an audit to determine the impacts of past and current operations may be required, as may investigations such as hazard analyses.</p>
Category C	<p>Projects with minimal or no adverse environmental or social impacts – there is no need for further appraisal.</p>

**TABLE 3**  
**Environmental screening categories for projects signed in 2008<sup>1</sup>**

A	6	Require an environmental impact assessment
B	77	Require an environmental analysis
C	45	Require comprehensive due diligence but no environmental impact assessment or analysis
1	89	Require an environmental audit as part of due diligence
FI	235	Subject to specific requirements

<sup>1</sup> All projects signed in 2008 were appraised under the Bank's 2003 Environment Policy.

Environmental and social appraisal is carried out by the Bank's Environment and Sustainability Department (ESD). For each proposed project, ESD specialists identify the potential environmental and social impacts of the project and agree with the client which due diligence investigations (such as Environmental and Social Impact Assessment or audits) and stakeholder engagement activities will be required.

To allow for systematic planning of the due diligence phase, an Environmental and Social Due Diligence Plan will be agreed for all projects processed under the new Environmental and Social Policy, after management has approved the initial project concept. This plan will detail all information, investigations and actions required, the type of any third-party expertise needed to assist the client with the due diligence, as well as the estimated time frame and cost. Due diligence focuses not only on adverse environmental and social impacts but also on identifying any opportunities to achieve additional environmental and social benefits.

Based on the outcome of due diligence, clients are required to develop an Environmental and Social Action Plan (ESAP) to demonstrate how they would avoid or mitigate any environmental and social impacts and achieve and maintain compliance with the Performance Requirements of the Bank's Environmental and Social Policy. This takes into account the results of consultation with affected stakeholders.

## Disclosure and consultations on projects

Project summary documents (PSDs) – containing project descriptions, financial details, client information, environmental issues, tender guidelines, and contact details – are disclosed for each project prior to Board consideration as outlined in the Public Information Policy (PIP).

There were eight "Category A" projects under consideration in 2008 (see Table 3). All eight projects had full EIA documentation available in relevant local languages. Seven of the eight projects had full documentation available on a web site, while one project sponsor without a web site posted the documentation in over 20 villages along the route of the proposed road corridor.

All eight projects had EIA Executive Summaries available on the EBRD's web site. Six of the eight projects progressed to the Board of Directors for approval during 2008. All of the projects which proceeded to Board complied with the number of days required for public consultation prior to Board.

For more information on the Bank's disclosure and consultation commitments see the PIP.

 [www.ebrd.com/about/policies/pip/index.htm](http://www.ebrd.com/about/policies/pip/index.htm)

The PSDs can be viewed here:

 [www.ebrd.com/projects](http://www.ebrd.com/projects)

**TABLE 4**  
**Summary of Category A disclosure in 2008**

Country	Project name	Sector	Date EIA made available in HQ/ Resident Office	Board date	Days available (before Board)	Language of EIA in region	Electronic availability
Hungary	M6-M60 Motorway	Private	20/12/07	04/03/08	75	English, Hungarian	No – but EIA placed in every village along routes
Russia	RusVinyl	Private	15/02/08	n/a	n/a	English, Russian	<a href="http://www.solvipvc.com/aboutus/ourplants/russia/0,,62163-2-0,00.htm">www.solvipvc.com/aboutus/ourplants/russia/0,,62163-2-0,00.htm</a> and <a href="http://www.sibur.ru/">www.sibur.ru/</a>
Albania	Antea Cement	Private	22/04/08	09/09/08	141	English, Albanian	<a href="http://www.titan-cement.com">www.titan-cement.com</a>
Bulgaria	Saint Nikola Wind Farm	Private	22/05/08	30/09/08	132	English, Bulgarian	<a href="http://www.yomibg.com">www.yomibg.com</a>
Bosnia and Herzegovina	Corridor Vc	State	05/06/08	15/10/08	133	English, Bosnian	<a href="http://www.mkt.gov.ba/bos/aktivnosti/vcplan.php">www.mkt.gov.ba/bos/aktivnosti/vcplan.php</a>
Russia	OGK-5 Capacity Replacement	Private	24/09/08	25/11/08	63	English, Russian	<a href="http://www.ogk-5.com/ru/about_n/safety_n/">www.ogk-5.com/ru/about_n/safety_n/</a> <a href="http://www.ogk-5.com/en/susta/envirpro/">www.ogk-5.com/en/susta/envirpro/</a>
Russia	Kuzbass Pishkombinat	Private	15/10/08	16/12/08	63	English, Russian	<a href="http://www.kpk.su">www.kpk.su</a>
Azerbaijan	Garadagh Expansion	Private	19/11/08	n/a	n/a	English, Azerbaijani	<a href="http://www.garadagh.com">www.garadagh.com</a>

# Environmental and social monitoring

The EBRD's policies and standards can present a challenge to clients operating in countries with poor environmental records, or where enforcement systems and management cultures are still evolving. In recognition of this, the EBRD places a strong emphasis on monitoring project implementation and supporting clients who need assistance in implementing the Bank's requirements.

Project monitoring assesses whether clients are meeting their commitments and identifies problems that the EBRD may be able to help address. There are three principal means of monitoring used by the Bank; self-reporting by clients, site visits by environmental and social specialists, and, for the highest-risk projects, periodic audits by independent consultants. All clients are required to report on their performance at least annually. In 2008 the EBRD worked to improve the quality and usefulness of the reports it receives and developed standard reporting templates for clients.

In 2008, the Bank undertook 116 environmental or social due diligence and monitoring visits to 101 projects. These ranged from the largest and highest-risk clients, to shorter visits to lower risk agribusiness and FI projects. To provide additional dedicated resources, the Bank renewed and extended its call-off contract with its monitoring consultants. These consultants undertook monitoring missions to a range of projects in Russia, Serbia, Ukraine and Uzbekistan.

Monitoring has shown that Occupational Health and Safety (OHS) is in need of particular attention. Improved OHS performance depends crucially on cultural and behavioural change, which in turn requires clients and the Bank to invest significant time and resources to bring about the desired outcomes. The EBRD has identified several projects where poor OHS practice is a real risk, and is working with the client to help address the issues. Internally the Bank has also arranged training and developed new tools so that its specialists are better equipped to identify and address health and safety risk.

## Cementing good health and safety practices



EBRD and IFC financing totalling nearly €60 million will be used to construct and operate a greenfield cement plant in Albania, with a capacity of 1.4 million tonnes of blended cement. The project is one of the largest industrial greenfield investments in the transition region and also one of the largest foreign direct investments in Albania.

The output of the company is mainly intended for the Albanian market. However, due to possible oversupply in that market following the completion of the project, part of the output may have to be exported, primarily to Montenegro (which does not have any cement producers) and the neighbouring region.

Whilst the client has long-standing experience in constructing and operating cement plants, it had never previously worked with multilateral financial institutions. EBRD and IFC social specialists worked with the company to incorporate all of their respective policies relating to resettlement (compensation for physical and economic displacement), public consultation and labour standards (for both the company's own staff and sub-contractors), and to set high standards in terms of corporate social responsibility and sustainable development.

Training will be provided to enable local residents to apply for technical jobs, for which they would not otherwise be eligible. Medical and school equipment will be provided to the local neighbouring and poor villages while a green zone will be created in the surroundings of the new site.

 [www.ebrd.com/albania](http://www.ebrd.com/albania)

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Following on from the introduction of the new Environmental and Social Policy, the EBRD has taken the opportunity to revise its environmental and social procedures so that it gives more attention to systematically planning for monitoring and implementation at the time of project approval.

From November 2008 each new project will have a Project Monitoring Plan that defines the monitoring approach and highlights any particular risks, issues or events that will require attention over its life cycle. This will allow for systematic planning and resource allocation for monitoring and implementation at the time of project approval. Action items will be tracked and systematically followed up. The overall approach will continue to be risk driven with most resources directed to those projects that have the highest environmental and social risks.

### Incident reporting

In addition to annual reporting on environmental, health and safety and social issues, the EBRD has required since 1995 that major environmental and occupational health and safety incidents and accidents be reported immediately to Bank management.

In 2008, the Bank revised its procedure on incident reporting and, in addition to individual incidents being reported to management, began reporting cumulative information to management and the Board of Directors every six months, along with a discussion on causes, any trends identified and how they are being addressed, and a summary of any particular initiatives the Bank is undertaking. Some of these initiatives have been highlighted in previous sustainability reports, such as the Road Safety programme in the *Sustainability Report 2007*.

 [www.ebrd.com/pubs](http://www.ebrd.com/pubs)





# Working with partner FIs to raise standards across the region

Working with FIs is a key way for the EBRD to promote sustainable financial markets and provide a vehicle to channel EBRD funding to the MSME sector.

The EBRD has developed environmental and social requirements for FIs to adopt which would assist them in managing their environmental and social risks. As part of the Bank's revision of its Environmental and Social Policy in 2008 its requirements for partner FIs are now consolidated in Performance Requirement 9 (see page 43).

In line with these new requirements the Bank is revising its electronic environmental risk management manual for financial institutions (e-manual) which will be published on the EBRD's web site in 2009.

## Training and capacity building

In October 2008 the EBRD launched a Bank-funded environmental and social training programme available to all partner FIs in the EBRD's countries of operations, building on the successful donor-funded training that the EBRD had been providing for FIs since 1995. The prime objective of the training programme is to help the FIs to implement appropriate environmental and social due diligence and monitoring procedures commensurate with the level of environmental and social risks associated with their business activities and type of projects they finance. Through adequate consideration of environmental and social issues, the FIs will be in a position to support environmentally sustainable development, improve environmental, health and safety conditions of FIs clients, avoid supporting enterprises which cause significant environmental harm and reduce the risk of exposure to environmental and social risks and liabilities.

Between April and July 2008, one-day environmental due diligence training workshops were held with FIs in Georgia (four); Slovenia (four); Croatia (four) and Bosnia and Herzegovina (seven). The training was carried out by Bank-funded external environmental consultants and EBRD environmental specialists.

In 2008 EBRD environmental specialists undertook monitoring visits to 21 FIs and their clients in Belarus, Bulgaria and the Slovak Republic. The FIs and clients that were visited were found to comply with the Bank's environmental requirements.

## UNEP Finance Initiative

In 2008 the Bank continued its collaboration with UNEP FI as chair of its Central and Eastern Europe Regional Task Force.

The taskforce aims to support and expand sustainable finance practices in central and eastern Europe by raising awareness in the region of the link between environment and finance.

 [www.unepfi.org](http://www.unepfi.org)

**In October 2008 the EBRD launched a Bank-funded environmental and social training programme available to all partner FIs in the EBRD's countries of operations.**

# Learning from past experience

 [www.ebrd.com/evaluation](http://www.ebrd.com/evaluation)

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

All aspects of EBRD-financed activities are evaluated, including donor-funded consultant assignments. The evaluation considers a project's environmental performance, including health and safety, labour and other relevant issues, and the extent of environmental change achieved over the lifetime of the project. Projects are assessed usually one to two years after final disbursement. Assessments are made against the project objectives, the requirements of the Bank's Environmental Policy and the relevant country and sector strategies.

Of the 53 projects evaluated in 2008, two were not rated for environmental performance. Of the remaining 51 projects, the environmental performance of the client and the EBRD was rated "Excellent" in 12 per cent of cases, "Good" in 45 per cent, "Satisfactory" in 25 per cent, "Marginal" in 12 per cent and "Unsatisfactory" in 6 per cent.

This is similar to the results for projects evaluated in 2007, but is in line with outcomes over the period 1996-2007 in general. With regard to environmental change, the differences observed in 22 per cent of projects were rated "Substantial" or "Outstanding". "Some" differences were found in 62 per cent, and a total of 16 per cent of projects recorded a "None-Negative" change in 2008.

## Special studies in 2007 and 2008

EvD conducts a number of special studies every year. In 2007-08 it completed a review of how the 2003 Environmental Policy has been implemented through selected projects. This review focused on effectiveness and efficiency of achieving the Bank's environmental mandate through direct investments. During 2008, EvD also completed a sector policy review focusing on Agribusiness and is currently finalising a report on Energy Efficiency. These reports are or will be published on the Bank's web site.



# Engaging in dialogue with civil society

 [www.ebrd.com/ngo](http://www.ebrd.com/ngo)

The EBRD strives to conduct its business in a transparent and accountable way, which involves an ongoing dialogue with a wide range of civil society groups – from environmental NGOs to think tanks, professional associations and chambers of commerce. Their experience and expertise provides a valuable contribution to the development of our policies and the implementation of projects.

The Bank's web site provides detailed information on the ways in which the EBRD's dedicated NGO relations team reaches out to civil society and non-governmental organisations, through ad hoc meetings, the NGO programme at the EBRD's Annual Meeting and through web-based and printed publications.

## Interaction with civil society and the public

During 2008 the EBRD's NGO Unit coordinated with various teams across the Bank the responses to 533 public queries made through the web site, of which 79 were received from NGOs and other civil society organisations. Further information on this type of interaction can be found in the Bank's Public Information Policy (PIP).

 [www.ebrd.com/about/policies/pip/index.htm](http://www.ebrd.com/about/policies/pip/index.htm)

NGOs and other civil society organisations (CSOs) exchanged views during meetings throughout 2008 with EBRD staff, management and Board Directors at EBRD's London Headquarters and Resident Offices (ROs) across the transition region. Table 5 summarises the main topics of interaction between the EBRD and NGOs, ranging from proposed investments to information disclosure.

## The Global Accountability Report

In December 2008 the EBRD was ranked second, the highest-ranked IFI, in the Global Accountability Report (GAR) – an assessment of the accountability of over 30 global organisations from the intergovernmental, corporate and non-governmental sectors – by One World Trust, a London-based think tank.

 [www.oneworldtrust.org](http://www.oneworldtrust.org)

**TABLE 5**  
**Opportunities for NGOs to meet EBRD staff in 2008**

Month	Location	Participants	Topics discussed
February	St Petersburg, Russia	Bank staff met with more than 50 Russian CSOs	EBRD requirements regarding environmental and social standards, information disclosure and public consultations related to financing projects.
February	Bulgaria	Brigita Schmögnerová, Vice President Environment, Procurement and Administration met with local Bulgarian NGOs	Energy efficiency initiatives and the financing of municipal energy efficiency and environmental projects.
March	Turkmenistan	Jean Lemierre, EBRD President (2000-08) met with local Turkmen NGOs	NGO activity, individual freedoms, mass media, judicial and legal reform, educational provisions as well as environmental policies.
April	Tirana	Varel Freeman, First Vice President met local Albanian CSOs	Proposed and current EBRD investments in the Vlore area.
May	Kiev (EBRD Annual Meeting)	EBRD management, Board Directors met with 100 representatives from 77 international and local NGOs from 19 countries	Discussions ranged from consultations on the new Environmental and Social and Public Information policies to national energy strategies, concerns about individual projects and NGO-related legislation.

## In 2008 EBRD Board Consultation Visits took place in Armenia, Georgia, Russia, Serbia, the Slovak Republic, Tajikistan and Turkmenistan.

TABLE 6

### Conferences and events of interest to NGOs in 2008

Event	Date	Location	Participants	Type of event
Making Roads Safe	July	EBRD HQ	NGOs, local authorities, road safety experts, EBRD staff	One-day conference (see page 23)
5th DECIM Roundtable	October	Paris, France	European Commission, World Bank, private donors, EBRD	One-day roundtable discussion
Civil Society Forum	November	Pula, Croatia	Civil society organisations, EBRD staff	Forum
Gender, civil society and women's entrepreneurship	December	EBRD HQ	NGOs, EBRD staff	Half-day workshop (see page 56)

### Board Consultation Visits

In 2008 EBRD Board Consultation Visits (BCVs) took place in Armenia, Georgia, Russia, Serbia, the Slovak Republic, Tajikistan and Turkmenistan. Table 7 summarises the main points that were discussed during each BCV. Detailed information on the topics discussed during these BCVs is published in the quarterly NGO newsletter.

 [www.ebrd.com/ngo](http://www.ebrd.com/ngo)

TABLE 7

### Board Consultation Visits in 2008

Country	Topics discussed
Armenia	Lack of substantial NGO involvement in decision-making of the government on environmental issues.
Georgia	Transparency of donor engagement in post-conflict Georgia and the overall investment climate in the country.
Russia	Freedom of speech and independence of media and the position of NGOs in Russia, as well as public access to information in large-scale projects and inconsistency in environmental legislations in the country.
Serbia	Anti-corruption activities, economic empowerment of women, environmental issues and Serbia's accession to the EU.
Slovak Republic	Transparency issues.
Tajikistan	Environmental, social and human rights issues.
Turkmenistan	Education and legal reforms in the country, as well as democracy and youth issues.





### Public comments on country strategies

During 2008, the Bank invited public comments on draft country strategies for Bulgaria, Hungary, Latvia, Romania and Tajikistan. Small numbers of written public comments – one each for Bulgaria, Hungary and Romania’s strategies – were received from NGOs, members of the public, government officials and businesses. As required by the PIP, these comments were examined by the relevant banking teams and management and the response was provided in the addendum to each country strategy subsequently approved.

As a part of an initiative to improve the scope and quality of civil society input into the preparation of country strategies, the NGO Relations Unit assisted the Dushanbe RO in organising a consultation workshop with local civil society organisations. The purpose of the workshop was to provide an additional opportunity to discuss the new draft country strategy for Tajikistan. It was attended by the representatives of the local environmental and women’s NGOs and microfinance organisations. In preparation for the event, the executive summary of the draft country strategy was translated into Russian (beyond the PIP requirement) in order to help facilitate better quality discussion. Consequently, the Bank received substantial written comments endorsed by 15 local NGOs, representing a wide spectrum of interests such as ecology, women’s rights and human rights.

In contrast with country strategies, when it came to policy reviews, NGOs and other CSO representatives sent numerous written comments on the draft PIP and Environmental and Social Policy (ESP) following the extensive public consultation meetings around the region.

For further information see page 42.

[www.ebrd.com/about/policies/enviro/policy/index.htm](http://www.ebrd.com/about/policies/enviro/policy/index.htm)



### Category A disclosure

The EBRD systematically informed relevant NGOs about the release of Environmental and Social Impact Assessments for Category A projects and invited them to comment. The EBRD’s environmental and social experts and bankers regularly meet with affected local communities and civil society groups in relation to ongoing EBRD-financed projects. Meetings held in 2008 include the discussions in Russia about the issues of economic viability, environmental considerations and access to information with regards to the Western High Speed Diameter project.

Various environmental and social issues were also discussed in relation to the Bank’s potential financing of Vlore Coastal Terminal project in Albania and the RusVinyl project in Russia. Health and safety issues and stakeholder engagement were topics of discussion in London with ArcelorMittal management and with civil society groups in Kazakhstan regarding the ArcelorMittal Temirtau project. The Bank’s Group for Small Business explored the possibilities of cooperation on projects with SME development and microfinance organisations, such as with Women’s World Banking.

# Commitment to gender equality

The Millennium Development Goals MDG3 Torch Initiative commits political leaders, private sector representatives, international organisations, influential NGOs and prominent individuals to going the extra mile in support of MDG3 which focuses on the economic empowerment of women and developing close partnerships with the private sector. In September 2008, the EBRD was internationally recognised for its commitment to gender equality when President Mirow was awarded a torch.

 [www.un.org/millenniumgoals](http://www.un.org/millenniumgoals)

To date, the Bank has been promoting gender equality through a variety of initiatives and activities including those outlined below.

- **Women in Business Panel and awards ceremony**

During each EBRD Annual Meeting the Bank holds a Women in Business awards ceremony to recognise women in business who have made outstanding achievements in developing or leading businesses in the transition region. The Business Panel is an opportunity to share ways of achieving success and doing business in a socially and environmentally responsible way.

- **Micro lending programmes**

Women are well represented in microfinance, both as recipients and within the staff/management of financial institutions. Since 1997, the Bank has invested €1.2 billion under its Micro Enterprise Lending Programmes with €691 million outstanding as of December 2008. This has been accompanied by over €198 million in TC funds.

- **Trade Facilitation Programme**

Women account for the majority of participants in the TFP training services supported by TC funds.

- **TAM/BAS and TC funded initiatives**

For example, the Women Entrepreneurs Initiative in the southern Caucasus under CIDA financing. TAM/BAS has been capitalising on the potential of women to strengthen skill levels within the MSME sector and encourage their participation in business.

- **Infrastructure initiatives**

Inclusive consultation in infrastructure projects involves conducting surveys of needs to be addressed by water projects (for example, family health requirements), monitoring of implementation and affordability considerations.

- **Representation on Boards**

The Bank's nominee directors are women in 112 (41 per cent) out of 275 approved Supervisory Board seats.

The EBRD's new Environmental and Social Policy (see page 42) builds on this base by further strengthening the Bank's commitment to address gender issues.

The Bank is actively consulting with donors and other stakeholders, such as NGOs, to promote gender equality. The NGO Relations Unit in consultation with the Gender Steering Group organised a half-day workshop on 4 December 2008 with civil society representatives on gender and women's entrepreneurship. It was opened by Brigita Schmögnerová, EBRD Vice President for Environment, Procurement and Administration. Gender specialists from Bulgaria, Czech Republic, Georgia, Germany, Serbia and the United Kingdom exchanged views and experiences on gender equality, women's empowerment and women's entrepreneurship with representatives from the Bank. All participants agreed that, particularly in this period of global financial crisis, it is critical to tap into all available talent and resources.

## Gender Action Plan

In 2008 the Bank established a Gender Steering Group to develop initiatives for the development of the Bank's gender policy with the aim of increasing the economic participation of women in the private sector, including in decision-making roles, across sectors, projects, staff and clients.

A Gender Action Plan has been developed which is the result of a coordinated effort between several departments in the EBRD. The plan's objective is to increase the economic participation and decision-making roles of women in the private sector. The plan was presented at the Annual Meeting in Kiev in May 2008 and has been circulated to donors and NGOs for comment. The Bank has received strong endorsements from donors, other stakeholders and NGOs. Technical assistance funds have been earmarked under the EBRD Shareholder Special Fund for projects which support women and gender equality.

A Gender Action Plan Coordinator and a Gender Specialist (funded by the Bank and shareholders) will start working for the EBRD in early 2009. The Gender Action Plan Coordinator will be the overall project manager and the Gender Specialist will be responsible for reviewing specific projects and providing recommendations. These recruitments will bring impetus to the implementation of the Action Plan (see below).

## Gender Action Plan: Integrating gender into EBRD operations

- Review of current Bank activities with a gender component in order to clarify existing best practice and identify gaps where the Bank's transition mandate can be enhanced.
- Pilot country programmes to be developed and implemented in both ETCs and advanced transition countries; to test potential for successful implementation and help identify gaps in the Bank's activities.
- Continued development of ongoing initiatives to develop and strengthen areas where gender-related progress has been achieved.
- Strengthening of gender-related social safeguards and labour due diligence in the new Environmental and Social Policy to address adverse gender impacts and discrimination in the workforce with affected communities to be given increased focus at the due diligence stage.
- Creation of a Gender Steering Group comprising members from Banking, Office of the Chief Economist, Communications and the Environment and Sustainability Department.
- Recruitment of a Gender Specialist into the Environmental and Sustainability Department and a Gender Action Plan Coordinator.
- Gender training to be mandatory for senior management and banking staff.

## Listening to expert advice

The Environmental and Social Advisory Council (ESAC, formerly ENVAC) is a body of independent specialists representing a wide range of interests from the private sector, NGOs, academic and policy-based institutions who advise the EBRD on environmental matters such as strategic sectoral and policy issues, technical development, international standards, emerging trends and future opportunities.

ESAC members are appointed for a three year period and are selected based on professional expertise as well as their potential to contribute to the development of the EBRD's policies and programmes. Normally ESAC meets twice a year but in 2008, no meetings of the Council were held. Instead ESAC was consulted on the Environmental and Social Policy revision via email. A summary of the previous meetings and biographies of members is available from the EBRD's web site.

 [www.ebrd.com/enviro/disclose/envac.htm](http://www.ebrd.com/enviro/disclose/envac.htm)

# Achieving sustainability outcomes through procurement

 [www.ebrd.com/oppor/procure/index](http://www.ebrd.com/oppor/procure/index)

The EBRD is continuing the work on the review and updating of its Procurement Policies and Rules (PP&R). It undertook public consultations on the issues subject to review in October 2007 and invited comments on the draft revised PP&R in 2008.

Changes to the PP&R centred around four main areas:

- ensuring enhanced transparency and accountability
- paying greater attention to local conditions in respect of language, currency provisions, and evaluation criteria
- modernising procurement processes and reports to take advantage of benefits offered by electronic, rather than paper-based, systems
- promoting, through procurement, objectives set out in other key Bank policies.

A summary of the comments received, with management responses, will be provided to the Board of Directors in 2009 to facilitate their review of the PP&R and assist them in considering revisions.

The Bank recognises that, at times, a project's ability to achieve environmental or social outcomes will be dependent on third-party activities, such as contractors and suppliers. The Bank's project procurement function plays a key role in helping to ensure that the environmental and social sustainability standards dependent on third-party activities can be achieved. The Bank has therefore taken the opportunity to integrate the environmental and social sustainability considerations into its project procurement practice in the draft EBRD PP&R. Whilst a project's appraisal and legal documents will themselves set out many of the environmental and social performance requirements for the projects, it is through the associated procurement process that these can systematically and effectively be implemented.

The Bank's clients are responsible for implementing the projects, including all aspects of the procurement process, which is governed by the tender documents, be it for goods, works or services necessary for the project. The Bank seeks to ensure that environmental and social sustainability and performance requirements are incorporated into tender documents and taken into consideration when designing the procurement process for a specific assignment.

The Bank is amending its Procurement Guidance Notes to include advice to its clients on good practice relating to environmentally and socially sustainable procurement. It is also revising the standard tender documents and contracts for works to include contract compliance conditions related to occupational health and safety, working conditions and ILO core labour standards as well as for managing subcontractors.

The Bank's environmental and social due diligence identify and determine the appropriate technical and other performance specifications to be included in the tender documents and contracts for procurement of goods (and associated services) on a specific project. Through these improved practices, procurement in Bank-financed projects will be an effective tool to implement the Bank's sustainability mandate.





# Handling complaints

The Bank established its Independent Recourse Mechanism (IRM) in 2004 to assess and review complaints from affected communities about Bank-financed projects. The IRM gives local groups that may be directly and adversely affected by a Bank project a means of raising complaints or grievances with the Bank, independently from banking operations. The mechanism aims to strengthen the Bank's accountability and to increase the transparency of its decisions in relation to its project operations.

The IRM has two functions: a compliance review function which assesses whether the Bank has complied with its policies, specifically its Environmental and Social Policy and

the project-specific provisions of the Public Information Policy in relation to a specific project; and a problem-solving function, which aims to restore dialogue between the parties, typically the members of an affected group and the project sponsor, with a view to resolving the underlying issues that may have given rise to the complaint or grievance.

In 2008, the Office of the Chief Compliance Officer (OCCO) received no new IRM complaints, and continued to process, and has since closed, the two complaints reported in the *Sustainability Report 2007*.

 [www.ebrd.com/irm](http://www.ebrd.com/irm)

## Vlore Thermal Power Generation Project (Albania)

On 19 April 2007, a complaint was registered under the IRM relating to the Vlore Thermal Power Generation Project (Vlore TPP). The complaint, submitted by members or supporters of the Civic Alliance for the Protection of the Vlore Bay, related to the construction of the Vlore TPP by Korporata Elektroenergjete Shqiptare (KESH), an Albanian state-owned power utility company, on Treport Beach. Alongside the EBRD, the Vlore TPP has obtained funding from the World Bank and the EIB.

The affected group claimed that the construction of the project in proximity to a beach would adversely impact the public amenity of the beach, future tourism, fisheries and other environmental media, and consequently the livelihood of its members. The group also alleged non-compliance by the Bank with the EBRD's 2003 Environment Policy particularly in relation to the precautionary approach to the management and sustainable use of natural biodiversity resources and the conduct of meaningful public consultation during the siting decision of the power plant. It should be noted that the siting decision taken by the Albanian government happened over a year before the EBRD was asked to consider the project.

Following approval of the IRM Eligibility Assessment Report by the EBRD's Board of Directors in October 2007, an independent IRM expert undertook a Compliance Review of the project. His findings, noted in his Compliance Review Report, were to the effect that of the four alleged violations, one was found to be in non-compliance. The finding was that the Bank had failed to ensure full compliance with the requirements of the Environmental Policy regarding meaningful public consultation during the siting stage of the power plant and specifically, to satisfy itself that KESH or the government of Albania had given potentially affected people an adequate opportunity to express views on the location of the project prior to the final decision.

However, as the nature and consequences of this failure were found to constitute a minor technical violation of the Bank's Environmental Policy, remedial changes to the Bank's procedures (and not to the project) were recommended to avoid the recurrence of the same or similar failure in the future and these changes have been adopted as part of the Bank's new 2008 Environmental and Social Policy.

 [www.ebrd.com/about/integrity/irm/register.htm](http://www.ebrd.com/about/integrity/irm/register.htm)

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## Review of the Independent Recourse Mechanism

In 2008, a review of the Independent Recourse Mechanism (IRM) began. After four years of operation, the IRM has found five complaints eligible, and processed two (see boxes) to completion. The main purpose of the review is to evaluate whether, in light of experience, the IRM is fulfilling its objective and to identify whether the functions of the IRM could be enhanced and/or be made more effective.

To date the review has confirmed the importance of the IRM's existence and functions, but it has also served to alert the Bank to the fact that the current rules of procedures are considered by many to be less than "user friendly" and not well known (either internally or externally). One proposed modification has been to change the name of the mechanism from IRM to 'Project Complaint Mechanism' in order to communicate better to the public what the mechanism is about both in English and the various languages spoken in the Bank's countries of operations. The review of the IRM is expected to be completed in 2009.

## Baku-Tbilisi-Ceyhan Pipeline (Atskuri Village, Georgia)

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

A problem-solving initiative was undertaken and within months it achieved the desired outcomes of restoring effective dialogue between the members of the affected group and BP/BTC as project sponsor. It resulted in the resolution of several of the individual complaints and brought clarity to the reasons and background of the closing of the remaining complaints following their review by BP/BTC.

 [www.ebrd.com/about/integrity/irm/register.htm](http://www.ebrd.com/about/integrity/irm/register.htm)

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# Internal performance

For information on EBRD recruitment, compensation and benefits, see the *Annual Report 2008*.

In 2008, the EBRD adopted a policy on workplace harassment, sexual harassment and abuse of authority. This is part of the Bank’s ongoing efforts to promote ethical standards of behaviour of staff and experts performing missions. The Office of the Chief Compliance Office (OCCO) continued to provide advice on the application of the Bank’s Codes of Conduct and dealt with 10 reports of suspected misconduct under the Bank’s Procedures for Reporting and Investigating Suspected Misconduct (PRISM). In 2008 OCCO provided integrity training to 190 staff members under its “Integrity Matters!” programme as well as delivering courses to 15 bankers about their obligations and duties as nominee directors on the supervisory boards of some of the Bank’s investee companies.

In 2009 the EBRD will undertake a review of its PRISM and disciplinary procedures as well as rolling out training on Chinese Walls guidelines (an information barrier to ensure the proper handling and use of confidential information and the proper management of potential conflicts) and a refresher course on integrity due diligence. This will try to ensure that matters of integrity and reputation remain at the forefront of the minds of all those in, and connected to, the Bank.

## Organisation and staffing

EBRD staff as of 31 December 2008 totalled 1,407, with employees coming from 57 of the 60 Bank’s member countries. Some 1,099 of these staff (or 78 per cent) were based at the

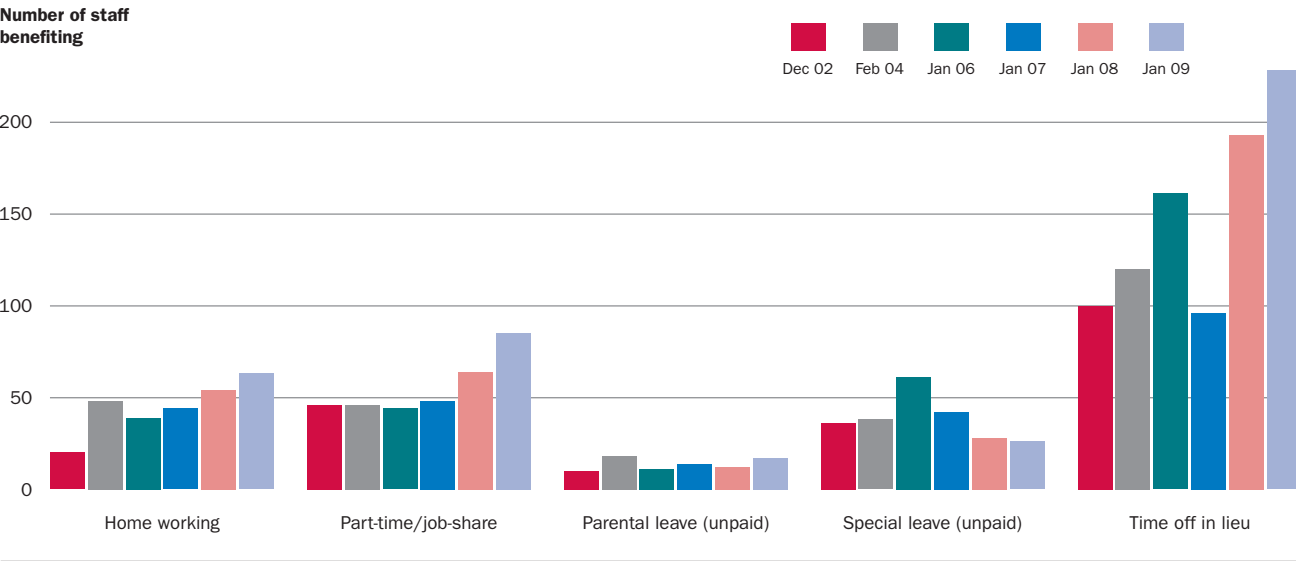
London Headquarters. Some 308 employees were located in the region (compared with 297 in the previous year), working across 36 Resident Offices in 26 countries of operations. The ratio of male/female professional staff in the EBRD is approximately 1.51:1 (down from 1.58:1 in the previous year). The EBRD’s work-life balance initiative enables staff to work at home, work part-time, job-share and take unpaid leave and time off in lieu. Increasing numbers of staff have been benefiting from this flexibility, although there has been a fall off in sabbaticals since 2006 (see Chart 3).

## Learning and development

Learning and development courses enhance professional skills and translate into business performance. A strategic review of banking skills-related training initiatives was conducted in 2008, leading to the redesign of the entire portfolio. The new portfolio will meet the demand of enhanced technical skills and in general ensure that all banking staff possess the level and mix of skills required. Management development and personal effectiveness initiatives were also assessed with respect to the capabilities required to drive organisational and business performance, resulting in new or revised programmes which will be rolled out in 2009.

Overall, in 2008 the technical skills and professional development programmes delivered over 100 sessions, corresponding to 2,454 person-training days.

Chart 3  
Work-life balance



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### **Staff Council**

The Staff Council is a group of staff volunteers that aims to foster a sense of common purpose in promoting the aims and objectives of the Bank through effective communication of staff views and ideas. It helps to promote the rights, interests and welfare of staff members and is involved in collaborative problem solving and consultation.

### **Health, safety and security**

The health, safety and security of all our staff and contractors is a priority for the EBRD. The Bank recently amalgamated the previously separate health and safety unit with the security unit, leading to a more integrated service covering in particular security advice, guidance and support for staff.

During 2008 a new electronic Travel and Expense Management System has given a much better oversight of staff travel, ensuring that staff have undertaken the necessary training and risk assessments before they travel. The system has also allowed for improved response to health, safety and security incidents occurring in the Bank's region: by knowing instantly "who is where" the Bank can oversee and respond to emergency situations much more quickly.

Road accidents are one of the most serious risks and most common cause of accidents to staff. In 2008, the Bank's Motor Vehicle Policy was reviewed and included extensive consultations, including a benchmarking exercise of other international organisations' policies, and surveys involving both the senior managers, resident offices and a sample of the most experienced travellers amongst Bank staff. The review has now been completed and recommendations will be made in early 2009 as to how the policy should be improved to best improve staff road safety.

The medical contract for the Bank's principal medical adviser was renewed. This has led to a new focus on improving the medical programmes available to staff, and a resulting improvement in the uptake of voluntary medical assessments, which are particularly necessary when staff travel.

During the year work started on installing an electronic permit-to-work system to control the activities of contractors in the London Headquarters building. The ability to electronically link the person responsible for the work of any given contractor with the facilities management, engineering, security, and health and safety staff gives the maximum possible oversight of contractors to ensure that they operate safely. The integrated approval process made possible by this should reduce possible conflicts between various work activities, and generally improve contractor safety on site.

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## **Staff training in health, safety and security**

### **First aid training**

The Bank has a long-standing first aider programme covering all Bank offices, with 70 staff fully trained and qualified as first aiders. Defibrillators are deployed in the London office, with most London first aid staff additionally trained in their use.

### **Driver training**

The Bank has a long-standing driver training course, targeted at all Bank drivers. During 2008 six drivers attended a regional course held in Tbilisi, teaching in particular defensive driving techniques and driving in accordance with local regulations and the Bank's own Road Safety Code. All Bank vehicles carry specific vehicle first aid kits, and drivers are trained in first aid.

### **Travel safety**

The Bank has a travel risk assessment system, which is designed to assess the travel risks for staff and provide appropriate advice and guidance. This programme has been running for seven years, and is now a condition of Bank travel. In 2008, 179 staff completed the process. In addition 303 staff completed an online travel security course, which is a condition of travel to certain higher-risk destinations. Forty staff completed the Bank's two-day Field Safety First Aid course, a classroom-based course designed to teach key aspects of travel safety, field security and field first aid. In addition, appropriate site safety and cold weather clothing is provided to staff travelling to Bank-financed project sites.

### **Office assessments**

Many health and safety courses are on the Bank's online training system, for example, the workstation training and assessment course. Some 360 staff completed this course, which is required as a condition of using computers at the Bank. Once the course has been completed online, appropriate advice and guidance can be provided to the user, in addition to advice from the Bank's intranet-based Workstation Code. Eight staff completed the new online manual handling course, which was launched in 2008.

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# Managing the EBRD's environmental footprint

The EBRD continues to provide a good working environment for our staff while minimising the environmental impact of our Headquarters in London. Since 2006, the Bank's Headquarters in London has derived all of its electricity needs from renewable energy suppliers. It signed a one-year contract for hydroelectricity in 2008.

**TABLE 8**  
**EBRD HQ energy and water consumption, 2004-08**

	2008	2007	2006	2005	2004
Electricity (gigawatt hours)	19.7	17.8	17.7	19.5	20.4
Gas (gigawatt hours)	4.1	3.7	2.8	3.3	2.9
Water (cubic metres)	78.6	62.7	65.4	84.5	79.2
CO <sub>2</sub> emissions (tonnes) <sup>1</sup>	1,135	1,026	1,003	1,109	1,150

<sup>1</sup> Part of the EBRD's London Headquarters building is sublet. These figures include the tenants' consumption. These figures were compiled using the 2008 DEFRA Electricity Grid Rolling Average conversion factor of 0.53702kg CO<sub>2</sub> per kWh and natural gas gross conversion factor of 0.185 kg CO<sub>2</sub> pt per kWh.

## Energy and Environment Management Working Group

The interdepartmental Energy and Environment Management Working Group considers ways to reduce the organisation's environmental impact. Initiatives launched in 2008 include battery recycling and a reduction from eight to three general waste collections a week, to reduce carbon footprint and transportation costs. Further reductions in transport costs and CO<sub>2</sub> emissions were achieved by switching to a waste disposal site that is located closer to the office. The EBRD continues to follow the principals of "reduce, reuse and recycle" within its premises. For example the Bank has restricted the issue of stationery catalogues as products are available to view online (see Table 10).

## Managing sub-contractors

Cleaning and catering at the Bank's Headquarters are both outsourced to contractors. They are committed to high environmental and health and safety standards. The catering contractor promotes healthy eating and the sustainable sourcing of produce. Where possible vegetable oil is reused and glass, paper and cardboard are recycled. A dewaterer (a machine that separates water from food waste) was installed in the Bank's catering area in 2008, which reduces waste volumes by up to 80 per cent. A new range of cups is manufactured from a compostable corn-based plastic.

## Business travel

After lighting, heating and cooling its buildings, the Bank's biggest use of energy and associated emissions of CO<sub>2</sub> is through business travel, the vast majority of which is essential air travel. Using trains rather than aircraft is becoming an increasingly viable option in parts of Europe, reflected in a year-on-year rise of 23 per cent in total miles travelled in 2008. Air travel fell by 2.5 per cent in the same period, which partly reflects the increased use of video conferencing in the Bank's five dedicated facilities. Table 9 shows the change in air travel, rail travel and CO<sub>2</sub> emissions since 2005.

**TABLE 9**  
**EBRD business travel 2005-08**

	2008	2007	2006	2005
Air travel (million kilometres)	25.2	25.3	25.8	23.7
Rail travel (kilometres)	331,148	267,619	406,475	294,000
CO <sub>2</sub> emissions (kilotonnes)	2.6	2.7	2.6	2.5

## Paper usage

In 2008 the EBRD used 14.8 million A4 sheets of paper, compared with around 16 million in 2007. The reduction is due to a fall in documents distributed in hard copy and the large increase in electronic filing systems and scanning facilities.

**TABLE 10**  
**Paper usage 2004-08**

	2008	2007	2006	2005	2004
Tonnes	74	78	83	78	89
Sheets (million)	14.8	16.2	17.0	16.5	18.2



**TABLE 11**  
**Materials recycled 2004-08**

	2008	2007	2006	2005	2004
Paper (tonnes)	74	56	38	28	23
Printer and toner cartridges (units)	750	908	380	900	420
Glass (tonnes)	29	39	26	56	25
Batteries (kilogrammes)	74	n/a	n/a	n/a	n/a

The Bank changed its white paper in 2008. It is manufactured in the UK by an ISO 14001 and ISO 9001-accredited company and has been produced under the Programme for the Endorsement of Forest Certification schemes (PEFC). The PEFC Council is an independent, non-profit, non-governmental organisation founded in 1999 which promotes sustainably managed forests through independent third-party certification.

 [www.pefc.org](http://www.pefc.org)

## Refrigerants

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

# Annex 1

## Organisation and procedures

### Responsibility for sustainability management

The Environmental and Social Policy and other EBRD policies, country strategies and the Bank's budget are approved by the EBRD's Board of Directors. All projects submitted for approval include a summary of the environmental and social issues associated with the project and how these will be addressed to ensure that the objectives of the Environmental and Social Policy are achieved.

Responsibility for implementing the Bank's mandate lies with the Executive Committee. It comprises: the President; the Chief Economist; the First Vice President, Banking; the General Counsel; the Secretary General; the Vice President, Finance; the Vice President, Risk Management, Human Resources and Nuclear Safety; the Vice President, Environment, Procurement and Administration; and Director, Risk Management. Prime responsibility for the implementation of the Bank's Environmental and Social Policy (ESP) lies with the Environment, Procurement and Administration Vice Presidency and its Environment and Sustainability Department.

The Vice President, Environment, Procurement and Administration, is primarily responsible for health, safety and security aspects relating to Bank staff and the management of the Bank's Headquarters and resident office premises and transport. Senior management within the Banking Vice Presidency ensure that environmental and social issues are taken into consideration in project preparation and implementation and in the preparation of country strategies and sector policies.

### Project approval

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

### Project derogations

A derogation is required when a proposed project is not expected to comply fully with the Bank's ESP. The requirement for a derogation will be flagged to the Board before their decision-making session. The Board considers derogations from the ESP as extremely serious and the intention is that all projects should comply fully. Approval of a derogation is considered by balancing the overall environmental and/or social costs and benefits of the project.

### Harmonising standards

In the EBRD's general consultation with stakeholders it includes IFIs and environmental and social bodies. To help develop a consistent approach to environmental and social issues among IFIs the Bank participates in the Multilateral Financial Institutions Environmental Working Group and the Development Financing Institutions Social Issues Working Group. Part of this relationship is the harmonising of standards and approach. The EBRD is also in regular dialogue with the UNEP FI Initiative that promotes sustainability in the financial community.

### Financial reporting

Treasury Risk Management is responsible for identifying, controlling and managing risks incurred by Treasury. The EBRD has adopted the "Internal Control – Integrated Framework" to certify internal controls over external financial reporting. The framework was issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), has been adopted by other IFIs and represents the broadest international best practice. COSO and Operational Risk Management is responsible for coordinating and developing operational risk Bank-wide (reporting to Risk Management). It also manages the Bank's certification process over internal controls on financial reporting (reporting to Finance).

### Capital market investments

The EBRD's Treasury Department undertakes capital market investments for the Bank. Environmental or social criteria are not explicit investment parameters but form part of the investment decision. The average rating of the portfolio is AA/Aa or better: over 75 per cent of the investment exposures are to regulated financial industries with the remainder largely invested in AAA/Aaa assets. Treasury's credit parameters allow investment in sovereign and sovereign-guaranteed paper with a minimum rating of A-/A3. Accordingly, limits have been established for 22 countries, all of which are members of the Financial Action Task Force (FATF), an intergovernmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing.

### Retirement Plan Committee for EBRD staff

The EBRD's Retirement Plan Committee oversees the retirement arrangements and benefits for EBRD staff. It is made up of: two elected staff members; the President; the Vice President, Finance; the Secretary General; the Vice President, Risk Management, Human Resources and Nuclear Safety; the General Counsel; and two representatives of the Board of Directors.

# Annex 2

## Global Reporting Index

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines. The guidelines are for voluntary use by organisations for reporting on the economic, environmental and social dimension of their activities, products and services. The table below compares the content of the EBRD's *Sustainability Report 2008* with the GRI 2002 Guidelines and Financial Services Supplement.

### KEY

IFC	Inside front cover
IBC	Inside back cover
AR	Annual Report
TR	Transition Report
SR04	Sustainability Report 2004
Note 1	Not applicable to banks generally
Note 2	Not applicable because EBRD is an International Financial Institution
–	Not currently covered by the Bank's reports
00	Internal operations
00	Portfolio operations

### GUIDELINES COMPARISON TABLE

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#### Core guidelines

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# Further information

## Exchange rates

Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2008. (Approximate euro exchange rates: £0.96, US\$ 1.40, ¥ 126.83.)

## Calculation of EBRD commitments

Repeat transactions with the same client for seasonal/ short-term facilities, such as commodity financing, are not included in the calculation of EBRD commitments for the year.

## Abbreviations and acronyms

The Bank, EBRD	The European Bank for Reconstruction and Development
BAS	Business Advisory Services
CGAP	Consultative Group to Assist the Poor
CO <sub>2</sub>	Carbon dioxide
CSF	Chernobyl Shelter Fund
CSO	Civil society organisation
DFI	Development finance institutions
DIF	Direct Investment Facility
DLF	Direct Lending Facility
EIB	European Investment Bank
EPE	European Principles for the Environment
ETC	Early transition countries
EU	European Union
FI	Financial intermediary
FYR Macedonia	Former Yugoslav Republic of Macedonia
GEF	Global Environmental Facility
GHG	Greenhouse gas
IFI	International financial institution
MEI	Municipal and environmental infrastructure
MSEs	Micro and small enterprises
MSMEs	Micro, small and medium-sized enterprises
NDEP	Northern Dimension Environmental Partnership
NEFCO	Nordic Environment Finance Corporation
NGO	Non-governmental organisation
NSA	Nuclear Safety Account
REACH	Registration, Evaluation, Authorisation and Restriction of Chemical substances
SEFF	Sustainable Energy Financing Facility
SEI	Sustainable Energy Initiative
SMEs	Small and medium-sized enterprises
SSF	Shareholder Special Fund
TAFF	Tajik Agricultural Financing Facility
TAM	TurnAround Management Programme
TC	Technical cooperation
TFP	Trade Facilitation Programme

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