Real people & real change

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A decorated plate from south-eastern Europe.
Over the past year we have shifted our attention increasingly to the needs of the poorer countries in the EBRD region. Our partnership arrangements with donors are focusing on the challenges these countries face, across a wide range of sectors and initiatives. But our collaboration with donors also continues in central Europe and Russia, particularly in more targeted interventions, such as the environment and sustainable energy.

Inadequate infrastructure, slow business and employment growth and, in many communities, extreme poverty are among the acute challenges facing countries eligible for Official Development Assistance, such as Belarus, Moldova and Ukraine, as well as others in the Caucasus, Central Asia and the Western Balkans. The EBRD and its donors can do much to improve people’s lives in these countries, and we need to continue working closely together to bring about sustainable growth and development.

The year 2007 was marked by a significant increase in the volume of technical cooperation (TC) support from donors for projects in poorer countries, covering such sectors as municipal infrastructure, TurnAround Management (TAM) and Business Advisory Services (BAS) assistance to small businesses, micro-lending and energy efficiency. Importantly, the TC programme provides expertise and knowledge transfer that acts as a catalyst for enabling investments to go forward and creating a better environment for business growth.

At the Bank we are grateful for the willingness of donors to coordinate their work with us. Notable multi-donor initiatives such as the Northern Dimension Environmental Partnership, the Early Transition Countries Fund and the Western Balkans Fund have helped us bring greater strategic focus to the Bank’s work, and complement the assistance provided through bilateral donor programmes.

Sustainable development will be a priority area in coming years – can our countries of operations adjust to its challenges? The outlook is positive. Two years ago, the EBRD launched the Sustainable Energy Initiative to harness donor support for improved energy efficiency and increased access to renewable energy. This initiative has already achieved considerable success.

But energy is just one of the issues that challenge sustainable growth. Reliable access to clean water to meet residential, commercial, industrial and agricultural needs is a growing concern. So, too, are questions facing governments and businesses about how best to adapt to climate change, and how to overcome the constraints to agriculture and food production.

During the past year the EBRD has been able to contribute more from its own resources to complement the funds provided by donors. We now contribute to certain costs that were previously funded by donors, including overheads of the Project Preparation Committee, TAM and BAS headquarters costs, and parts of the work undertaken through the Legal Transition Programme and the EBRD’s Office of the Chief Economist.

Looking forward, the Bank will seek additional ways to increase its contribution towards meeting the needs of the region. The Annual Meeting in Kiev in May 2008 is an excellent opportunity to forge new partnerships with donors and other IFIs to address even more forcefully the barriers and constraints that affect countries’ enterprises and people’s lives. This underlines the importance of good coordination, and we remain mindful of our signed commitments to the Paris Declaration on Aid Effectiveness for assistance to poor countries.

After an important year for the EBRD and donors in 2007, the management, Board and donors of the Bank look forward to working together and making further progress in the coming year.

Jean Lemierre
President, European Bank for Reconstruction and Development
2007 highlights and our countries of operations

Making a real difference in 29 countries

60%
60 per cent of TC funds in 2007 were committed in ODA countries
see page 11

3.1m
3.1 million loans have been made to micro and small enterprises since 1994
see page 34

899
In 2007, 899 businesses were helped by the TAM and BAS Programme
see page 37

43%
43 per cent of TC funds in 2007 were for sustainable development projects
see page 13

50%
On average, 50 per cent of loans to individual entrepreneurs in the ETCs go to women
see page 18
Donor funds are crucial to advancing transition in the EBRD’s countries of operations. Deployed in combination with the Bank’s human expertise and investment capital resources, these funds have a major impact on the development of the private sector and provision of basic infrastructure services. They also play a critical role in the transfer of skills and the strengthening of regulatory, financial and other institutions.

“The EBRD’s assistance programmes provide individual entrepreneurs and firms with access to otherwise scarce finance.”
Donor funding

Funding arrangements range from agreements with single donors for specific projects to programme-wide arrangements involving multiple contributors. Hungary joined the EBRD donor community in 2007, bringing the number of active donor countries to 29.

The EBRD uses donor funds to provide assistance through:
• technical cooperation (TC)
• investment grants
• performance fees
• risk-sharing facilities.

These instruments help the Bank to address the range of challenges facing transition countries. They harness finance for a variety of programmes promoting, for example, small business growth, improved employment opportunities, better access to services such as clean water and drainage, lower industrial energy use, trade expansion or more efficient transport systems. They may also be targeted at priority EBRD objectives, such as sustainable energy. Chart 1 shows the basic flow of donor funds to allocated EBRD projects.

€1.27bn

Since 1991, donor funding for the EBRD’s TC grants has grown steadily, reaching a cumulative total of €1.27 billion by the end of 2007.

Chart 1

Flow of donor funds to allocated EBRD projects
Technical cooperation

TC assistance (delivered through programmes detailed in Part 3 of this Report) includes:

- consultancy services for feasibility studies as part of project preparation
- procurement assistance during project implementation
- the development of management skills
- legal advice to improve legislation and corporate governance and to promote the development of the regulatory framework.

Since 1991, donor funding for the EBRD’s TC grants has grown steadily, reaching a cumulative total of €1.27 billion by the end of 2007 (see Chart 2). The largest contributor has been the European Union, working through the European Commission and the European Agency for Reconstruction (EAR). Other significant providers have been Italy (including contributions through the Central European Initiative – CEI), Japan and the United States.

Rapid growth in TC activity and expenditure during the 1990s was targeted mainly at projects in central Europe and Russia. Since 2000, TC assistance has been focused on Ukraine and the less advanced countries of the Western Balkans and the early transition countries (ETCs), where transition challenges remain significant.

Investment grants

Investment grants offer an alternative source of funding for projects for which there may be constraints on the use of loan financing. Such grants, although used relatively infrequently by the EBRD, can be particularly important in implementing infrastructure and energy projects in poorer countries and regions with limited finances and in heavily indebted countries subject to borrowing constraints.

Transiton challenges

Donor support for EBRD projects aims to address the key barriers to transition. While the nature of the challenges varies from country to country, there are several areas that are expected to be prominent in the coming year.

Provision of basic infrastructure services. Across the transition region, the removal of infrastructure bottlenecks remains a priority at both local and national level and there is scope for more private sector provision of infrastructure services. In the Western Balkans, for instance, transport and power infrastructure is a priority for achieving regional economic integration and network connections with the European Union.

Energy efficiency. More efficient use of energy resources is vital in order to improve competitiveness, with large potential economic gains in countries such as Russia and Ukraine. Looming power shortages in the Western Balkans add to pressures for more efficient energy use.

Water and sustainable development. Concerns are growing over the adequacy of water quality and supply to support growth, especially in the residential, commercial, industrial and agricultural sectors. Broader sustainability issues relating to climate change and the promotion of sustainable agricultural development will be important areas for the Bank and donors in the coming year.

Business growth. For business to continue growing and employment opportunities to increase, further policy and regulatory reform and the transfer of skills are needed. In addition, initiatives to further extend the availability of finance to smaller businesses are necessary. These measures are key elements of strategies that support employment growth in poorer countries, such as the early transition countries, and help countries to diversify their economic base.
Performance fees

This category of grants represents incentive payments made to financial institutions under finance facilities supported by the European Union and other donors. Performance fees are aimed at promoting the extension of loans to particular groups of borrowers or types of activity that are likely to achieve the priority objectives designated by the Bank and donors.

The main focus has been on programmes providing finance for small and medium-sized enterprises (SMEs), municipal governments (for environmental infrastructure), and borrowers undertaking energy efficiency improvements as part of the Sustainable Energy Initiative (SEI – see page 38). Examples of targeted funding facilities include the Kozloduy International Decommissioning Support Fund (KIDS) in Bulgaria and the Bohunice International Decommissioning Support Fund (BIDS) in the Slovak Republic, focusing on nuclear decommissioning and energy efficiency.

Risk-sharing facilities

Grant support to risk-sharing facilities underpins the work of the EBRD’s Trade Facilitation Programme (TFP – see also page 36), which promotes trade in the Bank’s countries of operations. Donor contributions for risk-sharing support provide guarantees to international banks and factoring companies. For example, the governments of Austria, Germany (through Kreditanstalt für Wiederaufbau – KfW), the Netherlands, Norway, Switzerland and Taipei China have supported TFP operations in the Western Balkans and Central Asia.

Examples of other risk-sharing facilities are the Serbia and Montenegro Risk-Sharing Facility, supported by Italy; the Romania Micro Credit Facility (see also page 34), which provides start-up loans for micro businesses with finance from the EU Phare Programme and the Romanian government; and the Central Asia Risk-Sharing Special Fund, which supports access to finance for micro and small enterprises in the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

Official co-financing

In 2007 co-financing of EBRD investment projects by official partner agencies – public sector institutions – amounted to €996 million. Contributions were distributed as follows:

- guarantees by international financial institutions (IFIs) and export credit agencies (totalling €335 million) – provided mainly by the European Investment Bank (EIB) and Finland, Germany and Japan
- IFI and parallel loans from other organisations (€264 million) – deriving mostly from the EIB International Finance Corporation (IFC) and Japan
- investment grants (€283 million) – provided to projects in 2007, by the Russian government (€222 million for an air transport project in Russia), as well as by the BIDS, the European Union and KIDS funds
- risk participations (€89 million) – provided by the Deutsche Entwicklung Gesellschaft (DEG), Netherlands Development Finance Company (FMO) and a number of EBRD-managed special funds
- equity (€24 million) – invested by the DEG, IFC and two official Nordic investment agencies.

The main beneficiaries of official co-financing were investment projects in Poland (€284 million), Russia (€264 million), Ukraine (€147 million), and Serbia (€86.7 million). Official co-financing has also been used at the regional level (€117.7 million), as well as among the more advanced countries of Bulgaria, Romania and the Slovak Republic (€33.3 million). Co-financing was provided for projects in three ETCs (Azerbaijan, Georgia and Moldova – totalling €32.4 million) and in four Western Balkan states (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic (FYR) of Macedonia and Montenegro – totalling €30.1 million).

Chart 3

Technical cooperation

Commitments 2000–07

- €120m
- €90m
- €60m
- €30m

00 01 02 03 04 05 06 07

A traditional wall tile from Bosnia and Herzegovina.
Activities in 2007

There was a significant increase in donor-funded EBRD activities in 2007. Official co-financing with the EIB and other IFIs has continued to reinforce the Bank’s investments across its countries of operations. As in previous years, the majority of funding provided by donors was used by the Bank for TC activities, preparing the way for future projects and improving the investment climate. Priority sectors in 2007 included micro and small business development, sustainable energy and energy efficiency, infrastructure services and improving the institutional framework.

During the year the EBRD signed grant agreements with donors totalling €89.9 million for TC and official co-financing activities. This figure comprised new agreements worth €52.2 million and replenishments of existing funds to the value of €37.7 million. As in previous years, the largest contribution was provided by the European Union (€33 million), while an increasing proportion (€26 million) was channelled through multi-donor funds. Additional grants were mobilised for specific investment projects.

Total funding committed for new TC projects amounted to €98.2 million in 2007, representing an increase of almost a third above the level registered in 2006 (see Chart 3). This reflected increased EBRD activities in the ETCs and Western Balkans, which received €25 million and €20 million respectively. At the same time, technical cooperation commitments for Ukraine reached €7.8 million in 2007 (compared to €6.6 million in 2006).
An NDEP grant agreement for €10 million was signed in Kaliningrad in September 2007 between the EBRD and the water utility in Kaliningrad.

The Northern Dimension Environmental Partnership (NDEP – page 25) was established in 2002 to address environmental problems in the Northern Dimension Area, particularly in north-west Russia. Its Support Fund, managed by the EBRD, provides grant co-financing to key investments in environmental and nuclear safety projects in the area. An NDEP grant agreement for €10 million was signed in Kaliningrad in September 2007 between the EBRD and the water utility in Kaliningrad (see case study on page 25). This grant will help to finance the construction and rehabilitation of waste-water facilities.

In addition to TC funding provided by donor governments, public sector institutions work alongside the EBRD to provide official co-financing for investment projects. This amounted to €996 million in 2007, mainly in the form of loans, grants and other provisions for SME support and development, municipal and environmental infrastructure (MEI) projects, energy efficiency initiatives and transport modernisation. It included €61.3 million in investment grants mainly to projects in central Europe, and €12.6 million in grants for three infrastructure projects in Albania, Georgia and Serbia. These grants were provided by the European Union and by the US Millennium Challenge Corporation.

The multilateral Western Balkans Fund (see page 23) has established itself as a major regional vehicle for TC funding and investment co-financing. In 2007 Hungary joined the fund as the 15th contributor, and total pledges reached more than €20 million (including a €2 million contribution for investment co-financing grants). Meanwhile, the Western Balkans Local Enterprise Facility that provides equity, risk-sharing and debt financing to local enterprises (see page 23) was replenished in 2007 by Italy with a further €7 million towards co-financing investment and TC funding.

What our donors say
Dirk Meganck
Directorate-General for Enlargement, European Commission

Financing a wide range of investments in the Western Balkans is key for sustainable development and stability in the region. We are pleased to develop an Infrastructure Projects Facility with the EIB, the EBRD and the Council of Europe Development Bank to facilitate these investments.
The EBRD has been working with donors on initiatives to address constraints to sustainable growth in member countries. A dedicated team has, since late 2007, been promoting sustainability across the Bank’s operations and developing new lines of business that deliver environmental and social benefits.

As part of this work, the EBRD will hold periodic environment and sustainability discussions with donors and other agencies, the first of which is planned for the Bank’s Annual Meeting in Kiev in May 2008.

**Sustainable Energy Initiative**

One of the most important and enduring challenges for the countries of central and eastern Europe and the Commonwealth of Independent States is to improve their inefficient use of energy, which is a legacy of the former command economy of the Soviet era. Such inefficiency undermines the competitiveness of enterprises and economies, threatens energy security and contributes disproportionately to carbon emissions.

In May 2006 the EBRD launched the SEI in response both to the specific energy transition needs in the Bank’s countries of operations and to the growing pressure in international forums for increased investment in tackling global climate change. For detailed information about the SEI, see page 38.

**Water**

The Bank is working closely with donors to support sustainable access to clean water supplies and waste-water treatment services. Thirteen projects for the upgrading of water and waste-water infrastructure were signed in 2007, with a total value of €220 million. Two of these were in smaller, poorer transition countries, and were consequently structured with regard to affordability constraints as well as the need to make the investments sustainable in the longer term.

Water infrastructure investments in 2007 supported projects in Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Latvia, Romania and Russia, employing TC resources for project preparation and implementation with donor support. Together with the World Bank, the EBRD also financed a major regional water supply project in Montenegro’s coastal cities, where the country’s tourism sector is centred.
Climate change
Adapting to climate change is an emerging area of concern in the Bank’s countries of operations as they address the consequences of increased pressure on water supplies, more frequent flooding, changes in agricultural cropping patterns and shifts in seasonal energy requirements. The EBRD is exploring ways to help countries plan for such change by encouraging them to take these issues into account in their investment decision-making and project operation.

To this end, the Bank is hosting a workshop in 2008 for IFIs and leading environmental agencies in the European region.

Biodiversity
Biodiversity management is another important issue in the transition process. Companies and investors may be exposed to public outcry if their operations have an adverse impact on ecosystems. Furthermore, there is a growing interest in biodiversity initiatives that create business opportunities while protecting the integrity and diversity of natural habitats.

The Bank, in cooperation with the IFC and the United Kingdom, has provided support for private sector involvement in biodiversity conservation around the Kumtor Gold Mine in the Kyrgyz Republic. In late 2007 the Bank, with funds from the European Union, launched a programme to identify and support pro-biodiversity SMEs operating in the steppe regions of Kazakhstan, Moldova, Russia and Ukraine.

Investment impact
A key objective of donor-funded TC is to leverage capital investment through EBRD projects. From 1991 to 2007 the Bank’s TC commitments that directly supported investments totalled €804 million.

These funds have helped leverage investments (both signed and pipelined) of €44 billion, with a leveraging effect of 55:1. In other words, €1 of TC supported €55 of investment.

Of all the investment projects signed by the EBRD in 2007, 24 per cent by volume were supported by TC. The largest number of TC-supported projects was in the Western Balkans.
Donor visibility initiatives in 2007 are outlined below.

• Booklets on EBRD-donor cooperation (11 of which have now been made available) and investors’ factsheets, with up-to-date information on the donor countries and the projects they support.

• Country and sector pages on the EBRD’s web site (see www.ebrd.com/country/index.htm), updated to include case studies, audio slideshows and projects implemented under partnership arrangements with donors and official co-financers.

• Two web-based slideshows, entitled “EBRD and Donors: Building foundations” and “Early Transition Countries Fund: Fostering the future”, launched at the Bank’s 2007 Annual Donor Meeting in Kazan, Russia.

• Feature stories on donor-funded projects in the EBRD’s countries of operations, posted on the Bank’s web site (see www.ebrd.com/new/stories/2007/index.htm) and published in the staff magazine. Selected stories were also included in an EBRD publication, People and projects 2008.

• Press releases on donor-supported projects (see www.ebrd.com/new/pressrel/2007/index.htm) and feature stories distributed to donors, external partners and the media in the Bank’s countries of operations. The material was also used by the Bank’s Resident Offices to highlight donors at the local level.

Of all the investment projects signed by the EBRD in 2007, 24 per cent by volume were supported by TC. The largest number of TC-supported projects was in the Western Balkans.

As a donor, we encourage the Bank to undertake further initiatives aimed at improving the living standards of people in ODA countries.

What our donors say
László Andor
Board Director for Hungary, the Czech Republic, the Slovak Republic and Croatia, EBRD
In 2007, donor support increased in the ETCs and the Western Balkans, which received €25 million and €20 million respectively. TC commitments for Ukraine reached €7.8 million. In Russia €18 million was provided while the EU member states received €17 million.

“...
In Russia, the EU has focused its financing on the Russian Regional Bank Framework, which specifically aims to strengthen banks based outside the traditional financial centres of Moscow and St Petersburg.
”
Early transition countries

Despite their accelerating growth, the ETCs lag behind the rest of the Bank’s countries of operations in their transition to market economies. Large sections of their populations still live below the poverty line. The pace of economic development has been hindered by a variety of factors, such as:

- the slow reform of key institutions
- weak governance and regulatory frameworks
- low levels of financial intermediation, with fewer banks ready to on-lend to local enterprises
- a difficult business climate, together with competition from more attractive destinations for foreign direct investment
- small domestic markets, coupled with limited access to world markets
- underdeveloped local infrastructure.

Moreover, in many ETCs national debt is high and under IMF programmes these countries cannot take on new sovereign borrowing obligations that are not on a concessional basis (that is, do not involve an element of grant funding). Therefore, concessional finance is critical to the implementation of many key infrastructure and energy projects.

In 2007, projects in the ETCs received €25 million in donor support (see Chart 4, which illustrates levels of donor support across all EBRD countries of operations).

ETC Initiative and Fund

In order to increase the EBRD’s reach and impact in these countries and to coordinate donor support and Bank assistance to maximum effect, the Early Transition Countries Initiative was launched in April 2004. The Initiative focuses on supporting the development of the private sector, selected priority infrastructure interventions, institution building and efforts to improve the investment climate. These can play a pivotal role in unlocking the economic potential in the ETCs and providing longer-term sustainable solutions to alleviating poverty.

The unified, multi-donor ETC Fund was established with the aim of improving the overall coordination and efficiency of TC support and grant co-financing from the donor community. The Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD) has confirmed the official development assistance (ODA) status of the ETC Fund, which means that support provided through the Fund can be counted against each donor’s ODA target.

Contributing countries to the Fund are Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. In the ETC Fund, pledges had more than tripled from €14.7 million in 2004 to €44.3 million for technical assistance. An additional €5 million grant for investment co-financing was provided by the Netherlands.

Since its establishment in 2004, the ETC Fund has been the main vehicle for channelling donor funding for technical assistance to the ETCs, providing €38.7 million (23 per cent) of total TC donor funding to the ETCs. The balance has come mainly from bilateral donors, with a small contribution from the Mongolia Cooperation fund (another multi-donor fund that was established to support Mongolia before it became one of the Bank’s countries of operations).

In 2007 Georgia was the largest beneficiary country of technical assistance from the ETC Fund and from bilateral donors, followed by Armenia and Tajikistan. Assisted projects in Georgia included improvements to municipal and environmental infrastructure (covering water services and public transport) and credit-line support for the promotion of energy efficiency. Investment advisory councils are being launched in Armenia, the Kyrgyz Republic, Mongolia and Tajikistan to strengthen public-private sector dialogue on improving the investment climate.

**Chart 4**

**Technical cooperation**

Commitments by region, 2007
Case study

Improving road communications in Tajikistan

Road transport is crucial to the economic and social development of Tajikistan. It is the dominant mode of freight and passenger carriage in a country with only limited rail infrastructure (serving mainly international traffic) and aviation services constrained by cost and capacity.

Despite its importance, more than 70 per cent of the national road network is considered to be in poor structural condition, and travel conditions may be further disrupted by adverse weather and difficult terrain. The deficiencies of the national network mainly reflect the lack of investment in the decade following independence. A shortage of funds also meant that there was no renovation or replacement of inefficient or outdated road maintenance equipment.

However, with support from IFIs (including the Asian Development Bank) and bilateral donors, the Tajik authorities are investing around €340 million in road rehabilitation and construction across the country. The EBRD has meanwhile approved a €2.7 million loan for the procurement of essential road maintenance equipment (front-end loaders, graders, mobile aggregate crushing plants and asphalt plants, and snow removal machines), coupled with an investment grant channelled through the ETC Fund and backed by a special contribution from the Netherlands government.

Technical assistance funding of €500,000 from the ETC Fund supports project implementation and the preparation of a road maintenance management plan.

Spain welcomes the EBRD providing more of its own resources and, along with donors, responding to the needs of the region. We look forward to the Bank contributing more in 2008 and continuing its work with the ETC Fund.

What our donors say

Gonzalo Ramos
Board Director for Spain and Mexico, EBRD, and Chair, ETC Fund Committee
Regional activities

The Direct Investment Facility (DIF) provides equity-type investments of up to €6 million in local private enterprises. It has concentrated to date on the more developed markets of Georgia and Armenia, but is being made available progressively in Azerbaijan, the Kyrgyz Republic, Moldova and Mongolia.

The Direct Lending Facility (DLF) provides direct loans of up to €4 million to enterprises in those countries where the local banking sector cannot make equivalent provision, principally the Central Asian ETCs.

The Medium-sized Co-financing Facility (MCFF) provides co-financing alongside local banks to enterprises whose requirements exceed what the local banks can themselves provide because of regulatory constraints or their own risk diversification policies. The MCFF has to date concentrated on Armenia, Azerbaijan, Georgia, the Kyrgyz Republic and Moldova.

Since the ETC Initiative was introduced, 23 new equity investments in local enterprises have been arranged under the Direct Investment Facility.

Grant co-financing

Co-financing in the form of investment grants is often imperative for ETC infrastructure projects, principally to address affordability issues. Grants may provide interim finance while utility tariff adjustments are being phased in, help address environmental or other project considerations, or offset borrowing constraints imposed by the IMF.

For example, the ETC Fund is providing technical assistance to improve the water supply systems in the cities of Poti and Kutaisi in Georgia, for which the EBRD is providing loans of €2.5 million and €3 million, respectively. In addition, investment grants totalling €11.3 million since 2006 have been provided in the ETCs by the Swedish International Development Cooperation Agency, along with the US Millennium Challenge Corporation and the European Union.

The ETC Fund has also approved €1.4 million for a road maintenance project in Tajikistan (see case study on page 19).

In 2007, Korea, which has become a new donor to the EBRD’s Technical Cooperation Funds programme, approved its first project providing implementation support to the Kyrgyz Multi-Bank and Non-Bank Financial Institutions Facility.

Financial instruments

A set of instruments has been developed with local banks in the ETCs to provide direct financing to medium-sized enterprises that are either too small to qualify for direct lending from the Bank or too large for micro lending facilities.

Since the ETC Initiative was introduced, 23 new equity investments in local enterprises have been arranged under the DIF, 27 loan transactions with private enterprises have been signed under the DLF, and 17 MCFF facilities have been signed with 13 banks in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic and Moldova, providing 33 loans to private enterprises.

Bilateral donors

Support to the ETC countries is also provided by bilateral donors. Major bilateral donors in 2007 were:

- Canada – supporting water and public transport development and an energy efficiency credit line in Georgia, and micro lending in Armenia
- Japan – supporting the Business Advisory Services (BAS) Programme (see page 37) in Uzbekistan, as well as TurnAround Management (TAM – see page 37) and micro lending projects in several countries
- Sweden – aiding water infrastructure projects in Georgia and Tajikistan
- Switzerland – furthering the BAS Programme and credit facilities in the Kyrgyz Republic, as well as mortgage law development in Moldova
- United States – backing credit facilities in the Kyrgyz Republic, micro lending in Armenia, the Tajik Agricultural Finance Facility (TAFF – see page 35), and the BAS Programme in Armenia.

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Western Balkans

Transition is less advanced in the Western Balkans than in the neighbouring countries that have become new EU members. Nevertheless, significant changes have been taking place in the region. Montenegro has continued its post-independence reform process, pursuing its commitment to a liberal trade regime and further strengthening its competition policy. Bosnia and Herzegovina has undertaken some larger-scale privatisations, including in the oil and telecommunications sectors, and has improved its competition policy. In Albania, FYR Macedonia and Serbia, competition policy has been similarly strengthened and its enforcement made more effective.

Donor input
In 2007 donor-funded projects in the Western Balkans increased markedly to €20.4 million from €15.3 million in 2006. Major donors included:
- Austria, Canada and the Central European Initiative (see case study), which have funded assignments in the region’s municipal service, railway infrastructure and energy sectors, respectively
- the EAR, Japan and the multilateral Western Balkans Fund, providing funding for the TAM Programme in support of the EBRD’s commitment to SME development
- the Netherlands, which has expanded its backing to the BAS Programme in Montenegro and Serbia (including Kosovo)
- Spain, providing support for an institution-building assignment in a major domestic bank in Serbia.

Case study
The Central European Initiative

The Central European Initiative (CEI) was set up in 1989 as an intergovernmental forum for political, economic and cultural cooperation between its 18 member states. It aims to help transition countries move closer to the European Union.

Funding
In 1992 the Italian government signed an agreement with the EBRD on the establishment of a CEI Trust Fund to aid economic and social transition in central and eastern Europe. Managed by the CEI Project Secretariat (CEI PS) at the EBRD, the Fund has received a total contribution of around €28 million since its foundation. In December 2007 a replenishment was granted by Italy, amounting to a further €6 million for 2008–10.

Through the Fund, the CEI promotes and funds TC projects alongside EBRD investments in, for example, energy efficiency, municipal and environmental infrastructure, transport, financial institutions and SMEs, with an emphasis on establishing institutional support.

Technical cooperation takes the form of grant assistance for specific components of a project (such as preparatory studies, sector and environmental engineering, management training and pre-loan audits). The CEI PS has assumed an increasing role in regional development through the leverage achieved by its projects – each €1 granted by the CEI has, to date, generated €128 of investment.

Sharing ideas
In November 2007 a major CEI economic forum was held in Sofia, Bulgaria. The focus was how to better mobilise resources for the common good, concentrating particularly on the reforms and investments needed to promote further development and economic growth in the Western Balkans. The forum attracted over 1,850 delegates from 48 countries, and included representation from public and private bodies, IFIs and other international organisations.

Practical help
In the context of the EBRD’s efforts to expand credit lines to small businesses through local commercial banks, the CEI has been approached to help the Minsk Transit Bank (MTB) in Belarus to strengthen its credit appraisal and approval processes for SME loans. This will support the provision of loans to small and medium borrowers and consolidate the EBRD’s presence in the micro-credit market in Belarus. Most importantly, it will improve corporate governance practices and technical skills in banking operations, and promote private sector enterprises in the country’s capital and the regions.
We are committed to advancing transition and reducing poverty in the Western Balkans by helping the EBRD to implement well coordinated projects that reflect transition and EU accession priorities.

The EBRD approved a loan of €4 million in early 2007 to Mikrokreditna Organizacija Sunrise, one of the largest non-bank microfinance institutions in Bosnia and Herzegovina, to enable owners of micro and small enterprises to gain better access to finance so they can expand and build their businesses.

The loan, to be used by Sunrise to on-lend finance to entrepreneurs, falls under the €75 million EBRD’s Micro, Small and Medium-sized Enterprises Finance Framework for the Western Balkans and Croatia, which was established in 2006 to facilitate access to finance for smaller business clients.

The loan is complemented by an estimated €300,000 in technical assistance from the Western Balkans Fund. The donor funds will help Sunrise’s transformation from a non-profit-making to a profit-making business in the commercial sector, reflecting new BiH legislation on microcredit organisations. General manager Mirsad Milavić stressed that the loan supports Sunrise’s further development by strengthening its operational practices and financial potential.

With a portfolio of exclusively business clients, Sunrise is playing a crucial role in helping to develop new entrepreneurial skills in the private sector beyond major towns and cities. It is an important institution, assisting urban and rural entrepreneurs with access to finance, and its business plan to transform into a countrywide commercial microfinance company has been welcomed by the EBRD.

Sunrise was established in 1996 as a non-governmental organisation. In December 2000 it was registered as a microfinance institution licensed to provide financial support to micro entrepreneurs. Throughout its network of six branches and 37 offices, it serves more than 15,000 clients across the Federation of BiH, Republika Srpska and District Brčko, both in urban and rural areas.

What our donors say
Diane Brooks
Balkans Programme Manager, Department for International Development, United Kingdom

We are committed to advancing transition and reducing poverty in the Western Balkans by helping the EBRD to implement well coordinated projects that reflect transition and EU accession priorities.
The Czech Republic is determined to work with the EBRD and other donors to the Western Balkans Fund to enhance the region’s sustainable development. During our EU Presidency in 2009 we will push the Western Balkans to the forefront of the EU’s priorities.

Western Balkans Fund
The unified, multi-donor Western Balkans Fund was set up in November 2006 to mobilise additional grant funding for the countries of the region and to strengthen the coordination of EBRD-donor assistance. It was inaugurated with initial pledges amounting to €13.7 million. Contributing countries to the Fund are Austria, Canada, the Czech Republic, Finland, Hungary, Ireland, Luxembourg, the Netherlands, Norway, Poland, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.

The participation of the Czech Republic, Poland, the Slovak Republic and Slovenia (from 2006) and Hungary (from 2007) has been particularly significant, as by joining this Fund they became EBRD donors for the first time.

Having served as Vice-Chair of the Fund during its inaugural year, Finland took over from Austria as Chair for 2008, with Sweden as Vice-Chair.

The Fund has already established itself as the main instrument for funding technical assistance assignments across the Western Balkans, covering a wide range of sectors. With replenishments from the Czech Republic, Norway and Sweden, total pledges have reached more than €20 million, about €10 million of which has been approved as grant support for more than 25 projects over the whole region. As with the ETC Fund, contributions to the Western Balkans Fund are ODA-eligible.

The Fund focuses on:
- improving access to, and delivery of, affordable basic services, such as water, electricity, transport and communications
- promoting a sound environment for private sector development, with effective legal and regulatory frameworks and transparent accounting and corporate governance practices
- encouraging MSMEs by strengthening access to finance and advice and supporting the creation of new businesses, especially by women entrepreneurs
- strengthening financial institutions
- promoting sustainable environmental standards
- extending innovative and inclusive initiatives to harness the potential of the wider community.

Other facilities
The Western Balkans Local Enterprise Facility (LEF) was established in 2006 as a €32 million investment channel, to which Italy initially contributed €12 million. The aim has been to provide mainly loan and equity financing to promising SMEs in the region.

In October 2007 Italy replenished the Facility with a further contribution of €7 million (including co-investment financing and TC funding) and the overall amount of the Facility now stands at €65 million. By the end of the year five SME investments under the facility had been signed. These include a €4 million loan to Vitaminka, the largest branded food manufacturer in FYR Macedonia. The loan will enable the company to develop new products, support its expansion plans in the Western Balkans and elsewhere, and employ an additional 40-50 workers.

Another instrument, which provides loans to local banks and leasing companies in the region, is the Western Balkans SME Finance Facility (see also page 34).
Overall, 24 per cent of technical cooperation funding in Russia in 2007 supported the EBRD’s Sustainable Energy Initiative.

Donor support

The major donors in Russia in 2007 were the European Union, Finland, Japan, and the NDEP.

The European Union has focused its financing on the Russian Regional Bank Framework (see below), which specifically aims to strengthen banks based outside the traditional financial centres of Moscow and St Petersburg. It has also funded project preparation work for municipal water and district heating projects.

Finland provided over €1 million to finance project preparation work for four municipal water and waste-water projects and agreed to finance the cost of an NDEP manager for these assignments for two years.

Japan has continued to concentrate its support in Russia’s Far East regions, providing €1 million to fund a framework for developing sustainable local transport in Siberia and Russia’s Far East. It has also continued its support to the BAS Programme in the Far East and for project preparation work on municipal infrastructure and agribusiness assignments.

The NDEP has provided financing for three water projects in north-west Russia, and established the Northern Dimension Foundation as a centre of expertise, responsible for the preparation and implementation of investments.

Overall, 24 per cent of technical cooperation funding in Russia in 2007 supported the EBRD’s Sustainable Energy Initiative (see page 38).

In addition, as the result of donor support, many more people in Russia’s regions gained greater access to small business finance in 2007, with 74,000 loans going to micro and small enterprises.

In Russia, the Bank’s activities are focusing on the development of the transport, municipal, power utility, corporate and banking sectors, with an overall emphasis on energy efficiency.

Russia

In Russia, the Bank’s activities are focusing on the development of the transport, municipal, power utility, corporate and banking sectors, with an overall emphasis on energy efficiency. Donor funding has reflected these objectives in 2007, with the greater proportion of technical cooperation being applied to municipal infrastructure and financial institutions (particularly those supporting SMEs).

Russian Regional Bank Framework

Five Russian regional banks (Bank Kedr, Bank Kazansky, Primotsobank, SBK and NBD Bank) are benefiting from donor support for institution building. Assignments are concentrating on improving operations in the areas of risk management, strategic planning and corporate governance. With funding of €1.2 million from the European Union, these banks are aiming to compete more effectively with Moscow-based and other banks in their respective regions.

Russia Small Business Fund

The RSBF was established in 1994 by the EBRD and eight donor governments to boost the availability of bank credit to the country’s small businesses. The fund lends capital to local banks who combine it with their own capital for on-lending to local entrepreneurs. It also uses donor funds to train staff in local banks to attract, assess and manage the credit needs of small business clients (see also page 34).
In September 2007 a grant of €10 million was agreed between the EBRD (as the NDEP fund manager) and the water utility Vodokanal for a water treatment plant in Russia’s Kaliningrad region. The agreement signified a major breakthrough for a planned investment that had originated in the 1990s but was then abandoned due to lack of financing.

The total cost of the project is approximately €87 million. Loans from the EBRD and NIB, together with grants from Denmark, the NDEP and Sweden, total €44 million. The remaining €43 million is being provided by the Russian Ministry of Finance and the regional government of Kaliningrad.

The NDEP grant will help finance the construction of a waste-water treatment facility, as well as the modernisation of sewage collectors and pumping stations. The new Northern Dimension Foundation will assist in project implementation.

The Kaliningrad project will improve the supply of clean drinking water to the area, help to reduce the amount of direct waste discharges into the Baltic Sea, and generally support the financial and operational performance of Vodokanal.

The Partnership also draws on the expertise and resources of the EBRD, EIB, Nordic Investment Bank (NIB) and World Bank in the design and implementation of projects covering the management of water quality and waste water (see case study, right), solid waste, energy efficiency and nuclear waste.

The NDEP is helping to deliver real benefits to the environment and people across an area extending from the Baltic Sea to the Arctic Barents Sea region.

Northern Dimension Environmental Partnership
The NDEP is an innovative and cooperative international effort to tackle some of the most pressing and longstanding environmental problems, particularly in north-west Russia. It was established in 2002, embracing donors, IFIs and the Russian authorities. Its Support Fund, amounting to €243.3 million at the end of 2007, is sponsored by Belgium, Canada, Denmark, the European Union, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom.
In 2007, €7.8 million of donor funding was committed to projects in Ukraine, focusing on MSME financing and development, infrastructure projects and energy efficiency improvements at the industrial and municipal level.

**Energy saving**

Ukraine has attracted considerable assistance for the development and modernisation of its existing municipal infrastructure to ensure its sustainability and for the implementation of energy efficiency initiatives, such as the promotion of renewable energy sources. Supported by France and Italy, the city of Kiev is upgrading its transport system, while Canada, Sweden, Taipei China and the United Kingdom are helping the cities of Vinnitsya, Cherkasy and Odessa with major projects to improve their district heating networks and ensure energy savings.

These projects are aiming to modernise the working methods of the district heating companies, introduce meter-based tariffs, minimise energy waste in the production and distribution of heating, and provide more consistent and reliable services to consumers. At the same time, the Netherlands has aided a review of transmission and distribution tariff-setting, providing a sound platform for ongoing district heating system renewal.
Improving energy efficiency in Cherkasy

District heating systems in Ukraine are plagued by inefficiency and excessive distribution losses, stemming largely from lack of maintenance, old control equipment and outdated management practices. They are also a significant source of greenhouse gas emissions — accounting for 20 per cent of CO₂ and 81 per cent of methane emissions produced by fossil fuel combustion in the country.

Investment in district heating improvement has therefore become a priority for many of Ukraine’s municipalities. The EBRD is providing an €11.2 million loan to Cherkasy TeploKomunEnergo (CTKE), the municipally owned district heating company that supplies about half of the city of Cherkasy’s 300,000 people with heat and hot water.

The EBRD loan will enable the company to target investment at reducing natural gas consumption and other operating costs, improving the quality of customer service and introducing partial metering. At the same time, residents will be motivated to save energy (as charges will be based on actual heat consumption) and tariffs will provide for full cost recovery. This will be the first municipal district heating transaction without a sovereign guarantee financed by the EBRD in Ukraine.

TC support totalling €720,000 has been provided by Sweden, Taipei China and the United Kingdom to help CTKE prepare and implement the project and to support its own corporate development and operability.

The Cherkasy project should provide a model for other cities that need to address their energy efficiency problems in a fair and socially responsible way.
Belarus, Kazakhstan and Turkmenistan

In 2007, €5.2 million of donor funding was committed to projects in Belarus, Kazakhstan and Turkmenistan, focusing on MSME financing and development, infrastructure projects and energy efficiency improvements at the industrial and municipal level.

Belarus
The EBRD’s activities in Belarus have concentrated particularly on developing the banking sector. In 2007, in conjunction with foreign investors, the Bank negotiated with the Belarusian government and central bank to open a new dedicated bank for small enterprises (see case study on page 29).

Kazakhstan
In Kazakhstan, MSME financing has benefited from significant donor funding, encouraging diversification of the banking sector and the wider economy. It is estimated that about 20 per cent of Kazakhstan’s economic output can be attributed to the MSME sector, and the government sees the growth of small business as key to the sustainable development of an economy otherwise dominated by natural resources. The demand from micro and small businesses for loans has increased markedly, and local banks are urged increasingly to provide longer-term funding to the sector.

The donor-supported TAM and BAS Programme has also continued to provide valuable assistance to businesses, not only in its general development but also in addressing environmental concerns (see page 37).

Japan has provided funding for almost all of the EBRD’s TC projects in Kazakhstan. The Japan-Kazakhstan Small Business Programme has expanded to encompass the development of a credit scoring system for MSMEs (effectively an assessment of their credit records), which will streamline the decision-making process regarding loans, especially to repeat clients. The provision of loans to micro businesses through non-bank microfinance institutions has further enhanced the ease of access to finance for enterprises.

At the same time, the EBRD has helped to strengthen mortgage lending and risk management in Alliance Bank, which has a major presence in the Kazakh banking sector. Luxembourg has also given donor support to Alliance Bank.

In addition, assisted projects in the transport, mining, health and safety, and telecommunications sectors are contributing to the upgrading of the country’s infrastructure.

Turkmenistan
The EBRD’s scope for TC-funded and investment projects is limited in Turkmenistan. The business environment remains extremely difficult and there has been little progress in structural and institutional reforms. Nevertheless, in 2007 Japan provided funding to support an EBRD SME loan to the country’s Senegat Bank.
The EBRD and seven international partners are launching the Belarusian Bank for Small Business (BBSB) with initial investment of €7 million to help channel financing into micro and small privately-owned enterprises in Belarus. The new bank is expected to open for business in mid-2008.

The seven other founding shareholders are: Commerzbank (Germany); FMO (the Netherlands); the International Finance Corporation (IFC); Kreditanstalt für Wiederaufbau (Germany); ShoreBank International and Shorecap International (United States); and Swedfund (a venture fund established by the Swedish government).

BBSB will operate initially in the Minsk region, where over 50 per cent of small businesses are located, offering loans on a commercial basis of up to US$200,000 (€136,000) but concentrating on the lower end of the market (credit below US$10,000 (€6,800)). By the fourth year of operations, the bank is expected to provide financial services to at least five other cities.

Austria, the European Union, the IFC, Japan, the Netherlands and Norway have already committed donor funding of €2.5 million to the venture, with further contributions expected from KfW and Sweden. This finance will cover bank start-up costs and encourage regional expansion.

TC funding will be required for the first three years of operations while the bank is managed by an international consultancy firm under the EBRD’s supervision.
In 2007, EU member states and candidate countries benefited from a total of €17.3 million in donor TC funding.

The Energy Efficiency Finance Facility for Bulgaria and Romania has benefited from €6.1 million in TC grant contributions.

EU member states and candidate countries

In 2007, this region benefited from a total of €17.3 million in donor TC funding, while public sector co-financing supported EBRD projects with €312 million, mainly in the form of IFI guarantees. The EU/EBRD SME Finance Facility (see also page 34) supports entrepreneurs across the 11 countries of the region by extending their access to funding. The Bank has committed about €1.15 billion to the Facility since its launch in 1999, and in 2007 a further €6.2 million was contributed by the European Union for credit and leasing purposes. Luxembourg contributed €500,000 to the implementation of three TAM projects and the continuation of BAS activities in Bulgaria and Croatia. Portugal also financially supported a TAM project in the textile sector in Bulgaria.

Energy

In 2007, within the framework of the EBRD’s Sustainable Energy Initiative (see page 38), a number of Energy Efficiency Finance Facilities (EEFFs) were established, supported by a grant contribution of €24 million from the European Union and by the decommissioning funds KIDS and BIDS. Part of the EU grant (€3.5 million) has been used for TC purposes (developing the skills of local banks to assess energy efficiency projects) and part for providing performance fees and incentives for successful project implementation. The facilities are implemented through financial intermediaries, lending to SMEs and to the residential sector. The EEFF for Bulgaria and Romania has benefited from €6.1 million in TC grant contributions.

A €54 million EBRD loan for the construction of nine new hydropower stations in Bulgaria on the river Iskar has been complemented by TC grants from the UK Department for International Development (DFID) and from the Italian government, while Spanish TC funds have been used to further support the liberalisation of the power sector in Poland.
Case study
Improving home energy efficiency in Bulgaria

By improving insulation, fitting new windows and using modern boilers and control systems, apartment blocks can cut the amount of energy used for heating by up to 80 per cent. However, this needs a shared investment in time and money by residents. Improving the whole of the building achieves better results in energy saving, aesthetics and social balance.

In Bulgaria, where energy waste is an endemic legacy of the communist past, studies show that at least 35 per cent of energy-saving potential is in the household sector. In response, the EBRD is providing apartment block residents with new financial incentives to work with their neighbours and take joint action on efficiency improvements.

Donors are contributing €4.6 million – which is in addition to €10 million already provided for residential energy-saving projects in Bulgaria – as part of their support for a fund for the decommissioning of units 1-4 of Bulgaria’s Kozloduy nuclear power station.

Most of this will fund incentives to encourage residents to take out loans to pay for energy-efficiency measures benefiting the whole building. These loans are available through the EBRD’s 50 million Bulgarian Residential Energy Efficiency Credit Line, launched in 2005 and disbursed through six participating banks (Bulgarian Postbank, DSK Bank, ProCredit Bank, Raiffeisenbank, Unicredit Bulbank and United Bulgarian Bank).

Households can use the loans to install double-glazing, internal and external insulation, biomass stoves and solar water heaters, efficient gas boilers and heat-pump systems. This has led to estimated annual savings of 70,000 MWh of electricity and over 100,000 tonnes of CO₂ emissions. Once borrowers have completed their energy efficiency home improvement work, they are eligible for loan rebates, which can increase depending on the number of participating households in the apartment block. This encourages all residents from the same block of flats to group together and obtain appropriate financing from banks.

Municipal infrastructure
Investments in municipal infrastructure were supported by donors’ contributions of almost €2 million to implement TC assignments in Bulgaria, Croatia, Poland and Romania.
• In Bulgaria, the city of Bourgas benefited from Austrian funding to improve the financial and operational management of water infrastructure investment.
• In Croatia, Italian and EU funding has supported the upgrading of the sewerage system and construction of a waste-water treatment plant in Sisak, while a Spanish TC grant has contributed to urban transport development in Dubrovnik.
• In Poland, Spanish funding has provided training in International Financial Reporting Standards (IFRS) for the municipal authority in Krakow as it oversees the implementation of a district heating project.
• In Romania, Swiss TC funding has aided a district heating project in Bucharest, German finance has supported a public transport scheme in Sibiu, and the Netherlands has contributed to the preparation of a regional water project in Argeş.
Part 03

Key programmes and sectors

Working in partnership, the EBRD, donor countries and official co-financiers have advanced the transition process by funding specific programmes and facilities. These operate in support of MSME lending, trade finance, advisory services, sustainable energy, legal reform, municipal and environmental infrastructure and transport development.

“Donors support the development of the TFP by providing finance for risk-sharing facilities and trading and advisory services.”
Key programmes and sectors

“

The United States believes that the development of small businesses is vital to the establishment of functioning market economies and democratic governance in the EBRD’s countries of operations. We strongly support the EBRD’s initiatives in micro, small and medium enterprise lending.

“

Micro, small and medium-sized enterprise lending

The EBRD has traditionally supported small enterprises as they contribute fundamentally to promoting market economies and democracies in which competition, innovation and job creation may thrive, in turn boosting economic growth and alleviating poverty.

The EBRD’s lending programmes provide individual entrepreneurs and firms with access to otherwise scarce finance. Typically the Bank makes credit available through financial intermediaries – such as local commercial banks and specialist small business banks – and equity funds and leasing facilities. These intermediaries on-lend the funding to small enterprises.

The Bank’s investments are accompanied by technical assistance to strengthen partner institutions and to establish efficient credit procedures for lending to small business clients.

Lending facilities

• EU/EBRD SME Finance Facility – providing finance to small businesses in Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

• Romania Micro Credit Facility – established in 2006 to lend to the smallest enterprises, individual entrepreneurs and farmers, with funding from the EBRD, the European Union Phare Programme and the Romanian government.

• Russia Small Business Fund – operating through branches of partner banks (principally KMB Bank) across Russia, with funding from Canada, the EBRD, the European Union, France, Germany, Japan, Switzerland, the United Kingdom and the United States.

• US/EBRD SME Finance Facility – providing finance to small businesses in Albania, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, the Kyrgyz Republic, FYR Macedonia, Montenegro, Romania, Serbia (including Kosovo), Tajikistan and Ukraine.

• Western Balkans SME Finance Facility – providing loans to local banks and leasing companies in the region, with donor support from the EAR and Italy.

• Western Balkans Local Enterprise Facility – lending to SMEs in the region (see also page 23).

The government of Japan has also traditionally been a major source of donor funds in support of the Bank’s small business finance agenda, for example through the Japan-Kazakhstan Small Business Programme (see page 28).
Activities in 2007
In the Western Balkans, Metals Banka in Serbia and TTK Bank in FYR Macedonia signed loan agreements with the EBRD for on-lending to small enterprises, and are each receiving project implementation TC funding of €500,000 from the European Union, EAR and Italy. In addition, Serbia’s Čačanska Banka is benefiting from €960,000 in TC assistance provided by the EAR. This is designed to help the bank’s comprehensive restructuring, institutional strengthening and strategic guidance in preparation for full privatisation.

The EBRD has led the way in providing access to local currencies in its countries of operations, focusing on the development of domestic financial markets to provide sustainable and comprehensive solutions for local currency needs. In November 2007 the EBRD invested over €483 million in the Currency Exchange Fund (TCX), along with other shareholders such as the European Fund for Southeast Europe, Agence Française de Développement and Netherlands Development Finance Company (FMO), the sponsor of this initiative.

TCX is an innovative global foreign exchange fund that will develop local currency products in developing countries worldwide. This initiative provides the Bank with a medium-term vehicle to offer synthetic local currency loans that should reduce the foreign exchange risk of the Bank’s clients. The EBRD will meanwhile be able to leverage its support to small businesses through stronger intermediaries. TCX expects to generate additional financing at a rate of roughly 1:4, meaning that its total capital of €490 million could result in derivative transaction volumes of approximately €1.96 billion.

Given the importance of the EBRD’s activities in the development of capital markets in its countries of operations, the Bank was nominated as one of the five members of the Supervisory Board. The Bank expects to use the TCX for its first microfinance transaction in early 2008.

In September 2007 the Bank launched the Tajik Agricultural Finance Facility (TAFF), a multilateral lending programme designed to support the restructuring of Tajikistan’s agricultural sector, including cotton. The World Bank, Asian Development Bank and IMF, together with the government of Tajikistan, have established a Cotton Debt Resolution Committee that will restructure the debt that farmers owe to local investors. The lending programme will provide up to €24 million in credit lines for up to 10 commercial banks and non-bank financial institutions making loans (averaging €6,800) to small farmers for working capital purposes. TC assistance will support the implementation of the facility by developing the necessary agricultural lending skills in the Tajik financial sector, including training credit advisers and agronomists in the partner banks. Farmers selected as potential borrowers will also be advised on crop diversification and best farming practices. By the end of 2007, TC funds had been provided by the ETC Fund (€500,000), Luxembourg (€230,000) and the United States (US$500,000).

To strengthen the development of microfinance institutions in the Kyrgyz Republic (where the level of financial intermediation is still low), the EBRD announced the launch in December 2007 of a new €27 million financing facility, with the signing of two loans to Kyrgyz Investment and Credit Bank (KICB), a privately owned commercial bank. Under this new framework, the EBRD is providing funds to local partner banks for on-lending to small businesses and for the development of new leasing and mortgage products. It is complemented with €560,000 in grant funding from the ETC Fund for technical assistance.

What our donors say
Ignazio Angeloni
Ministry of the Economy and Finance, Italy

“Italy is proud to have cooperated for many years with the EBRD in the Western Balkans, and the Italy-EBRD Western Balkans Local Enterprise Facility is our latest flagship instrument. We look forward to enhancing this relationship to respond even more effectively to the needs of the region.”
Trade Facilitation Programme

Established in 1999, the Trade Facilitation Programme (TFP) helps to finance businesses engaged in export and import trade. Through the programme, the EBRD takes on the political and commercial payment risk of transactions undertaken by issuing banks in the countries where the EBRD operates. Over 80 issuing banks participate in the programme, together with over 500 confirming banks throughout the world. As of July 2007, the TFP had facilitated more than 6,250 trade deals worth nearly €3.6 billion.

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

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

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

Case study

Bank of Georgia’s first factoring transaction

In August 2007 Bank of Georgia became the first Georgian bank to sign a factoring transaction under the TFP. The agreement with Magoli Ltd, worth €136,000 and covering the supply of raw materials for road construction, allows the company to immediately get funds for its deliveries instead of waiting for payments from its clients.

Factoring is a fast and flexible method of improving a company’s cash flow and providing working capital, and the EBRD has included it within the TFP as a further means of transferring trade finance know-how and encouraging innovation.

With funding from the European Union, Bank of Georgia engaged Ben Hosh, a consultant and partner of Triangle Trade Finance, to advise on factoring principles and service provision. Upon the successful conclusion of the agreement with Magoli, Mr Hosh said: “It is exciting to see Bank of Georgia introduce factoring and to take its place in the rapidly expanding global factoring community... I am confident that this is the first of many such transactions that will take place to support the growing SME sector in Georgia.”

Bank of Georgia was the first Georgian institution to become an issuing bank under TFP in 1999, and has since used TFP facilities for financing almost 300 foreign trade transactions worth €135 million.

TC consultancy services and training seminars on trade finance practices and products have been provided for banks in 17 EBRD countries of operations, helping them to increase their operational skills and improve their services. As of 2007, more than 800 bankers from over 200 banks in the 17 countries had benefited from consultancy services or training through presentations, case studies, workshops, seminars, meetings with clients and team discussions.

Workshops in advanced trade finance techniques and practices were organised during 2007 in Azerbaijan, FYR Macedonia, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Russia, Tajikistan and Ukraine. They were attended by 135 participants from 75 banks in those countries. An increasing need for TC-funded consultancy and training in factoring (lending money to a company on the security of money owed to that company) was identified during 2007. As an innovative banking product, factoring has attracted the interest of the issuing banks and international factoring companies in southern and eastern Europe, Central Asia and the Caucasus (see case study, left). However, only a very limited number of banks in these countries are as yet sufficiently experienced to introduce and sustain this service.

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Encouraging women entrepreneurs in Armenia

Capitalising on the potential of women to strengthen skill levels within the MSME sector and encouraging their participation in business has been recognised as an important component of the transition process. The Women Entrepreneurs Initiative in the Caucasus is a BAS scheme funded by the Canadian International Development Agency (CIDA).

Within this initiative, a four-month project to develop a pilot fashion training centre in Yerevan and Gyumri in Armenia was successfully completed in May 2007. The aim was to provide about 50 students with a fundamental understanding of the fashion industry, incorporating design, marketing, merchandising and business planning. The students could then continue their education in subsequent training courses to be carried out after the pilot programme. Several students subsequently gained work experience from internships in a fashion company, or entered the editorial side of the industry, or set up their own businesses.

Thinking beyond the benefits of this particular project for promoting women in business, BAS Regional Programme Director Brigitte Watson said: “The business model used with this fashion training centre could be easily replicated in other industries... This kind of initiative needs to be further supported to eventually become self-sustained.”

TurnAround Management/ Business Advisory Services Programme

The TAM and BAS Programme provides technical support and management advice to micro, small and medium-sized businesses to help them adapt to the demands of a market economy. It works directly with individual enterprises, providing industry-specific advice on business restructuring, product improvement, cost reduction, marketing and planning skills at management level. In addition, the Programme aims to develop a sustainable infrastructure for business advisory services and provides input into the EBRD’s policy dialogue activities.

The Programme has mobilised over €162 million in donor funding (including over €15 million in 2007) since its inception in the early 1990s. The biggest single donor is the European Union (providing funding particularly through the EAR at present). Bilateral donors include Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China, the United Kingdom and the United States. There are also multilateral contributors.

TAM transfers to supported local enterprises commercial and technical know-how from experienced senior practitioners from economically developed countries. Projects usually last around 18 months and frequently involve broad restructuring, encompassing all aspects of an enterprise. BAS helps individual enterprises by improving their competitiveness, marketing and financial management, quality management systems and strategic business planning. Projects are typically short-term (about four months) and narrowly-based with a rapid payback, engaging local accredited business consultants.

In 2007 TAM started over 120 projects, mainly in FYR Macedonia, Montenegro and Serbia, Central Asia and the Caucasus (Armenia, Azerbaijan and Georgia). BAS started nearly 950 projects, mostly ETC-based, engaging around 650 consultants. BAS carries out significant market development activities, such as MSME and consultancy training. In 2007, BAS carried out 15 training seminars covering a wide variety of topics ranging from core consultancy skills to energy efficiency and human resource management.
Sustainable Energy Initiative

As global concern about climate change increases, the efficient use of energy has become an international priority. The EBRD countries of operations are growing rapidly and therefore have increasing energy needs. However, they still use up to seven times more energy per unit of gross domestic product than their western European counterparts, emitting disproportionately high levels of greenhouse gases. At the same time, increasing concerns over economic competitiveness and energy security have heightened the regional imperative for more sustainable use of energy.

In May 2006 the Bank launched the SEI, which envisaged a doubling of finance – to €1.5 billion – for energy efficiency and renewable energy projects over a three-year period from 2006–08. The initiative reflects the need, highlighted by international forums and by many of the EBRD’s countries of operations, to address the pressing issues of energy waste, energy security, climate change and cleaner power sources.

The SEI commits the Bank to strengthening policy dialogue with governments and to working with donors to support sustainable energy projects. It has six components: industrial energy efficiency; Sustainable Energy Financing Facilities (SEFFs – see below) through financial intermediaries, particularly local banks in the EBRD region; cleaner energy supply (power generation and transmission); renewable energy; municipal infrastructure (district housing and urban transport); and carbon finance.

In 2007 the Bank continued to scale up its investments in SEI projects, reaching €934 million by the end of the year, compared to €748 million in 2006. This means that the three-year target of €1.5 billion has been reached in two years. Continuing donor support will enable the EBRD to maintain and increase investment in sustainable energy development in the region in the future.
In 2007, over €26.3 million in donor TC funds and more than €50 million in grant co-financing were pledged for SEI-related assignments.

In Poland the EBRD provided a €78 million loan for production upgrading, energy efficiency improvements, and working capital to the Celsa Huta Ostrowiec steel plant in south-east Poland.

Energy efficiency reduces costs and therefore makes sound business sense. However, in order to unlock the full potential of commercially viable and creditworthy projects, it is necessary to overcome a range of market barriers. These vary from sector to sector and from country to country, but generally encompass weak technical, institutional and regulatory capacity, as well as commercial inertia.

The Bank relies on technical assistance and, in some instances, grant co-financing, to overcome these barriers, reinforce its investments and promote market development. In 2007, over €26.3 million in donor TC funds and more than €50 million in grant co-financing were pledged for SEI-related assignments. Almost 50 per cent of these funds are untied, indicating the increasing willingness of donors to allow the allocation of resources to the most appropriate projects.

By the end of 2007, 15 countries (Austria, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), as well as the European Union and two multilateral funds, had committed funds to specific projects supporting SEI activities.

In Bulgaria, Romania and the Slovak Republic, grants totalling €39 million provided through the European Union and the Bohunice International Decommissioning Support Fund (BIDS) are supporting SEFFs worth €160 million. SEFFs are credit lines or guarantees provided by the EBRD to local banks for on-lending to borrowers undertaking sustainable energy projects in the corporate, municipal and residential sectors. These facilities are supported by TC grants for project preparation, marketing and training, and in some cases for incentive payments to sub-borrowers and participating banks.

In Poland the EBRD provided a €78 million loan for production upgrading, energy efficiency improvements and working capital to the Celsa Huta Ostrowiec steel plant in south-east Poland. This followed a €20,000 energy efficiency audit, carried out by Greek consulting firm Energo Group, which was financed by the Greek government. As a result, there should be electricity savings of 10 per cent, natural gas savings of 15 per cent and a reduction of over 155,000 tonnes of CO₂ emissions annually at the plant.

In the north-western region of Russia (around St Petersburg), the EBRD is undertaking a review (from December 2007) of the main impacts and risks of climate change and the mitigation and adaptation options available. This study, supported by the Spanish SEI Technical Cooperation Fund with funding of €197,000, is an important element of the Bank’s engagement with Russia on climate change issues, including carbon finance. It aims to identify emission reduction opportunities and to provide a valuable independent resource for the development of a regional climate change plan. Under the SEI, France contributed €3 million in 2007, some of which has been committed for the inter-regional electricity distribution company (MRSK) investment programme in Siberia to refurbish and modernise the company’s distribution lines and substations.

“Sweden takes the issue of climate change very seriously and so is happy to support energy efficiency measures in the EBRD’s countries of operations, both financially and technically. We regard the Bank’s Sustainable Energy Initiative as an effective tool in tackling climate change.”

What our donors say
Sven Hegelund
Board Director for Sweden, Iceland and Estonia, EBRD
In Ukraine the EBRD is providing a loan of up to €11.2 million to a municipal utility company for a district heating project in the city of Cherkasy (see case study on page 27). The Bank has also launched a programme to help the Ukrainian Ministry of Fuel and Energy devise a sound regulatory framework for renewable energy development in the country. The Netherlands supported this initiative with €150,000 of TC funding.

A project promoting SEI-related urban transport development across the EBRD countries of operations was established with €50,000 from the United Kingdom. It will enable the Bank to develop a model for assessing the carbon impact of urban transport projects within municipal operations. And in Georgia, the Georgia Energy Efficiency Programme was established with the support of Canada, the ETC Fund and the United Kingdom.

As the SEI evolves, the importance of donor support will continue to grow. Partnership with the European Union will remain a central feature, as the initiative is strongly aligned with EU energy efficiency policy. The European Union has also been the largest financial contributor to the initiative, both through the EBRD-managed nuclear decommissioning funds and through external budget instruments. Additional support from EU funds and potential cooperation with the Global Environment Facility are under ongoing discussion.

Legal Transition Programme

The EBRD Legal Transition Programme (LTP) aims to improve the investment climate in transition countries by promoting investor-friendly, transparent and predictable legal environments. LTP activities focus on the development of legal rules and the establishment of the legal institutions and culture on which a vibrant market-oriented economy depends.

In 2007 a regular budget was established by the Bank to finance some previously donor-funded LTP activities, mainly regarding legal framework assessment and outreach. Legal technical assistance projects, increasingly focused on the ETCs and the Western Balkans, continue to be financed by donors.

Reform projects

- In Albania, Greek funding contributed to the preparation of a draft law on municipal and corporate bonds. The LTP also launched a communications legal and regulatory technical assistance project with EU support.
- In Kazakhstan, Japan has financed projects to assist regulation and institution building in the communications sector.
- In the Kyrgyz Republic, Canada, the ETC Fund, Japan and Switzerland have funded initiatives to improve regulation in the telecommunications sector and expand rural access; strengthen the investor protection legislative framework; and increase judicial capacity in the commercial law sector.

In 2007 a regular budget was established by the Bank to finance some previously donor-funded LTP activities, mainly regarding legal framework assessment and outreach.
In 2007 the MEI sector attracted financing worth €325 million in support of 20 transactions across the EBRD’s countries of operations.

- In Moldova, funding from Switzerland assisted with the preparation of a new mortgage law.
- In Mongolia, the LTP helped to draft legislation on moveable property transactions and also to strengthen regulatory practices and institutions in the telecommunications sector.
- In Montenegro, funding from the Western Balkans Fund helped to initiate the implementation of a project to strengthen telecommunications regulation.
- In Russia, the LTP has been involved in a project on insolvency administration and regulation, funded by Switzerland.
- In Serbia, the LTP completed a Swiss-backed insolvency project providing technical support to the Bankruptcy Supervisory Agency. A project funded by the United States to assist the Kosovo government with telecommunications sector reform was also concluded.
- In Ukraine, the LTP has provided advice to the government on public-private partnership development in the motorway sector, financed by the European Union.

To help transition countries modernise their mortgage markets, the EBRD published *Mortgages in transition economies: the legal framework for mortgages and mortgage securities* in January 2008. It was prepared with the support of the Swiss State Secretariat for Economic Affairs (Seco). Research analysis was based on a survey of mortgage laws in 17 transition countries where an active mortgage finance market already exists or preparations for developing such a market were well advanced. The report gives a comparative overview of progress made so far towards developing an efficient mortgage system and weaknesses that still exist, and provides broad recommendations on the legal basics for an efficient mortgage system. The report is available at www.ebrd.com/pubs.

**Municipal and environmental infrastructure**

The EBRD’s municipal and environmental infrastructure (MEI) operations aim to help local authorities improve the efficiency and quality of local services. With donor support, they promote sound management, investment and environmental practices within a market-oriented regulatory framework. The main focus of activity is increasingly in the south and east of the Bank’s countries of operations.
Case study

Financing waste-water treatment in Armenia

Having invested €112 million to improve municipal water supply services in the capital, Yerevan, and smaller towns, the government of Armenia’s next priority is to protect Lake Sevan, a region of natural beauty in central Armenia covering 15 per cent of the country. The area is nevertheless depressed economically, with lower incomes and higher unemployment than the national average.

A €7 million sovereign loan by the EBRD to the government has been lent on to the state-owned Armenia Water and Sewerage Company (which is managed by SAUR of France, an international utility operator). This investment will benefit the residents of the Gavar, Vardenis, Martuni, Sevan and Jermuk municipalities – all located near Lake Sevan – by improving their waste-water management services, including treatment plants and network rehabilitation. The Bank’s loan is complemented by a €5 million grant from the European Union Water Initiative.

This is the EBRD’s first municipal and environmental infrastructure project in Armenia. Modelled on existing water investment schemes in Georgia, the aim is to provide service improvements and operational support within the constraints of an affordable loan and the requirement for concessional grants agreed by the IMF with Armenia. The bundling of municipalities within an intermediary – Armenia Water and Sewerage Company – managed by an international operator – SAUR – is a novel feature of this operation.

TC support totalling €1.5 million has been provided by the EU Water Infrastructure Support Facility and the ETC Fund.

Donor commitments

Donors continued their TC commitment to MEI development in 2007 with €12.8 million in support of project preparation and implementation. Project preparation is generally directed at environmental, financial and legal due diligence (ethical behaviour and transparency), feasibility studies and technical reviews by engineers on behalf of the Bank. Project implementation focuses on operational and institution-building activities, risk management and financial monitoring of the client company.

• Austria provided a €1 million replenishment for TC support in Russia, Serbia and Ukraine.
• The European Union provided dedicated TC funding of €1 million to help develop five MEI projects in Russia, with the potential to leverage almost €80 million in financing.
• Japan is contributing to urban transport improvements in Russia’s Far East.
• The Swedish International Development Cooperation Agency has continued to support water infrastructure projects in the ETC region.
**Transport**

In 2007 the EBRD and donor community continued to support the transport sector by financing economically viable infrastructure projects in aviation, ports, railways, road transport and shipping. Funding of about €600m was committed to 16 projects, particularly within the ETC and Western Balkans regions (see case study on page 19).

Donors continued their TC funding with €1.2 million for project preparation and implementation. Project preparation support centred on environmental, financial and legal due diligence on behalf of the Bank. Project implementation backing was targeted at institution building, asset management planning, improving environmental and safety standards, and developing corporate plans and performance-based maintenance contracts.

In Montenegro the Bank signed a €6 million loan (to be followed by loans of €5 million in 2008 and €4 million in 2009) with ZCG Infrastruktura, the state-owned railway infrastructure company, to support the expansion of the auxiliary fleet and to refinance short-term debt. TC support is being provided by the Western Balkans Fund for the preparation of an asset management programme to strengthen strategic planning and spread awareness of modern track maintenance and planning practices. The key aims of the project are to improve rail track safety, increase efficiency and reduce operating costs.

Also in 2007, the Bank signed a €71 million loan with Rosmorport, the federal enterprise responsible for managing and developing Russia’s port infrastructure, to support the expansion of the auxiliary fleet and to refinance short-term debt. TC funding is being provided by Japan to finance a review and improvement of Rosmorport’s environmental, health and safety standards.

**Grant co-financing**

Grant co-financing remains an important element of MEI projects in many countries, helping to offset affordability constraints by reducing the need for extensive utility tariff increases that would otherwise be required to repay a fully loan-financed investment. It also enables EU environmental standards to be met more quickly by augmenting initial investment in the first phase. As the costs involved in meeting minimum environmental standards typically far exceed the borrowing capacity of a local utility, investments need to be phased over time or complemented by grant funding.

In the ETC region in particular, the IMF insists on a significant grant funding component for each project (usually around 35 per cent). The EBRD has successfully mobilised a limited amount of grant funding to co-finance its initial portfolio of MEI transactions in the ETC region.

In 2007 a €7 million EU investment grant benefited three ETC regional projects in the Lake Sevan region in Armenia (with €5 million – see case study, left), and in Poti (€1.2 million) and Rustavi (€800,000) in Georgia. The US Millennium Challenge Corporation provided a €4.3 million grant for the improvement of the water supply in Kutaisi, Georgia.
### Annex 1

**Donor agreements and replenishments, 2007**

<table>
<thead>
<tr>
<th>Fund or project</th>
<th>€ '000</th>
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<tbody>
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<td>Austria</td>
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<td>Borjomi-Bakuriani water and waste-water project</td>
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<td>Czech Republic</td>
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<td>Denmark</td>
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<td>Albania Communications Regulation</td>
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<td>Ukraine Micro Lending Programme – Regional Expansion</td>
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<td>Hungary</td>
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<td>Technical Cooperation Fund</td>
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<td>Spain</td>
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<td>Sustainable Energy Cooperation Fund (ODA)</td>
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<td>Early Transition Countries Fund</td>
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</tr>
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<td>Technical Cooperation Fund</td>
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<td>Municipal Environmental Fund for ETCs</td>
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<td>Northern Dimension Environmental Partnership Support Fund</td>
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<tr>
<td>Country</td>
<td>Fund</td>
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<tr>
<td>-------------------------------</td>
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<td>Switzerland</td>
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<td>Taipei China</td>
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<td>TaiwanBusiness-EBRD Cooperation Fund</td>
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<td>Sustainable Energy Initiative Fund</td>
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<tr>
<td>United States</td>
<td>Business Advisory Services Fund (Armenia)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

## TC commitments in 2007, by donor

<table>
<thead>
<tr>
<th>Donor</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>14,957,661</td>
</tr>
<tr>
<td>Japan</td>
<td>13,545,296</td>
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<tr>
<td>Early Transition Countries Fund¹</td>
<td>12,363,726</td>
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<tr>
<td>The Netherlands</td>
<td>10,287,773</td>
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<tr>
<td>Sweden</td>
<td>5,301,063</td>
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<tr>
<td>Italy</td>
<td>4,915,800</td>
</tr>
<tr>
<td>Western Balkans Fund²</td>
<td>4,591,765</td>
</tr>
<tr>
<td>European Agency for Reconstruction</td>
<td>4,373,241</td>
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<tr>
<td>Northern Dimension Environmental Partnership Fund³</td>
<td>3,830,600</td>
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<tr>
<td>Canada</td>
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<td>Spain</td>
<td>3,152,237</td>
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<td>Bohunice International Decommissioning Support Fund⁴</td>
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<td>United Kingdom</td>
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<td>Finland</td>
<td>1,535,965</td>
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<td>United States</td>
<td>1,388,624</td>
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<td>Mongolia Cooperation Fund⁵</td>
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<td>Germany</td>
<td>1,052,100</td>
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<tr>
<td>Luxembourg</td>
<td>848,449</td>
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<tr>
<td>France</td>
<td>718,000</td>
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<tr>
<td>Kozloduy International Decommissioning Support Fund⁶</td>
<td>620,000</td>
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<td>Korea</td>
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<td>Russia Small Business Fund⁷</td>
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<td>Norway</td>
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<td>BP</td>
<td>242,988</td>
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<td>Project Specific Funds (various donors)</td>
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<td>Portugal</td>
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<td>Ireland</td>
<td>52,000</td>
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<tr>
<td>Global Environment Facility</td>
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<td><strong>Total</strong></td>
<td><strong>98,167,445</strong></td>
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¹ **Early Transition Countries Fund** – Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom.
² **Western Balkans Fund** – Austria, Canada, Czech Republic, Finland, Hungary, Ireland, Luxembourg, the Netherlands, Norway, Poland, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.
³ **Northern Dimension Environmental Partnership** – Belgium, Canada, Denmark, the European Community, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom.
⁴ **Bohunice International Decommissioning Support Fund** – the European Community, Austria, Denmark, France, Ireland, the Netherlands, Spain, Switzerland and the United Kingdom.
⁵ **Mongolia Cooperation Fund** – Japan, Luxembourg, the Netherlands and Taipei China.
⁶ **Kozloduy International Decommissioning Support Fund** – the European Community, Austria, Belgium, Denmark, France, Greece, Ireland, the Netherlands, Spain, Switzerland and the United Kingdom.
⁷ **Russia Small Business Fund** – G7 plus Switzerland.
Micro, small and medium-sized enterprises
A micro enterprise is defined as a company with 20 or fewer employees; a small enterprise is a company with 100 or fewer employees; and a medium-sized enterprise is one with 250 or fewer employees.

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

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

Early transition countries
Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Uzbekistan.

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

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

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

G8
G7 countries, Russia.

Western Balkans
Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro, Serbia.
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Ewa Manik
Neil McKain
Aleksandra McNeill
Michel Nussbaumer
Itziar Perkins
Gana Peterson
Rudolf Putz
Henry Russell
Marta Simonetti-Whitford
Josué Tanaka
Alfonso Vega
Nuala Whelan
Marjola Xhunga

Photography

Photographer

Page

Aleksandar Andjic
Richard Bate

41, 42 (top)

11 (middle left), 15 (right), 19 (right),
29 (left), 39 (right)

11 (middle left), 15 (right), 19 (right),
29 (left), 39 (right)

Bogdan Cristel
Simon Crofts
Sue Cunningham
Danilo De Rossi
Arnhele de Serra
Luke Distelhorst
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European Commission
Mike Ellis

EBRD

40 (top)

8 (bottom), 11 (middle), 21 (top)

8 (bottom), 11 (middle), 21 (top)

31 (bottom), 36 (bottom left)

38 (bottom)

25 (bottom)

12 (left)

Inside front cover (bottom left and right),
6-7, 8 (top left), 11 (top left and right),
16-17, 24, 25, 26, 27 (top), 29 (right),
30 (right), 31 (top), 32-33, 34 (top),
35 (bottom), 36 (top), 39 (top left),
40 (bottom), 43

35 (right)

19 (bottom right)

19 (middle and bottom left)

Cover, 1 (bottom right), 12 (bottom),
20, 28

37 (bottom right)

Inside front cover (top left), 3,
29 (bottom right)

27 (bottom)

22 (left), 23 (right), 34 (left),
38 (middle)

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13 (right)

29 (bottom middle)

42 (bottom)

37 (top)

22 (bottom), 23 (top)

All other photography by Flashlight Digital

Production

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Richard German
Hannah Goodman
Jon Page
Design
Fivefootsix

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