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.
The EBRD is an international financial institution that supports projects from central Europe to central Asia. Its lending activities are in private sector credits where 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.
Donors and public sector institutions play a critical role in advancing transition in the EBRD region. Their funding helps to prepare the way for Bank projects, fostering reform and improving the investment climate.

The *Donor Report* provides updated information on donors’ continuing support to the Bank’s activities, and how in 2010 the focus was particularly on crisis response and tackling climate change.
Where we operate

Early transition countries
01 Armenia
02 Azerbaijan
03 Belarus
04 Georgia
05 Kyrgyz Republic
06 Moldova
07 Mongolia
08 Tajikistan
09 Turkmenistan
10 Uzbekistan

Western Balkans and Turkey
11 Albania
12 Bosnia and Herzegovina
13 FYR Macedonia
14 Montenegro
15 Serbia
16 Turkey

Russia, Kazakhstan and Ukraine
17 Russia
18 Kazakhstan
19 Ukraine

EU member states
20 Bulgaria
21 Croatia
22 Czech Republic\(^1\)
23 Estonia
24 Hungary
25 Latvia
26 Lithuania
27 Poland
28 Romania
29 Slovak Republic
30 Slovenia

\(^1\) Since 2008 the EBRD has not made any new investments in the Czech Republic.
In the wake of the most severe financial crisis of the post-war era, and at a time when the world’s economic equilibrium is still in doubt, the EBRD has stepped up its efforts to promote recovery, transition and private-sector development in its countries of operations. Donor co-financing plays an essential role in the Bank’s added-value to its clients and its region, bringing resources and expertise to tackle the numerous challenges that investments alone cannot overcome. In 2010 donors contributed €215 million in new funding agreements with the EBRD (an 18 per cent increase on the previous year).

I am mindful of the fiscal pressures on the budgets of many of our 32 donors and am therefore particularly grateful for the ongoing provision of co-financing support, and aware of the need to use resources efficiently and with demonstrable impact.

The need for donor financing in direct support of the EBRD’s core activities has never been greater. Technical assistance provided to the transition region in the aftermath of the crisis has been, and remains fundamental to the Bank’s efforts to support a strong and sustainable financial sector. But other issues have also remained at the fore, particularly the global challenge of mitigating climate change and the need to improve energy efficiency. The ongoing expansion of our activities in these sectors will demand a greater use of grant-funded instruments.

By learning lessons from the crisis, we will assist the transition region in rebalancing its economic growth towards domestic fundamentals. This implies an increase in local currency lending as well as a more intense policy dialogue, both of which are strongly supported by donors.

At the same time, donors are becoming more demanding – and rightly so – about the use the Bank is making of their valuable resources. We have therefore developed a three-pillar strategy focusing on: (i) quality, effectiveness and efficiency of management, with a particular emphasis on reporting; (ii) enhanced donor partnerships with a greater responsiveness by the Bank to the priorities of donors; and (iii) a sustainable EBRD Shareholder Special Fund – the Bank’s complementary financing tool to share the co-financing burden with donors, which was replenished during the fourth Capital Resources Review in 2010.

This increased cooperation responds well to the rising importance of donor partnerships to the Bank’s business model and impact. To meet the challenges of the crisis which remain from the past as well as those to be faced in the future, we will need such partnerships more than ever in 2011.

Thomas Mirow
President
European Bank for Reconstruction and Development
Foreword

Transition and development go hand in hand. In providing support to the EBRD, donors not only help the Bank achieve its transition mandate, but also contribute to the fulfilment of their development objectives. We recognise the diversity of these objectives and are committed to finding strong synergies with each of our donors. At the same time we share the common objectives on aid effectiveness, as set out in the 2008 Accra Agenda for Action. In 2010, 75 per cent of donor-financed technical cooperation (TCs) took place in official development assistance (ODA) countries. That also reflects the Bank’s commitment to bolstering its activities in the most challenging countries of the region.

As most of our donors are facing increasing pressure on their national budgets, the need for leveraging funds and delivering demonstrable results has never been greater. The EBRD offers a particularly catalytic impact for donor funding, with our capacity to unlock market barriers that enable investment from the Bank and from the private sector. At the same time we recognise the need to strengthen and improve the monitoring of that impact. During 2011 we will be implementing a new policy on cost-sharing with our clients. The policy seeks to enhance the commitment that clients make to our shared objectives. We will be reporting to donors on the impact of grant co-financing: what is apparent thus far and how we should measure it in the future. I attach a high importance to these activities and to other aspects of our quality effectiveness and efficiency agenda, and welcome our dialogue with donors in these areas.

Despite multiple challenges at home, the EBRD’s bilateral donors continued to be generous in 2010 in allocating €78 million for grant co-financing with the Bank – whether for technical assistance or other forms of co-investment. They thus remain the central pillar of the Bank’s donor-funded activities, providing not only funds but also policy guidance, diplomatic know-how and intellectual stimulus. Their contribution is increasingly complemented by multilateral frameworks: the European Union continued in 2010 to provide substantial support to the Bank across the region, while World Bank-led climate change partnerships gained pace, heralding a new trend for the years ahead.

In the context of the fourth Capital Resources Review (CRR4), the Board of Governors made available an allocation for the EBRD Shareholder Special Fund (SSF) of €150 million. We are determined to ensure that the SSF should continue to play its role as a strategic instrument that catalyses and complements – but does not displace – the support of donors.

Together, these partnerships have allowed the Bank to undertake 524 technical cooperation (TC) assignments across the region and a growing volume of other forms of loan/grant blending such as grants for infrastructure investments to meet International Monetary Fund (IMF) borrowing requirements, incentives for energy efficiency and risk sharing for trade finance.

Having taken up my role at the EBRD as Vice-President for Operational Policies in September 2010, I will focus in particular on donor financing, and also more broadly on donor relationships through the lens of the Bank’s political engagement in our countries of operations and in our wider stakeholder relations. I look forward to another successful year for the EBRD and for our donors.

Jan Fischer
Vice President for Operational Policies
European Bank for Reconstruction and Development
Crisis response
With the onset of the financial crisis in summer 2008, globalisation entered a new era of uncertainty. A primary responsibility of the EBRD as a public institution has been to act swiftly to mitigate the effects of the crisis in its countries of operations, and in this the Bank’s partnerships with donors have played a vital role.

The Bank played a key role in the inception of the “Vienna Initiative” in 2009, which has provided a framework for the coordination of crisis management actions and the address of financial sector deficiencies. The Initiative harnessed the combined forces of governments, western banking groups and their eastern subsidiaries, the International Monetary Fund (IMF), European institutions and multilateral development banks (MDBs). Funding of €25 billion was pledged over two years for financial intermediaries (FIs), mostly for on-lending to businesses. Crucially, the Initiative provided a framework enabling FIs to stay engaged in the region, rather than turn their backs on countries experiencing the worst economic disruption since the collapse of communism. The financial integration that had earlier appeared to have been a source of the crisis has ultimately emerged as its solution.

The EBRD’s crisis-response programme would not have brought such clear benefits to our countries of operations if it had not been able to rely on donor support. This has been in the form of finance for technical cooperation (TC) assignments within affected banks – for which donors had pledged an unprecedented €24.1 million by the end of 2010.

In order to address the immediate needs of local banks the Bank has put in place four flexible frameworks for crisis response: (i) a regional institution-building and targeted crisis response for larger projects excluding Russia and Ukraine; (ii) a regional framework for targeted crisis response with a panel of individual consultants; (iii) assistance and training in loan work-outs and corporate recovery to Russian banks; and (iv) a framework for Ukrainian financial institutions for institution-building and crisis response. These frameworks have been principally financed by Austria, Germany, the European Union, the Early Transition Countries Fund and the EBRD Shareholder Special Fund (SSF).

Technical assistance projects provided to the EBRD’s partner banks focused on risk management, non-performing loans and corporate recovery, as well as portfolio audits and assistance and training on loan work-outs.

Donor funds of €14.7 million have already been allocated to crisis-response projects in the financial sector. Regional assignments cover a number of projects: a seminar for participants from Georgia and the Kyrgyz Republic on the Currency Exchange Fund.

AUSTRIA

Austria provided considerable support to the Bank’s activities in 2010, replenishing most of its existing bilateral funds as well as contributing €3 million to the European Western Balkans Joint Fund. In November, a new agreement was established between the EBRD and the Federal Ministry of Finance to support the scaling up of the Bank’s Sustainable Energy Financing Facilities (SEFFs) with an initial contribution of €2 million. Austria also continued to support the MEI sector, the EBRD Regional ETC Energy Efficiency Programme and the BAS Programme in Romania.

BELGIUM

Belgium continued to contribute TC funds in support, in particular, of the TurnAround Management/Business Advisory Services (TAM/BAS) Programme, which is one of the Bank’s key transition instruments helping MSMEs with technical support and management advice.

Visit this report online: www.ebrd.com/donorreport

This icon points to information on the bilateral donors with whom the EBRD worked in 2010.
Boosting trade finance

Trade finance has been hit particularly hard by the global financial crisis. The effects of collapsing demand and contracting international trade have been exacerbated by the reduced risk-taking capacities of banks, which have imposed massive restrictions on their trade financing activities. The market has been restrained further by a lack of consistent and comprehensive information on the crisis and its consequences.

As part of a wider crisis response package, the EBRD organised two conferences in Turkey in 2009 and 2010 to identify trends in trade finance banking during the turmoil and to exchange views on how best to address the challenges of economic recession. The conferences attracted wide participation of trade finance bankers and specialists under the umbrella of the EBRD’s Trade Facilitation Programme (TFP), providing extensive opportunities for information and knowledge exchange. For example, a session on technical cooperation at the 2010 conference highlighted e-learning initiatives and other innovative projects generated by the TFP team.

Both conferences were supported by institutional and commercial donors including the Bank of Georgia, Commerzbank, Credit Suisse, the EBRD Shareholder Special Fund, Isbank, the Taiwan Business-EBRD TC Fund, Ukreximbank and YapiCredi.

In addition, the EBRD also organised training for partner banks on handling bad debt and structuring in a crisis; cash advances under the TFP revolving credit agreements; legal proceedings in connection with bad debt in trade finance; and a conference on the impact of the liquidity crisis.

Throughout 2009-10 various other TFP projects promoting knowledge-sharing and transfer were sponsored by the Early Transition Countries (ETC) Fund (see page 39), Italy, Norway, the EBRD Shareholder Special Fund, Switzerland and Taipei China.

For further information go to: www.ebrd.com/pages/sector/financial/tpf.shtml

(“TCX”), set up by international financial institutions (IFIs) and other financial institutions to provide market risk management products focusing on currencies and maturities not covered by regular market providers; micro, small and medium-sized enterprise (MSME) credit advisory services for the Western Balkans countries; and medium-sized loan co-financing facility advisory services for the early transition countries (ETCs). The eastern European and central Asian regions are the main recipients of the funds (17 per cent and 18 per cent, respectively of the total TC value). For a map of the countries of operations, see page 2.

In addition to regional projects, technical assistance has been provided to 20 partner banks (all of which have received investment from the EBRD). Some banks have benefited from multiple TC assignments: namely Parex in Latvia, Kreditprom in Ukraine, Zoos (now State) Bank in Mongolia, TTK in FYR Macedonia and Asia Universal Bank in the Kyrgyz Republic. These assignments have focused on risk and portfolio management, loan work-outs and corporate recovery and institutional strengthening and have been financed by the ETC Fund, the EBRD Shareholder Special Fund (SSF), the European Union, Italy, the European Western Balkans Joint Fund and the World Bank.

Donors have also contributed to facilitating economic recovery through support to the Trade Facilitation Programme (TFP). Donor funds are placed in a risk-sharing mechanism that helps banks in selected countries to obtain access to international finance, strengthen their trade finance experience, and enables staff to gain experience working with western banks. The governments of Germany, the Netherlands, Switzerland and Taipei China support the TFP’s

### Chart 1: Regional breakdown, by number of projects, 2010

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Projects</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Europe and the Baltic states</td>
<td>51</td>
<td>10%</td>
</tr>
<tr>
<td>South-eastern Europe</td>
<td>61</td>
<td>12%</td>
</tr>
<tr>
<td>Belarus, Moldova, Ukraine</td>
<td>89</td>
<td>17%</td>
</tr>
<tr>
<td>Russia</td>
<td>61</td>
<td>12%</td>
</tr>
<tr>
<td>Central Asia</td>
<td>95</td>
<td>18%</td>
</tr>
<tr>
<td>Caucasus</td>
<td>61</td>
<td>12%</td>
</tr>
<tr>
<td>Regional</td>
<td>95</td>
<td>19%</td>
</tr>
</tbody>
</table>

Final number of projects: 518
activities by providing risk-sharing guarantees in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Russia, south-eastern Europe, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. These funds also enable the EBRD to provide longer terms and take higher risk exposures in trade transactions. In parallel, donors provide much-needed technical assistance funding to support the TFP’s operations through the training of local banks and the dissemination of new trade finance products.

Having responded to the initial emergency in the financial sector, we sought in 2010 to address the difficulties of the broader real economy. The capital increase approved at the Bank’s Annual Meeting in Zagreb should provide the means to help develop the economies on a more sustainable basis. Over the coming years the Bank aims to build a new model for growth by improving the sophistication of exports and developing a knowledge economy based in part on greater technology financing. That process has already begun, as the Bank works to reduce foreign lending while developing local capital markets to provide local funding with less foreign currency risk. This agenda for growth will provide many challenges for the Bank and its donor partners in the years ahead.

For more information on the EBRD’s crisis response see the factsheet “The EBRD’s response to the financial crisis” or go to: www.ebrd.com/downloads/research/factsheets/financialcrisis.pdf

EU-NIF support for crisis response

In April 2009 the EU Neighbourhood Investment Facility (NIF) approved an exceptional €12 million contribution to the EBRD’s technical assistance framework for financial sector institution-building and crisis response. The goal was to help banks cope with the financial crisis by enhancing their technical capacity.

By the end of 2010, 15 individual technical assistance projects in Azerbaijan, Belarus, Georgia, Russia and Ukraine had been funded from this contribution. The types of assignments funded are: training and assistance in loan work-outs and corporate recovery, institutional strengthening, risk management and MSME lending support. In providing such support the European Union recognised the cross-regional impact of the financial crisis and the need to mitigate it in all countries.

Among other achievements, this crisis response programme allowed the EBRD to help Ukraine’s financial institutions, among the hardest hit by the crisis. Three EBRD partner banks facing various difficulties have been benefitting from the consultancy services provided under the framework. Similar to the entire banking sector, the Bank Forum, OTP Bank JSC and Kreditprombank suffered from the drastic devaluation of domestic currency with severe consequences for their capital base, liquidity and loanbook quality. The adverse economic conditions also exposed a number of structural issues, including the urgent need for new skills within the banks in order to handle the flow of non-performing loans and strengthen the risk management procedures that would enhance their capacity to overcome the effects of the crisis and prepare for further development.

To tackle both contingent and structural problems, the technical support provided a wide range of interventions: from reviewing the strategic business plan to recommending better business procedures; from staff training in loan restructuring, risk management and corporate governance, to revising internal organisational structures and human resources management.

Consultants’ reports and recommendations were developed in close cooperation with the banks, allowing them to start the implementation phase independently and with the confidence that the improved procedures and strategies will ultimately contribute to profitability, efficiency and the resumption of lending activities to the real economy going forward.
Tackling climate change

12 Donors and the Sustainable Energy Initiative
12 EBRD-managed multi-donor funds
14 EU support
14 Global trust funds
Donor funding is critical to investment in programmes and projects that aim to mitigate and adapt to the adverse effects of climate change. Recognising the global challenge of climate change, donors are paying increased attention to climate change financing, both through direct bilateral support to the EBRD, as well as through their contributions to global funds.

The transition to low-carbon growth has both risks and opportunities. In the Bank’s region of operations, particularly in those countries where energy prices are low, financial support is often necessary to make mitigation measures economically attractive. As such, donor support for both technical cooperation (TC) and other grants is necessary to offset the many market failures, not only technical, but also behavioural. In such circumstances, non-TC grants are required for the provision of incentives to enter the clean technology market, and the creation of risk-sharing facilities to help enterprises manage the associated credit or technological risks.

The EBRD’s donor partnerships and funding are crucial to leveraging private-sector investments in sustainable energy markets in order to: enhance energy security through improved energy efficiency in key sectors of the economy, including small and medium-sized enterprises (SMEs); and to support clean-energy transition by reducing reliance on fossil fuels and meeting energy needs in an environmentally sustainable manner (thereby reducing greenhouse gas emissions). Barriers to sustainable energy investments range from a lack of awareness and technical knowledge among private companies to weaknesses in regulatory frameworks. In this respect, donor-supported policy dialogue has proved indispensable to low-carbon transition by promoting government policies and business environments which encourage energy efficiency investments and the development of renewable resources.

Adaptation to climate change focuses on measures which increase the resilience of vulnerable sectors, such as agriculture, water supply and infrastructure. The Bank’s efforts in this area are at a relatively early stage; so far donor collaboration has focused on assignments that enhance an understanding of the risks posed by climate change, with a view to ensuring that selected investment projects can be made “climate resilient”. Following an assignment supported by the UK’s Department for International Development (DFID), a toolkit to ensure climate resilience in investments has been produced. This includes guidelines for climate change screening and risk-profiling, as well as guidance on integrating risk.

### CANADA

In 2010 Canada provided financing from its Technical Cooperation Fund for a number of projects in the Caucasus, Russia and Ukraine. Canada financed the preparation of a new project in the water sector in Armenia and two projects in the district heating sector in Russia. Also in Russia the Fund financed a study on glass recycling and energy efficiency which resulted in improvements in the functioning of a major bottling factory. In addition, Canada provided funding for the Life in Transition Survey (LITS II).

### CENTRAL EUROPEAN INITIATIVE

The CEI is a regional forum which promotes collaboration at political, economic and cultural levels in central and eastern Europe. Through the CEI Fund, which was established and entirely financed by Italy (€32.5 million since 1992), the Initiative aims to support transition countries in the process of integration with the European Union. In 2010 more than €1 million was committed for seven TC assignments in these countries, mainly in the transport and energy efficiency sectors.
assessments and adaptation into feasibility studies, environmental and social impact assessments, environmental action plans and water audits.

**DONORS AND THE SUSTAINABLE ENERGY INITIATIVE**

Donor partnerships continue to underpin the Sustainable Energy Initiative (SEI), which has been instrumental in strengthening the EBRD’s investments in the Bank’s countries of operations to tackle climate change.

Energy needs have been growing rapidly as these countries have pursued transition and development. Furthermore, several countries still use up to seven times more energy per unit of gross domestic product than their western European counterparts and emit disproportionately high levels of greenhouse gases. At the same time, increasing concerns about economic competitiveness and energy security have heightened the regional imperative for more sustainable energy usage.

Multilateral and bilateral donor funds for climate change mitigation and adaptation projects are deployed for technical cooperation, investment grants, concessional co-financing, performance fees and incentive payments and risk-sharing facilities. They support energy audits, feasibility studies, rational utilisation plans, institutional development, energy management systems, implementation of incentive payments and many other project-specific requirements. Cumulative TC commitments to the SEI reached €119.4 million from the launch of the first phase of the initiative in May 2006 to 31 December 2010.

Bilateral donors provide a significant proportion of the TC financing needs of the SEI. Several donors are earmarking their regular grant funding contributions for specific sustainable energy and environmental projects. Others have established their own bilateral funds, with a specific focus on energy and environmental projects. Bilateral donor input is critical to the Bank’s operations under the SEI, not least because they are a source of funds and innovative thinking which can be used to develop new instruments to tackle climate change, thereby assisting the Bank to make a valuable contribution to the global development and climate change agenda.

**EBRD-MANAGED MULTI-DONOR FUNDS**

The Bank manages several multi-donor funds in house, which address its priority aims by pooling resources from contributors for specific purposes.

The Northern Dimension Environmental Partnership (NDEP) co-finances investment to minimise environmental and nuclear safety risks including improving energy efficiency measures in the Northern Dimension Area, the area covering the Baltic and Barents Seas region. The Partnership is preparing a new replenishment round to finance its activities, which have been extended until 2017. The European Union (EU) has already agreed to replenish the fund with €14 million (including €2 million for Belarus).

The Bank manages several multi-donor funds in house, which address its priority aims by pooling resources from contributors for specific purposes.

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**Chart 2: Cumulative TC commitments by SEI sector (1 May 2006 – 31 December 2010)**

<table>
<thead>
<tr>
<th>SEI sectors</th>
<th>Commitments (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Industrial energy efficiency</td>
<td>5</td>
</tr>
<tr>
<td>2 Sustainable energy financing facilities through local bank</td>
<td>44</td>
</tr>
<tr>
<td>3 Cleaner energy supply</td>
<td>8</td>
</tr>
<tr>
<td>4 Renewable energy</td>
<td>12</td>
</tr>
<tr>
<td>5 Municipal infrastructure</td>
<td>27</td>
</tr>
<tr>
<td>6 Carbon market development</td>
<td>3</td>
</tr>
<tr>
<td>7 SEI – other</td>
<td>1</td>
</tr>
</tbody>
</table>

For further information on the Sustainable Energy Initiative see the Sustainability Report 2010.
**Climate change and hydropower in Tajikistan**

With an extensive river network and some of the highest glaciers in the world, Tajikistan has vast hydropower potential. However, much of it remains untapped due to years of under-investment, and the country is still a net importer of electricity.

Given that climate conditions are expected to change significantly in Tajikistan over the coming decades, sustainable investments in hydropower plants are more important than ever for the country’s long-term development. A US$ 10 million (€7 million) grant under the CIF Pilot Programme for Climate Resilience (PPCR) has been approved to help the Bank integrate climate change analysis and resilience measures into hydropower investments in Tajikistan.

The grant will be used to co-finance a major investment project in which the EBRD, the European Investment Bank (EIB) and the European Union intend to cooperate in rehabilitating the Kairakkum hydropower plant in northern Tajikistan. The aim is to develop solutions to some of the main climate change risks threatening hydropower facilities in Central Asia. These risks include the increased likelihood of flooding, seasonal surges and extreme climate-related events such as mudslides. Climate resilience measures may range from developing emergency spillway facilities to ensuring that power generation equipment can operate optimally under the conditions expected over the lifespan of a plant (affecting, for example, water flow, water temperature and sediment load).

“

A €7 million grant under the CIF Pilot Programme for Climate Resilience has been approved to help the Bank integrate climate change analysis and resilience measures into hydropower investments in Tajikistan.

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For further information on the climate change in Tajikistan story see Sustainability Report 2010.
NDEP grants totalling €100 million have been approved for 17 non-nuclear projects, mainly for wastewater treatment in the Baltic Sea.

The Eastern Europe Energy Efficiency and Environment Partnership (E5P) is a new fund for investment in energy efficiency and environmental projects to reduce greenhouse gas emissions in Ukraine and potentially other countries of the Eastern Partnership (Armenia, Azerbaijan, Belarus, Georgia and Moldova). The EBRD acts as manager of the Fund. The E5P will implement investment projects in cooperation with other participating international financial institutions (IFIs) – the European Investment Bank (EIB), the International Finance Corporation (IFC), the Nordic Environment Finance Corporation, the Nordic Investment Bank and the World Bank. Technical assistance provided by the Partnership covers a range of tasks, including feasibility studies, energy audits, project implementation and institutional capacity-building. Grants can also be allocated for policy dialogue purposes and for co-investment. Total pledges amount to €95 million, including primarily the European Union, United States, Sweden and Ukraine.

**EU SUPPORT**

Partnership with the European Union remains a central feature of energy efficiency policy. The European Union is one of the main donors to SEI projects, either directly or through its EBRD-managed nuclear decommissioning funds. Directly, it has provided substantial contributions through the IPA Crisis Response Package, which consisted of up to €32.5 million for SEI projects, as well as direct lending and SME activities in the Western Balkans. Indirect contributions include €30 million through the Bohunice International Decommissioning and Support Fund and €49.8 million from the Kozloduy International Decommissioning Support Fund.

Moreover, during the United Nations Climate Change Conference in Cancún, Mexico, in late 2010, the European Commission announced the creation of “climate windows” within the EU Investment Facilities for countries outside of the European Union. These windows will be used to channel dedicated resources for climate change, including “fast-start” finance for enhanced action on mitigation (including reducing emissions from deforestation and forest degradation or REDD), adaptation, technology development and transfer and capacity-building covering 2010-12.

**GLOBAL TRUST FUNDS**

Partnerships with global trust funds, such as the Climate Investment Funds (CIFs) (see below) and the Global Environment Facility (GEF), have ensured that the Bank has access to an unprecedented level of grant and concessional loan resources. During 2010 cooperation with these funds strengthened. Several EBRD bilateral donors contribute to these global funds through their national budgets.

**Climate Investment Funds (CIFs)**

The CIFs are financing instruments designed to promote and sustain the transition to low-carbon and climate-resilient development with investments channelled through multilateral development banks (MDBs). They include the Clean Technology Fund (see page 16) for climate mitigation actions in middle-income countries, and the Strategic Climate Funds for investments in adaptation measures,

> Partnership with the European Union remains a central feature of energy efficiency policy. The European Union is one of the main donors to SEI projects.

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[Image]
Leveraging the banking sector for sustainable energy investments

The Bank’s Sustainable Energy Financing Facilities (SEFFs) are key instruments in the Sustainable Energy Initiative (SEI). They provide credit lines, together with technical assistance, to support local commercial banks in financing smaller energy efficiency or renewable energy projects to which the Bank cannot lend directly. By engaging the local financial sector as an intermediary, many of the barriers that typically prevent the identification and financing of sustainable energy investment opportunities can be overcome. These include lack of awareness of access to finance and of technology availability.

To date SEFFs are being successfully implemented through 40 local banks in 15 countries (Armenia, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Hungary, Moldova, Kazakhstan, Poland, Romania, Russia, Serbia, Slovak Republic, Turkey and Ukraine). Each facility has its own specific market and its own team of international and local experts familiar with local requirements and energy-saving needs.

In 2010 the Turkey Private Sector Sustainable Energy Financing Facility (TurSEFF), a US$ 200 million (€149 million) credit line for promoting energy efficiency and renewable energy projects, was launched in Istanbul. Under the Facility, loans of up to US$ 5 million (€3.7 million) for private-sector borrowers are disbursed through four partner banks – AkBank, Garanti Bank, VakifBank and DenizBank. The TurSEFF benefits from US$ 40 million (€30 million) in concessional co-financing through the Clean Technology Fund (CTF – see page 16) to support a range of investments in industrial energy efficiency, thermal rehabilitation of buildings and small-scale renewable generation. An extension of US$ 6.7 million (€5 million) has recently been approved to support a fifth bank. To ensure sustainability, the Bank has engaged a consortium of international and Turkish experts to help prospective borrowers identify the most viable technical and financial solutions for their investment needs and to prepare loan applications. The Facility is supported by a technical assistance programme funded by the European Union and CTF.

Following a market demand study funded by the Czech Republic, the Bank’s Moldova Sustainable Energy Financing Facility (MoSEFF) – the first energy efficiency financing vehicle available in Moldova – was launched in January 2010 with a €20 million credit line for on-lending to local private companies. MoSEFF finances small and medium energy efficiency investments undertaken by local enterprises operating in the industrial, agribusiness and services sectors with loans of up to €2 million via local partner banks. In particular it supports such projects as rehabilitation and replacement of boilers, thermal insulation, heat recovery systems, high efficiency motors, as well as solar thermal, biomass and biogas projects.

The Bank’s Sustainable Energy Financing Facilities (SEFFs) provide credit lines, together with technical assistance, to support local commercial banks in financing smaller energy efficiency or renewable energy projects to which the Bank cannot lend directly.

Under MoSEFF, incentive payments of up to 20 per cent motivate local enterprises to prioritise sustainable energy investments – the specific amount depends on the energy performance of projects – and is paid on completion of each investment. The European Union has made available €4 million in grant financing for this purpose, in addition to supporting the technical assistance that identifies and assesses sustainable energy investment opportunities.

For further information on SEFFs go to: www.ebrd.com/pages/sector/energyefficiency/sei/financing.shtml
forestry and renewable energy sources in the least developed countries. The Bank has been involved in the development and implementation of CIFs since late 2007 and, in October 2009, approved the establishment of the EBRD CIF Special Fund. This Fund enables the Bank to access additional financing for mitigation and adaptation investments and to participate in the global strategy for climate change financing alongside the IFC and World Bank and other regional banks, namely the African Development Bank (AfDB), the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB).

Clean Technology Fund (CTF)
The Bank has participated in three CTF Investment Plans – in Kazakhstan, Turkey and Ukraine during 2009-10. The total resource envelope for the three countries is US$ 336.5 million (€250.8 million equivalent) in the form of concessional co-financing and a small amount of grant funding determined on a project-by-project basis. The terms of the CTF funds offered to private-sector clients are tailored to address the specific risk, market and structural aspects of each project. Standard terms are below commercial interest rates, with longer grace periods and longer repayment schedules. Nevertheless, when working with the CTFs, the Bank always seeks to ensure that the subsidised financing minimises or avoids market distortions. Concessional funding mobilisation is in line with the strategy set out in the second phase of the SEI.

The Climate Investment Funds are financing instruments designed to promote and sustain the transition to low-carbon and climate-resilient development with investments channelled through multilateral development banks.
Energy efficiency governance

A joint EBRD-International Energy Agency (IEA) project is helping the Bank’s countries of operations establish effective energy efficiency governance regimes, which in turn boost energy efficiency investments and policy dialogue.

One persistent legacy in the EBRD region is widespread energy waste. Energy use per capita is still, on average, around seven times higher than in western Europe. Maximising energy efficiency is the cheapest way to address energy security and environmental and economic development challenges. To date, attention has been largely focused on establishing the correct market mechanisms to stimulate energy efficiency investments. Little consideration has been given to the governance arrangements necessary for achieving efficiency improvements.

With TC assistance from the Swiss government, the Bank has combined with the IEA on a project to review energy efficiency governance in a range of countries, including some in the transition region. This has resulted in the publication of the *Energy Efficiency Governance Handbook*. It aims to provide government officials and stakeholders with guidance on how to establish effective structures to promote energy efficiency. In particular, it highlights the importance of developing legal, institutional, funding and coordination mechanisms as pillars for scaling up these energy efficiency efforts.

The handbook is a valuable tool and will enable the Bank to promote energy and resource efficiency in its projects across the region.

“Energy use per capita is still, on average, around seven times higher than in western Europe. Maximising energy efficiency is the cheapest way to address energy security and environmental and economic development challenges.”

See page 19 onwards of the *Sustainability Report 2010* for more information.
Global Environment Facility (GEF)

The GEF was established in 1991 as a US$ 1 billion (€740 million) pilot programme at the World Bank to promote sustainable development and support the integration of global environmental objectives into local and regional projects. Since then, it has undergone five funding replenishments, and it has become a partnership encompassing 178 countries, several international institutions, non-governmental organisations and the private sector. It provides grants for projects relating to biodiversity, climate change, international waters, land degradation, the ozone layer and persistent organic pollutants. The GEF also has two sub-funds: the Special Climate Change Fund and the Least Developed Country Fund.

The EBRD, as one of the GEF-implementing agencies, has been receiving project-specific TC and grant co-financing through the GEF since 2004. Since its inception as an implementing agency, the Bank has been working on the following projects:

- an Environmental Credit Facility for water pollution reduction in Slovenia (with a €10 million grant)
- creating markets for renewable power in Ukraine (US$ 8.45 million or €6.30 million equivalent)
- a market transformation programme to increase energy efficiency in carbon-intensive industries (US$ 7.4 million or €5.5 million) in Russia
- improving energy efficiency in public buildings in Russia (US$ 9.2 million or €6.9 million) and Romania (with an initial US$ 200,000 or €149.1 million equivalent grant for project preparation and an estimated US$ 4.5 million, or €3.4 million equivalent, for co-financing)
- improving residential housing efficiency in Russia for US$ 9.7 million (€7 million equivalent).

In the second half of 2010, the Bank started to develop two new projects with GEF co-financing: a programme in Kazakhstan to ensure efficiency in resource utilisation (the so-called RESET programme) for US$ 7 million (€5 million equivalent); and a project in support of water management in North Tajikistan, with a US$ 3 million (€2 million equivalent) grant co-financing through the Special Climate Change Fund.

The Global Environment Facility was established in 1991 as a €740 million pilot programme at the World Bank to promote sustainable development and support the integration of global environmental objectives into local and regional projects.
Regional energy efficiency programme for the corporate sector

The Central European Initiative (CEI) has dedicated considerable resources since 2004 to operations promoting energy efficiency, and became the first bilateral donor to the new regional energy efficiency programme for the corporate sector. The Bank launched the programme as a €3.5 million TC facility in 2009, principally to provide energy audit support for the manufacturing, agribusiness and natural resource sectors (although help is available to any project in the EBRD’s corporate sector). The programme backs projects which reduce greenhouse gas emissions and aims to ensure that energy efficiency targets are incorporated into long-term corporate investment planning. By providing technical assistance and long-term funding, the CEI and EBRD enable investments in projects that would otherwise be postponed or not implemented at all, thereby helping clients to realise the full potential for energy savings.

The Central European Initiative backs projects which reduce greenhouse gas emissions and aims to ensure that energy efficiency targets are incorporated into long-term corporate investment planning.
Learning lessons after the crisis

3

21 Local currency lending and local capital market development
25 Integrated approach
Following the financial crisis the Bank has conducted intensive debate with its donors about how best to support the economies of the region. This has lead to various new initiatives.

**LOCAL CURRENCY LENDING AND LOCAL CAPITAL MARKET DEVELOPMENT**

When capital flows reversed and exchange rates came under pressure, repayment of loans became a serious problem for many corporations and households. Although the crisis was eventually brought under control, it required large-scale international lending and forced many governments, particularly in those countries with pegged exchange rates, into painful fiscal adjustment.

While it is neither desirable nor feasible for the transition region to close itself to foreign finance, reforms that reduce the risks of financial openness should be paramount as the crisis recedes. Most important is the development of local currency capital markets. This represents a means of reducing household and corporate foreign currency indebtedness, which was, and continues to be, a significant source of macroeconomic, financial and personal risk. It would also allow domestic sources of bank and corporate financing to be tapped, in turn stimulating growth. The transition region would then be less dependent on capital inflows and less vulnerable to their potential reversal.

In support of countries aiming to reduce the use of foreign currency in their financial sectors, in 2010 the Bank launched the Local Currency and Local Capital Markets Development Initiative in coordination with the World Bank, International Monetary Fund (IMF) and other international financial institutions (IFIs). It will increase the volume of local currency lending and deploy technical cooperation and policy dialogue to build the infrastructure of local capital markets.

Donor funding will be critical to engage with governments and private market participants with the view of developing the necessary policies and institutions for: establishing credible reference interest rates; removing restrictions on investments by non-residents in local bond markets; training in financial risk management; ensuring a robust and

### JAPAN

Japan continues to be a strong supporter of TC activities, providing funding for a wide range of TC assignments. In 2010 Japan provided funding for the Framework on Energy Performance Assessment and Corporate Policy for Built Environment Projects as part of its commitment to the Sustainable Energy Initiative (SEI). Japan also supported the start-up of a bank in Tajikistan; feasibility studies for potential investment in Azerbaijan and Mongolia; as well as a study on diversification of the Russian economy.

### KOREA

Korea has emerged as a strong donor over the last two years and significantly increased its support to Bank activities in 2010. Strategically, it is closely engaged in the development of the local currency market initiative as well as climate change and green growth initiatives. At a project level, Korea approved TC funds for the support of local SMEs in Turkmenistan; a feasibility study for Aktau Water in Kazakhstan; capacity-building for SMEs; a loan for Xac-bank in Mongolia; and a number of TAM projects.
efficient legal framework for bond issuance; reducing excessive costs and delays in the issuance process; facilitating the use of private issues in central bank refinancing operations; and improving payment and clearing systems.

In 2010 the EBRD, IMF and World Bank conducted missions to Armenia, Georgia and Kazakhstan to assess each country’s stage of market development, including conditions for local currency transactions, and to propose policy initiatives. The Bank also embarked on developing a methodology for assessing the legal and regulatory frameworks for capital markets in nine transition countries – Hungary, Georgia, Kazakhstan, Poland, Romania, Russia, Serbia, Turkey and Ukraine – and assembled an advisory panel of experts and market participants in developed and developing economies to provide expertise and guidance. Donor support is an important element of this.

In the case of the early transition countries (ETCs), there is a large gap between the EBRD’s ability to extend local currency loans and the Bank’s US dollar loan offering. In order to address this problem, in May 2010 as part of the approved “2010 Update on the Early Transition Countries Initiative Approach and Action Plan”, the Board approved local currency loans as a strategic objective and priority in 2010-12: “broaden and systematic development of local currency loans to insulate vulnerable ETC banks, microfinance institutions and local private enterprises from foreign exchange volatility...”.

Donor grants in the form of risk-sharing can help to narrow this gap through a reduction in interest rates (via a reduction in the EBRD credit margin). That is why the Bank will soon launch a new ETC Local Currency Risk-Sharing Special Fund, with capital from grants from donors such as the US and the EBRD Shareholder Special Fund (the final ratio of donor funds to the overall local currency loan portfolio is expected to be around 13 to 1). Through the Fund and parallel policy dialogue and capacity-building actions (which will also be funded by donors), the EBRD and other IFIs will endeavour to improve the foundations and confidence for local currency loan markets in the ETCs.

For most ETCs, this is only likely to yield benefits in the medium term, given their low state of transition, poor macroeconomic environment, and high level of dollarisation. Further significant development will require better macroeconomic fundamentals, more effective financial institutions (such as central banks and regulators), improvements in monetary policy and the creation of domestic reference rates (that can be used for funding and lending), and growth in local currency funding in domestic capital markets. It will also need more IFIs to increase their local currency term lending. However, the Fund should enable the Bank and donors to demonstrate innovation and leadership towards the vulnerable ETCs, leading to lower levels of dollarisation and systemic risk.

“In 2010 the EBRD, IMF and World Bank conducted missions to Armenia, Georgia and Kazakhstan to assess each country’s stage of market development.”
Getting public transport on track in Almaty

Almaty serves as an important transport hub, not only for Kazakhstan but for Central Asia as a whole. However, the city’s heavy traffic congestion, growing dependency on private-car usage and high pollution levels are a serious cause for concern. The solution lies in cleaner, more efficient and environmentally friendly public transport services.

The Bank is addressing these challenges through an “integrated approach”, combining investments with policy dialogue and technical assistance to target reform objectives. The Almaty Urban Transport Integrated Approach – to run from 2010-15 – will target key challenges, strengthen the Bank’s leverage when pursuing reform, and ensure wider and longer-lasting benefits for the city and its inhabitants.

Major investment projects to improve Almaty’s municipal and environmental infrastructure are already under way. They envisage clean CNG (compressed natural gas) buses and modern trolleybuses, a high-capacity light rail transport system (structured with Bank support as a public-private partnership) and an integrated electronic ticketing system. At the same time the Bank is discussing related regulatory improvements which the transport system will need to provide the necessary linkages across the sector. Planned reform will focus on service quality improvements and the introduction of an efficient and transparent urban transport regulatory structure, funded directly from the revenues generated by the new ticketing system.

Donor support will be critical for project-specific technical assistance activities for the Almaty Urban Transport Integrated Approach. For example, the Czech Republic has committed US$ 882,000 (€657,000) for the city of Almaty to implement regulatory improvements across the sector, and building on the extensive experience with CNG across a range of American cities, the United States Department of Energy has offered to finance a training programme by engineers concerning CNG operations, safety inspections and maintenance regimes.
In the past year the Bank has been developing an “integrated approach” to projects, through coordinated investment, technical assistance, policy dialogue and cooperation with other stakeholders that together aim to deliver measurable sector reforms and help meet changing transition needs.
INTEGRATED APPROACH

As the Bank extends its sphere of activities further east and south, it is adapting its business strategy to address the challenges and lessons of the financial crisis. In the past year it has been developing an “integrated approach” to projects, through coordinated investment, technical assistance, policy dialogue and cooperation with other stakeholders that together aim to deliver measurable sector reforms and help meet changing transition needs.

Combining a number of projects in the same country and similar sectors, together with other supporting interventions, may sometimes be effective when confronting entrenched behaviour inherited from the central planning era or from only partially reformed systems, and maximising the Bank’s impact on systemic change. Properly constructed, an integrated approach to projects can more successfully leverage policy and institutional reforms through policy dialogue, which require long-term engagement, supported by the provision of technical assistance.

Such a strategy relies on substantial donor-funded grant support, as TC funds are needed in nearly all integrated approaches to support policy dialogue and promote sector reforms in coordination with national governments and other IFIs. It offers the opportunity to address countries’ broader transition challenges beyond the scope of individual projects, while maintaining the core EBRD project approach. Donors can work closely on TC design with banking teams and sector specialists, complementing the Bank’s project aims and policy dialogue.

SLOVAK REPUBLIC

The EBRD and the Slovak Republic established a bilateral TC fund in July 2009 which was subsequently replenished in October 2010 with some earmarked for renewable energy and climate change mitigation. To date, the fund has primarily supported projects in public procurement but it supports all sectors of the Bank’s work in ODA countries. The funds offered by the Slovak government help the Bank to identify and prepare vital projects for the economic progress in the region of the EBRD operations.

SPAIN

Spain, through the Ministry of Finance and the Instituto Espanol de Comercio Exterior (CEX), strongly supports the Bank’s Sustainable Energy Initiative (SEI) as well as other sectors through its bilateral funds. In 2010 Spain concentrated its efforts on financing a number of intern positions as well as a sustainable energy expert, around the Bank, in support of the TC portfolio, and also financed a transmission line in Ukraine and a water co-financing framework in Romania.

Russia: making buildings energy efficient

The building stock in Russia is approximately twice as energy intensive per unit of measurement than in Canada and Sweden. Some of the highest energy savings can be found in public buildings, such as schools, kindergartens, hospitals and civic offices. However, rising energy costs have placed an increasing burden on public resources and there is limited capital for sustainable energy investments.

The EBRD-GEF project “Improving Energy Efficiency in Public Buildings in the Russian Federation” – co-financed by the Netherlands Technical Cooperation Fund and the government of Austria – is addressing the barriers that prevent municipalities and public institutions making the built environment more energy efficient. It is pursuing an “integrated approach” that binds project activities with systematic policy dialogue and advisory services provided by relevant stakeholders.

A key objective of the project is to create an enabling environment whereby private sector companies in Russia can implement energy-saving measures in public buildings through energy performance contracts (EPCs). EPCs are a form of contract which provides for the contractor to invest in energy savings for the benefit of its client and to be repaid over time from a share of the future energy savings. Applying EPCs could be an effective option for many Russian regions, where the potential for energy efficiency in public buildings is huge but budgetary resources to implement energy saving measures are limited.

A major barrier to nationwide uptake of the EPC model is Russia’s regulatory framework. With TC support from the Netherlands and funding from the GEF, the Bank is helping to develop legislation and establish procedures and institutional mechanisms that will make it easier for local authorities to adopt EPCs in public buildings in line with a new energy efficiency law.
There have already been some promising applications over the past year. For example, in Kazakhstan, the Kyrgyz Republic, Serbia and Tajikistan the Bank has applied integrated approaches in the municipal sector to promote regionalisation and further restructuring in water services, urban transport and district heating. In Russia and Ukraine these approaches are being applied to create a coordinated market in thermal power generation. Elsewhere, they are being developed to facilitate restructuring of large systemic companies, such as national railways or, as in Bosnia and Herzegovina or Ukraine for instance, energy monopolies. Integrated approaches can also be used to develop the value chain programmes or a warehouse receipts programme in the agribusiness sector, or to promote the development of local capital markets and local currency lending in close coordination with other IFIs.

"The Bank has applied integrated approaches in the municipal sector to promote regionalisation and further restructuring in water services, urban transport and district heating."

**Gender**

Promoting gender equality and increasing the economic participation of women in the private sector are integral to the Bank’s investment and donor-funded activities. In 2008 the Bank reaffirmed its commitment to gender equality with the endorsement of the third UN Millennium Development Goal (MDG), which aims to promote gender equality and to empower women, and by adopting the Bank’s current Environmental and Social Policy, which contains specific provisions related to the achievement of gender equality. Donor funding is critical to supporting technical assistance projects with a gender component and developing policies and programmes which can increase women’s access to finance and economic and labour participation. The Bank adopted its first Gender Action Plan (GAP) in May 2009 to further integrate gender considerations into its operations. Technical assistance funds have been earmarked to implement the GAP under the EBRD Shareholder Special Fund.

In 2010 considerable progress was made in implementing the first phase of the GAP. Several pilot projects were launched, of which the majority are financed by donors, to advance gender equality and empowerment of women. The Bank’s first gender pilot project, the Sfântu Gheorghe street and lighting rehabilitation project in Romania, has also been

For more information on the Gender Action Plan go to: www.ebrd.com/pages/about/principles/gender/plan.shtml

For more information see the publication “Women in business BAS programme: Armenia and Georgia” or go to: www.ebrd.com/pages/research/publications/brochures/women.shtml
Sweden maintained its substantial support for MEI projects in the EU neighbouring countries, particularly Belarus, Ukraine and the Western Balkans. Several agreements were signed for the provision of TC funds and investment grants for water, wastewater and district heating projects. In addition, support for energy efficiency projects and related regulation in Moldova was also agreed. Meanwhile, the Swedish International Development Cooperation Agency (Sida) replenished an existing TC fund to prepare investment projects in energy efficiency and environmental sustainability, which can in turn be financed under the newly established Eastern Europe Energy Efficiency and Environment Partnership Initiative (see page 14).

Switzerland is backing the EBRD’s efforts to regenerate the cotton sector in Tajikistan (which is also being supported by the Bank’s Tajik Agricultural Finance Facility lending programme). In 2010 State Secretariat for Economic Affairs (SECO) pledged €6.7 million for new projects. A Swiss €5.7 million grant for the Bishkek Water project will allow the Bank to undertake the rehabilitation of the water supply transmission and distribution network in the Kyrgyz Republic. Switzerland’s contribution to the Bank’s investments in Central Asia is set to continue into 2011, with grants and TC support funds under negotiation for the water supply rehabilitation projects in Osh and Jalalabad in the Kyrgyz Republic and in northern Tajikistan.

Taipei China is a long-standing donor to the EBRD, providing TC assistance as well as investment co-financing resources. Support is geared towards the Sustainable Energy Initiative (SEI), with its focus on energy efficiency and renewable energy, as well as small and micro business lending. Taipei China is providing TC funding to assess the market for building integrated photovoltaic solar applications in selected countries. In addition, Taipei China is contributing co-financing funds to a number of commercial banks in Turkey to improve access to finance for small businesses.

BAS Women in Business Programme in Armenia: helping women in business

Warm hospitality and spectacular scenery have helped make Daravand, a guesthouse nestled on a mountainside in Dilijan, Armenia, a success.

Melineh Tovmasyan started the business in 2007. It soon flourished, enjoying two years of steady growth and an occupancy rate of 70 per cent. Melineh then sought to expand by reaching out to potential new customers through promotion on the internet and by improving the management of the hotel’s operations and its staff. Since Armenia offered little in the way of business development training for small enterprises, she turned to the EBRD Business Advisory Services (BAS) Programme (which provides small businesses with support and grants to access consultancy services to improve their performance and at the same time, supports the development of a local consultancy services industry) for help.

Unlocking women’s entrepreneurial potential and skills is at the core of the BAS Women in Business Programme in Armenia, which has enjoyed support from the Canadian International Development Agency, the ETC Fund and Taipei China.

Through the BAS Women in Business programme, Melineh was able to hire Business Solutions Limited, a local consultancy in web site development and information technology systems with experience in assisting hospitality businesses in the region. As a result, storehouse management software was installed, together with a web site in three languages with an online reservations form, a guesthouse photo gallery and the internet capacity to support future needs.

Melineh’s business has thrived with the new systems, which have also sharpened the professional skills of her staff and given them a greater sense of responsibility and control.
completed. Projects in the MEI sector aim to increase women’s access to, and benefit from, services provided by municipal infrastructure projects. In other sectors, the Bank is seeking to improve access to credit for women entrepreneurs through micro, small and medium-sized loans and through financial products and services that promote lending to women. The Bank is also introducing an initiative to promote equal opportunities best practices in the human resource policies of banking and corporate clients and in the Bank’s investee companies.

The EBRD is developing additional investment and TC pilot projects in 2011 with a gender component that aims to “mainstream” gender across all Bank sectors. Pilot projects which are being developed and implemented in 2011 include a project in Romania with Petrom, which will provide specific recommendations to develop HR policies and practices that promote equal opportunities within the company, and a project in Azerbaijan which will provide training to partner institutions with the aim of increasing the number of women loan officers and women clients.

**UNITED KINGDOM**

UK cooperation with the Bank continues under various TC funds, notably those supporting the Sustainable Energy Initiative (SEI). The national government has undertaken a major review of its bilateral and multilateral aid, and the EBRD was asked to make a contribution to the multilateral review.

**UNITED STATES**

The United States provided significant funding for the implementation of a new micro and small enterprise lending facility in Turkey, which was launched in 2010. The US funds are aimed at supporting growth in the southern and eastern regions of the country and enhancing finance available for small agriculture and agribusiness in particular. The facility will also promote increased lending to women entrepreneurs. The United States continues to be one of the EBRD’s most important bilateral donors, and has provided the largest bilateral contribution to EBRD Special Funds (excluding the SSF).
Sfantu Gheorghe Street and Lighting Project: designing projects with gender in mind

Modernising a city’s infrastructure and improving its transport sector may at first glance appear to benefit everyone equally in a community. However, men and women often have different needs and priorities in terms of planning the lay-out of streets, identifying pedestrian areas and providing traffic control mechanisms and transport services.

Integrating gender considerations more systematically into the design and implementation of projects can ensure that benefits are more equally distributed across a given community. These measures can often be successfully incorporated at minimal cost, especially if considered early in the project cycle.

In 2010 the Bank completed its first such gender-focused project in the municipal and environmental infrastructure (MEI) sector which involved rehabilitating streets and improving public lighting in the fast-developing city of Sfantu Gheorghe in central Romania. It was also the EBRD’s first project developed in line with the objectives of its Gender Action Plan (see page 26).

Most of the design for the project had already been carried out before the engagement of gender consultants, under a €50,000 TC agreement funded by the EBRD SSF, to assess how and where the plans for rehabilitation could more equitably benefit men and women and address both men’s and women’s needs and priorities. As a result of the gender analysis, the design and project implementation were amended to include women’s considerations relating to pedestrian areas and public lighting for greater safety and security.

Integrating gender considerations more systematically into the design and implementation of projects can ensure that benefits are more equally distributed across a given community.

It was clear that a gender analysis providing simple conclusions and clear recommendations could be incorporated into the practical design and application of the project. Consequently, the Sfantu Gheorghe municipality is planning to adopt a similar gender-analysis approach for the development of its next investment in public transport services. Similar pilot gender projects in the MEI sector have now been initiated in Georgia and the Kyrgyz Republic.
Donor funding in 2010

31  Overview of donor financing by sector
33  Small and medium-sized enterprises
35  Legal Transition Programme
36  Economic analysis
Donors in 2010 helped finance assignments in sectors as diverse as energy efficiency to financial institutions to transport and municipal infrastructure. Further support to small and medium-sized enterprises was made via the TAM/BAS Programme. Support to the broader business and regulatory environments came via the donor funded activities of the Legal Transition Programme and through the analysis of studies enabled by donors, such as the Life in Transition Survey.

OVERVIEW OF DONOR FINANCING BY SECTOR

Energy efficiency and environmental sustainability (see also Chapter 2)
Multilateral and bilateral donors have continued to play an instrumental role in the success of the Sustainable Energy Initiative (SEI). In 2010, 24 different donors committed funds to SEI assignments. Since the SEI’s launch in 2006, a total of €117.3 million has been committed to fund technical cooperation (TC) activities. Donor funds committed for assignments in 2010 totalled €37.9 million, a 50 per cent increase on 2009. This increase partly reflected the fruition of the first GEF-funded TC programme supporting the Ukraine Sustainable Energy Lending Facility, of which just under €6.3 million was committed to three assignments. A second GEF-funded TC programme, worth €4.9 million and approved in December 2010, will become operational in the second quarter of 2011.

Municipal infrastructure
A more ambitious investment agenda in the municipal and environmental infrastructure (MEI) sector needs significant donor TC support to achieve the reforms necessary for its effective implementation. The Bank is adopting an “integrated approach” (see explanation on page 25 in Chapter 3) to MEI project development in some countries (for example, in Kazakhstan, Serbia and Tajikistan) and developing framework facilities in others (such as Belarus and Romania), in order to promote the coordinated and balanced application of TC assistance.

Donor TC funding also continues to enhance MEI project design and implementation and improve corporate governance and institutional development, making investments more sustainable. In addition, the Bank has developed initiatives to integrate a gender component into project design (for example, in Sfantu Gheorghe in Romania – see case study on page 29).

Grants for co-financing remain indispensable to some MEI projects, particularly in the early transition countries (ETCs), where affordability constraints remain a significant barrier. For instance, the Bank’s integrated approach to water and wastewater investments in Tajikistan, which will benefit the capital, Dushanbe, and other cities, would not have been possible without substantial grant funds.

Financial institutions
In 2010 the EBRD provided TC funding for 119 consultancy contracts for €39 million (a 33 per cent increase compared with 2009), covering 26 countries of operations. In addition to crisis-response measures, broader institutional strengthening and

For further information on donors and the EBRD go to: www.ebrd.com/pages/about/workwith/donors.shtml
comprehensive support for micro, small and medium-sized enterprises (MSMEs) and energy efficiency credit lines continued.

The crisis response programme launched in 2009 provided assistance to the areas of risk management, non-performing loan work-outs and corporate recovery, with most projects concentrated in the Caucasus, central Asia, eastern Europe, Russia and Ukraine.

Projects in the ETCs have focused on institution-building as well as developing under-served segments, such as the Agricultural Finance Facility in Tajikistan. Technical assistance in advanced countries continued to be directed towards energy efficiency programmes, with Bulgaria and Poland, in particular, receiving new funding. Turkey also received substantial TC assistance for the new Private Sector Sustainable Energy Facility and MSME credit advisory services to the Bank’s partner banks.

Most active donor financing, that is just over 40 per cent of all contracted assignments, came from the European Union. The funding from Austria, Bulgaria, ETC Multi-Donor Fund, Germany, the EBRD Shareholder Special Fund (SSF) and Slovakia Decommissioning Funds and the United States was used for a number of large contracts. The Czech Republic approved €1 million for the Belarus Energy Efficiency Credit Lines Framework for an assignment due to take place in 2011.

In addition, grant funding was available in the form of incentive payments when additional support was needed for the Bank’s clients and their borrowers. Nearly €17 million was disbursed in performance fees and incentive payments to participating banks and sub-borrowers – notably for sustainable energy financing and SME finance facilities.

Power and energy
TC funding continued to play a crucial role in the power and energy sector in 2010. For example, it provided preparatory technical and environmental assistance for a project in Montenegro and Serbia to introduce advanced electricity meters (“smart meters”) and for hydropower schemes in FYR Macedonia and Ukraine. It also became apparent that governments and electricity transmission companies, notably in Croatia, Romania and the Western Balkans, needed technical help and investment to incorporate wind power safely into their networks. In addition, TC assistance helped the Bank’s clients to improve their corporate governance and environmental and social performance – for instance, through the AstanaEnergoService Corporate Development Programme in Kazakhstan, and by aiding capacity development for occupational health and safety management in Serbia.

Transport
In 2010 the Bank’s transport clients received approximately €6.3 million in TC funding from donors in support of 19 projects in countries ranging from the Western Balkans to Kazakhstan. These projects are focusing on the reform and commercialisation of transport operations.

Key beneficiaries in the rail sector, for example, have been Georgian Railways (with €1.5 million) and Macedonian Railways (€1.15 million), in line with the Bank’s efforts to maintain restructuring momentum in the ETCs and Western Balkans. Donor funding has also supported the establishment of institutional authorities to oversee rail safety and market competition, such as a rail regulator in Serbia.

The EBRD’s strong performance in the agribusiness sector in 2010 would not have been possible without the support of donor-funded TC.
The Bank has meanwhile provided support to Kazakh Railways for a regulatory review to instil best international practice in its corporate governance, and secured donor assistance for the company’s freight subsidiary with a corporate development strategy (see the bilateral donors section on France on page 13).

In the road sector, donor funds have assisted the development of corporate strategies for national road companies, such as Croatian Motorways Limited.

**Agribusiness**

The EBRD’s strong performance in the agribusiness sector in 2010 would not have been possible without the support of donor-funded TC. The Bank has relied heavily on donor finance for various policy dialogue initiatives, for the introduction of a system of regional provenance for foods in Croatia (similar to the French “appellation” system for wine), and for TC input into glass recycling and agricultural education projects in Russia. One notable impact achieved through past TC assignments was the successful implementation of a warehouse receipt system in Serbia, which led to the signing of two warehouse financing projects in 2010. The EBRD works closely with the Food and Agriculture Organization (FAO) of the United Nations on a large number of projects in the agribusiness sector, leveraging both FAO’s extensive expertise and its co-financing for joint projects.

The year also saw the approval of the Bank’s new strategy for the agribusiness sector. It focuses on food security through market-oriented systemic change, increased regional differentiation, an emphasis on smaller countries of operations, sustainable investments, and further policy dialogue with governments. The Bank’s continuing partnership with donors will be integral to implementing the key elements of this strategy.

**SMALL AND MEDIUM-SIZED ENTERPRISES**

**TAM/BAS Programme**

In 2010, 93 TurnAround Management Programme (TAM) projects were initiated across 19 countries of operations with a significant focus on the Western Balkans, with operations also commencing in Turkey. TAM carried out a crisis response programme, targeting a selected group of current and potential EBRD investee companies as well as previous TAM/BAS clients (16 current, six potential). All were carefully selected and approved by both TAM and the EBRD’s banking teams. The aim of the Programme is to help the companies with long-term viability to survive the crisis and overcome this period of restricted access to finance.
In 2010 the Bank’s transport clients received approximately €6.3 million in TC funding from donors in support of 19 projects in countries ranging from the Western Balkans to Kazakhstan. These projects are focusing on the reform and commercialisation of transport operations.
The Business Advisory Services Programme (BAS) started 1,365 new projects with small and medium-sized enterprises (SMEs) in 20 countries of operations committing €6 million of donor funding and €5.7 million in client contributions. At the same time it completed 1,193 projects disbursing a total of €4.5 million. BAS implemented a record 242 market development activities, committing over €600,000 to build a sustainable infrastructure of local advisory services and to support micro, small and medium-sized enterprises (MSMEs). Efforts centred on increasing demand for local consultancy services (45 per cent of funds committed) to assist MSMEs in tough economic conditions. The year 2010 also saw a growing number of activities, such as improving the quality of services (25 per cent) in countries such as Bulgaria and consolidating the consultancy market (18 per cent) in countries such as the Kyrgyz Republic, which reflect the BAS focus on ensuring sustainability.

In terms of funding, TAM has raised €5.7 million. Funds from the Early Transition Countries Initiative (ETCI) allowed TAM to expand operations in Turkmenistan and Mongolia. Bilateral donors continued to support the Programme in 2010, with funds raised from Belgium, Finland, Japan, Korea, Luxembourg, Portugal and Taipei China. TAM also started its first programme with EU funding in Turkey: seven projects were begun in eastern Turkey, with a further seven to commence in 2011.

The BAS team raised more than €8 million from the Bank’s ETC Fund, the EU-PA and EU-Easter Partnership, Luxembourg, Portugal and Tapei-China, to secure operations for 2010 and beyond. The funding enabled the programme to initiate operations in Ukraine and undertake feasibility studies in Turkmenistan and Turkey, where operations are due to start in 2011.

The structure of funding available to support TAM and BAS field activities is set to change significantly in the coming years, according to projections of future funding. The European Union will become the most important source of funding, accounting for more than one-third of a total annual budget of around €25 million, compared with a current proportion of around 20 per cent. The trend in terms of client contributions and bilateral donors is projected to remain stable, with each representing a further one-quarter of TAM/BAS funding. It is expected that the remaining funding will come from other multilateral donor sources including the EBRD Shareholder Special Fund and the ETC Fund.

EBRD-Italy Local Enterprise Facility
In April 2006 the Local Enterprise Facility (LEF) was established by Italy and the EBRD to meet the needs of local enterprises that were not sufficiently supported by other financing sources. The resources are used by clients for funding acquisitions, expansion and/or modernisation and for working capital through equity, quasi-equity and debt financing. The Facility includes €250 million from the EBRD and a €20 million contribution from the Italian government as subordinated co-investment with Bank funds. The Italian government has also contributed an additional €6 million in technical cooperation funds to cover the costs of consultancy services for facilitating the implementation of projects. As of December 2010, LEF had invested €154 million in 59 projects with SMEs.

LEGAL TRANSITION PROGRAMME
In 2010 the EBRD Legal Transition Programme (LTP) benefited from substantial donor funding to promote its legal assessment and TC activities. A significant proportion of these resources came from the SSF and the ETC Fund. These multi-donor funds allowed the Bank to start work on a reform of pledge and mortgage law in Russia and on new judicial capacity-building initiatives in Mongolia and Tajikistan.

"In 2010, 93 TurnAround Management Programme projects were initiated across 19 countries of operations with a significant focus on the Western Balkans, with operations also commencing in Turkey."
The LTP also tapped extensively into bilateral funding sources for a range of initiatives. For example, with Finnish funds the Bank was able to extend its regional regulatory training programme for telecommunications officials to cover Armenia, Azerbaijan, Belarus, Georgia, Turkmenistan and Ukraine. With Swedish finance, the LTP also strengthened its nascent activities in energy efficiency regulatory reform with a programme directed at private housing in Moldova. Interestingly, the Slovak Republic was the first EBRD country of operations to fund LTP activities, backing initiatives in public procurement in Albania.

**ECONOMIC ANALYSIS**

**Life in transition**

The Life in Transition Survey (LiTS) is a combined household and attitudes survey run by the EBRD and World Bank and designed to answer key questions about the impact of transition on life satisfaction and living standards, poverty and inequality, trust in society and state institutions, satisfaction with public services and attitudes to the market economy and democracy. The LiTS I was conducted in 29 transition countries in 2006, and achieved wide recognition from the international policy community and academic researchers, as well as significant media attention. The fieldwork for LiTS II, conducted in 38,000 households in 35 countries (30 transition and five western European countries) was undertaken in autumn of 2010. The joint EBRD/World Bank publication of the key findings, to be published in April 2011, will feature at the EBRD’s Annual Meeting in May 2011. This rich and unique dataset will then be made available to academics and policymakers. The Bank is extremely grateful to the Canadian International Development Agency (CIDA), the Central European Initiative (CEI), the UK’s Department for International Development (DFID), and donors to the EBRD Shareholder Special Fund for funding this vital project.

**Study on the diversification of the Russian economy**

Russia’s dependence on natural resources has grown over the past 20 years and remains very significant. This specialisation in natural resources has carried significant risks. The Bank formulated and implemented a TC project to address the broad question of diversification by focusing on a major region of Russia – the far east. The project is funded by Japan, and comprises the essential diagnostics and understanding of what the Russian regions – particularly in the far east – produce and assesses the level of diversity. The second stage of the analysis would be to use this evidence to examine in detail how the region could shift towards a more diversified structure of output.

In 2010 the EBRD Legal Transition Programme benefited from substantial donor funding to promote its legal assessment and TC activities. A significant proportion of these resources came from the EBRD Shareholder Special Fund and the ETC Fund.

"In 2010 the EBRD Legal Transition Programme benefited from substantial donor funding to promote its legal assessment and TC activities. A significant proportion of these resources came from the EBRD Shareholder Special Fund and the ETC Fund."
Multilateral frameworks
While bilateral donors continue to provide the largest volume of co-financing support to the Bank, recent years have seen a significant increase in partnerships with multilateral and multi-donor frameworks. In 2010 this trend increased substantially, in particular in the areas of the environment and climate change.

IN-HOUSE

NDEP and E5P – see Chapter 2 pages 12-14.

ETC Fund

Coordinated TC and grant support for the early transition countries is mainly channelled through the multi-donor ETC Fund which, in 2010, also extended its assistance to Belarus and Turkmenistan. Since its establishment in 2004, the following bilateral donors have contributed to the ETC Fund: Canada, Finland, Germany, Ireland, Japan, Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. During 2010 the Fund approved projects to the value of €11 million, benefiting from significant co-financing leverage from the EBRD SSF (over €5 million). The Fund has approved several projects in support of the financial sector over 2010, as well as important assignments to support SME development in the region (including via TAM and BAS). Substantial support has also been given to infrastructure and energy efficiency projects throughout the Caucasus and Central Asia. Initial discussions were held over the course of the year regarding the establishment of the new ETC Local Currency Initiative Special Fund, for which ETC Fund donors expressed their endorsement.

EBRD Water Fund

The EBRD Water Fund, a multi-donor fund focusing on water projects in ODA countries, was established in July 2010 with an initial focus on Central Asia. Projects focus predominantly on providing assistance and support to the governments of the recipient countries in carrying out regulatory work and reforms using the guidance of the UNECE/WHO Protocol on Water and Health and the EU Water Directive related to the management, use and preservation of water resources and activities related to the development and sustainable maintenance of safe water and sanitation facilities. To date, three projects have been approved including a Corporate Development Support Programme for North Tajik Water, a feasibility study for Central Tajik Water and a Kyrgyz project for Karabalta Water.
The EBRD Shareholder Special Fund
The EBRD Shareholder Special Fund (SSF) was established in 2008, endowed with the resources of the Bank’s net income. As of December 2010, the Board of Governors had approved an allocation of €295 million to cover the period to 2013 for both TC and non-TC assignments. The SSF is recognised as a complementary facility to the donor funds, and provides funding for projects which do not fit the donors’ priorities. It also provides flexibility, predictability, and additional funding for multi-donor funds where the SSF can provide co-financing. The ETC region has benefited the most as well as the infrastructure sector, and climate change/environment and gender continue to be important areas of SSF support.

EXTERNAL FUNDS
Climate Investment Funds – see Chapter 2 page 14.

EU funds
The European Union remains the Bank’s largest individual donor, reflecting the strong synergies between the Bank’s transition mandate and EU external assistance priorities.

NIF
The NIF was established mid-2008 as part of the new European Neighbourhood Policy Instrument (ENPI). The Commission allocated €700 million for 2007-13, with broadly one-third being earmarked to the “east” region, that is, Armenia, Azerbaijan, Georgia, Moldova, Ukraine (and Belarus). Sectors targeted are

Infrastructure projects benefited the most from EU funds (34 per cent), as many projects in this sector are subject to investment grants, particularly in countries with International Monetary Fund concessionalities.
infrastructure, environment and the private sector. A trust fund also allows EU Member States to make bilateral contributions. Co-financing with other IFIs (mainly EIB and KfW) is encouraged.

Since the implementation of the Facility, the EBRD benefited from nearly €100 million (€25 million in 2008; €50 million in 2009; €25 million in 2010), equally split between technical assistance and grants. The budget available in the coming years should amount to approximately €50 million per year (from both the EU budget and the Member States Trust Fund). The year 2010 was a record year in terms of projects signed (eight), ranging from Yerevan Metro Rehabilitation in Armenia to Chisinau Public Transport.

Infrastructure projects benefited the most from EU funds (34 per cent), as many projects in this sector are subject to investment grants, particularly in countries with International Monetary Fund (IMF) concessionalities.

**Western Balkans Investment Framework (WBIF)**
Established in December 2009 the Western Balkans Investment Framework (WBIF) seeks to maximise the use of donor funding by coordinating IFI interventions in the Western Balkans. The Framework has supported a total of 73 projects representing an overall investment of approximately €6 billion. The total grant contribution awarded under the Joint Grant Facility amounts to €139 million. This Facility pools resources from the European Commission with those from the three partner IFIs (CEB, the EBRD, EIB) and bilateral donors (Austria, Canada, Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom).

In terms of the EBRD’s portfolio, the infrastructure sector, including transport and MEI, has benefited the most in 2010, as the development of key trans-European road and rail corridor projects was given substantial donor-funded support.

Considerable progress was made in 2010 to further strengthen relationships between beneficiary governments. The EBRD is well prepared in 2011 to assist countries in their efforts to overcome the crisis and its consequences. A new call for projects is planned for the first quarter of 2011 with a decision at a June 2011 Steering Committee meeting. The Bank plans to actively expand the sector priorities to include private sector support in the post-crisis phase, and to assist viable companies which have been hit by the crisis.

**Central Asia Investment Facility (IFCA)**
Launched in June 2010, the Central Asia Investment Facility (IFCA) covers Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan, providing grant funding for blending with financial institution lending in the fields of energy and environmental sustainability. The initial financial allocation to the IFCA is €20 million; this is expected to be supplemented in the coming years, given the substantial grant needs in this region.

As the IFCA was only established in 2010, there have been formal decisions on three projects. Each of these was a project where the EBRD had a leadership role and where it is working in conjunction with the EIB. Specifically this means: final approval for a €5 million grant contribution for a first-loss cushion and technical assistance for the Kazakhstan Sustainable Energy Financing Facility; provisional approval of €6 million for capital expenditure and technical assistance for Dushanbe water; and provisional approval of €7 million for capital expenditure for the Khujand Energy Loss Reduction in Tajikistan.

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“The year 2010 was a record year in terms of projects signed (eight), ranging from Yerevan Metro Rehabilitation in Armenia to Chisinau Public Transport.”
Annex 1

Chart 1: Commitments by region, 2010

1. Western Balkans 15%
2. ETCs 35%
3. Other ODA 23%
4. EU 9%
5. Regional 8%
6. Russia 10%

Chart 2: Commitments by EBRD team, 2010

€ million

- Agribusiness: 1.7
- Office of the Chief Economist: 1.9
- Energy Efficiency and Climate Change: 31.6
- Enterprise Support: 4.7
- Environment: 1.5
- Financial Institutions: 23.0
- Legal Transition Team: 4.6
- MEI: 31.9
- Power and Energy: 5.2
- Small Business Fund: 1.5
- TAM/BAS: 18.2
- Telecommunications: 0.02
- Transport: 8.3
- Total

Chart 3: Total contributions for 2010 by region of focus

€ million

- Multiple region (all countries of operations): 17.2
- Russia: 13.9
- Multiple region (ODA eligible only): 110.6
- ETC region: 33.7
- Western Balkans region: 32.1

Chart 4: Agreements and replenishments by contributor type, 2010

1. Multilateral 36%
2. Bilateral 37%
3. EU 27%
### Annex 2

**Commitments by donor, 2010**

<table>
<thead>
<tr>
<th>Donor</th>
<th>€ million</th>
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<td><strong>Grand total</strong></td>
<td><strong>138,839,234</strong></td>
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**TOTAL GRANT CONTRIBUTIONS FROM DONORS IN 2010:**

215 € million

**TOTAL GRANT COMMITMENTS TO INDIVIDUAL TC PROJECTS IN 2010:**

139 € million

**TOTAL GRANT COMMITMENTS TO INDIVIDUAL INVESTMENT OPERATIONS IN 2010:**

312* € million

* Does not include concessional loans provided by the Clean Technology Fund.
## Donor agreements and replenishments, 2010

<table>
<thead>
<tr>
<th>Donor</th>
<th>Agreement</th>
<th>Amount (EUR or EUR equivalent)</th>
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<td>EU PA – Implementation of the TAM Programme in FYR Macedonia</td>
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<tr>
<td>Russia</td>
<td>Agreement between The Ministry of Finance of the Russian Fed and the EBRD relating to the financing of Russia – European Union Cross-Border Programmes</td>
<td>150,000,000</td>
</tr>
</tbody>
</table>
Further information

Exchange rates
Non-euro currencies have been converted, where appropriate, into euros, based on the exchange rate current on 31 December 2010 (approximately €1:US$ 1.34).