

Linkages to EBRD investments

16

During 2002 work commenced on a detailed assessment of the outcomes of all investment-linked TC operations undertaken by the Bank since 1991. The analysis focused on documenting the cases where the underlying investment proceeded through to signing stage. The volume of EBRD financing involved was recorded. Cases were also identified where investments did not proceed or were put on hold. Information was also assembled on the incidence of “successful” TC assignments. Initial results from this ongoing assessment are presented in this chapter.

Between 1991 and October 2002, almost 6,000 TC assignments worth €820 million were commenced by the EBRD. As shown in the diagram on page 91, some 74 per cent of these assignments have been in support of investment projects. The value of signed EBRD investments supported by the TC assignments was €8.99 billion, representing 42 per cent of the entire EBRD investment portfolio

(to October 2002). In addition, a further €2.6 billion of EBRD investments are in the pipeline, progressing towards signing. As a baseline measure therefore, the value of signed and pipeline EBRD investments supported by TC funds has been €11.6 billion.

Value of EBRD investment supported by TC*

	EBRD debt and equity
EBRD signed	€8.99 billion
EBRD pipeline	€2.60 billion
Total	€11.59 billion

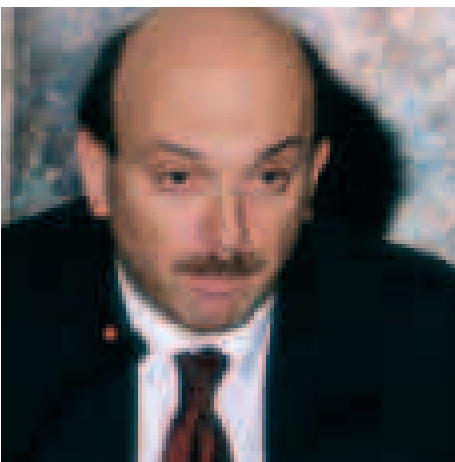
* as at October 2002

As indicators of the amount of investment resources mobilised with the assistance of TC funds, these measures provide only part of the story. In most EBRD projects, the Bank’s debt and equity investments typically represent only a share of project costs (see Chapter 3). Assessment of the full resource

mobilisation requires the addition of funds supplied from other sources, including commercial banks, official co-financiers and equity contributions. Work will continue during 2003 to complete the project-by-project compilation of these additional sources of investment that are linked to TC operations.

Incidence of successful TC assignments

Research has examined the relative incidence of TC assignments associated with active investment projects (those that were signed or are progressing through to signature), and projects that were dropped. Overall, some 88 per cent of TC spending has been in support of signed and active investments, with 12 per cent of TC spending going to projects that were either dropped or put on hold. The relative incidence of successful TC assignments has grown over the course of the past decade. By the end of 2002 the relative incidence of successful TC spending was above 90 per cent.



“The availability of grant funds plays a vital role for the lending programme of the Bank, but greater harmonisation and more multi-donor funds are needed.”

Peter Verheijen, Ministry of Foreign Affairs, The Netherlands

Growth in the incidence of successful TC spending reflects several developments.

These are:

- The EBRD has strengthened its internal procedures over the past decade.
- Improved screening and approval procedures have been adopted by the Technical Cooperation Review Committee and the Operations Committee.
- Clients have been encouraged to increase their level of commitment, especially during project preparation.
- The focus of TC spending has shifted towards project implementation assistance, with greater emphasis on improving post-signing performance.
- Lessons learned from studies by the EBRD Project Evaluation Department are being widely disseminated (see Chapter 17).

Sectoral differences

The analysis also looked at TC investment linkages across different sectors (see table below). At the sectoral level, differences emerge because of the different types of assignment carried out, the scale of the project investment, and for the financial sector, the time lags and dynamics of on-lending and equity operations.

In financial sector operations (which include SME lending, microfinance, commercial bank assistance and equity fund development), the ratio of signed EBRD investment to TC tends to be initially lower than in other sectors (such as infrastructure). This is due to the time lag between the provision of technical assistance and the build-up of on-lending or equity placement activity. In addition, financial intermediaries will typically mobilise funds from sources other than the EBRD, and will experience growth in activity through lending and re-lending. These developments take time,

with the result being that the full investment impact of the TC only becomes evident over a period of years. In view of the large volumes of TC devoted to financial sector initiatives in recent years, a full assessment of TC-investment linkages will need to allow for the dynamics of portfolio growth at the level of each individual institution. Ongoing work is underway on these assessments.

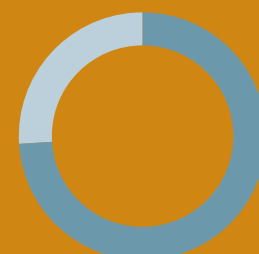
In the industry, energy, transport and environmental infrastructure sectors, where more traditional project financing is being undertaken, the volume of investment to be linked to TC is generally defined within the project-financing plan. In most circumstances, the assessment of the total TC-investment linkage can be made at the time of the EBRD signing. As noted above, work to be undertaken during 2003 will focus on completing full-project cost linkages for TC assignments in these sectors.

TC support to signed EBRD investments by sector

Sector	Signed EBRD investments supported by TCFP (€000s)	Total TC commitments (€000s)
Financial institutions	3,150,714	363,848
General industries	1,287,920	62,227
Municipal and environmental infrastructure	834,312	45,434
Energy	1,727,697	64,727
Transport	1,990,693	66,218
Total	8,991,336	602,454

Allocation of TC funds

■ Direct investment support (e.g. project preparation and implementation)	74%
■ Stand alone (e.g. TurnAround Management and Legal Transition Programmes)	26%



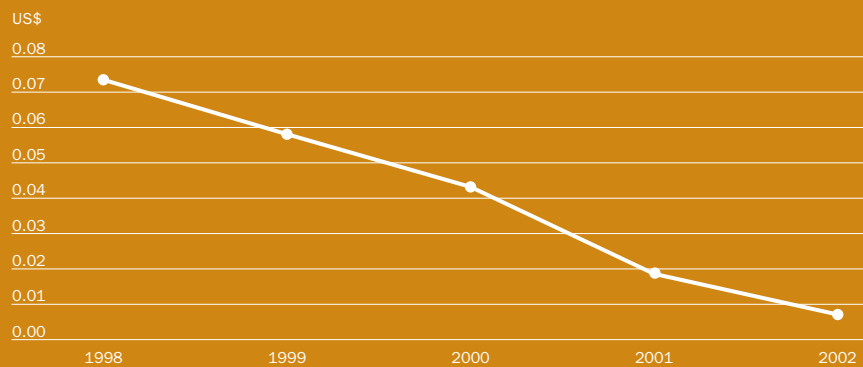
Investment linkage dynamics

Two examples of dynamic growth in TC-investment linkages are provided by the Bosnia MicroEnterprise Bank (MEB) and KMB Bank Russia. Additional background on the EBRD’s MSE lending programme is provided in Chapter 4. Commencing in the late 1990s, both banks have received donor funded TC support to develop their capacities to manage and promote microfinance lending. TC support for MEB was financed by the US SME Special Fund, and for KMB by the Russia Small Business Fund (Canada, France, Germany, Italy, Japan, Switzerland, the United Kingdom and the United States) as well as parallel TC financing from the EU. This assistance has been provided over a period of years, and has included staff training in a range of banking functions. In response to the assistance, each bank has been able to build its disbursed lending portfolio, commencing from small amounts to eventually reach significant volumes.

The effect of rapid growth in the disbursed portfolio of these banks is shown in the graphs below. Here the TC-investment linkage is expressed in operational efficiency terms as the ratio of TC funds spent to loan portfolio disbursed. In the case of Bosnia MEB, the TC cost per US dollar of loan disbursed fell from more than 7 cents in 1998 to less than 1 cent in 2002. In the case of the larger KMB bank, the decline was steeper, falling from more than 10 cents per loan US dollar in 1999 to less than 1 cent by 2002.

MEB Bosnia
(est. Nov 1997)

— TC \$ utilised per loan \$ disbursed



KMB Russia
(est. Dec 1998)

— TC \$ utilised per loan \$ disbursed

