

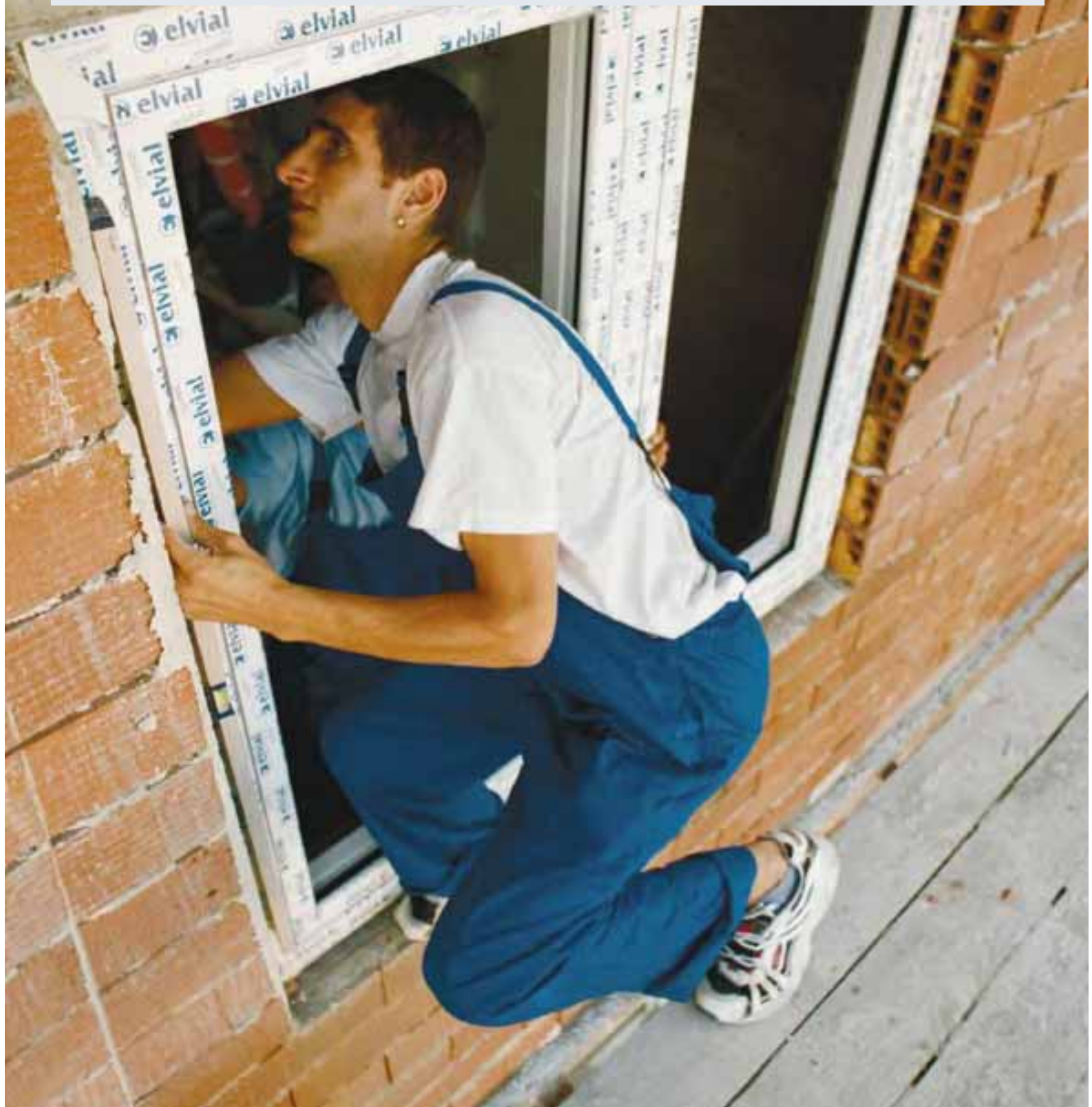
Promoting sound and sustainable development

EBRD Sustainability Report 2006



European Bank
for Reconstruction and Development

Special focus on sustainable energy



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Cover photo by Arnhel de Serra. Loans for the installation of double glazing to increase household energy efficiency have been provided through the Bulgarian Energy Efficiency and Renewable Energy Credit Line, which is supported by the EBRD. See page 42 for more information.

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About this Report

This Report covers EBRD activities in 2006, focusing on the Bank's impact on the people and the environment in the countries where we operate.

This year's Report is in two parts:

Part 1

Investing sustainably

Part 1 reviews the EBRD's investment strategy and the projects that received finance in 2006. It includes a special focus on sustainable energy.

Part 2

Working sustainably

Part 2 reviews how the Bank operates, including our internal environmental performance, and outlines the Bank's dialogue with various audiences during the year.

Annex 1 maps the content of this Report (and other EBRD reports) to a set of guidelines for voluntary use in sustainability reporting, known as the Global Reporting Initiative.

Annex 2 contains the Declaration of the European Principles for the Environment, which the EBRD signed in 2006.

About the EBRD

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

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

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

For more information about the Bank, please see our web site at www.ebrd.com

Key performance indicators

The Report includes the following indicators of the EBRD's performance:

Management/process indicators

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

Portfolio and environmental change indicators

- sector breakdown of portfolio
- environmental expenditure
- proportion of projects with potentially high environmental benefits
- proportion of projects with potentially high social benefits
- greenhouse gas emissions
- environmental change rating



The more the world has moved to consensus on the need to limit global warming, the greater has been the interest in sustainable energy.

In the EBRD region more than most, the environmental agenda of fighting climate change coincides with the more immediate political agenda of economic competitiveness and energy security. Switching away from fossil fuels, and – especially – bolstering energy supply by using energy more efficiently have started to become higher priorities in energy-producing and energy-importing countries alike.

The EBRD promotes sustainable energy in many ways. A new Sustainable Energy Initiative in 2006 sets targets for helping heavy energy-use industries to save energy, and for the high-consumption natural resources industries to introduce more energy efficiency. Much of that work begins with a simple energy audit that readily convinces the company that there is a clear business case for energy efficiency.

The Initiative also coordinates efforts to finance local banks so that they can make loans for energy conservation in small businesses and households. The EBRD provides the banks with the energy efficiency credit lines, but also with training and monitoring capacity for loan officers. And the Initiative provides financing for development of renewable energy projects.

Investing in municipalities closely binds the EBRD's priority for energy saving with its work to provide better quality of life through modern local transportation, district heating and other modernised municipal services.

Sustainable energy was at the forefront of the EBRD's work to promote sustainability in the past year. It was a main theme of our Annual Meeting and was the subject of much policy dialogue with leaders of countries as they plan their energy futures. Early in 2007, the EBRD hosted a conference that brought together the multilateral development banks with world leaders of industry and policymakers for a discussion of the practical ways to introduce energy efficiency.

But sustainability is about more than energy, of course. The EBRD is currently engaged in discussion to deepen our involvement in many other elements that will make investments sustainable over the long term.

In the context of the current review of the Bank's Environment Policy, we are testing our extensive requirements for environmental and social safeguards. We are looking at integrating more explicit requirements on treatment of workers in EBRD-financed projects as well as reviewing measures for respect of indigenous peoples and for gender balance. We are also reviewing how we and our partner companies consult with local communities and non-governmental organisations.

As the EBRD region evolves, the EBRD is addressing new needs of our countries and clients. Sustainability figures large, because, increasingly, international standards and the growing sense of corporate social responsibility are sensitising companies to take care of their environment, local communities and employees.

That is leading to a more acute focus on health and safety as well as environmental care. This marks what we see as the beginning of a new trend in the region. We are starting to see companies understanding that sustainability is not simply an add-on, or a series of environmental boxes to tick before doing a project. With a growing appetite by firms to improve and be exemplary in their health and safety and environmental behaviour, these elements are moving from being issues of compliance to the focus of investment. The EBRD has already made major loans for environmental upgrades – financing purely to achieve better environmental performance. We foresee similar investments for health and safety improvements. This is a welcome trend, where sustainability is becoming part of mainstream investment.

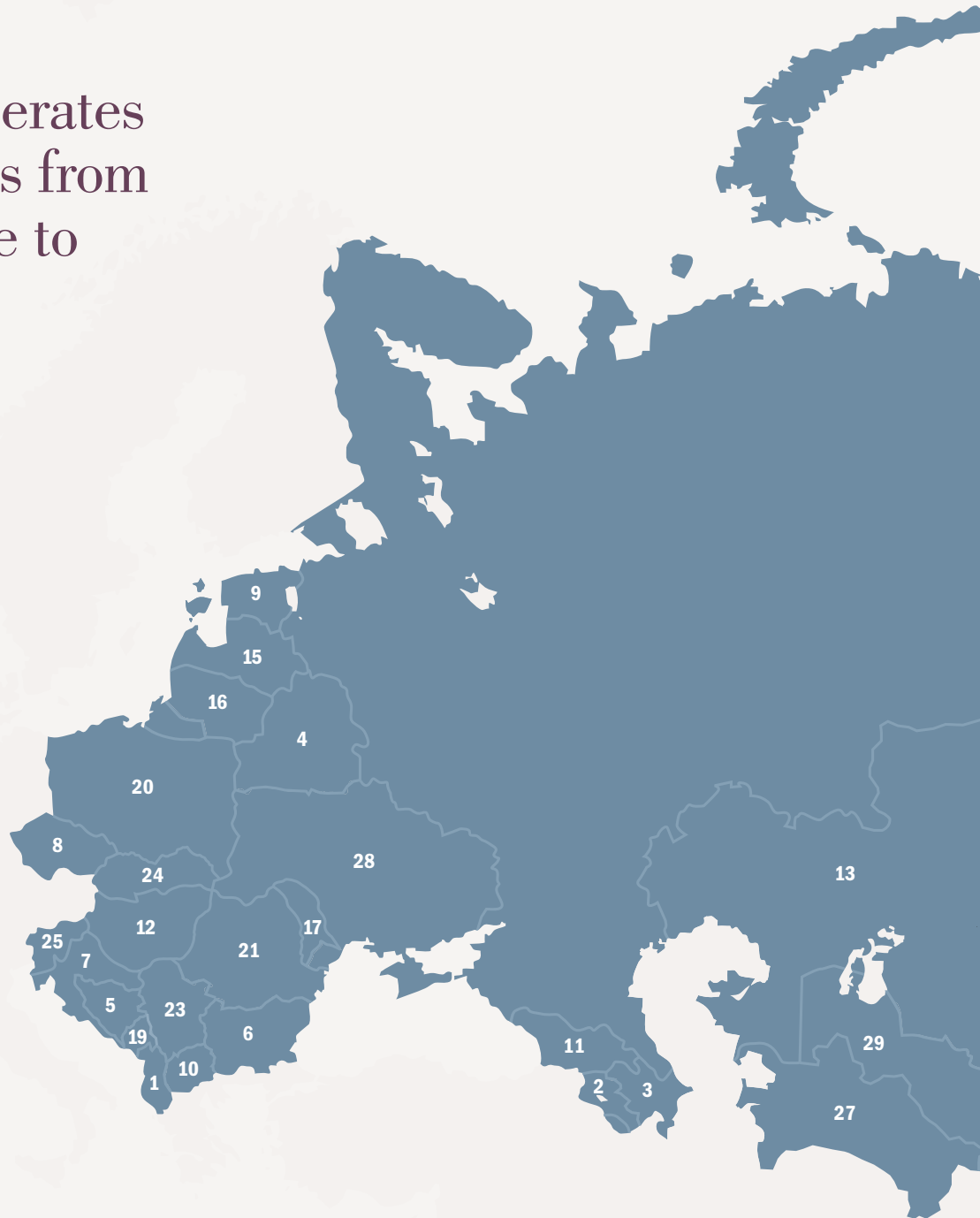
For the EBRD, this defines our mandate of promoting transition. This Sustainability Report outlines the many ways the Bank works towards sustainability in its projects and in its own operations. But the greatest reward is when such practice becomes fully integrated as part of the normal transition to democracy and market economy.



Jean Lemierre
President

The EBRD operates in 29 countries from central Europe to central Asia.

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





2006: the year in numbers

EBRD commitments

€4.9 billion

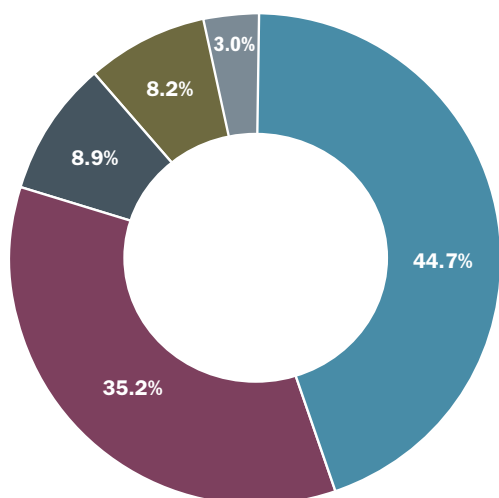
financed 301 projects, a record level of investment

€976 million

of this financed environmental improvements in projects:

- **€872 million** in projects with a specific focus on the environment, including energy efficiency, renewable energy and municipal infrastructure (18 per cent of total EBRD investment)
- **€104 million** in environmental improvements included within other projects across all sectors.

EBRD commitments to projects with a specific focus on the environment



Sector	Financing € million
■ Power (including renewable energy)	389.8
■ Municipal infrastructure (district heating, water supply, waste water, solid waste and urban transport)	307.1
■ Manufacturing (environmental improvements)	77.2
■ Energy efficiency credit lines (including renewable energy)	71.1
■ Agribusiness (environmental improvements)	26.4
Total	871.6

Sustainable energy

The EBRD's Sustainable Energy Initiative, launched in May 2006, commits the EBRD to investing €1.5 billion in energy efficiency and renewable energy projects over the next three years.

€750 million

invested in energy efficiency and renewable energy activities across all sectors, representing over 14 per cent of total EBRD investment. This comprised:

- **€670 million** in energy efficiency projects across a variety of sectors
- **€80 million** in renewable energy projects across four countries.

Municipal infrastructure

€307 million

invested in 26 projects across nine countries to improve district heating, water supply, waste-water services, solid waste management and urban transport.

€88 million

of this total was specifically for energy efficiency improvements.

Financing for small business

945,000

loans

The EBRD's Micro and Small Business Programme started to work with 24 new partner institutions in 11 countries in 2006, making it a record year of expansion. Using funding from a variety of sources, the programme provided some 945,000 loans totalling €4.9 billion to micro and small business.

In 2006 over 20,000 loans and leases were provided to local small and medium-sized businesses via EBRD credit lines. The EBRD signed 23 new projects with local banks.

Poorest countries

€290 million

in 80 new projects (excluding oil and gas deals) in the poorest countries where the Bank operates (known as the early transition countries), compared with 61 projects (€250 million) in 2005 and 32 (€92 million) in 2004.

Donor funding

€11 million

of donor funding to support environmental activities connected with EBRD-financed projects and for specific programmes. Donors also pledged:

- **€50 million** to the EBRD's Sustainable Energy Initiative
- **€13 million** to the new Western Balkans Fund.

Environmental and social due diligence and monitoring

115

due diligence or monitoring visits were undertaken by EBRD staff to 85 projects in 22 countries. A full-time monitoring specialist was appointed.

EBRD countries of operations

29

Mongolia became the EBRD's newest country of operations, bringing the Bank's total number of countries to 29 following the separation of Montenegro and Serbia.

A photograph of a cornfield with a yellow harvester in the background. The corn plants are green and tall, with their tassels visible. The harvester is yellow and is positioned in the distance, partially obscured by the corn. The sky is a clear, light blue.

Investing sustainably

The EBRD is committed to promoting environmentally sound and sustainable development in the countries where we operate. The aim of every EBRD-financed project is to contribute to a future that is sustainable.



10 Investing sustainably

In 2006 the EBRD developed a new business strategy for the 29 countries where the Bank operates, from central Europe to central Asia. Mongolia formally became an EBRD country of operations, reflecting a shift further east in the Bank's activities, and Montenegro and Serbia became separate member countries of the EBRD.

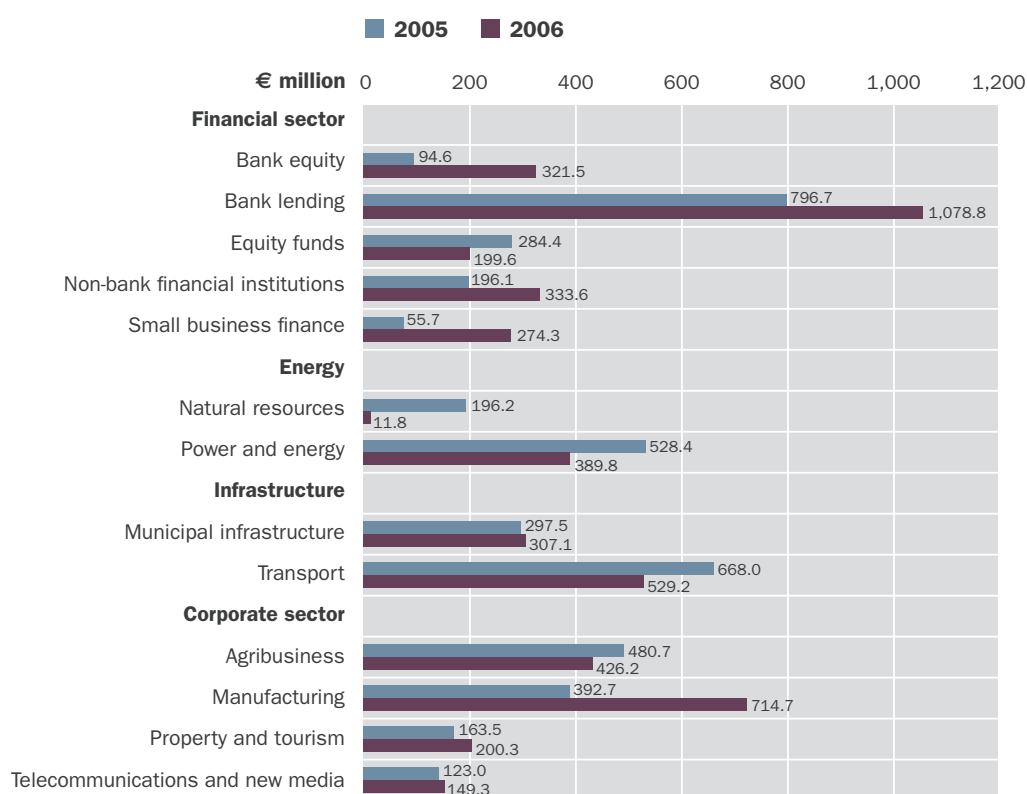
The EBRD committed €4.9 billion to 301 projects across the Bank's region of operations in 2006, a record level of investment. Within this total, €872 million was devoted to projects with a specific environmental focus, representing 18 per cent of total investment.

The EBRD's Micro and Small Business Programme had a record year of expansion, helping many people to get started in business as a first step in lifting them out of poverty. Finance for micro, small and medium-sized businesses accounted for over one-third of all projects signed during the year. In our poorest countries of operations, the Bank signed 80 projects amounting to €290 million.

The number of environmental and social monitoring visits almost doubled in 2006, reflecting a much greater emphasis on monitoring.

In 2006 the Bank approved a new Energy Policy and launched a Sustainable Energy Initiative to tackle climate change. It commits the EBRD to doubling investments in sustainable energy – energy efficiency and renewable energy projects – over the next three years.

EBRD commitments by sector 2005-06



Overview

EBRD policy and strategy reviews

New business strategy

The EBRD's five-year strategy for 2006–10 was approved at the Bank's Annual Meeting in May 2006. The strategy shifts the focus of the EBRD's resources and activities from central Europe to the countries further east and south: Russia, the Western Balkans, the Caucasus and Central Asia. It commits the Bank to accepting higher levels of risk in these countries and to further developing innovative and local currency financing.

To tackle climate change, the Bank will expand investments in energy efficiency, renewable energy and investments that reduce greenhouse gas emissions. This will help to address concerns about energy security and the affordability of energy supply. The business strategy was developed within the context of the EBRD's third Capital Resources Review.

The EBRD will also strengthen international cooperation to achieve common objectives, and maintain effective relationships with donors to expand technical cooperation activities.

Energy Policy

The EBRD approved a new Energy Policy in July 2006 after consulting extensively with non-governmental organisations (NGOs), research institutes, governments and industry and energy experts. The new policy sets a formal target for the EBRD's investments in energy efficiency and renewable energy between 2006 and 2010. It also commits the Bank to unlocking the region's energy potential and promoting the development of carbon markets (see page 13).

The new policy commits the EBRD to supporting the sound management of natural resources. This requires governments and private companies to be transparent about revenue generation and to support, where applicable, the Extractive Industries Transparency Initiative, which promotes accountable revenue management in resource-rich countries. Under the new policy, the EBRD will encourage competition to diversify supply channels and will address nuclear safety in the region's remaining nuclear plants.

The full policy is available at www.ebrd.com/about/policies/sector/energy

Public Information Policy

The EBRD approved a new Public Information Policy (PIP) in May 2006. The review process included internal and external consultations, benchmarking with other international financial institutions, meetings with NGOs and inviting comment on the draft proposals through the EBRD's web site.

The new policy widens public participation in the development of EBRD policies and country strategies, and expands the scope of information that the Bank makes available to the public. Under the new policy:

- two new categories of information will be disclosed about the Bank, covering "general institutional information" and issues concerning "accountability and governance"
- minutes of meetings of the EBRD's Board of Directors will be published on the Bank's web site
- draft proposals of new country strategies will be published on the Bank's web site for comment
- Project Summary Documents (covering projects that might receive EBRD financing) will be published in the official national languages of the relevant country.

The full policy is available at www.ebrd.com/about/policies/pip

Environmental Policy review

The EBRD started the process of revising its Environmental Policy in 2006. The new policy is being developed in the context of global developments on tackling climate change and evolving best practice in the financial sector. It will clarify expectations concerning EBRD-financed projects in terms of environmental, health and safety, labour and other social issues.

To prepare for the policy revision, the EBRD held two meetings of experts to discuss specific social aspects. The first workshop on labour issues was hosted by the International Labour Organization (ILO) and included representatives from the ILO, trade unions and employers, including EBRD clients. The second workshop discussed the Bank's approach to addressing the impact of projects on indigenous peoples in the EBRD's countries of operations. This workshop was held in Moscow and included representatives of indigenous peoples, relevant departments of the Russian government and academic institutions.

12 Investing sustainably

The full revision process started in 2007 and will involve wide-ranging open consultations with various parties, including NGOs, clients, other international organisations and financial institutions. The EBRD expects to approve a new Environmental and Social Policy by the end of 2007.

New country strategies

The EBRD currently revises its country strategies every two years, setting out the priority needs and investment focus for each country. In future, this is to be extended to a three-year cycle.

The Bank published its first strategy for Mongolia in 2006 (see below). It also published new strategies for Albania, Armenia, Belarus, Estonia, the Former Yugoslav Republic of Macedonia (FYR Macedonia), Georgia, Kazakhstan, Lithuania, Poland, Russia, Slovak Republic, Slovenia and Turkmenistan.

In its strategies for Belarus and Turkmenistan, the EBRD set out clear benchmarks to measure political and economic progress. The Bank expressed concern about the slow pace of democratic and legal reform in these countries and noted little evidence of improvement in the authorities' commitment to multi-party democracy and market economics, as enshrined within Article 1 of the Agreement Establishing the Bank.

As a result, the EBRD is excluding any funding of public sector projects in these countries. The Bank aims to maintain a dialogue with government and NGOs on ways of improving the investment climate for private entrepreneurs to encourage greater political and economic reform. The EBRD is similarly limiting its activities in Uzbekistan since publishing a revised country strategy in 2005.

All EBRD country strategies are available at www.ebrd.com/about/strategy

Open for business in Mongolia

The EBRD formally accepted Mongolia as a country of operations in July 2006 and opened an office in Ulaanbaatar in October. Mongolia will receive assistance under the EBRD's Early Transition Countries Initiative, which focuses on financing smaller projects, particularly micro and small businesses. The ETC Initiative also benefits from donor assistance to improve the investment climate and to lift people out of poverty.

In its first country strategy for Mongolia, the EBRD identified three priorities: developing private businesses, strengthening the financial sector and

investing in vital infrastructure, such as roads and water supply. The Bank will also look for opportunities to invest in renewable energy projects, including hydro and wind power.

The EBRD signed its first investment in Mongolia in September 2006, providing a €3.8 million loan to XacBank, Mongolia's second-largest microfinance institution. It will enable XacBank to make more financing available to entrepreneurs in remote areas, including nomadic herders. An additional US\$ 1 million loan under the EBRD's Trade Facilitation Programme will support small businesses involved in import and export trade.



Environmental initiatives

Launching a Sustainable Energy Initiative

The EBRD launched its Sustainable Energy Initiative in May 2006 to address energy waste and the need for cleaner sources of energy. The initiative commits the EBRD to investing €1.5 billion in energy efficiency and renewable energy projects over the next three years. It also commits the Bank to strengthening policy dialogue with governments and to working with donors to support sustainable energy projects.

The need for international financial institutions to find ways of tackling climate change was recently stressed by the G-8 (Group of Eight) countries and the European Union. The launch of the Sustainable Energy Initiative is partly in response to this. For more detail, see the “Special focus” on page 38.

The EBRD launched its Sustainable Energy Initiative in May 2006 to address energy waste and the need for cleaner sources of energy.

Promoting carbon markets

The EBRD and the European Investment Bank (EIB) launched a Multilateral Carbon Credit Fund (MCCF) at the end of 2006. The new fund is specifically dedicated to the Bank's region of operations. Private and public companies as well as governments can buy carbon credits from emission-reduction projects financed by the EBRD or the EIB.

By the end of 2006, six countries and six companies (including power utilities from the Czech Republic, Greece and Spain) had committed €165 million to the new fund. The operation of the fund has been outsourced to three private companies (mitigating conflict of interest between the EBRD as financier/seller): Royal Haskonig (Netherlands), Green Stream (Finland) and ICF (UK). Each has responsibility for one region. For more detail, see page 46.

This is the EBRD's second carbon fund – the first fund was established in 2003 to purchase carbon credits for the Netherlands government.

Supporting the European Principles for the Environment

The EBRD and four leading Europe-based multilateral financing institutions (MFIs) signed the European Principles for the Environment declaration in May 2006. The signatories undertook to support environmental protection and promote sustainable development globally and across all sectors of their activities.

This joint initiative aims to harmonise environmental benchmarks used for the financing of projects. It promotes the EU approach to environmental sustainability and the application of EU benchmarks to projects financed by them.

The five signatories are the EBRD, the Council of Europe Development Bank, the EIB, the Nordic Environment Finance Corporation and the Nordic Investment Bank (NIB). The wording of the declaration can be found in the annex to this Report (see page 76).

Other initiatives

Updating integrity guidelines

The EBRD published new integrity guidelines in 2006 on how to conduct due diligence for new and existing projects. The guidelines strengthen understanding of integrity measures and improve consistency in the decision-making process. The Bank also revised its anti-money laundering Red Flag checklist and extended staff training on combating money laundering and the financing of terrorism.

The broader context for these guidelines is set out in the EBRD's first Anti-Corruption Report. It describes the Bank's mechanisms for tackling corruption, fraud, money-laundering, terrorist financing and other criminal acts, and how we ensure that EBRD funds are used for their intended purposes. It also highlights the most recent measures taken to promote integrity and prevent fraud and corruption. One significant measure in 2006 was a mutual agreement between all the multilateral development banks, the EIB and the International Monetary Fund on harmonised definitions of fraud and corruption.

The full report is available at www.ebrd.com/about/integrity

Supporting the Western Balkans

The EBRD launched its Western Balkans Initiative in May 2006 to expand its support for private business investment and infrastructure development in Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia (including Kosovo).

The initiative aims to narrow the gap in economic development that has emerged between the Western Balkans and neighbouring countries. It supports the Bank's commitment to reallocate resources from central Europe to the less developed countries to the south and east.

14 Investing sustainably

To support the initiative, the Western Balkans Multi-Donor Fund was launched with €13 million from 11 donor countries. Four of the donors are EBRD countries of operations – the Czech Republic, Poland, the Slovak Republic and Slovenia – signalling the advance in their economic development. The new fund enables the EBRD, donors and recipients to work together to develop the private sector.

In addition, the EBRD committed €20 million to the EBRD-Italy Western Balkans Finance Facility. The Bank has a pipeline of around €800 million of new investments under consideration over the next two years in the Western Balkans.

Addressing gender issues

Gender issues have increasingly been recognised as an important component of the development process. For example, the United Nations' Third Millennium Development Goal specifically refers to the need to promote gender equality and to empower women. Furthermore, research undertaken by the EBRD, the Asian Development Bank and the World Bank reveals that there is increasing inequality between men and women in the countries where the EBRD operates.

In 2006 the EBRD commissioned a study to examine how gender affects EBRD activities, particularly in the early transition countries. An independent gender expert conducted the study (funded by the UK Department for International Development and the Canadian International Development Agency). The study recommended a number of ways to bring gender issues into the mainstream so as to maximise the potential benefit of EBRD-financed projects and their impact on the transition process.

Currently, the EBRD takes into consideration gender issues when implementing the Bank's social policies (regarding resettlement, indigenous peoples and cultural heritage) and labour requirements (specifically non-discrimination). In future, the EBRD will consider whether to continue to focus on non-discrimination or to take proactive measures, at the project and/or policy level, to address gender inequality.

Enhancing international cooperation

The EBRD signed a Memorandum of Understanding (MoU) with the European Commission and the EIB in December 2006. It facilitates closer cooperation between the two financial institutions with support from the European Union.

The EIB and the EBRD will work together to identify, finance and manage projects in energy, transport, telecommunications and environmental infrastructure. The two banks will share their expertise and maximise their comparative advantages in the joint financing of projects in Moldova, Russia, Ukraine, the Caucasus and Central Asia. The MoU may later apply to Belarus as well.

The EBRD also signed a Memorandum of Understanding with the International Labour Organization, expanding the 1992 Agreement of Cooperation and reflecting the increasing level of cooperation between the two institutions.

In 2006 the EBRD commissioned a study to examine how gender affects EBRD activities, particularly in the early transition countries.



Meetings and events

The EBRD hosted a number of events in 2006 at the Bank's headquarters in London. Many of these focused on environmental and sustainability issues.

Meetings hosted by the EBRD in 2006

May	<p>EBRD Annual Meeting and Business Forum</p> <p>The EBRD presented its business strategy for the next five years and launched its Sustainable Energy Initiative and Western Balkans Initiative. The Business Forum attracted a high-profile audience of investors, leading corporate executives and many entrepreneurs from the Bank's region of operations and beyond.</p>
June	<p>Collateral law reform conference</p> <p>Representatives of some 40 organisations from 25 countries discussed the important role played by collateral law reform in improving access to credit for businesses. The EBRD co-hosted the conference with the World Bank (with support from the Canadian International Development Agency and the UK's Department for International Development).</p>
June	<p>Seventh International Investigators Conference</p> <p>Senior officers of international financial institutions, the United Nations, Interpol, the European Anti-fraud Office and other organisations discussed anti-corruption and fraud initiatives, such as whistleblowing and establishing inter-agency investigative task forces.</p>
July	<p>Fourth annual meeting of social specialists</p> <p>Social experts from some 20 multilateral and bilateral financial institutions shared experiences in key areas, such as labour, migrant workers, the construction industry and community development, and discussed ways of integrating social aspects into investment projects.</p>
November	<p>EBRD's First Sustainable Energy Forum</p> <p>The Bank held its first forum to discuss how its Sustainable Energy Initiative will work in practice. Donors committed €61 million (in addition to grants of €19 million previously provided) to support investment in sustainable energy projects.</p>
November	<p>First meeting of the Western Balkans Fund</p> <p>Donors committed €13 million and discussed how the Fund will coordinate its activities with other major donors in the region, including Italy and the European Union.</p>
November	<p>Meeting of Heads of Procurement</p> <p>Heads of Procurement of multilateral development banks discussed how to standardise procurement documentation for public sector projects. The EBRD's labour specialists presented a paper on taking core labour standards into account in civil works contracts. The meeting also discussed standardised definitions of fraud and corruption as proposed in February 2006 by the newly-created IFI Anti-corruption Task Force.</p>
November	<p>EBRD 15th anniversary conference</p> <p>Together with Chatham House, the EBRD organised a one-day conference entitled "Transition: 15 years of building the future" to mark the 15th anniversary of the Bank. Presentations and discussions covered how to move forward with economic transition and reform and how to address environmental and social sustainability while maintaining economic gains.</p>

In March 2007 the EBRD hosted a "Financing clean energy" conference to identify practical ways to finance clean energy and to address global climate change. The event was co-organised with the World Bank, the World Economic

Forum and the World Business Council for Sustainable Development. More than 200 representatives from leading public sector institutions and global private sector businesses attended.

Environmental investment

In 2006 the EBRD invested €976 million in environmental improvements, representing 20 per cent of total EBRD investment.

This consisted of:

- €872 million (18 per cent of total EBRD investment) in projects with a primary focus on the environment, where EBRD financing was for environmental improvements, such as energy efficiency, renewable energy and municipal infrastructure
- €104 million (2 per cent of total EBRD investment) in environmental improvements included within other projects across a variety of sectors.

The EBRD also increased its financing for projects with high social benefits that help lift people out of poverty. The Bank committed over €1 billion to support entrepreneurial activity in micro, small and medium-sized businesses across our countries of operations, including €290 million in the poorest countries where we operate.

EBRD investment in energy efficiency and renewable energy is described in the “Special focus on sustainable energy” on page 38. EBRD investment in municipal infrastructure is described on page 17.

EBRD commitments to projects with a specific focus on the environment, 2005-06

	2006 € million	2005 € million
Power sector (including renewable energy)	389.8	16.0
Municipal infrastructure (district heating, water supply, waste water, solid waste and urban transport)	307.1	290.0
Manufacturing (environmental improvements)	77.2	–
Energy efficiency credit lines	71.1	30.1
Agribusiness (environmental improvements)	26.4	–
Global Environment Facility	–	10.0
Total	871.6	346.1

EBRD commitments to projects with environmental components, 2005-06

Environmental component	2006 € million	2005 € million
Air emissions/greenhouse gas reduction	2.70	15.90
Energy efficiency	86.00	189.00
Waste-water management	7.70	88.50
Solid waste management	0.80	65.60
Health and safety	0.40	9.10
Environmental Management Systems	3.10	8.10
Environmental clean-up of contaminated soil and groundwater	0.10	4.20
Hazardous waste management	0.90	Not differentiated
Training/institutional strengthening	0.07	3.60
Labour and social	0.004	0.05
Drinking water management	1.60	Not differentiated
Renewables	1.30	Not differentiated
Other ¹	0	253.80
Total	104.67	638.00

¹ Items included within the ‘Other’ category in 2005 have been incorporated in different categories in 2006.

Investing in municipal infrastructure

The EBRD's support for municipal infrastructure projects helps to improve the quality of life for people across the Bank's countries of operations and to bring environmental improvements. Local residents benefit from more efficient heating, a regular supply of clean drinking water, better sanitation, safer and cleaner buses and trams, less noise pollution and better air quality in cities.

In 2006 the EBRD signed 26 projects across nine countries amounting to €307 million (representing 6 per cent of total EBRD investment). Financing for district heating, water supply, waste water, solid waste and urban transport is being used to modernise supply networks, machinery and pumping stations and to reduce river and lake pollution.

In 2006 the EBRD provided over 95 per cent (€295 million) of its financing without the support of a state guarantee (reducing the financial burden on central and local authorities). Over 28 per cent (€90 million) of investment was targeted at reducing greenhouse gas emissions (see page 54).

Strategic approach

The EBRD supports decentralisation (shifting service responsibilities from central to regional or local levels). The emphasis is on improving service quality, cost management, commercial and environmental sustainability, and affordability of energy for the most vulnerable people. The Bank also encourages public-private partnerships as a way of improving services.

The EBRD is focusing increasingly on lending without state guarantees to free up state resources for other purposes.

The improving creditworthiness of many municipalities enables the EBRD to attract co-financing and to identify sources of grant funding that support the Bank's investment activities. For example, in Russia the EBRD cooperates with Rosstroi (the Russian federal agency responsible for regional development and infrastructure), which provides grant co-financing to a number of EBRD-financed projects. Grant funding is also provided by the European Union and many other donors.

District heating

District heating networks deliver heating and hot water to hundreds of thousands of citizens in the EBRD's countries of operations. Much of the infrastructure is old and breakdowns occur frequently during the winter months. Reliable, energy efficient heating is an urgent priority, particularly in the context of rising energy prices in Russia.

Many of the operators still require substantial investment to restructure their operations and to upgrade transmission plants and operating equipment. Modernisation of district heating systems is a key way of improving energy efficiency and reducing greenhouse gas emissions. Savings of 30 per cent can typically be expected from district heating projects, helping to make heating services more affordable.

The EBRD signed five projects in three countries (Poland, Romania and Russia) in 2006. Three of the projects focused on remote areas of Russia where efficient heating to homes is vital as winter temperatures can drop to as low as -60°C. The project in Romania was the first in that country to link financing with generating carbon credits, making the project more viable and setting a model for district heating operators in other cities (see page 46).

EBRD commitments to district heating projects in 2006

Country	Client	Project description	EBRD financing € million
Poland	Krakow district heating	Modernisation of heating infrastructure to increase energy efficiency and reduce pollution	6.3
Romania	Timisoara district heating	Increasing efficiency to improve quality and supply of heating	10.0
Russia	Sakha (Yakutia) Republic district heating and water services	Upgrading of heating and water systems	14.4
Russia	Ufa district heating	Modernisation of existing and construction of new heating sub-stations in the Republic of Bashkortostan	10.4
Russia	Surgutsky Rayon	Modernisation of heating sub-stations and boiler houses in various towns as part of a multi-utility programme	12.3
Total			53.4

Improving Ufa's district heating system

The temperature was 40 degrees below zero in January 2006 when the EBRD and the Mayor of Ufa in the southern Urals signed a project to modernise the city's district heating system. The heating network is characterised by frequent breakdowns and heavy losses of energy, heat and water. The EBRD's 10-year loan of 360 million roubles (€10.4 million) will be used to modernise heating sub-stations that will provide heating and hot water for one-third of the apartment blocks in Ufa.

The project is expected to result in significant energy savings and to ensure a reliable supply of heating to householders. Estimated savings are around 8-10 per cent for energy used for heating and hot water, 20-30 per cent for electricity generation and 15 per cent for chemically treated

water used in the heating pipe networks. The modernisation will also ensure that Ufa's district heating system complies with Russian and European Union environmental standards.

The city of Ufa is guaranteeing the EBRD loan. The Bank is financing 30 per cent of the project (public finance laws in Russia limit the borrowing ability of municipalities). The EBRD has secured grants of €600,000 from Finland and Norway for project preparation and monitoring. Rosstroi (the Russian federal agency responsible for regional development and infrastructure) is making about €100 million in grant funding available for co-financing with the EBRD for the project in Ufa and for other district heating and water service projects in Surgut and Yakutia.



The EBRD's 10-year loan of 360 million roubles (€10.4 million) will be used to modernise heating sub-stations that will provide heating and hot water for one-third of the apartment blocks in Ufa.

EBRD commitments to water supply and waste-water projects in 2006

Country	Client	Project description	EBRD financing € million
Bulgaria	Rousse Water	Upgrades to improve financial and operational performance of a regional water company	8.0
Croatia	Zagreb waste-water treatment plant	Increase in capacity and standards	7.0
Georgia	Kutaisi water services	Upgrading of facilities to improve water supply	3.0
Georgia	Poti water services	Upgrading of facilities to improve water supply	2.5
Lithuania	Kaunas water services	Ongoing initiative to promote improvement to water and waste-water services	5.0
Poland	Gdansk Water	Comprehensive modernisation of water and waste-water facilities in Gdansk	12.3
Poland	Krakow Plaszow	Modernisation and expansion of a waste-water plant	11.1
Romania	Bucharest	Construction of a waste-water treatment plant	10.0
Russia	Khanti Mansi regional municipal services development	Improvement in Surgutsky Rayon water and waste-water infrastructure	7.9
Russia	Sakha (Yakutia) Republic	Upgrading of heating and water systems	14.4
Russia	St Petersburg	Construction and operation of a waste-water treatment facility	41.0
Russia	Vologda municipal water services	Comprehensive modernisation of water and waste-water facilities	10.6
Total			132.8

Water supply and waste water

Broken pipes and a lack of treatment plants allow untreated waste water to enter groundwater, lakes and rivers, causing environmental pollution and risk to health. Investment in water infrastructure is an urgent need to improve the quality of life for people in many of the Bank's countries of operations.

The EBRD signed 11 projects in seven countries in 2006 for improvements to waste-water infrastructure, plants and equipment and water supply. A project to build a new waste-water treatment plant for Bucharest is the first environmental project to be jointly financed by the EBRD and the EIB and is supported by grant co-financing from the European Union. The new plant will also act as a model of a public-private partnership.

In the EBRD's poorest countries, many people lack access to clean drinking water on a daily basis. The Bank signed two projects to improve water supply to the cities of Kutaisi and Poti in Georgia (see page 37).

The EBRD signed 11 projects in seven countries in 2006 for improvements to waste-water infrastructure, plants and equipment and water supply.

Solid waste management

Efficient collection and disposal of solid waste reduces uncontrolled dumping and helps to keep cities clean. Closing old landfill sites and building new sealed landfills prevents hazardous waste from contaminating the surrounding soil and groundwater.

The EBRD signed two projects in 2006, assisting the Arges region in southern Romania and the city of Bacau in the north east of the country. The EBRD loan (supported by grant finance from the European Union) will be used to build new sites that conform with EU environmental requirements. It will also provide new waste collection equipment and facilities, such as rubbish bins, special collection vehicles and containers that support waste segregation, recycling and composting. The EBRD is working with municipal authorities in Bacau and across the Arges region to increase the involvement of private companies in managing solid waste operations.

EBRD commitments to solid waste management projects in 2006

Country	Client	Project description	EBRD financing € million
Romania	Arges region	Programme to create a new landfill site and improve waste collection facilities	6.1
Romania	Bacau	Programme to create a new landfill site and improve waste collection facilities	5.0
Total			11.1

Cleaning up Poland's Vistula River

The historic city of Krakow has one of the most advanced waste-water treatment plants in eastern Europe, thanks in part to an EBRD loan. The new biological sewage treatment plant at Plaszow is one of southern Poland's biggest environmental projects. It will substantially reduce pollution entering the Vistula River that flows through the city – and ultimately the Baltic Sea. Citizens of many other cities and towns situated downstream on Poland's largest river, including Warsaw, will benefit as well as Krakow's 760,000 residents.

Before the new plant opened in October 2006, the Plaszow plant used a mechanical treatment process with technology dating from the 1970s. This type of treatment allowed waste water containing high levels of nitrogen and potassium to enter the Vistula River, causing serious environmental damage.

The new biological sewage treatment plant channels waste water into activated sludge chambers where micro-organisms trigger a process of removing carbon, phosphorus and nitrogen compounds. It is estimated that this will help cut the levels of organic compounds discharged into the river by 97 per cent and ensure that Plaszow's output meets Polish and European Union environmental standards.

Building the biological treatment plant was one part of the Plaszow project, which is co-financed by an EBRD loan of €20 million and an EU grant of €55 million. The project also involved work to increase Plaszow's mechanical treatment capacity from 132,000 to 330,000 cubic metres a day as well as the construction of new sedimentation tanks and the modernisation of pumping facilities.

A related project will finance construction of an incinerator to burn sludge produced by the plant and will fund the reclamation of lagoons where sludge had previously been dumped.

Urban transport

Investment in road improvements and transport networks eases traffic congestion in and around cities and improves journey times. Modern public transport is more reliable and fuel efficient, which reduces pollution and greenhouse gas emissions. Reliable transport networks also encourage commuters to switch from private car use to public transport.

The EBRD signed seven projects in six countries in 2006 for road improvements and to modernise buses, trams and trolleybuses.

The EBRD signed seven projects in six countries in 2006 for road improvements and to modernise buses, trams and trolleybuses. A new crossing for the Sava River in Belgrade, Serbia, was signed after extensive public consultation over the previous year. A road improvement programme for Tirana is the Bank's first municipal infrastructure project in Albania. A five-year sustainable transport strategy for Tirana is being developed at the same time, focusing on ways to develop public transport services and infrastructure.

EBRD commitments to urban transport projects in 2006

Country	Client	Project description	EBRD financing € million
Albania	Tirana	Comprehensive upgrade of roads	14.6
Croatia	Pula	Renovation of bus fleet	5.0
Lithuania	Kaunas	Upgrade of trolleybus infrastructure and provision of new equipment	10.0
Romania	Brasov	Upgrade of local roads	10.0
Romania	Sibiu	Road upgrading programme	5.0
Russia	Krasnodar	Modernisation of tram fleet	10.7
Serbia	Sava	Construction of a bridge to relieve traffic congestion and to reduce noise and traffic-related pollution	49.6
Total			104.9

Easing congestion and air pollution in Pula

Pula is the economic and political centre of the Istrian peninsula in Croatia, with a population of around 60,000. It is a popular tourist destination and suffers from serious traffic congestion and a lack of parking, particularly in the busy summer period. The shortage of spaces and illegal parking in the historic Old Town create congestion and pollution as cars drive around the city centre to find space to park.

The EBRD is lending €5 million to enable the city's bus company to buy up to 22 modern low-floor buses. The new fleet will comply with national and EU standards for emissions, which will significantly reduce air and noise pollution. The new buses will meet fuel efficiency and accessibility requirements for disabled people, which will further improve the city's environment and encourage more people onto buses. Bus maintenance workshops will be modernised to improve the storage and disposal of oils and fuel.

The Bank is also providing €250,000 of donor funding to the local authority for a study into traffic management and to implement an action plan for developing a sustainable public transport strategy. The Netherlands government has provided a further €50,000 in technical cooperation funds for project preparation and to evaluate the current traffic and parking management in Pula.

The service agreement signed by the city of Pula and the bus company (Pula Promet) establishes a clear commercial basis for public transport and also increases transparency and accountability.

The mayor of Pula, Boris Miletić, said the new transport strategy sets European targets for the development of the city's urban transport system. It will also provide a better, safer and cleaner service for residents and visitors to Pula.



The EBRD is lending €5 million to enable the city's bus company to buy up to 22 modern low-floor buses.

Donor funding in support of environmental and social investment

In 2006, donors provided €11 million to support environmental and social activities connected with EBRD-financed projects.

Donor funding is provided in the form of grant co-financing and technical cooperation (TC) grants that are used to support EBRD-financed projects across a variety of sectors.

Some 30 governments and international agencies support the EBRD's Technical Cooperation Funds Programme, which provides funding for specific projects. This includes projects with a specific environmental or social focus. In 2006 over 90 per cent of new donor funding was dedicated to programmes or specific projects with environmental, social, or health and safety objectives.

For example, donor funding helps to ensure that financing provided to financial institutions through the EBRD's Micro and Small Business Programme is on-lent to private borrowers in line with the Bank's environmental standards. A number of monitoring visits were undertaken to financial intermediaries (FIs) in south-eastern Europe in 2006 to evaluate how loans are appraised and monitored from an environmental, health and safety perspective and to ensure that practices were in keeping with the EBRD's environmental requirements for FIs.

In Russia, TC funding was used to develop a code of conduct for the construction industry to prevent labour exploitation and to promote good labour practices. In Azerbaijan, donor funding helped to develop the country's oil spill response capacity and its capability to prevent oil spills and the discharge of illegal waste.

The EBRD's regional initiatives depend strongly on donor funding. For example, donors contributed €13 million to a new Western Balkans Multi-Donor Fund to support the Bank's Western Balkans Initiative (see page 13). Donors also contributed a further €8 million to the Early Transition Countries (ETC) Fund in 2006 to support the Bank's efforts to help the least well-off (see page 34).

Donor support for nuclear safety and other environmental activities is managed through separate programmes (see page 23).

Full details can be found in the *EBRD Donor Report 2007* at www.ebrd.com/pubs

Project Preparation Committee

The Project Preparation Committee (PPC) channels donor funding towards the development of environmental projects primarily in south-eastern Europe, the Caucasus and Central Asia. Bringing together donors, international financial institutions (IFIs), the private sector and non-governmental organisations, the PPC helps to identify and prepare the way for EBRD-financed environmental projects. It also provides training workshops to help build skills at the local level. The EBRD hosts the secretariat of the PPC.

In 2006 the PPC helped to prepare the way for 18 EBRD-financed projects (up from 16 in 2005) involving water supply and sanitation, waste management, urban transport, energy efficiency, renewable energy and carbon trading.

PPC project financing workshops took place in Tbilisi, Georgia, and Volgograd, Russia. The workshops provided training to representatives from municipalities and public utilities on how to structure projects for environmental investment and on the requirements of IFIs and other potential investors.

The PPC web site (www.ppcenvironment.org) provides more detailed information.

Technical cooperation funding for environmental and social activities in 2006

Sector	Technical cooperation funds € million	Source of funding
Municipal and environmental infrastructure	7.70	Austria, Canada, Denmark, European Union, ETC Fund, Finland, France, Italy, Japan, Norway, Spain, Sweden
Renewable energy	3.20	Austria, Denmark, ETC Fund, Sweden, United Kingdom
Manufacturing	0.10	Japan, United Kingdom
Project Preparation Committee (administrative staffing costs)	0.02	European Union
Transport	0.03	Italy, United Kingdom
Social programmes	0.02	Canada, United Kingdom
Total	11.07	

International cooperation

The EBRD works in partnership with international organisations to tackle global environmental challenges, such as pollution of international waters, nuclear safety and biodiversity. The Bank also supports the implementation of international agreements concerning the environment and sustainable development.

Global Environment Facility

The Global Environment Facility (GEF) provides grants to help developing countries tackle climate change, water pollution, biodiversity and other global environmental concerns. In 2006 the EBRD signed a Memorandum of Understanding permitting direct access to GEF funds.

The EBRD and the GEF are currently co-funding an environmental credit facility to reduce pollution entering the Danube River Basin in Slovenia. Funds of €45 million have been fully disbursed to four local banks for on-lending to local companies involved in implementing specific pollution-reduction projects. Loans range in size from €75,000 to €3 million.

Over 40 projects have so far received funding. These include improvements to processing procedures to reduce waste-water levels, installation of waste-water treatment facilities and improvements to the storage of hazardous materials to minimise the risk of accidental pollution. Once a project has been completed, an independent environmental consultant visits the site to confirm that the project was properly undertaken and that any new equipment is functioning correctly.

Northern Dimension Environmental Partnership

The Northern Dimension Environmental Partnership (NDEP) fosters environmental cooperation in north-west Russia. Environmental and nuclear safety projects are funded by the NDEP Support Fund, which is managed by the EBRD.

Around one-third of the funding supports environmental projects, such as the completion of the St Petersburg flood protection barrier and the construction of a major sludge incinerator, which will help to reduce pollution levels in the Baltic Sea and to protect St Petersburg's underground water reservoirs. The incinerator is scheduled for completion in 2007 (with financing from NDEP, the EBRD and the Nordic Investment Bank). A separate feasibility study was completed to prepare for comprehensive waste-water treatment in St Petersburg, with construction work due to start in 2007.

By the end of 2006, €241 million of donor funding had been committed to the NDEP Support Fund. Some €91 million of this has been earmarked for environmental projects, of which €56 million has been invested so far. The rest of the funding – around two-thirds, amounting to almost €150 million – is earmarked for nuclear safety projects under the NDEP nuclear “window” (see page 24).

By the end of 2006, €241 million of donor funding had been committed to the NDEP Support Fund.

Nuclear safety

The EBRD manages six nuclear safety funds on behalf of 30 donor governments and the European Union: the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF), three international decommissioning support funds (IDSFs) for Bulgaria (Kozloduy), Lithuania (Ignalina) and the Slovak Republic (Bohunice), and the NDEP Support Fund nuclear window. Donors have contributed around €2 billion to these funds.

As well as managing the funds, the EBRD provides technical, financial, legal and administrative services. Projects financed by the funds in 2006 included the ongoing decommissioning of nuclear reactors, safety improvements and the modernisation of the energy sector in certain countries to compensate for lost generating capacity.

24 Investing sustainably

Chernobyl

A major phase of work to stabilise the site of Chernobyl's burnt-out nuclear reactor was completed in 2006. The "shelter" built around the site of Unit 4 of Chernobyl Nuclear Power Plant, which exploded in 1986, is now complete. A major part of the project was to erect large metal structures to stabilise the shelter's western wall and to absorb part of the roof's load. The programme of work also included a number of measures inside and outside the shelter.

The project took 18 months to complete and is the largest and most technically challenging international project to be completed at the site so far. High radiation levels are still present and strict radiation protection requirements were in place to protect over 2,500 workers employed during the project. These stabilisation measures will help to reduce the risk of collapse for the existing structure for at least 15 years.

The project was funded by the Chernobyl Shelter Fund and was completed within the original cost estimate of around €50 million. The Fund will also finance the next major programme of work involving the construction of a new "safe confinement" – a large arch-shaped construction that will enclose the shelter and its radioactive contents. The procurement process for the design and construction of this new confinement is almost complete. The project is likely to cost around €430 million.

A major phase of work to stabilise the site of Chernobyl's burnt-out nuclear reactor was completed in 2006.

The Nuclear Safety Account (NSA) is financing two further projects related to the safe decommissioning of Chernobyl. In 2006 the NSA Assembly approved the proposed way forward for completing the interim storage facility for spent fuel at the site. It also approved the strategy for making the storage facility for liquid waste operational.



Bulgaria, Lithuania and the Slovak Republic

Three international decommissioning support funds (IDSFs) for Bulgaria (Kozloduy), Lithuania (Ignalina) and the Slovak Republic (Bohunice) are financing projects related to the early closure of first-generation, Soviet-designed nuclear power units.

Projects approved by donors to these funds have been implemented as planned. In Bulgaria the IDSF has co-financed a number of energy efficiency projects, which are now providing a model for similar schemes elsewhere. In the Slovak Republic, grant funding has been requested from the IDSF for credit lines to support energy efficiency measures in public and residential buildings. In Lithuania, the IDSF is co-financing the environmental upgrade of the largest conventional power plant in the country.

By the end of 2006, Units 3 and 4 at the Kozloduy Nuclear Power Plant in Bulgaria and Bohunice 1 (V1) in the Slovak Republic had closed. The three IDSFs will continue to support the development of the energy sector in these countries in line with EU accession agreements and respective Framework Agreements with the EBRD. This leaves only Bohunice 2 (V1) and Ignalina 2 in Lithuania, which are due to be closed in 2008 and 2009 respectively.

Contributions to the three funds exceed €1 billion, most of which has been provided by the European Union.

North-west Russia

Phase 1 of the NDEP Strategic Master Plan for north-west Russia was completed in 2006. Phase 2 is currently being finalised by Russian specialist institutes with the support of Western experts. Two major projects to reduce serious security and environmental hazards and the levels of highly radioactive waste were identified as top priorities.

Donors to the NDEP Fund approved funding in 2006 for the decommissioning of a derelict and heavily contaminated former storage facility for spent nuclear fuel at the coastal base of Andreeva Bay and the decommissioning of the



service ship Lepse, which contains spent nuclear fuel from nuclear submarines and other ships. The costs of these operations are likely to exceed €60 million.

Once completed, the Master Plan will provide a comprehensive overview of the measures that need to be undertaken by Russia to reduce nuclear, radiological and environmental risks posed by the legacy of the Soviet Northern Fleet. Substantial assistance will continue to be provided by the international community through bilateral programmes and NDEP.

Biodiversity

Preserving and protecting biodiversity is essential to managing the environmental impact of the Bank's projects. All EBRD-financed projects are expected to include measures to safeguard and, where possible, enhance natural habitats and the biodiversity they support. The Bank is also committed to supporting investments that specifically promote biodiversity.

The EBRD has worked with the European Centre for Nature Conservation (ECNC) for a number of years to consider biodiversity concerns in the Bank's countries of operations. The Bank and other organisations, including the ECNC, the EIB and Rabobank, participate in the work of a task force on banking, business and biodiversity within the framework of the Pan-European Biological and Landscape Diversity Strategy. Possible biodiversity financing mechanisms and the establishment of a European Biodiversity Finance Facility are being examined.

In 2006 the EBRD acted as the prime adviser to a project funded by the Dutch DOEN Foundation to develop a pipeline of projects that would have a positive impact on biodiversity in Poland and Hungary. By the end of 2006, the project had identified some 5,000 micro, small and medium-sized businesses where investment would help sustainable management of biodiversity and the commercial performance of these companies. As a result, the Bank is considering setting up a pilot biodiversity financing facility in Poland.

The EBRD has provided input to an EU-funded project to set up Biodiversity Technical Assistance Units in Bulgaria, Hungary and Poland, preparing the ground for biodiversity financing facilities in the future. The Bank is represented on the steering committee of this project.

All EBRD-financed projects are expected to include measures to safeguard and, where possible, enhance natural habitats.

Another project to encourage micro and small businesses to support diversity was developed by the EBRD and the EU in 2006. "Pro-Biodiversity Business in the Steppe Zone of the Eurasia region" is a pilot project focusing on the ecosystems in parts of Kazakhstan, Moldova, Russia and Ukraine. It aims to establish an operating structure for assessing companies that show interest in creating pro-biodiversity businesses. The next stage would be to provide technical assistance to these enterprises. Funding would also be provided to develop a biodiversity monitoring system to evaluate the positive impact of investments on specific habitats and/or species.

Electrical safety

Electrical safety is a serious concern in many of the Bank's countries of operations. EBRD specialist staff and consultants participated in discussions in 2006 to implement Environment Management Systems for the electricity sector in FYR Macedonia and Serbia. The projects have been supported by technical cooperation funds from Canada and the European Agency for Reconstruction.

Projects with high social benefits

The EBRD increased its financing in 2006 for micro and small business growth and for projects in the poorest countries where the Bank operates – the so-called early transition countries. EBRD financing in these areas helps to lift people out of poverty by encouraging entrepreneurial activity and by raising basic living standards.

Supporting entrepreneurial activity

Helping people to get started in business is one of the key ways that the EBRD can help lift people out of poverty. Micro and small businesses create new jobs and are the backbone of local economies. They also provide the basis for a country's long-term growth. The EBRD provides credit lines to local banks and microfinance institutions for on-lending to entrepreneurs and has established donor-supported lending programmes to assist micro businesses.

The EBRD helps small borrowers to gain access to credit, helps businesses to grow stronger through the Bank's TurnAround Management and Business Advisory Services programmes (see page 31) and encourages cross-border trade through the EBRD's Trade Facilitation Programme (see page 33).

In 2006, the EBRD significantly expanded its level of commitments across the financial sector to support local businesses. We particularly increased our activities in the poorest countries, in rural areas and in the Western Balkans in line with the EBRD's strategy of shifting its focus of activities south and east.

EBRD commitments in 2005-06

EBRD financing	2006 € million	2005 € million
Bank lending	804.5	741.0
Micro and small business finance	274.3 ¹	55.7
Total	1,078.8	796.7

¹ Including investments via financial intermediaries.

The EBRD's strategic approach

The EBRD makes use of a variety of financing mechanisms to increase the supply of finance to small businesses. In most cases, financing is channelled via financial intermediaries. In countries where local banks are not available to perform this role, however, the EBRD intervenes directly. It makes equity investments (ranging from €0.4 million to €2 million) via its Direct Investment Facility and provides loans (ranging from €0.5 million to €4 million) via its Direct Lending Facility.

Extending finance into rural areas and easing access to credit for minority groups and women entrepreneurs is a priority for the Bank. Since 2005, the Bank has supported the development of microfinance institutions outside the formal banking sector. These local lending institutions fulfil a very important role as they target micro-entrepreneurs in remote areas and lend to people who lack collateral. A high percentage of the loans are to women (see page 28). Many of these institutions are seeking to strengthen their lending operations by transforming themselves into joint-stock companies and deposit-taking institutions, which will permit them to extend their services and improve their competitiveness.

The EBRD places great importance on providing training to improve lending practices. With the help of donor funding, training is provided in credit analysis and in improving the quality of service to small business customers.

The EBRD promotes the highest standards of corporate governance in the financial sector. Through equity investments in banks and technical cooperation activities, the EBRD contributes to the development of transparent and sustainable financial systems. Through dialogue with governments and regulators, the Bank supports the introduction of legislation to improve the working of financial markets and to achieve key reforms.

Lending to micro and small enterprises

The EBRD's Micro and Small Business Programme operates in 19 countries. Twenty-four new microfinance institutions joined the programme in 2006, making it a record year of expansion. By the end of the year, the donor-supported programme was providing finance through 76 financial institutions. Some 945,000 loans totalling €4.9 billion were disbursed to small businesses in 2006.

The EBRD invested for the first time in a microfinance debt fund (the European Fund for Southeast Europe), which is active in the Western Balkans. The Bank also provided its first microfinance loan guarantee facility – to Bai Tushum in the Krygyz Republic – to provide access to local currency loans (see page 29). The EBRD identified new partners that specialise in agricultural and rural financing and introduced existing partners to new lending products, such as seasonal agricultural loans.

To reduce transaction costs and to improve efficiency, the EBRD developed a credit scoring system in 2006 for micro and small business lending. Under credit scoring, points are assigned to the most important lending criteria, resulting in a more automated decision-making process. Training in this system was provided to three partner banks in Kazakhstan. The Bank also looked into extending the system to Armenia, Georgia and the Krygyz Republic in 2007.

The EBRD's micro-lending programme promotes access to finance, irrespective of the borrower's gender, religion or ethnic origin. Loans are available to all small businesses that satisfy creditworthiness assessments based on cash flow rather than collateral. Many of the programme's newer partners are microfinance institutions outside the formal banking sector, which have evolved from NGO lending programmes. These institutions initially targeted women entrepreneurs and have a high proportion of female borrowers. To reflect their customer base, they typically employ more female than male loan officers.



A study carried out in 2005 on the impact of EBRD micro-lending programmes on enterprise performance sheds some light on gender issues. The study was based on a survey of firms that had received a loan from the Bank's micro-lending programmes in 2002 and on a sample of similar firms that had never received an EBRD loan. In both groups, some firms had received loans from sources other than the EBRD.

Twenty-four new microfinance institutions joined the programme in 2006, making it a record year of expansion.

The data were used to pinpoint what factors determine whether a small business receives a loan. Prior credit (loan) history is an important factor in the ability of firms to obtain subsequent loans from the same provider but not from different providers. Other factors increasing the probability of a company receiving a non-EBRD loan are the maturity of the firm, the company's use of international accounting standards and the presence of a male Chief Executive Officer (CEO). In terms of the size of the loan financed by EBRD resources, the most important factors are past credit history and adoption of international accounting standards but the gender of the CEO is irrelevant.



Supporting female entrepreneurs

Mavzuna Abdurahmonova's wedding dress shop is well-known in Penjikent, Tajikistan. She sells and hires out imported wedding dresses and also sews traditional, national dresses. Mavzuna has worked as a tailor since her youth but until recently had never owned her own sewing machine.

When she was offered a used "Singer" sewing machine for US\$ 500, she turned to Bank Eskhata, which is part of the EBRD's Micro and Small Business Programme, for a US\$ 400 loan. Mavzuna received the loan within a few days. "Thanks to the loan", she says, "I was able to buy my first sewing machine. Now I already have new ideas for developing my business even further and I will rely on Bank Eskhata to help me achieve them." Her business is already doing well and Mavzuna has plans to open another wedding dress shop in Penjikent once she has repaid the first loan.

Lyudmila Ivanovna started her own business baking piroshki and selling them at the local market after she was made redundant as production manager of a canteen in Alchevsk, Ukraine. By the time she officially registered her business, she was already supplying several stores and selling her products at the city stadium during football matches.

In 2005, Lyudmila applied for a loan for the first time, obtaining US\$ 400 from Bank Forum, a member of the EBRD's Micro and Small Business Programme. She used the loan to buy a food processor, an electric deep fryer and a second-hand refrigerator, which allowed her to increase the volume of production. Subsequently, she rented canteen premises at a college in Alchevsk and hired two more cooks. This has resulted in her cooking lunches for more than 500 students.

In November 2005, with the help of a second loan of US\$ 1,000, she installed a new power supply system in the canteen and bought another dough-mixing machine. In 2006, Lyudmila expanded her business even further, hiring more staff and selling her piroshki and other dishes to another two shops.

In the EBRD's poorest countries, the Bank financed 25 new projects across eight countries in 2006. New partners included XacBank in Mongolia, the Bank's newest country of operations, Imon in Tajikistan and Bai Tushum in the Kyrgyz Republic (see page 29). There is more detail about the EBRD's activities in these countries under "Helping the poorest people" on page 34.

In the Western Balkans the EBRD worked with five new partner institutions under the Bank's Western Balkans Initiative (see page 13) in 2006. These included New Bank of Kosovo and the Kosovo Enterprise Programme in Serbia and Mikrofin and Ekonomska Kreditna Institucija-EKI in Bosnia and Herzegovina.

In Romania the EBRD launched a new Micro Credit Facility in 2006 with €40 million of Bank funding, up to €30 million from commercial banks, €14 million from the EU and €4 million from the Romanian government.

The facility is providing loans in local currency or euros and aims to encourage start-up businesses. Some €3 million of the EU finance has been earmarked to cover up to half of any losses incurred by institutions providing loans to start-ups. The EU and the Romanian government are also providing €2.5 million in technical assistance to develop new products, improve risk management procedures and train staff in lending to micro business clients. Opportunity Micro-Credit Romania was the first microfinance institution to receive funding under the new facility – a loan of €2.8 million will enable it to support many new start-up micro businesses.

In the EBRD's poorest countries, the Bank financed 25 new projects across eight countries in 2006.

The Russia Small Business Fund (RSBF) supports the EBRD's micro and small business lending programme in Russia. It reaches 163 cities across Russia's 11 time zones, including some of the country's most depressed regions. The Fund currently provides financing and technical support to 11 Russian banks that provide loans of up to €150,000 to micro and small businesses. These banks offer a diverse range of products, including express micro loans (typically disbursed within 24-48 hours) and loans to rural communities.

Four new partners joined the RSBF in 2006. The EBRD signed its first microfinance loans with Absolut Bank, Probusiness Bank and MDM, a national bank with a regional network of 60 branches throughout Russia. The EBRD also started a partnership (supported with EU funding) with VTB-24, a specialist subsidiary of VTB, the second-largest bank in Russia. The partnership increases the reach of the RSBF to 39 new regions in southern Russia that are not currently covered by other partner banks.

Helping micro and small businesses

Micro and small businesses often find it difficult to obtain loans because many banks regard them as too risky while specialist institutions outside the formal banking sector are limited by a lack of resources. Entrepreneurs in rural areas in particular usually have little access to finance other than from informal sources that can charge very high interest rates.

To expand the supply of finance to the smallest entrepreneurs, the EBRD channels funds via financial institutions in its countries of operations. For example, local microfinance institutions in the Kyrgyz Republic and Azerbaijan are currently benefiting from EBRD loans.

Bai Tushum is a leading microfinance institution in the Kyrgyz Republic, with around 5,000 clients. It has a strong rural focus and offers a range of agricultural

loans for crop growing, livestock rearing and food processing. Most of its loans are for less than US\$ 1,000. To allow Bai Tushum to step up its business, the EBRD is providing a US\$ 1 million guarantee facility, which will let the microfinance institution receive local currency loans from Kyrgyz banks. Demand for loans from this facility is expected to be very high as local currency funding is in short supply and borrowers are keen to avoid currency risk. Two or three leading Kyrgyz banks will participate in the guarantee facility.

In Azerbaijan, the EBRD is lending €1.9 million to Finca (Azerbaijan) and €0.6 million to CredAgro for on-lending and to expand their portfolio and product range. Both institutions have a strong focus on agricultural and rural lending. Around 40 per cent of people in Azerbaijan work in the agricultural sector. The loan to Finca builds on the Bank's successful cooperation with this institution in the Kyrgyz Republic. Part of the loan to CredAgro is being funded by the Taiwan International Cooperation and Development Fund.



Serving the needs of growing businesses

Adriana Budeva opened the “Little Flower” kindergarten at her home in Sofia in April 2006. She adapted four rooms in her rented apartment and fitted a kitchen area with a steriliser and other equipment to meet EU standards.

In August 2006, Adriana applied to her local ProCredit Bank, a partner in the EBRD’s Micro and Small Business Programme, for a loan of €10,000 to expand her kindergarten. She used the loan to turn a fifth room into a bedroom for young babies and hired two kindergarten teachers. The kindergarten presently welcomes ten children and five babies every day for busy parents who have grown to depend on the professional service provided by Adriana.

Vessela Kovacheva set up “Kite”, a Kids’ Centre for Entertainment and Arts, in April 2006. When she needed funds to expand the centre, a family friend advised her to apply to ProCredit Bank for a loan. Vessela used a loan of €1,500 to renovate the premises and in May 2006 the Kids’ Centre opened

its doors, offering services such as daily caring for children, children’s parties, art groups and theatre parties. The business grew rapidly during 2006 and Vessela has hired two more kindergarten teachers.

Xhyla Uka lost her sewing machine and her livelihood when she and her family fled from Kosovo to FYR Macedonia during the war. When they returned as refugees to their home in the small village of Matiqan, a family friend encouraged her to bake and sell traditional Albanian bread to some of the markets in town. Xhyla’s home-baked “flia” was so good that she needed to build a special wood stove to keep up with the demand.

To build the stove, she went to KEP, a partner in the EBRD’s Micro and Small Business Programme, and received her first loan of €700. A second loan was used to buy a cow to provide a ready supply of fresh cream for the “flia”, giving it a special homemade taste. Xhyla now sells her bread to supermarkets and restaurants.

Her most recent loan of €8,000 was used to buy a truck so that her family could transport wood from the forest to sell to the market. The loans from KEP have helped Xhyla and her family build three successful micro enterprises.

Support for small and medium-sized enterprises

The EBRD supports small and medium-sized enterprises in a variety of ways: through trade guarantees, equity investments in banks and equity funds and loans to leasing companies. But the main way that the Bank supports small businesses is by providing credit lines to local banks for on-lending to entrepreneurs.

In 2006 the EBRD signed 23 new projects with local banks totalling €163 million. The Bank increased its mortgage lending and signed 15 leasing projects for small and medium-sized enterprises (SMEs) totalling over €100 million. It signed ten equity transactions with banks that focus on SMEs and one equity fund that primarily invests in SMEs in Poland.

So far, the EBRD has directed over €5.3 billion towards small business projects and currently has projects in 26 countries. The Bank’s portfolio involves over 100 financial intermediaries. In 2006 over 20,000 loans were provided to local small businesses via EBRD credit lines.

The EU/EBRD SME programme is the main way that the Bank finances SMEs in the new EU member and candidate countries. In 2006 it particularly focused on Bulgaria, Croatia and Romania. New partners included saving and credit cooperatives. An additional €50 million in funding has been earmarked for farmers and small businesses in rural areas.

In 2006 over 20,000 loans were provided to local small businesses via EBRD credit lines.

By the end of 2006, the EBRD had provided 100 credit lines totalling €1.1 billion to 39 banks and 37 leasing companies in the 11 countries covered by the EU/EBRD SME programme. In total, over 72,000 transactions worth more than €1.5 billion have been undertaken with small businesses throughout the region. The average loan size for each business is as low as €22,800 while leases average €18,500. These low levels ensure that even very small businesses are able to obtain finance.

Improving business skills and competitiveness

The EBRD helps to build stronger businesses in its countries of operations through the donor-funded TurnAround Management (TAM) and Business Advisory Service (BAS) programmes. These complementary programmes work directly with individual companies to support specific needs.

TAM brings in experienced business executives from successful Western companies to help local management teams learn new business skills, including sales and marketing strategies. It has a database of over 3,000 senior industrial advisers and specialists from a wide array of industries. BAS uses local consultants to help micro and small businesses make changes that will improve their competitiveness. Both programmes particularly support business growth in less developed rural areas. In 2006, donors provided an additional €19 million to expand TAM/BAS activities.

On average, each enterprise has increased its productivity by about 30 per cent.

TAM operated in 21 countries in 2006 and started 115 new projects (including energy efficiency projects, see page 43), mostly in the Western Balkans and the early transition countries in line with the Bank's strategy of moving south and east. TAM also continued its successful programmes in Kazakhstan, Russia and Ukraine and in under-developed regions of Bulgaria and Romania. Around 75 per cent of new TAM projects were outside major cities.

BAS started 1,117 projects in 17 countries and opened new offices in Tirana (Albania), Aktobe (Kazakhstan), Osh (Kyrgyz Republic), Bucharest (Romania) and Belgrade (Serbia) in 2006. Around 60 per cent of new BAS projects were outside major cities.

New TAM and BAS initiatives in 2006 included promoting gender equality through 30 tailor-made consultancy projects and some 20 workshops and seminars aimed at developing the businesses of women entrepreneurs. Topics covered so far include issues affecting new businesses, marketing techniques and gaining access to finance.

The success of TAM and BAS can be measured by charting the progress of the companies that each programme has helped. On average, each enterprise has increased its productivity by about 30 per cent. Many companies that receive TAM or BAS support go on to receive financing directly from the EBRD or indirectly through EBRD-supported financial institutions. This helps businesses to expand their local markets and also to develop their export potential.

TAM and BAS programmes in 2006

TAM programmes	BAS programmes
115 new projects started in 21 countries (a 15 per cent increase on 2005), including energy efficiency projects	1,117 new projects started in 17 countries (a 7 per cent increase on 2005)
Operates in 29 countries	Operates in 20 countries, opened 5 new offices



Concrete help for Mongolian factory

In 1995, Ms Bat-Ochir and several other investors bought Hungun Beton, a 40-year-old concrete block factory, from the state, inheriting the plant's debt to its raw material suppliers. The factory had been dormant for about six years but Ms Bat-Ochir and 35 of its former workers were determined to restart the company's production of concrete blocks.

"Our production volume was 3,000 cubic metres of concrete blocks in 1995 and our profit was just US\$ 80. Workers were paid a mere US\$ 20 per month. But at the time, there were no other local suppliers of concrete blocks and we were committed to making Hungun Beton productive again," explains Ms Bat-Ochir.

For the next six years, Hungun Beton strove to produce concrete blocks, pay back a loan to a local bank, and pay huge electricity bills along with salaries and taxes. Any profit went towards buying more shares in the company. By 2001, Mongolia's construction industry was booming and Hungun Beton had 20 new competitors. Ms Bat-Ochir knew the time had come to act so she took up the offer of assistance from the TurnAround Management Programme with the hope of improving product quality and addressing marketing issues for the first time.

TAM brought in a concrete technology engineer and a marketing adviser, both from Belgium.

The engineer identified that the concrete blocks were too heavy and advised Hungun Beton to use a lighter lime to produce better bricks. The TAM marketing expert advised the company to direct its advertising at architects as well as builders, resulting in Hungun Beton distributing leaflets at every architectural trade fair in Mongolia. To improve customer service, the marketing adviser also convinced Ms Bat-Ochir to deliver the blocks to the clients rather than expecting clients to do their own pick-up.

High-pressure steam is essential in producing concrete blocks, and unstable power supply spoils the product. Quality has improved since Hungun Beton followed TAM's advice and started buying electricity directly from the power company rather than via the government. The firm's energy costs are higher but power cuts are no longer a problem and block quality is maintained.

Ms Bat-Ochir now owns 98.5 per cent of the shares in Hungun Beton. Production volume had risen to 26,000 cubic metres by 2005, with a target of 40,000 cubic metres in 2007. Annual profit has increased to US\$ 200,000 and salaries have increased more than tenfold. Expanding the factory, improving technology and employing more staff are Ms Bat-Ochir's next goals.



Annual profit has increased to US\$ 200,000 and salaries have increased more than tenfold.

Supporting import and export trade

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

In 2006 the TFP completed 1,134 transactions, including its 5,000th transaction. Over 40 per cent of guarantees were for transactions under €100,000 and many would not have been possible without the programme.

New TFP facilities were signed with 19 banks in eight of the Bank's countries of operations. They included six new facilities with banks in four of the early transition countries.

The TFP financed 234 transactions between EBRD countries of operations in 2006. Examples included the export of grain and food products from Kazakhstan and Russia to the Kyrgyz Republic and Tajikistan, the export of agricultural machinery from Russia to Kazakhstan and the import of tyres to Armenia from Russia.

The programme currently has 105 issuing banks in the Bank's countries of operations and over 630 confirming banks globally.

Trade Facilitation Programme transactions in 2005-06

	2006	2005
Participating local banks	105	100
Total trade transactions	1,134	1,024
Trade transactions between EBRD countries of operations	234	170
Total value of trade transactions guaranteed	€707 million	€549 million

In 2006 the Trade Facilitation Programme completed 1,134 transactions, including its 5,000th transaction.



Helping the poorest people

The EBRD makes a particular effort to help the poorest countries where the Bank operates. To address their needs, the EBRD launched its Early Transition Countries (ETC) Initiative in 2004 covering Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. From October 2006, this group was expanded to include Mongolia, the EBRD's newest country of operations.

Over half the people in the ETCs live in poverty (defined as an income of less than two dollars a day). The countries have different characteristics but face similar challenges, needing to reform their legal and regulatory systems, develop infrastructure, strengthen business skills and widen access to commercial loans, especially for farmers.

In 2006 the EBRD signed 80 projects totalling €290 million in the ETCs, compared with 61 projects (€250 million) in 2005 and 32 (€92 million) in 2004.

The EBRD's strategic approach

The EBRD's Early Transition Countries Initiative aims to increase EBRD support for the countries that are most in need of assistance. The Bank accepts higher levels of risk in projects in these countries as long as sound banking principles are respected. The main focus is on private sector development.

The Bank concentrates on financing small-scale projects and boosting support for micro and small businesses. A key objective of the ETC Initiative is to build up the availability of credit in these countries. In particular, the EBRD has expanded the provision of microfinance through institutions outside the formal banking sector, such as non-governmental organisations.

To reach slightly larger companies, the EBRD aims to increase financing through the Bank's Direct Investment Facility, Direct Lending Facility and Medium-sized Co-financing Facility with local banks. The EBRD also aims to strengthen financial intermediaries to improve the on-lending of EBRD finance, especially to the agricultural sector.

The Bank supports transport and municipal infrastructure projects in the ETCs, focusing on modernising operations, improving energy efficiency and increasing private sector participation in local services.

Reform of the energy sector is an urgent need in the poorest countries to reduce energy wastage.

Reform of the energy sector is an urgent need in the poorest countries to reduce energy wastage and to improve security of supply (see "Special focus on sustainable energy" on page 38). The EBRD supports many energy efficiency and renewable energy projects in the early transition countries.

In the telecommunications and new media sector, the EBRD is supporting efforts to develop information and communication technologies, legal and regulatory reform and the privatisation process.

Donor funding plays an important role in supporting many ETC projects. Continued support from the donor community through the ETC Fund and the Micro and Small Business Programme is key to the success of the ETC Initiative.

The EBRD recognises the need to expand its own resources in the ETCs and has increased staffing devoted to these countries by 60 per cent since 2003.

EBRD commitments to the early transition countries, 2005-06¹

	2006	2005
EBRD finance (€ million)	290	250
Signed projects	80	61

¹Excluding oil and gas deals.

Projects signed in 2006

In 2006 the EBRD signed 80 projects totalling €290 million in the eight early transition countries. Donors contributed a further €18 million.

The projects mostly focused on supporting micro and small businesses, the financial sector, agribusiness and infrastructure. EBRD investment also funded energy efficiency and renewable energy projects in three countries (Armenia, Azerbaijan and Georgia).

The EBRD supported import and export trade in the ETCs through its Trade Facilitation Programme, which completed 478 transactions totalling €112 million.

EBRD commitments in 2006¹

Country	Projects	Sector	EBRD finance € million
Armenia	12	<ul style="list-style-type: none"> ■ Agribusiness ■ Financial sector ■ Power and energy ■ Transport 	32.8
Azerbaijan	17	<ul style="list-style-type: none"> ■ Agribusiness ■ Financial sector ■ Manufacturing ■ Power and energy 	122.1
Georgia	23	<ul style="list-style-type: none"> ■ All sectors 	79.3
Kyrgyz Republic	11	<ul style="list-style-type: none"> ■ Agribusiness ■ Financial sector ■ Property and tourism 	16.8
Moldova	7	<ul style="list-style-type: none"> ■ Agribusiness ■ Financial sector ■ Telecommunications 	9.9
Mongolia	1	<ul style="list-style-type: none"> ■ Financial sector 	3.8
Tajikistan	6	<ul style="list-style-type: none"> ■ Agribusiness ■ Financial sector 	9.1
Uzbekistan	3	<ul style="list-style-type: none"> ■ Agribusiness ■ Financial sector ■ Manufacturing 	4.2
Total	80		290.0

¹Excluding oil and gas deals and the Trade Facilitation Programme.

Legal Transition Programme

In 2006 the EBRD's Legal Transition Programme (LTP) devoted considerable resources to the early transition countries, supporting projects to improve legal and regulatory systems in the Kyrgyz Republic and Mongolia.

In the Kyrgyz Republic, the EBRD launched a training programme for judges involved in commercial law. The first course took place in June 2006, bringing together 90 judges and lawyers from the National Bank to spend three days training in insolvency law. The International Development Law Organisation is acting as project implementer and the EBRD's partner in the project. Funding has been provided by the ETC Fund, Japan and Switzerland. Further courses are scheduled for 2007 to extend the training to all key sectors of commercial law.

In Mongolia the LTP is helping the government to build a framework for regulating the telecommunications sector. The LTP is also helping to reform the country's commercial law – in particular, the securing of loans with movable property pledged as collateral.

ETC Fund

In 2006, around two-thirds of donor-funded commitments to the early transition countries was provided through the ETC Fund, which is managed by the EBRD. Donors to the ETC Fund include Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom.

By the end of 2006, the Fund had approved financing for 80 technical cooperation projects totalling €28 million. This funding is helping to support private sector development, microfinance programmes, municipal infrastructure, environmental initiatives, energy efficiency and renewable energy.

In 2006 the Fund approved its first grants for an urban transport project in Mongolia and for a regional road project in Tajikistan. Other projects financed by the Fund included a study into the impact of remittances sent home by migrant workers and assistance for investment councils, which bring together the private and public sectors to find ways of improving the investment climate.



Supporting entrepreneurs

Lending to micro and small businesses is one of the key ways that the EBRD helps people in the Bank's poorest countries. In 2006 the Bank provided finance for small business in all eight early transition countries.

The EBRD organised training workshops in five countries (Armenia, Azerbaijan, Georgia, Moldova and Uzbekistan) to promote the importance of leasing, especially for small and medium-sized businesses that cannot afford to make major equipment purchases. Further workshops are scheduled for Moldova and Uzbekistan in 2007. In Tajikistan the Bank organised a two-day workshop in Dushanbe to focus on ways of expanding the availability of finance for rural and agricultural communities.

In 2006 the Bank provided finance for small business in all eight early transition countries.

In Georgia and Azerbaijan, EBRD financing for micro and small enterprises is being provided alongside BP's and its partners' Regional Development Initiative (RDI). The EBRD is supporting the programme as part of its financing of the Baku-Tbilisi-Ceyhan oil pipeline, which was opened in July 2006. The three-year programme (starting in 2006) provides loans and technical assistance to local businesses through local commercial banks and microfinance institutions. One of the institutions to benefit from EBRD and RDI funding is Constanta Foundation, which operates across Georgia, providing loans averaging under €380 to small businesses in areas where no other loans are available.

To support slightly larger businesses, the EBRD signed three projects in Armenia and Azerbaijan under its Medium-sized Co-financing Facility (in which the Bank participates in sub-loans so that local banks do not have to take the risk of lending large sums to a single borrower). For more detail about EBRD support for entrepreneurial activities, see page 26.

Investing in infrastructure

Infrastructure needs significant investment in the early transition countries. In 2006 the EBRD signed a number of projects in Armenia and Georgia to improve services.

Completion of a new passenger terminal and the modernisation of airport facilities will improve passenger handling and enhance safety at the international airports of Armenia and Georgia. The Environmental Management Plan for each project is ensuring that the airports meet national and international environmental and safety standards. Both projects are examples of successful public-private partnerships, reflecting the Bank's strategy of involving the private sector wherever possible in infrastructure projects.

In Georgia, the EBRD also signed two projects to improve water supply for the cities of Kutaisi and Poti (see box).

EBRD commitments to infrastructure projects in 2006

Country	Client	Project description	EBRD finance € million
Armenia	Yerevan International Airport	Construction of a new passenger terminal and installation of new equipment	15.2
Georgia	Kutaisi municipality	Upgrading of facilities to improve water supply	3.0
Georgia	Poti municipality	Upgrading of facilities to improve water supply	2.5
Georgia	Tbilisi International Airport	Construction of new facilities and upgrade of existing equipment	20.5
Total			41.2

Bringing clean drinking water to cities in Georgia

Water supply is a serious problem throughout Georgia. Built in the 1930s, the network of water pipes and wells in Georgia's main cities is in serious need of repair. Today, around 80 per cent of Kutaisi's water pipes are rusted and unusable while Poti's 45,000 inhabitants have access to running water for only three hours a day on average. Almost half the water that enters the cities is lost through leaks, and less than a third of water consumption is billed.

To modernise the supply network and to provide a 24-hour water supply to local people, the EBRD is lending €5.5 million to the cities of Kutaisi and Poti. The EBRD's loans will be used to improve well fields and transmission pumping stations in Kutaisi and to construct a new 47-kilometre water pipeline for Poti.

In both cities, financing will also be used to install meters for every household. This will improve payment collection and encourage careful use of water.

The EBRD's projects will result in cleaner water for around 150,000 people. The investment will reduce water-borne illness, lower the pollutants discharged into the Black Sea and cut energy costs by one-third.

The EBRD's loans are being boosted by donor funding (provided by the ETC Fund and the Swedish International Development Cooperation Agency), which will partly finance implementation of the projects.



To modernise the supply network and to provide a 24-hour water supply to local people, the EBRD is lending €5.5 million to the cities of Kutaisi and Poti.

A silhouette of a wind turbine is centered in the upper half of the image, set against a warm, orange and yellow sunset sky. The sun is visible as a bright glow at the bottom center, partially obscured by dark silhouettes of mountains or hills. The overall mood is serene and focused on sustainable energy.

Special focus on sustainable energy

As global concern about climate change increases, the efficient use of energy has become a priority. The EBRD is particularly conscious of this need as energy use in many of the Bank's countries of operations is both wasteful and inefficient. These countries use as much as seven times more energy on average to produce each unit of GDP than western Europe and are heavily polluting in their energy use.



Many of the countries where the EBRD operates are highly dependent on imported fossil fuels, such as coal, oil and gas. Energy efficiency is key to reducing demand and to addressing climate change. Improving the security of energy supplies is also a key concern. For these reasons, energy efficiency is the cornerstone of the EBRD's new Energy Policy (see page 11).

The G-8 (Group of Eight) countries, at their summits in Gleneagles in 2005 and St Petersburg in 2006, and the European Union in its Energy Green Paper, called on the international financial institutions to establish a way of addressing climate change. They stressed the importance of sustainable energy and the need for cleaner sources of energy.

Within this context, the EBRD launched its Sustainable Energy Initiative in May 2006. It makes financing sustainable energy a fundamental aspect of all EBRD-financed projects. It also commits the Bank to strengthening policy dialogue with governments and to working with donors to support sustainable energy initiatives.

The EBRD's financing for sustainable energy (energy efficiency and renewable energy projects) in 2006 is expected to achieve energy savings of about 1.2 million tonnes of oil equivalent (equal to one-third of the energy demand of Albania or Moldova) and carbon savings of more than 6 million tonnes of CO₂ equivalent (equal to the annual emissions of 1 million homes in the United Kingdom).

Sustainable energy projects

In 2006 the EBRD signed 51 sustainable energy projects amounting to €750 million, representing over 14 per cent of total EBRD investment. This included €670 million for energy efficiency across all sectors and €80 million for renewable energy projects. Donors provided an additional €19 million in grants to support sustainable energy activities.

By the end of 2006, a further €61 million of donor funds had been committed (largely from the European Union) for future sustainable energy activities. This will be used for a variety of activities, including the preparation of projects for EBRD financing, climate change workshops and training on energy management for companies.

EBRD commitments to sustainable energy by category

Category	Projects signed	EBRD finance € million
Industrial energy efficiency	16	188.2
Energy efficiency credit lines	8	81.1
Cleaner energy	5	310.3
Renewable energy	6	80.8
Municipal infrastructure	16	88.0
Total	51	748.4

EBRD commitments to sustainable energy by sector

Category	Projects signed	EBRD finance € million
Energy	10	389.8
Financial institutions	8	81.1
Manufacturing	9	157.7
Infrastructure	16	88.0
Agribusiness	8	31.8
Total	51	748.4

Sustainable Energy Initiative

The EBRD's Sustainable Energy Initiative commits the Bank to doubling its financing – to €1.5 billion – for energy efficiency and renewable energy projects between 2006 and 2008. It also sets energy efficiency targets throughout the Bank to support the initiative.

The initial focus is on expanding the Bank's impact in five areas of activity:

- industrial energy efficiency
- energy efficiency and renewable energy credit lines to financial intermediaries
- cleaner energy in power and natural resources projects
- renewable energy projects
- municipal infrastructure.

The EBRD is also promoting the development of the carbon market through a new Multilateral Carbon Credit Fund to support the Sustainable Energy Initiative (see page 46).

40 Investing sustainably

Industrial energy efficiency

The EBRD is expanding its support for large industrial companies to accelerate the pace of investment in energy efficiency. Industrial projects in the manufacturing and agribusiness sectors typically involve the modernisation of existing facilities to cut energy waste and the construction of new plants to produce energy more efficiently, such as combined heat and power (co-generation) plants. EBRD financing has been used to install energy efficient generators, electrical motors and transformers and to use waste gases to produce electricity.

In 2006 the Bank signed 16 industrial energy efficiency projects amounting to €188 million. Projects in the manufacturing sector accounted for almost €158 million, an increase of 80 per cent over the previous year. This high level of investment reflects the Bank's emphasis on screening for energy efficiency opportunities in all EBRD-financed projects, the provision of free energy audits to clients and increasing interest from the public and private sector in purchasing carbon credits generated by these projects.

Many of the projects signed were in Ukraine, which is one of the most energy-intensive countries in the industrialised world. Substantial financing is needed to help its steel sector to comply with modern requirements of energy efficiency and to adjust to fast-rising energy costs. Two projects signed in 2006, with Alchevsk Iron and Steel Works and Mittal Steel, are expected to deliver CO₂ savings of around 3 million tonnes a year – equivalent to a 1 per cent reduction in the country's annual energy consumption. The planned use of previously flared waste gases to power a new electricity generating plant at Alchevsk will also reduce Ukraine's dependence on imported power. Both projects are likely to involve the sale of carbon credits (see page 46).

In 2006 the Bank signed 16 industrial energy efficiency projects amounting to €188 million.

EBRD commitments to industrial projects (with energy efficiency components) in 2006

Country	Client	Sector	Project description	Total EBRD financing € million	Energy efficiency component € million
Azerbaijan	Garadagh Cement	Manufacturing	Equity investment	7.6	3.5
Bosnia and Herzegovina	Natron Hayat	Manufacturing	Renovation of facilities at paper and pulp mill, including restarting pulp production	11.0	2.7
Bulgaria	Boni	Agribusiness	Improvement in quality of output and efficiency of local meat-processing company	15.0	0.2
Croatia	Agrokor	Agribusiness	Investment in the country's leading food retailer, encouraging regional growth	110.0	0.025
Russia	Pokrov Glass plant	Agribusiness	Reconstruction of a glass plant	16.2	1.8
Russia	Lafarge Vostok	Manufacturing	Loan to acquire, modernise and operate facilities producing cement, concrete and lime	70.0	18.7
Russia	Stora Enso Multi-Project Facility	Manufacturing	Modernisation of new plant (Nebolchi II) supplying paper and packaging manufacturer	14.0	2.3
Russia	Stora Enso Multi-Project Facility	Manufacturing	Modernisation and/or construction of new plant (Setles II) supplying paper and packaging manufacturer	7.0	1.8
Russia	Yug Rusi	Agribusiness	Finance for an edible oil producer and agricultural commodities trader	70.6	3.0
Serbia	Soko Štark	Agribusiness	Modernisation and restructuring of a leading confectionery company	10.0	0.2
Serbia	Somboled	Agribusiness	Modernisation and development of a dairy company	10.0	0.2
Ukraine	Ekooenergija (Alchevsk)	Manufacturing	Construction of a co-generation facility using waste gases to produce electricity	75.9	75.9
Ukraine	Mittal	Manufacturing	Financing to increase productivity and energy efficiency at Kryviy Rih steel plant	151.9	50.1
Ukraine	Ukram Industries (DIF)	Manufacturing	Development of a nitrogen conditioning system for refrigerated transport	1.9	1.3
Ukraine	Vetropack Gostomel	Agribusiness	Improvement in efficiency and capacity expansion of producer of glass containers	22.4	22.4
Ukraine	Zitimir	Agribusiness	Restructuring and modernisation of a glass producer	4.0	4.0
Total				597.5	188.2

Cutting energy costs at a Ukrainian glass factory

Glass manufacturing is an energy-intensive industry. An EBRD loan of €22 million is helping Ukrainian glass company Vetropack Gostomel to cut energy costs by one-third. The finance will be used to close or upgrade old furnaces and replace them with modern furnaces that include better burning controls and insulation to improve energy efficiency. Other environmental improvements include building new storage facilities for a range of oils and hazardous materials.

The potential annual energy savings for Vetropack Gostomel are up to 9.2 million cubic metres of natural gas (equivalent to the annual consumption of 17,800 homes in Ukraine) as well as

6,800 MWh of electricity (equivalent to the annual consumption of 8,300 homes in Ukraine). The project could also generate carbon credits for the EBRD to market through the new Multilateral Carbon Credit Fund.

Vetropack Gostomel is one of the largest glass packaging manufacturers in Ukraine, producing more than 3.5 billion glass containers a year. The EBRD's loan is also helping the company to increase the output of its quality glass packaging to 750 million units a year, a 40 per cent increase on current capacity, boosting the company's competitiveness.



An EBRD loan of €22 million is helping Ukrainian glass company Vetropack Gostomel to cut energy costs by one-third.

Energy efficiency and renewable energy credit lines

In 2006 the EBRD increased its commitment to energy efficiency and renewable energy credit lines. These are mostly provided to local banks in the EBRD's countries of operations so that loans can be extended for specific energy efficiency and renewable energy projects. EBRD credit lines totalled €84 million in 2006, an increase of 40 per cent on the previous year. The Bank provided seven credit lines totalling €64 million to Bulgarian banks under the Bulgarian Energy Efficiency and Renewable Energy Credit Line (BEERECL) and provided a first credit line of €10 million to Kreditprombank under a new facility for Ukraine.

The credit lines are used for specific purposes. For example, residential energy efficiency credit lines (REECLs) are targeted at householders who want to make their homes more energy efficient. This may involve providing loans for the installation of new boilers, double glazing, solar panels or wall and roof insulation. Industrial energy efficiency and renewable energy credit lines are intended for private companies that want to invest in small energy efficiency and renewable projects.

Loans to companies range from €50,000 to €2.5 million, with an average loan size of €0.5 million. Average loans to householders are below €1,500. Companies and householders are eligible for one-off payments once the project is completed and audited (ranging from €200 to €850 for householders). The new facility for Ukraine has a higher lending limit (loans of up to €5 million) but does not include an incentive payment.

As of 2006, 74 projects had been financed under the BEERECL, involving loans worth more than €43 million with a total project value of over €70 million. These projects will annually generate over 58,400 MWh of electricity savings and more than 1,610,900 GJ of heat energy savings as well as around 358,500 tonnes of carbon emission reductions. The REECL programme has supported 6,425 energy efficiency home improvements, which have saved over 63,000 tonnes of CO₂ emissions a year.

To support its Sustainable Energy Initiative, the EBRD aims to develop similar facilities with financial intermediaries in up to ten other countries, including Croatia, Georgia, Hungary, Poland, Romania, Russia and the Slovak Republic. Market studies will be undertaken to identify specific energy efficiency requirements in each country. Discussions with donors (such as the European Union) are under way about grant funding.

For more information about projects financed through the Bulgarian Energy Efficiency and Renewable Energy Credit Line, see www.beerecl.com and www.reecl.org. For projects financed through the Ukraine credit line facility, see www.ukeep.org

Donor funding for energy efficiency

The success of energy efficiency credit lines depends on providing technical support to local banks so that they can develop the skills to assess energy efficiency projects. The EBRD uses donor funding to finance the necessary training.

Grant finance is also used to provide free energy audits to potential clients. Funding for this is currently provided by Austria, the Central European Initiative, the European Union and Greece.

The BEERECL is supported by €20 million of grant funding from the Kozloduy International Decommissioning Support Fund (KIDSF), which is managed by the EBRD on behalf of the donor community. KIDSF was set up in 2000 to assist with the decommissioning of four nuclear units at the Kozloduy Nuclear Plant and to help compensate for lost generating capacity. Grants from the fund are used to prepare energy efficiency projects and to finance incentive payments once projects are completed.

Small businesses are encouraged to make energy efficiency improvements in their operations through the EBRD's TurnAround Management Programme, with support from the Japan European Cooperation Fund (see box).



Projects approved in 2006 through the Bulgarian Energy Efficiency and Renewable Energy Credit Line

	Loan € thousand	Project cost € thousand
Energy efficiency	4,976	13,146
Wind power	3,720	4,543
Hydro power	2,212	3,000
Biomass	810	1,009
Geothermal	522	638
Total	12,240	22,336

Supporting energy efficiency in small businesses

The donor-funded TurnAround Management (TAM) and Business Advisory Services (BAS) programmes work with small and medium-sized companies to help them identify ways to operate more efficiently. In 2006 new TAM/BAS programmes also focused on helping companies to improve energy efficiency and to tackle environmental pollution.

TAM energy efficiency activities are supported by the Japan European Cooperation Fund. In 2006 it provided €4 million for projects in Russia's Far East, the Western Balkans and Central Asia, enabling TAM to start 13 new environmental projects. TAM/BAS programmes help companies to improve their environmental practices without incurring a heavy financial burden or loss of competitiveness.

A typical example is Algreta, a medium-sized aluminium company in the Former Yugoslav Republic of Macedonia with some 100 staff. The factory needed to achieve energy savings and compliance with Integrated Pollution Prevention and Control (IPPC) regulations. So the company brought in TAM advisers to identify how to cut energy consumption. The TAM team saw that the savings could be achieved by replacing two traditional melting and holding furnaces with one quick melting tower furnace, leading to an energy reduction of over 40 per cent – and fewer emissions. The dramatic energy saving was achieved with an investment of around €300,000.

TAM's Environmental Programme is supporting environmental protection and energy conservation across many countries. These are among the biggest challenges facing the region. Supporting small and medium-sized enterprises in this area is a vital step towards improving the local environment and national environmental policies.

Cleaner energy in the power sector

Ageing infrastructure in the power sector contributes to excessive greenhouse gas emissions across the EBRD's countries of operations. EBRD financing for power projects is being used to modernise thermal power plants, resulting in improvements in energy efficiency and a reduction in carbon emissions per megawatt of energy produced. In addition, the EBRD engages in dialogue with governments on how to improve power sector management and the cross-border sharing of electricity as a means of increasing the security of energy supply.

The EBRD provides finance for a wide variety of projects to develop cleaner energy supplies in the power sector. These include modernising, refurbishing or implementing fuel-switching strategies at large thermal power plants, evaluating the potential of "clean coal" technologies and reviewing opportunities for projects that reduce gas flaring.

In 2006 the EBRD signed five cleaner energy projects totalling €310 million. A loan of over €87 million to Azerenergy will modernise the Azerbaijan Thermal Power Plant and boost reform of the country's energy sector (see page 44).

EBRD commitments to cleaner energy projects in 2006

Country	Client	Project description	Total EBRD financing € million
Albania	Power transmission sub-stations	Upgrading of six transmission sub-stations crucial to Albania's energy transmission system	16.0
Azerbaijan	Azdes power plant	Modernisation of power plant supplying the majority of energy consumed in Azerbaijan	87.3
Bosnia and Herzegovina	Regional electricity providers	Improvement in efficiency and reliability of electricity supply by modernising three regional electricity providers	55.0
Poland	Belchatow II	Modernisation of power plant to bring it in line with EU environmental standards	126.1
Russia	OGK-5	Acquisition of shares to provide capital for upgrade of a thermal generating company	25.9
Total			310.3

Transforming the power sector in Azerbaijan

The EBRD is lending €87 million to Azerenergy to modernise the Azerbaijan Thermal Power Plant (TPP), the country's largest power plant. It supplies most of the electricity for Azerbaijan and the surrounding region.

The plant has a capacity of 2,400 MW achieved from eight dual fuel, gas and heavy fuel oil units of 300 MW each but is currently operating below its potential capacity and efficiency levels. This has significant repercussions as Azerbaijan TPP provides half of the country's electricity generation, and demand is increasing strongly thanks to a fast-growing economy.

The EBRD's loan will mostly be used to upgrade existing boilers and to install new boilers, which will improve the plant's reliability, energy efficiency, and health and safety conditions. It will also reduce carbon dioxide emissions.

The introduction of fuel-switching technologies as well as energy efficiency improvements at the plant are expected to achieve savings of 2 million tonnes of CO₂ a year, equivalent to the energy consumption of around 330,000 homes in the United Kingdom. The total reduction of carbon dioxide emissions is estimated at 8.2 million tonnes between 2006 and 2012. This would allow the company to qualify for carbon credits, which would provide it with an additional source of income. The project will contribute to the long-term financial viability of the electricity sector in Azerbaijan, which is currently heavily subsidised.

Renewable energy

The EBRD's countries of operations are rich in renewable energy resources, such as wind, hydro and biomass (wood, straw and other plant material). The Bank aims to expand its direct lending for renewable energy projects, including biogas from landfills and waste water.

The EBRD uses donor funding to help develop renewable energy projects. For example, donor funding helps to finance the preparation of environmental impact assessments, technical assessments of renewable energy potential and the training of local bank staff and project developers. Donor funding also supports legal assistance programmes that aim to establish or improve the basic regulatory environment for developing renewable sources of energy.

In 2006 the EBRD signed six renewable energy projects totalling over €80 million in four countries (Armenia, Georgia, Russia and Ukraine). In Armenia the EBRD lent up to €5.3 million to Cascade Credit for investments in mini-hydro and other renewable projects. This project is important for Armenia, one of the Bank's poorest countries of operations, as it is expected to reduce the country's dependence on imported fuel for power generation and will increase the reliability of energy supplies.

In Russia, Hydro OGK (a fully owned subsidiary of RAO UES, the main Russian power utility) is responsible for developing the country's renewable energy resources, including wind farms, tidal and hydro projects. An EBRD loan of 2.3 billion roubles (€66 million) will help Hydro OGK finance a modernisation programme for some of the most important hydroelectric power stations in the Volga river region (see page 45).

In Georgia the EBRD provided a loan of €7.6 million to complete the modernisation of the Enguri dam and power station. Enguri currently generates about 35 per cent of Georgia's power consumption, which is expected to increase to 40-45 per cent when the modernisation is completed.

The EBRD's loan of €19 million to Barlinek to finance the construction of a floorboard production facility in Ukraine will introduce state-of-the art technology with high standards of energy and resource efficiency. The new facility will include biofuel (pellet) production and will help to promote the biofuel manufacturing industry in Ukraine. The project provides an opportunity to promote sustainable forest management standards in Ukraine.

EBRD commitments to renewable energy projects in 2006

Country	Client	Project description	Total EBRD financing € million	Renewable energy component € million
Armenia	Cascade Credit	Promotion of competitive and viable renewable energy projects	5.3	5.3
Georgia	Georgian state electrosystem	Improvements to hydroelectric dam to increase power generation and to promote renewable energy production	7.6	7.6
Georgia	Bank of Georgia (Medium-sized Loan Co-Financing Facility)	Sub-loan to Okami small hydropower plants for renewable energy programmes	0.1	0.1
Georgia	Bank of Georgia (Medium-sized Loan Co-Financing Facility)	Sub-loan to Lopota small hydropower plants for renewable energy programmes	0.1	0.1
Russia	Hydro OGK	Acquisition of shares to provide capital for upgrade of a thermal generating company	66.3	66.3
Ukraine	Barlinek	Construction of a floorboard production facility in central Ukraine	19.5	1.3
Total			98.9	80.7

Harnessing Russia's hydro power resources

Hydro power is the main source of renewable energy in Russia, providing 20 per cent of all the power produced. It acts as the backbone of the power industry, stabilising supplies and maintaining the reliability of the country's entire system as well as generating economically efficient electricity.

The power stations owned and run by Hydro OGK account for almost 10 per cent of Russia's power supply. The cascade of power stations on the Volga and Kama rivers is one of the largest renewable energy sources in south-west Russia. However, the power station infrastructure is over 40 years old and in need of refurbishment.

EBRD financing of 2.3 billion roubles (€66 million) to Hydro OGK will extend by at least a quarter of a century the life of nine power stations of the

Volga-Kama cascade. The total cost of modernising obsolete equipment, mainly turbines, generators and transformers, is estimated at 26 billion roubles (€764 million) and is expected to take five years to complete.

The EBRD has also secured grant financing of €165,000 from the Spanish government to assist Hydro OGK in the development of a regulatory framework for wind farms in Russia.

When the reorganisation of Hydro OGK is completed (including the consolidation of a large number of hydro power plants), it will become the largest power generating company in Russia and the world's second-biggest hydro generating company after Hydro Quebec in Canada – with an installed capacity of 23.3 Gigawatts (GW).



EBRD financing of 2.3 billion roubles (€66 million) to Hydro OGK will extend by at least a quarter of a century the life of nine power stations.

Municipal infrastructure

The EBRD signed 16 projects amounting to €88 million for energy efficiency improvements in the municipal infrastructure sector in 2006. These involve improvements to district heating networks, water supply, waste-water treatment plants and urban transport. Further information on the EBRD's investment in municipal infrastructure can be found on page 17.

Promoting the development of a carbon credit market

Carbon credits are generated from projects that reduce greenhouse gas emissions. These include industrial energy efficiency projects, renewable energy (including wind, hydro, biomass and biogas), cleaner energy projects, such as landfill gas extraction, and forestry projects. The sale of carbon credits helps to make projects more viable and creates additional finance for companies generating the credits to invest in other climate-friendly projects.

In 2006 the EBRD signed two carbon credit projects, involving energy efficiency improvements at a pulp and paper mill in Bulgaria and a district heating network in Romania. The EBRD will purchase the resulting carbon credits from these projects for the account of the Netherlands (under a trading mechanism created by the Kyoto Protocol).

In addition, the EBRD provided a credit line to United Bulgarian Bank (UBB), which will finance energy efficiency and renewable projects. Individually, these are too small to generate carbon credits. However, UBB is creating a portfolio that will generate enough carbon credits to sell. The sale is expected to cover 30-40 per cent of the cost of the energy projects.

Carbon credit funds

The EBRD supports the development of carbon markets through two carbon funds. The first was established to buy carbon credits for the account of the Netherlands. The second – the Multilateral Carbon Credit Fund (MCCF) – was launched by the EBRD and the European Investment Bank (EIB) at the end of 2006.

Through the MCCF, governments and private enterprises can buy carbon credits from emission-reduction projects financed by the EBRD or the EIB. The purchase of these credits helps countries and companies to meet emission-reduction targets under the Kyoto Protocol and creates additional finance for those generating the credits to invest in other sustainable energy projects.

The new fund is specifically dedicated to the EBRD's region of operations and is a key instrument in tackling climate change. The countries where the EBRD operates currently contribute around 13 per cent of global carbon emissions but generate only 3 per cent of global carbon credits. The launch of the new fund will help to raise this to a higher percentage.

The participation of six private companies and six governments is a significant feature of the MCCF. The fund aims to facilitate the purchase of the equivalent of 20 million tonnes of CO₂ equivalent (corresponding to the total annual emissions of Slovenia) and already has a number of projects in the pipeline.

For information about assessing greenhouse gas emissions associated with EBRD-financed projects in 2006, see page 54.

EBRD commitments to energy efficiency improvements in municipal infrastructure in 2006

Country	Client	Project description	Total EBRD financing € million	Energy efficiency component € million
Bulgaria	Rousse Water	Improvement in financial and operational performance of a regional water company	8.0	8.0
Croatia	Pula	Renovation of bus fleet	5.0	5.0
Georgia	Kutaisi water services	Upgrading of facilities to improve water supply	3.0	1.1
Georgia	Poti water services	Upgrading of facilities to improve water supply	2.5	0.5
Lithuania	Kaunas	Upgrading of trolleybus infrastructure and provision of new equipment	10.0	10.0
Poland	Gdansk Water	Comprehensive modernisation of water and waste-water facilities	12.3	0.9
Poland	Krakow Plaszow	Modernisation and expansion of a waste-water plant	11.1	4.6
Poland	Krakow district heating	Modernisation of heating infrastructure to increase energy efficiency and to reduce pollution	6.3	6.3
Romania	Bucharest	Construction of a waste-water treatment plant	10.0	0.6
Romania	Sibiu	Road upgrading programme	5.0	5.0
Romania	Timisoara district heating	Increase in efficiency to improve quality and supply of heating	10.0	10.0
Russia	Khanti Mansi regional municipal services	Investment in Surgutsky Rayon municipal district heating, water and waste-water infrastructure	20.2	12.4
Russia	Krasnodar	Modernisation of tram fleet	10.7	10.7
Russia	Sakha (Yakutia)	Upgrade of heating and water systems	28.8	1.1
Russia	Ufa district heating	Modernisation of existing and construction of new heating sub-stations	10.4	10.4
Russia	Vologda municipal water services	Comprehensive modernisation of water and waste-water facilities	10.6	1.4
Total			163.9	87.9

Financing cleaner energy in Romania

Residents of Timisoara in western Romania can look forward to a secure and constant supply of electricity for heating and hot water thanks to an EBRD loan of €15 million to Colterm, the city-owned district heating company. The finance will be used to replace old gas-fired boilers, which only produce heat, with combined gas and steam boilers that generate heat and electricity. The new boilers will produce heat more efficiently, reduce air pollution for Timisoara residents and cut carbon dioxide emissions.

This is the first project in Romania to directly link the financing of a project with carbon credits. The new boilers are expected to cut CO₂ emissions by over 120,000 tonnes a year, leading to a reduction

in carbon dioxide emissions of around 800,000 tonnes between 2008 and 2012 (equivalent to the annual emissions of over 120,000 homes in the United Kingdom). This is expected to generate around €4 million in carbon credits. The EBRD will purchase the resulting credits on behalf of the Netherlands (under a trading mechanism created by the Kyoto Protocol).

Colterm is providing €8 million towards the total finance of €23 million. Part of Colterm's investment will be financed through advance payment from the sale of the carbon credits.



The new boilers are expected to cut CO₂ emissions by over 120,000 tonnes a year.



Working sustainably

The EBRD is committed to fulfilling the Bank's mandate through its policies and operating procedures.



EBRD policies

The EBRD's mandate and mission

Article 1 of the Agreement Establishing the EBRD commits the Bank to fostering transition to market-oriented economies and to supporting private entrepreneurial initiative in countries committed to multi-party democracy. Article 2 of the Agreement states that the Bank promotes environmentally sound and sustainable development in all its activities.

A sustainable natural environment with good social infrastructure, efficient use of resources and political freedom are fundamental to sustaining economic growth. The Bank assesses the environmental and social impact of EBRD investment for all projects under consideration and includes rigorous requirements in all investments.

The EBRD works with national and local authorities to help strengthen legal and regulatory frameworks and to encourage reforms that foster improvements in living conditions in the Bank's countries of operations.

The EBRD revises its country strategies on a regular basis, taking account of the country's stage of development in the transition to a market economy and the country's economic and political framework. At the start of the strategy review process, EBRD staff visit the country, including the sites of EBRD-financed projects, to gather information and to review progress. Subsequently, the Bank makes a fair and balanced assessment of whether the country is fulfilling the principles of the EBRD's mandate (as well as internationally recognised civil and political human rights).

The EBRD works with national and local authorities to help strengthen legal and regulatory frameworks and to encourage reforms.

In 2006 the EBRD expressed concern about the slow pace of reform in Belarus, Turkmenistan and Uzbekistan and noted little evidence of improvement in the authorities' commitment to Article 1 of the Agreement Establishing the Bank. The EBRD is consequently limiting its activities in these countries (see page 12).



Environmental Policy

The EBRD's Environmental Policy underpins the Bank's commitment to sustainability in all our activities. It commits the Bank to:

- fully integrating environmental and social considerations into the Bank's project cycle, ensuring that each project considered for financing undergoes environmental and social appraisal, and that issues identified during due diligence are adequately mitigated
- promoting environmental investments across a variety of sectors to achieve resource efficiency, cleaner production processes, biodiversity and best practice in environmental management
- financing projects with clear environmental objectives, such as better water and waste-water management, energy efficiency and renewable energy
- working in partnership with other institutions to address regional and global environmental issues.

The EBRD expects to approve a new Environmental and Social Policy by the end of 2007.

EBRD-financed projects are required to meet national environmental regulations and standards as well as applicable EU standards. Other internationally recognised standards, such as World Bank environmental health and safety guidelines, provide additional benchmarks that are used where EU requirements do not exist.

The social dimension within the Environmental Policy requires EBRD-financed projects to meet the applicable provisions of the International Labour Organization (ILO) conventions relating to child labour, forced labour and discrimination as well as all applicable national laws and standards on employment. The policy also establishes minimum performance standards for involuntary resettlement and for the protection of indigenous peoples and cultural heritage in areas affected by EBRD-financed projects.

The 2003 revision of the Environmental Policy increased the EBRD's emphasis on social issues. The 2007 revision, which is currently under way, will further develop the Bank's activities in this area (see page 11). The EBRD expects to approve a new Environmental and Social Policy by the end of 2007.

How the EBRD operates

The EBRD has rigorous procedures to ensure that Bank staff carry out their work in accordance with the Bank's mandate and in line with the Bank's Environmental Policy and Public Information Policy.

Quantifying the impact of EBRD investment

The EBRD has key performance indicators to measure how the Bank implements its Environmental Policy commitments. One important measure is the amount of greenhouse gas emissions associated with EBRD-financed projects (see page 54).

The Bank is developing ways to analyse financial and other performance data to quantify the impact of EBRD investment at grassroots level – for example, in terms of connection to water supply, safe drinking water and sewerage systems.

The success of the Bank's lending to micro and small businesses can be measured by charting the progress of EBRD-backed businesses in terms of profitability, job creation, labour costs (relative to productivity), survival rates and the ability to access further financing.

Considering projects for EBRD financing

Ensuring that EBRD financing is used for its intended purpose

Integrity and combating money laundering are integral to the Bank's project appraisal procedures to ensure that EBRD financing is used for its intended purpose. The EBRD's Chief Compliance Office has overall responsibility for integrity issues, both project-related and within the Bank. It provides advice on the suitability of prospective Bank clients and investigates allegations of fraud, corruption and misconduct.

In 2006 the EBRD published new guidelines and strengthened its commitment to promoting integrity, good corporate governance and high ethical standards in all EBRD business operations (see page 13).

Conducting due diligence

Before investing in any project, the EBRD conducts "due diligence" to identify the potential environmental and social impact of the project. It also identifies action that the client may need to take to comply with the EBRD's Environmental Policy and further measures that could improve the livelihood and quality of life of people affected by the project.

Due diligence focuses not only on issues of environmental risk but also on identifying environmental opportunities. Action to address these can be built into Environmental Action Plans for the client. Often the EBRD can provide assistance through donor-funded technical assistance projects.

In 2006 the EBRD published new guidelines and strengthened its commitment to promoting integrity.

For the most environmentally sensitive projects, there is extensive public consultation before deciding whether to commit EBRD financing. The Bank also screens technical cooperation (TC) assignments to ensure compliance with EBRD standards. In some cases, the environmental scope of these assignments is strengthened as a result of the screening process.

Clients are contacted to provide information on:

- project sites
- staffing structure
- health and safety (including human resource policy and management practices)
- environmental management and certification
- existing studies and audits.

Screening categories

Each EBRD-financed project receives two environmental screening classifications: the first indicates the type of analysis needed to assess the expected future environmental or social impact of the project; the second indicates whether an environmental or social audit is needed to assess the performance of an existing facility.

“Category A” indicates projects with the highest potential environmental impact. Projects with financial intermediaries are classified separately as “FI”.

The project classification determines the scope of studies required to identify social and environmental risk, liabilities and opportunities associated with the project. Along with current compliance status and future risk of non-compliance, this determines what mitigation and/or enhancements will need to be built into the project.

If a risk or liability is identified during due diligence, more detailed investigations are undertaken. The client is subsequently required to document measures to remedy the issues and to achieve compliance with the EBRD’s requirements within a specified timeframe. The commitments are formalised into an Action Plan, which is part of the legal agreement between the EBRD and the client. Clients are required to report annually on the implementation of corrective action.

Labour issues

The EBRD’s Environment Department conducts due diligence on labour issues associated with EBRD-financed projects in accordance with the EBRD’s Environmental Policy. Key issues are compliance with the core conventions of the ILO regarding forced labour, child labour and discrimination in the workplace as well as compliance with national labour laws and regulations (in terms of hours, pay, overtime etc.).



Environmental screening categories

EBRD-financed projects signed in 2006 were assigned the following screening categories during the project appraisal process:

Category A

7 projects (requiring a full environmental impact assessment)

Category B

69 projects (requiring an environmental analysis)

Category C

29 projects (requiring comprehensive due diligence but no environmental screening impact assessment or environmental analysis)

Category 1

56 projects (requiring an environmental audit as part of due diligence)

Category FI

133 projects (subject to specific requirements)

Projects are screened with reference to the country, sector, client reputation (or track record) and impact on employment. Follow-up due diligence may involve detailed discussions with the client’s human resources manager, a review of the results of previous inspections by the labour authorities or, if significant issues are identified, a site visit by an independent labour expert. Undertakings by clients often relate to improving the company’s human resources management or ensuring contractor compliance with labour standards.



Assessing greenhouse gas emissions

Electricity generation, steel and aluminium production, and large district heating systems are highly energy-intensive industries. These sectors therefore offer the largest potential for reductions in greenhouse gas emissions. Making accurate estimates of the emissions resulting from the EBRD's investment in these industries can be difficult for many reasons. For example, investments may be made as part of much larger industrial projects. Knowing where to draw the boundary in terms of pre- and post-investment is largely subjective. Where the Bank's investments lead to business expansion, it is appropriate to regard the resulting growth-related emissions as a consequence of the project. However, when such growth is not directly related to the investment, it is less clear.

When emission reductions from a project meet the criteria required to qualify as tradable carbon credits, detailed assessments are required before the project can be accepted under the Kyoto "flexible mechanisms". These assessments must be based on internationally prescribed procedures, using verifiable emission standards. The EBRD is increasingly encouraging sponsors of qualifying projects to follow this route and to take advantage of the carbon funds set up for this purpose.

Within the EBRD, a less rigorous greenhouse gas assessment is undertaken. The assessment screens all projects signed by the EBRD during the year and selects for more detailed assessment those projects potentially associated with significant greenhouse gas emissions. This provides an overall indication of the impact of

EBRD-financed projects but the absolute values of pre-investment emissions can be subject to considerable uncertainty. Estimates of changes in emissions are considered more reliable as they are directly related to the project. Post-investment emissions naturally reflect the impact of the project but also take account of forecast changes in production, where appropriate.

2006 assessment

In 2006, 17 EBRD-financed projects were subject to assessment. The main focus of these projects was the refurbishment of existing operations, improving energy efficiency and reducing emissions, in line with the EBRD's new Energy Policy. Compared with recent years, the pre-investment emissions of the facilities involved was high. The net effect of EBRD investment is expected to be an overall reduction in CO₂ emissions of 4 to 5 million tonnes CO₂ per year (MtCO₂pa).

Emission categories

Emission levels are measured as the number of tonnes of carbon dioxide emitted per year and expressed as Mtpa (million tonnes per annum) or Ktpa (thousand tonnes per annum).

High	means more than 1 Mtpa
Medium-High	means 100 Ktpa–1 Mtpa
Medium-Low	means 20–100 Ktpa
Low	means less than 20 Ktpa

EBRD-financed projects with significant GHG emissions signed in 2006

	2006	2005
Number of projects associated with significant emissions	17	20
Aggregate pre-investment emissions (MtCO ₂ pa)	84	16
Aggregate post-investment emissions (MtCO ₂ pa)	79	21
Aggregate net impact of projects (MtCO ₂ pa)	-4.5	+5.6

A breakdown of these results by industrial sector shows savings among projects in all sectors, with only the smaller industrial projects collectively recording a net gain in emissions.



Sector	Number of projects	Number of projects reducing emissions	Pre-investment emissions	Post-investment emissions	Net project impact
			Mtpa	Mtpa	Mtpa
Steel production	3	2	12	9	-3.0
Electricity generation and transmission ¹	5	2	68	66	-2.0
District heating and power ²	4	4	0.2	0	-0.2
Other industry	5	2	3.5	4.2	+0.7
Total	17	10	84	79	-4.5

¹ In generation projects, project boundaries are generally taken as the complete power station complex although projects often relate to single units. Hence relatively large pre- and post-investment totals arise.

² Investments yield reduction of energy losses. Hence, due to the complexity of such systems, pre-investment emissions relate only to the losses removed rather than total system emissions.

Energy efficiency investments in two Ukrainian steel projects are expected to deliver CO₂ savings totalling around 3 million tonnes per year. Particularly significant is the planned use of previously flared waste gases to power a new electricity generating plant, which will avoid the need for imported power.

A saving of 2 million tonnes of CO₂ is expected from fuel switching and efficiency gains at a thermal power plant in Azerbaijan. Two other investments in the power sector link the EBRD with major CO₂ emitting facilities but neither project is expected to lead to increased emissions. The larger of the two projects involves investment in a portfolio of Russian fossil-fired generating plant. This will place the EBRD in a good position to facilitate future efficiency-enhancing projects.

Four investments in the district heating sector – in Russia, Poland and Romania – will each lead to emission savings through heat loss reductions while a new combined heat and power generation facility will transfer generation from less efficient electricity generators elsewhere.

The only project with significant net emissions involves refurbishment of a Russian cement manufacturing facility. Emissions per tonne produced will fall significantly for this project but overall emissions at the plant will rise as an increase in production is anticipated to outweigh the benefits of efficiency improvements. It is possible that this new facility will replace production at less efficient plants elsewhere but it is too early to assess this.

Clients have generally responded positively to the EBRD's concerns about labour issues. During project implementation, clients are required to submit periodic labour performance reports (typically annually or twice yearly in high-risk cases). Where the risk of regulatory non-compliance is high, and the national enforcement system is seen as comparatively weak, the EBRD may require independent labour audits to be carried out during project implementation.

Training on labour issues

The EBRD has worked with expert labour consultants for several years and retains consultants to support the Bank's Environment Department. A number of training workshops for bankers on labour issues took place in 2006. EBRD staff also attended a labour standards training course provided by the ILO for labour specialists.

Mitigating the impact of EBRD-financed projects on affected communities

The EBRD's social expert reviews projects under consideration for financing to identify any potentially harmful impact on a local community, indigenous people or vulnerable groups. Opportunities to increase the benefit of a project – by establishing a community development programme, for example – are also assessed.

In 2006 the EBRD closely monitored two complex projects, the Baku-Tbilisi-Ceyhan pipeline (see page 59) and Sakhalin II (Phase 2), a major oil project being considered for EBRD financing (see page 64). The Sakhalin Indigenous Minorities Development Plan was developed in May 2006 to mitigate any adverse impact that the project might have on Sakhalin Island's inhabitants and to support the development of the local population.

The Sakhalin Indigenous Minorities Development Plan was developed in May 2006.

Another project under consideration for EBRD financing in 2006 was the upgrading of Gazela Bridge and its approach roads in Belgrade. The EBRD worked with the city of Belgrade and the Serbian government to ensure that the community of approximately 1,000 Roma, who currently live under the bridge, are resettled in accordance with the EBRD's policy on involuntary resettlement. The UK's Department for International Development and the European Agency for Reconstruction provided additional funds for technical assistance so that the city of Belgrade could make provisions for this vulnerable community.

Focus on labour issues in the construction industry

The EBRD finances a large number of projects that involve a construction phase. In 2006 the Bank identified construction as one of the main sources of labour risks associated with EBRD-financed projects. This is mostly because of the hazardous nature of the work and the high number of temporary workers, migrant workers and workers hired through labour providers, where enforcing regulatory compliance through a sub-contracting chain can be difficult.

To address these issues, the EBRD developed a construction toolkit for staff involved in due diligence processes. The issues were also discussed during the annual meeting of social experts and the meeting of Heads of Procurement in 2006 (hosted by the EBRD, see page 15).

Reports from the International Labour Organization (ILO) have raised concerns about forced labour exploitation of migrant workers in Russia. To help address endemic labour issues in the Russian construction industry, the EBRD teamed up with the ILO in 2006 in a technical cooperation project to develop and promote an industry code of conduct aimed at improving labour practices in the industry. This TC project (funded by the UK government) is ongoing.

Considering the affordability of energy for vulnerable people

One of the challenges in making utility companies sustainable is to ensure that their customers pay their bills, and that those bills reflect the cost of energy supplied. The EBRD is sensitive to this issue – in particular, the impact on the poorest people of having to pay higher bills for heating, lighting and water services.

The EBRD's new Energy Policy highlights the need to bring tariffs to cost-recovery levels while finding ways to protect the poorest people who are most vulnerable to price increases.

Even with currently low prices, many low-income households find it hard to pay their utility bills in full and on time. For example, in Croatia, FYR Macedonia and Georgia, the poorest 10 per cent of households currently spend more than 10 per cent of their income on electricity alone. Expenditure of 10 per cent or more of the household budget is often considered to be the point beyond which affordability becomes a problem. The issue of affordability is particularly acute in the poorest countries where the Bank operates.

The EBRD promotes the use of a variety of measures to reduce the social impact of higher tariffs. During project screening, the Bank uses a standard affordability analysis to assess the probable impact of tariff changes and then requires the client to incorporate measures into the project structure to alleviate the impact on low-income households, where necessary. Measures might include block or lifeline tariffs or a targeted assistance programme, depending on the country (see below). Countries with high poverty levels and poor targeting systems might be better off with lifeline tariffs while countries with a lower level of poverty may benefit from direct income transfers.

Measures to mitigate tariff affordability

Block or lifeline tariffs	A minimum amount of energy is provided at a low price or free and consumption beyond this threshold is charged at full cost. However, household consumption has to be metered and, at least in the case of district heating meters, may be difficult to install.
Targeted assistance programmes	Vulnerable consumer groups in some of the poorest countries are eligible for means-tested cash payments or direct income transfers to cover a minimum level of electricity consumption. Some programmes operate only in winter when fuel bills are highest. However, these programmes require effective management, administration, monitoring and funding and are difficult to maintain.

Affordability of utility services for the poorest 10 per cent of the population in the ETCs

Country	Percentage of household expenditure devoted to electricity			
	2004	2010 (projected tariffs reaching 6 USc)	2010 (projected tariffs reaching 8 USc)	2010 (projected tariffs reaching 10 USc)
Armenia	6.1	3.4	4.1	4.6
Azerbaijan	2.4	3.1	3.7	4.3
Georgia	12.6	11.7	13.6	15.5
Kyrgyz Republic	4.3	9.7	11.5	13.1
Moldova	5.5	3.5	4.1	4.7
Mongolia	8.2	not applicable	not applicable	not applicable
Tajikistan	2.5	4.8	5.7	6.5
Uzbekistan	6.0	6.8	8.1	9.3

Note: Data for Tajikistan and Uzbekistan refer to 2003. Data for Mongolia are for the poor households in Ulaanbaatar based on the United Nations Development Programme's survey of "Impact of utility charges on poor households" in Ulaanbaatar. The three affordability projections for 2010 are based on different cost-recovery tariff assumptions.

Environmental and social monitoring

Monitoring of the environmental and social impact of EBRD-financed projects is vital to ensure that the Bank's policy requirements are being properly implemented and that the sustainable development aspects of its mandate are being respected. Monitoring also helps to develop the client's capacity for environmental management, to identify opportunities for improved operational efficiency and to assist with regulatory compliance. Furthermore, the information provided by monitoring activities enables the EBRD to meet its transparency and accountability obligations.

EBRD-financed projects are monitored in a number of ways. This may include the review of client-generated Annual Environmental Reports, audits by environmental consultants or visits by EBRD environmental specialists. For large projects where there are particularly sensitive issues, the Bank may also request full-time independent monitoring during challenging phases of project implementation. Given the size of the EBRD's portfolio of projects, the Bank has to adopt a pragmatic risk-based approach to monitoring, with resources focused on projects with the most challenging issues or where there is the greatest level of risk.

By the end of 2006, the EBRD's portfolio contained around 1,200 active projects where disbursement of funding is under way. Each of these is expected to generate a report detailing the project's environmental performance over the year. These reports are reviewed by the Bank's Environment Department and appropriate follow-up action is taken where necessary. A total of 53 projects were rated as having high environmental risk.

Increased focus on monitoring in 2006

In 2006 the EBRD's Board of Directors identified environmental and social monitoring as an area requiring a greater focus. This led to the appointment of monitoring consultants, who are being used to undertake targeted missions to groups of smaller, medium-risk clients that would not previously have been subject to regular visits by the EBRD. This work has already identified some useful findings, such as the need for the Bank to pay more attention to assisting its clients with reporting, the development of environmental management systems and addressing occupational health and safety issues.

The EBRD's Environment Department appointed a full-time monitoring specialist in 2006.

The EBRD's Environment Department appointed a full-time monitoring specialist in 2006 who is responsible for developing new environmental monitoring procedures and managing the Environment Department's monitoring activities. The Bank plans to increase the resources that it devotes to monitoring. Enhancements to environmental and social monitoring will be considered as part of the 2007 revision of the EBRD's Environmental Policy.



Monitoring visits in 2006

EBRD staff and consultants made 33 monitoring visits to 15 countries (up from 26 visits in 2005). Of these, 24 were undertaken by specialist consultants during five missions to selected countries. The EBRD's own specialists visited nine high-risk clients to assess their compliance with agreed environmental or social standards.

Two monitoring trips focused specifically on social issues, involving visits to Azerbaijan and Georgia in relation to the Bank's ongoing involvement in the Baku-Tbilisi-Ceyhan (BTC) pipeline project (see box).

Environmental monitoring visits to financial intermediaries

The EBRD's electronic manual *Environmental Risk Management for Financial Institutions* contains the Bank's environmental procedures for financial institutions (FIs), guidance materials and other practical tools.

The manual helps FIs to implement an environmental management system that complies with good practice and EBRD requirements. It is published on the Bank's web site and is available in English as well as Bulgarian, Czech, Latvian, Lithuanian, Polish, Romanian and Russian.

In 2006 EBRD staff and consultants made monitoring visits to 62 FIs and their clients in 15 countries (Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, FYR Macedonia, Moldova, Russia, Slovenia, Serbia, Tajikistan, Ukraine and Uzbekistan). The visits were funded by the Canadian International Development Agency, the ETC Fund and the European Union.

In 2006 EBRD staff and consultants made monitoring visits to 62 FIs and their clients in 15 countries.

Monitoring the BTC oil pipeline

The EBRD provided €106 million in support of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which is now operational. Environmental and social monitoring visits are undertaken by the Bank to check compliance with EBRD policy and international standards, as set out in the environmental and social action plan. Through these visits, the EBRD also ensures that commitments made by the client to mitigating the project's environmental and social impact are being met.

The EBRD's involvement aims to ensure that the BTC project does not have an adverse impact on the environment and that the project will benefit local communities and promote economic development in Georgia and Azerbaijan in the long term.

EBRD experts made two monitoring visits to the BTC pipeline in 2006 to assess environmental and social issues. The environmental visit monitored the reinstatement of the pipeline corridor, former camps and quarries. It also focused on waste

management – the Bank has been particularly active in identifying solutions for waste management concerns in Georgia, specifically in the Tbilisi area. During this trip, Georgia's Ministry of Environment was consulted about its monitoring of the project and the performance of the client.

The social monitoring visit focused on the social aspects of land reinstatement, restoration of community infrastructure, unresolved issues relating to resettlement and compensation, the resolution of grievances and the implementation of community development programmes. An assessment was made of the extent to which special provisions have been implemented to ensure that vulnerable groups are not disproportionately affected by the pipeline and that they are able to benefit from community investment programmes.

By September 2006, compensation for land acquisition was virtually complete, except for 10 absentee landowners. In Georgia, compensation had been received for 98.5 per cent of private land parcels. Land reinstatement was established to be almost 100 per cent complete in Azerbaijan and Georgia, except for 5 km of steep slopes in Georgia.

Training financial intermediaries in environmental risk management

The EBRD requires all FIs that on-lend EBRD financing to integrate environmental risk management into their lending and investment operations. Donor funding for the EBRD's environmental training programme is used to train FIs individually and in workshops regarding environmental due diligence, monitoring and reporting.

In 2006 two-day environmental due diligence training workshops were held with 51 FIs in Kazakhstan, the Kyrgyz Republic, Russia (Moscow and St Petersburg), Ukraine and Uzbekistan, supported by EU funding. One-day workshops were held with 33 FIs in Armenia, Azerbaijan, Georgia, Moldova and Tajikistan, funded by the ETC Fund.

EBRD staff also conducted one-day environmental training workshops for 13 FIs in Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia.

Since the programme started in 1995, it has provided environmental training to 298 FIs in the Bank's 29 countries of operations. The European Union has been the main contributor, with total funding of €6 million committed to date. From 2007, environmental training for FIs is expected to be covered by the EBRD's own funding.

Since the programme started in 1995, it has provided environmental training to 298 FIs.

Collaborating with the UNEP Finance Initiative

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

In 2006 the CEETF organised awareness-raising conferences in Moscow, Athens and Vilnius (Lithuania). The conferences attracted senior-level representatives from the financial sector, government, academic institutions, consultancies and non-governmental organisations to learn more about the opportunities for sustainable finance. Presentations covered environmental regulations affecting financial institutions, environmental and social risk management in banks, environmental risk in project finance, the Equator Principles, risk management in financing renewable energy and energy efficiency projects and corporate social responsibility reporting. Similar events are scheduled for Bulgaria, Czech Republic, Romania and Russia in 2007.



Evaluating EBRD activities

The Evaluation Department evaluates selected EBRD-financed projects to establish how well they meet their objectives and comply with the Bank's mandate. The EBRD draws on the lessons learned to improve the way it selects and assesses future operations. The Department operates independently from banking operations. The Chief Evaluator reports directly to the Bank's Board of Directors.

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

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

Since 1996, the Evaluation Department has assessed 521 operations. Of these, 54 per cent achieved a rating of "Good" or "Excellent" in terms of their impact on the transition process and a further 23 per cent were assessed as "Satisfactory". In 2006, some 80 per cent of the EBRD's evaluated projects had an "Excellent-Satisfactory" impact on the transition process while 20 per cent of evaluated projects were given a transition impact rating of "Marginal-Negative" (lower than in previous years).

Projects evaluated in 2006

Of the 52 projects evaluated in 2006, the environmental performance of the client and the EBRD was rated "Excellent" in 19 per cent of cases, "Good" in 35 per cent, "Satisfactory" in 42 per cent and "Marginal" in 4 per cent. No projects were rated "Unsatisfactory" or "Highly Unsatisfactory".

Assessing environmental change, the differences in 35 per cent of projects were rated "Substantial" or "Outstanding". "Some" differences were found in 42 per cent, and a total of 23 per cent of projects recorded a "None/Negative" change in 2006.

Special studies in 2006

The Evaluation Department conducts a number of special studies every year. In 2005-06 it looked into how the EBRD maintains a commitment to its environmental mandate through the activities of financial intermediaries (FIs). The study found that the Bank is largely meeting its objectives, that training is being provided to FIs and that this has had a positive impact on the FIs and on the projects receiving finance. The study highlighted that projects in high-risk sectors, such as mining, oil and gas, and chemicals, should be expected to meet international environmental performance standards rather than just local standards.

In 2006, some 80 per cent of the EBRD's evaluated projects had an "Excellent-Satisfactory" impact on the transition process.

The study found that the EBRD did not always meet the requirements of its Environmental Policy with respect to equity investments in local banks. The study noted that a "one size fits all" approach was no longer appropriate, especially as some of the Bank's more advanced countries are now part of the European Union. It recommended that the EBRD should focus its training and assistance on the more difficult investment environments. The study also encouraged the Bank to work with other institutions to improve the capacity of financial institutions in the Bank's region to manage environmental and social risk.

The full study is available at www.ebrd.com/projects/eval

In addition, the Evaluation Department drafted terms of reference for evaluating the implementation of the EBRD's Environmental Policy, which will feed into the policy review process (see page 11).

Engaging in dialogue

The EBRD consults regularly with the people and organisations that are affected by the projects that the Bank finances.

The Bank is committed to transparency and accountability in all of its activities. In 2006 the EBRD approved a new Public Information Policy, which expands the scope of information that the Bank makes publicly available (see page 11). The EBRD published an annual report on how the Bank fulfilled its requirements in implementing the policy.

Consultation

One of the ways that the EBRD shapes its policies, strategies and projects is by consulting with non-governmental organisations (NGOs), businesses, academic institutions, local communities and other interest groups that may be directly affected by Bank activities.

Also included in this consultation process are local authorities, international financial institutions (IFIs), environmental bodies and multilateral organisations, such as the Project Preparation Committee, the Northern Dimension Environmental Partnership and the Global Environment Facility (see page 23).

Making information accessible

The EBRD translates certain key documentation into the local language of the relevant country of operations to increase the availability of information and to encourage public consultation.

In 2006 the Bank published the Environmental Policy in Hungarian and Latvian. The policy is now available in 15 languages (Bosnian, Croatian, Czech, English, Estonian, Hungarian, Latvian, Lithuanian, Moldovan, Polish, Romanian, Russian, Serbian, Slovak and Slovenian).

A total of 24 country strategies have been translated into local languages.

By the end of 2006, the Public Information Policy was available in nine languages (Bosnian, Croatian, Czech, English, Moldovan, Polish, Romanian, Russian and Serbian). A total of 24 country strategies have been translated into local languages, with work in progress on the remaining strategies. The Guidelines and Rules of Procedure for the Independent Recourse Mechanism are available in English and Russian.

Project Summary Documents (PSDs) are translated into local languages after they are published in English on the Bank's web site (see page 63). Translated PSDs are made available in the relevant EBRD local office.



Inviting comment on EBRD policies and country strategies

The EBRD invites comments on new sector policies and country strategies from all interested parties, including national and local government, businesses and non-governmental organisations.

Country strategies are currently reviewed every two years and the EBRD invites public comment as part of the review process. A summary of the comments, along with the Bank's responses, is published on the Bank's web site once the revised strategy is approved. In future, the Bank plans to move to a three-year cycle for the review of country strategies so that sufficient time is allowed for each strategy to take effect. The EBRD published 14 new country strategies in 2006, including its first strategy for Mongolia (see page 12).

Disclosing information on EBRD-financed projects

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

PSDs are published on the Bank's web site for a certain period before the EBRD's Board of Directors meets to discuss project financing. This is at least 30 days before Board review for private sector projects and at least 60 days before Board review for public sector projects (subject to certain exceptions). Publication of PSDs may be delayed in certain circumstances. These include:

- legitimate client concerns about confidentiality
- concern about the likelihood of substantial changes or rejection at the Board's final review stage of a project proposal, which might embarrass the sponsor and prejudice alternative sources of funding
- concern about financial market sensitivity if capital transactions are involved.

In 2006 the EBRD published 181 PSDs for projects under consideration for financing (144 private sector and 37 public sector projects). All complied with the Public Information Policy's publishing requirements. There were 10 deferrals of disclosure of the PSD for reasons meeting the criteria above. This concerned nine private sector projects and one public sector project.

In future, the Bank plans to move to a three-year cycle for the review of country strategies so that sufficient time is allowed for each strategy to take effect.

"Category A" projects

Projects requiring an Environmental Impact Assessment (EIA) are classified as "Category A" projects. These require a public consultation period before the project is considered for approval. The client must release the EIA for public comment in the local area near the project, in the EBRD's relevant local office and in the Bank's headquarters.

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

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

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

Environmental Impact Assessments

In 2006, four projects were classified as "Category A". All four had full EIA documentation available in English and the relevant local languages. Two of the four projects also had full documentation available on a web site while one project provided full documentation on request via a disk or CD-ROM. One project did not release documents electronically and did not receive any requests for copies of the documentation.

All four projects had an executive summary in English on the EBRD's web site with a link to the client's web site where applicable. Three of the projects progressed to Board review during 2006. All three met the public disclosure requirements about the release of information for public consultation before Board review.

Environmental Impact Assessments released in 2006

Country	Project name	Sector	EIA made available in HQ/Resident Office	Board date	Days available before Board	Language of EIA in region	Electronic availability/language
Ukraine	Ekoenergia (Alchevsk Iron and Steel Works Co-generation Facility)	Private	20 July 2006	5 Dec 2006	138 days	Russian and English	Available at: www.amk.al.lg.ua
Serbia	Belgrade Highway and By-pass Project	Public	20 June 2006	Not yet scheduled	N/A	Serbian and English	CD-ROM or disk sent on request
Kazakhstan	Bautino Atash Marine and Supply Base Project	Private	18 May 2006	17 Sept 2006	123 days	Russian and English	No
Croatia	Ploce Port Bulk Terminal Project	Public	2 June 2006	5 Dec 2006	186 days	Croatian and English	Available at: www.ekonerg.hr/ew/index?ev=report_ploce0206

Sakhalin II (Phase 2) project consultation

In 2006 the EBRD continued to monitor environmental and social aspects of Phase 2 of the Sakhalin II offshore oil and gas development in Russia's Far East. The EBRD partially financed Phase 1 of the project and has worked with Sakhalin Energy since 2001 to assess the second phase of the project, especially the environmental and social standards.

During 2006 the EBRD worked with Sakhalin Energy to enhance environmental and social practices associated with the project. The Bank also conducted a consultation process in Russia (Moscow and Sakhalin Island), Japan and London regarding possible EBRD financing of the project. The meetings were organised by the EBRD with independent facilitators. Each meeting offered the public an opportunity to express openly their views about Sakhalin II (Phase 2), to raise concerns and to put questions to EBRD representatives.

Environmental topics included river crossings, fish quality, oil spill prevention and response plans, the Western Gray Whale, pipeline-related geological hazards and possible contamination of water supply. Other topics discussed included the rights of indigenous peoples, employment, infrastructure and legal matters. The EBRD was also involved in the proceedings of various panels of experts established to review the project's potential impact on the Western Gray Whale.

One of the most significant developments in 2006 was the launch in May of the Sakhalin Indigenous Minorities Development Plan. This incorporates measures to mitigate any negative effects on the lives of the indigenous minorities on the island and measures to share the benefits of the project through a programme of economic development and improvements to health, education and training.

During 2006 the EBRD worked with Sakhalin Energy to enhance environmental and social practices.

In January 2007 the EBRD announced that it would no longer consider the current financing package in the light of a significant change in the ownership of Sakhalin Energy. While the Bank said it was open to discussion with the new shareholders, any future relationship would have to be based on a new proposal from Sakhalin Energy as well as agreement on financial and environmental conditions and timing.

Working with non-governmental organisations

The EBRD's Outreach Unit facilitates dialogue between the Bank, non-governmental organisations (NGOs) and local communities. The EBRD is committed to having dialogue with NGOs and organises meetings and local visits throughout the year to listen to NGO concerns.

The Bank has a dedicated NGO area on its web site, providing useful advice to NGOs and keeping NGOs up to date via a "What's new" section. It also informs NGOs about public consultation meetings between EBRD staff and NGOs during the year.

The EBRD publishes an NGO newsletter four times a year, in English and Russian.

The EBRD publishes an NGO newsletter four times a year, in English and Russian, to keep NGOs informed about the Bank's investment activities and other issues of interest to NGOs. Topics in 2006 covered, for example, the start of the Environmental Policy review, the Bank's increased investment in energy efficiency projects, and updates on the Energy Policy, Public Information Policy and Sakhalin II (Phase 2) project.

NGO programme at the 2006 Annual Meeting

The EBRD's Annual Meeting is an opportunity for face-to-face dialogue between NGOs and the Bank, and for NGOs to attend the Business Forum and other events. A complementary programme for NGOs is organised each year alongside the Annual Meeting to provide a forum for discussion of the Bank's policies and major investment projects.

In 2006 around 100 representatives from 76 international and local organisations in 25 countries attended the Bank's NGO programme at the 2006 Annual Meeting in London. Some 67 representatives were from the Bank's countries of operations.

The programme started with a discussion of the Sakhalin II (Phase 2) project at the request of some of the NGOs. The main programme included consultation meetings on environment, energy, water and waste-water infrastructure, and the Bank's policies and evaluation activities. For the first time, there was also a session dedicated to revenue transparency and production sharing agreements.

The discussions provided a good exchange of views and information between Bank staff and NGO representatives on important topics and projects. Concerns raised during the meetings included human rights, transparency, access to information, and environmental and social issues.

The NGOs also met with the Bank's President, Board of Directors, Secretary General and other key staff.



Consultation meetings

NGOs regularly attend meetings with members of the EBRD Board of Directors and provide briefings to Board members when there is an official Board visit to one of the Bank's countries of operations. Representatives from international and local NGOs also meet on request with EBRD Resident Offices and Bank staff.

Board consultation visits

In 2006, NGOs met with EBRD directors during Board visits to Azerbaijan, Bosnia and Herzegovina, FYR Macedonia, the Kyrgyz Republic, Romania and Russia. The meetings were an opportunity for NGOs to raise concerns specific to the country. In Azerbaijan the focus was on disclosure, the EBRD's Public Information Policy and the Extractive Industries Transparency Initiative. In the Kyrgyz Republic, the focus was on transparency, the Heavily Indebted Poor Countries (HIPC) Initiative and the country's taxation system. In Romania the main topic of discussion was the Bank's role in promoting renewables and energy efficiency investments and lending to micro, small and medium-sized enterprises.

Project-related meetings

EBRD staff met with relevant NGOs in 2006 to hear their concerns about a number of issues regarding EBRD-financed projects. Topics for discussion included the resettlement of the Roma community currently living under the Gazela Bridge in Belgrade (see page 56). Other projects discussed included the Belgrade highway and bypass project and the Zagreb incinerator.

Policy dialogue meetings

Meetings took place in 2006 between EBRD staff and NGOs in Armenia, Kazakhstan and Mongolia to discuss policy issues. In Armenia the discussion focused on environmental due diligence in Bank-financed projects and the local business climate. In particular, there was discussion about how to eliminate corruption and enhance business practices based on the principles of corporate social responsibility (see box).

Meetings took place in 2006 between EBRD staff and NGOs in Armenia, Kazakhstan and Mongolia.

In Kazakhstan the focus was on the EBRD's new Public Information Policy, minority rights, environmental issues, EBRD-NGO dialogue and the Bank's role in political and economic reforms. In Mongolia the focus was on the EBRD's mandate, the role of the NGOs in EBRD-financed projects, the overall human rights situation in the country, and gender and environmental issues in mining projects.

EBRD staff also met with several international NGOs to discuss allegations of forced and child labour and poor environmental practices in cotton cultivation in Uzbekistan and Turkmenistan and possible implications for future investments in textile manufacturing.

Strengthening consultation at the local level

In September 2006, EBRD staff organised a special meeting with non-governmental organisations (NGOs) at the Bank's local office in Yerevan, Armenia. Representatives from 14 NGOs attended the meeting, including international NGOs (such as the Eurasia Foundation and Open Society), environmental NGOs (such as the Armenian Tree Project, a local initiative largely funded by Armenian-Americans), professional associations, a foreign investors' NGO and a microfinance lending organisation.

The meeting was an opportunity to remind NGOs of the EBRD's activities and the Bank's mandate. EBRD staff briefed the NGOs on the country strategy for

Armenia and Bank-financed projects in the private sector, including mining. They also updated the NGOs on the Early Transition Countries Initiative, the EBRD's Environmental Policy and changes to the Public Information Policy. NGOs welcomed the fact that the country strategy is available in Armenian and that Project Summary Documents will also be published in Armenian.

The NGOs were particularly interested in the EBRD's role in the development of sound business practices and improved transparency. They also wanted to know more about environmental due diligence and monitoring in Bank-financed projects.

Following the meeting, EBRD staff in Yerevan received favourable feedback, including useful documents and reports from the NGOs involved. Staff at the local office also received support from some NGOs regarding the Bank's new policy dialogue initiative in Armenia.

Listening to expert advice

The Environmental Advisory Council (ENVAC) advises the EBRD on strategic sectoral and policy issues. ENVAC consists of a group of independent experts from NGOs, the private sector, academic institutions and policy-based institutions (see box).

ENVAC normally meets twice a year. The meetings provide a forum to discuss environmental policy issues, institutional and human resources concerns, technical developments, emerging trends and future opportunities.

ENVAC met in May and November 2006 at the EBRD's headquarters in London. The main focus was on energy, the Environmental Policy revision process and public consultation related to the Environmental Policy review.

Other topics discussed at the May meeting included an update on Phase 2 of the Sakhalin II oil and gas project and the EBRD's involvement in Chernobyl Shelter Implementation projects. The main topics discussed at the November meeting were the new EBRD–EIB Multilateral Carbon Credit Fund, preliminary findings from a gender equality study, the strategic direction of EBRD policy changes, and how to set parameters for project due diligence requirements.

A summary of the ENVAC meetings is available on www.ebrd.com

ENVAC members (as of end 2006)

Professor Urkhan Alakbarov (Azerbaijan)
Co-founder of the Human Development Centre in Azerbaijan, which focuses on sustainable development in communities

Dr Andrzej Kassenberg (Poland)
President of the Institute for Sustainable Development (NGO think-tank)

Professor Jacqueline McGlade (Canada and United Kingdom)
Executive Director of the European Environment Agency

Professor Dr Andjelka Mihajlov (Serbia)
Former Serbian Minister for the Protection of Natural Resources and the Environment

Professor Nicholas A. Robinson (United States)
Pace University School of Law, specialist in environmental law issues in the Bank's region

Dr Roustam Sagitov (Russia)
Director of the Baltic Fund for Nature in St Petersburg

Mr Marko Slokar (Slovenia)
President of the Management Board of the Environmental Fund of the Republic of Slovenia

Dr Jan-Olaf Willums (Norway)
Chairman of Inspire, a venture capital group set up to invest in companies that generate an environmental and social dividend

Handling complaints

The Independent Recourse Mechanism (IRM) gives local groups that may be adversely affected by an EBRD-financed project a means of raising concerns about whether the Bank has followed its relevant policies, or where they would like the Bank's assistance in resolving the problems. During the review of an eligible complaint, an independent expert is involved in assessing the issues and the Bank's actions.

The IRM has Guidelines and Rules of Procedure that define who may make a complaint and what an affected group may make a complaint about. The Chief Compliance Office works independently from banking operations and from the Environment Department.

In 2006, one registrable complaint was received. This was submitted on behalf of residents of Akhali Samgori village in the Garabani district of Georgia. The residents state that they have been denied compensation or have been insufficiently compensated for the damage inflicted on their land as a consequence of the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which was partly financed by the EBRD.

The complaint subsequently became the subject of an Eligibility Assessment to determine whether a Compliance Review or a Problem-solving Initiative is warranted.

An earlier complaint, registered during 2005, regarding possible damage vibration caused by the BTC pipeline project was processed in accordance with the procedures laid down under the IRM. The Chief Compliance Officer (CCO) recommended to the President that a Problem-solving Initiative should not be initiated as it was unlikely to establish an effective dialogue between the client and the affected group. The President accepted the CCO's recommendation and the complaint was not processed any further.

During the review of an eligible complaint, an independent expert is involved in assessing the issues.



Our internal performance

The EBRD has its headquarters in London and local offices in the 29 countries where the Bank operates.

In 2006 the Bank's London-recruited staff totalled 1,018 people (compared with 969 in 2005) while locally hired staff in the Bank's Resident Offices totalled 261 (compared with 234 in 2005).

The EBRD has a responsibility to treat all staff fairly, to provide them with a safe place to work and to manage the environmental impact of its buildings and operations.

Managing our internal environment involves how we manage the environmental impact of physical resources and materials, such as our approach to energy efficiency, waste management and recycling. It also involves how we manage our human resources, such as ensuring that our staff work safely and have opportunities for continuous learning and development.

Environmental performance

Refurbishment of EBRD headquarters

Work to refurbish the Bank's London headquarters building continued in 2006. The refurbishment will improve the building's facilities, such as ventilation, lighting and security, and ensure that the building meets current UK standards. The work covers offices and general areas, including the auditorium, meeting rooms and restaurant facilities. In 2006 a consultant reviewed the building's lift system, and replacement of the system is scheduled to begin in 2008. When the refurbishment is completed, the building will provide a more efficient working environment and be more energy efficient, which will reduce the Bank's carbon footprint. The refurbishment project is scheduled for completion before the end of 2007.

Sourcing energy needs

In 2005 the EBRD's management considered a study by the Bank's energy consultants on the availability and cost implications of purchasing a percentage of the Bank's energy requirements from renewable sources. A decision was taken to source at least 10 per cent of the Bank's electricity needs from renewables for the supply contract, starting in October 2005. In 2006, the options for the purchase of renewable energy were reviewed once again. Following this review, the Bank decided to purchase all of its energy needs from renewables, in the form of hydro power. This contract will run for two years.

Energy and Environment Management Working Group

In 2005 the EBRD established a multi-departmental working group to consider a range of energy and environment-related issues. In 2006, the group reviewed the programme for increasing energy efficiency in the EBRD's London headquarters. In particular, the group reviewed the Bank's strategy for increasing recycling and looked at ways of reducing the carbon footprint from business travel.

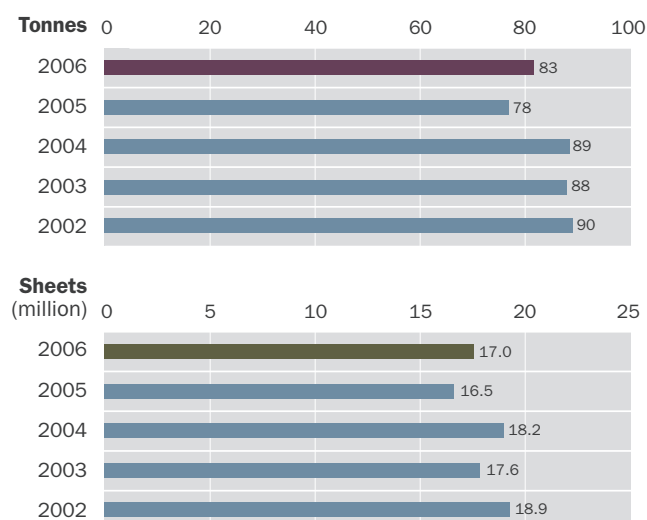
Managing sub-contractors

The EBRD outsources its cleaning and catering contracts. In 2006 the catering contract was awarded to a new company. Both companies have environmental policies, which include waste minimisation, energy efficiency, safe handling of chemicals and responsible sourcing of supplies. The catering contractor does not knowingly use ingredients containing genetically modified organisms (GMOs). Both the catering and cleaning contractors are equal opportunity employers.

Paper usage

In 2006 the EBRD used just over 17 million sheets of paper, produced by a company that has ISO14001 accreditation. The paper is 80 per cent recycled fibre that has been extracted from waste paper destined for incineration or landfill.

Paper usage in the last five years



Recycling

The EBRD recycles used paper, light bulbs, printer and toner cartridges and glass. We use certified companies that follow the required environmental standards to dispose of obsolete IT equipment, such as computers and copy machines.

The Bank increased paper recycling by 10 tonnes in 2006, a 40 per cent increase over 2005. This may be related to the office refurbishment. As staff moved out of their office space to make way for the builders, out-of-date paperwork was cleared.

The Bank increased paper recycling by 10 tonnes in 2006, a 40 per cent increase over 2005.

Glass recycling halved in 2006. The Bank's London headquarters includes sub-let areas and it is possible that glass usage by tenants contributed to this decrease. Toner recycling was lower than in 2005. This is also linked to the office refurbishment.

Materials recycled

	2006	2005	2004
Paper (in tonnes)	38	28	23
Printer and toner cartridges	380	900	420
Glass (in tonnes)	26	56	25

Refrigerants

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

Business travel

The EBRD's main use of energy (apart from lighting, heating, running of equipment and cooling our buildings) is from travel, which is associated with carbon dioxide emissions. Business travel by air and rail is essential for our staff to carry out the Bank's business effectively. We use video-conferencing to reduce the need to travel where possible. The Bank is also exploring how it can reduce its travel, the environmental impact of its travel and the ways it can fund emission-reduction projects in its countries of operations to offset some of its carbon emissions.

The Bank encourages staff at its London headquarters to reduce car use by providing interest-free loans for season tickets for public transport. We also provide secure storage space for people who cycle to work.

Business travel

	2006	2005	2004
Air travel (in million km)	25.8	23.7	28.1
Rail travel (in km)	406,475	294,200	308,896
CO ₂ from business travel ¹ (in kilo tonnes)	4.06	3.73 ²	4.40

¹ Emissions for business travel are an over-estimate when compared with the latest recommended conversion factors. We have used the old conversion factors to allow for comparison with previous years' figures.

² 2005 figure has been recalculated.

Energy and water consumption

In 2006, the EBRD's energy use was reduced by 9 per cent. This may be partly due to the new energy efficient components introduced during the Bank's recent refurbishment and to reduced energy demand as each floor is refurbished.

Gas use decreased by over 13 per cent in 2006. This may be due to the relatively mild winter and closure of the building's kitchens during refurbishment.

Water use decreased by 23 per cent in 2006. The reason for this may be a reduction in demand during the kitchen refurbishment and the addition of a device to minimise water used in the new toilet facilities.

In 2006, the EBRD's energy use was reduced by 9 per cent.

To increase monitoring and management of energy and water consumption, the EBRD has increased energy and water metering within headquarters. Metering will allow for more accurate identification of areas of high use and where efficiency gains could be made.

Energy and water consumption

	2006	2005	2004	2003
Electricity (gigawatt hours)	17.73	19.48	20.43	20.12
Gas (gigawatt hours)	2.823	3.254	2.969	2.709
Water (cubic metres)	65,433	84,461	79,215	65,604

Note: Part of the EBRD's London headquarters building is sub-let. These figures include the sub-tenants' consumption.

Developing our human resources

Human resources strategy

In 2006 the EBRD developed a new human resources strategy to address the changing focus of the Bank's activities over the next five years. The strategy puts EBRD staff at the heart of achieving the Bank's mission.

The strategy emphasises positive engagement with all Bank employees, responsiveness to the needs of departments throughout the Bank, innovation in meeting those needs, professionalism and transparency. The strategy outlines four priorities:

- **Staff excellence:** the EBRD aims to attract high-quality and skilled staff with entrepreneurial spirit and a keenness to work in an innovative environment. International diversity among employees remains a key component of achieving the Bank's mission. A total of 59 nationalities are currently represented among EBRD staff.
- **Staff development:** the EBRD encourages staff to develop their work skills through a combination of training and new job opportunities within the Bank's network of 33 offices in 29 countries. Mobility of staff between the London headquarters and the Bank's resident offices is particularly important in the context of the Bank's new business plan. The opening of new local offices (in Dnipropetrovsk in Ukraine, Podgorica in Montenegro and Krasnoyarsk, Rostov-on-Don and Samara in Russia) will create new employment opportunities for staff based in headquarters and other local offices. The EBRD ensures that relocations are combined with career development wherever possible.
- **Staff motivation:** the EBRD puts a strong emphasis on performance, rewarding staff according to their level of achievement. Compensation and benefits are calculated on the basis of location and ensuring that salaries remain competitive within an increasingly buoyant job market.
- **Staff support:** the EBRD takes all necessary steps to safeguard the health and safety of staff (see page 72). The Bank's work-life balance programme allows staff to balance the needs of their job with their own personal needs and is continually monitored and improved where necessary. Communication between staff and management and consultation with employees are given a high priority. The Bank's Staff Council and the Ombudsman play an important role in ensuring a constructive dialogue.

Staff survey

The EBRD conducted its third Staff Survey in 2006. It was undertaken by an external, private consultancy specialising in staff attitude surveys for major corporations and public institutions around the world. Online completion was available for the first time. Almost two-thirds of staff (796 people) in headquarters and in the Bank's local offices took part. The survey measured staff attitude across a number of dimensions, such as motivation, job satisfaction and organisational performance.

Results show that staff members feel a deep commitment to the mission and core purpose of the Bank. There are some areas where some staff members feel that the Bank could improve the way it makes decisions and recognises merit. Full survey results were posted on the Bank's internal web site (intranet) and are the subject of follow-up discussions.

Staffing

The EBRD recruits staff from a variety of backgrounds in our member countries without gender, racial or religious bias. At the end of 2006, women represented 55 per cent of the total workforce, of whom 36 per cent were at professional or senior management levels at the Bank’s headquarters.

The EBRD’s work-life balance programme includes home-office working, flexible working hours, part-time working, job sharing, and parental, study and unpaid holiday arrangements. The table shows the number of staff that have formal, regular arrangements under the work-life balance programme rather than ad hoc arrangements, such as occasional working from home.

Staff numbers

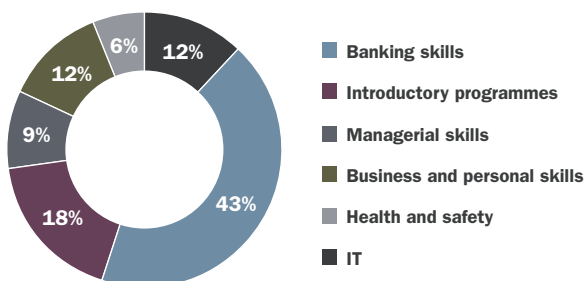
	2006	2005	2004
EBRD headquarters	1 018	969	965
Local offices	261	234	237
Ratio of male to female professional staff	1.57 to 1 (approx)	1.63 to 1 (approx)	1.62 to 1 (approx)
Take up of work-life balance programme	172	174	not collected

Learning and development

The EBRD is committed to the continuous development of staff skills to meet business needs. In 2006, staff development was supported by a training curriculum of 50 courses. Additional customised courses were developed for particular departments.

The Bank provided a range of management development courses for staff at all levels of management and launched a new people management course. Over two-thirds of senior management have undertaken this course to date, with a full roll-out planned for 2007. In total, some 2,969 days of training were undertaken in 2006.

2006 training days



Health and safety

In 2006, independent consultants conducted a major review of the EBRD’s health and safety management systems. It examined the policies, procedures and operating practices related to health and safety within the Bank’s headquarters and within a representative local office in one of the Bank’s countries of operations. A number of staff were interviewed, including members of the Bank’s Board of Directors, senior management and all those connected with providing health and safety services. The EBRD is developing an action plan to implement the recommendations from this review.

A new travel and expense management system, developed by the Bank over a two-year period, was fully rolled out in 2006. This new system will provide a simplified travel and expense booking system and will help ensure that EBRD health and safety procedures are always followed.

During 2006 a new team of trained HR staff was developed to provide a Family Focal Point System. This will ensure that following a serious accident to a member of staff, the family of the employee will have a single point of contact for information.

A new medical room was constructed in London headquarters to provide better facilities for conducting routine preventative medicals and vaccinations. This new facility will improve access to medical advice for staff who travel on business for the Bank and will help them prepare for conditions in the countries that they visit.

Codes of conduct

In May 2006 the EBRD approved two new codes of conduct that regulate the behaviour of the Board of Directors and EBRD staff, including its senior management. The codes express the obligations and ethical standards that the Bank expects of its Board members and staff.

The new codes align the EBRD with the practices of other international financial institutions (IFIs). In particular, they provide guidance on how to avoid and handle conflicts of interest and establish a transparent mechanism for examining requests for exemptions. The codes regulate how private financial affairs can be conducted and the level of disclosure required. They also establish a rigorous procedure for dealing with alleged breaches of the codes.

Integrity and whistleblowing

The EBRD's Chief Compliance Office (CCO) has ultimate responsibility for all matters to do with preserving integrity, including within the Bank. Recognising that whistleblowing is an important way of ensuring good governance, the Bank has published a Whistleblower Protection Statement on its web site. The statement is designed to encourage employees to disclose information that may not otherwise be discovered.

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

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

Staff Council

The EBRD's Staff Council is a group of 14 volunteers elected by staff and representing all professional and support staff levels in London and in the Bank's local offices. Its role is to "promote the rights, interest and welfare of staff members through collaborative problem solving and consultation". The Staff Council voices the views of staff and works with management on all aspects of staff working conditions and welfare. In 2006 the Council was involved in reviewing the Bank's staff mobility policy and closure of local offices in some countries in central Europe. It was also consulted on salary and benefit issues.

Retirement arrangements and benefits

The EBRD's retirement plans are overseen by the Bank's Retirement Plan Committee, which retains specialist advisers selected from industry leaders to administer the plans, to provide investment advice and to ensure prudent and responsible management of the plans' funds.

Dispute resolution

Ombudsman

The EBRD has appointed an independent Ombudsman whose main role is to provide an advisory service for all staff on personnel-related issues. The service is completely confidential and can include advice for staff members on how to resolve issues as well as intervention to help the parties reach a satisfactory agreement.

Grievance and appeals

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



Following an extensive review of the procedures in July 2006, the EBRD established two new sets of procedures. The Grievance Procedure and the Appeals Procedure will become effective in 2007. These new procedures provide for a review through an employee's normal administrative channels and a subsequent review by the EBRD's Grievance Committee, which consists of a Chair and two staff assessors (drawn from a panel of eight). The Chair must be an experienced lawyer from outside the Bank.

The final stage of appeal is to the EBRD Administrative Tribunal, which constitutes a judicial forum for review of the administrative decision that forms the basis of an employee's grievance. The judges of the Administrative Tribunal are all external to the Bank and must be persons of high moral character. They must possess qualifications required for appointment to high judicial office or be lawyers or arbitrators expert in the areas of employment relations, international civil service or the administration of international organisations.

74 Annex 1: Global Reporting Initiative

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

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BC	Back cover		
AR	Annual Report		
TR	Transition Report		
SR04	Sustainability Report 2004		
SR05	Sustainability Report 2005		
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76 Annex 2: The European Principles for the Environment

Declaration

We, the Signatories of the Declaration, have a shared responsibility towards protecting but also improving the environment in the interest of sustainable development, which we believe can best be achieved working more closely together.

We hereby endorse and reinforce the European consensus on the values attached to the fundamental right for both present and future generations throughout the world to live in a healthy environment.

This Declaration, recognizing the comparable approach taken by the Signatories to environmental management and to the integration of environmental considerations in their respective operations and mandates, is based on the particular EU approach to the environment, which is as strong as any that exists.

The “European Principles for the Environment” (EPE) consist of the guiding environmental principles enshrined in the EC Treaty and the project-specific practices and standards incorporated in EU secondary legislation on the environment. The principles include, in particular, the precautionary principle, the prevention principle, the principle that environmental damage should as a priority be rectified at source, and the polluter pays principle.¹

We underline the importance of the EPE, which promotes the EU approach to environmental sustainability, and we are committed, subject to our respective environmental policies, to applying EU principles, practices and standards to all projects financed by the Signatory institutions.

The geographical scope of the EPE covers at least the respective regions of operations of each Signatory institution, or any other geographic area it deems appropriate, including the EU 25 and European Economic Area (EEA) countries, the EU Acceding, Candidate and potential Candidate Countries and the Countries that are covered in the “European Neighborhood and Partnership Instrument”, implemented according to the following modalities.

In the Member States of the EU, the EEA countries, the EU Acceding, Candidate and potential Candidate Countries, the Signatories hereby agree to provide financing to public or private sponsors of projects only where the projects

comply with the above principles and the relevant secondary EU legislation.² Of the EU secondary legislation particular emphasis is given to:

The EU *acquis* related to environmental assessment;

The EU Directives related to industrial production, water and waste management, air and soil pollution, occupational health and safety, and the protection of nature, where these can be applied to specific projects.

We also agree that projects in this region should comply with any obligations and standards enshrined in relevant Multilateral Environmental Agreements (MEAs), according to applicable EU law (e.g. biodiversity, climate change, the ozone layer, wetlands, persistent organic pollution, trans-boundary air pollution, endangered species and environmental information, and others that may be ratified from time to time).

In all other countries, projects financed by the Signatories are expected to comply with the appropriate EU environmental principles, practices and standards – and with regard to EU financing, due respect for the European Neighborhood Policy and the EU policy towards Russia – subject to local conditions. In such financing, we will apply the EPE, with reference to such factors as the costs of application, the local conditions that prevail and the time frame for the phased application for implementing the EPE.

In the case of co-financed projects, we will work together to agree a common approach to the project, where possible, based on or consistent with the EPE and its methods of implementation as outlined above.

We also aim as part of the EPE to promote best EU practice in the fields of environmental management, transparency, public consultation and reporting.³

As we move forward with the EPE process, the Signatories of the Declaration will encourage other European-based institutions to share the common approach to environmental sustainability as well as work together on specific topics in the interests of greater coherence.

Luxembourg, 24 May 2006

¹ Treaty Establishing the European Community 2002, Article 174 (2).

² In some countries, a phased approach with certain requirements of the *Acquis Communautaire* may be adopted in accordance with negotiated accession agreements.

³ The EU “Environmental Management and Audit Scheme” (EMAS) is an example of such best practice.

Photography	Page
Aleksandar Andjić	Inside front cover (left)
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