Going East
Economies in Transition
Challenges and Opportunities

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Contents

Introduction to EBRD

Going East: Economies in Transition

Challenges and Opportunities: Country Snapshots
EBRD’s objectives achieved through financing the private sector

AAA/Aaa rated multilateral development bank

Invested over €107 billion in more than 4,473 projects since 1991

In 2015:
- €9.4 billion invested in 381 projects
- Private sector accounted for 70% share
- Debt 82%, Equity 14% & Guarantee 4%
WHERE WE INVEST

Central Europe and the Baltic states
01 Croatia
02 Estonia
03 Hungary
04 Latvia
05 Lithuania
06 Poland
07 Slovak Republic
08 Slovenia

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

Eastern Europe and the Caucasus
18 Armenia
19 Azerbaijan
20 Belarus
21 Georgia
22 Moldova
23 Ukraine

Central Asia
24 Kazakhstan
25 Kyrgyz Republic
26 Mongolia
27 Tajikistan
28 Turkmenistan
29 Uzbekistan

Southern and eastern Mediterranean
30 Egypt
31 Jordan
32 Morocco
33 Tunisia
34 Greece
35 Russia
36 Turkey
Key strengths of EBRD

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

**Institutional**
- Strong, internationally recognized financial partner with long-term perspective
- Close working relationships with governments and shareholders
- Political leverage due to EBRD’s unique mandate and shareholder structure
- Preferred Creditor Status
- AAA credit rating
- Work closely with market sources of capital to fill “market gaps”
- Sector studies and policy dialogue
Approach in Forest Products Sector

- EBRD is financing projects in forestry and forest-product sector since 1993
- Financing provided mainly for Greenfield projects, at the same time the Bank is involved in modernization of the existing facilities that aims to improve efficiency and production of more value-added production
- Majority of investments in the sector are in wood-processing sector, pulp and paper production, and tissue and packaging
- Supports projects that promote sustainable approach to the forest management and sustainable use of natural resources biodiversity
- EBRD undertakes country sector studies and policy dialogue to support sector development
Sector Studies and Policy Dialogue in Forestry Sector

- **2006** – Forestry sector study in Bosnia – Identifying investment projects for sustainable forestry and forest industry business in Bosnia and Herzegovina; *financed by TC funds provided by Austrian Government, conducted by ÖBf Consulting and Pöyry Energy GmbH*

- **2008** – Forestry sector study in Romania – Forestry and Forest Industry in Romania; *financed by TC funds provided by Austrian Government, conducted by Austroprojekt*

- **2009** – Forestry sector study in Bulgaria – Assistance to the Bulgarian forest sector reform; *financed by TC funds provided by Austrian Government, conducted by ÖBf Consulting*

- **2011** – Russian Policy Dialogue study exploring Russia’s competitive position in forestry sector at global level with focus on pulp production; *funded by EBRD shareholders’ funds, conducted by Pöyry Management Consulting Oy*

- **2012** Forestry sector study in Belarus; *financed by TC funds provided by Austrian Government, conducted by ÖBf Consulting and Pöyry Energy GmbH*

- **2013** - Forestry sector study of the Russian Far East – Road Map for Value Added Investments in Forest Industry; *funded by EBRD shareholders’ funds and FAO, conducted by Indufor Oy and FAO*

- **2012-2015** – Ukraine FSC certification pilot project in Ivano-Frankivsk region; *financed by EBRD shareholders’ funds, conducted by Indufor Oy*

- **2015** - Montenegro Forest, Timber Industry and Bioenergy Sector Study; *financed by TC funds by Austrian Government, conducted by ÖBf Consulting, presentation to investors March 2016*
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Going East: Economies in Transition
STRUCTURAL REFORM

21 OF THE 36 COUNTRIES IN THE REGION HAVE LARGE TRANSITION GAPS IN AT LEAST ONE COMPONENT OF THE NEW SUSTAINABLE RESOURCE INDEX

POSITIVE DEVELOPMENTS IN SECTOR-LEVEL TRANSITION INDICATORS OUTNUMBER NEGATIVE DEVELOPMENTS BY 30 TO 8 COMPARED WITH THE NEGATIVE OVERALL TREND LAST YEAR

A MAJOR FUEL SUBSIDY REFORM IN EGYPT SHOULD BE COMPLETED BY 2020
Outline of Transition Report 2014-2015

1. **Investment gap**: Evolution of external funding, debt and investment

2. **Access to finance**: demand for credit, supply and credit constraints

3. **Private equity**: trends and impact on firm performance
EBRD Transition Report 2014-2015

Rebalancing Finance

123% DEBT-TO-GDP RATIO OF THE REGION’S NON-FINANCIAL SECTOR

25% PERCENTAGE POINTS INCREASE IN DEBT TO GDP RATIO BETWEEN 2007 AND 2014

AROUND US$75 BILLION A YEAR CONSERVATIVE ESTIMATE OF THE REGION’S ADDITIONAL INVESTMENT FINANCING NEEDS

60% APPROXIMATE SHARE OF EU-15 IN FDI INFLOWS INTO THE REGION
Swift external adjustment after the crisis

New EU member states

Unweighted average, % of GDP

Investment

Savings

Rest of EBRD region

Unweighted average, % of GDP

Investment

Savings

FDI, net  Other capital flows, net
Too much domestic debt is still in foreign currency: Need to develop local currency financial services markets

- Impact on debt servicing particularly high in 2015

% of domestic corporate and household debt denominated in foreign currency
Small and Medium businesses and the credit crunch

The average ratio of total bank loans to customer deposits declined from 120% in 2008 to 97% in 2013.

The percentage of credit-constrained firms ranges from just 13% in Turkey to 85% in Egypt.

51% of firms reporting a need for credit in the 2013-14 BEEPS survey were unable to obtain it – up from 34% in 2005.

87% of interviewed bank CEOs indicated that a lack of creditworthy customers is a key constraint on their lending to SMES.
Trends and value creation in private equity

1% of global private equity invested in the EBRD region

76% of growth and venture capital in the EBRD region by number of deals between 2009 and 2014 invested in private equity

The total volume of additional private equity capital that the EBRD region could potentially attract is US$30.5 billion

On average 30 additional jobs are created by each company in the EBRD region that receives private equity investment
Challenges and Opportunities: Country Snapshots
Poland

- Poland is the only EU economy that avoided a recession in 2009 with record cumulative growth of 20 per cent.
- Exports accounts for 47% of GDP; No 4 world exporter of furniture.
- Productivity increase from 62% of the EU average to 72 per cent during 2004-2014.
- High-tech manufacturing is at 6 per cent compared to EU average level of 10 per cent.
- An average hourly wage of EUR 6.80 compares to EUR 24.40 in Germany.
- A new renewable energy law is in place.

- Forests cover 9.2 million ha, the wood and furniture accounts for around 9% of the economy. 19% of the total forest cover is privately owned.
- Poland accounts for 6.1% of the European forest product industry value. Poland is the world’s fourth biggest furniture exporter and large exporter of paper output.
- The sector annual growth is at 3-4% per annum, with 2015 value of EUR 5.7 billion.
- The wood-based panels was the most lucrative during 2013-2014 triggered by high demand from furniture producers.
Belarus

- 3.9% GDP contraction in 2015, after anemic positive economic growth in 2012-2014
- In 2015, Belarus ruble depreciated against USD by 36% triggered by Russian downturn
- State-led economic model has exhausted itself
- Large need for structural reforms to improve business climate, develop viable private sector and attract FDIs
- Recent EBRD study highlighted three main obstacles: workforce skills; access to finance; and competitors practices in the informal sector
- Manufacturing declines by 7.5%, forestry sector produces 5% of GDP
The OSB mill carries the largest investment commitment and provides the highest IRR. The plywood mill’s IRR comes close with an investment only around half the size. Both lack domestic markets, which the state-of-the-art sawmill would be able to fulfil. Edge-glued panels and sawmill producing pellets will only be interesting opportunities, if they have existing sales contracts.
Montenegro

- June 2012 started negotiations on EU accession, member of WTO and candidate negotiating to join NATO
- GDP at EUR 3.7 billion, growth 3% in 2015, and forecast 4% growth for 2016
- Strong economy rebound based on high FDI inflows, excellent tourism season and progress on a major highway project
- Further growth is subject to progress on economy diversification, acceleration of privatization and improvement of standards of corporate governance
- 70% of territory is covered by forest and forested land
### Montenegro: Forest Sector Study 2015

#### Potential Sustainable Yields

<table>
<thead>
<tr>
<th>Administrative responsibility</th>
<th>Ownership</th>
<th>Total forest</th>
<th>Accessible forest</th>
<th>Forests available for wood supply (FAWS)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Area</td>
<td>Share of total area</td>
<td>Area</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ha</td>
<td>%</td>
<td>ha</td>
</tr>
<tr>
<td><strong>Public Enterprise &quot;National Parks&quot;</strong></td>
<td>1 State owned</td>
<td>34,353.3</td>
<td>42</td>
<td>21,128.4</td>
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<tr>
<td></td>
<td>2 Private</td>
<td>8,499.0</td>
<td>1,0</td>
<td>6,604.3</td>
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<tr>
<td></td>
<td>Interim total</td>
<td>42,852,3</td>
<td>5,2</td>
<td>27,732,7</td>
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<tr>
<td><strong>Forest directorate</strong></td>
<td>1 State owned</td>
<td>398,440,7</td>
<td>48,2</td>
<td>349,763,1</td>
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<tr>
<td></td>
<td>2 Private</td>
<td>385,488,7</td>
<td>46,6</td>
<td>350,637,2</td>
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<tr>
<td></td>
<td>Interim total</td>
<td>783,929,4</td>
<td>94,8</td>
<td>700,400,2</td>
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<tr>
<td><strong>Total</strong></td>
<td>Entire total</td>
<td>826,781,6</td>
<td>100,0</td>
<td>728,133,0</td>
</tr>
</tbody>
</table>

#### Table 132 Annual sustainable yields

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Yield approach 1</th>
<th>Effective yield, approach 1</th>
<th>Yield approach 2</th>
<th>Effective yield, approach 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State owned</td>
<td>1190243</td>
<td>1071218</td>
<td>1562395</td>
<td>1406156</td>
</tr>
<tr>
<td>2. Private</td>
<td>406283</td>
<td>365655</td>
<td>495135</td>
<td>445621</td>
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<tr>
<td>total</td>
<td>1596526</td>
<td>1436873</td>
<td>2057530</td>
<td>1851777</td>
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</tbody>
</table>
Montenegro: Forest Sector Study
Investment Opportunities

Key financial indicators for the investment opportunities

- Sawmill: €16,960,000
- Solid wood 1/3L panels: €8,690,000
- Glued laminated timber: €7,100,000
- Solid wood furniture: €4,197,000
- Integrated production - sawmill to furniture: €36,947,000
- Softboard wood insulation: €37,900,000

Total investment
Net sales
EBITDA
THANK YOU!