

Satellite Event of the European Commission's Annual Research Conference

15 November 2023

Panel 2: Official International and European Funding Sources

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Abstract

The private sector will be key to finance the successful economic convergence of EU candidate countries. So how do we use public resources in the most impactful way to mobilize the private sector? It requires listening to investors – both local and foreign – and understanding the opportunities and obstacles they face. Addressing the obstacles requires an integrated approach of policy engagement, investment and capacity building.

Reference with hyperlinks

Diagnostics: opportunities and obstacles to private sector investment

- Identifying the main obstacles to entrepreneurship and private sector development through IFI and DFI **country diagnostics**
- **Reshaping of global supply chains** to ensure resilience to unforeseen shocks, with greater attention being paid to, and more opportunities for “nearshoring” [forthcoming EBRD Transition Report 2023-24]
- “Can the Western Balkans converge towards EU living standards”? [forthcoming EBRD paper]
- **Ukraine's Recovery and Reconstruction**
- Assessing countries' transition gaps along the six dimensions of a well-functioning, opening market economy: **competitive, well-governed, integrated, resilient, green and inclusive**
- Capturing the development of financial markets in the EBRD regions and competitor economies through the **Financial Market Development Index**

Investment climate and good governance

- In Ukraine EBRD supports **Business Ombudsman Institutions** to promote the interest of the private businesses, foster dialogue with the government, and ultimately incentivising the development of entrepreneurship and create a level playing field for businesses. EBRD was instrumental in setting up the Business Ombudsman Institution in Ukraine soon after the Maidan uprising of 2014 and the formation of a reform-minded government looking to improve the investment climate. In partnership with the Ukrainian government, the OECD and five Ukrainian business associations, EBRD signed an MoU launching an Anti-

Corruption Initiative, which led to the creation of the **Ukraine Business Ombudsman Council** as a governing body.

- EBRD has supported the establishment of **Investment Councils (ICs)** designed to provide a platform for dialogue between private sector and authorities with the ultimate aim of leveraging the private sector's experience to enhance the content and prioritisation of policy reforms. We work with **donors** to put in place Secretariats for the Investment Councils that provide organisational, analytical and professional support to the IC members.
- **"EU-EBRD Country-specific Investment and Climate Reviews and Action Plans for Eastern Partnership (EaP) countries"** support transition and the development of sustainable and equitable economic growth models. The objective of the project is to support the design and implementation of structural reforms across the EaP countries in the areas of business and investment climate as well as financial infrastructure; human capital - including labour market & social protection; economic governance and sustainability of public finances and reinforcing the rule of law and good governance.

Institutional capacity building and support to implement reforms

- The **Ukraine Reforms Architecture (URA)** programme managed by EBRD, designed in partnership with the EU and jointly supported with other donors, has been supporting reform delivery and institutional transformation in Ukraine since 2016. The overall objective of the programme is to promote the establishment of sustainable good governance standards within the public administration through the engagement of qualified and motivated external experts who are in the position to: a) fill the capacity gaps, and b) facilitate and drive the process of behavioural change and effective decision-making. With the onset of the war, it pivoted to support the GoU in (i) addressing critical emergency needs of the country's administration and economy (e.g. coordination of humanitarian support, relocation of businesses from conflict areas, damage assessment), (ii) the Reform Delivery Office (RDO) serving as the Kyiv-based secretariat of the Multi-Agency Donor Coordination Platform (MDCP), and (iii) EU integration (supporting preparations for the launch of accession negotiations).
- In October 2023, the **Moldova Support Platform (MSP)** was launched at an event hosted by the Ministers of Foreign Affairs of Germany, France, Romania and Moldova. The MSP is coupled with EBRD's extending financing to Moldova to acquire strategic gas reserves with a new €199 million package, which includes a €165 million loan and a €34 million grant from Norway. This brings to almost €500 million the total of EBRD-led finance to the country for gas purchases since the start of **Russia's war on neighbouring Ukraine**, safeguarding Moldova's energy security. The project includes policy dialogue for the implementation of an important **energy sector reform plan (ENERSAP)**, which incorporates new legislative action for full third-party access, functioning wholesale and retail markets, effective unbundling of Energocom, and further EU market integration with a revision to the energy market rules. EBRD has also appointed "Reform Support Teams" (RSTs) into the Ministries of Infrastructure and Energy and are recruiting experts for the Public Property Agency, the State Chancellery and the Ministry of Economy to help with energy and transport SOE restructuring efforts and FDI attraction. The RSTs are implemented with financing from the Government of France and the EU.

Creating markets: Renewable energy auctions

- **In Albania**, EBRD supported the authorities to introduce competitive tendering for wind projects, with three bidders awarded a total capacity of 222.48 MW with sites selected by developers. Financial bids were opened in July 2023 with Total Eren’s bid of €44.88/MWh marking a record low price for the country. The wind auction in Albania represented the third auction on which EBRD provided assistance to the Albanian authorities. The first two were solar auctions for government-selected sites, the first of which signed earlier this year (**the 140 MW project in Karavasta**). The Swiss State Secretariat for Economic Affairs (SECO) has provided funding for the technical assistance that covers the new tender, as well as for work on energy sector regulation that will enable renewable energy sources to be deployed. SECO is also financing the upcoming 300 MW solar auction.
- **In Serbia**, EBRD supported the auction for 450 MW of renewable energy capacity (split between 400 MW for wind and 50 MW for solar). Financial bids were opened in August 2023. The support scheme encourages the market integration of renewables, as developers receive support in line with market prices, in addition to income from the sale of electricity achieved in the power market. The auctions represented the first round of a three-year plan, which envisages the total allocation of premiums for 1,000 MW for wind power generation capacity and 300 MW for solar PV. Prior to the launch of the auction, amendments to the Law on the Use of Renewable Energy Sources and accompanying secondary legislation, such as the **balancing decree** and the **feed-in premium decree**, were adopted to enable faster integration of new renewables capacity in the Serbian power system and market, while preserving the reliability and stability of the system’s operation. The launch of the auction follows a technical cooperation project with the Ministry of Mining and Energy and supported by the government of Switzerland via a grant from SECO.

Capital and financial market development

- EBRD promotes the establishment of an efficient ecosystem for **local capital markets** through a combination of technical assistance and policy engagement to support legal and regulatory reforms, as well as investments. The Bank has pursued a series of covered bond legal and regulatory reforms that aim to align the applicable frameworks with widely accepted standards, enhance transparency and efficiency, and eliminate obstacles that hinder the use of **covered bonds** as a financing tool. More recently, the legislative package for the EU-wide harmonisation of covered bond frameworks, comprising the Covered Bond Directive and the amendment to Article 129 of the Capital Requirements Regulation, has served as an anchor for local covered bond legislation in both the EU and some non-EU jurisdictions. In addition, EBRD serves as an **anchor investor** of bond issuances, with the Bank’s participation contributing to their success in attracting local and regional investors, as well as international financial institutions.
- In Ukraine, EBRD is working with the National Securities and Stock Market Commission on the **alignment of Ukraine’s capital markets legal and regulatory framework with EU standards**, and on the development of new products for the reconstruction phase (including social, infrastructure and covered bonds, and asset-backed securities, as well as derivatives).
- **Promoting EU equivalence** in the financial sector in the Western Balkans is a priority for EBRD, including under the **Vienna Initiative**, to enhance the resilience of the financial system, working with relevant public and private sector stakeholders of EU-based cross-border banks active in emerging Europe. In the meantime, EBRD provides capital relief for EU banks through unfunded guarantees such as the “Guarantee for Growth” (G4G) facility as a bridge solution until policy reforms could result in a positive equivalence opinion issued by the European Commission. For example **in Albania**, EBRD is providing Raiffeisen Bank in Albania with an unfunded guarantee of €65 million in local currency linked to the bank’s domestic sovereign bonds portfolio. The additional risk-taking capacity freed up by the guarantee will allow Raiffeisen Bank to commit fresh funds to

Albania's MSMEs, increasing its support for the real economy. The additional guarantee is being offered under the EBRD's G4G facility, which was pioneered in late 2020 with Raiffeisen Bank in Albania to the tune of €100 million local currency equivalent. The extension builds on the success of the initiative to date.

State-owned enterprises (SOEs) and sector reform

- While EBRD has been supporting SOE reform / sector reform to promote private sector development since its inception, the Bank recently introduced the **SOEs Management Assistance Reform and Transformation Program (SMART)** - a new instrument that pools EBRD expertise on SOEs and other public sector clients. It leverages public investments to fast-track the launch of programmatic interventions to support upstream and sector reforms, governance and operational improvements at the company level. The programme includes national-level policy reform dialogue (e.g. SOE ownership policy), at the sector level (e.g. unbundling of SOE conglomerates), and at the company level (e.g. corporate development plan).
- **In Serbia** through a **€550 million investment for the public railways company** as part of a €2.2 billion financing package, EBRD together with EU and EIB are joining forces to support Serbia's large-scale modernisation of the rail link connecting Belgrade to the country's second-largest city, Niš. In addition to financing, EBRD is conducting policy dialogue at the national level to build capacity at the Railway Directorate to develop a Vision for the future of the Serbian rail sector including explaining the role, rationale and need for an independent regulator, together with its implementation if adopted, and provide general support and training to the Rail Directorate across several regulatory activities. At the corporate level, EBRD is supporting the railway company with a corporate development plan to improve operational efficiency and higher standards regarding procurement. EBRD is also providing technical assistance to help the Serbian rail sector increase rail transport safety, and helping Serbia upskill its rail sector workforce by developing new market-relevant dual-learning curricula.
- **EBRD, together with the Energy Community Secretariat (ECS)**, is supporting Ukraine's technical and regulatory efforts to **complete integration of its energy system into the European Network of Transmission System Operators for Electricity (ENTSO-E) and gas (ENTSO-G)**. The accelerated integration into the EU's energy grids is key to the energy efficiency, security, and independence of the country. An MoU was signed between EBRD and ECS in December 2022 to provide support to Ukraine and strengthen national and regional energy security aligning with best practice in the EU as well as with broader objectives of EU energy integration and Paris alignment. This MoU focuses on the short to medium terms needs of Ukraine and Moldova to speed up the system and market integration of both countries with the EU to increase energy security.

Access to skills and human capital resilience

- As one of its key strategic priorities, EBRD combines its investments with support to clients and policy partners to strengthen human capital and promote **equality of opportunity** – especially in the context of crises. This includes the effects of climate change, digitalisation but also of war and fragility on people's livelihoods and jobs. EBRD has developed an approach that is distinct amongst MDBs and directly links the Bank's investments with promoting access to skills, jobs, entrepreneurship finance and vital services for all. With the support of donors, EBRD launched the **"Action for Equality and Gender Multi-Donor Fund" (A4EG)** in March 2023 to support the acceleration and expansion of the private sector to promote gender equality and equality of opportunity across the Bank's operations.

- EBRD’s engagement in Ukraine encompasses a dedicated ‘human capital response’ which generates timely impact to address wartime challenges and shock and build a more resilient labour market to support the countries’ reconstruction and economic recovery. Recent engagements under EBRD’s human capital response include:
 - Supporting **MHP group**, one of Ukraine’s leading grain, poultry and edible oil producers to establish a new ‘no limit programme’ supporting veterans staff members to integrate back into professional life.
 - Supporting the **Ministry of Education and Science of Ukraine** to address wartime knowledge gaps affecting labour market institutions and to establish modern new practices promoting skills-matching in line with employers’ most critical demand for human capital.
 - Further support for **Naftogaz of Ukraine**, the country’s vertically integrated state-owned oil and gas holding, to address critical skills mismatches affecting its operations under the ongoing wartime conditions; in turn establish sustainable new talent pipelines aligned with the client’s most pressing needs, broadening access to skills development and employment opportunities.
- EBRD is supporting the Sector Skills Council in Albania focusing on the tourism industry which aims to establish a list of professional and vocational qualifications which are most urgently needed by the tour operators, hotels and other tourism firms in Albania and to promote those qualifications in the local education system. The initiative is aligned with the Albanian Infrastructure and Tourism Enabling Programme (AITEP), jointly supported by the EU and EBRD, which funds investments in infrastructure and tourism companies on the one hand, and on the other helps the government achieve the tourism-related objectives of the National Strategy for Development and Investment.
- In North Macedonia, EBRD supported the public electricity generation utility JSC Elektrani na Severna Makedonija ("ESM") with a senior loan of €25 million for implementing a 30 MW solar PV project consisting of: (i) a 10MW "Oslomej" expansion (currently under construction) on the exhausted coal mine of TPP Oslomej, and (ii) a 20MW "Bitola" expansion adjacent to TPP Bitola. As part of this cooperation with the Government of North Macedonia, EBRD’s engagement aims to i) identify the social implications of the **just transition** and challenges for regional development and ii) in cooperation with local educational institutions, define redeployment and reskilling opportunities and develop labour market initiatives to retrain the coal region’s local workforce.

Mobilising private co-financing

- Debt-mobilisation and co-financing
- Risk-sharing with Partner Financial Institutions to support the private sector

Coordination with partners

- EBRD is a member of the steering committee of the Multi-Agency Donor Coordination Platform (MDCP) for Ukraine to promote close coordination among international donors and IFIs to ensure that international economic / financial support to Ukraine is provided in a coherent, transparent, and accountable manner.
- As a practical operational example of international coordination to address a horizontal obstacle: a Memorandum of Intent was signed at the 2023 World Bank and IMF annual meetings in Morocco by the World

Bank, EBRD, EIB and CEB, with the four MDBs agreeing to take steps to **harmonise procurement practices for public sector investment** financed by the MDBs in Ukraine.

- **The EBRD – G7 DFI-EDFI Ukraine Investment Platform** was launched in October 2023 to promote co-financing among participating institutions through strengthening cooperation and information exchange for the reconstruction assistance of Ukraine with a mainly private sector focus.