



European Bank
for Reconstruction and Development



Sustainability Report 2010
Supporting growth

Highlights of 2010



JANUARY

The Board of Directors approved an equity investment of up to €125 million in Iberdrola Renovables subsidiaries in Poland and Hungary. Iberdrola Renovables is the world's leading developer in the renewable energy sector, and its subsidiaries operate four wind farms in Poland and one in Hungary, with a total capacity of 211 MW. Three more are planned by the end of 2010.

MARCH

To promote energy efficiency, support small renewable energy projects and unlock new sustainable sources of energy we:

- committed €90 million to sustainable energy projects in the Slovak Republic
- launched sustainable energy financing facilities worth €110 million for the Western Balkans.
- provided a €150 million loan for the construction of a state-of-the-art gas turbine facility in Latvia.



MAY

The EBRD's Annual Meeting was held in Zagreb, where the Bank's Board of Governors unanimously approved an increase in its capital. A parallel business forum entitled *Building Sustainable Growth* was held alongside and featured a two-day series of discussions, country presentations, specialist panels and networking events. The presentation of the Bank's Sustainability Awards also took place. (See Box 2)

FUNDS TO FINANCE WASTEWATER TREATMENT € MILLION

15.5

JULY

Funds worth €15.5 million from the EBRD, EU and Swedish International Development Agency (SIDA) were signed to finance the construction of a modern wastewater treatment plant in Bijeljina in Bosnia and Herzegovina, initially servicing up to 40,000 residents. The city's wastewater collection network will also be expanded as part of the project.

SEPTEMBER

The Bank signed a Memorandum of Understanding with the Japan Bank for International Cooperation (JBIC) to enable the institutions to work more closely to support economic and social development. The Memorandum had a special focus on energy efficiency and climate related projects and the Banks agreed to cooperate on co-financing environmental projects and developing carbon emission reduction instruments.



NOVEMBER

We obtained approval for a €7.5 million grant from the Climate Investment Funds (CIF) Pilot Programme for Climate Resilience (PPCR) for a project to integrate climate resilience into the rehabilitation of hydropower facilities in Tajikistan. This is the first time that we have accessed one of the international climate financing mechanisms for the purposes of climate change adaptation. (See page 23)

FEBRUARY

The Bank launched a new strategy for Kazakhstan, reinforcing our commitment to supporting the country's economy. The strategy sets out our priorities over the next three years, including investments in projects that promote clean technology and sustainable energy and promoting the sustainability of the local banking sector by supporting the development of local currency and capital markets.

2013

APRIL

We took an active role at the meeting of the Multilateral Financial Institutions (MFI) Working Group on Environment (MFI-WGE) in Luxembourg. Leading Multilateral Development Banks (MDBs) and the IMF worked to improve financial measures being taken to combat climate change. The group welcomed new commitments for developed countries as part of the Copenhagen Accord and endorsed new projects as part of the joint Climate Investment Funds (CIF) programme.

JUNE

As part of our agribusiness strategy to ensure food security for the region, we announced a €37.27 million loan to Nibulon Ltd., a leading Ukrainian grain producer and exporter. The project will develop a storage and shipment infrastructure along the Dnieper River, providing a more efficient way to transport grain than current truck and railway options. (See Box 5)



AUGUST

The EBRD approved a €5 million loan to help modernise the transportation system in Chisinau, Moldova. The loan will help purchase 90 new trolleybuses and aims to increase the quality of passenger transportation and improve environmental efficiency.

OCTOBER

The EBRD supported the modernisation of public transport in Almaty, Kazakhstan, with a €26.2 million loan to purchase 200 environmentally-friendly buses. Fuelled by compressed natural gas (CNG), they will improve the city's air quality.

The Bank announced a €45 million loan to co-finance the construction and operations of the Margonin wind farm, the largest wind farm in Poland.



DECEMBER

The EBRD launched its Environmental Sustainability Bonds to finance environmental projects in our countries of operations. (See Box 3).

The Bank published its "Guidance Note for Indigenous Peoples" (IP) to provide more detailed recommendations to staff, clients and their consultants on how to address the requirements of Performance Requirement 7 (PR 7) in planning and implementing projects that involve Indigenous Peoples.

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Global Reporting Initiative

We have reported against the Global Reporting Initiative (GRI) G3 Indicator protocols and its Financial Sector Supplement. We have self-declared a “B” rating according to the GRI application levels below.

		REPORT APPLICATION LEVELS						
		2002 IN ACCORDANCE	C	C+	B	B+	A	A+
OPTIONAL	MANDATORY	Self Declared			Report Externally Assured	GRI REPORT SELF-DECLARED	Report Externally Assured	
	Third Party Checked				Report Externally Assured			Report Externally Assured
	GRI Checked				Report Externally Assured			Report Externally Assured



We have published the GRI Content Index for this report on our web site: www.ebrd.com/gri

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 its operations the EBRD follows the highest standards of corporate governance and sustainable development.

Using this report

These symbols are used throughout this Report to direct you towards further information either online, within the Report or another EBRD publication:



INFORMATION
ONLINE



INFORMATION WITHIN THE REPORT
OR ANOTHER EBRD PUBLICATION

View this Sustainability Report online:
www.ebrd.com/sustainabilityreport



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 EBRD's impact on the people and environment in its countries of operations and also describes how the Bank operates internally. The reader is also referred to our *Annual Report 2010* and *Donor Report 2011*.

President's foreword



One of the consequences of the global financial crisis was that the word “sustainability” suddenly became ubiquitous. This was a reflection of the widely shared conviction that serious lessons had to be learned from the crisis and that the future growth of the global economy must be better balanced to create more resilient economies.

The EBRD fully subscribes to this view. We are promoting sustainable development through our projects by specifically focusing on the needs in our countries of operations. In 2010 we made good progress and significantly increased the number of projects to a record number of 386 individual investments from 311 in 2009.

The strong increase was the result of a targeted approach to strengthen our support for smaller projects in countries and sectors where the investment needs remain high and therefore the impact of the EBRD's activities is especially large. This is also reflected in the significant growth of our business volume in the early transition countries and south-eastern Europe.

Thanks to its mandate and mission the EBRD sees itself as more than a bank; we also take a holistic approach to sustainability. We are actively pursuing specialised activities which all aim to strengthen those fundamentals in our countries of operations without which sound growth is not possible.

The EBRD has identified several areas where we can demonstrably make a difference. Despite the challenging circumstances investments under the Sustainable Energy Initiative II (SEI II) reached nearly €2.2 billion in 2010, an increase of 64 per cent from €1.3 billion in the year before. The programme is essential to putting energy generation and consumption in our countries of operations on a sound and more secure footing.

An important element of this is the beneficial impact on the environment: the implementation of all new projects signed under the SEI II in 2010 is expected to lead to a reduction

of 11.4 million tonnes of carbon dioxide equivalent per year. The impact of the Bank's whole portfolio of projects signed in 2010 is a reduction of 5 million tonnes of carbon dioxide equivalent per year.

This achievement underpins and illustrates the EBRD's commitment to environmental and social sustainability. All our investments are examined for their environmental and social impact and appropriate mitigation measures are adopted accordingly. Over the years the Bank has built a huge body of expertise which we apply throughout our operations.

To this core competency we are currently adding a new one: 2010 was the first year of implementing the Bank's Gender Action Plan which aims at promoting equality of opportunity and women's empowerment through the Bank's projects and seeks to prevent gender discrimination and mitigate inequalities.

I am particularly pleased to report that the Plan is already producing results: a first pilot project has been implemented, others are currently either under implementation or under preparation. The progress achieved so far shows us that there is a strong need to improve equality and we take the strong response to our initiative as an appeal to intensify our endeavours.

Equally, we continue to strengthen our relations with our stakeholders. As a public institution the EBRD is committed to transparency and accountability and we see dialogue with civil society as a crucial cornerstone for us in our ambition to fulfil the EBRD's unique mission and mandate in the best possible way.

Thomas Mirow
President
European Bank for Reconstruction and Development

2010 in numbers

PROJECTS

€9.0 billion financed 386 projects in the region, compared with €7.9 billion over 311 projects in 2009. This was the highest investment level in the Bank's history and a record number of projects.

386

projects

SUSTAINABLE ENERGY

Sustainable energy investments reached almost €2.2 billion in 2010, up 64 per cent from €1.3 billion in 2009.

2.2

€ billion

ENVIRONMENTAL SUSTAINABILITY BONDS

In December 2010 the Bank launched the EBRD Environmental Sustainability Bonds. Maturing in 2014, proceeds are earmarked to support the Green Project Portfolio.

18.1

€ million

SUPPORT FOR THE FINANCIAL SECTOR

€3.0 billion invested in 154 new projects covering 27 countries of operations (see page 38).

3.0

€ billion

EARLY TRANSITION COUNTRIES

114 projects signed worth €920 million, a 37 per cent increase on 2009 where 83 projects were signed worth €512 million. The 10 early transition countries (ETCs) are Armenia, Azerbaijan, Belarus, Georgia, Krygyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

920

€ million

MUNICIPAL AND ENVIRONMENTAL INFRASTRUCTURE

€486 million invested in 32 new projects to improve water supply, wastewater treatment, solid waste management, district heating and urban public transport (see page 41).

486

€ million

ENERGY EFFICIENCY FINANCE

New credit lines worth €452 million were provided to 29 banks in 12 countries.

452

€ million

AGRIBUSINESS

We continue to be the biggest investor in the agribusiness sector in the region, with a record 63 new projects signed in 2010 worth €836 million (see page 33).

836

€ million

Where we operate

01	Albania	16	Lithuania
02	Armenia	17	Moldova
03	Azerbaijan	18	Mongolia
04	Belarus	19	Montenegro
05	Bosnia and Herzegovina	20	Poland
06	Bulgaria	21	Romania
07	Croatia	22	Russia
08	Czech Republic ¹	23	Serbia
09	Estonia	24	Slovak Republic
10	FYR Macedonia	25	Slovenia
11	Georgia	26	Tajikistan
12	Hungary	27	Turkey
13	Kazakhstan	28	Turkmenistan
14	Kyrgyz Republic	29	Ukraine
15	Latvia	30	Uzbekistan



POLAND

In 2010 a €125 million equity investment was approved in Iberdrola Renovables subsidiaries. The world's leading developer in renewable energy, Iberdrola Renovables has four wind farms in Poland and is planning more. In October the Bank announced a €45 million loan to co-finance the construction and operations of the largest wind farm in Poland.



ROMANIA

One of our largest MEI projects signed in 2010, a €33 million loan to the Constanta water company in east Romania was part of a €200 million co-financing framework launched to support modernisation and regionalisation of water utilities in the country. See page 41 for more information.



KAZAKHSTAN

The Bank launched a new strategy for Kazakhstan in 2010, including investments in projects that promote clean technology and sustainable energy. In October a €26.2 million loan was approved to modernise public transport in Almaty by purchasing 200 environmentally friendly buses fuelled by compressed natural gas (CNG).



SERBIA

In 2010 the EBRD's TurnAround Management (TAM) Programme continued working on a community project in Sombor (see page 37) and the EBRD invested further in the Serbia Komercijalna Banka (see page 39).

¹ Since 2008, the EBRD has not made any new investments in the Czech Republic.



RUSSIA

In 2010 the Bank's flagship industrial energy efficiency project was steel producer NLMK with an investment of €100 million. Already one of the world's lowest cost steel manufacturers, NLMK plans to certify its energy management system under the new ISO 50001 standard once it becomes available, a pioneering move with implications for the rest of Russian industry.

22



MONGOLIA

We are working to improve sustainable practices in the Mongolian mining sector. The TurnAround Management (TAM) and Business Advisory Services (BAS) Programme is creating a sustainable business infrastructure in the south Gobi desert, where a biodiversity workshop is planned to discuss the protection of endangered species. The Bank's Legal Transition team will soon begin a €500,000 project to implement the principles of the Extractive Industries Transparency Initiative (EITI).

18



TAJIKISTAN

In 2010 we launched a technical cooperation programme to analyse the climate resilience of hydropower facilities (see page 23). We are also working with the winners of our Sustainability Awards, the ECOM Group, to produce a more sustainable stream of cotton production.

Sustainable investment at the EBRD

1

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OVERVIEW

The EBRD is owned by 61 countries, the European Union and the European Investment Bank. Our mission is to support the development of market-based economies through projects from central Europe to central Asia. We invest primarily in private sector clients whose needs cannot be fully met by the market and aim to foster transition towards open and democratic market economies. We also work with publicly owned companies and government ministries to support privatisation, the restructuring of state-owned firms and improvement of municipal services. In all our operations we follow the highest standards of corporate governance and sustainable development.

In 2010 the EBRD region showed that, as well as managing the change towards open and democratic market economies and recovering from the global financial crisis, it also continues to make progress on the challenges and opportunities presented by the sustainability agenda.

HOW THE BANK SUPPORTS SUSTAINABILITY

The EBRD's main activities are the provision of finance and/or taking capital in banks, industries, businesses and financing publicly owned entities. This report explains in detail how we promote environmentally sound and socially responsible practices throughout the project cycle.

The Bank's founding agreement states that we should promote environmental and sustainable development in all activities. The Bank has instituted these basic principles in our Environmental and Social Policy and Performance Requirements (see page 11). Environmental and social considerations also inform our country strategies and sector-specific operational strategies.

The EBRD is a project-focused Bank and we ensure that our robust sustainability standards are applied at the planning, financing and implementation stages of all projects (see Figure 1). In 2010 our annual business volume was €9.0 billion and we worked with 386 operations in the region.

The Bank's Sustainable Energy Initiative (see page 19) has been running since 2006 and has become one of the region's largest investors in energy efficiency, sustainable energy and carbon markets. We have invested €6.1 billion in such projects since 2006, delivering a total reduction in carbon emissions of approximately 36.8 million tonnes of carbon dioxide (mtCO₂).

The EBRD also works closely with third parties through our Technical Cooperation Funds Programme providing advice and expertise, including on sustainable development to private and public sector clients.

As part of our commitment to the transparency and accountability of Bank operations, we have instituted a Project Complaint Mechanism (PCM) and have an independent and impartial Evaluation Department to review its operations and effectiveness (see page 50). Throughout the project cycle there is also a strong emphasis on civil society engagement (see page 49).

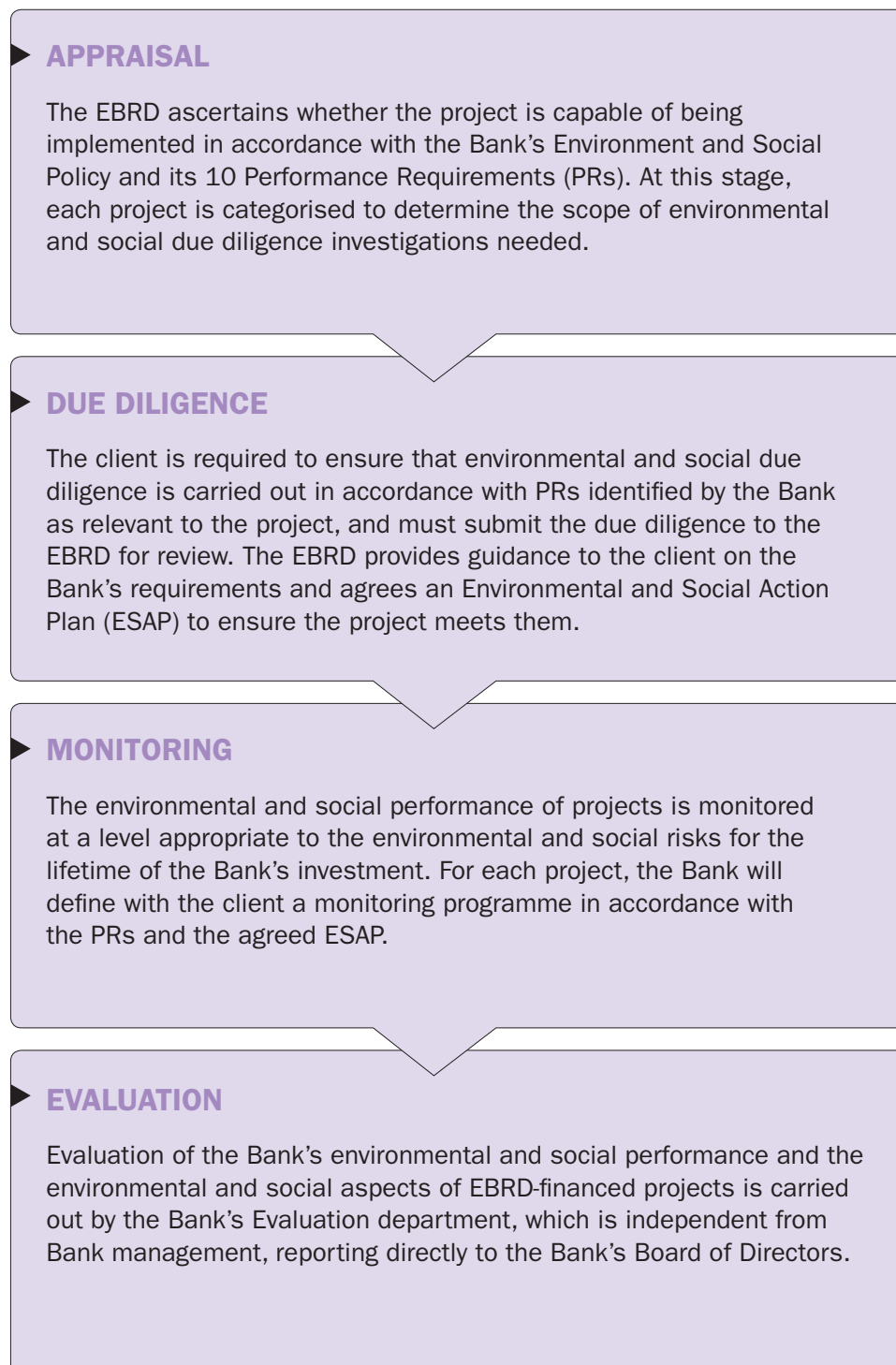
Outside of the project cycle, the Bank also participates in international cooperation initiatives and policy dialogue where there are implications for the Bank's project-focused mandate.

We also manage six nuclear safety and decommissioning funds, provided by international donors, on behalf of G-7 countries. This year (2011) marks 25 years since the Chernobyl nuclear disaster and the Chernobyl Shelter Fund is now the biggest of our nuclear safety and decommissioning projects (see page 31).

All these elements are explored in more detail throughout this report.



Figure 1: Building sustainability throughout the EBRD project cycle



The Bank's founding agreement states that we should promote environmental and sustainable development in all activities.



Environmental and social standards

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ENVIRONMENTAL AND SOCIAL POLICY

Achieving environmentally sound and sustainable development is an essential part of fulfilling the EBRD's mandate to foster the transition to market-based economies and promote private entrepreneurship. This approach not only aims to create projects that are able to adapt to the changing needs and opportunities of our region and operations but also creates projects that have a more holistic view of risk and therefore are more likely to contribute to a stable long-term recovery from the financial crisis.

Sustainability issues were originally reflected in the Bank's Founding Agreement in 1990, and subsequent environmental policies and procedures have implemented the mandate. The Board of Directors agreed a comprehensive Environmental and Social Policy, adopted in 2008.

This Policy ensures that issues such as environmental and social sustainability, the rights of affected workers and communities and compliance with relevant regulatory requirements and good international practice are built in at every relevant stage of the project cycle. Other Bank policies and strategies such as the Public Information Policy, Project Complaint Mechanism and country and sector strategies also take environmental and social matters into consideration.

To turn the objectives of the Environmental and Social Policy into successful practical outcomes, the Bank has adopted a set of 10 specific Performance Requirements (PRs) that clients are expected to meet, covering key areas of environmental and social impacts. These are:

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

Where proposed business activity to be financed by the EBRD relates to existing facilities that do not meet the relevant Performance Requirements, the client is required at the outset to adopt and implement an Environmental and Social Action Plan (ESAP) in order to upgrade the project facilities and practices to an acceptable standard. For the project to proceed, an ESAP must be technically and financially feasible and implemented within an acceptable time frame. If the Bank operation is to provide general corporate finance, working capital or equity financing for a multi-site company, the client will be required to develop and implement an ESAP at the corporate level (as opposed to the site-specific level).

A company adopting best international practice as a result of the EBRD's environmental and social requirements can have a demonstration effect for similar companies in the sector, contributing to the Bank's transition impact objectives.

ASSESSING AND MONITORING ENVIRONMENTAL AND SOCIAL IMPACT

For each project proposal the Bank undertakes an environmental and social appraisal alongside financial, legal and technical assessments (where relevant), and transition impact due diligence. Our team of specialists categorises the level of environmental and social due diligence needed and then works side-by-side with Banking and other teams to understand the risks and opportunities and to develop appropriate mitigation steps to structure the project in line with the Bank's PRs. A description of the categories and the number of environmental and social appraisals undertaken in 2010 can be found in Table 1.

Clients are required to report to the EBRD at least annually on their environmental and social performance and implementation of the ESAP. In addition, throughout the year we have continued to conduct on-site monitoring of projects to check that clients were meeting their environmental and social commitments. This took place through monitoring visits by Bank staff and independent consultants. In 2010, 58 monitoring visits were carried out with a particular focus on the power and manufacturing sector. The Bank's portfolio included 44 Category A projects at the start of 2010 and, based on monitoring and supervision during the year, 84 per cent of these projects were considered by the Bank to meet or exceed our environmental and social requirements. Across the portfolio 96 per cent of projects have fulfilled environmental and social reporting requirements within the last two years.

Health and safety

The Bank added a full-time specialist in occupational health and safety issues to the Environment and Sustainability Department in late 2009 and in 2010 formed a Health and Safety Steering Group to improve its capacity to manage health and safety risks in our investments. We now place more focus on technically analysing all high-risk projects for health and safety concerns during the due diligence process. This year the EBRD occupational health and safety specialist visited 13 projects to assess working practices and suggest practical improvements.

For example, following a visit to a motorway construction project in the Slovak Republic, improvements to the project's traffic management system were suggested and introduced. The visit also improved accident reporting and has allowed us to offer advice and guidance to the client on best practice.

One of the major challenges for the region in the years ahead will be to foster a positive health and safety culture that raises standards and demonstrates the benefits of good health and

Table 1: Signings in 2010 by environmental/social screening category (2009 data provided for comparison)

Category	Number of operations	2010	2009
Category A	Projects with potentially significant and diverse adverse future environmental or social impacts and which therefore require a comprehensive environmental and social impact assessment. This includes examining technically and financially feasible alternatives and may require an audit to determine the impacts of past and current operations.	17	10
Category B	Projects where the potential adverse environmental or social impacts are typically site specific and/or readily identified and addressed through mitigation measures, risks or issues. 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 may be required to determine the impacts of past and current operations.	153	116
Category C	Projects with minimal or no adverse environmental or social impacts.	6	20
Category FI (Financial Intermediaries)	Projects that involve an EBRD investment in a financial intermediary such as a bank, private equity fund or leasing company. These projects require due diligence to assess: (i) the FI's existing environmental and social policies in relation to PR9 and its capacity to implement them; and (ii) environmental and social issues associated with the FI's existing and likely future portfolio.	135	93



safety at both occupational and community levels. Local partnerships with established business groups have helped raise standards as have efforts with civil society organisations such as the Institution of Occupational Safety and Health (IOSH). However, more needs to be done to spread best practice, especially in the small and medium-sized enterprise (SME) sector. Efforts will be made within the Bank in the coming year to raise awareness with banking teams and other stakeholders on how they can integrate health and safety further into their work.

Disclosure of environmental and social information

The Bank ensures that its Environmental and Social Impact Assessments (ESIAs) for all Category A projects are made available to the public both in English and in the relevant local language and over a time frame in line with both national legislation and our requirements. The Bank also requires all project sponsors to make the ESIA publicly available for comment in at least one location near the project site. In 2010 there were 15 Category A projects which were in active consultation periods and so displayed ESIA documentation, both digitally and in hard copy, in English and local languages. A full list is provided in Table 2.

Table 2: Summary of Category A Disclosure in 2010

Country	Project name and electronic availability	Sector	Date EIA made available	Board date	Days available (before Board)	Language of EIA in region
Bulgaria	Nikopol Biomass project http://riew-pleven.eu/	Private	15/12/09	28/09/10	288 days	English, Bulgarian
Croatia	Croatian Motorways (HAC) www.hac.hr	Public	18/06/10	26/10/10	131 days	English, Croatian
Croatia	Rijeka Regional Waste Management Programme www.ekoplus.hr	Private	15/03/10	26/10/10	226 days	English, Croatian
FYR Macedonia	Corridor X www.vlada.mk/?q=node/3520	Public	03/12/10	–	–	English, FYR Macedonian
Georgia	Adjara Solid Waste project www.denr-adjara.ge/	Public	22/12/08	09/02/10	415 days	English, Georgian
Georgia	Tbilisi Railway Bypass project http://www.ebrd.com/english/pages/project/psd/2009/36538.shtml	Public	03/09/09	09/03/10	188 days	English, Georgian
Kazakhstan	Caustic Soda http://www.ebrd.com/english/pages/project/psd/2010/39561.shtml	Private	24/03/10	–	–	English, Russian
Mongolia	Energy Resources Phase 2 www.energyresources.mn/index.php ?l=e&p=88&t=7	Private	16/10/09	23/03/10	159 days	English, Mongolian
Poland	Margonin Wind Farm www.edprenovaveis.com/Sustainability/EDPRintheCommunity/PoloniaSustainability/Margonin	Private	18/01/10	20/07/10	184 days	English, Polish
Poland	Martifer Polish Wind www.martifer.com/renewables	Private	08/01/10	–	–	English, Polish
Romania	EDPR Wind projects www.edprenovaveis.com/Sustainability/EDPRintheCommunity/RomaniaSustainability	Private	07/04/10	–	–	English, Romanian
Russia	RusVinyl www.sibur.ru/	Private	15/02/08	20/07/10	522 days	English, Russian
Slovak Rep	D1 Motorway Phase 1 www.telecom.gov.sk/index/index.php?ids=69402	Private	23/11/09	27/04/10	156 days	English, Slovak
Slovenia	Šoštanj Thermal Power Plant www.te-sostanj.si/default.asp?id=192	Public	6/11/09	20/07/10	257 days	English, Slovenian
Ukraine	South Ukraine Transmission project www.ukrenergogov.ua/ukrenergogov/control/en/publish/article?art_id=74887&cat_id=36968	Public	04/08/09	12/10/10	435 days	English, Ukrainian

PROCUREMENT ON EBRD-FINANCED PROJECTS

The ability of a project to achieve satisfactory environmental or social outcomes can often be partly dependent on the activities of third parties such as contractors and suppliers. While the project appraisal and legal documents will themselves set out many of the environmental and social Performance Requirements (PRs) for the projects, it is through the procurement, contractor management and supervision process that these can be implemented systematically and effectively.

All EBRD clients are responsible for ensuring that any contractors working on project sites comply with our environmental and social requirements as set out in the Bank's PRs and in the project-specific ESAP. Many projects seeking EBRD finance include at least an element of contracting, particularly when they involve new construction. In such cases we will, as part of our environmental and social due diligence, focus on the client's tendering, contractor management and supervision processes and give practical guidance on how environmental and social considerations can be incorporated at the relevant stages of the contracting process. Clients will also be expected to report on the contractor's environmental and social performance under the project as part of their annual reports to the EBRD on environmental and social matters. Prevention of accidents in contracted works was one of the focus areas for the EBRD's new health and safety specialist in 2010.

In the area of public procurement, multilateral development banks (MDBs), including the EBRD, adopted a new version of the MDB Harmonised Edition of the International Federation of Consulting Engineers (FIDIC) General Conditions of Contract for Construction in June 2010. The Conditions include expanded provisions on labour standards and health and safety and thus present an important step in promoting good labour practices in large construction projects worldwide. The EBRD's own Standard Tender Documents for the Procurement of Works and User Guide was issued in 2010, following a trial period in 2009. The updated

2010 version is in line with the new MDB Harmonised General Conditions, as well as including additional provisions and guidance to promote the effective implementation of the labour and health and safety standards in the EBRD's PR 2.

INVESTING IN HUMAN CAPITAL

We recognise that investment in human capital is a vital part of promoting significant environmental and social improvements in our countries of operations, and this year has seen a renewed focus both internally and with external partners in this area.

Internally, the EBRD has initiated training for staff such as the addition of new sustainability elements to its Banking Academy. The Academy is a compulsory course for all new banking staff and now includes environmental and social features within its curriculum. The Bank's Environment and Sustainability Department has also made more tools, guidance and systems available across the organisation. These include the "e-Manual for Financial Intermediaries", as well as a new online training course on implementing the Environmental and Social Policy in due diligence, which was made available across the region in late 2010.

A significant number of new tools were developed in 2010 to help implement the Bank's comprehensive Gender Action Plan (adopted in 2009) which aims to promote equality between men and women in our projects in the region and increase the economic participation of women in the private sector. See Box 1 for more information.

In 2010 a gender analysis was conducted for the Sfantu Gheorghe project in Romania, the results of which influenced the project decision. This project undertook a detailed analysis of citizens' needs and priorities based on gender and through this identified concerns such as the placement of street, pavement and public lighting to ensure a feeling of security for women. The findings were forwarded to the municipality who are now working to meet these needs.

Box 1: Gender Action Plan progress in 2010

The EBRD's Board of Directors approved the Bank's Gender Action Plan in January 2010. During the period 1 July 2010 to 31 January 2011, the EBRD has made firm steps forward in the implementation of the GAP. Notable achievements include:

- our first gender pilot project, the Sfantu Gheorghe street and lighting project in Romania, has been completed
- our first pilot project in natural resources, an Equal Opportunities HR project with Petrom, is currently being implemented
- additional pilot projects in the MEI sector are being implemented
- gender-specific tools and guidance notes have been developed

- a toolkit and guidance notes for Nominee Directors has been prepared
- other gender initiatives such as the BAS Women in Business Programme and FI Turkish MSME TC have been implemented.

Further pilot projects and tools are being developed, scheduled for implementation in 2011, to identify lessons learned for future gender mainstreaming activities. Several gender initiatives to mainstream gender into the Bank's operations and investment projects have also been introduced.



For further information on human resources management in the EBRD (including training on subjects other than environmental and social sustainability), see the EBRD's *Annual Report 2010*.



For more details see the case studies in the *Donor Report 2011*, "Sfantu Gheorghe Street and Lighting Project: designing projects with gender in mind" and "BAS Women in Business Programme in Armenia: helping women in business".

Our first gender pilot project, the Sfantu Gheorghe street and lighting project in Romania, has been completed.



Box 2: The Sustainability Awards

At the Bank's 2010 Annual Meeting in Zagreb we announced the winners of the 2010 EBRD Environmental Sustainability Awards. Nominations were received in two categories, namely: Excellence in Environmental and Social Performance and Excellence in Sustainable Energy and Climate Change.

The nominations were judged by an independent panel from a range of organisations including *Environmental Finance* magazine, Pricewaterhouse Coopers (PwC), the Regional Environmental Centre (REC), UNEP-FI and InSpire Invest.

The ECOM Group were the winners in the Excellence in Environmental and Social Performance category. The ECOM group is one of the leading suppliers of commodity raw materials and related services (primary processing, logistics, risk management) to coffee roasters, chocolate manufacturers and cotton textile mills worldwide. ECOM has been working with the Bank in Tajikistan to promote the principles of the Better Cotton Initiative (BCI) in an attempt to produce a more sustainable stream of cotton from Tajikistan. ECOM is promoting the implementation of BCI principles via, for example, transparent contracting (involving higher prices to farmers), technical assistance to farmers on farming and to ginners on product quality (such as fibre length), and sorting according to international standards.

Ukreximbank were the winners in the Excellence in Sustainable Energy and Climate Change category. Ukreximbank is a participant in the EBRD's Ukraine Energy Efficiency Programme (UKEEP) and is acting as a frontrunner for the introduction of new financial products that promote investment in sustainable energy in Ukraine. Ukreximbank pioneered carbon finance transactions in Ukraine through its participation in the first Carbon Credit Fund deal in the country and their involvement under the UKEEP project has saved more than five million tonnes of CO₂ based on the projects' lifecycle.

Both clients and the EBRD frequently use specialist environmental and social consultants to conduct environmental and social due diligence and help prepare ESAPs. In 2010 the establishment of a new Framework Contract helped ensure that the Bank has quicker access to consultants with the necessary environmental and social expertise. The Framework Contract was established after a competitive tender process that included requirements for consultants to demonstrate a successful track record, experience and local capacity in our countries of operations. Best practice is also promoted through our Sustainability Awards, which provide public recognition to Bank clients for excellence in areas such as environmental and social performance (see Box 2).

In many parts of the region the implementation of environmental and social standards is still a relatively new concept. To combat this, we provide a number of capacity-building programmes for local partners. For example, the European Western Joint Balkans Fund was used in 2010 to finance the training of local and regional authorities in the region with regard to resettlement assistance. Similarly, new guidelines for nominated directors published by the Bank during the year has ensured that corporate directors nominated by the EBRD, for companies where the Bank holds equity, receive training on gender issues and are able and encouraged to raise these issues as appropriate on the company boards on which they sit.

GENDER EQUALITY TOOLS

In October 2010 we published a new set of tools to assist EBRD staff, consultants and project developers in the identification of gender issues in Bank-financed projects. The tools consist of two matrices and are particularly designed for use at the project due diligence stage and to assist with the assessment of gender impacts and the development of appropriate mitigation measures.

INTERNATIONAL COOPERATION

We work in close cooperation with a large number of partners in the public and private sectors and the local and international business and investment community. The Bank is a member of the Multilateral Financial Institutions (MFI) Working Group on Environment. The MFI Group shares experiences and fosters a consistent approach to environmental and social issues. The Group works together on new challenges and concerns to develop practical approaches. It held two meetings in 2010 and discussed joint approaches to issues such as financial intermediaries, biodiversity and ecosystem services, social issues, greenhouse gas accounting and climate adaptation.

The Bank has a long-standing culture of collaboration with all multilateral institutions concerned with the economic development of, and investment in, countries from central Europe to central Asia including the European Community, EIB, World Bank Group, IMF and the United Nations (for example, FAO, UNECE, WHO, ILO, UNDP, UNEP, UNEP-FI). During 2010, for example, we worked closely with the European Union under its Swedish Presidency on the Eastern Europe Energy Efficiency and Environment Partnership (E5P), a multi-donor fund for improved energy efficiency in Ukraine which was established in 2010 and will be managed by the EBRD. We also worked with the World Health Organization (WHO) on integrating health and safety issues into the project appraisal process.

The EBRD was instrumental in the establishment of the Vienna Initiative to ensure a coordinated response to the financial crisis in our region. This forum assembled all major players with a presence in the region – governments, central banks, regulators, the European Commission, relevant western banking groups and international financial institutions – and has had an important role in helping stabilise liquidity and ensure sufficient capital.



In all our operations we maintain a close political dialogue with governments, authorities and representatives of civil society to understand the complexities of current issues and work towards common goals.

CHALLENGES AHEAD

Lack of appreciation in the EBRD region for how environmental and social sustainability can affect the viability of businesses represents a threat to the region's economic recovery and long-term growth. In the future it is vital that the EBRD and our clients ensure that the rigorous sustainability standards and performance for each project continue to be met, as well as meeting financial and economic goals.

In many parts of the region, massive amounts of capital and a cultural shift in thinking are still needed to "climate-proof" the investments that will protect long-term growth. The work on climate change adaptation is particularly relevant in this area and needs to be progressed even further in coming years and mainstreamed into the Bank's environmental and social assessment process.

The Bank's own appraisals, guidance and implementation of sustainability best practice will also continue to evolve. For example, areas such as health and safety can still be integrated further into our mainstream approach.

Box 3: International cooperation at work – the Northern Dimension Environmental Partnership (NDEP)

The EBRD continues to manage the Northern Dimension Environmental Partnership (NDEP), a multi-donor fund set up in 2002 to address the most urgent environmental problems and nuclear safety risks in the Northern Dimension Area in north west Russia. The Partnership facilitates cooperation between Russia, Belarus, country governments and international financial institutions (the EBRD, NIB, EIB, NEFCO) to enhance the most effective combinations of grants and loans with national funding for priority projects.

By the end of 2010 pledges and contributions to the NDEP environmental window reached €149 million and €159 million for the nuclear safety window. Environmental investments prepared by the IFIs combine loans and grants while the nuclear safety projects are entirely grant funded. NDEP partners include the European Commission and 12 donor governments (Belgium, Belarus, Canada, Denmark, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom).

In 2010 the Assembly approved over €58 million in grants for the nuclear safety projects in north-western Russia and over €23 million in grants for the environmental window, mostly for wastewater treatment investments in St Petersburg, Pskov, Murmansk and also for the first three projects in Belarus to modernise wastewater treatment plants in Brest, Grodno and Vitebsk.



For more information on NDEP go to:
www.ndep.org

Climate change and sustainable energy

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SUSTAINABLE ENERGY INITIATIVE (SEI)

Reflecting the Bank's strategic focus on energy efficiency and climate change mitigation and as a result of the continued implementation of the Sustainable Energy Initiative (SEI), sustainable energy investments reached almost €2.2 billion in 2010, up 64 per cent from €1.3 billion in 2009. SEI investments accounted for 24 per cent of the Bank's annual business volume across all sectors of activity.

CLIMATE CHANGE AND THE CHALLENGE OF ENERGY EFFICIENCY

The most energy-intensive economies in the world are located in our region and include Azerbaijan, Kazakhstan, Ukraine and Uzbekistan. Carbon intensity is also very high due to the area's heavy reliance on fossil fuels and their obsolete systems for energy production and delivery. For example, Ukraine emits almost three times the carbon emissions of Germany per unit of GDP. Addressing these high energy and carbon intensities is the most important challenge in progressing the region's transition to sustainable growth.

Accordingly, as part of our mandate we have scaled up SEI activities to address energy efficiency and climate change. This is reflected first as a key component of the medium-term strategy in 2009 unanimously approved by the Board of Governors, then as a core sector of activity of the Bank in the Fourth Capital Resources Review (CRR4), which was approved in 2010 for the 2011-15 period.

Our key objectives are to promote economic competitiveness and energy security improvements in the region, while contributing to the global fight against climate change. These are closely associated with improving energy efficiency, and it will be a key challenge to ensure that future growth is being put on a solid, low-carbon foundation.

SEI objectives and results

The SEI was launched in 2006 with the following objectives which have been achieved and exceeded:

- double investments in sustainable energy to €1.5 billion, for a total value of around €5 billion.
- integrate sustainable energy objectives within our core operations.
- build up policy dialogue in support of scaling up investments.
- establish a new partnership with donors to support the initiative with a grant fund mobilisation target of €100 million.

To reach these targets, the EBRD's Energy Efficiency and Climate Change team was developed into a specialist resource which supports the sector teams in finding and realising energy efficiency potential in the transactions they pursue. A combination of engineers, carbon trading, finance and policy specialists are working to support the full integration of energy efficiency and climate change into the Bank's operations.

The SEI is the Bank's strategic vehicle to address the challenge of energy efficiency and climate change. It responds to the specific needs of energy transition in our countries of operations, and supports the global drive to scale-up investment into mitigating climate change. The SEI pursues climate investments across all our sectors. SEI investments are increasingly associated with targeted policy dialogue to ensure that projects and strategies will have a lasting impact in supporting the transition of our countries of operations.

Building on the record and experience from Phase 1 (2006-08), we are working to further scale up energy efficiency and renewable energy financing. The Bank therefore adopted the following targets for Phase 2 (2009-11):

- an SEI investment target from €3 to €5 billion with a total project value ranging from €9 to €15 billion¹
- a donor funding target of €100 million
- an investment grant/concessional finance target of €250 million
- a carbon reduction target within a range of 25 to 35 million tonnes of CO₂ emission (mtCO₂e) reductions annually.

The EBRD is now two-thirds of the way through the SEI Phase 2 period, and well on track to achieve these targets. Phase 2 investments reached €3.5 billion between 2009 and the end of 2010 for a total project value of €17.9 billion, leading to 16.2 mtCO₂ reductions per year once the projects are implemented.

By the end of December 2010, 353 projects had been signed since the launch of the SEI in 2006, and a total investment commitment of €6.1 billion had been reached. The total value of these projects was around €32 billion, and the level of annual carbon emissions reductions expected from these investments reached 37.2 million tonnes of CO₂, equivalent to the volume of the Slovak Republic's annual emissions. With projects signed in Latvia in 2010, SEI operations now cover all 29 of our countries of operations.

¹ Total project value includes financing not related to sustainable energy.

Key results in 2010

- SEI investment of nearly €2.2 billion, with a total project value of €12.1 billion.
- SEI investments accounted for 24 per cent of the Bank's annual business volume.
- Signed SEI projects expected to achieve total carbon emission reductions of 11.4 million tonnes of CO₂ equivalent per annum once fully implemented.²

Our experience in providing finance for energy efficiency and climate change clearly shows what can be achieved by focusing on the challenge at strategic and operational levels. The global nature of the challenge has also led the EBRD to work closely with other development banks, donors and countries of operations to address it. This collaboration is already delivering results on the ground, for example, in the joint establishment of a €115 million green growth fund focusing on south-eastern Europe. Over the coming years we will continue to deepen this collaboration with the aim of achieving the transition of our region to sustainable growth.

SEI ACTIVITIES BY AREA

Table 3: SEI activities by area

SEI category	2010 SEI results	
	Signed (€ million)	Number of projects
SEI 1 – Industrial energy efficiency	445	41
SEI 2 – Sustainable energy financing facilities	452	30
SEI 3 – Cleaner energy production	671	17
SEI 4 – Renewable energy	363	9
SEI 5 – Municipal and environmental infrastructure	234	19
Total	2,165	116

SEI 1 – Industrial energy efficiency

Our countries of operations often have economies based on highly energy-intensive industrial processes such as steel manufacturing, aluminium smelting, cement and glass production. Technological advances and rising fuel and electricity prices mean there is now both the potential and the need for energy savings across the region, while we have developed sophisticated tools to raise awareness and stimulate demand.

We signed 41 industrial energy efficiency projects in 2010 amounting to €445 million of SEI investments. The flagship project of the year was the manufacturing project for energy efficiency of the steel producer NLMK in Russia with an investment of €100 million. Other projects covered sectors ranging from agribusiness to transport. Important agribusiness transactions included a €50 million loan to grain producer Nibulon in Ukraine, enabling it to switch from road and rail transport to energy efficient river barges; a US\$ 25 million (equivalent to €18.6 million) loan to APU brewery in Mongolia for expanded production and increased energy efficiency; and a US\$ 1 million (equivalent to €750,000) loan to Biyat brewery in Turkmenistan for upgraded production facilities. In the transport sector the Bank is providing a €65 million loan

to Serbia Railways for the replacement of an ageing passenger car fleet for use on the country's main intercity services, with projected annual emissions reductions of 130,000 tonnes carbon dioxide equivalent.

In many cases industrial energy efficiency projects begin with energy audits provided to the client by the EBRD. In 2010 the existing highly successful €3.5 million technical cooperation facility – the Regional Energy Efficiency Programme for the Corporate Sector – was extended by an additional €1.3 million to provide energy audit support for the manufacturing, agribusiness and natural resource sectors. This Programme is funded by the EU Neighbourhood Investment Facility (NIF), the European Western Balkans Joint Fund, the Early Transition Countries (ETC) Fund, the EBRD Shareholder Special Fund (SSF), the Central European Initiative (CEI) and the governments of Germany, Greece, Italy and the Netherlands.

SEI 2 – Sustainable energy finance facilities

Sustainable energy financing facilities (SEFFs) are credit lines offered to local financial institutions, specifically dedicated to enabling the local banking sector to engage in financing small and medium-scale energy efficiency and renewable energy investment projects. Financing is available to local banks that want to participate in the facilities, subject to them meeting the EBRD's criteria. Local banks use the credit lines to provide commercial loans, at their own risk, to borrowers with eligible investment opportunities.

Each credit line is specifically dedicated for on-lending to independent project developers, industrial and/or residential borrowers for the implementation of energy efficiency and renewable energy investment opportunities, and is supported by grant funding from donors. This funds a comprehensive technical assistance package that stimulates and underpins demand for the facility by helping potential borrowers to prepare loan applications. Training is available to familiarise local bank officers with sustainable energy investment opportunities and credit appraisal methods and to incentivise them to market the facilities based on their existing client relationships. This assistance is provided by project implementation teams consisting of both local and international experts.

The project implementation teams work together with local banks to assess the eligibility of loan applications from potential borrowers. Local banks then make lending decisions based on their policies and the resulting loans are provided at commercial rates. Loan amounts vary depending on the facility and the investment opportunity. The average loan size is around €500,000 for loans to companies, while loans to households are typically below €1,500. Maximum loan size is not normally higher than €10 million per project.

In 2010 we signed 30 transactions under the SEFF model for a total of €452 million. SEFF transactions in 2010 covered Armenia, Bosnia and Herzegovina, Bulgaria, Georgia, FYR Macedonia, Moldova, Romania, Russia, Serbia, Slovak Republic and Turkey.

SEFF highlights in 2010 include the first four bank signings in Turkey under the Clean Technology Fund supported TurSEFF facility and the first bank under the new Turkish Mid-Size Sustainable Energy Facility. Additionally, two banks in Moldova

² Overall Bank-financed projects in 2010 will result in a reduction of 5 million tonnes. See section on the Bank's Greenhouse Gas Assessment on page 28.

signed under the new MoSEFF, and the first banks in Armenia under ArmSEFF and Poland (PolSEFF), both of which are available for SME energy efficiency financing only.

One of our key objectives is to broaden the target markets for bank on-lending. To date these have covered mainly mid-sized corporate clients and renewable developers, but in the future the objective is to include more SMEs and to extend into the residential sector.

SEI 3 – Cleaner energy production

Obsolete thermal power stations continue to generate the majority of energy in the region, and their age means that the electricity systems face high fuel, maintenance and labour costs, and that power production results in excessive pollution and greenhouse gas (GHG) emissions. We therefore support cleaner energy production through our investment in the power and energy sector, including refurbishment of existing and the construction of new power generation assets.

Projects in this area in 2010 included:

- loans for the rehabilitation of the Aktobe CHP in Kazakhstan
- the creation of the Black Sea Energy Transmission System in Georgia
- the construction of a new, highly efficient natural-gas fired combined-cycle gas turbine (CCGT) by Lietuvos Elektrine in Lithuania
- the refurbishment of the Latvenego Riga CHP-2 in Latvia
- the refinery modernisation and upgrade to EURO-V fuel specification of INA, a Croatian oil and gas company (see page 44)
- investing in the modernisation of the Energa S.A. power grid in Poland to enable the increase of renewable power capacity being fed into the system.

Technical cooperation assignments in support of this work included the preparation of a new energy audit framework for the power sector, workshops on rehabilitation and efficiency improvement of thermal power plants in Kazakhstan and Russia, and a study on CO₂ disposal options for future carbon capture and storage (CCS) systems in Bulgaria.



SEI 4 – Renewable energy

Renewable energy has developed slowly in the transition region, partly due to weak institutional and regulatory frameworks, and partly due to cost. Under the SEI we are addressing this challenge through a combination of investment, technical cooperation and policy dialogue.

However, activity in this area has been increasing with €363 million signed for renewable energy projects in 2010. These include:

- the Magyar wind project in Hungary
- the Polska and Margonin wind farms in Poland
- the Enguri hydropower plant rehabilitation project in Georgia
- the Vez Svoghe mini hydro project and Suvorovo wind farm in Bulgaria.

In 2010 the EBRD also deepened its expertise in the biomass sector, by first conducting studies relating to the potential for biomass use for energy production in key countries in the region. This has now led to the first projects being developed with Bank support and in some cases support from the Clean Technology Fund. Biomass plays an important role in enabling the European Union (EU) to move towards the 2020 renewables targets, and we aim to replicate this success throughout our regions of operations.

SEI 5 – Municipal and environmental infrastructure

Significant energy efficiency gains can be achieved through the upgrading of neglected municipal infrastructure. Nineteen SEI projects were signed in 2010 for a total amount of €233 million in EBRD investments, including projects in urban and public transport, district heating projects and projects in wastewater and water rehabilitation. These activities were supported with energy audits. Other technical cooperation assignments included the preparation of a carbon finance methodology for urban transport.

SEI 6 – Carbon Finance

The Multilateral Carbon Credit Fund (MCCF), jointly managed by the EBRD with the European Investment Bank (EIB), is one of the few carbon funds dedicated to the transition region, enabling private and public companies, as well as the EBRD and EIB shareholder countries, to purchase carbon credits from emission reduction projects financed by the EBRD or EIB. In addition to directly purchasing project credits, countries can also participate in Green Investment Schemes (GIS), for example in Poland, via the MCCF. This is an innovative way to facilitate government-to-government trade in carbon credits, where the selling country uses the revenue from the sale of carbon credits to support investments in climate-friendly projects.

Cross-cutting areas**International cooperation and policy dialogue**

We have actively developed our operational policy dialogue activities in 2010, with the aim of strengthening policy and regulatory frameworks to support SEI transactions and investment. Policy dialogue is an essential element in ensuring that the projects and strategy implemented through the SEI will have a lasting impact in supporting the transition of our countries of operations.

The EBRD has signed Sustainable Energy Action Plans (SEAPs) with Bulgaria, Kazakhstan, Ukraine and the Ministry of Economic Development of Russia. SEAPs connect sustainable energy policy with EBRD banking operations, aiming to reduce energy intensity and increase the share of renewable energy. In 2010 projects implemented under the SEAPs included, for example, the Carbon Market Facilitation Programme in Ukraine, with the EBRD and the National Environmental Investment Agency of Ukraine jointly developing the legal and regulatory basis for GIS contracts. In Bulgaria we supported the development of a Renewable Energy Action Plan, while in Kazakhstan we provided advice to the government on revisions of the energy efficiency and renewable legislation.





Improving the climate resilience of hydropower facilities in Tajikistan

Land-locked Tajikistan is the least developed of the EBRD's countries of operations. Supporting the development of the country's economy is crucial both to alleviate poverty and to stimulate long-term economic growth. One of the most important economic sectors is hydropower which has enormous potential for contributing towards Tajikistan's development. With its extensive river network, Tajikistan has one of the largest hydropower potentials of any country in the world. However, much of this potential remains untapped and the country is still a net importer of electricity, following years of under-investment in hydropower facilities.

Hydropower is also extremely vulnerable to climate change, especially in the glacier-fed river basins of Central Asia. Therefore, with resources from the Climate Investment Fund's (CIF) Pilot Programme for Climate Resilience (PPCR), the EBRD has launched a US\$ 3 million (equivalent to €2.2 million) technical cooperation programme to analyse the climate change vulnerability of Tajikistan's hydropower sector. This aims to provide recommendations on how hydropower facilities can be made more resilient to the expected impacts of climate change. For example, climate-related risks such as floods, seasonal surges and mudslides mean that dam spillway capacities may need to be re-dimensioned, or emergency spillway facilities developed. Other climate resilience measures may include ways to cope with altered sedimentation patterns, as well as ensuring that power generation equipment can operate

optimally over the ranges of climate conditions that could reasonably be expected over the lifespan of the facility, including water flow, water temperature and sediment load. Building on this analytical work, the EBRD has been awarded a US\$ 10 million (equivalent to €7.45 million) grant under Phase II of the PPCR that will be used to co-finance specific climate resilience measures in the rehabilitation of specific hydropower infrastructure facilities in Tajikistan, as part of a larger programme of investments (worth US\$ 75 million, equivalent to €55.9 million).

This is the first time that the EBRD has accessed finance from the CIF for the purposes of climate change adaptation. The grant will enable the team to develop solutions to some of the main climate change risks that threaten hydropower facilities not just in Tajikistan but across Central Asia.

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With its extensive river network, Tajikistan has one of the largest hydropower potentials of any country in the world. However, much of this potential remains untapped...

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A key focus is being placed on developing investment conditions that allow the Bank to provide more support for the energy efficiency of buildings. Buildings account for a large share of energy use, and in our regions of operations they are often in need of substantial refurbishment. We are working with governments to introduce or amend legislation that will enable housing associations to borrow money to allow building structures to be refurbished from the ground up.

Additionally, in 2010 the Bank collaborated for the first time with the International Energy Agency (IEA) on the IEA/EBRD Energy Efficiency Governance Project, which was carried out using Swiss donor funds. The aim of the project was to identify and analyse the most effective energy efficiency governance regimes across the world and to ensure that all governments establish the best governance structures for their country context.

Climate Investment Funds (CIF)

The Climate Investment Funds (CIFs) are new multi-donor financing instruments designed to support low-carbon and climate-resilient development. We have been actively engaged with donors, the World Bank Group and other MDBs during the design and implementation of the CIFs, and are implementing substantial investment projects with CIF concessional funding. The first EBRD projects benefiting from CIF concessional co-finance were implemented in Turkey and Ukraine during 2010.

THE CANCÚN AGREEMENTS AND THE EBRD REGION

The EBRD is closely following international efforts to reduce global warming and to cope with the consequences of climate change, and is participating in implementing multilateral and bilateral climate finance for climate change mitigation and adaptation.

The United Nations Framework Convention on Climate Change (UNFCCC) is an international treaty established over a decade ago, under which 194 states have agreed to take action on climate change. Almost all of these have also endorsed the Kyoto Protocol, which has more powerful and legally binding measures, but which will expire at the end of 2012. In December 2010 the Conference of Parties to the Kyoto Protocol (COP) met for their 16th meeting (known as COP-16) in Cancún, Mexico, to establish a successor framework for coordinated global action against climate change. The meeting was generally seen as a critical moment in the negotiation process, due to the lack of progress in reaching an agreement on the provision of key elements of such a framework, such as the provision of public finance to support mitigation and adaptation investments in the developing world, at the 2009 COP-15 meeting in Copenhagen.



A range of agreements were reached at the meeting in Cancún, most of which affect the EBRD region. This summary highlights the relevant outcomes for EBRD countries of operations and provides an overview of our intended action in response to them. The EBRD will continue to play its role within the development and deployment of multilateral development bank-based finance mechanisms, and provide appropriate input into the international climate debate, based on our experience. The Bank will also provide input into the processes that will prepare for COP-17 in Durban, South Africa, in December 2011.

Flexible mechanisms: Joint Implementation (JI) and the Clean Development Mechanism (CDM)

Following the agreement to continue negotiations on a Kyoto Protocol successor with the aim of ensuring there is no gap between the first and second commitment periods of the treaty, it is now important that the Joint Implementation (JI) Supervisory Committee is preparing for guidance to merge two JI tracks and plan for a potential gap period. If this process is successfully concluded by the time of COP-17 in 2011 in Durban, it could extend JI by three years. JI project proposals from Belarus and Kazakhstan may now be considered by the Joint Implementation Supervisory Committee although any issuance of emission reduction units remains pending the necessary amendment of Annex B of the Kyoto Protocol, which requires some further approvals.

The Clean Development Mechanism (CDM) has been strengthened to drive more major investments and technology into environmentally sound and sustainable emission reduction projects in the developing world. In particular, an attempt is made to further reduce project cycle time through streamlining the process for registration and credit issuance. Carbon capture and storage (CCS) is recognised as eligible CDM project activity, subject to the development of modalities and procedures (for example, ensuring long-term permanence and integrity of the storage site, stringent monitoring during and beyond the crediting period, risk and safety assessment as well as a comprehensive socio-environmental impact assessment prior to deployment) for decision by the Meeting of Parties to the Kyoto Protocol in Durban in December (MOP-7).

There was no discussion in Cancún on the 10 billion assigned amount unit surplus in the EBRD region, and a decision is now not expected before COP-17.

Formalising the Copenhagen Accord

Industrialised country targets under the Copenhagen Accord are now officially recognised under the multilateral process. These countries have to develop low-carbon development plans and strategies and assess how best to meet them, including through market mechanisms. They will have to report their inventories annually, and develop low-carbon strategies.

Developing country actions to reduce emissions are also officially recognised under the multilateral process. A registry is to be set up to record and match developing country mitigation actions to finance and technology support from industrialised countries. Developing countries are to publish progress reports every

two years, and are invited to voluntarily develop low-carbon strategies. We will support the development of low-carbon strategies and encourage developing countries in our region to voluntarily engage in this process.

The Cancún Adaptation Framework

Parties launched a set of initiatives and institutions to protect the vulnerable from climate change and to deploy the money and technology that developing countries need to plan and build their own sustainable futures. A new Cancún Adaptation Framework was established to allow better planning and implementation of adaptation projects in developing countries through increased financial and technical support, including a clear process for continuing work on loss and damage. This framework is to be further elaborated through the establishment of an Adaptation Committee and work programme during 2011.

Forestry

Governments have agreed to boost action to curb emissions from deforestation and forest degradation in developing countries with technological and financial support. This is primarily an endorsement of the REDD+ (Reducing Emissions from Deforestation and Forest Degradation) process and a recognition of its relevance to tackling climate change. Countries from the EBRD region with large areas of forest (such as Belarus, Bosnia and Herzegovina and Russia) are not currently involved in REDD+. We will develop ways to take the contribution from boreal forests into account, benefiting these countries.

Technology

A technology transfer mechanism was agreed upon to increase technology cooperation to support action on climate change adaptation and mitigation. This is fully in line with the activities of the Bank in its countries of operations, which put a strong focus on promoting advanced technology.

Finance

A commitment of US\$ 30 billion (equivalent to €22.3 billion) in fast-start finance from industrialised countries to support climate action in the developing world up to 2012 and the intention to raise US\$ 100 billion (equivalent to €74.5 billion) in long-term funds by 2020 is included in the decisions. A process to design a Green Climate Fund was also established. We will support delivering these funds in our region, with a particular view to mobilising private sector finance in support of the goals of climate finance.



A range of agreements were reached at the meeting in Cancún, most of which affect the EBRD region.



CLIMATE CHANGE ADAPTATION

As the actual impact of global warming becomes more apparent, adaptation to climate change – as well as mitigation through reducing GHG emissions – is becoming an important part of the climate change agenda. In the EBRD region some of our countries of operations are likely to be affected by climate change and will need to adapt in order to manage climate change risks. Some of the recent events that have fuelled growing awareness of climate change impacts in the EBRD region include extreme-climate events such as recurring severe floods in central Europe, and the severe droughts and forest fires in Russia during summer 2010. Furthermore, the United Nations climate change conferences in Copenhagen and Cancún have focused international attention on the realities of climate change and the need for concerted action on both mitigation and adaptation.

It is now likely that whatever actions are taken globally to reduce greenhouse gas emissions, further climate change is unavoidable. Droughts, floods, heatwaves and rising sea levels, with their associated risks, are becoming more common. In some parts of the EBRD region these risks are exacerbated by weakened climate resilience caused by decades of poor environmental management. For example, dilapidated infrastructure in critical areas such as water, energy and transport is less able to cope with the consequences of climate change. A recent report by the World Bank concluded that the Europe and Central Asia regions already suffer from, “a serious adaptation deficit even to its current climate”.³ Unless appropriate action is taken to manage these risks and adapt to a changing climate, the impacts on the environment, economies and society will be increasingly severe. Yet alongside risks, there may also be opportunities. Some sectors and locations may stand to benefit. For example, warmer temperatures in northern latitudes may open up new opportunities in agriculture, which countries will need to gear up for in order to exploit effectively.

Central Asia is likely to be one part of the EBRD region most challenged by climate change. It already experiences water stresses and these problems may be exacerbated by climate change impacts such as glacial shrinkage and desertification. Central Asian countries are currently the least developed states in our region and the least well equipped to cope with the effects of climate change. Agribusiness, water resources, energy and mining may all be affected by climate change impacts, especially those that affect the availability of water.

We recognise that climate change poses significant threats to our investments and our clients, and to the transition process itself. Over the past year we have begun to develop approaches towards climate change adaptation that are consistent with our transition mandate, our project-based approach and our private-sector focus. During 2009-10 a review of recent EBRD investments was conducted, leading to the selection of a number of projects likely to be particularly impacted by climate change and for use as case studies in a range of sectors and countries. These projects ranged from the expansion of a copper mine in Bulgaria to the construction of flood defences in Russia.

These case studies provided an evidence base that was then used to develop a practical toolkit for addressing climate change risk assessment and the integration of adaptation measures

as part of project development and appraisal. The toolkit included guidance on integrating climate change assessments and adaptation measures into project development, including technical due diligence, environmental and social due diligence such as Environmental and Social Impact Assessments (ESIAs), and on the use of climate models as inputs to project development.

We have now begun to pilot these approaches in a number of projects that are under development. These include investments in water supply systems, hydropower and port infrastructure, and initiatives to promote industrial water use efficiency. Early results from these pilot projects – such as the Tajikistan hydropower project featured on page 23 – show that important progress can be made. However, considerable challenges still remain to find ways to mainstream climate change adaptation into the Bank's operations and improve awareness and understanding of these issues across our region.

A pilot project in Georgia is being used to test an approach to integrating a climate change assessment into ESIAs that are performed on all projects with potentially significant environmental and social impacts. This project, which involves investing in the expansion of a major port on the Black Sea coast, is highly sensitive to climate change impacts such as potential sea level rises and changes in sedimentation patterns due to climate-affected glacial rivers. Recommendations on adaptation measures to cope with climate change risks will be developed as part of the ESIA and will then inform the detailed technical design of the project.

MANAGING WATER RESOURCES TO IMPROVE CLIMATE RESILIENCE

Improving the management of water resources is an important aspect of boosting the region's climate resilience. This is particularly significant in water-intensive industries in countries that are expected to experience increased water stress, such as south-eastern Europe, Turkey and the Caucasus.

Securing drinking water supplies in the face of climate change impacts on the availability of surface water is a major challenge for the water-stressed countries of Central Asia. In 2010 the Bank piloted the integration of a climate change assessment and necessary adaptation responses into the feasibility study for the US\$ 25 million (equivalent to €18.6 million) North Tajikistan Water Rehabilitation Project. As a result, provision is being made for the construction and rehabilitation of more sustainable and climate-resilient sources of drinking water, which will be funded by a US\$ 3 million (equivalent to €2.2 million) grant from the Global Environment Facility (GEF)'s Special Climate Change Fund.

Industrial water use is another area where the smarter use of water resources could contribute to improved climate resilience. In 2010 the EBRD piloted an approach for integrating water efficiency audits in the development of an investment in a pulp and paper mill in Bosnia and Herzegovina. As this industry is extremely water-intensive, the pilot is intended to help reduce the mill's water consumption and wastewater discharges to levels achievable with the use of the EU's IPPC *Best Available Techniques* and significantly below the plant's historical levels.⁴

³ Source: www.worldbank.org/eca/climate/ECA_CCA_Full_Report.pdf

⁴ Source: www.ebrd.com/pages/project/psd/2010/40235.shtml

Over the past year we have begun to develop approaches towards climate change adaptation that are consistent with our transition mandate, our project-based approach and our private-sector focus.



GREENHOUSE GAS (GHG) ASSESSMENT 2010

Methodology

The EBRD screens all proposed investments for potential climate change impacts, both positive and negative. Projects that are expected to result in significant greenhouse gas (GHG) emissions or savings are then subject to detailed assessments.

Investments in new capacity always have the potential to increase emissions, but many of the Bank's projects are now structured to offset or even eliminate these increases by the incorporation of investments in energy efficiency and/or renewable energy sources. The EBRD region, which historically has had high emissions and a poor record in energy efficiency, continues to offer the possibility of significant absolute reductions in greenhouse gas emissions through the upgrade and refurbishment of existing facilities.

Results for 2010

Following an evaluation of screened projects, a total of 27 investment projects are predicted to result in significant greenhouse gas increases or reductions (greater than 20,000 tonnes of equivalent carbon dioxide equivalent per year – > 20 ktCO₂e pa) once they are operating. Net emissions reductions are anticipated from projects in each of the sectors assessed, with an aggregate portfolio reduction for 2010 of approximately five million tonnes of carbon dioxide equivalent per year (mt CO₂e pa). The differences between these results and the GHG savings reported in the section on the

Sustainable Energy Initiative (SEI) on page 19 arise because this assessment covers the Bank's whole direct investment portfolio of projects signed in 2010, not just those falling within the remit of the SEI. It includes the GHG increases resulting from greenfield projects and capacity expansions, as well as savings from energy efficiency and renewable energy investments.⁵

Table 4: GHG impact of Bank-financed projects signed in 2010 subject to GHG assessment

Sector	Number of projects	Aggregate change in emissions (mtCO ₂ e pa)
Electricity transmission system upgrades	5	-1.7
Gas-fired power generation: new and replacement capacity	3	-0.4
Natural resources	3	-0.3
Renewable energy projects and energy efficiency credit lines (aggregated)	9	-1.9
Other industry	6	-0.7
Transport	1	-0.03
Total	27	-5.03

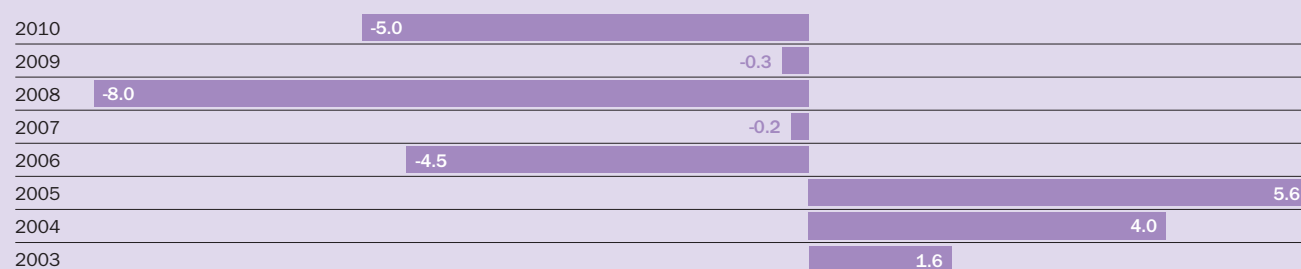
The EBRD Board of Directors approved a loan of up to €200 million to finance a new state-of-the-art thermal power plant in Slovenia. The Šoštanj Thermal Power Plant accounts for one-third of Slovenia's electricity production and the construction of a new unit will contribute to estimated carbon emissions reductions of around 1.2 million tonnes annually over the long-term. (This Project was not signed by the Bank until early 2011 so the emissions reductions will be accounted for in the Bank's *Sustainability Report 2011*.)

GHG assessment 2003-10

In recent years, the significance of energy efficiency and renewable energy investments for the portfolio aggregate has increased (see Figure 2). This is reflected in the shift from net increases in GHG emissions in the early years of the analysis to net savings in the second half of the decade. Note, however, that the variability in the aggregate GHG impact from one year to the next can be influenced as much by the signing dates of significant projects – that is, whether signed late in one year or early in the next – as by any material change in the composition of the portfolio.

“The EBRD region, which historically has had high emissions and a poor record in energy efficiency, continues to offer the possibility of significant absolute reductions in greenhouse gas emissions through the upgrade and refurbishment of existing facilities.”

Figure 2: GHG assessment results 2003-10 (Aggregate change in CO₂e Mtpa)



⁵ For more information on the Bank's work on climate change see *The Low Carbon Transition*, a forthcoming report on climate change mitigation prepared jointly by the EBRD's Office of the Chief Economist and the Grantham Research Institute at the London School of Economics.



For more information on the EBRD's greenhouse gas emissions assessment methodology go to: www.ebrd.com/downloads/about/sustainability/ghg.pdf

Working with other international financial institutions

As part of our collaborative approach to the measurement of greenhouse gas emissions, the EBRD participates in an ongoing dialogue with other institutions to share experience and work towards a standardised approach to reporting.

In April 2010 we organised a meeting of the IFIs' Carbon Footprint Working Group, with representatives from the World Bank and IFC, the regional development banks, export credit agencies and bilateral development agencies in attendance.

The meeting revealed that there remains a diverse set of methodologies being used in GHG emissions accounting and analysis. This is not surprising given the diversity in the objectives, mandates and constituencies of the institutions. A greater mutual understanding of these differences suggests that widespread convergence and harmonisation in all aspects of GHG accounting may not be feasible, or even sought. However, areas of common approach have been identified and all the IFIs attending reported new developments in working towards a fuller, quantitative, understanding of the GHG footprint of their investment portfolio.

Box 4: Launch of the EBRD's Environmental Sustainability Bonds

In December 2010 the Bank launched the EBRD Environmental Sustainability Bonds – the first EBRD bond issue designed specifically to finance environmental projects and reduce greenhouse gas emissions in the Bank's countries of operations.

The key feature of the bond issue is that the proceeds are specifically earmarked to support a portfolio of projects (the Green Project Portfolio) aimed at promoting sustainable development and clean energy technologies, while improving energy efficiency, water and waste management, environmental services and public transport.

The €18.1 million issue, maturing in 2014, was launched under the EBRD's Global Medium-Term Note Programme. It carries a triple "A" (AAA) rating and pays a fixed rate coupon of 4.8 per cent. The issue was arranged by Deutsche Bank AG and distributed by SMBC Friend Securities Co. Ltd, Japan, to Japanese retail and institutional investors.

The Bank's Global Medium-Term Note Programme also saw us team up earlier in 2010 with Daiwa Securities Group to launch the inaugural issuance of the EBRD's Microfinance Bonds to support the development of micro and small enterprises in our region. For further information on microfinance lending see page 40.

At the end of December 2010 the Green Project Portfolio comprised 199 operations, with EBRD finance of €4.4 million and operating assets of €2.1 million across 25 countries of operations. The average tenor of the projects was 11 years and average remaining life was 8.5 years.

Examples in the Green Project Portfolio include, without limitation, financings of the following projects:

- Renewable energy projects, such as photovoltaic installations, and production of photovoltaic cells and modules; installation of wind turbines (for example: Suvorovo wind farm, Bulgaria); construction of mini-hydro cascades; and geothermal and biomass facilities.

- Rehabilitation of power and heating plants and transmission and distribution facilities to reduce total greenhouse gas (GHG) emissions.
- Modernisation of industrial installations to reduce total GHG emissions.
- New technologies that result in significant reductions in total GHG emissions, for example, smart distribution networks.
- Fuel-switching from carbon-intensive (coal, heating oil, oil shale) to less carbon-intensive fuels such as natural gas.
- Greater efficiency in mass transportation, such as investment in fuel-efficiency (fleet replacement) or more energy efficient infrastructure (for example: Almaty Electrotrans, Kazakhstan; Yerevan Metro Company, Armenia; ZCPG, the Passenger Company of Montenegro Railways, Montenegro; see page 43).
- Methane capture on waste landfills and wastewater treatment plants.
- Rehabilitation of municipal water and wastewater infrastructure to reduce water consumption and wastewater discharges (for example: Water Utilities Development Programme, Constanta, Romania, see page 41).
- Improvements to solid waste management (minimisation, collection, recycling, storage and disposal) (for example: Adjara Municipal Sanitary Services Company, Georgia).
- Energy efficiency investments in existing buildings (insulation, lighting, heating and cooling systems).
- Investments to improve efficiency of industrial water use.
- Sustainable and stress-resilient agriculture, including investments in water-efficient irrigation.
- Sustainable forest management, reforestation, watershed management, and the prevention of deforestation and soil erosion.



For the full list of projects included in the Green Project Portfolio go to:
www.ebrd.com/pages/workingwithus/capital/sri.shtml

Nuclear safety

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OVERVIEW

Working in close collaboration with its donors, over the last 20 years the EBRD has been heavily involved in helping the region to address key challenges around nuclear safety in central and eastern Europe. Our work includes the safe decommissioning of first generation nuclear power plants, construction of a confinement at the site of the 1986 Chernobyl reactor accident, and new energy and energy efficiency projects to offset the loss of generation capacity. Donors had cumulatively committed more than €3 billion to these programmes by the end of 2010. Disbursements in 2010 exceeded €230 million.

DECOMMISSIONING SUPPORT FUNDS

When the EBRD's nuclear safety programme began in the early 1990s, the region faced the challenge of a number of Soviet-era nuclear power plants that could not be upgraded to internationally acceptable safety levels. With the closure of Ignalina 2 at the end of 2009, decommissioning is now under way at all of the nuclear power plants covered by the EBRD's nuclear safety programme.

A number of large infrastructure projects required as part of the decommissioning process, such as spent fuel storage facilities at the Kozloduy site in Bulgaria and the Ignalina site in Lithuania, were largely completed in 2010 and will be able to start operation in 2011. This is despite difficulties and delays attributable to a large extent to the unique legacies of the sites. The EBRD, in its role of the fund manager, remains strongly engaged with clients, contractors and donor governments with the objective of moving these projects and overall decommissioning programmes forward.

New power generation and energy efficiency projects, financed by the Decommissioning Support Funds to help the countries coping with the loss of generating capacity, continue to produce outstanding results. For example, construction of a 450 MW Combined Cycle Plant in Lithuania, which is co-financed from the Ignalina International Decommissioning Support Fund, is progressing ahead of schedule and will be completed by the end of 2011. Energy efficiency credit lines in Bulgaria and the Slovak Republic, which receive grant support from the Bohunice and Kozloduy International Decommissioning Support Funds, enjoy great popularity and have helped to save hundreds of megawatts in installed capacity equivalent in both countries.

CHERNOBYL PROJECTS

In 2010 a number of small but important projects at Chernobyl were completed. These include an Integrated Automated Monitoring System, which provides essential data on the radiation situation inside the object shelter surrounding the

destroyed Unit 4 and integrates it with information on other crucial factors such as criticality, seismic activity and structural stability.

The assembly site for the New Safe Confinement (which will safely enclose the destroyed reactor and the old shelter) has been cleared and excavation works for its foundations have been completed. Piling for the foundation has started, design for the structure of the New Safe Confinement is complete and regulatory approval is expected in 2011.

Other projects include the design for the completion of an Interim Spent Fuel Storage Facility to safely store more than 20,000 spent fuel assemblies at the site for a period of 100 years. This received regulatory approval in October 2010 and work will start in 2011.

April 2011 marks the 25th anniversary of the Chernobyl accident and the Bank will be closely involved in an international conference to mark the occasion. International donors – who to date have mobilised more than €1 billion for the EBRD-managed Chernobyl projects – are expected to announce their decision on the provision of additional funds to continue the remaining work required at the event.

NUCLEAR SAFETY IN UKRAINE

Two Ukrainian nuclear power plants, K2/R4, have been modernised with the help of an EBRD/Euratom loan. The implementation of the K2/R4 project have been successfully completed in 2010. Going forward the EBRD will consider participating in a programme to upgrade 13 units in the other four Ukrainian nuclear power stations to internationally acceptable levels and would use K2/R4 as a benchmark for the wider upgrade programme.

NORTHERN DIMENSION ENVIRONMENTAL PARTNERSHIP (NDEP)

Good progress has been made with the defuelling and decommissioning of nuclear submarines and support vessels in the north west of Russia. The emphasis of Russian and international projects is now on coastal bases and storage of waste and spent fuel.

The NDEP-funded installation of a radiation and environmental monitoring system for the Arkhangelsk region was completed in 2010. The NDEP Assembly of Contributors approved additional funds for the safe docking of a derelict nuclear-powered support ship, Lepse, used as a floating storage for spent fuel, to provide facilities for safe retrieval and handling of the spent nuclear fuel at Andreeva and Gremikha Bays and to support the regulatory authorities for the Lepse decommissioning. For more information on NDEP see page 17.



For further information, see the EBRD's *Annual Report 2010* and go to the Bank's web site: www.ebrd.com/pages/sector/nuclearsafety.shtml

Overview by business sector

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INDUSTRY, COMMERCE AND AGRIBUSINESS

Agribusiness

New projects signed	2010	2009
Number of new projects	63	59
Total EBRD financing (€ million)	836	639
Share of total EBRD business volume (per cent)	10.63	8.13

We remain the biggest investor in the agribusiness sector in the region and the volume of activity in the agribusiness sector increased again in 2010, with the Bank signing a record number of transactions in the sector.

As detailed in our *Annual Report 2010* the agribusiness sector has been focused on helping our countries of operations move from crisis response towards expansion and increased productivity. One of the ways that we are supporting this movement is by paying greater attention to environmental sustainability and actively supporting projects that improve energy efficiency and environmental performance in the sector.

For example, the EBRD committed funds to Boni, a meat producing and processing company in Bulgaria, where we financed further environmental improvements in the company's pig farms to comply with the requirements of the company's new integrated environmental permits, which conform with the European Union's Integrated Pollution Prevention and Control (IPPC) Directive. By equipping Boni's farms with modern technological equipment aimed at improving manure management the Bank financed the adoption of the IPPC "Reference Document on Best Available Techniques for the Intensive Rearing of Poultry and Pigs".

Given the agribusiness sector's impact on its surroundings – particularly in primary agriculture – it has become obvious that a sustainable investment approach addressing environmental and social aspects in a more systematic manner will become critical for the coming years.

In July 2010 the EBRD Board approved the new Agribusiness Sector Strategy, which has as one of its four core strategic objectives the more systematic promotion of sustainable investments that address environmental and social issues, including gender and climate change adaptation. The strategy puts a specific focus on investments linked to energy efficiency, carbon emission reduction and environmental improvements.

The year also saw the Bank take an increasingly collaborative approach to sustainability in the region's agribusiness sector to harness institutional synergies at the operational level. For example, the annual meeting of EastAgri – a network founded by FAO, the EBRD and the World Bank which aims to improve agribusiness investment portfolios through information sharing and partnership – in Istanbul in October brought together



Supporting the revival of Ukraine's grain transportation infrastructure

The EBRD is lending US\$ 50 million (equivalent to €37 million) to Nibulon Ltd., a leading grain exporter and producer registered in Ukraine. The transaction will play an important role in the development of adequate and functional storage and shipment infrastructure along the Dnieper River, which is currently not used for active cargo transportation. The project will contribute to the broader long-term sustainability of the transport sector along the Dnipro corridor, given that the marginal costs of externalities (accidents, noise, pollution, climate change, congestion and infrastructure) of inland navigation are less than half than that of rail and almost one-fifth compared with road transport.

More specifically, inland shipping is significantly more energy efficient than other transport modes: a study undertaken by the Bank in 2007 suggested that transport of goods by inland shipping can be 30-60 per cent more efficient than rail and about 90 per cent more efficient than trucks. In respect to the project, the company expects to shift from rail/road to river between 500,000 and 1,000,000 tonnes of grain transported along the Dnipro corridor. Initial assessments suggest that the specific GHG emissions will be reduced by 47 per cent, from 34 gCO₂/(tonne km) to 18 gCO₂/(tonne km). This would be equivalent to almost 13,000 tonnes of CO₂ saved annually.

representatives from IFIs, development agencies, donor governments and the private sector to explore win-win situations where environmentally sustainable agriculture practices can lead to greater profitability.

Manufacturing and services

New projects signed	2010	2009
Number of new projects	46	36
Total EBRD financing (€ million)	849	679
Share of total EBRD business volume (per cent)	10.81	8.64

The Bank is the biggest investor in the manufacturing and services sectors in central and eastern Europe and the Commonwealth of Independent States (CIS), and the volume of our business in this area grew by 20 per cent this year. The projects we finance range across many industries including automobiles, consumer goods, metals and pharmaceuticals, and they also vary greatly in size from less than €1 million to more than €150 million.

The growth and transfer of energy efficient technologies is playing an increasingly important part in improving the competitiveness of the sector in the region and reducing carbon emissions. The Bank facilitates knowledge transfer in this area by encouraging joint ventures between local companies and more-developed multinationals from outside the region.

For example, in 2010 the EBRD extended a €47.5 million loan to KCM AD, the largest lead and zinc smelter in Bulgaria to co-finance the modernisation of the company, including replacing an outdated lead production line with a new modern plant. The new equipment will cut the smelter's energy intensity and is expected to save around 130,000 tonnes of CO₂ annually. The project will also result in significant health and safety benefits for workers and the local community through a substantial reduction in emissions of fugitive lead dust in the workplace and surrounding soils.

Across the manufacturing and services sector, we encourage investment in more efficient technology that can help countries of operations in the region replace inferior, less efficient or more polluting industries and move directly to more advanced ones.

In total the Bank's SEI projects in the manufacturing and services sector in 2010 are estimated to result in annual GHG emission reductions of over 2 million tonnes of CO₂.

The EBRD also continues to play an important role in ensuring the availability of liquidity to this sector in the wake of the financial crisis. This is reflected in the higher volumes of activity during the year and we do not expect any diminution in our level of activity in manufacturing and services in 2011.

One of the main focus points of 2011 will be helping both internal and external stakeholders to understand and implement the incoming European Union Industrial Emissions Directive.



This new EU Directive will affect a large number of our clients from refineries to pig farms and will oblige many to apply the European Commission's IPPC Reference Document on *Best Available Techniques* to optimise their all-round environmental performance.

Property and tourism

New projects signed	2010	2009
Number of new projects	14	13
Total EBRD financing (€ million)	258	202
Share of total EBRD business volume	3.28	2.57

The built environment is one of the single largest contributors to climate change in the region and is estimated to account for around 39 per cent of final energy consumption in the region, mostly through heat generation.⁶ As we are also the largest investor in prime real estate markets in the region, it means that the Bank's measures on energy efficiency in this sector can have a powerful impact on climate change mitigation.

We primarily invest in high-quality, commercial real estate but also in the tourism industry and in 2010, to help safeguard the recovery, the Bank focused on financially sound investments with special emphasis on sustainable market development and climate change mitigation.

We use all our property and tourism investments – whether directly or indirectly – to promote our highest standards of business integrity and seek to identify energy-saving opportunities in our projects and implement technologies that reduce energy use in the built environment. This is illustrated by the fact that all of the Bank's property and tourism projects now receive a visit from an energy efficiency specialist and include an energy efficiency audit as part of their due diligence.

This commitment is exemplified by the EBRD loan of up to €37 million for the Sveti Stefan Hotel Complex in Montenegro. This landmark tourist site on the country's coast will be redeveloped into a prime resort that will set a benchmark for low-density, sustainable tourism. The project is located on a land plot of 68,000 m² and entails the renovation and construction of three hotels as well as 60 apartments, restaurants, spa facilities, an administrative building and associated infrastructure. The development fits with the strategy of the Montenegro government, which has opted for low density and sustainable tourism in preference to mass tourism.

Energy efficiency measures will be integrated into the project's technical specification, for example using water-saving taps and planting gardens suitable for Mediterranean dry summer weather. Overall the project is expected to be better by approximately 15 per cent from the Reference Energy Baseline. Quality assurance measures will also be applied during construction and operation.

Furthermore, Sveti Stefan benefits from the construction of the sewerage network pumping station and wastewater treatment plant started in April 2010, which will provide wastewater services for over 220,000 inhabitants. Sveti Stefan Island is a protected monument of culture in the country's "II category".

The refurbishment work fully complies with the relevant regulatory requirements and has been conducted under the supervision of the Institute for Cultural Monuments Protection.

The EBRD also assists in the dissemination of energy efficiency best practice, introducing and upgrading energy efficiency standards and transferring skills and know-how across its clients and partners in the region. Beyond energy efficiency, we are also working to encourage best practice across the region in areas such as the redevelopment of "brownfield" sites, regeneration of deprived areas and ensuring that the accessibility for disabled people is built into technical specifications.

Equity funds

New projects signed	2010	2009
Number of new projects	9	7
Total EBRD financing (€ million)	302	172
Share of total EBRD business volume	3.84	2.18

With a total of 125 funds invested through 81 fund managers since 1993, our private equity fund investment programme is the largest of its kind dedicated to central and eastern Europe and central Asia.

In 2010 the Bank committed €302 million to nine private equity funds (including its first ever fund in Turkey) representing a combined target value of over €1.5 billion.

The Bank's private equity funds are all externally managed and their investment strategies encompass a wide range of investee companies. Environmental and social issues at the investee company level can have financial, legal and reputational implications not only for the company itself, but also for the fund managers and the EBRD as an investor in those funds.

Fund managers also have a responsibility to raise corporate governance standards in investee companies. As well as posing risks to companies if managed badly, these issues can also create opportunities for value creation. For example, generating and implementing a strong environmental and social policy can help companies to improve operational efficiency, reduce fines and penalties, help retain a company's licence to operate, promote innovation and attract and retain customers and staff. In this way, corporate governance and environmental and social performance can have a positive (if sometimes intangible) influence on financial returns when a fund exits from an investee company.



As we are also the largest investor in prime real estate markets in the region, it means that the Bank's measures on energy efficiency in this sector can have a powerful impact on climate change mitigation.



⁶ To read the Tourism and Property Strategy go to: www.ebrd.com/downloads/policies/sector/property.pdf



For further information see the Bank's *Annual Report 2010*.

The Bank's approach is therefore to work closely with its fund managers to ensure they integrate environmental and social risk management into their investment procedures, value-addition strategies and management decisions. The Bank achieves this by integrating environmental and social requirements into each fund's limited partnership and fund management agreements; providing training and guidance to fund managers; and monitoring the fund managers' performance and information on the investment portfolio on an ongoing basis. The EBRD's requirements oblige fund managers to follow environmental and social due diligence procedures in their appraisal processes (including environmental and social audits of investments classified as medium- or high-risk) and to implement a policy of investee company compliance with national environmental and social regulations.

The EBRD's support to its private equity fund managers on social and environmental issues and its cooperation with other investors in private equity funds plays a significant part in engendering good practices across the wider private equity industry in the region.

See page 38 for more information on how we address environmental and social issues in the context of financial intermediary projects.

TurnAround Management and Business Advisory Services Programme

We continued to deliver important technical assistance to micro, small and medium sized enterprises (MSMEs) in 2010 through the donor-funded TurnAround Management (TAM) and Business Advisory Services (BAS) Programme. In the second half of 2010 a new Strategic Plan for the TAM/BAS Programme was approved by the Bank's Board of Directors. The Strategic Plan introduced some major organisational and operational changes, making this an important turning point in the Programme's history. As part

of this evolution, the TAM/BAS Team joined the Industry, Commerce and Agribusiness (ICA) Group in 2010, facilitating closer work to support corporate sector clients.

The TAM and BAS programmes are complementary to one another and work across a broad range of MSME industry sectors in the entire EBRD region. TAM focuses on substantial managerial and structural changes within small and medium-sized companies by providing advice from experienced international executives and industry experts, in projects typically lasting 12-18 months. BAS provides grants to MSMEs to engage local consultants for short-term projects, and in this way also helps to build local consulting capacity for small business.

The Programme's portfolio includes numerous activities related to environmental and social sustainability, particularly in relation to topics such as energy efficiency, gender equality and community development. Key projects and milestones in 2010 are as follows:

- Completion of BAS's three-year Women in Business Programme in the Caucasus. With funding from Canada, Taipei China and the EBRD's Early Transition Countries fund, BAS supported 85 women-owned and women-managed projects, resulting in an average increase in turnover of 63 per cent.
- Creation of a sustainable business infrastructure in the local under-developed area of Mongolia's South Gobi region near a high quality coal deposit for Energy Resources LLC. TAM/BAS used a two-pronged approach to provide support to two potential suppliers (through TAM), with five training and five grant projects to support local MSMEs and develop the local business advisory infrastructure (through BAS).
- The launch of TAM's Environmental and Energy Efficiency Programme in Ukraine and Russia, funded by Germany's Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.



For further information and background on the TAM/BAS Programme, see the Bank's *Annual Report 2010* and go to: www.ebrd.com/pages/workingwithus/tambas.shtml



TAM community project in Sombor, Serbia

Serbia's Sombor region traditionally has a high concentration of farms (*salaši*) and local development is mainly linked to agribusiness activities. In recent years local businesses have lost their competitive edge, leading to stagnation. Many farms have been abandoned and local unemployment has reached almost 20 per cent. A group of citizens, with the support of the municipality, promoted the idea of establishing an organisation to revitalise the economy by rejuvenating farms and increasing their productivity and competitiveness, improving the performance of food processing enterprises, building stronger relations between food processors and farmers and developing rural tourism potential.

TAM was approached in 2008 with a request for assistance to organise the cluster, plan the project activities and implement them. With EU funds, a team was assembled with experienced agribusiness and tourism specialists to support Sombor. The following results were achieved.

- The cluster concept was further developed and a plan for future actions agreed.
- A legal basis and organisation for cluster activities was created (*Klaster Salaši doo* for Sales and Marketing and *Somborski Salaši ooz* as a farmers' cooperative).
- *Klaster Salaši doo* has been recognised by the Serbian Ministry of Agriculture, Ministry of Finance and Vojvodina Province as a model for community development in rural areas.

“

A group of citizens, with the support of the municipality, promoted the idea of establishing an organisation to revitalise the economy...

”

- A machinery service concept for promoting farm mechanisation was introduced.
- A marketing and sales organisation and plan for rural tourism was established.

Following completion of the first phase of the project, the *Klaster Salaši* management requested a second phase to strengthen cluster management and capacity to steer the community activities, further contribute to the farm mechanisation process and improve food processing, build the capacities of local farmers by improving their technical and business skills and strengthen the cluster identity and cohesion.

BAS Programme Market Development Activities (MDA) will be designed and delivered to address the training needs of approximately 50-75 farmers.

FINANCIAL SECTOR

New projects signed	2010	2009
Number of new projects	154	116
Total EBRD financing (€ billion)	3.04	2.92
Share of total EBRD business volume	38.61	37.17

With a renewed strategy for the sector, we have directed 2010 business towards completing crisis response as well as post-crisis financial sector strengthening. Projects focused on mobilising finance to the real economy and addressing the vulnerabilities of the sector that became apparent from the financial crisis. Against a background of varied economic recovery across the EBRD's countries of operations, we delivered a wide range of projects that reflected the local financial conditions.

In 2010 the Bank signed new business in the financial sector worth €3.0 billion covering 27 countries of operations. Business in south-eastern European countries increased significantly,

as we continued to implement crisis response projects. There was improved activity in the early transition countries with 50 projects signed for 35 clients. In addition, the Trade Facilitation Programme (TFP) handled over 458 transactions in the ETC region worth €163 million.

Our operations in the financial sector include three main environmental and social sustainability considerations.

- We require our financial intermediary (FI) clients to adopt specific environmental and social requirements for their relevant lending and investment operations.
- Under the framework of the Bank's Sustainable Energy Initiative (SEI), we help FIs to develop specialised banking products for financing energy efficiency and climate change mitigation.
- Investment through FIs forms one of our principal mechanisms for supporting micro, small and medium-sized enterprises, with significant social as well as environmental benefits.



For more information and an outline of the tools, templates and guidelines go to:
www.ebrd.com/fi
www.ebrd.com/pages/about/principles/sustainability/resources/risk.shtml

Environmental and social requirements for the FI sector

In 2010 the financial institutions in our countries of operations were still feeling the effects of the global financial crisis and the EBRD priority has been to continue to support FIs and financial systems in the region to ensure a robust recovery. Part of this involves building financial institutions that are stable in the long term and which implement the Bank's environmental and social procedures. We have developed environmental and social tools and training programmes to help FIs integrate the Bank's environmental and social procedures into their existing due diligence practices.

We have been advocates for environmental risk management in our partner FIs since the early 1990s, implementing this through a combination of requirements, guidance, capacity-building and policy dialogue.

Our requirements for FIs are consolidated in Performance Requirement 9. Amongst other things, PR9 specifies:

- the environmental and social due diligence and monitoring procedures that FIs must implement
- the environmental and social standards that apply to relevant sub-projects financed by FIs
- our expectations on the organisational capacity of FIs and their reporting obligations to the EBRD.

To assist with implementation the EBRD provides our FIs with an online Environmental and Social Risk Management Manual (eManual) designed specifically for banks, private equity funds and other types of financial institutions in our countries of operations. In early 2010 we distributed the latest version of the eManual which is aligned with the Bank's Performance Requirements (PRs) and Environmental and Social Policy.

We continued to provide capacity-building and training to FIs in 2010 on environmental and social risk management. The training programme outlines our PRs and demonstrates the supporting tools available, including the eManual and sub-sectoral guidelines. The training involves a one-day interactive workshop targeted at FI staff involved in credit risk management, emphasising how they can easily integrate environmental and social risk management procedures into transaction appraisal. The objective is to ensure that our partner FIs are able to support environmentally sustainable development; improve environmental, health and safety, labour and working conditions of clients; avoid supporting enterprises which cause significant environmental harm; and reduce the risk of exposure to environmental and social risks and liabilities.

The EBRD trained representatives from 22 FIs in 2010 through workshops held in Azerbaijan, Poland, Russia, Serbia and Turkey. In total 328 people participated in the Bank's training. Overall the feedback from the delegates showed that the training days were considered highly successful and the effectiveness of the tutors was universally high. Each of the FIs trained has agreed to develop or improve on their environmental and social policies and procedures in line with the Environmental and Social Risk Management Plans we developed with them. Banks such as Komercijalna Banka in Serbia report that they have found these training sessions a useful foundation to help them meet the many challenges around sustainable banking (see opposite).



Serbia Komercijalna Banka

Komercijalna Banka (KB) is the second largest bank in Serbia with over 10 per cent market share, approximately 3,000 employees and 270 retail outlets. It is a universal bank with two-thirds of its loan portfolio in the corporate and SME market and one-third in the retail market. The EBRD became a shareholder of Komercijalna Banka in 2006 and now holds 25 per cent of the ordinary shares. We made a further investment in January 2010 when, together with IFC, DEG and Swedfund, we subscribed for new convertible preference shares. In total, the Bank has invested some €125 million in Komercijalna Banka.

Komercijalna Banka used many of the tools available in the EBRD eManual to help produce Environmental Policy and Environmental Risk Management procedures in 2006. In 2010 those policies and procedures were updated to include social risks and to ensure compliance with the requirements of the EBRD and IFC under its investment agreements.

During the revision process KB was very open to utilising the technical assistance offered by the EBRD to increase institutional capacity in environmental and social risk management and expressed a significant interest in staff training in this area for bank staff. The EBRD provided three environmental and social risk management workshops in May 2010, in Serbian, at Komercijalna Banka's headquarters. Approximately 80 senior and/or mid-level managers and/or credit staff from the Bank's operations in Serbia, Bosnia and Herzegovina and Montenegro participated in the workshops.

KB has a dedicated member of staff responsible for environmental and social management who has shown real leadership in this area. It has the potential to become a model for other banks in Serbia and the wider region on how to approach the subject of environmental and social risk management in a financial institution.

In April 2010 we issued a re-tender for Environmental and Social (E&S) risk management training of the EBRD's FIs. The process has been completed and three consultancies have been contracted to undertake capacity building/training for our FI clients in 2011.

The EBRD has maintained close involvement with the UNEP Finance Initiative's Central and Eastern Europe Regional Group in 2010. It has also continued to work closely with other IFIs such as DEG, FMO and IFC to combine our respective environmental and social requirements for situations where co-financing occurs or where two or more IFIs are independently providing concurrent financing to the same FIs.

Energy efficiency finance

The EBRD's Sustainable Energy Financing Facilities (SEFFs) have proven to be an effective financing mechanism for small energy efficiency and renewable energy investment by bundling technical assistance, funding, market/distribution channels and financial incentives into one structure. SEFFs are a core component of our Sustainable Energy Initiative. Further information on how they work is provided on page 20 (SEI 2 – Sustainable energy finance facilities).

Energy efficiency lending through partner banks expanded significantly in 2010 with the introduction of three new SEFF frameworks. We sought to deepen market penetration in existing markets such as Bosnia and Herzegovina, Bulgaria, Georgia, Romania, Russia, Serbia and Slovak Republic as well as expanding geographic coverage into new markets such as Armenia, FYR Macedonia, Moldova, Poland and Turkey. In total, new credit lines worth €452 million were provided to 29 banks in 12 countries. These dedicated credit lines will provide finance to energy efficiency projects in the corporate, industrial, municipal and residential sectors and to small-scale renewable energy generation projects. In some cases, the lines are directing financing to projects undertaken by SMEs. Recent SEFF frameworks also support development of local manufacturers, suppliers and installers of energy efficiency and renewable energy equipment and technology to support their activity in the local market.

An innovative framework was introduced in Turkey to promote a wide range of sustainable energy investment projects by mobilising concessional loan funds from the Clean Technology Fund, a recently established multilateral fund to promote scaled up deployment and transfer of clean technologies. This was followed by another framework which will involve the Bank investing in Diversified Payment Rights (DPR) notes of partner banks with the funds raised being on-lent to the private sector for investments in renewable energy, industrial energy efficiency and waste-to-energy projects.

Currently there are SEFF frameworks operating in 15 countries. By the end of 2010 we had provided loans to 46 partner banks which had on-lent to sub-borrowers supporting nearly 30,000 sustainable energy projects. These projects produced projected lifetime energy savings of over 78 million MWh and projected lifetime emission reductions of 33.5 million tonnes of CO₂e.

Supporting micro enterprises and SMEs

We support micro and small enterprises through our Small Business Finance team within the Financial Institutions Group which develops financing programmes provided through local financial intermediaries (FIs). These programmes enable small businesses to access formal finance, often an obstacle in the Bank's countries of operations. In addition to working with existing banks, the EBRD lends to and sometimes helps establish microfinance banks and non-bank microfinance institutions. The long-term sustainability of MSE activities is ensured through institution building and training on appropriate lending procedures. Therefore, the programmes support economic development as well as social stability through "financial inclusion".

Generally speaking the negative environmental and social impacts associated with micro and small enterprises are limited. Given that these businesses are financed through local financial intermediaries, the appraisal of environmental and social issues is dealt with by the credit officers within those FIs following the Bank's Performance Requirements 2 and 9 and, typically, our environmental and social procedures for small and micro lending. In recognition of the limited impacts associated with micro and small enterprises, these procedures are focused mainly on compliance with the Bank's Environmental and Social Exclusion List and ensuring compliance with national environmental and social regulatory requirements.

On the other side, while micro and small enterprises have limited negative environmental and social impacts, there is a significant positive social impact associated with the provision of both financial and advisory support to local entrepreneurs seeking to develop their businesses. Care is taken in all of our MSME operations to avoid "over-indebtedness" in the sector and to ensure that borrowers are aware of the risks they are taking (including currency risk in the case of a foreign currency loan). The Bank is also instrumental in supporting credit bureaus and in other means of improving transparency and instilling good credit discipline.

To date we have invested over €6 billion in micro, small and medium-sized enterprises across 22 countries of operations. As of December 2010 the current active portfolio that covers micro, small, and medium sized enterprises is €3.4 billion. We lend to MSMEs via commercial banks, microfinance banks and non-banking microfinance institutions (NBMFIs). By working with different institutions, the Bank can reach a wide range of economic actors including some of the smallest. Through our lending via commercial banks and microfinance banks, we reach a broader population. For example, the average loan size of the Banks' MFB (microfinance bank) clients is €6,410 and of commercial banks that lend to small businesses, €6,104.⁷ Furthermore, while NBMFIs are small institutions and have a small lending portfolio, they fulfil an important role by providing access to finance to the smallest market players, as well as providing finance in regions that are not penetrated by others. The average loan size made by NBMFIs to their clients funded by the Bank is €966. By providing funding to these institutions, we are thus able to reach a large number of very small market players.

⁷ Average figure refers to only the micro and small (MSE) lending portfolio of the Commercial Bank, in order to allow comparison, and is based on data from the Small Business Finance Team only.

INFRASTRUCTURE

Municipal and environmental infrastructure

New projects signed	2010	2009
Number of new projects	32	27
Total EBRD financing (€ million)	486	479
Share of total EBRD business volume	6.19	6.09

Our investments in municipal and environmental infrastructure (MEI) – such as water supply, wastewater treatment, solid waste management, district heating and urban public transport – play a key role in supporting sustainable development in the EBRD's countries of operations. The investment climate and availability of traditional commercial bank loans for such projects in 2010 has continued to present challenges for municipalities and project developers in these sectors, underlining the importance of the EBRD's continued presence.

Our MEI operations during the year have included a strong emphasis on policy reform and public-private partnerships and extending our reach to small and medium-sized municipalities. In central and southern Europe a common theme has been to assist clients to effectively absorb EU funds. Elsewhere, we have continued to focus on business development in economies at an earlier stage of transition, such as Moldova and Tajikistan. The Bank also signed its first MEI project in Turkey in 2010.

Across the region there is a significant need for large capital expenditure projects in the water and wastewater sector, including rehabilitation projects as well as new build.

We are responding by providing funding for water and wastewater treatment projects (representing 40 per cent of our MEI business in 2010), combined with support for much-needed policy reforms and company restructuring.

In Moldova, for example, the EBRD signed a €10 million loan in 2010 to support five reform-oriented small municipal utilities with a programme to regionalise water companies by expanding their operations into neighbouring localities. The project will support important improvements in service quality and drinking water standards.

In Turkey we signed two new loans in 2010 with the TASK Group, a privately owned company specialising in water and wastewater management. Our €16 million investment in TASK will finance the company's capital expenditure in its water and wastewater infrastructure, including rehabilitation of the water supply network and the construction of wastewater treatment facilities.

One of our largest MEI projects signed in 2010 is a €33 million loan to the Constanta water company in east Romania, as part of a €200 million co-financing framework launched during the year to support modernisation and regionalisation of water utilities in the country. The framework will enable Romanian water companies to access grant funding from the European Union's Cohesion Fund and to align their water and wastewater services to EU environmental standards. In future, and to ensure ongoing reforms, we will work with the Romanian Water Association to develop an international benchmarking programme for participating water operators.



Our work in the public urban transport sector continues to provide significant opportunities to improve safety, reduce air pollution and increase energy efficiency by being focused on green public transport, notably electric systems (metros, trams, trolleybuses) and compressed natural gas (CNG) fuelled vehicles. The MEI business in general and these projects in particular contributed to the Bank's low carbon agenda, as almost half of our 2010 investments afford energy efficiency and CO₂ emission benefits.

Projects signed in 2010 include clean bus service provision in Kazakhstan, where we are working with the City of Almaty to introduce regulatory reform, strengthen tendering practices and introduce effective competition between transport operators. We also financed the introduction of CNG buses funded by a loan of €26 million to Almaty Electrotrans, the municipal transport company.

In Armenia the Bank signed a €5 million loan in 2010 with the state-owned Yerevan Metro Company to finance investment in the city's underground transport system. The EBRD financing will support the company in refurbishing its rolling stock, rehabilitating the worn-out track and power supply system, purchasing a maintenance trolley and replacing water pumps which pump ingress water out from the tunnels. The investment programme is expected to generate significant savings of electricity due to reduced water pumping costs, estimated to be cut by 50 per cent.

An important trend in 2010 was the renewed interest by the Bank in more projects in smaller municipalities in the MEI sector than in previous years, while still promoting higher sustainability and transition standards. This trend has helped develop more activity in less developed parts of the region such as the Western Balkans and the early transition countries. For example, in Tajikistan the Bank financed a €17 million project to improve the municipal water services in seven small cities, mainly in the north of the country. The provision of uninterrupted access to safe drinking water for these populations is expected to have a major impact on public health. With the support of a €2 million grant from the GEF's Special Climate Change Fund (SCCF), the Bank took an innovative approach to assessing the likely impacts of climate change on the project and integrating climate resilience into project design. In a similar fashion, the Bank financed essential wastewater investments in Bijeljina, Bosnia and Herzegovina, and Danilovgrad, Montenegro, with loans of €5 million and €5.4 million, respectively.

In the field of district heating, notable projects in 2010 have included a loan of approximately €8 million to Taganrog Teploenergo, a privately owned district heating company, to finance the company's investment programme in Taganrog, a seaport city in Rostov Oblast in southern Russia. The proceeds of the EBRD loan will allow the company to replace an obsolete boiler that is currently in use, increasing the security and quality of district heating services in the city. The project is expected to result in a 13 per cent reduction in fuel consumption and a seven per cent cut in electricity use, saving an estimated 2.6 thousand tonnes of CO₂ emissions annually.



In addition, we made a €100 million investment in Dalkia Baltica-Russia, the regional operating company of Dalkia, the leading European provider of energy services. Through this investment, the Bank will help raise service levels, improve operating efficiencies and promote fuel diversification through biomass.

In the solid waste management sector, we provided a €3 million loan to the Adjara Municipal Sanitary Services Company for municipal solid waste investments. This project will be co-financed by €5 million grants from the Swedish International Development Agency (SIDA) and the Early Transition Countries (ETC) Fund. In 2010 we also started working on a number of other projects to introduce modern waste management strategies based on recycling, treatment and energy recovery.

Lastly, an independent evaluation of the Bank's MEI strategy was completed in 2010 and called for more accurate measurements of the sustainability impacts of these investments. This is something that will be put forward as part of the consultation towards a new long-term strategy for the sector which is set to be published in 2011. The new MEI strategy is under preparation and is likely to have sustainability considerations as one of its core foundations. One element which will be developed is the integration of a gender perspective as part of project preparation in the sector. In 2010 we pioneered the analysis of gender considerations and the inclusion of key findings in project design for two operations in Romania (a street and lighting rehabilitation project in Sfântu Gheorghe) and Georgia (the Adjara solid waste management project).

Transport

New projects signed	2010	2009
Number of new projects	24	17
Total EBRD financing (€ million)	1.3	1.2
Share of total EBRD business volume	16.53	15.51

We support the development of efficient, reliable and secure transport systems in our region across six subsectors: railways, roads, aviation and airports, ports, shipping and intermodal transport systems. Promoting environmentally and socially sustainable transport operations and infrastructure networks for facilitating movement of goods and people is a key feature of our approach to this sector.

Rail is widely considered the most environmentally friendly form of transportation and this year has seen an increasing proportion of EBRD finance provided to support the railway sector, both in numbers of projects and volume of finance. Much of the financing has been specifically targeted at the expansion and renewal of existing cargo rolling stock fleets, introducing new technologies where possible to ensure improved efficiency and environmental and safety standards. For example, through our subscription to the US\$ 700 million (equivalent to €521.8 million) KTZ Eurobond issue, we are providing financing to Kazakhstan's National Railway Company to modernise its wagon fleet and provide a safer, better quality service in support of the country's sustainable growth. On a much smaller scale (although of equal

importance), the Bank is supporting the renewal of aged rolling stock at ZPCG, the Passenger Company of Montenegro Railways, to ensure the safe and efficient transportation of passengers.

In collaboration with Georgian Railways, we are providing financing to construct a new railway route in Tbilisi, which will bypass the central area of the city, moving hazardous transportation, noise and other related issues away from key locations in the capital and so improving efficiency and safety of rail operations on the key east-west corridor within Georgia.

Through our investments in the upgrading of airport terminals in both Sarajevo (Bosnia) and St Petersburg (Russia) we are able to continue supporting sustainability in the built environment. By providing financing for the public-private partnership (PPP) between the City of St Petersburg and Pulkovo Airport Company, the Bank is providing support for the construction of a new terminal and has arranged a review of the energy performance of the envisaged new terminal in relation to applicable international benchmarks. The Environmental and Social Action Plan (ESAP) agreed for the project will tackle a number of identified environmental and social issues, including waste and run-off water treatment, solid waste treatment, noise pollution and a sanitary protection zone.

Further support to sustainable technologies continues to be provided in the shipping sector where, through the Volga Balt Transport Holding Project, the Bank is supporting the company to improve business standards in energy efficiency and environmental impact control as obsolete vessels are replaced by modern new buildings. Furthermore, in line with international best practice, environmental standard ISO 14001 certification will be implemented as well as a disaster response plan to deal with disaster or major casualties in tanker operations.

In 2010 the EBRD has also supported development of European road corridors as well as regional and local roads and promoted improvements in road safety. In Albania our financing will address the rehabilitation of key local and regional roads, many of which are narrow un-surfaced single lane roads, which have deteriorated to the point where they are barely usable. By ensuring reintegration into the country's road network, the project will provide urgently needed access to the southern region of the country, supporting the promotion of economic growth, employment and access to essential services such as health and education, while also considerably improving road safety and reducing vehicle operating costs and journey times.

The EBRD's operational policy on the transport sector is currently under review and a new strategy will be prepared during 2011. In line with CRR4 objectives, we intend to promote efforts to reduce GHG emissions in the transport sector and where feasible improve energy efficiency. During 2010 the Bank, led by the Office of the Chief Economist, commissioned an external study to take stock of international best practice in energy efficiency measures in the transport sector, and review policy mechanisms (including regulation and price incentives) and investments supporting energy efficiency. The results of this study will be used to inform our focus on energy efficiency issues in the new strategy period.



INA Refineries, Croatia

INA is a medium-sized European integrated oil and gas company that plays a leading role in the oil business in Croatia and a significant role in the region in the areas of oil and gas exploration and production, oil processing and oil products distribution. The company has been listed on the London and Zagreb Stock Exchanges since 2006.

We are providing a €210 million loan to INA to enable the company to complete the first stage of a two-phase modernisation programme of its Rijeka and Sisak refineries in Croatia. This will introduce modern technologies and improved business practices to make INA more competitive within its core markets and also reduce sulphur emissions and energy usage. The refineries will be able to produce products meeting the current EU environmental emissions requirement (EURO V). The yield of lighter, higher-value products will also improve at both refineries and fuel losses will reduce significantly.

The project was categorised “B” under the EBRD’s Environmental and Social Policy and environmental and social due diligence confirmed that INA and its parent company, MOL, have strong management systems covering environmental, social and safety issues. The due diligence identified specific risk management actions which need to be addressed to bring operations into compliance with the EBRD’s Performance Requirements including: technological upgrades to burners and furnaces and improvements in air monitoring, improvements to wastewater treatment systems and completion of soil and groundwater quality assessments. We are monitoring the project to assess the status of implementation of the Environmental and Social Action Plans.

ENERGY

Natural resources

New projects signed	2010	2009
Number of new projects	14	13
Total EBRD financing (€ million)	693	671
Share of total EBRD business volume	8.82	8.54

The impressive levels of natural resources contained within the EBRD’s countries of operations mean that creating a sustainable, competitive and open natural resources sector is a key part of securing a robust long-term recovery for the region. For example, Russia and Turkmenistan are estimated to hold the world’s largest and third largest reserves of natural gas, respectively.

The EBRD’s policy is that respect for environmental concerns is a key element of developing natural resources and making these industries competitive in the future. However, one of the many challenges for the natural resources sector is the negative environmental legacies from an era of central planning.

We are taking action to modernise facilities such as the INA Refineries in Croatia (see opposite). We are also working to reduce the practice of flaring waste gas, a significant source of greenhouse gas emissions and in many cases, a wasted energy resource. In Russia, for example, the Bank is providing finance for the engineering, construction and operation of a gas treatment facility that will harness waste gas for commercial usage that would otherwise be burned, thus reducing flaring and improving energy efficiency. The project will establish a gas processing plant in the Zapadno-Salymskoe oil and gas field and a 44MW gas piston power plant in the Nizhne-Shapshinskoe field in Khanty-Mansiysk region. The project facilities are located on existing industrial sites, while the proposed pipelines do not pass through inhabited areas or sensitive natural habitats and this helps to limit the range of adverse environmental and social impacts.

In the mining sector the EBRD encourages sustainability by promoting the introduction of new mining technologies and encouraging both governments and companies to sign up to the EITI. We also ensure that a high-level of environmental and social due diligence is carried out for each mining project and we monitor to ensure that recommendations are implemented. In 2010 the EBRD provided a three-year revolving corporate debt facility to Centerra Gold Inc. – a North America-based gold-mining company – to develop Centerra’s operations in the Kyrgyz Republic and Mongolia. Among other benefits the project aims to introduce new technology, develop SMEs working in the region, upgrade waste management practices and improve stakeholder engagement. An anticipated €500,000 technical cooperation project will also support the development of EITI and sector regulation in the Kyrgyz Republic.

Box 5: Supporting transparency in the extractive industries

Natural resources are a critically important source of revenue for many of our countries of operations. These resources have significant potential to contribute to broader economic development within these countries and the wider region. Resource-rich countries have, however, tended to under-perform economically, have a higher incidence of conflict and suffer from poor governance. These effects are not inevitable and by encouraging and promoting policy, legal, regulatory and institutional frameworks reflective of international best practice some of the potential negative impacts can be mitigated and positive transition impact yielded from the sector. Ample evidence exists throughout the world to demonstrate that countries which adopt modern and attractive enabling environments can attract private sector investment in natural resource exploration and production. This, in turn, provides tax revenues, export earnings, employment possibilities, infrastructure development in rural areas, and transfer of technology to the host countries.

As part of the EBRD's engagement in the sector the Bank's Legal Transition and Natural Resources teams have initiated a new technical cooperation programme in the natural resources sector aimed at helping to increase transparency and accountability in the extractive industries through the implementation of Extractive Industries Transparency Initiative (EITI) principles. EITI is a high-level international initiative championed by the international development community, the G-7, and major commodity producing countries, which aims to establish a policy and legal and regulatory framework for ensuring the proceeds of mining and energy industries are used for broader economic development. EITI provides an

agreed international standard for regular publication of all material oil, gas and mining payments by companies to governments in a publicly accessible, comprehensive and comprehensible manner. Among the EBRD's countries of operations Albania, Azerbaijan, Kazakhstan, the Kyrgyz Republic and Mongolia are committed to implementing the initiative, with Azerbaijan and Mongolia already determined as EITI compliant.

Achieving compliance status, sustaining implementation of EITI principles and ensuring revenues from extractive industries projects are applied to the benefit of the population at large requires significant focus on the elaboration of new policies; drafting of new laws and implementing regulations; and building of institutions and capacity of the officials that work those institutions, as well as the fostering of cooperative and inclusive relationships between the authorities, extractive companies and civil society.

The EBRD and fellow international financial institutions (IFIs) are strong supporters of EITI. For its part the EBRD is committed to supporting the implementation of EITI principles in its countries of operations and, through its new programme, the Bank offers practical assistance and funding for the authorities to achieve these objectives. Working with the EITI Mongolia Secretariat, the World Bank and Mongolian civil society, the Bank's Legal Transition team will soon begin implementing a technical cooperation project, valued at €500,000, aimed at supporting and sustaining the practical ongoing implementation of EITI principles in Mongolia. Additionally, during 2011 we also hope to conclude discussions with other EITI countries with respect to the launch of further EITI projects in these countries.



We also work closely with our partners in the region to improve sustainable practices in the mining sector. For example, in early 2011 we plan to organise a two-day workshop on biodiversity in the south Gobi desert that will bring together a number of the EBRD region's extractive sector clients, representatives from the relevant Mongolian central and regional governments and regulatory authorities and relevant academics. The aim of the workshop is to discuss how to ensure that protected habitats used by endangered species such as the Khulan (Asiatic Wild Ass) and the Goitered Gazelle are protected as the important trade corridor between Mongolia and China continues to develop. New plans for project and transportation infrastructure development in the region include road construction within the buffer zone and are slightly within the existing protected areas.

Power and energy

New projects signed	2010	2009
Number of new projects	21	14
Total EBRD financing (€ million)	1,201	836
Share of total EBRD business volume	15.28	10.63

The investment climate in the power and energy sector remained fragile in 2010, especially for renewable energy. We broadened and deepened our support in this sector, and for the first time invested more than €1 billion in the power sector. This included a major increase in support for renewable energy and an expansion of Bank operations in transmission and distribution, where significant environmental benefits can be achieved through reducing losses and implementing "smart grid" approaches.

Our investment in renewable energy increased dramatically, reaching €397 million in 2010, nearly triple 2009's figure, which was in turn an 89 per cent increase on 2008's investments. We estimate that the nine renewable energy

projects financed by the Bank in 2010 will result in a total reduction in CO₂ emissions of 11.4 million tonnes annually. The Bank's total investment in renewable energy over the last four years now stands at €674 million.

Wind power continued to be a key focus for the Bank's operations in renewable energy. Deals signed during the year include co-financing for the 120 MW Margonin project, the largest operating wind farm in Poland. Total funding of around €45 million will help to construct and operate the farm, which is expected to represent approximately 14 per cent of the total wind generation capacity in Poland. In addition to its historical use of limited-recourse project finance to support wind power development, in 2010 the Bank began to make greater use of equity to scale up its investment in larger portfolios of wind farms. A key example is the Bank's €125 million equity investment in the Polish and Hungarian subsidiaries of Iberdrola Renovables S.A., the world's largest wind energy developer (see our *Annual Report 2010* for further information).

Hydropower projects have continued to be an important focus for the EBRD in 2010. For example, we are supporting private sector participation in the FYR Macedonian power generation sector with a €6 million loan to Mali Hidro Elektrani d.o.o. (MHE), a locally

Figure 3: The EBRD's funding for renewable energy projects

	€ millions
2010	397
2009	134
2008	71
2007	72



owned renewable energy company, to finance the development of seven small hydropower plants in the country. Located throughout FYR Macedonia the power plants will have a total generation capacity of up to 5.83 MW and will produce an average of 21,630 MWh of electricity per year. This is the Bank's first private sector energy generation investment in FYR Macedonia and it is being financed through the Western Balkans Sustainable Energy Direct Funding Facility. Upon completion the project will lead to reduction of CO₂ emissions estimated at close to 20,000 tonnes per year.

State-of-the-art thermal power generation also continues to form an important part of our strategy in the power and energy sector. For example, we provided two loans in the Baltic states in 2010 to support the construction of modern combined cycle gas turbines to fill the capacity gaps left by the closure of the Ignalina nuclear power plant in Lithuania.

As indicated in *Sustainability Report 2009*, the Bank has significantly stepped up its operations in transmission and distribution in 2010, with a particular emphasis on smart grid and smart meter technology (see Box 6 below) and the creation of transmission networks that are intelligent, flexible and robust. On the demand side, this helps to reduce waste as customers begin to understand and take control of their consumption. On the supply side, it helps networks to accommodate the installation of intermittent power sources such as wind and solar, facilitates distributed generation and enables the more efficient use of conventional generation capacity.

Box 6: EBRD's focus on smart grids and smart meters

The EBRD significantly increased support for smart meter and smart grid investment in our countries of operations in 2010, reflecting rising demand for our technical know-how and funding. Until recently electricity consumption has been recorded by electro-mechanical meters which simply note cumulative consumption. The information is then recorded manually by meter readers and transferred to a recording and billing database. This system has a number of weaknesses. While it records total consumption over a period, it gives no information on the profile of that consumption. This is vital information, given that electricity is produced and consumed instantaneously, the environmental and economic cost of generation varies significantly over short time frames and networks must be sized to meet maximum demand.

Smart meters are electronic meters that record the consumption or production of electricity digitally and address the weaknesses of electro-mechanical meters. They are able to record demand instantaneously and can communicate remotely, allowing for quicker and easier meter reading and dissemination of information to consumers.

The European Union's latest Electricity Directive (2009/72/EC) reflects the importance of these benefits by setting a target for 80 per cent of households in EU member states to have smart meters by 2020. Benefits for consumers are that they are able to understand their consumption patterns better, for the meter records their profile and can be programmed to display more information. For example, they may be able to identify a time when they are using energy unnecessarily and adjust their consumption in response to real time information and its CO₂ implications. Smart meters also allow consumers to take advantage of more sophisticated tariff structures such as cheaper electricity at night.

The benefits for network operators are firstly, a better understanding of their own network, allowing them to identify losses quickly and accurately as well as optimising future investments. Secondly, the processes of meter reading, billing and payment enforcement can be automated and carried out remotely. Smart meters are also an important component in "smart grids", especially when they are located in the substations which form the nodes in these grids. Installation of smart meters in these nodes allows network operators to view the real-time performance of the grid. They can then identify losses quickly and accurately by spotting anomalous consumption patterns, so they can plan their investments more accurately and avoid over-sizing their grids.

In the long term smart grids will facilitate developments in more sustainable generation. Some renewable sources, principally wind power, generate intermittently, which presents challenges in constantly balancing supply with demand. Smart meters which show demand patterns more accurately and potentially allow for demand side management, such as shutting off domestic appliances remotely, will allow for larger quantities of this generation to be accommodated. Similarly smart meters will allow for distributed generation opportunities where customers install micro-generation sources such as rooftop solar panels or mini-turbines to meet their consumption and to sell any surplus electricity back to the grid.

In Poland we signed a PLN 800 million loan (equivalent to €202.1 million) to Poland's Energa group, to reinforce and extend the company's network with the aim of accommodating more renewables connections. In the Western Balkans, loans to Serbia's Elektroprivreda Srbije and Montenegro's Elektroprivreda Crne Gora will fund the installation of smart meters aimed at improving demand side management, reducing losses and improving payment discipline.

Dialogue and accountability

6

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We are committed to operating in a transparent and accountable way. More details of how the Bank's governance, policies and practices reflect this commitment are available in the *Annual Report 2010* and on our web site.

In 2010, as part of an internal reorganisation to enable us to better meet the objectives of our medium-term strategy, the Bank created the new Stakeholder Relations department. This new department also plays an important role in promoting accountability and stronger engagement with the EBRD's main external stakeholders, including donor agencies, the institutions of the European Union, other international organisations, and civil society organisations and policy making agencies in the Bank's countries of operations. Stakeholder Relations will also coordinate the country strategy preparation process and ensure that relevant stakeholders are engaged in the formulation, consultation and implementation of country strategies.

CIVIL SOCIETY

As part of our commitment to accountability the Bank engages proactively with local and international civil society organisations (CSOs) and welcomes their interest and feedback on environmental and social issues around our projects, operational policies, country and sectoral strategies.

To harness this interest we have an active and ongoing programme to engage with civil society. For example the Civil Society Programme held alongside our Annual Meeting in 2010 helped bring together over 70 civil society participants from 18 EBRD countries of operations and six other shareholder countries. The two-day programme in Zagreb included two special discussion panels on "The sustainability agenda in the Western Balkans in an EU accession context" and "Gender issues in transition countries". There were also consultation sessions focused on environmental and social issues and discussion on the transparency of the EBRD's investments in transport, municipal and environmental infrastructure, natural resources, heavy industries and sustainable energy. As is customary at the Annual Meeting, the Civil Society Programme culminated in meetings with the EBRD Board of Directors and the Bank's President, Thomas Mirow.

The President, the Bank's senior management and the Board of Directors also meet regularly with representatives of local and international CSOs outside of the Annual Meeting. A list of these consultations can be found in Table 5. During 2010 there was focused and extensive consultation on the strategic aspects of the Bank's fourth Capital Resources Review (CRR4). A number of working papers were released for consultation in English and Russian, and several hundred civil society

stakeholders from our countries of operations and shareholder countries were invited to provide feedback and attend a special consultation workshop at the Bank's Headquarters on 10 March. A constructive dialogue with CSOs on the CRR4 helped us assess our current operations and informed our policy thinking in this area.

Table 5: Key CSO consultation and dialogue events 2010

Month	Location	Event
February	Almaty	Multi-stakeholders' consultation workshop on a draft investment plan for the Clean Technology Fund (Kazakhstan).
	Ashgabat	Country strategy consultation (Turkmenistan).
March	London	Country strategy consultation (Turkmenistan).
	Zagreb	Country strategy consultation (Croatia).
	London	Consultation meeting on the EBRD's fourth Capital Resources Review (CRR4).
May	Zagreb	Civil Society Programme at the Annual Meeting.
June	Baku	CSO meeting at Board Consultation Visit to Azerbaijan.
	Chisinau	CSO meeting at Board Consultation Visit to Moldova.
	Sarajevo	CSO meeting at Board Consultation Visit to Bosnia and Herzegovina.
	Krasnoyarsk	CSO meeting at Board Consultation Visit to Russia.
July	Moscow	CSO meeting at Board Consultation Visit to Russia.
September	Dnipropetrovsk, Kiev	CSO meetings at Board Consultation Visit to Ukraine.
	London	CSOs invited to "Born in 89" prize ceremony.
October	Bucharest	CSO meeting at Board Consultation Visit to Romania.
	Sofia	CSO meeting at Board Consultation Visit to Bulgaria.
November	London	CSOs invited to <i>Transition Report 2010</i> launch presentation.

Beyond its set programme of civil society engagement we are also responsive to CSO concerns that affect projects on the ground. Environmental and social experts and bankers carefully review all the concerns expressed by affected local communities and civil society groups in relation to ongoing and potential EBRD investments.



For a detailed report summarising feedback from the civil society workshop held in London go to: www.ebrd.com/pages/about/policies/capres.shtml

Throughout 2010 we conducted a series of meetings on the ground to discuss such in-depth issues of concern as:

- the Kumtor gold mine project in the Kyrgyz Republic
- the Belgrade Highway Bypass project in Serbia
- the Teghout Copper mine project in Armenia
- the ArcelorMittal project in Kazakhstan
- the south Ukraine transmission lines project.

The valuable feedback provided by civil society members at these meetings enables us to ensure that our clients adequately respond to the local concerns that have been expressed.

We actively assist our clients to improve dialogue with local communities and civil society groups. As an example, following the concerns raised by local CSOs regarding the diversion of the route through residential areas of a 330kV line from Adjalyk to Usatovo (in Ukraine), we urged our client Ukrenergo to undertake immediate steps to resolve the situation on the ground and develop an acceptable action plan to ensure compliance of the project with the Bank's requirements. As a result of the company and the Bank's joint effort, Ukrenergo reached an acceptable solution with the local community on the planned route of the transmission line and adopted a Stakeholder Engagement Plan.

PROJECT COMPLAINT MECHANISM

During 2010 we introduced a new Project Complaint Mechanism (PCM), which replaces the Independent Recourse Mechanism, and is intended to provide a more user-friendly and improved channel of communications for those affected by the Bank's projects. The PCM gives individuals, groups and organisations that may be adversely affected by a project financed by the EBRD, or who believe that the EBRD has not followed its policies with regard to a project, an opportunity to make a complaint to the Bank. A PCM officer was appointed in 2010 to manage the process.

In particular, the group of potential complainants has been expanded to include NGOs and other CSOs. Additionally, individuals may now raise a complaint under the new Mechanism, which was not the case under the previous system. CSOs may also raise a complaint requesting a compliance review under the PCM.

The PCM also considerably enhances transparency by providing more opportunities for consultations with all relevant parties, including the complainant, the Bank, and the sponsors or financiers of the project in question. Importantly, it also provides for the publication of monitoring reports, that is, reports on how well the Bank is implementing the recommendations or agreements arising from the compliance reviews or the problem-solving initiatives. Lastly, it strengthens the Bank's ability to monitor a client's compliance with relevant Bank policies.

On 7 June 2010 the PCM received its first complaint, regarding the D1 motorway Phase I Project in the Slovak Republic. Although the project itself did not proceed for financing, the Bank will still have a compliance review and identify any lessons learned. Currently, the complaint is in the process of compliance review. In 2010 the PCM also received seven complaints that were manifestly ineligible for consideration under the PCM for the following reasons: four complaints were on matters related to procurement; one raised allegations of corruption; one was on the issue of restitution; and one project was still in the early stages of due diligence by the Bank. These complaints were forwarded to the relevant bodies within the EBRD for consideration.

ENVIRONMENTAL AND SOCIAL ADVISORY COUNCIL

The Environmental and Social Advisory Council (ESAC) is a group of respected experts in environmental and social sustainability issues from across the EBRD region and beyond. ESAC provides strategic advice to the President and the Bank as a whole on environmental and social issues and how they are addressed in our policies, strategies and operations. With meetings held at the EBRD's Headquarters approximately twice a year, ESAC provides a valuable sounding board for those Bank teams requiring advice on how best practice in environmental and social management can be built into their strategies and programmes.

In July 2010 the ESAC met in London to discuss a range of issues including the CRR4, the new Municipal and Environmental Infrastructure Strategy, and the Bank's emerging work in the areas of climate change adaptation, financing biodiversity and managing sustainability risks in contracted works. A number of new members joined ESAC in 2010, including, for the first time,

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We actively assist our clients to improve dialogue with local communities and civil society groups.

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a labour and occupational health and safety expert and a social development specialist. Minutes of ESAC meetings are published on the Bank's web site.

INDEPENDENT EVALUATION

The independent Evaluation department (EvD) of the EBRD evaluates the Bank's operations, programmes, strategies and policies in order to assess our performance. Policy and project outcomes are analysed, their success determined and any lessons learned are fed back to operational departments for use in improving future operations.

Bank-financed projects are assessed against the EBRD's mandate, sound banking principles, and the effectiveness of project implementation. Evaluation factors include environmental performance (including health and safety, labour and other relevant social issues) and the extent of environmental change

achieved over the lifetime of the project. Projects are usually assessed one to two years after final disbursement of finance by the Bank, with assessments made against project objectives, the requirements of the Bank's Environmental and Social Policy, and the relevant country and sector strategies.

The EvD's final overall evaluation results for each calendar year are presented during the second quarter of the following year in an Annual Evaluation Overview Report. The 2010 evaluation cycle covered 59 projects, assessing performance across a wide range of variables. With respect to environmental performance, 42 per cent were rated "Satisfactory", 42 per cent were rated "Good" and 5 per cent were rated "Excellent" on the basis of the available data. No projects were rated "Unsatisfactory" or "Highly unsatisfactory". With regard to environmental change, the differences observed in 25 per cent of projects were rated "Substantial" or "Outstanding", and 11 per cent were rated as "None/Negative". These results are broadly in line with previous years.



For full details of ESAC's work including its membership go to:
www.ebrd.com/pages/about/principles/sustainability/disclosure/esac.shtml

For further information on the independent evaluation function go to:
www.ebrd.com/evaluation

Internal performance



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ENERGY, ENVIRONMENTAL MANAGEMENT AND BUSINESS TRAVEL

We are committed to minimising the environmental impact of our London Headquarters and all our regional offices by continuously aiming to make efficiency gains. From 2006 to minimise our carbon footprint, we have sourced all electricity for the London Headquarters from renewable supplies. Over 2009 and 2010 a new lift system was introduced to help reduce energy consumption.

While there has been a general increase in business volume in 2010 which has led to an increase in unavoidable air travel, the Bank continues to reduce air travel where possible. The Bank encourages rail travel to western European meetings, for example in Paris and Brussels and this was reflected in a 10 per cent rise in the total distance travelled by rail this year. Where feasible the Bank uses audio and video conferencing in preference to air travel and in 2010 there has been an increased demand for both, with audio conferencing experiencing an increase in use of over 37 per cent.

In 2010 we also introduced a new furniture contract for our Headquarters. It stipulates a number of sustainability criteria. See page 54 for more details.

PAPER USAGE

All the white paper used by the Bank is manufactured by a company that implements ISO-certified environmental and quality management systems (specifically ISO 14001 and ISO 9001: 2000) and is certified under the Programme for the Endorsement of Forest Certification schemes (PEFC). The PEFC is an independent, non-profit, non-governmental organisation that promotes sustainable forest management through independent third-party certification.

Paper usage within the EBRD has fallen consistently in recent years by approximately 21 per cent since 2006. This is partly due to the fact that all of the photocopiers have been set to default to double-sided copying and printing. The added scanning functionality of the current machines has also helped reduce the amount of paper usage. Additionally, we have reduced the print runs of our corporate flagship publications. As shown in Table 6 the total amount of paper used in 2010 was 13.6 million sheets which is still significant and we continue to look for ways to reduce usage further.

WASTE MANAGEMENT

We continually review our operational practices to determine whether they can be made more efficient in terms of resource use and waste production and where possible reduce any risk of pollution. We are committed to the “Reduce, Reuse, Recycle” principle and examine the way we deal with waste, to ensure we use the most effective waste management options available to us. Improvements to these processes in 2010 have included the introduction of mixed recycling waste bins into the restaurant and coffee shop facilities of the London Headquarters which has increased the number of waste streams being sent for recycling and the recruitment of a new waste management company.

Table 6: HQ consumption and recycling figures, 2007-10

Headquarters consumption and recycling figures ⁸	2010	2009	2008	2007
Electricity (GWh)	19.7	17.4	19.7	17.8
Gas (GWh)	5.2	4.1	4.1	3.7
Water (thousand m ³)	68.5	57.9	78.6	62.7
CO ₂ emissions (kilotonnes) ⁹	11.7	10.0	11.0	10.0
Air travel (million kms)	27.2	22.3	25.2	25.3
Rail travel (thousand km)	419	379	331	268
CO ₂ emissions (kilotonnes) ¹⁰	4.9 ¹¹	2.5	2.6	2.7
Consumption (millions of sheets)	13.6	13.5	13.9	15.11
Paper (tonnes)	77.8	132	101	56
Card and cardboard (tonnes)	26	21	14	N/A
Printer and toner cartridges (units)	703	808	750	908
Glass (tonnes)	41	28	29	39
Batteries (kgs)	90	180	45	N/A

⁸ Part of the EBRD's London Headquarters is sub-let and the data shown here therefore include consumption by tenants.

⁹ These figures were compiled using the 2008 DEFRA Electricity Grid Rolling Average conversion factor of 0.53702 kg CO₂ per kWh and natural gas gross conversion factor of 0.185 kg CO₂ pt per kWh.

¹⁰ The vast majority of passenger-kilometres undertaken by EBRD staff are incurred in international flights. CO₂ emission calculations for 2010 are based on an emission factor of 0.11 kgs CO₂/passenger km, which is the factor used in previous years for flights longer than 499 kilometres. This factor is also consistent with the latest factors recommended for estimating CO₂ emissions from international flights recommended by DEFRA 2009 (Guidelines to DEFRA/DECC GHG. Conversion Factors for Company Reporting Guidelines, v 2.0).

¹¹ The figures for 2010 reflect an improved methodology that adds in more specific conversion factors for business and long-haul flights, based on DEFRA/DECC guidelines.

CORPORATE PROCUREMENT

At our main Headquarters in London and throughout our 34 Resident Offices in the EBRD's region the Bank purchases a wide variety of goods and services for corporate usage. This includes office consumables such as stationery, office furniture and IT equipment, as well as outsourced services such as catering, cleaning and printing. In line with our Environmental and Social Policy, we take sustainability issues into account in the procurement process for all these goods and services and seek to work with suppliers and contractors who follow high environmental and social standards.

In 2010 we began implementing our new Corporate Procurement Policy and Procedures that were updated in 2009 to set high standards for environmentally and socially sustainable procurement. The Policy supports the four "R" strategies to: reduce environmental impact; reduce material consumption; recycle materials/waste; and reduce energy consumption.

These principles are implemented in day-to-day corporate procurement activities by incorporating, as appropriate, environmental and social considerations, standards and requirements in our corporate procurement cycle from planning to the evaluation of offers from suppliers. We believe that systematic consideration of factors such as price, fitness for purpose, environmental and social sustainability, energy and resource efficiency, labour standards and working conditions, will help us ensure that we obtain goods, works and services that are of the best value for the Bank. An example of how these principles are incorporated in 2010 was in our purchase of new office furniture (see Box 7).

HUMAN RESOURCES

The EBRD employs approximately 1,500 staff working from 34 Resident Offices and from the Bank's Headquarters in London. Our multicultural workforce provides the Bank with a considerable competitive advantage in meeting the needs of clients across the region. We actively search for this staff talent within all our 61 shareholding countries and strive for a fair representation of nationality and gender in our work environment.

The EBRD is committed to treating all employees equally and fairly. Our Human Resources policies, practices and processes are designed to support this goal and we take our responsibilities towards diversity seriously.

In 2010 we continued our Organisational Capacity Building (OCB) exercise, which aims to enhance the Bank's organisational capacity and processes. OCB, started in 2009, was rolled out in 2010 to other departments such as the Office of the Chief Economist and the Human Resources department.

Box 7: Office furniture

This year the Bank conducted a procurement process to buy replacement office furniture. The contract required the supplier to recycle any packaging/waste from the site in an environmentally friendly manner following completion of furniture installation and a requirement for the furniture to be of sustainable materials. Only furniture that met with the following environmental standards was considered.

1. Environmental management system accreditation ISO 14001 of the manufacturer.
2. Manufacturer to be able to provide evidence of the "chain of custody" for wood materials in accordance with FSC or PEFC sustainability criteria.
3. No tropical hardwood to be used in the manufacture of any of the furniture supplied.
4. Manufacturing of products must be in compliance with the German board formaldehyde emissions minimum standard "E1". In the case of the purchase of new office chairs, we again applied high environmental standards. The selected manufacturer has strong environmental credentials and ensured all packaging was recycled. The old chairs were sold, donated for re-use or recycled (if unsuitable for re-use) with a verifiable audit trail for every chair replaced.

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Our multicultural workforce provides the Bank with a considerable competitive advantage in meeting the needs of clients across the region.

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To find out more about our procurement policies and practices go to:
www.ebrd.com/pages/workingwithus/procurement/corporate.shtml



For further information on OCB, the Bank's human capital and the measures we take to ensure equality, professional development, work-life balance and health and safety at work, see the EBRD's *Annual Report 2010* and go to: www.ebrdjobs.com

Further information

Abbreviations

The Bank, EBRD	The European Bank for Reconstruction and Development
BAS	Business Advisory Services
CCGT	Combined-cycle gas turbine
CCS	Carbon capture and storage
CDM	Clean Development Mechanism
CEI	Central European Initiative
CFC	Chlorofluorocarbon
CIF	Climate Investment Funds
CIS	Commonwealth of Independent States
CNG	Compressed natural gas
CO₂	Carbon dioxide
CO₂e	Carbon dioxide equivalent
COP	Conference of Parties to the Kyoto Protocol
CRR4	The fourth Capital Resources Review: the EBRD's fourth review of its capital resources
CSF	Chernobyl Shelter Fund
CSO	Civil society organisation
DEFRA	Department for Environment, Food and Rural Affairs (UK)
DEG	German Development Bank
E5P	Eastern Europe Energy Efficiency and Environment Partnership
EC	European Commission
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ETC	Early transition countries
EU	European Union
EURATOM	European Atomic Energy Community
FAO	UN Food and Agriculture Organization
FI	Financial intermediary
FMO	Finance for Development (The Netherlands)
FYR Macedonia	Former Yugoslav Republic of Macedonia
GEF	Global Environmental Facility
GHG	Greenhouse gas
GIS	Green Investment Scheme
GWh	Gigawatt hour
HCFC	Hydrochlorofluorocarbons
ICA	Industry, Commerce and Agribusiness
IEA	International Energy Agency
IFC	International Finance Corporation
IFI	International financial institution
IFRS	International Financial Reporting Standards
IOSH	Institution of Occupational Safety and Health
IPPC	Integrated Pollution Prevention and Control
ISO	International Organization for Standardization
JI	Joint Implementation

Exchange rates

Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchanges current on 31 December 2010. (Approximate euro exchange rates: £0.86, US\$ 1.34, ¥108.80).

Kt	Kilotonnes
Kt CO₂e	Kilotonnes of carbon dioxide equivalent
KV	Kilovolts
MCCF	Multilateral Carbon Credit Fund
MDB	multilateral development bank
MEI	municipal and environmental infrastructure
MFB	microfinance bank
MFI	multilateral financial institution
MOP	Meeting of Parties to the Kyoto Protocol
MSEs	Micro and small enterprises
MSMEs	Micro, small and medium-sized enterprises
mtCO₂	Million tonnes of carbon dioxide
mtCO₂e	Million tonnes of carbon dioxide equivalent
MtCO₂e pa	Megatonnes of carbon dioxide equivalent per year
MWh	Megawatt hour
NBMFI	Non-banking microfinance institution
NDEP	Northern Dimension Environmental Partnership
NEFCO	Nordic Environment Finance Corporation
NGO	Non-governmental organisation
NIB	Nordic Investment Bank
NIF	Neighbourhood Investment Facility
OCB	Organisational Capacity Building
pa	per annum
PCM	Project Complaint Mechanism
PEFC	Programme for the Endorsement of Forest Certification schemes
PPCR	Pilot Programme for Climate Resilience
PPP	public-private partnership
PR	Performance Requirement
REC	Regional Environmental Centre
REDD	Reducing Emissions from Deforestation and Forest Degradation
SEAP	Sustainable Energy Action Plan
SEFF	Sustainable Energy Financing Facility
SEI	Sustainable Energy Initiative
SIDA	Swedish International Development Agency
SME	Small and medium-sized enterprise
SSF	The EBRD Shareholder Special Fund
TAM	TurnAround Management
TFP	Trade Facilitation Programme
UKEEP	Ukraine Energy Efficiency Programme
UNDP	United Nations Development Program
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNEP-FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
WHO	World Health Organization

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.

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European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom

Switchboard/central contact

Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
SWIFT: EBRDGB2L

Information requests

For information requests and general enquiries, please use the information request form at www.ebrd.com/inforequest

Project enquiries

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

EBRD publications

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

Web site

www.ebrd.com

Editorial

Elliot Frankal
Kate Guscott
Tara Hawes
Mark King
Jane Ross
Dan Siddy

Design and Production

Alan Bates Design
Daniel Kelly

Photography

Anna Aleksandrova (32); Aleksandar Andjić (37); Bananastock (52); Bogdan Cristel (15, 51); Dumitru Doru (12, 36, 38); EBRD (7, 17, 18, 22, 34, 45, 46); Mike Ellis (42); Enhol (IFC, 6); Robert Hackman (9); INA (44); Ib Katznelson (IFC, 23, 27); Komercijalna Banka (39); Andy Lane (IFC, 2); Dean Miculinić (48); David Mdzinarishvili (21); Nibulon (IFC, 33); Novarka (30); Zarina Sarmurzakova (IFC, 41); Helen Valvona (10); Bryan Whitford (24)

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