



World Bank & Co. Do we really need Development Banks?

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WU (Vienna University of Economics and Business)



Challenges for the European Bank for Reconstruction and Development

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EBRD

World Bank & Co. – Do We Really Need Development Banks?

May 2015

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Outline

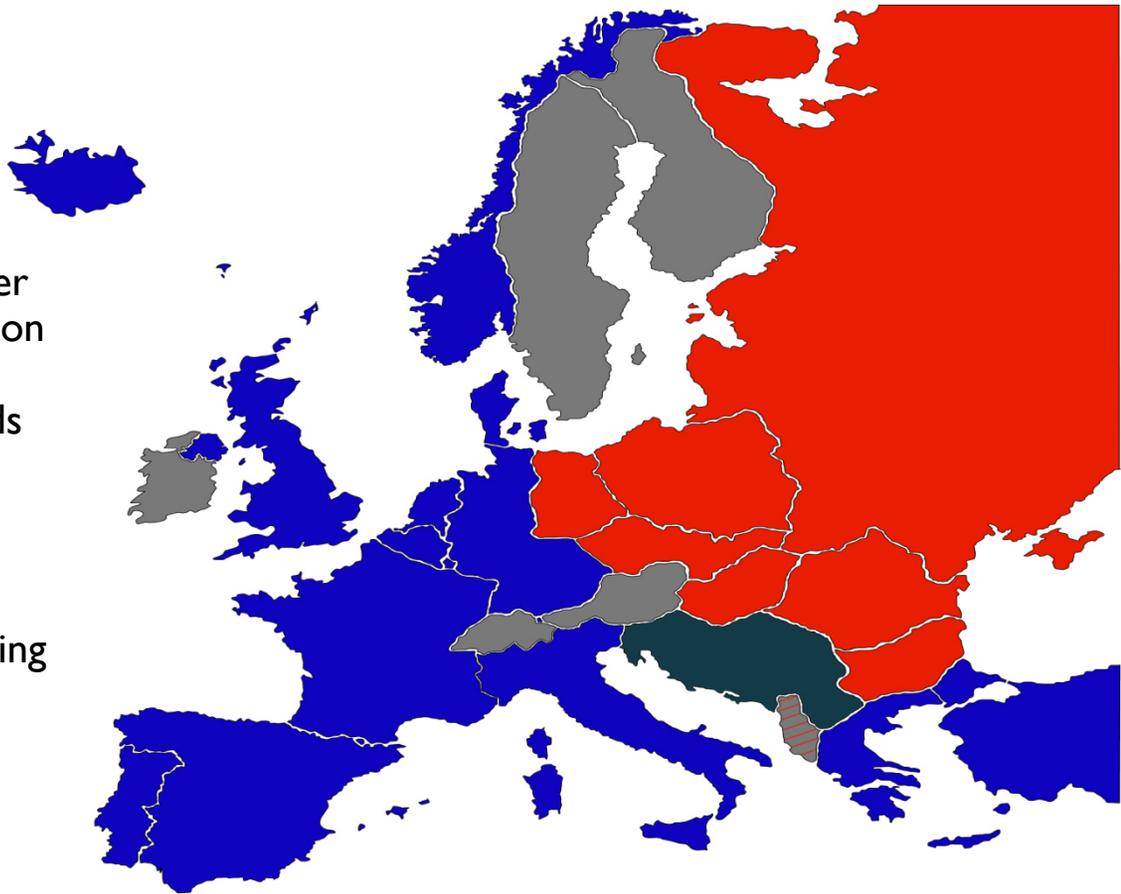
1. Introduction to EBRD
2. EBRD: Case Studies
3. What makes the difference

Key Messages

1. Democracy as source for wealth and inclusive society
2. Private creativity and competition as main drivers for strong economies
3. State setting framework but not fulfilling it
4. Rule of law as “conditio sine qua non”

The Idea behind the EBRD

- Fall of Iron Curtain 1989
- Communist regime fell apart
- Planned economy failed
- Francois Mitterand (idea) and other European political leaders, agreed on founding a bank with the purpose “...to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.



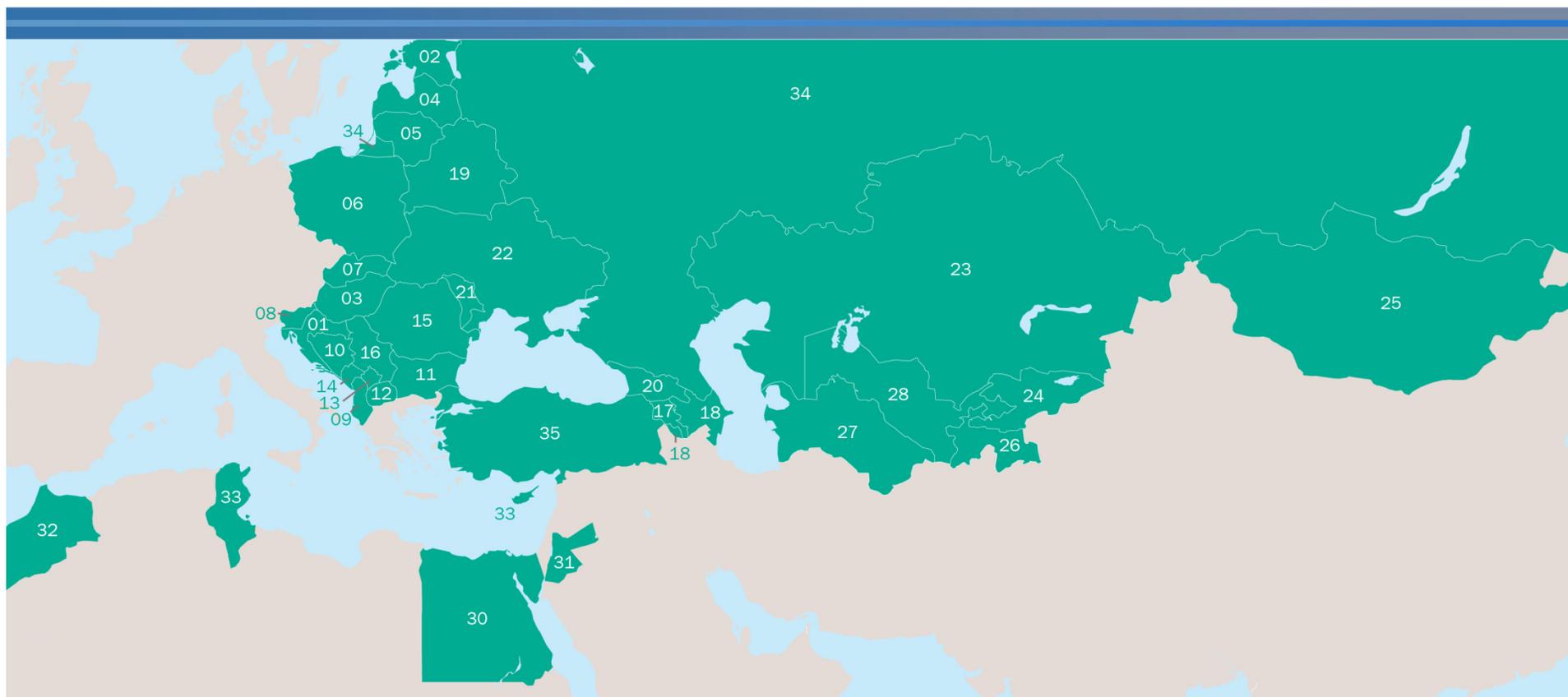
The Idea behind the EBRD is establishing Democracy and Pluralism

- ▶ Uniquely for a development bank, the EBRD has a political mandate in that it assists only those countries 'committed to and applying the principles of multi-party democracy [and] pluralism'.
- ▶ Shareholding / ownership only by agreeing on the principle of democracy

Article I: „... democracy...“



Where the EBRD invests



WHERE WE INVEST

Central Europe and the Baltic states

- 01 Croatia
- 02 Estonia
- 03 Hungary
- 04 Latvia
- 05 Lithuania
- 06 Poland
- 07 Slovak Republic
- 08 Slovenia

South-eastern Europe

- 09 Albania
- 10 Bosnia and Herzegovina
- 11 Bulgaria
- 12 FYR Macedonia
- 13 Kosovo
- 14 Montenegro
- 15 Romania
- 16 Serbia

Eastern Europe and the Caucasus

- 17 Armenia
- 18 Azerbaijan
- 19 Belarus
- 20 Georgia
- 21 Moldova
- 22 Ukraine

Central Asia

- 23 Kazakhstan
- 24 Kyrgyz Republic
- 25 Mongolia
- 26 Tajikistan
- 27 Turkmenistan
- 28 Uzbekistan

Southern and eastern Mediterranean

- 29 Egypt
- 30 Jordan
- 31 Morocco
- 32 Tunisia

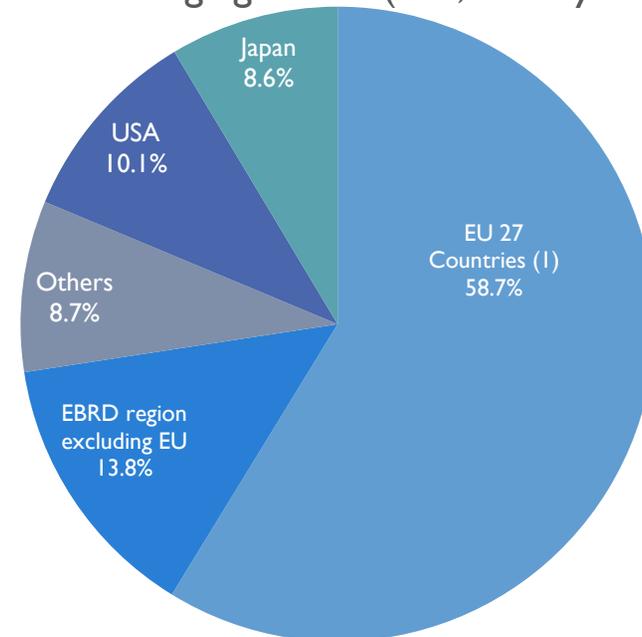
33 Cyprus

- 34 Russia
- 35 Turkey

Who we are now

- An international financial institution, promotes transition to market economies in 35 countries from central Europe to central Asia and the Southern and Eastern Mediterranean – SEMED region.
- In 2014 Cyprus and in 2015 Greece became recipient countries.
- Owned by 65 countries and 2 inter-governmental institutions (EU, EIB).
- Capital base of €30 billion.

Shareholding structure - EBRD has a AAA rating from all three main rating agencies (S&P, Moody's and Fitch)



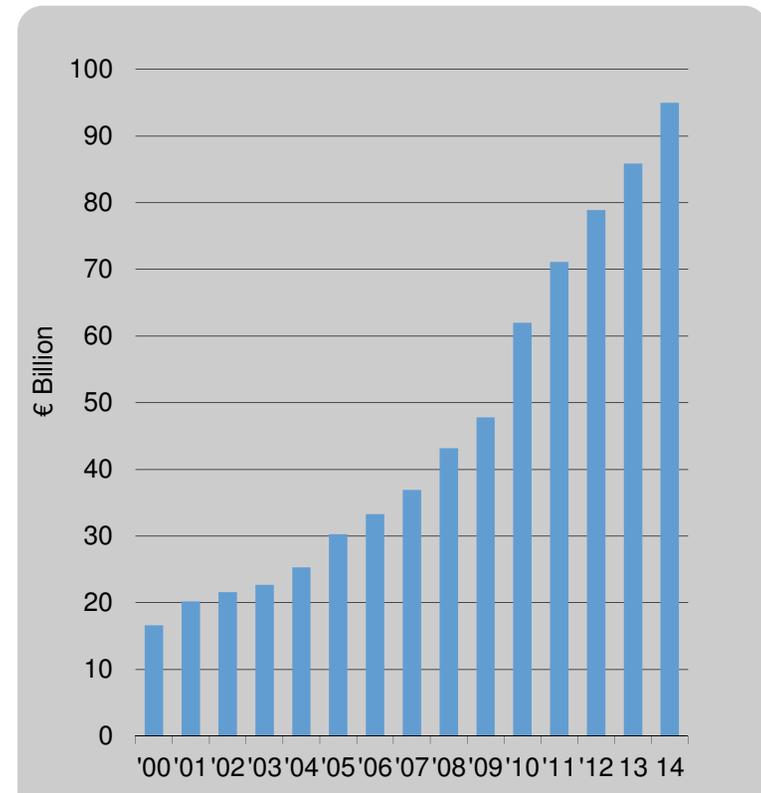
(I) Includes European Community and European Investment Bank (EIB) each at 3%. Among other EU countries: France, Germany, Italy, and the UK each holds 8.6%

EBRD's Objectives Achieved Through Financing the Private Sector

- ▶ Invested over **€95 billion** in more than **4,188 projects** since **1991**
- ▶ In 2014:
 - ▶ €8.9 billion invested in 377 projects
 - ▶ Private sector accounted for 72% share
 - ▶ Debt 85%, Equity 10% & Guarantee 5%

▶ Note: Unaudited as at end December 2014

Net cumulative business volume €95bn

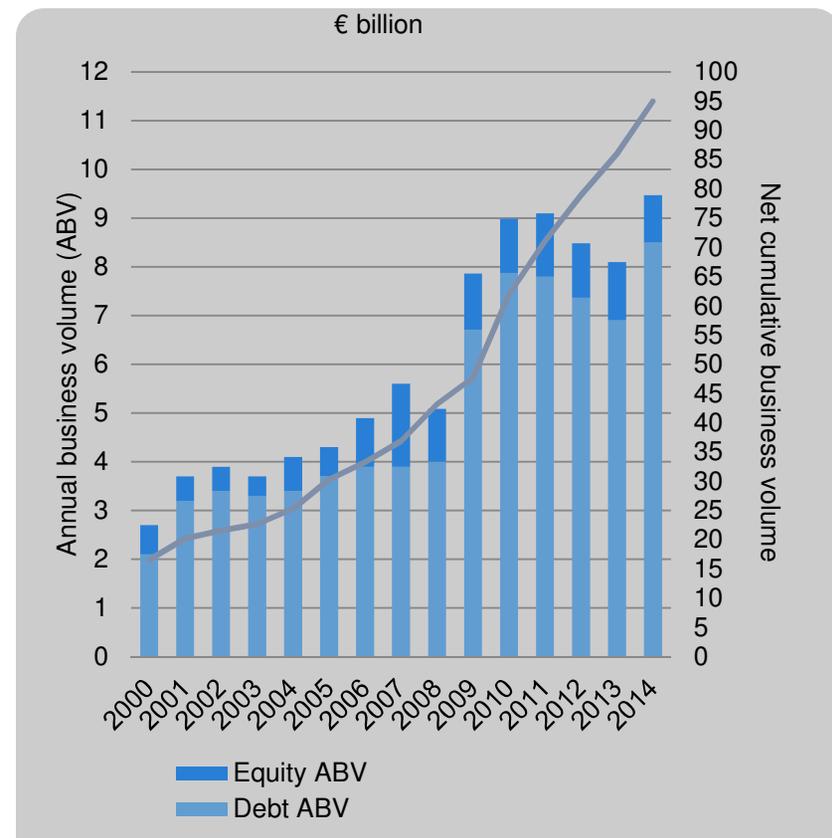


EBRD's Objectives Achieved Through Financing the Private Sector *(includes ABV and equity/debt split)*

- ▶ AAA/Aaa rated multilateral development bank
- ▶ Invested over €95 billion in more than 4,188 projects since 1991
- ▶ In December 2014:
 - ▶ €8.9 billion invested in 377 projects
 - ▶ Private sector accounted for 72% share
 - ▶ Debt 85%, Equity 10% & Guarantee 5%

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The EBRD and its Objectives

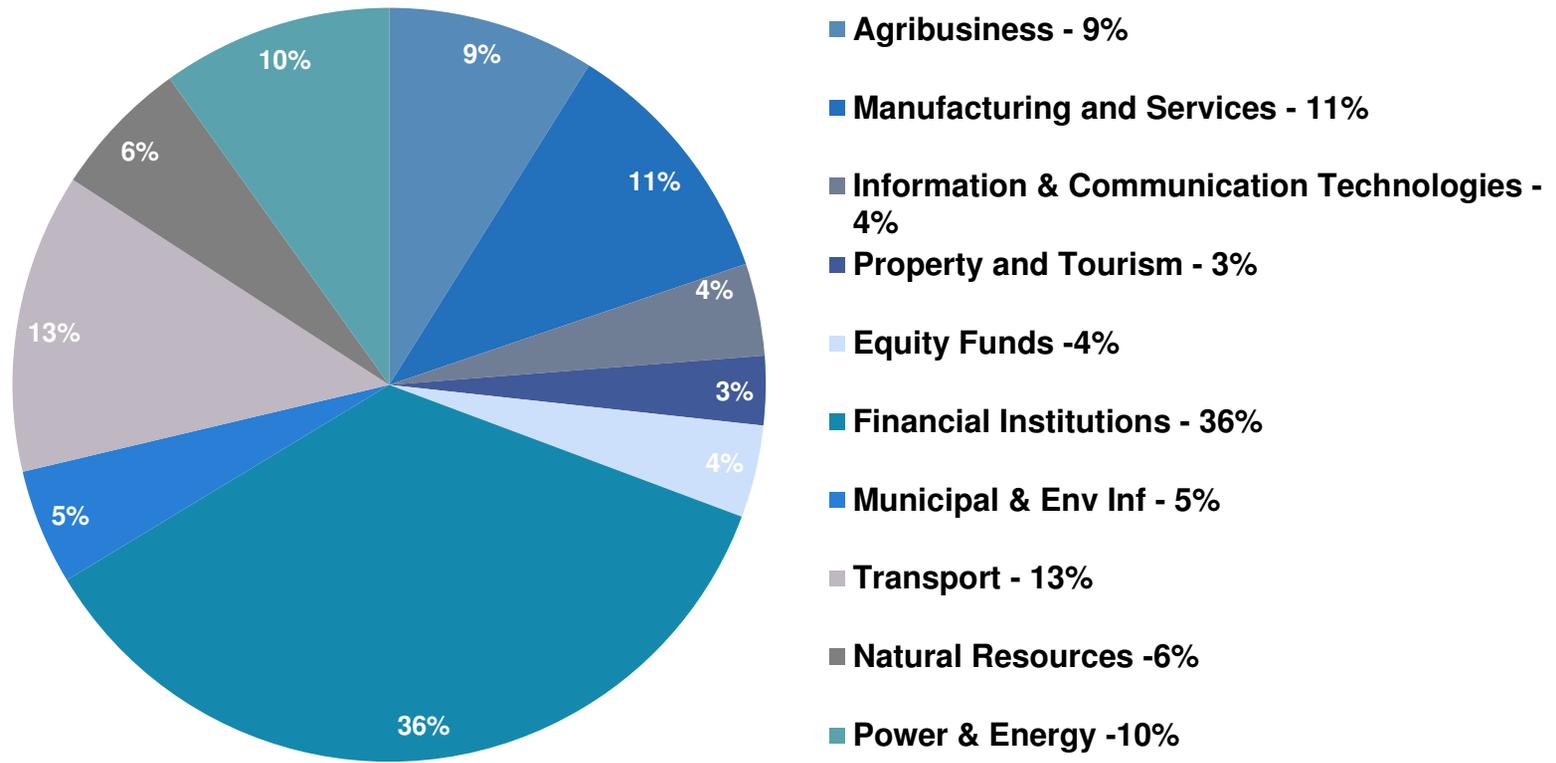
▶ **The EBRD is:**

- Private sector focused
- Wide product, currency, tenor range
- Facilitates inward and cross border investments in the region
- Engages in policy dialogue to improve the investment climate and foster sector reforms and good governance
- AAA rating profitable, commercial focus

▶ **Objectives:**

- To promote transition to open, sustainable market economies and supporting inclusive growth by investments mainly in the private sector, by policy dialogue and capacity building for selected clients and market-supporting institutions.
- To mobilise significant foreign direct investment
- To support privatisation, restructuring and better infrastructure services to improve people's lives
- To encourage environmentally sound and sustainable development

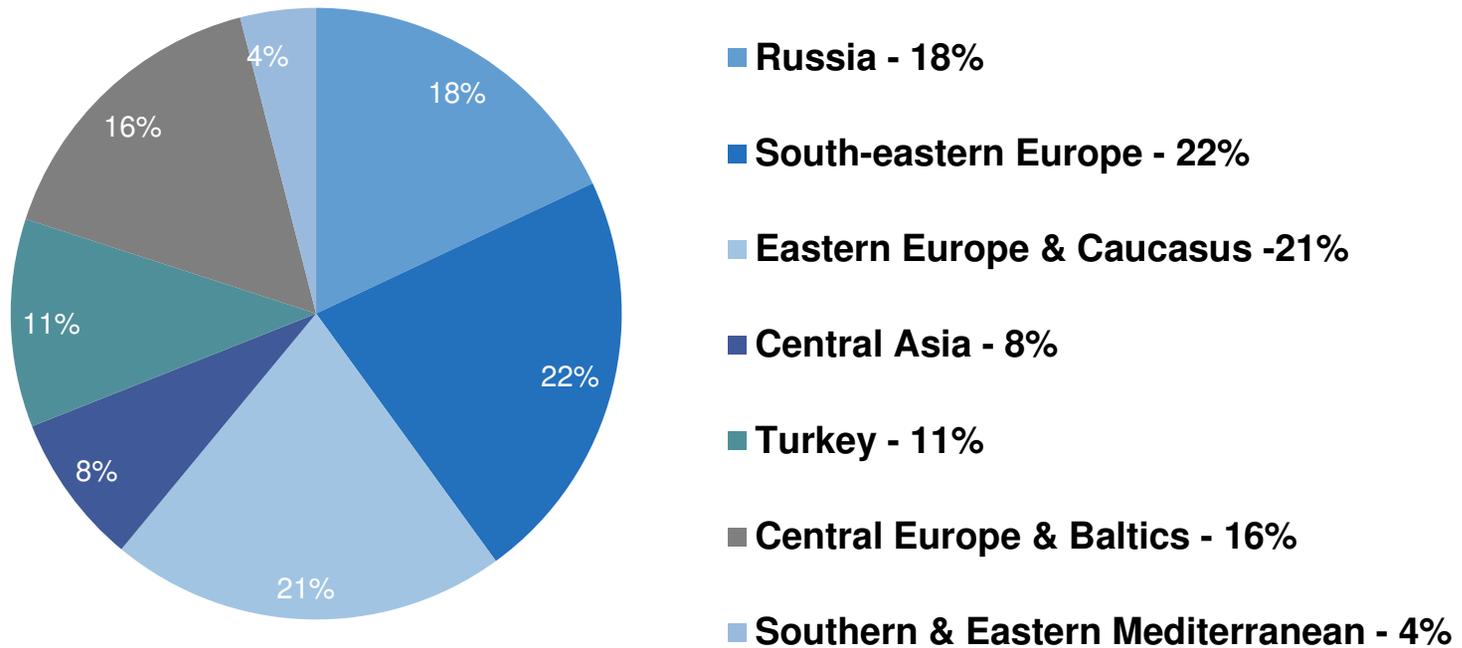
EBRD Finances Diverse Range of Enterprises



Net cumulative business volume €95bn

Note: Unaudited as at end December 2014

Country Group Portfolio Distribution



Net cumulative business volume €95bn

Note: Unaudited as at end December 2014

EBRD Product Flexibility tailored to project needs

Equity

- Common stock or preferred
- Minority position only (up to 35%)
- Mezzanine
- Other
 - guarantees
 - currency swaps

Loans

- Senior, subordinated, convertible
- Long Term (up to 10y or more) or Short Term revolving
- Floating/ Fixed rates
- Choice of currencies (€, US\$, Local currency)

Key strengths of EBRD

▶ **Operational**

- ▶ Extensive knowledge of local economy, business environment and practices, local presence
- ▶ Client-oriented, including as engaged minority partner for businesses
- ▶ A business partner who shares risks, including political
- ▶ Catalyst to access additional equity, debt and trade finance
- ▶ Provides finance to both private and public sector clients
- ▶ High standards for corporate governance and compliance

▶ **Institutional**

- Strong, internationally recognised financial partner with long-term perspective
- Close working relationships with governments and shareholders
- Political leverage due to EBRD's unique mandate and shareholder structure
- Preferred Creditor Status
- AAA credit rating
- Work closely with market sources of capital to fill “market gaps”

Outline

1. Introduction to EBRD
2. **EBRD: Case Studies**
3. What makes the difference

IPP4 Al-Manakher Power Project - Jordan

Company Information

- AES Levant Holding BV Jordan PSC , owned 60% by AES Corporation (US) and 40% by Mitsui and Co. Ltd (Japan).

EBRD Finance

- A secured limited recourse loan of up to US\$ 100 million. The remainder of the required funding is being provided by a mixture of debt financing from the US Overseas Private Investment Corporation and the sponsors.

Use of proceeds

- To fund the development of a 240MW peaking power plant, 15 km east of Amman in Jordan.

EBRD value added

- EBRD financing will help to meet Jordan's urgent needs for power in the short-term and in the longer-term support Jordan's transition towards a sustainable, low carbon economy through the provision of the flexible, responsive backup capacity needed for the widespread development of intermittent renewable energy generation such as solar and wind.

Signed in

2012



MITSUI & CO., LTD.



Case Study

First Modern Logistics Terminal, Georgia



Client: Gebrüder Weiss (JV between GW International, Austrian transport and logistics company, and Tegeta Motors, Georgian auto parts retailer)



EBRD finance: EUR 1.0 million

Type of finance: Senior loan



Total Project cost: EUR 12.0 million

Year: 2013



Project description: Construction of the intermodal logistics terminal



- Impact:**
- Building the first logistics terminal of this type and scale (11,300 m²) in Georgia with state of the art warehousing facilities introducing new all-in-one service (the full spectrum of transport and logistics)
 - Transferring international know-how and expertise, including efficient inventory management and bundle services, to the Company in Georgia

The project supports the development of an intermodal logistics terminal in Georgia addressing the needs for quality warehousing infrastructure, modern supply chain management as well as cost-efficient and flexible transport services.



Universal: EBRD finances new washing machine factory - Egypt

Company Information

- Universal Washing Machines is part of the Universal Group which is now the largest domestic appliance group in Egypt.

EBRD Finance

- A long-term secured senior loan of US\$ 24.3 million (around EGP 150 million).

Use of proceeds

- to finance the completion of a new manufacturing facility, including the acquisition of production equipment, with a capacity of up to 3 million washing machines a year
- This will be the first facility to manufacture, as opposed to assemble, washing machines in Egypt and will be fully automated

EBRD value added

- The project will have a strong transition impact by introducing modern technology in large scale washing machines production in Egypt, which will enhance the know-how and skills of the workers in the Company.

Signed in

2013

universal
Tomorrow's Technology



Sofia Water Project, Bulgaria

- Client: Sofiyska Voda, currently 77 per cent owned by Veolia Water and 23 per cent owned by the City of Sofia
- EBRD Finance: EUR 51.5 million Total project cost: EUR 147 million
- Investment in Sofiyska Voda's priority investment programme, including investment in water and wastewater treatment
- A well balanced concession contract combined with efficient project implementation and necessary tariff increases lead to an increase in investment and higher service levels.
- Project supported the development of the regulatory framework in the water sector.



Poland: Wrocław Parking PPP loan

- SPV supervised by Mota-Engil Group
- Tenor of the concession – 40 years
- EBRD Finance: PLN 31.3m (equivalent to EUR 8m)
- Tenor – 15 years, including a 3 year grace period
- Pledge of selected assets
- Long term concession to design, construction and operation of an underground parking facilities of 331 places in close proximity to the historical centre of Wrocław
- Ease traffic congestion caused by drivers searching for scarce parking
- Enforcement of traffic laws and restrictions



Lesieur Cristal - Morocco

Company Information

- Joint stock company listed on the Casablanca Stock Exchange since 1972
- Leading Moroccan producer of edible oil and soap

Signed in

2012



EBRD Finance

- EUR 2.5 million loan

Purpose of investment

- Construction and launch of a biomass boiler to improve energy efficiency and overall profitability



KEC Gas Flaring Reduction Project – Egypt *(upstream oil and gas)*

Client

Kuwait Energy International Limited, independent oil & gas company with various oil operations in Egypt including Area A, Burg El Arab, Abu Senann and East Ras Qattara.

EBRD / other Finance

Corporate loan of USD40m / IFC Loan of USD62.5m
Other Banks Loans USD62.5m / Total Capex USD 165m

Technical assistance

Donor-funded technical appraisal of alternative opportunities for utilisation of APG

Use of proceeds: to finance:

- Gas flaring reduction investments
- Energy efficiency improvements
- Fields development capex

EBRD value added / impact

GHG emission reduction: Area A: 60,000 tCO₂/year
Abu Sennan: up to 300,000 tCO₂/year depending on final development of the new fields
Implementation of a company-wide program to reduce APG flaring

Signed in
2013

Kuwait Energy



Outline

1. Introduction to EBRD
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EBRD's Transition Mandate

Article I of the Agreement establishing the EBRD:

- ▶ “...the Bank shall ...foster the transition towards open market oriented economies and to promote private and entrepreneurial initiative...and applying the principles of multiparty democracy, pluralism and market economics...”

Transition impact - definition:

The likely effects of a project or a portfolio of projects on a client, sector or economy, which contribute to their transformation from central planning to well-functioning, market-based structures enabling sustainable and inclusive economic growth

3 dimensions of transition impact:

- ▶ **The structure and extent of markets:** greater competition in project sector, market expansion (market linkages to customers and suppliers, international or regional integration of economic activity)
- ▶ **Market institutions and policies:** increased private sector participation including provision of public goods and services, improved legislation and regulation to improve institutions, laws and policies
- ▶ **Market-based conduct, skills and innovation:** transfer and dispersion of skills, demonstration effects from innovation, setting standards of corporate governance and business conduct

Can a Bank have impact ?

Finance only commercially viable projects



Credibility



Acceptance



Impact enhanced by
Policy Dialogue

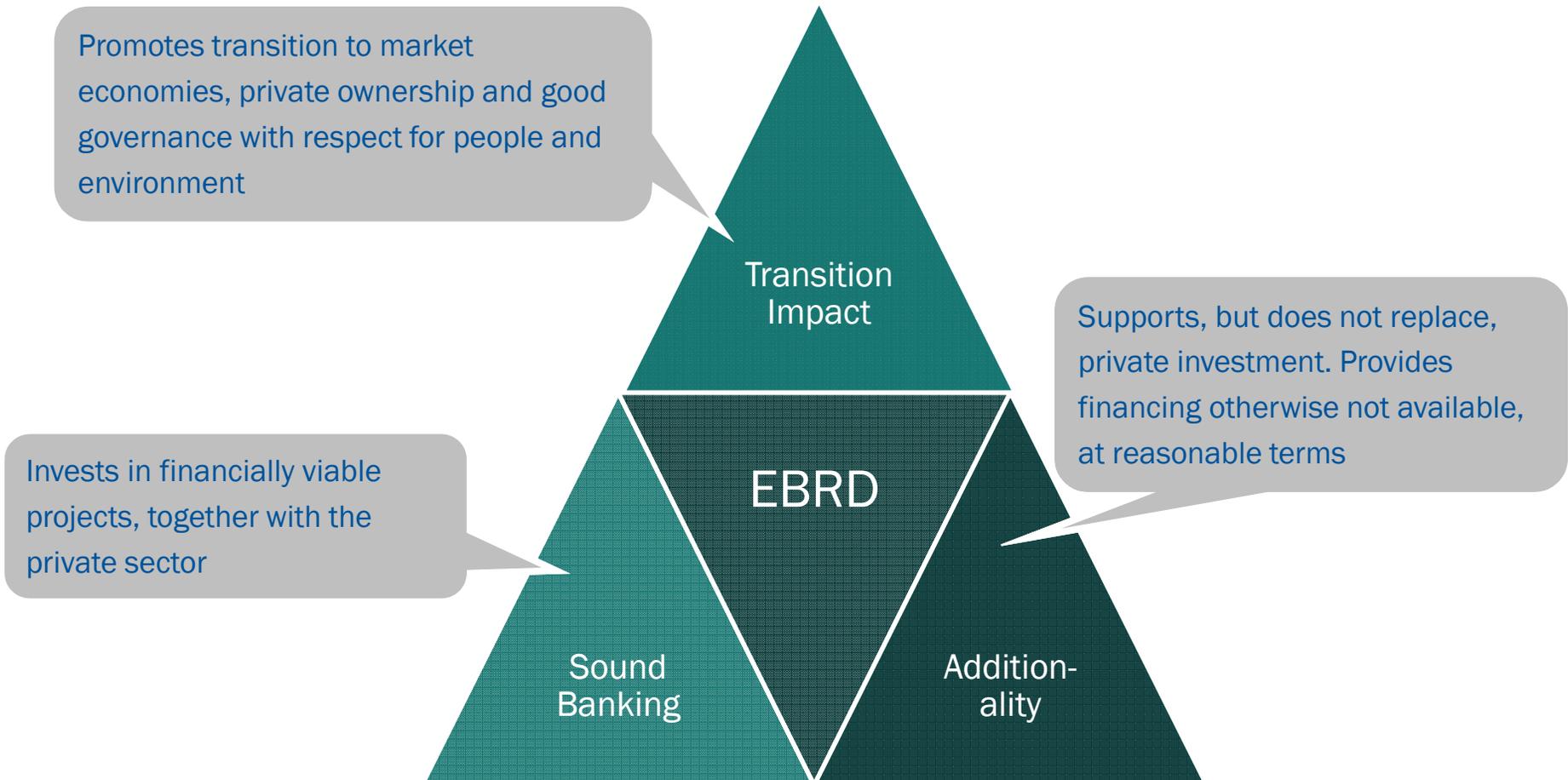
EBRD's Transition Mandate - Criteria

7 Criteria:

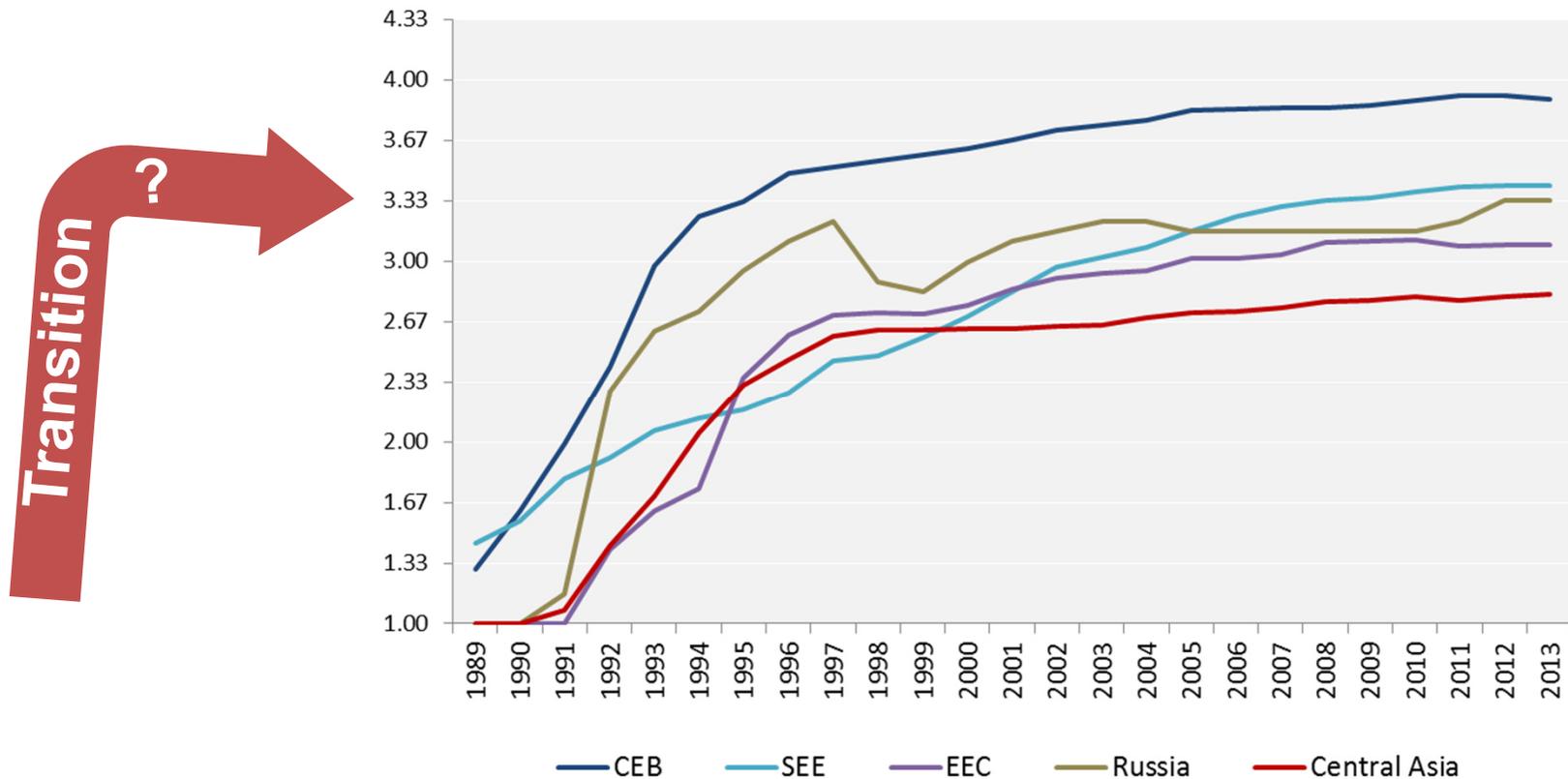
- ▶ Competition
- ▶ Market expansion
- ▶ Increasing Private Sector Participation
- ▶ Institutions, laws and policies (ie improve legislation, regulation + implementation)
- ▶ Skills (transfer and dispersion; managerial, credit; institutional capacity – e.g. regulators, judiciary...)
- ▶ Innovation by demonstration effect (leasing, restructuring, privatisation, bonds...)
- ▶ Corporate Governance Standards

Mission and Vision

Three Key Principles



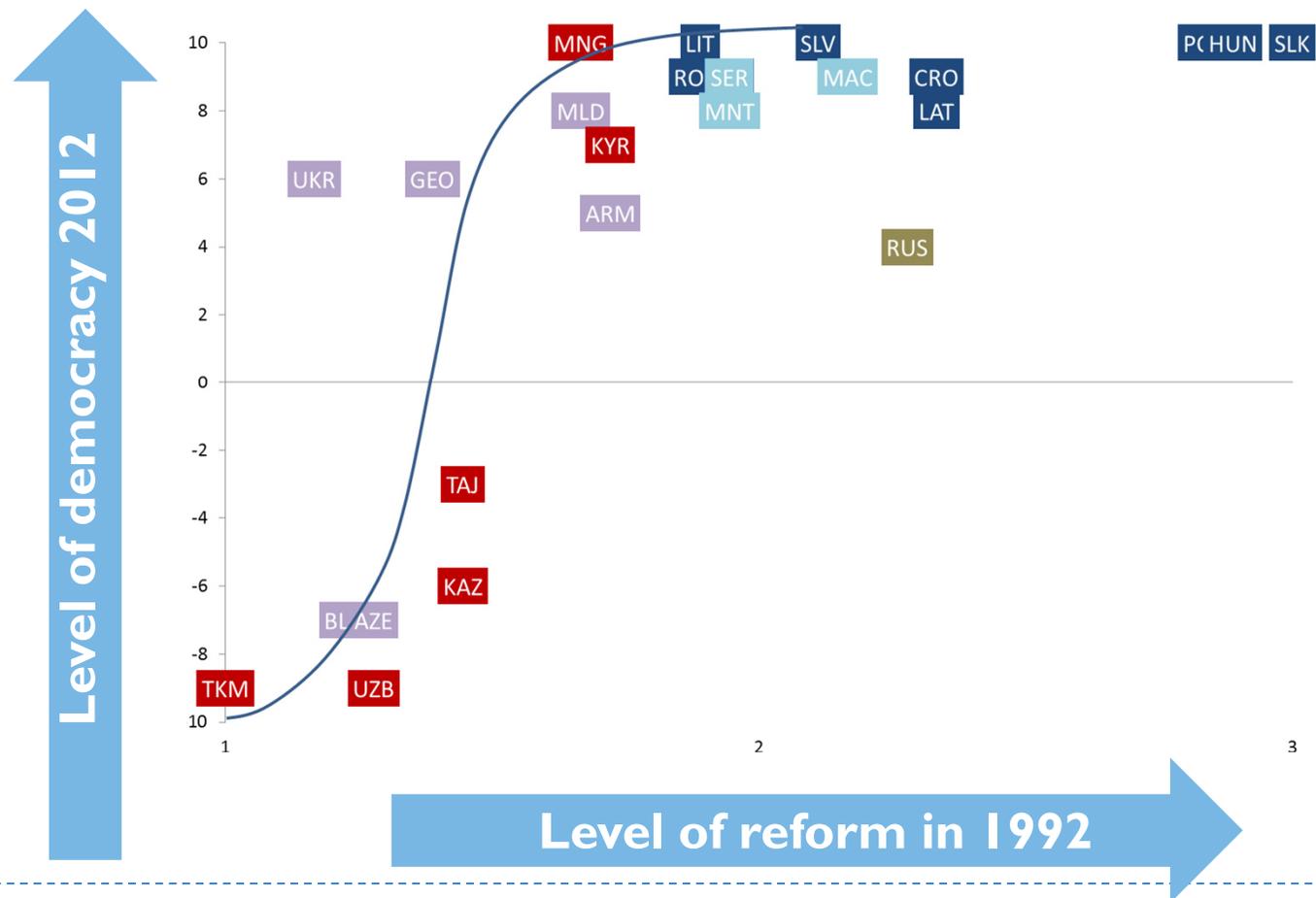
However: transition process stagnating



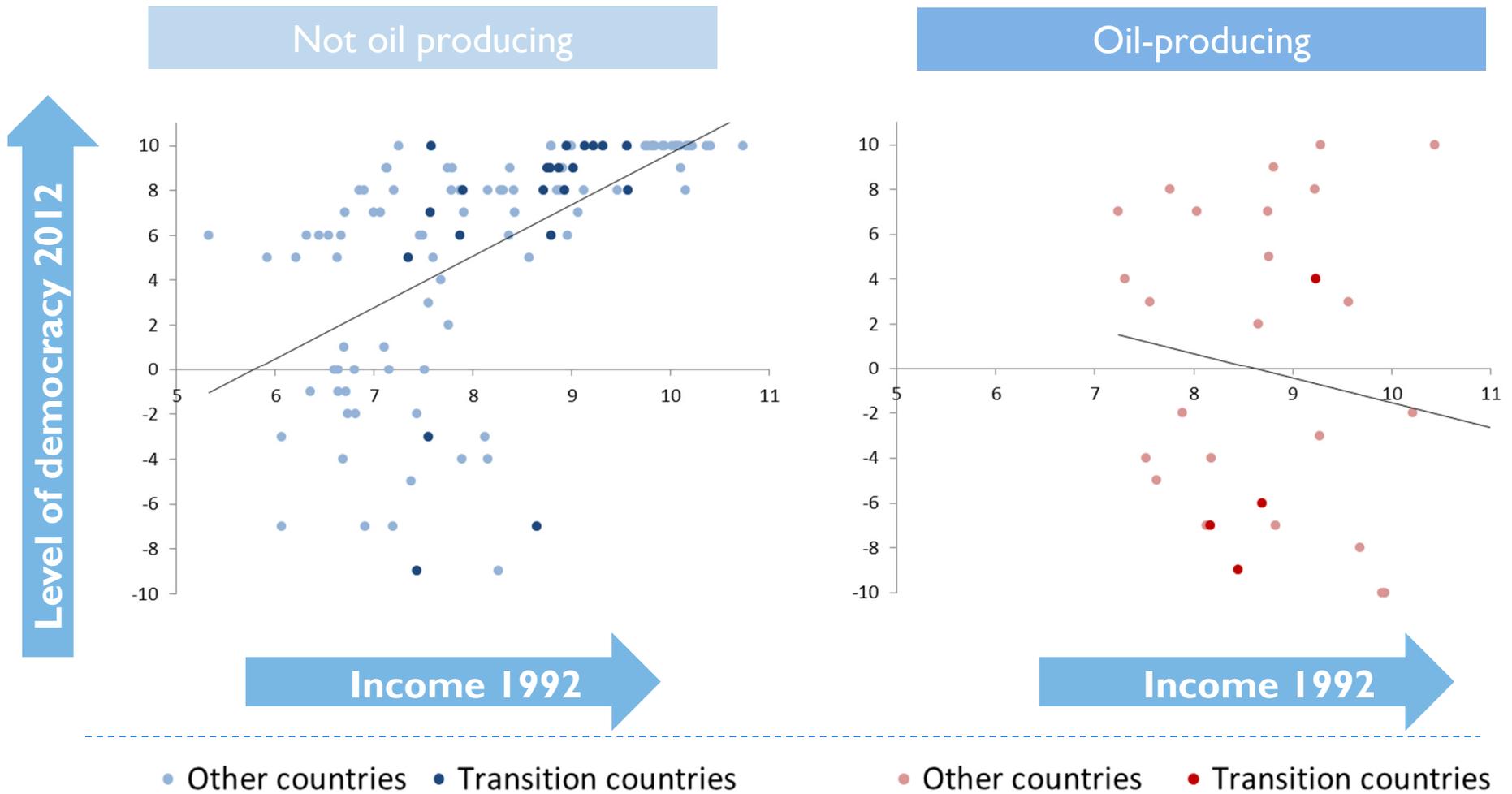
Stuck in transition?

- Reforms have stagnated or reversed since the mid-2000s, hampered by political systems, weak human capital, and social pressures.
- On current policies, growth in transition countries will remain much too slow to achieve convergence. Accelerating growth requires new reforms.
- Democracy is a driver of reform (though not the only one).
- Conversely, reform seems to help democratise
 - By making societies richer and building constituencies for democratisation
 - Creating competition and weakening **vested** interests opposed to democracy

Early reforms help to foster democracy



But powerful interests (natural resources) may hold it back.



Drivers and elements of democracy

- Rule of law
- Checks and balances / balance of powers
- Well-functioning institutions, including regulators and law enforcement
- Strong private sector (creativity, diversity)
- Competition
- Education and skills
- Inclusiveness

Re-invigorating transition

Economic inclusion matters for transition:

- Economic growth requires *inclusive* economic institutions: “those that allow and encourage participation by the great mass of people in economic activities that make best use of their talent and skills” (Acemoglu and Robinson 2012)
- Overlaps with EBRD’s concept of an “open market economy”
 - A market economy is hardly open (and cannot be very effective) if it does not “allow and encourage participation”
 - Exclusion is inefficient and slows structural change
 - Participation in markets and competition are twin concepts

Re-igniting reforms and strengthening institutions

EBRD medium-term goals:

- Building in resilience into reforms

- improve governance in the public and private sector (e.g.: regulatory independence and capacity, transparent and efficient public procurement, efficient corporate boards with high integrity); enhance inclusive economic institutions and contribute to robust economic structures (e.g. local currency lending, development of knowledge economy, strong and competitive SME sector)

- Supporting market integration

- facilitate cross border trade, regional infrastructure and energy interconnection development, financial integration

- Addressing common global and regional challenges

- Promote sustainable resource use and management, enhanced food security and regionally coordinated policy and investment approaches to help combat negative environmental impact and climate change

While maintaining its focus on investments, EBRD is stepping up policy dialogue to nudge reform and provide advice to create frameworks and institutions

Defining and measuring economic inclusion

Inclusion defined as **equality of opportunity** or “differences in economic success due to circumstances outside of individual control such as gender, place of birth, ethnicity or social background” (Roemer et al)

EBRD focus on:

- **youth**
- **gender**
- **regions**

Defining and measuring economic inclusion

- ▶ Inclusion '**gap**': a measure of the extent to which the present structure of the economy achieves equality of opportunity
- ▶ Emphasis on **structure**, not so much on outcomes (but use some outcome indicators as a reflection of structure and quality of policy implementation)

Focus on **gaps** with respect to a mainstream group (e.g. males, urban population). If *both* suspected excluded groups and mainstream group do poorly, there is no “inclusion gap” (but there may be other transition or development gaps)

Measuring economic inclusion

Inclusion ‘**gap**’: a measure of the extent to which the present structure of the economy achieves equality of opportunity

Emphasis on **structure**, not so much on outcomes (but use some outcome indicators as a reflection of structure and quality of policy implementation)

Focus on **gaps** with respect to a mainstream group (e.g. males, urban population). If *both* suspected excluded groups and mainstream group do poorly, there is no “inclusion gap” (but there may be other transition or development gaps)

Youth inclusion gaps



European Bank
for Reconstruction and Development

Inclusion Gaps for Youth

Country	Labour Market Structure	Opportunities for Youth	Quantity of Education	Quality of Education	Financial Inclusion
Central Europe and Baltic States					
Croatia	Medium	Large	Small	Medium	Medium
Estonia	Medium	Small	Negligible	Medium	Negligible
Hungary	Large	Medium	Negligible	Small	Large
Latvia	Small	Small	Small	Medium	Large
Lithuania	Medium	Small	Small	Medium	Small
Poland	Medium	Medium	Small	Medium	Large
Slovak Republic	Medium	Medium	Small	Large	Large
Slovenia	Medium	Small	Small	Small	Negligible
South-Eastern Europe					
Albania	Medium	Large	Small	Large	Negligible
Bosnia and Herzegovina	Small	Medium	Medium	not available	Small
Bulgaria	Small	Medium	Small	Medium	Small
Kosovo	not available	not available	not available	not available	not available
Macedonia, FYR	not available	Medium	not available	Large	Medium
Montenegro	Medium	Large	Small	Large	Large
Romania	Small	Medium	Small	Medium	not available
Serbia	Small	Large	Large	Medium	Large
Turkey	Medium	Medium	Large	Medium	Large
Eastern Europe and Caucasus					
Armenia	Medium	Large	Small	Medium	Negligible
Azerbaijan	Medium	Large	Negligible	Large	Medium
Belarus		not available	Negligible		Large
Georgia	Negligible	Large	Negligible	Medium	Negligible
Moldova	Medium	Medium	Small	Large	Negligible
Ukraine	Medium	Small	Small	Large	Negligible
Russian Federation	Medium	Medium	Negligible	Medium	Medium
Central Asia					
Kazakhstan	Small	Medium	Small	Large	not available
Kyrgyz Republic	Medium	Medium	Medium	Large	Small
Mongolia	Small	Medium	Medium	not available	Negligible
Tajikistan	Medium	Large	Small	not available	Negligible
Turkmenistan	not available	not available	Small	not available	Negligible
Uzbekistan	not available	not available	Small	not available	Small
Southern and East Mediterranean					
Egypt	Medium	Large	Large	not available	Negligible
Jordan	Negligible	Large	Large	Medium	Large
Morocco	Medium	Large	Large	Large	Medium
Tunisia	not available	Large	Large	Large	Small
Comparator Countries					
France	Medium	Large	Negligible	Small	Medium
Germany	Medium	Negligible	Small	Small	Negligible
Italy	Small	Large	Negligible	Medium	Large
Sweden	Large	Medium	Small	Small	Negligible
UK	Small	Medium	Small	Small	Negligible

Gender gaps

Inclusion Gaps for Gender

Country	Legal Regulations	Health Services	Education	Labour Policy	Labour Practices	Employment and firm ownership	Access to Finance
Central Europe and Baltic States							
Croatia	Negligible	Small	Negligible	Medium	Large	Medium	Small
Estonia	Negligible	Small	Negligible	Small	Large	Medium	Medium
Hungary	Negligible	Small	Negligible	Negligible	Large	Medium	Large
Latvia	Small	Medium	Negligible	Small	Large	Medium	Small
Lithuania	Negligible	Small	Negligible	Small	Medium	Medium	Medium
Poland	Small	Small	Negligible	Small	Large	Medium	Medium
Slovak Republic	Negligible	Small	Negligible	Small	Large	Large	Medium
Slovenia	Negligible	Small	Negligible	Small	Large	Medium	Medium
South-eastern Europe							
Albania	Negligible	Medium	Small	Small	Large	Large	Large
Bosnia and Herzegovina	Negligible	Medium	Negligible	Medium	Large	Large	Large
Bulgaria	Negligible	Small	Negligible	Small	Large	Medium	Medium
Kosovo	not available	not available	not available	not available	not available	not available	Large
Macedonia, FYR	Small	Medium	Small	Small	Large	Medium	Medium
Montenegro	Small	Medium	Negligible	Medium	Large	Medium	Medium
Romania	Negligible	Medium	Negligible	Small	Large	Medium	Medium
Serbia	Small	Medium	Negligible	Medium	Large	Large	Small
Turkey	Small	Small	Medium	Small	Large	Large	Large
Eastern Europe and Caucasus							
Armenia	Medium	Medium	Negligible	Small	Large	Large	Small
Azerbaijan	Negligible	Medium	Small	Medium	Large	Medium	Large
Belarus	Small	Small	Small	Medium	Large	Small	Medium
Georgia	Small	Large	Negligible	Small	Large	Medium	Small
Moldova	Small	Medium	Negligible	Small	Large	Negligible	Medium
Ukraine	Negligible	Medium	Negligible	Small	Large	Medium	Large
Russian Federation	Small	Medium	Negligible	Medium	Large	Medium	Medium
Central Asia							
Kazakhstan	Small	Large	Negligible	Medium	Large	Large	Medium
Kyrgyz Republic	Medium	Large	Negligible	Medium	Large	Medium	Small
Mongolia	Small	Large	Negligible	Medium	Large	Negligible	Small
Tajikistan	Medium	Large	Medium	Small	Large	Medium	Large
Turkmenistan	Large	Large	Small	Medium	Large	Large	Large
Uzbekistan	Medium	Medium	Medium	Medium	Large	Large	Large
Southern and Eastern Mediterranean							
Egypt	Medium	Large	Medium	Medium	Large	Large	Large
Jordan	Medium	Large	Negligible	Medium	Large	Large	Large
Morocco	Medium	Large	Medium	Medium	Large	Large	Large
Tunisia	Small	Medium	Small	Small	Large	Large	Large
Comparator Countries							
France	Negligible	Small	Negligible	Small	Medium	Medium	Medium
Germany	Negligible	Small	Negligible	Negligible	Medium	Medium	Medium
Italy	Negligible	Small	Negligible	Small	Medium	Medium	Large
Sweden	Negligible	Negligible	Negligible	Negligible	Medium	Small	Medium
UK	Negligible	Small	Negligible	Small	Medium	Medium	Medium

Regional inclusion gaps



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Inclusion Gaps for Regions

Country

Central Europe and Baltic States

Croatia
Estonia
Hungary
Latvia
Lithuania
Poland
Slovak Republic
Slovenia

South-Eastern Europe

Albania
Bosnia and Herzegovina
Bulgaria
Kosovo
Macedonia, FYR
Montenegro
Romania
Serbia
Turkey

Eastern Europe and Caucasus

Armenia
Azerbaijan
Belarus
Georgia
Moldova
Ukraine
Russian Federation

Central Asia

Kazakhstan
Kyrgyz Republic
Mongolia
Tajikistan
Turkmenistan
Uzbekistan

Southern and East Mediterranean

Egypt
Jordan
Morocco
Tunisia

Comparator Countries

France
Germany
Italy
Sweden
UK

	Institutions	Access to Services	Labour Markets	Education
Croatia	Medium	Medium	Small	Medium
Estonia	Small	Medium	Negligible	Small
Hungary	Medium	Small	Large	Small
Latvia	Small	Medium	Small	Medium
Lithuania	Medium	Large	Small	Small
Poland	Medium	Medium	Medium	Small
Slovak Republic	Medium	Small	Medium	Small
Slovenia	Small	Negligible	Small	Small
Albania	Medium	Medium	Large	Small
Bosnia and Herzegovina	Large	Large	Large	Small
Bulgaria	Medium	Medium	Medium	Medium
Kosovo	Medium	Large	Large	Small
Macedonia, FYR	Small	Medium	Large	Large
Montenegro	Medium	Medium	Large	Small
Romania	Medium	Large	Medium	Medium
Serbia	Large	Medium	Large	Large
Turkey	Medium	Large	Medium	Large
Armenia	Medium	Medium	Large	Medium
Azerbaijan	Medium	Small	Large	Small
Belarus	Medium	Negligible	Small	Negligible
Georgia	Negligible	Large	Large	Medium
Moldova	Medium	Large	Large	Large
Ukraine	Medium	Medium	Medium	Small
Russian Federation	Medium	Small	Small	Medium
Kazakhstan	Small	Small	Medium	Medium
Kyrgyz Republic	Medium	Large	Medium	Small
Mongolia	Negligible	Medium	Medium	Medium
Tajikistan	Medium	Large	Large	Small
Turkmenistan	not available	not available	not available	not available
Uzbekistan	Large	Medium	Large	Large
Egypt	not available	not available	not available	Large
Jordan	not available	not available	not available	Small
Morocco	not available	not available	not available	Large
Tunisia	not available	not available	not available	not available
France		Medium		Medium
Germany	Negligible	Large	Negligible	Medium
Italy	Large	Medium	Negligible	Small
Sweden	Medium	Small	Small	Small
UK	Medium	Small	Small	Large

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