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EvD
Independent
Evaluation

CORPORATE EVALUATION

Accelerating the transition journey

Evaluation of the EBRD's approach to Early Transition Countries (2017–2022)

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Abbreviations

ABI	Annual Business Investment
AMI	Annual Mobilised Investment
ASB	Advice for Small Business
ATQ	Assessment of Transition Qualities
CA	Central Asia
CMD	Local Currency and Capital Markets Initiative
CSDRs	Country Strategy Delivery Reviews
DCF	Donor Co-Financing Unit
DCFTA	Deep and Common Free Trade Agreements
DFF	Direct Financing Facility/Framework
EE&C	Eastern Europe and the Caucasus
ETC	Early Transition Country
FCS	Fragile and Conflict-affected Situation (World Bank Group)
GCP/GrCF	Green Cities Programme/ Green Cities Framework
GET	Green Economy Transition
GNI	Gross National Income
ICA	Industry Commerce and Agribusiness
ICGI	Investment Climate Governance Initiative
LC2	Local Currency and Capital Markets Development Initiative
LTP	Legal Transition Programme
MoU	Memorandum of Understanding
NPL	Non-Performing Loans
PFI	Partner Financial Institution
PIU	Project Implementation Unit
RSF	Risk Sharing Framework
SBI	Small Business Initiative
SEMED	Southern and Eastern Mediterranean
SIG	Sustainable Infrastructure Group
SME	Small to Medium Sized Enterprise
SSF	Shareholder Special Fund
TC	Technical Cooperation
TFP	Trade Facilitation Programme
TOMS	Transition Objective Monitoring System
TQ	Transition Quality

Key messages (and insights for potential expansion of activities to Sub-Saharan Africa)

The EBRD introduced the early transition country (ETC) classification 20 years ago to address the lack of progress in the smaller, poorer countries with the largest transition gaps. Despite this, these gaps persist. There is no clear link between EBRD input and progress.

From 2017 to 2022, the EBRD invested a total of €9.3 billion in ETCs. Of this amount, 70 per cent went to four of the ten ETCs: Uzbekistan, Georgia, Belarus and Moldova. Three other countries received 4 per cent or less of the total EBRD ETC investment: Tajikistan (4 per cent), Kyrgyz Republic (2 per cent) and Turkmenistan (1 per cent), although each of these had among the highest number of projects. Just over half the investment (56 per cent) was made in the private sector while the remaining 43 per cent was invested in the state sector. Banking (29 per cent), energy (25 per cent) and municipal services (13 per cent) were the top sectors for investment. The highest number of projects were in ICA (51%), followed by FI (45%) and SIG (5%).

Despite the variance in EBRD investment levels by country, a total of 446 investment operations were signed between 2017 and 2022 and these operations were spread fairly evenly across ETCs. Of these 44 operations or 10 per cent were in Tajikistan; 54 operations or 12 per cent were in the Kyrgyz Republic, and 30 operations or 7 per cent were in Turkmenistan even though it had the smallest investment volumes.

The ETC approach has produced mixed results since 2017. Some countries have received more support through EBRD activities whilst others appear to be left behind because of specific reform barriers.

The EBRD depends on donor resources to work in ETCs which is mainly sourced from the SSF and the EU alongside bilateral support and is channelled through broader thematic funds. While funding has been sufficient to maintain existing EBRD programmes, the evaluation could not assess whether the volume of donor funding by country is meeting the largest gaps, nor the risks of funding drops to the EBRD programmes in specific ETCs due to a lack of full reporting by country.

As EBRD plans to begin operations in sub-Saharan Africa and Iraq, it can glean insights from this thorough evaluation of its approach to supporting ETCs. Six messages have emerged from the evaluation.

Message 1

The evaluation found the ETC classification has become outdated because there is no clear criteria or official Bank methodology. Its use in the corporate scorecard to track volume as part of a wider group of countries does not adequately reflect the specific challenges or strategic priorities in these smaller countries.

EBRD staff have varying views about the relevance of the classification and the impact of its use to attract Bank attention and resources to ETCs. Both the Assessment of Transition Qualities (ATQs) and the EBRD ABI portfolio analysis show that in most ETCs the transition gaps remain substantial.

Message 2

EBRD's contribution to closing transition gaps in ETCs is unclear from transition reporting and the ATQ approach.

This does not mean that EBRD's support has not produced results, however the link is unclear between the transition outcomes of investment operations, TC projects and policy work and the annual country level Assessment of Transition Qualities (ATQs) which shows persistent gaps. This is despite a slight increase in the ETC share of ABI from an annual average of 11 per cent (2014-16) to 15 per cent (2017-22), and successful individual projects. This suggests that there may be a lack of critical mass for achieving substantive progress and raises some issues regarding the targets and measurements used to assess transition qualities.

Message 3

Evidence shows that Small- to Medium-size Enterprise (SME) and local bank clients appreciate EBRD's support for increasing access to finance through financing frameworks when it is financially additional. That SME support, however, has been highly concentrated over the evaluation period in three countries: Belarus, Georgia and Uzbekistan.[1] Likewise, local currency ABI is concentrated primarily in Georgia, with little activity in Central Asia ETCs.

EBRD's use of the financial intermediary framework (FIF) for indirect financing depends on the ability to work with partner banks. This is not currently possible in either Turkmenistan or Azerbaijan and limited in Tajikistan and the Kyrgyz Republic. Stringent risk standards limit the Bank's ability to provide more financing via the Direct Financing Facility (DFF). Broader EBRD work to increase market competitiveness through investment councils, Advice for Small Business (ASB), the Legal Transition Programme (LTP) and the Trade Facilitation Programme (TFP) has yielded some successes but it is also limited by resource constraints.

Message 4

EBRD mostly supports public sector sustainable municipal and transport infrastructure services in ETCs despite the strategic emphasis the Bank places on private sector participation in infrastructure. Evidence shows that affordability constraints, minimal grant financing, slow tariff reform, low capacity and delays limits EBRD's ability to do more infrastructure business across ETCs while a few countries have attracted the most infrastructure ABI over the evaluation period.

EBRD volume is concentrated in the energy sector in just three ETCs – Uzbekistan (private sector), Georgia and Azerbaijan and some progress has been made there. Despite this, needs for improved basic services remain strong across the ETCs and in municipalities outside the Green Cities Programme (GCP). Public-private partnerships (PPPs) remain elusive in most ETCs: only Uzbekistan shows the commitment to move forward. Whilst the GET ratio is improving in some ETCs, installed renewable energy remains low in most of them. According to Bank data, there has been no progress on installation of renewable energy in Moldova, Kyrgyz Republic, Tajikistan or Turkmenistan and only some progress in Azerbaijan.

[1] Data predates suspension of Belarus' access to Bank resources following the invasion of Ukraine in April 2022

Message 5

The evaluation found that EBRD approved a minimal number of cross-border ETC projects in energy, transport, logistics and the TFP in the evaluation period and integration gaps persist across ETCs due to particularly challenging conditions.

There are almost no cross-border projects in the Central Asian ETCs and just two large projects in the Caucasus (Azerbaijan). Integration projects are generally vulnerable to the challenging political economy in the region, including conflict, poor governance and corruption, and the influence of non-European powers, including Russia and China. EBRD together with other IFIs in Central Asia contributes to ongoing policy dialogue on transport corridors to try to build a project pipeline.

The EBRD Trade Facilitation Programme (TFP) was designed to support import/export trade integration but it lacks the scale to have any real impact on overall import/export levels as larger commodity exporters already have access to credit. The TFP is focussed mainly on SME imports where demand is higher but the team struggles to do more on exports where demand is low. It was hindered in all ETCs by the pandemic, greater credit risks and limited resources. The greatest TFP turnover was in Georgia, Uzbekistan, Armenia and Belarus but there was little or no activity in Moldova, Tajikistan and Turkmenistan.

Message 6

A review of the use of donor funds, delegated authority and local presence in ETCs showed that EBRD work in ETCs depends on them. The Country Strategy Delivery Reviews (CSDRs) present aggregate donor funding for ETCs as a whole but complete data is not available by country. It is difficult to identify how donor fund allocations are planned to address country transition gaps over time and account for risks of funding drops.

The EU and the Shareholder Special Fund (SSF) are the largest of EBRD donors to ETCs. Commitments for ETC investment grants for sustainable infrastructure remained around €60 million for the three years from 2018 to 2020 before dropping in 2021. Delivery of EBRD work in ETCs has been facilitated by its local presence through Resident Offices and made more efficient through delegated authority for mainstreamed products such as the financial intermediaries framework, risk sharing framework and direct financing facility. Financing via partner intermediaries enables the EBRD to reach more SMEs, but reporting on sub-operations is less clear.

Executive Summary

The Early Transition Countries (ETCs) at the EBRD refers to a group of ten countries including **Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.**[2] This group was first identified in 2002 by an IMF, World Bank, EBRD and Asian Development Bank initiative as those amongst the Commonwealth Independent States as the smallest and poorest countries with the largest needs for development. Mirroring this effort in 2004 the EBRD developed its own ETC Initiative to boost volume and activities there.[3] The ETCs were EBRD's poorest member countries with some of the widest transition gaps in its initial regions of operations in Eastern Europe and the Caucasus and Central Asia.

Through the ETC Initiative (ETCI) in 2004 EBRD aimed to address the poor investment climates and low foreign direct investment in ETCs by increasing activities. The Bank introduced a dedicated ETC banking team and set of tools and instruments to target the large SMEs sector. Following its success, the initiative was successfully mainstreamed to all EBRD regions in 2015 via the new Small Business Initiative and the ETC banking team was disbanded.

In its final 2016 triennial review of the ETCI, Management defined three priorities with sub-criteria for moving forward from 2017-19 with a cross-cutting focus on inclusion and GET.[4] *Priority 1:* Enhance private sector development by improving competitiveness, deepen access to finance through sustainable financial sector and develop local currency markets; *Priority 2*: Promote sustainable infrastructure development including renewable energy generation, and *Priority 3:* Improve inter-regional connectivity and international integration. Country Strategy Delivery Reviews (CSDRs) would provide future reporting on ETCs and focus on these three priorities.[5]

The overarching objective of this evaluation is to evaluate the relevance, results, transition impact and efficiency of the EBRD's activities in ETCs against these three priorities based on evidence from country case studies and the portfolio. The evaluation was guided by the following question and sub-questions:

To what extent did EBRD's approach to ETCs contribute to narrowing transition gaps by developing the private sector and access to finance, sustainable infrastructure and energy efficiency, and improving inter-regional connectivity and international integration?

1. To what extent does the ETC approach fit the needs of the ETC country and beneficiaries, mesh with the EBRD mandate and strategies and with the interventions by partner institutions and governments?
2. What has the ETC approach achieved so far? Are the benefits likely to last?
3. Were tools and resources used efficiently to achieve results in ETCs? Is donor support well mobilised and implemented? Is the reporting on the ETCs to the Board and to donors adequate?

The evaluation scope covers the results of investment operations and donor-funded activities including grants, co-financing,

[2] In April 2022 the EBRD Board of Governors suspended Belarus' access to the Bank's resources in response to the invasion of Ukraine.
[3] SGS04-48 (Final) A Revised Approach and Action Plan for Early Transition Countries
[4] BDS17-130 (Rev 1) Early Transition Countries Initiative Review 2014-16.
[5] Ibid.

capex grants, and TC projects approved by the Board or by delegated authority from 2017 to 2019.

To focus the analysis and answer the questions using specific case studies, a broad sample of countries from Eastern Europe, the Caucasus and Central Asia was drawn from among the ETCs with wider and narrower transition gaps, four countries for each priority area. Selection criteria included having the largest and smallest transition gaps from the assessment of transition qualities (ATQ) and being evenly split across Central Asia and the Caucasus.[6] EvD conducted field visits to four ETCs including Azerbaijan, Georgia, Kyrgyz Republic and Uzbekistan.

The Covid-19 pandemic in 2020-21 and Russia's war on Ukraine in 2022 have both seriously affected the ETCs. The pandemic resulted in a global economic downturn, government restrictions and lockdowns that forced businesses to readjust their strategies in the face of new demand. Project implementation was often delayed with technical consultants unable to travel to locations, and services were instead provided online where possible. Local businesses have also been adjusting to sanctions and the influx of Russians into ETCs, and Ukrainians into Moldova. These migration patterns have both stimulated local economies but also heightened pressures on public services. These have all created new challenges for EBRD activities and were important considerations for this evaluation.

[6] Belarus was not included as operations were suspended in 2022

Insights

Insight 1

The relevance of the ETC classification and transition approach is not always adequate

1. **The ETC classification and its use are outdated and are not based on clear criteria or guidance.** The system of incentives of country strategies and the corporate scorecard underpinning the classification does not reflect specific challenges or strategic priorities.

2. **There is no clear relationship between targeted transition qualities and closing country transition gaps.** Project transition qualities mostly target 'competitive' and 'green', followed by 'well governed' and 'resilient' whereas there is less work on 'inclusive' and 'integrated'. A review of indicators indicates that they are inadequate for showing any movement towards narrowing the largest gaps. Projects targeting the 'competitive' quality may also be contributing to the 'integrated' quality but this is not always captured. There is no demonstrable link between project level outcomes and the ATQs.

3. **Whether there has been any broader transition impact from the results of projects approved during the evaluation period (2017-2022) remains unclear despite a slightly greater volume of investment.** Transition impact is limited by continuing political and macro-economic challenges in ETCs, including the post pandemic recovery and invasion of Ukraine. The results of current investment can only become visible over time since implementation is still underway. The ATQs show that the gaps remain widest in ETCs despite

slight increases in EBRD investment volume there. There was no significant increase in ETC ATQs over the evaluation period nor any apparent link to the outcomes of project level transition. ABI as a percentage of GDP is higher in Georgia, Armenia, Uzbekistan and Moldova. It remains very low in the Kyrgyz Republic, Mongolia and Azerbaijan.

4. **EBRD non-financial additionality to support SME access to finance is high but financial additionality is weakening.** Given persistent large SME financing gaps in ETCs, the Bank must scale up its activity and continue to strengthen the financial additionality of its SME financing tools to support further access.

Insight 2

Some countries show positive results despite pandemic delays whilst others lag behind

5. **EBRD support to increase access to finance and competitiveness was more successful in Armenia, Georgia and Uzbekistan where it was highly concentrated and low or absent in other ETCs.** Partner financial institutions and SMEs do appreciate EBRD's strength in private sector advisory work but stringent risk standards prevent it from doing more direct financing with potential SMEs. The EBRD investment council and legal transition work is successful where government buy-in is strongest. EBRD has had an uneven experience supporting the development of local currency markets in ETCs. Country context determines success, and EBRD has been successful in Georgia whereas challenges remain in other ETCs.

6. **Sustainable infrastructure development is constrained by affordability in ETCs. There has been selective growth in renewable energy generation but the pandemic slowed implementation.** EBRD support to sustainable infrastructure services is mostly in the public sector, without direct private sector participation. Affordability constraints, lack of capacity and delays in some ETCs limit investment. ABI is concentrated in energy in three countries: Uzbekistan, Georgia and Azerbaijan. Whilst the ex-ante GET ratio is improving in some ETCs, the EBRD's support to increase renewable energy sources is still in the early stages.

7. **Evidence shows there are a lack of projects specifically targeting issues around inter-regional connectivity and international integration.** Support to energy inter-regional connectivity is evident in Azerbaijan and Moldova but mostly lacking in Central Asia. EBRD support to develop transport links and logistics also remains limited and regional integration gaps persist overall. The challenging political economy in the smaller countries of the region, growing influence of major international powers (China and Russia) and limited IFI coordination to plan integration projects limits the EBRD's activity. Higher credit risks, the pandemic and limited EBRD staff have negatively affected the EBRD's TFP in ETCs.

Insight 3

Bank resources are used more efficiently with delegated frameworks and local staff. Country donor fund allocations remain unclear

8. **Delegated frameworks improve efficiency of project preparation and local presence is essential for projects to materialise.** Around 90 per cent of projects in ETCs are below EUR 25 million and are approved under

delegated authority. Delegated approval reduces staff time spent on project preparation but having local EBRD staff present on the ground for ETC work is critical.

9. **Non-performing loans in ETCs are concentrated in three countries, Belarus, Mongolia and Turkmenistan, mostly in the industry, commerce and agribusiness and energy sectors.** This reflects specific political, regulatory, macro-economic and large infrastructure project challenges.

10. **The records do not clearly show total allocations of donor funding by country including commitments and disbursements.** The EU and the EBRD's SSF are the largest donors to ETCs through multiple funding arrangements for public and private sector work. In 2022 the ETC Fund, after suffering a decline in funding over several years, was re-designated for sustainable infrastructure. The shift to thematic funds reflects the Bank's broad approach to donor funds and to having mainstreamed the ETCI in 2015.

11. **Data records for reporting on policy priority objectives and milestones were variable.**

Recommendations

This evaluation identified three key recommendations including one at the strategic-level and two at the operational level.

Strategic-level recommendation

Recommendation 1

Review the ETCs classification and its use, in time for the next SCF in 2025 in order to better redirect support to countries with the biggest transition gaps.

This may include developing a clear definition, methodology, and reviewing the incentive mechanism, such as the corporate scorecard, to ensure it is fit for purpose and then applying it regularly and consistently in operational and strategic resource allocation and decision making.

Operational-level recommendations

Recommendation 2

Design and implement a programme for services to small municipalities and increase RO PPP unit resources where needed to help develop further sustainable infrastructure in ETCs, complementing the offerings of other IFIs.

This may include 1) developing a more unified programmatic and mainstreamed approach to help improve services in underserved municipalities with affordability constraints not eligible for Green Cities in ETCs and other COOs which complements the offerings of other IFIs; and 2) using standard indicators and linking with country results frameworks to monitor progress, calibrate the approach and demonstrate results in order to attract further donor support.

Recommendation 3

Develop a pipeline of transport, logistics and energy regional integration projects, by leading discussion with other IFIs and governments to expand cooperation, reach agreement and start implementation.

This may include beginning joint policy dialogue with MDBs and other IFIs and governments particularly in Central Asia where large gaps persist and undertaking a mapping of priorities, gaps and opportunities to promote integration across specific regions and sectors.

1. Context and evaluation approach

1. This evaluation is part of the EvD work programme discussed at the Audit Committee on 15 November 2020. It aims to assess the EBRD's support to a group of countries identified as having the widest transition gaps in the Bank's initial regions of operations.

1.1. A group of ten countries with large challenges

2. The Early Transition Countries (ETCs) in the EBRD refers to a group of ten countries including **Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan** bound together as the lower-income Commonwealth Independent States (CIS) after the Soviet Union was dissolved in 1991, identified during an IMF, World Bank, EBRD and Asian Development Bank initiative in 2002.[7]

3. **The ETCs were EBRD's poorest member countries with some of the widest transition gaps in its initial regions of operations in Eastern Europe and the Caucasus and Central Asia.**[8]

Box 1: Transition Gaps: Assessment of Transition Qualities
Transition Gaps: How EBRD assesses progress on transition qualities
• After the concept of transition was revised in 2016 the EBRD developed a new approach to tracking transition progress. The new methodology assesses developments in six qualities of a sustainable market economy: competitive, well governed, green, inclusive, resilient and integrated.
• A set of composite indices (assessments of transition qualities or ATQs) capture the progress in each quality. ATQs combine information consistently from many indicators and assessments.
• The resulting ATQ scores measure each economy's performance against that of comparator advanced economies and other economies in the EBRD regions. Scores range from 1 to 10, where 10 represents a synthetic frontier corresponding to the standards of a sustainable market economy.

4. **To distinguish the ETC category a key driver was to focus on a group of countries with large transition gaps and low levels of ABI.** This led to developing financing instruments for SMEs and the Local Currency Programme (LCP) that EBRD mainstreamed in 2016 into the SBI.

5. Today EBRD uses a transition impact methodology introduced in 2017 to assess the extent of transition gaps in the economies where it invests. ETCs still have some of the largest transition gaps along with countries outside the grouping from the SEMED region and the Western Balkans.

[7] Mongolia became an EBRD country of operations in 2004

[8] In April 2022, the EBRD Board of Governors decided to suspend Belarus' access to the Bank's resources in response to the invasion of Ukraine.

6. **The ETCs have been heavily impacted by both the COVID-19 pandemic in 2020/21 and Russia's war on Ukraine in 2022.** The pandemic resulted in global economic downturn, government restrictions and lockdowns that led to businesses readjusting strategies to meet new demands and project delays to provision of consultancy services, and shifts to online services.

7. Russia's war on Ukraine led to shifts in migration. Inflows to many ETCs led to economic growth and record levels of remittances from Russian migrants but also pressures on local infrastructure and services. According to EvD interviews with clients in Georgia and Azerbaijan local businesses have also been adjusting to sanctions by shifting suppliers away from Russia.[9] Moldova is hosting a high number of Ukrainian refugees, and addressing integration challenges of employment and associated infrastructure needs.

8. **The EBRD Board and Management's interest in the ETCs, alongside the Western Balkans (WB) and Southern and Eastern Mediterranean (SEMED) regions, is reflected in the priorities of the most recent Strategic and Capital Framework 2021–2025, and 2022–2024 Strategic Implementation Plan corporate scorecard.** These documents group ETCs with the Western Balkans and SEMED as countries less advanced in their transition.[10] Management's last extended ETC review in 2016 also defined operational priorities for 2017-19.[11]

9. This evaluation complements other evaluations: EBRD's Shareholder Special Fund (SSF) (2022), the Green Cities Programme (2023) and upcoming evaluations in EvD' multi-year work programme.[12] Lessons from the study are applicable to future EBRD country and sector strategies in the ETCs and relevant for beginning operations in sub-Saharan Africa and Iraq.

1.2. Evaluation approach

10. The overarching objective of the evaluation is to evaluate relevance, results, transition impact and efficiency of EBRD activities in ETCs against the priorities set out in 2016 (the ETC approach) using country case studies as evidence in each priority area.

11. The evaluation addresses the following overarching question with three sub-questions:

To what extent did EBRD's approach to ETCs contribute to narrowing transition gaps by developing the private sector and increasing access to finance, developing sustainable infrastructure and energy efficiency and improving inter-regional connectivity and international integration?

a. To what extent does the ETC approach mesh with ETC country and beneficiary needs, EBRD's mandate and strategies and interventions by partner institutions and governments?

b. What has the ETC approach achieved so far? Are the benefits likely to last?

[9] https://www.ponarseurasia.org/the-russian-migration-to-georgia-threats-or-opportunities/
[10] The percentage target of total ABI in the 2022 Corporate Scorecard for ETCs, Western Balkans and SEMED countries combined is a minimum of 48 percent.
[11] BDS17-130 (Rev 1) Early Transition Countries Initiative Review 2014-16.
[12] These include monitoring and evaluation of transition impact and additionality (2023); Small Business Initiative (2024), micro-finance (2024); balancing risk and transition impact (2025); Green Cities (2023), GET approach (2025) and support to energy security (2024).

c. Were the tools and resources used efficiently in ETCs to achieve results? Is donor support well mobilised and implemented? Is reporting on the ETCs to the Board and donors adequate?

12. **The scope of the evaluation covers the results of investment operations and donor-funded activities including grants, co-financing, capex, and TC projects (transaction and non-transactional) approved by the Board or by delegated authority from 2017-19.**

13. **To focus the analysis and answer the questions using specific examples and to ensure a broad sample, 12 case study countries with wider and narrower transition gaps were selected from Eastern Europe and the Caucasus and Central Asia, excluding Belarus.** Selection criteria included the countries with largest and smallest transition gaps from the ATQs split across Central Asia and the Caucasus. EvD conducted field visits to Azerbaijan, Georgia, Kyrgyz Republic and Uzbekistan.[13]

14. **EvD adopted a mixed methods approach using qualitative information from management reporting, project approval and monitoring documents and quantitative data from multiple sources in the EBRD.** It conducted over 100 structured interviews with EBRD staff and counterparties at headquarters (HQ) and in ETC case study countries.

[13] For more information see *Approach Paper: Evaluation of the EBRD Early Transition Countries Approach*, February 2022, www.ebrd.com/evaluation

2. EBRD in ETCs: A critical commitment including in a time of crisis

15. **In 2004 EBRD introduced the ETC Initiative (ETCI) to increase investment volume and activities in the smaller lower-income countries with a dedicated ETC banking team and set of tools and instruments to target the dominant SME sector which was limited by poor investment climates and low Foreign Direct Investment (FDI).** The ETC banking team was disbanded in 2016 and the ETCI tools and instruments were mainstreamed to all EBRD regions through the SBI.

16. **Private sector volume, projects and donor funding increased in ETCs from 2004 to 2013 with the introduction of scorecard targets for sector and country teams.**[14] The success of the earlier ETC Initiative is demonstrated by the trend of increasing numbers of projects and ABI and more donor funding, as set out in subsequent reviews in 2010, 2012 and 2014, verified by EvD during portfolio analysis for this evaluation.[15]

17. **Consolidation and mainstreaming ETC instruments to all economies where the EBRD invests in 2015 demonstrated the success of the EBRD toolkit and offerings developed under the ETC Initiative.** Multiple financing frameworks for SMEs active in ETCs were merged under the Bank-wide SBI through the FIF, RSF and Direct Finance Framework (DFF).[16] The 2011 ETC Local Currency Risk Sharing Fund was expanded to non-ETCs. In 2015 a new scorecard target for number of projects for a group of small countries including ETCs, SEMED and WB replaced previous scorecard targets. In 2016, the ETCI team was absorbed into the Bank-wide SBI.

18. **Five key lessons for private sector development can be learnt from the success of the ETC Initiative from 2004 to 2015** (Box 2).

Box 2: Five key lessons from the ETCI 2004-16

Five key lessons for private sector development from the ETCI 2004-16

1. **Use of tailored products - financing frameworks with Micro and SMEs (MSMEs) enabled the EBRD to increase volume and number of private sector projects** in ETCs, including direct (debt and equity), indirect financing and risk sharing frameworks.
2. **The ETCI used delegated authority extensively to approve new small SME projects, enabling the Bank to do a higher volume of small projects.** This, together with the financing framework products, streamlined project preparation and simplified approval procedures, for projects worth under EUR 10 million. The delegation authority included summary reporting to the Board for full visibility.
3. **Dedicated banking staff including an ETC Initiative banking team with regional hubs and increased resources for strengthened ETC ROs improved operational focus** to do more business with SMEs in early transition countries.

[14] SGS04-48 A Revised Approach and Action Plan for Early Transition Countries 2004; BDS10-112 2010 Update on the Early Transition Countries Initiative Approach and Action Plan

[15] These reviews include: BDS10-112 2010 Update on the Early Transition Countries Initiative Approach and Action Plan; SGS12-096 (Addendum 2) Information Session: 2012 Update – Early Transition Countries Initiative; BDS14-092 Early Transition Countries Initiative Review and Operational Priorities 2014 – 16

[16] BDS15-050 Small Business Initiative - Restructuring and Consolidating EBRD Operational Facilities for SMEs 2015.

4. **Investment Councils to promote an improved investment climate for MSMEs**, first established under the ETC Initiative in ETCs helped to improve the business environment through public– private sector dialogue and to realise transition on the national, non-project level through policy dialogue.
5. **A local currency programme for MSMEs pioneered by the ETC Initiative successfully enabled the Bank to provide local currency financing to MSMEs** without the risks of FX and expand its reach into MSME markets.

19. **In addition to the 2015 mainstreaming efforts, focus on market reform and policy objectives in ETCs increased when new Bank-wide initiatives were introduced in ETCs.** These included the 2014 Local Currency and Capital Markets Initiative, the Green Economy Transition (GET) Approach in 2015, and the Investment Climate Governance Initiative (ICGI) in 2014.

20. In its final triennial review of the ETC Initiative, management defined three priorities with sub-criteria for 2017-19, and a cross-cutting focus on inclusion and GET.[17] Future reporting on ETCs would be provided in the CSDRs.

- **Priority 1: Enhance private sector development through improved competitiveness, deepen access to finance through sustainable financial sector and develop local currency markets.** Sub-criteria included: i) promotion of trade and investment to improve domestic and international competitiveness; ii) improvement of the business environment and investment climate reform; iii) expansion of direct/co-financing investments to SMEs; iv) support for FDI; v) strengthening of legal and regulatory reforms, derivatives and corporate bond markets; vi) introduction of the Local Currency and Capital Markets Development Initiative (LC2) in countries that need access to affordable local funds, and vii) promotion of banking sector reform.

- **Priority 2: Promote sustainable infrastructure development, including renewable energy generation.** The sub-criteria for sustainable infrastructure development were: i) improvement of efficiency of infrastructure services through commercialisation, restructuring and increased private sector participation; ii) strengthening of institutional and legal capacity of the municipalities to regulate and monitor municipal services provision; iii) development of energy integration and green energy solutions; iv) promotion of reduction in energy intensity, and v) implementation of the Green Cities Framework (GrCF).[18]

- **Priority 3: Improve inter-regional connectivity and international integration.** The sub-criteria for sustainable infrastructure development were to: i) development of key regional transport links and logistics infrastructure, improvement of connectivity and regional integration, and ii) support for regional trade and investment to strengthen regional economic links.

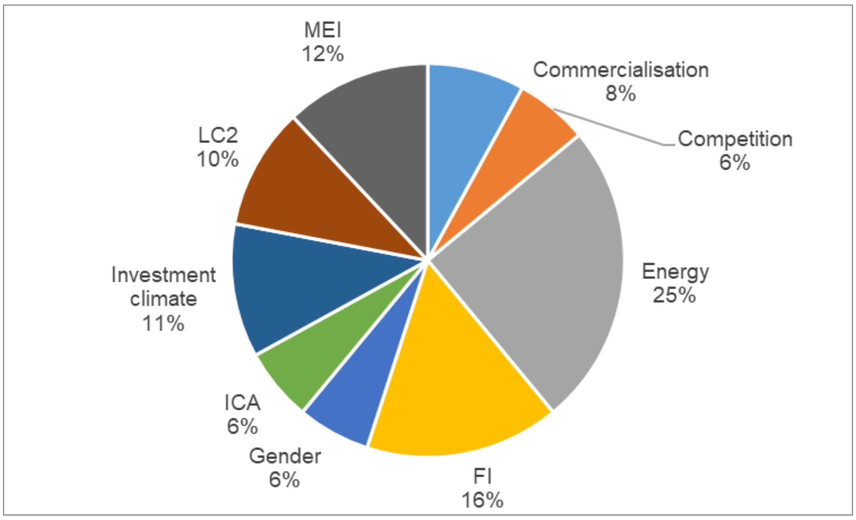
21. **Going forward, management stated that it would use investment and policy dialogue and provided a qualitative description of** '*what we want to see by end 2019*'. No quantitative targets were included. General indicators included: i) the level of ABI and number of investments); ii) policy dialogue (as an activity), and iii) non-sovereign loan performing assets ratio and the credit quality of the ETC portfolio. EvD created an indicative theory of change based on this information that is set out in Annex 1. Triennial reviews of the ETCI were discontinued in 2016 and new

[17] BDS17-130 (Rev 1) Early Transition Countries Initiative Review 2014-2016.
[18] EvD conducted an evaluation of the GCP in 2022 for Audit Committee discussion on 11 April 2023.

reporting system introduced through the annual CSDRs Framework. Annual '*light touch*' informal updates are provided in Q3 to summarize the main achievements in ETCs and give examples of projects financed during the period.

22. **EBRD prioritised energy and banking sector reform most in ETCs through policy work along with the 'well governed' and 'competitive' TQs.** Across the ten ETCs, the EBRD tracked 98 unique policy objectives between 2017 and 2021.[19] The energy sector was the most frequently targeted (25 per cent of objectives 2017-21) followed by the banking sector (16 per cent) (Figure 1).

Figure 1: Policy objectives in ETCs by topic 2017–2021

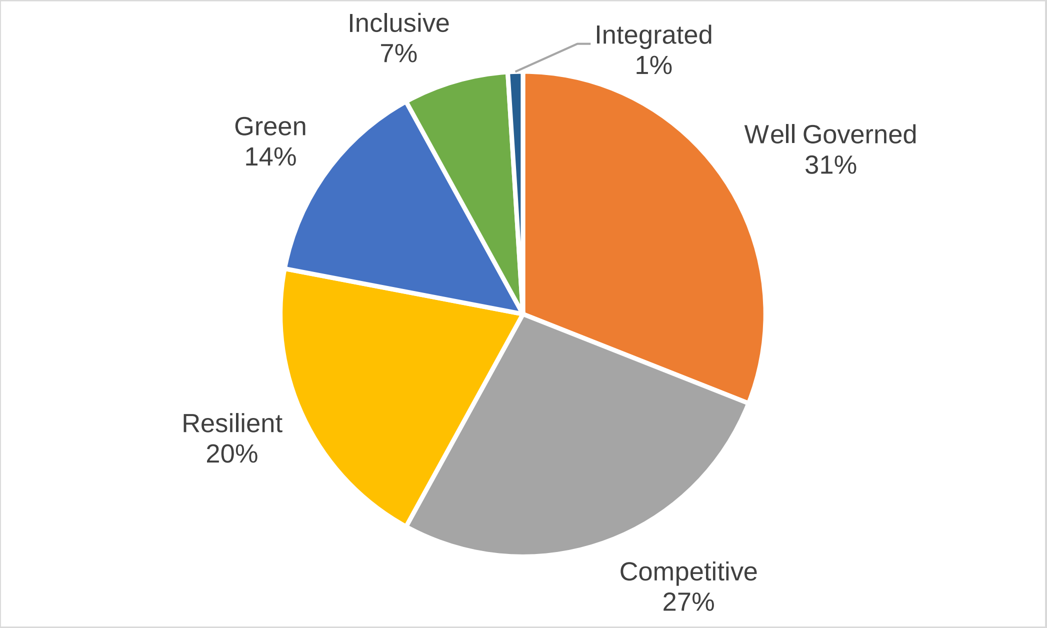


Source: Policy Priority Objectives EPG, VP3 https://intranet.ebrd.com/priority-policy-objectives-(ppos)

23. **EBRD responded to some of the biggest most pressing obstacles in ETCs overall with policy objectives most frequently targeting the primary transition qualities 'well governed' (31 per cent), 'competitive' (27 percent) and 'resilient' (20 per cent), followed by 'green' (14 percent).** This reflects the need to improve governance, particularly of state-owned enterprises, to improve market and banking sector regulation, to introduce greater competition for growth and resilience against crises (Figure 2).

[19] Data for 2022 is not available, since the Bank's approach to PPOs is changing to a new system of policy compacts.

Figure 2: Policy objectives in ETCs by TQ 2017–2021



Source: Policy Priority Objectives EPG, VP3 https://intranet.ebrd.com/priority-policy-objectives-(ppos)

24. **EBRD had the most policy objectives in Uzbekistan, reflecting the government's strong commitment to reform, followed by Tajikistan.** In Turkmenistan policy work was planned in 2018 but not implemented for lack of government commitment to reform.

3. Understanding the past to improve the future: Main findings

25. **The evaluation findings cover the suitability of the ETC approach to the EBRD today.** They include the outdated nature of the current definition, issues around linking expected transition impact with country transition gaps and the financial additionality of private sector SME products. The results across the three strategic priority areas show progress in only a couple of ETCs, with findings on the limitations to EBRD support for private sector development, the sustainable infrastructure response due to affordability constraints and barriers to private sector participation, and regional integration where the challenging political economy and limited EBRD resources led to fewer successes.

3.1. Relevance of the ETC classification and transition approach

26. The ETC approach could benefit from updating the classification to include all countries in early transition. Transition methodology lacks clear linkages between EBRD activities and closing country transition gaps. EvD found that EBRD's financial additionality was weakening progressively and that the levels of private finance mobilisation stemming from EBRD activity were low.

3.1.1. ETC classification and its use has become outdated

The ETC classification lacks clear criteria. The system of incentives through country strategies and the underlying corporate scorecard does not reflect specific challenges or strategic priorities.

27. **The purpose of an ETC classification was to ensure that the smaller, lower-income economies had access to EBRD's operational and donor resources to develop and were not overlooked because of the higher credit risks of banking operations there.** This led to the 2004 ETC Initiative (ETCI) with a targeted banking team, donor fund, and product offerings suitable for SMEs and their particular challenges.[20]

28. **Neither clear criteria nor an official Bank methodology determine whether a country or economy where EBRD invests should be considered an ETC.** The ETC definition refers to transition as the key distinguishing feature and the criteria appear to be having the largest transition gaps amongst all economies where EBRD invests.

29. **The new transition methodology does not mention early or advanced transition countries or how these classifications are defined.** Some staff who were interviewed suggested a regional linkage in the ETC classification (Commonwealth Independent States [CIS]), however it is not representative of an official Bank region. Despite unclear classification criteria, management continues to provide ETC updates through a summary review in annual Country Strategy Delivery Reviews (CSDRs).

[20] SGS04-48 (Final) A Revised Approach and Action Plan for Early Transition Countries, 2004.

30. **A review of the country ATQs gaps for 2021 reveals that many SEMED and Western Balkan countries can also be considered ETCs whereas the category has not been modified to include them.** Instead, corporate documents frequently group ETC, SEMED and Western Balkans countries together (including Egypt which is comparatively much larger). [21] Most recently the Bank has started referring to the number of projects in 'small countries' in the corporate scorecard, which includes the number of projects in ETCs, Baltic States, Western Balkans (excluding Serbia) and SEMED (Lebanon, Tunisia and Jordan). Transition gap levels in the Baltic states are not comparable to other economies in this group.

31. **Current operational considerations influencing the EBRD's approach to countries with the largest transition gaps include, in principle, staff allocation, donor funding resources and risk mitigation measures.**

32. **During staff interviews, EvD heard two main views on the relevance of the classification**: some believe it is an outdated legacy that no longer informs operational decision-making, others say that it reflects some awareness of the substantial challenges facing ETCs and the high dependency on donor funds to work in them.

33. **Other views acknowledge that SEMED (an official Bank region) and the Western Balkans (part of the Bank's South-eastern Europe region) are included with ETCs in the corporate scorecard and that progress on transition and on Article 1 considerations vary considerable within those groups of countries.**

Other IFIs classify countries to determine resource allocation by using a specific methodology and updated annual reviews to ensure ongoing relevance. The main classifications at the World Bank are by geographic region, income group, and the operational lending categories of the World Bank Group. World Bank Group (WBG) countries are classified by income for analytical purposes. A second operational classification by income is used to determine access to World Bank lending windows and repayment terms. ETCs mostly fall into the World Bank's upper-middle income bracket (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Turkmenistan), the remainder are lower-middle income.

'Economies are currently divided into four income groupings updated annually based on data from the previous year: low, lower-middle, upper-middle, and high. Income is measured using gross national income (GNI) per capita. Potential issues with this are that GNI may be under-estimated in lower-income economies that have more informal, subsistence activities. Nor does GNI reflect inequalities in income distribution.

World Bank has used the annually updated Fragile and Conflict-affected Situation (FCS) classification since 2006 to inform strategic and operational decision-making by providing a disaggregated classification of low- and middle-income countries that are affected by fragility and conflict. The typology is determined by a specific methodology and definitions.'

Source: World Bank Data Country Classification

34. **The Asian Development Bank uses a performance-based allocation (PBA) to divide a limited pool of concessional resources among eligible countries using pre-specified criteria and a formula that links evaluated Country Performance Assessments (CPAs) and other key variables**

[21] ATQ data provided by VP3 Policy Strategy and Delivery, https://intranet.ebrd.com/home/departments-and-groups/client-services-group/policy-and-partnerships/assessment-of-transition-qualities-(atq), charts available on request.

to individual country allocations. ADB conducts its CPAs using the World Bank's country policy and institutional assessment questionnaire.

'The risk of debt distress determines the proportion of grants in the country allocation analysed using the joint IMF-World Bank debt sustainability framework for low-income countries. Countries at low risk of debt distress receive no grants, countries at moderate risk of debt distress receive grant allocation equivalent to 50 per cent of the PBA share, and countries at high risk of debt distress receive full grant share. ADB has also used the MDB harmonized FCS classification system since 2013.' [22]

35. **The primary use of such classifications for lower-income or fragile states is to support decisions about resource allocation and adapting tools and support for the most vulnerable countries.** The World Bank Group operational lending categories for low per capita income countries based on income groups define whether the country is able to borrow from the World Bank's International Development Association (fund for the poorest countries with zero to low interest loans and grants) or the International Bank for Reconstruction and Development (IBRD) (providing loan guarantees, risk management products and advisory services). Blend countries are eligible for both.[23] The classification therefore assists the World Bank in making operational decisions on resource allocation and support. FCS classifications are useful primarily as a tool to help the WBG adapt its approaches, policies and instruments in difficult and complex environments. The WBG also uses the tool for monitoring and accountability around its support for the most vulnerable and marginalized communities.[24] The ADB's use of PBAs establishes a transparent and consistent method for distributing concessional financing.

36. **Whilst bankers did not find the current ETC classification directly useful to their work on operations, it has relevance for EBRD's overall strategic priorities, incentives, resource allocation and use of donor funds.** Updated classification would help the EBRD to maintain a strategic focus on smaller countries with the largest transition gaps. Clarifying the terminology would enable a bank-wide, more uniform approach to address the problems faced when implementing activities in smaller poorer countries. The criteria should reflect the challenges and transition gaps and be consistently applied across all economies where EBRD invests to reflect changing realities.

3.1.2. Unclear relationship between targeted transition qualities and moving towards closing country transition gaps

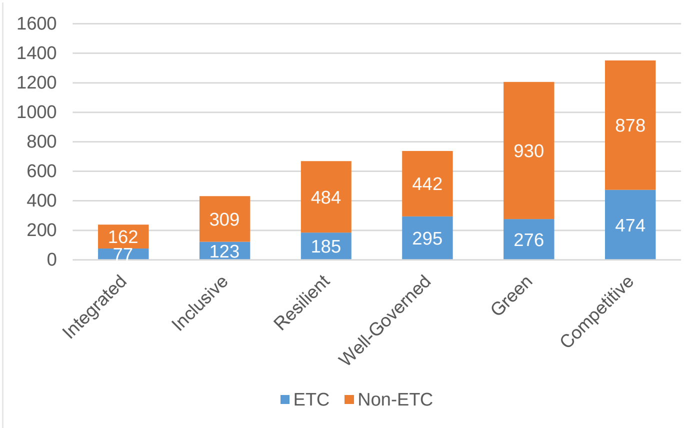
A review of the number of indicators in ETCs does not show their adequacy for measuring the narrowing of gaps. Project transition qualities mostly target 'competitive', 'green'and 'well-governed' while there are fewer projects targetting 'inclusive' and 'integrated'. There is no demonstrable link between project level outcomes and ATQs.

37. **The most frequently targeted TQs in ETC investment operations were 'competitive', 'green' and 'well-governed' (2017-19), which are key to the strategic objectives of private sector**

[22] https://www.adb.org/what-we-do/funds/adf/allocation-adf-resources
[23] https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries
[24] https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations

development and sustainable infrastructure). [25] Then comes 'resilient'. The strategic priorities 'inclusive' and 'integrated' received less attention. (Figure 3).

Figure 3: Frequency of TQs targeted in ETC investment operations 2017–2019



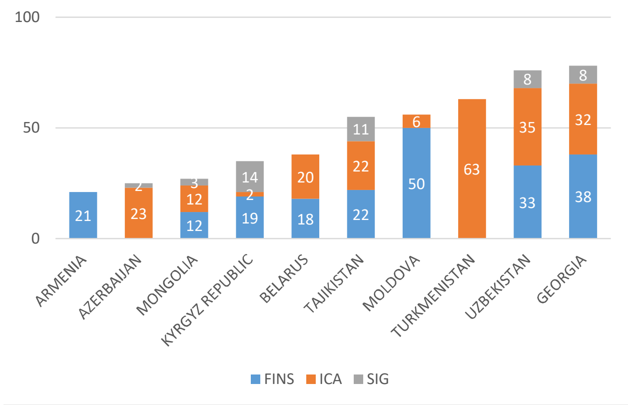
Source: VP3, TOMS Monitoring data (includes migrated projects as at August 2022)

38. **A review of the indicators monitored by transition quality shows whether the EBRD is targeting the biggest gaps, but not their adequacy to close them. No information was made available to EvD on the progress towards transition impact objectives (which seem to be market level outcomes), or their link to the indicators (project level outputs).**[26] By comparing the number of times an indicator targeted the transition gaps as assessed by the annual ATQs, it cannot be determined whether the underlying project activities are sufficient to close them or effective in doing so. It is not clear from the information provided to EvD how many indicators would be required to narrow a transition gap. This data does not include non-transactional policy reform work that may have a critical impact on closing transition gaps.

39. **Figures 4 shows how many indicators targeted the 'competitive' TQ across ETC projects approved from 2017 to 2019.**

[25] The new transition methodology was introduced in 2017 after the last strategic review of ETCs in 2016 so no direct TQ targets were included in the ETC approach. It is however possible to identify trends from some data produced by the Bank's VP3 unit from the new TQ monitoring system. The data was in mid-migration in 2022. The analysis is based on about 85 per cent of tracked indicators from projects approved 2017-19.
[26] Transition impact monitoring data was provided by VP3

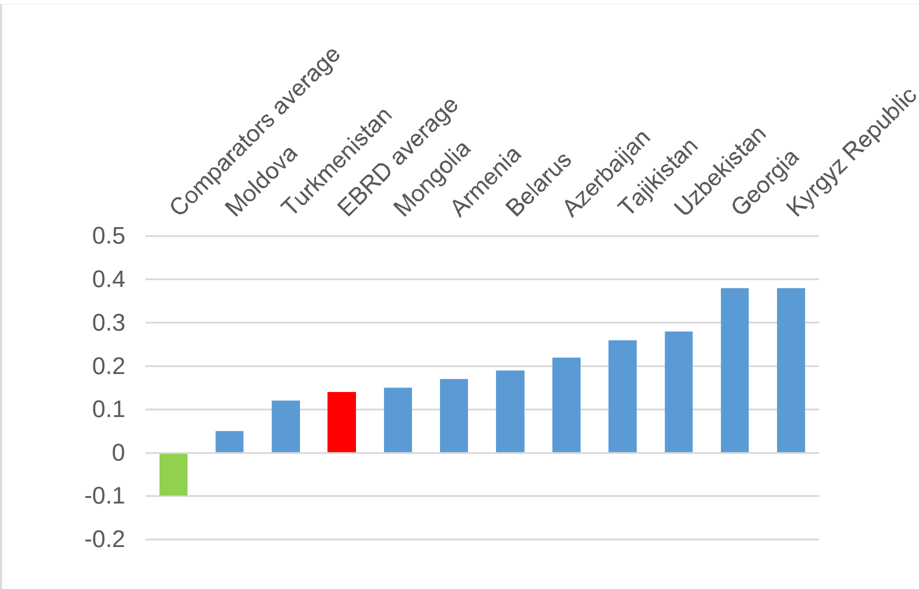
Figure 4: Indicators targeting the TQ 'competitive' in ETC operations signed 2017-19



Source: ATQs Policy Strategy and Delivery VP3

40. **Figure 5 shows the change in the 'competitive' ATQs gap from 2017 to 2021. The most frequently targeted country, Georgia, experienced a 0.38 move towards reducing the gap, leading it closer to the EBRD average.** The second most frequently targeted country, Uzbekistan only experienced a 0.28 shift. Increases were greater than the EBRD average for all countries except Moldova and Turkmenistan. Turkmenistan, whilst the third highest number of competitive indicators, still experienced very minor change in the competitive gap (below EBRD average).

Figure 5: ATQ Competitive change in transition gap 2017 & 2021 for ETCs

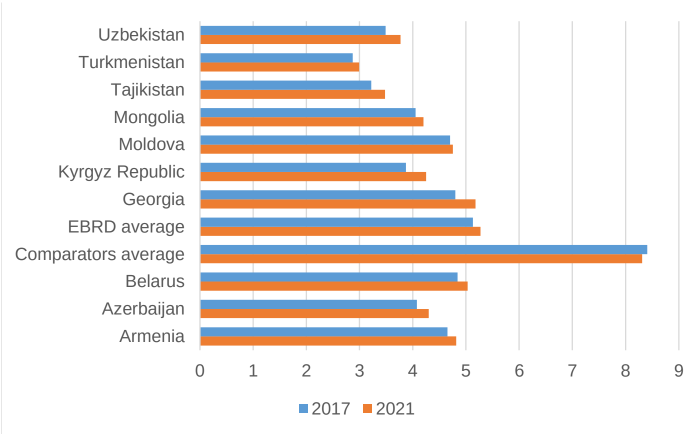


Source: VP3, TOMS Monitoring data (includes migrated projects as at August 2022)

41. **The data do not reveal the extent to which an indicator addresses the gap or the size of the investment project and its potential impact on the market. Objectives set out at project approval, expressed as market level outcomes, appear to lack causal linkage with standardised indicators.** From 2017 to 2021, the transition gap for 'competitive' improved only very slightly

across all ETCs. Figure 6 shows the extent to which the ATQ 'competitive' gap changed between 2017 and 2021.

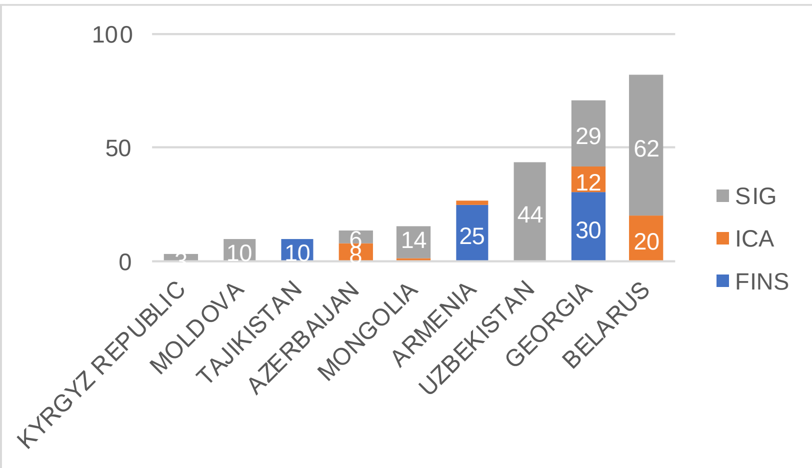
Figure 6: ATQ Competitive 2021 in ETCs compared with 2017



Source: EBRD ATQs Policy Strategy and Delivery VP3

42. **For investment operations signed from 2017 to 2019, EBRD targeted 'green' indicators most in Belarus and Georgia, followed by Uzbekistan in sustainable infrastructure, with the lowest activity in Kyrgyz Republic (Figure 7).** This concentration of activity also broadly reflects the level of EBRD activity by sustainable infrastructure investment volume (see Figure 23).

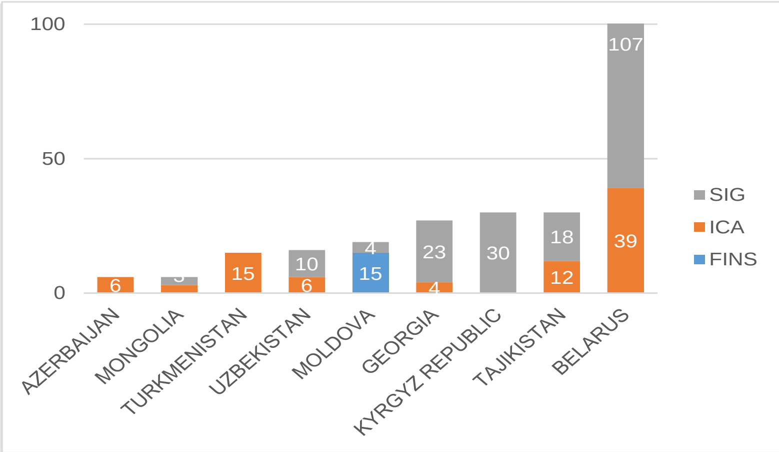
Figure 7: ATQ Green indicators targeted 2017–2019



Source: EBRD TOMS Monitoring Reviews Impact VP3

43. **The number of times that EBRD targeted indicators for 'well-governed' through investment operations signed from 2017-19 shows a concentration on Belarus, particularly in sustainable infrastructure whilst levels were lowest in Azerbaijan and Mongolia, suggesting specific challenges in this area.** Activities in Belarus ceased in 2021 due to the war on Ukraine (Figure 8).

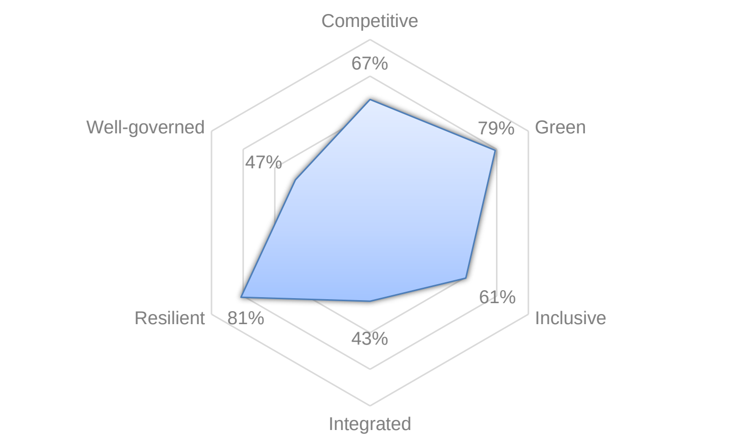
Figure 8: ATQ Well-governed indicators targeted 2017–2019



Source: EBRD TOMS Monitoring Reviews Impact VP3

44. **Transition outcomes in ETCs based on mature (completed) TQ indicators for investment operations approved during 2017-19 show a variation in the achieved rate from 81 per cent ('resilient') to 47 per cent ('well governed') and is strongest for 'resilient' and 'green'.** EvD reviewed the monitoring data that were migrated into the new Transition Objective Monitoring System (TOMS) covering investment operations from 2017 and found that of a total of 172 ETC operations across all sectors approved during 2017-19 there were 1 888 TQ indicators.[27] Of these, 387 indicators addressing TQs (or 20 per cent) had reached maturity, with monitoring complete by 2022 (Figure 9).[28]

Figure 9: Percentage of completed TQ indicators fully achieved in ETC investment operations approved 2017–2019



Source: EBRD TOMS Monitoring Reviews Impact VP3

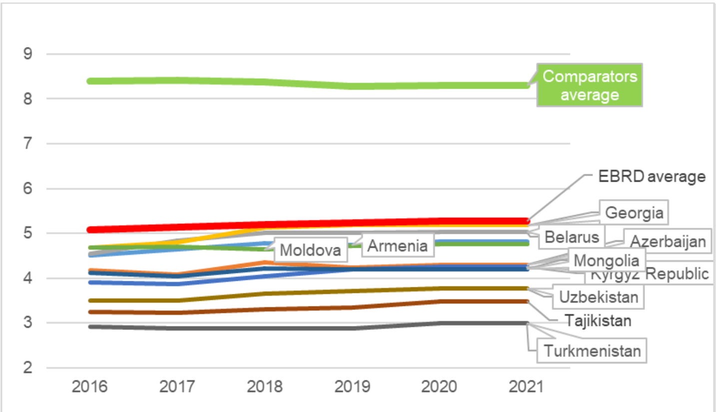
45. **The rate of achievement was lower for 'well governed' and 'integrated'.** This suggests there may be additional challenges for making progress in those areas and scope to do more.

[27] Based on TOMS data (MON101), October 2021 provided by the VP3 Impact team. Includes around 85% of migrated projects.
[28] The monitoring period for the indicators, recorded by years, was complete.

Integrated projects are usually large longer-term infrastructure projects with challenges ensuring international government commitments and smooth procurement processes and they are also more exposed to crises such as conflict or macro-economic downturns. 'Well governed' indicators often require full political commitment particularly for reform work with state-owned enterprises (such as introducing a new tariff methodology etc.) and are often subject to delays.

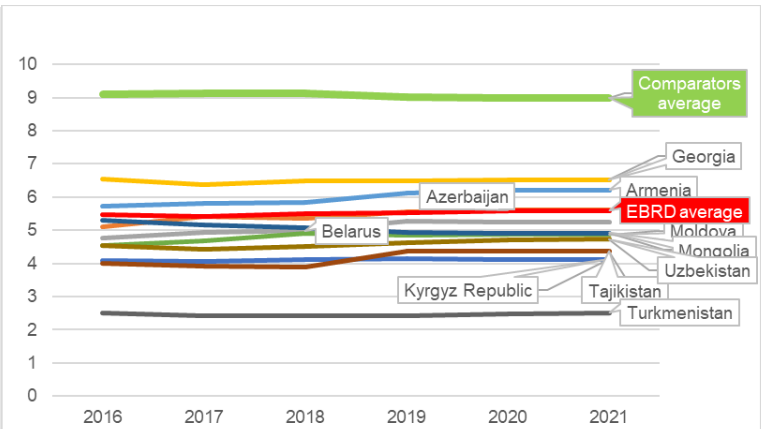
46. **There is no demonstrable link between project-level transition outcomes and ATQs.** A review of EBRD's ATQs in ETCs from their inception to 2021 (latest available) shows almost no variance for TQs of 'competitive', 'well governed' and 'green'. Slight increases can be observed for example in Tajikistan and Armenia on 'well governed', and in Georgia and Kyrgyz Republic on 'competitive', but these are not substantive (see below). There is no evidence of a link between these slight movements in average ATQs and EBRD activities in ETCs partly due to the difficulties of attribution inherent in the comparison and the aggregate and long-term nature of movements in country ATQ indicators (Figure 10, 11 & 12).

Figure 10: ATQ Competitive 2016–2021 ETCs



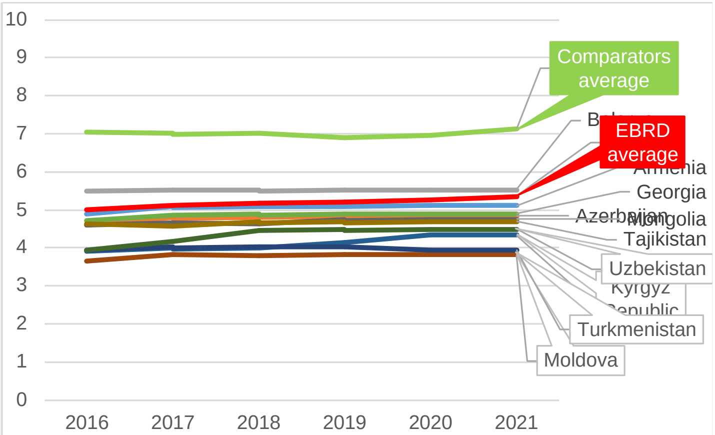
Source: VP3 Policy Strategy and Delivery - https://intranet.ebrd.com/home/departments-and-groups/client-services-group/policy-and-partnerships/assessment-of-transition-qualities-(atq)

Figure 11: ATQ Well-Governed 2016–2021 ETCs



Source: VP3 Policy Strategy and Delivery

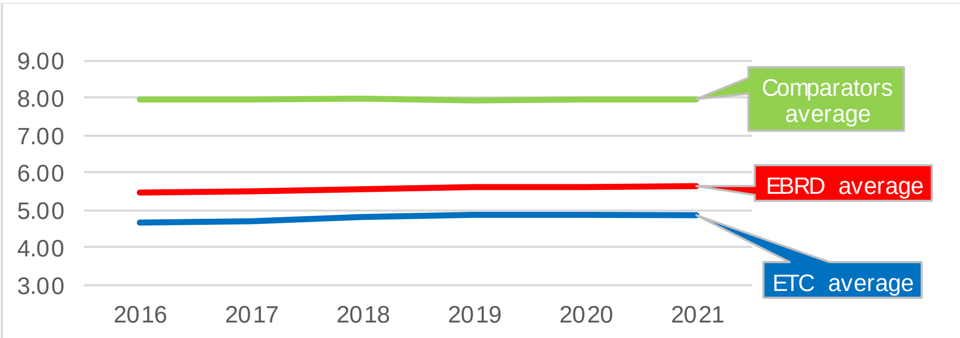
Figure 12: ATQ Green 2016–2021 in ETCs



Source: VP3 Policy Strategy and Delivery

47. **The average scores for the ATQs indicators (for all transition qualities) across comparators, EBRD countries and ETCs specifically shows that the ETC average remains lower (Figure 13).**[29]

Figure 13: Average ATQs for all TQs 2016–2021



Source: VP3 Policy Strategy and Delivery

3.1.3. Broader transition impact remains unclear despite slight increases in volume but implementation takes time

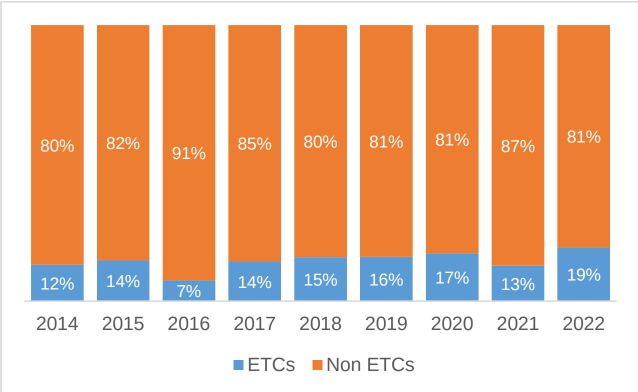
The ATQs across all EBRD regions shows that gaps remain widest in ETCs despite the increases in the EBRD's ABI. ABI as a percentage of GDP is higher in Georgia, Armenia, Uzbekistan and Moldova but remains low in Kyrgyz Republic, Mongolia and Azerbaijan.

48. **Using the ATQ approach to provide uplifts to expected project transition impact scores and stimulate investment in ETCs has not led to significantly closing transition gaps at country level.** The causes for this include the ATQ approach, lack of feedback loops and realism about the magnitude and capacity of EBRD projects to influence change.

[29] Comparators include Canada, France Germany, Japan, Sweden, UK and US.

49. **The average share of total ABI in ETCs increased 36 per cent from an annual average of 11 per cent (2014-16) to 15 per cent (2017-22).** The proportion of ETC ABI remained steady at 14 per cent in 2017 before rising to 19 per cent in 2022 with a large uptick in SIG. The rise from 7 per cent in 2016 resulted from a few large SIG projects and the Bank's re-engagement with Uzbekistan. A slight drop in 2021 reflects the end of operations in Belarus and a greater focus on resilience funding in non-ETCs (Figure 14).

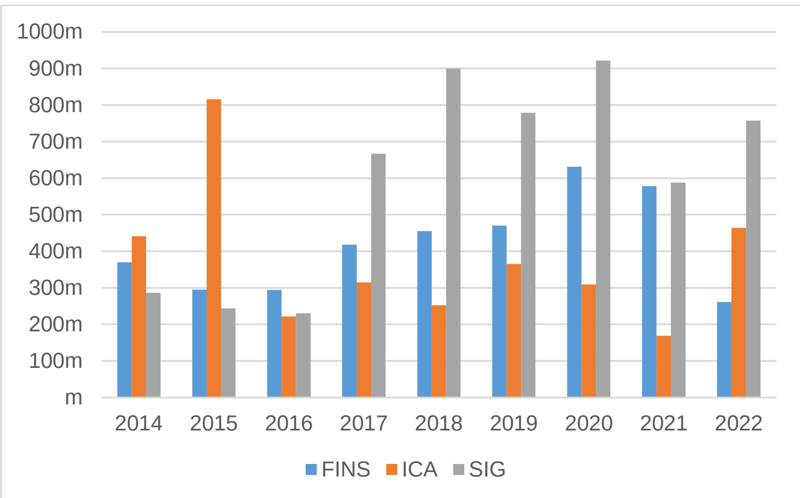
Figure 14: ABI in ETCs and non-ETCs 2014–2022



Source: EBRD Banking and Operational Risk data

50. **SIG grew substantially across ETCs from 2017 onwards but contributing to transition requires time given longer implementation times.** Projects include the Southern Gas Corridor (€417 million) and roads reconstruction (€288 million) both in Azerbaijan, Talimarjan (€214 million) and Syrdarya (€177 million) power projects both in Uzbekistan and infrastructure for oil and gas in Georgia (€217 million in 2020). Large roads projects in Belarus, Tajikistan and Mongolia contributed €260 million from 2019-20. Transition results in terms of contribution to the 'well governed' and 'green' qualities will lag as these projects are in the early stages of implementation (Figure 15).

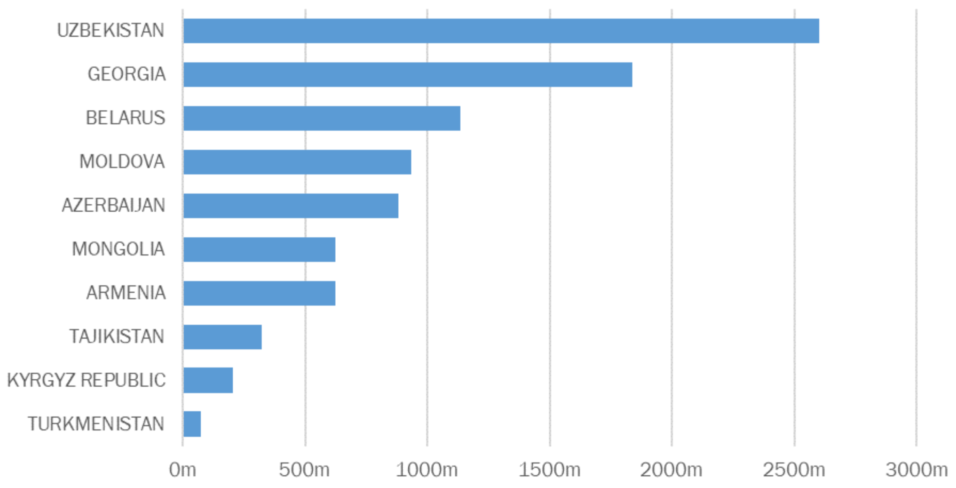
Figure 15: ABI in ETCs by sector group 2014–2022 (€m)



Source: EBRD Banking and Operational Risk data

51. **EBRD overall ABI by ETC shows from 2017 to 2022 shows the most volume in pro-reform Uzbekistan and Georgia followed by Belarus (although operations ceased since 2021) and Moldova, as an emerging candidate for EU accession.** Overall ABI also reflects the large infrastructure projects signed in Uzbekistan, Belarus and Azerbaijan mentioned above. Turkmenistan, Kyrgyz Republic and Tajikistan received the lowest levels of EBRD ABI from 2017-2021.

Figure 16: EBRD ABI 2017 to 2021 (€m)



Source: EBRD Banking and Operational Risk data

52. **In ETCs EBRD ABI in 2021 as a percentage of GDP was highest in Georgia, Armenia, Uzbekistan and Moldova. Kyrgyz Republic, Mongolia and Azerbaijan were the ETCs with the lowest EBRD investment relative to GDP.**[30] EBRD did not invest in either Belarus or Turkmenistan in 2021. This shows the vast differences in ETC investment levels because of specific reform challenges in some (Figure 17). It also reflects the high proportion of GDP in many ETCs is from natural resources for example Uzbekistan, Azberbaijan (oil and gas) and Mongolia (copper, gold, coal).

[30] Based on latest information available from World Bank (2021)

Figure 17: EBRD ABI as a percentage of GDP in ETCs 2021*

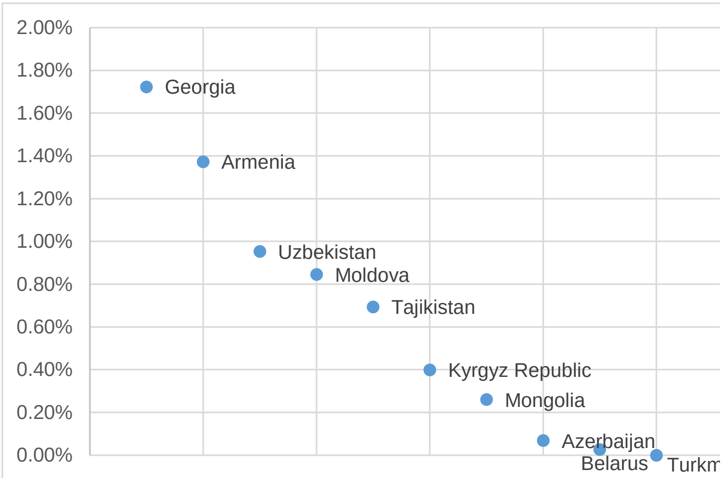
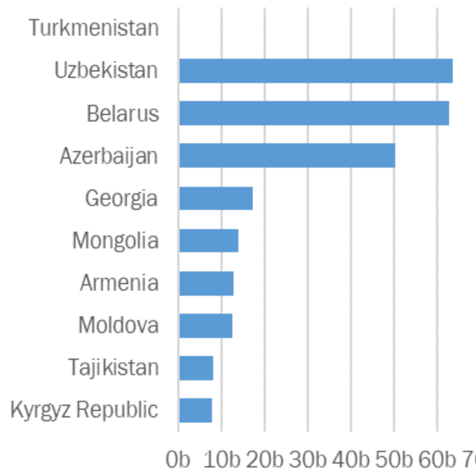


Figure 18: GDP in ETCs 2021 (€billion)*



Source: EBRD Banking and Operational Risk data & GDP World Bank Data, converted from US$ to EUR as at 2/3/22;
*No World Bank GDP data for Turkmenistan available

3.1.4. ETC operational response for sustainable infrastructure lacks some contextual alignment

53. On the second key priority area of sustainable infrastructure and renewable energy, the 2017-19 ETC approach articulated three operational responses that overlap and lack some contextual alignment.

54. The first operational responses included to '*Improve efficiency of infrastructure services through commercialisation, restructuring and increased private sector participation*.' Although private sector support is core to the EBRD's mandate, as stated in Article 1, EvD notes that infrastructure services can become efficient without direct private sector participation or taking steps towards privatisation.

55. **Over the last 10 years, countries with emerging economies have been trending away from involving private operators in providing electricity and water services.** Currently most EBRD support is through sovereign loans to public sector companies accompanied by donor co-financed grants and technical assistance. There is room for clarifying the expected outcomes of this support in the sector strategy and whether it is really intended as a step towards fully privatising public services.

56. On the second operational response to '*ii) Strengthen institutional and legal capacity of the municipalities to regulate and monitor municipal services provision*', it is unclear why support to regulating and monitoring municipal services is covered but energy regulators are not covered whereas EBRD supports their establishment.

57. Operational responses on *'iii) energy integration and green energy solutions and iv) reducing energy intensity'* notably overlap with the first area of improving the efficiency of infrastructure services and with the v) Green Cities Framework (GrCF).[31]

58. On outcomes (expected results), it is unclear what '*decentralisation of core regulatory aspects*' refers to and whether it specifically means building the capacity of municipalities. Decentralising tariff setting is not intrinsically a best practice and decentralised service provision in the power sector can be an option but is not always a solution.

3.1.5. EBRD non-financial additionality to support SME access to finance is high but financial additionality for direct financing is weakening

Given persistent large SME financing gaps in ETCs, a challenge for the Bank is to scale up activity and continue to strengthen the financial additionality of its SME financing tools to further support SMEs to access to finance.

59. EBRD's financial additionality in offering direct financing in ETCs depends on whether local banks can provide financing on more competitive terms in market conditions. **Client feedback from case study countries reveal a progressive weakening of the Bank's financial additionality for direct financing and frequent instances of non-agile client interaction.** Several direct financing clients indicated that EBRD pricing was not competitive compared with the local bank offerings and *"decision-making is slower than at local banks"* despite other features of the offering including for example longer tenor, or more flexible repayment structures. EvD also heard frustrations that *"EBRD takes weeks to reach basic decisions on issues related to loan supervision. It is quite rigid in managing loan covenants"* (i.e., less flexible than local banks). The Bank's procedures are perceived as overly bureaucratic (some requiring HQ approval), time consuming and involving charges that local banks do not impose.[32] Loan pricing limits the Bank's financial additionality. According to one local SME that EvD interviewed in Tbilisi, *"high interest rates are still the biggest hurdle to applying for a loan"*. This problem is not confined to the current ETCs but is also an issue in SEMED economies.[33]

60. **Some clients also indicated that risk management practices and standards seem unreasonably high** (e.g., collateral requirements for repeat clients). EBRD's pipeline in ETCs is limited by its restricted risk appetite in countries with higher credit risks despite RO staff reporting that their deep local market knowledge had enabled them to identify high potential clients for direct financing whose EBRD loan applications were rejected during the credit review process.

61. **Even in countries where the Bank has been quite actively using all SBI SME financing frameworks like Georgia, local SMEs still consider that the lack of access to finance is the second largest obstacle to doing business according to the CSDRs.** Limiting factors especially for smaller SMEs include the lack of eligibility for credit (weak internal processes, outdated accountancy systems, corporate governance issues), where EBRD may play a role by offering advisory services (ASB) or technical assistance in addition to possible direct financing. External factors limiting EBRD activity persist across ETCs include macroeconomic risks (currency

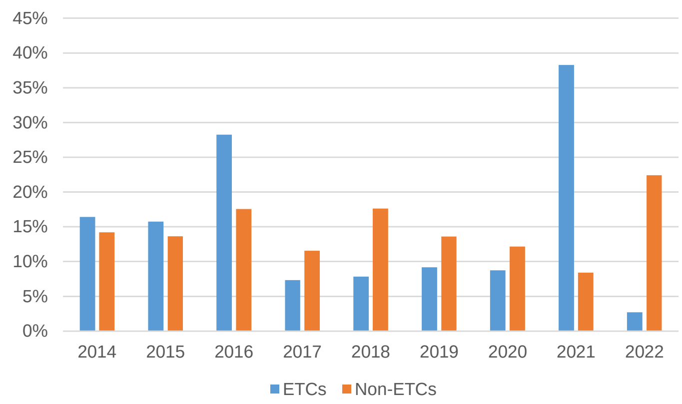
[31] In 2022 EvD conducted an evaluation of the GCP to be presented to the Audit Committee on 23 March 2023.
[32] A lesson identified in the 2021 Azerbaijan CSDR mentioned that EBRD procedures take far more time than local bank procedures.
[33] Examples of this were also found in other smaller countries/economies where EBRD invests in the EvD 2022 Evaluation of the Agribusiness Sector Strategy.

devaluation in Azerbaijan), availability of qualified PFIs (none in Turkmenistan), or concentration risk exposure to individual banks (Georgia).

62. **The Bank's ability to scale up its SME financing will depend on how it manages these factors and mitigates the associated risks in a cost efficient manner.** It will also depend on the extent to which it is willing to relax some non-financial risk standards and thus taking more incremental risks to expand its SME reach through PFIs and SME clients beyond those allowed by current policies and practices.

63. **Financial additionality in the form of mobilisation of external commercial financing in ETCs remained low from 2017 to 2022.** Mobilising external finance for clients through EBRD's involvement is another indication of financial additionality when the source is commercial. Tracking Annual Mobilised Investment (AMI) in ETCs includes public and private sector external investment. Commercial financing in ETC private sector projects (ICA and FI) has remained low. There has been only one B loan for a manufacturing project in Belarus that increased volume in 2019 (Figure 19).

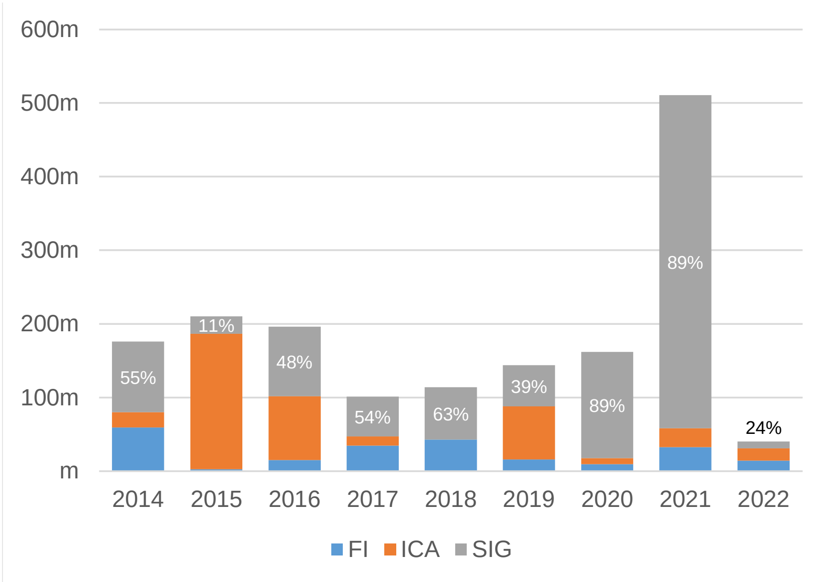
Figure 19: Percentage AMI to ABI in ETCs and non ETCs 2014–2022



Source: EBRD Banking and Operational Risk Data

64. **AMI remained at about 10-15 per cent of total recorded AMI over 2014 and 2020 increasing sharply to 40 per cent of all AMI in 2021 due to a single energy project in Uzbekistan (Syrdarya) before dropping sharply in 2022.** A breakdown by sector shows that almost each year over 50 per cent of AMI came from SIG projects (Figure 20).

Figure 20: ETC AMI by sector group 2014-2022 (€m)



Source: Banking and Operational Risk data

65. **EBRD non-financial additionality remains high in the form of risk mitigation, policy, sector, institutional and regulatory changes, standard setting (for SMEs) and knowledge innovation and capacity building through donor-funded TC, associated incentives and subsidised business advice.** These advantages could be offset however by an ongoing gradual loss of financial additionality. An electronics client for example, welcomed the Bank's professional liaison and financial consulting advice but observed that the DFF loan pricing was higher than that from local banks and lamented how long it took (3 months) to receive an official answer about pre-payment fees. Feedback from operations in Mongolia is similar; clients perceive EBRD to be slow and restrictive with its loan covenants.

3.2. Positive results in some countries as others lag behind

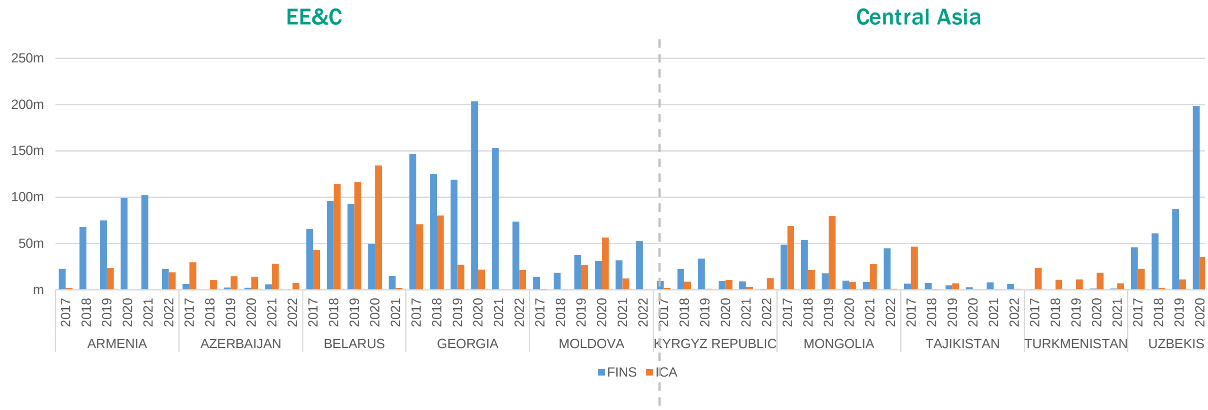
66. **This section discusses results from each of the three strategic priority areas of the ETC approach.** The first strategic priority for private sector development includes: i) increasing access to finance; ii) improved competitiveness, and iii) development of local currency markets. The second strategic priority for sustainable infrastructure includes: i) improved infrastructure services, and ii) increasing energy efficiency and renewable energy. The third strategic priority covers improvements to inter-regional connectivity and international integration and includes: i) energy regional interconnectivity; ii) transport and logistics regional integration, and iii) increasing cross-border connectivity through trade facilitation.

3.2.1. EBRD support to increase access to finance and competitiveness is more successful in some countries

EBRD support to increase access to finance through frameworks is highly concentrated in Armenia, Georgia and Uzbekistan and low or absent in other ETCs although PFIs appreciate EBRD's strength in private sector advisory work.

67. **Overall private sector ABI volume in FI and ICA is channelled mostly through frameworks and shows low levels across ETCs.** Concentration was highest in Uzbekistan, followed by Georgia, Armenia and Belarus where conditions were more favourable to investment until EBRD ceased operations in Belarus in 2021 following the invasion of Ukraine (Figure 21).

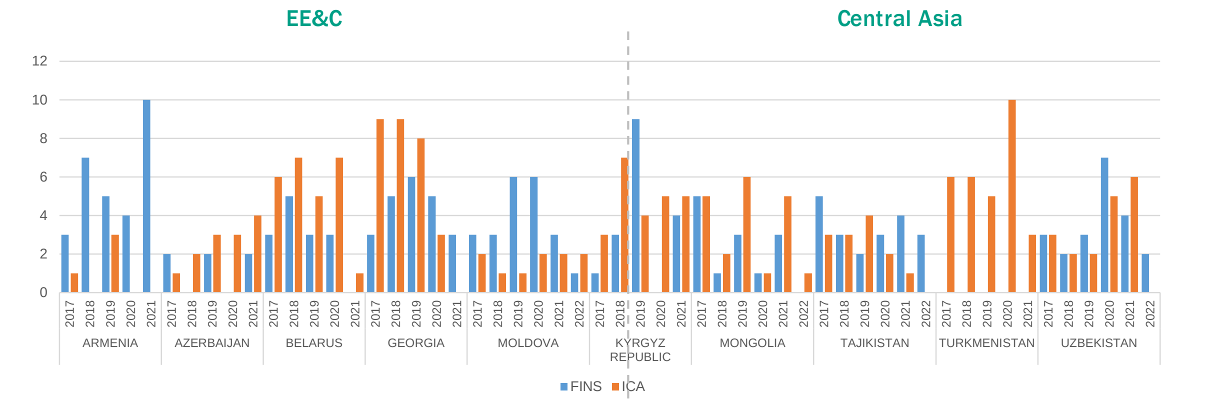
Figure 21: Private sector FI and ICA ABI in ETCs 2017–2022 (€m)



Source: Banking and Operational Risk data

68. **EBRD is signing two to six private sector ICA and FI projects on average per year in each ETC as shown by Figure 202 below.** Whilst the relationship of projects by year of signing to ABI is not directly comparable due to variances between the year of commitment and year of signing, it is still possible to see that the number of projects in Central Asia ETCs (Figure 20) is roughly higher relative to volume (Figure 19) except Uzbekistan where ABI is particularly higher overall. The highest number of projects overall were in ICA (51%), followed by FI (45%) and SIG (5%).

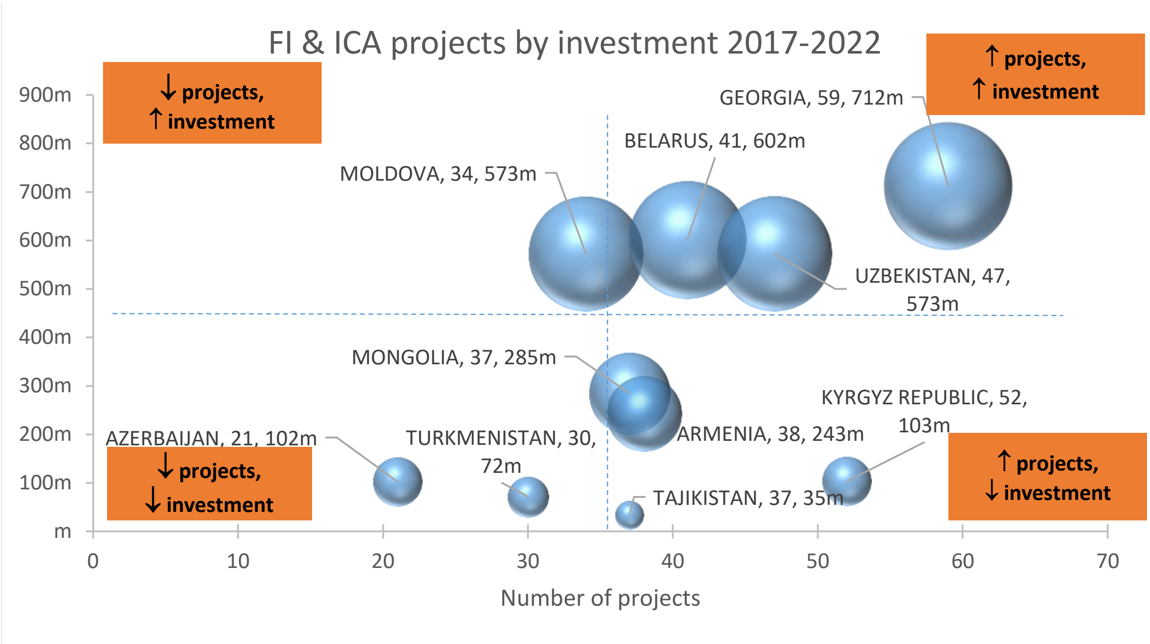
Figure 22: Private sector FI and ICA number of projects by year of signing 2017-2022



Source: Banking and Operational Risk data

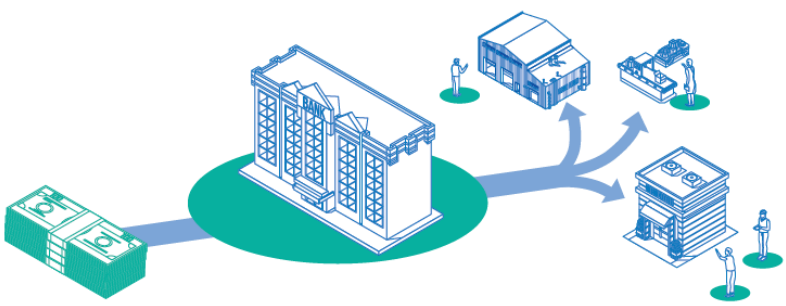
69. **Private sector projects in ETCs signed from 2017-22 tend to be smaller in size although Belarus, Georgia, Moldova and Uzbekistan supported larger investment by project** (€14 million average size). The average size in Tajikistan, Kyrgyz Republic and Turkmenistan is €1-2 million (Figure 23).

Figure 23: FI & ICA projects by Net Cumulative Bank Investment 2017–2022 (€m)



Source: Banking and Operational Risk Data

70. **Level of use of indirect financing for SMEs through the FIF varied substantially across ETCs.** Several factors explain the differences in EBRD SBI activity across the case study countries of Azerbaijan, Georgia, Mongolia and Turkmenistan, including the availability of eligible PFIs, client non-financial risks and the country business and policy environments. The four country case studies illustrate the range of conditions the Bank faces to support SME access to finance in ETCs, working with local banks, adapting to market demand conditions and mitigating risks (See Annex 4 for details). Given the risks associated with local banks in ETCs (low capital adequacy, vulnerability to interest rate and foreign exchange shocks, insufficient skills in assessing and structuring certain types of loans) the choice of eligible PFI is crucial. A longstanding EBRD client PFI in Georgia that EvD interviewed managed to expand its SME portfolios over time with EBRD's support. EvD did not have access to information about the sub-portfolios.



71. **Repeat direct financing combined with technical assistance to select SMEs over time helped develop market leaders and increased their ability to access finance from local banks.** SME clients included in the Georgia and Azerbaijan case studies showed that direct financing to SMEs

through the DFF combined with technical assistance to repeat clients over several years has helped lead to the development of strong companies that can access financing from local banks at lower prices (e.g., two DFF clients in Azerbaijan).[34] Demonstration effects are hard to measure as EBRD does not monitor them. Client interviews in Azerbaijan and Georgia confirmed that local SMEs appreciate the positive signal about the company that a loan from EBRD sends to the market.

EBRD helped improve the competitiveness of some SMEs in ETCs as seen in Azerbaijan and Georgia. Investment council and legal transition work is more successful where government buy-in is strongest.

72. **EBRD activities aim to help improve the domestic and external competitiveness of private companies in ETCs through various channels:** i) direct investment; (ii) working with investment councils (IC) to improve the country's business environment and promote policy and legal reforms, which facilitate the growth of the local private sector and attract FDI; (iii) providing business advice to SMEs; (iv) undertaking legal transition policy dialogue and providing reform advice to ETC governments and regulatory authorities, and (v) promoting and financing foreign trade through, for example, the Trade Facilitation Programme (TFP discussed in section 3.2.3 in relation to integration).

i. **Case studies in Georgia and Azerbaijan showed that direct investment through the DFF combined with technical assistance helped SMEs become more competitive** (for example by developing marketing strategies, implementing international standards and other advisory work) but has limited impact with repeat clients who are already market leaders. [35]

ii. **Investment council representatives indicated to EvD that local business associations appreciate EBRD support to the Investment Council (IC) in Georgia funded by the UK Good Governance Fund.** ETCs with EBRD-supported ICs include Armenia, Belarus, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan. The IC in Georgia established by EBRD with support from the UK Good Governance Fund in 2015 is addressing a large agenda with the government to help promote private sector development. An IC interviewee said, *"We are very integrated with EBRD on a daily basis, more than with others and we appreciate EBRD's cross sectoral support."* According to EBRD staff interviewed, *"A lot of Banking transactions come about in Georgia because of visibility and networking opportunities created by the Council." "The Investment Council has been used during COVID to launch an economic impact assessment and new projects are being explored to promote Georgia's resilience during the war on Ukraine".* Two new staff members have recently joined to coordinate ICs in Uzbekistan and Kyrgyz Republic.

ICs do not exist yet in Turkmenistan, Mongolia or Azerbaijan although discussions are taking place for the latter two. According to staff, *"In Mongolia we requested to establish an Investment Council, but discussions are still underway, following launch of a new customs digitalisation project".* In Azerbaijan, *"we established a fantastic relationship with the Azeri promotion agency funded by the EU, with a second project launched in late September [2022], which aims to attract foreign direct investment."*

iii. **ASB consultancy assignments delivered to SMEs in ETCs remained steady from 2017 to 2021 including during the pandemic, adapting to online delivery modes and responses to**

[34] EvD interviews with DFF clients in Azerbaijan and Georgia.
[35] Interviews with case study SME DFF clients in Georgia and Azerbaijan.

the crisis. ASB supports MSMEs to improve SME business practices in several areas including among other things marketing, information and communication technology, strategy, and quality management.

ASB results are mostly positive in terms of quality and incentives. Some recipient SMEs experienced easier access to finance from local banks rather than from EBRD directly. Direct borrowing from EBRD is time consuming and complex compared with borrowing from local banks. For some participants, the advantages from an EBRD loan do not offset the costs of documentation preparation (Box 3).

Box 3: Advice for Small Business – EvD Focus Group Discussion Feedback[36]

Real benefits in terms of business growth for SME recipients of EBRD advisory services

The EvD focus group discussions for this evaluation were carried out in Tbilisi on 19 September 2022 with 9 participants, and in Baku on 23 September 2022 with 10 participants, representing a cross section of SME business segments, including sweets manufacturing, dry fruit production, retail chains, e-commerce platform, packaging and fire safety inventory manufacturing and catering.

Quality - Participants trusted the quality of services provided by consultants with EBRD support: "*EBRD consultants are more trustworthy than others. We can achieve results quickly, what might usually take 12 months without support can take 3 months*."

"*We wanted some European experience, and qualified specialists. Using consultant experts from EBRD is unique. Such experience is not available locally in Georgia.*"

Incentives – That ASB covers part of the fees is a strong and welcome incentive. Some mentioned they would have been unable to access the service without EBRD financial support: "*We wanted to expand outside of Georgia and needed to develop a new website which can be very expensive. Without EBRD's support we could not have done half of it*."

Challenges - The motivation to approach the EBRD's ASB was to address key challenges related to management, marketing, business and financial strategies and plans, internal control systems, automation, and industry specific issues. One interviewee said, *"We chose EBRD due to lack of resources and software. EBRD advisory services helped us find a Belgian ice-cream expert who advised us on developing a new strategy for our nut products and new product lines."*

Access to finance - The advisory services provided via EBRD enabled SME beneficiaries to increase revenues and/or decrease operational inefficiencies, increasing indirectly their options to access finance. As one participant said, *"after the market study with ASB support we rebranded and hired more women but then the pandemic hit. Despite this we were able to double sales online, thanks to the rebranding."*

Transaction costs - SME participants said, *"EBRD direct financing is more time consuming and complicated compared with borrowing from local banks, especially for smaller loans."*

Other participant comments about the impact of services on SMEs included:

"ISO certification helped us to upscale our operations and become fully certified leading to us being more trusted by the market. It enabled us to increase our turnover tenfold and hire more

36 Tblisi (19 September 2022) had 9 SME participants; Baku (23 September 2022) had 10 SME participants

staff!" (a furniture company) *"We hired five new staff members as the results of the ASB advice."*

"With the help of the ASB consultant we were able to develop a digital marketing strategy which enabled us to detect the right channels to reach customers and increase sales."

"As a result of the advice we were able to introduce new CRM software for our courier company, leading to more efficient delivery times for customers."

Many clients indicated that they would embrace future training opportunities to build capacity.

73. **EBRD legal transition projects promote private sector development in ETCs, advising government authorities and regulators on multiple legislative reform areas although progress is slow.** The slow pace of reform is common with these legal transition efforts in case study countries. EBRD assists with preparing legislative drafts but there are long delays in the approval process and subsequent enactment of the legislation indicating a long and arduous road to legal reform implementation (Box 4).

Box 4: Legal transition work for private sector competitiveness in ETC case study countries

Ongoing mining sector reform legal support work from 2017 to 2022 in Georgia, Mongolia, and on court decision enforcement systems in Azerbaijan and Mongolia

Georgia: Towards mining sector reform, EBRD, with the support of SSF, drafted a law, regulations and provided training. Other work focused on PPPs and public procurement.

Azerbaijan: On court enforcement mechanisms and corporate governance, with the support of SSF, EBRD conducted legal transition policy dialogue, development of legislation and regulation, trainings and outreach. EBRD helped with functional analysis and recommendations, a report was prepared with input from EU and local law firms and is currently under discussion with authorities. EBRD recently launched a project to improve corporate governance in selected EBRD investee companies and banks (underway). Other legal work on energy and PPPs is awaiting government/parliamentary approval.

Mongolia: Towards mining sector reform, EBRD supported the government by helping draft a new law, but no political agreement was reached. EBRD has also assisted with drafting a sovereign wealth fund law (comments and recommendations submitted to the Ministry), a digital geo database (complete) and beneficial ownership disclosure as part of the multi-country Extract Industries Transparency Initiative (on hold due to lack of consensus and counterpart readiness in EITI).

On improving competition in the private sector, EBRD helped draft a new advertisement law, rules and providing training for key personnel.

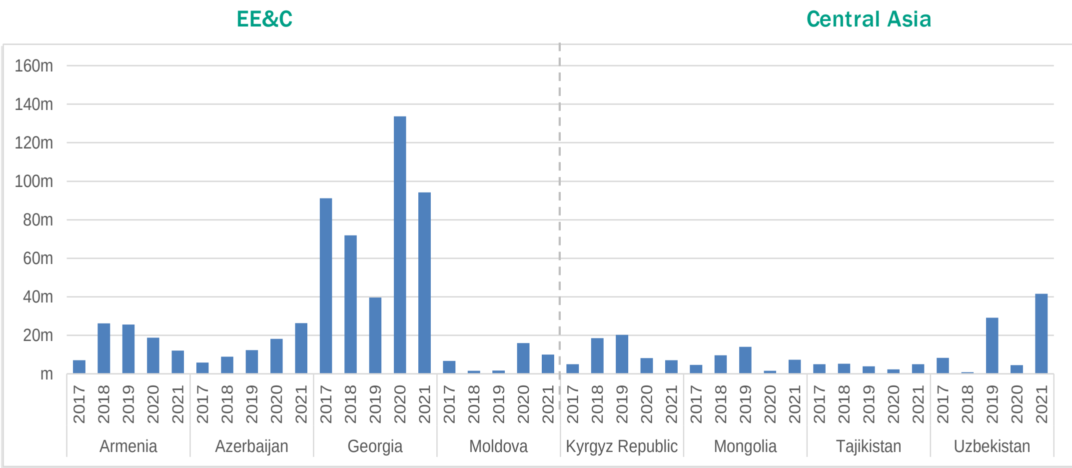
Recently launched legal projects include helping to improve the effective enforcement of commercial court decisions (e.g. resolutions on non-performing loans) and commercial mediation facilities for SMEs. Financial sector projects include legal frameworks for non-bank financial institutions (a draft non-Bank Financial Institutions Law), and leasing operations (both underway).

Turkmenistan: No legal transition projects.

The EBRD's experience in supporting development of local currency markets in ETCs has been uneven and dependent on the country context, with success in Georgia but challenges in other ETCs remain.

74. **The volume of local currency investment by ETC shows that EBRD has done the most in Georgia, while the other ETCs lag far behind.** Progress with EBRD's Local Currency Programme and the development of local currency markets depends on the country's stage of development and financial market conditions and the willingness of government authorities and regulators to engage in policy reform (Figure 24). [37]

Figure 24: Local currency ABI by ETC 2017–2021 (€m)



Source: SME F&D, EBRD

75. **While financial markets in Georgia have developed gradually over the evaluation period, those in Azerbaijan and Mongolia remain at an early stage of development and the challenge is to build an enabling environment for sustainable expansion.** Turkmenistan's financial market is the least developed of the ETCs work remains for a comprehensive market build–up, with government support for reform.

3.2.2. Sustainable infrastructure development is constrained by affordability, with selective growth in renewable energy generation

EBRD support to sustainable infrastructure services is mostly in the public sector and investment is limited by affordability constraints, lack of capacity and delays in some ETCs; ABI is concentrated in energy in three countries, Uzbekistan, Georgia and Azerbaijan.

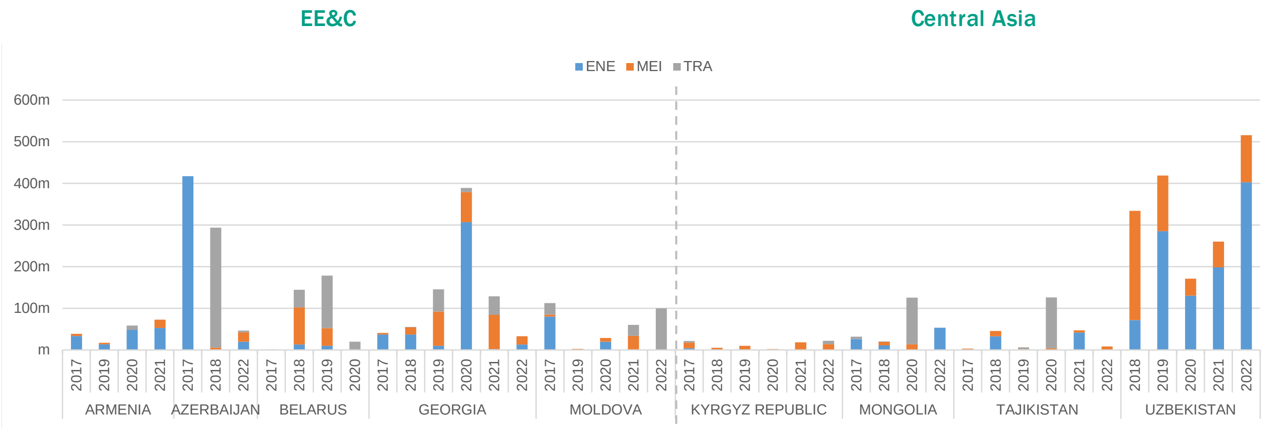
76. **Sustainable infrastructure ABI in ETCs from 2017-22 has been concentrated in Uzbekistan and to a lesser extent Georgia and Azerbaijan** with a large proportion attributable to large energy

[37] Since the Local Currency Programme began in 2011, 15 countries have signed MoUs with the EBRD including nine ETCs: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, and Uzbekistan. Turkmenistan is the only case study country that has not signed a MoU with EBRD.

projects, a growing number in Uzbekistan from 2020 are private sector. EBRD did very little volume in Moldova, Kyrgyz Republic, Mongolia or Tajikistan, reflecting the smaller country sizes and limited availability of grant financing and affordability issues. SIG public sector ETC ABI from 2017-22 amounted to €3.5 billion compared with €930 million in the private sector. Overall, between 2017-21, the EBRD provided investment grants from donors amounting to just €200 million across all ETCs. The need to replace obsolete assets remains critical in all ETCs.

77. **The large number of projects launched in Uzbekistan is attributable to the government's particularly strong willingness to reform and invest soliciting funding from all IFIs including EBRD.** Some IFIs expressed concern about launching too many projects too quickly by introducing reforms that typically take place gradually over many years (Figure 25).

Figure 25: ETC SIG ABI by sub-sector 2017–2022 (€m)



Source: Banking Operational and Risk data

78. **The EBRD's limited grant financing and ability to mobilise concessional financing is a constraint to doing infrastructure projects in ETCs and limits its activities compared with other IFIs.** ADB for example provides more grant financing in the water and wastewater sectors in Central Asia based on CPAs. It provides mixed concessional loans and grants in the Kyrgyz Republic (50/50) and 100 per cent grants in Tajikistan and offers sovereign loans to Uzbekistan with small grants. ADB determines the split between loans and grants by the country financial groupings and CPAs (see section 3.1.1 above). [38]

79. **Kyrgyz Republic and Tajikistan face affordability constraints and are more dependent on concessional and grant financing.** Both countries are eligible for ADB's ADF grants due to lower creditworthiness. Still, in line with the EBRD's country strategies, EBRD continues to generate projects such as municipal water and wastewater in the Kyrgyz Republic. Staff interviews point to EBRD's comparative advantage as its strategic focus on cities and especially on urban water supply and sanitation whereas ADB and the World Bank focus more on rural areas.

80. **Tariff reform to recover costs remains a key impediment.** In Kyrgyz Republic, Tajikistan and Uzbekistan cost recovery tariffs in the energy and water sector are a common key problem according to EBRD operations staff who stressed the affordability issue facing ETC governments

[38] https://www.adb.org/what-we-do/funds/adf/allocation-adf-resources

trying to keep those tariffs under control. This can complicate the use of obligations to increase tariffs in loan covenants (Box 5).

Box 5: Examples of EBRD support to municipal infrastructure in Tajikistan[39]

Progress on unbundling in Tajikistan: pandemic causes delays and disrupts tariff reform

An EBRD 2019 policy priority objective was to improve public utilities by restructuring the state-owned entity KMK for municipal infrastructure services. EBRD and other IFIs sent a joint letter suggesting reforms that is now under government review.

EBRD approved three municipal infrastructure projects from 2017-19 in Tajikistan worth €11 million in solid waste and public transport, addressing corporate development, setting tariffs and providing service. Both solid waste projects were approved under the Tajikistan Solid Waste Framework that relies on co-investment grants from IFCA.

i. Kulob Solid Waste: a sovereign loan of up to US$ 2 million co-financed with a capital grant of up-to €1.825 million (EU IFCA) for construction and rehabilitation of facilities. TC totalling €1.13 million was provided by SSF, Central Asia TC FW and Czech Republic. Implementation will be complete in 2023.

   Conditions precedent included decentralisation from the KMK state entity with PSC, and tariff increases which were achieved. However, due to Covid-19 Pandemic, a sharp fall in collection rates were recorded in 2020 and in 2021, now the rates increased back to pre-pandemic levels.

ii. Yavan Solid Waste involved a US$ 2 million sovereign loan co-financed by a US$ 2 million capex grant (EU IFCA) to procure modern equipment, build a landfill and rehabilitate a depot. TCs of up to €1.16 million were provided for implementation and corporate development (SSF €875 000 and Czech Republic €280 000).

   The investments are nearly complete. The capacity of the municipal enterprise improved considerably with training but continuous support is required to maintain reforms. A new tariff methodology was developed and introduced as per 2018 targets but local authorities declined increases in 2020 and 2021 due to Covid-19 and concerns about the affordability.

iii. The Khatlon public transport project involved a US$ 6 million sovereign guaranteed loan with a US$ 3.2 million capex grant from SSF to buy buses, build a depot, maintain equipment and a ticketing system. SSF provided TC for a corporate development programme (including PSC between the company and the city), implementation support from the ETC Fund and TC from the Gender Advisory Services Technical Assistance Programme to promote the participation of women.

   The pandemic has delayed bus delivery and ticketing installation although services will commence in 2023. All inclusion objectives are delayed.

In 2021-22, three additional projects were signed including a water and wastewater project in Kulob and two green cities projects in Dushanbe (district heating).

All municipal projects in Tajikistan rely on grant co-financing and TCs for implementation (SSF, EU Investment Facility for Central Asia).

Tariff increases were achieved across projects, but increases slowed down during the pandemic in 2021, as authorities grappled with addressing affordability issues. Affordability

[39] Updates from PPO monitoring and PMM (project monitoring) reports

issues with tariff increases has been problematic with water projects in Tajikistan approved prior to 2017 and this has impeded reform efforts. There have also been repayment delays experienced for EBRD loans following the 2015 currency devaluation, as the municipality is the borrower and the state is the guarantor.

81. **EBRD projects are often constrained by lack of capacity and staffing issues in project implementation units (PIUs) causing delays to project consultancy work.** Many projects signed during the 2017-19 period experienced delays due primarily to the pandemic but also because ministries set up local PIUs which, like municipal enterprises, lack capacity and staffing. Whilst consultants seek to address some of these issues by providing training, governments lack a budget for headcount and expertise is often lacking. EvD was told in interviews that other IFIs such as the World Bank directly support and pay PIU costs, which government ministries value. This is not the case at EBRD, where *'it is normally expected that the Client will fully finance all PIU costs,'* as stated in the EBRD's procurement guidance. The guidance does suggest however, that *'in specific circumstances, the Bank may agree to finance a limited number of individual experts to be employed by such PIU as individual consultants.'*

82. **More PPPs could be developed but growth has been slow in ETCs. Only Uzbekistan has provided the level of commitment required to move forward and has a strong pipeline of projects awaiting preparation.** In Georgia EBRD and ADB provided support to develop the legal framework for PPPs. In Azerbaijan a new draft law is awaiting approval. In most ETCs the key issues are still the lack of capacity and political commitment, corruption at different levels and lack of private sector in place.

83. **Since 2019 EBRD has been instrumental in laying the ground for future PPPs in Uzbekistan by helping draft the PPP law and regulations, which were approved in 2020.** EBRD provided funds for the PPP Development Agency and the World Bank IFC has assisted in building capacity with training. EBRD and other IFIs are helping to establish the Uzbek Project Preparation Facility. According to the PPPDA consultant, *"the Uzbekistan Project Preparation Facility could be a good model for other countries to replicate."* The PPPDA mentioned that it has a full pipeline of projects that require assistance with preparation, as set out on their website.[40]

84. **Local IFI PPP staff is important for helping governments build the capacity to do PPPs.** EvD's 2021 Evaluation of Public Sector Operations pointed to a key finding about the importance of providing support to government agencies to acquire experience to design PPP projects that balance benefits and costs to both the public and private sectors, a finding echoed in other IFI evaluations of PPPs.

85. **The internal capacity and availability of grants to promote PPPs at the EBRD are both success factors but its PPP unit is small (team of eight) and serves all economies where the EBRD invests.** It relies on consultants to provide local support to governments but obtaining grants to pay for such consultants over a long period is difficult. This can be a drawback when other IFIs have their own local PPP advisory teams. During an interview with EvD, the international consultant at Uzbekistan's Public Private Partnership Development Agency (PPPDA) said:

"A drawback of EBRD's approach is it does not have its own PPP advisory team in Tashkent. ADB and IFC have teams in Tashkent, leading to faster procurement times, and knowledge of banking

[40] https://www.pppda.uz/pipeline

activities and pipelines whereas EBRD relies on consultants and the process is lengthier. Other IFIs such as the IFC and the ADB follow up faster, whereas with the EBRD follow up goes through the Almaty RO and HQ." [41]

The EBRD is currently recruiting a key staff member to coordinate the process from Tashkent.

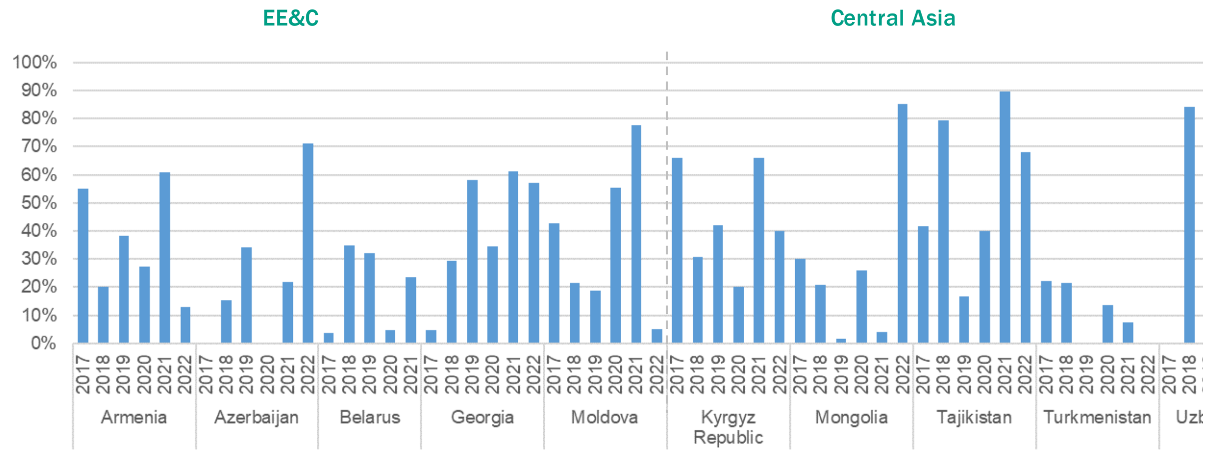
86. **PPPs are complex, more expensive and require the government to commit over the long term for the life cycle of the asset.** Pricing must include all asset costs for up to 30 years. Taking a sovereign loan for construction costs is not comparable to a PPP, which is even more challenging in the difficult economic environments of ETCs. Smaller poorer ETCs generally have only a few bankable projects that take a long time before the final award. Affordable tariffs below cost-recovery levels are a key obstacle to developing PPPs in the infrastructure sector. This political factor outside EBRD control implies that it must have a flexible structure and be able to quickly reallocate resources to countries as willingness to reform becomes apparent.

87. **According to EBRD's PPP unit, Uzbekistan has the greatest potential amongst ETCs because the presidency has been a strong impulse for wide economic reforms since 2017.** The Uzbek Ministry of Energy is asking EBRD to do more for PPPs in Uzbekistan.

EBRD support to increasing renewables in ETCs is still in the early stages. The ex-ante GET ratio is improving in some countries.

88. **EBRD tracks the share of ABI in each project that contributes towards GET, including for ETCs.** But this is very much an ex-ante input-level estimate and provides only a partial understanding of the Bank's achievement in promoting the Green Agenda in ETCs. The share of GET financing is variable year on year but rose in 2022 in some ETCs such as Azerbaijan, Mongolia and Uzbekistan. There is no progress in Turkmenistan which reflects the challenges in financing energy projects and government commitment (Figure 26).

Figure 26: GET share of country ABI in ETC case study countries 2017-2022 (€m)



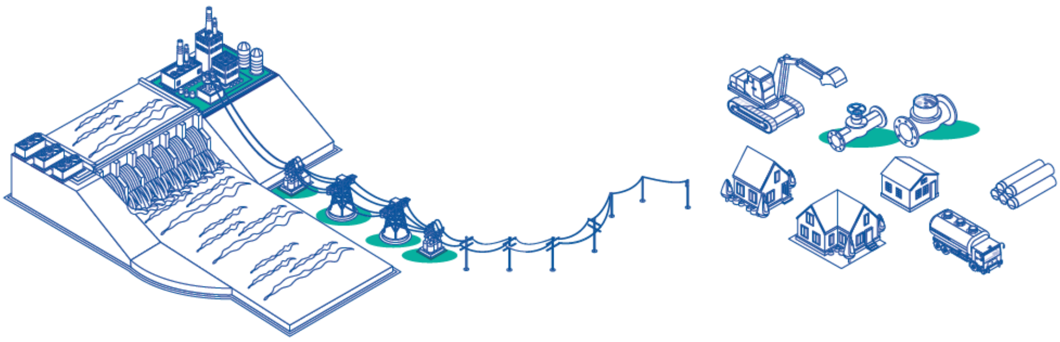
Source: GET Database, Climate Strategy and Delivery VP3 NB: EBRD ceased new operations in Belarus from 2021

[41] EvD interview with consultant for Uzbekistan's Public Private Partnership Development Agency, September 2022.

89. **EBRD work in renewable energy in ETCs is still in the early stages. There is a lack of supportive regulatory environments or reformed tariff methodologies to attract financing.** The legal transition team has conducted work to assist ETCs in preparing draft renewable energy laws and regulations. For example, in Tajikistan, a key impediment to financing renewables is the low revenue collection through existing tariff systems. EBRD's legal transition team is helping to establish an independent energy regulator that includes a tariff unit.

90. **In Azerbaijan EBRD helped to draft a legal framework for the energy regulator in line with the EU Third Energy Package**, including network access for renewables (in connection with the gas pipeline project discussed in the integration chapter below).

91. **Kyrgyz Republic and Tajikistan have amongst the highest rates of renewable energy in the world as part of total energy supply, due to extensive hydro energy sources, but continue to face shortages in supply in the face of increasing demand due to aging infrastructure, climate changes such as drought, cross border dependencies on water resources, lack of investment and affordability constraints.** The renewable share in Armenia and Uzbekistan remains low.[42] There have been no renewable energy generation projects in Turkmenistan, Kyrgyz Republic or Moldova (Box 6).



Box 6: Renewable energy generation projects in ETCs 2017–2022
Uzbekistan led renewable energy generation projects in ETCs 2017-22
Uzbekistan - EBRD approved two solar and three wind projects in the 2017-22 period that are now being implemented. These include solar plants Nur Navoi in 2020, Samarkand in 2021, and wind farms Bash, Dzhankeldy and Zarafshon in 2022. These projects are being implemented. The ministry of energy expressed appreciation for EBRD's support.
Armenia - One solar project, Masrik was signed in 2020. Construction has not yet started and only small disbursements have been made so far. There are implementation delays because the project is located not far from the border conflict with Azerbaijan.
Azerbaijan – One solar project, Alat, was signed in 2022.
Mongolia – One wind project, Sainshand, was signed in 2017.
Tajikistan - One hydro power upgrade project, Qairokkum, was signed in 2018, co-financed by EIB ($38 million) and a $23 million grant from the GCF to rehabilitate existing hydro-mechanical and electromechanical equipment of the four plant units. It will increase existing

[42] Energy Policy Review, Uzbekistan 2022, International Energy Agency.

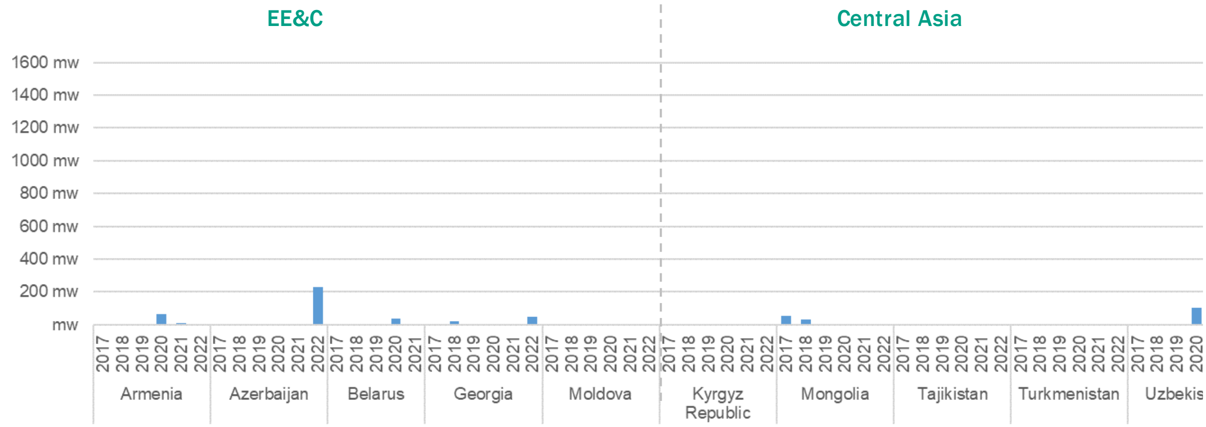
installed capacity by 32MW at full operation. The pandemic has delayed project completion by 6 months.

There were no renewable generation projects in Kyrgyz Republic, Turkmenistan or Moldova during the evaluation period.

EBRD has no specific renewable energy programme or facility for ETCs.

92. **Figure 27 shows EBRD's MGW of renewable energy installed for the other ETCs over the period of this evaluation and shows the start of renewable energy projects in Uzbekistan in 2020.** Renewable energy generation has been sporadic and low.

Figure 27: Renewable energy capacity installed (MW) in ETCs 2017- 2022



Source: GET Database, Climate Strategy and Delivery VP3

The Green Cities Programme started slowly in ETCs, and is now active in all except Turkmenistan, and most projects were signed from 2020 onwards, but coverage is limited to large cities, and much MEI work takes place outside of these in smaller municipalities.

93. Launched in 2016 EBRD's Green Cities Programme (GCP) was designed to make cities and human settlements inclusive, safe, resilient and sustainable as part of the plan to address GET targets. **Progress of the GCP in ETCs has been slow, and although several ETC cities signed up only 19 projects were signed during the evaluation period, mostly from 2019 onwards** (Box 7).

Box 7: The Green Cities Programme coverage in ETCs

Despite rapid growth, the Green Cities Programme covers few cities in ETCs and excludes smaller municipalities.

EvD conducted an interim evaluation of the GCP in 2022 that addressed its design, progress and emerging results including in ETCs, and found the following:

- EBRD adopted the GCP in 2016 to prioritise, develop and finance environmental and climate-related urban municipal infrastructure, like water and wastewater, solid waste, district heating and transport. It is becoming increasingly popular in ETCs and can also consider cross-cutting topics such as energy efficiency.
- Cities in each ETC except Turkmenistan are joining the GCP. Coverage is limited to larger cities and does not cover smaller ETC municipalities.
- Since 2017 up to two projects have been signed in cities in each ETC except Uzbekistan. By the end of 2022, the total net cumulative investment in GCP in ETC was €472 million and 13 of the 19 projects were signed between 2020-22, most of which are in municipal infrastructure.
- Net cumulative investment in MEI projects signed from 2020-22 outside the GCP in ETCs amounts to €309 million, which shows that a considerable volume of work is taking place outside its coverage. Water/wastewater projects in some municipalities continue to be signed under a country framework or on a standalone basis.
- Power sector projects fall mostly outside the programme and are approved on a stand-alone basis. In Armenia the GCP has been used for an electricity distribution project related to the installation of smart meters. According to staff the programme made the project approval process much smoother and less time consuming.

There is no overall programme offering to ETCs or other economies where the EBRD invests for small municipalities which comprehensively addresses the key challenges common in smaller poorer countries of operations such as affordability and low capacity issues. This piecemeal approach has left EBRD's offerings and services for small municipalities lacking clear direction or long term solutions.

94. **EBRD uses some country frameworks for water, wastewater, solid waste, heating and urban transport projects.** It has conducted multiple projects with local municipalities for example via the streamlined Kyrgyz water framework with some success; but barriers to progress include limited tariff reform and lack of local capacity, which may be enhanced by more opportunities to learn from experiences of neighbouring municipalities and other countries.

95. **EBRD approved nine Kyrgyz water framework sub-projects for municipalities throughout the country from 2017-19 and all contain objectives to enhance corporate governance, reform tariffs, for restructuring and providing service.** All nine projects are currently under implementation. The framework approach reduces the burden on staff time for smaller projects and ensures that a streamlined approval process and application for donor funding reaches more municipalities to implement a secure water supply and access to drinking water. A total of 19 Kyrgyz municipalities have been reached since 2011.

96. **During interviews, the EvD heard that these projects are finding it difficult to achieve cost recovery tariffs as local councils set the levels on a political basis.** Corporate development programmes were also hindered by the limited capacity of local water companies and the high staff turnover.[43] The remoteness of many of these projects makes water companies value the

[43] September 2022 site visit: Balykchy Water project interviews with water company consultants for CDP and PIU.

opportunities to share experience for learning from neighbouring municipalities and other countries (Box 8).

Box 8: Kyrgyz Republic municipal water supply project
Political barriers to tariff reform and limited capacity impeded progress in implementing a water supply project at a Kyrgyz water company. **Tariff reforms are subject to local council support:** On a site visit to a water company in Kyrgyz Republic, the EvD heard that local councils had to vote for tariff increases and that the issue had become highly politicized, which was a barrier to reform. **Lack of skilled staff slows progress:** EvD interviews with those involved in implementing the corporate development programme and project implementation unit (PIU) revealed issues with lack of staff capacity and high staff turnover in remote areas. There were also difficulties getting consultants to remote areas during the pandemic. **A centralised PIU may be a solution:** In response to concerns about weak capacity and lack of trained staff at the municipal water company's PIU, a centralised model piloted in Uzbekistan is being adopted in Kyrgyz Republic. EBRD is working with the Kyrgyz authorities to establish a centralised PIU to coordinate the activities on the ground in the local municipalities.

3.2.3. Evidence shows few projects to improve inter-regional connectivity and international integration

Support to energy inter-regional connectivity is evident in Azerbaijan and Moldova but lacking in Central Asia due to the challenging political economy and geo-politics.

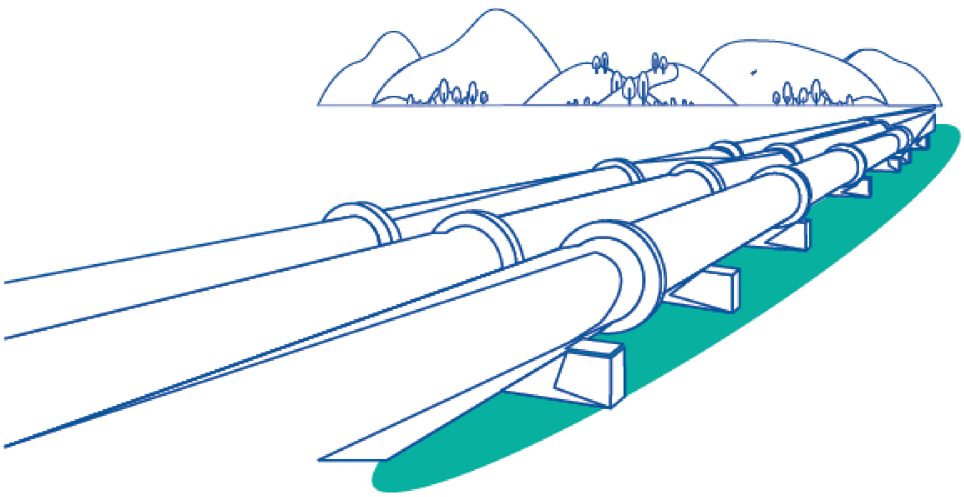
97. **There is a notable absence of international energy projects approved from 2017-2022 in ETCs of Central Asia targeting the 'integrated' TQ, due to the challenging political economy of the region.** Challenges to energy security include poor governance, corruption and labour tensions. Major powers influencing the region are China and Russia, and the Shanghai Cooperation Organisation, which now includes Saudi Arabia. Central Asia is critical to the energy security of China, and the Central Asia-China Gas Pipeline runs from Turkmenistan through Uzbekistan and Kazakhstan, and a new route will go also go through Tajikistan and Kyrgyz Republic.

98. **Development and completion of the CASA-1000 pipeline is in doubt due to domestic supply shortages, regional tensions and political changes.** Although approved outside the period of this evaluation, in 2015, EBRD supported the CASA-1000 pipeline (Central Asia South Asia Electricity Transmission and Trade Project, linking Kyrgyz Republic, Tajikistan, Afghanistan and Pakistan), through a loan of €110 million to Tajikistan in 2015. It is currently being built and linked to power generation from the Qairokkum hydro power plant that EBRD also supported (see Annex 6). Completion of the pipeline is delayed and uncertain due to the regime change in Afghanistan, and withdrawal of World Bank and USAID support. Bringing the pipeline into operation is also subject to supply issues with continued shortages in Tajikistan created by seasonal fluctations in hydropower supply, tensions over the development of the Rogan dam with Uzbekistan due to scarcity of water resources and whether it will be included in CASA-1000, and the Kyrgyz Republic dependent on power imports from Kazakhstan and other neighbours due to increasing domestic

demand, lack of supply due to drought and seasonal fluctations and need to rehabilitate and expand domestic hydropower resources.

99. **From 2017 to 2022, the EBRD approved six transmission/pipeline projects in ETCs worth €870 million ABI (around 40 per cent of total energy sector investments) all of which would enhance regional connectivity, but only three included the 'integrated' TQ in the design**. These three are worth €537 million ABI and directly support cross-border energy transmission/pipelines. These were part of the Azerbaijan and Moldova case studies (see Annex 6 for more information) and were impacted by the political environment in those countries and in Europe (see Box 9). Other projects included two domestic transmission projects in Uzbekistan (2019, 2020), a power grid enhancement project in Georgia and a small resilience loan to Armenia's electricity networks.

100. **Energy integration with Europe was increased through a pipeline connecting the Caucasus with southern Europe.** The largest project under review was the €500 million sovereign guaranteed loan to Azerbaijan signed in 2017, the Southern Gas Corridor, for its TANAP pipeline crossing Türkiye, part of the first gas connection from Azerbaijan's Shah Deniz platform to Europe for the first time. Other financiers for TANAP included AIIB (US$600 million, TANAP), IBRD (US$ 400 million, TANAP), EIB (US$ 1.15 billion TANAP), WB MIGA (US$ 750 million, TANAP), and Germany.[44]



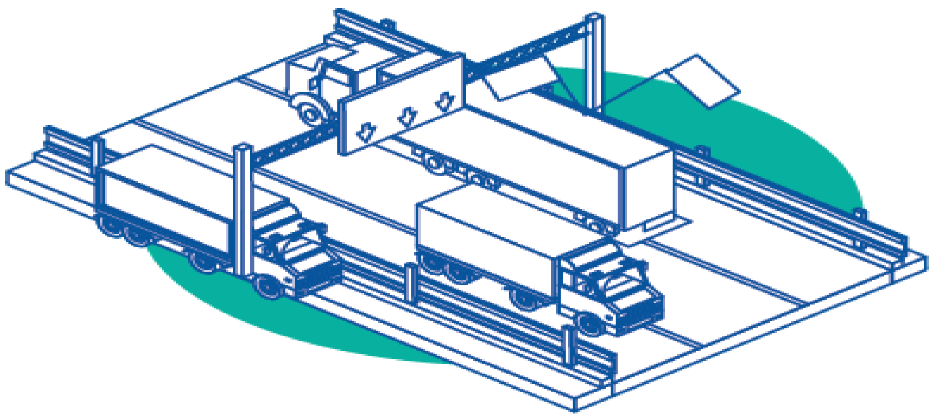
101. **EvD evaluated the Azerbaijan Southern Gas Corridor project as part of a 2020 evaluation** of projects with regional integration elements. It found that it delivered successful results and was highly relevant to EBRD country and energy strategies and to the energy policies of both Azerbaijan and the EU. In 2022 company cash flows were higher than projected thanks to higher energy prices. Discussions between counterparts are underway to expand production and throughput.

[44] AIIB loan US$600 million https://www.aiib.org/en/projects/details/2016/approved/Azerbaijan-Trans-Anatolian-Natural-Gas-Pipeline-Project.html
IBRD Loan US$ 400 million https://www.worldbank.org/en/news/loans-credits/2016/12/20/trans-anatolian-natural-gas-pipeline-project-tanap
World Bank US$ 750 million https://www.reuters.com/article/energy-azerbaijan-gas-idUKL8N1TW0KA
EIB US$1.15 billion https://www.reuters.com/article/europe-gas-eib-idUSL8N1QX6AG

Box 9: International political economy dimension and EBRD energy projects in ETCs
Significant impact of the international political economy on EBRD energy projects in ETCs
High demand for gas in Europe is driving action towards an agreement on expanding the gas pipeline from Azerbaijan to Europe, Azerbaijan Southern Gas Corridor.
An interconnection project in Moldova was no longer required in the EU. The need was superseded by more urgent action taken by the EU European Network of Transmission System Operators for Electricity (ENTSO-E)
Building a gas pipeline project in Moldova to connect two cities to south-eastern European gas infrastructure is complete but operations are on hold pending government unbundling.
A 2022 €300 million loan under the EU Resilience and Livelihoods Framework to an energy trader in Moldova, state-owned JSC Energocom, to procure gas on EU hubs and increase energy security shows EBRD's commitment to energy integration during the conflict in Ukraine.

EBRD support to develop transport links and logistics remains limited due to the challenging political economy in the regions; regional integration gaps persist to the detriment of trade

102. **There is a notable absence of cross border transport work in Central Asia including Kyrgyz Republic, Turkmenistan and Uzbekistan, due to the challenging political economy.** Border conflicts between Kyrgyz Republic and Tajikistan, and between Armenia and Azerbaijan continue to limit new projects. In Central Asia, poor governance, corruption, criminality and vested interests make it a particularly difficult environment to develop new projects. Border crossing frequently suffer bottlenecks and custom delays which impact on cross border trade. Only ETC one border-crossing project was signed in Armenia between 2017 and 2022. The country strategy for Tajikistan indicates that EBRD engaged in policy dialogue on multilateral initiatives to expand regional transport corridors (Central Asia Regional Economic Cooperation [CAREC], TRACECA) and on rail but the outcomes are unclear.



103. **The Obigarm - Nurobod Road Project in Tajikistan signed in 2020 is to build a detour of a section of the M41 road within Tajikistan which links to Kyrgyz Republic, due to flooding needed during the construction of a new hydropower plant.** Transition qualities were 'inclusive' and 'resilient', whilst 'integrated' was not a driver, although the importance of the road to domestic and cross border road travel is implied.

104. Towards domestic integration, the Ulaanbaatar-Darkhan Road Project Phase II signed in Mongolia in 2020 is the second phase of an existing ADB road project. Phase II funded by EBRD will expand the road from a two to four lane highway and has 'integrated' as key transition quality, to enhance connectivity between regional cities and second-tier towns. The project experienced some technical challenges with alignment of the road to the standards of the new project and required additional funding of USD 20 million approved by the Board in 2022. EBRD has also provided assistance to strengthen the Ministry's project implementation capacity and address potential environmental and social challenges associated with the project. The project has also been exposed to rising prices for construction materials caused by global inflation. It highlights the multiple implementation challenges for transport projects.

105. **Other smaller roads projects with the 'integrated' TQ were approved in Belarus and Georgia** (North-South Corridor (Kvesheti-Kobi) Road Project € 53 million) and an air navigation project was approved in Tajikistan. None of these was on a scale to achieve significant cross-border integration.

106. A part re-approved road reconstruction and upgrading project in Azerbaijan was the most significant in terms of volume of the total ETC cumulative Bank investment between 2017-22. (Box 10).

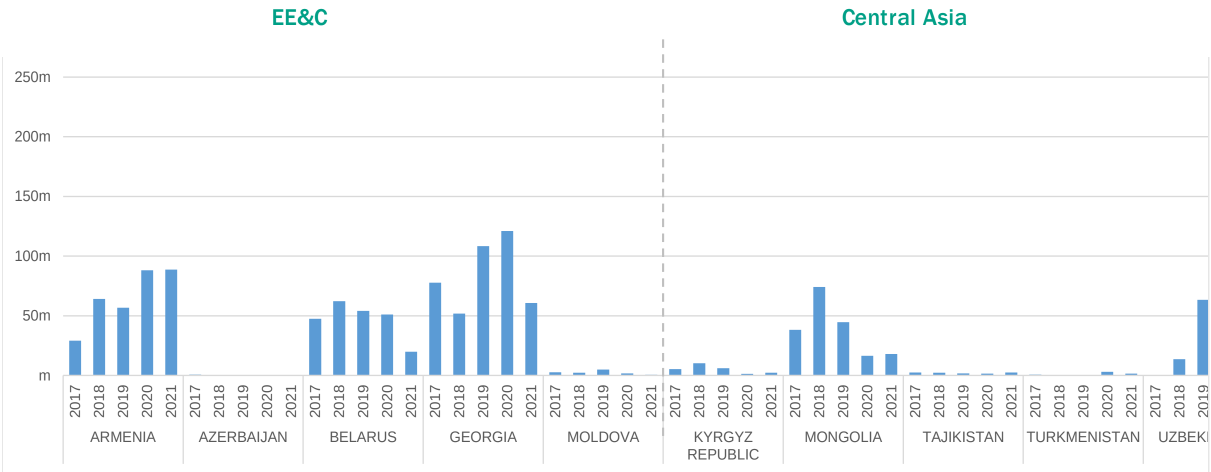
Box 10: Key findings from the Azerbaijan Roads Reconstruction and Upgrading Project[45]
The Azerbaijan Roads Reconstruction and Upgrading Project was negatively impacted by delays, limited local capacity and some issues around IFI coordination
The project was initially signed in 2011, and a change to the third tranche approved in 2017. Reasons for delays included changes in PIU management, client capacity issues, slow procurement, subcontractor difficulties, and coordination issues with ADB and WB, which have now been resolved. The road agency lacked the capacity to manage this large-scale investment to meet the planned schedule. Implementation support to build capacity could ensure more efficient implementation.
Once completed (expected 2023) this project has the potential to strongly impact international trade and cross-border connectivity. Available data indicate that cargo trucks comprise 47 per cent of the traffic on the entire Ganja-Georgian border. Traffic levels were 55 per cent ahead of projects for 2021 across the entire section benefitting from EBRD finance and 115 per cent ahead of projections at the border.

Overall since 2017 the EBRD's Trade Facilitation Programme suffered low activity in ETCs due to increased credit risk, the pandemic and limited EBRD staff capacity.

107. **Turnover has increased steadily only in Armenia and Uzbekistan reflecting the momentum behind economic reform.** In other countries, volume and transactions were limited by the Covid-19 pandemic and staff capacity (Figure 28).

45 EvD Special Study 2020 'Projects supporting regional connectivity', Annexes p25

Figure 28: TFP Turnover by ETC 2017–2021 (€m)



Source: Trade Facilitation Programme, FI

108. **TFP operations have been suspended in Azerbaijan, Turkmenistan, Tajikistan and Belarus since 2017.** The causes were higher credit risk from currency devaluation, the collapse of the banking sector, integrity issues (Azerbaijan) and sanctions (Belarus), lack of private partner banks and business to work with (Turkmenistan) and the consequent loss of qualified trade finance staff in TFP partner banks.

109. **The declining trend in ETCs was documented in the 2021 Evaluation of the EBRD's Trade Facilitation Programme**, *'An analysis of trends in regional TFP turnover shows a proportional decline in ETCs and an increase in SEMED region, Greece and Cyprus*.' The study also notes that: '*TFP has achieved limited success developing trade finance provided by small regional private banks in ETCs, and the dominance of large trades in oil and gas and metallurgy indicates SMEs have been minor beneficiaries of TFP.*'

110. **For this evaluation, EvD could not confirm the rise or decline in the number of participating banks in ETCs because of limitations on TFP resources for reporting.** The team reported the following drawbacks to its operations in ETCs:

i. EBRD's decision to stop financing foreign trade of fossil fuel and intra-regional trade with Russia and Belarus.

ii. Temporary suspensions of all TFP facilities in Azerbaijan (currency devaluation and bank crisis), Belarus (Russia's war on Ukraine), Tajikistan and Uzbekistan (pre-2017).

iii. Loss of correspondent banking relationships between issuing banks in the ETCs and foreign confirming banks due to the increased cost of Know-Your-Customer (KYC) procedures and higher capital requirements of foreign commercial banks.

111. **TFP in ETCs is supported through the** TFP TC Framework with multi-donor funds from SSF, the Taiwan Business Fund and the EU DCFTA. TC projects are provided mainly for capacity building, including training to participating banks (Box 11).

Box 11: TFP in ETC case study countries

Struggles of the TFP to progress in ETC case study countries

Armenia: EBRD works with eight banks. Four are struggling to maintain relationships with correspondent banks trade finance. EBRD has asked these confirming banks to keep TFP credit lines open but they need more support to continue.

Azerbaijan: Currency devaluations and the collapse of the banking sector has meant no business. Half the sector is recovering and EBRD has provided some technical assistance to help several banks become more resilient. It cannot work with many banks because of integrity issues.

Georgia: EBRD has been working with four local banks since 1999. Amongst the case study operations signed from 2017, a new TFP factoring line signed in 2018 with one bank resulted in two transactions in 2019.

Turkmenistan: EBRD provides a small TFP line through one local private bank for car imports, but the business closed. Under its policy the EBRD is limited to private banks. If this changes and if EBRD could lend to state-owned banks, with additional staff, it could develop more business

112. **TFP results in ETCs are also evident from the number of transactions, indicating the use of the facilities. Uzbekistan and Armenia were in the lead in 2021.** Total ETC transactions represent 36 per cent of those across all economies where the EBRD invests (35 per cent in 2020). Transactions grew from 466 in 2016 to 676 in 2021 but the numbers remain low because of increases in new non-ETCs that dilute programme efforts and because of economic instability (Figure 29).[46]

Figure 29: TFP number of transactions 2021

Country	Number of transactions	
Uzbekistan	356	
Armenia	119	
Georgia	88	
Mongolia	49	
Belarus	44	
Kyrgyz Republic	12	
Moldova	4	
Tajikistan	3	
Turkmenistan	1	
Azerbaijan	0	
TFP ETCs	**676**	36%
TFP Total	**1,883**	100%

Source: Trade Facilitation Programme, FI

[46] CS/FO/21-30 Regional TFP Authorisation for 2021-25.

113. **The EBRD's TFP is too small to influence overall import and export trade levels across ETCs.** Overall the TFP has focussed primarily on supporting imports for SMEs in ETCs since the large commodities export trade is dominated by large cash-rich players that already have sources of trade financing. Products that are ineligible for TFP include oil products, alcohol and mining products. EBRD's TFP supports smaller transaction sizes that participating banks can accommodate. This explains why the programme will not impact overall import export trade levels.

114. **Staff interviewed by the EvD indicated that the cost of doing TFP business in ETCs is higher than in larger countries because smaller transaction sizes require more intense use of staff resources.** Local banks lack knowledge about trade finance and more training is needed. Risk issues lead to spending more time internally for approvals. In 2021, 12 per cent of total annual TFP turnover was in ETCs whereas they accounted for 36 per cent of all transactions and four of 12 people in the TFP team. To do more in ETCs would require additional staff on the team.

115. **The TFP team indicated it would help if EBRD could work with state-owned banks** to build capacity as they are the largest in ETCs. Whereas ETCs contributed only 12 percent or €400 million to TFP's total annual turnover of €3.2 billion in 2021, they accounted for 36 per cent of all TFP transactions (676 of 1883) and accounted for about 33 per cent of the TFP total headcount (4 of 12).

116. No evidence was available to EvD about any growth in trade finance in partner banks in ETCs. This is a key outcome indicator for TFP for all countries in the 2021-25 results framework and will be measured at the end of the strategy period.

3.3. Use of Bank resources more efficient with delegated frameworks and local staff, but country donor fund allocation unclear

117. This section addresses evaluation question three on the use of resources and the adequacy of reporting. It includes findings regarding: i) donor funding arrangements, use and reporting; ii) non-performing loans and risk appetite, and iii) importance of local presence and iv) quality of reporting on policy work. Delegated frameworks reduce the cost of doing business and local presence enables projects to materialise.

3.3.1. Evaluating use of donor funds in ETCs complicated by lack of automatic reporting on allocation of total donor funding by country

Whilst the Bank's systems record all donor fund commitments and disbursements, it is not possible to automatically run accurate reports on this by country or by ETCs as a group, without significant manual reconciliation and cleaning.

118. **Evaluation of donor funding to ETCs overall is limited due to unavailability of automatic exact reporting on donor commitments and disbursements by country.** Instead the evaluation had to rely on manually reconciled ETC group data provided in Country Strategy Delivery Reviews (CSDRs). EvD was unable to find any risk appraisals done within the EBRD of the impact on ETC business if available donor funding levels drop.

119. **Raw data provided to EvD from the Bank's Donor Co-Financing Unit's reporting hub on earmarks budgeted, used and disbursed contained a prevalence of multi-country assignments, making it impossible for EvD to develop a full picture of funds committed and disbursed at country level.** [47] Management informed EvD that DCF addresses this issue when compiling data for the annual Country Strategy Delivery Reviews, by conducting an annual exhaustive manual reconciliation and cleaning process, which resulted in a low overall percentage of donor funds which cannot be attributed to use in a specific country.

120. **This made it difficult for the evaluation team to validate Management's reporting in CSDRs or develop a clear picture of fluctuations in donor disbursements** in ETCs over time compared with non-ETCs or to identify any trends despite some annual reporting on total donor support to ETCs in the CSDRs.[48]

121. **EvD was able to develop some view of total donor funding for projects in the Sustainable Infrastructure Group, since the vast majority of funding in the sector is clearly defined by country.** This shows non-TC including investment grants by year of commitment was strong from 2018 to 2020, dropped in 2021 reflecting pandemic conditions and delays to new projects but recovering in 2022. (Figure 30).

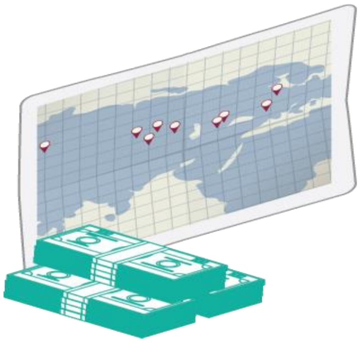
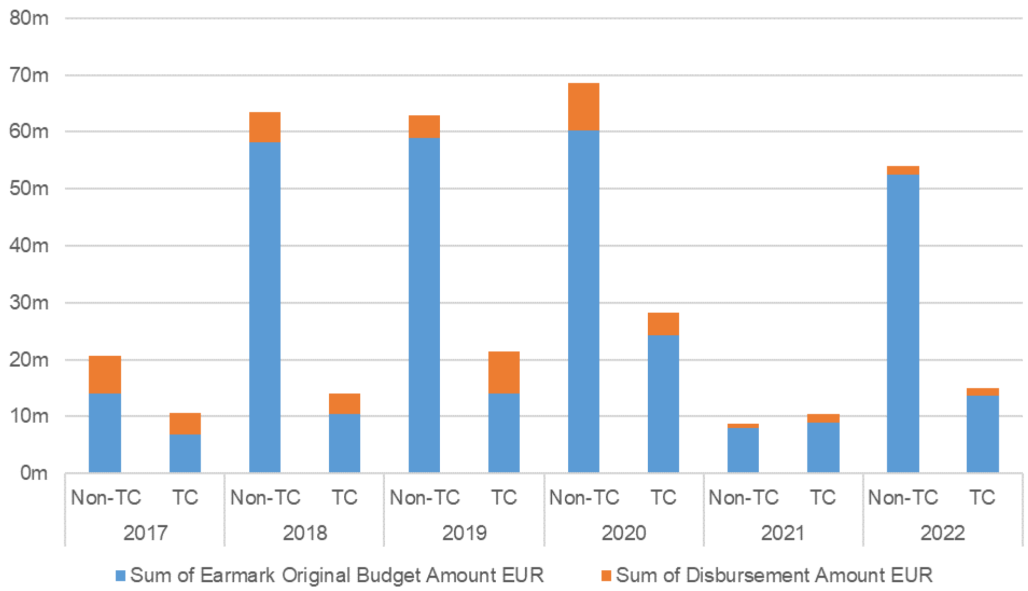


Figure 30: TC and non-TC SIG donor funding in ETCs by year of commitment 2017-2022, €m

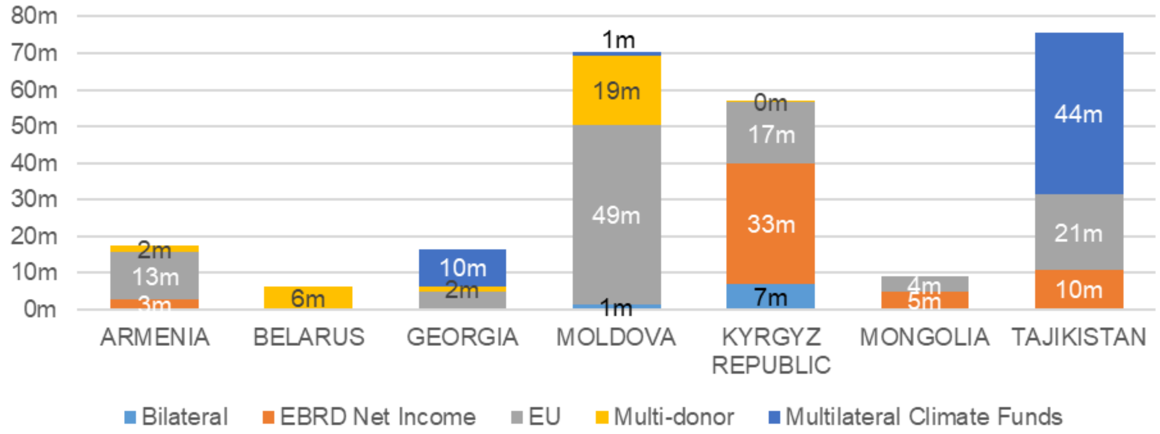


Source: DCF Reporting Hub

[47] EvD reviewed raw data from Data Warehouse provided by DCF's reporting hub
[48] See BDS 22-060 CSDR 2022.

122. As shown in Figure 31 below, **total non-TC investment grants for SIG projects in ETCs from 2017 to 2022 were most heavily committed to Moldova, Tajikistan and Kyrgyz Republic**. Moldova is an EU accession country and therefore received most of its non-TC SIG investment grant funding from the EU whereas total grants to Tajikistan were funded by the multilateral climate funds. Azerbaijan, Turkmenistan and Uzbekistan did not receive non-TC investment grants.

Figure 31: Non-TC investment grants by ETC for SIG 2017-2022, €m



Source: DCF Reporting Hub October 2022

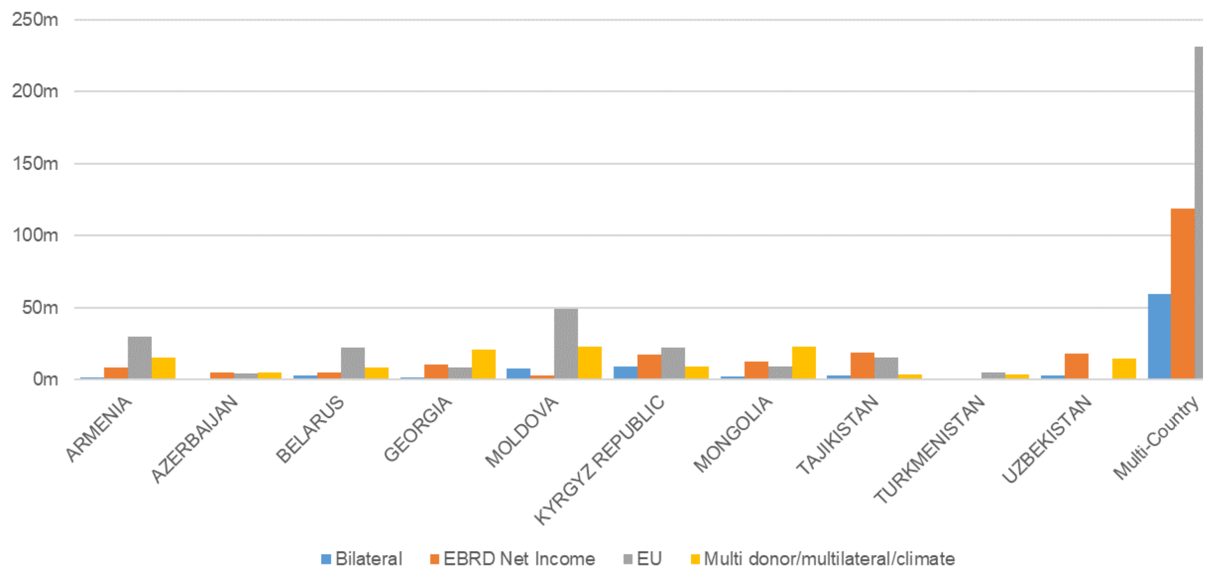
EU and SSF are the largest donors in ETCs. They use multiple funding arrangements for public and private sector work but no precise allocation or disbursement data by country are available.

123. **Evidence suggests the supply of donor funding is meeting EBRD capacity to implement in ETCs, thanks to the Bank's approach to thematic funding open to all countries and economies in which EBRD invests.** The EU, the SSF and multi-donor/climate funds are important sources of donor funding for ETCs as evidenced by overall donor funding in the EBRD (Figure 30).[49] This confirms CSDR reporting in 2022 which is split by Central Asia ETCs and Eastern Europe and the Caucasus ETCs, and states that EU followed by SSF are the largest ETC donors in both regions.

124. **Multi-country funds (available to all economies where the EBRD invests) are growing in importance since donor support for the ETC Fund declined, and was re-purposed in 2022 to support sustainable infrastructure activity.** This aligns with the EBRD thematic approach to multi-donor funds (Figure 32). [50]

[49] Based on data provided by the DCF reporting hub, total donor funds earmarked for all EBRD regions for 2017-19 show EU at 27 per cent, multi-donor 25 per cent, SSF 19 per cent and climate funds at 19 per cent.
[50] BDS04-134 (Rev 3) Revised General Conditions of the ETC Fund, including renaming it the Sustainable Infrastructure Fund.

Figure 32: Total donor funding commitments by donor type for ETCs and multi-country funds (for all EBRD regions) 2017-22 (€m)



Source: DCF Donor Reporting

125. **The EU is the largest donor to ETCs through a variety of partnerships and funds across all sectors including for sustainable infrastructure, private sector development and policy reform work.** EU provides funding through TC and non-TC directly to ETCs mostly for sustainable infrastructure exceeding the SSF levels. ETCs can also access multi-country EU funds across other sectors. The EU provides funding for SME development through the Eastern Partnership with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine and the Deep and Common Free Trade Agreements (DCFTA) with Moldova and Georgia.

126. **The SSF is an important resource for ETCs, with evidence showing it is present in most SIG ETC projects (grants and TC), funding the ASB programme and providing TC for capacity building with PFIs and SMEs.** In the sustainable infrastructure case study countries of Uzbekistan and Armenia, SSF was used in every project signed during 2017-19 for activities such as due diligence, tariff methodology and gap analysis, monitoring and corporate development programmes. It was also used for energy projects in Tajikistan and Kyrgyz Republic (PIU, CDP and engineering design) and for solid waste and public transport projects (co-financing capex grant).

127. **In the case study countries for private sector development (Azerbaijan, Georgia, Mongolia and Turkmenistan), SSF was used to build capacity in partner financial institutions, the green economy financing facility (GEFF), ASB programme, capacity building with directly financed SMEs and policy work.**[51] SSF allocation methodology is based on country transition gaps, income levels and country size.[52] It is then aggregated to regional pots for the Bank regions of Eastern Europe and the Caucasus, Central Asia, SEMED, and Western Balkans rather than the ETC grouping and final country allocations are determined by project proposal needs.

[51] EvD analysis of case study project documentation
[52] BDS15-133 EBRD SSF Reform Proposal and Rules p.11.

128. **Green Climate Fund made €79.5 million available to ETCs directly and indirectly through multi-country uses** to support the GrCF, gender and inclusion and green energy financing facility work.

129. **Key bilateral donors to ETCs during 2017-21 were Switzerland, Japan, Korea, and Taiwan in Central Asia and Sweden, Austria, UK in Eastern Europe and the Caucasus.** The bilateral donor providing the largest commitment overall during 2017-21 was Switzerland (SECO), followed by Korea and Japan (TC funds). Sustainable infrastructure received the most support. Restarting SIG operations in Uzbekistan led part of this increased volume.

130. **Given the lack of exact reporting on donor commitments by country in the data provided to EvD from DCF data warehouse it is not clear which countries and particularly ETCs are receiving the most TC,** non-TC or ASB donor funding overall and which are receiving the least and whether this matches the biggest needs or tracks country levels by sector over time. Whilst the SSF has adopted a funding allocation methodology by country this cannot be differentiated in automatic reporting from the DCF reporting hub data warehouse on commitments and disbursements by country. Based on this it is impossible to confirm whether countries with the biggest needs are indeed receiving the most funds and the link with country ATQ transition gaps.

131. In addition, **if donor funding levels were to dramatically drop or become overly concentrated in one sector or area, the Bank would not have the oversight to prioritise programmes in ETCs dependent on donor funds** (ASB, policy dialogue and the LTP, or SIG grants and TCs for country frameworks) or to prepare to adequately redirect other funding to maintain them.

3.3.2. Non-performing loans in ETCs are concentrated in three countries, linked to specific country risks

Non-performing loans in ETCs are concentrated in three out of the ten ETCs, Mongolia, Belarus and Turkmenistan, reflecting specific political, regulatory, macro-economic and large infrastructure project challenges, showing EBRD's willingness to take risks to engage

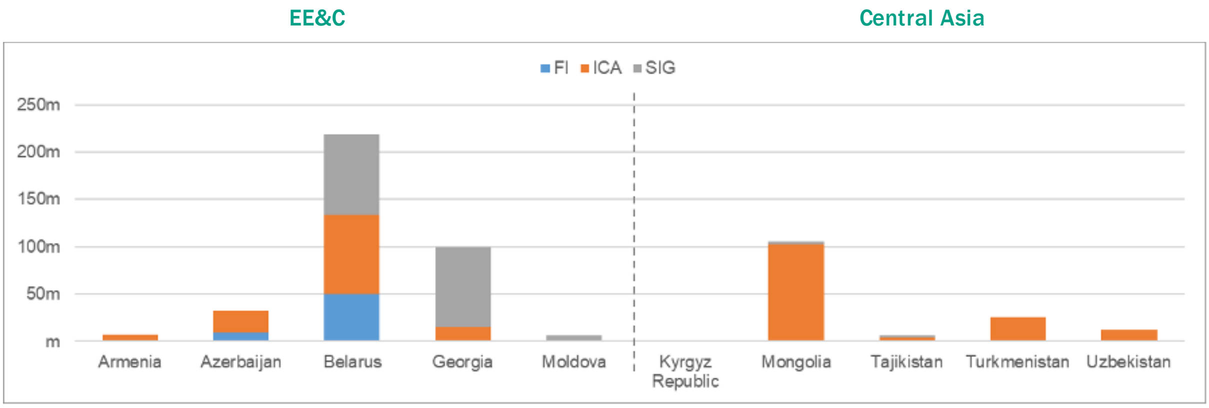
132. **The level of non-performing loans (NPLs) in ETCs indicates higher credit risks and specific challenges in the investment climate.** In 2017 the rate of NPLs in ETCs reported by Management in the CSDRs was 8.4% overall, whilst in 2021 this was 8.3% for ETCs in EE&C and 11.9% for ETCs in CA. This shows that despite the influence of the pandemic and global economic downturn the rate in EE&C ETCs remained mostly unchanged. EvD analysis of total NPLs from Banking Operational and Risk data shows that out of the ETCs, Mongolia, Belarus and Turkmenistan had the highest volumes of NPLs in industry, commerce and agribusiness (ICA) projects whilst Georgia and Belarus had a high level of energy sector NPLs.

133. **The reasons for NPL increases are closely linked to specific country sovereign and non-sovereign risks, and challenges related to the political economy.** Sanctions and Russia's war on Ukraine led EBRD to stop all new investments in Belarus in 2021, which led to an increase in the portfolio's non-performing status.

134. **NPLs in Mongolia relate to older mining projects that are still being managed by the Corporate Recovery unit.** As highlighted in a 2019 EvD Cluster Review of Mongolia Mining Operations, the enforceability of loan agreements in Mongolia is problematic and foreign

investors have no guarantee of a legal title to mining licenses. [53] Loan agreement enforcement is the subject of ongoing work with the IMF and with the EBRD's Legal Transition team over the Corporate Debt Restructuring Committee Framework and the NPL Strategy. In 2019, EBRD consulted with IFC and ADB and provided a final revised report to the Mongolia Central Bank on debt enforcement that included recommendations on amendments to NPL legislation. Implementation is still pending and more dialogue is required to make progress. [54] In Turkmenistan, FX conversion issues with the central bank have delayed loan repayments in several projects leading to defaults (Figure 33).

Figure 33: NPL amounts by country and sector, November 2022 (€m)



Source: Banking Operational and Risk data

135. **Comparing ETCs and non-ETCs shows a higher ratio of ETC NPLs in the ICA sector, which reflects both higher than average risks in some ETCs in the investment climate** (Figure 34), and that activity in Turkmenistan is confined predominantly to the ICA sector. ICA NPLs in ETCs were led by Mongolia (€103 million) and Belarus (€83 million), followed by Turkmenistan (€25 million), and Azerbaijan (€24 million). In non-ETCs, ICA NPLs were highest in Ukraine (€403 million), followed by Egypt (€106 million), Kazakhstan (€56 million), Morocco (€25 million) and Türkiye (€12 million).

Figure 34: NPLs percentage by sector ETC and non-ETC groupings, November 2022 (€m)

Source: Banking Operational and Risk data

[53] CS/AU/19-47 EvD Mining operations in Mongolia Cluster Review pages 35, 36.
[54] LTP monitoring reports for Mongolia 2022.

3.3.3. Local presence enables EBRD work to materialise.

EBRD presence on the ground through Resident Offices is critical for its activities

136. **Local staff on the ground are critical for doing business in ETCs.** During field trips to Kyrgyz Republic, Uzbekistan, Georgia and Azerbaijan, EvD heard from staff, IFI and ministry counterparts, and clients about the importance of EBRD's presence in local offices. Without this contact and local staff who have established important relationships with their local counterparts and businesses in the ETCs, much of the work would not be possible. Back-up from London on specialised topics such as capital markets development and legal transition is however essential.

3.3.4. Use of delegated authority and financing via intermediaries has increased EBRD's efficiency of reach to SMEs.

137. **Delivery of EBRD work in ETCs has been made more efficient through delegated authority for mainstreamed products for SMEs such as the financial intermediaries framework, risk sharing framework and direct financing facility.** Financing via partner intermediaries enables the EBRD to reach more SMEs, but reporting to EBRD on SME recipients of loans from partner banks is less detailed, and on a portfolio level.

138. **On average around 90 per cent of projects in ETCs are approved under delegated authority, reflecting the smaller project sizes in these markets. This tool has been instrumental to the Bank's more efficient use of resources in the project preparation phase.** An EvD evaluation of delegated authority from 2019 found benefits in terms of time saved on approval processes. [55] It claimed delegation reduces approval time by 2.5 weeks on average (slightly more in case of repeat client transactions). The evaluation found delegation saves Management estimated 65 staff-hours and the Board 75 staff-hours per project.

139. **The 2019 evaluation also found that in small countries, the increased delegated threshold to EUR 25 million had limited or no impact on the total number of projects, as most of the projects were below EUR 10 million.** In ETCs, from 2017 to 2022 around 70 to 80 per cent of signed projects were below EUR 10 million. Around 15 per cent were between EUR 10 and 25 million. [56]

140. **Summary reporting sheets going to the Board for delegated projects were found by the 2019 evaluation to be useful information to the Board, but issues exist around unambitious transition benchmarks, additionality justification and vague description of use of funds.** The evaluation also found that EBRD was the leader amongst IFIs for the total number of projects approved under delegation, followed by IFC.

[55] SS17-111 EvD Evaluation of Delegated Authority 2019 p 35
[56] From Banking and Operational Risk data, BPN

3.3.5. Quality of reporting on policy work is variable, and incomplete

Data records were variable for reporting on policy priority objectives and milestones.

141. **Reporting on policy work is delivered via the Country Strategy Delivery Reviews. Centralised data records on policy work from 2017 to 2021 vary in quality and lack clear, consistent or complete updates on the status of each milestone (achieved or not).**[57]

142. **The system for policy priority objectives and milestones is changing from 2022, replaced by new policy compacts** to make the process more efficient and provide better focus for reporting and monitoring. Policy compacts are a country-level tool for prioritization and managing the portfolio of policy work. **EvD is conducting an evaluation on policy dialogue as part of its current work programme.**

143. Policy objectives are structured along country strategy priorities and covering all areas of policy work. They are living documents owned and used by country management (including for SSF allocations) and managed by regional economists with inputs and consultation from teams across the Bank.

[57] See intranet page Priority Policy Objectives: https://intranet.ebrd.com/priority-policy-objectives-(ppos)

4. Recommendations

144. This evaluation identified three key recommendations including one at the strategic-level and two at the operational level. It also remarks on related issues that are mentioned in other evaluation work with the understanding that work in these areas is either under consideration or in progress.

4.1. Strategic-level recommendation and remarks

145. Recommendations to improve the impact of EBRD's work in ETCs begin at the strategic level with a rethink of the ETC classification. Related remarks are to reconsider the transition methodology linking EBRD work and closing country transition gaps including definition and measurement.

Recommendation 1 - Review the ETCs classification and its use, in time for the next SCF in 2025 in order to better redirect support to countries with the biggest transition gaps.

This may include developing a clear definition, methodology, and reviewing the incentive mechanism, such as the corporate scorecard, to ensure it is fit for purpose and then applying it regularly and consistently in operational and strategic resource allocation and decision making.

146. **The evaluation identifies that the current ETC classification lacks clear criteria and its use is inconsistent across strategic documents.** Similar classifications in other IFIs for lower-income or fragile states are to support decisions about resource allocation and adapting tools and support for the most vulnerable or least advanced countries.

147. As originally conceived in 2004, the ETC grouping included smaller poorer countries of the CIS with some of the largest transition gaps, and enabled an institutional focus to develop a suite of products and specific resources targeting increased activity in SME markets, a mission which by 2016 had been successfully accomplished, with investment projects and volume rising, and the initiative mainstreamed to other countries of operations.

148. **Despite these earlier successes, this evaluation shows many of the larger transition gaps persist in traditional ETCs, and they remain below the EBRD average ATQs.** The EBRD Corporate Scorecard groups ETCs with SEMED (an official Bank region, which includes the larger Egypt) and the Western Balkans (part of the Bank's South-eastern Europe region). Progress on transition and on Article 1 considerations vary considerable within those groups of countries. Progress is only strong in a few ETCs: Georgia, Uzbekistan, Belarus (until the Bank ceased operations in 2021) and Armenia. The limited progress and persistent large gaps in the seven remaining countries, despite being nominally ETCs over the last 20 years suggests that it has been insufficent to target specific challenges in those countries. This raises the question of the relevance and effectiveness of the ETC classification today.

149. **Other IFIs use a specific methodology and updated annual reviews to ensure ongoing relevance.** Such methodology is absent in the EBRD leading to inconsistencies in its application.

The EBRD Corporate Scorecard incentives lack the definition to encourage the activity needed in some of those countries, and enables it to be concentrated in just a few within the broader group to meet wider targets. Moreover, the EBRD classification does not have a set of criteria to enable regular reviews of which new countries may be added to them, nor to measure the ongoing relevance for existing countries and the effectiveness of its use in moving them towards a more advanced transition stage.

150. **The Bank has three choices regarding the ETC classification:** i) Drop it. This risks leaving some countries behind where operational risks outweigh the potential to provide transformative assistance; ii) Do nothing. This risks that the ETC classification loses relevance as the EBRD expands to new countries and economies of operations and no distinguishing approach towards the those with the most challenges can be identified; iii) Revise the approach and develop a clear methodology to apply the transition gap criteria behind the ETC classification in a coherent way to all EBRD regions and update its application regularly.

151. **If the Bank intends to continue using the ETC classification to sharpen its focus on the countries with the largest transition gaps and to inform operational strategies and responses, the EBRD should opt for the third choice to review the ETC classification, in time for the next SCF in 2025.** This may include setting up a working group with key participants from around the Bank including OCE, VP3 and Banking to develop a clear definition, methodology, and review of the incentive mechanism (i.e., the corporate scorecard) to ensure it is fit for purpose and then applying it regularly and consistently in operational and strategic resource allocation and decision making.

Strategic level remarks and suggestions

152. **To address the larger transition gaps found in ETCs, the link between EBRD work and closing country transition gaps should be more clearly defined and measured.** The evaluation found a lack of measurement of the relationship between project level transition indicators, transition objectives and transition gaps as measured in ATQs.

153. **ETCs, a concept founded in 2004, alludes to the countries with the largest gaps, but they continue to show some of the largest transition gaps, with little movement during the period of evaluation 2017-2022.** To address this the EBRD should consider:

- **Developing transition methodology to clearly attribute all EBRD activity including policy dialogue work, legal transition, capital markets and local currency development work, and investment projects with narrowing country transition gaps.**

- **Quantifying the extent of the EBRD's contribution and that of other IFIs and partner governments to more clearly demonstrate EBRD's contribution, successes and drawbacks in changing the bigger picture.** This may include indications of IFI volumes of investment operations, concessional financing, grants, incentive payments and TC, partner government and other co-financing. It would also include policy work contributions and IFI-led initiatives by sector where joint work takes place.

Successful implementation would include a refined transition methodology that includes clear criteria for classifying countries as early transition and quantifies EBRD's contribution to closing these gaps alongside those of other stakeholders.

4.2. Operational-level recommendations and remarks

154. **The evaluation makes two operational-level operations: addressing enhancing development of sustainable infrastructure in ETCs, and increasing regional connectivity, despite the challenges of the political economy in these landlocked countries.** Additional remarks suggest improvements to information on donor allocations by county due to the instrumentality of donor funding in ETCs for EBRD work and to consider ways to explore expansion of the ASB programme model for SMEs in ETC markets to promote private sector development.

Recommendation 2 - Design and implement a programme for services to small municipalities and increase RO PPP unit resources where needed to help develop further sustainable infrastructure in ETCs, complementing the offerings of other IFIs.

This may include 1) developing a more unified programmatic and mainstreamed approach to help improve services in underserved municipalities with affordability constraints not eligible for Green Cities in ETCs and other COOs which complements the offerings of other IFIs; and 2) using standard indicators and linking with country results frameworks to monitor progress, calibrate the approach and demonstrate results in order to attract further donor support.

155. **The evaluation found that EBRD has used a number of country municipal service frameworks in some ETCs for helping to enhance small local municipality services projects in water, wastewater, solid waste, heating and public transport with some success**; but key barriers to progress continue to include affordability issues, capacity constraints, limited tariff reform, location remoteness and lack of centralised implementation support, which are common problems across ETCs. This piecemeal approach has left EBRD's offerings and services for small municipalities lacking clear direction or long term solutions and limits ability to attract further donor support in the way of incentive grants or technical assistance.

156. **Consider a more unified programmatic, mainstreamed approach to help improve services in underserved municipalities not eligible for Green Cities particularly in ETCs but also in other economies where the EBRD invests with large challenges, which complements the offerings of other IFIs.** Such a comprehensive approach may focus on specific sub-sectors (such as water, wastewater and solid waste) and should be targeted firstly at state level (given municipal affordability constraints, and need for central government implementation support). It should also set out the EBRD's offering, both advisory and financial (including levels of grant, donor and sovereign guaranteed funding available), to support solutions to upgrade equipment, help reform administration for more efficient delivery and address common local financial and implementation capacity issues.

157. **Use standardised indicators for the programme (such as indicators for TQs 'green' and 'well-governed'), and link with country results frameworks to monitor progress, calibrate the approach and demonstrate results in order to attract further donor support.**

158. **The evaluation found that in Uzbekistan the PPP Development Agency had a strong pipeline of PPP projects in infrastructure, but that they struggled to attract the commitment of the EBRD to help bring these to fruition due to apparent lack of resources in the EBRD's PPP unit particularly at the local level.** This merits a closer look at whether PPP unit resources can be expanded in countries where support and pipeline of potential PPPs is strong.

Recommendation 3 - Develop a pipeline of transport, logistics and energy regional integration projects, by leading discussion with other IFIs and governments to expand cooperation, reach agreement and start implementation.

This may include beginning joint policy dialogue with MDBs and other IFIs and governments particularly in Central Asia where large gaps persist and undertaking a mapping of priorities, gaps and opportunities to promote integration across specific regions and sectors.

159. **Very few projects towards the TQ 'integrated' have been signed, despite EBRD participating actively in IFI cooperation and policy dialogue activities across a range of sectors, due to large challenges within the political economy across the regions.** Examples of challenges include interstate conflict and cross border water resource dependencies, influence of regional powers and organisations outside the EBRD's sphere of influence, limited transparency in governance, and instances of corruption. Regional connectivity and international integration were, however, a core part of the ETC approach for 2017-19 particularly for transport, logistics and facilitating trade.

160. **If integration is to remain a strategic priority, reinvigorate efforts to develop a pipeline of transport, logistics energy integration projects.** That may be achieved by leading discussions with other IFIs active across ETCs, such as ADB and WBG, to form priorities for development and initiate high level joint policy dialogue with governments particularly in Central Asia. Furthermore, monitoring and documenting progress should be regarded as a priority.

Operational level remarks and suggestions

161. **This evaluation found that the Advice for Small Business (ASB) programme is highly successful** at nurturing SMEs in ETCs in early stages of development including through periods of crisis. To help increase competitiveness in ETCs and in other countries with large challenges, EBRD should find ways to scale up or replicate this business model to reach the larger SME segment, including through partners in the regions. Consider more resources for ASB especially where political economy prevents the use of other SBI pillars.

162. **Furthermore, evidence shows that the TFP lacks resources to do more volume and projects with partner banks in ETCs.** To facilitate trade and investment, the Bank should scale up TFP with additional staff resources to expand the programme in ETCs where the higher number of smaller transactions are more labour intensive.

163. **Finally, as already highlighted by other evaluation work, this evaluation reiterates the importance of developing full oversight of data on donor disbursements and commitments by country.** The EBRD may consider 1)developing full, clear, systematic and accessible donor reporting on commitments and disbursements by country and assignment type to better assess use and distribution by country needs; 2) assessing risks to the EBRD programmes should donor funding supply decline; and 3) harmonising connection and reporting between investment and Donor Co-Financing data to ensure that reporting can read across both.

ANNEXES

Annex 1. Indicative theory of change from the 2016 ETC approach

Scope of the Evaluation

Inputs	Outputs	Intermediate Outcomes	Outcomes	Impacts
Financing and policy instruments via country strategies and Bank-wide initiatives	Increased investment and TC projects in ETCs across the priority areas	Increased EBRD influence and demonstration effects from EBRD projects leading to further development	Improved investment and business climate for SMEs Improved infrastructure, integration & increased FDI	Economic growth for local economies; increased productivity, participation and prosperity, green & sustainable infrastructure
Priority 1: Enhance private sector development through improved competiveness, deepen access to finance through sustainable financial sector and develop local currency markets	Deepened access to finance for SMEs, increased trade finance and increased FDI	Sustainable financial sector, developed local currency capital markets, and banking sector reform	Enhanced private sector development, mobilized private capital and reformed business investment climate	Increased competitiveness both domestic and international
Priority 2: Promote sustainable infrastructure development, including renewable energy generation	Commercialized and restructured municipal infrastructure and introduction of green energy solutions	Strengthened institutional and legal capacity of municipalities and reduction in energy intensity	Efficient municipal infrastructure and reduction in energy intensity	Municipal Infrastructure is greener, more sustainable and well-governed
Priority 3: Improve inter-regional connectivity and international integration	Improved key regional transport links and logistics infrastructure	Regional and international trade and investment flows increased	Strengthened regional and international economic links and FDI	Increased economic integration both inter-regional and international

Assumptions:

- Macro-economic and political stability in the region; global macro-economic conditions are stable
- Commitment of ETC governments to reform goals and support for EBRD agenda and projects
- Donors remain committed to ETCs to enable investments
- Risks of investment in SMEs are mitigated
- EBRD complements the work of other IFIs

Annex 2. Data sources and limitations

This evaluation drew on the following sources of data:

Interview program - 90+ interviews conducted for the main study, in HQ and 8 case study countries (excluding Belarus and Moldova):

1. Country Heads; SME F&D; SBIC; ICA; MEI and Energy, IPPF, VP3 (Country Economics Policy and Strategy, Climate Strategy and Delivery, Impact, Inclusion), DCF
2. Case study countries: IFIs/MDBs in resident missions/delegations (IFC/WB, ADB, EU, JICA, SECO, AFD); EBRD Operation Leaders, clients, Ministries
3. Legal Transition Team, Financial Ops Control, Compliance, (Treasury to come), 7 Board Directors for the approach paper

Focus Group Discussions - 2 focus group discussions in Georgia and Azerbaijan focusing on EBRD's Advice for Small Business services

Data and Information Collection - Portfolio data were collected from DCF, Datawarehouse, teams. Strategic documents and reviews sent to Board on ETCs (Small Business Initiative reviews, ETC Initiative reviews, country strategies, sector strategies, SCF and SIP) were reviewed. The review also included project and TC documents for case study countries including approval documents, monitoring reports, final reviews; Internal review documents and presentations produced by Banking and VP3 teams; and external website database searches

Portfolio analysis -Investment operations, grants and TCs in ETCs 2016–2021 – trends analysis.

Limitations encountered during this evaluation included an inability to disaggregate donor data by country, thereby limiting the analysis for the ETC group of countries.

A further limitation was the decision not to interview staff in relation to Belarus and Moldova due to the ongoing war on Ukraine and regional pressures on staff time.

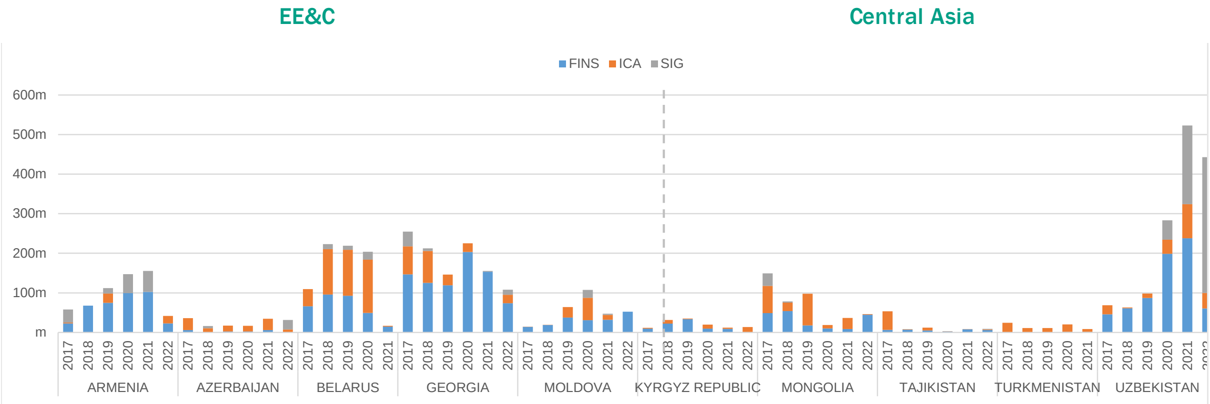
Due to the large number of countries in the ETC grouping, a small sample of four countries for each priority area was selected to review results, and attempt as made to pick a representative sample from both Eastern Europe and the Caucasus and Central Asia. Results other ETCs are therefore excluded in the results sections.

Annex 3. Portfolio overview for private sector development, sustainable infrastructure and integration

1. Private sector development

Private sector ICA, FI and SIG ABI in ETCs during 2017–2021 has been highly concentrated in three ETCs (Belarus, Georgia and Uzbekistan) and dominated by investment in the financial institutions sector, where the banking sector is more advanced and the EBRD is able to work with multiple Partner Financial Institutions (PFIs), led by Armenia, Belarus, Georgia and Uzbekistan (see chart below). In Uzbekistan, private sector investment in infrastructure has risen due to energy investments with private sector owners (Syrdarya gas power plant, and Samarkand solar).

Figure 35: Private sector ABI in ETCs 2017–2022 (€m)

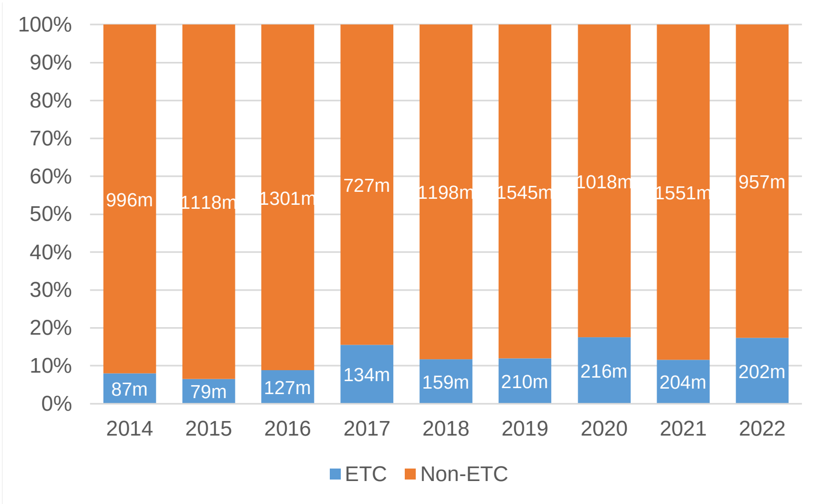


In other ETCs such as Azerbaijan, Turkmenistan and Tajikistan there is a lower volume of financial institutions sector projects because there are fewer banks EBRD is able to transact with due to state ownership, politically exposed persons on the Board and capital constraints caused by macroeconomic developments such as for example, the 2015 devaluation in Azerbaijan.

Direct financing to the Industry Commerce and Agribusiness sector in ETCs has been lower overall, but dominates where the EBRD is unable to transact with PFIs, such as Azerbaijan and Turkmenistan.

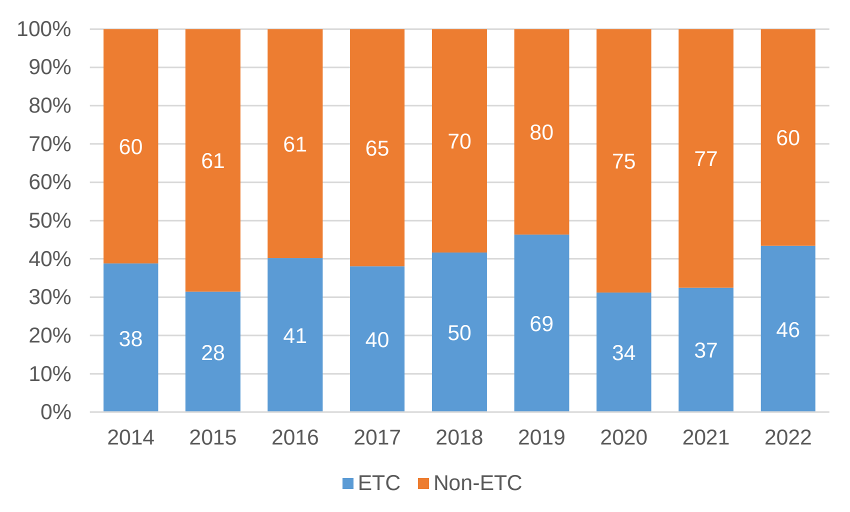
Local currency volume remains low in ETCs compared with non-ETCs, but the number of transactions is high, due to the smaller average project sizes (see charts below).

Figure 36: Local currency ABI in ETCs and Non-ETCs 2014-2022 €m*



* Does not include Local Capital Markets projects
Source: Business Performance Navigator

Figure 37: Local currency number of projects ETC/Non-ETC 2014–2022*

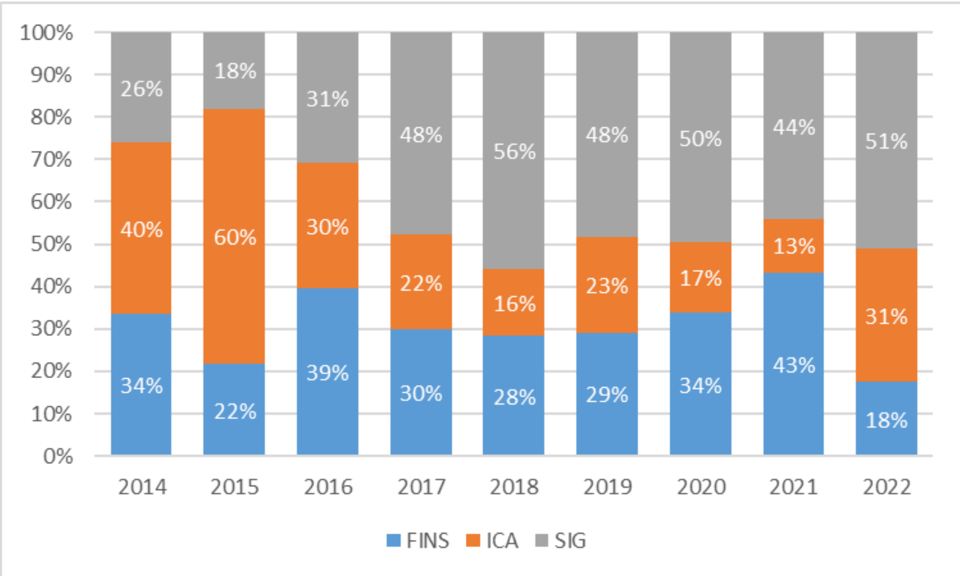


* Does not include Local Capital Markets projects
Source: SME F&D, FI

2. Sustainable infrastructure

Growth in SIG volume from 2017-2022 in ETCs was particularly strong and highly concentrated in three countries (Azerbaijan, Georgia and Uzbekistan) with large energy and transport investments, leading a portfolio shift towards public sector projects in sustainable infrastructure. ETC SIG ABI increased in 2017 by 21%, helped in 2018 by the resumption of operations in reform friendly Uzbekistan (see below). SIG investment by subsector shows that the large increases came from large energy projects in Azerbaijan and Georgia, Transport (Azerbaijan), and MEI and energy in Uzbekistan. In Central Asia ETCs, most SIG investment was in Uzbekistan, particularly in energy and some in municipal wastewater.

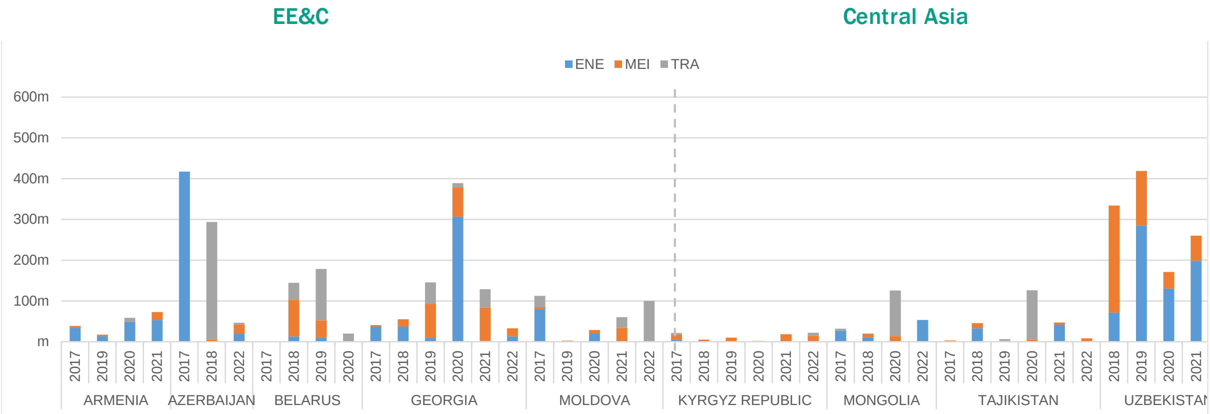
Figure 38: Percentage ABI in ETCs by sector 2014–2022



Source: Banking Operational and Risk Data

EBRD did not invest in sustainable infrastructure in Turkmenistan during 2017-2022 due to lack of commitment to reform. Investment in Kyrgyz Republic has been limited mainly to municipal water projects.

Figure 39: ETC SIG ABI by sub-sector 2017–2022 €m



Source: Banking operational and Risk Data

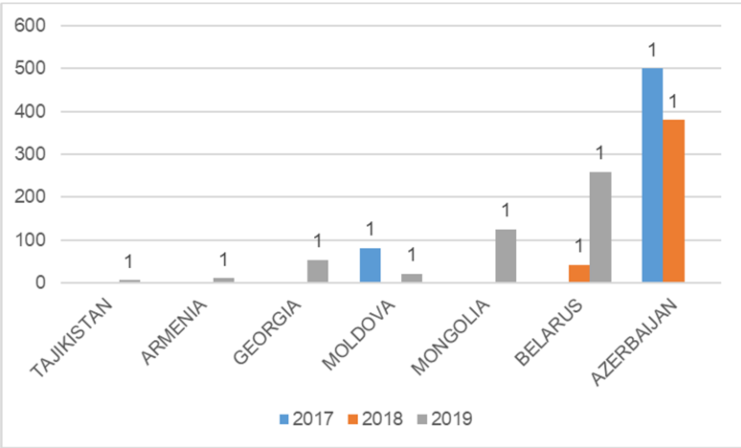
3. Regional interconnectivity and integration

EBRD channelled its regional interconnectivity and integration investment in ETCs mainly through energy and transport projects in just one ETC (Azerbaijan), with smaller additional amounts via the Direct Financing Facility (Turkmenistan) and Trade Facilitation Programme with most finance concentrated in two ETCs (Georgia and Uzbekistan).

Integration projects have the Integrated TQ included as a main source of transition impact, as part of the project expected transition impact (ETI). EvD identified 11 energy and transport ETC projects signed or reapproved from 2017–2021 in these sectors with this quality worth a total of €1.5bn at approval. There were no projects in Kyrgyz Republic, Turkmenistan or Uzbekistan in these sectors over the evaluation period.

In addition, 20 Direct Financing Facility SME projects signed for €84m mainly in Turkmenistan, Belarus and Uzbekistan targeted the Integrated quality for developing export capacity.[58]

Figure 40: Integrated projects in energy and transport 2017–2019 €m

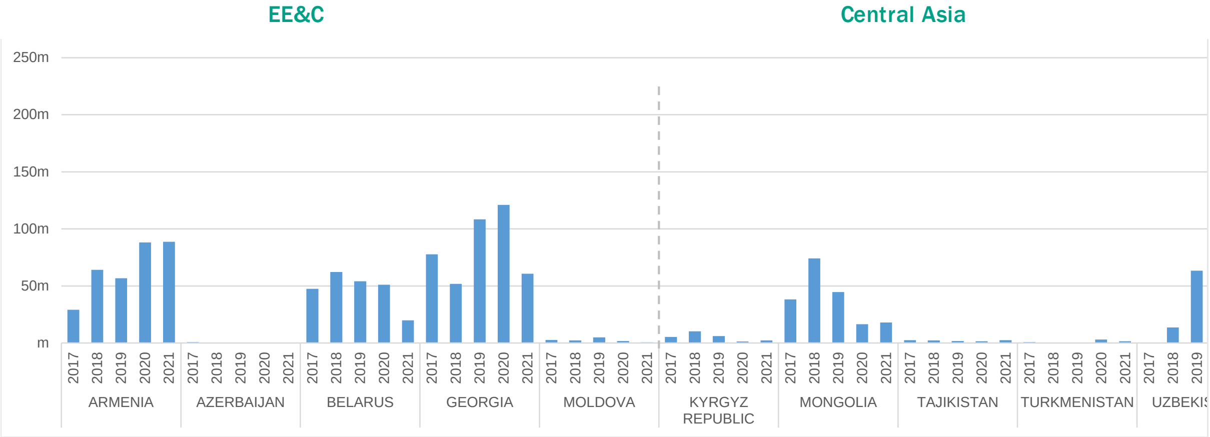


Source: Banking Operational and Risk Data

The main other channel to support integration projects is the Trade Facilitation Programme. New TFP lines were signed with banks in Uzbekistan in 2019 and Belarus in 2017. Most TFP transaction turnover from 2017-2021 was in Uzbekistan, followed by Armenia, Belarus and Georgia (see below).

[58] TOMS Monitoring Review data, VP3

Figure 41: TFP existing relationships transactions by turnover 2017–2021 (€m)



Source: Trade Facilitation Programme, FI

Annex 4. Supplementary materials for private sector development results

This annex provides supplementation evidence found from case study countries on two main areas discussed in the main report: increasing access to finance and increasing competitiveness.

Increasing access to finance

The Small Business Initiative (SBI) is EBRD's main vehicle to improve access to SME finance in ETCs; the level and nature of SBI activity differ substantially across the four case study countries. EBRD channelled finance through three main frameworks which are used across all countries of operations: the Financial Intermediaries Framework (FIF) via partner banks; the Risk Sharing Framework (together with partner financial institutions or PFIs) and the Direct Financing Facility (lending and equity directly to SMEs). Georgia experienced the largest share of indirect (FIF) and direct (DFF; RSF) financing framework approvals over the evaluation period (Table 1). By contrast, Turkmenistan only experienced SBI direct financing through DFF due to the lack of partner financial institutions. Azerbaijan had a few FIF and DFF project approvals but no RSF projects. SBI project approvals for Mongolia, like Georgia, spanned all the three financing frameworks but with fewer projects and at lower volumes.

Table 1: SBI Framework approvals in PSD case study countries (2017-2019)[59]

	Indirect Financing		Direct Financing			
	FIF		RSF		DFF	
	Projects	€ million	Projects	€ million	Projects	€ million
Azerbaijan	4	11	0	0	6	26
Georgia	15	155.7	14	32.6	9	39.4
Mongolia	9	58	5	14.8	6	31.9
Turkmenistan	0	0	0	0	15	28.6

Several factors explain the differences in EBRD SBI activity across the case study countries, including the availability of eligible PFIs, client non-financial risks, and the country business and policy environments. The four country case studies illustrate the range of conditions the Bank faces to support SME access to finance in ETCs, working with local banks, adapting to market demand conditions, and mitigating risks. Given the risks associated with local banks in ETCs (e.g., low capital adequacy; vulnerability to interest rate and foreign exchange shocks; insufficient skills in assessing and structuring certain types of loans), the choice of eligible PFI is crucial.

Georgia's financial sector is the most advanced: it is a regional leader in terms of access and efficiency. Two large private banks, TBC and Bank of Georgia, both Bank's clients, have together more than 70% of the total financial sector assets. The Bank used the SBI financing frameworks with both banks, especially TBC.

59 Source: Banking and Operational Risk data

The financial sector in **Turkmenistan**, on the other hand, is dominated by state-owned banks that are not eligible as PFIs.

The banking sector in **Azerbaijan** underwent a clean up following the currency devaluation in 2015-17 which exposed capital shortfalls. Prior to the devaluation, the Bank worked with nine banks and six non-bank finance institutions; after the devaluation the Bank had a single bank client. Banks in Azerbaijan and many of their private clients are subject to Politically Exposed Parties risk (PEP), thus the absence of SBI RSF or post-devaluation FIF activity in the country.

Mongolia has a highly concentrated banking sector and strict collateral requirements, which combined with uncertain implementation of banking sector reforms, translated into low levels of lending, especially to SMEs. Still the bank has had SBI projects with two local banks.

The scope and nature of the transition outcomes and risks differ across ETCs and SBI financing frameworks. The Bank uses the SBI as the key tool to support SME access to finance in ETCs given the versatility of its direct and indirect financing frameworks.[60]

- The FIF channels SME finance efficiently, working with eligible local banks (PFIs), which depend not only on operational and financial strength, but on ownership structure and corporate governance.
- With the RSF the Bank shares the risk with PFIs seeking to finance projects with local SMEs. The RSF has the advantages of capital relief and funding at lower rates for PFIs. However, with the exception of Georgia, the RSF appears to remain a niche market in the rest of case study countries.
- The transition impact potential of the DFF SME, for example, relates to competitive quality, helping SMEs grow and become more dynamic as a result of increased productivity or operational efficiency, improved standards or better management practices. Repeat direct financing over a number of years has led some SMEs to become strong market leaders.

Some evidence from the four case study countries suggests that through the DFF and RSF financing frameworks the Bank supports local firms that are already local market leaders, so the extent to which local market competition is enhanced is uncertain. There are, however, demonstration effects at play that are difficult to measure. Client interviews in Azerbaijan and Georgia confirmed that local SMEs appreciate the positive market signal about the company that a loan from EBRD sends to the market. The market level outcomes of SBI FIF is approximated using transition output indicators (see Box 12 below).

[60] Access to finance is quintessential to support SME growth and build a market economy. The theory of change of Bank SME interventions assumes that inputs such as finance and business advice alongside policy dialogue lead to transition outcomes in the form of sustainable access to finance and advice for SMEs, improving their competitiveness and generating demonstration effects from good business practices. These lead to transition impacts in the form of a robust private SME sector and strengthened private entrepreneurship. Set up in 2013, the EBRD SBI consolidated and mainstreamed several financing frameworks for SMEs originally designed for ETCs into the Financial Intermediary Framework, Risk Sharing Framework and Direct Finance Framework.

Box 12: Financial Intermediary Framework (FIF) – Market level outcomes in case study countries (2017-19)[61]

Financial Intermediary Framework transition outcomes for the 'competitive' transition quality are mixed, demonstration effects beyond the credit line are unclear

The SBI FIF is designed to expand SME access to finance and inclusion within the formal financial system. It also aims at promoting greater lending in local currency; more financing outside of capital cities, a higher share of dedicated financial products for women-led small businesses and more flexible finance, including loans with longer maturities and/or more flexible collateral requirements.

Assessing market outcomes of SBI FIF projects involves monitoring several transition output indicators. The evidence from the Bank's transition monitoring of a sample of 27 FIF projects in Azerbaijan, Georgia, and Mongolia provide an idea of the transition outputs being tracked (FIF is not active in Turkmenistan):

- **Competitive Quality** – This transition outcome is tracked across FIF projects in terms of *SME loan portfolio growth*, which most projects in the sample report as being either achieved or on track. Another criterion is the *number of new clients* or the share of loan proceeds on-lent to new clients; progress is mixed in the project sample using either of those indicators. Progress is also mixed regarding other criteria for competitive quality including the *number of regional loans* or loans outside the capital, and *the share of local currency financing*, sometimes due to the absence of baseline data.

- **Resilient quality**- This transition outcome is tracked in terms of the *NPL ratio of the portfolio* (SME facilities) and the *maturity of the portfolio* (share of loans with maturity of 3 or more years) or sub-project compliance with at least one EU Directive (in the case of SCFTA credit lines). The increase in NPLs ratios has been common over the evaluation period due to the impact of COVID 19.

- **Demonstration effects and skills transfer*** – Monitoring these transition outcomes involves checking on the *delivery of TC-funded training* and seminars and the *development of new products* targeted to underserved clients (e.g., women-led MSMEs). Many of these transition outputs are produced but uncertainty remains around their demonstration effects outside the reach of the EBRD credit lines themselves.

* Note that this outcome was part of the pre 2017 transition methodology

Donor-funded Technical Cooperation (TC) available through SBI projects is universally welcomed by stakeholders, help generate transition outcomes, and strengths EBRD's non-financial additionality. SBI PFIs acknowledge and appreciate the value of the TC project components and

61 Source: Transition impact monitoring of FIF projects in Azerbaijan (Access Bank-Capital Increase; Bank Respublika MSME Loan; Bank Respublika Agri MSME Loan); Georgia (EaP WiB TBC; DCFTA - TBC SME Facility; DCFTA ProCredit Georgia SME Facility; ProCredit Georgia SME Credit Line; DCFTA - Basis Bank SME Facility; DCFTA - Bank of Georgia; CEEP - TBC Bank III; GCF GEFF Regional - Georgia - TBC Bank; CEEP - TBC Bank III; GCF GEFF Regional – ProCredit; GCF GEFF Regional - TBC Bank; FIF - DCFTA - SME Programme- TBC Bank II); and Mongolia (MonSEFF - Khan Bank Sustainable Energy Loan; Khan Bank MSME Loan; Transcapital MSE-loan III; FIF - XacBank MSME loan 2017; Khan Bank VCF Loan; XacLeasing Debt 2; Transcapital MSE loan 2018;; Transcapital NBFI MSE Loan 2019; Vision Fund NBFI - MSE loan)

the incentives they provide to target underserved SME clients (e.g., Women in Business) and/or to take up loans and implement changes (e.g., energy efficiency investments).

Interviews in Georgia and Azerbaijan with PFIs and clients, for example, confirmed the high value that DFF and RSF clients assign to TC project components and the advisory services they co-finance. A key advantage of the DFF framework, for example, is the presence of donor funding to support due diligence (e.g., environmental audits) which covers the high project preparation costs associated with EBRD standards and requirements that SME clients could otherwise not afford. This was particularly true for projects supporting energy efficiency. Achieving those higher standards is a source of non-financial additionality for the Bank and can help fulfil Inclusion and Green transition objectives of DFF projects.

Increasing competitiveness

This section provides further information on results in ETCs during the evaluation period for investment council work, Advice for Small Business programme, Legal Transition Programme and Local Currency Programme.

Investment councils

Georgia is the only country of the four case studies where the EBRD supports an Investment Council (IC, none in Turkmenistan, Mongolia and Azerbaijan). Other ETCs with EBRD-supported ICs include Armenia, Belarus, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan.[62] EBRD-supported ICs aim at creating a positive business environment by building a trusted platform to facilitate policy dialogue between the government, the private sector, and donors.[63]

Over the evaluation period, the activities of Georgia's IC have advanced multiple policy and legal reforms relevant to the development of the private sector, representing an example of active engagement by the Bank. IC involvement in Georgia includes, for example, company law reform (since 2016), improvement in tax administration practices (to align national legislation with that of the EU); legal reforms to allow land ownership by foreigners; insolvency reform legislative package; and consultations involving a new draft law on investment funds, and a draft law on entrepreneurs approved in August 2020.

The level of activity and engagement of Georgia's IC is high; the private sector and IFI community in Tbilisi acknowledge the leading role the EBRD plays supporting the IC work programme. EBRD support to the IC in Georgia allows it to play and 'honest broker' role, supporting policy reform, mobilizing professional and legal advice, and facilitating dialogue between private sector and government authorities.

Advice for Small Businesses

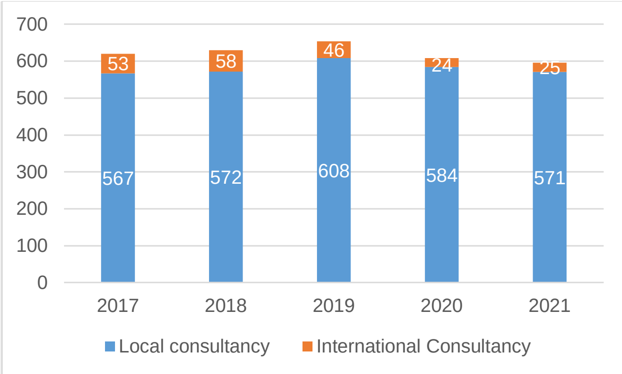
The number of Advice for Small Businesses (ASB) consultancy assignments delivered to SMEs in ETCs remained steady from 2017 to 2021 including throughout the pandemic, adapting to online delivery modes and response to the crisis. ASB supports MSMEs to improve SME business

[62] Note that the Board of Governors suspended Belarus' access to EBRD resources in April 2022

[63] The Investment Councils are funded with support from the EBRD Shareholders Special Fund, EBRD Multi-donor Account for Ukraine, the Swiss State 0Secretariat for Economic Affairs and the UK Good Governance Fund

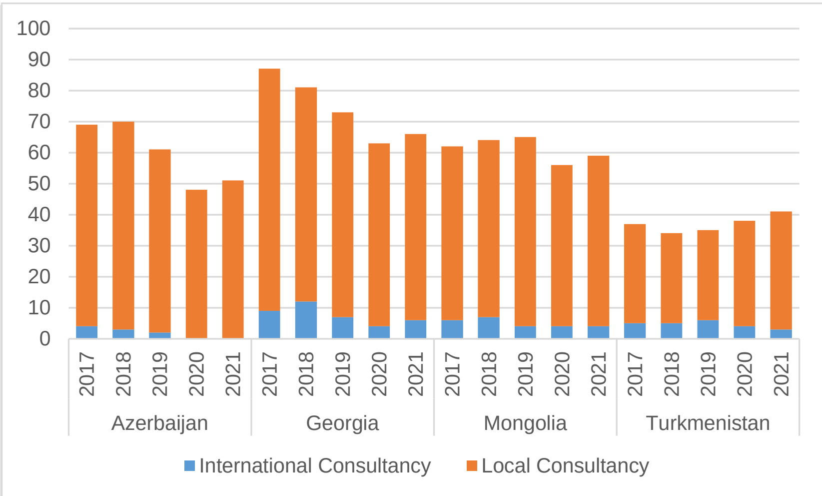
practices in several areas including, *inter alia*, marketing, information and communication technology, strategy, and quality management.

Figure 42: Number of International and local consultancy assignments in ETCs 2017–2021



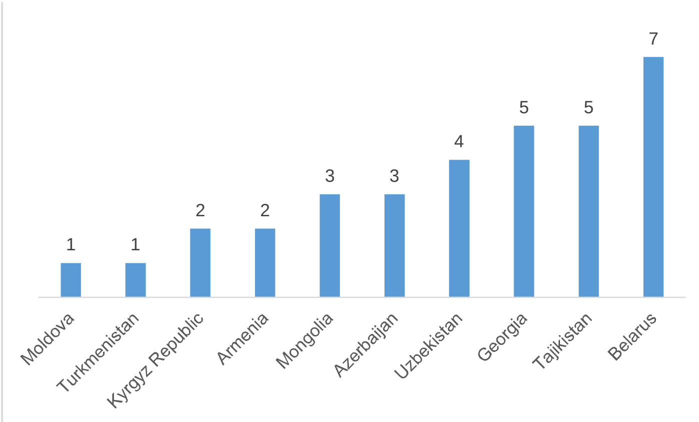
Source: ASB SME F&D

Figure 43: Number of International and local consultancy assignments in ETC case study countries 2017–2021



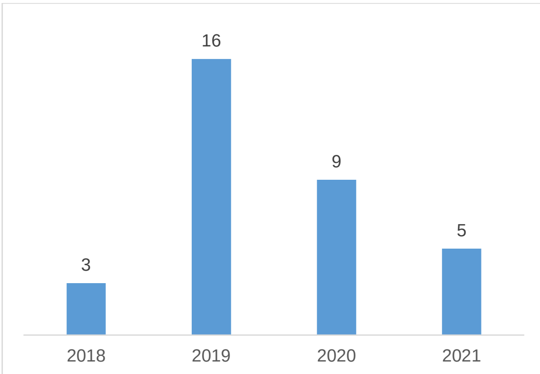
Source: ASB SME F&D

Figure 44: Number of Blue Ribbon consultancy assignments by ETC 2017–2021



Source: ASB SME F&D

Figure 45: Number of Blue Ribbon assignments in ETCs 2018–2021



Source: ASB SME F&D

ASB is a fundamental channel to support MSMEs improve their business practices and become more competitive in their markets, strengthening the competitiveness of ETC economies. During the pandemic ASB services were delivered online, with online trainings reaching larger numbers.

ASB is a key SBI pillar with high demand by local SMEs in ETCs. Country case study interviews reveal the program is highly sought after by local SME networks. The evaluation team carried out two externally-moderated focus group discussion in Tbilisi and Baku to gather structured feedback about the value that ASB activities offer SMEs benefitting from the advice. Results were mostly positive in terms of quality, incentives and access to finance from local banks (see main text Box).

ASB helped SMEs in Turkmenistan to automate operations and introduce ISO standards, for example, helping them become bankable. In Georgia, ASB (Blue Ribbon) was instrumental to support the e-commerce strategy of a fast-growing local distributor and manufacturer.

While ASB, through its programmes and new products, has untapped growth potential in ETCs; the challenge remains how to mobilize additional resources to further increase its outreach and thus improve SME competitiveness. Country case study interviews confirmed that ASB remains in high demand in ETCs. Through its established reputation and tailored product offer (for example Women in Business, Star Venture, Blue Ribbon, and Business Development and Matching) across segments of underserved SME categories ASB is an effective programme to improve SME competitiveness in ETCs.

In Turkmenistan, for example, where the Bank cannot activate the SBI financing frameworks (FIF, RSF), the ASB team reach SMEs to provide sought-after guidance from local consultants or international experts whose involvement is supported by donor funds.

While ASB is a strong and proven channel to achieve transition outcomes, it is also labour intensive requiring substantial donor fund support for its implementation. The Bank faces the challenge to satisfy the high demand for ASB services from SMEs in ETCs with limited resources.

Legal Transition Programme

EBRD Legal Transition projects promote private sector development in ETCs, advising government authorities and regulators on multiple legislative reform areas, although progress is slow. Projects were initiated and implemented at the request of the country authorities. They are relevant for the creation of a stable legal and regulatory environment that supports private sector development and attracts foreign investment.

A common feature of these legal transition efforts, however, is the slow pace of reform: legislative drafts are produced but approval and subsequent enactment of legislation experience long delays, indicating that the road to legal reform implementation is long and arduous.[64]

In Georgia, the Bank has continued its policy dialogue in other legal reform areas relevant to SMEs; an example is the introduction of a factoring law, which is expected to be accompanied by a digital Factoring Public Register, potentially enabling the much sought after supply chain financing.

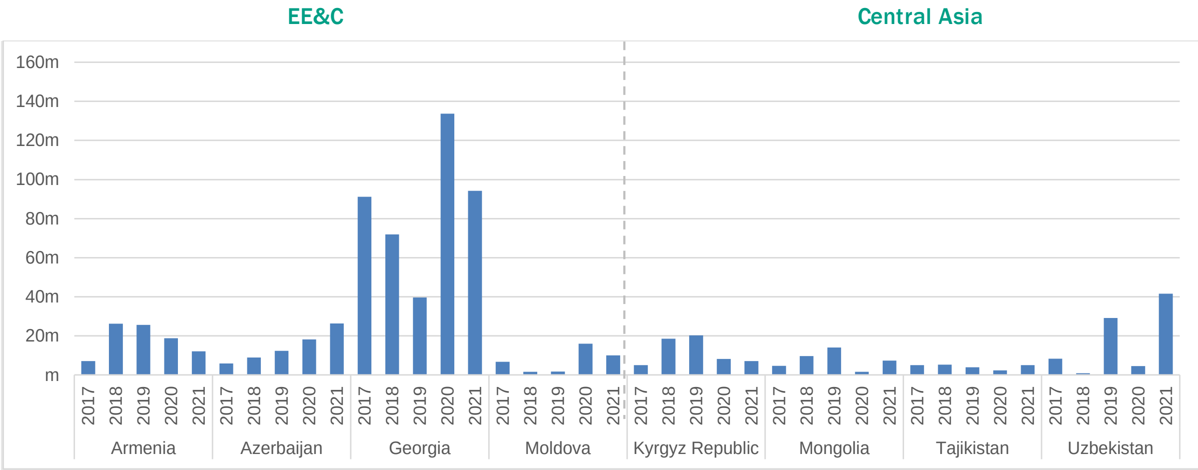
Local Currency Programme

Over the evaluation period of 2017-2021 EBRD's ETC local currency ABI has been highly concentrated in Georgia (see chart below). Progress with the Local Currency Programme and the development of local currency markets depends on the stage of development and financial market conditions in the country and willingness of government authorities and regulators to engage in policy reform.[65]

[64] During 2017-2019 the Bank promoted legal transition in Mongolia, for example, supporting the reform and strengthening of the legal frameworks around non-bank financial institutions; leasing; non-performing loans resolution and debt restructuring, and transparency in extractives industry (Table LT). In July 2018 a draft Non Bank Financial Institutions Law was prepared while subsidiary legislation was reviewed in 2020. The draft law was submitted with a delay to Parliament on April 2022 due to the Covid-19 pandemic. The Financial Regulatory Commission of Mongolia expected the draft law to be approved by Parliament in autumn of 2022, more than four years after the initial draft.

[65] Since the Programme began in 2011, 15 countries have signed MoUs with the EBRD, including nine ETCs: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, and Uzbekistan. Thus, Turkmenistan is the only case study country without a MoU signed with the EBRD.

Figure 46: Local currency ABI by ETC 2017–2021 (€m)



Source: SME F&D, EBRD

While financial markets in Georgia have developed gradually over the evaluation period, financial markets in Azerbaijan and Mongolia remain at an early stage of development and the challenge ahead is to build an enabling environment for sustainable expansion. Turkmenistan's financial market is the least developed of EBRD countries of operation, and the challenge ahead is a comprehensive market build up. The volume of local currency investment by ETC shows that EBRD has done the most in Georgia.

This table sets out the key features leading to the stage of financial market development across the four case study countries.

Table 2: Financial market development status of case study ETCs [66]

CAUCASUS	
Azerbaijan	**Georgia**
Early development stage: • Money market interbank activity is constrained due to the central bank's monetary policy framework, banking sector credit risks, and high dollarization of the economy. • Onshore bond markets relatively large but dominated by sovereign and quasi-sovereign issuance in USD. • Growing derivatives markets with regulatory framework being upgraded. • Local equity markets lack scale and liquidity	**Gradually developing stage:** • Money market interbank activity has been growing steadily and financial instruments indexed to the reformed interest rate benchmark TIBR are becoming established. • Domestic bond markets remain shallow and dominated by the sovereign, with the corporate segment expanding gradually buoyed by IFI issuance in lari. • The regulatory framework for derivatives has been upgraded supporting the increase in volumes of hedging transactions in particular FX swaps. • Local equity markets lack scale and there are scant incentives for large local companies to list on the Georgian Stock Exchange (GSE), in particular given the narrow institutional investor base.

66 Source: EBRD Treasury Country Briefings

CENTRAL ASIA	
Mongolia	**Turkmenistan**
Early development stage: • Dominated by banking sector, limited role of public debt and equity markets. • Local bonds market limited by fiscal regulations and lack of demand by corporates. • Few successful IPOs, but equity market remains illiquid and lacks institutional investors.	**Least developed stage:** • Least developed financial markets with challenging business climate and limited private business. • Dominant state presence in the economy. • Controlled foreign exchange regime.

The Bank is recognized as a leader among IFIs in the development of local currency solutions in the case study ETCs, using policy dialogue to support the upgrade and development of local capital markets (including policy frameworks, market infrastructure and financial products). Several EBRD departments (mainly Treasury and Capital Markets Department, but also Legal Transition) have led active policy dialogue and supported several TC projects across three of the four case study ETCs. The most notable policy interventions are summarized in Table 3.

Table 3: Local Currency and Capital Markets Policy selected interventions in case study ETCs[67]

Azerbaijan
• **Enhancing Money Markets and expanding product range** - Policy dialogue with CBAR through a Money Market Working Group (MMWG) to reform the monetary policy operational framework and enhance liquidity management; • **Upgrading Policy Frameworks** – Supporting the development of derivatives and bond issuance legislation by reviewing existing legal and regulatory provisions and creating a framework providing legality, validity and enforceability of derivatives transactions and the issuance of local securities by IFIs.
Georgia
• **Enhancing Money Markets** – (i) Continued policy dialogue with NBG (central bank) and local market participants through the Money Market Working Group (MMWG) to reform the TIBR (Tbilisi inter-bank rate) benchmark and develop TIBR-linked financial instruments (2018); (ii) Supported the NBG with the implementation of a Forecasting and Policy Analysis System (FPAS) and yield curve computation and communication, to help establish a reliable pricing reference point for all market participants, enhance transparency in price discovery and enable the valuation of financial instruments. • **Upgrading Policy Frameworks** – (i) Supporting the development of derivatives legislation in Georgia leading to the adoption in 2019 of the Law on Financial Collateral Arrangements, Netting and Derivatives. • **Developing Financial Market Infrastructure** – (i) Developing a Corporate Strategy and Business Plan for the Georgian Stock Exchange; (ii) CSD Project Scoping and Implementation • **Expanding Product Range & Investor Base** - (i) Issued the first local bonds linked to TIBR in 2019 and transacted the first overnight index swap (OIS); (ii) Secured access to GEL funding at domestic rates by signing a US$ 200 million swap line with the NBG in 2020 to expand the Bank's local currency financing capacity as part of the COVID-19 response.
Mongolia

[67] Source: Financial Market Country Briefings (EBRD Treasury) and Country Strategy Delivery Reviews

- **Enhancing Money Markets** – (i) Money Market Diagnostics Framework Implementation (2020); (ii) Launch of Money Market Working Group in Mongolia (First meeting held in 2021)
- **Upgrading Policy Frameworks** – (i) Money and Capital Market Development Strategy (2017); (ii) Capacity Building at the Bank of Mongolia - Liquidity Forecasting (2019)
- **Developing Financial Market Infrastructure** – (i) Delivery v Payment Settlement Mechanism & Default Risk Management Framework (2019)
- **Expanding Product Range & Investor Base** – (i) IPO and LCM Workshop (2016); (ii) IPO preparation support for two SMEs (DAC & Shargaljuut) (2021-2022)

Annex 5. Supplementary materials for sustainable infrastructure and renewable energy

This annex provides supplementary evidence from case study countries on two main areas of findings in the main report: improving infrastructure services and support to renewable energy.

Improved infrastructure services

Areas in which the EBRD expected results for this operational response by the end of 2019 included preparation for privatisation through *'decentralized core regulatory aspects'* including unbundling, tariff setting and service provision, improvements to corporate governance and capacity building, development of PPP legislation, capacity and new PPP projects. EvD conducted a document review, interviews with staff and authorities and site visits to review progress.

Among the four case study countries, from 2017-2022 EBRD conducted policy support actions though policy milestones targeting commercialization of SOEs, preparation for privatization and increasing private sector participation during 2017-2019 in Tajikistan (e.g., restructuring of municipal services agency KMK, energy regulator), Kyrgyz Republic (introducing cost recovery tariffs in water) and Uzbekistan (commercialisation and the pre-privatisation / privatisation of SOEs). Progress on these areas is discussed for each of these case studies alongside investment operations below showing some progress is underway.

In all case studies countries, establishing cost recovery tariffs in the energy and water sector is a common key problem according to EBRD operations staff who stressed the affordability issue faced by ETC governments who want to keep those tariffs under control. This complicates the use of tariff increase obligations in loans covenants.

EBRD extensive work with local municipalities via the Kyrgyz water framework; barriers to tariff reform and limited capacity

EBRD approved nine Kyrgyz water framework projects for municipalities throughout the country from 2017-2019, all of which contain objectives to enhance corporate governance, reform tariffs, restructuring and service provision. These projects are all currently under implementation.

EvD found during interviews that these projects experience difficulty with achieving cost recovery tariffs as levels are set by local councils, on a political basis. Corporate Development Programmes were also hindered by limited capacity of local water companies, and high staff turnover.[68]

Box 13: Kyrgyz Water Framework, Balykchy and tariff and capacity challenges

On EvD's site visit to Balykchy, EvD heard that local councils must vote for tariff increases in Kyrgyz Republic, and the topic had become highly politicized which was a barrier to reform.

To overcome the difficulties around capacity and staffing of project implementation units at the municipal level, EBRD is working with the Kyrgyz authorities to establish a centralised project

[68] September 2022 Site Visit: Balykchy Water project interviews with water company, consultants for CDP and PIU

implementation unit to coordinate the activities on the ground in the local municipalities. This follows an example set in Uzbekistan where authorities have already set up a centralised system to manage local projects.

Strong commitment to reform programme in Uzbekistan, unbundling, and creating a supportive regulatory environment

Broad policy milestones set from 2017-2021 included enhancing competitiveness through improved SOE corporate governance and capacity building for adoption of best practices towards commercialisation and the pre-privatisation / privatisation of SOEs. Another was to establish frameworks for private sector development including establishing a fair environment between the SOEs and private sector for effective competition. The policy milestone reporting published online does not describe specific progress on these items.

In Uzbekistan, between 20017-2022, 7 projects worth €398m were approved in the water/wastewater sector with several municipalities including Horezm, Namangan, Kashkadarya, Surkhandarya and Tashkent. These projects are currently all on track, under implementation, and some were delayed during the pandemic. Whilst Uzbekistan has a centralised PIU for all water projects, the corporate development programmes remain to be implemented with the municipal water/wastewater companies.

Box 14: Horzem Water Project Uzbekistan

Horzem water project Uzbekistan

EBRD lent up to €60m with 12m co-financing from the state of Uzbekistan to the state owned municipal water company to rehabilitate water and wastewater in Horezm with a 200k TC from the SSF to assist in the corporate development plan. The PIU is a centralised body in Uzbekistan which EBRD has supported with 4 consultants from consultancy firm Mott McDonald. All objectives are on track, and under implementation, including the corporate development programme with the municipal company.

Between 2017-2019, EBRD approved three energy sector projects in Uzbekistan, one gas generation and two transmission projects with state entities worth a total of €381m. The largest, Talimarjan power plant project (up to $240m) targets improvement of the institutional and regulatory framework for the power sector through TCs supporting unbundling and private sector investment. Unbundling took place in 2020, following recommendations from EBRD and other IFIs. EBRD has been involved in supporting the draft new electricity law. A platform to coordinate policy engagement with other IFIs was established, and a roadmap is being followed. This demonstrates how EBRD's participation in a large-scale investment combined with policy reform work can help to progress reforms. Other significant items of input included preparation of a low carbon pathway which was adopted by the government, and proposals to reduce water use in the power sector.

No specific EBRD policy milestones or projects on commercialising the public sector infrastructure in Armenia 2017–2019; some support work on tariff methodology

Work with municipalities and energy distribution has taken place in Armenia since 2020 under the Green Cities Framework. There were just two sustainable infrastructure projects approved from 2017-2019, both private sector energy projects, and one addressing tariff setting and service provision (the other is discussed under the section on renewable energy below).

The regulatory environment for energy is considered strong in Armenia and could set an example to other ETCs. The EBRD's €80m loan to ENA distribution network (co-financed by ADB and the client) enabled the Bank to engage in policy dialogue with the regulator to perform gap analysis of the distribution tariff methodology to ensure it is in line with international and EU best practice and to develop implementation guidelines. The project is to support the Borrower in its continuous efforts to provide affordable, reliable and sustainable energy to its customers. It is too early to assess results, as it is currently on track and under implementation.

Significant progress on EBRD work to support PPPs in Uzbekistan, with some investment projects underway

The EBRD has provided technical assistance to Uzbekistan since 2018 to support the design and development of a modern investor-friendly PPP regime in the country. The Bank's engagement facilitated creation of the PPP Development Agency (PPPDA) established in 2018 and to the adoption of the first law regulating public-private partnerships (PPP Law) in the country in 2019, however it was significantly watered down from the draft that EBRD recommended. The law was amended in 2021 to address the issues and make it workable and the regulations were approved in 2020.

Uzbekistan has a strong pipeline of PPP projects that could benefit from the support of EBRD's Infrastructure Project Preparation Facility (IPPF). EBRD's IPPF team is currently collaborating with the Uzbek PPPDA to set up a local project preparation facility (UPPF), which could be a model to replicate in other ETC countries. However, the agency considers that EBRD's IPPF is engaging limited resources ($20 m) considering the total amount of the PPP program they identified ($14b). The agency sited that the drawbacks of working with EBRD was EBRD's lack of local PPP advisory team and reliance on external consultants, and consequently slower document approval processes. In 2022 EBRD signed a wind farm PPP project, Zarafshon Wind in Uzbekistan under the new PPP Law.

EBRD legal transition work in Armenia to support PPPs and Georgia largely complete

In Armenia in 2017 EBRD started to provide technical assistance with support of the SSF via a Legal Transition project to develop a modern PPP regime. A PPP law has now been approved and amendments are underway together with advanced guidelines and tools for implementation. Similar legal transition technical assistance has been provided in Georgia.

No progress on PPPs in Tajikistan

In Tajikistan EBRD was working with IFC to prepare a PPP for the airport. However, the government changed its mind and no contract was awarded.

Support to growth in renewable energy

Towards green energy solutions, EBRD supported solar and wind projects in case study countries of Armenia and Uzbekistan (and beyond this Mongolia) including policy support (regulatory frameworks, development of auctions scheme).[69] Support to renewables auctions scheme has also been provided in Georgia. Policy support for renewables is provided by IPPF team, and Legal Transition team.

Financing hydro projects also contributes to the development of greener solutions. However, EBRD only financed one hydropower project over the 2017-2019 period that had already financed previously (e.g., Qairokkum HPP in Tajikistan). In terms of policy support, EBRD team is concentrating on solar and wind projects.

[69] The Masrik solar project submitted to the Board in 2019 (a non-sovereign loan) with a financial closing in 2020 is experiencing some issues related to the tariffs initially agreed which are now considered too high by the Government, and because of the project's location close to the zone of conflict with Azerbaijan.

EBRD similar to other IFIs changed its approach to renewables pricing in 2017, shifting from feed-in-tariff (FIT) implementation to price resulting from competitive bidding (trough auctions) – with the exception of Mongolia which still supported projects via a FIT scheme

Annex 6. Supplementary materials for integration

This annex provides additional evidence from case study countries on two main areas discussed in the main report: energy integration, and transport and logistics.

Energy regional connectivity

Additional evidence from case studies included the following:

Box 15: Azerbaijan Southern Gas Corridor

Integrating energy through pipeline connecting Caucasus with southern Europe

Energy integration was increased through a pipeline connecting the Caucasus with southern Europe. The largest project under review was the €500 million sovereign guaranteed loan to *Azerbaijan* signed in 2017, the Southern Gas Corridor, for its TANAP pipeline crossing Türkiye, part of the first gas connection from Azerbaijan's Shah Deniz platform to Europe for the first time. Other financiers for TANAP included AIIB (US$600 million, TANAP), IBRD (US$ 400 million, TANAP), EIB (US$ 1.15 billion TANAP), WB MIGA (US$ 750 million, TANAP), and Germany.[1]

EvD evaluated the Azerbaijan Southern Gas Corridor project as part of a 2020 evaluation of projects with regional integration elements. It found that it delivered successful results and was highly relevant to EBRD country and energy strategies and to the energy policies of both Azerbaijan and the EU. In 2022 company cash flows were higher than projected thanks to higher energy prices. Discussions between counterparts are underway to expand production and throughput.

Integrated benchmark	Outcome	Current update
Expansion of supply (to double the capacity of TANAP by 2027)	Azerbaijan and the EU signed a Memorandum of Understanding (MoU) in July 2022 Agreement is subject to new investment and long-term purchase contracts (underway).	**Active negotiations between Azerbaijan and the EU on expansion of capacity shows the significance of the pipeline to the EU energy market and the importance of this project to energy integration.**
Third party access – a keystone of EU gas transmission regulation. Target for 20% of future expanded capacity	Agreed as a legal requirement. One element of the TANAP, the Trans-Adriatic Pipeline (TAP) crossing from Turkey to Greece and Albania to Italy, was subject to EU regulations but was excepted from unbundling and third party ownership rules.	Impossible to execute in practice in circumstances of low availability of gas (Turkey). Gas transmission companies may seek exceptions from liberal EU gas transmission regulations. This limits the regional integration impact potential.
increase availability of gas in Turkish regions	The target of 5.7bcm by 2021 has been achieved	

Box 16: Moldova Romania Power Interconnection Phase 1

Energy integration achieved through strong collaboration with European network

In 2017 EBRD approved a sovereign loan of up to €80m for the ***Moldova Romania Power Interconnection Phase 1***, co-financed by World Bank (€80m), EIB (€70m) and EU NIF (€40m grant) to implement a high voltage electricity interconnection between Moldova and Romania. The aim was to integrate Moldova with the continental European Network of Transmission System Operators for Electricity (ENTSO-E) electricity grid aimed to increase energy security by reducing dependence on Ukraine and to bring its energy sector into compliance with the EU's Third Energy Package.

According to the Banking team, however, the loan is no longer required. ENTSO-E agreed in March 2022 to a trial synchronisation with Moldova and Ukraine and the authorities no longer require the back-to-back station. ENTSO-E acted following an urgent request by Ukrenergo and Moldelectrica for emergency synchronisation. The EBRD project will be cancelled or the use of proceeds changed.

Box 17: Vestmoldtransgaz S.R.L. (VMTG)

Moldova gas pipeline project and unbundling delays

In 2020 EBRD invested 25% in equity worth €20m in ***Vestmoldtransgaz S.R.L. (VMTG)*** a Moldovan energy operator (parent Transgaz) to build a 120 km natural gas pipeline between Ungheni and Chisinau in Moldova, to integrate with south-eastern European gas infrastructure. EIB provided a €38m loan towards the project.

Final construction work was completed in early 2022, with a 5.58% cost overrun and slight delay due to underperformance of a contractor. Gas cannot flow from Romania until the gas incumbent Moldovagaz is unbundled and the updated regulatory framework is implemented.

Moldova planned to fully implement the EU's Third Energy Package rules by the end of 2021 by unbundling the transmission system operator Moldovatransgaz from Moldovagaz and certifying the operator (including introducing a tariff methodology) by the Energy Community in line with EU standards.

This has been delayed for a year by the significant disruptions Moldova has experienced since October 2021 due to Russian pressures from the war in Ukraine.

To further energy security during the crisis brought about by the war on Ukraine 2022, the EBRD, via the €2 billion Resilience and Livelihoods Framework, is lending €300 million to Moldova's state energy trader, JSC Energocom, to boost its energy security by acquiring strategic gas reserves to diversify from those currently provided by Russia through Ukraine. The loan will cover one fifth of Moldova's energy needs.

There is a notable absence of international energy projects approved from 2017-2021 in Central Asian ETCs targeting the 'integrated' TQ. However, one project has linkage to a significant 2015 cross border project. EBRD's 2017 US$38m loan to Tajikistan for the Qairokkum Hydro-power Climate Resilience Upgrade project to rehabilitate four plant units, improve productivity, and reduce vulnerability to climate changes is linked to a 2015 cross border pipeline project. Construction started in 2021 on the CASA-1000 pipeline (Central Asia South Asia Electricity Transmission and Trade Project, linking Kyrgyz republic, Tajikistan, Afghanistan and Pakistan). EBRD invested in the project through a $110m loan to Tajikistan in 2015. Part of Qairrokum's electricity may be exported via the pipeline once complete to Afghanistan and Pakistan replacing much higher carbon intensive sources and consequently delivering higher carbon savings. However, problems facing the completion of this project include delays and uncertainty due to the regime change in Afghanistan, and withdrawal of World Bank and USAID support. Bringing the pipeline into operation is also subject to supply issues with continued shortages in Tajikistan created by seasonal fluctations in hydropower supply, tensions over the development of the Rogan dam with Uzbekistan due to scarcity of water resources and whether Rogan will be included in supply for CASA-1000, and the Kyrgyz Republic dependent on power imports from Kazakhstan and other neighbours due to increasing domestic demand, lack of supply due to drought and seasonal fluctations and need to rehabilitate and expand domestic hydropower resources.

Transport links and logistics infrastructure

Additional evidence from case studies included progress on three projects, the Azerbaijan Roads Reconstruction and Upgrading Project (2011, reapproved 2018), the Armenia Mehgri Border Crossing Project Modernisation, and Tajikistan Air Navigation.

Box 18: Progress on transport projects in Azerbaijan, Armenia and Tajikistan

Azerbaijan Roads Reconstruction and Upgrading Project

EBRD Board approved a loan of up to $750m to state owned road agency Azeryolservice (ARS), initially approved in 2011. Changes were approved by the EBRD Board for the remaining $380m in 2018 to repurpose some proceeds for the East-West corridor in Azerbaijan, with grants from NIF (€3.8m) and SSF (€700k). The grant was reduced to €1.1m from NIF and to date remains undisbursed.

The original purpose of the loan was to initiate Azerbaijan's regional road reconstruction programme to support regional economic growth, regional integration and the development initiatives aimed at diversification of the country's economy. This included facilitating trade and regional cooperation with neighbours, including supporting trade with Europe through the border with Georgia. The project followed EBRD investment in the Azerbaijan Silk Road (2004) and Baku to Samur road to Russia (2005). The World Bank and ADB provided loans for key road corridors which the network would feed into.

The project has been delayed. Original completion was expected by the end of 2016, but this has been extended to 2023, due to reallocation of tranches B and C to different sections of road running from Ganja-Gazakh to the Georgian border on the M2/E60 Highway. Delays were mainly caused by the COVID pandemic and military conflicts between Azerbaijan and Armenia. A delay in one section was caused by the fact that the contractor went bankrupt, and while normally this would require re-tendering and further delays, the operations team managed to approve a novation agreement to a sub-contractor at the same rates, with completion expected by the end of 2023.

Transition monitoring of the project ended in 2019 under the old TIMS system, with overall rating reduced to *Satisfactory* after lack of progress on rolling out of performance based contracts and outsourcing non-core maintenance tasks. Three out of seven benchmarks were achieved in the 8 year period. A Road Sector Master Plan was prepared by a World Bank consultant in 2012 and revised by EBRD consultant in 2016, then approved by the company. The TIMS review notes slow progress of the project, complicated by delays with the loan agreement, tendering of consultancy assignments, change of PIU management and lack of coordination between IFIs, and change of management. The original project included a road tolling strategy but this was not adopted due to lack of traffic and legal requirements for free roads alongside toll roads (common in many countries).

Armenia: Mehgri Border Crossing Project Modernisation implementation beginning 2023

In 2019 EBRD provided a sovereign loan of up to €10.63m to Armenia for modernisation of border crossing facilities at the border crossing point with Iran. The contract for rehabilitation of the border crossing was just signed in January 2023. A co-financing grant of €10.52m was provided by EU NIP. Indicators for integrated TQ include increase in usage and capacity of the border crossing in terms of passengers, vehicles, cargo and buses. These are not due yet as the project has just started the implementation phase.

Tajikistan Air Navigation project continued at a reduced scope due to the pandemic, regional events and reduced air traffic

EBRD approved a senior loan of €6m to the state owned State Unitary Enterprise Tajik Air Navigation to modernise its air traffic management navigation and communication systems. This project targeted the 'integrated' quality to enhance the capacity of Tajikistan's airspace and achieve improvements in flight safety.

The last transition monitoring review in 2021 found the project to be on track. The pandemic had an impact on the implementation of the investment programme due to the fall in traffic so the project was revised to focus on procurement of essential systems.

Procurement of a modern air traffic control system was cancelled, due to recent events in Afghanistan and resulting considerable reduction in air traffic over Tajikistan. Procurement of communication systems will continue at reduced scope. However procurement of meteorological system for aviation continued at full scope. According to the Company's PIU Consultant confirmed the reduction of the investment programme has no impact on the Company's ability to safely service the airspace. Performance based navigation is being introduced with the assistance of a consultant, and final draft CAA regulations and guidelines for Dushanbe Airport have been finalised and presented to the CAA.

Annex 7. Supplementary information on use of donor resources

EU funds

Box 19: Progress on transport projects in Azerbaijan, Armenia and Tajikistan

European Fund for Sustainable Development (EFSD)

This replaced the Neighbourhood Investment Fund in 2017. Neighbourhood Investment Platform (NIP) is a mechanism aimed at mobilising additional funding to finance capital-intensive infrastructure projects in EU partner countries covered by the European Neighbourhood Policy (ENP) in sectors such as transport, energy, environment and social development. The NIP also supports the private sector, mainly through investment grants and risk capital operations targeting small and medium-sized enterprises.

The Investment Facility for Central Asia (IFCA)

IFCA was launched in 2010 and ends in 2022, to be replaced by the *Asia Pacific Investment Fund*. IFCA was a facility modelled on the NIF which aims to blend EU budget grant funding with loans by the financial institutions for 5 countries in Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan).

From 2017-2021, IFCA provided investment grants of 16m to the Kyrgyz Water projects and 1m to solid waste projects in Tajikistan. In this period, €2.4m was also made available to Central Asia countries for project implementation support.

Asia Pacific Investment Fund

This fund started in December 2022, replacing *IFCA* and available to Central Asia for the advancement of the Green Deal, the Digital Agenda and the creation of jobs for sustainable growth. Investments will also contribute to the Covid-19 recovery.

Bilateral Funds

Key bilateral donors to ETCs in Central Asia during 2017-2021 were Switzerland, Japan, Korea, and Taiwan. Sweden, Austria, UK provided funds for ETCs in Eastern Europe and the Caucasus. The bilateral donor providing the largest commitment overall during 2017-2021 was Switzerland (SECO), followed by Korea and Japan (TC funds). The area receiving most support was sustainable infrastructure. The table below shows the total commitments by bilateral donor during 2017-2021.

Table 4: Total commitments of bilateral donors specifically to ETCs 2017-2021[70]

	€m	Purpose
Switzerland (SECO)	15m	• Sustainable Infrastructure (water, waste-water and public transport)
Korea TC Fund	7.3m	• FI capacity building capital markets development, sustainable infrastructure in Uzbekistan • Project implementation for the green economy financing facility (Tajikistan)
Japan TC Fund	7.2m	• Sustainable Infrastructure (policy dialogue, legal and regulatory work, project preparation and capacity building)
Sweden (SIDA)	4.4m	• Sustainable infrastructure (including 2 investment grants) for Moldova Belarus and Georgia
Austria	2.6m	• Sustainable infrastructure (energy efficiency for ETCs)
UK	1.97m	• Investment Climate Governance Initiative for Moldova, Armenia and Georgia
Taiwan	0.65m	• Green energy financing and local capital markets development in Uzbekistan

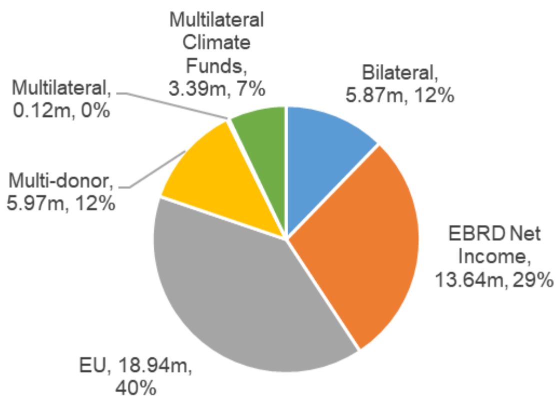
Donor funding for sustainable infrastructure

For SIG, 98% of disbursements are recorded by country, unlike for other sectors and areas, making some aggregation of data for ETCs during the evaluation period possible.[71] Donor reporting, however, records assignment types in categories that are not useful for analysis for example, for the assignment type, capacity building is often combined with project preparation implementation, policy dialogue and staff positions, making disaggregation of specific activities impossible.

Most ETC SIG donor funding is being disbursed from the EU (39%) followed by the SSF (or EBRD Net Income Allocation, 29%). The remainder are from multilateral funds (19%) and bilateral funding (13%) (see chart below). Sixty-six percent of total EU funds for SIG disbursed by EBRD to all EBRD regions went to ETCs from 2017-2021 and 28% of total SSF disbursements went to ETCs (see Figure 47).

[70] Note this does not include multi-country commitments
[71] The current EBRD's donor reporting systems limit the ability to access donor funding commitments and disbursements by ETCs over the evaluation period. Amounts for private sector activities include regular multi-country funding that cannot be disaggregated by country.

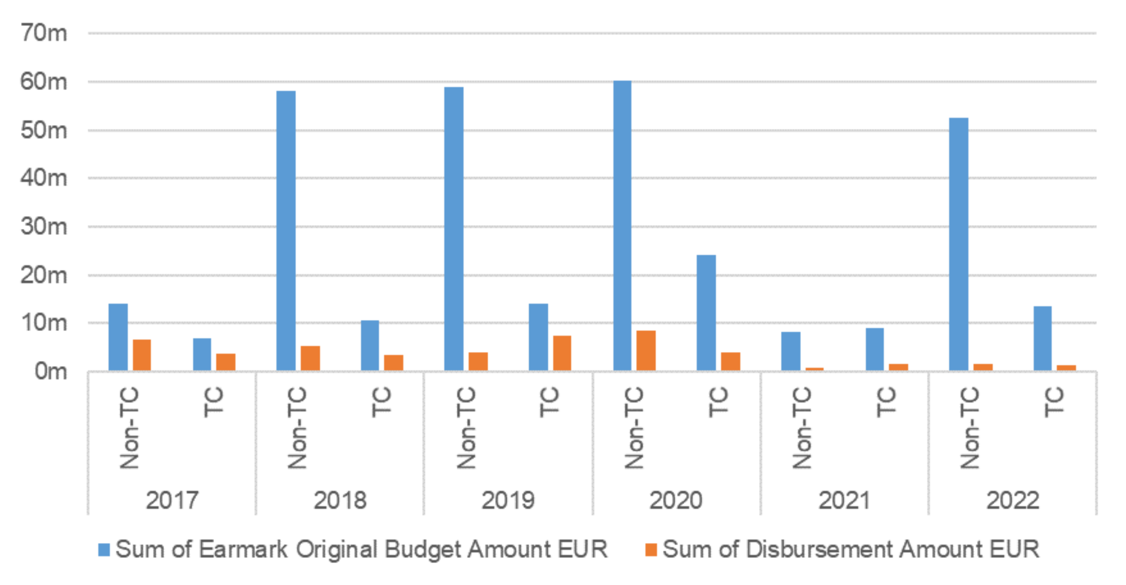
Figure 47: SIG donor ETC disbursements by donor type 2017–2022, €m



Source: Donor Co-Financing Reporting Hub data

Overall SIG donor funding and investment grants supply in ETCs has remained steady, despite a drop in 2021 but disbursement is lagging behind in both areas (Figure 48 below).

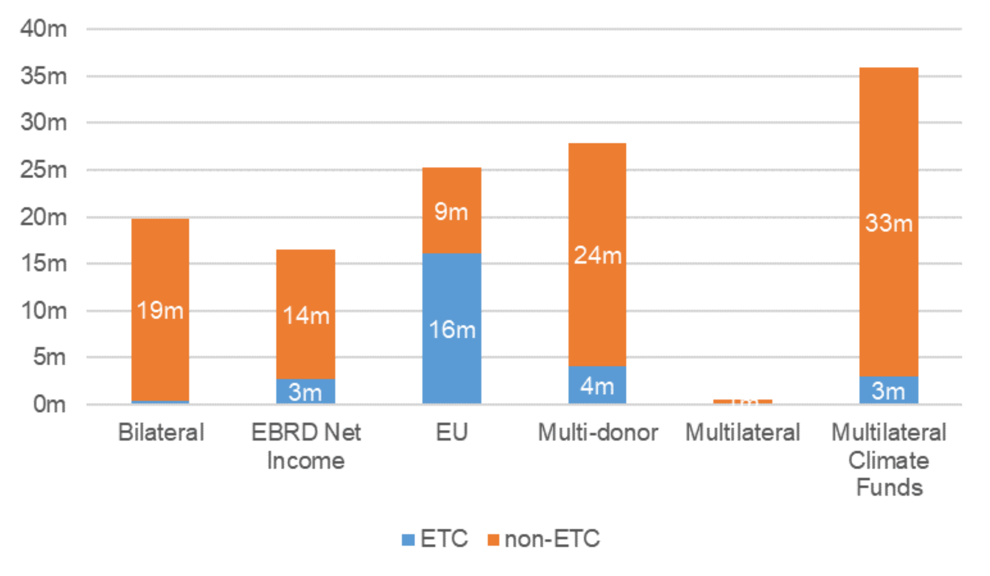
Figure 48: TC and non-TC SIG donor funding in ETCs by year of commitment, €m



Source: Donor Co-Financing Reporting Hub data

The EU is the biggest provider of investment grants to ETCs for SIG activities (see Figure 49 below). Just 9% of investment grants received from climate funds went to the ten ETCs between 2017-2021. 18% of investment grants provided by the SSF went to ETCs.

Figure 49: SIG investment grant disbursements 2017–2022 – ETC and non-ETCs by donor type, €m

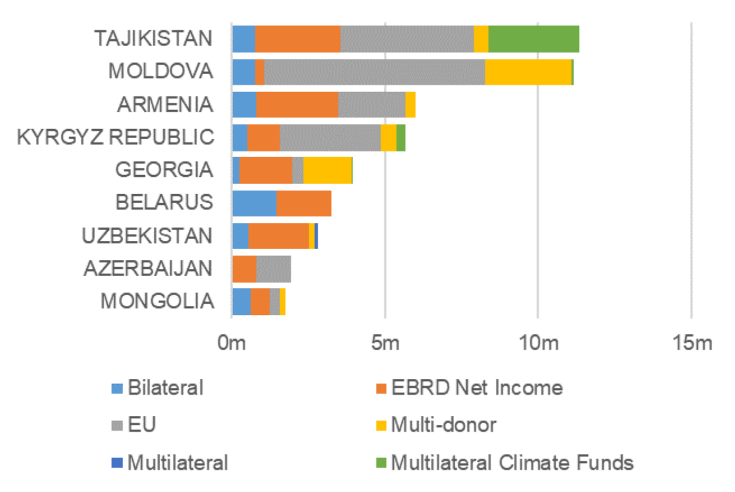


Source: Donor Co-Financing Reporting Hub data

By country, the highest ETC disbursements in total from 2017-2022 was in Tajikistan followed by Moldova and Armenia (6-11m). The remaining countries, minus Turkmenistan where EBRD has not done SIG projects, all received small amounts from between €1.5- €5.5m for the entire 2017-2022 period (see Figure 50 below).

Evidence suggests signing and implementation of all SIG investment operations in ETCs are reliant on TC and non-TC (grant) donor funding. According to the DCF data records, 77% of all SIG ETC public sector investment operations from 2017-2022, were found to have connected TC or non-TC attached to them. However, EvD believes that number to be closer to 100% based on individual project searches and anecdotal evidence from Bankers interviewed.

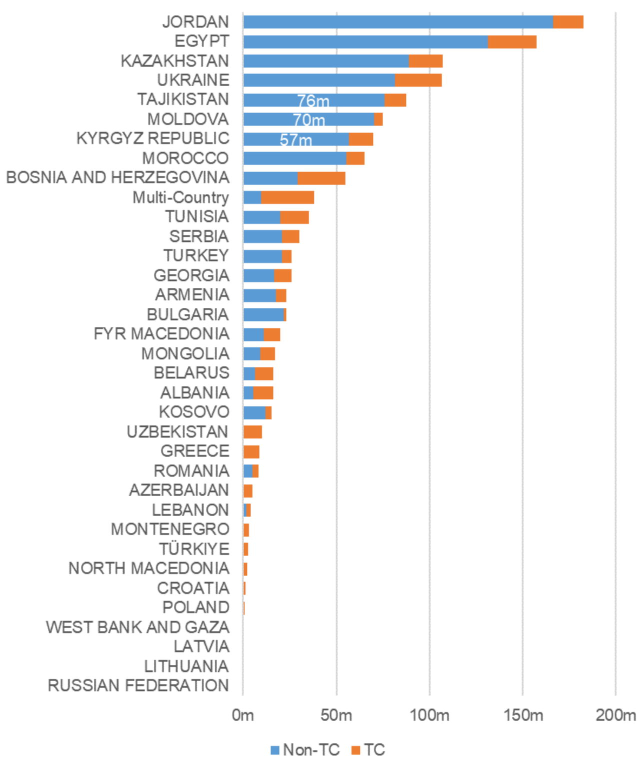
Figure 50: SIG disbursements to ETCs by country and donor type 2017–2022, €m



Source: Donor Co-Financing Reporting Hub data

Donor commitments for sustainable infrastructure to all countries of operations shows that **Jordan,** Egypt, **Kazakhstan and Ukraine were top recipients, none of which are ETCs**, with volume led by non-TC investment grants (see Figure 51 below).

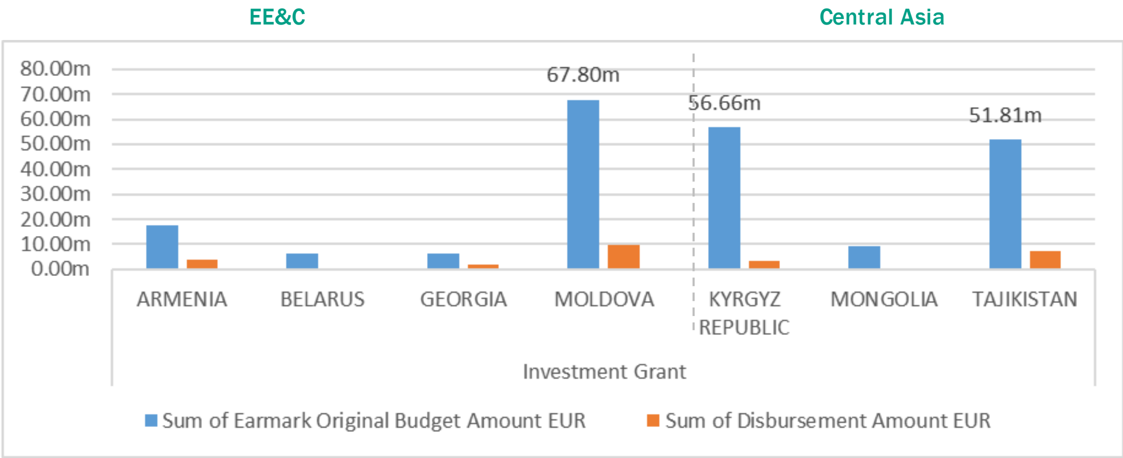
Figure 51: Total SIG donor committed for TC and non TC* to all countries 2017–2022, €m



Source: Donor Co-Financing Reporting Hub data

Top ETC recipients of investment grants (non-TC) were Tajikistan (58m) and Moldova 63m), followed by Kyrgyz Republic (34m) (see Figure 52). ETCs not receiving investment grants included: Azerbaijan, Turkmenistan and Uzbekistan.

Figure 52: Total investment grants approved 2017–2022 in ETCs (€m)



Source: Donor Co-Financing Reporting Hub data; NB: Non-TCs represent investment grants, incentive payments and investment co-financing.