



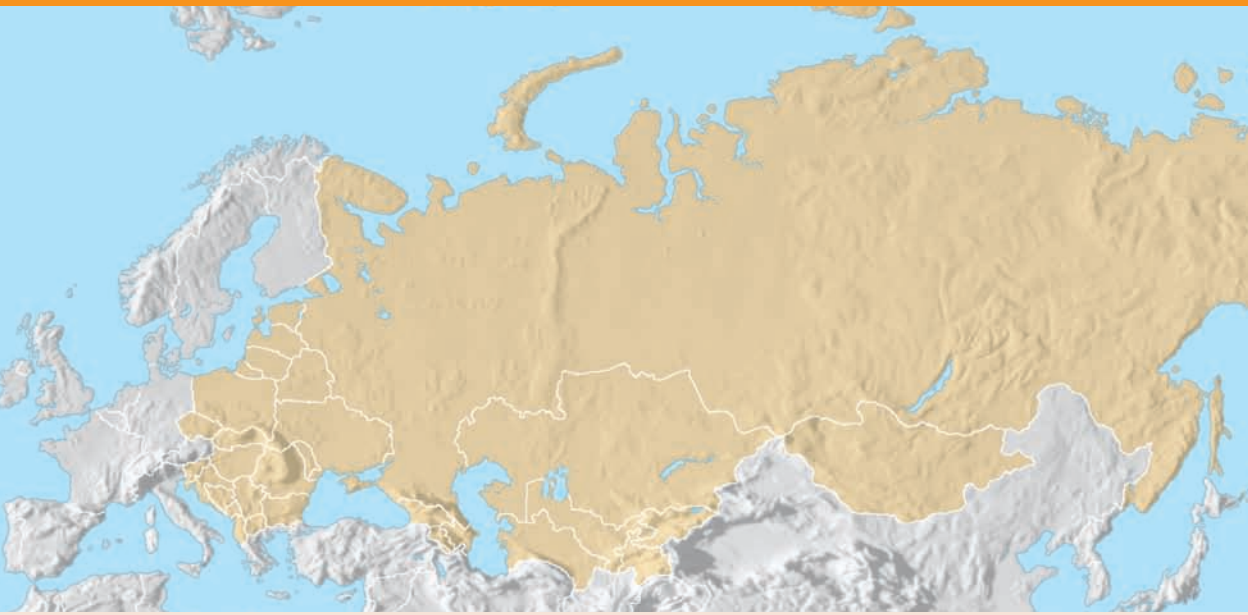
February 2006

Japan and the EBRD

Working together
in transition countries



European Bank
for Reconstruction and Development



The European Bank for Reconstruction and Development (EBRD), owned by 61 countries and two intergovernmental institutions, aims to foster the transition from centrally planned to market economies in countries from central Europe to central Asia.

Where the EBRD operates

■ The EBRD operates in 29 countries

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

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Message from the President



The longstanding partnership between Japan and the EBRD is making a real difference in the countries where the Bank operates, particularly the poorer countries where the challenges are the greatest. The support provided by Japan in developing skills and promoting institutional reforms in these countries is essential to sustainable development.

Japan is the second-largest shareholder of the EBRD and is the largest bilateral contributor to the Bank's Technical Cooperation Funds Programme. To date, Japan has contributed over €135 million to this programme, which helps to improve the investment climate in the Bank's countries of operations and to prepare the way for future EBRD investment.

Japan not only provides support on a bilateral basis but also contributes generously to multi-donor funds. These funds include the recently established Early Transition Countries (ETC) Fund, which aims to help seven of the poorest countries where the EBRD operates, and the Mongolia Cooperation Fund. Multi-donor funds allow the Bank to work alongside multiple donors to achieve shared objectives. I am grateful to Japan for taking a leadership role in the Assembly of Contributors for the ETC Fund.

Through the Japan Bank for International Cooperation and other agencies, Japan is also an important co-financing partner, investing with the EBRD in a wide variety of projects. One of the largest projects supported by the EBRD – the construction of an oil pipeline from Azerbaijan to the Turkish port of Ceyhan – attracted a number of co-financing partners from Japan and many other countries.

The partnership between Japan and the EBRD is bringing positive results to our region of operations. Over the coming years we look forward to continuing our cooperation in order to push the transition process further forwards.

I would like to take this opportunity to thank the Japanese authorities, in particular the Ministry of Finance, for our fruitful partnership.

Jean Lemierre

President

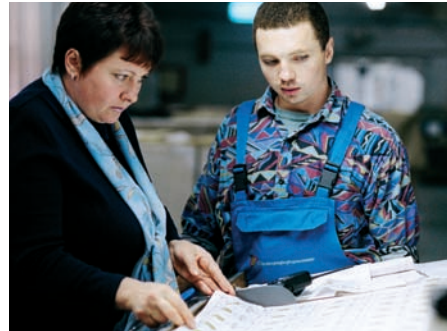
European Bank for Reconstruction and Development

The EBRD's Technical Cooperation Funds Programme

The EBRD's Technical Cooperation Funds Programme (TCFP) plays an important role in supporting the Bank's activities and improving the business environment across the region.

Financed through donor contributions, the TCFP aims to prepare the ground for EBRD projects, by directly supporting Bank investments and by fostering structural and institutional reform. Technical assistance can vary from project preparation and feasibility studies prior to the EBRD's investment, to management advisory services and training, to improving the legal framework for business.

The TCFP is entirely funded by voluntary grants from donor governments and agencies. At the end of 2005, cumulative donor contributions stood at €1.2 billion. Through the TCFP, the EBRD has launched more than 4,000 technical cooperation (TC) assignments, which have in turn supported nearly €14 billion in EBRD investments.



Advisers, funded through technical cooperation, are helping small enterprises modernise their management practices and improve their productivity.



Technical assistance has helped prepare the way for EBRD investment in a range of infrastructure projects across the region.

Japan's contribution to the TCFP

Japan is the largest single country contributing to the TCFP. At the end of 2005, Japan's overall contribution amounted to €136 million or 12 per cent of the total funds managed under the TCFP.

Japan provides support through a number of separate funds. The main vehicle for Japanese bilateral assistance is the Japan-Europe Cooperation Fund (JECF), which supports transition in all 27 of the Bank's countries of operations. Japan has also set up the Central Asia Institution Building Cooperation Fund to improve the investment climate and facilitate the development of market economies in Central Asia.

Japan also extends support through multi-donor funds, primarily the Bank's Early Transition Countries (ETC) Fund and the Mongolia Cooperation Fund. The ETC Fund was established under the EBRD's Early Transition Countries Initiative and aims to stimulate economic

activity in the seven poorest countries of the region: Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan (see pages 16–17). The Mongolia Cooperation Fund was established to finance technical cooperation projects in Mongolia.

The amount of funding and the fact that it is provided "untied"¹ make Japan extremely valuable to the EBRD and its clients. The funds allow the Bank to use the highest quality expertise available in the market and promote the use of local consultants for its TC projects.

Technical cooperation funds	Japan's contribution € million
Japan-Europe Cooperation Fund	113.6
Early Transition Countries Fund (multi-donor fund)	11.0
Mongolia Cooperation Fund (multi-donor fund)	5.0
Russia Small Business Fund	3.3
Central Asia Institution Building Cooperation Fund	3.1
Total	136.0

¹ "Untied" signifies that funding is not tied to consultants of a specific nationality.

Japan-Europe Cooperation Fund

The Japan-Europe Cooperation Fund (JECF) was established by the Japanese Ministry of Finance in 1991. The JECF supports Bank activities across the region, particularly projects in Central Asia, Russia's Far East and the early transition countries.

Funding through the JECF:

- provides technical assistance, training and advisory services
- assists with the identification, preparation and/or implementation of EBRD projects
- enables research studies into the development or strengthening of institutions and the promotion of entrepreneurial initiatives.

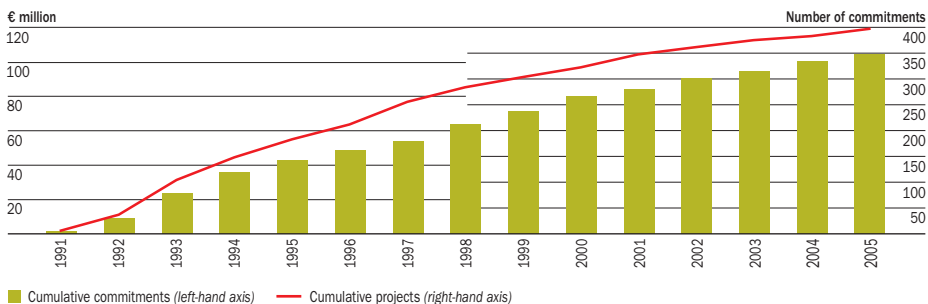
At the end of 2005 total contributions to the JECF stood at €114 million. During the year, €4.2 million was committed to 14 projects. Total commitments now exceed €100 million – a record level.

The amount committed each year has varied substantially since the establishment of the JECF, with average annual commitments around €7 million.

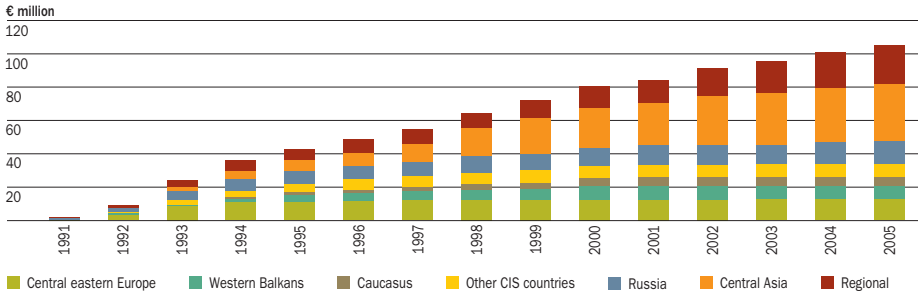
The number of projects and the amount is dependent on the types of projects the JECF is assisting, from advisory services for small and medium-sized enterprises (SMEs) to financing for comprehensive programmes of institutional reform.

During 2005 the JECF supported the Japan-Western Balkans TurnAround Management (TAM) Programme and the Business Advisory Services (BAS) Programme in Kazakhstan. The JECF has long been a supporter of the TAM and BAS Programmes and these assignments comprised more than half of the total JECF commitments in 2005 (see pages 10–11).

JECF commitments by value and number of commitments



JECF commitments by region



Note:

Central eastern Europe: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia

Western Balkans: Albania, Bosnia and Herzegovina, FYR Macedonia, Serbia and Montenegro

Caucasus: Armenia, Azerbaijan, Georgia

Other CIS countries: Belarus, Moldova, Ukraine

Central Asia: Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan.

Regional distribution

The JECF has increasingly concentrated its activities on the eastern part of the EBRD’s region. Support for this region is significant, compared with total TCFP commitments.

More than half of TC assignments in 2005 supported projects in Central Asia, Russia’s Far East and the early transition countries.

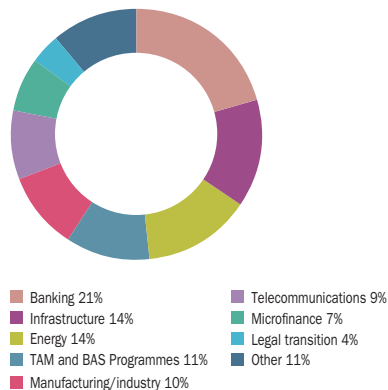
To date, one-third of JECF-supported assignments have been carried out in Central Asia, with many regional projects also being undertaken in these countries.

Types of activities

The main recipients of JECF funding in 2005 were the TAM and BAS Programmes, which received more than half the annual total (see pages 10–11). The JECF also supported the improvement of regulatory frameworks, including the development of infrastructure networks in Kazakhstan (see page 7) and a judicial capacity building programme in the Kyrgyz Republic.

In cumulative terms, the financial sector has received the majority of JECF funding since 1991, followed closely by infrastructure, energy, and the TAM and BAS Programmes. This distribution of the funds reflects the EBRD’s efforts to strengthen the financial sector, to improve infrastructure (particularly at the municipal level), to promote energy savings and make energy supplies safer, and to support the development of SMEs through financial intermediaries and advisory services.

JECF activities by sector



Regulation of network infrastructure, Kazakhstan

The JECF is helping Kazakhstan's Agency for the Regulation of Natural Monopolies and the Protection of Competition bring its policies in line with international standards. The Agency is responsible for the regulation and implementation of competition policy in the country's power and heating, oil and gas, telecommunications and railway sectors.

In 2004 the Agency approached the EBRD for assistance in developing its regulatory frameworks. With support from the JECF, the Bank has been able to review practices in each sector against international standards and produce recommendations. To date, recommendations for the power and heating sector have been endorsed



by the Agency. The Bank is currently assisting with the implementation of these recommendations and expects to conduct similar exercises for the other sectors in the near future.

Impact of donor funds on EBRD investments

Donor funds act as a catalyst for change, helping the Bank and its clients overcome obstacles caused by a shortage of skills and know-how. The EBRD uses donor funds to hire consultants to carry out TC assignments. These consultants help prepare investment projects, strengthen local management capacities, improve the institutional and regulatory framework and implement environmental strategies.

Donor funds can be used for two basic types of assignments:

- TC assignments which directly support the Bank's investments (e.g. project preparation and implementation)
- stand-alone assignments not linked to an investment (e.g. TurnAround Management, Business Advisory Services and Legal Transition Programmes).

At the end of 2005, 71 per cent of TC assignments (measured by project value) and 55 per cent (measured by number of projects) were linked to EBRD investments. This shows that, on average, assignments related to Bank investments are usually larger in size than stand-alone assignments. Of the JECF-funded projects, 61 per cent (measured by project value) and 53 per cent (measured by number of projects) were linked to EBRD investments.

By combining TC with Bank investments, the EBRD can achieve results that would not otherwise have been possible. TC enables the Bank to utilise its investment effectively and can contribute to the sustainability of projects by transferring know-how.

Mobilisation of investment capital

The EBRD regularly assesses the results and impact of assignments which have received donor funding. One of the ways the Bank evaluates the success of a TC assignment is by determining whether the TC led to an EBRD investment.

Of the TC assignments carried out in support of investment projects between 1991 and 2005, 88 per cent have resulted in, or been associated with, a signed EBRD project. This high conversion rate reflects the comprehensive screening and approval processes used by the Bank to approve TC assignments. For many assignments, the decision to use donor funds is conditional upon the investment project going ahead.

The total volume of signed investment capital mobilised for projects which received TC support during 1991–2005 was €34.5 billion. This amount covers project finance from all sources, including the contributions of the project sponsors, commercial co-financiers, official co-financiers and the EBRD. Of the total capital mobilised, €14.5 billion was provided by the EBRD. The investment leverage ratio was 35:1, meaning €35 of investment capital was mobilised for each euro of TC used by the Bank.

During 1991–2005, support from the JECF helped generate investments totalling €6.2 billion (of which the EBRD provided €3.0 billion). The JECF's investment leverage ratio was 59:1, meaning €59 of investment capital from various financiers including the EBRD was mobilised for each euro provided through the JECF.

Stand-alone TC support

The JECF provides substantial support for TC projects not directly linked to EBRD investments. Such TC projects often focus on areas of particular importance for the transition process – for example, advisory support for SMEs, improvement of the legal and regulatory environment and institutional reform. These commitments can have significant long-term secondary effects in the beneficiary countries and can contribute to further EBRD investments.

The TAM and BAS Programmes are examples of stand-alone TC support. Although not directly related to EBRD investments, both provide industry-specific advice to help enterprises adapt to the demands of a market economy.

The Legal Transition Programme (LTP) also receives significant support from the JECF. The LTP aims to improve the legal and regulatory framework in countries across the EBRD region by developing legislation and training local legal professionals.

In addition, Japan has provided funding for the EBRD Ten Years Anniversary Policy Study by the Office of the Chief Economist, entitled “Institutional development and international integration: Strategies for catch-up growth in transition economies and for EBRD operations”. The result of this study is due to be published in early 2006. The JECF has also supported staff training, primarily in financial institutions (see page 9).

Treasury risk management training

Since 2001 the JECF has facilitated risk management training of over 100 senior managers from financial institutions across the region. Delegates, including CEOs, chairmen, financial directors and

other senior Treasury executives, have been trained in international best practice including the prudent management of assets and liabilities in the Treasury departments of commercial banks.

ICT seminar and workshop

Information and communication technologies (ICTs) are recognised as engines for economic growth in transition countries. With support from donors, the EBRD is helping to improve telecommunications infrastructure, establish sector regulators and develop legal frameworks across the region.

Through the Japan-EBRD Cooperation Fund, the EBRD organised a seminar in 2004 on ICT policy reform and rural communication infrastructure. Senior policy makers from Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan participated in the seminar, which was co-sponsored by the Japan International Cooperation Agency (JICA), IDRC, Canada and Keio University. Foreign regulators, practitioners and academics also attended the seminar to discuss ways of attracting greater private investment in rural communications and how to create institutions supporting entrepreneurs in the ICT sector. (For further information, see www.ictseminar.org.)

Following the seminar, the Kyrgyz Republic requested the EBRD's assistance in developing universal access policies and establishing an



ICT incubator. The Bank's legal transition team is working with Canadian consultants to develop universal access, while TAM advisers, funded by the ETC Fund (of which Japan is a contributor), are assisting start-up software companies and developing an ICT incubator.

An ICT workshop was also held in Serbia and Montenegro in 2005, attended by 13 EBRD countries of operations. The workshop, funded by Japan and other donors, discussed regulatory reform of rural communication infrastructure and ICT business development in each of the 13 countries. Following this workshop, the EBRD has developed core principles for effective telecommunications regulation (see www.ebrd.com/country/sector/law/telecoms/core).

TurnAround Management and Business Advisory Services Programmes

The TurnAround Management (TAM) Programme assists small and medium-sized enterprises develop new business skills at the senior management level. Through the Programme, some of the world's most experienced business leaders and environmental advisers work directly with SMEs to help them modernise their management practices and improve productivity and environmental standards.

Japan was one of the first donors to support the TAM Programme. The JECF has funded more than 80 TAM projects since 1993. In 2004 the TAM Programme received €1.8 million for TAM projects in Central Asia and Russia's Far East, along with €0.8 million for environmental projects across the region. In 2005 the JECF contributed €1.4 million to the Japan-Western Balkans TurnAround Management Programme to assist SMEs in Albania, Bosnia and Herzegovina, FYR Macedonia and Serbia and Montenegro. To date, 48 Japanese advisers have worked on TAM projects funded by the JECF and 91 contracts have been issued to Japanese nationals.

The Business Advisory Services (BAS) Programme works with micro, small and medium-sized enterprises to define their business needs and to identify which services can be carried out by local consultants. The Programme assists enterprises improve their competitiveness, marketing and financial management, quality management systems and strategic business planning. By using local consultants, BAS combines the dual role of assisting small enterprises in their business expansion with helping locally accredited business consultants to develop their skills.

The JECF has provided over €6 million to the BAS Programme in Kazakhstan, Russia's Far East and Uzbekistan. To date, 275 projects funded by Japan have been initiated, of which 219 have been completed. An independent evaluation of BAS in Kazakhstan and Uzbekistan was recently carried out and concluded that the Programme was *Successful* in both countries.

There is a TAM National Coordinator working in Japan, who is responsible for recruiting suitable and qualified Japanese senior industrial advisers to participate in the TAM Programme. The Coordinator can also provide general information on the TAM and BAS Programmes. Please see page 23 for the relevant contact details.

Fleece and leather factory, FYR Macedonia

Three Japanese advisers, funded through the JECF, are assisting a fleece and leather factory to address its energy and environmental issues.

The TAM project aims to:

- improve the factory's waste-water and chemical treatment system, thereby reducing the volume of waste and enabling a substantial cost saving
- reduce solid waste, which is currently being disposed of in a landfill at a high transportation cost
- achieve energy savings through the use of boiler systems utilising best available techniques
- build the in-house capacity of environmental management and prepare an action plan bringing the factory in line with ISO14000.

As well as these technical improvements, the assistance also supports the management, operation and maintenance of all systems. To date the TAM team has undertaken a site survey, identified the most important energy and environmental issues, analysed data and discussed the most appropriate methods for implementing environmental solutions.

Silk thread production, Uzbekistan

Thanks to assistance from the BAS Programme, a female entrepreneur in Uzbekistan has been able to establish a successful silk manufacturing business. The company produces silk floss (thread) made from cocoons of silk moths, which is sold at the local market.

To assist with the start up of this business, a local consultant (part funded through the JECF) was engaged to undertake an engineering project involving the development of new technologies, as well as the provision of some management advice.

The consultant provided recommendations on the purchase and assembly of silk processing equipment. He also helped to recruit and train production and administrative staff, developed daily production quotas and established a system of bonuses for all groups of workers. Labour safety procedures were also introduced and a system of waste storage and utilisation put in place.



Production at the facility is now up-and-running with fully trained personnel working in accordance with modern silk industry standards. The company is currently reviewing its export possibilities and plans to expand production into silk fabrics and clothes in the near future. The company is also interested in undertaking a follow-up environmental project to develop recycling technologies.

Micro-lending activities

Micro and small enterprises (MSEs) across the region have benefited greatly from Japanese support of various EBRD lending programmes.

The JECF has generously contributed to the Armenia Micro Lending Programme, the Georgia Small Enterprise Lending Programme and the Kazakhstan Small Business Programme. The JECF has also solely financed the Japan-Uzbekistan Small Business Programme and the Japan-Central Asia MSE Partner Bank Strengthening Programme. In addition, the Japanese government has contributed to the Russia Small Business Fund.

Funding from the JECF has supported the institutional reform of financial intermediaries undertaking micro and small businesses lending. The JECF is also supporting the expansion of these programmes, identifying new financial intermediaries (both banks and non-bank institutions) as well as broadening the reach of existing operations to rural and agricultural areas.

Armenia

The Armenia Micro Lending Programme consists of a US\$13 million financing facility extended to leading commercial banks, as well as a technical assistance programme for institutional reform and loan officer training.

Through the finance facility, credit lines have been extended to four participating banks (ACBA, Anelik Bank, Armenecom Bank and Ineco Bank) for on-lending

to private enterprises in the trade, production and service sectors. Loans range from US\$50 to US\$100,000.

Technical assistance has enabled the participating banks to implement specific lending methods for micro, small and medium-sized enterprise, to select and train suitable loan officers and to introduce software packages for monitoring loan portfolios. The assistance has also enabled the strengthening of organisational and governance structures in the participating banks.

Georgia

Georgia's Small Enterprise Lending Programme (SELP) has made significant progress since 2003, with loan disbursements growing by 60 per cent and portfolio risk low at 2 per cent. The SELP disburses 1,300 loans per month, valued at US\$4.7 million. Two banks currently participate in the SELP – Bank of Georgia (which merged with Tbiluniversalbank in 2004) and United Georgian Bank. The EBRD is currently seeking additional banks to join the programme.

Technical assistance has enabled the participating banks to build capacity at the branch level and undertake institutional reform within the head offices. The assistance has also enabled the development of agricultural lending in each of the participating banks. In addition, TC funds have partly financed the introduction of a mobile United Georgian Bank branch, which will serve smaller communities within a day's drive of several major towns.

Bread baking plant, Georgia

Entrepreneurs across Georgia, including Zaza Tsartsidze and Avtandil Dvali, have benefited from the Small Enterprise Lending Programme. Since 1997 Zaza and Avtandil have been producing and distributing bread from a large bakery in Rustavi. In 2004 they purchased a bread baking plant and set up Khabazi 2004, a new company producing bread for grocery shops in Rustavi and neighbouring Gardabani.

But before operations at Khabazi 2004 could start, the entrepreneurs needed additional capital to fund equipment repairs and to purchase flour. Zaza and Avtandil successfully applied to United Georgian Bank's Rustavi branch for a US\$20,000 loan and production got under way. Although still struggling with



electricity problems, Zaza and Avtandil are planning to increase operations in the near future and to hire 40 employees in addition to the 10 already working at the plant.

Dress making factory, Kazakhstan

Seven years ago the Tarasov family set up a sewing and dressmaking business. They began with a single sewing machine. Their products were in demand, but expanding the business called for substantial investment. The family has received four loans through the Kazakhstan Small Business Programme. Two loans enabled the purchase of new fabrics, while the other loans funded the construction of a workshop and the purchase of modern equipment. Their company, Nina, now operates a mini-factory employing more than 50 people.



Kazakhstan

The Kazakhstan Small Business Programme (KSBP) remains the country's key financier of micro, small and medium-sized enterprises and is recognised as the main instrument for developing lending staff in the Kazakh banking sector. Five local banks participating in the KSBP – ATF Bank, Bank Center Credit, Bank Turan Alem, Halyk Savings Bank of Kazakhstan and Kazkommertsbank – have established 200 lending outlets nationwide.

There are currently over 750 loan officers disbursing MSE loans in Kazakhstan. These loan officers have received training through the Japan Training Centre (operated by JICA). Almost all of the KSBP's staff are engaged in SME lending operations, with a considerable number taking up management positions in partner banks. Some have also been employed by non-partner banks (e.g. Bank Caspian) to build SME lending operations outside the Programme.

Two of the five KSBP partner banks are now managing their own day-to-day operations and are consulting with local experts rather than foreign consultants. The future of the KSBP now lies in the further development of MSE lending in additional regions and through new partner banks, as well as in the expansion of MSE finance to agriculture and rural areas. The EBRD recently extended its third loan to the KSBP, consisting of a US\$100 million finance facility and a US\$2 million capacity building programme.

Russia

Japan has been a strong supporter of the Russia Small Business Fund (RSBF). The RSBF, administered by the EBRD, provides local Russian banks with technical assistance and funds for on-lending to micro and small businesses which have the potential to improve productivity and generate additional employment and income. The RSBF covers a significant number of regions across Russia and continues to expand, having disbursed over US\$2 billion since 1994. Japan has provided US\$30 million in investment grants through the RSBF.

Uzbekistan

The Japan-Uzbekistan Small Business Programme (J-USBP) assists micro and small enterprises which have previously been unable to access financing. The J-USBP extends a combination of credit lines and technical assistance to local banks for on-lending to MSEs.

Through the J-USBP, Hamkor Bank, Pakhta Bank and Uzjilsberbank have received credit lines totalling US\$17 million from the EBRD. Ipak Yuli Bank has also received technical assistance. All four banks use their own resources in parallel with this support to reach the greatest number of borrowers.

To date, 16,926 loans totalling US\$39 million have been disbursed to MSEs, with over 800 loans on average issued each month. The J-USBP is active in 17 cities and towns, across seven major regions of Uzbekistan, particularly in the Fergana Valley.

Kebab restaurant, Uzbekistan

Danyor Abdullaev is one of the entrepreneurs to benefit from the Japan-Uzbekistan Small Business Programme. After working for three years as a cook and café manager in Turkey, Danyor decided to return to Uzbekistan and start his own business.

In 2002 he opened a kebab restaurant with the money and know-how he gained in Turkey. Originally there were no seats in the restaurant for customers and food was sold directly from a window. As the business expanded, Danyor rented a larger premise with space for tables and chairs.

Now, as lunch time and early evening trade exceeds his capacity, Danyor has applied for a US\$5,000 loan to purchase more kitchen equipment and further seating. If business goes well, he would like to buy or build his own premises and open a shop selling Turkish clothes.



The EBRD is providing additional support to Hamkor Bank to offset the difficult operating environment and is also looking at establishing a specialised microfinance bank to overcome the shortage of available funding.

Japan-Central Asia MSE Partner Bank Strengthening Programme

The objective of the Japan-Central Asia MSE Partner Bank Strengthening Programme is to improve the institutional capacity of microfinance banks in the Kyrgyz Republic, Tajikistan and Uzbekistan. The Programme concentrates on strengthening the management,

operations and corporate governance of the best performing microfinance banks in the region.

To date, two banks and one credit bureau have benefited from assistance under the Programme: Hamkor Bank in Uzbekistan, Eskhata Bank in Tajikistan and the Kyrgyz Credit Information Bureau (CIB). These institutions have received a variety of advisory and technical services, including connection to international banking networks (such as SWIFT), the establishment of efficient and streamlined reporting systems and advice on processes, procedures, marketing and development.

Japan's contribution to multi-donor funds

Multi-donor funds efficiently integrate donor funding with the Bank's operations. These funds increase the predictability and flexibility of assistance and enable donors to coordinate their support.

The JECF is a strong supporter of multi-donor funds and is one of the largest contributors to the Early Transition Countries (ETC) Fund and the Mongolia Cooperation Fund (MCF).

Early Transition Countries (ETC) Fund

In April 2004, the EBRD launched the Early Transition Countries (ETC) Initiative to assist the seven poorest countries of the region: Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. The ETC Initiative aims to stimulate market activity by financing a greater number of projects, supporting smaller projects and by encouraging economic reform.

Poverty alleviation in these countries has been identified as a strategic priority for the IMF, World Bank, UNDP and Asian Development Bank. The EBRD has subsequently developed a strategy, endorsed by the donor community, which focuses on business growth and the development of infrastructure and the legal environment.

A multi-donor fund, the ETC Fund, was launched in November 2004 with the objective of reducing poverty in the seven countries through projects fostering strong, sustainable growth. In particular, the ETC Fund's efforts focus on:

- improving the investment climate and fostering private sector development
- reforming regulatory frameworks
- supporting local private business, including micro, small and medium-sized enterprises
- strengthening the financial sector
- improving access and delivery of basic services to communities
- developing sustainable infrastructure
- undertaking energy efficiency and environmental projects
- ensuring projects add value to the EBRD's work in the region.

Mongolia became the eighth beneficiary country of the ETC Fund in October 2006.



The Early Transition Countries Fund is helping to develop micro and small businesses in the seven poorest countries of the region.

Twelve donor countries² have joined the ETC Fund, of which Japan is the largest contributor. To date, grant contributions and pledges total €30 million. Since its launch, the ETC Fund has supported 48 assignments totalling €16.5 million in all seven countries. The ETC Fund has become the flagship for the delivery of the EBRD's TC assignments to these countries.

The ETC Fund is governed by an Assembly of Contributors, which provides strategic guidance on the use of funds. Japan will become the Chair of the Assembly from 2006, working with the Dutch Vice Chair and the UK Immediate Past Chair.

Mongolia Cooperation Fund (MCF)

Mongolia became a member country of the EBRD in October 2000. In March 2001 the EBRD established the Mongolia Cooperation Fund (MCF) to provide technical assistance for projects in the country. Contributors to the MCF include Japan, Luxembourg, the Netherlands and Taipei China.

Policy coordination and TC funding decisions in the MCF are managed by a Steering Committee which meets twice a year and in which all four contributors are represented.

To date, the fund has grant contributions of €10.3 million, of which Japan has committed €5.0 million (the largest contribution).

The objective of the MCF is to assist Mongolia to implement economic and legal reforms. It aims to support the establishment, improvement and expansion of private sector activity.

Mongolia became an EBRD country of operations in October 2006 and therefore qualifies for EBRD investment. Technical cooperation funding provided by the MCF has supported many projects that have prepared the way for future EBRD investment.

² Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom.

Activities funded by the MCF to date include:

■ **Aviation sector**

A management consultant, financed by the MCF, was commissioned to strengthen the financial position of the country's leading airline, Mongolian International Airlines, with a view to its future privatisation. To date, all of the airline's debts have been successfully repaid. The EBRD plans to build on the experience of this project and investigate future opportunities in the air navigation and airport areas.

■ **Financial sector**

Funding from the MCF has supported a range of training programmes at the Bank of Mongolia and other commercial banks. The aim of the project is to support ongoing reform in the Mongolian financial sector.

■ **Natural resources sector**

In 2004 the Petroleum Authority of Mongolia (PAM) requested the Bank's assistance in identifying options for downstream sector development in the country. A study and action plan, funded through the MCF, was completed in July 2004 and presented to PAM and other authorities including the Parliamentary Taskforce on Petroleum Sector Development.



The Mongolia Cooperation Fund is supporting the restructure of the national airline.

■ **Private sector**

A programme supported by the MCF has given Mongolian small business managers the opportunity to learn and share their experiences with successful SMEs in Taipei China. Tailor-made courses were developed for Mongolian entrepreneurs from various industries including retail, freight, leather garment manufacturing, publishing, confectionery, soft drink bottling, food processing and agriculture. Participants were nominated by local commercial banks.

■ **TurnAround Management Programme**

TAM is providing management advice on restructuring and improving the technical and financial performance of enterprises in a variety of sectors.

Evaluating the effectiveness of TC assignments

The EBRD's Evaluation Department contributes to improving the quality of EBRD investments and TC assignments by assessing the performance of completed and ongoing projects.

This assessment involves the systematic analysis of a project's outputs against expected or planned results, and the analysis of results by categories of operations and patterns of experience. The lessons learned are then taken into account when new projects are developed.

Evaluation has shown that EBRD investments supported by TC, particularly those projects receiving assistance during the project preparation stage, have a higher transition impact than those with no TC support. Of the EBRD investments prepared using TC, 78 per cent had a positive impact on transition. Meanwhile, 81 per cent of projects which received support through the JECF had a satisfactory or better impact on transition.

Some of the factors considered when assessing a project's outcome, as well as the effectiveness of the TC support, include the performance of the participant, the EBRD and the consultant.

■ Participant's performance

One of the key success factors in a TC project is the degree of commitment demonstrated by the local client. This is measured by their willingness to provide the necessary data, the allocation of resources and the client's active participation in the terms of reference (ToR) design.

Involving the client in the early stages of project design and ensuring the commitment of top management is a major factor in successful TC projects.

■ The EBRD's performance in the design and management of TC projects

Using lessons learned from previous projects, the EBRD has developed a phased approach to avoid over-committing funds in unclear situations. The Bank has also utilised evaluation and feedback mechanisms, developed realistic and flexible ToR design with clearly defined objectives, and undertaken proactive monitoring.

■ Consultant's performance

The choice of consultant for a project is crucial to its success. Some key considerations, beyond the consultants' technical capabilities, include their familiarity with the Bank's region, an understanding of the EBRD's role and prior experience with similar projects. Once the consultant is in place, good ongoing communication is essential.

Official co-financing with Japan

Official co-financiers provide investment capital to EBRD projects from non-commercial sources, such as international financial institutions (IFIs) and government agencies. They help clients overcome capital shortages that might otherwise hinder project completion.

Japan's most prominent co-financing partner is the Japan Bank for International Cooperation (JBIC). JBIC has co-financed a number of EBRD projects, including the Baku-Tbilisi-Ceyhan (BTC) pipeline.

The BTC pipeline was one of the largest EBRD projects signed in 2004, with a total project value of €3.6 billion. The project involves the construction of an oil pipeline from Azerbaijan through Georgia to the Turkish port of Ceyhan.

Revenues from the project will help build the social and economic infrastructure of Azerbaijan and Georgia. JBIC provided over €350 million to the project. Other co-financiers included the US and the UK.



Belgrade urban transport, Serbia and Montenegro

The Japan International Cooperation Agency (JICA) has provided a €12 million investment grant to the City of Belgrade to improve the public transport system. The grant complements a €20 million EBRD investment which has enabled the purchase of buses, tram track, maintenance equipment and the refurbishment of two bus depots. The Dutch government has also supported this project through a technical cooperation grant.

EBRD consulting opportunities

The EBRD's Procurement Policies and Rules are based on the fundamental principles of non-discrimination, fairness and transparency. They are designed to promote efficiency and effectiveness and to minimise credit risk in the implementation of the Bank's lending and investment operations.

The EBRD's principles of procurement are:

- fairness and transparency
- accountability and cost-effectiveness
- saving time and money.

Opportunities for consultant contracts with the EBRD are published in the form of procurement notices on the Bank's web site (www.ebrd.com). If consultants believe that they, or their organisation, are qualified to undertake any of these contracts they should express interest by following the instructions in the appropriate notice.

eSelection

The EBRD has launched eSelection, a web-based system which enables electronic selection of consultants for Bank projects and TC-funded assignments. The aim of the system is to modernise the EBRD's selection processes, encourage wider participation and achieve greater transparency.

eSelection notifies consultants of consulting opportunities as they are published on the Bank's web site and enables them to express interest online, as well as submit technical and financial proposals.

Consultants can also monitor the progress of all opportunities they have submitted proposals for through eSelection. eSelection only covers projects for which the EBRD is responsible for selecting consultants.

Selection procedures

The selection procedure is dependent on the value of the consultant contract. The various procedures are detailed in the table on page 22.

Further information

Consultants should contact the Consultancy Services Unit at the EBRD headquarters in London for further information.

See page 23 for contact details.

Selection procedures for consultant contracts

Value of consultant contract	Selection procedure
Less than €50,000	<ul style="list-style-type: none"> ■ Selection is made directly by the project team. ■ There is no requirement to prepare a short list of qualified consultants. ■ The contract is negotiated with the selected consultant.
€50,000 and above (individual consultants) €50,000 – €200,000 (firms)	<ul style="list-style-type: none"> ■ A procurement notice is posted on the EBRD web site. ■ Interested consultants apply. ■ A short list of qualified consultants is prepared. ■ Short-listed consultants are evaluated and a successful applicant chosen. ■ Written proposals are not required. ■ The contract is negotiated with the selected consultant.
€200,000 or more (firms)	<ul style="list-style-type: none"> ■ A request for expressions of interest is published on the EBRD web site. ■ Interested consultants apply. ■ A short list of qualified consultants is prepared (minimum 3, maximum 6). ■ Short-listed consultants are invited to submit written proposals. ■ The proposals are evaluated and a successful applicant chosen. ■ The contract is negotiated with the selected consultant.

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Abbreviations and photography

EBRD, the Bank	European Bank for Reconstruction and Development
BAS	Business Advisory Services
BTC	Baku-Tbilisi-Ceyhan
CIS	Commonwealth of Independent States
ETC	early transition country
ICT	information and communication technology
IFI	international financial institution
J-USBP	Japan-Uzbekistan Small Business Programme
JBIC	Japan Bank for International Cooperation
JECP	Japan-Europe Cooperation Fund
JICA	Japan International Cooperation Agency
KSBP	Kazakhstan Small Business Programme
MCF	Mongolia Cooperation Fund
MSE	micro and small enterprise
RSBF	Russia Small Business Fund
SELP	Small Enterprise Lending Programme
SMEs	small and medium-sized enterprises
TAM	TurnAround Management
TC	technical cooperation
TCFP	Technical Cooperation Funds Programme
ToR	terms of reference

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One Exchange Square
London EC2A 2JN
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Printed on Hannoart Silk, Totally Chlorine Free (TCF) giving zero Absorbable Organo Halogens (AOX), manufactured with pulp from sustainable forests.

6820 Japan Brochure (E) Update – Nov 2006

Cover: Nozim Kalandarov

