EBRD Donor Report 2006
Making a difference
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For further information on the EBRD's donor-funded programmes, please visit www.ebrd.com/oppor/tc
Message from the President
Jean Lemierre, President, European Bank for Reconstruction and Development (EBRD)

The progress being achieved through the EBRD’s donor-funded programmes is encouraging. Donor support is vital to the Bank’s work, particularly in the poorer countries and regions where transition challenges are greatest.

The focus of donor funding has rapidly shifted towards the countries where it is needed most, principally the early transition countries and the Western Balkans. These countries will remain a priority in the coming year. In addition, further support will be extended to Ukraine, Mongolia and the regional areas of Russia. The Bank also plans to develop initiatives improving energy efficiency and supporting climate change.

Following on from discussions at last year’s EBRD Annual Meeting in Belgrade, the Bank will launch a new multi-donor fund supporting the Western Balkans at this year’s meeting in London. The Western Balkans Donor Fund will strengthen greatly the effectiveness of donor-funded work, both bilateral and multilateral, in Albania, Bosnia and Herzegovina, FYR Macedonia and Serbia and Montenegro. It also builds on the principles outlined in the OECD Development Assistance Committee Paris Declaration of March 2005.

It is gratifying that donors have signalled their intent to increase assistance to Mongolia in the coming year. The Assembly of Contributors of the Early Transition Countries Fund has agreed to include Mongolia as a beneficiary when its status as an EBRD country of operations is ratified, hopefully during 2006. Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan already receive assistance under this fund.

During 2006, the Bank plans to raise donor awareness of the areas requiring priority assistance in Ukraine: institutional reform, private sector growth and basic infrastructure services. In Russia, the focus of operations is shifting to regional areas, with additional EBRD offices being established and staffing levels strengthened. The transition needs of the Russian regions remain considerable, and continued delivery of technical cooperation will remain an essential component of the Bank’s strategy.

The positive results of recent Bank initiatives are becoming evident. Two years after the launch of the ETC Initiative, and the establishment of the ETC Fund, results can be seen across a range of sectors. Business investment by the Bank and its co-financiers is increasing, there is growth in local business activity and employment, as well as increased financing for micro enterprises. Trade facilitation initiatives are helping small businesses export and import, and improved delivery of basic services (such as clean water and transport) is being provided for communities. A special workshop will be held at this year’s Annual Meeting to enable public discussion of these results and impacts.

One area where further progress is required is the provision of investment co-financing grants and concessional finance for infrastructure and energy projects in the least developed countries. Limits to sovereign borrowing, coupled with affordability constraints within poorer populations, necessitate access to concessional investment funds for critical projects to proceed. This is a major issue for early transition and Western Balkan countries. The Bank will follow up with donors and co-financing partners on this matter in the coming year.

[Signature]
Making a difference across five regions

**Early transition countries**
1. Armenia
2. Azerbaijan
3. Georgia
4. Kyrgyz Republic
5. Moldova
6. Tajikistan
7. Uzbekistan

**Western Balkans**
8. Albania
9. Bosnia and Herzegovina
10. FYR Macedonia
11. Serbia and Montenegro

**Russia**
12. Russia

**EU member states and candidate countries**
13. Bulgaria
14. Croatia
15. Czech Republic
16. Estonia
17. Hungary
18. Latvia
19. Lithuania
20. Poland
21. Romania
22. Slovak Republic
23. Slovenia

**Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine**
24. Belarus
25. Kazakhstan
26. Mongolia
27. Turkmenistan
28. Ukraine
Highlights in 2005

1. Donor funding and official co-financing

€90 million
was provided by donors in 2005, primarily assisting the regions facing the greatest transition challenges.

2. Early transition countries

45 per cent
of technical cooperation projects undertaken in the EBRD’s seven poorest countries received assistance from the multi-donor Early Transition Countries (ETC) Fund.

3. Western Balkans

€300 million +
was provided by public sector agencies to co-finance key infrastructure projects in the Western Balkans.
5 EU member states and candidate countries

63,200 loans were extended to small businesses under the EU/EBRD SME Finance Facility, which supports enterprises in the new EU member states and candidate countries.

4 Russia

95 per cent of donor-funded projects undertaken in Russia were located in regional areas outside of Moscow and St Petersburg.

6 Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine

7 new projects received donor funding through the Mongolia Cooperation Fund. Mongolia is expected to become an EBRD country of operations in 2006.
Donor funding and official co-financing

Donors and public sector institutions play a critical role in the EBRD region. Their funding helps prepare the way for Bank projects, foster reform and improve the investment climate. The Bank uses donor funds to engage expert consultants who provide advice on a broad range of assignments. Co-financing for EBRD projects is provided from many non-commercial sources, such as international financial institutions and government agencies. Almost half of all EBRD investments are supported by donor funding.
About 30 government ministries and agencies provide support through the Bank’s Technical Cooperation Funds Programme (TCFP). Much of this assistance is used to support small business lending, trade finance, advisory services and legal reform. Funding arrangements vary from agreements with single donors for specific projects to programme-wide arrangements involving multiple contributors.

The key programmes receiving assistance include:

- **micro and small enterprise lending programmes**, which promote increased access to finance for small businesses in nearly all of the Bank’s countries of operations

- **Direct Investment Facility** and **Direct Lending Facility**, which provide respectively equity and loans for larger businesses

- **Trade Facilitation Programme**, which helps to finance businesses engaged in export and import transactions

- **TurnAround Management Programme** and **Business Advisory Services Programme**, which provide technical and management advice to local businesses

- **Legal Transition Programme**, which assists governments to develop the laws and regulations needed to foster business growth.

Multi-donor initiatives allow the Bank to effectively integrate funding into EBRD operations. The Bank’s multi-donor initiatives include the:

- **Early Transition Countries (ETC) Fund**, which coordinates donor assistance to the Bank’s poorest countries of operations – Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. The ETC Fund is supported by Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom.

- **Northern Dimension Environmental Partnership (NDEP)**, which provides technical cooperation and co-financing grant support for environmental projects in north-west Russia. NDEP receives support from Belgium, Canada, Denmark, the European Community, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom.

- **Mongolia Cooperation Fund**, which is backed by Japan, Luxembourg, the Netherlands and Taipei China.

- **Russia Small Business Fund**, which is supported by Canada, the European Community, France, Germany, Italy, Japan, Switzerland, the United Kingdom and the United States.

- **Balkan Region Special Fund**, which is supported by Austria, Canada, Denmark, Germany, Norway, Switzerland and Taipei China.

By coordinating the efforts of the EBRD, donor agencies and co-financing partners, we will be able to better assist the Bank’s countries of operations, especially the less advanced.

Fabrizio Saccomanni, Vice President for Risk Management and Chair of the Technical Cooperation Review Committee, EBRD
Donor support is helping to develop small businesses in the transition countries, including this confectionery producer in Russia.
In 2005 donors increased the assistance provided to the regions facing the greatest challenges. In the early transition countries, the Western Balkans and the regional areas of Russia donor support was expanded, bringing expert consultancy advice to local businesses and official agencies. Bulgaria, Croatia, Kazakhstan, Mongolia, Romania and Ukraine also benefited from donor support, with technical assistance helping projects across a range of sectors. In addition, assistance was provided to the new EU member states of central Europe, increasing access to finance for small and medium-sized businesses.

The skills and knowledge being developed under these donor programmes is having a positive impact throughout the region. Business investment is expanding and employment opportunities are being created. Local banks are being encouraged to meet the needs of micro, small and medium-sized enterprises. Finance for local trade is increasing. Service providers in the infrastructure and energy sectors are benefiting from advice on investing in power, transport and water projects. Reform efforts are also being supported through assistance to government regulators, policy makers and legal officials.

In 2005 donors provided the EBRD with new technical cooperation (TC) funds amounting to €90 million. More than 90 per cent of this funding was dedicated to programmes or specific projects. Relatively little new donor funding was contributed to general TC funds.
Chart 1.1 Donor funding by region, 2005 (€ million)

TC spending commitments in 2005 amounted to €78.5 million, slightly down overall on 2004. Growth in commitments during 2005 was strongest in the early transition countries (up 34 per cent), the Western Balkans (up 25 per cent) and Russia (up 13 per cent). New commitments in Bulgaria, Croatia, Romania and Ukraine combined were below the level of the previous year, while those in Mongolia and the EU member states were steady (see chart 1.1).

Details of amounts contributed by donors in 2005 and new TC spending commitments made by the EBRD are provided in the annex tables on pages 74 and 75.

**Programme highlights**

2005 saw the first full year of operation for the multi-donor Early Transition Countries (ETC) Fund. Launched in November 2004, the ETC Fund has emerged as the flagship for delivery and coordination of technical assistance in the Bank’s seven poorest countries of operations. At the end of 2005, total amounts pledged to the Fund were €32 million which, combined with funds from bilateral sources, makes the ETC Initiative one of the EBRD’s largest TC programmes (see chapter 2).

During 2005 the Bank began discussions on a new donor initiative in the Western Balkans. This initiative will aim to bring additional resources and coordinate donor efforts in Albania, Bosnia and Herzegovina, FYR Macedonia and Serbia and Montenegro. Important bilateral initiatives in the region during 2005 included the Italy-EBRD Private Sector Development Fund, supporting small and medium-sized enterprises and municipal projects, and the Italy-EBRD Western Balkans Local Enterprise Facility, which provides equity, risk-sharing and debt financing to local enterprises. The latter facility builds on the success of the Italian Risk Sharing Facility established in 2003 (see chapter 3).

The Northern Dimension Environmental Partnership (NDEP) increased its activities during the year, supporting further environmental projects in north-west Russia. An additional €28.1 million in donor grants were contributed by the European Community, Finland, Norway, Russia and Sweden. At the end of 2005, a total of 10 environmental investment projects had been approved for co-financing, with grant commitments amounting to €56.6 million (see chapter 4).

Notes:
1. The early transition countries are Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan.
2. The Western Balkans consists of Albania, Bosnia and Herzegovina, FYR Macedonia and Serbia and Montenegro.
3. The EU member states are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.
4. The EU candidate countries include Bulgaria, Croatia and Romania. While FYR Macedonia became an EU candidate country at the end of 2005, for the purpose of this report it is included in the Western Balkans.
5. Regional refers to projects undertaken in two or more countries.
Mongolia is expected to become an EBRD country of operations in 2006. During 2005 the Mongolia Cooperation Fund (MCF) provided funding for seven new TC assignments worth €1.3 million. Contributors have indicated that they will consider the future of the MCF after Mongolia’s status as an EBRD country of operations is confirmed. The possibility of Mongolia becoming eligible for ETC Fund support has also been discussed (see chapter 6).

Several donors in 2005 focused their assistance on specific sectors. For example, the TurnAround Management (TAM) Programme and the Business Advisory Services (BAS) Programme received support from Austria, Canada, the European Community, the Netherlands and Switzerland. This support assisted TAM and BAS projects in Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Georgia, the Kyrgyz Republic, Serbia and Montenegro, Ukraine and Uzbekistan.

Municipal infrastructure, which has been identified as a bilateral donor priority, was another area which received support. For example, Switzerland is supporting the Iasi district heating project in Romania and Sweden has signed a memorandum of understanding to provide project preparation support for municipal water and waste projects in the early transition countries.

In 2005 the EBRD, with the support of the European Community and the Swiss Secretariat for Economic Affairs (Seco), launched an ambitious programme to raise awareness of money laundering in the financial sector of its countries of operations. During the year, the Bank conducted seminars in 15 transition countries. These seminars highlighted money laundering risks and provided guidance on how to recognise suspicious transactions and create effective reporting systems. To date, 210 bankers from 177 institutions from 10 countries have participated in this training.

Also in 2005 the EBRD, with support from Seco, organised a conference on remittance practices and policy challenges. The conference examined the main features of remittance corridors around the world, with a special focus on those in the Western Balkans and the Commonwealth of Independent States. The conference highlighted good practice for transparent and efficient remittance transfers, as well as channels through which remittances can contribute to economic development in recipient countries. It also examined ways of bringing informal flows under the formal banking systems and innovative banking products such as securitisation of remittances.

The Bank’s dialogue with donors took place increasingly in its countries of operations during 2005. Several donors, including the European Community, the Netherlands, Switzerland and the United States, have placed greater emphasis on dialogue with local embassies and delegations. This change in approach has yielded results. In Russia, discussions with the European Community delegation in Moscow have resulted in the development of the Russian Regional Bank Institution Building Programme. Meanwhile, in Ukraine the European Community has agreed to support a new TAM programme. In Armenia the EBRD has agreed a micro lending programme with the USAID office in Yerevan, while in Georgia talks on co-financing municipal infrastructure, transport and energy projects are advancing with the US Millennium Challenge Corporation based in Tbilisi. Further projects supported by the European Community and the US Millennium Challenge Corporation are expected to be finalised during 2006.

The EBRD has developed an excellent initiative on remittances. DFID is providing support to the poorest countries of the region, where remittances have become an important source of national income.

Jim Maund, United Kingdom Department for International Development (DFID)
The Business Advisory Services Programme, which helped this florist in Armenia, received additional funding from donors in 2005.
Donor funding and official co-financing

Donor Report 2006

Public sector institutions – official agencies – work alongside the EBRD to provide co-financing for investment projects. Co-financing of Bank projects provided by official agencies in 2005 amounted to €770 million. Around half of this official co-financing was for infrastructure projects in the Western Balkans.

Among the Bank’s largest official co-financing partners were the European Investment Bank (EIB – €196.5 million), the World Bank (€84.5 million), the Multilateral Investment Guarantee Agency (MIGA – €65.0 million), the Netherlands Development Finance Company (FMO – €55.6 million), Kreditanstalt für Wiederaufbau (KfW – €55.3 million), the International Finance Corporation (IFC – €32.4 million) and the NDEP Support Fund (€8.2 million). Projects in the energy, municipal infrastructure and transport sectors accounted for most (85 per cent) of the co-financing provided by official agencies to EBRD investments.

New official co-financers from within the Bank’s countries of operations are also becoming more active as project participants. In 2005 project co-financing was provided by the Hungarian Development Bank (€15.2 million), the Municipality of Gliwice, Poland (€6.7 million), the National Foundation for Environmental Protection in Poland (€48.5 million), the National Fund for Environmental Protection and Water Management in Poland (€12.2 million), the Republican Roads Directorate in Serbia and Montenegro (€26.9 million), and the Serbia and Montenegro Air Traffic Services Agency (€44.4 million). Co-financing provided by official agencies from within the EBRD’s countries of operations were for public sector projects covering the energy, municipal infrastructure and transport sectors.

Investment funding provided by official co-financiers in 2005 was mainly in the form of loans (€522 million). Official co-financiers also provided equity (€130 million), guarantees and risk participations (€37 million) and grants (€16 million).

The main sources of grant co-financing were the European Community and the NDEP Support Fund.

For many of the early transition countries, the restoration of debt sustainability is critical. It requires additional financing on concessional terms and increasingly through grants.

David Owen, Senior Adviser, International Monetary Fund
The EBRD regularly assesses the impact of assignments which have received donor funding. A key measure of the impact of EBRD donor funds is how much investment capital they mobilise. Donors refer to this as the “leveraging effect” of their grant funds.

From 1991–2005, the Bank’s TC commitments have totalled €687 million. Most of these funds were used to hire consultants to assist with the preparation and implementation of EBRD investment projects. The value of the investments directly supported by donor-funded TC at the end of 2005 was €34.5 billion (of which the Bank had contributed €14.5 billion). The leveraging effect was 49:1 or, in other words, €49 were mobilised in investment capital for each euro of TC funding provided.

During 2005 the EBRD signed new investments with a value of €1.4 billion that had received TC support either during the project preparation phase or as part of project implementation (see charts 1.2 and 1.3). The total investment value (project cost) of the TC-supported signings in 2005 (EBRD investment plus co-financements from all sources) amounted to €3 billion.

Micro lending is an important part of the EBRD toolkit. It enables the Bank to reach entrepreneurs and has had an impressive impact on local businesses, especially in rural areas.

Esselien Van Eerten, Ministry of Foreign Affairs, Netherlands
The 2005 investment results confirm that:

- Donor funds are vital to EBRD investments, particularly in the early transition countries, Western Balkans, the regional areas of Russia and some of the Commonwealth of Independent States (Belarus, Kazakhstan, Turkmenistan and Ukraine). An extensive number of clients in these countries require assistance in preparing and implementing their projects.

- The Bank’s investments in the more advanced transition countries (the new EU member states, Bulgaria, Croatia and Romania) continue to benefit from TC, although many investments received technical assistance in previous years. Investments receiving donor support in these countries include small and medium-sized enterprise lending programmes and transport, water infrastructure, district heating and environmental projects.

- The delivery of investment in certain sectors is dependent on technical assistance and knowledge transfer to clients. These sectors include municipal infrastructure, micro and small business lending, and specialised instruments for private sector development (such as the Trade Facilitation Programme and the Direct Investment Facility).

Notes for charts 1.2 and 1.3:

1. The early transition countries are Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan.

2. The Western Balkans consists of Albania, Bosnia and Herzegovina, FYR Macedonia and Serbia and Montenegro.

3. The EU member states are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.

4. The EU candidate countries include Bulgaria, Croatia and Romania. While FYR Macedonia became an EU candidate country at the end of 2005, for the purpose of this report it is included in the Western Balkans.
The EBRD promotes awareness and recognition of the role played by donors in its operations through a variety of means: the Bank’s web site, donor publications and a poster campaign. The aim of this work is to inform target audiences in donor and beneficiary countries. Decision makers in the international community are also made aware of the role that donors are playing.

A number of new donor visibility initiatives are being undertaken:

- The series of booklets on EBRD-donor cooperation continues to be expanded. A new publication on the TAM and BAS Programmes was released in 2006, as was a booklet on Japan’s involvement in the EBRD region. A total of eight booklets in the series have now been produced.

- EBRD country web pages have been updated to include case studies and projects implemented under partnership arrangements with donors and official co-financiers (see www.ebrd.com/country).

- At the EBRD’s headquarters, a series of posters have been installed in main areas and meeting rooms with the message “Donors make the difference”.

- In 2005, 27 articles on donor-assisted clients in the early transition and Western Balkan countries were posted on the EBRD web site (see www.ebrd.com/new/stories/2005).

- Also in 2005, 47 press releases featuring donor-supported projects were released (see www.ebrd.com/new/pressrel/2005).

- Following on from the success of the video Donors and small business: Pushing the boundaries of banking, launched at the EBRD Annual Donor Meeting in 2004, the Bank will release a new web-based slide show in 2006 featuring small business clients who have benefited from donor programmes. The slide show will be launched at the 2006 EBRD Annual Donor Meeting in London.

- Production and distribution of donor-focused material will be increased over the coming year by a specialist Donor Visibility Communications Adviser. This adviser will be responsible for increasing publicity for donor-related stories, bringing them to a wider audience. In addition, the Bank’s Resident Offices will become further engaged in donor-related communications and outreach at the local level.

- A public workshop will be held as part of the 2006 EBRD Annual Donor Meeting in London to communicate the results and impact of donor-supported initiatives in the early transition countries. The media will be invited to attend this event.
Local enterprises, like this aluminium producer in Montenegro, are set to benefit from a new donor initiative being developed specifically for the Western Balkans.
Early transition countries

The Early Transition Countries (ETC) Initiative was launched in 2004 to coordinate donor and EBRD assistance in the poorest countries where the Bank operates. The initiative helps to alleviate poverty by financing mostly small projects in the private sector and by developing municipal infrastructure and the legal environment.
The ETC Initiative helps seven of the EBRD’s poorest countries of operations – Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. The multi-donor ETC Fund, an important part of the initiative, has become the main vehicle for delivering technical expertise.

The ETC Fund was established in November 2004 with pledges of €14.8 million from Finland, Ireland, Japan, the Netherlands, Switzerland, Taipei China and the United Kingdom. Canada, Luxembourg, Norway, Spain and Sweden have since joined the Fund and pledges have more than doubled to reach €32.1 million by the end of 2005.

During 2006 Japan and the Netherlands are acting as chair and vice chair of the fund’s Assembly of Contributors. At the donor meeting in February, pledges increased further to €37.1 million following additional contributions from Canada, Ireland, Spain and Sweden.

Continued efforts are needed to improve the business environment, stimulate economic growth and reduce poverty in the early transition countries.

Further reforms in the banking sector and improvements to private sector access to finance are needed to attract greater foreign investment.

Developing each country’s legal and regulatory frameworks and privatising state-owned enterprises will help foster competition and advance the transition process.
- €32.1 million was pledged to the multi-donor ETC Fund by the end of 2005.
- €18.2 million was committed to projects in the early transition countries in 2005, up from €13.6 million in 2004.
- Almost 212,000 loans have been provided to small businesses through donor-supported programmes.
Private sector development plays a pivotal role in sustainable economic growth. Small business, in particular, is one of the most important instruments in alleviating poverty and raising the standard of living in the early transition countries. The EBRD and bilateral donors encourage small business development through micro lending and the TurnAround Management (TAM) and Business Advisory Services (BAS) Programmes (see page 25). The Bank also helps medium-sized local businesses through the donor-supported Direct Investment Facility (DIF), the Direct Lending Facility (DLF) and the Medium-sized Co-financing Facility (see page 24).

The ETC Fund and bilateral donors provide direct support for micro lending. The largest bilateral donors in 2005 were the European Community, Japan and the United States. British Petroleum (BP) also supported micro lending activities in communities affected by one of its construction projects.

The TAM and BAS Programmes received the greatest level of support from bilateral donors in 2005. The largest donor was Switzerland (for its support to the BAS Programme in the Kyrgyz Republic and Uzbekistan), followed by Canada, Ireland, Japan and the United Kingdom.

A new initiative which will provide finance to small businesses in Azerbaijan is being considered by Switzerland through the existing Central Asia Risk-Sharing Special Fund. This Fund enables donors to co-finance small and medium-sized enterprises (SMEs) through credit lines, micro lending programmes, the Direct Investment Facility and the Trade Facilitation Programme (see page 25).

**Micro and small enterprise lending**

The EBRD’s micro and small enterprise (MSE) lending programmes are key elements of the ETC Initiative. These programmes are continuing to expand, not only through local banks but also through non-bank microfinance institutions, helping rural areas and small farming enterprises in particular. MSE lending has provided much-needed finance to expand their businesses and stimulate local economic growth (see case study on page 22).

The EBRD invests equity and extends loans to financial institutions which on-lend to small businesses. Donor funds support institutional reform which helps increase lending and develop better bank services within the MSE market. The average small business loan is typically under €4,000, although financing may range from €10 to €100,000 depending on the needs of the borrower. Most of the small businesses helped to date have been first-time borrowers.
Almost two years since its launch, the EBRD’s Early Transition Countries (ETC) Initiative is achieving strong results. During 2005 the Bank considerably expanded its lending to micro and small enterprises through local banks, as well as developed an array of new and modified tools to support medium-sized enterprises. Over 20 banks and 4 non-bank institutions are currently participating in the initiative. The number of loans disbursed since its launch in 2004 has doubled.

Donor support has been crucial in ensuring the success of the initiative. This assistance has enabled participating banks and institutions, such as ProCredit Bank, to expand their lending capacity and thereby help a greater number of micro, small and medium-sized businesses. One of the entrepreneurs to benefit from the ETC Initiative is Mrs Nargiza Kurtanidze, the owner of a coffee shop in Tbilisi, Georgia.

Mrs Kurtanidze began her business in the late 1990s mixing and selling imported varieties of coffee from a market stall. As her clientele grew, she needed to expand the operation. Having approached ProCredit Bank in Tbilisi, she received three loans totalling €1,500.

Mrs Kurtanidze is now operating her business from a leased shop premises near the market. She has also expanded her product range to include packaged coffee brands as well as imported Armenian coffee.

Mrs Kurtanidze says: “ProCredit Bank was the first bank I had been to in almost 15 years. To tell the truth, I was a bit scared, but the bank had a warm atmosphere with young professional staff who have helped me to make the best coffee shop in my district!”

Case study: Small businesses serving up results
In 2005 the EBRD initiated a programme to work with non-bank microfinance institutions, such as non-governmental organisations, in the early transition countries. This enables wider support for small enterprise through a broad range of local institutions. These institutions focus on the smallest and poorest of borrowers, particularly in rural areas. The Bank signed loans with subsidiaries of Mercy Corps, the Foundation for International Community Assistance (FINCA) and ACDI/VOCA (a merged entity consisting of Agricultural Cooperative Development International and the Volunteers in Overseas Cooperative Assistance) in the Kyrgyz Republic, Moldova and Tajikistan.

The EBRD has tailored its MSE lending approach to each of the early transition countries. In 2005 the Bank signed up two new partner banks in Armenia and one in Tajikistan. A new programme was launched in Azerbaijan with three new participating banks, while the EBRD continued to support its dedicated microfinance bank established in 2002. In the Kyrgyz Republic a second partner bank programme was launched, building on the success of the first and focusing on lending to agricultural and rural enterprises. The Bank also maintained its support for the three microfinance institutions that it helped establish in Azerbaijan, Georgia and Moldova. In the coming year, the EBRD will explore options for establishing a new microfinance institution in Uzbekistan.

**Lending results**

By the end of December 2005 nearly 212,000 small business loans had been disbursed in the early transition countries, worth over €520 million. The average loan size was under €2,500. Portfolio quality is high with arrears over 30 days standing at only 1.13 per cent. Results differ markedly between countries, however, due to the level of maturity of each project and the variable economic situations.

Across the seven countries, 15,603 loans were disbursed in December 2005 alone totalling €35 million. This represented more than a 50 per cent increase compared with the same month in 2004.

Non-bank microfinance institutions have also begun to disburse EBRD loans. By the end of December 2005, two organisations had disbursed over 17,500 loans to micro and small enterprises, worth over €8 million and with an average loan size of just €500.

**Capacity building**

More than 160 MSE credit departments have been created in 23 banks across the early transition countries. These departments employ over 1,000 loan officers trained by EBRD consultants. Management information systems have also been installed, providing the banks with integrated systems for monitoring loan portfolios. Previously, bank staff typically lacked lending skills and client focus, reflecting poor procedures and loan products. Training of internal auditors has also been made a priority. For non-bank microfinance institutions, the Bank has provided targeted technical assistance to each organisation, identifying specific areas where assistance is required.

A programme aimed at supporting Georgian micro and small enterprises by developing new branches of ProCredit Bank along the route of the Baku-Tbilisi-Ceyhan pipeline (constructed by British Petroleum with EBRD support) was launched in 2005. This project, supported with BP funding, will provide MSE financing and foster local economic development in the regions of Khashuri, Telavi and Rustavi.

**Discussion with governments**

The EBRD continues to encourage the removal of obstacles to finance through discussion with governments. In Tajikistan, for example, the Bank has worked with the Ministry of Justice and other entities on a new pledge law on movable property, which was approved in March 2005. In the Kyrgyz Republic the Bank is discussing a draft law on the establishment of a credit bureau with the Kyrgyz National Bank and other government organisations. In Georgia the Bank has been asked to comment on a draft law on microfinance institutions and has assisted the Association of Microfinance Organisations in lobbying for certain changes.
Donor and IFI coordination

The Bank continues to work with other donors in building up the large-scale lending capacity in banks and supporting non-bank microfinance institutions as they develop into commercial deposit-taking organisations. Many of the early transition countries still suffer from weak financial systems, as well as economic and political instability, and require substantial long-term technical assistance.

Most of the MSE projects in the early transition countries benefit from the multi-donor ETC Fund as well as funding from a core group of donors with shared objectives – BP, the European Community, Japan, the Netherlands, Switzerland, Taipei China, the United Kingdom and the United States. These donors have so far provided over €24 million in TC funds to early transition countries.

These funds have already enabled local banks to finance an increasing number of loans. However, much remains to be done and further funding will be required particularly for rural finance. The efficiency of donor funding in the early transition countries has been steadily improving. The cost of a loan disbursed with the support of technical assistance fell from 4 US cents at the beginning of 2005 to 3 US cents by the end of the year.

In addition, the EBRD is working closely with the International Finance Corporation (IFC) and Kreditanstalt für Wiederaufbau (KfW) to implement projects with partner banks that promote and coordinate funding and strengthen institutional reform. The International Cooperation Development Fund of Taipei China (TaiwanICDF) has strongly supported many of the Bank’s MSE lending programmes including a project assisting non-bank microfinance institutions expand and improve their lending technology.

More recently, the Bank has cooperated with the World Bank to build on existing projects with the Kyrgyz Agricultural Finance Corporation (KAFC) and the Rural Finance Corporation in Moldova. Finance has been made available to provide KAFC, the largest financial institution in the Kyrgyz Republic, with technical assistance to expand its range of banking services. With the support of the ETC Fund, the EBRD is also working with the UN Food and Agriculture Organisation to promote coordinated rural and agricultural lending, particularly in Armenia, Georgia, the Kyrgyz Republic, Tajikistan and Uzbekistan.

The EBRD is well qualified to take on the challenges in the early transition countries.

Taylor Ruggles, US State Department

Direct Investment Facility and Direct Lending Facility

The Direct Investment Facility (DIF) provides equity and limited debt financing (usually between €0.5 million and €3 million) to attractive private sector businesses, especially those led by motivated and experienced local entrepreneurs. The Direct Lending Facility (DLF) provides funding (between €0.5 million and €4 million) for expansion, modernisation and acquisition projects in the private sector.

The DIF and DLF are important instruments in the early transition countries for supporting medium-sized enterprises. In 2005, seven new DIF investments and five DLF projects were financed in Armenia, Georgia, the Kyrgyz Republic, Moldova and Uzbekistan. These investments supported companies in the beverage, building material, fruit processing, hydro-power, insurance, mining and textile industries.

Medium-sized Co-financing Facility

The ETC Fund has approved funding of €483,500 for the Medium-sized Co-financing Facility (MCFF). This facility, one of the EBRD’s newer financial instruments, aims to meet the growing demand for medium-sized loans and guarantees. The MCFF operates in those countries where available finance is restricted by capital limitations, regulatory requirements, the size and structure of the economy or the absence of adequate risk-sharing financing instruments. Under the MCFF, medium-sized loans (generally between €2 million and €8 million) are provided to local private companies to finance acquisition, expansion
and/or modernisation as well as working capital. The risk of the loan is shared between the EBRD and the partner bank.

The MCFF also aims to contribute to the development of local banks by strengthening their operational capability and improving their project preparation and credit assessment of larger projects. This includes the upgrading of financial modelling skills, credit appraisal and the loan decision-making process. Assistance with technical analysis and due diligence is also being provided to the private companies which receive loans under the MCFF.

Several small MCFF assignments received donor funding in 2005. In May consultants evaluated the existing risk management and lending procedures at Victoriabank, Mobiasbanca and Moldindconbank in Moldova. Credit appraisal and financial modelling training was provided to staff members to introduce a working financial model in each of the banks. Tailored advice was also provided to strengthen the banks’ risk management processes in line with best practice. These banks have since issued five loans under the MCFF, valued at €9.1 million.

The MCFF is operating in Armenia, Georgia, the Kyrgyz Republic and Moldova. It has co-financed €14.5 million worth of loans. Continued donor assistance will be needed to implement the facility in other early transition countries.

**Trade Facilitation Programme**

The donor-supported Trade Facilitation Programme (TFP) provides guarantees through banks for cross-border trade finance transactions. The TFP helps to stimulate export and import business for many small-scale enterprises and is particularly important in the poorest countries.

In 2005 the programme financed 486 transactions in the early transition countries, more than half of which were for less than €100,000. In August 2005 the programme signed its 4,000th transaction – a guarantee that cleared the way for a Kyrgyz company to import trucks from Russia.

In Tajikistan the TFP has helped small businesses by improving access to finance, providing risk coverage and upgrading the skills and know-how of local banks. Switzerland has provided funding to help train local bank staff and, with Germany, provided risk-sharing funds. The four Tajik banks participating in the programme have to date financed more than 150 trade transactions to the value of more than €18.5 million.

In the Kyrgyz Republic small businesses are being helped through the TFP with support from Germany, Ireland and Switzerland.

Between 1999 and 2005, the TFP guaranteed letters of credit from four Kyrgyz banks, confirmed by 16 foreign banks in 10 countries.

**TurnAround Management and Business Advisory Services Programmes**

The TurnAround Management (TAM) and Business Advisory Services (BAS) Programmes provide expert technical and management advice to local businesses.

The TAM Programme has worked with over 100 companies in all of the early transition countries since 1997, including an edible oil producer in Moldova (see case study on page 26) and a juice producer in Azerbaijan. These projects have utilised about €10 million of donor funds, mainly contributed by the ETC Fund, the European Community and bilateral donors. Fifteen TAM projects were undertaken in 2005.
Floarea Soarelui is the largest vegetable oil producer in Moldova. The company, established in 1920, produces high quality sunflower and soybean oil. In 2005 Floarea Soarelui approached the TurnAround Management (TAM) Programme for assistance in increasing its production and sales of bulk and bottled oil.

A team of TAM experts identified areas in the seed storage, crushing and oil refining processes which needed improvement. Working closely with the company's own engineering department, the team gave advice regarding the handling and storage of seed and on the maintenance and replacement of outdated equipment.

As a result of the TAM project, the productivity of the refinery increased, allowing a second bottling line to be installed and so achieving the target output of 3 million bottles of refined oil per month. A strategy for separately branding bottled products for different export markets and for the home market was devised and successfully introduced. Lightening the colour of the oils has made it more desirable for premium branded products and has allowed the company access to the export pooling system operating in a number of eastern European countries.

Further expansion and improvements are planned for the future. To date, turnover has increased by nearly four-fold. The TAM project was funded by the European Community Tacis programme.

Case study: Reviving a seed oil company in Moldova
In 2005, 274 BAS projects were undertaken in the early transition countries. Since 2001 the BAS Programme has completed nearly 1,000 projects in this region, with a total turnover of €570 million and nearly 51,000 employees.

A total of 340 BAS projects have been undertaken to date in Uzbekistan, supported by Japan and Switzerland. BAS also operates in the Kyrgyz Republic supported by Swiss funding and in Armenia, Georgia and Azerbaijan supported by the European Community and the ETC Fund. In 2005 the ETC Fund enabled the start-up of the BAS Programme in Moldova. The programme does not currently operate in Tajikistan.

A new initiative supporting women entrepreneurs, funded by Canada, was launched in 2005 in the Caucasus. Two projects have already commenced in Azerbaijan. BAS is assisting a group of local residents open a traditional craft centre near the village of Gala. BAS is funding crafts people from Kazakhstan and Uzbekistan to teach the women how to produce ceramics and materials using ancient designs, based on samples excavated from the settlement.

The other BAS project under this initiative is helping women entrepreneurs from the Baku area apply modern management skills to their businesses. Through the BAS Programme, a local trainer has provided a course in budgeting, management reporting and financial control processes. Training in marketing will be held during 2006.

Legal reform
During 2005 the EBRD’s Legal Transition Programme continued to promote legal reform in the early transition countries. The aim of this work is to create an investor-friendly climate through the development of rules and legislation and by establishing regulatory institutions. Technical assistance projects are progressing in Georgia, the Kyrgyz Republic, Moldova and Uzbekistan, covering insolvency and secured transactions law and telecommunications regulation.

In Moldova a new leasing law, developed with funding from the Balkan Region Special Fund, has entered into force. This law extends considerably the range of goods which consumers can lease. With donor funding provided by Canada, the EBRD has also assisted Georgia draft new provisions in its Civil Code to promote secured transactions. Furthermore, the Bank is helping to develop, with Canadian support, a secured transactions registry in Georgia.

In Moldova mortgage reform initiated with Swiss funding has prompted the government to develop a legal framework for transactions and to establish securitisation as a priority. The Bank will continue providing assistance to implement this reform.

In the Kyrgyz Republic the EBRD is helping to develop a legal framework for the telecommunications sector. This framework will regulate service levels throughout the country, focusing on poorer communities in rural and remote areas (see case study on page 28).

Also in the Kyrgyz Republic, the Bank is supporting a judicial reform initiative funded by the ETC Fund and Japan. During 2005 judges were surveyed to identify major areas for judicial reform. An action plan was prepared and endorsed by the Kyrgyz government, aiming to improve the qualification of judges dealing with commercial disputes and to strengthen the capabilities of the local judicial training centre. The plan will include training all commercial judges, creating a law library and producing a guide focusing on commercial law. A similar initiative was also launched in Georgia in 2005.
The Kyrgyz government has been reforming its regulatory framework for telecommunications over the past decade. Legislation reflecting modern principles was adopted in 1998 and a regulator established in 2000. The market for telecommunications was liberalised in 2003 and a number of private operators have begun providing competitive services. The government has meanwhile been preparing the privatisation of state-owned operator Kyrgyz Telecom (KT).

In 1994 the EBRD helped the government draft legislation and take steps to establish a regulator. More recently, the EBRD’s Legal Transition Programme (with Canadian support) has been assisting the regulator and government develop a universal access framework. This framework will ensure a minimum level of telephone/internet service is available at an affordable price to poorer communities in rural and sparsely populated areas.

Access and interconnection (linking competing providers to maximise the reach and size of the overall network) and costing and tariff setting (ensuring commercial viability and affordability of services) have been identified as priorities. These factors are critical to the development of private sector-led competitive services, the privatisation of KT and the successful implementation of the universal access framework.

The EBRD has agreed to help establish international-standard access and interconnection, as well as to help set service costs and tariffs. This work is being supported by the ETC Fund, with implementation scheduled for mid-2006.

Case study: Telecommunications reform in the Kyrgyz Republic
Agribusiness
In 2005 the agribusiness sector in Armenia, Azerbaijan and Georgia received over €330,000 in donor support. In Armenia, for example, the Netherlands is financing a fruit and vegetable processing facility. Agriculture is one of the most important sectors of the Armenian economy, with the country producing high-quality fruit and vegetables, mainly in the Ararat Valley. The processing company plans to expand its production of certified organic products for the European market.

Economic reform
Remittances sent by workers living abroad have become an important source of national income in many early transition countries, accounting for 10 to 20 per cent of GDP. (In some countries this figure could be even greater, with a significant proportion of remittances believed to be channelled through the informal sector.)

With support from the Swiss State Secretariat for Economic Affairs (Seco), the EBRD organised a conference of government officials to review remittance practices and policy challenges (see page 11).

As a follow-up to the conference, studies will be conducted in many early transition countries on the size and characteristics of remittance flows, as well as on the potential for new, remittance-based banking products. These studies will be conducted in collaboration with the Asian Development Bank.

Energy
Austria and the ETC Fund provided funding for energy projects during 2005. Austria is supporting an energy efficiency support programme and the ETC Fund contributed to the Clean Development Mechanism (CDM) support facility across the region.

Under the energy efficiency support programme, a market study in Moldova has been initiated to assess potential energy efficiency and renewable energy investments. The study includes a review of a brick factory. The prospects of undertaking similar studies in Armenia and Georgia are currently being investigated.

Several energy audits are planned under the CDM support facility. The CDM is an instrument under the Kyoto Protocol on climate change which supports projects reducing greenhouse gas emissions. All of the early transition countries, except Tajikistan, have ratified the Kyoto Protocol. The development of CDM projects will help them meet sustainable energy objectives.

The energy audits under the CDM support facility cover animal farming and a copper processing plant in Armenia, a cement factory in Georgia and a brick factory in the Kyrgyz Republic. A credit line financing energy efficiency projects within the Kyrgyz SME sector is also being explored. Further energy audit activities are planned for the coming year.
Electrocutions associated with power lines and electrical substations in Moldova are 100 times higher than in the United Kingdom. Accidents may result from uninsulated power lines falling down in bad weather, and from transformers being inadequately fenced (partly because fences are stolen) or left in a hazardous condition without warning signs. People also risk their lives by hooking up illegally to power supply lines or by stealing copper and aluminium wire, transmission lines, or even doors off transformers to sell to scrap metal dealers. Often children are the victims.

A campaign on electrical safety has been devised to improve the situation. The Canadian International Development Agency and the EBRD joined efforts with the Moldovan government to bring together ministries, utilities, schools and the media to raise awareness.

An Electrical Safety Awareness Week focusing on schoolchildren took place in November 2005. The project involved training for teachers from 60 schools, and a safety poster competition with 2,500 entries from 314 schools (about half the schools in the country). A calendar has been published using 12 of the poster entries, and the government is planning to dedicate an “electrical safety day” in Moldova.
A number of environmental initiatives were implemented during the year in Georgia, the Kyrgyz Republic and Moldova. Technical assistance was provided to the Georgian Ministry of Environment to strengthen its capacity for enforcing environmental legislation and to introduce efficient project monitoring systems and procedures.

Staff from financial institutions across the early transition countries received environmental awareness training at a workshop in Georgia in February 2006. This training will ensure local banks recognise and support environmentally sustainable development projects.

In the Kyrgyz Republic funding from the EBRD, IFC and the United Kingdom is helping to conserve biodiversity at the Sary-Chat Ertech Zapovednik nature reserve, close to the Kumtor gold mine (an EBRD and IFC investment project). The initiative is helping nature reserve staff engage with local communities and develop programmes which link conservation of the reserve’s biodiversity with improvements in local livelihoods, such as handicrafts, sustainable forestry and agriculture.

In Moldova the Canadian International Development Agency and the EBRD have joined with the Moldovan government to implement a public awareness campaign on electrical safety (see case study on page 30).

Donors provided €1.5 million in 2005 to support EBRD infrastructure investments in Azerbaijan, Georgia, Tajikistan and Uzbekistan. The ETC Fund has approved small municipality projects in Georgia to improve water supply and waste management, along with public transport in Tbilisi. The ETC Fund is also helping the Uzbek Ministry of Finance to establish a regulatory framework for community service projects, to prepare municipal tariff reform programmes and to build the Ministry’s capacity for reviewing capital investment projects proposed by municipalities and/or international financial institutions.

Germany has approved support for a transport project in Azerbaijan, while Japan is supporting a solid waste management project in Uzbekistan and Norway is helping to improve water quality in Tajikistan. Sweden is discussing with the EBRD the establishment of a new fund specifically supporting municipal environmental infrastructure projects. This funding will be in addition to Sweden’s bilateral TC fund support to the early transition countries and its contribution to the ETC Fund. The US Millennium Challenge Corporation is considering co-financing small municipal infrastructure projects in Georgia, the upgrade of a major transit road system and a key gas pipeline project.

At the EBRD’s 2005 Annual Meeting in Belgrade a workshop on information and communication technologies (ICT) was organised for representatives from the early transition countries and the Western Balkans. Japan, Switzerland and Taipei China provided support for this workshop, which discussed ways of attracting greater private investment in rural communications and how to create institutions supporting entrepreneurs in the ICT sector (see www.ictseminar.org).

Later in the year, Taipei China hosted an ICT training seminar inviting participants from Georgia, the Kyrgyz Republic and Moldova. The International Cooperation Development Fund of Taipei China (TaiwanICDF), in conjunction with the Bank, organised the six-day seminar on the creation of a viable business environment for ICT-related small and medium-sized enterprises.
Western Balkans

Private sector growth and improvements in infrastructure are key priorities in the Western Balkans. To achieve these objectives, the EBRD is working with donors to support small business, strengthen local banking systems and finance essential infrastructure.
In 2005 donor-funded projects increased to over €16 million, up from €13 million in 2004 and €9 million in 2003. Donor support was mainly focused on helping private sector growth (through small business initiatives and the restructuring of financial institutions), infrastructure development and efforts to improve the business climate (see chart 3.1 and table 3.1).

The principal donors were Canada (€2.2 million), the European Community-funded European Agency for Reconstruction (€6.2 million), Italy (€2.3 million) and Japan (€1.3 million). Serbia and Montenegro (including Kosovo) received the largest portion of funding.

In Albania donors (principally Canada and Italy) supported the Bank’s investments in road and energy projects. TC funds have also been used to support the privatisation of INSIG, Albania’s largest insurance company.

In Bosnia and Herzegovina donors (mainly Austria, Greece and Italy) focused on infrastructure development and the use of forestry resources.

In FYR Macedonia access to credit for small and medium-sized enterprises (SMEs) has been improved through the EBRD’s Western Balkans SME Finance Facility. Additional support has been provided for the TurnAround Management (TAM) and Business Advisory Services (BAS) Programmes (see page 37). Canada, the European Agency for Reconstruction (EAR) and Ireland have been the key donors.

Donor funding in Serbia and Montenegro has helped improve access to credit for micro and small enterprises, as well as advisory services under the TAM and BAS Programmes. Infrastructure development has been supported at the national and municipal level. Funding has also supported the privatisation of state-owned enterprises. In Kosovo enhanced access to credit for small businesses, the implementation of equity investments and the provision of advisory services to local enterprises have been backed particularly by Canada, the EAR, France and Italy.

Despite significant progress, the Western Balkan countries are lagging behind the new EU member states, as well as the EU candidate countries of Bulgaria, Croatia and Romania.

The main challenges are enterprise restructuring, competition policy, financial sector reform and infrastructure development.

Infrastructure improvements are particularly pressing in transport and municipal services, such as water supply and waste-water treatment.
Donor-funded projects in the Western Balkans increased to €16.2 million in 2005, up from just over €13 million in 2004.

Over €300 million in public sector co-financing supported EBRD projects in Albania and Serbia and Montenegro.

More than 60 per cent of the assistance provided to the Western Balkans in 2005 was for projects in Serbia and Montenegro (including Kosovo).

Table 3.1 TC commitments in 2005, by country (€’000)

<table>
<thead>
<tr>
<th>Project</th>
<th>Albania</th>
<th>Bosnia and Herzegovina</th>
<th>FYR Macedonia</th>
<th>Serbia and Montenegro</th>
<th>Regional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small business finance</td>
<td>677</td>
<td>10</td>
<td>542</td>
<td>4,426</td>
<td>1,100</td>
<td>6,755</td>
</tr>
<tr>
<td>TurnAround Management and Business Advisory Services Programmes</td>
<td>–</td>
<td>48</td>
<td>807</td>
<td>2,586</td>
<td>1,814</td>
<td>5,254</td>
</tr>
<tr>
<td>Municipal and environmental infrastructure</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,573</td>
<td>–</td>
<td>1,573</td>
</tr>
<tr>
<td>Transport</td>
<td>129</td>
<td>30</td>
<td>–</td>
<td>1,029</td>
<td>–</td>
<td>1,188</td>
</tr>
<tr>
<td>Energy</td>
<td>301</td>
<td>100</td>
<td>200</td>
<td>–</td>
<td>–</td>
<td>600</td>
</tr>
<tr>
<td>Capacity building</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>510</td>
<td>–</td>
<td>510</td>
</tr>
<tr>
<td>Forestry sector study</td>
<td>–</td>
<td>350</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>350</td>
</tr>
<tr>
<td>Total</td>
<td>1,106</td>
<td>538</td>
<td>1,548</td>
<td>10,124</td>
<td>2,914</td>
<td>16,231</td>
</tr>
</tbody>
</table>

Notes: Capacity building in Serbia and Montenegro included preparing a public-private partnership strategy, strengthening environmental monitoring and establishing an insolvency regulator. Regional funding refers to projects undertaken in two or more countries.
Since the early 1990s, the EBRD has invested more than €1.8 billion (supporting projects with a total project value of €4.6 billion) in the Western Balkans. The Bank has established a number of products to help develop the private sector, including the Western Balkans SME Finance Facility, the Balkan Region Special Fund (which receives contributions from Austria, Canada, Denmark, Germany, Norway, Switzerland and Taipei China) and equity funds in Albania and Kosovo. A new initiative being developed for the region is the Italy-EBRD Western Balkans Local Enterprise Facility, a risk-sharing and equity facility supporting local enterprises.

During the year a large part of TC funding was committed to strengthening SME access to credit (€6.8 million), providing advisory services to the manufacturing sector (€5.3 million) and developing national and municipal infrastructure (€3.3 million). The strengthening of institutional reform has also been supported by over €500,000 in technical cooperation, and €350,000 has been committed to implement a forestry sector study in Bosnia and Herzegovina.

The EBRD is pursuing programmes which provide smaller enterprises with access to finance. The Bank is extending credit lines and investing equity in selected banks, microfinance and non-bank microfinance institutions, such as non-governmental organisations. This support will help to increase their lending capacity and to encourage a culture of credit in the micro, small and medium-sized enterprise segment of the banking market. TC funds are crucial for these purposes.

In 2005 Canada and the EAR together committed €4.5 million to the €50 million Western Balkans SME Finance Facility. The facility will extend credit lines to local banks in Albania, Bosnia and Herzegovina, FYR Macedonia and Serbia and Montenegro (including Kosovo) for on-lending to small businesses.

The US/EBRD SME Financing Facility, established in July 2000, also provides access to financing for micro, small and medium-sized enterprises in the Western Balkans. In 2005 a €2 million loan was extended under this facility to Alter Modus, a non-bank microfinance institution helping small enterprises in Montenegro (see case study on page 36).
Alter Modus, a local microfinance institution, was set up in 1999 to help the most marginalised people in Montenegro. Poverty affects a wide proportion of Montenegro’s population, with 12 per cent living below the poverty line, and about 33 per cent classed as economically vulnerable. Alter Modus lends to micro and small enterprises with less than five employees and to entrepreneurs from households with a monthly per capita income of less than €250. The average loan is about €1,500.

In 2005 Alter Modus received a €2 million loan from the US/EBRD SME Financing Facility. This followed an earlier €1 million loan in 2004. Technical assistance has also been provided to strengthen the skills of Alter Modus’ management team and staff, particularly in assessing creditworthiness among their poor clientele. With such support, Alter Modus has to date disbursed around 16,400 loans worth around €26 million. The institution has a loan portfolio of €5.2 million and 5,400 clients who are creating or expanding their businesses.

Ratimir Sorat is an Alter Modus client who embodies the word “entrepreneur”. He ran his own hotel and grocery in the town of Rijeka Crnojeca until the state evicted the family from the business. Starting again, Mr Sorat bought a holding and Alter Modus financed his initial investment in a greenhouse. The new family enterprise has since become very prosperous, with a new house and swimming pool amid the tomato, bean and pumpkin plants which deliver bumper crops at regular intervals. “The future for people here is to start their own businesses,” says Mr Sorat. “All we need is a little credit to get going.”

Case study: Helping micro enterprises in Montenegro through Alter Modus

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Kasabank, the third largest bank in Kosovo, received a €2 million EBRD loan in 2005. This loan was complemented by technical cooperation funding from the EAR. Kasabank will use the loan to enhance its lending procedures and introduce best banking practice. The project will also promote competition with foreign-owned banks operating in the local market. This is the first direct loan that the EBRD has made to a Kosovar financial institution, and represents the first project signed by the Bank under an agreement with the UN Mission in Kosovo to promote private sector growth in the province.

In FYR Macedonia, Investbanka Skopje received a €4 million EBRD loan to help local entrepreneurs develop new or existing businesses. The EAR has also provided €500,000 to help Investbanka develop its small business lending programme.

**TurnAround Management and Business Advisory Services Programmes**

The TAM Programme uses industry-specific management expertise to transform enterprises of all sizes. The programme utilises experienced former chief executive officers (CEOs) and directors from economically developed countries to help enterprises build new business skills at the senior management level. The BAS Programme is a multi-donor funded programme which helps micro, small and medium-sized enterprises (from 10–500 employees) improve their competitiveness by using locally sourced business advisers.

In 2005, €5.3 million was provided to implement TAM and BAS activities in the Western Balkans. The EAR has been the key TAM donor, together with Canada, Ireland, Italy and the Japan-Europe Cooperation Fund. The BAS Programme mainly received funding from the Balkan Region Special Fund, the EAR, Japan and the Netherlands.

One of the companies to benefit from TAM is Serbian clothing designer Nicola’s (see case study on page 38).

**Trade Facilitation Programme**

The Trade Facilitation Programme (TFP) promotes foreign trade in the EBRD’s countries of operations. In the Western Balkans, donors have provided a total of €9.1 million to the TFP through the Balkan Region Special Fund. In 2005 Sweden and the UK Fund for South-eastern Europe committed TC funds to support the implementation of the TFP in Serbia and Montenegro.

Komercijalna Banka in FYR Macedonia has concluded the highest number of transactions (495) under the TFP since 1999, and FYR Macedonia remains the most active country with 617 TFP transactions. The largest number of transactions in 2005, however, were concluded by banks in Serbia and Montenegro (121), followed by Bosnia and Herzegovina (113) and then FYR Macedonia (97).

**Legal reform**

The EBRD’s Legal Transition Programme uses technical assistance to develop investor-friendly legal systems in the Bank’s region. During the year, the Bank helped establish an insolvency regulator in Serbia, utilising Swiss funding. A programme to strengthen environmental monitoring and supervision of the legal authorities in Montenegro was supported by Italy, and the UK Fund for South-eastern Europe financed a conference on deposit insurance in Bosnia and Herzegovina.
The TurnAround Management (TAM) Programme helps companies develop new business skills at the senior management level and successfully compete in the market economy. One such company is Serbian clothing designer Nicola’s.

Nicola’s, founded in 1992 by Bozidar Antic, produces day and evening wear for men and women. Thanks to a team of young and enthusiastic designers, Nicola’s has become a strong brand in Serbian fashion. Its clothes are so popular that unauthorised copies have even been spotted on the market.

Although the company has been making and selling clothes successfully in Serbia for over a decade, Nicola’s was keen to increase its competitive edge in an increasingly crowded marketplace. TAM advisers provided advice on business planning, restructuring, product improvement, cost reduction and the development of local and export markets.

As a result of the TAM project, product quality has improved with the company now importing the finest fabrics from Italy. Production costs have reduced following the streamlining of its fashion collections. And with profits on the rise, Nicola’s has decided to target the Croatian and Slovenian markets. Looking further ahead, the company has set its sights on expanding into Greece, Austria and Germany.

Mr Antic has praised TAM’s impact on his company’s fortunes: “The experience has been extremely positive. With concrete and practical advice, we have made changes to our internal structure and established new international contacts that can help us expand business opportunities.”
Remittances have become an important source of income in the Western Balkans. The region as a whole attracts around €12 billion a year in remittances through official channels. In Albania alone, remittances total more than 15 per cent of the country’s gross domestic product.

With support from the Swiss State Secretariat for Economic Affairs (Seco), the EBRD organised in 2005 a conference of government officials to review remittance practices and policy challenges (see page 11). As a follow-up to the conference, the EBRD and Seco are undertaking an in-depth analysis of remittances in Serbia and Montenegro.

Energy

Energy projects supported by donor funding were undertaken in Albania, Bosnia and Herzegovina and FYR Macedonia in 2005.

In Albania, Italy has provided additional funding to strengthen the management of the state-owned power utility KESH.

In FYR Macedonia assistance from Canada is helping the EBRD promote the privatisation of Elektrostopanstvo na Makedonija (ESM), the state-owned power utility (see case study on page 40).

In Bosnia and Herzegovina the EBRD plans to modernise the distribution systems of three state-owned regional power utilities – EPBiH, EPHZHB and EPRS – with a €52 million sovereign loan channelled through the government. This project will enable the companies to improve the reliability of electricity supply, enhance system compatibility and increase energy efficiency by minimising electricity wastage. TC funding of €100,000 from the Greek Fund will enable the assessment of the economic, financial and environmental aspects of the project.

Financial sector

In 2003 the EBRD and the International Finance Corporation each bought a 19.5 per cent stake in the Albanian insurance company INSIG. Since then, the two institutions have been working closely to prepare INSIG for privatisation. During 2005 technical support, advice and training were provided by the Central European Initiative and improvements to legislation and supervision were made by the Albanian government. As a result, INSIG’s reserves are far above the level required by EU directives, its management has improved, excess staff numbers are being reduced gradually and product lines have expanded.

Italy is building strong partnerships in the Western Balkans, channelling significant support through equity funds, risk-sharing facilities, technical cooperation funds and the Central European Initiative.

Ignazio Angeloni, Director for International Financial Relations, Italian Ministry of the Economy and Finance
Case study: Promoting the privatisation of a power utility in FYR Macedonia

To help modernise and restructure the energy sector in south-eastern Europe, the EBRD is investing up to €45 million in Elektrostopanstvo na Makedonija (ESM), the state-owned power utility in FYR Macedonia. This pre-privatisation equity investment will support restructuring plans and reforms ahead of a long-awaited tender for strategic investors.

With its headquarters in Skopje and 37 nationwide subsidiaries, ESM is responsible for the production, transmission and distribution of electricity in the country. It operates coal and lignite mines to feed its three thermal power plants, runs 14 hydro-power stations and is also involved in regional electricity trading.

The Bank’s involvement, together with support from Canada, will speed up the introduction of EU-aligned environmental standards. Canadian assistance (€200,000) has enabled ESM to undertake an environmental audit and bring its operations in line with best practice. Privatisation should attract much-needed investment to the power sector in FYR Macedonia, as well as efficiency gains for ESM.
Industry
Italy played an active role in assisting companies across a range of industrial sectors in 2005. Support was given to aluminium and copper producers and sugar manufacturers in Serbia and Montenegro. Enterprises also received support through equity funds and a new loan facility. In addition, the Netherlands provided support for a pharmaceutical company in Serbia.

Funding from Italy is supporting the implementation of a health and safety assignment at aluminium producer Kombinat Aluminijuma Podgorica (KAP), Montenegro’s largest industrial company. The EBRD has extended a €3 million loan to the government, supporting the company’s privatisation.

The Albania Reconstruction Equity Fund (AREF) and the Kosovo Reconstruction Equity Fund (KREF) received additional support from Italy in 2005. The AREF supports the modernisation, expansion, restructuring and development of SMEs in Albania. The KREF makes equity investments in SMEs in Kosovo. The KREF was the first non-bank financial institution in Kosovo to provide local enterprises and potential foreign investors with much-needed medium to long-term financing. The KREF plays a critical role in supporting the recovery of the Kosovar economy.

The Italian Risk-Sharing Facility supported three EBRD projects in Serbia and Montenegro during the year. Sevojno, a copper producer, received a €16 million EBRD loan (€2 million of which was provided by the Italian Risk-Sharing Facility) to upgrade its production facilities and improve operational efficiency and product quality. Fabrika TE-TO Senta and Star Secer (Nova Crnja), both owned by the Italian sugar producer SFIR Group, received €8 million from the Bank to purchase raw products from local farmers. €1 million of this loan was provided by the facility.

In 2005 the Italian government and the EBRD began developing a new instrument – the Italy-EBRD Western Balkans Local Enterprise Facility – to provide equity, risk-sharing and debt financing to local enterprises. This new financing instrument builds on the successful Italian Risk-Sharing Facility. The Bank will contribute €20 million to the new facility and the Italian government €10 million. TC support of €2 million will also be provided by Italy.

The Netherlands Development Finance Company (FMO) took a €6 million participation in Serbian pharmaceutical company Hemofarm in November 2005. The EBRD has extended two loans to the company for the expansion of its operations.

In 2005 TC funding of €1.6 million was provided by various donors for investments in Serbia and Montenegro. Austria, Italy and the Netherlands supported the implementation and supervision of construction work at a waste-water treatment plant in Subotica, and Canada funded loan advisers for the construction of a bridge across the Sava River.

Transport
The EBRD continues to cooperate with the European Union in the development of trans-European network corridors and the implementation of regional initiatives, such as the Regional Balkans Infrastructure Study (REBIS). In 2005 Canadian funding supported road construction in Albania. Canada also assisted with the preparation of public-private partnership legislation for the transport sector in Serbia and Montenegro. The EBRD has provided a €11.5 million loan for the upgrade of important regional road networks in Montenegro. Technical assistance is being provided by the EAR and France. In Bosnia and Herzegovina the Central European Initiative has funded an environmental audit of the country’s regional railway network.

Infrastructure
Municipal and environmental projects
In the Western Balkans the Bank is financing municipal infrastructure, equipment and services, developing regulatory structures, promoting private sector investment and facilitating EU grant and loan co-financing.
Co-financing

In 2005 more than €300 million was provided by public sector institutions to co-finance EBRD infrastructure projects in Albania (€82 million) and Serbia and Montenegro (€227 million), almost double the amount provided in 2004. Co-financing was provided by the European Investment Bank (almost €200 million), Germany (€8 million), Italy (€3 million) and the Netherlands (€6 million). Official agencies from within the Bank’s countries of operations also provided increasing support, with Serbian agencies providing €71 million.

The European Investment Bank (EIB) co-financed a number of projects in the Western Balkans in 2005. Together with the EBRD (which invested €35 million), the EIB provided €50 million for the construction and upgrade of the road between Fier and Tepelene in Albania. This road forms part of the “core network”, recently defined in the REBIS.

In Serbia and Montenegro the EIB provided €112.5 million for the upgrade of a 65 km section of road from Belgrade to Novi Sad and the construction of a bridge across the Danube. The Republican Road Directorate has invested €26.9 million in equity in this project and the EBRD has provided €72 million. Also in Serbia and Montenegro, the EIB co-financed the modernisation of the Belgrade and Podgorica air traffic control centres and the upgrade of the country’s surveillance, navigation and communication infrastructure. The EIB provided €34 million in co-financing, while the EBRD extended a €33.5 million loan to assist the Serbia and Montenegro Air Traffic Services Agency (SMATSA) with this modernisation process.

During 2005 the Deutsche Investitions und Entwicklungsgesellschaft provided €8 million in co-financing towards the privatisation of Tirana Airport in Albania (see case study on page 43). The EBRD has invested €12 million in the modernisation of the airport and €9 million in the construction and upgrade of access roads. In Serbia and Montenegro, Dutch and Italian co-financing has supported local enterprises.

Direct assistance

Throughout the year, donors have also provided direct assistance to projects in the Western Balkans:

- The EAR provided €2.6 million for project preparation under its Municipal Infrastructure Agency Programme in Serbia and Montenegro. The EBRD has supported the construction of a waste-water treatment plant in Subotica, one of the projects under this programme.
- The EIB co-financed the modernisation of the Belgrade and Podgorica air traffic control centres and the upgrade of the country’s surveillance, navigation and communication infrastructure. The EIB provided €34 million in co-financing, while the EBRD extended a €33.5 million loan to assist the Serbia and Montenegro Air Traffic Services Agency (SMATSA) with this modernisation process.
- During 2005 the Deutsche Investitions und Entwicklungsgesellschaft provided €8 million in co-financing towards the privatisation of Tirana Airport in Albania (see case study on page 43). The EBRD has invested €12 million in the modernisation of the airport and €9 million in the construction and upgrade of access roads. In Serbia and Montenegro, Dutch and Italian co-financing has supported local enterprises.
- The Danube Investment Support Facility (DISF), funded by the European Community, commissioned a feasibility study on the Tuzla water and waste-water treatment plant in Bosnia and Herzegovina. This project is being considered as a potential EBRD investment.
- The Japan International Cooperation Agency and Japan Bank for International Cooperation are preparing a feasibility study on the construction of waste-water treatment facilities and associated works in Tirana, Albania. The study is due for completion in August 2006. The EBRD plans to make a parallel investment focused on water supply and on financial and operational improvements at the Tirana Water Company.
- The Japan Bank for International Cooperation is preparing a feasibility study on the Cimplina municipality in Bosnia and Herzegovina. The EBRD is also considering extending a parallel loan.
The number of flights in and out of Tirana’s Mother Teresa Airport has been steadily increasing in recent years, with many Albanians regularly returning home to visit friends and family. The airport, which has seen little investment since it was built in 1957, is struggling to cope with the increase in traffic.

In 2005 the EBRD extended €21 million to Tirana Airport Partners, a consortium led by Germany’s Hochtief Airport, to modernise the facility.

The EBRD’s financing package includes a €12 million loan for the construction of a new passenger terminal and cargo centre and a €9 million sovereign-guaranteed loan to build a new access road from the capital to the airport and improve the existing access road towards the south of the country. An additional €12.9 million loan was provided by Deutsche Investitions und Entwicklungsgesellschaft, Alpha Bank and the American Bank of Albania.

In 2003 the government of Albania launched an international tender for a 20-year concession to run Tirana Airport. The steady increase in visitors and the airport’s role as the country’s most important traffic hub has made this modernisation project imperative.
Russia

Almost half of the investments signed by the EBRD in Russia in 2005 had received donor assistance. These investments, worth €470 million, provided finance and advice to smaller businesses, improved banking services and transparency and upgraded municipal infrastructure.
EBRD activities outside of Russia’s major cities grew significantly in 2005. Donor commitments in these areas rose in parallel, reaching €14.3 million, up from €12.6 million in 2004. Only 5 per cent of technical cooperation (TC) assignments were in Moscow and St Petersburg.

Forty-four new TC assignments were undertaken in 2005, supporting a variety of projects. These ranged from support for local banks lending to small and medium-sized businesses to working with municipalities to enhance their creditworthiness. TC assignments supported 42 per cent of EBRD investments in Russia, worth €470 million.

The European Community was the largest donor in Russia in 2005, funding assignments in microfinance, financial institutions and municipal infrastructure. The United States provided over €1 million to the Lower Volga Regional Venture Fund, an equity fund investing in medium-sized companies in Russia’s Lower Volga region. Finland committed just under €1 million for water and district heating projects and the Business Advisory Services Programme in north-west Russia and Kaliningrad. Japan provided €1.8 million for a municipal investment in the Far East (to be undertaken in 2006). The Northern Dimension Environmental Partnership committed €1.2 million to prepare environmental projects in St Petersburg and Archangelsk.
- Donor-funded projects in Russia totalled €14.3 million in 2005, an increase of almost €2 million on 2004.
- 95 per cent of projects were in regional areas outside of Moscow and St Petersburg.
- 44 new assignments were undertaken, primarily supporting small business, the financial sector and infrastructure.
Micro and small enterprises, financial institutions and infrastructure projects received the lion’s share of donor funding in 2005. The Russia Small Business Fund, the main vehicle supporting smaller enterprises in Russia, expanded its operations into more remote areas during the year with the help of donor and EBRD funding. The EBRD and donors also worked together to help financial institutions improve their banking practices.

Donor-funded infrastructure investments in 2005 almost doubled, with new projects being undertaken in smaller cities to improve water supply, waste treatment and district heating. The Northern Dimension Environmental Partnership fully implemented its first project in 2005, a waste-water treatment plant in St Petersburg (see page 50).

**Micro and small enterprise lending**
The Russia Small Business Fund (RSBF) provides loan financing for micro and small enterprises throughout Russia. Established by the EBRD in 1994, the RSBF is supported by Canada, the European Community, France, Germany, Italy, Japan, Switzerland, the United Kingdom and the United States.

In 2005 the RSBF expanded into many new areas, increasing the number of partner banks and extending the range of financing instruments available. Donor funding made this expansion possible, allowing for the training of loan officers, the provision of credit advisers for senior management at each partner bank and the set-up of new micro lending branches.

In 2005, €4.9 million in TC funding was provided to micro and small business finance. The RSBF is active in seven partner banks, reaching 143 cities; over 20 of these cities were included in the programme for the first time in 2005. Lending is conducted through 272 branches throughout Russia, and thousands of loan officers have received training.

To date, 271,704 loans have been disbursed to small businesses with a total value of €2 billion. The programme is continuing to reach the smallest enterprises, with roughly 85 per cent of all loans disbursed having a value of under €8,500.

One of the businesses to receive support through the RSBF is printing company ZAO Polygraph (see case study on page 48).
Founded in 1994, ZAO Polygraph was set up by former employees of the printing department of Omsk Polytechnic University. The company’s original printing facility was basic with many of their 15 staff spending considerable time maintaining the ageing presses. With orders shrinking, ZAO Polygraph approached the Russia Small Business Fund (RSBF) for assistance.

A series of loans were provided by KMB Bank for the purchase of equipment and a new premises to allow the business to expand. The most recent loan in October 2005 enabled the company to buy specialised label printing equipment.

Since receiving support through the RSBF, ZAO Polygraph has become the market leader in offset and flexographic printing in the Omsk region and increased its workforce to 80 people. The company has future plans to expand into the food labelling market and to extend its range of printing services.
Supporting environmental projects in north-west Russia remains a priority for Finland. The Northern Dimension Environmental Partnership is crucial for addressing environmental problems in the region.

Antti Turunen, Ministry of Foreign Affairs, Finland

Table 4.2 Pledges to the NDEP Support Fund (“environmental window”)

<table>
<thead>
<tr>
<th>Donor</th>
<th>€ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Community</td>
<td>20.0</td>
</tr>
<tr>
<td>Russia</td>
<td>20.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>16.0</td>
</tr>
<tr>
<td>Finland</td>
<td>10.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>10.0</td>
</tr>
<tr>
<td>Norway</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76.1</strong></td>
</tr>
</tbody>
</table>

Notes: Pledges are as at 31 December 2005. Pledges from Denmark and Norway were originally provided in the donor’s national currency. The amount has been converted to euros.

Northern Dimension Environmental Partnership

The Northern Dimension Environmental Partnership (NDEP) is an international effort tackling some of the most pressing environmental problems in north-west Russia. Established in 2002, the NDEP enables donors, international financial institutions and the Russian government to coordinate and implement environmental and nuclear waste projects in the region.

At the end of 2005, financing of €57 million was approved under the NDEP Support Fund for 10 environmental investment projects. The NDEP Support Fund has received over €76 million in pledges from the European Community, Denmark, Finland, Norway, Russia and Sweden (see table 4.2). Over €1 billion in investment capital has been mobilised to date, of which €547 million has been provided by international financial institutions as loans.

The St Petersburg south-west waste-water treatment plant is the first NDEP project to be fully implemented (see case study on page 50). Four other NDEP projects are also under way, including:

- a barrier protecting the residents of St Petersburg from the city’s yearly floods
- an incinerator disposing of sludge from the St Petersburg northern waste-water treatment plant and reducing the plant’s discharges into the Gulf of Finland
- a programme improving the quality of drinking water, water supply and waste-water services in Syktyvkar
- a project improving municipal water services in Archangelsk and reducing the level of untreated sewage discharged into the Barents Sea basin.

The NDEP, in cooperation with the Russian government, has approved another six potential environmental projects, valued at €500 million. Four of these projects will require NDEP co-financing of €15 million. Further information on NDEP projects can be found on www.ndep.org.
Sewage plant inaugurations do not normally attract international dignitaries. However, the Presidents of Russia and Finland and the Prime Minister of Sweden came to the opening of St Petersburg’s south-west waste-water treatment plant, a model of international cooperation and a project whose impact will be felt far beyond the city’s shores.

The project is the first to be completed under the Northern Dimension Environmental Partnership (NDEP). Of the treatment plant’s total cost of €138 million, the EBRD loaned €35 million for construction work, while another €50 million was donated by the European Community, Russia’s Nordic neighbours and national agencies. Over 850 subcontractors, mainly from Russia but also from Finland, Germany and Sweden, worked on the building of the plant, which was completed on time and within budget.

The plant will halve the amount of untreated effluent from St Petersburg being released each day into the Neva river – and consequently into the Gulf of Finland and the Baltic Sea. At the official opening in September 2005, the Russian President Vladimir Putin said that the facility would improve quality of life for the people of St Petersburg and all those living on the shores of the Baltic.
By supporting the Trade Facilitation Programme and the TurnAround Management Programme, Ireland is helping the transition countries reduce poverty through the development of the private sector.

Patricia Cullen, Development Cooperation Ireland

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**Table 4.3 Donor support for the BAS Programme in Russia**

<table>
<thead>
<tr>
<th>Region</th>
<th>Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaliningrad</td>
<td>Finland, Luxembourg, Norway, Sweden</td>
</tr>
<tr>
<td>North-west Russia</td>
<td>Denmark, Finland, Germany, Norway, Russia, Sweden, Switzerland, United Kingdom</td>
</tr>
<tr>
<td>Vladivostok</td>
<td>Japan</td>
</tr>
<tr>
<td>Samara</td>
<td>United Kingdom</td>
</tr>
</tbody>
</table>

Note: The Samara office has now closed.

**Trade Facilitation Programme**

The Trade Facilitation Programme (TFP) aims to promote foreign trade to, from and within the EBRD’s countries of operations. Through the programme, the EBRD provides training and support to local issuing banks and guarantees to international confirming banks for several types of trade finance instruments. This stimulates trade, and builds relationships between banks, importers and exporters alike.

Under the TFP, Ireland, the Netherlands, Taipei China and the United Kingdom have funded specialist training and trade finance advisers for Russian issuing banks. These assignments have been tailored to each bank to support them in building or improving their trade finance operations. The aim of this support is to enable banks to offer a range of international trade finance products and appropriate advice to local importers and exporters.

As a result of the training and credit advice provided, the operational and technical skills of the participating banks has improved. The volume of trade financing transactions has increased, and participating banks now better understand the identification and mitigation of risks involved. There are 24 issuing banks in Russia participating in the TFP. Over 754 trade transactions have been concluded in Russia, totalling more than €970 million. More than 520 confirming banks, including foreign subsidiaries and branches, have signed up to receive TFP guarantees.

**TurnAround Management and Business Advisory Services Programmes**

The TurnAround Management (TAM) Programme started in Russia in 1994. During 2005 TAM provided technical and management advice to 10 enterprises with a collective turnover of €150 million and around 1,600 employees. Donor funding totalled €763,600.

Two of the enterprises receiving TAM assistance were a petrochemical equipment supplier and a pottery manufacturer. Irkutskniichimmash, a petrochemical equipment supplier based in Irkutsk, doubled its turnover following a TAM project funded by Ireland and Japan. TAM advisers helped the company install a quality assurance system, prepare promotional sales material and implement a successful marketing strategy. Support for a pottery manufacturer in Kanakovo enabled the company to develop its product range, reduce production losses, upgrade systems for financial control and increase direct contact with export customers.

The Business Advisory Services (BAS) Programme has been active in Russia since January 2000. By the end of 2005 it had undertaken 272 projects in four main regions of Russia – 76 projects in Kaliningrad, 107 in St Petersburg and north-west Russia, 55 in Vladivostok and the Far East, and 34 in Samara. The enterprises which have received BAS assistance employ 24,000 workers and have an aggregate turnover of €587 million.

Finland, Norway and Sweden have provided funds to enable the continuation of the BAS programme in Kaliningrad (where 30 new projects are to be undertaken) and St Petersburg and north-west Russia (25 projects planned). BAS support is increasingly targeting enterprises in the more remote regions of Kaliningrad and north-west Russia, especially Murmansk, Kareliya and Archangelsk (see table 4.3).
Environment
Through its investments, the EBRD promotes environmentally sustainable development. Bank-financed projects must not only meet environmental targets, but also fulfil social standards (for example, protect the rights of local communities). The United Kingdom is funding a social specialist who, working with project sponsors and the Bank’s Environment Department, is providing advice on project structures which proactively address social issues.

On Sakhalin Island, the EBRD is undertaking extensive consultation with local communities and specialist interest groups on an offshore oil and gas project. A final decision on whether the Bank will provide financing for the project will be made after the consultation concludes in April 2006 and the Bank has assessed the findings.

Financial sector
One of the EBRD’s key objectives in Russia is to support the development of sound banking principles, including high-quality services for the corporate and retail sectors, good corporate governance and transparency. Strong regional banks have an important role to play.

In 2005 the European Community provided €2.5 million for a programme strengthening financial and institutional structures in Russian regional banks. A further €1.8 million was provided by Finland, Norway, Sweden and the United States for equity funds and several training and advisory assignments under the Trade Facilitation Programme.
Case study: Improving district heating and energy efficiency in the city of Ufa

A 10-year EBRD loan (worth €10 million) is financing the installation of individual heating sub-stations equipped with automated control and regulation systems in about one-third of Ufa’s 5,500 residential apartment blocks. The local authority is acting as guarantor for the EBRD loan.

The aim of the project is to cut the heavy energy losses that have long characterised the city’s district heating system. Ufa, with 1.1 million inhabitants, is the capital of the Russian republic of Bashkortostan. Temperatures can drop to an average of -35 Celsius in winter. Projected energy savings under the EBRD-financed system are in the order of 8-10 per cent for heating and hot water, 20-30 per cent for electricity, and 15 per cent for chemically treated water used in the heating pipe networks.

The project benefits from Finnish and Norwegian grants totalling €600,000. This is funding international consultants to assist Ufa Municipal Company for Housing and Engineering Support (the organisation implementing the project) with procurement, design, contracting, construction and monitoring. The government of Finland has already provided €130,000 to fund a feasibility study including a long-term investment programme, and an environmental action plan to bring the Ufa district heating system up to Russian and EU environmental standards. The European Community has also funded an audit of the Ufa Municipal Company’s accounts in accordance with international financial reporting standards.
Infrastructure

With donor assistance, the EBRD is expanding its portfolio of municipal projects in Russia (see charts 4.2 and 4.3). The Bank has invested in water supply, waste-water collection and treatment, solid waste management, district heating and public transport projects across the country. Just under €4 million in new TC funding was provided in 2005. This assistance is vital for infrastructure investments, helping to develop local and regional institutions and commercialise municipal service companies.

There has been a steady increase in the volume of TC assignments supporting infrastructure investments from 2001-05. The Bank’s focus has been on projects in smaller regional centres, for example, a district heating project in Ufa (see case study on page 53). These projects have involved the restructuring of municipal services, the development of regulatory structures, increased private sector involvement and improvements in environmental performance. This work requires significant donor support.

The EBRD is working with local authorities and utility companies to enhance their creditworthiness, by improving their budgeting, debt management and investment planning. In 2005 the Bank signed its first multi-sector municipal project in the small Russian municipality of Surgut. The EBRD has invested €49 million to upgrade the city’s water distribution and sewerage collection networks. The loan will also help the city reduce greenhouse gas emissions from district heating plants and increase energy efficiency. Technical assistance funded by the European Community has helped mobilise investment funds for the Surgut project. TC has also assisted the city in introducing commercial practices for both the water and district heating sectors.
The EBRD and donors are working together to improve the environment in Russia.
EU member states and candidate countries

Support for Bulgaria, Croatia and Romania increased in 2005, as donor-funded projects helped prepare the three countries for accession to the European Union. The focus of donor assistance in both the new EU member states and candidate countries was on developing small business and improving infrastructure.
Transition challenges

While the new EU member states have made considerable progress in transition, support is still needed to increase equity investments and venture capital, develop small and medium-sized enterprises and upgrade municipalities.

To prepare Bulgaria, Croatia and Romania for accession to the EU, areas requiring further support include the private sector, infrastructure, legal and institutional reform and tourism.

Across all EU member states and candidate countries, investment in transport and environmental infrastructure is a priority, particularly the upgrade of road networks and the development of municipal projects in small regional centres.

Donor funding in 2005

Over €7 million in donor funding was channelled in 2005 to the eight new EU member states – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia (see chart 5.1 and table 5.1). Of this funding, €6.1 million assisted greater access to credit for small and medium-sized enterprises in regional areas. Municipal and environmental infrastructure investments, including two waste-water treatment plants in Poland and an urban transport project in Lithuania, received over €600,000. Grant funding also supported the TurnAround Management (TAM) and Business Advisory Services (BAS) Programmes (see page 61), institutional reform and energy investments. Key donors were the Baltic Technical Assistance Fund (supported by Finland, Norway and Sweden), the Central European Initiative (funded by Italy), the European Community, France, Spain and Sweden.

Donor-funded projects in the EU candidate countries of Bulgaria, Croatia and Romania reached €12.4 million in 2005 (see table 5.2). Support mainly focused on small business financing through the EU/EBRD SME Finance Facility, the development of water, district heating and urban transport, and the provision of business advisory services. The principal donors included Austria, Canada, the European Community, Italy and Switzerland.

\(^1\) While FYR Macedonia became an EU candidate country at the end of 2005, for the purpose of this report it is included in the Western Balkans chapter.
Donor-funded assistance to the new EU member states totalled €7.3 million in 2005.

The three EU candidate countries of Bulgaria, Croatia and Romania received €12.4 million in donor support.

Over €2.5 million in grant funding went towards municipal infrastructure projects in 2005.

**Chart 5.1** TC commitments in the new EU member states and candidate countries, 2001–05 (€ million)

**Table 5.1** TC commitments in the new EU member states, 2005 (€’000)

<table>
<thead>
<tr>
<th>Project</th>
<th>Estonia</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Poland</th>
<th>Slovak Rep</th>
<th>Slovenia</th>
<th>Regional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small business finance</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>88</td>
<td>–</td>
<td>6,087</td>
<td>6,175</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>–</td>
<td>–</td>
<td>208</td>
<td>245</td>
<td>–</td>
<td>–</td>
<td>160</td>
<td>613</td>
</tr>
<tr>
<td>Legal framework for public-private partnerships</td>
<td>–</td>
<td>195</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>195</td>
</tr>
<tr>
<td>Energy</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>127</td>
<td>50</td>
<td>–</td>
<td>–</td>
<td>177</td>
</tr>
<tr>
<td>TurnAround Management and Business Advisory Services Programmes</td>
<td>52</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>107</td>
<td>–</td>
<td>159</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>195</td>
<td>208</td>
<td>371</td>
<td>138</td>
<td>107</td>
<td>6,247</td>
<td>7,319</td>
</tr>
</tbody>
</table>

Notes: The Czech Republic and Hungary did not receive donor funding in 2005. Regional refers to projects undertaken in two or more countries.

**Table 5.2** TC commitments in the EU candidate countries, 2005 (€’000)

<table>
<thead>
<tr>
<th>Project</th>
<th>Bulgaria</th>
<th>Croatia</th>
<th>Romania</th>
<th>Regional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small business finance</td>
<td>–</td>
<td>167</td>
<td>10,000</td>
<td>10,167</td>
<td>10,167</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>713</td>
<td>399</td>
<td>746</td>
<td>–</td>
<td>1,858</td>
</tr>
<tr>
<td>TurnAround Management and Business Advisory Services Programmes</td>
<td>120</td>
<td>–</td>
<td>48</td>
<td>12</td>
<td>181</td>
</tr>
<tr>
<td>Transport</td>
<td>–</td>
<td>49</td>
<td>50</td>
<td>–</td>
<td>99</td>
</tr>
<tr>
<td>Energy</td>
<td>–</td>
<td>50</td>
<td>–</td>
<td>50</td>
<td>100</td>
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<tr>
<td>Project preparation</td>
<td>–</td>
<td>3</td>
<td>25</td>
<td>–</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>883</td>
<td>451</td>
<td>1,086</td>
<td>10,012</td>
<td>12,382</td>
</tr>
</tbody>
</table>

Note: Regional refers to projects undertaken in two or more countries.
The EBRD has established a range of products and facilities to promote private sector and infrastructure development in the new EU member states and candidate countries. Donors contributing to these facilities include the European Community, the Netherlands and Spain.

A number of new initiatives were finalised in 2005. The European Community, together with the EBRD, established the Preparatory Action Facility supporting small businesses within the new member states. The Bank also worked with the European Community and the European Investment Bank to set up Joint Assistance for Preparing Projects in European Regions (JASPERS). JASPERS will prepare high-quality projects eligible for EU structural and cohesion funds within the new member states. The Bank also plans to implement the Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative. This will support micro, small and medium-sized enterprises.

To help develop infrastructure, the EBRD is supporting projects eligible for co-financing under the EU Instrument for Structural Policies for Pre-accession (ISPA).

**Micro and small enterprise lending**
The EU/EBRD SME Finance Facility has been supporting micro, small and medium-sized enterprises throughout the new EU member states and candidate countries since 1999. Through this facility, credit lines are extended to local banks for on-lending to small businesses. Over €1 billion is available under the facility, €895 million of which has already been extended to participating banks. The European Community has contributed almost €160 million in grant financing and technical assistance.

From 2005 assistance for enterprises in the new member states has been provided through the EU/EBRD Preparatory Action Facility. Under this facility, the EBRD is providing loans to banks and leasing companies for on-lending to small businesses. The EBRD is also offering risk-sharing agreements to partner banks in the new member states. The EBRD is extending up to €40 million, while the European Community is contributing €4 million in grants for technical assistance. Enterprises with less than 50 employees and with a maximum annual turnover of €10 million qualify for loans, the average size of which is around €25,000.
ProCredit Bank has eight branches and four lending outlets in seven cities across Romania. It has extended more than 15,000 loans worth over €60 million to micro and small businesses. In 2005 ProCredit launched a series of new products and entered the debit and credit card market. It also received co-financing of €2.3 million from Taipei China.

One of the businesses to benefit from ProCredit support is Neo Impuls. Neo Impuls is a small chain of grocery outlets run by husband and wife Ioan and Genoveva Beta. Originally just one store, the company has now expanded to three trading outlets throughout Iasi. The stores have been so successful that customer demand for products is often exceeding supply. To ensure their shelves are always fully stacked, Mr and Mrs Beta approached ProCredit for a loan to finance additional stock. Within two days, the couple had received their loan (just over €5,500) and were able to re-stock their stores.

**Case study: Developing Romanian small businesses**
The EU/EBRD SME Finance Facility has been instrumental in building small business lending in local banks within the new EU member states and candidate countries.

Dirk Meganck, Director Financial Instruments, Directorate-General Enlargement, European Commission

The first institution to join the EU/EBRD Preparatory Action Facility was Istrobanka in the Slovak Republic. The EBRD has provided a €10 million credit line for on-lending to micro and small enterprises. This loan will be complemented by €750,000 from the European Community for product development, staff training and service improvement.

In Romania small businesses are receiving support through ProCredit Bank (see case study on page 60) and the EU/EBRD SME Finance Facility. To date, the EBRD has extended €151.2 million to 11 local banks and leasing companies in Romania under the financing facility. In 2005 Casa de Economii si Consemnături (CEC), a state-owned bank with 1,407 branches, received €10 million for on-lending to small and medium-sized enterprises. The loan is being complemented by a €1.6 million grant from the European Community for technical assistance and staff training.

TurnAround Management and Business Advisory Services Programmes

Since 1993, TAM and BAS have played an important role in the transition of the new EU member states and candidate countries. Both programmes have helped around 2,000 companies compete in the challenging market of the enlarged European Union.

The TAM and BAS Programmes helped small businesses in Bulgaria, Croatia, Estonia and Slovenia in 2005. In Estonia a TAM project supported by the Baltic Technical Assistance Fund was undertaken, while in Slovenia the BAS Programme benefited from funding from the Central European Initiative (CEI). In the EU candidate countries, Austria replenished the Austria/EBRD BAS Fund to implement 72 BAS projects in Croatia and 72 in Bulgaria. Austria has also provided €2.2 million for the implementation of BAS projects in Romania between 2006-08.
Spain continues to support the new EU member states. Our assistance has focused on municipal and environmental projects, which are critical to improving the lives of local people.

Jorge Alonso-Ruiz, Ministry of Economy and Finance, Spain

Other sectors

Energy
The European Community’s Green Paper on Energy Efficiency and the G8 summit at Gleneagles, Scotland (July 2005) called for international financial institutions to substantially increase the amount of financing devoted to energy efficiency and renewables. Promoting energy efficiency and the privatisation of state-owned enterprises in the energy sector is a key priority for the Bank.

In 2005, CEI funding was provided for a market study on sustainable energy in the Slovak Republic. French funding has been used to prepare the liberalisation of the power market in Poland, and Canadian technical assistance is helping to implement a market study on energy efficiency and renewable energy in Romania.

Under the CEI-Energy Audit Framework, energy audits have been carried out in support of two EBRD investments – a pulp mill in Bulgaria and a food and beverage producer in Romania. Once implemented, these projects will result in significant carbon dioxide emission reductions, which may be made available as carbon credits through the EBRD-Netherlands Carbon Fund.

In addition, donors funding the EBRD-managed Kozloduy International Decommissioning Support Fund (KIDSF) have allocated €10 million to establish an innovative energy saving credit line in Bulgaria (see case study on page 63).

Infrastructure
In 2005 the Bank strongly supported the decentralisation and commercialisation of infrastructure in the new EU member states and candidate countries. This was done by increasing private sector involvement and using grant financing through the EU Instrument for Structural Policies for Pre-accession (ISPA). The Bank’s projects have been backed by institutional and regulatory reforms. Technical assistance for infrastructure projects reached €2.5 million in 2005.

The Austrian Municipal Infrastructure Fund, established in 2004, has helped to upgrade key infrastructure in Sibiu (Romania), including the public transport network, selected streets and public lighting. The EBRD is investing €15 million in this project. Also receiving assistance from the Austrian Municipal Infrastructure Fund is the Burgas Water Company in Bulgaria. This support will help modernise the company’s infrastructure. The EBRD has invested €11 million and co-financing of €25.2 million has been provided through an ISPA grant. Significant assistance from Austria, Canada and the CEI was also provided in 2005 to help prepare and implement the project.

Swiss finance has been used to implement a feasibility study for a district heating project in Iasi, Romania. The EBRD is lending Centrala Electrica de Termoficare Iasi, the local district heating company, €20 million to upgrade the city’s district heating distribution system. This will reduce environmental pollution levels, cut heat and water wastage, provide health benefits for local residents, and ultimately deliver a reliable heating service at affordable prices.

Funding from Italy is helping to implement improvements at the Karlovac waste-water treatment plant in Croatia (see case study on page 64) and an urban transport development in Arad, Romania. Spanish finance has been provided, under the Spanish MEI Fund established in 2004, to a waste-water treatment plant in Gdansk, Poland. Swedish support is assisting a waste-water treatment plant in Wroclaw, Poland and a public transport programme in Kaunas, Lithuania.
The EBRD is lending up to €50 million to four Bulgarian banks to help finance residential energy efficiency and renewable energy projects. The loans are being provided under a framework developed in conjunction with the Kozloduy International Decommissioning Support Fund (KIDSF) and the Energy Efficiency Agency of Bulgaria.

United Bulgaria Bank, DSK Bank, Postbank and RZB Bulgaria will on-lend to households to help them cut energy consumption and costs, in line with the Bulgarian government’s policy of reducing the energy proportion of its GDP. Bulgaria uses at least twice the amount of energy consumed in western European countries to produce each unit of GDP.

Individuals may use loans for improvements such as double glazing, interior and exterior insulation (including roofs and floors), biomass stoves and boilers, solar water heaters, efficient gas boilers and heat pumps. The credit line will also provide financing for households switching to renewable fuels, such as wood waste (abundant in well-forested Bulgaria).

The residential energy efficiency programme builds on Bulgaria’s agreement with western European states and the European Community to close four of its Kozloduy nuclear power units (considered unsafe by the international community). The programme is being complemented by a €10 million grant from the KIDSF, which receives contributions from Austria, Belgium, Denmark, the European Community, France, Greece, Ireland, the Netherlands, Spain, Switzerland and the United Kingdom.

According to Tasko Ermenkov, head of Bulgaria’s Energy Efficiency Agency, “Households can achieve 40-50 per cent energy savings just through changing their windows or insulation. A wider variety of energy efficiency measures can yield 70 per cent savings.”

He adds, “I’m glad that western European countries, the European Community and the EBRD have helped us. Through this programme the EBRD has achieved some real innovations in finance, both as a financial institution and as a fund manager.”
The EBRD is supporting the construction of a waste-water treatment plant in Karlovac with a €10 million loan. The central Croatian city currently has almost no waste-water treatment facilities. Approximately 80,000 people live in the region and effluent is discharged untreated into the Korana, Mreznica and Kupa rivers, which eventually flow into the Danube.

The project has received a €22.5 million grant under the EU Instrument for Structural Policies for Pre-accession (ISPA). Croatia became eligible for funding for environmental projects as part of the EU accession process and must comply with EU environmental requirements.

The ISPA grant, together with the EBRD loan and Croatian government support, will enable the construction of a waste-water treatment plant, as well as additional improvements to the ageing sewerage system. The company will enter into a service agreement with the city authorities, which will introduce commercial principles and gradually eliminate cross-subsidies.

The Italy-EBRD Private Sector Development Fund provided €300,000 in support of financial and operational improvements at the plant in 2005.

Case study: Clean water for Karlovac, Croatia
Over 80 per cent of the funding provided by donors in the new EU member states and candidate countries supported small businesses, like this furniture company in Bulgaria.
Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine

Donor-funded projects in 2005 supported small business, municipal infrastructure, energy and transport projects in Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine. Donor funding for the five countries totalled over €7.5 million.
Donor-funded projects totalled €7.5 million in Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine in 2005. In all of these countries, except Turkmenistan, support was provided for micro, small and medium-sized enterprises through EBRD credit lines and business advisory programmes. Donors also supported the upgrade of air and sea ports, district heating, public transport and waste-water treatment plants in Kazakhstan, Mongolia and Ukraine. In Turkmenistan donor funding assisted local industry and trade finance. Key contributions were provided by the European Community, Japan and the United States.

Belarus
Donor-funded projects in Belarus totalled €170,000 in 2005, up from €68,000 in 2004. The main area of donor support was for the regional expansion of micro and small business lending programmes, backed by the United States. Over 1,500 enterprises were extended loans under this programme in 2005, totalling €13.5 million.

Donor funding in 2005

One of the businesses to benefit from this support was Neroelectroniks, a company designing and manufacturing electronic devices, which obtained a loan of €25,000 for the purchase of new equipment. Belarussian entrepreneurs have also received support under these programmes including Vasily Kolpakov, who received a €7,500 loan for the purchase of a microbus for his taxi business, and Elena Borodach who received loans totalling €7,000 for equipment and building work at her grocery store.

Transition challenges

Although the transition challenges are very different in Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine, further structural reforms are needed across all five countries.

Private sector involvement in the economy needs to be strengthened, particularly through privatisation programmes and financial sector reform.

Improving access to finance for micro, small and medium-sized enterprises is a major priority.
- Donors provided €1.93 million for programmes supporting micro, small and medium-sized enterprises in 2005.
- Practical business advice was provided to over 100 local enterprises.
- Almost €1 million in donor funding supported infrastructure projects in 2005.

<table>
<thead>
<tr>
<th>Project</th>
<th>Belarus</th>
<th>Kazakhstan</th>
<th>Mongolia</th>
<th>Turkmenistan</th>
<th>Ukraine</th>
<th>Total</th>
</tr>
</thead>
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<td>668</td>
<td>25</td>
<td>52</td>
<td>–</td>
<td>915</td>
</tr>
<tr>
<td>Legal reform</td>
<td>–</td>
<td>–</td>
<td>931</td>
<td>–</td>
<td>–</td>
<td>931</td>
</tr>
<tr>
<td>Banking, trade finance</td>
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<td>152</td>
<td>–</td>
<td>18</td>
<td>1,351</td>
<td>1,521</td>
</tr>
<tr>
<td>Infrastructure and environmental projects</td>
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<td>–</td>
<td>200</td>
<td>–</td>
<td>778</td>
<td>978</td>
</tr>
<tr>
<td>TurnAround Management and Business Advisory Services Programmes</td>
<td>–</td>
<td>999</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>999</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>–</td>
<td>25</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>25</td>
</tr>
<tr>
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<td>750</td>
<td>–</td>
<td>–</td>
<td>1,194</td>
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<tr>
<td>Power and energy efficiency</td>
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<td>–</td>
<td>–</td>
<td>100</td>
<td>–</td>
<td>100</td>
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<tr>
<td>Other</td>
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<td>–</td>
<td>100</td>
<td>–</td>
<td>7</td>
<td>107</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>170</td>
<td>2,594</td>
<td>1,256</td>
<td>70</td>
<td>3,430</td>
<td>7,520</td>
</tr>
</tbody>
</table>

Table 6.1 TC commitments in 2005, by country (€’000)

Chart 6.1 Enterprises in Kazakhstan receiving BAS support

- Services 26%
- Metals and machinery 22%
- Food and beverages 22%
- Wholesale and retail 10%
- Telecommunications 6%
- Wood processing 5%
- Textiles 4%
- Other manufacturing 5%
Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine
Donor Report 2006

Kazakhstan
Donor support in Kazakhstan totalled €2.6 million in 2005, compared with €2.4 million in 2004. The main assignments were the ongoing expansion of the Business Advisory Services (BAS) Programme, micro lending in rural areas and infrastructure improvements.

Since it began in 2001, the BAS Programme in Kazakhstan has been funded by the Japan-Europe Cooperation Fund (JECF). To date, BAS has provided practical business advice to 306 enterprises in Kazakhstan, engaging over 100 local consultants (see chart 6.1). Total turnover for these companies comes to over €860 million and they have more than 38,000 employees. One of the businesses to receive assistance is Reis, a construction company based in Almaty (see case study on page 70). An independent evaluation of BAS in Kazakhstan was carried out recently and concluded that it has been “successful”.

During 2005 Japan and the United States promoted local business development through the Kazakhstan Small Business Programme, providing financial advisers to micro lending institutions. The European Community financed the further expansion of the Trade Facilitation Programme giving firms in rural areas greater access to trade finance. The United Kingdom provided a credit adviser for the Kazakhstan Warehouse Receipts Programme, which enables local farmers, traders and agribusiness companies to access short-term finance against warehouse receipts.

In the infrastructure sector, the European Community funded the expansion of a Kazakh port servicing increased traffic from the Caspian Sea, as well as management improvements at one of the local airports. Funding from Germany is helping the municipality of Astana evaluate proposals for the construction of rail and bus links.

Also in 2005, the EBRD held a pilot seminar on anti-money laundering in Kazakhstan. The seminar is part of a programme to raise awareness of money laundering in the financial sector. The programme is supported by the European Community and the Swiss Secretariat for Economic Affairs (see page 11).

Small business remains a pillar of economic growth and forms a critical element of USAID’s cooperation with the EBRD in Kazakhstan.

Maureen Dugan, United States Agency for International Development (USAID)
Through the Business Advisory Services (BAS) Programme, local consultants advise micro, small and medium-sized enterprises on how to improve their competitiveness, marketing and financial management, product quality and strategic business planning. A business to benefit from BAS assistance in 2005 was Almaty construction company Reis.

Established in 2000, Reis manufactures ready-made wooden houses. With the business expanding rapidly, the company’s management asked BAS for assistance in developing a new automated system for accounting processes and budgeting. This system will improve data collection and provide analytical information for managerial and operational purposes.

The BAS consultant has helped Reis modernise its financial department. As a result of the project, Reis has created for the first time a unified financial report and can now more accurately plan and improve transparency.

Case study: Improving accounting systems at a construction company in Kazakhstan
Mongolia
The EBRD provides technical assistance for economic and legal reforms in Mongolia through the multi-donor Mongolia Cooperation Fund (MCF). The MCF aims to support the establishment, improvement and expansion of private sector activity. Contributors include Japan, Luxembourg, the Netherlands and Taipei China.

During 2005 new TC assignments totalling €1.3 million were financed through the MCF. These include financial improvements at Mongolian International Airlines and support for financial sector reforms through a range of training programmes at the Bank of Mongolia and other commercial banks. The TurnAround Management (TAM) Programme is also providing advice to small businesses throughout the country.

One company to receive assistance from TAM is local bakery Darkhan Khuns. TAM has helped the company reorganise its production methods, increasing cost efficiency and improving product quality.

As a result of the project, Darkhan Khuns has eliminated non-profitable product ranges and installed new production equipment. Sales have increased, with the company recording a 20 per cent rise in turnover.

The EBRD’s shareholders are in the process of ratifying the inclusion of Mongolia as an EBRD country of operations. By the end of 2005, most of the Bank’s shareholders had completed the acceptance process. Some projects undertaken through the MCF are preparing the way for future EBRD investments in the country.

Turkmenistan
Funding from Switzerland and Italy supported a textile company in Turkmenistan in 2005. Switzerland also supported trade finance training for local bankers. Total donor-funded projects in 2005 totalled €69,500, compared with €12,500 in 2004.
In Ukraine the EBRD’s priority is to build institutional capacity, thereby supporting the development of a market economy. The people face a formidable task in standing on their own feet.

Olivier Descamps, Business Group Director for Southern and Eastern Europe, Caucasus and Central Asia, EBRD

The European Community has supported several commercial appraisals and audit assignments (according to International Financial Reporting Standards) in Ukrainian district heating and waste-water treatment facilities. In addition, the European Community has provided funding for a port modernisation project and an environmental project in the railway sector.

Also in infrastructure, the United States has contributed to an assignment supporting the upgrade of the Odessa high-voltage electricity grid system. This project has also received EBRD investment. Finland has funded a feasibility study on district heating investments in the city of Donetsk. In addition, the European Community and France have supported an EBRD project improving the quality of drinking water in the city of Dnipropetrovsk. This project will cut the flow of untreated effluent into the Dnieper River and the Black Sea basin. The investment in Dnipropetrovsk's waste-water treatment utility is helping clean up the environment of one of Ukraine’s most industrialised regions.
Belarus, Kazakhstan, Mongolia, Turkmenistan and Ukraine
Donor Report 2006

The EBRD’s SME Line of Credit with local banks in Ukraine has been pivotal in the opening of the latest pastry shop in the successful Repriza chain run by Vena Beleva. The pastry chain has won small business awards from the EBRD and from the local Kiev press.

Repriza has 220 employees in its cake factory and its three shops (which Ms Beleva, a native Bulgarian and former lawyer, is planning to expand to seven). The company sells its own products exclusively on a retail basis.

While the availability of credit to small businesses in Ukraine has expanded in recent years, the terms remain restrictive. Shorter loan periods, coupled with high interest rates and high collateral requirements, deter many local enterprises from borrowing money.

Thanks to the small business credit line supplied by the EBRD to local banks and supported by donor funding, the Repriza chain was able to borrow €1.2 million over five years, and with half the collateral required by other banks. This is allowing Ms Beleva to finance the expansion of her business, which will include four new shops and a staff training centre.

Case study:
Best practice in business yields the best pastry in Kiev
### Annex 1: Donor agreements and replenishments in 2005

<table>
<thead>
<tr>
<th>Donor</th>
<th>Fund or project</th>
<th>€'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Austria Business Advisory Services Fund</td>
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<td>Technical Cooperation Fund</td>
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<td>Austria Municipal Infrastructure Fund</td>
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<tr>
<td>British Petroleum (BP)</td>
<td>ProCredit Bank Georgia</td>
<td>634</td>
</tr>
<tr>
<td>Canada</td>
<td>Early Transition Countries Fund ¹</td>
<td>558</td>
</tr>
<tr>
<td>Denmark</td>
<td>Danish Technical Assistance Cooperation Fund</td>
<td>133</td>
</tr>
<tr>
<td>European Agency for Reconstruction</td>
<td>TurnAround Management Programme (Serbia)</td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>Various projects (Kosovo)</td>
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</tr>
<tr>
<td></td>
<td>Environmental management projects (FYR Macedonia)</td>
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<td>Western Balkans SME Finance Facility (FYR Macedonia)</td>
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<td></td>
<td>Information communication technology project (Montenegro)</td>
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<td>European Community</td>
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<td>Northern Dimension Environmental Partnership ²</td>
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<td>Russian Regional Bank Institution Building Programme</td>
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<td>EU/EBRD Preparatory Action Facility</td>
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<td>TurnAround Management Programme (Ukraine)</td>
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<td>Northern Dimension Environmental Partnership ²</td>
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<td>Germany</td>
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<td>Italy</td>
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<td>Small and medium-sized enterprises (Kosovo)</td>
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<td>Japan</td>
<td>Japan Europe Cooperation Fund</td>
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<td>Luxembourg</td>
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<tr>
<td>Netherlands</td>
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<td>Business Advisory Services Fund (Albania and Kosovo)</td>
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<td>Balkan Region Special Fund ³</td>
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<td>TurnAround Management Programme</td>
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<td>Switzerland</td>
<td>Business Advisory Services Fund (Swiss State Secretariat for Economic Affairs)</td>
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<td>Taipei China</td>
<td>Technical Cooperation Fund</td>
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<td>Early Transition Countries Fund ¹</td>
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<td><strong>Total</strong></td>
<td></td>
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</table>

¹ Early Transition Countries Fund – Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom.

² Northern Dimension Environmental Partnership – Belgium, Canada, Denmark, the European Community, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom.

³ Balkan Region Special Fund – Austria, Canada, Denmark, Germany, Norway, Switzerland and Taipei China.
Annex 2: TC commitments in 2005, by donor

<table>
<thead>
<tr>
<th>Donor</th>
<th>€'000</th>
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<td>European Community</td>
<td>25,213</td>
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<tr>
<td>Italy</td>
<td>4,763</td>
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<tr>
<td>Japan</td>
<td>4,356</td>
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<tr>
<td>Russia Small Business Fund ²</td>
<td>3,883</td>
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<td>Switzerland</td>
<td>3,608</td>
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<tr>
<td>United States</td>
<td>2,308</td>
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<td>Netherlands</td>
<td>1,949</td>
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<td>Austria</td>
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<tr>
<td>Mongolia Cooperation Fund ³</td>
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<tr>
<td>Northern Dimension Environmental Partnership ⁴</td>
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<tr>
<td>Finland</td>
<td>1,234</td>
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<tr>
<td>United Kingdom</td>
<td>1,210</td>
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<tr>
<td>France</td>
<td>1,176</td>
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<tr>
<td>Nordic Regional Venture Fund ⁵</td>
<td>792</td>
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<tr>
<td>Sweden</td>
<td>755</td>
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<tr>
<td>Germany</td>
<td>652</td>
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<tr>
<td>British Petroleum (BP)</td>
<td>634</td>
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<tr>
<td>Norway</td>
<td>574</td>
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<tr>
<td>Spain</td>
<td>454</td>
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<tr>
<td>Balkan Region Special Fund ⁶</td>
<td>433</td>
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<tr>
<td>Ireland</td>
<td>329</td>
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<tr>
<td>Luxembourg</td>
<td>234</td>
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<tr>
<td>Greece</td>
<td>100</td>
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<tr>
<td>Taipei China</td>
<td>95</td>
</tr>
<tr>
<td>Denmark</td>
<td>85</td>
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<tr>
<td>Baltic Technical Assistance Fund ⁷</td>
<td>52</td>
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<tr>
<td>Belgium</td>
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<tr>
<td>TC Special Fund</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78,459</strong></td>
</tr>
</tbody>
</table>

¹ Early Transition Countries Fund – Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom.

² Russia Small Business Fund – G7 countries and Switzerland.

³ Mongolia Cooperation Fund – Japan, Luxembourg, the Netherlands and Taipei China.

⁴ Northern Dimension Environmental Partnership – Belgium, Canada, Denmark, the European Community, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom.

⁵ Nordic Regional Venture Fund – Finland, Norway and Sweden.

⁶ Balkan Region Special Fund – Austria, Canada, Denmark, Germany, Norway, Switzerland and Taipei China.

⁷ Baltic Technical Assistance Fund – Finland, Norway and Sweden.
**Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAS</td>
<td>Business Advisory Services</td>
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<tr>
<td>CEI</td>
<td>Central European Initiative</td>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>DEG</td>
<td>Deutsche Entwicklungs Gesellschaft</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>DIF</td>
<td>Direct Investment Facility</td>
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<td>DLF</td>
<td>Direct Lending Facility</td>
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<td>EAR</td>
<td>European Agency for Reconstruction</td>
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<td>EBRD, the Bank</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<td>ETC</td>
<td>Early transition countries</td>
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<td>EU</td>
<td>European Union</td>
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<td>FMO</td>
<td>Netherlands Development Finance Company</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ISPA</td>
<td>Instrument for Structural Policies for Pre-accession</td>
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<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau</td>
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<td>KIDSF</td>
<td>Kozloduy International Decommissioning Support Fund</td>
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<td>MCF</td>
<td>Mongolia Cooperation Fund</td>
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<tr>
<td>MCFF</td>
<td>Medium-sized Co-financing Facility</td>
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<tr>
<td>MEI</td>
<td>municipal and environmental infrastructure</td>
</tr>
<tr>
<td>MSE</td>
<td>micro and small enterprise</td>
</tr>
<tr>
<td>NDEP</td>
<td>Northern Dimension Environmental Partnership</td>
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<tr>
<td>REBIS</td>
<td>Regional Balkans Infrastructure Study</td>
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<tr>
<td>RSBF</td>
<td>Russia Small Business Fund</td>
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<tr>
<td>RVF</td>
<td>Regional Venture Fund</td>
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<tr>
<td>Seco</td>
<td>Swiss State Secretariat for Economic Affairs</td>
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<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
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<tr>
<td>TaiwanICDF</td>
<td>International Cooperation Development Fund of Taipei China</td>
</tr>
<tr>
<td>TAM</td>
<td>TurnAround Management</td>
</tr>
<tr>
<td>TC</td>
<td>technical cooperation</td>
</tr>
<tr>
<td>TCFP</td>
<td>Technical Cooperation Funds Programme</td>
</tr>
<tr>
<td>TFP</td>
<td>Trade Facilitation Programme</td>
</tr>
</tbody>
</table>

**Glossary of terms**

**Micro, small and medium-sized enterprises**
A micro enterprise is defined as a company with 20 or fewer employees; a small enterprise is a company with 100 or fewer employees; and a medium-sized enterprise is one with 250 or fewer employees.

**The EBRD’s countries of operations**
Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Former Yugoslav Republic of Macedonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Serbia and Montenegro, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

**Country groupings**

**Commonwealth of Independent States**
Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

**Early transition countries**
Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

**EU candidate countries**
Bulgaria, Croatia, Romania. While FYR Macedonia became an EU candidate country at the end of 2005, for the purpose of this report it is included in the Western Balkans.

**EU member states**
Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.

**G7**
Canada, France, Germany, Italy, Japan, United Kingdom, United States.

**G8**
G7 countries, Russia.

**Western Balkans**
Albania, Bosnia and Herzegovina, FYR Macedonia, Serbia and Montenegro.
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