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# 8

## Donor-funded activities and official co-financing

With the help of donor funding and co-financing from official agencies, the EBRD undertook a range of high-priority initiatives in 2006. These included the Sustainable Energy Initiative, a new multi-donor fund for the Western Balkans and expansion of the Early Transition Countries Fund to increase assistance to the poorest countries where the Bank operates.



Construction of a flood protection barrier for St Petersburg is nearing completion thanks to funding from the Northern Dimension Environmental Partnership, which is supported by nine donors.

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### Activities in 2006

In 2006 a number of new donor governments joined the EBRD's donor community, new funding was mobilised for key infrastructure projects and Mongolia was embraced within the Early Transition Countries Fund. Official co-financing partnerships were also strengthened. This included new working arrangements with the European Investment Bank (EIB) and participation in a cooperation initiative between the European Union and international financial institutions.

The impact of donor funding was enhanced in 2006 through a contribution of the EBRD's own funds towards the costs of delivering donor-funded projects and programmes, such as the TurnAround Management Programme (see page 66).

As in previous years, a large proportion of donor funding was used by the EBRD for technical cooperation (TC) activities that prepare the way for future EBRD-financed projects and improve the investment climate in the Bank's countries of operations. Donor grants allow the Bank to hire experts who

help to develop the know-how of EBRD clients. Priority sectors for the Bank include small and micro-business development, infrastructure services and improving the institutional framework.

In 2006 the EBRD signed grant agreements with donors totalling €113 million for TC and official co-financing activities, mostly in the form of new agreements (€74 million) but also through replenishment of existing funds (€39 million). In line with previous years, the largest contribution was provided by the European Union (€36 million) while an increasing proportion was channelled through multi-donor funds (€26 million). Additional grants were mobilised for specific investment projects (see below).

Total funding committed for new TC projects amounted to €74 million in 2006. Much of this was targeted at the Western Balkans and the early transition countries (ETCs). Together, these two regions accounted for €37 million (50 per cent) of the overall total.

TC assistance to the new EU member states amounted to €13 million and focused on providing finance to micro, small and medium-sized enterprises.



Funding for the lakeside resort of Issyk-Kul in the Kyrgyz Republic was initially provided through the Kyrgyz Investment Credit Bank, which was established with the help of technical assistance from Japan.

In Russia, €10 million supported the development of small business and the strengthening of infrastructure and environmental projects. In Belarus, Kazakhstan, Turkmenistan and Ukraine, €11 million of TC funds was dedicated to expanding private enterprise and creating environmentally sound infrastructure and energy sectors.

The Sustainable Energy Initiative (SEI) is an example of how donor funding and EBRD finance work hand in hand. Aimed at improving the efficiency of energy production and usage in the Bank's countries of operations, the SEI is being strongly supported by donor agencies.

Under the SEI, the EBRD will invest up to €1.5 billion in energy efficiency, renewable and clean energy projects over three years (see page 18). The initiative aims to mobilise a further €100 million from donor governments to address the barriers to investment in sustainable energy, to raise awareness of the positive returns on investment from energy efficiency measures and to help the Bank make the business case for cleaner energy technologies. Almost €50 million has already been pledged.

At the inaugural Sustainable Energy Forum held in November 2006, the EBRD discussed with the donor community how the initiative will work in practice. Initial pledges were received from Austria,

Canada, the European Union, France, Italy, Luxembourg, the Netherlands, Sweden and the United Kingdom. Follow-up discussions will take place with other donors later in 2007.

Another important initiative launched in 2006 was the creation of a new multi-donor fund for the Western Balkans (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia). The Western Balkans Fund has been established to mobilise additional funding for these countries and to strengthen the coordination of EBRD-donor assistance.

The founding contributors to the Fund are Austria, Canada, the Czech Republic, Finland, Ireland, Luxembourg, the Netherlands, Norway, Poland, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom. The inclusion of the Czech Republic, Poland, the Slovak Republic and Slovenia is particularly significant as it is the first time that these countries have become part of the EBRD's donor community.

The inaugural meeting of the Western Balkans Fund was held in November 2006, with initial pledges amounting to €13 million. A priority for the Fund will be to coordinate its activities with other major donors in the region, including Italy and the European Union.

One of the EBRD's most significant donor funds completed its second year of activity in 2006. The Early Transition Countries (ETC) Fund coordinates donor assistance to the Bank's poorest countries of operations – Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia (which joined in 2006), Tajikistan and Uzbekistan. The Fund is supported by Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. By the end of 2006, pledges to the ETC Fund totalled €46 million (see page 14).

Another initiative strongly supported by donor funding is the Northern Dimension Environmental Partnership (NDEP), which provides support for environmental projects in north-west Russia (see page 21). NDEP receives funding from Canada, Denmark, the European Union, Finland, Germany, Norway, Russia, Sweden and the United Kingdom. At the end of 2006, donor funding to NDEP totalled €241 million, with nearly €150 million designated for nuclear safety activities in north-west Russia. A full account of how the EBRD uses donor funding to support nuclear safety is provided on page 68.

In addition to TC funding provided by donor governments, public sector institutions work alongside the EBRD



Left Donor funding provided through the Early Transition Countries Fund is helping to bring vast improvements to bus services in Georgia's capital, Tbilisi.

Above A €1 million grant provided by the European Union is assisting Kyrgyz banks in developing micro lending skills.

to provide official co-financing for investment projects. This amounted to €1.45 billion in 2006, a considerable increase on 2005 (€770 million). Most official co-financing is in the form of loans, with smaller amounts in the form of grants and other types of participation (see below). Around 70 per cent of the official co-financing provided in 2006 was targeted at developing environmental and infrastructure projects in the new EU members and Croatia.

By far the largest official loan co-financing partner has been the EIB with a contribution of €822 million in 2006. Over the years the EIB has co-financed some 70 projects with the EBRD. Key areas of EBRD-EIB co-financing have included NDEP and cooperation in the Western Balkans.

Other important official loan co-financing in 2006 was made by the Nordic Investment Bank (€188 million) and by Japanese and Canadian agencies, which contributed an additional €68 million in co-financing. Projects in the energy, municipal infrastructure and transport sectors accounted for 80 per cent of the co-financing provided to EBRD investments.

An essential element of official co-financing is the provision of grant-funded support to EBRD projects. As in previous years, the European Union was by far the

largest grant provider in 2006, with support amounting to €177 million for a number of projects, including water and waste treatment plants in Bulgaria and Romania. In December 2006 the European Union and the EBRD agreed further financing for two water projects in Georgia and a power plant in Armenia.

Sweden's International Development Cooperation Agency also provided grant co-financing to two water projects in Georgia. Switzerland's State Secretariat for Economic Affairs provided grant support for a water project in Georgia and for the district heating system in Romania.

The Italian government and the EBRD signed an agreement in 2006 for the establishment of a new instrument – the Italy-EBRD Western Balkans Local Enterprise Facility – to provide equity, risk-sharing and debt financing to local enterprises. The Bank is contributing €20 million to the new facility while the Italian government is providing €12 million (€10 million in co-financing and €2 million in technical cooperation).

In addition, the EBRD signed a Memorandum of Understanding with the US Millennium Challenge Agency to jointly finance projects in Georgia in the municipal infrastructure, energy and roads sectors.

The ETC Fund was expanded in 2006 to include Mongolia, the Bank's newest country of operations.



The Business Advisory Services programme uses the skills of local consultants to help small businesses in 17 countries improve their business practices.

## Building stronger businesses

To build stronger businesses in the EBRD's countries of operations, the Bank makes use of two donor-funded programmes: the TurnAround Management (TAM) programme and the Business Advisory Services (BAS) programme.

Both TAM and BAS work directly with individual enterprises, responding to their particular needs. TAM brings in experienced Western executives to help local management teams learn new business skills while BAS uses local consultants to help micro and small enterprises change the way they operate. This not only helps enterprises to grow but also gives a boost to local consultants.

In 2006 a further €19 million was provided by donors for TAM/BAS activities, bringing the total donor funding for the two programmes to €146 million. This funding has allowed the EBRD to implement 1,400 TAM projects and 6,000 BAS projects.

The success of the TAM/BAS programme can be simply measured by charting the progress of the enterprises that it has helped. On average, each enterprise has increased its productivity by about 30 per cent. This has helped these businesses not only to expand their

local markets but also to develop their export potential. In particular, TAM/BAS has assisted business growth in under-developed rural areas. In 2006 around 75 per cent of new TAM projects and 60 per cent of new BAS projects were outside major cities.

The EBRD has fully integrated the TAM/BAS programme into the Bank's mainstream activities, making it a key component of EBRD support for small businesses, the early transition countries (see page 13) and the Western Balkans Initiative (see page 64).

Companies receiving TAM/BAS support have subsequently received financing of €653 million directly from the EBRD or indirectly through EBRD-supported financial institutions. A further €897 million has been provided in co-financing, leading to a total project value of €1.6 billion.

In 2006, TAM started 115 new projects, a 15 per cent increase on 2005. The majority of projects were concentrated in the Western Balkans and the early transition countries in line with the Bank's strategy of moving south and east. TAM also continued its successful programmes in Kazakhstan, Mongolia, Russia and Ukraine and in the under-developed regions of the two newest members of the EU, Bulgaria and Romania.

BAS started 1,050 projects in 17 countries in 2006, an increase of 7 per cent on the previous year. Five new BAS offices were opened in Tirana (Albania), Aktobe (Kazakhstan), Osh (Kyrgyz Republic), Bucharest (Romania) and Belgrade (Serbia).

TAM/BAS initiatives in 2006 included promoting gender equality through 30 tailor-made consultancy projects and 20 workshops and seminars aimed at developing the businesses of women entrepreneurs. Topics covered by the initiative included issues affecting new businesses, marketing techniques and gaining access to finance.

Other TAM/BAS schemes focused on increasing energy efficiency in small businesses and tackling pollution. TAM programmes in Central Asia, the Russian Far East and the Western Balkans are helping companies to improve their environmental practices without incurring a heavy financial burden. An environmental programme supported by BAS in the Former Yugoslav Republic of Macedonia has helped 40 companies comply with EU directives on pollution without a loss of competitiveness.

## Bringing a sparkle to shopping in Armenia

For anyone whose retail experience of Armenia is limited to makeshift premises selling basic groceries, Turkish sweets, brandy and cigarettes, Star supermarkets – gleaming stores full of global products – come as a glorious surprise.

The brainchild of entrepreneur Henrik Zakharyants (founder of the 12-year-old Valletta food-importing business), Star stores are managed by Vahan Kerobyan. A former HSBC banker in his thirties, he was recruited in 2005 as the head of Valletta's project to set up Armenia's leading supermarket chain.

The project has gone from a twinkle in Zakharyants' eye to realisation and profit with help from the EBRD's TurnAround Management (TAM) programme. TAM pairs fledgling companies in the EBRD's countries of operations with retired Western executives from the same line of business, who can share expertise and experience.

In Star's case, the consultant was Peter Flach, a Toronto-based former senior executive with the food retailer 7/11. When he first visited Yerevan in summer 2005, the Star project was "at Ground Zero", he laughs. Since then, the number of stores has gone from two to six, and sales have risen from €759,000 a year to well over €759,000 a month.

Peter Flach has made six visits to Yerevan. Vahan Kerobyan has been once to Canada, where Peter Flach used his industry contacts to show the young ex-banker how supermarket and wholesale distribution businesses actually work in the West.

"Most of the things Vahan saw here he has either implemented already or is in the process of implementing," he says.

Today Star has not only been separated organisationally from Valletta, but also its internal structure has been divided into two businesses. One consists of the supermarkets. The other is a distribution centre – a stand-alone profit centre, supplying stores without sitting on "dead" inventory. In-store merchandising is done with an inventory management scheme which lets Star stock "only what sells, in the right quantities".

On the staffing front, managers have been recruited for operations, finance and marketing. Star provides training in customer care and has introduced performance-based incentives to help staff perceive work as a career, not a job. Its development plan for the next five to ten years focuses on developing its presence in Yerevan, where one-third of Armenians live.

The TAM project, funded with 130,000 Canadian dollars by Ottawa, has since helped Star attract the EBRD as a commercial investor with funding of €3 million through the Direct Investment Facility.

"Hats off," Peter Flach says, "they've accomplished a lot in a short time. The reason they were so successful was partly that you had a market that was ready. Partly it was the EBRD's flexibility. And partly it was the people, who have been incredibly energetic and committed to making it work."

