


SPECIAL STUDY

EvD Property Sector Strategy Evaluation

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Abbreviations

BREEM	Building Research Establishment Environmental Assessment Method
BSTDB	Black Sea Trade and Development Bank
CEB	Central Europe and Baltic States
COOs	Countries of Operation (of EBRD)
CREATE	City Regeneration and Environment (TC)
DLF	Direct Lending Facility
E2C2	Energy Efficiency and Climate Change team (EBRD)
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EE	energy efficiency
EE&C	Eastern Europe and the Caucasus
EIB	European Investment Bank
EPG	Economics, Policy and Governance team (EBRD)
ESAP	Environmental and Social Action Plan
ESCO	Energy Service Company
ETCs	Early Transition Countries
EU	European Union
EUR	Euro
EvD	Evaluation Department team (EBRD)
FDI	Foreign Direct Investments
FOPC	Financial Operations Policy Committee
GET	Green Economy Transition
HAVC	Heating, ventilation and air condition
ICT	Information and Communication Technologies team (EBRD)
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
LC2	Local Currency and Capital Markets team (EBRD)
LCMs	local capital markets
LTT	Legal Transition team (EBRD)
MEI	Municipal and Environmental Infrastructure team (EBRD)
MoU	Memorandum of Understanding
OCE	Office of Chief Economist team (EBRD)
OPA	Operational Performance Assessment
OPAV	Operational Performance Assessment's Validation
OPI	Operation Performance Indicators
PD	policy dialogue
PMM	Project Monitoring Module
PPP	Private-Public Partnership
P&T	Property and Tourism team (EBRD)
REIT	Real Estate Investment Trust
RO	Resident Office (EBRD)
TIMS	Transition Impact Monitoring System
SEE	South-Eastern Europe
SEFF	Sustainable Energy Finance Facility
SEI	Sustainable Energy Initiative
SEMED	South and Eastern Mediterranean

SGI	Strategic Gender Initiative
SMEs	Small and Medium Enterprises
SRI	Strategic Resource Initiative
TC	Technical Cooperation
TI	Transition Impact
UNDP	United Nations Development Programme
UNWTO	United Nations World Tourism Organisation
USD	United States Dollar

Defined terms

the Bank /the EBRD	European Bank for Reconstruction and Development
The operation team / P&T	staff of the Bank's team responsible for the Bank's operations in the Property and Tourism sector .
Results framework	A diagram showing all expected results of a project/strategy classified as outputs, outcomes and impacts and the causal relationships among them using a theory of change
Outputs	The products, capital goods and services which result from an operation (this and subsequent definitions adapted from OECD-DAC definition)
Outcomes	The short-term and medium-term effects directly attributable to operation outputs
Impacts	The positive or negative long-term effects to which an operation contributes, directly or indirectly, intended or unintended
Results	The output, outcome or impact (intended or unintended) of an operation

Executive summary

The EBRD's 2010 Property Strategy (the Strategy) was strongly shaped by the financial crisis of 2008, which hit the Property and Tourism sector (P&T) particularly hard. "Crisis response" was an immediate and dominant operational priority, mainly meaning liquidity support for existing clients to complete on-going investments. Longer-term, the Strategy's objectives were limited to demonstration of energy efficiency in buildings, loosely promised "institution building" - but only through a client-specific lens, and increased emphasis on projects in less advanced countries and secondary cities.

In the event, relatively little demand emerged for "crisis response" financing in this sector. Wider changes in the EBRD's overall approach to operations (such as strategic initiatives and expansion to SEMED), followed closely on the Strategy's approval, further sharply limiting its relevance. Meanwhile, experience with and early results from its operational choices, such as shopping malls in secondary cities, fell well short of expectations. In many respects the Strategy as originally articulated was barely applied; successive P&T management teams sought instead to follow the Bank's strategic directions where practicable, although without a formal update of the Strategy, which resulted in a new set of operational priorities ("shadow priorities").

P&T operations between 2010 and 2017 appear to have had three phases. Initially single-asset development projects (hotel, office or shopping mall) dominated, though their relevance was poor. After criticism from the Board and the entry of a new management team in 2013, operational alignment with Bank strategic initiatives was improved – more projects supported urban regeneration, capital markets development and economic inclusion. Since 2017, following yet another management change, strategic focus appears to have improved somewhat further, with policy dialogue and TCs now playing a more prominent role.

During the Strategy period (2010-2017) the Bank financed 65 P&T projects for €1.18 billion (1.6% of total volume), broadly unchanged from under the previous strategy; sub-sectoral and country composition of operations were also similar, albeit with sharply lower post-crisis investments into property funds.

The key assumption underlying property projects, particularly in the first part of the Strategy period, was that the more geographically remote the target and the higher the risk level, the greater the transition impact and additionality. This approach exposed P&T projects to high risks, many of which did materialise, resulting in a quarter of the projects from the first two Strategy years ending up in Corporate Recovery. Based on a 25 projects sample (from the entire Strategy period) reviewed by EvD, two-thirds of them experienced problems. Shopping malls and hotels in particular suffered from "weak market conditions", resulting in lower-than-projected leasing or occupancy rates. As for transition impact, shopping mall projects rarely resulted in lower local rent levels (a key measure of a project's impact on competition), while energy efficiency savings often could not be verified due to lack of systems in place to measure them. Weak linkages to the local economy, as well as difficulty in privatising tourism assets and launching IPOs, were other key obstacles to achieving transition impact. TCs and policy dialogue were rare, although they have been applied more frequently in recent years.

There has been no change in the EBRD's Transition Indicator ratings for the property sector of any country of operation ("COO") between 2010 and 2017. However, property-related indicators in the World Bank's "Doing Business" reports show that twice as many COOs have achieved progress than declined during that time, although this achievement cannot be attributed to the Bank's activities. P&T operations were widely dispersed among 19 countries and many sub-sectors which limited the size of their impact on any particular market.

Main findings:

Strategy

- Systemic and institutional challenges were to be addressed by other IFIs in a largely unspecified way; the Bank would focus on increasing competition in selected regions by financing projects, demonstrating energy efficient technologies and improving corporate governance.
- The Strategy identified important transition challenges but was not based on underlying market diagnostics; it lacked clarity on linkages between assessed challenges and resulting operational priorities. Strategic coherence was undermined given cases where intended actions did not correspond to the headline operational priorities. For example "Institution Building" and "Supporting Legal and Administrative Framework" was to be accomplished by limited project-level steps.
- Country strategies often highlighted institutional and legislative deficiencies as the key P&T challenge. However P&T never had more than a marginal operational role in any; where (limited) links were cited, they were typically in energy efficiency.
- Resource requirements to deliver the overall strategy or any sub components were not addressed.

Operations:

- P&T operations were widely dispersed across many countries, dominated by stand-alone hotels and shopping malls; this fragmentation undermined scope for any discernible broader market impact. The evaluation found no evidence thus far of the Bank achieving sufficient presence or critical mass to shape sector developments in any demonstrable way.
- The Strategy promised a shift from EU/Central Europe towards ETC and other regions. However, operational volume in ETCs was halved, while it doubled in EU countries. SEMED has become a key region more recently.
- Support for local capital markets has been the most frequently targeted objective among the new ("shadow") priorities pursued in recent years. Urban regeneration and economic inclusion projects have also been targeted, while two large tourism financing frameworks have been prepared.

- Two-thirds of projects reviewed experienced problems; shopping malls and hotels in particular performed poorly. With one exception, the Bank lost all equity invested and exited so far.

Policy dialogue and TCs:

- Policy dialogue was mostly limited very narrowly to integrity standards for clients and co-investors in property funds, and applying environmental and social standards.
- There was no appreciable policy dialogue with public institutions through P&T projects until 2015 and since then only limited engagement, e.g. commenting on laws in Poland and Morocco, supporting improved hospitality standards in SEMED and the development of tourism in Uzbekistan.
- E2C2 and LTT supported improved energy efficiency standards for buildings, although mainly for FI (SEFF) and MEI (public housing) projects; this work had no material P&T dimension.
- Only eight transition-supportive TCs were implemented, most within the last three years.
- A large TC was launched in 2018, in cooperation with MEI and E2C2, aiming at preparation of urban regeneration master plans for selected cities (see box 8).

Recommendations:

Management should prepare a new sector strategy for approval by the Board, introducing and significantly strengthening key elements. A key objective should be to identify much more clearly how a strategically determined combination of specific transactions, technical assistance, policy dialogue and collaboration with other actors is intended to deliver a demonstrable transition impact.

This should include:

- sector analysis and diagnostics identifying gaps in transition qualities relevant for the sector, setting out Bank priorities and what it believes it is positioned to accomplish;
- a consolidated picture of the business objectives, country and regional priorities, as well as policy dialogue work, through which this is to be delivered. This should specifically consider:
    - broad operational directions and key performance indicators covering transactions, sufficient to identify intended results and permit monitoring;
    - how the new strategy will be integrated into country strategies and specifically, whether engagement will be targeted to particular countries and/or circumstances; and
    - broad assessment of resources required to effectively implement the strategy.

1 Background

1.1 Study objective and scope

This special study evaluates the relevance and implementation results of the EBRD's 2010 Property Sector Strategy[1] (**the Strategy**). The Bank intends to prepare a new Property sector strategy in 2019. The Strategy is out of date because of changes in the property markets of the Bank's COOs, and in the Bank's geographical reach and priorities, including new strategic initiatives and new transition qualities. The key objective of this evaluation is to provide the Bank's Board and Management with information useful for the preparation of the new strategy.

The study covers all the Bank's Property and Tourism sector (**P&T**) operations signed during an eight year period, i.e. from the beginning of 2010[2] to the end of 2017 (**evaluation or Strategy period**). During this period the Bank signed 65 P&T sector operations for a total amount of €1.18 billion[3] - see annex 3 for the list of projects.

1.2 Key objectives of the Strategy and "shadow priorities"

The Strategy was a reaction to (and a reflection of) the 2008-9 global financial crisis, which hit the property and tourism sector hard. Therefore, in the short-term the Strategy's key theme was "**crisis response**", i.e. financing existing Bank clients who were experiencing liquidity shortages, helping them to complete on-going investments. The Strategy also stressed the importance of achieving a presence in countries with medium transition gaps/challenges, and of supporting high demonstration effect projects in Ukraine and Russia. This effectively meant that the Bank would actively target all COOs, with the exception of Central Europe and the Baltic States (CEB) region.

The Strategy's long-term objectives are presented in box 1.

Box 1. Strategy objectives

- **Sustainable market development through institution building and innovation** – support for high integrity standards and an adequate and enforceable legal and administrative framework;
- Development of **secondary markets** for commercial property;
- **Climate change mitigation** – demonstrating energy efficient building:
- **Geographical diversification** - increased operations in the countries where **transition gaps remain large**, focusing on Eastern Europe, Russia, Western Balkans, Caucasus and Central Asia, and on **secondary cities** in other regions, except for Central Europe. **Smaller projects** were to be targeted.

In terms of specific types of activities, the Strategy highlighted **logistics centres and technoparks, regional hotels and institutional strengthening of the construction industry.** See box 4 for more

[1] BDS10-015 (Final)
[2] The Strategy was approved on 9 March 2010, however consultations on its content were ongoing with the Board since mid-2009. It is therefore assumed that they informed operational choices already at the beginning of 2010. To ensure equality of the Strategy and pre-Strategy periods (which are being compared), this study covers all P&T 2010 projects (including one signed before March 9).
[3] The number and volume of projects in this evaluation is based on Net Cumulative Business (net of cancellations and recommitments of amounts committed earlier) and not on Annual Business Volume (ABV). This avoids double-counting of some projects.

details on the Strategy's operational priorities and annex 1 for an ex-post results framework prepared for the Strategy by EvD.

However, shortly after the Strategy was introduced, it became increasingly clear that its priorities were losing their relevance, due to changes in the property markets and a shift in the Bank's strategic direction. The main developments were as follows:

- Little demand for "crisis response" financing. After 2011 it was no longer needed;
- Supporting less developed markets, especially secondary cities, proved to be challenging. The underlying economy of such markets/cities is often unable to support high standard commercial property, resulting in lower than projected leasing rates/occupancies, leading to financial underperformance;
- EBRD's geographical reach changed substantially after 2010, expanding into Turkey, SEMED and Greece/Cyprus, while operations in Russia (a key intended target market) were suspended;
- After 2013 the EBRD launched a number of strategic initiatives, such as the Sustainable Resource Initiative and the Strategic Gender Initiative (SRI and SGI, both April 2013), the Local Currency and Local Capital Markets Initiative (LC2, November 2013) and Green Economy Transition (GET, October 2015). They set ambitious targets, ranging from scaling-up green investments, increasing gender equality and inclusiveness, and boosting local capital markets, all of which presented opportunities to the P&T team;
- New TI qualities introduced in 2016. Some (Green, Competitive, Well-governed) corresponded to the Strategy's priorities, while others were new (Inclusive, Resilient).

2012 marked a low point in the P&T team's business - with only three projects approved by the Board and three more under facilities, it was the third year of decreasing project volumes and numbers (see figure 2 in section 3.1). The P&T team Director changed in October that year and the new management recognised the Board's limited appetite for one-off property projects, which lacked strategic alignment with the Bank. Following consultations with several Board Directors, the new P&T management adopted a more programmatic approach in line with the Bank's new initiatives, where P&T could complement the Bank's activities in other sectors. However, rather than rewriting the Strategy, the team decided it would argue the rationale for each new project case-by-case (in the Board report). The team's management changed again in 2017, bringing fresh views on its operations. Accordingly, **three periods** can be distinguished in the Bank's P&T operations, broadly defined by the changes in the team's management:

2010-2012 - the financing of one-asset developments (hotels, office or shopping malls) continued to dominate. Their relevance was poor, while many of them ended up in Corporate Recovery;

2013-2016 – improved alignment of P&T projects with the Bank's strategic initiatives. More projects supported capital markets development, inclusion and urban regeneration;

2017-now - following yet another management change, the strategic focus of P&T projects was sharpened. Policy dialogue and TCs started playing a more prominent role, although the results of these relatively recent developments cannot be assessed yet.

Interviews with Board Directors and Management, coupled with analysis of the 2013-2017 projects, largely confirms that the formal 2010 Strategy had been replaced by a *de facto* new strategy or what might be seen as "shadow priorities." As discussed further below, EvD had hoped to be able to engage directly on this and other points with former Management of the P&T team but was not able to obtain their assistance or cooperation. In EvD's view the following are some of the main post-2013 themes evident in Bank operations ("shadow priorities"):

- Projects contributing to broader **urban regeneration** programmes;
- **Local capital market** transactions, particularly in more advanced countries;
- Promotion of **inclusiveness**, especially in hospitality and retail projects;
- Emphasis on energy efficiency in buildings, reinforced by requirements for building **certification** and expanded to include **sustainable use of resources;**
- Geographical shift towards **SEMED, Turkey** and most recently Greece, away from Russia (last operation signed in mid-2012); renewed interest in more advanced countries (Croatia, Romania, Poland) and with continued emphasis on smaller operations in selected ETCs;
- Increased interest in **tourism,** including programmes integrated with other sectors (e.g. CHIF[4]), new types of investments (marinas), mixed hospitality-residential developments or tourism investments related to other priorities (e.g. capital market transactions). In some cases this has been combined with policy dialogue (mainly in SEMED and recently in Uzbekistan), promoting higher service standards, inclusiveness and sustainability.

For this reason the evaluation does not assess the Strategy dogmatically but it considers a broad range of objectives against which to assess the Bank's activities and results:

- The stated "official" objectives set in the Strategy; and
- "Shadow priorities", unwritten but largely in line with the Bank's post-2013 strategic directions and market trends.

1.3 Previous P&T strategies and their evaluation

Before the 2010 Strategy, the Bank's operations in the P&T sector were guided by:

- Strategy for Property Sector (BDS94-175) of November 1994, and
- Property Operations Policy (BDS01-022 (F)) of December 2001

The 2001 policy was built around an extremely general formula of "promoting private sector investments", offering only a few more specific objectives (support for smaller projects through property funds; technology and skills transfers; support for local construction industry). It was FDI-driven, while its broad approach provided very little strategic guidance for the selection of projects. Its main message was: focus on prime commercial real estate, in prime urban locations in capital cities, for prime international clients.

[4] The Cultural Heritage Integration Framework (BDS18-032) - see box 7.

Box 2. Key differences between 2001 Policy and 2010 Strategy

- The 2001 policy anticipated achieving TI just by financing private projects to international standards. The 2010 Strategy **highlighted the need to reform legal and administrative framework** (although it meant mainly the improvement of integrity standards and corporate governance).
- The 2001 Policy focused on demonstrating "new financial products" (equity and mezzanine); 2010 was to tackle the **liquidity problems** of existing clients, mainly through loans. It de-emphasised equity (due the financial crisis).
- 2010 clearly elevated the promotion of **energy efficiency to the key objective** of the P&T's operations.
- In contrast to the 2001 Policy, which favoured advanced countries, capital cities and FDIs, the 2010 Strategy **clearly focused on ETCs and regional projects,** although leaving the door open to operations in all other regions but CEB.

Both the 2001 Policy and the 2010 Strategy were extremely general. However, 2001 had a better-argued and presented logical framework, starting from transition challenges, through transition indicators and "property sector event line elements", connected to priorities. This type of analysis was absent from the 2010 Strategy which, in this sense, was a step backwards (more in section 2.2).

The P&T sector has only once been evaluated, in a special study (PE05-325S "Property Sector Policies – Regional", July 2006) which covered the years 1992 - 2004, i.e. eight years under the 1994 Strategy and three years under the 2001 Policy. Key recommendations from this evaluation are presented in box 3.

Box 3. EvDs 2006 Property Sector evaluation: Main Recommendations

- Increase activities in the less advanced transition countries by adopting a ratio of project volume in ETCs to volume in advanced countries;
- Reconsider current investments in funds (to what extent their investments in the EU countries are likely to address remaining challenges in the sector across the entire region?);
- Consider identifying municipal infrastructure projects to accelerate transition in infrastructure and also help support transition in the property sector; consider aiding municipalities in the transparent privatisation of urban land and its development;
- Adopt a more structured approach to policy dialogue, focusing on addressing remaining "large" challenges, including the legal and institutional framework. This could be done through LTT and targeted use of TC.

Two of these recommendations were partially adopted into the 2010 Strategy and two were largely ignored. The first can be considered partially adopted as the new strategy focused on ETCs, however no volume ratio was introduced. Property funds had a lower profile in the 2010 Strategy (and subsequent operations), but existing investments were not exited. On the third recommendation, the P&T team argued a poor fit with its business model as this is MEI team territory. On policy dialogue the 2010 Strategy gave confusing messages and the Bank has kept LTT relatively small and focused on selected legal issues. The property sector has been deemed too difficult and too political, and LTT's expertise and resources inadequate to address its challenges (except those related to EE).

1.4 Study methodology and report structure

The study first analyses the relevance of the Strategy's commitments, their analytical underpinning, and the clarity and consistency of its objectives. It also discusses its links to country strategies and the Bank's strategic initiatives, as well as what additional value was expected to be brought by the Bank.

The study then analyses the effectiveness of the Strategy implementation, firstly by assessing the types of projects pursued against the priorities set in the Strategy, as well as the "shadow" priorities. Key characteristics of the portfolio structure in the Strategy period are compared with those of the preceding eight years (2002-2009), to identify changes in trends and verify alignment with strategic properties.

To ensure timely input for the new strategy, evaluation of results is based mainly on a desk review of 18 projects for which OPAVs and OPAs were earlier prepared, as well as the TIMS and PMMs of five additional projects. Two case studies from site visits are presented in annexes 9 and 10 and their results added to the overall evaluation sample (25 projects, 38% of the total portfolio).

The study then reviews the extent to which TC was used to support P&T projects, particularly policy dialogue, and whether it brought any higher-level benefits. Cooperation with other IFIs is also analysed. On a macro level, the study analyses changes in TI indicators for the P&T sector between 2010 and 2017, based on the EBRD's Transition Reports, as well as changes in the relevant World Bank's "Doing Business" indicators for the Bank's key countries of operation. The results of a short survey of P&T staff are presented in annex 14.

2 Relevance

2.1 Analytical underpinning of the Strategy

- The Strategy contained fairly extensive but largely **undocumented** and unsourced market analysis;
- Diagnostic support for directing investment to **secondary cities,** which contributed to many failed investments, was not produced;
- No consultants were used or external reports commissioned for diagnostic work dedicated to the Strategy. It was **prepared internally** by the team Director and one of the staff, with assistance from OCE.
- There is no evidence of the Strategy **being peer-reviewed** or subject to internal consultation. The Bank invited Civil Society Organisations to comment but none were received.

The Strategy presented comprehensive market analysis in two sections, as well as in annexes, which contain deeper market analyses by property sub-sectors and in relation to SEI 2, as well as environmental and social aspects. However, the background to these analyses and their sources are unknown (there are only three source references to CBRE/Colliers consultants and a few more in the annexes). EvD was unable to discover whether any specific methodology was employed for the analytical and diagnostic work, or the sources of information used. It appears that no consultants were used nor external reports commissioned for diagnostic work. Former

P&T team Directors have left the Bank and declined to assist EvD or to be interviewed for background.

Market analyses identified the **immediate challenges** as those created by the financial crisis, i.e. *"to mobilise liquidity to facilitate completion of selected projects"*. However, given that these were short-term challenges, more specificity in respect of the type of "selected projects" could have been expected.

The Strategy then identified **six longer term transition challenges**. It is understood that these were based on the team's general market knowledge as no dedicated diagnostic work was done. They can be summarised, and their depth of analysis assessed as follows:

(i) **Development of an adequate institutional framework** – a relatively high degree of specificity was provided on the types of deficiencies identified (legal basis for property rights, lack of property/land registers and collateral legislation, unfinished privatisation of state property, poor enforceability and predictability of regulations, bureaucratic interference, etc.) and differences among regions/countries (challenges in CBE were negligible, Georgia was praised for land registration rules, while Central Asia, Western Balkans and Eastern Europe were singled out as the regions with large challenges).

(ii) **Adequacy of property-related business environment and conduct** –need for international standards in business conduct and practice, including simpler administrative requirements (registration, zoning, planning permits, etc.) to reduce the scope for corrupt practices. The main challenges were to be found in Central Asia, Ukraine and Western Balkans.

(iii) **Market penetration of standard international techniques in property development** – called for innovation in building practices, technology and financing. The analysis differentiated between most COOs (where modern building and management techniques were still absent) and the CEB region (where the challenge was to mainstream the use of innovation, including in the context of urban redevelopments). However more details and specific examples could have clarified the kind of innovation or technology required and would have avoided any overlap with challenge (v) below.

(iv) **Availability of property-related financing products and entities** – the need to develop secondary property markets and increase the use of local currency were hailed as key challenges region-wide, because such markets reassure developers of an exit, thus acting as catalysts for further primary market activities. The lack of large institutional investors in the region was seen as a key deficiency, perpetuating this challenge across the region, with only minimal differences between CEB and the other COOs. This challenge was supported by a very brief analysis focused on Poland - the most active secondary market in the COO.

(v) **Presence and effectiveness of energy, environment and social support mechanism** – called for dissemination of best practice and its integration into property projects in relation to energy, environmental and social management. The analyses of this challenge were well supported by specific statistical information (e.g. showing that the energy needs of the average building in the region were about 3 times higher than those of similar buildings in the EU under similar climatic conditions). For this reason the built environment accounted for 39 per cent of energy consumption in the region, presenting the largest opportunity for energy efficiency. Relevant and data-supported information was provided on environmental and social gaps, including in sustainable tourism.

(vi) **Support for market-based mechanisms to ensure that demand and supply are well balanced** – requiring the creation of competitive markets, resulting in the addition of new developments built to appropriate standards, leading to market-based rent setting. Analytical evidence supporting this challenge was convincing and pointed to insufficient supply in less advanced countries and gaps in regional cities in medium/advanced countries. It was argued that **regional cities** have less sophisticated markets in terms of products and players, but also more shallow demand and a less liquid assets pool than primary cities. Russia, Ukraine, Turkey, Romania, Bulgaria and Croatia were singled out as medium-transition countries with the largest regional imbalances. Variance in the development of different types of properties in the regions was stressed, e.g. regional cities in Russia, Ukraine and SEE had relatively well developed retail facilities, while offices, hotels and warehouses were scarce.

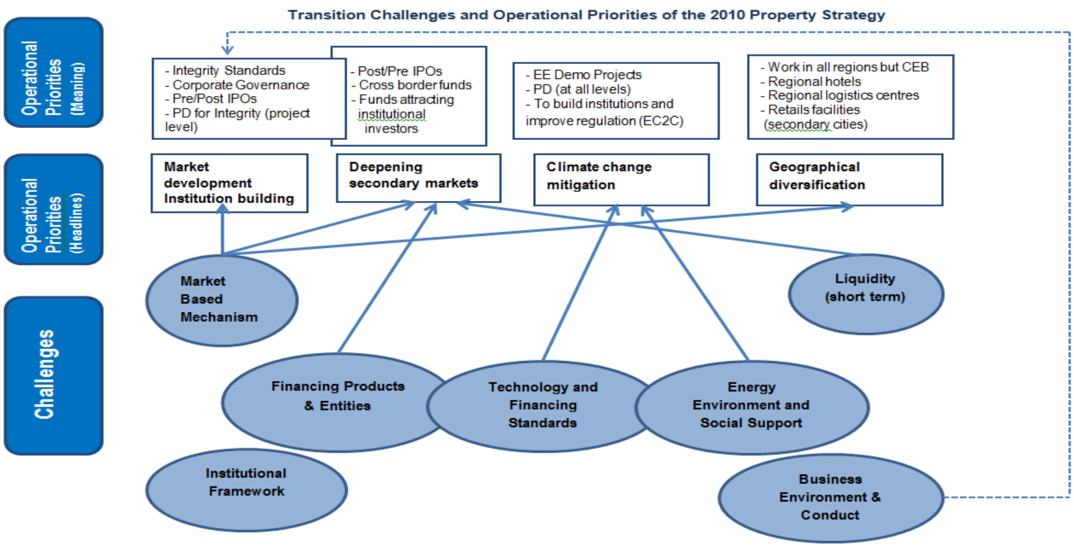
However, more **detailed diagnostics regarding the potential for regional cities** to support properties of an international standard were **missing**. This was a major oversight as one of the Strategy's key priorities was to invest in such cities. Although it is understood that targets were fragmented, analysis of 2-3 sample cities could have verified key assumptions. The lack of such analysis likely contributed to poor investment performance (see 3.6).

2.2 Operational priorities in the Strategy

- There was a partial **disconnect** between the challenges identified and the operational priorities set in the Strategy. It lacked a logical framework, clearly linking challenges with the Bank's transition qualities, from which operational priorities could have been logically derived.
- Some priorities promised "legal and administrative framework improvement" or "institution building", while the underlying work was narrowly focussed on **client-specific governance and integrity**. No actual work on institution building or legal or administrative framework improvement was planned beyond that related to REIT laws (mainly by LC2 team) and energy efficiency regulations for buildings (E2C2 team).
- Legal and regulatory inadequacies were to be addressed "**at the project level**" only. The "institutions" (which the Bank was to develop) were meant to be the Bank's private clients.
- **Policy dialogue** was mainly to improving client corporate governance. Legislative and regulatory changes in the sector were to be introduced by other IFIs.
- The Strategy only partially incorporated FOPC's comments on its draft. It **did not propose more meaningful policy dialogue or closer cooperation with other Bank teams and the LTT**, as repeatedly requested by the FOPC.
- The strategy did not provide any basis to make an ex-post judgment of its success.

Figure 1 presents the links (full, partial or absent) between the transition challenges identified and the operational priorities set in the Strategy.

Figure 1. Transition Challenges and Operational Priorities of the 2010 Property Strategy



It goes without saying that the Bank cannot address all identified sector challenges; the need for choice and prioritisation is one of the central purposes of a strategy. This is important as the challenges, which were listed first and seem strategically most important (inadequate institutional and legal framework), have not been reflected in such priorities. The P&T team's limited capacity to address them was mentioned, however the strategic choices could have been better explained. This disconnect between key challenges and the priorities might be due to the absence of a logical framework (which indeed had been present in the 2001 P&T strategy), where identified challenges would be linked to TI qualities, from which operational priorities could have been derived. Box 4 below summarises the priorities and their meaning as described in the Strategy.

Box 4. Long-term operational priorities and targets of the 2010 P&T Strategy

1. Sustainable market development through institution building and innovation – it promised use of investments together with TC and policy dialogue to contribute to the strengthening of the institutional environment, improve business conduct and governance and support transfer of skills and innovation in the markets, through channels such as:

- Promoting high standards of integrity;
- Promoting high standards of corporate governance and business practice;
- Investing in pre/post IPOs of development companies, that have the ability to transfer knowledge;
- Conducting policy dialogue at project level with developers and investors and local authorities to promote integrity standards and to contribute to strengthening of the institutional environment for property development

2. Creation and deepening of secondary markets – promised the Bank's engagement in post/pre-IPOs (repetition from the previous priority), cross-border property funds, as well as those which attract local institutional investors.

3. Climate change mitigation through energy efficiency – support for projects with substantial sustainable energy potential, which have strong demonstration effect and high replication potential. Crucially, policy dialogue at all levels was promised, "to assist in the development of appropriate institutions and regulatory standards".

4. Geographical diversification – Western Balkans, EE&C, Central Asia and Russia were to be prioritised, as well as regional cities (outside of capitals) in Romania, Bulgaria, Croatia and Turkey. The aim was to:

- Make regional cities more accessible to travellers on limited budgets (SME business travel and leisure tourism) by promoting regional hotels in the economy range;

- Support development of regional logistics centres along the region's strategic transport routes;

- Promote expansion of retail facilities to match the expansion of consumers' purchasing power.

In addition to these main four priorities the Strategy also pointed out to the following **operational targets**:

- Continued support for smaller scale projects, primarily in ETCs, using frameworks;

- Selective tourism investments with strong backward linkages, innovative and with strong operators; and

- PPPs in the context of the urban regeneration of dilapidated areas.

The Strategy's **Policy Dialogue** section called again for "institution building", stressing the importance of such market foundations as land cadastration or adequate legislation, however, it explained that it required *"specific expertise and access to stakeholders"*, pointing out that "*P&T team's ability to conduct such dialogue was limited by its modest size of operations and the fact that its participation in the projects starts after land purchase/zoning, leaving limited issues for policy dialogue."*

The Strategy made it clear that the Bank was only to engage in policy dialogue **linked to its project financing**, mainly with developers and perhaps with local authorities, in relation to:

- The promotion of integrity standards and business practices (conducted in the course of project-related negotiations);

- Assisting in dissemination of energy efficiency best practice – to be conducted "in close cooperation with E2C2 team".

The Bank was also to seek the increased involvement of domestic institutional investors in real estate investment vehicles (without specifying how) and it "*might engage*" with city planning in relation to urban regeneration. The EBRD was also to offer its expertise as "*a strong supporter and advocate of progressive dialogue conducted by **other IFIs**, which have well-established programmes in the fundamental sector issues, such as cadastration and land management."* The Strategy did not explain how this was to be done in practice.

EvD comments on the Strategy's long-term operational priorities:

1st priority - Despite calling for "institution building" in its headline, this priority focused instead on improving corporate governance and ensuring client integrity. There was at most a partial link to challenge (ii)[5], i.e. "*introduction of international standards in business conduct and practice*". However, in addition to poor standards at the company level, this challenge included *"simplification of administrative requirements (registration, zoning, planning permits, etc.)"*, which the Bank was not anticipated to address.

[5] Numbering of challenges in this section corresponds to that presented in section 2.1 "six long-term transition challenges".

2nd priority –linked to part of challenge (iv) which, however, was broader and included among other issues, mismatches in financing in local and foreign currencies, which were not mentioned in any of the priorities.

3rd priority - linked to part of challenge (v), however it omitted the other environmental and social issues raised by this challenge.

4th priority - linked with challenge (vi), however it was a relatively weak "priority". In practice, it enabled the Bank to work in all regions, except for CEB (from which regional projects in Croatia were carved out as permissible). During the eight years preceding the Strategy, out of eight CBE countries the Bank worked only in Croatia and Poland, the latter being the largest recipient in terms of project number and the second in terms of volume (after Russia). Therefore, this priority effectively meant that only Poland would no longer be targeted, while secondary cities would be favoured in most other countries due to larger market gaps than those in the capitals.

Policy dialogue - The Strategy's ambitions in this area were modest. The Bank's and particularly the P&T team's role was to be limited to undefined "support" of policy dialogue conducted by others. One of the policy dialogue priorities was a repetition of the first operational priority, which stressed "promotion of high integrity standards". This meant mainly filtering out clients, rather than active dialogue (although it also involved the application of the Bank's environmental and social standards at the client fund's investee company level). The second policy dialogue priority (legislation on energy efficiency of building) was to be pursued mainly by the E2C2 team, which already intended to engage in such dialogue in relation to SEFFs and MEI public housing projects. Its link with P&T sector projects has been weak (see section 3.2.3).

Board Views:

FOPC[6] was consulted on the draft Strategy, and noted that:

- Selectivity was key as the P&T sector presented **high reputational risk**;
- The sector should be seen as **supportive** of other Bank activities, rather than a standalone. The need to find synergies with MEI, transport and energy efficiency was highlighted;
- **TI was difficult to achieve** in this sector. In particular, the role of **property funds** was queried given that they comprised almost half of the Bank's portfolio. Some Directors were unconvinced of the benefits stemming from such funds (development of secondary/local capital markets);
- **Policy dialogue needs strengthening.** It was extensively discussed and referenced with the 2006 EvD sector study, which rated the Bank's overall impact in the sector as "marginal". Despite an agreement that the Bank's presence in the sector was small and its capacity for policy dialogue limited, several Directors stressed the need to still pursue policy dialogue whenever possible, particularly in ETCs. They stressed it was **important to spell out clearly what the Bank wanted to achieve** in pursuing such dialogue, as well as its level of ambition, **to enable a better evaluation** of the Bank's achievements in the future.
- **Greater geographical diversification** to less advanced countries in the east and south and to regions outside of capitals was strongly supported;

[6] Minutes of the Meeting of the FOPC of 21 July 2009 (CS/FO/M09-17)

In response to a Directors' query about **new elements** in the Strategy, compared to the previous one, the team stressed the **geographical shift** east and south and away from the capitals, and the higher emphasis on integrity. It also pointed to significantly strengthening the development of secondary markets and energy efficiency.

In its concluding statement, FOPC highlighted the **links between the P&T sector and other Bank sectors and policy dialogue** as being of particular relevance for the Strategy. The incorporation of lessons from past evaluations into the Strategy was also recommended. The draft was to be amended and posted for public consultations.

These views were echoed during two subsequent FOPC meetings[7] on the draft Strategy. One additional point raised by the Committee was the need to engage the LTT in improving the legal framework in the sector.

EvD comments on the Bank's follow-up on the Board's recommendations:

While the Strategy did incorporate some FOPC comments, it did **not sufficiently** reflect the most important of them, such as synergies with other Bank lines of business and strengthening policy dialogue. The reasons, which remain relevant to wider challenges of strategy design in the Bank, include:

- Although the role of policy dialogue in the Strategy was gradually beefed up, it remained relatively marginal. It was to be conducted "at project-level" only, which in practice meant project and client selectivity and at most, demanding corporate governance improvements, rather than any push to change national/sector-wide policies or rules and legislations[8].
- The Strategy was vague on the objectives of its policy dialogue, i.e. it did not "*spell out clearly what the Bank wanted to achieve in pursuing policy dialogue to enable a better evaluation in the future"* as FOPC requested. Instead, there was an acute lack of clarity - a headline promising "Institution Building" but a description suggesting corporate governance improvements at client level. More ambitious policy dialogue was to be conducted by other teams or even other IFIs.
- The Strategy did not envisage any "synergy", i.e. joint projects or close cooperation with any other Bank teams, except for the statement that *"at project level, the Bank, in association with MEI team, could have a voice in public transport provision of traffic flow planning"*. This was very modest compared to the potential for developing joint urban regeneration projects with MEI.
- There was no role envisaged for the Legal Transition Team, and the Strategy was vague on the use of TCs, referring mainly to the energy audits which would be done by the E2C2 team.

On the positive side, the Strategy satisfied the FOPC requirement to clearly stress the Bank's shift to less advanced countries and to limit the role of property funds (although the development of secondary markets still remained a core Strategy priority). Also, the Strategy (partially) incorporated two of the four main recommendations of the previous P&T strategy evaluation (see section 1.3 and box 3).

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[7] Meetings on 4 February and 9 March 2010 (minutes in CS/FO/M10-03 and BDS10-033)
[8] The EBRD defines policy dialogue as interactions and actions taken by staff or consultants with policy actors in the COOs for the express purpose of bringing about changes in policies, legal and regulatory frameworks, institutions and practices, perceptions and attitudes for the overall benefit of the country.

In EvD's view, the team's arguments against more meaningful engagement in policy dialogue (small scale of operations, lack of expertise or late project stage involvement) were overstated. By 2010 the EBRD had built a substantial portfolio across different sectors in almost all countries of operations (except Turkey, which was then a new COO). In many countries the EBRD was one of the top foreign financiers/investors, which enabled it to conduct effective policy dialogue, contributing to systemic reforms[9]. This was because the governments of most countries had a holistic view of EBRD operations, rather than differentiating them by sector. Therefore, the modest size of operations in one sector did not prevent the Bank from pursuing related policy dialogue as its reputation had probably already been established in other sectors in that country.

Moreover, by 2010 the Bank's P&T portfolio wasn't that insignificant. By then the Bank had signed over 100 P&T projects for over €1.3 billion. This portfolio was indeed dispersed among many countries, however the Bank was recognised as a major player in this sector in Eastern Europe, Russia and Central Asia, and even as the leader in several ETCs, where it was one of the largest investors. Another argument - the Bank's involvement coming too late to pursue policy dialogue - is irrelevant if such dialogue is properly understood, i.e. a long-term engagement with the government/national authorities, independent of a specific project. Also, the lack of expertise could have been remedied by adjusting the team's mix of skills (or by involving the LTT or consultants).

The evaluability of the Strategy was generally poor. Although strategies at that time did not contain results frameworks or other clear targets, the Strategy stands out among the Bank's other sector documents due to **particularly vague language** and the overstatement in its headlines of the Bank's "policy dialogue" and "institution building" intentions, while in reality envisaging relatively modest and routine actions at the client level.

2.3 Links to country strategies and strategic initiatives

- P&T played only a marginal role in all country strategies because the Bank consciously chose to focus on other sectors which offered better transition impact potential. However, most country strategies maintained some links with the Strategy, typically through the energy efficiency theme.
- Institutional and legislative deficiencies in P&T were highlighted as a key sector challenge in almost all country strategies. However, (as in the Strategy) no clear action was proposed to address them.
- Most of the Bank's strategic initiatives were not sector-specific. They often referred to energy efficiency of buildings, however primarily in relation to public buildings and social housing (MEI's and FI's projects).
- The SRI had explicit links to the P&T sector, which it stipulated should promote the use of recyclable materials in construction and water/energy efficiency in buildings. The SGI singled out tourism/hospitality and retail as traditional sectors employing women.

Annex 2 describes the Strategy's links with strategies for the nine countries with the largest volume or number of P&T operations. In summary, the country strategies had only marginal links with the Strategy because the Bank chose to focus on sectors believed to offer better transition

[9] See for example "EBRD's Experience with Policy Dialogue in Ukraine" (SS13-074)

potential. Nevertheless, most country strategies maintained links with the Strategy, mainly through the energy efficiency theme. This is because since the launch of the Sustainable Energy Initiative in 2006, the Bank has been firmly focused on promoting energy efficiency, therefore all its sector and country strategies have prioritised this theme. As heating buildings was recognised as accounting for the highest consumption of energy, the Strategy set this theme as one of its priorities and most country strategies referred to it. The Bank's expansion into the SEMED region prompted the emergence of the tourism sub-sector in several of country strategies, owing to the importance of tourism to this region's economy and employment and its potential to promote inclusiveness. Importantly, almost all country strategies highlighted institutional and often legislative deficiencies as the key P&T challenge. However, (as in the Strategy) no clear action was proposed in any case to address them. This was because the Bank chose to prioritise institutional and legislative challenges existing in almost all COOs in other sectors (e.g. energy, industrial, infrastructure), which were seen as more urgent (or susceptible to Bank's influence) than those in P&T.

The Strategy established links with the **Sustainable Energy Initiative**, phase 2 (SEI, May 2009). The SEI designated five priority themes/sectors (i.e. industrial, power, municipal, renewable energy and SEFFs). P&T was not explicitly mentioned as a target sector, however there were frequent references to "buildings" in relation to SEFFs, which were designed to address the low energy efficiency of buildings, although mainly public and residential (i.e. generally not within the remit of the P&T team). The SEI also highlighted the energy efficiency of buildings as one of the "new activities". However, it also referred mainly to social housing projects, implemented by MEI team. Nevertheless, the importance of addressing the energy inefficiency of buildings was recognised, together with the challenge it posed, i.e. large fragmentation of targets.

Following the Strategy's approval (March 2010), the Bank developed more strategic initiatives and some of them established, mainly indirect, links to the Strategy:

- **Sustainable Resource Initiative** (SRI, April 2013) was focused on water efficiency, mainly in relation to MEI, agribusiness and manufacturing. However "Buildings and the built environment" was among four mid-term SRI priorities, stressing the need for the Bank to innovate to support more efficient water use in buildings, both residential and commercial. Moreover, in the "Organisational Delivery" section, P&T was mentioned as charged with promoting "*recyclable and reusable materials, reduction of construction waste and increasing efficiency of water and energy use in buildings*".
- **Strategic Gender Initiative** (SGI, April 2013) was launched while the Bank was developing its operations in the SEMED region. It did not refer to specific sectors, rather to the identification of gender gaps in COOs, the development of projects with gender components and the roll-out of products to address specific gender gaps. Hospitality/tourism and retail were mentioned as sub-sectors where women often find employment.
- **Local Currency and Capital Markets Initiative** (LC2, November 2013). Similarly to the SGI, this initative did not refer to specific sectors and focused mainly on mapping out priorities for the new LC2 team. The Initiative's appraisal document called for more local currency and capital market-related projects across all Bank sectors and countries. P&T was singled out in the table summarising the current status of LCY financing as the only Bank sector which

didn't have such financing in its portfolio. However, over subsequent years this initiative has become important for the P&T team as it acquired a number of bonds and stocks issued by property developers (see section 3.3).

- **Green Economy Transition** (GET, October, 2015) built on the SEI and the SRI and set a target of 40% of total EBRD financing to be "green financing". It referred to the energy efficiency of buildings, although mostly in the context of public sector buildings in respect of the FI SEFFs. It did not set targets by sector or mention any sectoral priorities.

In conclusion, most of the Bank's initiatives were not sector-specific. Some of them referred to the energy efficiency of buildings, however primarily in the context of the SEFFs and public housing projects, not related to the P&T Strategy. Some explicit links to the P&T sector are found in the SRI (use of recyclable materials in construction and promotion of water and energy efficiency in buildings), as well as the SGI, which singled out tourism/hospitality and retail as sectors which traditionally employ women.

2.4 Additionality of the Strategy

- The Strategy established its additionality through crisis response, a stronger EE theme and geographical diversification, pledging to focus on the countries with "large" transition gaps in the sector;
- The case for the Strategy's overall additionality was weak. The promotion of energy efficiency in buildings was its strongest element, however it has been difficult to verify EE savings (demonstration effect stemming from specific projects) (see section 3.6).

The Strategy can be credited for admitting "*the increased availability of financing, fuelling real estate investment growth in the Bank's region*". It described how in the past the Bank "*responded to change in the region's real estate financing environment – notably the rise in financing for property development accessible on Western and domestic capital markets, and then the sharp reduction in this financing as the global crisis took hold*".

The stated case for the additionality of the Strategy was based on the "*greater project selectivity*", in the context of the following priorities:

- **Crisis response** – the Strategy was approved in the aftermath of the global financial crisis, which had a particularly negative effect on the availability of financing for property development in all COOs. In reality, the global financial crisis peaked in October 2008 and by mid-2010 many leading developers had already addressed the liquidity issues related to their ongoing projects. Smaller developers, whose projects suffered from weak fundamentals (high leverage, low level of pre-leases, sub-optimal location), were often too risky even for the Bank to finance. Consequently, unlike in other sectors, crisis response did not play a significant role in the Bank's property sector financing (see 3.2.1 for more info).
- **Stronger EE theme** – the Strategy presented a strong case (annex 2: "The Built Environment under SEI 2"), which demonstrated that buildings accounted for the largest proportion (39%) of Final Energy Consumption. It presented a graph showing the potential for CO^2 emissions reduction in COOs by 2020, by sector, which estimated said potential to be nearly 1 Gton CO^2 equivalent for buildings (twice that for the next sector – industry). However the huge

fragmentation of targets and the focus on new-build, rather than renovations limited the plausibility of this case.

- **Geographical diversification and focus on secondary cities** – the gap analysis pointed to the existence of a market gap, combined with elevated risk, for property projects located outside of capital cities. Moreover, the Strategy stressed that future preference would be given to projects in 11 countries (mostly ETCs) where transition gaps were "large". The Bank did target secondary cities and the capitals of smaller countries, with two-thirds of all projects in such locations. However most of these projects encountered problems (see section 3.6).

In EvD's view, the case for the Strategy's additionality was relatively weak. It relied heavily on "crisis response", for which demand did not materialise. The Strategy's key additionality argument was the need to increase the energy efficiency of buildings, but most of the Bank's projects were newly built and already designed to high EE standards. No evidence was found that the Bank's one-off, isolated projects had any demonstration effect on the larger market or the behaviour of developers in any country (see section 3.6).

3 Effectiveness of Strategy implementation

3.1 Changes in the portfolio structure in the Strategy period

- The Strategy called for a change in the Bank's P&T operations, however they **changed relatively little** in terms of volume, number and structure during the Strategy period as compared to the preceding period;
- The key change was that investments in property **funds decreased** substantially, by 70% in number and 76% in volume invested. Their share of total volume dropped from 40% to 24% and they were partly replaced by investments into developers, which grew from 2% to 17% of the total volume;
- The volume shares of offices, residential and tourism remained similar across the two periods, while the volume of logistic/industrial and hotel assets slightly **decreased**, despite being prioritised in the Strategy;
- During the latter part of the Strategy period the Bank undertook a number of **more innovative** projects, including the financing of specialised funds, new asset categories and urban regeneration, where the Bank's additionality and potential transition impact were stronger.

Relatively little has changed in the number and volume of P&T projects signed during the eight year Strategy period (**2010 – 2017**) as compared to the preceding eight years (**2002-2009**). The number of projects decreased slightly by 5% (from 69 to 65), while their cumulative volume grew by 10% (from €1.07 billion to €1.18 billion) – see annex 3 for the list of projects and annex 4 for detailed portfolio analysis.

The number of projects signed was particularly high in 2007, right before the crisis (14) and in 2017 (13). Record volume was also registered in 2017 (€264 million). This was a significant, almost threefold increase from the record low €70 million of the previous year (see figure 2).

Figure 2. Property and Tourism team - annual net cumulative signing volume and projects number 2002-2017

The most significant change in the portfolio structure between these two periods was the considerable **reduction of investments into property funds** during the Strategy period. During 2002-2009 the Bank committed to investing €440 million into 17 property funds, actually investing 95% of this amount. They accounted for 41% of the total volume – by far the largest share of the portfolio. Following the global financial crisis, which hit such funds hard, as well as comments by the Board and EvD on weak additionality and ability to achieve transition impact through property funds, the Bank drastically limited its investments in said funds.

During the Strategy period there were only **five investments classified as funds** (8% of the total number) for a committed amount of €283 million or 24% of the total portfolio, of which **only 35% (€99 million) was actually invested,** signalling **76% drop in actual funds investment.** The design of three of these funds was relatively innovative, i.e. unlike in the previous period, they didn't simply finance assets development/acquisition but were intended to introduce a new structure or products, while the other two investments were in fact restructurings of earlier Bank investments – see table 1 in annex 4 for more information on these funds.

The funds were replaced by the **shopping malls as the largest sub-sector by volume** in the Strategy period, their share increasing from 26% to 30%. However the volume share of financing of the remaining asset categories changed little between the two periods. The share of financing of offices, residential and tourism facilities remained approximately the same, while that of logistic and industrial facilities decreased slightly from 7% to 4% and almost by half in money terms. This was **despite the Strategy prioritising logistics parks.** Also, the volume share of hotel financing, which was to be a key target according to the Strategy, particularly regional hotels, decreased from 14% to 8%. However, **hotel projects were the largest category by number** - 25% of the total (16 hotel projects), indicating 16% growth from the pre-Strategy period (11 hotel projects). Figures 2 and 3 in annex 4 illustrate changes in the categories of assets financed by the Bank.

The changes between the two periods were more pronounced in terms of the geographical structure of the Bank's P&T portfolio. The volume share of regional and Russian projects, which dominated the pre-Strategy portfolio, decreased substantially in the Strategy period, while volume shares of South-East Europe (SEE) and Central Europe and the Baltic States (CEB) grew, supplemented by projects signed in the new regions of Turkey, SEMED and most recently Greece. Figures 4 to 10 in Annex 4 illustrate these changes.

EvD notes that while the growth of volume in SEE was in line with the Strategy, **the increase of financing in CEB was surprising** as the Strategy excluded this region from the Bank's activities (except for projects in secondary Croatian cities). At the same time, the volume share of financing signed in **Central Asia and Eastern Europe & the Caucasus (both priorities) decreased,** from 2% to 0.6% and from 11% to 7% respectively. However, this alone does not prove that the Bank failed to follow the priorities set in the Strategy. As risks were higher there, projects tended to be much smaller than those in other regions. A comparison of the project number demonstrates that the share of projects in Central Asia increased in the Strategy period (from 13% to 15%), while that of Eastern Europe and the Caucasus decreased from 25% to 18%, however it still was the region where the largest number (12) of projects were signed. See annex 4 for more details.

3.2 Relation between the Bank's projects and priorities set in the Strategy

- Crisis response financing played a **marginal role** in the P&T sector. Only two small projects were clearly classified as "crisis response" and two more can be considered as having crisis response elements.
- There is **no evidence of the Bank "building institutions"** in the property sector.
- The improvement of clients' corporate governance and integrity standards was mainly limited to the selection of clients who **already demonstrated high integrity** and business conduct standards - this was in line with the Bank's normal policy.
- Through its investments into property funds, the Bank made only a modest contribution to "deepening" the secondary property market in **one country** – Poland, which was already relatively well-developed.
- Only 2% of the total volume financed regional hotels, while 4% financed logistic centres – both key priority sub-sectors according to the Strategy.

3.2.1 Short-term priority – crisis response

Only **two** P&T projects[10] signed during the Strategy period can be classified as "crisis response": GTC Galleria Burgas, Bulgaria €7.6 million and Elite Plaza, Armenia €3 million. They accounted in aggregate for less than 1% of the total volume signed during this period. Moreover, the Europolis restructuring can be considered as having crisis response elements as it was due to difficulties created by the crisis (although originally the fund was not established in response to the crisis). Another project - Kaluga Industrial Park - was not designed as a crisis response, however the Bank played a role in attracting a new investor when the original promoter went bankrupt due to the crisis.

[10] Also Hines Property Fund project was initially designated as "crisis response", as it was to invest in assets distressed by crisis in Russia and Poland. However, no such assets were funded. Instead, the fund developed three assets in Poland and two in Russia. The project's latest TIMS states: "The Fund invested only in major cities and has not invested in any distressed assets, arguably due to the lack of distressed opportunities in the market and the lack of demand in the regions". Due to the lack of secondary market transactions, the project's transition rating was downgraded.

In general, there was limited demand for crisis response financing in the Strategy period because the height of the global financial crisis occurred in October 2008 and by mid-2010 many leading developers had already addressed their liquidity issues related to ongoing projects (some with the Bank's assistance in the pre-Strategy period[11]). Smaller developers, whose projects suffered from weak fundamentals and were still struggling to find financing, were often too risky even for the Bank. Project finance, which was a typical form of Bank engagement in P&T, was less suited for "crisis response" than the corporate finance typical for other sectors. Consequently, unlike the case in other Bank's sectors, crisis response played a marginal role here.

3.2.2 Long-term priorities

The Strategy's four long-term operational priorities are briefly described in box 4 in section 2.2. Table 2 below illustrates the frequency of targeting particular priorities by P&T projects, although transition impact-related priorities have been counted based only on stand-alone projects – half of the total - as framework projects did not have project-specific transition objectives.

Table 2. Long-term priorities set in the Strategy targeted by P&T projects

Strategic priorities:	Projects addressing priorities	
	Number of projects (out of total 65)	As % of total projects signed
Priority regions (Western Balkans, Eastern Europe & Caucasus, Central Asia)	27 (+2 regional)	44%
Secondary cities and small countries' capitals	26 +15	63%
Small projects (below €10 million)	31	45%
Countries with "**Large**" transition gaps in the property (11)	17 (+2 regional)	26%
Transition-related strategic priorities:	Number of projects (out of 32)	As % of stand-alone projects with defined TI benchmarks
Demonstrating higher standards of building's **energy efficiency**	28	87%
Demonstrating innovative building practices or technologies **other than energy efficiency**	12	37%
Promoting higher **corporate governance standards**	22	68%
Promoting higher **environmental and social standards**	14	43%
Skills transfer	9	28%
Investments into **local property funds**	1	3%
Investments into local property funds alongside domestic **pension funds**	0	0%

Table 2 demonstrates that in its selection of projects the Bank followed particularly closely the Strategy's guidance to prioritise projects in the **secondary cities or in the capitals of small countries.** Two thirds (63%) of the Bank's projects in the Strategy period were in such locations. No stand-alone projects were financed in Moscow or Warsaw[12], which dominated the Bank's financing in the past. Nevertheless, still one third of the portfolio was represented by developments in capital cities such as Kiev, Zagreb, Bucharest and Belgrade. There were also two projects in St Petersburg (two phases of a technopark), however their sub-sector was a high priority.

Almost half (45%) of the portfolio were **small projects** (below €10 million), which can be considered as an achievement of this strategic priority. However, all these projects were facility

[11] Four projects classified as crisis response were signed in 2009.
[12] However, the Bank indirectly co-owns five office buildings in Warsaw and two logistics centres nearby, two offices in Moscow and one retail centre in St. Petersburg through two Hines property funds.

financing, approved under delegated authority and did not have dedicated TI benchmarks. Their TI rested mainly on their location in ETCs or Western Balkans.

The results of prioritising certain countries/regions are mixed – projects in the **regions set in the Strategy as priorities** accounted for 44% of the total portfolio, which can be seen as insufficient, particularly as their volume share was even lower (about a quarter of the total), see figures 5 and 8 in annex 4. However, this was partially due to the emergence of new priority regions (such as SEMED), which offered opportunities but required the diversion of some resources from the Bank's "old" regions. Among the projects implemented in these regions, there were 19 operations (including two regional) in the **countries with "Large" transition gaps** in the P&T sector - a quarter of the total. This was a relatively modest achievement, considering that two thirds of them were in only two countries – the Kyrgyz Republic and Ukraine.

Annex 5 presents more detailed analyses of the alignment of the Bank's P&T operations with four main long-term priorities set in the Strategy. Its main points can be summarised as follows (please refer to box 4 to see to which priorities the specific points refer):

- None of the Bank's P&T projects can be considered as **promoting institution building**, in the sense of helping to create or strengthen public institutions. Nor were there any TCs which were explicitly aimed to "*contribute to the strengthening of the institutional environment".*
- Although 68% of (stand-alone) projects promoted better **corporate governance standards**, and 43% higher **environmental standards,** many of them had relatively "light" benchmarks in respect of such standards, which were largely within the Bank's normal requirements (e.g. adoption of IFRS or implementation of ESAP).
- Projects which promoted **skills transfer** (28%) were mainly more recent operations, with better defined qualitative and quantitative benchmarks for the improvement of hospitality or retail service standards. TCs supported skills transfers in three projects.
- High **integrity standards** were "promoted" mainly by choosing to work with established clients;
- The Bank invested into only **two new funds** (twice into Hines and once into Griffin REIT). Both were well-established, with high integrity standards. The Bank exercised its veto rights once, in relation to a proposed co-investor in Russia (which resulted in the rejection of such a co-investor by the fund).
- The Bank required the application of its **environmental and social standards** to funds where it invested, however as almost all of them were in the EU, this requirement was of little relevance.
- **Two investments** were made, labelled as **pre-IPO**s of developer companies (Vecteur LV in Morocco and Amtel, Regional) but neither IPO took place. The Bank contributed to strengthening Vecteur's corporate governance. Also, one investment was made at IPO (into Griffin REIT, Poland).
- The three investments (Griffin and two Hines Property Funds) can be seen as **contributing to the deepening of the Polish secondary market**, although in a very small way as the Bank's aggregate €66 million investment represented a miniscule proportion of the Polish property

market, which with €4.5 billion transacted in 2016 alone, was already the deepest among all COOs[13].

- None of the Bank's investments into funds attracted any **local institutional investors.**
- **87%** of stand-alone P&T projects supported some kind of **energy efficiency improvements**, mainly through demonstration of new building techniques. However, as **higher energy efficiency standards became a norm** over time in most COOs (some with the Bank's assistance, see section 3.2.3), the demonstration effect of the P&T projects diminished.
- To strengthen TI, in its more recent projects the Bank has required **energy-related certification of** buildings it finances, primarily to BREEAM or LEED[14] standards.
- Hines Sustainable Property Fund in Poland has been hailed by P&T and E2C2 teams as **the most effective in promoting EE** due to contractually agreed sustainability targets which trigger financial penalties if they are missed. EvD reviewed this project, including interviews with the fund (see box 5).

Box 5. Hines Sustainable Fund Poland project

In 2014 the Bank committed €60 million (€38 million invested) to Hines Sustainable Fund, Poland, which subsequently acquired and now manages three offices in Warsaw and two regional logistics parks. A key feature of this fund is a **set of dedicated sustainability benchmarks** (energy and environmental savings targets for each property), which the fund must meet or face financial penalties. So far, all offices have been certified by BREEAM, obtaining Good, Very Good and Excellent certifications. The logistics parks are under certification. All buildings are run to a very high standard. However, EvD notes that all the buildings **were built to high standards** and the fund purchased them during or shortly before certification. After their acquisition, the fund spent only €160,000 in aggregate for sustainability improvements in all five buildings, mainly for the optimisation of their HAVC systems, installing lighting sensors, LED bulbs and improvements to building management systems. The reductions achieved in heating between 2014 and now range from 15% to 21%, while those in electricity usage are between 5% and 25% depending on the building. The fund also undertakes many "soft" sustainability-related initiatives, e.g. bike days, electrical equipment recycling actions, etc. All tenants signed "green leases", which commit them to sharing information on energy use and participating in sustainability–related events. The fund maintains that it is on track to meet all sustainability benchmarks (although certification of the logistic parks has been delayed). Although management of these buildings is exemplary and the energy savings achieved are commendable, market participants interviewed by EvD indicated that the Warsaw office market is now considered one of the most sophisticated in Europe in terms of architectural and technological solutions and the majority of buildings completed in recent years in Warsaw have been BREEAM certified (although no exact number is available, EvD has seen several plaques on new buildings confirming such certification). Therefore in EvD's view, although the project had a positive impact, its innovative nature might have been slightly overstated. The fund/building manger had a relatively easy task attaining high sustainability standards as it purchased new buildings already designed and built to such standards. Improvements made by the manager were relatively minor and did not require major spending.

[13] The Polish Real Estate Guide 2017, Ernst & Young.

[14] BREEAM – Building Research Establishment Environmental Assessment Method, the world's leading sustainability assessment methodology for buildings; LEED – Leadership in Environmental and Energy Design, similar to BREEAM, applied in the USA.

The buildings in urgent need of energy efficiency improvements are old. There are plenty such buildings in Warsaw and other cities in the COOs but they are rarely the target for funds as they require large investments to improve their sustainability. Moreover, even after major renovation, they would be unlikely to generate demand and rents/returns at the levels expected by the funds.

- Regions set by the Strategy as priority were targeted with medium frequency. Some 44% of P&T projects by number, and only about **18% by volume,** were in **Western Balkans, EE&C and Central Asia** (including two "regional" projects targeting these areas). In addition, 12% and 14% of project number and volume respectively were in **Russia**, which dropped from the priority list in 2014.
- 12 projects (**18% of the total**) targeted **regional cities in Romania, Bulgaria, Croatia and Turkey** (with half of them in Croatia).
- **Hotels** constituted the largest sub-sector by number (25%) but only the fourth by volume (8%). However, out of 16 hotel projects **only three financed "regional hotels"** – Russian Hotels project (three hotels) and two investments into Orbis S.A – a Polish operator of 115 hotels in Central Europe[15]. In aggregate, the Bank invested only about €28 million (**2% of the total**) into regional hotels – a key priority sub-sector.
- The Bank financed 12 hotels in capital cities, although mostly in those of smaller, often ETC or Western Balkan countries, e.g. four in Bishkek, three in Tbilisi (including one youth hostel), and one in each of Kiev, Belgrade and Podgorica. All of them were in the 3-4 star range. There was one 5-star hotel in Montenegro.
- Only three warehouses, within **logistic centres** were financed with €44.8 million in aggregate (3.5% of the total) – one in Bucharest, one in Turkmenistan and one in Kaluga, Russia (the latter with debt and equity). They were located along regional strategic routes or were part of large industrial parks.
- Two more regional logistics centres in Poland were co-financed under Hines Sustainable fund (see box 6), bringing this category to **4%.**
- The third priority sub-sector - **retail**, was the best catered-for sub-sector, with an aggregate €360 million of financing - by far **the largest share (30%) of the total** (15 shopping malls and retail proejcts).
- Shopping malls had the highest occurrence of **financial difficulties** (see section 3.6 for more info).

EvD concludes that the Strategy played a relatively minor role in the P&T team's project selection. About a half of the priorities stated in the Strategy were followed. However, actions towards improving the clients' corporate governance and integrity standards were in most cases limited to selecting clients who already demonstrated high integrity standards or met the Bank's normal policy requirements. P&T targeted the energy efficiency of buildings very frequently and also invested in funds dedicated to sustainability, however the relevance of these projects diminished over time.

[15] Orbis has exclusivity rights to operate hotels under Accor Group's brands (Sofitel, Mercure, Novotel and Ibis) in 16 Central and Southern European countries

Less than half of the P&T projects targeted regions prioritised by the Strategy (however this share increases if Russia is included in the priorities). The P&T team followed more closely the Strategy's preference for secondary cities and capitals of small countries, as two thirds of all projects were in such locations. Retail/shopping malls dominated the portfolio with nearly a third of the Bank's financing supporting mainly regional shopping malls. However, many of these projects experienced difficulties and the Bank gradually stopped financing them. The Bank made a very small contribution to improving the regional hotel base and logistic facilities.

3.2.3 Policy dialogue

- The **P&T team started policy dialogue only in the last two years**, in three selected areas: REIT legislation, hospitality standards improvement and tourism strategy development;
- Policy dialogue in relation to the energy efficiency of buildings has been undertaken by **other Bank departments** and its link to the P&T projects has been relatively weak.

The Bank undertook virtually no policy dialogue in the P&T sector until 2015 (except "on the client level", which can be hardly considered as genuine "policy" dialogue, rather corporate governance/integrity improvements as described above). However there is evidence that since then, the Bank engaged in several initiatives, the results of which can be summarised as follows:

- **REIT legislation.** The Bank reviewed and commented on drafts of the new Real Estate Investment Trust (REIT) laws in Morocco and Poland (see box 6) and the slightly improved REIT law enacted in Morocco was a key achievement. However, the Bank's recommendation for this law to enable the listing of REITs on the stock exchange has not been adopted. Some of the Bank's recommendations were adopted into Polish law, however it has not been enacted yet, while the currently proposed draft covers only residential properties, rather than commercial, which is not what the Bank recommended.

Box 6. Bank's policy dialogue on REIT laws in Morocco and Poland

In 2015, the Bank invested €45 million equity in Vecteur LV (VLV), a private company and the owner of a network of retail facilities in **Morocco**, which was preparing its IPO on the Casablanca Stock Exchange (CSE). VLV's structure was designed to comply with the upcoming REIT legislation and once the legislation was enacted, VLV was expected to become the first REIT in SEMED. To ensure compliance of the new law with the best international practice, the Bank's LTT, LC2 and P&T teams engaged in policy dialogue with the Ministry of Finance, the stock market regulator (AMMC) and the CSE, providing recommendations on improving the draft REIT law, including: (i) a requirement for listing a company to qualify as a REIT; (ii) strengthening the qualification of property valuers and ensuring their independence from REITs; (iii) application of appropriate accounting rules for REITs; and (iv) expanding REIT's eligibility to hospitality assets. Most of the Bank's recommendations were adopted and the law was enacted in 2016. However, so far this law covers only unlisted REITs. VLV's IPO and conversion into a REIT have not gone ahead yet.

In 2017 the Bank agreed to invest in the IPO of Griffin, a property company, floated on the Warsaw Stock Exchange (WSE) with an expectation that it would become the first REIT in **Poland,** as the new REIT law has been almost completed. The LC2, P&T and Warsaw RO teams partnered with the European Public Real Estate Association providing feedback to the Ministry of Finance on the draft law, recommending a number of improvements, including exempting REIT dividends from income tax and including residential properties in the law. These recommendations were well received, however in the meantime political in-fighting has put the adoption of the law on hold. Due to the government launching a new programme supporting home ownership, as well as concerns related to perceived high risks associated with retail investors' exposure to commercial property, the current draft law covers only residential properties. It is expected to be enacted in 2018, while its expansion into commercial properties might be considered in the future. In the meantime, the Griffin fund was listed on the WSE as a Dutch-incorporated vehicle that follows the business model of a REIT.

- **Support for improved hospitality standards.** In 2015 the Bank signed an MoU on cooperation with the United Nations World Tourism Organisation (UNWTO). It aimed to promote sustainable and inclusive tourism in SEMED countries. The key achievement of this cooperation so far has been the Regional Conference on "Investing in Tourism for an Inclusive Future", organised together with the UNWTO and the Jordanian government (October 2016). It brought together 130 public and private participants from SEMED and Europe and resulted in a "Petra Declaration" – a non-binding pledge by the representatives of tourism authorities and private stakeholders to promote the sustainable and inclusive development of tourism, increase hospitality training and education standards and increase funding and investments for tourism (including for infrastructure and SMEs). Importantly, this policy dialogue has been conducted largely independently of banking projects.
- **Regional tourism strategy development.** Most recently (2017-2018), the P&T team has been working with the Uzbek authorities on the development of a tourism strategy for the region of Khiva Khorezm in western Uzbekistan. The Bank funded a feasibility study under two TCs, conceptualising the strategy. An MoU on the cooperation was signed with the Uzbek Ministry of Culture and the State Committee for Tourism Development at the beginning of 2018 and currently the Bank awaits their comments on the strategy concept prepared by the Bank and its consultants. This policy dialogue has been linked to the Cultural Heritage Integration Framework approved by the Board in February 2018 (see box 7)..

Moreover, the **E2C2 and LTT teams** conducted intensive policy dialogue in Western Balkans, Ukraine, the Kyrgyz Republic, Georgia and Moldova, mainly in respect of energy efficiency regulations for buildings (see annexes 6 and 7). The "Market Development for Energy Efficiency of Buildings" is one of eight E2C2 Policy Unit themes, and the most frequently pursued. Although such policy dialogue was related mainly to SEFFs, ESCOs and public housing projects realised by the FI and MEI teams, E2C2 confirmed that the new regulations in the Kyrgyz Republic were also applied to three of the P&T team's commercial property projects (Orion, Holiday and Park Palace hotels). New legislation in other countries, developed with the Bank's help was only approved in 2016-2017 and has not yet been applied to any of the P&T projects. However, P&T and LTT expect that the improvements to the Serbian mortgage law and the expected results of the ongoing assistance to the Government of Georgia with the development of an Energy Efficiency Law, are likely to have a bearing also on P&T projects, which are currently under preparation.

In conclusion, the P&T team's policy dialogue activities have only recently begun and their achievements are modest. The LTT and E2C2 conducted intensive dialogue, related primarily to the energy efficiency of buildings. It had some, although relatively weak, links to P&T projects.

3.3 Relation between the Bank's projects and "shadow priorities"

- In early 2013, following criticism from the Board, the P&T team's new management set new (although unwritten) priorities for its operations (**"shadow priorities"**). They better aligned new P&T projects with the Bank's strategic initiatives, gradually increasing the relevance of the team's activities.
- Support for **local capital markets** development has been the most frequently targeted objective among shadow priorities, thanks mainly to the huge increase of such projects in 2017, which accounted for over half the P&T business that year;
- Urban regeneration and economic inclusion projects have also been actively pursued and sometimes included dialogue with municipal authorities and **cooperation with other Bank teams**;
- Tourism financing has **not taken off yet**, however two tourism-focused financing frameworks have been developed during the last year of the Strategy period and are expected to yield results soon.

As explained in section 1.2, the Strategy has gradually lost its relevance, leading subsequent P&T management teams to map out new directions for the team's activities, which would be more in tune with the Bank's strategic initiatives, as well as better serving the market. As no written update of the Strategy was proposed, EvD, together with the team's management, identified **six new trends or "shadow priorities"** in the Bank's P&T operations during this later period. The Bank's response to them is briefly assessed as follows:

(i) <u>Urban or regional regeneration</u> – is seen as yielding broader, also social, benefits. Commercial property developments can be a part of a larger regeneration master plan or "brownfield" (post-industrial sites) redevelopment. They can provide opportunity for policy dialogue with municipal authorities, as well as for cooperation with other Bank teams and IFIs on different aspects of such regeneration. The Strategy did mention "urban regeneration", however only in passing and such projects were not actively sought during the first three years after its approval. The Bank's first project of this type was Abdali Mall in Amman, Jordan, signed in mid-2013. Since then, the P&T team has signed four more regeneration projects (together with Abdali accounting for **8% of the total number and 6% of the total volume**) – three urban regeneration projects (Downtown Cairo Regeneration, Pula Retail Center Regeneration and Dimand), and one regional regeneration – Ayla Oasis Regeneration (a mixed development – hotel/resort/residential in Aqaba, Jordan). Key characteristics of these **five regeneration projects** are described in annex 8. Although some projects have stronger "regeneration" credentials than others, all of them contributed to larger regeneration programmes. In 2018 the P&T team, in cooperation with MEI and E2C2, launched a new, large TC called CREATE, dedicated to the preparation of urban regeneration projects (see box 8), which is expected to boost the Bank's engagement in such projects.

In conclusion, since mid-2013 the Bank has made good progress in identifying and implementing urban regeneration projects and related TCs. The majority of these activities are recent and their results are not yet known. However, the early outcomes of the Abdali Mall, Downtown Cairo and Ayla projects (see annex 10) indicate that they can contribute to the rejuvenation of urban or regional areas, and at the same time strengthen the relevance and transition impact of the Bank's activities in the property sector by linking them with larger regeneration programmes bringing wider benefits. It is expected that projects following up on the CREATE TC will put the Bank firmly on the map of urban regeneration financing, see annex 8 for more details.

(ii) **Local capital market-supportive transactions** – the P&T team contributed **nine projects** (14% of the total number) with €250 million (20% of the total volume) to the LC2 Initiative. It had a slow start with two investments into pre-IPOs in 2014-15 (Amtel and Vectour). It added two investments into the local corporate bond of Orbis, a hotel operator, under the Polish Corporate Bond Framework in 2015-16. However, more than half of all investments (five) took place only in 2017. That year, 38% of projects (5 out of 13) and **56% of annual volume** were LCM-supportive. They ranged from investment into the first Polish quasi-REIT (Griffin REIT), Romanian developers (Globalworth and PENY), to purchases of bonds of Turkish hotels developers (TRY Corp.) and a Moroccan affordable housing construction company (Ramses). On the Bank's request, The Romanian Eurobonds were dually listed, including on the Bucharest Stock Exchange, where they were the first such bonds in this sector with a benchmark size. Some other projects were also supported by policy dialogue (see box 6 on REITs).

In EvD's view, despite a slow start, the P&T team made a remarkable leap forward in terms of investments supporting local capital markets. These transactions contributed mostly towards the Bank's already active efforts to support LCM development in Poland and Romania[16]. Nevertheless, recent investments in Turkey and Morocco demonstrate the P&T team's efforts to expand its reach in respect of such projects. By themselves, these isolated investments had little impact on local capital markets, however combined with the Bank's investments in other sectors, they are likely to make a contribution to the development of some LCMs.

(iii)**Economic inclusion** – the P&T started highlighting the inclusion-related benefits of its projects well before it was officially adopted by the Bank as one of its new transition qualities in 2017. This quality concentrates on promoting the economic inclusion of women and youth, particularly in countries with high unemployment. The hospitality and retail sub-sectors have been highlighted already in the Bank's SGI as among those traditionally employing women. Until the official recognition of inclusion as part of TI, the team referred to "skills transfer" as a proxy for inclusion. In effect, it is difficult to precisely determine the number of projects targeting inclusion in the sense later adopted by the Bank. However, EvD established that **nine projects (28% of the total number of stand-alone projects reviewed)** included "skills transfer" as one of their TI objectives. These projects were mainly retail and hospitality/mix developments, mostly in SEMED, such as Abdali Mall, Ayla Oasis or Vecteur, but also in more advanced countries, e.g. Marina Dalmacija or Pula Retail regeneration, both in Croatia. Two of these projects were case studies under this review (see annexes 9 and 10). Insights into these projects (including visits to training facilities and interviews with the trainers and the trainees) indicate that the training programmes have been progressing well, with the numbers of young people (including women) participating in such training often exceeding the project benchmarks. Also the quality of training facilities and

[16] See EvD Special Study SS16-094– "EBRD Support for the Development of Local Capital Markets", January 2018

professionalism of the trainers have been **assessed as high**. Moreover, the enthusiasm of young people to undertake hospitality or retail training (especially in Jordan, which suffers high unemployment), has been impressive. It is perceived as critical for building in-demand skills, which open the door to stable employment with international companies. Moreover, the Bank, the UNWTO and the Jordanian government, co-organised a regional conference focused on inclusive development of tourism, increased hospitality training and education standards (see more in 3.2.3).

(iv)<u>EE certification of buildings and promoting the sustainable use of resources</u> (e.g. pre-fabricates, reuse of construction waste, water saving, etc.) – the P&T team's move towards requiring certification of the buildings it finances was described in section 3.2.2. (in the part discussing the climate mitigation priority, including box 5). It is noted that since mid-2014, the Bank has gradually introduced such requirements to about **a quarter** of its stand-alone projects (although in some cases to local standards only). As per box 5, EvD has some reservations regarding the relevance of certification as a benchmark for new buildings to be acquired by property funds in Advanced countries. However, EvD agrees that certifications to international standards, demonstrating new energy efficient building techniques in less advanced countries has merit (although it still needs to be demonstrated). The sustainable use of resources has been less targeted, although in some projects, e.g. Ayla Oasis and Abdali Mall, it played a prominent role. This project demonstrated innovative water recycling techniques (including the purchase of treated waste water from the communal network for artificial lakes and lagoons), as well as the use of pre-fabricated materials made from recycled building waste (see annex 10). However, this project was **the only one** in the P&T portfolio targeting resource sustainability and in EvD's view there are opportunities in this sector for the Bank to increase its support to know-how transfer in this area in line with the SRI. As the P&T team's survey (see Annex 14) indicates, this view is shared by the team.

(v) <u>**Geographical shift to "new" regions**</u> – since Abdali Mall (mid-2013), projects in SEMED started appearing in the P&T portfolio, although relatively infrequently, reaching **five** in aggregate by the end of 2017 (two in Jordan, two in Morocco and one in Egypt). Most projects have been small, reflecting the high risks and the Bank's still limited experience in this region. However, thanks to two large projects in Jordan (Abdali and Ayla), the aggregate value of SEMED projects in the Strategy period matches that of Russia (14%), the fourth largest after regional, SEE and CEB. The P&T team also signed four projects in Turkey (5% in terms of portfolio value share) and one in Greece (1%). In total, the "new" COOs accounted for **20% of the P&T portfolio**, which had previously been dominated by Russia and Poland (see section 3.1). In EvD's view, the Bank's response to opportunities created by new COOs has been relatively good, given the particularly high risks and longer lead-time to prepare property projects.

(vi)<u>Increased interest in the tourism sub-sector</u> – although the number of tourism sub-sector projects in the Strategy period did not increase as compared to the previous period (3-4 in both), they were more diverse in terms of type and location, while the team also developed two tourism financing frameworks, approved at the beginning of 2018. The tourism projects ranged from unconventional ones, such as a yacht marina in Croatia or a youth hostel in Georgia (Fabrika), to the continuation of support to Ak Bermet, a local Kyrgyz sponsor, constructing budget hotels around Lake Issyk-Kul. Marina Dalmacija was a case study under this review (see annex 9). It demonstrated some benefits brought by this type of tourism project (energy reduction, improved quality of facilities and training of youth in a region suffering from high unemployment) but also the shortcomings in relation to the expectations (failed privatisation of state marinas, unobservable linkages to local economy or lack of replication by other marinas). The project is relatively recent and its full potential may still be realised. Nevertheless, it demonstrated the risks and difficulties in achieving transition impact in the tourism sector.

To streamline its approach to tourism, the P&T team prepared two tourism development frameworks – the Cultural Heritage Integration Framework (CHIF) - see box 7 - and the Inclusive Tourism Framework for the Eastern Mediterranean (ITFW). The latter is a €250 million framework for tourism and hospitality projects in Greece, Croatia, Turkey and Montenegro. At the time of this report, the P&T team has signed one project under this framework: D-Marin International (a €70 million equity investment into yacht marinas operator in three countries, ultimately owned by Dogus Holding, a Turkish client, with whom the Bank realised the first marina project in Croatia (see annex 9), and has two ready for signing: BlueSun (a €93 million loan to Croatian hotel and camping site operator), and Grecotel (a €25 million loan to a hotel and tour operator in Greece). All projects support inclusive tourism through training targeting youth and women, and promote competitive backward linkages to local suppliers.

Box 7. The Cultural Heritage Integration Framework (CHIF)

The CHIF (prepared in 2017 and approved in February 2018) is a critical step in the Bank's expansion into tourism. It is a €150 million cross-sectoral framework, designed to finance capital expenditures of projects located near or within cultural heritage sites in Uzbekistan, Romania, Albania, Jordan, West Bank and Gaza. The CHIF targets projects contributing to the sustainable management of cultural heritage, improving connectivity and accessibility, as well as enhancing the quality and availability of municipal infrastructure and related services. The framework is available to the P&T, MEI, Transport, ICT, M&S and Agribusiness teams. EBRD's investments will primarily be limited to private sector and/or public sector commercialisation and infrastructure projects. Restoration or rehabilitation of cultural heritage or historical buildings are expected to be financed by third parties and will be considered by the Bank only in rare circumstances. Each project under the CHIF will benefit from a TC, which will build local capacity, prepare technical design and support policy dialogue. The letter will include legislative and regulatory reforms benefiting tourism (e.g. the introduction of an e-visa system, fiscal reform, digitalisation of heritage sites, fostering PPPs). In preparation for this framework the Bank cooperated with UNWTO, UNDP and the Smithsonian Institution and intends to continue this cooperation during the implementation phase.

The framework's pilot pipeline includes co-financing of hotels near Petra and Jerash in Jordan, cable car construction in Jericho, municipal projects in Bethlehem (ranging from shuttle buses to parking and waste management), both in the West Bank, as well as the regeneration of Brasov's old town and road infrastructure development near the Brancusi site, both in Romania.

However the most advanced project prospect has been developed in Uzbekistan and inludes comprehensive and ambitious multi-sector actions related to the Khiva-Khorezm region. The project envisages the refurbishment of a hotel (Khiva Malika hotel, signed in December 2018), product development, support for creative industries (SMEs), improvement of physical infrastructure and service quality, as well as waste management and street lighting improvements.

Although tourism financing has not increased yet, remaining rather marginal during the Strategy period, substantial preparatory work has been done to expand and streamline the Bank's tourism operations. The two financing frameworks recently approved are expected to test the effectiveness and transition impact of the Bank's operations in this challenging sector. In EvD's view, although there is clear merit in a multi-sector, integrated approach to tourism, designing such complex, multi-level actions may turn out to be too challenging, particularly for regional cities in less advanced countries. The prolonged gestation of the Uzbek project (even at a preliminary stage) illustrates this risk.

In conclusion, since 2013 the P&T team has been gradually increasing the relevance of its operations by pursuing new types of priorities, most of which were independent of the Strategy. They have been better aligned with the Bank's strategic initiatives, targeting local capital markets development, urban regeneration, and economic inclusion and gender diversification. The focus on demonstrating energy-efficient building techniques has been reinforced by the requirement for building certification, while the sustainability theme has expanded to include material efficiency. The geographical focus of P&T projects has also shifted towards SEMED and other Mediterranean countries, which offer opportunities to expand into the tourism sub-sector. This opportunity has not yet been realised, although the foundation has been laid to undertake such projects under the new strategy.

3.4 Use of TC funds

- Of the 20 TCs implemented by the P&T team during the Strategy period, only eight can be considered as having transition-supporting objectives, such as inclusion/training, preparation of urban regeneration plans or heritage site commercialisation/development plans.
- In 2018 a large cross-sectoral TC was launched to identify and prepare urban regeneration projects.

The Strategy called for TCs to "*contribute to the strengthening of the institutional environment, improve business conduct and governance*". Of the 20 TCs launched by the P&T team during the Strategy period, only eight (40%) can be considered as having broader, TI-supportive, rather than transaction-supportive objectives. They amount to an aggregate €1.3 million and the majority were only launched in the last three years. They include three TCs supporting "*inclusion through training in retail and hospitality – opportunities for youth and women*" (one Regional, one in Jordan and one in Egypt). Therefore these three TCs can be seen as "*supporting transfer of skills*" intended under one of the Strategy's priorities. Three additional TCs supported urban regeneration (one in Split and two in Cairo) and two more TCs helped in the preparation of a feasibility study/action plan for the development and commercialisation of a cultural heritage site in Khiva in Uzbekistan. If one adopts a very broad meaning for the "*innovation*" called-for in the Strategy, these four latter TCs can be seen as supporting it. Most of the TCs were short-term and within a €20,000 budget, except for the Split and Cairo regeneration projects preparation/support(former of which is yet to materialise), for which the budget was about €600,000 each. Moreover, a new, more ambitious TC has recently been launched – see box 8.

Box 8. The CREATE TC

The P&T team joined forces with MEI and E2C2 to develop **The City Regeneration and Environment (CREATE) TC.** It was launched at the beginning of 2018 and is financed by a €5 million grant from the Austrian government. It aims to test an integrated approach to the preparation of regeneration projects in 3-4 cities in the COOs. The TC will address three critical issues which have arisen in recent years: (i) the significant environmental pressures facing cities, (ii) the urgent need for targeted regeneration of urban centres, and (iii) the deterioration of public building stock. The TC will strive to remove the barriers to the development of integrated regeneration masterplans, such as the lack of a comprehensive approach, legal and regulatory barriers, the lack of technical expertise at municipalities (particularly related to the evaluation of energy efficiency investment options), or the lack of expertise on how to use the vast brownfield sites, lying vacant due to economic changes. The TC proposes an integrated approach to tackling these issues, one that embeds sustainability into the commercial real estate market and integrates commercial issues into urban planning. It intends to explore synergies between the MEI, P&T and E2C2 teams to identify and develop projects within broader masterplans, which could be financed by these teams jointly or separately, depending on the needs.

The TC will provide support in five areas: (i) "Green City" action plan preparation, (ii) brownfield urban regeneration conceptualisation, (iii) renovation of public buildings planning, (iv) policy dialogue on issues related to regeneration, (v) capacity building, legal and technical support to city administrators, utility officials and other key public stakeholders. Key deliverables are to be the urban regeneration masterplans, environmental risk assessments and investment project feasibility studies.

The Manager for this TC (a member of the P&T team) was hired at the beginning of 2018. Based on preliminary studies the TC will probably target Sarajevo in Bosnia-Herzegovina, Cairo and Port Said in Egypt, as well as Split in Croatia (the latter already benefiting from a separate TC). The P&T team is expected to play a key role in supporting brownfield urban redevelopment plans and capacity building (with Green City Action Plans supported mainly by MEI and public buildings/policy dialogue by E2C2). The TC is a pilot and if successful, it may be extended to cover more cities.

Outside of the P&T team, the E2C2 and LTT teams implemented a large number of TCs, mostly related to EE laws and regulations for buildings (see section 3.2.3 and annexes 6 and 7).

In conclusion, the use of TC by the P&T team has been very infrequent and geared mostly to supporting transactions (feasibility and market studies, legal services, due diligence, etc). Less than half of TCs supported TI-related objectives. However, the recently launched CREATE TC, shows that the P&T team has begun to recognise the value of this important resource.

3.5 Cooperation with IFIs and International Organisations

- Only three P&T projects have been co-financed with IFIs. This was mainly due to the availability of commercial co-financing, combined with the low priority most IFIs attach to this sector;
- In recent years the Bank has established a number of partnerships with international organisations, focused on promoting tourism and increasing hospitality standards;

- Recently, some IFIs began to recognise the importance of the sector, particularly as a partner in urban regeneration programmes. More opportunities for inter-IFI cooperation should arise in the future.

Property and tourism is not a typical sector for IFIs, the IFC being one of only a a few which support it, see box 9.

Box 9. IFC's activities in the property and tourism sector

IFC's current portfolio of commercial property comprises over $470 million of investments in over 30 projects. Through investments in property, IFC aims primarily to promote the development of **affordable housing and essential urban infrastructure, as well as commercial property**. In its property projects IFC incorporates the latest green building standards and technology and pays particular attention to job creation and backward linkages to local supply chains (especially in the retail property projects). The tourism industry is recognised by the IFC as a major contributor to **employment**, foreign exchange earnings, and tax revenues for developing countries. Since 1956, IFC has invested over $2.8 billion in over 260 projects in 89 countries with more than half of these investments in frontier countries.

Unlike the EBRD, the IFC does not shy away from financing the development of luxury hotels as it observes that higher quality hotels create the most jobs (up to three jobs per hotel room or twice as many as budget hotels). Reputable international hotel companies also provide high quality training that helps develop the workforce, creating lifelong skills for future promotion and self-employment especially for women. Another reason IFC works with hotels is that they tend to prefer local sources for operating supplies like food and beverages, and are willing to work with local suppliers to improve quality.

Other IFIs may consider industrial property projects (e.g. BSTDB), tourism development and in particular urban regeneration. The EIB has financed property and tourism projects, although relatively infrequently. However it has recently restructured its Urban Development Division, which now includes "property and tourism" – an indication that commercial property development projects, contributing to larger regeneration programmes, will be supported by its (often subsidised) financing - see box 10 below.

Box 10. EIB's approach to the property and tourism sector

EIB has an Urban Development Division (UDD), which covers, the following sub-sectors: urban regeneration; social and affordable housing; and property and tourism. The latter has only recently been added to the Division's tasks. The principle role of the UDD is to screen, appraise and monitor projects proposed by potential clients – public (e.g. cities, regions) or private (e.g. developers). The principal evaluation criterion is **how well the project aligns with the European Union policy** objectives. These include regional integration, environmental improvement, demonstration of energy efficient building technologies, preservation of cultural heritage and promotion of resource efficiency. The EIB aims to address the "market failure" to attract finance to regenerate or develop certain areas, particularly the brownfield (post-industrial) sites. In its assessment of project proposals, the UDD also takes into consideration their potential **social**

impacts, e.g. the impact on employment during construction and operation (including on women and youth, particularly in retail and tourism sector projects), as well as the impact on local SMEs. In the case of tourism, EIB's activity so far has been limited, focusing mainly on intermediate financing of the hospitality sector, selected stand-alone hotels and cultural heritage. The EIB's financing is often provided through local intermediaries (usually banks) or directly to the clients. Larger regeneration projects are often implemented in phases (e.g. Rabat-Sale in four phases). The EIB will often finance the public sector side of a regeneration project first, e.g. developing the necessary infrastructure to ensure the commercial viability of the location, which is then sold to one or more private companies for the development of commercial properties (which often include development of public spaces). The EIB may finance private sector developers as well.

However, there are **significant limitations** on the EIB's activities in this sector, for example, it cannot finance "pure" property and tourism projects, which do not have an energy efficiency or urban regeneration angle except in EU cohesion regions. EIB is also relatively risk averse, and cannot take direct equity in property SPVs (though it can in principle lend to them on a project finance basis). Also, the EIB's borrowers have to commit to hold (and not sell) the EIB-financed assets until the loan has been fully repaid. The EIB is especially careful to avoid financing projects which are characterised by "speculation", where the incentive is property land value increase rather than contributing economic value added. Over the period 2011-16 EIB financed about €0.5 billion in direct lending and €4.7 billion in intermediated lending across hotels, resorts, accommodation, cultural heritage, amusement parks and visitor attractions, of which over 90% is in the private sector. Additionally, during the same period, some €7 billion was financed in the area of social and affordable housing across a wide spectrum of public and private sector enterprises.

During the Strategy period the P&T team co-financed three of its projects with IFIs: Kaluga Industrial Park with BSTDB, and Russian Hotels and PENY both with IFC. Moreover, 3 retail centres in Macedonia, Montenegro and Serbia (Hystead project, BDS17-123, signed in 2018 but prepared and approved in 2017) were also co-financed with the IFC. The World Bank's private finance arm also intended to be an EBRD co-financier in the Arabian Centres projects in Egypt, however this project was cancelled undisbursed.

Limited co-financing with IFIs was partly due to available commercial co-financing for property projects as a large majority of P&T loans were syndicated to commercial banks. This was often preferred as it gave a better indication of the acceptable market pricing (which helped close negotiations with the client), while the Bank also benefited from the syndication fees.

In recent years the P&T team also established partnerships with several international organisations, such as UNWTO, UNDP, the Smithsonian Institution and the World Business Council. Some of these partnerships have been formalised by the signing of MoUs, other have been informal. Each has had different objectives, ranging from cooperation on improving hospitality standards in SEMED, to the preparation of integrated tourism development master plans. Although recent, this cooperation has begun to yield some results, for example, a large conference was organised by the Bank with UNWTO in Jordan, promoting improved hospitality standards. Also, the UN WTO and the Smithsonian Institution served as the Bank's consultants on mapping out the tourism strategy for Khiva-Khorzem region in Uzbekistan (see box 7).

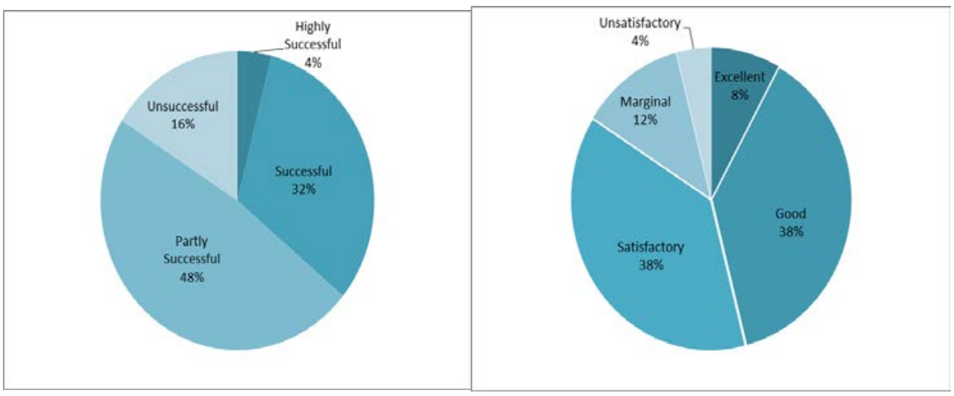
In conclusion, cooperation with IFIs during the Strategy period was very limited. However, three projects co-financed by an IFI were signed already in the first 6 months of 2018, indicating the recent intensification of such cooperation. The Bank also worked with international organisations, particularly in relation to tourism projects. The recently increased interest of some IFIs in the property and tourism presents opportunities to intensify cooperation in the near future.

3.6 Performance of P&T projects

- Two-thirds of P&T projects experienced problems. Shopping malls and hotels in particular suffered from "weak market conditions", resulting in lower-than-projected leasing or occupancy rates, leading to financial difficulties;
- The Bank made losses on all P&T equity investments signed in the Strategy period and exited/written-off so far (except for Europolis restructuring);
- Shopping mall projects rarely resulted in decreased local rent levels – the main measure of a project's impact on local competition;
- Energy efficiency savings were difficult to verify due to lack of systems in place to measure them, particularly in shopping malls and logistics centres. Offices fared better on this account;
- Weak linkages to the local economy, as well as the difficulty in privatising tourism assets and launching IPOs, were other key obstacles to achieving transition impact in this sector.

In the last several years EvD has validated nine self-evaluations (under eight OPAV reports[17]) of P&T operations signed in the Strategy period. These reports and an additional nine self-evaluations (OPAs) were reviewed by EvD for this sector performance assessment. Moreover, EvD prepared two case studies and undertook desk reviews of five additional projects as part of this study. In total, **25 projects were assessed** (38% of all signed in the Strategy period). The overall and the TI rating results of the sample assessment are presented in figure 3:

Figure 3. Overall and transition performance rating of 25 sample projects reviewed by EvD



Annex 11 summarises the results of these assessments, providing ratings for project effectiveness, TI and efficiency (in some cases only for a "potential" rating as they are still ongoing), as well as comments on key issues.

Although some ratings (particularly in self-evaluations) may seem generous, it is clear that based on the sample, about two-thirds of P&T projects encountered problems during implementation,

[17] Kaluga Industrial Park loan and equity operations were validated under one OPAV report.

which resulted in financial underperformance and/or difficulties in achieving TI benchmarks. The recurrent issues encountered by these projects can be summarised as follows:

The main operational issues:

- **Weaker than expected market conditions** - particularly in respect of shopping malls and hotels in secondary or smaller capital cities – lower purchasing power of the population or lower demand from tourists and/or new, competing malls/hotels opening at the same time. This resulted in lower than projected leasing/room rates, lower occupancy rates and in turn financial underperformance - often less than half of EBITDAs/net profits levels projected;
- **Tenants renegotiating rates -** particularly at roll-over, when experiencing lower than expected footfall/revenues;
- **Cost overruns –** often due to fit-out costs, which developers had to assume to attract tenants;
- **Delays with building completion –** difficulties with obtaining all permits on time, technical problems (for example, with historic buildings), changes to project scope, disputes with contractors;
- **Ownership and strategy issues** – ownership changes (new owners with new ideas), clients' internal restructuring, co-owners disputes;
- **Geopolitical risks materialising** - currency depreciation (e.g. Ukraine, Kazakhstan, Turkey, Egypt, Georgia, Russia, etc.) and adverse socioeconomic conditions due to conflict (in Ukraine and to some extent in Russia), as well as affecting Jordan and Turkey (war in Syria), resulting in lower demand for goods and services.

The main transition impact issues:

- **Shopping mall projects rarely resulted in decreased rents in a city** – the decrease of local rents was often set as an indicator of a project creating competitive pressure in a local market, yet these benchmarks often failed. Malls in Skopje, Surgut (Aura) and Belgrade (Zemun) were exceptions, although it is likely that rent reductions there were caused by overall weakening of the market, rather than Bank-financed projects;
- **Lack of data on energy efficiency savings** – most properties (except offices) didn't have a system in place to measure energy savings or the overall energy performance of their buildings. Therefore in many cases it was not possible to verify the achievement of benchmarks in this respect;
- **Inability or refusal to publish data on energy efficiency** – those developers who managed to demonstrate energy savings failed to publish this data on the internet (doing so was frequently set as a benchmark).
- **Energy efficiency certifications taking a long time** – certification of buildings was benchmarked, however even after several years it was deemed as "on track" or "delayed";
- **Weak demonstration effect** – lack of evidence that other developers followed the suit of Bank clients and adopted similarly high energy efficiency technics/certification or other standards;
- **Green leases not offered to tenants** – provision of green leases was often benchmarked, however in several cases it was abandoned due to weak market conditions (e.g. reluctance to burden prospective tenants with non-essential requirements);

- **Limited linkages to local economy** – such linkages were weak or non-observable, for example, in respect of narrowly focused tourism projects or industrial parks;
- **Privatisation of tourism assets unachievable** – this benchmark was rare but when it appears, the assets have been deemed "strategic" by the government and privatisation was not achieved;
- **IPOs not happening** – in the case of two projects labelled as "pre-IPOs", initial offerings did not take place;
- **The Bank's limited ability to influence the management of property funds** – this was raised by FOPC during the discussion on the new Strategy (see section 2.1) and resulted in the Bank limiting investments into property funds. However, several cases where the Bank did invest confirmed its limited ability to influence decisions.

Moreover, as an indicator of the performance of the sector's projects, EvD analysed the **occurrence of defaults** in P&T projects. Five of those signed during the first two years, i.e. **26% of the total signed in 2010-2011** experienced payment defaults and were transferred to Corporate Recovery (three secondary city shopping malls and two hotels). Six additional projects signed during 2010-2014 defaulted on their financial ratios or other covenants and were put on the "watch list" (16% of the total signed in this period) – three shopping malls, two offices and one hotel.

The Bank had to **write-off almost all of its equity** invested in P&T projects during the Strategy period, exited so far (June 2017 – five exits/write-offs), while exit prospects for two other projects remain uncertain. Although the largest write-off in the Strategy period was related to several Europolis investments (€28 million), these investments were made in the pre-Strategy period, while the restructuring investment made in 2013 is widely seen as helping to minimise this write-off. It should be note however, that the overall property market in the COOs in this period was characterised by very high risks and relatively high occurrence of defaults.

The performance of projects signed during more recent years (2015-2017) is still difficult to assess. However, there are indications that they will perform better, at least financially. This is due to the relatively large number of capital market investments made in 2017, which represent lower risk and were often made in more advanced countries. Also, there were fewer equity investments into SPVs and more into developers, often with put options. The Bank also structured its debt financing more conservatively, requiring stronger guarantees, often personal, from the main shareholders. Transition impact objectives have been better aligned with the Bank's strategic initiatives, while TCs and policy dialogue have been more frequently employed to support their achievement.

In conclusion, the main assumption underlying property projects, particularly in the first part of the Strategy period, has been that more remote the target and the higher the risk level, the greater the transition impact and additionality. This approach exposed P&T projects to high risks, many of which did materialise, resulting in a quarter of projects from the early years of the Strategy period ending up in the Corporate Recovery. The shift in the strategic direction at the beginning of 2013 (see section 1.2) also resulted in a much more cautious approach to financing developments in the secondary cities and capitals of small countries, which lacked the underlying economy to support properties built to international standards. Most recently, the P&T team has been investing more into the capital markets of more advanced countries and structuring debt projects better, which should result in a better performance in the future. The transition impact of P&T projects has been generally weak as many failed to improve competition, demonstrate energy savings or generate other benefits (see annex 11 for more details on issues encountered by sample projects reviewed by EvD).

3.7 Macro-level results

- There has been **no change** in the Real Estate Transition Indicators of any country of operation between 2010 and 2016;
- Analysis of the property-related indicators in the World Bank's "Doing Business" reports from 2010 and 2017 shows that **double the number of countries** of operation achieved progress than declined, although this cannot be attributed to the Bank's activities;
- The **wide dispersion** of Bank projects across 19 countries, various cities and several sub-sectors prevented it from making a larger visible impact on any particular market;
- **Tbilisi, Georgia** was a single market where most (six) Bank property projects were financed. However, this financing was small and the properties dispersed among various sub-sectors. It can be asserted that the Bank contributed to financing of 1% of Tbilisi's hotel base.

A comparison of the Real Estate Transition Indicators from 2010 and 2016[18] Transition Reports shows **no change** of such indicators in any country (see annex 12). Nevertheless, other international studies demonstrate that a substantial progress was made by some countries in two key areas – **dealing with construction permits and registering properties.** Annex 13 compares these two indicators for the Bank's COO as ranked by the World Bank's "Doing Business' reports from 2010 and 2017. It shows that about **double the number of countries** of operation improved their ranking than declined. In particular, 24 countries improved ranking in "dealing with construction permits", while 11 countries slipped in ranking on this account. The largest leaps forward were made by Serbia, FYR Macedonia, Kazakhstan and Poland, each of which improved its ranking by more than 100 places. The largest declines were registered by the Slovak Republic and Cyprus (by more than 50). The progress was less spectacular in the "registering property" category (22 improvements and 13 declines), with Ukraine, Slovenia and Montenegro improving their rankings by more than 50, while Albania, Greece and Tunisia slipped down by more than 30 places. Progress was concentrated in the CEB region, although selected countries in all other regions also experienced improvements. For instance, in Central Asia, Kazakhstan and the Kyrgyz Republic improved their standing in both categories, as did Serbia, Kosovo and FYR Macedonia in Western Balkans.

The 2017 "Doing Business" report stressed that the **Europe & Central Asia region was a clear world leader** in respect of reforming its property-related laws and regulations that year. In particular, Belarus was praised for introducing a new geographic information system, providing free access to information on land plots and technical information on geospatial location. Serbia reduced the time required to transfer a property, while Georgia increased coverage of all maps for privately-held land in Tbilisi. Poland received a special mention for simplifying its Construction Law. These achievements were not related to the Bank's work, which did not get involved in

[18] 2016 Transition Report was the last, which contained sector-specific transition indicators.

these reforms. However they demonstrate that despite the property sector being sensitive, progress in reforming it is possible, as many countries look to simplify their property-related laws and regulations to attract FDIs.

Due to **substantial dispersion** of its financing across 19 countries, many cities and several sub-sectors, no larger impact stemming from Bank property projects was identified. During the Strategy period the Bank financed the largest volume of property investments in Russia (€171 million in total), despite them covering only three years (2010-2012). However, these investments were dispersed among many secondary cities. They represented only 0.7% of the total property sector investments made in Russia in these three years (US$ 22.2 billion[19]).

The city where the Bank made most investments (at least by number) was Tbilisi, Georgia, where six assets were financed. However they were relatively small investments (€25.2 million in aggregate) and dispersed across three hotels, one office building, one mixed development (residential, retail, office) and one shopping mall. The three hotels (Hilton Garden Inn, Kabadoni and Fabrika hostel) accounted for about 1% of the total market of 302 hotels in Tbilisi[20], including 40 in the international mid-range category (as Hilton Garden), 66 in the local mid- range (as Kabadoni) and 172 in the local budget class (as Fabrika). The Collier's analysis of Tbilisi's hotel market mentions the Bank-financed Hilton Garden among seven mid-range hotels under construction, which are expected to open in Tbilisi in the next two years (the Park Inn, the Golden Tulip, Moxy, two Ramada Hotels and the Ibis Styles). Therefore, the Bank's contribution to Tbilisi's hotel market, although visible, can be seen as very small.

In conclusion, no observable macro-level impact from the Bank's P&T projects and activities can be identified. This was due to large dispersion of such projects among countries, cities and sub-sectors, combined with the absence of policy dialogue (initiated only in recent years). However, evidence exists that during the Strategy period most of the COOs made progress, some of them substantial, improving their business environment in the property sector. It also indicates that a number of countries stayed behind with introducing changes in this sector and that opportunities exist for the Bank to contribute to the future reforms.

[19] Russia, Investment Market Review, 1H 2015, Colliers International
[20] Tbilisi, Annual Market Report, Hospitality, 2016, Colliers International

4 Findings and Recommendations

4.1 Findings

Strategy

- Systemic and institutional challenges were to be addressed by other IFIs in a largely unspecified way; the Bank would focus on increasing competition in selected regions by financing projects, demonstrating energy efficient technologies and improving corporate governance.
- The Strategy identified important transition challenges but was not based on underlying market diagnostics; it lacked clarity on linkages between assessed challenges and resulting operational priorities. Strategic coherence was undermined given cases where intended actions did not correspond to the headline operational priorities. For example “Institution Building” and “Supporting Legal and Administrative Framework” was to be accomplished by limited project-level steps.
- Country strategies often highlighted institutional and legislative deficiencies as the key P&T challenge. However P&T never had more than a marginal operational role in any; where (limited) links were cited they were typically in energy efficiency.
- Resource requirements to deliver the overall strategy or any sub components were not addressed.

Operations

- P&T operations were widely dispersed across many countries, dominated by stand-alone hotels and shopping malls; this fragmentation undermined scope for any discernible broader market impact. The evaluation found no evidence thus far of the Bank achieving sufficient presence or critical mass to shape sector developments in any demonstrable way.
- The Strategy promised a shift from EU/Central Europe towards ETC and other regions. However, operational volume in ETCs was halved, while it doubled in EU countries. SEMED has become a key region more recently.
- Support for local capital markets has been the most frequently targeted objective among the new (“shadow”) priorities pursued in recent years. Urban regeneration and economic inclusion projects have also been targeted, while two large tourism financing frameworks have been prepared.
- Two-thirds of projects reviewed experienced problems; shopping malls and hotels in particular performed poorly. With one exception, the Bank lost all equity invested and exited so far.

Policy dialogue and TCs

- Policy dialogue was mostly limited very narrowly to integrity standards for clients and co-investors in property funds, and applying environmental and social standards.
- There was no appreciable policy dialogue with public institutions (through P&T projects) until 2015 and since then only limited engagement; commenting on laws in Poland and Morocco, supporting improved hospitality standards in SEMED and the development of tourism in Uzbekistan.

- E2C2 and LTT supported improved energy efficiency standards for buildings although mainly for FI (SEFF) and MEI (public housing) projects; this work had no material P&T dimension.
- Only eight transition-supportive TCs were implemented, most within the last three years.
- A large TC was launched in 2018, in cooperation with MEI and E2C2, aiming at preparation of urban regeneration master plans for selected cities (see box 8).

4.2 Recommendations

Management should prepare a new sector strategy for approval by the Board, introducing and significantly strengthening key elements. A key objective should be to identify much more clearly how a strategically determined combination of specific transactions, technical assistance, policy dialogue and collaboration with other actors is intended to deliver a demonstrable transition impact.

This should include:

- sector analysis and diagnostics identifying gaps in transition qualities relevant for the sector, setting out Bank priorities and what it believes it is positioned to accomplish;
- a consolidated picture of the business objectives, country and regional priorities, as well as policy dialogue work, through which this is to be delivered. This should specifically consider:
    - broad operational directions and key performance indicators covering transactions, sufficient to identify intended results and permit monitoring;
    - how the new strategy will be integrated into country strategies and specifically, whether engagement will be targeted to particular countries and/or circumstances; and
    - broad assessment of resources required to effectively implement the strategy.

5 Sources

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Memorandums of Understanding between the Smithsonian Institution and EBRD

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Memorandums of Understanding between World Tourism Organization of the United Nations and EBRD

Annex 1 - Simplified Results Framework for Property 2010 Strategy (ex-post, prepared by EvD)

Input	Output	Outcome	Impact
1. EBRD's financing resources in hard and local currency: – senior and mezzanine corporate debt – project finance – dedicated facilities (SEFFs, DLF, etc.) – capital market investments – guarantees – direct equity investments – equity into funds	• **Properties and tourism infrastructure built or renovated** - particularly in the secondary cities and capitals of smaller countries: - hotels - retail - offices - warehouses - residential - tourism infra. Focus on: - Western Balkans - Eastern Europe - Caucasus - Central Asia - Russia Focus on smaller projects	• **Higher standards of** building quality (space) and construction (energy efficiency, innovative practices and technologies) **demonstrated and adopted** (replicated): - in countries with large TI gaps (10 countries) - selected sub-sector in countries with medium TI gaps (nine countries) - projects with high demo effect in Russia and Ukraine • **Urban areas regenerated** -brownfield -city centres	• **Economic growth**, due to improved quality and availability of business, retail, logistic, tourism, housing facilities • **Improved competitive environment** (lower rents) • **Climate change mitigated** (decreased energy consumption for heating of buildings)
	• Closer cooperation with IFIs and EU	• **Liquidity shortages alleviated** (for existing clients, where financing withdrawn) – crisis response	• **Property financing markets restored** to activity and liquidity
2. Co-financing & syndication resources - from private sector - from IFIs - co-investments into property funds	• **Increased participation of institutional investors in the property sector** (particularly local pension funds in domestic property funds, as well as in IPOs)	• **Active secondary market** in the property sector created	• **Developed secondary property market** – an important element of region's economy

3. Donor resources - for TCs and - policy dialogue 4. EBRD's attributes – staff expertise - leveraging local knowledge (RO/sector) – influence /reputation – covenants and conditions	• High standards of integrity and business practice demonstrated • Gaps and shortcomings in the institutional and legal environment for the property development identified (through dialogue with clients) and <u>addressed</u> • Advice or dissemination of best practice on energy efficiency of buildings, including use of renewable energy technologies (through energy audits and dedicated TCs) • Advice on city planning	• High standards of business conduct and integrity adopted (replicated) - corp. governance - int'l accounting standards - auditing and reporting - use of consultants • Simpler, faster, more transparent: - property registration, - land zoning, - building permission award • Improved: - collateral legislation - enforceability - reduced bureaucratic interference • Higher standards of energy efficiency for buildings adopted (national building energy efficiency standards developed for Kyrgyzstan and Moldova – dedicated TCs) • Improved city planning process	• Increased transparency of the property market • Reduced corruption • Climate change mitigated (decreased energy consumption for heating of buildings)
5. EBRD policies and strategies – SEI – env & soc policy	• Bank's environmental and social standards applied	• Higher environmental and social performance of projects (risks better managed)	• Improved environment and social standards

Annex 2 - Links between country strategies and the 2010 Property Strategy

The nine strategies selected are for the countries where the Bank undertook the most P&T projects.

The 2009 country strategy for the ***Russian Federation*** focused on energy intensive industries. It mentioned property development as a relatively less energy intensive sector, which the Bank would also target (alongside Agribusiness and Telecom). The origination of projects was to be supported by energy audits to ensure incorporation of SEI components. Transition gaps in P&T were assessed as "Medium" overall but "Large" in respect of institutions and policies. Regional cities were viewed as lagging behind Moscow and St. Petersburg in all property sub-sectors, with the exception of retail. The strategy stressed that Russia was still falling short of providing investors with a legal framework offering the necessary certainty and predictability. Mortgage lending was at an initial stage, while taking security over property remained highly challenging and complex, with tradability of land de facto limited. The **2012** Russia country strategy pointed to a slightly improved business environment, with the country scoring better in the World Bank's "Doing Business" index, including on registering property. However, it was one of the worst in terms of "dealing with construction permits" (178th among 185 countries, with 420 days on average to obtain a building permit). Key challenges identified in the P&T sector were: (i) increasing the transparency and predictability of the institutional environment, (ii) streamlining the bureaucracy related to real estate, e.g. shortening the time required to obtain a construction permit; (iii) modernising construction techniques, including energy efficiency; (iv) increasing the supply of modern property outside major cities. The strategy prioritised curbing energy demand, including in buildings. Utilising TCs, the Bank was to trial innovative financing of residential building rehabilitation (ESCOs), while pursuing policy dialogue. The Bank was also to address the lack of high quality and affordable office, retail, hotel and warehouse space in the regions. A few selected private residential developments at affordable prices were to be considered to increase labour mobility. Both country strategies had relatively strong links with the Strategy due to the prioritisation of energy efficiency and focus on the regions. Key challenges identified for the P&T sector were very similar to those identified by the Strategy (institutional underdevelopment, lack of transparency and predictability, bureaucracy, etc.) and similarly to the Strategy, the Bank was not planning to address them.

The 2012 country strategy for ***Romania*** indicated that P&T sector challenges were "small" in terms of market-supporting institutions. The legal framework was good, although weakly enforced. There were imbalances between the capital and regional cities, development of the tourism sector was at an early stage, while property restitution required a comprehensive system. The strategy emphasised the potential to increase the energy efficiency of the Romanian economy, including that of its buildings (by 40% by improving insulation). Prospects in this respect were good, as under the EU Directive on Energy Performance of Buildings, Romania was to adopt procedures leading to improved energy performance of new and existing buildings. Among seven operational priorities in the ICA sector, property was listed last. The Bank was to address the remaining transition gaps on a selective basis, where TI could be identified. Mid-range budget hotels, retail, techno parks, student housing and city regenerations in regional cities were to be supported. The **2015** strategy largely repeated the sector assessment of the previous strategy. However, it did not envisage the Bank playing a role in the P&T sector beyond promoting energy efficiency in “residential and public buildings” in the context of reducing regional disparities. No commercial real estate development or property market support – key components of the Strategy, were mentioned. Even the legal transition assessment, which stressed the potential to improve energy efficiency policy, referred to residential buildings only. While the 2012 country strategy connected with the Strategy’s priorities (which envisaged regional projects in Romania) relatively well, the 2015 country strategy signalled the Bank’s decisive shift away from more advanced EU countries. It left only a relatively narrow window for operations aiming to improve the energy efficiency of “residential and public buildings” (projects which were largely the preserve of the MEI and E2C2 teams).

One of the strategic priorities of the **2010** ***Croatia*** country strategy was to support the privatisation and restructuring of state enterprises, including in the tourism industry. The **2013** update stated that the real estate sector had developed significantly over the past decade, including the introduction of new types of property, as well as financing instruments. However, the majority of commercial development has been focused on Zagreb and the coastal cities. Despite the negative impact of the financial crisis, the long-term growth potential in the commercial property sector was seen as strong due to the lack of modern warehousing stock and high quality office space in regional cities. The Bank planned to support filling this gap. The strategy stressed that the lack of transparency in the sector and bureaucratic interference hindered this potential. Many hotels and other tourism assets have remained state-owned. Developers suffered from lengthy procedures to register a property or obtain a construction permit (on average 100 and 300 days respectively). Tourism was also mentioned in the context of SMEs, which Bank aimed to support. The imperfections of the Croatian Property Act were stressed in the context of legal transition. This country strategy had some links to the Strategy as it singled out types of property and regional development as priorities in the sector. However it also emphasised the importance of tourism to Croatia, and the Bank’s role in developing it – a sub-sector which the Strategy largely ignored.

The 2010 ***Poland*** country strategy highlighted the Bank’s active involvement in the P&T sector in the past, including investments in the specialised property funds listed on the WSE. Transition gaps in the P&T sector were assessed as “small”. The strategy was geared towards “crisis response” in respect of the FI sector and capital markets. Its priorities included investments in energy efficiency but mainly in the industrial sector. The legislative environment was seen as advanced, however with the exception of an inefficient judicial system, which, among other issues, caused delays in property and mortgage registration. The **2013** strategy generally praised Poland for creating a favourable business environment (ranked the 55th in “Doing Business”) but pointed to remaining deficiencies, obtaining building permit (average time 300 days) being one of them. Streamlining this process was one of the challenges identified in the P&T sector, with the other being the need to increase the application of energy efficient technologies outside of major cities. The refurbishment and regeneration of existing buildings and know-how transfer in rural tourism were seen as having large potential. Neither strategy envisaged the Bank's involvement in the Polish P&T sector. This was a relatively good reflection of the Strategy, which clearly excluded Poland.

The 2011 *Ukraine* country strategy assessed its P&T sector market structure gap as "large" and institutions/policies as "medium". The property sector developed rapidly there until 2008 but investments were mostly concentrated in the capital and other large cities, leaving regional cities largely underdeveloped. The financial crisis led to a standstill in investments, with industrial regions being affected the most. The key sector challenges were systemic, i.e. non-transparent investment climate, inadequate legal and regulatory framework, and insufficient exposure to international good practice. A number of initiatives to develop a mortgage market have resulted in a strong increase in the number of mortgages and have laid the legislative and administrative groundwork for a functioning market. Transparency and land privatisation are improving but remain a serious issue. Property-related Doing Business indicators are weak, especially with regard to dealing with construction permits and registering property. As in Russia, tradability of land was limited. The warehouse and logistics market remained the most underdeveloped. Hotel infrastructure was also underdeveloped, despite a capacity increase due to the Euro 2012 football championship. The Bank's future operations in the sector were to focus on projects that support the development and renewal of real estate infrastructure for the retail sector and logistics, and for the general corporate sector (offices and industrial parks), as well as hotel developments where sponsors cooperate with experienced operators. Priority was to be given to the regions outside the capital, where supply and demand imbalances persist but the Bank was also to selectively consider projects with high demonstration effects in the capital city. This country strategy established links with the Strategy in terms of the regional focus and prioritisation of sub-sectors such as warehousing and regional hotels. However it did not emphasise the improvement of energy efficiency standards in buildings or the creation of a secondary property market, which the Strategy prioritised.

The 2014 Jordan country strategy differed from those of the Bank's traditional COOs as it highlighted tourism as a critical contributor to its economy and employment. Tourism was referred to in the context of one of the Bank's three strategic directions in this country, i.e. "Enabling private sector-led and inclusive growth". Through its investments, TCs and policy dialogue, the Bank was to address obstacles to such growth, working with service-intensive sectors such as construction, tourism/hospitality and ICT. These actions aimed to benefit different population groups, including disadvantaged segments such as women, the rural population, youth and refugees. The Bank was also to conduct policy dialogue to develop policies and practices that promote and facilitate employment for these groups. Construction and tourism were mentioned again in one of the Bank's "Operational Responses", in the context of promoting competitiveness through more inclusive growth and sustainable employment. Transition challenges in the P&T sector were assessed as "medium" and included bureaucracy (cost of obtaining building permits), lack of affordable hotels, need to improve building standards and develop residential segment and sustainable tourism. As Jordan was a new country, the links of its strategy to the Strategy were weak. Support for inclusive economic development was a relatively new objective for the EBRD, which emerged only with the accession of the SEMED region to the Bank (becoming an official TI quality in 2017). It did not feature in the Strategy, which preceded the Bank's expansion to this region.

The 2015 Morocco country strategy was similar to that of Jordan in respect of the P&T sector. It also assessed transition gap in this sector "medium" and pointed to property-related bureaucracy (long registration, availability of info on land ownership) and further development of residential sector as key challenges. It differed from Jordan in highlighting the need to improve standards for commercial property. The P&T projects were mentioned in the "Operational Responses" section, as an example of commercially viable operations, which build competitive advantages in underserved regions, which Bank intended to pursue. Morocco country strategy's links to the Strategy were slightly stronger than those of Jordan's as it stressed competitiveness, regional development and support for different kinds of commercial property.

The 2012 Turkey country strategy emphasised steady improvement of the country's business environment (ranked 71st in "Doing Business" index). However, dealing with construction permits remained one of the key obstacles. The P&T sector gaps in respect of market structure were "small", while those of market institutions were "medium". The property market was seen as relatively well developed, including tourism infrastructure. As in all countries, it suffered regional imbalances. Also typical was underdevelopment of the legislative and regulatory environment regarding the property market, with particularly complex regulations for land acquisition and obtaining building permits. The P&T sector was not among the Bank's five operational priorities for Turkey, although broadly-formulated priorities, such as energy efficiency improvement or enhancing competitiveness of Turkish enterprises, could be seen as potentially linking to the Strategy. The 2015 update of the country strategy provided similar views on the P&T sector, although it did mention that improvements in energy efficiency standards were needed "in the industrial and property sectors in particular". Energy efficiency remained one of the priorities. Moreover, improvements to corporate governance were stressed as key for one of the priorities – "Scaling up private sector's competitiveness". Both country strategies reflected the Strategy, as Turkey was not prioritised by the latter. Relatively broad casting of Bank's operational priorities allowed these strategies to establish some links to the Strategy, e.g. by referring to enhanced competitiveness, energy efficiency and corporate governance improvements.

*The 2011 Kyrgyz Re*public country strategy mentioned P&T in one of its four operational priorities, in the context of supporting local private enterprises. Raising business standards and improving energy efficiency was strongly prioritised. The country P&T challenges were large in terms of market structure and medium in terms of institutions/policies. The strategy stressed the existing, huge and unfulfilled demand for modern commercial property in all sub-segments. The mortgage market was underdeveloped and uncertainties related to property titles hindered developments. However dealing with construction permits became easier, thanks to a one-stop shop making it possible to obtain a design permit, construction license, and occupancy permit at a single location. There was little state interference in the sector but gaps remained with regard to the legal enforcement and practical implementation of the legislative framework. The 2015 county strategy gave more emphasis to the potential to improve energy efficiency in the country, including that of buildings. It pointed to a slight improvement of the business environment in the Kyrgyz Republic (ranked 68th in the "Doing Business" index) and its cooperation with other countries (e.g. cooperation on tourism signed with Turkey). Its three operational priorities did not mention P&T, however one ("Enable SMEs to scale-up and bolster their competitiveness") left the door open to pursue smaller-scale tourism and possibly property projects.

Annex 3 – List of P&T projects signed during the Strategy period (2010-2017)

Operation Name	Short Description	Sign Date	Debt /Equ.	Net Cumulative Bank Invest.	Disbursement	Country
City Center One Split	Construction, development and management of City Centre One Split Shopping Centre	Feb 2010	Debt	31,310,000	62,620,000	CROATIA
GTC Avenue Mall, Osijek	Financing the development and management of a 37,000sqm (gross) shopping centre	Mar 2010	Debt & Equ	15,504,898	15,504,898	CROATIA
Russian Hotel Investments - debt	Development, construction, operation, managemnet of 5 hotels	Apr 2010	Debt	15,900,000	15,900,000	RUSSIAN FEDERATION
Technopark Pulkovo	Development the first phase of Technopark Pulkovo	Jun 2010	Debt	21,612,003	21,612,003	RUSSIAN FEDERATION
Kaluga Industrial Park	Financing to build and operate a class 'A' industrial-logistics facility of 28,700 sqm in Kaluga Region	Jun 2010	Debt	6,427,917	6,427,917	RUSSIAN FEDERATION
DLF - Elite Plaza	USD 4.0 mln loan ti finish the construction of Elite Palza Business Centre	Jun 2010	Debt	3,003,003	3,003,003	ARMENIA
GTC Galleria Burgas	Financing of shopping centre in Burgas	Jun 2010	Debt & Equ	7,600,000	7,600,000	BULGARIA
Hines Property Fund	25% invest. in a fund to be raised by Hines to focus on distressed aasets in Russia and Poland	Sep 2010	Equ.	100,000,000	31,710,470	<REGIONAL>
Kaluga Industrial Park - Equity	Financing to build and operate aclass 'A' industrial-logistics facility of 28,700 sqm in Kaluga region.	Sep 2010	Equ.	1,714,111	1,714,111	RUSSIAN FEDERATION
Sveti Stefan Hotel Complex PPP	support foreign investor in the financing of capex to refurbish and upgrade newly privatised	Nov 2010	Debt	14,150,000	14,150,000	MONTENEGRO
LEF: Old Mill	Hotel and office development in the Old Town of Belgrade, Serbia	Dec 2010	Debt & Equ	7,160,519	7,160,519	SERBIA
MCFF - BOG Buis. Center on Vaja	USD 8.6M - 50/50 NRP/FRP	Dec 2010	Debt	3,217,145	3,217,145	GEORGIA
Hilton Podgorica	Refurbishment and extension of the Hotel Crna Gora, an existing hotel of 150 rooms	Mar 2011	Debt	19,200,000	19,200,000	MONTENEGRO
DLF - Minsk High Technology Park	Financing of the first phase of the Minsk High Technology Park	Jun 2011	Debt	8,700,000	8,700,000	BELARUS
Hotel Leipzig	Refurbishment and operation of a historic Hotel Leipzig in a prime central location in Kiev, Ukraine.	Jul 2011	Debt	5,993,597	5,993,597	UKRAINE
EcoDolie	Land acquisition, infrastructure and other start-up costs of low-rise housing in Ufa and Samara	Aug 2011	Equ	19,429,283	19,429,283	RUSSIAN FEDERATION
Aura Centre Surgut	Financing the development of a 64,000 sqm GLA shopping centre in Surgut, Russia	Aug 2011	Debt	42,586,207	42,586,207	RUSSIAN FEDERATION
Skopje City Mall	Financing of the development, construction and operation of "Skopje City Mall"	Oct 2011	Debt	25,361,114	35,361,114	FYR MACEDONIA
DLF - Merdem Catering	Improvement of the distribution and replacement of some of the key	Dec 2011	Debt	417,084	417,084	TURKMENISTAN
Technopark Pulkovo Phase II	Null Value	Feb 2012	Debt	16,892,211	16,892,211	RUSSIAN FEDERATION
Golden Ring Retail Centre	Development of retail and entertainment centre with the GLA of 62,000 m2, in the city of Yaroslavl.	Jul 2012	Debt	46,475,047	46,475,047	RUSSIAN FEDERATION
DLF - Orion III	Refurbishment and operation of a 4 star hotel in Bishkek, KR	Sep 2012	Debt	1,668,335	1,668,335	KYRGYZ REPUBLIC
DLF - Park Palace Hotel	construction and fit out of a 3 star hotel in Bishkek	Nov 2012	Debt	583,917	583,917	KYRGYZ REPUBLIC
Multi Development Forum Lviv	The construction, development and operation of a 32,300 sqm GLA shopping centre in Lviv, Ukraine.	Nov 2012	Debt	24,002,799	24,002,799	UKRAINE
MCFF - KICB Holiday	Sub loan to Holiday (local hotel) for expansion	Nov 2012	Debt	1,290,000	1,290,000	KYRGYZ REPUBLIC
Zemun Retail Park	Development of the first phase of the Zemun Retail Park with GLA of 15,309 sq. m.	Feb 2013	Debt	5,000,000	5,000,000	SERBIA
Odessa IT Centre	The refurbishment of an office building with GLA of 4,775 sq.m. in Odessa to be let to IT tenants.	Jun 2013	Debt	667,334	667,334	UKRAINE
Europolis Restructuring	Merger of Europolis 1 (OpID 17767), Europolis 2 (OpID 35120) and Europolis 3 (36975).	Jun 2013	Equ.	92,711,165	4,803,644	<REGIONAL>
Abdali Mall	Development of shopping mall in Amman, Jordan	2013	Debt	66,733,400	55,055,055	JORDAN
MCFF - Bank Rep. Kabadoni Hotel	MCFF-Bank Republic Dzveli Sighnaghi LLC	Sep 2013	Debt	500,501	500,501	GEORGIA
Amtel Properties	Equity investment in Amtel Properties Development to finance two projects in Tbilisi and Minsk	Feb 2014	Equ.	35,932,447	35,932,447	<REGIONAL>
Hines Poland Sustainable Fund	Sustainable Income Fund managed by Hines focussing on office and industrial assets	Jun 2014	Equ.	60,000,000	38,139,730	POLAND
LEF: Marina Dalmacija	A senior Loan of €10 million for refurbishment and refinancing of Marina Dalmacija	Aug 2014	Debt	10,000,000	10,000,000	CROATIA

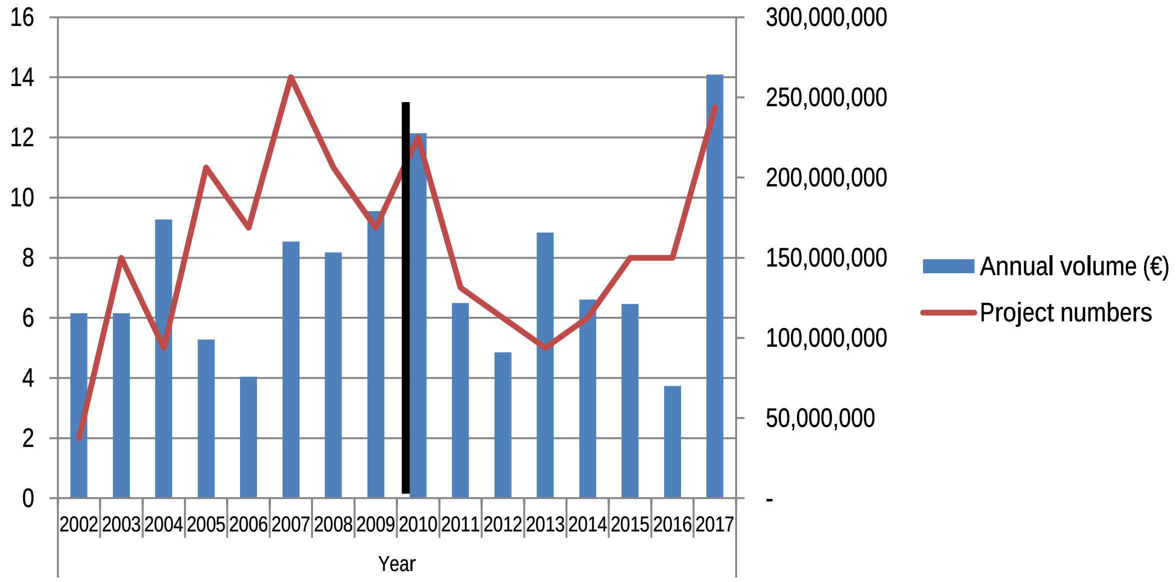
DLF - Orion 4	USD 2 million senior loan to finance the fit-out of an 84 room hotel in Bishkek.	Aug 2014	Debt	1,668,335	1,668,335	KYRGYZ REPUBLIC
DLF - AK Tam	New warehouses to be rented out to third party	2014	Debt	583,917	583,917	TURKMENISTA
Arricano Prospect	Completion of the retail centre in Kyiv	Dec 2014	Debt	15,849,183	15,849,183	UKRAINE
MCFF - KICB Ak Bermet	Sub loan to Ak Bermet for modernisation and upgrade of resourt facilities including sewage facility	Jan 2015	Debt	208,542	208,542	KYRGYZ REPUBLIC
Project Planet	Participation into a senior secured corporate bond.	Jun 2015	Debt	7,185,629	7,185,629	POLAND
Vecteur LV (f. Project Anfa)	Pre-IPO equity investment	Jun 2015	Equ.	45,000,000	45,000,000	MOROCCO
LEF: Lesnina	Construction and operation of furniture retail centre in Zadar	Oct 2015	Debt	10,000,000	10,000,000	CROATIA
MCFF - BOG IGDG Gldani	Construction of 3 storey shopping centre, with parking for 550 cars, in Gldani district of Tbilisi.	Nov 2015	Debt	5,839,173	5,839,173	GEORGIA
RSF - TBC Bank Leonidze 2 BC	MCFF-TBC Bank Leonidze 2 Business Centre	Dec 2015	Debt	2,502,503	2,502,503	GEORGIA
RSF - BTB Holiday Hotel II	Recontsruction and refurbishment of Holiday Hotel USD 1 million	Dec 2015	Debt	417,084	417,084	KYRGYZ REPUBLIC
Ayla Oasis Regeneration Project	Construction and operation of the first phase of the Ayla Oasis tourism resort in Aqaba	Dec 2015	Debt	50,050,050	30,030,030	JORDAN
DFF: Orbis Bond	Participation in senior secured bond	Jul 2016	Debt	4,790,419	4,790,419	POLAND
TFI Tab Gida (f. Project Restoran)	Investment into convertible preferred shares	Jul 2016	Debt	41,708,375	41,708,375	TURKEY
DFF - Intersport	Debt financing of restructuring and expansion of a leading sports goods retailer in SEE region	Nov 2016	Debt	12,750,000	12,750,000	<REGIONAL>
MCFF - BoG Fabrika	Development to include 380 bed accommodation for youth travellers, cafes/restaurants, ed	Nov 2016	Debt	1,042,709	0	GEORGIA
RSF - KICB Solutel Hotel	KICB MCFF loan of USD 535,452	Dec 2016	Debt	216,124	216,124	KYRGYZ REPUBLIC
Griffin Student Depot Framework	Providing finance for acquisition, refurbishment and development of a portfolio of student housing	Dec 2016	Debt	1,707,305	1,707,305	POLAND
DFF SME - Downtown Cairo Regeneration	Sustainable regeneration of Downtown Cairo	Dec 2016	Debt	2,814,267	0	EGYPT
DFF - Pula Retail Regeneration	Equity investment relating to a shopping centre in Pula	Dec 2016	Equ.	5,000,000	5,000,000	CROATIA
Nef Housing (Sub-Loan)	Investment into a joint venture framework with NEF	Mar 2017	Debt	106,410	99,235	TURKEY
Nef Housing (Equity)	Investment into a joint venture framework with NEF	Mar 2017	Equ.	125,981	125,981	TURKEY
Griffin Premium REIT	Participation in the IPO of the first Polish REIT	Mar 2017	Equ.	20,215,545	15,939,547	POLAND
RSF - KICB Ak Bermet 2	Existing client Ak Bermet would like to construct and operate baquet hall in Cholpon-Ata, Issyk Kul	May 2017	Debt	291,959	291,959	KYRGYZ REPUBLIC
Globalworth Real Estate Investment	Bond issue	Jun 2017	Debt	50,000,000	50,000,000	ROMANIA
CTPark Bucharest West - Project 23K	Developing new warehouses (GLA71,800) adjacent to the clients existing logistic park.	Jun 2017	Debt	36,700,000	33,885,295	ROMANIA
TRY Corp - Project Dream	Bond purchase on Turkish market, proceeds to finaince hotels and marinas	Jul 2017	Debt	22,053,046	22,053,046	TURKEY
DFF - Ramses - Highly Restricted	social housing financing	Sep 2017	Debt	5,347,256	5,347,256	MOROCCO
DFF - Hilton Garden Inn Tbilisi	Development of a 170 room hotel	Nov 2017	Debt	12,095,429	0	GEORGIA
PENY Eurobond	The Bank will invest in a Eurobond issue to support financial consolidation and expansion of retail operations.	Nov 2017	Debt	50,000,000	50,000,000	ROMANIA
DFF - Project Point	Acquisition of receivables derived from the non-performing loan and capex financing by Bluehouse Fund (of Zagreb SM at discount)	Dec 2017	Debt	10,000,000	8,500,000	CROATIA
Globalworth Real Estate	Acquisition of ordinary shares in a REIT-like company (to finance new acquisitions)	Dec 2017	Equ.	39,999,995	39,999,995	<REGIONAL>
Dimand	The development of a pipeline of brownfield projects across Greece	Dec 2017	Equ.	17,200,000	0	GREECE
TOTAL				1,185,213,270		

Annex 4 – Portfolio Analysis

There has been relatively little change in the number and volume of P&T projects signed during the eight year Strategy period (**2010 – 2017**) as compared to the preceding eight years (**2002-2009**). The number of projects decreased slightly by 5% (from 69 to 65), while their cumulative volume grew by 10% (from €1.07 billion to €1.18 billion).

Average annual and single project volumes rose from €134 million and €15.5 million respectively to €148 million and €18.2 million respectively. The number of projects signed was particularly high in 2007, right before the crisis (14) and in 2017 (13).A record volume was registered also in 2017 (€ 264 million). This was a significant, almost threefold increase from the record low of €70 million for the previous year (see figure 1).

Figure 1. Property and Tourism - annual net cumulative signing volume and projects number 2002- 2017



The most significant change in the portfolio structure between these two periods was a considerable reduction in investments into property funds during the Strategy period. During 2002-2009 the Bank committed to invest €440 million into 17 property funds, actually investing 95% of this amount. They accounted for 25% of the total project number and 41% of volume – by far the largest share of the total portfolio on both accounts. Following the global financial crisis, which hit such funds hard, as well as questions from the Board and EvD about the Bank's additionality and ability to achieve the desired transition impact through property funds, the Bank drastically limited its investments in such funds.

During the Strategy period there were only five investments classified as funds (8% of the total) for a committed amount of €283 million or 24% of total portfolio, of which only 35% (€99 million) was actually invested, constituting a 76% drop in Bank investments into property funds. The design of three of these funds was relatively innovative, i.e. unlike those of the previous period, they didn't simply finance asset development/acquisition but introduced a new structure or products, while two investments were in fact restructurings of earlier Bank investments – see table 1 below.

Table 1. EBRD's investments into property funds during the Strategy period

Project/fund Date of commitment	Amount committed €m	Amount invested €m	Country	Brief description
Hines Property Fund, 9.2010	100	31.7	Poland, Russia	Fund was to target distressed assets in Russia and Poland but none was found. Instead, the funds invested in 3 assets in Poland.
Europolis restructuring, 6.2013	92.7	4.8	Regional	Restructuring of a troubled investments from pre-Strategy period. Merger of three earlier investments into one
Hines Sustainable Fund, 6.2014	60	38.1	Poland	Investment into the first fund with dedicated sustainability benchmarks (energy and environmental savings targets for each property). Owns and manages 5 assets.
Griffin Premium REIT, 3.2017	20.2	15.9	Poland	Investment into IPO, later structured as a vehicle following a business model of a REIT (property fund listed on the stock exchange).
Project Point, 11.2017	10 (loan)	8.5	Croatia	Acquisition of discounted receivables from the non-performing loan, made by Bluehouse Fund (the Bank's investee from pre-Strategy period) to Zagreb Mall (one of the Bluehouse Fund's assets)
Total	282.9	99.0		

The diminished importance of investing into property funds was in line with the advice given by the Board during the discussions on the draft Strategy, as well as with the recommendation in EvD's 2006 special study (see box 3 in section 1.3 of this report). Nevertheless, funds still accounted for the second largest category by volume committed during the Strategy period. Investments in funds were partially replaced with investments into developers (increase from 2% to 17% of total volume).

The funds were replaced by **shopping malls as the largest sub-sector by volume** in the Strategy period, its share increasing from 26% to 30%. However the volume share of the remaining categories of assets **changed little** between the two periods. For instance, the share of financing of office, residential and tourism facilities remained approximately the same, while that of logistic and industrial facilities decreased slightly from 7% to 4% and almost by half in money terms. This was **despite the Strategy stating a preference for logistics parks.** Also, the volume share of hotel financing, which were to be a key target according to the Strategy, particularly regional ones, decreased from 14% to 8%. However, **hotel projects were the largest category by number** - 25% (16 hotel projects), indicating 16% growth from the pre-Strategy period (11 hotel projects).

Urban regeneration was a new category, accounting for 6%[21] of total financing in the Strategy period, demonstrating one of the new directions or "shadow priorities" targeted in the later period of the Strategy implementation. There were other new types of projects in that later period, such as student housing and restaurant/catering network financing. In aggregate, they accounted for 4% of the total volume (labelled as "other" in figure 3). Figures 2 and 3 below illustrate changes in the category of assets and projects type financed by the Bank during the pre-Strategy and Strategy periods.

Figure 2. Property and Tourism - Net Cumulative Investments by type of project 2002-2009

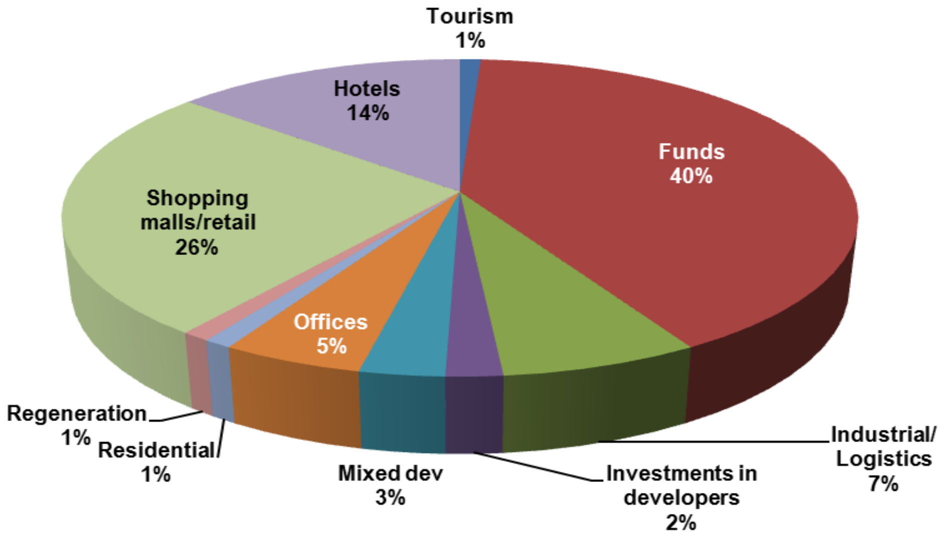
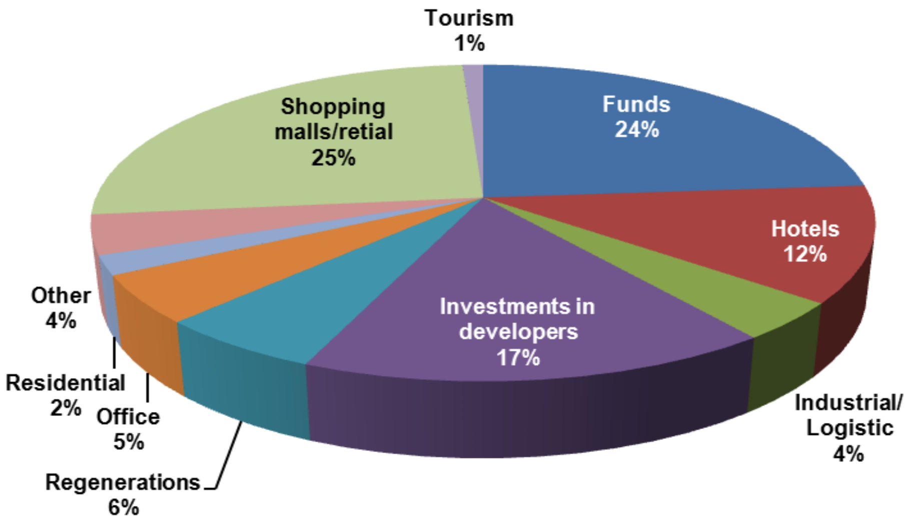


Figure 3. Property and Tourism - Net Cumulative Investments by type of project 2010-2017



[21] Also the Abdali Mall and Pula retail projects had urban regeneration elements (see 3.3.(ii)). However in EvD's view these were predominantly retail property development projects and were counted as part of the Bank's retail/shopping mall's portfolio. Had they been counted as urban regeneration projects, it would have doubled the share of such projects in the Bank's total portfolio to 12%.

The changes between the two periods were more pronounced in terms of the **geographical structure** of the Bank's P&T portfolio. The volume share of regional and Russian projects, which dominated the pre-Strategy portfolio taking two thirds of the total, decreased substantially in the Strategy period, while the volume shares of South-East Europe (SEE) and Central Europe and the Baltic States (CEB) grew and were supplemented by projects signed in the new regions of Turkey, SEMED and most recently Greece. Figures 4 and 5 illustrate the changes in the geographical structure of the P&T portfolio.

Figure 4. P&T projects volume share of the Net Cumulative Signing by region 2002-2009

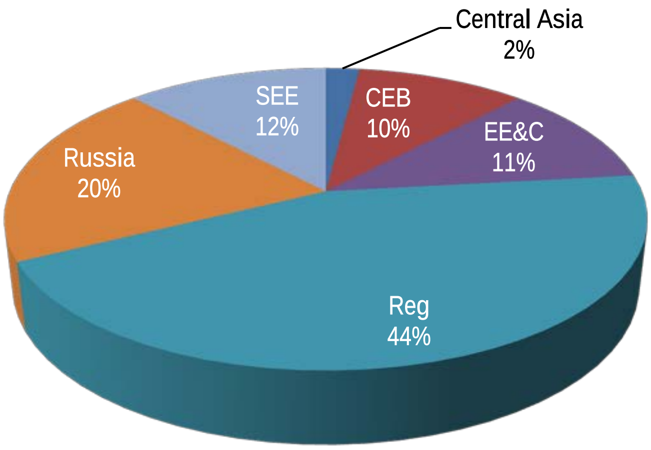
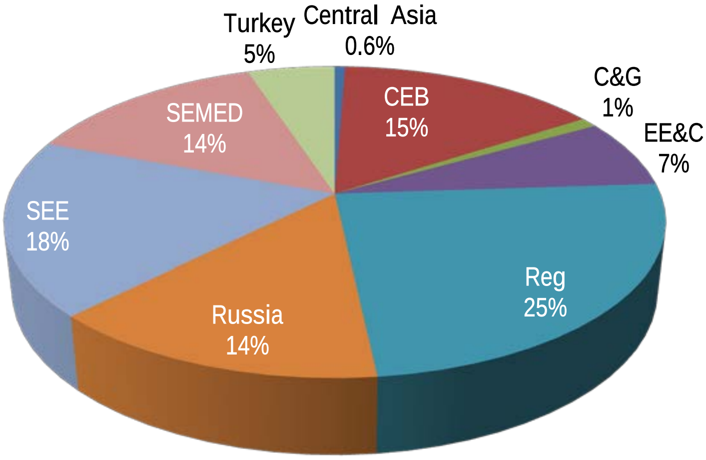


Figure 5. P&T projects volume share of the Net Cumulative Signing by region 2010-2017



While growth of volume in SEE was in line with the Strategy, the increase of financing in CEB was surprising as the Strategy largely excluded this region from the Bank's activities (except for projects in secondary Croatian cities). At the same time, the volume share of financing signed in Central Asia and Eastern Europe & the Caucasus decreased, from 2% to 0.6% and from 11% to 7% respectively.

This alone however, does not mean that the Bank did not step up its effort to target the priority regions. As risks were higher there, projects tended to be much smaller than those in other regions. A comparison of the project **number** demonstrates that the share of projects in Central Asia increased in the Strategy period (from 13% to 15%), while that of Eastern Europe and the Caucasus decreased from 25% to 18%, however it still was the region where the largest number of projects were signed during the Strategy period. See figures 6 and 7.

Figure 6. P&T projects number share of the Net Cumulative Signing by region 2002-2009

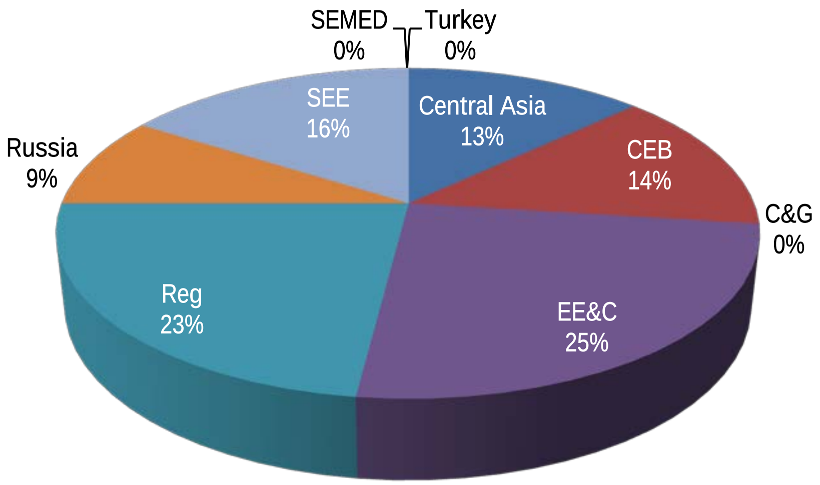
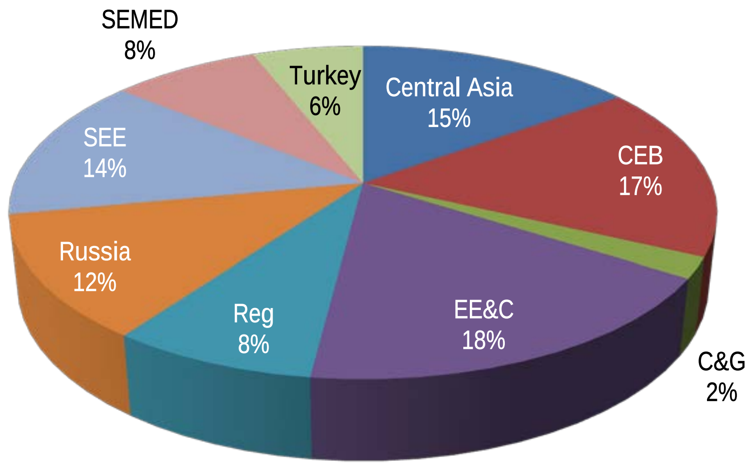


Figure 7. P&T projects number share of the Net Cumulative Signing by region 2010-2017



Further comparison of the Bank's P&T financing patterns by priority regions in both periods confirms a substantially increased volume of investments in EU countries, which was mainly due to large commitments (but not such large actual investments) in three property funds in Poland, as well as an increase of financing in Croatia and recently in Romania – see figures 6. In terms of project numbers, these increased slightly in each of the priority regions (except for EE&C), while the number of projects in the EU was virtually unchanged – see figure 9. This figure also demonstrates that the share of project numbers in the ETCs remained exactly the same in both periods (28%).

Figure 8. Comparison of volume of financing and its share by priority regions and EU during 2002-2009 and 2010-2017

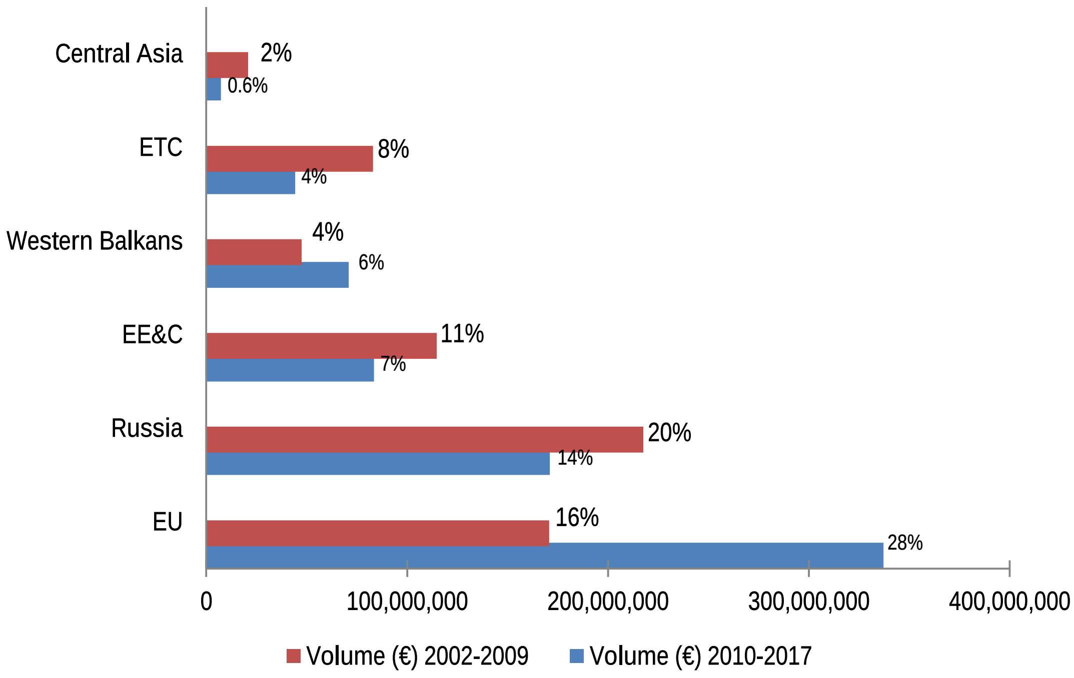


Figure 9. Comparison of number of projects and their share by priority regions and EU during 2002-2009 and 2010-2017

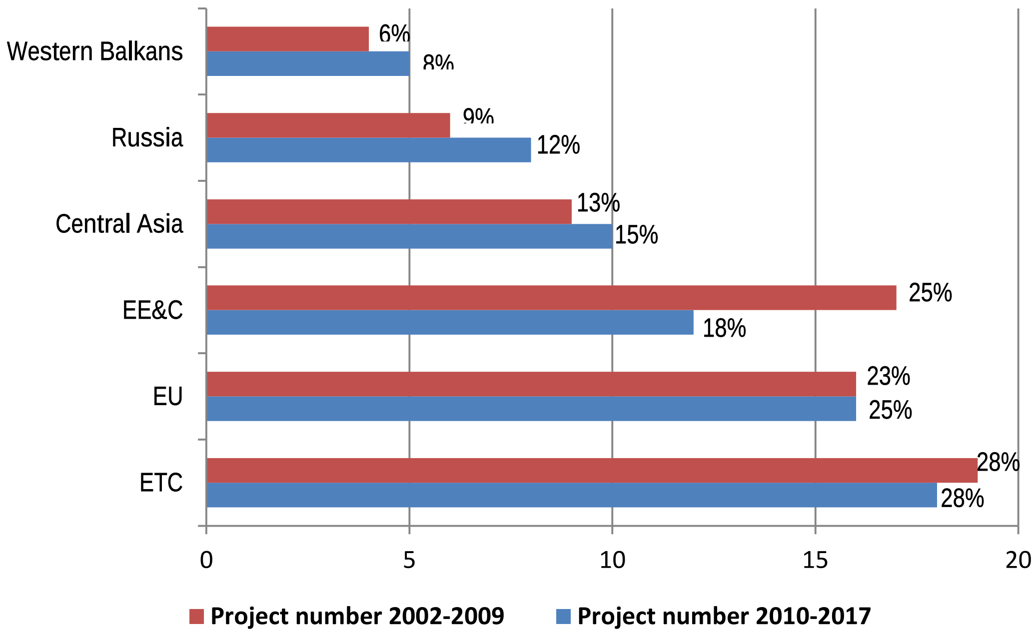
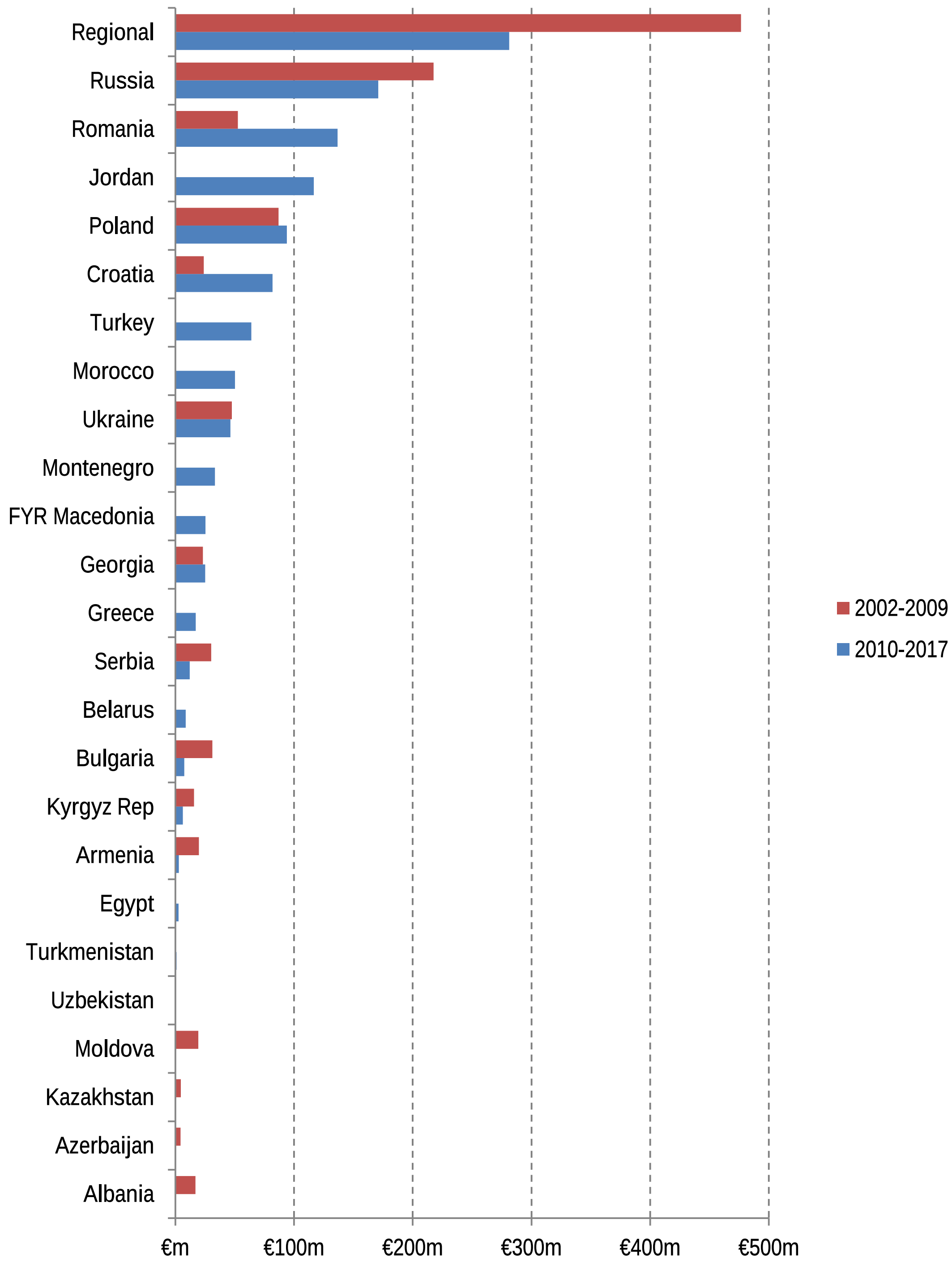


Figure 10 increases granularity of analysis by comparing investments volume by country in both periods.

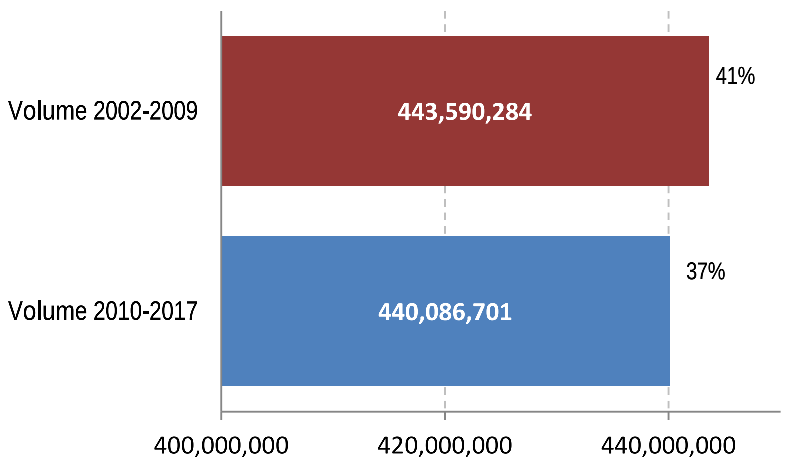
Figure 10. Financing by Country 2010-2017 and 2002-2009



This figure clearly demonstrates a decline in the Bank's financing of Regional and Russian projects in the Strategy period, with a simultaneous increase of financing in Romania, Croatia and Poland, with the addition of substantial volumes in new COOs – Jordan, Turkey and Morocco.

Despite the considerable drop in investments into funds, the volume of equity financing remained similar in both periods, although its share in total financing was clearly larger in pre-Strategy period – see figure 11.

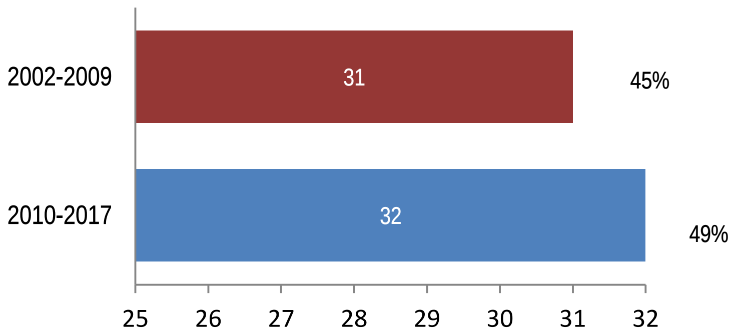
Figure 11. Equity financing by volume (EUR) and share in 2010-2017 and 2002-2009



This substantial share of equity investments in 2010-17 (despite few investments into funds) was due mainly to the volume growth of investments into property development companies, such as Globalworth in Romania/Regional (€40 million) or Amtel, (€36 million).

Another measure of alignment with the Strategy's priorities is that the number of small projects (below €10 million) increased slightly, from 31 to 32 but grew to almost half of the total (49%) as the number of projects signed decreased – see figure 12.

Figure 12. Number of small projects (below €10 million) and their share of the portfolio in 2002-09 and 2010-17



Annex 5 – Analysis of the alignment of the Bank's operations with long-term priorities stated in the Strategy

Strategic priority 1 - Sustainable market development through institution building and innovation – investments, TC and policy dialogue to contribute to the *strengthening of the institutional environment, improve business conduct and governance and support transfer of skills and innovation* through:

- Promoting high *standards of integrity* when investing in *funds and developers*;
- Promoting high standards of *corporate governance* and business practice;
- Investing in *pre/post IPOs of development companies*, that have the ability to transfer knowledge;
- Conducting **policy dialogue at project level with developers and investors and local authorities** to promote *integrity standards* and to contribute to strengthening of the *institutional environment* for property development

The implementation of this priority is difficult to analyse as it was very badly written, being a jumble of different sub-priorities, some of them overlapping. However the key finding of such an assessment is that none of the Bank's P&T projects can be considered as **promoting institution building**, in the sense of helping to create or strengthen public institutions. There were also no TCs which were explicitly intended to "*contribute to the strengthening of the institutional environment, improve business conduct and governance".*

Of the Bank's projects, 68% promoted better **corporate governance standards**, while 43% supported higher **environmental standards.** However, many of them had relatively "light" benchmarks for said standards, which were largely within the Bank's normal requirements for all clients (e.g. adoption of IFRS or implementation of ESAP). Moreover, 28% of projects promoted **skills transfer.** These were mainly more recent projects, with better defined benchmarks for skill transfers in hospitality, retail or tourism sub-sectors, three of them even supported by dedicated TCs.

The Bank "promoted" high **standards of integrity** mainly by choosing to work with established developers and funds. During due diligence, every client was subject to an integrity review by external consultants. When the consultants' report indicted a risk, the client/project was rejected. No evidence of the Bank actively "improving business conduct" (i.e. changing inappropriate conduct to acceptable) was found. In one case the Bank exercised its veto right at a fund to prevent co-investment with a questionable partner, as described below.

In relation to **investments into funds and developers** (highlighted by this priority as particular targets for promoting high integrity standards), during the Strategy period the Bank invested into only **two new funds** (twice into Hines' Poland and Poland/Russia funds and once into Griffin Poland IPO, which follows a REIT structure). Both were well-established funds - Hines is one of the largest global property developers and fund managers, with a presence in 24 countries with $111 billion under management and Griffin is one of largest and the most active real estate funds in Poland, with €5 billion of assets under management. Their corporate governance standards were already high[22]. The Bank's main contribution was the requirement that Hines

[22] The P&T team commented that during its pre-investment negotiations with Hines, it substantially improved the fund's transparency and minority investors' rights.

commission independent integrity reports on all Russian co-investors, in the cases where co-investments were to be considered. One such report indicated high risks and the Bank exercised its veto rights, **preventing the fund from one co-investment.** The Bank also required the application of its environmental and social standards at the level of investees (effectively property management companies). This did not make much difference as they were in line with EU requirements and most of new funds were in an EU country (Poland). Less than half of one fund (Hines Property) was invested in Russia and the Bank's standards were applied to **two properties** in Russia managed by this fund.

The Bank also made five investments into companies classified as **property developers.** Four of these investments were capital market transactions (purchase of Eurobonds, bonds or REIT shares) i.e. their corporate governance, in line with international standards and high integrity, were already confirmed due to bond/share issue and listing requirements[23]. One direct investment (into a Cayman Islands-registered developer Amtel), which offered some opportunity to the Bank to make a contribution in this area, didn't have any corporate governance or integrity standards improvement TI benchmarks (only those related to market development and energy efficiency standards). The Board Report mentioned that "*Amtel will use IFRS accounting standards and international procurement procedures and corporate governance guidelines to meet the expected IPO requirements*".

In relation to investing in "*pre/post IPOs of development companies, that have the ability to transfer knowledge*", there were **two investments into pre-IPO** (Vecteur LV – "VLV" - in Morocco and Amtel, Regional) and one during IPO (REIT Griffin, Poland). Neither Vecteur's nor Amtel's IPOs took place, although there is evidence that by preparing for it, the Bank contributed to strengthening Vecteur's corporate governance, as it ensured the independence of the Asset Manager – key to managing conflict of interest, with a view to attracting shareholders during and post-IPO. Moreover, through representation on VLV's governing bodies (the Board, the Advisory Committee, the Investment Committee and the Conflict Resolution Committee), the Bank or independent members of these bodies ensured compliance with international corporate governance standards. In relation to Griffin project, the Bank worked with the company prior to its IPO, contributing to its prospectus and improving company's corporate governance. It ultimately helped Griffin achieve its IPO.

Policy dialogue

There was virtually no Bank policy dialogue in the P&T sector until 2015 (except "on the client level", which can be hardly considered as genuine "policy" dialogue, rather corporate governance/integrity improvements as described above). However, there is evidence that since then, the Bank engaged in several initiatives, promoting new REIT legislation, tourism development and the improvement of standards in hospitality. The three key themes of such policy dialogue and their results can be summarised as follows:

[23] P&T team commented that its first project with Globalworthy (Eurobond) resulted with an improved compliance and integrity procedures, both regulated by a Framework Agreement

- **Support for improved hospitality standards.** In 2015 the Bank signed a MoU on cooperation with the United Nations World Tourism Organisation (UNWTO). It aimed to promote sustainable and inclusive tourism in SEMED countries. The key achievement of this cooperation so far has been the Regional Conference on "Investing in Tourism for an Inclusive Future", organised together with the UNWTO and the Jordanian government (October 2016). It brought together 130 public and private participants from SEMED and Europe and resulted in a "Petra Declaration" – a non-binding pledge by the representatives of tourism authorities and private stakeholders to promote sustainable and inclusive development of tourism, increase hospitality training and education standards and increase funding and investments for tourism (including for infrastructure and SMEs). Importantly, this policy dialogue has been conducted largely independently of banking projects.
- **REIT legislation.** The Bank reviewed and commented on drafts of the new Real Estate Investment Trust (REIT) laws in Morocco and Poland (see box 6 in section 3.2.3). A key achievement has been a slightly improved REIT law enacted in Morocco. However, the Bank's recommendation for this law to enable listing of REITs on the stock exchange has not been adopted. Some of the Bank's recommendations were also adopted into Polish law, however it has not been enacted yet, while the currently proposed draft covers only residential properties, rather than commercial, which is not what the Bank recommended.
- **Regional tourism strategy development.** Most recently (2017-2018), the P&T team has been working with the Uzbek authorities on the development of tourism strategy for the region of Khiva Khorezem in western Uzbekistan. The Bank funded a feasibility study under two TCs, conceptualising the strategy. The MoU on the cooperation was signed with the Uzbek Ministry of Culture and the State Committee for Tourism Development at the beginning of 2018 and currently the Bank awaits their comments on the strategy's concept prepared by the Bank and its consultants. This policy dialogue has been linked to the Cultural Heritage Integration Framework approved by the Board in February 2018.

Moreover, the E2C2 team and LTT conducted intensive policy dialogue in selected countries, mainly in respect of energy efficiency regulations for buildings, although this activity was only loosely related to the P&T team's projects (for more information see priority 3 below).

EvD concludes that the P&T team's actions towards improving client corporate governance and integrity standards were in most cases limited to selecting clients who already demonstrated high integrity standards or met requirements in line with the Bank's normal policy. Moreover, when investing in funds or IPOs, the Bank contributed to their corporate governance improvements and ensured independent integrity checks on potential co-investors, as well as the application of the Bank's environmental and social standards at investee companies. These companies were mainly in an EU country, so overall achievements in this respect were relatively modest. P&T's policy dialogue activities have only recently started. LTT and E2C2 have conducted such dialogue related to energy efficiency of buildings, which had some links to P&T projects.

Strategic priority 2 - Creation and deepening of secondary markets – promised the Bank's engagement in post/pre-IPOs, cross-border property funds, as well as those which attract local institutional investors.

The Bank made only five investments into property funds with €99 million volume in aggregate, which was 76% lower than in the pre-Strategy period (€421 million) – see table 1. Two investments were effectively restructurings of existing investments. As indicated earlier, the Bank invested only in **two new funds** – Hines and Griffin - twice in the former, while the latter was at IPO. The Bank made two additional investments classified as "pre-IPO" but they did not result in IPOs taking place (Vecteur and Amtel - see preceding section), therefore they cannot be considered as contributing to this strategic priority.

The three investments - in Griffin REIT, Hines Property Fund and Hines Poland Sustainable Fund can be seen as **contributing to the deepening of the Polish secondary market**, although in a very small way as the aggregate €66 million invested by the Bank under these three projects represents very small share of Polish property market transactions during the Strategy period. The Polish property market was already the deepest[24] among all COOs, with €4.5 billion transacted in 2016 alone. For this reason, Poland was effectively excluded from Bank financing under the Strategy, therefore the relevance of these investments to support this priority is questionable (although two of them did have other objectives, slightly enhancing their TI potential).

None of the Bank's investments into funds attracted any local institutional investors. There was no investment into cross-border property funds.

Strategic priority 3 - Climate change mitigation through energy efficiency – the Bank was to support projects with substantial sustainable energy potential, which have strong demonstration effect and high replication potential. Policy dialogue <u>at all levels</u>, "*to assist in the development of appropriate institutions and regulatory standards*".

As almost 40% of energy produced is consumed by buildings, this was an important priority which the majority of Bank property projects depended upon to generate transition impact. Indeed, **87% of P&T's stand-alone projects supported some kind of energy efficiency improvements**, indicating that this strategic priority has been well targeted by the Bank's operations. These were mainly projects designed to demonstrate new energy efficiency techniques in buildings. However, following consultations with the E2C2 team, EvD understands that in recent years almost all COOs enacted regulations requiring new buildings to meet relatively high energy efficiency standards. Some of these regulations have been prepared (or are being prepared) with help of the Bank's E2C2 and LTT teams, for example, in the Kyrgyz Republic, Ukraine, Moldova and Western Balkans (see annexes 5 and 6 for the list of projects and their achievements). The "Market Development for Energy Efficiency of Buildings" theme was one of the E2C2 Policy Unit's eight themes, and the most frequently pursued. Although such policy dialogue was related mainly to SEFFs, ESCOs and public housing projects realised by other Bank teams, the E2C2 confirmed that the new regulations in the Kyrgyz Republic were also applied to three P&T commercial projects (Orion, Holiday and Park Palace hotels). New legislation in other countries, developed with the Bank's help, was only approved in 2016-2017 and has not yet applied to any P&T projects, although it may be in the future.

[24] "In 2016 alone transactions on the Polish property market exceeded €4.5 billion, making Poland the leader in Central and Southern Europe" — The Polish Real Estate Guide 2017, Ernst & Young.

As **higher energy efficiency standards became the norm**, the demonstration effect of the P&T projects diminished. To enhance the relevance of its more recent projects the team started promoting (or requiring) formal **certification of buildings** financed by the Bank, primarily to BREEAM or LEED[25] standards. The certification process evaluates the integrated sustainability performance of buildings and enables their rating according to a defined scale. Buildings in which energy and other environmental characteristics far exceed the legally required minimum are rated at the top of the scale (e.g. "Gold"/"Excellent") and therefore may be considered as demonstrating the benefits of a high sustainability performance to tenants and other developers. According to the E2C2 team, the **Hines Poland Sustainable Income Fund** provided the **best and most successful example** of a P&T project promoting an integrated approach to sustainability, including buildings certification and their sustainable management. One reason why this project was highly regarded is that in addition to ensuring very high building standards (certified to a high level), the buildings manager (the fund) had contractually agreed sustainability targets which would trigger financial penalties if missed. EvD reviewed this project, including interviews with the fund/building manager - see the summary in box 5 in section 3.2.2.

In conclusion, P&T targeted the energy efficiency of buildings very frequently, although policy dialogue in this area was done by other Bank departments and its link to P&T projects has been relatively weak. There have been also investments in funds dedicated to sustainability. However, the example of Hines fund in Poland shows that some COOs have quickly caught up with international standards in terms of energy efficient new buildings. The problem of low energy efficiency remains but it is confined largely to **old buildings** (at least 20 years old), which are avoided by funds and developers (see 3.3).

Strategic priority 4 - Geographical diversification – Western Balkans, EE&C, Central Asia and Russia were to be prioritised, as well as regional cities of Romania, Bulgaria, Croatia and Turkey. The aim was to:

-Make regional cities more accessible to travellers on limited budgets (SME business travels and leisure tourism) by promoting regional hotels in the economy range;

-Support development of regional logistics centres along the region's strategic transport routes;

-Promote expansion of retail facilities to match the expansion of consumers' purchasing power.

As table 1 in the report demonstrates, the regions listed in this priority were targeted with medium frequency with 44% of P&T projects by number, and only about **18% by volume,** being in **Western Balkans, EE&C and Central Asia** (including two regional projects targeting these regions). In addition, 12% and 14% of projects by number and volume respectively were in **Russia**, which dropped from the priority list in 2014.

Twelve projects (**18% of the total**) targeted **regional cities in Romania, Bulgaria, Croatia and Turkey** (with almost half of them in Croatia), although some investments into developers or funds didn't have a defined location of property to be developed, therefore the extent to which this

[25] BREEAM – Building Research Establishment Environmental Assessment Method, the world's leading sustainability assessment methodology for buildings.; LEED – Leadership in Environmental and Energy Design, similar to BREEAM, applied in the USA.

strategic priority was targeted is difficult to assess precisely. The section below briefly analyses the extent to which the three sub-sectoral priorities for regional cities were targeted.

Hotels constituted the largest sub-sector by number (25%) but only the fourth by volume (8%). However, out of 16 hotel projects **only two financed "regional hotels"** – Russian Hotels project (three Ibis-brand hotels in three cities: Samara, Kaliningrad and Yaroslavl) and Sveti Stefan – a 5 star, luxurious resort-hotel on the Montenegrin coast managed by Aman Resorts, which cannot be considered to be in the "economy range". Moreover, in recent years the Bank twice invested €12 million in aggregate into the corporate bonds of Orbis S.A – the largest Polish travel and hospitality company, which operates 115 hotels in Poland and Central Europe[26]. Many Orbis hotels are located in capital cities and are five star, however the majority are in the regions and fall in the two-four star range. Therefore the Bank's two investments into Orbis can also be considered as supporting the priority objective to *"make regional cities more accessible to travellers on limited budgets by promoting regional hotels in economy range"*. Nevertheless, in total, the Bank invested only about €28 million (**2% of the total**) into three projects[27] supporting this priority, which EvD considers as **unsatisfactory** given the high priority the Strategy attached to this objective. The remaining 12 hotels financed by the Bank were located in capital cities, although mostly those of smaller, often ETC or Western Balkan countries, for instance, four in Bishkek, three in Tbilisi (including one youth hostel), and one in each of Kiev, Belgrade and Podgorica. All of them were in the three-four star range.

Only three warehouses, forming part of **logistic centres,** were financed with €44.8 million in aggregate (3.5% of the total) – one in Bucharest, one in Turkmenistan and one in Kaluga, Russia (the latter with debt and equity). They were located along regional strategic routes or were part of large industrial parks. Moreover, the Bank co-financed two regional logistics centres in Poland under the Hines Sustainable fund (see box 6), which could bring the total share of this category to **4%** - better than regional hotels, although **still low**, given its priority status.

The Bank contributed much larger financing to the third sub-priority - expansion of **retail facilities** - than to the two previous ones. It spent €360 million – at **30%** being by far **the largest share of total financing** during the Strategy period - on 15 shopping malls or other types of retail facilities (and only the second largest category by number of projects to hotels). It is difficult to establish whether they *"matched the expansion of consumers' purchasing power"*, however based on the analyses of the P&T sector projects which experienced financial difficulties, two out of four P&T projects which went to Corporate Recovery were regional city shopping malls (City Centre Split and GTC Osjek). Moreover, four out of seven projects which were put on a "watch list" were shopping malls (Skopje Mall, Galerja Burgas, Forum Lviv and Arrico Kiev) – all but one located in regional cities (see section 3.6 for more info). The **high occurrence of financial difficulties** among the Bank's shopping mall projects indicates that the economies (and particularly consumer

[26] Orbis has exclusivity rights to operate hotels under Accor Group's brands (Sofitel, Mercure, Novotel and Ibis) in 16 Central and Southern European countries
[27] Russian Hotels (€15.9 million) and two Orbis bond purchases (€12 million in aggregate). Sveti Stefan was a luxury resort, therefore although regional, it is not considered as supporting this priority

purchasing power) of many regional cities in the COO were unable to support shopping malls built to international standards, whose tenant-retailers offered goods at international prices. EvD notes that this fact was observed and taken into account by the P&T team, which virtually stopped financing standard shopping mall/retail projects during the last two years of the Strategy period[28].

In conclusion, less than half of the P&T projects targeted regions prioritised by the Strategy (however this share increases considerably if Russia is included in the priorities). P&T followed the Strategy's preference for secondary cities and small countries capitals more closely, as two thirds of all projects were located in such cities. Retail/shopping malls dominated the portfolio with nearly a third of Bank's financing supporting mainly regional shopping malls. However, many of these projects experienced difficulties and the Bank gradually stopped financing them. The Bank made a relatively small contribution to improving the regional hotel base in selected COOs, financing only one dedicated project of this type, covering three hotels in three Russian cities, as well as two bond investments which probably contributed to the development of regional hotels in Central Europe. The Bank financed the largest number of hotels located in the capital cities of smaller countries. They did increase the supply of three-four star hotels but even in Tbilisi and Bishkek where the Bank financed several of them, the impact of this financing on the overall hotel market was minimal (see section 3.7).

[28] Only two retail projects were financed in 2016 (Intersport – expansion of a specialised sport retailer to SEE, and Pula Retail Regeneration). No retail project was financed in 2017.

Annex 6 – Policy Dialogue conducted by E2C2 Team in Western Balkans and Ukraine related to energy efficiency of buildings in 2010 – 2017 (selected TCs)

Country of Assignment	Project Title	Expected Completion Date	Grant/Project Amount *(EUR)*	Outcome/Status
Albania	Drafting Primary Law on the Energy Performance of Buildings	31/12/2014	€ 78,000	adopted
Albania	Finalisation of the implementing framework for Minimum Energy Performance Standards and the Albanian language version of the calculation software	15/12/2017	€ 66,300	ongoing
Albania	Secondary legislation for implementing the Energy Performance of Buildings Directive (EPBD)	31/03/2018	€ 98,850	ongoing
FYR Macedonia	Adoption of a dedicated Law on Energy Efficiency			ongoing
Kosovo	EPBD implementation support - finalisation of implementing framework for minimum energy performance standards software	Q4/2017	€ 66,300	ongoing
Montenegro	Montenegro: Implementation of an Energy Efficiency Obligation Scheme	31/10/2016	€ 44,740	policy options presented, ministry's decision not yet issued
Montenegro	Implementation of Ecodesign and energy labelling requirements	31/01/2018	€ 95,531	5 product regulations in place
Regional - Western Balkans	Public Sector Energy Efficiency Investment Programme Western Balkans - ESCO	30/06/2012	€ 120,330	completed
Serbia, Montenegro	Policy Dialogue - Supporting ESCO projects in the public sector (legal assistance for an ESCO project enabling legal framework)	31/05/2014	€ 319,135	Serbia – adopted/completed, Montenegro - ongoing
Regional - Western Balkans	Support for Transposition of the Energy Performance of Buildings Directive 2010/31/EU Requirements for Bosnia and Herzegovina, Croatia, FYR Macedonia, Kosovo, Serbia and Albania	30/06/2015	€ 650,000	assignment completed but work on transposition continues
Croatia, Bosnia & Herzegovina (RS)	Support for the Development of Utility Energy Efficiency Obligation Schemes	07/07/2015	€ 80,500	completed
Croatia, Montenegro	Support for the Development of Utility Energy Efficiency Obligation Schemes and Energy Efficiency Criteria in Network Tariffs, Montenegro & Croatia	31/08/2015	€ 119,000	completed
Albania	Support for Development of Albania's National Energy Efficiency Action Plan	29/02/2016	€ 210,860	adopted
Bosnia & Herzegovina (RS)	EPBD Assistance to Republika Srpska - Inspections and Calculation Software	31/01/2016	€ 64,000	completed
Regional - Western Balkans	Review of Energy Performance Contracts Under Development for the EBRD's Energy Efficiency in Public Buildings and Street Lighting Programmes	18/09/2017	€ 70,000	completed
Bosnia & Herzegovina (Fed), FYR Macedonia, Kosovo	EPBD Software Training - Calculation Software and EPC Registry	31/03/2016	€ 102,770	completed
Regional - Western Balkans	Preparing Contract Templates for Energy Performance Contracting (EPC) and Energy Supply Contracting (ESC)	31/03/2018	€ 185,960	ongoing

Regional - Western Balkans	Development and application of a 'framework roadmap' for Energy Efficiency Obligation Schemes	31/05/2018	€ 51,268	ongoing
Montenegro, Serbia	Support for Development of Public Energy Efficiency Procurement Policies, Guidelines and Codes	30/06/2015	€ 150,000	adopted
Serbia	Assistance with Energy Efficiency Obligation Schemes for Utility Providers	29/07/2016	€ 110,014	ongoing
Serbia	Legal Assistance for Energy Supply Contracting ESCO	30/09/2017	€ 69,983	ongoing
Serbia	Secondary legislation implementing the Energy Performance of Buildings Directive	30/10/2018	€ 167,800	ongoing
Ukraine	Assistance with Development of Building Energy Efficiency Regulations and Related Components	31/10/2012	€ 319,912	Primary legislation approved
Ukraine	Creating an Enabling Legal Framework for ESCO Projects in Ukraine	14/01/2014	€ 761,950	completed
Ukraine	Linking Policy Dialogue to Financial Instrument and On-going Assistance with Building Energy Efficiency Secondary Legislation	31/10/2013	€ 279,994	Primary legislation approved, market assessed, technology developed
Ukraine	Inputs to Housing Management Legislation	31/07/2015	€ 49,900	Completed, model contract developed, approved
Ukraine	Incorporating the EPC calculation methodology into the energy efficiency law	30/04/2015	€ 8,300	Completed, in the process of being approved
Ukraine	Support in Developing and Introducing Minimum Requirements Compliant with EPBD	30/04/2016	€ 154,900	extended
Ukraine	Development of a Software Tool for the Calculation of Energy Performance of Buildings	30/11/2016	€ 253,323	Software developed, capacity building ongoing
Ukraine	FINTECCC Ukraine: Policy review and recommendations	30/06/2016	€ 102,106	Regulations drafted, approval awaited
Ukraine	FINTECCC: Develop relevant amendments to Ukrainian public procurement regulations and prepare final report	31/01/2017	€ 185,024	Specs developed, capacity built under an extension
Ukraine	Draft legislation and regulations and support their adoption (Eco-Design assignment)	31/03/2018	€ 412,674	Legislation drafted, approval awaited
Ukraine	Expansion of the Existing EPC Software Tool for Calculating of Energy Passport	11/08/2017	€ 202,400	ongoing
Ukraine	Additional Elements in Defining Quality Assurance of the Process of Issuing Energy Performance Certificates	01/11/2017	€ 97,600	ongoing
Ukraine	Subprojects Design Update: ESCO	31/07/2017	€ 249,505	ongoing
Ukraine	Policy Dialogue to Support Investment in Energy Efficiency in Residential Buildings	28/02/2018	€ 327,790	ongoing

Policy dialogue conducted by E2C2 team in Kyrgyz Republic, related to energy efficiency of buildings in 2010 – 2017

Type of activity	Activity	Current status	Support
Development of primary legislation	Preparation of primary legislation: Law on Energy Performance of Buildings, introducing legal responsibilities of building owners and instruments to promote EE in buildings.	Approved by the Parliament as Law No. 137 , in force since 6th Feb 2012	SSF, 2009-2011, budget €280,000
Development of basic secondary legislation	Development of two Government Decrees: - On energy performance certifications - On regular inspections of boilers and heating systems These introduce minimum energy performance requirements for all types of buildings and energy assessment methodology in compliance with ISO EN 13790/2008. Energy certification and the regular inspections are to be conducted by independent accredited professionals.	Approved by the Government as Government Decree No. 531 from 2nd August 2012	
Development of supportive secondary legislation	Development of three Government Decrees: - On quality monitoring of Energy Certification and Regular Inspection of boilers and heating systems in buildings - On the State register of energy certificates, inspection protocols and on the State Register of accredited professionals - On the rules and procedures of accreditation of professionals for energy certification and regular inspection in buildings	Approved by the State Agency on Construction. Approved by the Government in 1Q 2013	Slovak Trust Fund Budget €267,000 June 2011-Jan 2013
Harmonisation with related primary legislation	Amendments on the Law on Energy Savings from 12 June 2008	Accepted by the State Agency on Construction. Approved by the Parliament in 1Q 2013	
Harmonisation with the technical standards (tertiary legislation)	Amendment of the following 7 technical standards for compliance with ISO EN standards implementing the EU Directive on Energy Performance of Buildings transposed by the new primary & secondary legislation in Kyrgyzstan: - SNIP 23-01/2009 Building thermal technique. Thermal protection of buildings - SNIP 2.04.01-85: Water supply and sewage systems - SNIP 2.04.07-85: Heating networks - SNIP 12-03-00: Construction standards and rules of Kyrgyz Republic - SNIP 31-04-2001 General Requirements - SNIP 23-02-00 Building climatology - Set of Rules (Svod Pravil) for the SNIP 23-01:2009 mainly with focusing on compliance with changes proposed in SNIP 23-01:2009 and requirements of Law No. 1374 and Gov. Decree	Accepted by the State Agency on Construction. Approved by the State Standardisation Committee in 1Q 2013	

	No. 5315 on Energy Certification of Buildings and considering also requirement on hygienic criteria.		
Development of low enforcement tools	Development of the tools facilitating implementation and monitoring of the new legislation: - Web-based State Register of Energy Performance Certificates in Buildings - Web-based State register of Accredited Professionals for energy certification and regular inspection of heating systems in buildings - Guidelines for experts on energy certification - Guidelines for regular inspection of heating systems - Training modules for Accreditation Committee on applicant for energy certification and regular inspections - Test generator - Energy performance assessment and energy certification of buildings software - Set of FAQs on technical and legislative aspects related to the new legislation	Approved by the State Agency on Construction and accepted by the independent Accreditation Committee	
Capacity building	Trainings on: - Training of Accreditation Committee on procedures for professional accreditation and on the use of certification and inspection tools - Training of the State Registers administrator - Trainings for future trainers of future accredited experts - Two round tables for professional associations on the impact of the new legislation and its procedures	Conducted during 3-4 2012 (completed)	
Policy dialogue 2014-2017			
Developing a Road Map/Action Plan for transposition of the Law on Energy Performance of Buildings (LEPB) and the legislation on energy efficiency in buildings	- Mapping all the gaps and constrains preventing from full implementation of the LEPB, budget €74,000	Road Map commissioned and accepted by the State Agency for Construction and Architecture (the policy maker for the building sector)	Funded by the EU IFCA TC FC777/778 Kyrseff Extension (KyrSEFF II): Policy Dialogue on Energy Efficiency in Kyrgyzstan , budget €500,000
Development of additional secondary legislation for the implementation of the LEPB	Development of supportive secondary legislation or amending existing one. Budget €74,000. ▪ Development of provisions and/or dedicated regulation on monitoring quality of work of accredited energy assessors conducting Energy certification of buildings and	Both regulations accepted by Gosstroy and submitted for inter-ministerial hearings	

	accredited inspectors conducting Regular inspection of boilers, heating and hot water systems in buildings, ▪ Development of suggestions and/or regulation on regulating the prices of services related to energy certification of buildings and regular inspection of heating systems and hot water systems		
Develop recommendations on harmonisation of administrative codes	Develop recommendations on harmonisation of administrative codes and other state regulations with the primary and secondary legislation implementing Energy Performance of Buildings in compliance with actions suggested by the Road Map for transposition of the Law on Energy Performance of Buildings, Budget: €65,000	Suggestions developed and accepted by the Gosstroy on amendments in the Administrative Code on defining responsibility for violation of regulations on energy performance of buildings, in accordance with the Law "On Energy Performance of Buildings»	
Amendment of the Law on Energy Savings	Development of recommendations for amendment of the Law On Energy Saving and for harmonization with the Law On Energy Performance of Buildings. Budget: €62,185. Harmonisation of the LES with the LEPB and additional amendments in the LES with regards to the instruments to finance energy savings in different sectors.	The amendments have been accepted by the State Energy Committee and the Law is in the process of being approved by the Parliament	

Annex 7 - Legal Transition team's projects related to energy efficiency of buildings, housing codes and mortgage law implemented in 2010-2017

Project Title, Country	Project Description	Status	Key outcomes
Improving Energy Efficiency in Residential Buildings, Armenia	A comprehensive analysis of the overall policy, legal and institutional frameworks for energy performance of buildings in Armenia and the review of the existing housing legislation regulating housing associations and management of multi-storey apartment buildings. *Funded by: EBRD Shareholder Special Fund*	Completed 07/2014	Legal and regulatory gaps of the buildings sector in Armenia identified and informed Bank's investment projects. The Government also requested follow-on legal assistance with the development of the sector legislation. This was not provided due to business and resources constraints
Assistance with Drafting of Georgia's First National Energy Efficiency Action Plan (NEEAP), Georgia	Assistance to the Ministry of Energy of Georgia with the development of the first NEEAP ensuring that Georgia can successfully improve the energy efficiency standards and performance of the economy following EU best practices.	Completed 12/2016	The NEEAP identified energy efficiency improvement measures and expected energy savings in all sectors. It has been well received by the government and the Energy Community Secretariat and is pending final adoption.
Technical Assistance to the Government of Georgia with the Development of an Energy Efficiency (EE) Law, Georgia	The project aims to assist the Government of Georgia with the development of the primary EE Law by: (i) reviewing the measures prioritised by the Government in the National Energy Efficiency Action Plan (NEEAP); (ii) reviewing the existing institutional and legal framework and providing recommendations on the preparation of the EE Law and other legislation necessary to ensure efficient implementation of the NEEAP in the Georgian legal context; (iii) drafting the EE Law and, as requested, drafting recommendations for the implementation of specific EE measures, such as EE measures in the industry sector; and (iv) carrying out related capacity building and promotion activities.	Underway	Too early to assess
Residential Energy Efficiency, Georgia	A comprehensive analysis of the overall policy, legal and institutional framework for energy performance of buildings in Georgia and the review of the existing housing legislation regulating housing associations and management of multi-storey apartment buildings. The project also provided a comparative gap analysis against best practices in other EBRD countries of operations.	Completed 03/2017	The report on the policy, legal and institutional gaps for energy efficiency in buildings in Georgia. It was well-received by the authorities and facilitated Bank's further policy engagement in energy efficiency and development of investment products (e.g. in public buildings).
Policy Dialogue on Energy Efficiency in Kyrgyzstan	This policy engagement was part of the Kyrgyzstan Sustainable Energy Efficiency Financing Facility (KyrSEFF). The objective of the project was to assist the government with further implementation of the Law on Energy Savings and the Law on Energy Performance of Buildings by proposing recommendations to facilitate green investments in buildings.	Completed 07/2017	The legislative recommendations, essential for greening up Kyrgyz economy. They were well received by the government and are expected to be adopted by the Parliament soon.
Assistance with the Amendments to the Housing Codes (Ph.I) and the Amendments to the Housing Codes Regulating Private Sector Housing Associations of Apartment Owners (Phase II), Moldova	Support to the Ministry of Construction and Regional Development with the development of a new concept for condominium reform and a new Condominium Law. The project was extended (Phase II) to support the Ministry during the consultation process. *Funded by: Swedish government – SIDA*	Completed 06/2015	A draft Condominium Law enabling financing of refurbishments and energy efficiency upgrades of multi-apartment buildings was developed and approved by the Ministry. Due to political uncertainty it is yet to be submitted to the Parliament.

Developing a Road Map / Action Plan for the transposition of the EU Directive on Energy Performance of Buildings in Moldova and implementation of the Law on Energy Performance of Buildings, Moldova	Assistance to the Ministry of Regional Development and Construction with the implementation of the Energy Performance of Buildings Law (EPB Law) and the EU Directive on Energy Performance of Buildings (EPBD). It involved the development of the Road Map (Action Plan) and advice on methodology for the EPB Law implementation. *Funded by: Swedish government*	Completed 12/2015	The Road Map was well received by the Government and other donors and helped to identify specific EPB Law implementation activities.
Assistance in Drafting Energy Efficiency Law and Revising Secondary Legislation, Moldova	Assistance to the Ministry of Construction and Regional Development in drafting primary legislation necessary to introduce effective legal and regulatory instruments (such as energy performance assessment, energy certification, and regular inspection of HVAC systems, establish the institutional framework and define responsibilities of the sector stakeholders. *Funded by: Swedish government - SIDA*	Completed	The law on Energy Performance of Buildings Directive was adopted by the Parliament in 2015. Moldova became one of the first non-EU countries to adopt the energy efficiency acquis in the building sector.
Improving Energy Efficiency in Residential Buildings, Moldova	Assistance to the Ministry of Construction and Regional Development with the analysis of the overall legal, institutional and operational frameworks for urban housing stock in Moldova. The findings of this analysis were used to assist the Ministry in drafting primary legislation and secondary legislation, and amendments to the housing codes to improving energy efficiency. *Funded by: EBRD Shareholders Special Fund*	Completed 04/2011	This project was EBRD's first engagement in the area of energy efficiency in Moldova. It paved the way for further policy engagement in the field of energy efficiency in buildings.
Reform of the Mortgage Law, Serbia	Assistance to the Ministry of Justice in upgrading the legal framework for taking and enforcing mortgages in order to address the problems with the implementation of the Mortgage Law adopted in 2005.	Completed 04/2015	The amendments adopted. They introduced simplified extra-judicial procedures for settling creditor's claims, provided greater security of enforcement and collection, and abolished redundant arrangements.

Annex 8 – Key characteristics of the Bank's urban regeneration projects

The Downtown Cairo project was the closest to a "standard" regeneration project as it financed the renovation and energy efficiency improvements of five historical buildings, as part of a larger regeneration master plan – "The Strategic Development Plan for Greater Cairo Region 2050", aiming at transforming the downtown area. It has been supported by a dedicated TC to develop a strategic implementation plan and conduct energy audits, financed by the Austrian government and managed by the P&T team. Although the committed tranche of the Bank's financing was relatively small (€2.8 million approved) but uncommitted tranche might take it to €8.4 million, benefiting more buildings. The TC involved policy dialogue with the city's planning department and resulted in the "Implementation Framework for Cairo Governorate's Green Building and Energy Efficiency Efforts in Downtown Cairo Urban Regeneration", published and adopted by the Cairo authorities in 2017. The renovations are ongoing.

The two other urban regeneration projects were more akin to the Bank's standard shopping mall development financing, although clearly contributing to the improvement of the areas around the project sites. The **Abdali Mall** financed the construction of a brand-new building, rather than a renovation of an old one, therefore its classification as a "regeneration" can be justified mainly on the basis of the area's rejuvenation due to a newly-built mall, which was a part of a larger city centre regeneration masterplan developed by ARUP. The mall has been recently completed, however it suffers from the lack of an anchor tenant. The **Pula Retail Centre** was a €10 million equity investment into a cement quarry redevelopment, in a secondary city in Croatia. Although it was a stand-alone shopping mall construction project, it was related to the city's larger plans to redevelop a post-industrial port area and to redirect traffic away from the city centre (communal charges from the mall are to be used to finance the remaining part of the ring road). The project also complements the MEI's Pula Bus Renewal project, designed to increase the use of public transport. The mall is under construction.

The **Dimand project** is an equity investment in a joint-venture with a local developer, with the objective of targeting brownfield redevelopments, deep-refurbishment and regeneration projects in Greece. The first two projects (approved and on-going) are Piraeus Port Plaza 2 and 3, which are part of a redevelopment plan for the post-industrial area surrounding the port (the Piraeus Cultural Coast Plan). They encompass the transformation of former warehouses into modern office buildings. The construction has not yet started. The **Ayla Oasis Regeneration** (a case study under this review – please see annex 10) regenerated an unused piece of land, close to the coast and adjacent to the Israeli border, which was mined following military conflicts in the 70s. It can be seen as a regional brownfield (or minefield?) regeneration, albeit fairly unconventional. The first phase of the project is almost complete and includes a Hyatt hotel, large-scale residential development and a retail area, together with a man-made lagoon, beach and a golf course, all built to a very high standard. In 2016 the P&T team launched the **Split Urban Regeneration TC** (at €0.6 million by far the largest of its TCs) to prepare a master plan for the regeneration of the city port and the Koplica area in the city of Split, Croatia. The TC had a slow start and it is still at an early stage, although hopes are high that it will result in a project co-financed by the Bank. In 2017 the P&T joined forces with the MEI and E2C2 teams to develop a more structured and cooperative approach to regeneration projects. As a result, the **City Regeneration and Environment (CREATE) Fund TC** was launched (see box 8 in section 3.4). It is designed as a vehicle to help several cities to prepare urban regeneration master plans, including potential projects, which the Bank could co-finance, including infrastructure, energy efficiency improvements and property development. The TC is still at the initial stage.

ANNEX 9 - CASE STUDY 1 - MARINA DALMACIJA – A TOURISM PROJECT IN CROATIA

Background

In 2014 the Bank provided a €30 million loan (EUR 10 million on its own account and the reminder syndicated) to Marina Dalmacija d.o.o. (the Company), which owns and operates the largest marina on the Adriatic coast, with 1,141 berths (+300 land), as well as a smaller marina with 177 berths (+50 land), both near the city of Zadar, Croatia. The Company is ultimately owned by Dogus Holding A.S., a large Turkish conglomerate, whose interests encompass finance, automotive, manufacturing and tourism (including hotels and marinas throughout the Mediterranean region). The project was to support quality standards improvements at the largest marina in the country and strengthen the only international marina operator in Croatia. The loan was to finance some of the marina refurbishment costs, as well as to partly refinance the Company's shareholders' loans and short-term commercial loans obtained when purchasing the marina, under the condition that it would be reinvested in Croatia.

The transition impact was to be derived through the demonstration of improved quality standards to be adopted by other Croatian marinas, improved competitive environment in the Croatian marina sector, competitive pressure for the privatisation of ACI (a state-owned company owning about half of all Croatian marinas), enhanced energy efficiency and environmental management practices at the marina, as well as increased employment and training (cooperation with a local maritime school). Moreover, in response to the issues raised at concept review, the final review report referred to additional benefits the project was expected to bring, i.e. creating linkages to the local and wider economy; setting top environmental and sustainability standards, beyond those required in Croatia; and increasing the efficiency of the tourism sector by extending the season. Policy dialogue was to be pursued to facilitate the entry of private investors into the nautical tourism sector. The loan was fully disbursed and the capital investments under the project have been largely completed.

Relevance

EvD met with the Ministry of Tourism and the Ministry of Infrastructure and Maritime Affairs (MoMA) to discuss the fit of the project into their strategies. Both Ministries confirmed that the development of tourism is of strategic importance for Croatia, as it accounts for 23% of its GDP (2015). In 2014 the Ministry of Tourism adopted a tourism development strategy which will be in force until 2020. A key element of this strategy is increasing the revenue spent per tourist, and therefore the development of several higher-value types of tourism, such as nautical, is central to this strategy. The importance of nautical tourism development was confirmed by the Ministry of Infrastructure and Maritime Affairs, which prepared a separate Nautical Tourism Development Strategy for Croatia for 2009-2019. This strategy promotes sustainable development, mainly through the rehabilitation and reconstruction of existing marinas. It also calls for the simplification of administrative procedures and legislative harmonisation. Both Ministries confirmed the excellent strategic fit and importance of Dogus' investment as the first large international investor into this sub-sector, as well as their full satisfaction with the Company's achievements in increasing the quality of Marina Dalmacija's infrastructure and services. The Bank's 2010 Property Sector Strategy makes relatively limited references to the tourism sector, however it does say that:

The Bank will consider selective tourism investments that offer strong backward linkages and economic benefit towards the local economy, that have potential to transfer skills with the aim of *absorbing international standard practices, and/or those that introduce new forms of tourism to the local area. In regard to resorts and related projects, it will restrict its participation to instances in which experienced sponsors are coordinating with strong operators, in regions with proven tourism demand such as Western Balkans, Croatia, selected parts of Russia and the Black Sea.*

This confirms the project's very good fit with the sector strategy, especially as, so far, the Bank's involvement in the tourism sector has been largely limited to financing hotels. According to the team's management, following the first two years of operation under this strategy, a decision was made to seek stronger transition impact through "niche" projects, including tourism projects reaching beyond hotel financing. Marina Dalmacija was one such project.

The Bank's June 2013 country strategy for Croatia (BDS/CR/13-1 (Final)) did not clearly indicate the tourism sector as an operational priority for the Bank (as the previous strategy of May 2010 did). In fact, this strategy did not prioritise any particular sector, setting instead three cross-sectoral priorities for the Bank's interventions:

- Mitigating the impact of the crisis and restoring sustainable growth – this priority included "*support to the corporate sector aimed both at foreign investors and local companies. The Bank's investments will be strengthened by policy dialogue to promote economic restructuring, diversification and improved business climate conditions*";
- Leveraging the benefits of EU accession to advance transition;
- Restructuring and commercialising public sector enterprises.

The project responded to the first of these priorities by supporting an important foreign investor and promoting economic diversification (nautical tourism). Moreover, the project's policy dialogue component related to the privatisation of ACI was intended to support the third of these priorities.

It is also noted that the new (June 2017) Country Strategy for Croatia, again committed the Bank more explicitly to support development of the tourism sector in Croatia:

Given the prominence of the tourism and agribusiness sectors in Croatia, the Bank will focus on providing equity and debt financing to companies operating in these sectors, supporting in parallel supplementary industries along the value chain, improving competitiveness, energy and resource efficiency, environmental compliance, as well as youth inclusion, particularly through work based learning and improved skills standards, and reaching out to underserved groups and regions.

Therefore it can be concluded that the project responded relatively well to the country strategy applicable at the time of its approval, while running ahead of its time by having an excellent fit with the future country strategy.
Moreover, the project was in line with the Bank's Energy Strategy (BDS13-291 (Final) and the 2010 Property and Tourism Strategy in terms of supporting energy efficiency, which both of them strongly prioritised. It also went ahead of its time by stressing the impact on youth employment and linkages to the wider economy, *de facto* targeting a new transition quality of Inclusion.

The additionality of this project (on its own) is assessed as relatively weak. During an interview with EvD, the Company indicated that it "could have gone with Croatian commercial banks", however it wanted to establish a relationship with the EBRD with a view to developing other

projects in the Mediterranean. Moreover, the Bank has recently signed an equity investment into the Company (D-Marina Project). Therefore, when viewed as the first stage of a broader involvement with the sponsor, the project's additionality is assessed as verified.
In summary, due to the project's very close fit with both the Bank's and Croatia's strategic priorities, its Relevance is rated *Excellent*[29]

Effectiveness
The Bank's loan was to finance upgrading and to refinance short-term loans obtained by the sponsor for the acquisition and upgrading of the Marina Dalmacija. Key investments agreed with the Ministry of Maritime Affairs at the time of the acquisition have been completed, including a new reception and administration building, a new charter company building (rented out to charter companies), new sanitary units (showers, toilets, etc), a new repairs and services hangar, a beach club building and facilities and a new entrance. Part of the marina's terrain has been landscaped, which was a major expense given the marina covers 35 hectares of land. Moreover, all existing lighting was replaced by energy efficient lamps, as recommended by the Bank-financed consultants. In total, Dogus spent €26 million for these investments, substantially exceeding the €17 million agreed with the Ministry due to a number of additional investments made. The new facilities are truly of the highest standard (class-A office and charter buildings, spacious, impressive beach club facilities, first class sanitary facilities). They compare very favourably with old structures, some of which are still standing. The replacement of the lighting (investment of €200,000) resulted in a 79% saving in electricity costs (the Company does not monitor savings by KWh).

However not all investments have been completed and additional work is planned for years to come. This includes the resurfacing of some of the roads and landscaping of selected open spaces. Crucially, the SEI measures related to water saving and management - flow meters, sanitary devices and an irrigation system (estimated by the Bank's consultants at €80,000) have not been completed and it is uncertain whether they will be part of the 2018 investments.

In terms of achieving transition impact objectives, the project's performance has been mixed, although it is noted that it is relatively early to assess as many objectives are not yet due. The table below presents the status of TI benchmarks as of the end of October 2017.

Source of TI	TI benchmark	Timing	status	EvD comment
Improved competition in the project sector	Refurbishment of 3 other Croatian marinas	By 2018	Not achieved	There is no evidence yet of any other marinas following the example of Marina Dalmacija in terms of refurbishing its facilities and increasing standards.
	Privatisation of ACI (a state-owned company, holding about half of Croatia's marinas)	By 2018	Not achieved	The government (MoMA) considers marinas as strategic assets and there are no plans to privatise ACI.
Standards of corporate gov. and business conduct	Obtaining ISO 14001 certificate	By 2017	Delayed	The Company plans to obtain it in 2018
	Maintaining the Blue Flag certification	Throughout the project life	Achieved	Marina Dalmacija maintains its Blue Flag certification
	Improvement of energy standards beyond current industry practice by 30% reduction in electricity consumption.	By 2017	Achieved	Electricity consumption was reduced by 79%

[29] The rating of all categories is based on EvD's current rating scale of: Excellent – Fully Satisfactory – Partly Unsatisfactory – Unsatisfactory. The overall performance rating scale is: Outstanding – Good – Acceptable – Below Standard – Poor – Very Poor.

	Introduce Monitoring and Targeting policies and procedures with regards to electricity and water consumption	By 2015	Not achieved	No special policies for monitoring or targeting electricity and water consumption were introduced.
Skills transfer and inclusion	About 25 graduates of Zadar Maritime School (depending on class size) will complete work placement (per year)	Throughout the project	Achieved	20-25 graduates of Zadar Maritime School have been trained each year during an internship placement. However none of the school's graduates have been employed at the marina.
	Demonstration effect through presentation of the training programme with the Croatian Marina Association	Throughout the project	Achieved	The Marina Dalmacija's Director is the President of the Croatian Marina Association and made several presentations related to his marina's refurbishment.
	At least one other marina has developed a training programme for young people	Within one year of project completion	Not Achieved	The representative of the Maritime School in Zadar confirmed that to his knowledge no other marina in Croatia offers a training programme similar to that of Marina Dalmacija.

In summary, the physical outputs of the project have been good, as most (but not all) of the investment plan has been completed. However the project's outcomes related to transition impact are less positive. Of the more important/ambitious transition objectives only those related to improved energy efficiency and cooperation with the Maritime School in Zadar have been achieved. The achievement of these benchmarks represented a financial benefit for the Company (substantial savings in energy costs and help from interns during the high season). However, the benchmarks whose benefits for the Company were less clear have not been attempted, although the Company maintains that some of them (e.g. obtaining ISO certification) will be completed in 2019. Marina Dalmacija remains a category 2 marina (as categorised by MoMA) due to unfinished road resurfacing and landscaping.

More importantly, the Bank's expectations regarding the policy dialogue to encourage the Croatian government to privatise ACI were not fulfilled. It is understood that at the time of the Bank's initial discussions with the MoMA, the ACI was temporarily taken off the list of strategic assets but it was soon reinstated. It has been indicated by some interviewees that powerful vested interests within the Croatian government prevent privatisation from happening in the foreseeable future. The Ministry maintains that ACI is well run by a professional company (which manages marinas based on concession agreements), which generates high profits each year. ACI's concession management will expire in 2030 and other companies will be allowed to bid for new concessions. In MoMA's view, Dogus, which was allowed to purchase 11% of ACI's shares from the market, would be in a good position to bid. Moreover, the Ministry intends to tender management concessions for five new marinas in the next 3-4 years.

Moreover, MoMA prepared a new law, which was introduced in 2018, substantially raising environmental and service standards for the marinas, including a requirement for waste-water treatment, reception and client services standards, etc. There is no evidence that this was prompted by the project, although the Ministry confirmed it met on several occasions with the Bank, which encouraged it to raise such standards.

The Ministry of Tourism also praised the Bank's interest in the Croatia tourism sector, in particular its participation in the workshop on sustainable tourism development, which was organised in April 2017. The Bank's insights and expertise were shared with a wide audience and helped the Ministry to fine-tune its policies.

However, in terms of the project's "demonstration" effect, its potential has not been realised yet. Although Marina Dalmacija did set a new standard for marina quality (in 2016 it received the Best Marina in Croatia Award), no evidence exists that its example has been followed by other marinas. In EvD's view, as long as demand for berthing exceeds the supply of berthing spaces by a large margin, marina owners do not have a strong incentive to increase their standards. However, the Marina Dalmacija management indicated that the owners of several marinas visited it after the refurbishment and were interested in new facilities, particularly the energy efficiency measures. Therefore there is some hope that these measures might be followed in the future by other marinas (although since the other marinas are much more compact, it will result in much lower energy savings, if and when such measures are introduced).

Based on discussions with Marina Dalmacija's management, there is no evidence that other expectations related to the project's impact have materialised - the season's length has not been markedly extended, and so far no new hotels, restaurants or other facilities have been built in the vicinity which could link this investment to the wider economy. However, based on their experience in Turkey, Dogus' and the marina's management are of the opinion that such linkages will be created over time. Moreover, intermittent linkages to the wider economy can be seen, e.g. during international regattas organised in Zadar/Sukosan area in recent years thanks to the existence of a large marina providing high service standards. In particular, before the refurbishment project only local regattas were organised, while larger, international regattas took place in 2016. A large sailing boat regatta (class 3KP 52) is scheduled for next year and is expected to bring substantial benefits to local hotels and the wider tourism sector.

Following the project, Marina Dalmacija increased its number of regular employees by 17 staff members (from 85 to 102 people) and seasonal employees from 0 to 35 thanks to the addition of the beach club (this club also benefits the local community which has access to its facilities). The Maritime School of Zadar highly praised the cooperation with Marina Dalmacija, although so far no other marinas have followed suit. This should not diminish the positive outcome of this cooperation, which benefits about 20-25 graduates each year who undergo summer training in marina management and services. Higher employment and training at the marina helped to confirm the project's "inclusion" credentials. However, in the absence of linkages to the wider economy, it is not considered that these measures greatly alleviate unemployment in the Zadar area, which currently stands at 16% (although there are large seasonal fluctuations). Dogus confirmed that, as agreed with EBRD, €6 million obtained from refinancing the short-term shareholder debt has been reinvested in Croatia (in the Company's hotel in Sibernik).

In terms of market impact, Marina Dalmacija is one of the most expensive marinas in Croatia[30], so as long as demand for berths remains strong, it is unlikely that it will influence any decrease in berthing fees. Due to limited evidence of the transition potential being realised, the project's effectiveness is assessed as *partially unsatisfactory*, however it has the potential to become *fully satisfactory* over time.

Efficiency

On average, the financial performance of Marina Dalmacija for 2015 and 2016 has been 10-12% below projections at approval in terms of revenues and EBITDA. However net profits were 70% above those projected for 2015 and in line with those projected for 2016. This was mainly due to lower than projected financing and amortisation expenses.

Lower revenues were due to a lower occupancy rate, which in 2016 was at about 85%. It decreased from 100% after Croatia's EU accession, due to the abolition of customs which enabled foreign boats to berth at smaller and cheaper marinas. However rental revenue from

[30] Annual berthing fee for a 12 meter yacht amounts to about €5,000 plus 25% VAT

leasing offices to charter companies has been on target and according to management it has the potential to increase. The marina's management also plans to introduce fees for use of the beach club by non-customers next season, which is expected to boost revenues. Finally, there are plans to increase berthing fees for larger boats. The Bank identified most of the risks correctly. Marina business is more predictable than hotel operation as it suffers less from seasonality (boats need to be parked during winter months). The impact of the EU accession (and related loss of business from budget-conscious foreign yachts) was not foreseen and provides a lesson for the Bank.

This is a borderline case, however due to the Company's net profitability being on target (and substantially exceeded in 2015), the efficiency of the project is rated *fully satisfactory*.

Conclusions

Overall, at its current status, this project is rated ***Acceptable*** with the potential to become *Good* over time. The project was innovative (for the Bank) as it expanded the Bank's reach in the tourism sector beyond financing hotels. It directly supported enhanced-value tourism, which was a priority in the tourism strategy of Croatia - a country for which tourism is of vital importance. It also fitted well with the Bank's sector and country strategies. The project's outputs were good as they set new standards for marina infrastructure quality. The project's transition impact-related outputs have been mixed so far – some are impressive, such as the reduction of energy costs by close to 80% or the cooperation with the local school, providing practical job skills training to its graduates. However, larger impacts are not yet observable, such as linkages to the wider economy or demonstration effect on other marinas. Importantly, the project failed to contribute to the privatisation of the state marina holding company, which is unlikely to be sold in the foreseeable future. Nevertheless, there are reasons to expect demonstration effect and backward linkages to be realised in the longer-term. The financial performance of marina has been below expectations in terms of revenues and EBITDA, however its profitability above or in line with such projections.

Findings

This operation offers several important findings and lessons. In EvD's view the following five are the most important for the design of future projects, particularly in the tourism sub-sector:

1. **Developers are unlikely to implement the transition-enhancing measures desired by the Bank, unless they will improve their financial performance (or are covenanted in the loan agreements).**
   Developers and tourism infrastructure operators have a highly commercial approach. They are likely to introduce energy efficiency measures, as this will reduce their costs. They may also take on interns who require limited training but can provide low-cost help in the high season. However unless obliged by loan covenants, they are unlikely to introduce environmental measures, monitoring systems, obtain quality certificates, etc.

2. **Tourism-related assets might be seen by a government as "strategic" and therefore expectation of their privatisation is unrealistic.**
   The Bank's attempt to convince the Croatian government to privatise the marinas holding company (ACI) was unlikely to yield results as marinas are seen as strategic assets. Even tourism-related assets might be argued by a government to have "strategic importance" when vested interests exist, hostile to their privatisation.

3. **Realisation of demonstration effect by Bank-financed operations in terms of increased standards is very difficult in a market where low supply and high demand prevails.**
   If demand substantially outstrips supply, operators do not have incentives to follow standards set by the Bank's clients. Rising standards needs to be combined with at least balanced supply and demand to generate demonstration effect.

4. **Development of backward linkages to the wider economy by narrowly-focused tourism projects takes a very long time.**
   The high risks and seasonality related to tourism operations mean that it takes time to validate the sustainability of new operations. Therefore the impact of such projects on the wider economy can only be seen over the very long term.

5. **Change of regulations related to EU accession may have a detrimental effect on the business of Bank clients.**
   Deregulation brought about by EU accession may strip a Bank client of a revenue source or deprive it of a certain type of customer. Such a risk should be properly identified and factored into the financial projections of a client's performance.

ANNEX 10 - CASE STUDY 2 – AYLA OASIS REGENERATION PROJECT, JORDAN

Background

In 2015 the Bank provided a US$60 million loan to Oasis-33 (the Company), which won a public tender to convert a 4.3 million m^2 area in Aqaba, directly adjacent to the Jordan-Israeli border, into Ayla Oasis, a mixed-use development. The area had been a high-security zone and a minefield since the 1967 war. The Company's main beneficiary shareholders (the Sponsors) are the Al Masri family (95%). The remaining 5% share is held by Aqaba Special Economic Zone (ASEZA), a public institution responsible for the development of Aqaba.

Aqaba is Jordan's only Red Sea coastal town and a resort, popular with domestic and, increasingly, international tourists. For the last few years it undergone a large-scale regeneration, led by ASEZA in partnership with several private developers and investors. Ayla Oasis is one of four large developments combining hotels, retail and residential units. The Bank's loan was to co-finance phase one of Ayla Village at an estimated cost of US$ 263 million (later reduced to US$ 243.6 mil) and consisting of two hotels, a 15,300 m^2 retail and entertainment centre with public squares and open areas (promenade), and 150 residential units (55 to be financed by the Bank).

The long-term development plan for Ayla Village will be implemented in three phases over 18 years, with a total budget of US$ 2.1 billion, and will comprise five hotels, a 25,000 m^2 retail and entertainment area and 250 residential units. The main challenge facing the project was extending the original 230 million coastline into 17 km of new seafront. This was completed in 2012 following a major engineering project which created three lagoons and subsequently flooded them with seawater (financed by the sponsor's equity). The Company also built a solar energy plant (3.2 MW) to power the daily exchange of water in the lagoons and meet the energy needs of the village, a golf course and several beach clubs, which are seen as major attractions and key selling-points of the project.

The project's transition impact was to be derived through economic inclusion (development and operation of a hospitality training programme, to be completed by at least 80 young people per annum), setting standards of corporate governance and business conduct, in terms of sustainability, energy and water efficiency, and inclusion (inter alia, application and demonstration of advanced eco-technologies and an increase of the solar plant's capacity). Additionally, frameworks for market was to be targeted though annual events to promote improved training standards, as well as a pan-regional event promoting higher training standards in the hospitality/tourism industry, to be organised in cooperation with the UN World Tourism Organisation (UNWTO). The project was expected to have a huge impact on employment with 4,500 jobs created during construction and 3,600 during operation. Strong backward linkages to the local economy were expected via the main contractor and sub-contractors.

Moreover, in 2017 the Bank commissioned People First consultants to explore the ways in which the project could become one of the platforms from which to address the Bank's commitments under the Syrian refugee-hosting countries programme in Jordan[31]. The Bank's "Investment Window" on this subject highlighted Jordan's importance in hosting refugees (1.3 million, second only to Turkey). It based the Bank's intervention strategy on three pillars - access to infrastructure, access to finance for SMEs and access to employment and skills. By then, the

[31] In January 2018 the Bank decided not to include this project in the Syrian refugee-hosing programme due to the issues described further in this case study (primarily, the lack of political will in Jordan to allow employment of refugees in Aqaba).

Bank's positive experience with the consultant (People First) when setting up and managing the hospitality and retail training programmes under the Abdali Mall project (the Bank's earlier investment in this sector in Amman), prompted it to explore an expansion of its cooperation to potentially include training and skills development for Syrian refugees, with the objective of increasing their chances of employment.

The Ayla Oasis project is still being implemented. By the end of 2017 the Bank had only disbursed about half of its loan and therefore the project is not yet ready for full evaluation. However it was strongly recommended by the Property and Tourism team as a suitable case study for the sector evaluation as its design and implementation to date reflect new directions and objectives, which the team believes could constitute the backbone of its new strategy.

Relevance

EvD met with the Chief Commissionaire of ASEZA, who confirmed the critical importance of the Ayla project to the success of the Aqaba regeneration Master Plan for 2001-2020. This Master Plan puts tourism development at the centre of the region's development strategy and is based on the regeneration of former industrial and high-security zones, the better utilisation of Jordan's narrow shoreline and the conversion of Aqaba into a gateway for tourists visiting Jordan. This ambition is supported by the advantageous location of Aqaba, which combines the benefit of sandy beaches and relatively easy access to the country's best known tourist attractions – Petra and Wadi Rum. Accordingly, the master plan targets 50% of the total investments attracted to the region at the tourism industry and 30% at a variety of services supporting tourism, with the balance left for industry. ASEZA believes that the risk of oversupply created by four large parallel developments is minimal as each of them is differently positioned and attracts different clients, which is expected to limit competition. At the same time, all four new developments are expected to create a "critical mass" of tourism services, putting Aqaba firmly on the map of international destinations. Only one of these large projects (Tala Bay) has been completed so far and Ayla is expected to be completed next, with two others coming on the market in later years. Ayla Village is the largest and the most prestigious project, aiming to almost double the size of the city of Aqaba. ASEZA believes it is the driving engine of the city's redevelopment, central to its strategy.

EvD also reviewed Jordan's National Tourism Strategy 2011-2015 (NTS), which highlights the importance of tourism for the Jordanian economy - 12% of GDP in 2010 (which had almost doubled to 23% by 2014) - and emphasises the expected role of private sector investors in its implementation. The NTS defines detailed strategic goals, such as revenue and visitor number growth. It recognises the challenges of increasing Jordan's competitiveness in terms of the product offered and the hospitality standard of excellence. One NTS objective calls for the "completion of 20 new demand-driven tourism infrastructure projects". The Ayla Village project can be seen as a direct response to this. Furthermore, one of the four pillars of this strategy is entirely devoted to "Labour Market Development". It calls for the creation of an additional 25,000 direct jobs in tourism, increased female participation in the workforce from 10 to 15%, 5,000 students trained through vocational programmes, and the provision of hospitality skills training in line with international standards to 40,000 tourism sector employees. These objectives are well aligned with those of the Ayla project. Moreover, the NTS points out that special development zones have been created to attract private investments in the tourism area, one being at Aqaba.

Since the Bank's approach to Economic Inclusion was approved by the Board in July 2013 (BDS13-155), the Bank's 2010 Property Strategy does not mention economic inclusion (beyond the standard “transfer of skills”), while it refers to “regeneration projects” only in passing. As with Marina Dalmacija, the project runs ahead of its time in this respect and can be seen as highly innovative for the Bank (e.g. it constituted a “minefield” development as opposed to the usual “brownfield” development). In EvD’s view, this only strengthens its relevance. The Bank’s Country Strategy for Jordan (BDS/JO/14-1) underlines “enabling dynamic, private sector-led, inclusive growth” as one of the core themes of the EBRD’s strategy to “boost the role of the private sector as the engine of economic growth and increased employment”. The strategy also identifies “development of sustainable tourism” and “improvement of building standards, including energy efficiency and sustainability” as key transition challenges facing the Jordanian property sector. Furthermore, it calls for the “Need for increased and sustainable opportunities for employment in light of regional disparities, high youth unemployment and NEET rates, mass influx of refugees and low female participation in the country’s workforce” to narrow the inclusion gaps. The Ayla project is intended to address these transition gaps, challenges and strategic priorities through investment, policy dialogue and technical cooperation.

The project was also in line with Phase 3 of the Bank’s Sustainable Energy Initiative (BDS12-020) and the 2010 Property and Tourism Strategy in terms of supporting energy efficiency, which both of them strongly prioritised (the development is exclusively powered by renewable energy). Moreover, the project responded very well to the Bank’s Sustainable Resource Initiative (SRI, BDS13-052), which calls for “more efficient water use”. For the Property and Tourism sector the SRI anticipated “focusing on increased use of recyclable and reusable materials in buildings, reduction of construction wastes, and increasing the life-time efficiency of water and energy use in buildings”. Sustainable and innovative technology indeed accounted for a large share of this project’s investments, although as confirmed by EvD, most of them were related to infrastructure and took place well before the approval of the Bank’s loan. Nevertheless, the increased capacity of the solar plant, use of grey (recycled) water for irrigation, and wide use of building materials made from building waste (recycled concrete and glass) indicates that most of the expectations related to this area have been fulfilled by the project (more on this in the Effectiveness section below).

The project can be seen as additional, mainly because of the Jordanian banking regulations, which prevent local banks from lending in foreign currency, as required by the Company due to the preference of its contractors and the higher costs associated with local currency financing. This was confirmed during the client’s negotiations with two local banks, to which US$40 million of the Bank’s loan was to be syndicated and which were to provide local currency loans. Ultimately only one of them managed to agree with the client on loan pricing. In addition, the Company indicated that the large size of this project and loan, as well as the tenor (12 years with 3 years grace), made it difficult for local banks to lend. Moreover, the Company stressed the “added value” of cooperation with the Bank, mainly in terms of market knowledge (e.g. the Bank introduced them to an excellent marketing company as they started promotions in Russia, Ukraine and Romania), international exposure and possible future partnerships on subsequent phases of this project and/or other SEMED projects. The Company also praised the Bank’s Lender’s Supervisor (MACE), which suggested useful engineering solutions. Finally, the client also appreciated the ease of communicating with the Bank due to its regional office, as well as its experience in lending to other large property projects (Abdali Mall), both of which other IFIs and foreign commercial banks lacked.

EvD notes that the Sponsors jointly generate revenues of about US$1.5 billion annually with about 15% EBITDA. It also has well established relations with Saudi and Gulf banks. On the other hand, the project is extremely ambitious and by the time of the Bank's loan, the Sponsor had already spent over US$353 million on de-mining and infrastructure. Although the Sponsors could have probably continued financing it with their equity, it may have been difficult and leveraging it with a loan certainly improved the project's economics.

Due to the project's close fit with the Bank's strategies and initiatives, as well as Jordan's own sector development strategy and the regional regeneration Master Plan, its Relevance is rated *Excellent*[32]

Effectiveness

Initially (before the Bank's involvement), the project had been progressing relatively slowly, reflecting its complexity. The Company won the public tender in 2003, but de-mining started only in 2006 and lasted until 2008. Afterwards, the Company started vast infrastructure works, such as land dredging for lagoons, building pumping stations for the daily exchange of water in the lagoons, and installing a 3.2 MW photovoltaic plant alongside the border with Israel to power the pumping. The creation of the sea-water lagoons was unique and they were designed and implemented by Condotti - an Italian-Jordanian company. This was completed in 2013, at which point the Company contracted the construction of key buildings – a large hotel (to be operated by Hyatt), with a retail and entertainment area, which will be the heart of the development, as well as four artificial islands for residential units. A golf course designed to top international standards and the first of its kind in Jordan, as well as three beach clubs, were also completed during that time to increase the attractiveness of the development. Up to this point, the investment was financed by US$353 million of the Sponsor's equity.

The EBRD Board Report indicated that the first phase of the project was to be completed by the first half of 2018. EvD's field visit confirmed that the project is largely on track to meet this deadline, although the smaller of the two hotels (Souk, 75 keys planned) has been moved to phase two. The largest structure – the Hyatt hotel (286 keys) is 93% completed and is currently (end-2017) being fitted out. The management agreement with Hyatt has been signed and the hotel will be passed to the operator in April 2018, ready to welcome its first guests as of 1 June 2018. The retail-entertainment centre with large public piazzas is 60% completed, as originally scheduled and will be operational in July 2018. The Company is also completing the construction of 75 apartments in the Souk Area (including 55 financed by the Bank's loan) to be completed by 30th July 2018. Outside the Ayla Village (EBRD'S project scope), the Company built or is at an advanced stage of building 150 residential apartments and villas, including residential complexes on two artificial islands. Ninety of these apartments/villas have been sold so far (60% of the total), mainly to Jordanian nationals. An additional 100 apartments are at an early stage of construction. The construction of the smaller Souk hotel, which was to cater to lower budget guests and be operated by the Sponsor, was moved to phase two, to be initiated in 2018, as the Company wants to test the popularity of the larger hotel first. Subsequently, the budget for phase one was reduced to US$243 million was reduced. However, the Bank's debt remained unchanged and US$20 million equivalent parallel co-financing by Societe General Jordan was increased by US$8 million equivalent. The loan with the second local bank (Capital Bank) has not been signed as it was not able to match SGBJ's pricing in local currency.

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[32] The rating of all categories is based on EvD's current rating scale of: Excellent – Fully Satisfactory – Partly Unsatisfactory – Unsatisfactory. The overall performance rating scale is: Outstanding – Good – Acceptable – Below Standard – Poor – Very Poor.

According to the current schedule (confirmed by the Lender's Supervisor), the Hyatt will be operational on 1 June (one month earlier than planned), while the souk and retail areas will be completed in July 2018, in accordance with the schedule. The project was delayed by several months in mid-2017 due to unusually hot weather and then the religious month of Ramadan. However the main contractor (ATTCO) has recovered the lost time.

The project is largely on budget. The total has been reduced due to moving the Souk hotel to phase two, however a small cost increase (US$4 million) was incurred due to variation orders and was covered by an equity injection from the shareholders (the contingency has not been utilised yet).

In terms of achieving the project's transition impact objectives, a number of activities have been undertaken to meet the set benchmarks, although it is too early for a definitive assessment. The table below presents the status of TI benchmarks as of the end of 2017.

Source of TI	TI benchmark	Timing	status	EvD comment
Economic Inclusion: Skills Transfer	Development and operation of a hospitality and facility management training programme that is based on best international practice and operates sustainably based on financial contributions from key stakeholders.	By late 2018 (for 5 years)	On track	The Bank's consultants (People First) developed a comprehensive hospitality and facility management programme (covering 6 professional tracks, e.g. F&B, Housekeeping, Front House/Reception and supervisory roles). The training covers career development mapping, soft-skills development and technical training. The consultant trains the trainers (15 in hospitality in Amman and 14 in Aqaba). The programme will become operational in January 2018. It will be run by JEFE (a local training NGO) and JHTEC (a vocational collage) both in Amman and the Aqaba campus of the Jordan Applied University.
	80 young people complete accredited training in hospitality per annum that exceeds current standard practice in the sector and country.	Per year from 2018 onwards for 5 years	On track	As per above, the programme has been set up and a minimum 20 young people are expected to be trained per quarter (80 per annum). A typical programme will consist of 2 weeks soft skills training and 2 months technical skills training. Training facilities in Amman and Aqaba have been visited by EvD and were confirmed to be of a high standard. Also, interviews with the trainers and some of the trainees (under the current programme run by JEFE) confirmed both high professional knowledge of the former and dedication and interest of the latter.
Standards of corporate gov. and business conduct: sustainability, inclusion and energy efficiency	Introduction and development of one new skills standard at a national level in the hospitality and tourism sector according to international best practice, through the engagement with the Jordanian National Centre for Accreditation and Quality Assurance (CAQA).	By 2022	On track	The Bank's consultant started working with CAQA on bringing Jordanian hospitality standards accreditations in line with international standards. It is envisaged that the existing standards, particularly those on the higher level, will be better defined, rather than new ones introduced (lower-level standards have been better defined under a USAID programme).
	Energy consumption of the Project to be at least 20% below the baseline as defined by the national standard in Jordan and applicable for tourist developments of the same category and quality of services.	By 2020	On track	The project is still under construction, however its strong focus on sustainability and completed investments bode well for the achievement of this benchmark. Importantly, all energy is sourced from the development's own photovoltaic plant, the capacity of which has recently been increased from 3.2 to 5.8 MW. The sponsor reports 0 energy costs.
	The following technologies with			

	low market penetration to be installed: - Sea Water Replenishment System to pump and circulate the seawater through GRP pipes to the lagoons including a pumping station.	By 2020	Achieved	The Sea water replenishment system, including a pumping station (pumping 1 million m^3 of water per day), had already been completed before loan approval.
	- Photovoltaic: supply Electrical Loads to feed Ayla's Sea Water Replenishment System Pumping Station, Ayla's RO plant, landscape irrigation pumps, irrigation wells, water feature plants, golf course irrigation station/pumps and lighting.	By 2020	Achieved	The 3.2 MW capacity photovoltaic plant was completed before loan approval. Subsequently, the client has expanded it to 5.8 MW. The irrigation system has been installed. The golf course grass is sea water-friendly. The Company purchases recycled waste water from the nearby municipal waste-water treatment plant and mixes it with sea water in one of the golf course ponds before using it for irrigation.
	- District Cooling Systems Building Management System, solar, greywater and sewage recycling.	By 2018	Achieved or on track	The district cooling systems building management system is under implementation. Solar energy generation has been introduced. The development uses sewage recycled water in the mixture used for golf course irrigation.
	Company to join the Jordanian Green Building Council (JGBC) and participate at policy forums.	By 2020	Not due yet	The Company intends to join JGBC when construction is completed.
	One other developer active in Aqaba region to join the JGBC	By 2020	Not due yet	So far no other developers active in Aqaba have joined JGBC
Framework for markets	A first annual event to promote improved training standards at a national and sectoral level in cooperation with supra-national industry platforms, such as UN World Tourism Organisation (UNWTO), with related follow-on activities.	By 2016	Achieved	A Regional Conference on Investing in Tourism for an Inclusive Future – Challenges and Opportunities, supported by the UNWTO, Jordan's Ministry of Tourism and the EBRD was held at Petra in October 2016. It brought 130 public and private participants from the region and Europe (9 countries). It developed guidelines for inclusive tourism (Petra Declaration) adopted by the participants.
	Follow up annual events at the sectoral and pan-regional level (including SEMED, SEE, Turkey, Cyprus) to promote improved training standards at sectoral level in cooperation with supra-national industry platforms such as UN World Tourism Organisation (UNWTO)	Per Year from 2017 onwards	On track	A Regional Conference on Tourism in MENA Cities: Competitiveness for Sustainable Growth, was held in Amman in November 2017. Reportedly it is intended to organise a pan-regional conference in April 2018 to follow up on implementing the Petra Declaration guidelines.

In summary, the physical outputs of the project have been largely on track. Also the transition benchmarks are relatively advanced – the training programme set up by the consultants and its implementation by local organisations and trainers (JEFE, JHTEC and the Jordan Applied University), which have already proved effective under similar assignments (Abdali Mall project). Also, the benchmarks related to energy efficiency and new technologies are well advanced, some of them were already completed and operational before loan approval (solar energy plant, sea water replenishment system, water recycling and irrigation). Moreover, the main contractor working on the project is a Jordanian company, ATCCO, while over 700 sub-contractors are also mainly Jordanian. The vast majority of building material, including natural stone cladding for walls and floors is of Jordanian origin, confirming the project's strong backward linkages to the local economy.

The Bank and its consultant are liaising and collaborating well with a number of international organisations involved in similar projects in Jordan, such as DFID, USAID, AFD and GIZ. This is important as the client mentioned some "fatigue" with training programmes offered by many international organisations (e.g. receiving daily phone calls from them offering to train future staff for the development).

The project involved the application of a number of innovative (for Jordan) sustainable technologies and practices, including the purchase and mixing of waste water, grey water recycling and use of exclusively renewable energy. Moreover, the development is on a bird migration route and its golf ponds attract large number of birds. Protection of birds is cultivated in cooperation with the Royal Society for Nature Conservation. The client also works with the marine science laboratory and supports the local community, e.g. sponsoring one of the schools in Aqaba, as well as equipping a language lab and furnishing training kitchens at two local universities.

The project's larger impacts will be known only after several years of operation. However, there are some indications that the overall impact of this project, although generally positive, might be less profound than initially expected (i.e. as described in the Board Report):

- The Board Report asserted that the project could make a substantial contribution to the reduction of unemployment in Jordan by employing about 4,500 workers during construction and about 3,600 during operation. The client reported that currently about 1,600 people (including sub-contractors) are working on construction. There were certainly more workers employed during earlier phases of the project than the current level. However it is unclear how many of them in total were employed AFTER the Bank's involvement. Given that the client considered the current level of employment as a peak point, the estimate in the Board Report seems high[33]. EvD also notes that a large majority of unskilled workers are Egyptians, rather than Jordanians. This is due to relatively low wages (about US$40 per day). This is still positive development, however it indicates that the project might have limited impact on the reduction of unemployment specifically in Jordan[34] ;

- There is apparently some cultural resistance among Jordanians to working in the hospitality sector (as correctly identified in the Board Report). For this reason, and as envisaged at the design stage, most of the lower-skilled staff in the existing Aqaba hotels (housekeeping, waiters, cooks, etc.) continue to be imported from the Philippines and Thailand. Also, in case of Ayla's Hyatt hotel, it is envisaged that about 150 of its employees will come from these countries. Currently, the development employs 177 staff (mainly in the beach and golf clubs, as well as security and driver services). In total it envisages employment of about 300 staff at the Ayla Village (the opening of the wellness and retail centres will add a substantial number of jobs). In addition, about 100 are to be employed in retail, while the Hyatt hotel is to employ about 350 staff, however, as mentioned, about half of them will be imported. According to the client, after phase 1 is

[33] Operation team explained that the employment estimate in the Board Report referred to the entire project, pre and post-Bank's involvement (including demining, creation of lagoons, golf course, infrastructure, etc.). In EvD's view, information on projects' expected impact on employment provided in the Board Reports should clearly distinguish between jobs, which have already been created and those which are expected to be created after the Bank's involvement.

[34] Operation team commented that the project did not aim to reduce unemployment in Jordan, as it rather targeted economic inclusion of youth in SEMED. EvD agrees that youth unemployment was highlighted, however it notes that the Board Report also made several references to general high unemployment specifically in Jordan, which suggests it implied the project could contribute to reducing it.

complete (including the second hotel), total employment could reach up to 1,200. If and when two remaining phases are completed (including three additional hotels), the employment could triple to 3600.

- The proximity of Eilat in Israel to Aqaba means that many Jordanians who could work in Aqaba's hotels make daily trips to work in Eilat. The wages there can be up to four times higher than in Jordan. Therefore, although training in the hospitality sector will certainly contribute towards human capital development in the country and the region, as well as the opening up of better long term careers in the sector for Jordanians, ultimately the improvements to the hospitality service standards in Jordan will require ongoing investments in the sector over a longer period of time.

- It was expected that the implementation of "advanced resource efficiency techniques will account for US$24 million (equivalent to 40% of the Bank's financing)" - as per the Board Report. EvD notes that substantial investments related to relatively innovative technologies, which can be called "advanced" (solar plant, grey water utilisation, etc.) had been completed before the approval of the Bank's loan. Following the partial disbursement of the Bank's loan the client expanded the photovoltaic plant's capacity by 2.5 MW. The exact cost of this component was not provided, however EvD (based on similar projects in Jordan) estimates it could cost up to US$5 million. There were also investments in insulation, LED lighting, district heating and cooling, which reportedly amounted to about $27.7 million, however it is unclear to what extent they were "advanced"[35].

- The Regional Conference on Investing in Tourism for an Inclusive Future – Challenges and Opportunities, supported by the UNWTO, Jordan's Ministry of Tourism and EBRD, held at Petra in October 2016 was an important event. The Petra Declaration set guidelines for increasing the competitiveness of the hospitality industry in the region. However, the implementation of these guidelines is voluntary and no follow-up event has been organised yet (beyond the signing of the Code of Ethics on corporate governance mentioned below). However, low wages prevalent in the sector in most SEMED countries and some cultural barriers may prevent successful implementation of these guidelines. One positive development in the area of integrating regional standards in the tourism sector was the Regional Conference on Tourism in MENA Cities: Competitiveness for Sustainable Growth, held in Amman in November 2017. It was organised by the Jordanian Ministry of Tourism and Antiquities and the Jordan Tourism Board with the technical support of the World Tourism Organization. During this conference, the main stakeholders (tourism enterprises or associations) signed the UNWTO Global Code of Ethics for Tourism representing a public declaration to uphold and integrate the Code's principles in its corporate governance.

- In EvD's view, the attractiveness of the Ayla project to its future clients/guests/residents might be somewhat limited due to natural barriers, i.e. access to an open sea via a very narrow channel and the rest of the development based on lagoons of limited size and depth. Although some might be attracted to such a set-up (e.g. families with small

[35] In EvD's view insulation, LED lighting, even a district heating system are all technologies increasing energy efficiency but they are relatively standard.

> children), the lack of a good sized beach and a "real" sea access/view may be a deterrent for many others. In this context the average asking price of US$4000 per m^2 for residential units (upon which the financial success of the development largely depends), combined with a US$4000 annual management fee, might be over-optimistic. According to the client, 60% of the units completed/put up for sale so far have been sold, however data on the average sold price was not available. Also, the Hyatt hotel has somewhat limited beach access, compared to other hotels in the area. All this in the context of three other large developments (3000 hotel rooms are to be added in the coming years in Aqaba) and plenty of existing high-end and mid-range hotels in Aqaba, with better beach/sea access, can be seen as a serious risk to the project's commercial viability.

As for the exploration of the project's potential to play (next to the Abdali Mall project) a role in the Support for Refugee-hosting Countries Programme, the Bank correctly decided in January 2018 that potential of this project is very limited due to limitations to refugee employment in Aqaba region, and excluded it from the programme. The Abdali Mall project was deemed much better placed to play such a role alone. Its Training Centre has trained 294 students, including 68 Syrian refugees – 24 in the hospitality sector (including culinary art) and 20 in retail services. Twenty-four of them (35%) have been successfully placed at work so far, mainly in Amman.

Based on its current status (largely on schedule) and most of its TI benchmarks being on track with a high probability of being fulfilled, the effectiveness potential of this project is rated *fully satisfactory*. However, as mentioned above, high risks exist to the overall impact of the project. Therefore it is recommended that this project is re-evaluated (probably as an OPA validation) two-three years after it starts operation.

Efficiency

The borrower is an SPV. Its end-2016 financial statements indicate that US$154 million was spent on capex, entirely financed by equity and no debt. The 2017 financial statements will be available in April 2018. The project is largely on schedule and on budget, progressing well, with a high probability of becoming operational in mid-2018, as planned. Based on the current record of sales of completed units, the development seems to be on track for commercial success (although risks as described above exist). The Bank's handling of the relationship with Ayla was highly praised by the client, stressing responsiveness, availability and speed of intervention, as well as the focus on resolving practical issues.

A re-evaluation will be needed after several years of project operation in order to verify the project's financial performance. Based on current performance its efficiency potential is rated *fully satisfactory*.

Conclusions

At its current stage, this project's overall performance potential is rated ***Good,*** although with a high risk to overall impact. The project signalled a new type of Bank engagement in the Property and Tourism sector – financing of large mixed-use developments, supporting economic inclusion and sustainable business standards. It fitted well with the Bank's country strategy, as well as with Jordan's tourism and Aqaba's regional development strategies. Also, as a large, visible project, it put the Bank's involvement in this sector "on the map" in the SEMED region.

Findings

This operation offers several important findings and lessons. In EvD's view the following lessons are the most important for the design of future projects:

6. Identification of a project's full potential to support **economic inclusion** objectives (which in the future may include increased employment[36]), needs to take into account **regional specificities**, such as migration trends, cultural barriers, as well as preferences and aspirations in terms of minimum compensation.

7. Going forward, to better reflect the desired impact, transition benchmarks related to **economic inclusion** should be defined in terms of numbers trained, as well as **employed**, as per the Economic Inclusion Strategy approved by the Board in May 2017.

8. When proposing the Bank's financing of already ongoing, multi-phase projects, there should be a **clear separation** between project's achievements, which took place before approval and those expected after approval. Also, references to a project's expected benefits should clearly identify **to which phase** they relate and to what extend Bank's financing will support their achievement (if at all).

9. Large, employment-intensive tourism or property developments may be **targeted by a number of international development organisations** seeking involvement in training projects. Close **coordination** among such organisations and the Bank (as generally is being done under this project), is important to avoid "competition" and ensure high quality training.

[36] Operation team reiterated that employment was not the objective of this project, while the number of youth trained so far (80) is in line with that given in the Board Report. EvD agrees, however it wants to reemphasize this point for the benefit of future operations.

Annex 11 – Results of evaluation of a sample of the Property & Tourism projects

Project, country	Effectiveness (achievement of physical objectives	Transition Impact	Efficiency (financial performance)	Overall rating	Key issues
Case Studies					
Ayla Oasis Regeneration, Jordan	Good (potential)	Good (potential)	Good (potential)	**Successful** (potential, project ongoing)	Large mix-use development alongside 3 others in the area. Inclusion objectives could have better reflected regional specificities and included employment targets
Marina Dalmacija, Croatia	Satisfactory	Satisfactory	Good	**Partly successful**	Marinas seen by government as "strategic", not privatised. Only cost reducing benchmarks achieved. Limited linkages to local economy. Regional follow-up project recently signed.
Validations					
Aura Center Surgut, Russia	Excellent	Good	Excellent	**Highly Successful**	EBRD key to attract syndication in difficult time, Weaker-than-projected regional market, lower rents
Kaluga Industrial park, loan and equity, Russia	Good	Satisfactory x2	Good	**Successful** x2 (loan & equity)	EE savings not measured, no impact on local suppliers. Put option makes exit easier (with return expected close to the projections).
Russian Hotels, Russia	Satisfactory	Good	Marginal	**Partly successful**	Downscaled from 5 to 3 hotels, low room and occupancy rates
Golden Ring Retail Centers, Russia	Good	Good	Satisfactory	**Successful**	Client's restructuring, lower performance due weak market
Europolis Restructuring, Regional	Good	N/A	Excellent	**Successful**	Bank's limited ability to intervene in operations under a fund structure
City Center One Split, Croatia	Satisfactory	Good	Marginal	**Partly Successful**	Weak regional market, high fit-out costs, tenants demanding discounts
GTC Mall Osijek, Croatia	Satisfactory	Satisfactory	Unsatisfactory	**Partly Successful**	Inadequate DD for repeat client, lower rents after roll-over, fit-out costs, weak regional market, debt in CR, equity written off
Self-evaluations					
Technopark Pulkovo II, Russia	Good	Excellent	Marginal	**Partly Successful**	Slower let out, rouble depreciation, no data on EE
GTC Galeria Burgas, Bulgaria	Satisfactory	Good	Marginal	**Partly Successful**	Weak regional market, rents turnover based, roll-over risk, no exit, equity written off
Hotel Leipzig, Ukraine	Unsatisfactory	Unsatisfactory	Unsatisfactory	**Unsuccessful**	Refurbishment of historical building – cost overruns. Conflict with the contractor, project stopped unfinished. Repayment pending.

Sveti Stefan Hotel, Montenegro	Satisfactory	Satisfactory	Marginal	Partly Successful	Changes to project's scope, owners in legal dispute, sponsor's integrity, ownership change without Bank's ok
Ecodolie, Russia	Marginal	Marginal	Marginal	Unsuccessful	Low demand due to socioeconomic conditions. Poor financial performance, exit unlikely
Skopje City Mall, FYR Macedonia	Excellent	Excellent	Satisfactory	Successful	Lower rents and their collection rate, mezzanine loan not sustainable (restructured to senior loan)
Zemun Retail Park, Serbia	Good	Satisfactory	Marginal	Partly Successful	Lower rents due to weaker market conditions, no green leases
Odessa IT Center	Marginal	Marginal	Marginal	Unsuccessful	Collapse of demand due to war in Ukraine (only 34% occupancy), currency depreciation, loan prepaid
City Center One Split, Croatia	Satisfactory	Satisfactory	Marginal	Partly Successful	Cost overruns due to fit-out, collapse of market, no certification, no solar panels, project in CR
Multi Development Forum Lviv, Ukraine	Good	Satisfactory	Marginal	Partly Successful	Deterioration of market conditions, new, competing malls, EE certification not completed
Desk reviews					
Hines Sustainable Fund, Poland	Good	Good	Good (potential)	Successful	EE certification achieved but on brand new buildings, rather than refurbishment
Amtel Properties, Regional	Good	Satisfactory	Marginal	Partly Successful	IPO not achieved, EE savings not measured, prospects for Bank's exit unclear
Hilton Podgorica, Montenegro	Good	Marginal	Unsatisfactory	Unsuccessful	Long delays, stretched sponsor with multiple investments, very weak market. Loan in CR
Abdali Mall regeneration, Jordan	Good	Good	Marginal (likely)	Partly successful	Geopolitical risks – no anchor tenant, high vacancy rate. On-site training center working well.
Pula Retail Regeneration, Croatia	Good	Good (potential)	Good (potential)	Successful (potential, project ongoing)	Project almost completed (82% pre-leased), capped return on equity, secured put to sponsor

Annex 12 - Real Estate Transition Indicators in 2010 and 2016

	2010	2016	Change
Central Europe and the Baltic states			
Croatia	3+	3+	-
Estonia	4+	4+	-
Hungary	4-	4-	-
Latvia	4-	4-	-
Lithuania	4-	4-	-
Poland	4-	4-	-
Slovak Republic	4	4	-
Slovenia	4	4	-
South-Eastern Europe			
Albania	3-	3-	-
Bosnia & Herzegovina	2-	2-	-
Bulgaria	3+	3+	-
Cyprus	-	3	
FYR Macedonia	3-	3-	-
Greece	-	3+	
Kosovo	-	2-	
Montenegro	2+	2+	-
Romania	3+	3+	-
Serbia	3-	3-	-
Turkey	3+	3+	-
Eastern Europe & Caucasus			
Armenia	3-	3-	-
Azerbaijan	2	2	-
Belarus	2	2	-
Georgia	3-	3-	-
Moldova	2+	2+	-
Ukraine	3-	3-	-
Russia	3-	3-	-
Central Asia			
Kazakhstan	3	3	-
Kyrgyz Republic	2+	2+	-
Mongolia	2	2	-
Tajikistan	2-	2-	-
Turkmenistan	1	1	-
Uzbekistan	2	2	-
Southern & Eastern Mediterranean			
Egypt	-	2+	
Jordan	-	3-	
Morocco	-	3-	
Tunisia	-	3-	

Source: EBRD's Transition Reports 2010 and 2016

Annex 13 – "Doing Business" - Ranking of COOs

	Dealing with construction permits		**Progress (↑) Fall (↓)**	Registering property		**Progress (↑) Fall (↓)**
	2010	2017		2010	2017	
Central Europe and the Baltic states						
Croatia	144	128	16↑	109	62	47↑
Estonia	20	9	11↑	13	6	7↑
Hungary	88	69	19↑	61	28	33↑
Latvia	78	23	55↑	58	23	35↑
Lithuania	64	16	48↑	4	2	2↑
Poland	164	46	118↑	88	38	50↑
Slovak Republic	56	103	47↓	11	7	4↑
Slovenia	59	80	21↓	108	34	74↑
South-Eastern Europe						
Albania	173	106	67↑	70	106	36↓
Bosnia & Herzegovina	136	170	34↓	139	99	40↑
Bulgaria	119	48	71↑	56	60	4↓
Cyprus	77	125	48↓	64	91	27↓
FYR Macedonia	137	11	126↑	63	48	15↑
Greece	50	58	8↓	107	141	34↓
Kosovo	176	129	47↑	68	33	35↑
Montenegro	160	93	67↑	131	78	53↑
Romania	91	95	4↓	92	57	35↑
Serbia	174	36	138↑	105	56	49↑
Turkey	133	102	31↑	36	54	18↓
Eastern Europe & Caucasus						
Armenia	72	81	9↓	5	13	8↓
Azerbaijan	158	127	31↑	9	22	13↓
Belarus	44	28	16↑	10	5	5↑
Georgia	7	8	1↓	2	3	1↓
Moldova	161	165	4↓	17	21	4↓
Ukraine	181	140	41↑	141	63	78↑
Russia	182	115	67↑	45	9	36↑
Central Asia						
Kazakhstan	143	22	121↑	31	18	13↑
Kyrgyz Republic	40	32	8↑	19	8	11↑
Mongolia	103	29	74↑	25	46	21↓
Tajikistan	177	162	15↑	78	97	19↓
Turkmenistan	-	-		-	-	
Uzbekistan	142	147	5↓	133	75	58↑
Southern & Eastern Mediterranean						
Egypt	156	64	92↑	87	109	22↓
Jordan	92	109	17↓	106	96	10↑
Morocco	99	18	81↑	123	87	36↑
Tunisia	107	59	48↑	59	92	33↓

Annex 14 – P&T team's Survey

In principal, the P&T team survey was conducted to explore bankers' views on transition-impact related aspects of their projects, policy dialogue and the use of TC.

It generated several surprising findings. For instance, a large part of the respondents (40%) maintained that they spent between a quarter and a half of their working time on transition impact-related aspect of a project (Q3). This contradicts the view that as the P&T sector presents high risks and is intrinsically commercial, the TI aspects of P&T projects remain marginal in relation to their financial structuring and legal aspects.

Another surprise was that over a quarter of respondents said that more than half of their projects incorporated TCs aiming at promoting specific transition impact or policy dialogue (Q6). According to EvD's analysis there were only seven TCs implemented by the P&T team which supported transition However, it is likely that the P&T bankers were referring to energy audit TCs managed by the E2C2 team.

Other findings confirm EvD's analysis of the P&T portfolio and sample projects, for example that demonstration effect (mainly of energy efficient techniques) dominated the transition objectives of P&T projects, followed by the enhancement of competition and improvement of standards of conduct (Q4).

The responses to the following question confirmed that the promotion of the "Green" economy remained the backbone of transition impact in more recent projects, prepared based on the Bank's new Transition Qualities (Q5). It also demonstrates that a new transition quality (inclusive economy) is quickly gaining ground, which is understandable given the particularly strong employment potential for women and youth in hospitality and retail sub-sectors.

Almost all respondents maintained that their clients' interest in the transition impact of Bank projects was moderate (Q7), while most saw the inherent, profitability-focused model of property business as the main obstacle for strengthening TI (Q8), although those who worked in ETCs maintained that such problems did not exist (see comment to this question). This question also generated an interesting comment in terms of an idea for enhancing TI: *"the emergence and increased usage of modular prefabricated construction should be explored and supported as it is a ground-breaking innovation in the construction industry in terms of efficiency, quality and sustainability".*

Although almost all bankers thought that the Bank remains additional in its COOs, mainly based on the conditionality it imposes on developers (Q9), some had doubts about it (see comments to this question).

A quarter of respondents were involved in policy dialogue (Q10), however 80% of that dialogue was associated with specific transactions (Q11). It was conducted mainly with senior central government officials and/or regulatory and professional agencies and in two cases included other IFIs (Q12). This is largely in line with EvD's review, which confirmed that since 2015 the P&T team have engaged in selected areas and countries in policy dialogue.

The promotion of social inclusion and "other" issues dominated this policy dialogue, which also included support for city planning or urban regeneration, tourism development and promotion of new laws and regulation on energy efficiency (Q13). This also corresponded well with the EvD review's findings, although the inclusion of energy efficiency laws and regulations as part of such dialogue was surprising as, based on EvD's findings, this kind of policy dialogue was conducted exclusively by E2C2 and LTT teams.

Promoting energy and resource efficiency was seen as being among the most important achievements resulting from the team's activities (Q14), alongside enhancing inclusion, introducing new categories of properties (student housing), LCM development and support for backward linkages to local SMEs (although the latter was not confirmed by EvD's review).

In terms of the usefulness of the Strategy, a large majority (80%) of respondents was of the view that it was "somewhat useful" (Q15) and that it generally or completely succeeded in identifying challenges and setting priorities for the team (Q16), which differs from EvD's opinion. However most of the respondents admit that the sector challenges changed during the last seven years of the Strategy (Q17).

Strengthening P&T transition-related activities was credited with increased the additionality of Bank activities in the P&T sector in recent years (Q18) – see comments to this question.

Team survey's results - 2010 Property Sector Strategy Evaluation

1. How long have you been with the Property and Tourism team?

		Response Percent	Response Total
1	Less than 1 year	40.00%	6
2	1-5 years	33.33%	5
3	More than 5 years	26.67%	4

Analysis						
Mean:	1.87	Std. Deviation:	0.81	Satisfaction Rate:	43.33	answered: 15
Variance:	0.65	Std. Error:	0.21			skipped: 0

2. What is your usual role in the Property and Tourism team?

		Response Percent	Response Total
1	Operation Leader (HQ/RO)	40.00%	6
2	Team member (HQ)	46.67%	7
3	Team member (RO)	13.33%	2

Analysis						
Mean:	1.73	Std. Deviation:	0.68	Satisfaction Rate:	36.67	answered: 15
Variance:	0.46	Std. Error:	0.18			skipped: 0

3. Approximately, what proportion of your time is spent on designing, negotiating, implementing and monitoring TI-related aspects of a project (including policy dialogue)?

		Response Percent	Response Total
1	Less than 5%	13.33%	2
2	5-10%	20.00%	3
3	10-25%	26.67%	4
4	25-50%	40.00%	6
5	More than 50%	0.00%	0

Analysis						
Mean:	2.93	Std. Deviation:	1.06	Satisfaction Rate:	48.33	answered: 15
Variance:	1.13	Std. Error:	0.27			skipped: 0

4. Thinking back to the projects in which you have been involved in the last 5 years, what was their most important TI component (please rate the below 1 to 5, 1 being the most important)

Item	Total Score [1]	Overall Rank
Demonstration effect (including demonstration of energy efficient building techniques)	63	1
Enhanced competition	45	2

4. Thinking back to the projects in which you have been involved in the last 5 years, what was their most important TI component (please rate the below 1 to 5, 1 being the most important)

Item	Total Score [1]	Overall Rank
Improved standards of business conduct	44	3
Improved corporate governance	41	4
Improved frameworks for markets (new/improved laws and regulations)	32	5
[1] Score is a weighted calculation. Items ranked first are valued higher than the following ranks, the score is a sum of all weighted rank counts.	answered	15
	skipped	0

5. Thinking back to the projects in which you have been involved in the last 5 years and reflecting on the new Transition Qualities. Please rank the application of the new TI Qualities to those projects, labelling them 1 to 6, from most to less important/frequent):

Item	Total Score [1]	Overall Rank
Promoting "Green" economy (incl. introduction of new energy efficiency standards for buildings);	72	1
Promoting inclusive economy (incl. job creation and skills transfer in retail/hospitality/construction/other sectors);	61	2
Improved competition;	52	3
Improved governance standards (incl. improved transparency of business conduct);	50	4
Promoting resilience in economy;	37	5
Promoting better integration of economy.	22	6
[1] Score is a weighted calculation. Items ranked first are valued higher than the following ranks, the score is a sum of all weighted rank counts.	answered	14
	skipped	1

6. What portion of your projects had incorporated (or parallel) TCs aiming at promoting specific transition impacts (incl. policy dialogue)?

			Response Percent	Response Total
1	None		26.67%	4
2	Less than 25%		33.33%	5
3	25-50%		13.33%	2
4	More than 50%		26.67%	4

Analysis							
Mean:	2.4	Std. Deviation:	1.14	Satisfaction Rate:	46.67	answered	15
Variance:	1.31	Std. Error:	0.3			skipped	0

Comments: (1)

1	17/01/18 9:18AM ID: 71513770	TCs were primarily aimed at setting up inclusion activities or assessing resource efficiency.

7. Based on past experience, how do you rate an interest of your average client in transition impact of a project:

			Response Percent	Response Total
1	Very interested - sees TI as an integral part of a project, actively participating in the design, monitoring and implementation of a project's all TI features;		6.67%	1
2	Moderately interested – sees some value, generally cooperates in the implementation and monitoring of TI features;		86.67%	13
3	Limited interest – reluctantly agrees to one or two aspects of TI, requires encouragement to implement and monitor it properly;		6.67%	1
4	Disinterested – tries to minimise/exclude TI, seeing it as an additional cost only, no monitoring/data provided.		0.00%	0
Analysis	Mean: 2; Std. Deviation: 0.37; Satisfaction Rate: 33.33; Variance: 0.13; Std. Error: 0.09		answered	15
			skipped	0

8. What do you see as the main obstacles in strengthening transition impact of the property and tourism projects? (please rate in descending order 1 to 5):

Item	Total Score [1]	Overall Rank
Inherent, profitability-focused model of property business;	62	1
Clients' disinterest;	48	2
Bank's incentives/reward system, prioritising business volume.	45	3
Government officials' disinterest (preference for less transparent, complex rules);	36	4
High political sensitivity of property-related policies and rules;	34	5
[1] Score is a weighted calculation. Items ranked first are valued higher than the following ranks, the score is a sum of all weighted rank counts.	answered	15
	skipped	0

Comments: (3)

1	19/01/18 11:46AM ID: 71739109	It was really difficult for me to complete this section. I did not come across the obstacles in strengthening TI as I mostly cover ETC countries and there is plenty of TI opportunities in these markets.
2	19/01/18 1:07PM ID: 71748880	The P&T team should follow the latest innovation trends in real estate and seek to support truly innovative technologies/practices so that we can raise the profile of our team and the perception that our sector has high TI potential. For instance, the emergence and increased usage of modular prefabricated construction should be explored and supported as it is a ground-breaking innovation in the construction industry in terms of efficiency, quality and sustainability.
3	02/02/18 5:52PM ID: 72807834	Banks' TI approach to more developed markets, which does not recognise sufficient transition value in projects in those countries.

9. Do you consider most of your projects additional due to:

	Response Percent	Response Total

9. Do you consider most of your projects additional due to:

		Response Percent	Response Total
1	Financing terms/co-financing mobilisation;	13.33%	2
2	Conditionalities/Bank's attributes;	26.67%	4
3	Both;	53.33%	8
4	Mostly not additional.	6.67%	1

Analysis								
	Mean:	2.53	Std. Deviation:	0.81	Satisfaction Rate:	51.11	answered	15
	Variance:	0.65	Std. Error:	0.21			skipped	0

Comments: (2)

1	18/01/18 4:11PM ID: 71675647	In our CoO EBRD has not been additional in terms of financing terms and co-financing mobilisation. We are much more conservative than the local banks and it has taken long to understand how the market dynamics affect the financials of the projects/companies (e.g. over-conservative with seasonality patterns). However, we have made significant positive steps over the last year with the market recognizing us as an active financing provider in the P&T market.
3	19/01/18 9:32AM ID: 71722151	Limited additionality regarding financing terms/mobilisation

10. Have you been involved in policy dialogue as part of any of your projects? (policy dialogue being defined as an interaction with any level government officials, non-governmental professional organisation or international parties, having the express purpose of bringing about changes in policies, legal and regulatory framework and practices).If yes, please respond to questions 11 - 14.

		Response Percent	Response Total
1	Yes	26.67%	4
2	No	73.33%	11

Analysis								
	Mean:	1.73	Std. Deviation:	0.44	Satisfaction Rate:	73.33	answered	15
	Variance:	0.2	Std. Error:	0.11			skipped	0

Comments: (1)

1	19/01/18 1:07PM ID: 71748880	We engaged in policy dialogue with the Polish authorities regarding the implementation of the REIT legislation.

11. Was this policy dialogue

		Response Percent	Response Total
1	Mainly associated with transactions	80.00%	4
2	Mainly standalone	0.00%	0
3	Both	20.00%	1

10. Have you been involved in policy dialogue as part of any of your projects? (policy dialogue being defined as an interaction with any level government officials, non-governmental professional organisation or international parties, having the express purpose of bringing about changes in policies, legal and regulatory framework and practices).If yes, please respond to questions 11 - 14.

	Response Percent	Response Total
Analysis Mean: 1.4 · Std. Deviation: 0.8 · Satisfaction Rate: 20 · Variance: 0.64 · Std. Error: 0.36	answered	5
	skipped	10

Comments: (2)

1	19/01/18 11:46AM ID: 71739109	N/a
2	19/01/18 1:07PM ID: 71748880	We invested in the IPO of Griffin Premium RE

12. Who were your counterparts? (you may choose more than one answer)

			Response Percent	Response Total
1	Senior central government officials (Ministers, Deputy, Departmental Directors)		75.00%	3
2	Members of Parliamentary Commissions		0.00%	0
3	Senior Advisors of the above		0.00%	0
4	Regional/local government officials		25.00%	1
5	Regulatory/professional agencies, business associations or NGOs		75.00%	3
6	IFIs or international organisations		50.00%	2
Analysis	Mean: 8.5 · Std. Deviation: 7.72 · Satisfaction Rate: 125 · Variance: 59.56 · Std. Error: 3.86		answered	4
			skipped	11

13. What aspects of policy dialogue have you been involved in? (you may choose more than one answer)

			Response Percent	Response Total
1	Change of land ownership rights (including full or partial land privatisation);		0.00%	0
2	Improvement (increase of transparency, simplification, increase of speed) of land zoning or building permit award processes;		0.00%	0
3	Creation or improvement of land registration system (incl. cadastre or other computerised database);		0.00%	0
4	Creation or improvement of land		0.00%	0

13. What aspects of policy dialogue have you been involved in? (you may choose more than one answer)

		Response Percent	Response Total
	collateral laws and regulations (incl. introduction of mortgage laws) or other aspects of property development financing;		
5	Support for city planning or urban regeneration policies;	25.00%	1
6	Creation or improvement of national or regional tourism development strategies;	25.00%	1
7	Promoting new laws or regulations regarding energy efficiency of buildings;	25.00%	1
8	Promoting new environmental laws or regulations;	0.00%	0
9	Changing laws or regulations to better promote competition;	0.00%	0
10	Creating or strengthening institutions relevant to the property or tourism sectors development;	0.00%	0
11	Promoting social inclusion;	50.00%	2
12	Other	50.00%	2

Analysis								
	Mean:	16	Std. Deviation:	9.8	Satisfaction Rate:	129.55	answered	4
	Variance:	96	Std. Error:	4.9			skipped	11

Comments: (2)

1	19/01/18 1:07PM ID: 71748880	REIT legislation in Poland
2	02/02/18 5:52PM ID: 72807834	New laws

14. What do you consider as the most important achievement(s) of your projects (or a selected project) in terms of transition impact and/or policy dialogue?

		Response Percent	Response Total
1	Open-Ended Question	100.00%	6

1	17/01/18 9:18AM ID: 71513770	Promoting energy and resource efficiency aspects and inclusive practices in our projects.
2	17/01/18 12:00PM ID: 71536428	- backward linkages to suppliers - local SMEs, by integrating them in the value chain of the sponsor in different countries, as a result of the project - competition - enabling the construction of a retail and entertainment centre in a secondary city due to equity investment by EBRD to close the financing gap
3	19/01/18 11:46AM ID: 71739109	Financing green modern developments, inclusion.

13. What aspects of policy dialogue have you been involved in? (you may choose more than one answer)

			Response Percent	Response Total
4	19/01/18 1:07PM ID: 71748880	Griffin (Oaktree) Student Accommodation Portfolio in Poland - EBRD supports the emergence of a new real estate sector - the first private purpose built student accommodation portfolio in EBRD's countries of operation. Moreover, EBRD used TC funds and engaged a UK based energy efficiency consultant to advise on the implementation of community engagement program and energy efficiency measures (utilities meters in each student room).		
5	23/01/18 9:31AM ID: 72004456	Setting up a sustainable pre-employment training center within a project where the courses are accredited.		
6	02/02/18 5:52PM ID: 72807834	New products in our COOs, capital market development and resource efficiency		
			answered	6
			skipped	9

15. Has the 2010 Property Sector Strategy been useful in guiding you in the origination of property and tourism projects?

			Response Percent	Response Total
1	Very useful		6.67%	1
2	Somewhat useful		80.00%	12
3	Not useful at all		13.33%	2
Analysis	Mean: 2.07; Std. Deviation: 0.44; Satisfaction Rate: 53.33		answered	15
	Variance: 0.2; Std. Error: 0.11		skipped	0

Comments: (1)

1	19/01/18 11:46AM ID: 71739109	Initially very useful, but the market has changed quickly

16. Based on your experience during last 7 years, do you consider that the 2010 Property Sector Strategy:

			Response Percent	Response Total
1	Generally succeeded in identifying challenges and strategic priorities for the Bank's interventions;		42.86%	6
2	Succeeded in identifying some challenges and priorities but misjudged others;		57.14%	8
3	Generally failed in identifying challenges and strategic priorities.		0.00%	0
Analysis	Mean: 1.57; Std. Deviation: 0.49; Satisfaction Rate: 28.57		answered	14
	Variance: 0.24; Std. Error: 0.13		skipped	1

Comments: (1)

1	18/01/18 4:29PM ID: 71679558	Identified challenges well at the time it was introduced; by now the strategy is outdated

17. In your view, did the sector challenges as identified in the 2010 Strategy change during the last 7 years?

		Response Percent	Response Total
1	Most of them changed;	14.29%	2
2	Some changed, others remained relevant;	78.57%	11
3	Most of them remained relevant for most of the period	7.14%	1

Analysis							
Mean:	1.93	Std. Deviation:	0.46	Satisfaction Rate:	46.43	answered	14
Variance:	0.21	Std. Error:	0.12			skipped	1

18. In your view, has the Bank remained equally additional in the property and tourism sector in most countries during the last 7 years?

		Response Percent	Response Total
1	Equally additional	41.67%	5
2	Less additional in recent years	25.00%	3
3	More additional in the recent years	33.33%	4
4	Additional only in a few the lest advanced countries	0.00%	0

Analysis							
Mean:	1.92	Std. Deviation:	0.86	Satisfaction Rate:	30.56	answered	12
Variance:	0.74	Std. Error:	0.25			skipped	3

Comments: (2)

1	17/01/18 12:00PM ID: 71536428	More additional over the past two years, due to establishment of new frameworks, increasing work on inclusion and more focus to equity and mezzanine, the two instruments which typically have a funding gap.
2	18/01/18 4:11PM ID: 71675647	Not applicable as I haven't experienced the Bank's and P&T's operations across countries for the last 7 years.