With the onset of the financial crisis in summer 2008, globalisation entered a new era of uncertainty. A primary responsibility of the EBRD as a public institution has been to act swiftly to mitigate the effects of the crisis in its countries of operations, and in this the Bank’s partnerships with donors have played a vital role.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Projects</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Europe and the Baltic states</td>
<td>51</td>
<td>10%</td>
</tr>
<tr>
<td>South-eastern Europe</td>
<td>62</td>
<td>12%</td>
</tr>
<tr>
<td>Belarus, Moldova, Ukraine</td>
<td>87</td>
<td>17%</td>
</tr>
<tr>
<td>Russia</td>
<td>63</td>
<td>12%</td>
</tr>
<tr>
<td>Central Asia</td>
<td>93</td>
<td>18%</td>
</tr>
<tr>
<td>Caucasus</td>
<td>62</td>
<td>12%</td>
</tr>
<tr>
<td>Regional</td>
<td>97</td>
<td>19%</td>
</tr>
</tbody>
</table>

Final number of projects: 518
In April 2009 the EU Neighbourhood Investment Facility (NIF) approved an exceptional €12 million contribution to the EBRD’s technical assistance framework for financial sector institution-building and crisis response. The goal was to help banks cope with the financial crisis by enhancing their technical capacity.

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

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

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

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