

Russia



European Bank
for Reconstruction and Development

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The Russian economy has recovered from its deep recession of 2009 and the EBRD is focused on addressing core long-term challenges. This includes efforts to diversify and modernise the economy, promoting innovations, growing the private sector and developing Russia's regions. In 2012, the Bank signed a total of 67 projects worth €2.6 billion in the country.

Russia is also an emerging donor of the EBRD. It is expected that it will establish its first bilateral technical assistance fund worth €40 million in 2013. The fund, once established, will focus on core activities of the Bank in Russia's regions, including municipal infrastructure, energy efficiency, corporate development of medium-sized businesses and support for small enterprise and agribusiness.

Highlights in 2012

To encourage Russia to diversify away from a dependence on oil and gas, the Bank has worked with several partners to invest in sectors such as manufacturing and agribusiness. This included a €168 million loan to automotive producer PCMA RUS for the construction of a new, modern car plant and to encourage foreign component makers such as Continental Tyres, Takata and Antolin to localise production and transfer international know-how and skills. The Bank also invested in the health care sector through KDL, Russia's third largest chain of labs for medical testing and Katren, the third largest pharmacy wholesale distribution network.

In support of the growing Russian knowledge economy, the Bank prioritised finance for innovative companies such as software developer Prognoz, telecoms infrastructure operator Russian Towers and KupiVIP - Russia's leading online fashion store.

It was a successful year for the Bank's efforts to promote its Sustainable Energy Initiative (SEI) in Russia with the Bank exceeding its annual target to sign 22 projects with significant SEI components. These include a landmark loan with Fenice Rus, an energy service

company (ESCO) providing turn-key energy efficiency solutions to industrial companies. Energy efficiency has also been built in to projects such as the €75 million loan to modernise municipal district heating in the Far Eastern Republic of Sakha, Yakutia.

The municipal sector in 2012 saw the Bank use an innovative financing scheme with Raiffeisenbank to reach out to smaller municipalities in the regions and enable co-financing that will meet a demand for medium-sized long-term loans.

In the power sector the Bank engaged with RAO ES Vostoka (ESV) and RusHydro to finance a €100 million switch from coal to gas fuel at the Vladivostok power plant, alongside reform of the isolated Russian Far East power system. The project is expected to reduce annual carbon emissions by around 700,000 tonnes.

In the financial sector the Bank continued to prioritise the development of local capital market infrastructure and made an equity investment in MICEX stock exchange to improve corporate governance ahead of its IPO in February 2013. The EBRD also continued its support to a private

At a glance

Number of operations signed

753

Net cumulative business volume

€23,552 million

Cumulative disbursements

€17,578 million

Portfolio as of end 2012

€9,737 million

Number of active operations

331

Operating assets

€7,678 million

Private sector share of portfolio

85%

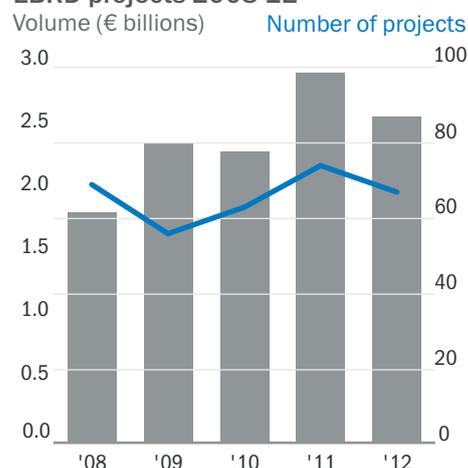
Operations signed year to date

13

Business volume year to date

€265 million

EBRD projects 2008-12



pension fund that offers pension plans to the wider public, and expanded its financing to transparent elements in the insurance and leasing sub-sectors.

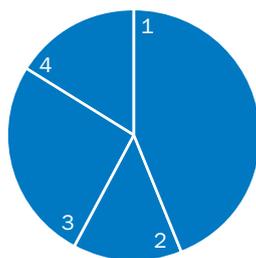
In 2012 the Western High Speed Diameter project became the first road public-private partnership (PPP) that the Bank financed in Russia. The Bank has also been actively supporting the development of a legal and regulatory framework for future PPPs in Russia (see case study).

Country strategy

The overarching strategic priorities of the EBRD in Russia are diversification, modernisation and innovation, support for the private sector and regional development.

As outlined in the country strategy for Russia (2013-15), energy efficiency will be an integral part of the EBRD's activity in the country. The Bank aims to address the demand side of energy use by reducing waste of energy and greenhouse emissions in all sectors, which are important to support corporate competitiveness and to combat climate change.

Sector breakdown of current projects



1	Industry, Commerce & Agribusiness	44%
2	Energy	14%
3	Financial sector	26%
4	Infrastructure	16%

- 1 Corporate comprises agribusiness, manufacturing and services, property and tourism and telecommunications
- 2 Energy comprises natural resources and the power sector
- 3 Financial sector includes investments in micro, small and medium-sized enterprises via financial intermediaries
- 4 Infrastructure comprises municipal environmental infrastructure and transport



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Major new road laid in St Petersburg

In June 2012, the EBRD committed a loan of up to €200 million to fund a key section of the Western High Speed Diameter (WHSD): a new toll road that hopes to divert up to 140,000 vehicles a day from the centre of St. Petersburg, which is a World Heritage site. The EBRD joined four other banks to fund the €1.5 billion project, the Bank's first road public-private partnership (PPP) project in Russia.

St. Petersburg is the fourth largest city in Europe and one of Russia's key transport hubs. In recent years, the city has suffered from severe congestion and the WHSD

is a by-pass motorway designed to relieve pressure by connecting the city's major commercial port with the St. Petersburg Ring Road in the south and the Scandinavia motorway to Finland in the north. The motorway will have a total length of over 46 km, with

up to eight lanes in some sections.

Throughout the project steps have been taken to mitigate the environmental and social impacts of the project including the use of noise screens and an open tunnel, to avoid noise and air pollution. There has also been ongoing and proactive consultation with local residents and civil society organisations throughout the project, which is unusual in Russia where there is not a tradition for wide consultation on public infrastructure projects.

The Bank has also been actively supporting the development of a legal and regulatory framework, and which it is hoped that future PPPs in Russia can benefit from.