The EBRD is an international financial institution that supports projects from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters transition towards open and democratic market economies. In all its operations the EBRD follows the highest standards of corporate governance and sustainable development.

**About this report**

Donors and public sector institutions play a critical role in advancing transition in the EBRD region. Their funding helps prepare the way for Bank projects, foster reform and improve the investment climate. The annual *Donor Report* provides updated information on how donors support the development of the private sector, the provision of basic infrastructure services, transfer of skills and strengthening of regulatory, financial and other institutions.
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Message from the President

The relationship between the EBRD and its donors is a proven partnership that continues to work effectively to further transition in the Bank’s countries of operations. In 2008 we showed again the value of this partnership. And as we look to the challenging period ahead, it is clear that a concerted team effort is crucial as the Bank rolls out its operational crisis response to countries in the region and its business clients.

For EBRD-donor relations, 2008 was a milestone year. To complement the considerable contribution of the donor community, the EBRD launched the Shareholder Special Fund with an allocation from the Bank’s 2007 net income. This introduced a new and important financing instrument that gave the Bank flexibility to support technical assistance that otherwise would not have been possible and to remove bottlenecks to the preparation of banking projects.

Importantly, this Fund allowed the Bank to enhance the vital work of multi-donor funds, in particular the Early Transition Countries (ETC) Fund and the Western Balkans Fund. In both cases, the ability to use financing from the Shareholder Special Fund to match that of these two funds markedly increased funding capacity for the year, thus supporting the Bank’s strategic objective of shifting the focus of its operations to the countries most in need of its help.

Promoting sustainability across the Bank’s operations is a shared endeavour of the EBRD and the donor community. The Bank’s Sustainable Energy Initiative (SEI) provides financing for energy efficiency and renewable energy projects to address critical issues of energy waste and cleaner power supply. Donor funding is vital to the SEI’s success, providing technical assistance and incentives that remove the barriers to developing sustainable energy efficiency investments.

As we can see, donor support for the Bank’s programmes is wide-ranging. The Northern Dimension Environmental Partnership (NDEP), sustained by donor governments and the European Union since 2002, is addressing some of the most pressing environmental problems in north-west Russia. Donor funds have enabled the TurnAround Management and Business Advisory Services (TAM/BAS) Programme to play an important role in 22 countries across the region. The Trade Facilitation Programme also benefits from strong donor support. In addition, donors are encouraging the EBRD’s ongoing efforts to promote gender equality and women’s participation in business through policy and far-reaching initiatives in its countries of operations.

Most of the funding provided by donors is used by the Bank for technical assistance, which helps prepare the way for Bank projects by developing management skills and helping to formulate sound legal systems and regulatory frameworks. Consequently, donors have an important leveraging effect, not only in mobilising investment capital, but also in developing human skills that, once transferred, reinforce growth stimulus from investments.

Understandably donors must be able to demonstrate that the taxpayers’ money that is contributed towards funding the various technical assistance programmes is being put to the best use. In recognition the Bank has drawn up a framework that will enable it to better measure the impact of technical assistance and so enhance its reporting to donors.

Looking forward, the role of donor funding will become ever more important as the EBRD supports its countries of operations in facing the challenges of the global financial crisis. By increasing its business volume as part of its operational response to the economic turbulence, the Bank will rely even more on technical assistance and grant funding. We look forward to a continued partnership with the donor community to confront the challenges ahead.

Thomas Mirow
President, European Bank for Reconstruction and Development

The role of donor funding will become ever more important as the EBRD supports its countries of operations in facing the challenges of the global financial crisis.
In 2008, €82 million was committed to 432 TC projects, about half of which (€40.2 million) went to the ETCs and Western Balkans.

The Shareholder Special Fund was launched by the EBRD with €115 million in 2008 to complement the work of donors.

Since May 2006, 22 bilateral donors and 5 multilateral donor funds have contributed €218 million to the activities of the Sustainable Energy Initiative.

Donor commitments, agencies and private sector entities have provided €2 billion in grants since 1991.
DONOR-FUNDED ACTIVITIES AND OFFICIAL CO-FINANCING

Donor funds mobilise investment capital and expertise in the EBRD’s countries of operations, giving local businesses access to consultants who help prepare the way for EBRD-financed projects and strengthen management know-how. They also develop environmental strategies and work to improve the legal framework for business. Donor programmes are funded by governments and international institutions, and are managed by the EBRD.
Donor funding

Donor funding helps the EBRD to address the challenges facing the transition countries. It ranges from agreements with single donors for specific projects to programme-wide arrangements involving multiple contributors. The number of active donor countries stood at 29 in 2008. In 2008 Singapore became a member of the EBRD donor community.

The Bank itself became a source of technical cooperation and grant funding in 2008 when the EBRD Shareholder Special Fund (see page 14) was launched to complement existing donor efforts. The Bank deploys donor funds through:

- technical cooperation (TC)
- investment grants
- performance fees and incentives
- risk-sharing facilities.

These harness finance for programmes supporting, for example, small business growth, improved employment opportunities, better access to clean water supplies and sewerage services, lower industrial energy usage, trade expansion or more efficient transport systems. They may also promote particular EBRD objectives, such as sustainable energy. Chart 1 shows the basic flow of donor funds to allocated Bank projects.

Technical cooperation
TC is provided through a range of programmes (detailed from page 40) and includes:

- consultancy services for feasibility studies as part of EBRD project preparation
- institutional reform
- procurement and project management assistance during project implementation
- energy audits

- the TurnAround Management (TAM) and Business Advisory Services (BAS) Programme
- the development of management skills
- legal advice to improve legislation and corporate governance, and to develop the regulatory framework.

Donor funding for the EBRD’s TC grants from 1991 to the end of 2008 reached a cumulative total of €1.4 billion (see Chart 2). The largest contributor has remained the European Union, working through the European Commission and, before the conclusion of its mission in 2008 and handover to the Commission, the European Agency for Reconstruction (EAR). Other principal providers have been Italy (including through the Central European Initiative – CEI), Japan and the United States.

Since 2000, TC assistance has been focused on the less advanced early transition countries (ETCs), Ukraine and the Western Balkan countries, which still face significant transition challenges. In 2008 donors contributed €50.9 million in TC funding for these countries.

Investment grants
Investment grants can be an alternative source of funding for projects for which the use of loan financing may be limited. Although not often used by the EBRD, grants can be particularly effective for infrastructure and energy projects in poorer countries and regions with limited finances and in heavily indebted countries subject to borrowing constraints. In 2008 investment grants worth €35.7 million supported Bank projects.

Performance fees
These represent incentive payments made to financial institutions under finance facilities supported by the European Union and other donors. They aim to promote the extension of loans to particular groups of borrowers or types of activity that help to achieve the priority objectives designated by the Bank and other donors.

Performance fees have focused mainly on programmes providing finance for small and medium-sized enterprises (SMEs), municipal governments (for environmental infrastructure), and borrowers pursuing efficiency improvements under the Sustainable Energy Initiative (see page 14). The Kozloduy International Decommissioning Support Fund (KIDS) in Bulgaria and the Bohunice International Decommissioning Support Fund (BIDS) in the Slovak Republic have funded the establishment of energy efficiency credit lines in these two countries.

Risk-sharing facilities
Grant support to risk-sharing facilities underpins the work of the EBRD’s Trade Facilitation Programme (TFP – see page 46), which promotes trade in the Bank’s countries of operations. Donor contributions provide guarantees to international banks and factoring companies. For example, the governments of Austria, Germany (through Kreditanstalt für Wiederaufbau – KfW), the Netherlands, Norway, Switzerland and Taipei China (through TaiwanICDF) have supported TFP activity in the Bank’s countries of operations.

Donor contributions have also been channelled through: the Romania Micro Credit Facility, which provides start-up loans for micro businesses with finance from the EU Phare Programme and the Romanian government; and the Central Asian Risk-Sharing Facility, which provides access to finance for micro and small enterprises in the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

Transition challenges

While specific transition challenges may vary from country to country, there are several prominent issues of common concern to be addressed in 2009.
Donor-funded activities and official co-financing

**Global financial crisis.** This is placing new and, in some instances, severe demands on financial institutions, businesses, utilities and government agencies. The EBRD has highlighted several areas (see page 16) where donor support will be needed (for example, the banking sector in Ukraine), while demand by local businesses for advisory assistance is increasing across the transition region.

**Sustainable energy and climate change.** Municipalities are seeking to improve the energy efficiency and reduce the carbon emissions of local transport systems and district heating schemes. There is growing interest in developing additional alternative energy capacity, including hydroelectricity, as businesses look for ways to reduce the energy intensity of their production processes. Government agencies are improving regulatory frameworks for promoting energy efficiency and carbon trading initiatives.

**Improved infrastructure.** As demand for assistance with public-private partnership (PPP) programmes continues, urban transport improvements are being planned in key cities of the Western Balkans and ETCs. Municipal authorities are also seeking to improve water management and sanitation facilities. Critical air transport links are under development, and electricity regulators are seeking improvements in tariff setting.

**Access to finance.** There is growing demand from firms for trade finance through local banks, and from micro, small and medium-sized enterprises for funds for expansion. Financial institutions need advice on access to specialised facilities, including credit lines for energy efficiency improvements by industrial sector firms.

**Agribusiness development.** The need to improve the efficiency of the agricultural supply chain from farm to market (including exports) has been identified. In addition, support needed by the sector includes guarantee funds and warehouse receipts programmes.

**Legal and regulatory reform.** Initiatives are seeking to modernise competition law, mortgage law and corporate governance in order to promote an investor-friendly, transparent and predictable legal environment in key areas of commerce and finance.
Official co-financing

In 2008 co-financing of EBRD investment projects – joint financing with international financial institutions (IFIs), other organisations and governments – amounted to €430.7 million, with contributions distributed as follows:

- IFI and parallel loans from other organisations (€292.4 million) – emanating mostly from the European Investment Bank (EIB) and the International Finance Corporation (IFC)
- performance fees (€23.7 million) – provided in the context of EU programmes promoting accession compliance (Romania) and energy efficiency (Bulgaria and Romania)
- investment grants (€35.7 million) – provided by the Millennium Challenge Georgia (a grant from the United States), the Netherlands, as well as by the Bulgarian government and the Georgian city of Kobuleti
- participation and/or risk participation (€77.9 million) – provided by the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the Netherlands Development Finance Company (FMO), the OPEC Fund for International Development (OFID) and the government of Italy
- equity (€1.2 million) – invested by OFID.

The main beneficiaries of official co-financing were Ukraine (which received €150 million), Bulgaria (€83 million) and Moldova (€32 million). Official co-financing worth €83 million has also been used at a regional level. Grants were provided for projects in Bulgaria, Georgia and Moldova totalling €35.7 million.

Activities in 2008

Total funding committed for TC projects in 2008 amounted to €82 million (see Chart 3) which, although down on the 2007 figure of €92.8 million, was bolstered by the contribution from the EBRD’s new Shareholder Special Fund.

Most of the funding provided by donors was used by the Bank for TC activities in preparation of Bank projects, the development of business management skills, and assistance in formulating sound legal systems and regulatory frameworks. Priority sectors in 2008 included micro and small business development, sustainable energy and energy efficiency, municipal infrastructure and transport. Donor funds also supported the Bank in ongoing policy discussions with governments in its countries of operations.

The EBRD signed grant agreements with donors totalling €209.3 million for TC and official co-financing activities during 2008. This sum comprised new agreements worth €154.8 million and replenishments of existing funds totalling €55.3 million. The largest contribution was again provided by the European Union (€37.7 million), although an increasing proportion (€15.6 million) was channelled through multi-donor funds.

The EBRD’s activities continued to increase in the ETCs and the Western Balkans, which received €26.5 million and €13.7 million of funding, respectively. Ukraine was also a major beneficiary with €10.7 million. TC assistance to the new EU member states, mainly providing finance for micro, small and medium-sized enterprises (MSMEs) and for sustainable energy facilities, amounted to €8.6 million. In Russia €7.8 million of funding supported the development of small businesses, infrastructure and sustainable energy projects.

Donor funding is an essential component of the EBRD’s Sustainable Energy Initiative (see page 48). Support in the form of TC and grant financing enables the Bank to promote and develop energy efficiency investments. Since May 2006, €218 million in technical assistance and grant financing has been committed by 22 bilateral donors and 5 multilateral donor funds.

In May 2008 the EBRD’s Shareholder Special Fund was established to complement the funding activities of the donor community, with an initial allocation of €115 million for financing in the period July 2008–June 2009. The Fund will be directed principally to countries that are eligible for official development assistance (ODA), with a special emphasis on the ETCs and Western Balkans.

The Early Transition Countries (ETC) Fund (see page 26) has continued to coordinate assistance to the transition region’s poorest countries, where the substantial increase in EBRD activity largely reflects the level of donor support for TC and grant financing. The Fund is untied, meaning that money can be used without any restriction as to the nationality of the firm or experts contracted in a particular project. Donor funding is provided not only for the Bank’s investment strategies but also for promoting institutional reform and legal transition and for strengthening local businesses. The increasing trend in the number of TC projects and volume of commitments from the ETC Fund since 2003 continued in 2008, with commitments reaching a record €12.2 million (including co-financing from the EBRD Shareholder Special Fund).

The Western Balkans Fund (see page 30) continues to be a major regional channel for technical assistance, deploying donor support through a wide spectrum of EBRD
investments in transport and municipal infrastructure, institutional reform, tourism, legal transition, financial sector development and the promotion of small business. In 2008 pledges made by the 16 donor countries to the Fund (including Denmark, which joined during the year) amounted to €25 million, of which €17 million was allocated, and funding for over 40 projects was approved. The sectors to have benefited the most from this funding are financial institutions (27 per cent), transport (25 per cent) and micro lending (12 per cent).

A number of other vehicles to support investment in the Western Balkans have been established in previous years by the EBRD and Italy – the Western Balkans Local Enterprise Facility (LEF) (see page 32), the Albania and Kosovo Reconstruction Equity Funds (AREF-KREF), the Serbia and Montenegro Risk-Sharing Facility and the Bosnia and Herzegovina SME Framework Facility. Italy contributed around €15 million in co-investment money and over €4 million in TC finance to support the LEF. In 2008 the Bank’s investment in the Western Balkans was supported by the Italy/EBRD Private Sector Development TC Fund, as well as by the Central European Initiative (see box on page 30).

The Northern Dimension Environmental Partnership (NDEP – see page 35) was established to address environmental problems, particularly in north-west Russia. In 2008 the NDEP approved up to €30 million in grant funding for wastewater treatment in St Petersburg, and extended its activities into the Vologda region with a €3.5 million grant agreement for upgrading wastewater treatment facilities and improving water quality. NDEP donors also signed grant agreements totalling €74 million for nuclear decommissioning and safety projects.

Luxembourg supports the EBRD’s crisis response strategy and is willing to considerably step up its cooperation by establishing a new €2.5 million TC Fund devoted to ODA countries.

Jean-Claude Juncker
Prime Minister of Luxembourg and EBRD Governor for Luxembourg
The EBRD and donor community have reinforced their efforts to promote sustainability across the Bank’s operations, focusing on climate change adaptation, environmental health and safety, sustainable forestry, helping communities and promoting biodiversity. In May 2006 the Bank launched the Sustainable Energy Initiative (SEI), providing financing for energy efficiency and renewable energy projects to address critical issues of energy waste, energy security, climate change and cleaner power sources.

**Climate change adaptation**
In April 2008 the EBRD, in conjunction with the European Commission and the European Investment Bank (EIB), sought the views of commercial banks, major insurance companies, international agencies and donors on how a coordinated approach to climate change could be reflected in investments in a range of key sectors. The Bank is also establishing a team of experts to demonstrate how adaptation to climate change can be incorporated into EBRD operations and to develop methodological guidelines. This assignment is to be funded by the United Kingdom and the Bank’s Shareholder Special Fund.

**Environmental health and safety**
A series of training programmes, funded through the Shareholder Special Fund and based on a new EU regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals – REACH), took place in 2008 across Ukraine to improve environmental health and safety standards in the chemical and manufacturing sectors.

In Mongolia the ETC Fund is supporting a project to help the government to reduce chronic air pollution in districts of the capital, Ulaanbaatar. This includes the promotion of clean fuel substitution through a public awareness campaign highlighting the health benefits of using smokeless coal, and financial assistance for poorer families to make the switch from less expensive raw coal.

**Sustainable forestry**
Two projects in forestry-related sectors were initiated in 2008, both financed from the Bank’s Shareholder Special Fund. In Russia a consultancy firm was engaged to develop and implement a practical methodology for identifying investment projects that could benefit from the use of carbon credits in the timber, pulp and paper sectors. Using this methodology, banking teams could draw up a portfolio of potential carbon projects/investments. In Ukraine funding has been approved for a project to encourage sustainable forest management in the Carpathian Mountains by helping to implement Forestry Stewardship Council requirements to certify that the 15 forest enterprises in the Ivano-Frankivsk oblast are being managed to international standards.

**Helping communities**
In 2008 donor support from the ETC Fund and Western Balkans Fund was approved for a technical and commercial feasibility study into extending telecommunications coverage to rural and remote communities in Albania, Moldova and Serbia through the use of renewable energy sources and power-minimisation technology. In Russia, meanwhile, Canadian funding enabled the Russian Association for Indigenous Peoples of the North to host a conference to discuss how United Nations and EBRD policies and procedures relating to projects that affect indigenous peoples might be implemented within Russia.

**Biodiversity**
A programme funded by the European Union and led by the UK Royal Society for the Protection of Birds is under way to support SMEs in the steppe regions of Moldova, Russia and Ukraine that are willing to promote pro-biodiversity business initiatives.

Read more on sustainability in the EBRD Sustainability Report.

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Sweden strongly supports the EBRD’s Sustainable Energy Initiative. To complement this, Sida is setting up the Environmental and Climate Change Programme providing TC and grant financing.

Peeter Horn
Swedish International Development Cooperation Agency (Sida)
Investment impact

One of the key objectives of donor-funded TC is to leverage capital investment through EBRD-financed projects. In 2008, 35 per cent by volume of investment projects signed by the EBRD were supported by technical cooperation. The largest proportion of TC-supported projects was in the ETC and Western Balkans regions and Ukraine.

An example of 2008 investments that have been supported by TC funds is the upgrading to motorway standard of certain sections of the main north-south road through Bosnia and Herzegovina, known as Corridor Vc. This investment, signed in October 2008 for a total project value of €605 million, also aims to improve the institutional capacity of the recently established motorways agency in the country. The investment, supported by €590,000 of TC funds from the Central European Initiative and the Western Balkans Fund, will also help to prepare a resettlement framework and action plan for the upgrade work.

The leveraging principle extends beyond mobilisation of investment capital. The development of human skills also has an impact, although this can be more indirect and harder to measure. By ensuring that skills are transferred and take hold, the TC programmes reinforce the growth stimulus that comes from investment, and help to sustain it (see also “Assessing the impact of TC operations” on page 17).

Donor visibility

The EBRD promotes awareness and recognition of the crucial role that donors play in its operations through a range of publicity channels, including media releases, feature stories, donor interviews, poster advertising and thematic slideshows.

This material is available on the EBRD web site and in Blueprint, the Bank’s internal magazine. Details about people and projects supported by the EBRD and the donor community are featured regularly on the Bank’s web site, where information for each donor country is being created to show the full impact of its contribution to EBRD-financed projects.

Read more at www.ebrd.com/donors.
The EBRD Shareholder Special Fund became operational in 2008. This followed a decision by the Board of Governors at the Bank’s Annual Meeting in Kiev in May 2008 to allocate part of the Bank’s profits for its establishment.

The Fund’s key mandate is to complement existing donor funding operations through technical assistance and non-technical initiatives such as investment grants, incentive payments and equity participation. It will strengthen the Bank’s ability to support transition and has been structured to cover a range of countries (especially the ETCs and Western Balkans) and sectors (mainly infrastructure, sustainable energy and enterprise development).

For the period of the Fund’s first work plan, covering July 2008 to June 2009, €115 million was allocated for financing. The work plan defined the uses of the funding in terms of regions, sectors and other initiatives, with at least €45 million for the ETCs, €25 million for the Western Balkans, €10 million for the NDEP and €1 million for nuclear safety initiatives. Two-thirds of the allocation was earmarked for TC activities.

During the first six months of the Fund’s operations, €37 million of the initial resources was allocated. The ETCs were the principal recipients with €15.4 million (for 46 projects), while the Western Balkans received €6.4 million (for 14 projects) and other ODA countries €7.3 million (for 25 projects). Russia received €7.9 million, €6 million of which was in the form of grant financing to the NDEP for the Neva Discharges Closure project in St Petersburg (see opposite).

Although the Shareholder Special Fund is still in its infancy, its impact is already evident, particularly for the ETC Fund and the Western Balkans Fund, which have both benefited from its matching TC financing, making facilities of €10 million and €7 million available, respectively, for the July 2008 to June 2009 period.

Another major beneficiary is the Business Advisory Services (BAS) Programme (see page 50). Finance of €3.5 million has been provided for seven existing BAS programmes that would otherwise have been closed by the end of December 2008. In addition, the Fund will enable the establishment of planned new programmes.

Joint EU-EBRD action

The European Union, whose funds are administered by the European Commission, is by far the largest donor to the Bank, having provided cumulative funding in support of EBRD-financed projects of almost €800 million (including €194 million in grant agreements since 2004). Working with the European Commission, as well as the EU Council and Parliament and the EIB, is a complex undertaking, delivering not only funds but providing crucial policy frameworks that support the Bank’s mandate.

The EU enlargement process has been a key driver of transition in central and south-eastern Europe. The main focus of financial cooperation has been in the new EU member states that are EBRD countries of operations, where the EU/EBRD SME Finance Facility continues to be a major programme. The Bank, together with the European Commission and the EIB, also helps these new EU countries through the JASPERS programme (Joint Assistance to Support Projects in European Regions). This provides technical assistance for the development of high-quality infrastructure projects that will qualify for support from the EU Structural and Cohesion funds.

Joint EU-EBRD action, along with the EIB, is also focusing increasingly on promoting energy efficiency in line with the directions set out in the European Commission’s Strategic Energy Review, which was published in November 2008.
The Fund’s provision of a €6 million investment grant has also bolstered the NDEP’s €24 million contribution to a grant package for Russia’s Neva Discharges Closure project, which aims to significantly reduce pollution in the Gulf of Finland. In structuring the project, the EBRD co-operated closely with the Nordic Investment Bank and the EIB, which are also co-financing the project.

In addition to the NDEP grant, non-TC financing by the Shareholder Special Fund has been approved for a range of projects, including the Western Balkans Direct Lending Facility, incentive payments to kick-start an environmental carbon trading facility and an innovative small equity investment to support a credit card provider in Azerbaijan.

The Fund has also helped to finance the urgent preparation of “Assistance with Financial Sector Reform and Bank Resolution”, a rapid response programme drawn up by the EBRD in the wake of a banking crisis in Ukraine (see page 36).

Across different sectors and regions, the Fund has enabled teams to proceed with project preparation, particularly in the ETCs and some other ODA countries where there was an absence of other sources of finance. Importantly, this has removed bottlenecks in project development and aided planning, ensuring a predictable process at this early stage of operations.

Donors are encouraging the EBRD’s ongoing efforts to promote gender equality and women’s participation in business through policy and far-reaching initiatives in its countries of operations. These efforts include:

- **EBRD President Mirow accepting the Millennium Development Goal and Torch, committing the EBRD to moving forward on gender issues**
- **actively consulting with donors and other stakeholders, such as non-governmental organisations (NGOs); for example in December 2008 the Bank organised a workshop with civil society representatives on gender and women’s entrepreneurship**
- **Women in Business awards – at its annual meetings, the EBRD recognises women in business who have made outstanding achievements in developing or leading businesses in the region where the Bank invests**
- **micro lending programmes – women are well-represented in microfinance initiatives, both as recipients and within the staff and management of financial institutions, and the Bank is working with 106 micro lending partners**
- **Trade Facilitation Programme – women account for a majority of participants in TFP training services supported by TC funds**

Gender initiatives


In 2008 the European Commission committed €10.2 million for the Romania Accession Compliance Facility, providing technical assistance and finance for improved business standards in the SME sector. The European Commission has also provided important financing for EBRD projects through multilateral mechanisms (the Bohunice and Kozloduy international decommissioning support funds and the Northern Dimension Environmental Partnership), particularly for energy efficiency and environmental infrastructure initiatives.

Outside of the European Union, cooperation is focused in the Western Balkans through the Instrument for Pre-Accession (IPA) and in the “neighbourhood” countries (on the European Union’s eastern and southern borders) through the European Neighbourhood and Partnership Instrument. Financial assistance is delivered through national and regional programmes. Highlights of co-financing during 2008 from EU national programmes include: €1 million to support TAM advisory services for small and medium-sized enterprises in Albania; €5 million for the North Caucasus Micro, Small and Medium-Sized Enterprise Development Initiative in Russia; and €3 million to support public-private partnerships in the transport sector in Russia.

However, it is through the regional programmes that the bulk of EU-EBRD cooperation takes place. Since 2008 the European Commission has promoted new means of cooperation among the neighbouring countries and in the Western Balkans through centralised funds and co-financing between IFIs, providing visible financial leverage in support of EU accession and neighbourhood policies.

The EU Neighbourhood Policy provides the framework for the European Union’s relations with the states on its eastern and southern borders. Since 2008 a Neighbourhood Investment Facility (NIF) has been operating, combining EU and IFI funds for investments in infrastructure, environment and private sector development. During 2008, €26.2 million was approved for EBRD projects in these sectors. The NIF provides a strong forum for coordination among IFIs, the European Commission and bilateral donors, and represents a significant advance in EU-EBRD cooperation.
Strategic direction for 2009

In 2008 the full effects of the global financial crisis did not immediately hit many of the EBRD’s countries of operations. However, by the end of the year it was clear that the region would become embroiled to varying degrees of intensity.

As a result, the EBRD has drawn up an operational response that is guiding its strategic direction in 2009. This involves increasing the Bank’s projected 2009 investments to €7 billion. This is a rise of close to €2 billion and 33 per cent above 2008 levels of investment, with €500 million set aside to support the new EU member states. Significantly, the strategy is transaction-based, requiring tailored technical support for interventions and corrections, project development and implementation, and policy discussions with governments. Donor-funded activities and complementary action by the Shareholder Special Fund will follow specific strategic directions, set out below.

**Financial sector**
The EBRD has some 300 client banks in the transition region. These must be systematically reviewed to establish their liquidity, funding and capital adequacy situation and needs. Emergency assistance to Ukraine’s banking sector is under way. Banking technical assistance is also being provided to other countries, including Hungary, Kazakhstan, Latvia and Russia.

**Support for SMEs**
Support for SMEs is crucial to provide a counterbalance to spiralling unemployment in the hardest-hit countries. Demand from local businesses for advisory assistance is increasing. SMEs will need to look again at business models to help find restructuring solutions and develop appropriate marketing, sales and export strategies.

**SEI and infrastructure**
All existing projects are being monitored for liquidity, portfolio concentration of private operators and refinancing of short-term debt. In the infrastructure sector, the Bank is working to build co-financing activities with other IFIs. Sustainable energy projects cut costs and create jobs, and so are often a powerful way to invest in the real economy.

**Early transition countries**
The ETCs have suffered from the credit crisis through their exposure to Russian and Kazakh banks and, where applicable, through the collapse of commodity prices. This has sharpened the need for the Bank to maintain support for sustained reforms and the reduction of poverty. Underdeveloped infrastructure will require innovative investment involving grants.

**The Western Balkans**
Reinforcing financing institutions will be a priority. There will be a need to support nascent businesses by strengthening access to finance and advice and fostering new enterprises. Improvements in access to, and delivery of, affordable basic services such as water, electricity, transport and communications must be maintained.

The Shareholder Special Fund’s complementing of donor funding was an important reason for the Netherlands to substantially increase its donor pledge to the ETC Fund.

Josine Boissevain
Ministry of Foreign Affairs, the Netherlands
A key aspect of EBRD reporting to donors is the assessment of the effects resulting from TC operations. This section describes the framework that the Bank is adopting to improve this capacity. Studies based on this framework will be presented to donors during 2009.

The EBRD has, to date, reported to donors on the outcomes of TC assignments through the Project Completion Reporting system. This provides a description of each assignment, detailing the outcomes against the objectives set for it. In response to discussions with donors, the Bank is enhancing the existing reporting model to provide more information to donors on the impacts being achieved.

These enhancements are part of a broader international effort to improve understanding of the effectiveness of assistance initiatives implemented through IFIs. Donor agencies are seeking to strengthen the feedback they receive from IFIs, with particular focus on how funds are used and the extent to which they have been able to achieve stated goals. The EBRD is maintaining close contact with other IFIs to apply best practice to the enhanced impact assessment reporting.

At a meeting in November 2008, the Bank and donors agreed that development of the impact assessment framework in 2009 should focus on two main aims. First, the reporting should be more systematic in capturing the transition and performance-related impacts of EBRD operations at client level. Second, the Bank should begin studying the broader impact of its operations, taking into consideration community-wide effects such as poverty reduction, gender equality and improvements in the physical environment.
Impact categories
As shown in the diagram below, the results chain traces the flow of funds from the EBRD and donors through the clients that the Bank works with to the various impacts that can be monitored and assessed.

Three impact categories are identified:

Transition impacts, describing how an operation has helped a client advance the process of transition towards a market-based economy. An example might be how TC assistance has delivered institutional reform to a business, financial institution or utility.

Performance impacts, tracing how an operation has enabled a client to achieve specific performance goals. Examples might include numbers of people gaining access to clean water, or numbers of micro loans disbursed, or reductions in energy use, carbon emissions or pollution. Performance impacts may also include measures of funds mobilisation achieved by the use of TC (such as the ratio of investment capital mobilised per unit of donor funding).

Broader community impacts, describing how a Bank operation affects the community beyond the client level. These may include effects on household income (and poverty reduction), on gender equality, or on overall environmental conditions, thereby reflecting the wider goals of international assistance efforts.
Cause and effect

The impact assessment process focuses not only on documenting outcomes. Donors are interested in knowing the extent to which their programme inputs have caused the resulting impacts.

Some impacts may be foreseen with a reasonable degree of certainty. For example, when the EBRD provides TC and investment funds to a client, it can identify and use as a point of reference the impacts that it expects to achieve as a result of its intervention. These can in turn be verified as part of the Bank’s internal review processes. Such impacts may be deemed to have been caused by Bank/donor intervention when assessed retrospectively. This category will typically include client-level transition and performance impacts where the EBRD identifies in advance what it expects from clients (often as a loan condition).

For the broader category of impacts (which cannot be credibly foreseen and verified), the relationship between cause and effect is much harder to establish. Typically, these are the impacts that occur as a consequence of the actions of the Bank’s clients (but are essentially beyond client control) and relate to broader community concerns. For this category, it becomes necessary to know, or estimate, what would have happened to the target group in the absence of a particular project or programme.

The framework outlined above provides scope for the EBRD to expand its reporting to donors based on assessment of the different categories of impacts. The work programme for 2009 will be aimed at client-level transition and performance assessments and also at broader impacts focusing on the Bank’s lower-income countries of operations.
Donor-funded activities and official co-financing
REGIONAL ACTIVITIES

In 2008 donor support increased in the ETCs and Western Balkans, with the two regions receiving €26.5 million and €13.7 million, respectively. This was enhanced by matching investment from the EBRD’s Shareholder Special Fund. TC commitments for Russia reached €7.8 million, while €10.7 million was provided for Ukraine and the EU member states received €8.6 million.
Countries of operations

While the global financial crisis did not impact fully on the EBRD’s countries of operations in 2008, its negative knock-on effects were felt in varying degrees across the region. Most affected were the more advanced countries, as well as Kazakhstan, Russia and Ukraine with their more developed financial sectors and greater vulnerability to international markets.

At the end of the year, the Bank took a lead role, supported by TC funding, in the Ukrainian government’s financial sector rescue and reform programme and is looking to support the banking sectors of other countries. These developments serve to underline the increased importance of donor-funded TC and non-TC support in probable crisis interventions in transition countries in the period ahead. TC commitments across the EBRD’s countries of operations are shown in Chart 4.

The European Commission and the EBRD have a long tradition of good cooperation. The Neighbourhood Investment Facility has reinforced those ties in offering new opportunities to jointly support our eastern neighbours.

Richard Weber
Deputy Director General, Directorate-General EuropeAid, European Commission
Airport modernisation takes off in Moldova

Landlocked Moldova is one of the poorest countries in Europe. Like most transition countries, it needs a fully functioning, modern international airport to spur growth and development.

In 2008 the EBRD provided a €25.5 million loan to modernise Chisinau International, Moldova’s largest and busiest airport. The funding will be used to upgrade infrastructure, such as the existing runway and taxiways, and other core areas of the airport. The European Investment Bank (EIB) is co-financing the project with a €20 million loan.

This support follows the successful repayment of the EBRD’s first loan to Chisinau International in 1998 to improve its terminal. Since then, passenger and cargo traffic has grown sharply. In the first nine months of 2008 an estimated 800,000 passengers travelled through the airport, a 25 per cent increase over the same period in 2007; there was also a 24 per cent growth in freight and a 30 per cent rise in mail traffic.

Chisinau International is keen to further boost its commercial development, and multi-donor support will help integrate Moldova into the international air transport network. With its strategic location between Europe and Asia, the airport is an ideal hub for many major destinations and has several incentive programmes to attract new airlines.

This was the EBRD’s largest infrastructure project in Moldova in 2008. The European Union’s Neighbourhood Investment Facility (NIF – see page 15) is contributing €1.75 million in technical cooperation funds for assistance in preparing a 20-year airport master plan and for project implementation. The ETC Fund, Germany and the Netherlands are also providing TC finance for investment and feasibility studies and environmental audits. An environmental action plan has been developed to ensure that the airport modernisation meets EU and other international standards.

Read more at www.ebrd.com/moldova or www.ebrd.com/transport.
Early transition countries

Despite the progress of recent years, the transition to market economies has slowed in the ETCs – the poorest of the EBRD’s countries of operations. Challenges remain and substantial support is still required, particularly in the wake of conflict in Georgia in August 2008 and the global financial crisis.

Other factors hindering the pace of economic development have included:

- slow institutional reform
- weak governance and regulatory frameworks
- a difficult business climate and competition for foreign direct investment
- low levels of financial intermediation
- undeveloped domestic markets, together with limited access to world markets
- poor local infrastructure.

National debt levels are high in many ETCs and, under IMF programmes, these countries cannot shoulder new sovereign borrowing obligations that do not include an element of grant funding. This concessionary finance is critical to the implementation of many key infrastructure and energy projects. For example, the use of investment grants can help address affordability issues and environmental considerations or provide interim finance as utility tariff adjustments are phased in.

Donor funding for TC projects has enabled the EBRD to substantially increase its activity in the ETCs and to innovate and adapt products to the needs of the region. Nevertheless, the challenges arising from the global financial crisis that confront the Bank and its clients will require the continuing strong commitment of TC and non-TC investment resources.

In 2008 projects in the ETCs received €26.5 million in donor support (see Charts 4 and 5). The Bank’s ETC Initiative reached its target of 110 signed investment projects, bringing the annual business volume in the region to €550 million.

**ETC Fund**

In April 2004 the EBRD launched the ETC Initiative to help unlock the economic potential in the region. Since then, nearly 300 loan and equity projects in the ETCs have supported the development of private domestic enterprises, the financial sector and improvements to the local infrastructure.

The untied ETC Fund has sought to improve the overall coordination and efficiency of donor support. Since its establishment in 2004 it has been the main vehicle for channelling donor funding for technical assistance to the ETCs, providing more than 50 per cent of the total. The balance has come mainly from bilateral donors and, since mid-2008, from the Shareholder Special Fund. The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) has confirmed the official development assistance (ODA) status of the ETC Fund, which means that support provided through the Fund can contribute to each donor’s ODA target.

The ETC Fund has provided the impetus for a number of successful projects that would not otherwise have been possible. For example, the ETC Non-Bank Microfinance Institutions Framework has provided financing to microfinance institutions with accompanying technical assistance to target areas of possible weakness and/or to assist in expansion. A TC assignment training Georgian banks in loan procedures and corporate recovery is another example of where the ETC Fund is taking the lead in providing assistance where it is most needed.
The Fund provides untied flexible support to projects and clients within priority areas, allowing for timely interventions and ranging from small projects to large multi-faceted programmes. All donors provide input based on their common goals and experience.

The Fund has taken full advantage of the availability of matching funds from the Shareholder Special Fund, although many projects in the ETCs are also being financed by that Fund on a stand-alone or co-financing basis.

In the future, as the needs of the region become greater, technical assistance will continue to expand and even closer collaboration between the ETC Fund and bilateral donors and the Shareholder Special Fund will be necessary.

Contributing countries to the ETC Fund are Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China, and the United Kingdom. At the end of 2008 Germany also decided to become a contributor.

The ETC Fund is achieving its aim to support the Bank’s business volume in its poorest and neediest countries of operations.

**Gonzalo Ramos**
Ministry of Finance, Spain
Moldova’s energy sector is marked by a severe lack of primary energy resources. The country depends heavily on energy imports, mainly from Russia and Ukraine. Moldova is also nine times more energy- and carbon-intensive than the EU average (with current prices). With rising energy prices and a global financial crisis hitting developed and developing countries alike, Moldova has turned to the EBRD to invest in energy efficiency.

In 2008 the EBRD undertook a study to identify the most economically viable projects in renewable energy and energy efficiency in Moldova. The study was funded by the Czech Republic, a former recipient of donor funding that became a donor itself in 2007. The study found that all sectors of the Moldovan economy could benefit from investment in energy efficiency. The greatest potential lies in the residential sector, which is the highest consumer of heat energy and electricity and could achieve energy savings of up to 45 per cent. However, policy and regulatory frameworks would need to be strengthened before any investment could take place.

The public sector, including schools, hospitals and leisure centres, can also make huge energy savings. However, most municipalities lack the finance to modernise and maintain old public buildings and all too often they are not even aware of their energy “hot spots” – those buildings with the most flagrant energy waste.

The EBRD put the findings of the Czech-funded study to good use and in 2009 started to develop a €20 million Sustainable Energy Financing Facility for Moldova. Backed by the European Commission, the new Facility will lend to banks in Moldova through dedicated credit lines. These banks will then use the loans to finance energy efficiency and renewable energy projects in the industrial sector, small and medium-sized businesses, commercial properties and heat-generating renewable energy projects.

Read more at www.ebrd.com/energyefficiency or www.ebrd.com/moldova.
Fund pledges for technical assistance almost quadrupled from €14.7 million in 2004 to €57 million by the end of 2008. In addition, a €5 million grant for investment co-financing was provided by the Netherlands. Of the €57 million pledged, €50.5 million has been made available to date. Sweden is also providing €14.1 million in TC and non-TC grant funding on a bilateral basis, bringing the overall total of dedicated resources for ETCs to some €76 million.

The largest beneficiary in 2008 was Tajikistan, one of the Bank’s poorest countries of operations. It received TC funding of €7.1 million for 29 projects, including improvements to municipal and environmental infrastructure and credit line support for the promotion of small and medium-sized enterprises (SMEs). Other major beneficiaries were Mongolia with €3.5 million and Georgia with €3.2 million. ETC Fund support was also provided in all other eligible countries.

The ETC Fund meanwhile provided €2.5 million in 2008 for the implementation of micro lending programmes across the region and €2.4 million for water and wastewater projects. About 20 per cent of financing through financial intermediaries was dedicated to institutional reform.

**Bilateral donors**

In addition to the ETC Fund, there is strong support from donors on a bilateral basis, with €7.4 million provided to the ETCs in 2008. Japan has been the largest bilateral donor, followed by Sweden, Austria and Finland. Assistance has also been provided by Belgium (Wallonia), the Czech Republic, Korea, Luxembourg, the Netherlands, Norway, Spain, the United Kingdom and the United States.

**Financial instruments**

Several instruments have been developed with local banks in the ETCs to provide direct financing to medium-sized enterprises:

- the Direct Investment Facility (DIF) provides equity-type investments of up to €6 million in local private enterprises
- the Direct Lending Facility (DLF) provides direct loans of up to €4 million to enterprises in those countries where the local banking sector cannot make equivalent provision, principally the Central Asian ETCs
- the Medium-sized Co-financing Facility (MCFF) provides co-financing alongside local banks to enterprises whose requirements exceed what the local banks can provide because of regulatory constraints or their own diversification policies.
Western Balkans

While the Western Balkans have made considerable progress in transition in recent years, they are less advanced than their neighbouring states that have become new EU members. Donors nevertheless continue to play a crucial role in fostering regional growth and improving people’s economic prospects.

In 2008 donor funds of about €13.7 million were committed for regional technical assistance (see Chart 6), which continued to target micro, small and medium-sized enterprises (MSMEs) and infrastructure development. The Western Balkans Fund has committed €7.6 million, with additional support from Austria, Canada, the Central European Initiative (CEI), Denmark, the European Union, Greece, Italy, Luxembourg, the Netherlands, Portugal and Switzerland.

In the Western Balkans, as in other areas of EBRD operations, the European Union has been a key supporter of the Sustainable Energy Initiative (see page 48). In particular, funding worth €13.5 million from the Instrument for Pre-Accession (IPA), which offers assistance to EU-aspirant countries, was provided to support sustainable energy facilities for the region. Major donors included:

- Austria, Canada and the Italian-funded CEI, providing project support across the region
- Japan, providing funding for the TAM Programme (see page 50) in support of SME development
- the Netherlands, supporting ongoing expansion of the BAS Programme (see page 50) in Montenegro and in Serbia (including Kosovo).

Western Balkans Fund

The untied multi-donor Western Balkans Fund was set up in 2006 to mobilise and coordinate donor funding for technical assistance assignments in the region (comprising Albania, Bosnia and Herzegovina, the Former Yugoslav Republic (FYR) of Macedonia, Montenegro and Serbia, including Kosovo). It continues to be the major source of technical cooperation support to EBRD investments in the respective countries.

The Fund has provided support for the development of infrastructure, tourism, legal transition, the financial sector, micro lending and the strengthening of local businesses. There have also been TC funding contributions from various bilateral sources.

Contributors to the Fund are: Austria, Canada, the Czech Republic, Denmark (which became the 16th contributor in 2008), Finland, Hungary, Ireland, Luxembourg, the Netherlands, Norway, Poland, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom. Total pledges to the Fund amount to €25 million, of which €17 million had been allocated by the end of 2008.

In 2008 the Fund focused on:

- improving affordable access to, and delivery of, basic services and utilities, such as water, electricity, transport and communications
- promoting a good business environment for private sector development, with appropriate legal and regulatory structures and transparent accounting and corporate governance practices
- strengthening access to finance and advice for MSMEs and supporting the creation of new businesses, especially by women entrepreneurs
- reinforcing financial institutions
- promoting sustainable environmental best practice.

Projects approved by the Western Balkans Fund have served to boost TC-related activity in the Western Balkans. In 2008 approvals amounted to €10.2 million for 22 projects, with an additional €4.9 million of co-financing from the Shareholder Special Fund. The sectors to have benefited strongly from financing from the Fund to date are financial institutions (27 per cent), transport (25 per cent) and micro lending (12 per cent).

The Central European Initiative

The CEI was created in 1989 as an intergovernmental forum for political, economic and cultural cooperation between its 18 member states. It aims to help transition countries move closer to the European Union.
In 2008 the Fund’s financing capacity was increased when the new Shareholder Special Fund made funding available. Initial co-financing opportunities between the Western Balkans Fund and the Shareholder Special Fund were limited until the Bank approved a proposal for greater flexibility in the allocation of funding and made €4.9 million available in November 2008 to match finance from the regional facility. As a result, six projects co-financed by the two Funds with a total value of €8.7 million were approved.

An important recent development in the Fund’s activities is the increase in regional and multi-country TC projects, which account for one-fifth of the total operations. This reflects the focus of the EBRD on developing activity with a cross-border impact and promoting regional cooperation in the Western Balkans.

### Funding

In 1992 Italy and the EBRD set up a CEI Trust Fund, managed by a Project Secretariat at the EBRD. It helps those providing technical assistance to develop skills to identify, promote and appraise projects in the CEI region, as well as activities related to project implementation. A total of €28 million has been provided by the Italian government, with additional pledges of €2 million each for 2009 and 2010. Since its inception, the CEI has committed €17.5 million for 83 projects as technical assistance and co-financing. In addition, it has also committed €681,000 in know-how exchange programmes and €1.6 million in cooperation activities.

### Assistance

The CEI offers grant-type assistance for specific parts of a project, such as feasibility and pre-feasibility studies, sector and environmental engineering, management training, skills development and pre-loan audits. This support is in core sectors such as SMEs, transport, agriculture, energy efficiency, municipal infrastructure and services, banking, insurance and institutional reform.

In 2008 the CEI initiated eight projects to the value of €736,450, which supported EBRD-financed projects. These included a resettlement framework and action plan for the construction of Corridor Vc in Bosnia and Herzegovina, two regional energy audit programmes, and in Ukraine, the design of a Sustainable Energy Financing Facility and an analysis of the ESCO (energy service companies) market.

Member countries of the initiative are: Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, FYR Macedonia, Hungary, Italy, Moldova, Montenegro, Poland, Romania, Serbia, the Slovak Republic, Slovenia and Ukraine.

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**Chart 6**

<table>
<thead>
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<th>Country (number of projects)</th>
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<tbody>
<tr>
<td>Albania (18)</td>
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<tr>
<td>Bosnia and Herzegovina (17)</td>
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<tr>
<td>FYR Macedonia (5)</td>
</tr>
<tr>
<td>Montenegro (12)</td>
</tr>
<tr>
<td>Serbia, inc. Kosovo (44)</td>
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<tr>
<td>Multi-country/regional (11)</td>
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Source: EBRD
Other regional facilities

- Western Balkans Local Enterprise Facility (LEF) – a joint Italy/EBRD €32 million facility supporting private equity-driven investments in local enterprises in the region. In 2008, eight projects were funded by the Facility (three in Albania and one each in Bosnia and Herzegovina, FYR Macedonia, Serbia, Montenegro and Kosovo) with a total project cost of €90 million.

- Western Balkans SME Finance Facility – providing loans to local banks and leasing companies with donor support from the Italian Cooperation Fund for Private Sector Development in the Western Balkans (and previously from the EAR).

The EBRD is launching a Western Balkans Direct Lending Facility to make direct loans available to companies implementing energy efficiency measures, and an Energy Efficiency Credit Line Facility, which is an extension of similar arrangements that exist in Bulgaria, Romania and the Slovak Republic. Both new facilities will receive substantial funding from the Western Balkans Fund, the European Union, bilateral donors and the Shareholder Special Fund for TC and non-TC support.

- The Infrastructure Project Facility (IPF) was created by the European Commission in 2008 as a municipal window to provide investment grant financing to the EBRD, EIB and CEB.

- SME support has mainly been channelled through the European Fund for Southeast Europe, a multilateral fund led by KfW and in which the EBRD and EIB are shareholders. In 2009 a new EU-EBRD SME Finance Facility will be launched in the Western Balkans.

- In 2008 the European Commission provided €13.5 million for a regional energy efficiency facility through commercial banks. Building on this, the EBRD is developing new cooperative approaches with the Commission for energy efficiency schemes.

Since mid-2008 the EBRD has been working with partner institutions to create a Western Balkans Investment Framework (WBIF) that would streamline the above instruments and other donor initiatives in the region, ensuring operational coherence and effectiveness. The new framework will be operational by mid-2009.

For more on joint EU-EBRD action, see pages 14 and 15.

The Western Balkans Fund is a critical instrument enabling the Bank to respond faster and more flexibly to the needs of the countries of that region.

Juha Ottman
Ministry of Foreign Affairs, Finland
Tourism is the main growth sector in Montenegro but the unreliable water supply, particularly in summer, is undermining the country’s potential as a tourist destination and deterring international investment in the country’s coastal municipalities.

The Montenegrin government has therefore approached the EBRD and the World Bank for finance to construct a regional water supply system that will provide potable water from Lake Skadar, the largest lake in the Balkans. The EBRD has loaned €15 million to construct the northern branch of the system, which will supply water to the towns of Budva, Tivat, Kotor and Herceg Novi. The World Bank is also contributing funding for improvements.

The regional water supply system will serve a resident population of 170,000 and, during peak periods, up to 250,000 tourists. Construction is expected to be completed by 2010. A safe and uninterrupted water supply will benefit the local people and ensure that tourists keep coming back to Montenegro.

The EBRD’s multi-donor Western Balkans Fund is backing the project with crucial funding to cover procurement and supervision of the EBRD’s project input.

Better infrastructure in the Western Balkans is a precondition for increasing growth at national level and fostering regional cooperation and trade. The EBRD and donors of the Western Balkans Fund have become catalysts for improving infrastructure and making the region’s economies trade with each other and grow together.
Russia

The focus of the EBRD’s activities in Russia is on the transport, municipal, power utility, corporate and banking sectors, with particular emphasis on encouraging energy efficiency. Donor funding worth €7.8 million was committed for TC projects in 2008. The major contributors were Canada, the European Union, Finland, Japan, the Netherlands, the Northern Dimension Environmental Partnership (NDEP), Switzerland and Taipei China.

The European Union has targeted its funding on the Russian Regional Bank Framework (see opposite), aiming to strengthen banks based outside the established financial centres of Moscow and St Petersburg. It has also funded preparatory work for municipal water and district heating projects.

Finland provided over €1 million to finance project preparation work for four municipal water and wastewater programmes and agreed to finance some additional assignment costs.

Japan has concentrated its support in Russia’s Far East regions, providing €1 million to fund a framework for developing sustainable local transport. It has also continued its support to the BAS Programme in the Far East and for project preparation on municipal infrastructure and agribusiness assignments. Italy committed funds to provide technical support to the restructuring of a power plant at Reftinskaya GRES (OGK-5) and the government of Flanders (Belgium) provided TC advice to the state railways for its station modernisation programme.

In 2008 the NDEP (see box below) approved up to €30 million in grant funding for St Petersburg to complete the investments in the wastewater sector, which will reduce the amount of direct discharges of municipal and industrial waste entering the Gulf of Finland and the Baltic Sea.

Once completed, the city will achieve 98 per cent efficiency in wastewater treatment in compliance with EU and HELCOM (Helsinki Commission) standards. The EBRD has assigned €6 million to support this project from the Bank’s Shareholder Special Fund. Also in 2008, the NDEP signed a €3.5 million grant to upgrade a wastewater treatment plant in the city of Vologda, which helped to secure a €10.6 million EBRD loan and €3.6 million in local equity and other grants.
Meanwhile, on the nuclear side of NDEP, four grant agreements totalling €74 million were signed in June 2008. These included two nuclear decommissioning projects (the “Lepse” cargo ship and a nuclear submarine), nuclear fuel transportation and storage in Andreeva Bay, and radiation monitoring and emergency response systems in the Archangelsk region.

In 2008, €2.8 million of TC funding supported the EBRD’s Sustainable Energy Initiative.

**Russian Regional Bank Framework**

Donor-supported assignments are seeking to improve the operations of 10 Russian regional banks (Chelindbank, CIB, Bank Kazansky, Bank Kedr, NBD Bank Primsotsbank, SBK, Sibacadembank, Trancapitalbank and Ultransbank) in terms of risk management, strategic planning and corporate governance. With the availability of EU-funding of €6 million, these banks are aiming to compete more effectively with Moscow-based and other banks in their respective regions.

**Russia Small Business Fund**

The RSBF was established in 1994 by the EBRD and eight donor governments to expand the availability of bank credit to small businesses. Operating through branches of 26 partner banks (principally KMB Bank) across Russia, it receives funding from Canada, the EBRD, the European Union, France, Germany, Japan, Switzerland, the United Kingdom and the United States. The Fund lends capital to local banks who combine it with their own capital for on-lending to local entrepreneurs. It also uses donor funds to train staff in local banks how to respond to the credit needs of small business clients. Some 357,000 entrepreneurs have been financed through the RSBF with a total of €2.6 billion in loans.

**Northern Dimension Environmental Partnership**

The NDEP was set up in 2002 by the European Union and donor governments, including Russia, to address some of the most pressing ecological challenges confronting the Baltic Sea and Barents Sea regions and north-west Russia in particular.

The NDEP promotes cooperation between Russia, the European Commission, partner governments and IFIs, making it easier to raise funds for priority projects to benefit the environment of the Northern Dimension Area. The NDEP Fund, which is managed by the EBRD, finances nuclear and environmental projects.

In 2008 Russia confirmed its commitment to the NDEP by contributing an additional €20 million. This resulted in new contributions from the European Commission, Norway and Sweden. By the end of 2008, close to €275 million in donor funding had been committed to the NDEP by Belgium, Canada, Denmark, the European Union, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom. In addition, the EBRD’s Shareholder Special Fund allocated €10 million to the NDEP for its current environmental work plan.

Almost half of the committed funds are earmarked for environmental projects to mainly improve water and wastewater treatment, energy efficiency and management of municipal and agricultural solid waste. These grants are intended to complement IFI loans and mobilise local and international resources for municipal projects that otherwise may not be financially viable. For project implementation, the NDEP draws on the expertise and resources of the EBRD, the Nordic Investment Bank, the European Investment Bank, the Nordic Environment Finance Corporation and the World Bank. So far the Assembly of Contributors has approved 14 priority environmental projects in north-west Russia.

The remaining funds of over €149.7 million have been assigned for nuclear safety projects addressing the environmental legacy of the Soviet Northern Fleet. NDEP grants are designed to fully cover the investment costs of nuclear projects, which are developed in close cooperation with the Russian authorities.
In 2008 donor funding of €10.7 million was committed to projects in Ukraine, focusing on MSME financing and infrastructure projects at the industrial and municipal level.

Aided by France’s SEI support initiative, the city of Kiev is upgrading its transport system, while Canada, Sweden, Taipei China and the United Kingdom are helping the cities of Vinnitsya, Cherkasy and Odessa to improve their district heating networks and ensure energy savings. At the same time the Netherlands has supported a review of distribution tariff-setting, providing a sound platform for ongoing district heating system renewal. And France has contributed to the refurbishment of the railways by providing technical advice on renewing rolling stock, preparing a fleet management plan and developing a wagon tracking system.

The European Union provided €1.5 million to extend the Ukraine Micro Lending Programme, which helps micro and small enterprises (MSEs). This expansion will foster competition to improve services and expand the range of products available to MSEs, particularly in rural and agricultural areas. Italian funding has been made available for advisory services to the factoring sector.

**Financial institution reform**

Ukraine’s banking system has been seriously affected by the global financial crisis and the ensuing macroeconomic adjustment. Restructuring and recapitalisation is a government priority, and the EBRD has been asked by the Ukrainian authorities to provide technical assistance in support of a rapid response programme.

The first phase of the programme entails diagnostic studies of Ukraine’s banks to determine their financial health ahead of remedial action. Given the programme’s urgency and the uncertainty over other bilateral sources of finance, it was proposed that the funding (€2.3 million) be sourced from the EBRD’s Shareholder Special Fund. This unique operation was approved by the EBRD Board in December 2008, enabling the launch of the programme from January 2009.

**Energy saving**

Ukraine consumes three times more energy per unit than the EU average. However, it is attracting considerable assistance in support of efficiency initiatives, such as the promotion of renewable energy sources. The Energy Efficiency Programme for Ukraine (UKEEP), with donor support from Austria and Sweden, is a €100 million credit facility developed by the EBRD for participating banks to finance energy efficiency and renewable energy projects in the Ukrainian private sector. More than 60 clients have benefited from UKEEP.
Belarus, Kazakhstan and Turkmenistan

In 2008, €9.5 million of donor funding was committed to projects in Belarus, Kazakhstan and Turkmenistan. The EBRD’s TC funding continued to focus on MSME financing and development, support for infrastructure projects and industrial and municipal energy efficiency, and sustainability.

Belarus
EBRD activities in Belarus have concentrated on developing private sector financial institutions that can support MSMEs and so stimulate grass-roots economic growth. In 2008 donor funding supported eight technical cooperation projects worth €2.6 million, all centred on MSME lending and banking activities.

This included US$200,000 (€143,000) from the US/EBRD SME Finance Facility and €500,000 from the Shareholder Special Fund to extend the TC programme in support of the €36 million Belarus MSME Finance Framework, which assists micro, small and medium-sized businesses. Three Belarusian commercial banks are benefiting from technical assistance to improve their MSE lending operations, to train staff and to broaden their MSE client base, particularly outside of the capital.

Kazakhstan
The EBRD is the biggest single investor (apart from the oil industry) in Kazakhstan. The Bank has investments of some €3.5 billion in more than 100 projects across all sectors, but with a particular focus on MSMEs, energy efficiency, and the undeveloped national and municipal infrastructure. In 2008 Kazakhstan was assisted by €4.3 million in technical cooperation funding for 21 projects in the Bank’s key areas of operations.

As some 20 per cent of Kazakhstan’s economic output can be attributed to the MSME sector, the government has identified small business growth as essential for sustainable economic development. The EBRD has provided a loan of €36 million to the Bank Credit Centre (BCC) to support the expansion and further development of MSMEs in Kazakhstan. This was backed by technical cooperation financing from Luxembourg to improve the efficiency of lending procedures. In this respect, the existing Japan-Kazakhstan Small Business Programme has developed a credit scoring system for MSMEs that provides an assessment of their credit records and enables a more streamlined decision-making process for loans.

The Kazakhstan government is determined to reduce the high energy intensity in the economy, exacerbated by growing demand and supply constraints. With EBRD support, the Kazakhstan Sustainable Energy Finance Facility (KAZSEFF) was launched in 2008 with TC funding from Germany, Japan, Norway and the United Kingdom. The €75 million facility will provide dedicated credit lines to local financial institutions for on-lending to local companies to finance investments in sustainable energy. The project will demonstrate the benefits of using energy wisely to improve industrial competitiveness.

In infrastructure, Japan provided €1.1 million for advisory services and to help with the preparation of a public-private partnership to upgrade a 120-kilometre section of the road between the Russian border and the city of Aktobe. The project, which will improve the road link between western Europe and China, is also being supported by the World Bank, the Asian Development Bank and the Islamic Development Bank.

With donor support, the TAM/BAS Programme (see page 50) has continued to provide valuable assistance to business development.

Turkmenistan
The scope for EBRD activities in Turkmenistan remains limited because of the lack of progress in reform and a difficult business climate. Nevertheless, technical cooperation continued to support the development of the nascent private sector. In 2008 the country received €0.6 million in technical support.

Also in 2008 Switzerland provided funding for SME lending, while Ireland supported a TAM operation at a local brewery. In addition, the Bank’s Direct Lending Facility benefited from funding via the Shareholder Special Fund, enabling it to continue its support to local enterprises.

We are very happy to cooperate with the EBRD in Kazakhstan to expand bank lending to local energy efficiency projects. Germany will continue to support the EBRD’s work under the SEI.

Jurgen Keinhorst
Federal Ministry of the Environment, Natural Conservation and Nuclear Safety, Germany
In 2008 only three countries in this region benefited from donor TC funding: Bulgaria received €4.6 million, Romania €2.6 million and Croatia €1.4 million. Bilateral donors were Austria, the European Commission, Germany, the Kozloduy International Decommissioning Support Fund, Luxembourg, the Netherlands, Spain, Sweden, Switzerland and Taipei China.

In Bulgaria the TC funding supported EBRD investments in municipal improvements to water and wastewater facilities and a motorway development project. The Bulgarian Energy Efficiency Credit Line also received funding. In Romania the funding supported the Romania Micro Credit Facility and a district heating project. In Croatia funding has supported the TAM/BAS Programme, a wastewater project and capital markets training.

Towards the end of 2008, in light of the global financial turmoil, the Bank drew up its Operational Response to the Crisis, encompassing all its countries of operations. As part of the response package, the Bank earmarked €500 million for essential operations in central Europe, many of which will require TC support. The Shareholder Special Fund is a possible source of TC funding in this respect.
Starting or expanding a business can seem a daunting, if not impossible, task – not least during a financial crisis. However, leasing offers a lifeline for companies that do not have the cash to fund all their equipment needs from the outset.

The EBRD is seeking to strengthen and expand leasing to small and medium-sized enterprises (SMEs) in Croatia. In 2008 the Bank provided a €15 million loan to Raiffeisen Leasing under the EU/EBRD SME Finance Facility, which was set up exclusively for the financing of leases. In addition, Raiffeisen Leasing will receive more than €875,000 in technical assistance from the European Commission.

Raiffeisen Leasing is the third largest leasing company in Croatia with a market share of 8 per cent. Its success has been based on the quality of the assets that it owns, as good equipment means lower service and maintenance costs. Its huge product range – over 100 – and variety of assets also provide security. While many of Raiffeisen’s clients are family-owned agricultural businesses needing crop harvesting equipment, newly emerging industries, especially those using the latest technology such as digital printing, are also looking for leasing finance.

The company is already putting the EU funds allocated for technical assistance to good use. It is deploying the first tranche of €100,000 to train its management and sales employees with the help of Croatian and British consultants.

The European Union is the largest contributor to the EBRD with €521.4 million having been committed to the EBRD-EU technical cooperation fund since 1991. EU funding covers areas ranging from support for small business to the improvement of safety at nuclear power stations.

In Russia, EU funding has helped the EBRD increase lending to the municipal sector, improve lending to SMEs, promote private sector development and enterprise restructuring and improve infrastructure.

Read more at www.ebrd.com/croatia or www.ebrd.com/sme.
KEY PROGRAMMES AND SECTORS

Funding support from donor countries and official co-financiers enables the EBRD to advance transition through a range of key programmes and facilities tailored to specific needs, services and sectors. These programmes cover small business lending, financial institutions, trade finance, advisory services, sustainable energy, legal reform, municipal and environmental infrastructure and transport.
Various EBRD lending programmes provide access to credit and other services for micro and small enterprises (MSEs), which form a key element of financial sector development. Since 1997 the Bank has invested €1.2 billion under these programmes, supported by €185 million in TC funds.

These MSE lending programmes are continuing to expand through local commercial banks and non-bank microfinance institutions (NBMFIs) to help rural areas and small farming enterprises in particular. The Bank’s investments are accompanied by technical assistance to strengthen partner institutions and to establish efficient credit procedures for lending to small business clients.

There are 13 MSE lending programmes operating through commercial banks in 12 transition countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, Russia, Ukraine, Uzbekistan and Tajikistan (which has two programmes). These facilities support local economic growth and employment and encourage a dynamic MSE sector, which is a vital component of a market-based economy. Crucially, in the context of the global financial crisis, institutional reform programmes focus on risk management and corporate governance issues.

NBMFIs have proved to be efficient providers of microfinance in the EBRD’s countries of operations. Since 2005, the Bank has been providing funding to them through loans, guarantees and investments, as well as targeted technical assistance. This assistance focuses on strengthening risk, asset and liability management and operational procedures. The Bank has partnerships with 29 NBMFIs.

Technical cooperation funding
In 2008 co-financing by the ETC Fund and EBRD Shareholder Special Fund supported the following small business lending:

- an extension of credit advisory services under the Azerbaijan Financial Sector Framework. This facility promotes the development of private companies and the financial sector in Azerbaijan by increasing medium and long-term financing through local banks and NBMFIs
- extension of the Armenien Micro lending Programme in support of the Armenian Multi-Bank Framework Facility, through which the Bank seeks to develop Armenia’s financial sector
- extension of the Mongolian Multi-Bank Framework in order to maintain TC support for the Mongolian Financial Sector Framework to increase financial intermediation in the banking sector
- extension of the Tajik Agricultural Finance Facility (TAFF), which provides untied, seasonal working capital to small farmers to encourage them to diversify their crops and employ best farming practices, and to train credit advisers and agronomists in partner banks
- support for partner NBMFIs in the early transition countries.

Other TC support included funding from the Western Balkans Fund to help MI-BOSPO, a microfinance institution in Bosnia and Herzegovina supporting women entrepreneurs (see case study on page 44), and an extension of the Belarus MSME Finance Framework with funds from the US/EBRD SME Finance Facility and the Shareholder Special Fund.

We support the EBRD’s microfinance programmes in the Western Balkans which are vital in helping the region to face the force of the global financial crisis.

Kjell Per Mannes
Ministry of Foreign Affairs, Norway
Simon Naumoski has been with Vitaminka, the largest food manufacturer in FYR Macedonia, since 1974 and is now the general manager. A former member of parliament, he says that he prefers business to politics.

Just like the country itself, Vitaminka has seen tumultuous days and survived. “The company was created to meet the needs of the unified former Yugoslav market. Until the dissolution of former Yugoslavia in 1991, Vitaminka was catering for 24 million people and its sales reached €34 million per year”, explains Mr Naumoski. After FYR Macedonia gained independence in 1991, the company struggled as neighbouring countries abruptly closed their borders, leaving a domestic market of just 2 million people.

The collapse of the export market was followed by four years of zero sales growth. However, Vitaminka persevered and survived. In 2007 it received its first loan from the EBRD – €4 million to develop new products and expand activity in the Western Balkans and other countries in the Bank’s region of operations.

Over 50 people have been hired to work on a new product – soft chocolate biscuits – that the company is introducing with the help of the EBRD loan. With sales growing steadily and an expanding client base, Vitaminka has become the second biggest private business in the city of Prilep, which is good news for the company’s 420 employees and the local farmers who provide the raw materials for its 300 products and who have not had to move elsewhere to find work.

The loan to Vitaminka is channelled through the Western Balkans Local Enterprise Facility (see page 32), an investment instrument established in 2006 by the EBRD with support from the Italian government to benefit businesses in the region in need of finance. A major supporter of EBRD-financed projects, particularly in the Western Balkans, Italy has contributed €107 million to the Bank’s technical cooperation funds and investment co-financing since 1992.

Building jobs from biscuits in FYR Macedonia

Read more at www.ebrd.com/macedonia or www.ebrd.com/sme.
Helping small businesses grow

Female entrepreneurs in Bosnia and Herzegovina have found a trustworthy partner in MI-BOSPO, one of the leading microfinance institutions in the country. MI-BOSPO was previously a humanitarian organisation created to help displaced women deal with the emotional wounds of the conflict of the early 1990s. It is now a leading microfinance institution that provides credit for Bosnian women entrepreneurs.

As memories of the conflict began to fade, more and more women approached MI-BOSPO for loans to start or expand their activities in farming, trade, production and services. It now provides finance to 25,000 women who have typically borrowed between €500 and €15,000. For example, Senada Selimbasic from Tuzla has been a client of MI-BOSPO for more than 10 years, having started a small accounting business in 1997. Ten years later she borrowed €15,000 to expand her practice, which now employs four people and serves a number of well-established clients.

As clients’ businesses grew bigger, so did MI-BOSPO and in 2008 the company turned to the EBRD for additional finance to help meet the growing needs of its small business clients. The Bank’s €3 million loan is accompanied by donor funds from the EBRD Shareholder Special Fund and the Western Balkans Fund.

Donor funding will help MI-BOSPO to adapt to the changing demands of the market economy. It will also be used to strengthen internal information technology, to audit and control risk management and processes associated with micro and small enterprise lending.

With finance from the EBRD and support from donors, MI-BOSPO will reach even more clients and, in particular, will be able to support the underdeveloped market for financing women entrepreneurs. Helping small business clients grow plays an important role in the transition of Bosnia and Herzegovina.

Read more at www.ebrd.com/sme or www.ebrd.com/bih.
Financial institutions

In 2008 TC funds continued to promote improved efficiency and transparency in the financial sector and assist financial intermediaries in becoming sustainable institutions operating on market principles and sound business practices.

During 2008 a total of €20.4 million was made available for financial institution TC projects (excluding grants for incentive payments), out of which €15 million has already been committed by a number of multilateral and bilateral donors. Funding allocations comprised: €12 million for projects related to energy efficiency credit lines; €6 million for bank and non-bank institutional reform programmes; and €2.4 million for various advisory schemes, the Trade Facilitation Programme and the development of financial products and markets.

Technical support was targeted mainly at the ETCs, Western Balkans, Russia and Ukraine, and focused on institutional and energy efficiency development through individual assignments and established financial institution facilities.

Institution building plans

In many equity investments, EBRD representation on the boards of investee banks is complemented by an institution building plan (IBP). This identifies areas in which an equity partner needs to improve to ensure that the objectives of the investment, as well as transition, are being met.

IBPs and supporting TC assignments are being designed individually for each client to address deficiencies and bottlenecks in corporate governance, management, organisational structure, internal audit, information technology and human resources. As well as introducing sound banking practice, IBPs encourage the transfer of modern financial skills and technology and of high corporate standards to the financial sector.

Particular emphasis is placed on the ability of recipient institutions to ingest expert TC advice and then to flourish after the assignments have been completed, as sustainability is a critical objective in the transition to a market economy.

Assistance with IBPs is being supported by a number of donors and through individual assignments or programmes. For example, the European Union has provided €10 million for the implementation of IBPs until the end of 2010 through the Russian Regional Bank Framework and SME institution building frameworks in parts of the Western Balkans and Ukraine. The aim is the transfer of expertise to regional banks, increasing their attractiveness as acquisition targets and contributing to the consolidation of banking sectors.

IBPs help promote the growth of existing creditworthy local banks, boosting the confidence of depositors and other investors and encouraging the development of healthy competition in the sector.

Bank finance for energy efficiency

The EBRD has developed energy efficiency financing through local banks in Bulgaria, Georgia, Romania, the Slovak Republic and Ukraine, and other projects are in preparation in Kazakhstan, Moldova, Russia and the Western Balkans.

Six energy efficiency finance facilities were active in 2008, for which the EBRD has made €462 million available for on-lending to local banks. Thirty banks have signed loan agreements: some banks are participating in multiple facilities, and some have asked to have their original loan amounts increased to match market demand. The six facilities are supported by €71 million in TC funding from eight donors.

Conferences

The EBRD has continued to work on the issue of handling remittances, staging a conference in Tbilisi, Georgia, financed by the ETC Fund and engaging consultants for an assignment entitled “Financial Inclusion and Access to Financial Services for Remittance Receivers”.

Two other conferences were held at the EBRD’s headquarters in London: one on Basel II was funded by Switzerland and another on the impact of the liquidity squeeze on the banking sector of emerging Europe and the Commonwealth of Independent States (CIS) was financed by Taipei China.

In 2008 we replenished our most important financing tool in the Western Balkans, the successful Local Enterprise Facility. We remain committed to supporting the Bank in addressing the SME needs of the region.

Carlo Monticelli
Ministry of Economy and Finance, Italy
The TFP was established in 1999 to help finance businesses engaged in export and import trade. Through the programme, the EBRD takes on the political and commercial payment risk of transactions undertaken by issuing banks and factoring companies in the countries where the Bank operates.

Over 100 issuing banks and factoring companies participate in the programme, together with over 600 confirming banks throughout the world. As of November 2008, the TFP had facilitated more than 7,600 trade deals worth nearly €4.7 billion.

Donors support the TFP by providing finance for risk-sharing facilities and training and advisory services.

Risk-sharing helps banks to obtain access to international finance, widen their trade finance skills, introduce transparent banking practices and enable staff to gain experience working with Western confirming banks. The EBRD has the following risk-sharing funds:

- South-Eastern Europe Initiative, supported by Austria, Germany, the Netherlands, Norway and Switzerland
- Central Asia Risk-Sharing Special Fund, backed by Germany and Switzerland
- Financial Intermediary Investment Special Fund (covering Armenia, Azerbaijan, Georgia, Moldova, Russia and Ukraine) to which FMO, the Netherlands, the OPEC Fund for International Development and Taipei China contribute.

TC consultancy services and training seminars on trade finance practices and products have been provided for banks in 17 EBRD countries of operations. As of 2008, more than 1,200 bankers from over 200 banks in 17 countries had benefited from presentations, workshops, seminars, meetings with clients and team discussions. Workshops in advanced trade finance techniques and factoring were organised during 2008 in Belarus, Moldova, Montenegro, Russia, Serbia and Ukraine.

**Factoring**

During 2008 there was increasing demand for TC-funded consultancy and training in factoring – lending money to a company on the security of money owed to that company – which is a fast and flexible method of improving a company’s cash flow. Through factoring, companies get immediate access to cash that might normally be tied up for 30, 60 or 90 days.

Factoring has attracted the interest of issuing banks and international factoring companies in Russia, southern and eastern Europe, Central Asia and the Caucasus, although few banks are as yet experienced enough to sustain this innovative service.

In 2008 the Credit Bank of Moscow signed a factoring finance facility with the TFP of up to €14 million to finance sales by small and medium-sized producers, importers and traders across Russia. Through factoring, Credit Bank can provide its clients with an additional way to obtain trade finance and help local SMEs to become more competitive and take advantage of growth opportunities.
Moscow-based Transcapitalbank services the needs of small and medium-sized businesses primarily in the regions of Russia. As a long-time partner, the EBRD is standing by the bank at a time when the financial crisis is battering the world economy, and increasing its facility under the Trade Facilitation Programme (TFP) by US$30 million (€21 million).

In times of scarce finance, the increased amount helps Transcapitalbank to meet the demand in trade finance and support local clients, especially small and medium-sized enterprises particularly affected by the current financial crisis.

In December 2008 Transcapitalbank also received a 10-year EBRD loan of €10.7 million to strengthen its balance sheet. EBRD investment in Transcapitalbank and donor funding provided by the European Commission are helping to improve the bank’s strategic planning, credit procedures and risk management.

Designed to help banks in the EBRD countries of operations to reduce cash collateral requirements and free up clients’ working capital, the TFP receives strong donor support with €5 million committed since its creation in 1999. Funding provided by donors is usually used to cover the costs of training and advisory services for bank staff and trade finance specialists who deliver advisory services for local banks; donor support is crucial if local banks are to increase operational skills and improve their international trade finance services.

Transcapitalbank joined the TFP in 2004 and has since used it to finance over 100 foreign trade transactions worth up to €100 million. The bank has already started to use part of its increased limit for the financing of imports of electric power tools and accessories to Russia.

Read more at www.ebrd.com/tpf.
In May 2006 the Bank launched the SEI, envisaging a doubling of financing (to €1.5 billion) for energy efficiency and renewable energy projects over the 2006–08 period. The initiative reflects the need, recognised at a national and international level, to address critical issues of energy waste, energy security, climate change and cleaner power sources.

The SEI promotes industrial energy efficiency, sustainable energy financing facilities through financial intermediaries, cleaner power generation and transmission, renewable energy, efficiency in municipal infrastructure, and the development of the carbon credit market in the EBRD’s countries of operations.

Barriers to commercially viable energy efficiency projects generally reflect weak technical, institutional and regulatory capacity, as well as commercial inertia. The EBRD has integrated SEI objectives into its mainstream banking operations and business development strategies, and donor support, in the form of TC and grant investment financing, is an essential component.

In 2008 the Bank continued to scale up its investments in projects of all SEI areas, reaching €982 million by the end of the year, up from €748 million in 2006. Overall, the first phase of SEI investments reached €2.7 billion through 166 projects in 24 countries of operations, exceeding its three-year target of €1.5 billion by 77 per cent.

Donor support to the SEI
Continuing donor support will enable the EBRD to maintain and increase investment in sustainable energy in the region. Since May 2006, SEI activities have been supported by 22 bilateral donors and 5 multi-donor funds with a total donor contribution amounting to €218 million in technical assistance and grant co-financing. Grant funding allocated to SEI activities has leveraged EBRD investment by 25 times.

Austria, Canada, Italy (also through the Central European Initiative), Greece, the Netherlands and the United Kingdom have funded energy audits and energy management training arranged by the Bank to support energy efficiency improvements in many of its clients’ facilities. In the ETCs and the Western Balkans, SEI projects are supported by the multi-donor funds for those regions.

In 2008 alone, donor funds mobilised for SEI activities accounted for €133 million (€60 million for technical assistance and €73 million for grant co-financing).

The Bank and the Global Environment Facility have strengthened their cooperation and are currently focusing on four areas, including renewable power in Ukraine and energy efficiency in industrial, residential and public buildings in Russia.

Funding requirements of the SEI are also covered by the EBRD Shareholder Special Fund. Complementing donor support, the Fund aids the development of the SEI in more complex and innovative areas, such as enhanced policy dialogue with governments and promotion of lower carbon intensity in the power sector. The Fund also supports the further scaling-up of SEI activity in energy efficiency credit lines and municipal infrastructure energy efficiency.

The European Union has been the major donor to SEI projects, providing €72 million either directly or through its EBRD-managed nuclear decommissioning funds. The EU direct grant support amounts to about €47 million from the European Commission’s 2006 Phare Regional Facility, the EC Tacis Programme, and the EU IPA instrument. Indirect contributions account for €15 million by the Bohunice International Decommissioning Support Fund and €10.1 million by the Kozloduy International Decommissioning Support Fund to support, respectively, the Slovakian and Bulgarian EBRD sustainable energy financing facilities.

Austria is delighted to support the EBRD’s energy efficiency activities in the South Caucasus. We strongly believe the Bank’s work has a long-term impact on the countries in the region and increases public awareness.

Leander Treppel
Ministry of Finance, Austria
Georgia’s energy use is three-and-a-half times more intensive than advanced industrialised countries and the country is highly dependent on natural gas imports. Georgia has consequently turned to the EBRD for expertise and finance in promoting energy efficiency and sustainability. The Bank has put aside US$60 million (€43 million) for sustainable energy investments in the private sector in Georgia and neighbouring Armenia and Azerbaijan in the Caucasus.

Three Georgian banks – Cartu Bank, Bank Republic and TBC Bank – will receive up to €14 million from the EBRD’s Caucasus Energy Efficiency Facility to on-lend to industrial companies and residential customers. Industrial companies in particular have been faced with high energy prices and increasing insecurity of supply. Cartu Bank was the first to receive EBRD finance. An €8.6 million loan is targeting small entrepreneurs in the agriculture, tourism and health care sectors who are seeking to reduce costs by investing in efficiency measures. Loans to small businesses will range up to US$500,000 (€357,000).

Donors are backing the EBRD facility by providing funds to train local bankers in lending to, and auditing, industrial energy efficiency and renewable energy projects. The government of Canada, the UK Department for International Development Sustainable Energy Fund and the ETC Fund are providing €1.6 million for the Georgian initiative. Canada and the United Kingdom are key supporters of the EBRD’s efforts to promote the efficient use of energy from countries in central Europe to central Asia. Both donor countries contribute to the Bank’s Sustainable Energy Initiative, which by the end of 2008 had received €218 million in donor funds from 16 governments and the European Union.

Making Georgian business energy efficient

Read more at www.ebrd.com/energyefficiency or www.ebrd.com/georgia.
The TurnAround Management/Business Advisory Services (TAM/BAS) Programme helps micro, small and medium-sized enterprises (MSMEs) with technical support and management advice. TAM focuses on managerial and structural changes within companies, while BAS supports short-term projects with narrowly defined objectives.

Since 1993, TAM/BAS has carried out over 7,500 projects. TAM has been active in all the Bank’s countries of operations, except Turkmenistan (but will start its first projects there in 2009). BAS has been operating in 22 countries.

TAM/BAS has mobilised €176 million in donor funding since the programme’s inception in the early 1990s. The biggest single donor is the European Union (providing funding particularly through the Instrument for Pre-Accession and the now discontinued European Agency for Reconstruction).

TAM/BAS has received funding from more than 20 bilateral donors: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Taipei China, the United Kingdom and the United States.

Other multilateral contributors include the CEI, ETC Fund, Mongolia Cooperation Fund and Western Balkans Fund. Importantly, from 2008, TAM/BAS is also being sustained by the EBRD Shareholder Special Fund.

In 2008 TAM/BAS mobilised €15 million in donor funding for projects in 20 countries. TAM started more than 120 projects, mainly in the Western Balkans, Central Asia and the Caucasus. BAS started over 1,000 projects, mostly in the ETCs and the Western Balkans. BAS also opened an office in Khujand, Tajikistan, in June 2008 and began operations in Mongolia in October.

TAM/BAS has increased its focus on working with MSMEs in rural areas. This is in line with donor and EBRD priorities to assist economic development and diversification outside capital cities. There is greater emphasis on market development activities, such as MSME and consultancy training. BAS has an intensive programme of training courses in its countries of operations. In Serbia TAM has trained personnel from 180 companies in a series of eight courses.

TAM/BAS incorporates interlinked issues such as energy efficiency, environmental protection, gender equality, and fostering young entrepreneurs into all its programmes. Examples include the Japanese-funded TAM Environmental Programme and the BAS Women Entrepreneurs Initiative in the South Caucasus, which is funded by Canada, Taipei China and the ETC Fund.
Legal Transition Programme

The EBRD Legal Transition Programme (LTP) aims to improve the investment climate in transition countries by promoting investor-friendly, transparent and predictable legal environments for commerce and finance. This involves assistance on legislative drafting and strengthening underlying institutions, such as registries and courts.

The LTP continues to rely extensively on donors, although there has been some diversification of its funding sources. In 2007 a regular budget was established by the Bank to finance some previously donor-funded activities, mainly regarding legal framework assessment and programme publicity. In 2008 this funding enabled the LTP to undertake a survey of the telecommunications regulatory sector in the EBRD region and to organise an international conference with the World Bank on insolvency and creditors’ rights.

From 2008, the EBRD Shareholder Special Fund is providing a further source of finance for other projects, especially innovative ones such as impact evaluation. The Fund is financing a legal technical assistance project in Serbia to help the Ministry of Economy and Regional Development with business law reform and to ensure consistency with international standards and best practices. Fund resources have also enabled an extension of a programme to develop judicial capacity in the Kyrgyz Republic, providing additional training seminars for judges and support to the local judicial training centre, and an impact evaluation of mortgage law reform in Moldova (which had been funded by the Swiss government).

Other donor-supported projects

Support from the ETC Fund and Western Balkans Fund has had a very positive effect on the LTP, as untied funds are much more suited for legal reform work. In 2008 LTP reform projects included:

- ETC Fund financing for the development and implementation of a corporate governance code in Armenia, advising on telecommunications regulatory development in Moldova, and a clean air regulatory framework to address chronic pollution in Ulaanbaatar in Mongolia
- strengthening the Serbian Bankruptcy Supervisory Agency, with finance from the Western Balkans Fund
- advisory support, funded by Greece, to the Albanian Financial Supervisory Authority to implement a draft law on municipal and corporate bonds, and a subsequent impact analysis of the law, financed by Italy
- a telecommunications regulatory development programme in Tajikistan, financed by Korea
- assistance to the CIS Inter-Parliamentary Assembly with company law development, funded by Germany
- assistance to the Russian Ministry of Economic Development on corporate governance issues, financed by Italy.
The EBRD’s donor-supported municipal and environmental infrastructure (MEI) operations help local authorities improve the efficiency and quality of local services by promoting sound management and investment practices within a market-oriented regulatory framework.

In 2008 the MEI sector attracted €279 million for 19 transactions across the EBRD’s countries of operations, including innovative new projects such as the FLAG (Fund for Local Authorities and Governments) transaction in Bulgaria. Projects covered all areas of MEI ranging from water and wastewater, district heating, urban transport to solid waste management.

Donor funds totalling €10.5 million were provided in 2008, covering 48 TC assignments for both project preparation supporting the Bank’s due diligence and project implementation targeting institutional reform and risk management at client level. The major beneficiaries were Tajikistan and Ukraine (with €3 million each), plus Georgia and Kazakhstan.

In Kazakhstan the Electrotrans trolley bus project in the city of Almaty, currently under preparation, will receive donor support from the Netherlands and Germany. The funds will encourage institutional development within Electrotrans, as well as helping Electrotrans to implement the investment efficiently. The city has also asked the EBRD to consider preparing and financing the first phase of a new Light Rail Transit (LRT) system. Funding from Singapore, as a new donor to the Bank, and Austria has been provided for a feasibility study and to help structure the LRT project according to the sound principles of public-private partnerships. The results of the study are expected in 2009.

In addition, the Netherlands and the EBRD Shareholder Special Fund have provided funds to assess the feasibility of two water and wastewater projects in the Kazakh cities of Aktau and Shymkent, respectively.

Grant co-financing
Grant co-financing remains an important element for MEI projects in many countries. In the ETC region in particular, the IMF insists on a significant grant funding component for each project (usually 35 per cent). MEI projects in some other countries such as Ukraine or those of the Western Balkans may also be constrained by affordability considerations.

In 2008 Tajikistan benefited from two significant donor grants for infrastructure development. The city of Dushanbe received a €2.9 million grant from the Dutch government, channelled through the ETC Fund, to upgrade its solid waste collection and disposal facilities. The project is supported by TC funds from the Swedish government and the ETC Fund. Additionally, Switzerland provided a grant of €2.9 million for phase two of the Water Supply Improvement Project in the city of Khujand, building on the successful implementation of phase one and aimed at rehabilitating the remaining 70 per cent of the water supply system in the city. To help the Khujand Water Company complete its restructuring, the project includes significant technical cooperation financed by Finland, Switzerland and the ETC Fund to further improve operational performance.

In Georgia a sovereign loan of €1.5 million to the Republic of Georgia, on-lent to the Borjomi Water Company and backed by a project support agreement with the Municipality of Borjomi, was augmented by grants from the US Millennium Challenge Corporation (€6 million) and the European Union (€0.8 million). Technical cooperation is being funded by the Swedish International Development Cooperation Agency (Sida), with €0.4 million covering implementation support for both the Borjomi and Kobuleti water supply improvement projects. The Bank’s ETC Fund is also providing €0.65 million for institutional reform at company and city level.
Transport

In 2008 donors maintained their support for the EBRD’s work in the transport sector, providing €7.4 million in TC financing for 12 projects in all the main transport sectors.

The projects were in the ETCs, Kazakhstan, Russia, Ukraine and the Western Balkans, and covered ports, railways, roads and aviation. They were variously financed (from debt to equity), involving not only state-owned enterprises but also new corporate clients.

TC funding was provided for project preparation, supporting environmental, financial and legal investigations on behalf of the Bank, and implementation. Assistance with project implementation targets those activities directly benefiting the client, such as the development of corporate plans for rail company subsidiaries or institutional restructuring of road authorities.

In FYR Macedonia the CEI provided funds for an environmental and social analysis to support an EBRD loan to the Macedonian Agency for State Roads for the upgrade of regional and local roads. The TC operation is to determine whether the project will meet national and existing EU environmental standards and good international practice.

In Ukraine the EBRD is providing a €15 million loan for an integrated traffic management system in the capital, Kiev. TC funding comes from the governments of Canada, Finland and France and will be used to:

- prepare financial technical documentation
- provide ongoing implementation support
- develop public-private partnership structures to leverage private sector involvement for expanded road infrastructure.

In Russia the European Commission provided €3 million in TC funding for proposed EBRD investments to help the Russian authorities develop public-private partnerships to upgrade motorways that are part of the pan-European network.

In Moldova funding of €1.5 million was secured from the Neighbourhood Investment Facility in support of the Chisinau Airport development project in Moldova (see case study on page 25). This will assist with project implementation and supervision services.

€7.4m

The amount of TC financing provided by donors in 2008 to support the EBRD’s work in the transport sector
## Annex 1 – Donor agreements and replenishments, 2008

<table>
<thead>
<tr>
<th>Fund or project</th>
<th>€ ’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria Early Transition Countries Energy Efficiency Programme</td>
<td>1,000</td>
</tr>
<tr>
<td>BAS Technical Cooperation Fund (Azerbaijan)</td>
<td>1,040</td>
</tr>
<tr>
<td>Municipal Infrastructure Fund</td>
<td>1,000</td>
</tr>
<tr>
<td>Technical Cooperation Fund</td>
<td>7,000</td>
</tr>
<tr>
<td>Ukraine Energy Efficiency Programme</td>
<td>1,000</td>
</tr>
<tr>
<td>Western Balkans Fund 1</td>
<td>2,000</td>
</tr>
<tr>
<td>Czech Republic Technical Cooperation Fund</td>
<td>1,500</td>
</tr>
<tr>
<td>Western Balkans Fund 1</td>
<td>500</td>
</tr>
<tr>
<td>Denmark Western Balkans Fund</td>
<td>500</td>
</tr>
<tr>
<td>EBRD Shareholder Special Fund</td>
<td>115,000</td>
</tr>
<tr>
<td>European Union Energy Efficiency Finance Facility</td>
<td>13,500</td>
</tr>
<tr>
<td>TAM Programme (Albania)</td>
<td>1,000</td>
</tr>
<tr>
<td>Public-private partnership technical preparation of transport investment projects</td>
<td>3,000</td>
</tr>
<tr>
<td>North Caucasus Micro, Small and Medium-Sized Enterprise Development Initiative</td>
<td>5,000</td>
</tr>
<tr>
<td>Technical assistance for Ukrainian municipalities</td>
<td>5,000</td>
</tr>
<tr>
<td>The Romania Accession Compliance Facility</td>
<td>10,200</td>
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<tr>
<td>Finland Early Transition Countries Fund 2</td>
<td>500</td>
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<tr>
<td>Finnish Technical Cooperation Fund</td>
<td>1,500</td>
</tr>
<tr>
<td>Ministry of Trade and Industry Technical Cooperation Fund</td>
<td>100</td>
</tr>
<tr>
<td>Germany Sustainable Energy Initiative Project</td>
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<tr>
<td>Technical Cooperation Fund Phase II</td>
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<tr>
<td>Luxembourg Early Transition Countries Fund 2</td>
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</tr>
<tr>
<td>Technical Cooperation Fund</td>
<td>1,432</td>
</tr>
<tr>
<td>Norway Early Transition Countries Fund 2</td>
<td>5,000</td>
</tr>
<tr>
<td>Technical Cooperation Fund</td>
<td>1,500</td>
</tr>
<tr>
<td>Northern Dimension Environmental Partnership 3</td>
<td>116</td>
</tr>
<tr>
<td>The New Norway Cooperation Fund</td>
<td>3,133</td>
</tr>
<tr>
<td>Portugal Technical Cooperation Fund 2008 (new)</td>
<td>1,000</td>
</tr>
<tr>
<td>Technical Cooperation Fund</td>
<td>67</td>
</tr>
<tr>
<td>Singapore International Enterprise Singapore-EBRD Technical Cooperation Fund</td>
<td>300</td>
</tr>
<tr>
<td>Slovak Republic Western Balkans Fund 1</td>
<td>200</td>
</tr>
<tr>
<td>Spain Early Transition Countries Fund 2</td>
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</tr>
<tr>
<td>Technical Cooperation Fund</td>
<td>3,000</td>
</tr>
<tr>
<td>Sweden TAM/BAS Energy Efficiency Fund for Moldova</td>
<td>916</td>
</tr>
<tr>
<td>Technical Cooperation Fund Phase II</td>
<td>1,237</td>
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<tr>
<td>Technical Cooperation Fund</td>
<td>160</td>
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<tr>
<td>Municipal Environment Investment Technical Cooperation Fund for the ETCs</td>
<td>4,581</td>
</tr>
<tr>
<td>Switzerland Early Transition Countries Fund 2</td>
<td>1,000</td>
</tr>
<tr>
<td>The Khujand Water Supply Improvement Project Phase II</td>
<td>4,300</td>
</tr>
<tr>
<td>Taipei China Early Transition Countries Fund 2</td>
<td>500</td>
</tr>
<tr>
<td>TaiwanBusiness-EBRD Cooperation Fund</td>
<td>1,423</td>
</tr>
<tr>
<td>United Kingdom Early Transition Countries Fund 2</td>
<td>3,101</td>
</tr>
<tr>
<td>World Bank IBRD-EBRD Creditworthiness Enhancement Programme (Ukraine)</td>
<td>359</td>
</tr>
<tr>
<td>The Global Environment Facility II</td>
<td>410</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>209,275</strong></td>
</tr>
</tbody>
</table>

1 Western Balkans Fund – Austria, Canada, Czech Republic, Denmark, Finland, Hungary, Ireland, Luxembourg, the Netherlands, Norway, Poland, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.

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

3 Northern Dimension Environmental Partnership – Belgium, Canada, Denmark, the European Commission, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom.
### Annex 2 – TC commitments in 2008, by donor

<table>
<thead>
<tr>
<th>Donor</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBRD Shareholder Special Fund</td>
<td>20,953,478</td>
</tr>
<tr>
<td>Early Transition Countries Fund &lt;sup&gt;1&lt;/sup&gt;</td>
<td>8,942,040</td>
</tr>
<tr>
<td>European Commission</td>
<td>8,261,345</td>
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<tr>
<td>Western Balkans Fund &lt;sup&gt;2&lt;/sup&gt;</td>
<td>7,602,017</td>
</tr>
<tr>
<td>Spain</td>
<td>4,324,720</td>
</tr>
<tr>
<td>Germany</td>
<td>4,060,200</td>
</tr>
<tr>
<td>Japan</td>
<td>3,523,786</td>
</tr>
<tr>
<td>Kozloduy International Decommissioning Support Fund &lt;sup&gt;3&lt;/sup&gt;</td>
<td>2,649,253</td>
</tr>
<tr>
<td>Italy</td>
<td>2,439,700</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,956,274</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1,783,693</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,709,550</td>
</tr>
<tr>
<td>Canada</td>
<td>1,663,768</td>
</tr>
<tr>
<td>Austria</td>
<td>1,603,211</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,602,686</td>
</tr>
<tr>
<td>France</td>
<td>1,521,700</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,492,751</td>
</tr>
<tr>
<td>Finland</td>
<td>1,279,964</td>
</tr>
<tr>
<td>Taiwan China</td>
<td>873,998</td>
</tr>
<tr>
<td>United States</td>
<td>576,720</td>
</tr>
<tr>
<td>Korea</td>
<td>514,440</td>
</tr>
<tr>
<td>Regional Venture Fund – Multi-Donor Nordics &lt;sup&gt;4&lt;/sup&gt;</td>
<td>506,473</td>
</tr>
<tr>
<td>Norway</td>
<td>386,978</td>
</tr>
<tr>
<td>World Bank</td>
<td>320,191</td>
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<tr>
<td>Global Environment Facility</td>
<td>251,133</td>
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<tr>
<td>Northern Dimension Environmental Partnership &lt;sup&gt;5&lt;/sup&gt;</td>
<td>232,335</td>
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<tr>
<td>Russia Small Business Fund &lt;sup&gt;6&lt;/sup&gt;</td>
<td>199,900</td>
</tr>
<tr>
<td>Mongolia Cooperation Fund &lt;sup&gt;7&lt;/sup&gt;</td>
<td>182,200</td>
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<tr>
<td>Czech Republic</td>
<td>147,568</td>
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<tr>
<td>Belgium</td>
<td>137,432</td>
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<tr>
<td>Portugal</td>
<td>116,534</td>
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<tr>
<td>Ireland</td>
<td>78,940</td>
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<tr>
<td>Greece</td>
<td>41,100</td>
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<tr>
<td>Denmark</td>
<td>25,816</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81,961,896</strong></td>
</tr>
</tbody>
</table>

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

<sup>2</sup> Western Balkans Fund – Austria, Canada, Czech Republic, Denmark, Finland, Hungary, Ireland, Luxembourg, the Netherlands, Norway, Poland, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.

<sup>3</sup> Kozloduy International Decommissioning Support Fund – the European Commission, Austria, Belgium, Denmark, France, Greece, Ireland, the Netherlands, Spain, Switzerland and the United Kingdom.

<sup>4</sup> Regional Venture Fund – Multi-Donor Nordics – Finland, Norway and Sweden.

<sup>5</sup> Northern Dimension Environmental Partnership – Belgium, Canada, Denmark, the European Commission, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom.

<sup>6</sup> Russia Small Business Fund – G-7 plus Switzerland.

<sup>7</sup> Mongolia Cooperation Fund – Japan, Luxembourg, the Netherlands and Taipei China.
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAS</td>
<td>Business Advisory Services</td>
</tr>
<tr>
<td>CEB</td>
<td>Council of Europe Development Bank</td>
</tr>
<tr>
<td>CEI</td>
<td>Central European Initiative</td>
</tr>
<tr>
<td>CIDA</td>
<td>Canadian International Development Agency</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee of the OECD</td>
</tr>
<tr>
<td>DEG</td>
<td>Deutsche Investitions- und Entwicklungsgesellschaft</td>
</tr>
<tr>
<td>DIF</td>
<td>Direct Investment Facility</td>
</tr>
<tr>
<td>DLF</td>
<td>Direct Lending Facility</td>
</tr>
<tr>
<td>EAR</td>
<td>European Agency for Reconstruction</td>
</tr>
<tr>
<td>EBRD, the Bank</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>ETCs</td>
<td>Early transition countries</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FMO</td>
<td>Netherlands Development Finance Company</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFI</td>
<td>International financial institution</td>
</tr>
<tr>
<td>IPA</td>
<td>Instrument for Pre-Accession</td>
</tr>
<tr>
<td>IPF</td>
<td>Infrastructure Project Facility</td>
</tr>
<tr>
<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau</td>
</tr>
<tr>
<td>MCC</td>
<td>US Millennium Challenge Corporation</td>
</tr>
<tr>
<td>MCFF</td>
<td>Medium-sized Co-financing Facility</td>
</tr>
<tr>
<td>MEI</td>
<td>municipal and environmental infrastructure</td>
</tr>
<tr>
<td>MSEs</td>
<td>micro and small enterprises</td>
</tr>
<tr>
<td>MSMEs</td>
<td>micro, small and medium-sized enterprises</td>
</tr>
<tr>
<td>NDEP</td>
<td>Northern Dimension Environmental Partnership</td>
</tr>
<tr>
<td>NIF</td>
<td>Neighbourhood Investment Facility</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance (as defined by DAC)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OFID</td>
<td>OPEC Fund for International Development</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>RSBF</td>
<td>Russia Small Business Fund</td>
</tr>
<tr>
<td>SEI</td>
<td>Sustainable Energy Initiative</td>
</tr>
<tr>
<td>Sida</td>
<td>Swedish International Development Cooperation Agency</td>
</tr>
<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
</tr>
<tr>
<td>TAM</td>
<td>TurnAround Management</td>
</tr>
<tr>
<td>TC</td>
<td>technical cooperation</td>
</tr>
<tr>
<td>TFP</td>
<td>Trade Facilitation Programme</td>
</tr>
</tbody>
</table>

### Glossary

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

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

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

**G-7**
Canada, France, Germany, Italy, Japan, United Kingdom, United States.

**G-8**
G-7 countries, Russia.

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

**Exchange rates**
Non-euro currencies have been converted, where appropriate, into euros, based on the exchange rate current on 31 December 2008 (approx €1:US$1.4).