Donor partnerships

Donor governments and partners make a vital contribution to the transition process by providing funds that act as a catalyst for EBRD investments and support other Bank activities. They are particularly active in those parts of the EBRD region that face the biggest obstacles to recovery and growth, as well as in the infrastructure, sustainable energy and small business sectors. Donor partnerships provide a wide range of funding instruments through many different channels that improve lives and environments across the region.

DONOR FUNDING IN 2013

Donors continued to work very closely with the EBRD to address the transition challenges in its region. In 2013, they contributed €349 million in donor financing, helping to extend the range and depth of the Bank's investments, balancing risks and rewards, temporarily compensating for market failures and supporting the development of market-based institutions, skills and behaviour.

Infrastructure, sustainable energy and small businesses remained the main focus of donor activity, while a new trend saw the growth of initiatives with a strong element of policy dialogue delivered through grant co-financing. Local currency and food security are two examples of this kind of initiative.

The European Union (EU) is the EBRD's largest single donor, contributing 37 per cent of donor funding received over the last five years in support of the Bank's activities across the EBRD region. In 2013, the EU provided support worth €114 million, representing nearly one-third of the donor funding made available to the EBRD in that year. Bank projects in EU member states have also benefited from funding provided through the Structural and Cohesion Funds. In recent years the EU has increasingly channelled its funding through a number of regional facilities created to blend EU grants with investment financing from financial institutions, including the EBRD. These facilities include the EU Neighbourhood Investment Facility (NIF), the EU Investment Facility for Central Asia (IFCA) and the Western Balkans Investment Framework (WBIF). The WBIF also benefits from bilateral contributions from 19 donor governments.

Donor instruments

Donor funding at the EBRD takes the shape of technical cooperation (TC) and non-TC grants.

TC grants focus on specific tasks in support of a particular project or programme such as project preparation and implementation, training, sector support, building a client's expertise and technical skills, policy dialogue and providing other forms of assistance. Last year donors approved €142.5 million of TC grants that supported over 600 TC assignments.

There are four main types of **non-TC grant**:

- Investment grants that provide an alternative source of funding for projects where there may be constraints on the use of loan financing (for example, in heavily indebted countries facing borrowing limits)
- Performance fees and incentives that encourage financial institutions to extend EBRD loans to sub-borrowers likely to achieve priority objectives set by the Bank and donors
- Risk-sharing facilities used to support transactions funded through initiatives such as the Trade Facilitation Programme, as well as lending to micro, small and medium-sized enterprises (MSMEs) and providing energy efficiency credit lines
- Concessional loans used by the Bank to co-finance projects where donors provide part of the overall financing package in the form of subsidised lending.

In 2013, donors contributed €349 million to foster transition in the EBRD region

Types of donor
Donor support for EBRD activities comes from bilateral donors, multilateral donor funds, the Bank's shareholders and the EU (see page 43).

Bilateral donors are governments, international financial institutions (IFIs) and other partners. In 2013, they provided nearly €119 million in TC and non-TC grants. Bilateral donors in 2013 were: Austria, Czech Republic, Estonia, Finland, Germany, Italy, Japan, Kazakhstan, Korea, Luxembourg, Norway, Poland, Russia, Slovak Republic, Sweden, Switzerland, Taipei China, Turkey and the European Investment Bank.

Kazakhstan and Russia, which are countries where the EBRD invests, featured among the list of bilateral donors for the first time in 2013 after signing agreements to start providing TC funds in support of Bank projects in their respective countries. Furthermore, alongside the EU, Turkey co-financed a lending and advisory programme dedicated to Turkish businesswomen.

Multilateral donor funds are characterised by the involvement of not only a number of donors but also a number of IFIs as recipients and often feature significant involvement from beneficiary countries. These funds can provide TC grants as well as non-TC assistance.

In 2013, the EBRD was a recipient of grants from multilateral donor funds such as the EU NIF, the WBIF, the EU IFCA, the Climate Investment Funds, the Global Environment Facility, the Northern Dimension Environmental Partnership (NDEP) and the Eastern Europe Energy Efficiency and Environment Partnership (E5P).

The EBRD's Nuclear Safety team manages the Nuclear Safety Accounts and International Decommissioning Support Funds, which donors set up for specific nuclear safety work in the region (see Chapter 2: "Activities by sector").

Bank shareholders control the EBRD Shareholder Special Fund (SSF), which they established in 2008. The SSF complements other donor funds by providing TC and non-TC grants and provides an element of funding predictability in circumstances where delays in the approval process or gaps in funding occur. In 2013, the SSF was replenished with a further €90 million, including funding for the SEMED region.

Donor funds
Donors provide support directly or through a range of funds, including bilateral funds and the aforementioned multilateral donor funds.

The Bank manages **multi-donor funds**, which pool resources from donors for specific purposes. Among the most active in 2013 were the Early Transition Countries (ETC) Fund, the Southern and Eastern Mediterranean (SEMED) Multi-Donor Account, the E5P, the EBRD Water Fund, the ETC Local Currency Risk Sharing Fund and the NDEP.

Donor priorities
In terms of geographic reach, donors operate in all of the countries where the EBRD works, with a greater focus on the Western Balkans, the Early Transition Countries and the SEMED region.

EBRD projects in these challenging markets often require donor-funded assistance in order to achieve the Bank's aims. Besides directly co-financing Bank investments, donors provide TC grants for projects covering areas such as investment preparation and implementation, the improvement of managerial skills, capacity-building, regulatory development, policy dialogue and legal transition.

Strategic areas for which donors allocated resources in 2013 are:
- Tackling climate change and boosting energy efficiency and security
- Diversifying economies by providing small business finance and advisory support
- Building a stable financial sector by supporting financial institutions and local capital market development
- Accelerating transition in infrastructure through projects in the municipal and environmental infrastructure, transport, power and energy and natural resources sectors
- Agribusiness projects and food security
- Policy dialogue including legal transition reform and environmental sustainability
- Promoting the incorporation of gender and social inclusion into Bank projects.

Donor funding review
For reasons that include the impact of the financial crisis on public finances, EBRD donors have become even more focused on obtaining demonstrable results from their contributions, and on the efficient use of their financing. In response – and as part of a wider effort to report more accurately on the impact of EBRD activities – the Bank undertook a review of donor funding management in 2012.

As a result, in 2013 the EBRD began implementing changes to the reporting process for TC projects to capture their outcome more clearly and to include them in the Bank's overall scorecard. It also updated the approval process for TC activities to ensure that they reflect donor priorities and made good progress on overhauling the IT systems for managing the complex network of donor funds at the EBRD. (See box on measuring impact in Chapter 1: "Overview".)

For more information on donor partnerships, read the *Donor Report*.

DONOR REPORT ONLINE

dr.ebrd.com

CASE STUDY

BOOSTING SUSTAINABLE ENERGY

Western Balkans

Countries in the Western Balkans have enormous potential to cut energy costs, boost profits and reduce their carbon emissions by investing in renewable energy and energy efficiency. Since 2008 the EBRD has supported Bosnia and Herzegovina, FYR Macedonia and Serbia in this endeavour by delivering finance for sustainable energy projects and engaging in policy dialogue.

In 2013, the EBRD launched an extension to its successful Western Balkans Sustainable Energy Financing Facility (WeBSEFF), which provided €60 million in indirect loans to the private sector for smaller investments in energy efficiency and renewable energy. Operating via local banks, WeBSEFF funded 131 sub-projects that save more than 166,000 tonnes of CO_2 emissions per year. The projects have helped transform the market for sustainable energy lending in these countries.

Its successor, WeBSEFF II, is a €75 million facility that continues to provide financing to private enterprise but also targets public sector bodies, such as municipalities and energy service companies (ESCOs). It uses policy dialogue to enhance the regulatory frameworks for sustainable energy and to overcome market barriers. This encourages investment in sustainable energy and the development of ESCO markets while technical assistance helps municipalities to launch pilot projects.

Through these financing facilities, and with generous support from donors, the EBRD is taking a comprehensive approach to addressing the sustainable energy financing needs of the region.

The facilities are supported by grant funding from the EBRD Western Balkans Multi-Donor Fund, the EU and the EBRD Shareholder Special Fund.