# EURASIAN DEVELOPMENT BANK STRATEGY FOR THE PERIOD FROM 2018 TO 2022

## ACRONYMS AND ABBREVIATIONS

AIIB – Asian Infrastructure Investment Bank
ADB – Asian Development Bank
AIC – Agroindustrial Complex
GDP – Gross Domestic Product
PPP – Public-Private Partnership
EDB – Eurasian Development Bank
EAEU – Eurasian Economic Union
EBRD – European Bank for Reconstruction and Development
EIB – European Investment Bank
EEC – Eurasian Economic Commission
KR – Kyrgyz Republic
IDA – International Development Association
MDBs – multilateral development banks
IBRD – International Bank for Reconstruction and Development
IIB – International Investment Bank
IOs – international organizations
IFRS – International Financing Reporting Standards
IFC – International Finance Corporation
IFIs – international financial institutions
NDB – New Development Bank (BRICS Bank)
OECD – Organization for Economic Cooperation and Development
UNDP – United Nations Development Programme
RoA – Republic of Armenia
RoB – Republic of Belarus
RoK – Republic of Kazakhstan
RKDF – Russian-Kyrgyz Development Fund
RoT – Republic of Tajikistan
RF – Russian Federation
CIS – Commonwealth of Independent States
FTA – free trade agreement
MSW – municipal solid waste
CIP – current investment portfolio
TAF – Technical Assistance Fund
BSTDB – Black Sea Trade and Development Bank
SCO – Shanghai Cooperation Organization
BRI – Belt and Road Initiative
UNIDO – United Nations Industrial Development Organization

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# I. INTRODUCTION

In 2017, the Eurasian Development Bank completed its previous five-year operating cycle with results clearly testifying that it has successfully established itself as a multilateral development bank capable of efficiently promoting deeper integration among its member-state economies.

Implementation of the Bank's 2013–2017 Strategy proceeded in a rather bleak macroeconomic climate. The relatively favourable foreign terms of trade and high prices for primary commodities observed in the early years of the previous Strategy's effective term were followed in 2014–2016 by a significant drop in global raw material prices. That impaired the region's economy, among other ways, by dampening the interest of would-be investors in borrowing to finance investment projects.

Despite that, seamless cooperation among all its units and the assistance provided by its shareholder countries enabled the EDB to meet most of its targets and create an impressive project pipeline for further expansion of its investment operations in the course of implementation of a new Strategy. This demonstrates the Bank's institutional maturity, and its ability to operate in a challenging external environment.

During the new strategic period (2018–2022), the Bank will focus on financing projects with a strong integration effect and national development projects, fostering cooperation with "anchor" customers. By the end of 2022, the current investment portfolio is expected to increase from US$2.3 billion to US$3.6 billion, while the total value of new EDB projects will have reached US$4.6 billion.

During the Strategy implementation period, the Bank intends to launch new settlement and clearing services, expand partnerships and alliances to secure additional funding sources for projects based in EDB member states, advance its corporate development, and enhance its business processes.

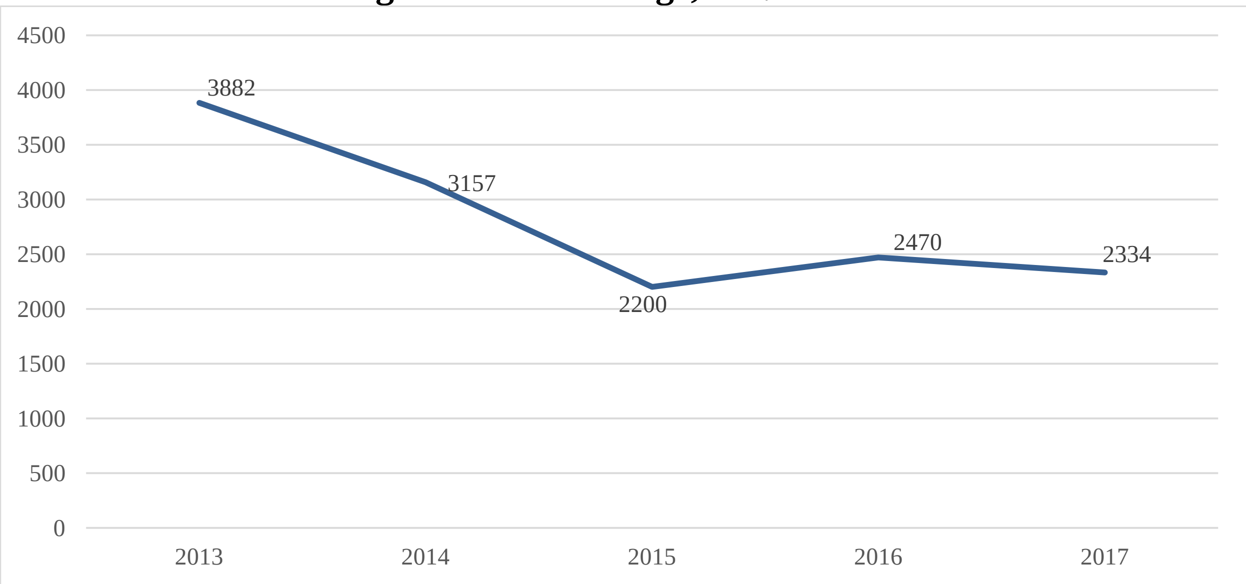
The Strategy of the Bank for the period from 2018 to 2022 has been developed by its Management Board in collaboration with authorized governing bodies, and unanimously supported by the Council of the Bank, the EDB's supreme management body. Its implementation will have a positive impact on the economic development and integration of EDB member states.

## II. RESULTS OF 2013–2017 STRATEGY

**In 2014–2015, the current investment portfolio (CIP)**[1] **of the EDB significantly decreased.** The negative phenomena prevailing in member-state economies in those years (lower or even negative growth rates, sluggish investment activity in the corporate sector, devaluation of national currencies, volatility of interest rates) inevitably narrowed the scope of the Bank's investment operations and diminished its CIP.

**In 2016–2017, the Bank reversed the CIP decline, posting a growth relative to 2015** (Figure 1). In 2016, the Bank executed 21 deals for a total of US$794 million, the largest amount over the last several years, and one of the highest indicators among multilateral banks active in the EDB's region of operations in 2016. In 2017, the Bank signed agreements for 16 projects with a total value of US$642 million. On the other hand, residual crisis manifestations and low economic growth rates in EAEU member states retained their substantial restraining effect on solvent demand for investments, deterring the growth of lending volumes.

**Figure 1. CIP Change, US$ million**




Source: in-house EDB calculations

Because of the economic situation, total CIP value as of December 31, 2017 amounted to US$2.3 billion, failing to reach the US$3.3 billion target. The other 2017 strategic benchmarks were exceeded. The actual share of projects with positive integration effect stood at 60.5% (plan: 50%), net profit for 2017 at US$41.7 million (plan: US$33 million), and return on equity (ROE) at 2.5% (plan: 2.1%). In addition, the EDB scored better-than-expected credit ratings (both ratings

[1] The current investment portfolio is the collection of financial instruments associated with duly approved projects for which treaties/agreements or other legally binding documents have been signed. The value of the investment portfolio is calculated as the sum total of current values of outstanding loans posted to the Bank's balance sheet and off-balance-sheet liabilities related to projects included in the investment portfolio of the Bank, net of provisions and discounts.

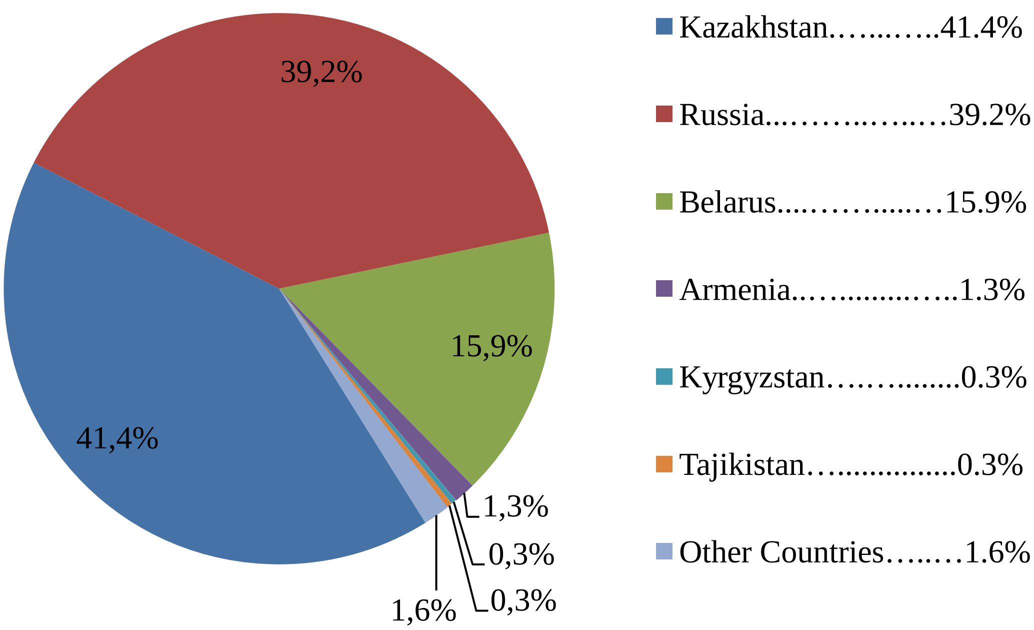
assigned to the Bank by international rating agencies surpassed the RF sovereign rating, while the plan called for one rating to be higher than the RF sovereign rating, and the other rating equal to it), and stayed well within the target share of provisions in the book portfolio (3.3% vs. 5%).

An actual vs. target comparison of the Bank's Strategy benchmarks in 2013–2017 is provided in Attachment 2.

**The Bank has identified a significant number of potential projects.** As of December 31, 2017, there were nine ready-for-signing projects for a total of US$670 million. Conceptual frameworks were approved for another 29 investment projects with aggregate anticipated EDB funding of US$2.5 billion. This shows that the Bank has completed considerable groundwork for future expansion of its investment activities.

The **structure of the current investment portfolio with a breakdown by country and sector** is presented in Figure 2 and Figure 3.

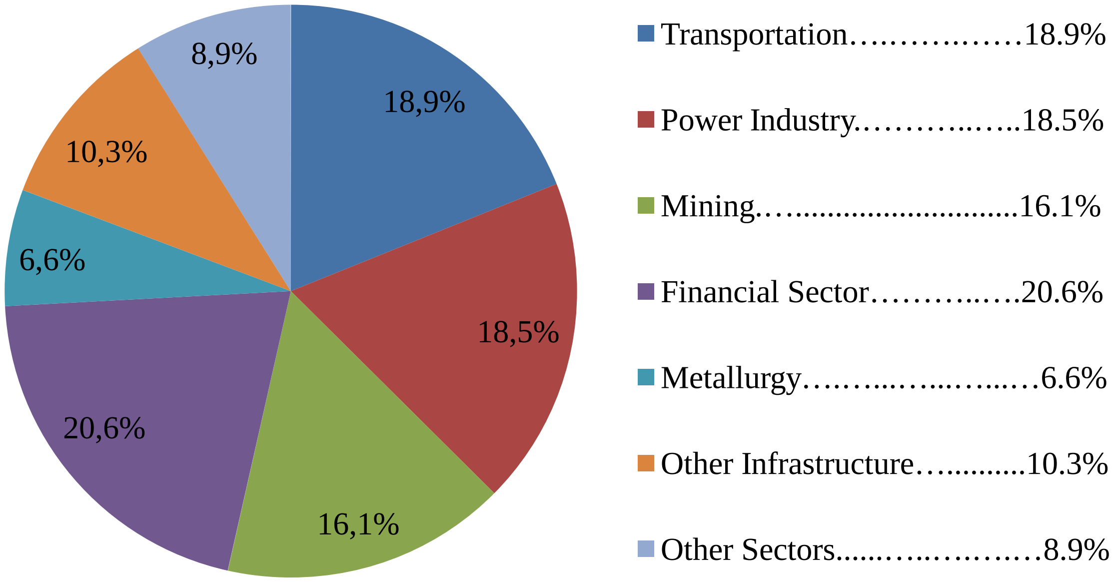
**Figure 2. Country Structure of the Current Investment Portfolio (as of December 31, 2017)**




Sources: in-house EDB calculations

**The Republic of Kazakhstan and the Russian Federation are the two largest countries of operations,** which account for approximately equal shares of the CIP (41.4% and 39.2%, respectively). Another major country of operations is the Republic of Belarus with 15.9%. The shares of the other member states in the CIP are much more modest, ranging from 0.3% to 1.3%. The Bank is seeking to boost its operations in the Republic of Armenia, the Republic of Tajikistan, and the Kyrgyz Republic. These three member states already account for more than 13% of the EDB's project pipeline.

**Figure 3. Sectoral Structure of the Current Investment Portfolio (as of December 31, 2017)**




Sources: in-house EDB calculations

**The Bank believes that the sectoral structure of the current investment portfolio is balanced, and fully reflects investment priorities** stipulated by the Strategy for the period from 2013 to 2017. Electric Power, Transportation, and Other Infrastructure accounted for 48% of the portfolio, while the aggregate share of the other strategic sectors (Mining and Metallurgy, Mechanical Engineering, Chemical Industry) stood at 26%. A significant chunk of the portfolio (21%) was represented by Financial Sector projects. This can be attributed to the sector's high integration potential (export and import operations, including leasing operations, etc.).

**In 2015–2017, the EDB stepped up its cooperation with other multilateral development banks (MDBs).** The Bank interacted with all MDBs active in the region. A landmark event was the implementation, with the participation of the recently created New Development Bank (NDB – the BRICS Bank) and the International Investment Bank, of a joint project for construction of two small hydro power stations in Karelia (Nord Hydro, the first NDB project in Russia). Cooperation memoranda and agreements were signed with the NDB, the European Bank for Reconstruction and Development, the Asian Development Bank, and the Russian-Kyrgyz Development Fund. The Bank has also been exchanging project proposals with the BRICS Bank and the Asian Infrastructure Investment Bank.

**A review of the 2013–2017 Strategy results has led the Bank to a number of important conclusions:**

- Potential customers of the Bank are not particularly keen on receiving investment financing in US dollars or euros, instead giving preference to financing in national currencies.

- There has been a considerable increase in the volume of funding offered by commercial banks in the sectors traditionally serviced by development institutions, primarily in loan-based funding of infrastructural projects; non-governmental pension funds, asset managers, and other institutional investors have also shown some interest in infrastructural projects.
- The traditional financing paradigm typical for investment projects originated by large corporate customers is changing, with an increasingly pronounced shift from bank loans to simpler and often less costly bond-secured loans, which in many cases do not need to be secured.
- Corporate customer behaviour is undergoing changes similar to those produced by new retail banking technologies, with customers tending to favour minimal personal contacts and simple lending procedures.
- Decision-making is accelerating, in particular, on the back of technological breakthroughs in the traditional operating areas of development institutions (Transportation, Infrastructure, Electric Power Industry, Oil and Gas Industry, etc.).

These factors have been taken into consideration by the EDB in the course of preparation of the Bank's Strategy for the period from 2018 to 2022.

# III. EXTERNAL ENVIRONMENT

## 3.1. ECONOMIC SITUATION IN THE EDB MEMBER STATES IN 2013–2017

The period from 2013 to 2017 was characterized by considerable changes in the external economic environment. The relatively favourable economic conditions and high prices for primary commodities observed at the beginning of the period under review, were followed by a significant drop in global raw material prices (primarily energy prices) and imposition of economic sanctions on Russia. Deterioration of the terms of trade for the two largest EDB economies (Russia and Kazakhstan) had a strong adverse impact on development of other countries in the region. Additional pressure on economic growth was exerted through such channels as mutual trade, migrant cash remittances, and other financial flows. In 2013–2016, GDP growth rates posted by the Bank's member states passed from the positive domain into the negative domain (2013: +2.2%; 2015: -2.1%). In 2017, negative trends in the region somewhat weakened, with the GDP growth rate up to 1.8% by the end of the year. Over the five-year period (2013–2017), the region's GDP increased by 2.9%, although economic performance varied greatly from country to country (Table 1).

**Table 1. GDP Growth Rates in EDB Member States in 2013–2017, %**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Armenia** | 3.3 | 3.6 | 3.2 | 0.2 | 7.5 |
| **Belarus** | 1.0 | 1.7 | -3.8 | -2.5 | 2.4 |
| **Kazakhstan** | 6.0 | 4.2 | 1.2 | 1.1 | 4.0 |
| **Kyrgyzstan** | 10.9 | 4.0 | 3.9 | 4.3 | 4.6 |
| **Russia** | 1.8 | 0.7 | -2.5 | -0.2 | 1.5 |
| **Tajikistan** | 7.4 | 6.7 | 6.0 | 6.9 | 7.1 |
| **EDB Member States** | **2.2** | **1.1** | **-2.1** | **-0.1** | **1.8** |

Source: national statistical agencies

The significant decrease of global primary commodity prices provoked elevated volatility of national currency exchange rates, which persisted from the end of 2014 to the beginning of 2016. Shrinking budget revenues and build-up of public expenditure in an attempt to bolster economic activity translated into growing budget imbalances and heavier public debt burdens in most EDB member states (Table 2).

**Table 2. Budget Balance (BB)[2] and Public Debt (PD) in EDB Member States in 2013–2017, % of GDP**

| | RoA | | RoB | | RoK | | KR | | RF | | RoT | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | BB | PD | BB | PD | BB | PD | BB | PD | BB | PD | BB | PD |
| **2013** | -1.6 | 40.9 | -0.3 | 21.6 | -1.9 | 12.3 | -0.7 | 47.8 | -0.4 | 12.7 | 0.3 | 32.8 |
| **2014** | -1.9 | 43.7 | 0.7 | 21.5 | -2.7 | 14.3 | -0.5 | 53.6 | -0.4 | 15.6 | 0.3 | 27.6 |
| **2015** | -4.8 | 48.7 | 1.7 | 31.4 | -2.2 | 22.1 | -1.4 | 67.1 | -2.4 | 15.9 | 0.8 | 33.2 |
| **2016** | -5.5 | 56.6 | 1.0 | 39.3 | -1.6 | 24.3 | -4.4 | 59.1 | -3.4 | 15.7 | -1.7 | 44.8 |
| **2017*** | -4.8 | 58.8 | 2.7 | 39.3 | -2.8 | 26.2 | -3.2 | 59.9 | -1.5 | 15.1 | -0.3 | - |

Source: national statistical agencies, in-house EDB calculations; * – preliminary estimates

In addition to escalating fiscal problems, several countries in the region were faced with balance-of-payments deterioration caused both by external economic conditions and the dwindling inflow of investments and cash remittances.

Recovery of economic growth in EDB member states in 2017 was accompanied by a reduction of key rates by central/national banks against the backdrop of a considerable deceleration of inflation, which reached record low levels in Russia and Belarus. Stabilization of raw material prices and national currencies in most EDB member states in 2017 created a favourable basis for recovery of mutual goods turnover in the region, with mutual trade showing a year-end growth. Relatively lax fiscal policies encouraged reduction of budget imbalances and deceleration of public debt growth. However, despite the positive growth posted by the Bank's member states in 2017, the prospects of their vibrant economic recovery by 2022 remain moderate. Persistent structural imbalances and preservation of economic sanctions against Russia will curtail mid-term economic growth potential.

The massive economic slump in the region caused, first and foremost, by the considerable deceleration of economic growth in Russia and Kazakhstan in 2015–2016, and by slow recovery of the global economy, has had a negative impact on production sectors, including those which the EDB viewed as target sectors in its previous Strategy.

Virtually in all countries, production in the sectors regarded as economic growth drivers slowed down or decreased. The common denominator for all economies was the reduction of the Processing Industry contribution to GDP growth. The largest declines were registered in Belarus and Russia. The 2016–2017 data show that, despite the devaluation effect, recovery of growth in traded sectors remains relatively low compared to the pre-crisis period. Agriculture remains an important growth driver in Armenia and Kyrgyzstan, while in Russia this sector became one of the leaders in output growth in 2016–2017, with an average growth rate of 3.6%.

[2] Belarus – Republican Budget; Armenia – State Budget; Russia – Federal Budget; Kazakhstan – State Budget; Kyrgyzstan – State Budget; Tajikistan – State Budget.

## 3.2. ECONOMIC DEVELOPMENT SCENARIOS FOR EDB MEMBER STATES

Based on projected growth of global energy and primary commodity prices and changes in the economic development conditions of Eurasian countries, the Bank has worked out three development scenarios for its member states: baseline, best-case, and worst-case.

**Table 3. Economic Development Scenarios for EDB Member States**

| | **2018** | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|---|
| **GDP Growth, %** | | | | | |
| Worst-Case Scenario | 0.1 | 0.2 | 0.5 | 1.1 | 1.4 |
| Baseline Scenario | 1.9 | 2.0 | 2.0 | 2.1 | 2.2 |
| Best-Case Scenario | 2.6 | 2.9 | 2.9 | 3.0 | 3.0 |

Source: proprietary Bank data

The **baseline scenario** envisages continued steady growth of the global economy, with average annual Brent oil prices stabilizing within the range of US$55 to US$60 per barrel in 2018–2022. Under this scenario, in 2018–2022, EDB member-state economies are expected to grow at a rate of 1.9-2.2%. Growing mutual trade and anticipated reduction of central/national bank key rates in a number of EDB member states will galvanize economic growth in the region as a whole. At the same time, this potential will be limited by structural imbalances. In the mid-term perspective, we expect a weakening of national currencies (in line with the general trend affecting emerging-market currencies), which, however, will not give rise to additional inflation risks. Inflation in the EDB region of operations will stay close to target values.

In the **best-case scenario**, mid-term global economic risks (weak growth of labour productivity, limited ability to manage deflation risks with monetary policy instruments) will be overcome relatively fast, which will facilitate acceleration of global economic growth over the medium term. This will result in a stable growth of Brent oil prices, which will have reached US$75 per barrel by 2022. It is also expected that economies of the region will use this window of opportunity, and implement unpopular economic policy measures, which are usually harder to take during economic slump periods. Investments will be the key growth driver and will be stimulated, in addition to relaxation of monetary policy, by potential investor expectations reinforced by upgrades of sovereign ratings of the countries in the region, and by assignment of an investment-grade rating to the Russian Federation. The export potential, buttressed by improving terms of trade within the EAEU and new trade treaties with third countries, will be strengthened by higher external demand. In 2019–2022, economic growth rates in the Bank's member states will reach 3% per annum.

The **worst-case scenario** is based on the assumption[3] that significant deceleration of the global economy will result in stagnation of economic growth in the Bank's member states. As a result of that deceleration, global oil demand will grow slower than oil supply, and the Brent oil price will average out at US$30 per barrel in 2018, gradually increasing to US$40 per barrel by 2022. Lower external demand and preservation of limited access to foreign investment capital will exacerbate structural imbalances in the region of operations of the Bank. Inflation risks will re-emerge against the backdrop of faster (relative to baseline and best-case scenarios) devaluation of national currencies.

**There are several economic growth drivers** which may have a positive impact on investment activities and operations of the Bank in the region:

- interest-rate reduction potential;
- recovery of mutual goods turnover and investments relative to the low levels in 2014–2015;
- an upgrade of sovereign and corporate ratings in the Bank's member states.

**Generally, recovery of economic growth in the Eurasian region is likely to rely on higher investment volume, which in turn will boost demand for the Bank's project financing services.**

**The key macroeconomic risks in 2018–2022 include:**

- increase of the US FRS key rate and, consequently, strengthening of the US dollar, which may make credit resources in the emerging markets more expensive;
- continued strengthening of sanctions-related pressure on the Russian economy;
- preservation of structural imbalances in the economies of countries of operation of the Bank;
- a high level of overdue debt in the banking sectors of certain EDB member states.

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[3] We used, as the source of information for our worst-case scenario, assumptions made by RF and RoK national agencies and published in programme documents describing mid-term social and economic development projections for those countries.

## IV. KEY STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS (SWOT ANALYSIS)

**The Strategy presented in this document considers strengths and weaknesses of the Bank, opportunities and threats faced by it in the external environment, and lessons learnt from implementation of previous strategies.**

Over the years that have passed since its establishment, the Bank has acquired a set of competitive advantages which can now be regarded as its **strengths**.

- **Financial stability.** With its conservative approach to maintaining liquidity and setting internal financial ratios, the Bank has fully discharged all its direct obligations despite the financial and economic turbulence which marked its previous strategy implementation period. This gives the EDB a considerable edge over many national financial institutions.
- **Shareholder support.** The Bank enjoys support from its member-state governments. For example, in 2014, they increased its charter capital to US$7 billion by undertaking to pay (make) agreed shareholder contributions upon occurrence of certain adverse circumstances ("callable capital"). In 2016, the National Bank of the Republic of Kazakhstan and the EDB entered into a framework agreement granting the Bank access to KZT-denominated liquid funds. In 2017, the EDB was selected by the Ministry of Agriculture of Russia as an authorized bank charged with implementation of a programme envisaging extension of soft loans to agricultural producers. Since 2018, EDB credits provided to Russian entities to finance integrated investment projects in priority civil industry sectors have been entitled to subsidies from the Ministry of Industry and Trade of Russia, partially covering interest costs incurred by borrowers. The EDB intends to use similar shareholder support arrangements in other countries, notably in Kazakhstan.
- **Mature competencies.** Since its inception, the Bank has established in its region of operations a reputation of an entity capable of providing large-scale investment project financing which is fully adequate in terms of structure and volume. The Bank has developed significant competencies in complex projects, including those based on public-private partnership principles. The EDB has accumulated rich project implementation experience in sectors perceived by its member states as priority sectors, such as Transportation and Energy Infrastructure. In its project activities, the Bank relies on proprietary sectoral expertise, which enables it to offer its customers the most effective project solutions on the one hand, and improve its risk management practices on the other. The Bank has become the region's top analytical authority on integration matters. The EDB is involved in expert assessments conducted by member-state governments to improve and harmonize national legislation in the area of creation of public-private partnerships, and in development of syndicated lending and long-term investment markets.
- **Financing terms and project preparation.** The terms on which the EDB provides financing have a number of competitive advantages. First, the Bank is capable of lending for long terms (up to 25 years), which considerably exceeds durations offered by other financial institutions in its region of operations. Second,

the Bank offers its customers interest and principal payment grace periods – unlike commercial financial institutions, which find it difficult to do so due to existing regulatory restrictions. Third, the EDB can extend subordinated credits ("junior debt") and acquire equity participations, provide credit resources to finance maturing interest payments, and fund creation of reserve accounts that can be used to finance the current deficit of project budgets, e.g., at the investment stage. Commercial banks are handicapped when it comes to provision of such services because of the limitations imposed by national financial regulators. The Bank is ready to work with project initiatives at the earliest stages of their development, helping customers to correctly structure their projects, and to conduct requisite industrial, marketing, technological, environmental, and other due diligence. The Bank has created a Technical Assistance Fund, and uses it to support its customers in preparation of investment projects.

- **Partnerships.** The Bank maintains contacts with all key multilateral and national development banks and international organizations represented in its region of operations. This enables it to act as the organizer of loan syndications, raising additional funding to finance strategically important projects. The EDB actively interacts with executive bodies of key integration associations in which its member states are involved, such as the EAEU, the CIS, and the SCO, and with national sectoral ministries and key organizations, e.g., those specializing in supporting export operations. This enables the Bank to better understand industry priorities and the tasks faced by its shareholders, *inter alia*, on the supranational level, and to support investment projects best matching such priorities and tasks.
- **International status and lack of restrictions.** Being an international financial institution, the EDB is not, in accordance with its constitutive documents, subject to regulation and supervision requirements imposed by national laws of its member states. The Bank, its assets and profit are exempted from taxes. The EDB also enjoys judicial and other immunities, and has Preferred Creditor Status: When imposing restrictions, issuing directives, and announcing moratoria by way of publication of appropriate normative acts, member states exclude their adverse application to the Bank's property and assets. These factors contribute to its successful operation, and represent an important advantage of the EDB as a credit institution. Preferred Creditor Status gives the Bank additional opportunities for mobilization of external capital to finance projects by way of an "umbrella-like" extension of that status and related protective mechanisms, to loans financed by the other loan syndicate members. The Bank is exempt from administrative and other restrictions used by its member states when dealing with state-owned enterprises. This gives the EDB a critical competitive edge in comparison with other international financial institutions and financial institutions with foreign equity participation. Taking into consideration the size of the public sector in the economies of the Bank's member states, this greatly increases its investment project structuring capacity. This is also true for the Bank's funding operations. It is exempt from restrictions imposed on a number of leading Russian credit institutions, which enables it to conduct a more proactive policy in international capital markets.

- **Presence of the Bank in all member states.** The EDB has representative offices in all its member states, which greatly facilitates interaction with customers, governing bodies, and development partners. Owing to its territorial units, the Bank is more accessible and flexible in its dealings with local entities, and has a better understanding of their needs.

On the other hand, the Bank has certain **weaknesses,** whose elimination would make it possible to more fully realize its potential, primarily in the interests of its shareholders.

- **Lack of a broad range of liquidity management tools denominated in local currencies.** Unlike national development institutions and commercial banks, the EDB has extremely limited access to tools that could be used for raising and placing liquid funds denominated in national currencies of its member states. Furthermore, the Bank is not covered by many government programmes offering subsidies denominated in national currencies. First and foremost, this is true for the Russian rouble[4]. This problem has become particularly urgent at the current stage, when loans denominated in member-state currencies are in particularly high demand among borrowers. Successful attainment of Strategy objectives largely depends on resolution of issues related to availability of liquid funds denominated in national currencies.
- **Comparatively small paid-in charter capital.** The Bank's charter capital is merely US$1.5 billion, and in this respect it is far behind the leading multilateral development banks with a presence in its region of operations, such as the ADB, EBRD, and IBRD. This has a very restrictive effect on the EDB's ability to finance systemically critical investment projects, including those envisaging creation of transcontinental transport corridors and construction of large energy and industrial facilities.
- **Imperfection of the operating model.** A number of the Bank's internal processes are characterized by excessive red tape, overregulation, and inertia. It is necessary to improve its operational efficiency.
- **Relatively low credit rating.** At the end of 2017, the Bank had the following credit ratings: Baa1 (Moody's) and BBB- (Standard & Poor's). Those values, determined primarily by sovereign credit ratings of the Bank's member states, are below those boasted by the leading international financial institutions. This makes the Bank's borrowings more expensive, driving its loan interest rates higher than those charged by a number of other MDBs active in its region of operations.

Changes in the global economy and economic processes under way in the Eurasian space have opened before the EDB a broad range of **opportunities**.

- **Post-crisis economic recovery expectations.** According to the baseline scenario, recovery of member-state economies is expected to be the dominant 2018–2022 trend. This should encourage demand for investment capital, boost business activity, and increase demand for the funding provided by the Bank.

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[4] Only the National Bank of the Republic of Kazakhstan has opened a tenge-denominated credit facility for the EDB (2016).

- **Import substitution.** Although imposition of trade and investment restrictions on a number of industries and enterprises in the Russian Federation is, undoubtedly, a negative factor, it has generated new demand for import substitution products in the Bank's priority operating sectors. This creates new opportunities for financing projects supported by member-state governments.
- **Changes in cross-border flows to/from Asia.** Intensification of integration processes in Asian states facilitates the Bank's involvement in new projects. The crisis phenomena and sanctions-related restrictions that have emerged over the last several years have spurred expansion of trade and investment flows between the Bank's member states and the People's Republic of China and other countries of the Asia-Pacific region. This enables the Bank both to increase its proprietary project portfolio, and to expand its funding base and identify additional sources of income.
- **Cross-border infrastructural initiatives in the Eurasian space.** Initiatives envisaging joint development of cross-border infrastructure (primarily transport infrastructure) in the Bank's member states form the basis for long-term investment projects with a strong integration effect, which are of interest to the Bank. The Eurasian Economic Commission has drawn up a list of priority transport and infrastructure projects at the interface between the EAEU and the Belt and Road Initiative (BRI). Lending support to such initiatives is one of the Bank's most important tasks, and it is going to take an in-depth look at its possible involvement in those projects. Using its supranational status, the Bank may coordinate preparation and arrangement of syndicated funding for projects for the construction of international transport corridors. In doing so, the Bank may, among other things, rely on its collaborative relationship with Russia's PPP Development Centre and similar centres operating in the other member states.
- **New partners.** The "old" international development institutions, such as the EBRD, World Bank Group, and EIB, have still not resumed financing of new projects in Russia. The recently established NDB and AIIB, conversely, are expanding their operations. In that connection, the EDB will continue its efforts to bridge the funding gap that has emerged as a result of suspension of Russian operations by international development institutions. The Bank will also closely interact with new players seeking, in particular, to mobilize their resources with a view to funding EDB-sponsored investment projects, especially transport infrastructure and renewable energy projects, which is consistent with strategic priorities pursued both by the Bank and by its new development partners.
- **Expansion of member base.** The economic and political situation in the Eurasian space creates new opportunities for expansion of the Bank's area of operations by attracting new shareholders. This will strengthen the Bank's investment capacity (including its ability to identify new integration projects), solidify its resource base, and create conditions conducive to an upgrade of the EDB's credit rating with the resultant reduction of the cost of capital raised in financial markets.

Taking into consideration the current situation and the ongoing evolution of the external environment, in 2018–2022, the EDB will be facing certain **threats** which may have an adverse impact both on the Bank's financial position, and on its ability to assure attainment of its strategic objectives and deal with systemic challenges.

- **Strengthening competition and changes in the financial industry.** The Bank is facing increasingly strong competition from commercial banks in the sectors traditionally serviced by development institutions. There has been a notable acceleration of decision-making, particularly due to technological changes in traditional MDB operating areas (Transportation, Infrastructure, Power Industry, etc.) and in the Financial Industry. The traditional investment project funding paradigm is being transformed, with an increasingly noticeable shift from bank loans to bond-secured loans. In this context, the Bank needs to explore new operating areas and niches, implement new bank products and instruments, offer less expensive funding, and attract "anchor" customers.
- **High regional investment risks.** Despite the post-crisis recovery of member-state economies, persistently high investment risks in the Bank's region of operations may still have an adverse impact on the financial position of its borrowers, reduce the number of attractive investment projects with exposures which are consistent with the Bank's risk appetite, and diminish funding opportunities, thereby impairing the Bank's operating results. More detailed information on the prospects of changes of the economic situation in the Bank's member states is provided in the section of this Strategy entitled *External Environment.*
- **Limited number of integration projects in several target industries.** The slow rate of recovery of the largest national economies in the Bank's region of operations hinders further growth of the need for funding for integration projects in the Eurasian space. Despite the initiatives put forward by the Eurasian Economic Commission and the existence of a certain political agenda, the real demand for integration projects in many industries remains insignificant. In that connection, it appears expedient to apply a differentiated approach to determination of the target share of integration projects in various areas of the Bank's investment operations.

# V. STRATEGIC DEVELOPMENT PRIORITIES OF THE EDB

## 5.1. MISSION OF THE BANK

**The Bank remains committed to its mission to promote development and strengthening of market economies of its member states, and to secure their economic growth and expansion of their mutual trade and economic ties through investment activity.** In all its operations, the Bank will seek to focus on those areas of development where it can play a meaningful role and exercise the greatest impact on the process of integration of member-state economies, their balanced growth, and improvement of their competitiveness.

**The Bank will also seek to align its work with the global development agenda** defined, *inter alia*, by resolutions of the Group of Twenty, the leading multilateral forum on economic and financial cooperation. In that connection, the Bank is for the first time setting as its priority the promotion of inclusive economic development of its member states. At the same time, the efficiency and scale of EDB operations in that area will depend on continued support of the Bank by its shareholders.

## 5.2. STRATEGIC AIM

**During the new strategic period, the EDB will focus on financing projects with a strong integration effect and national development projects, fostering cooperation with "anchor" customers** – large companies whose partnership will enable the Bank to occupy systemically significant niches in the industries that have a priority status for member-state economies.

By the end of 2022, the current investment portfolio will have increased from US$2.3 billion to US$3.6 billion, while the total value of new EDB projects to be implemented in 2018–2022 will have reached US$4.6 billion.

## 5.3. STRATEGIC OBJECTIVES

**To assure attainment of its strategic aim, the Bank will focus on the following strategic objectives:**

- **Financing projects with a strong integration effect and national development projects.** During the new strategic period, projects of these two types will be classified by the EDB as priority projects. Their detailed description, relevant project requirements, and target scopes are provided in the subsection entitled *Target Projects.*
- **Introduction of new financial products and instruments.** To assure progress in the new operating areas, the Bank will expand the range of its financial products and instruments, particularly those related to provision of new settlement and clearing services, and complete all requisite internal organizational changes.
- **Intensification of interaction with governing bodies (GR strategy).** During the new strategic period, the Bank will maintain active contacts with EAEU governing bodies and EDB member-state governments with a view to

assuring comprehensive involvement of the Bank in various mechanisms designed to deepen integration among EAEU economies, and to assure implementation of joint and national projects and extension to the EDB of state support programmes available to national development institutions and commercial banks.

- **Provision of support to industrial production projects.** The Bank believes that one of its most important strategic objectives is identification, preparation, and financing of projects envisaging creation of products with high added value, primarily high-tech products, and projects facilitating technological development of member-state economies. The Bank is particularly interested in the introduction of additive technologies (AF technologies) at various production facilities, including automotive and aircraft industry enterprises, where the gap between the member states and market leaders is especially noticeable. In its investment operations, the Bank will be seeking to facilitate deeper industrial cooperation among economic agents operating in its member states with a view to stimulating the output of jointly manufactured products, increasing the share of member-state industrial products in domestic markets and the level of localization of such products, and supporting production of globally competitive products that are aligned with industrial policy priorities of the Bank's member states and have significant export potential.
- **Promotion of PPP initiatives in the Bank's member states.** The EDB will be paying special attention to preparation and implementation of projects based on public-private partnership principles. The Bank assumes that during the new strategic period, PPPs will become, for its member states, one of the key mechanisms of mobilization of private capital for various projects in key sectors of the economy, primarily those traditionally financed from budget sources, including Transport Infrastructure, Utilities, and Social Infrastructure. In particular, the EDB plans to participate in the "roadmap" for the development of PPP tools ("infrastructural mortgage") approved by the Chairman of the Government (Prime Minister) of the Russian Federation on March 12, 2018.
- **Development of partnerships and alliances to identify additional sources of project funding in member states.** The Bank will continue its efforts (actively pursued during the previous strategic period) to expand partnerships and alliances designed to mobilize external investment resources to finance projects in priority sectors of member-state economies. The Bank will seek to establish loan syndicates with other international and national financial institutions, among other things, by using its Preferred Creditor Status and "umbrella-like" extension of its protective mechanisms to credits financed by other loan syndicate members. Additional information on those matters is provided in the subsection entitled *International Cooperation.*
- **Expansion of shareholder base.** The Bank believes that the economic and political situation in the Eurasian space is creating new opportunities for expansion of its area of operations which, in turn, increase its investment capacity. During the new strategic period, the Bank's efforts to attract new shareholders will focus on countries within its region of operations.
- **Promotion of humanitarian integration.** The Bank will consider (involving, where necessary, its Technical Assistance Fund) projects designed to

promote humanitarian cooperation among its member states. Such projects in the area of culture and the arts, science, and education will be instrumental to the creation of a common Eurasian humanitarian space.

- **Improvement of visibility to maximize inflow of new customers and project applications (PR strategy).** The EDB will pursue an open information policy in the PR domain to promote its brand, positioning itself as a reliable partner in the Eurasian space. The Bank intends to intensify its involvement in international and national business associations, industry associations and unions, economic forums, and investment exhibitions; to conduct roadshows to inform potential customers of its abilities to prepare and implement projects; to expand the user base for its analytical products (primarily products that have applied significance for representatives of the business community and government bodies); and to conduct special events for its customers. The Bank will continue to hold annual international conferences of the *Eurasian Integration* series, which have become the most important EDB image product over the ten years of its existence. The Bank will also improve its website by publication of country-specific information about its project activities.

## 5.4. CORPORATE DEVELOPMENT OBJECTIVES

**Internal objectives for 2018–2022 include:**

- **Development of cooperation with "anchor" customers.** The Bank will seek to ensure that both traditional and new customers become its "anchor" partners, and intends to increase the number of such customers by creating new strategic partnerships with companies that are implementing projects in those sectors of the economy which the Bank considers critical for its investment activities. It is expected that development of such partnerships will be facilitated by introducing new financial products and instruments.
- **Revision of approaches to pricing of resources for customers.** The Bank intends to reduce its interest rates to make them more competitive relative to those offered by other multilateral development banks and certain national financial institutions. The new policy for pricing of resources for customers will continue to emphasize the importance of alignment between investment projects and the Bank's mission and strategic objectives, meaning that projects with high impact on the development and integration of EDB member-state economies will be financed on relatively more favourable terms.
- **Enhancement of project preparation mechanisms.** To facilitate attainment of the Bank's strategic objectives related to promotion of PPP initiatives in its member states, and to further expand its investment activity, the Bank intends to implement new approaches to, and instruments for, preparation of investment projects using the expertise offered by the Technical Assistance Fund. Additional information on the Bank's operations in that area is provided in the subsection entitled *Technical Assistance and Project Preparation.*
- **Institutional (corporate) development of the Bank.** During the new strategic period, the EDB plans to consider transition from a two-level corporate governance system to a three-level corporate governance system by creating, in

addition to the Council of the Bank and the Management Board, a new governing body, the Board of Directors (BoD). Creation of the BoD will be consistent with the generally accepted operating procedures used by multilateral development banks, and will make it possible to reduce the workload borne by the Council of the Bank by delegating some of its functions to the Board of Directors, and to maximize involvement of EDB shareholders in managing the Bank's operations.

The Bank intends to considerably increase the operational efficiency of its regional representative offices in Minsk, Erevan, Bishkek, and Dushanbe by shifting their primary focus to the investment process, specifically, to identification, preparation, and support for implementation of EDB projects.

The existing business model (business processes, project cycle regulations, document management, HR management systems, information systems, etc.) will undergo further improvements, *inter alia*, to adapt it to the new Strategy. It is expected that, following implementation of those measures, the time required for preparation of large-scale investment projects by the Bank will not exceed eight months.

In addition, the Bank, acting in concert with its shareholders who have established the Eurasian Fund for Stabilization and Development, will participate in seeking ways to enhance the systems currently used to manage the fund's operations.

- **Enhancement of the personnel management system (HR strategy).** Personnel management policies and approaches will be enhanced in line with recommendations of the Group of Twenty (in particular, in the area of compensation), OECD corporate governance principles, and best practices used by the leading multilateral development banks. The Bank will continue to invest in personnel development programmes, and to offer external and internal training designed, first and foremost, to enhance the professional knowledge and skills of its employees, instil the customer-first mindset, and promote team spirit and corporate culture.
- **Bank resources.** Currently the two most significant problems facing the EDB are the lack of a full set of instruments to manage liquid funds denominated in member-state currencies (and which are available to national development institutions and commercial banks), and the relatively small amount of paid-in charter capital. One of the possible solutions is to increase the EDB capital with additional contributions denominated in member-state national currencies. The Bank intends to start a discussion on that issue. The shareholders will also be asked to consider the possibility of converting some of the Bank's accumulated equity into national currencies, with establishment of an appropriate fund. Availability of capital/equity denominated in member-state national currencies will make it possible to reduce the dependence of EDB funding on the performance of national financial markets, decrease the Bank's funding costs, and improve its ability to participate in financing of systemically important investment projects. Creation of a national currency resource base will be critical for development of new EDB operating areas and niches.

### 5.5. TARGET INDUSTRIES

**In 2018–2022, the Bank will focus its investment activity on the following industries:**

- **Infrastructure (Transport, Utility, Other)**
- **Electric Power Industry**
- **Chemical and Petrochemical Industry**
- **Mechanical Engineering**
- **Metallurgy and Mining**
- **Oil and Gas Industry**
- **Agroindustrial Complex**
- **Financial Sector**
- **Information Technologies**

Selection of industries was based on their integration potential, provisions of member-state national development programmes, findings of in-house analyses of member-state competitive advantages (industries with competitive export potential), and investment appeal. The Bank also took into consideration the current and projected macroeconomic situation in its region of operations. This list includes priority industries, but is not exhaustive.

**During the first half of the new EDB Strategy implementation period, the Bank plans to approve resolutions on the deepening of specialization of its investments in the industries listed above.** Those resolutions will rely, among other things, on the status of partner relations with "anchor" customers. The EDB will seek to coordinate its project activities with the operations of the Eurasian Fund for Stabilization and Development to achieve a synergistic effect.

**The following subsections provide a description of the Bank's investment activities in each of the key industries.**

**Infrastructure (Transport, Utility, Other)**

**Development of core infrastructure[5] is one of the most important priorities of the Bank's project activities.** The EDB views implementation of infrastructural investment projects as its key task as a development institution, primarily due to the considerable multiplicative effect of such investments[6].

Transport infrastructure development projects promote integration potential in the Eurasian space and, accordingly, represent one of the most important areas of EDB project activities.

In the Transport Infrastructure sector, the Bank will focus on financing projects that advance both the development of integration and the creation of a common EAEU transport space in accordance with the provisions of “On the Main

[5] Core infrastructure includes transport, utility, telecommunications, and social infrastructure.

[6] According to McKinsey Global Institute research, the long-term economic efficiency of investments in infrastructure may amount to US$0.2 per each invested dollar, primarily due to productivity improvements.

Directions and Stages of Implementation of the Coordinated (Agreed) Transport Policy of the EAEU Member States", and attainment of national industry development strategy objectives[7], including the following:

- improvement of transport connectivity of regions within a common economic market;
- development of modern and efficient transport infrastructure;
- improvement of the stability and safety of transport systems;
- development of intelligent transport systems;
- improvement of accessibility of transport services to the general population;
- realization of the transport potential of member states.

**One of the cornerstones of successful development of a common transport space of EDB member states is implementation of integration projects for construction of cross-border transport corridors,** which contribute to elimination of barriers to further development of transport infrastructure. Those projects create conditions and prerequisites for economic development and expansion of mutual trade and investments of the Bank's member states.

**In the Utility Infrastructure sector, the EDB will be primarily financing projects that contribute to improved quality of life of the general population**, *inter alia*, in accordance with the priorities stated in *UN Sustainable Development Goals 2030*. Some of the critical operating areas of the Bank include "green" and replicable national development projects for large cities designed to modernize urban utilities, reduce wastewater contamination, improve water purification quality, etc.

**Another attractive niche for the Bank's investment activity is financing of social infrastructure development projects**[8] with high social and economic significance for EDB member states, including "human capital" development projects.

**In the Telecommunications Infrastructure sector, investment activity of the Bank, as a development institution, will focus on projects envisaging creation of Next Generation Networks and communication networks in the course of construction of motorways and railroads.**

It is anticipated that in 2018–2022, the share of integration projects in the Infrastructure segment of the current investment portfolio of the Bank will be at least 50%.

<u>**Electric Power Industry**</u>

**In 2018–2022, the Bank will focus on financing the following Electric Power Industry projects:**

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[7] For example, the "State Programme for the Development of the Transport Complex of the Republic of Belarus for 2016–2020", and the "State Programme for Infrastructural Development of the Republic of Kazakhstan 'Nurly zhol' for 2015–2019".

[8] For example, according to World Bank research, the long-term efficiency of investments in education may exceed the efficiency of investments in transport infrastructure development projects.

1. **Projects designed to increase diversification of power balances of the Bank's member states**, including construction of new generating facilities using renewable energy sources, such as hydro, wind, and solar power stations (a number of EDB member states attach great significance to their development[9]).

2. **Projects designed to eliminate local electric power shortages**, including construction of power stations in close proximity to consumers (distributed and small power-generation facilities) in localities with limited or inefficient power supplies, and construction of appropriate power grid infrastructure facilitating elimination of regional electric and/or thermal power shortages, "debottlenecking" of power grids, and improvement of their homogeneity.

3. **Projects designed to improve the efficiency of utilization of existing power sources**, including technical refurbishment and modernization of existing power facilities, or construction, to replace outdated or obsolescent power sources, of new, efficient electric and/or thermal power sources that reduce specific fuel consumption and hazardous air emissions.

4. **Projects designed to reduce electric power losses in electricity and heat networks**, including through the use of technologies and equipment produced by enterprises located in the Bank's member states.

5. **Projects in the area of energy-efficient consumption**, including financing of subcontractors for projects to reduce specific electric and thermal power consumption (including projects implemented under energy service contracts).

**In the course of its operations in the Electric Power sector, the Bank will seek to support investment projects based on "green" financing principles**, with expansion of such financing for sustainable development purposes being one of the Bank's strategic objectives for 2018–2022.

**Despite a scarcity of economic incentives to encourage increased cross-border electric power supplies between member states[10] (which considerably restricts the number and size of potential integration projects in the Electric Power sector), the EDB will do its best to identify and support projects with integration potential.** Integration in the Electric Power sector may be achieved by arrangement of inter-country supplies of power equipment manufactured in the Bank's member states, provision of general contracting and power facility construction services, and equity participation by investors from EDB member states in power projects and power companies from other member states. There is also the possibility to implement a limited number of projects to construct cross-border network infrastructure and generating facilities with a view to increasing power supplies between EDB member states. It is anticipated that in 2018–2022

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[9] For example, according to the “Energy Security Concept” approved by the President of the Republic of Armenia in 2013, by 2020 the share of renewable energy sources in primary power consumption should reach 20%. Also, in 2013 the President of the Republic of Kazakhstan approved a roadmap for the country's transition to a "green" economy.

[10] Over the last several years, most EDB member states have accumulated surplus electric power due to ongoing commissioning of new generation facilities, combined with weak growth of power consumption.

the share of integration projects in the Electric Power segment of the current investment portfolio of the Bank will be at least 30%.

**Chemical and Petrochemical Industry**

**Development of the Chemical and Petrochemical Industry in EDB member states will be supported by increasing oil, gas, and coal conversion ratios, higher output of products with high added value, and import substitution.** Creation of new and modernization of existing chemical and petrochemical facilities will also mitigate adverse environmental impact by replacing outdated, polluting enterprises, both in member states and in other countries.

**The most promising development areas in this industry over the next several years will include segments that are both traditional for member states (manufacturing of mineral fertilizers, polymers, and inorganic chemistry products enjoying high demand in traditional export markets), and those that are relatively new for them (agricultural chemistry, pharmaceuticals, paints and varnishes).** As opposed to the traditional segments where competitiveness is determined mostly by production costs and trade barriers, the key competitiveness driver in the new segments is the use of innovative technologies. Owing to such technologies, these segments are capable of supporting higher conversion ratios, generating more added value, and creating more jobs for qualified personnel.

**During the effective term of this Strategy, the EDB's operations in the Chemical and Petrochemical Industry will focus on creation of new production facilities, and target financing of sales (including export sales) of finished products and raw materials**, which is consistent with the Bank's mission to promote economic growth and expand trade and economic ties among EDB member states, and with industry policy priorities announced by several member states[11]. Taking into consideration the fact that modern chemical and petrochemical facilities are situated predominantly in the Russian Federation, the number of potential integration initiatives is rather limited, and most of them are related to trade. It is anticipated that in 2018–2022, the share of integration projects in the Chemical and Petrochemical Industry segment of the current investment portfolio of the Bank will be at least 25%.

**Mechanical Engineering**

**Throughout its most recent history, Mechanical Engineering in EDB member states has experienced a shortage of investments.** As a result, its products have been less competitive than those of its foreign counterparts. However, over the last several years, the industry has undergone a major consolidation in Russia and Belarus, and there have emerged several large

[11] For example, the Chemical Industry (including the agricultural chemistry and the oil and gas chemistry segments) has been identified as one of the five priority industries in the “State Programme for the Industrial and Innovative Development of the Republic of Kazakhstan for 2015–2019”.

automotive, agricultural, electric power, and electrical engineering holdings. In Kazakhstan, enterprises operating in various Electric Power segments also manufacture competitive products, including electrical engineering equipment, mining equipment, and rolling stock.

**As an international development institution, the Bank may be interested in certain Mechanical Engineering segments** that are large enough for major investment projects for the manufacture of non-defence products.

**The sector has a high potential for development of inter-country value chains.** This may involve supplying to neighbouring member states both intermediate products for subsequent assembly and finished products. Subject to available resources, the EDB will focus on target financing of production modernization projects and cross-country supplies of transport and railway engineering products, aircraft construction, shipbuilding, power and electrical engineering equipment, machine tools, instruments, agricultural, road construction, mining, and gas and oil production equipment[12].

**In 2018–2022, the Bank will seek to:**

1. **Stimulate technological and production cooperation** between Mechanical Engineering enterprises and manufacturers of component parts.
2. **Increase export and technical competitiveness** of Mechanical Engineering products manufactured in EDB member states, in particular by introducing additive technologies (AF technologies).
3. **Develop leasing operations** that involve provision to lessees of Mechanical Engineering products manufactured in EDB member states.
4. **Expand cooperation with the Russian Export Centre** for promotion of trade in Mechanical Engineering products.

It is anticipated that during the implementation period of the Strategy, the share of integration projects in the Mechanical Engineering segment of the Bank's current investment portfolio will be at least 25%.

**Metallurgy and Mining**

**Development of metallurgy and ore and coal mining plays a vital role in maintaining economic and social stability in EDB member states.** In 2H 2017, metals and metal products accounted for approximately 50% of total processing industry output in Kazakhstan, and for 62% in Kyrgyzstan. In Russia and Armenia, this indicator stands at 20%, in Tajikistan at 23%, and in Belarus (which has no substantial mineral deposits) at 7%. Metallurgy and Mining operations account for a considerable chunk of export revenues (especially non-oil/non-gas revenues), and create a large number of jobs, many of them in regions where other sources of employment are scarce. In EDB member states with relatively low per capita GDPs (Republic of Tajikistan, Kyrgyz Republic and, to some extent, Republic of Armenia), the role of metals and ores as export commodities is critical, while the

[12] These Mechanical Engineering segments have been assigned priority status, for example, in the "State Programme of the Russian Federation for the Development of and Competitive Enhancement of Industry" and the "Programme for the Development of the Industrial Complex of the Republic of Belarus to 2020".

use of local coal deposits may significantly improve the stability of energy balances.

**Investments in the mining and metallurgical complex and coal production contribute to successful implementation of national programmes for the development of those sectors** adopted in most EDB member states[13], and are consistent with the main areas of development of industrial cooperation within the EAEU.

**The sector's integration projects may envisage development of cooperation between economic agents** through involvement of mining companies from some EDB member states in projects in other member states, strengthening of production cooperation, completion of joint investment projects, and increased purchase of mining equipment from EDB member states that traditionally specialize in its manufacture (Belarus, Kazakhstan, Russia).

The EDB assigns priority to most non-ferrous segments (in particular, extraction and production of copper), while ferrous metallurgy and precious metals are deemed less significant. Among coal industry segments, production of coking coal is considered a priority, and its long-term prospects are closely linked to development of metallurgy. As for projects related to production of power-generating coals, the Bank will focus on projects designed to improve labour productivity, occupational health, and environmental safety. Projects related to increasing coal production capacity will be considered less important.

**In 2018–2022, the Bank will be giving preference to financing the following metallurgical, ore-mining, and coal-mining projects:**

1. **Field development projects that contribute to the integration** of EDB member-state economies.
2. **Field development projects that have priority status for EDB member states** in accordance with their national development programmes.
3. **Projects envisaging manufacturing of products that have higher conversion ratios or high import substitution potential.**
4. **Production modernization projects** for the use of innovative technologies, including elements of Industry 4.0.
5. **Projects for comprehensive development of mineral resources and raw materials** whose implementation is expected to remove infrastructural barriers to economic growth in EDB member states, including transport and electric power infrastructure development projects.

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[13] For example, certain vectors of development of ferrous and non-ferrous metallurgy, including transition to more advanced processing methods and use of modern mining technologies, have been assigned strategic status in Kazakhstan (“State Programme for the Industrial and Innovative Development of the Republic of Kazakhstan for 2015–2019”), Kyrgyzstan (“Sustainable Development Strategy for 2018–2040”), and Tajikistan (“National Development Strategy to 2030). In Russia, the Metallurgy block of the “State Programme for the Development and Competitive Enhancement of Industry” affirms the need to boost demand for metallurgical products by improving the industry's competitiveness. Coal production growth programmes have been adopted in the EDB member states that have coal deposits.

It is anticipated that in 2018–2022 the share of integration projects in the Metallurgy and Mining segment of the current investment portfolio of the Bank will be at least 50%.

**Oil and Gas Industry**

**The Oil and Gas Industry is extremely important for at least three EDB member states, Kazakhstan, Belarus, and Russia**, where it accounts for 43%, 14%, and 13% of total industrial output, respectively. The shares of oil, gas, and petroleum products in total exports of those three shareholder countries are even higher than their shares in industrial output, and stand at 66% in Kazakhstan, 58% in Russia, and almost 21% in Belarus. This basically means that this industry determines the balance-of-payments status and stability of national currencies in three major EDB member states. Despite the fact that the Oil and Gas Industry employs an insignificant percentage of those countries' populations, its operation assures continuous inflow of budget revenues and implementation of most social programmes through taxation mechanisms (mineral extraction tax and export duties). Reallocation of oil and gas income – received in the form of export duties on oil and petroleum product exports, and mineral extraction taxes and other similar taxes that exist in the Bank's member states – supports demand for the goods and services offered by other industries.

**The Oil and Gas Industry in EDB member states is largely consolidated**, with three quarters of oil and gas being produced by large, vertically integrated companies, usually with state equity participation. In Russia the largest oil company accounts for about 45% of total oil production, in Kazakhstan for 28%, and in Belarus for 100%. Notwithstanding certain other advantages, this situation does not encourage development of relatively small projects, as the management resources of large companies are often limited and concentrated on key products.

**The situation in the processing segment is similar**, with most oil-refining capacity concentrated in large companies with state equity participation. With few exceptions, oil refineries were built back in Soviet times, are characterized by relatively low conversion ratios (70% or less), and have no economic incentives to modernize or increase oil conversion ratios. The existing taxation of the sector has a negative impact on the profitability of refining operations; as a result, most companies are not interested in advancing this business, focusing instead on the more profitable extraction and export of crude oil.

**In that regard, in the Oil and Gas Industry the Bank will focus on financing relatively small local projects** related to oil and gas extraction and processing, including:

1. **Projects for construction of oil refineries to meet local demand** for fuel and other refining products.
2. **Oil and gas field development projects** for construction of infrastructure for extraction and/or transportation and/or primary processing of hydrocarbon raw materials.
3. **Projects for financing of investment programmes developed by companies that provide exploration and well-drilling services**, in particular

services related to acquisition of equipment, implementation of innovative drilling and oil recovery enhancement technologies and methods.

It is anticipated that during the implementation period of the Strategy, the share of integration projects in the Oil and Gas Industry segment of the current investment portfolio of the Bank will be at least 50%.

**Agroindustrial Complex**

**The Bank is a participant in state AIC support programmes implemented in the EDB member states.** As noted in Section IV of this Strategy, in 2017, the EDB was the only international financial institution selected by the Ministry of Agriculture of Russia as an authorized bank charged with implementation of a programme for extension of soft loans to agricultural producers. Similar work is under way in the Republic of Kazakhstan. With that in mind, in 2018–2022 the EDB will be increasing its support for AIC projects.

**The Bank plans to selectively support agroindustrial projects that emphasize the competitive advantages of each EDB member state in the sector, and contribute to expansion of trade integration among EDB member states.**

**The most promising EDB investment activities in the AIC include:**

1. **Projects related to all-season greenhouse complexes** using advanced technologies.
2. **Projects related to processing of season vegetables and reduction of product losses during their storage,** which, in the opinion of EDB experts, will become one of the key global AIC development areas for the next 5–10 years.
3. **Projects related to cultivation and processing of oil seeds to extract vegetable oils and produce various fodder additives.** Development of vegetable oil production will contribute to the growth of trade turnover among the Bank's member states.
4. **Projects for deep processing of cereal crops (including grain).** In this area, projects initiated by flour mills have the highest chance of success.
5. **Projects related to output of high-end livestock products.**
6. **Projects for reconstruction/technical refurbishment of large food industry enterprises** (bakeries, dairy factories, meat-processing plants, confectioneries, sugar plants, etc.) that have high social impact on their home cities/regions.
7. **Agricultural producer support projects** implemented through financial institutions (commercial banks, leasing and micro-financing companies).
8. **Warehousing logistics development projects** (construction of networks of storage facilities and wholesale distribution centres, industrial materials processing). Such projects are capable of reducing food price disparities between regions.

It is anticipated that in 2018–2022, the share of integration projects in the Agroindustrial Complex segment of the current investment portfolio of the Bank will be at least 50%.

**Financial Sector**

**Pursuant to the EAEU Treaty, five of the six EDB member states (Russia, Kazakhstan, Belarus, Armenia, and Kyrgyzstan) have undertaken to create by 2025 a common financial market, comprising banking, insurance, and securities sectors.** The EDB is the only MDB which is present, and engages in active operations, in all member states, which enables it to facilitate, in practical terms, development of mutual ties among financial market players in various shareholder countries.

**Accordingly, the Bank will be contributing to promotion of the following processes:**

1. **Integration and development of member-state capital markets.** The EDB intends to support projects designed to assure development and diversification of financial instruments circulating in member-state markets, and to contribute to the growth of the number of security issuers in such markets, namely:
   - Projects related to issue of securities in EDB member states, including participation in the issues as an investor, promotion of securities offerings by finding potential investors, interaction with regulators and infrastructural financial market institutions by facilitating issuer access to member-state markets;
   - Projects related to replication of successful financial instruments, including projects for securitization of various types of assets.

One of the efficient methods of integration of financial markets is the issue of instruments facilitating access of issuers from EDB member states to the financial markets of other member states. In that connection, the Bank will be acting as the arranger and underwriter of such issues, and providing bridge financing. The Bank's international status and rating will also help to attract investors and mobilize the financial resources required for implementation and scaling of such projects. The EDB will undertake to liaise with exchanges, regulators, and other institutions involved in the process of securities issuance, to improve and streamline regulatory and other requirements applicable to such projects, and to provide consulting and other related services.

2. **Integration and development of banking markets.** Seeking to advance the development of integration processes in the banking sector, to create a level playing field, and to promote competition among commercial banks, the EDB will be supporting projects designed to facilitate access of banks from one member state to the markets of other member states.

To do that, the Bank will:

- provide debt financing, including subordinated loans, to finance the operations of banks of one member state in other member states;
- support banks from one member state in implementation of projects related to raising debt financing in markets of other member states.

3. **Integration and development of currency markets.** To promote integration of member-state economies, it is expedient to support processes designed to strengthen the role of national currencies as a means of payment in trade turnover between EDB member states.

In connection with that, the Bank plans to:

- develop FX risk hedging instruments, including swaps denominated in local currencies;
- raise liquid funds denominated in local currencies to finance project activities, among other things, by entering into direct (swap) transactions with central (national) banks of EDB member states;
- seek to increase the volume and liquidity of operations denominated in local currencies in the exchanges of EDB member states, among other things, by performing market-making functions;
- develop lending facilities denominated in local currencies for financial institutions.

**Trade finance is the EDB bank product with the greatest impact on development of integration among member-state economies.** To increase trade flows among the Bank's member states, it is necessary for trade deal participants to have access to financing, and for banks involved in making payments under trade deals to have official contractual relationships. In this regard, the EDB plans to continue implementation of trade finance support projects by offering targeted credit lines to financial institutions. The Bank also intends to develop various letter of credit arrangements.

The EDB will contribute to attainment of the following objectives:

- increased use of trade finance credit lines;
- development of long-term trade finance instruments, including instruments backed by national export agencies from EDB member states;
- development of such products as structured export financing and pre-export financing of commercial banks;
- provision of trade finance consulting services, including organization of training and educational events for banks and their customers.

**Certain features typical of the economies of a number of member states, notably Armenia, Kyrgyzstan, and Tajikistan, dictate the need for the Bank to diversify its approach to selecting financial instruments.** Taking into consideration the specifics of dealing with the real sector in countries where micro, small, and medium-sized enterprises play an important role in assuring availability of jobs and maintaining social stability as a whole, it appears that the most effective way to extend credit to such enterprises through intermediaries, such as commercial banks and other financial institutions (leasing companies, micro-financing organizations). To that end, the Bank plans to provide credit resources to member-state financial institutions for on-lending to real sector projects – including those that have an integration effect or are implemented in sectors making significant contribution to the GDP – even though their values are below the target threshold for EDB operations.

It is anticipated that during the implementation period of the Strategy, the share of integration projects in the Financial Sector segment of the current investment portfolio of the Bank will be at least 50%.

## Information Technologies

**One of the sectors attractive for the Bank is Information Technologies (IT)**, in particular creation of IT infrastructure and development of software and platforms, including those using blockchain technologies.

Creation of IT infrastructure involves, among other things, construction of data-processing centres, supercomputers, and broadband data transmission channels. The global market for data-processing services is dominated by the USA with a 44% share, while China hosts another 10% of total computing capacity, and the remaining Top 10 countries account for 4–5%. None of the EDB member states has made it to the Top 10[14]. Construction of data-processing centres with the Bank's support may prove to be an attractive proposition, as the industry's limitations (including the low rate of return of IT projects) are critical for private investors in IT infrastructure, but not for development banks.

**Development of software and platforms has integration potential because:**

- those products can be replicated and used in all EDB member states;
- commercial IT platforms may spur trade and investment interaction among member states;
- the nature of those products makes it possible to intensively use inter-country cooperation, unify standards and protocols, and integrate member-state markets.

In the IT industry, it is possible to implement projects, including replicable projects, on the basis of public-private partnership principles.

**Russia and Kazakhstan have adopted state programmes for the development of the digital economy ("Digital Economy of the Russian Federation" and "Digital Kazakhstan").**

In Kazakhstan, the list of system-wide operating areas named in the programme includes the following:

- digital transformation of individual sectors of the economy – development of the digital industry through implementation of digital technologies in agriculture and industry;
- improvement of record-keeping systems in the mining industry;
- automation of the national transport logistics system;
- development of electronic trade;
- enhancement of the health-care system;
- development of the national information and communication sector;
- implementation of smart city technologies.

**Therefore, the Bank's efforts to promote information technologies will be consistent with development priorities of member-state national economies.** The EDB also intends to monitor EEC digital technologies implemented within the EAEU.

## 5.6. TARGET PROJECTS

[14] Research findings provided by Synergy Research Group.

**Taking into consideration EDB investment priorities, as described in the previous subsection of this Strategy, in 2018–2022 the Bank will focus on financing the following types of projects:**

**Projects with a strong integration effect:**

- **inter-country infrastructural projects** that contribute to the strengthening of trade, economic, and investment ties among the Bank's member states; creation and development of common markets: cross-border roads, including international transport corridors, bridges, oil and gas pipelines, telecommunications lines, power transmission lines complete with infrastructure facilities (networks, substations, etc.), and **national integration infrastructural projects** (sea and river ports, airports, multimodal logistical terminals), projects in border regions that contribute to the growth of trade and cargo mobility, facilitate individual travel, and create other cross-border effects for the benefit of EDB member states;
- **projects envisaging real corporate integration** of economic agents from various EDB member states in the course of creating a product or providing a service (projects embedded in global and/or regional production chains);
- **trade operations between counterparties from different EDB member states** supported, *inter alia*, by intermediary financial institutions (commercial banks, leasing companies);
- **projects envisaging growth of mutual investments by EDB shareholders**, through, among other things development of common markets, and financing of acquisitions by investors from EDB member states of assets in other member states.

**National development projects.** National development projects are defined as projects with long recoupment periods and relatively high risks; participation in such projects is not regarded by commercial banks as a priority, which enables the EDB to use the complementarity principle while working on such projects:

- **national, regional, and municipal infrastructural projects in various sectors:** transport infrastructure (public-private partnership projects will be assigned priority status), utilities (water supply, heat supply, MSW disposal, etc.), power infrastructure, including energy efficiency projects (use of renewable energy sources will be assigned priority status), social infrastructure (preschool and general educational institutions, medical establishments, etc.);
- **projects for development of existing and creation of new production facilities** that are required, among other things, to expand involvement of economic agents from a particular country in one or more value chains, or to support the efforts undertaken by EDB member states in the area of import substitution and strengthening of the export potential of national economies;
- **projects with an innovative component** that are related to modification of the existing technological paradigm and production methods of national companies, have a budget to cover R&D costs or costs related to

advanced technology transfers, and are designed to reduce production costs and increase product competitiveness;

- **replicable projects** – financing of investment projects and development programmes capable of being replicated (support of micro, small, and medium-sized enterprises and small agricultural producers; implementation of energy-saving technologies at the enterprise level, modernization of urban lighting systems, etc.). These programmes may be implemented through financial intermediaries (commercial banks, leasing and micro-financing companies, investment funds) in those sectors of national economies that are best aligned with the development mandate. It is important for the lessons learnt in the course of structuring and the organization of such programmes to be relevant and capable of being replicated in two or more EDB member states.

**The Bank will place a special emphasis on financing "green" projects.** These include projects classified under both project types described above (projects with a strong integration effect, and national development projects) which have a positive environmental effect and prevent climate change or mitigate its adverse consequences. Such projects can be implemented in a broad range of economic sectors, including electric power (primarily based on renewable energy sources), transport, and municipal infrastructure, various mining and processing industries, etc. The projects should also improve the quality of life of the general population, increase the competitiveness of the economy, and assure rational utilization of resources. Their inclusion on the list of target projects was influenced by the fact that multilateral development banks are one of the world's most important providers of "green" financing[15]. The EDB also plans to increase its "green" project portfolio to facilitate the attainment of the sustainable development objectives of its member states.

**The target "optimal" scope of Bank's participation in the projects is assumed to range from US$20 million to US$200 million.** The Bank will consider the possibility of becoming involved in projects worth from US$10 million to US$15 million, implemented primarily in member states with relatively small economies (Republic of Armenia, Republic of Tajikistan, and Kyrgyz Republic). At the same time, in an attempt to expand its project portfolio, the Bank may finance projects valued below that threshold.

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[15] In 2011–2016, six leading MDBs (World Bank Group, European Investment Bank, Inter-American Development Bank Group, European Bank for Reconstruction and Development, Asian Development Bank, and African Development Bank) allocated US$158 billion to finance projects in emerging countries designed to mitigate, and support adaptation to, consequences of climate change ("Joint Report on Multilateral Development Banks' Climate Finance", 2016). The World Bank Group, EIB, EBRD, ADB, NDB, AIIB, and a number of other multilateral development banks expressly define "green" financing as a priority area of their investment activities. By the end of 2016, the EIB and the World Bank Group became the world's largest issuers of "green" bonds. In addition, the role of multilateral development banks in "green" project financing is important because member-state commercial banks and national development banks do not pursue support of such projects as a separate objective.

**The Bank forecasts that in 2018–2022 the country structure of its current investment portfolio may be affected by the following trends:**

- preservation of the aggregate share of projects implemented in Russia, Kazakhstan, and Belarus at the level registered at the end of 2017; that share may fluctuate due to the signing of agreements dealing with implementation of large-scale projects in the member states listed above;
- growth of project portfolio value in absolute terms in Armenia, Kyrgyzstan, and Tajikistan.

**Table 4. Indicative Country Structure of the Bank's Current Investment Portfolio**

| Country | Share of CIP at the End of 2017, % | Limit (Maximum Share of CIP) for 2018–2022, % |
|---|---|---|
| Russia | 39.2 | up to 50% |
| Kazakhstan | 41.4 | up to 50% |
| Belarus | 15.9 | up to 25% |
| Armenia | 1.3 | up to 15% |
| Tajikistan | 0.3 | up to 10% |
| Kyrgyzstan | 0.3 | up to 10% |
| Other Countries | 1.6 | up to 10% |
| **TOTAL** | **100%** | **NA** |

Source: in-house EDB calculations

## 5.7. TARGET PRODUCTS AND INSTRUMENTS

**1. Throughout the effective term of this Strategy, the Bank will be offering the following key products:**

- project finance
- investment finance
- equity participations
- trade finance
- documentary operations
- participation in, organization and management of, funds
- consulting services and technical assistance in connection with project preparation.

**The Bank sees great potential for expansion of direct equity participation in companies of various types** in addition to provision to them of its key investment products, namely, project finance and investment finance.

**Provision of proprietary documentary services** (issue, servicing, and support of letters of credit) will eliminate the need to involve agent banks while using letters of credit (both covered and uncovered), and contribute to development of in-house documentary business competencies.

**In the area of fund management**, the Bank acts as the manager of the Eurasian Fund for Stabilization and Development (previously known as the

EurAsEC Anti-Crisis Fund) established by the Bank's member states in 2009 with a capital of US$3.513 billion to overcome the effects of the crisis, assure long-term sustainability, and facilitate integration of member-state economies.

The main tasks of the Bank acting as the EFSD manager during the period under review will be as follows:

- improvement of the quality of support provided to the Fund's projects through strengthening the interaction between Bank units and Fund teams specializing in preparation, monitoring, and risk management of the Fund's projects, and improvement of the quality of assessment of impact from their implementation;
- expansion of interaction in the identification and implementation of projects both by the Bank and by the Fund.

The Bank may also offer to its customers other products as may be required to implement projects consistent with the mission and strategic objectives of the EDB.

**2. In connection with the products listed above, the Bank will use the following financial instruments:**

- loans and credit lines, including syndicated ones;
- leasing;
- acquisition of debt securities;
- acquisition of equity securities of various types, participatory shares in various organizations and investment funds;
- bank guarantees;
- letters of credit (issue, servicing, and support within the framework of project finance or investment finance activities);
- technical assistance instruments (grants);
- other financial instruments available to the EDB.

**3. During the Strategy implementation period, the Bank plans to launch new services for settlement and clearing.** This will improve the Bank's value proposition by expanding the range of available bank services, attracting new "anchor" customers, and giving the Bank additional instruments that can be used to manage its own investment risks, in particular through performance of the bank-of-account function for financed projects. That function is associated with financing of projects in EDB member states, is consistent with the Bank's objectives, and will contribute to expansion of its capacity for participation in trade operations conducted by member states, including operations denominated in national currencies.

## 5.8. INTERNATIONAL COOPERATION

**In 2018–2022, the Bank plans to develop international cooperation with the following partners:**

**1. Integration associations.** The EDB maintains active contacts with the Eurasian Economic Commission (EEC), the executive body of the EAEU, with which the Bank annually adopts and implements detailed joint action plans. The Bank and the EEC are engaged in analytical cooperation, with representatives of the Bank attending meetings of expert/work teams created by the Commission, which focus on establishment of an interface between the EAEU and the BRI, review of cooperative industrial projects, and development of PPP mechanisms within the EAEU. The Bank and the EEC conduct joint quarterly rounds of regional macroeconomic analysis and forecasting. Cooperation with the EEC is also important in terms of a possible increase of the number of shareholders, as potential new EDB member states include countries interested in cooperation with the EAEU under free trade agreements (FTAs). Expert participation of the Bank in those processes, including reviews of economic consequences of FTA execution, opens up additional opportunities for starting a dialog with potential shareholders. Beside the EEC, the EDB cooperates with executive bodies of other integration associations joined by EDB member states, notably the CIS and the SCO.

**2. Government bodies of EDB member states.** The Bank actively interacts with executive bodies of its member states. This relates both to direct involvement in the corporate governance of the Bank (representatives of government bodies of EDB member states are members of the Council of the EDB, the Bank's supreme governing body, and of its Strategy Committee and Budget Committee), and to the conduct by the EDB of its project and investment operations. The Bank cooperates with member-state sectoral ministries in identification of new investment projects and involvement in state programmes for the support of key sectors of the economy, and with member-state central and national banks in financial market operations and access to liquid funds denominated in national currencies.

The Bank is a member of the Foreign Investors Council under the President of the Republic of Kazakhstan; its representatives work in various expert and work teams established by member-state ministries and central banks. As a competence and knowledge centre, the Bank is involved in development of a number of draft normative legal acts in its member states, including those dealing with improvement of existing PPP mechanisms, syndicated lending, etc. The Strategy envisages further expansion of cooperation with member-state government bodies. The Bank intends to begin preparation and implementation of investment cooperation programmes jointly with national ministries and government agencies and with regional executive bodies of its member states. The Bank will also continue its work with government bodies on extension to the EDB of state support programmes available to national development institutions and commercial banks.

**3. International financial institutions (IFIs) and international organizations (IOs).** During the new strategic period, the EDB will cooperate with all IFIs operating in the region:

- Asian Infrastructure Investment Bank (AIIB);
- New Development Bank (NDB);
- Black Sea Trade and Development Bank (BSTDB);
- International Investment Bank (IIB);
- European Bank for Reconstruction and Development (EBRD);
- Asian Development Bank (ADB);
- World Bank Group, including IBRD, IFC, and IDA;
- European Investment Bank (EIB);

- Russian-Kyrgyz Development Fund (RKDF);
- other IFIs.

The EDB will cooperate with the above entities in a number of various areas.

In particular, the Bank will continue its joint work with the UNDP on such projects as *Improvement of Sustainable Development Finance Opportunities in the CIS; Sustainable Cities for Low Carbon Urban Development*; and *De-risking Renewable Energy Investment.* The Bank will cooperate with the UNIDO (in the area of industrial development of EDB member states) and other UN entities. It will also continue its efforts to join "green" funds (Northern Dimension Environmental Partnership, Green Climate Fund) with a view to attracting their resources to the Bank's own projects. The EDB will strengthen its cooperation with infrastructure development organizations: Global Infrastructural Facility (the Bank is a member of its Consultative Council), Global Infrastructure Fund (in 2017, the Bank signed a Cooperation Memorandum with that organization), and Global Infrastructure Connectivity Alliance (the Bank joined it at the end of 2017).

**AIIB, NDB, BSTDB, and IIB.** In its interactions with IFIs, the EDB will place special emphasis on cooperation with organizations operating in its member states. In that connection, the Bank plans to develop, on a priority basis, its cooperation with AIIB, NDB, BSTDB, and IIB.

Together with those institutions, it plans to:

- engage in an active exchange of project proposals;
- set up loan syndications with a view to mobilizing additional resources to finance projects in priority sectors of the economy of the Bank's member states;
- pool technical assistance resources to prepare new joint operations;
- engage in interaction (including in the form of joint work teams and roundtables) with a view to exchanging experience and best corporate practices in such areas as HR management, social and environmental standards, fund management, partnership development, etc.;
- organize cooperation among analytical units.

**4. National development institutions.** The Bank actively cooperates with national development institutions. The list of the EDB's project preparation and implementation partners in Russia includes SC Vneshekonombank [State Corporation "Bank for Development and Foreign Economic Affairs"], Russian Export Centre, State Transport Leasing Company, SC Avtodor [State Corporation "Russian Highways"], Far East Investment and Export Agency, Federal Project Finance Centre, Russian Direct Investment Fund, Federal Corporation for the Development of Small and Medium Business, Industry Development Fund, and other development institutions. In Kazakhstan, the EDB cooperates with the Kazakhstan Development Bank, Business Development Fund "Damu", KazAgro, KazExportGarant, and the Kazakhstan Industry Development Institute; and in Belarus, with the Development Bank of the Republic of Belarus and the National Investment and Privatization Agency. The EDB also maintains active contacts with a number of foreign development institutions, including the German Development Bank Group KfW and the Japanese bank JBIC. The Bank plans to continue to expand such partnerships, primarily in the preparation and financing of investment projects. In particular, during the new strategic period, the Bank will seek to establish and promote cooperation with national development institutions in China and India, the two largest emerging economies in Eurasia and in the world.

**5. Commercial banks, non-governmental pension funds, other institutional investors.** These institutions represent an important source of financing of development projects. In particular, the EDB, together with some of the largest commercial banks of its member states, is participating in syndicated lending to finance construction of the Central Ring Motorway in Moscow Region. The Bank will continue its efforts to mobilize external capital and form creditor pools to finance projects originated by its member states. In doing so, the EDB will seek to raise additional resources both from member-state financial institutions, and from financial institutions from third countries, notably China, India, and Middle Eastern countries.

**6. Professional organizations, unions, and associations.** To expand its investments, the Bank is cooperating with such professional organizations as member-state PPP development centres, legal firms specializing in legal due diligence of complex structured projects, and new project promoters. Working with those partners, the Bank identifies and prepares new projects, and conducts consultations on their implementation terms with regional and municipal governing bodies. The Bank interacts with a number of business associations (Russian Union of Industrialists and Entrepreneurs, Business Russia, National Chamber of Entrepreneurs of Kazakhstan "Atameken"), which improves the Bank's visibility in the business community, and expands its capacity in terms of origination of new investment proposals. In the area of humanitarian integration, the Bank cooperates with culture, art, science, and education institutions.

## 5.9. TECHNICAL ASSISTANCE AND PROJECT PREPARATION

**One of the important competitive advantages of the EDB is its Technical Assistance Fund (TAF),** which specializes in grant financing. The accumulated resources of the Fund amount to US$9.3 million.

**The key operating objective of the TAF is to provide technical assistance in preparation of project documentation required to obtain EDB financing.** Grants are used to finance development of project feasibility studies and to conduct various assessments and research (environmental impact assessments, industry research, marketing research, technological research, etc.).

**The Bank intends to expand its technical assistance efforts, primarily with a view to increasing its current investment portfolio.** Shortage of the funds required to finance pre-project work is one of the key problems preventing the launch of many investment initiatives. This is particularly true for large-scale projects for the creation of transport infrastructure, including cross-border infrastructure. Preparation of such projects is capital-intensive, and they are usually initiated by state-owned companies or regional/local government bodies that are subject to budgetary and procedural restrictions when it comes to financing of preparatory work.

**In addition to preparation of investment projects, the EDB intends to actively develop other technical assistance areas** with a view to expanding economic and humanitarian cooperation among its member states, and deepening their integration.

**In the course of implementation of the Strategy, the Bank intends to:**

- **Streamline TAF operating procedures.** Appropriate proposals will be developed and submitted to the Council of the Bank.
- **Develop and implement new technical assistance tools.** Such tools may be used, for example, to finance preparation of projects on a refundable grant basis. In EDB member states, there is demand for technical assistance tools in the road construction sector on the part of regional executive bodies and state-owned companies that are preparing projects based on PPP principles. Considerable demand may also be generated by state-owned enterprises in a number of processing industry sectors, including Mechanical Engineering.
- **Develop technical assistance cooperation with other international financial institutions and international organizations.** At the end of 2017, the EDB launched a joint project with the UNDP and RKDF (*Improvement of Sustainable Development Finance Opportunities in the CIS*). Within that project, the EDB, for the first time in its history, raised external financing to prepare its own investment projects. The Bank will continue implementation of the project, and seek to launch new joint technical assistance initiatives, primarily with the participation of other multilateral development banks, in particular the NDB.
- **Promote humanitarian integration.** The Bank will support projects in culture and the arts, science, and education, contributing to creation of a common Eurasian humanitarian space and advancement of integration among EDB member states.
- **Improve visibility of the Bank.** The Bank will continue to hold its annual international “Eurasian Integration” conferences financed with TAF funds, and use TAF resources to support other image-building projects and programmes of the Bank and its partners.

# VI. ANALYTICAL ACTIVITIES

**In accordance with the constitutive documents of the Bank, one of its key functions is to provide consultations to EDB member states on matters of economic development, efficient use of resources, and expansion of trade and economic ties, and to engage in informational and analytical work on public and international finance.** In that regard, one of the main tasks of the Bank is to analyse and project changes in the economies and financial markets of its member states, their investment capacity, economic sectors, mutual trade, and investments.

The Bank conducts its analytical activities as part of its efforts to examine integration processes among its member states, and to support investment project operations.

All investment projects submitted for evaluation are assessed, on a mandatory basis, for their alignment with the mission and strategic objectives of the Bank. Monitoring of strategy compliance involves an ongoing review of the integrative, social, and economic impact of the EDB's current investment portfolio. The current standards of stress-testing and mandatory monitoring of macroeconomic and industry-specific exposures of the project portfolio, and the transition, as of 2018, to IFRS 9, require involvement of the Bank's analysts in those processes.

The Bank regularly publishes analytical reports, industry and topical reviews, and organizes conferences and roundtables. It also performs ongoing monitoring of operations of multilateral development banks, holds economic integration events in the countries within its area of operations, and cooperates with international organizations in the area of analytical activities.

During the period of the previous Strategy, the Bank expanded the list of its macroeconomic reviews which includes descriptions of the external economic environment, the current macroeconomic situation in the region, economic development drivers and risks, and a mid-term forecast of the key macroeconomic indicators of EDB member states. The findings of research on urgent economic development issues affecting the countries within the Bank's region of operations are published in special quarterly reports.

The Bank interacts with the EEC, various ministries and agencies in conducting quarterly forecasting rounds as part of the macroeconomic modelling for EDB member states. The set of models used is supported and improved on a continuous basis.

**During the 2018–2022 Strategy implementation period, the Bank will continue its efforts to reinforce the significant regional success of its country- and industry-specific and integration-related analytics.**

**The key areas of analytical activities of the Bank will include the following:**

- analytical research regarding EDB strategic development issues, monitoring and assessment of compliance with decisions made on those issues;
- preparation of industry and macroeconomic reviews;

- preparation of the full range of analytical products within the framework of analytical support of the Bank's investment project activities;
- analysis of investment activities conducted by other MDBs in the Bank's region of operations;
- joint applied research in cooperation with other IFIs, the EEC, and national development institutions;
- analysis of EAEU investments, mutual trade, integration in financial markets, development of transport corridors, expansion of non-commodity exports, and other integration processes;
- organization of technical assistance, including holding the annual international “Eurasian Integration” conferences.

## VII. STRATEGY IMPLEMENTATION MECHANISMS

**1. The Bank has all the fundraising tools required to attain the strategic investment benchmarks approved for the baseline scenario** (see Attachment 1).

In particular, the Bank can use:

- the Euro Medium Term Note Programme and the Euro-Commercial Paper Programme to issue proprietary securities with various maturities denominated in foreign currencies, including USD and EUR, and in national currencies, including RUB and KZT, with double listing at the local exchanges, namely, at PJSC Moscow Exchange (MICEX) and JSC Kazakhstan Stock Exchange (KSE). Issue of Eurobonds denominated in national currencies will enable the Bank to attract, in addition to international investors, potential investors from its own member states, and to improve the liquidity of those securities. As of the end of 2017, the aggregate value of the balance of authorized euro-denominated bonds and commercial paper was US$1.7 billion and US$3.2 billion, respectively;
- bond issues and programmes denominated in RUB and KZT (RUB 5 billion and KZT 210 billion, respectively);
- framework credit agreements with development institutions, leading foreign banks, and export credit agencies to attract resources to finance target projects related to importation of equipment, special machines, etc., and to construction of industrial and other facilities with the participation of foreign contractors, as well as other projects;
- exchange-traded bond programmes with an aggregate value of RUB 200 billion and maturities of up to 10 years.

**To assure continued growth of its investment portfolio, the Bank will increase borrowings both in international and national financial markets.** If there is demand for project financing in national currencies other than the Russian rouble and the Kazakhstani tenge, the Bank will consider the possibility of raising funding denominated in currencies of its other member states.

**To successfully implement its Strategy, the Bank sets the following key tasks in the area of treasury assets management:**

- analysis of the possible reduction of the treasury portfolio in the mid-term perspective;
- assuring positive yields from the treasury portfolio;
- preservation of the effective cost of the Bank's equity, and its protection from risk factors;
- maintaining sufficient liquidity of the Bank;
- diversification of investments, and assuring proper management of the treasury portfolio;
- minimization of market risks.

In 2018–2022, the EDB plans to continue to use REPO operations and swaps as an alternative funding source.

In addition, during the new strategic period, the Bank plans to conduct operations in the secondary market for syndicated loans.

The Bank will consider the expediency of a three-year budget planning timeframe.

**2. National currencies, particularly the Russian rouble and the Kazakhstani tenge, currently enjoy high demand among originators of investment projects.** In that connection, achievement of higher strategic investment benchmarks (best-case scenario) is possible if member states, primarily Russia and Kazakhstan, make sure that the EDB has steady access to resources denominated in local currencies (provision to the Bank of liquidity instruments available to national development institutions and commercial banks; extension to the Bank of a broad range of state subsidization programmes denominated in local currencies), and if the Bank receives additional capital infusions denominated in the national currencies of its member states.

**Attachment 1**

## STRATEGIC BENCHMARKS

**Strategic operating benchmarks of the Bank are divided into five groups covering all major operating areas:**

*Investment Volume* characterizes the scale of operations;

*Integration Effect* characterizes the Bank's activities aimed at completion of its mission of strengthening the trade and economic ties among EDB member states;

*Portfolio Quality* characterizes EDB projects in terms of recovery of invested funds;

*Financial Result* characterizes the loss-free nature and sufficient profitability of the Bank's operations;

*Rating Score* provides a comprehensive, independent assessment of the Bank as a borrower.

Separate benchmark sets have been developed for each scenario of economic development of the Bank's member states (baseline [conservative], best-case, and worst-case), as described in the section entitled *External Environment.*

**Baseline (conservative) scenario.** In the event of realization of the baseline scenario of economic development of the Bank's member states, the following operational metrics of the Bank will be used as strategic benchmarks for the effective term of the Strategy.

**Table 5. Strategic Benchmarks (Baseline Scenario)**

| | Benchmark Group | Benchmark | Unit | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| 1 | Investments Volume | Current Investment Portfolio | US$ billion | 3.0 | 3.1 | 3.3 | 3.5 | 3.6 |
| 2 | | Annual Volume of Operations | US$ billion | 1.1 | 0.8 | 0.9 | 0.9 | 0.9 |
| 3 | Integration Effect | Share of Projects with Integration Effect | % | at least 50 | | | | |
| 4 | Portfolio Quality | Share of Provisions in Book Portfolio | % | not more than 5[16] | | | | |
| 5 | Financial Result | Net Profit | US$ million | 29 | 32 | 31 | 32 | 33 |
| 6 | | ROAE[17] | % | 1.7 | 1.9 | 1.8 | 1.8 | 1.8 |
| 7 | Rating Score | Credit Rating of the Bank | rating | One rating of the Bank is higher than, and one is equal to, the sovereign rating of the RF. | | | | |

Source: in-house EDB calculations

The volume of operations projected for 2018–2022 under the baseline scenario is based on anticipated acceleration of GDP growth of all shareholders of the Bank. Increased economic activity will also mitigate the risk of deterioration of portfolio quality.

[16] Subject to the Bank's transition to IFRS 9 as of January 1, 2018.
[17] Return on Average Equity. Excluding possible additional contributions to the Bank's capital.

**Best-Case Scenario.** The highest investment volume may be achieved if member-state GDP growth rates increase, and access of the Bank to available funds significantly expands (including access to additional sources of long-term state funding in national currencies).

**Table 6. Strategic Benchmarks (Best-Case Scenario)**

<table>
<tr><th></th><th>Benchmark Group</th><th>Benchmark</th><th>Unit</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th></tr>
<tr><td>1</td><td rowspan="2">Investments Volume</td><td>Current Investment Portfolio</td><td>US$ billion</td><td>3.0</td><td>3.2</td><td>3.4</td><td>3.7</td><td>3.9</td></tr>
<tr><td>2</td><td>Annual Volume of Operations</td><td>US$ billion</td><td>1.1</td><td>0.9</td><td>1.0</td><td>1.1</td><td>1.1</td></tr>
<tr><td>3</td><td>Integration Effect</td><td>Share of Projects with Integration Effect</td><td>%</td><td colspan="5">at least 50</td></tr>
<tr><td>4</td><td>Portfolio Quality</td><td>Share of Provisions in Book Portfolio</td><td>%</td><td colspan="5">not more than 5</td></tr>
<tr><td>5</td><td rowspan="2">Financial Result</td><td>Net Profit</td><td>US$ million</td><td>32</td><td>48</td><td>57</td><td>59</td><td>60</td></tr>
<tr><td>6</td><td>ROAE</td><td>%</td><td>1.9</td><td>2.4</td><td>2.5</td><td>2.5</td><td>2.5</td></tr>
<tr><td>7</td><td>Rating Score</td><td>Credit Rating of the Bank</td><td>rating</td><td colspan="5">One rating of the Bank is higher than, and one is equal to, the sovereign rating of the RF.</td></tr>
</table>

Source: in-house EDB calculations

**Worst-Case Scenario.** The figures provided in Table 7 are projected for the least favourable scenario of economic development of EDB member states, and with the Bank having no access to required funding in the national currencies of its member states.

**Table 7. Strategic Benchmarks (Worst-Case Scenario)**

| | Benchmark Group | Benchmark | Unit | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| 1 | Investments Volume | Current Investment Portfolio | US$ billion | 2.9 | 3.0 | 3.1 | 3.2 | 3.3 |
| 2 | | Annual Volume of Operations | US$ billion | 1.0 | 0.8 | 0.8 | 0.9 | 0.9 |
| 3 | Integration Effect | Share of Projects with Integration Effect | % | at least 50 | | | | |
| 4 | Portfolio Quality | Share of Provisions in Book Portfolio | % | not more than 7 | | | | |
| 5 | Financial Result | Net Profit | US$ million | 15 | 12 | 27 | 25 | 25 |
| 6 | | ROAE | % | 0.9 | 0.7 | 1.6 | 1.4 | 1.4 |
| 7 | Rating Score | Credit Rating of the Bank | rating | One rating of the Bank is higher than, and one is equal to, the sovereign rating of the RF. | | | | |

Source: in-house EDB calculations

**Attainment of target benchmarks by the Bank is one of the key tasks facing EDB managers during the 2018–2022 strategic period.** The Bank's incentive system will link accrual and the amount of bonuses paid to managers and employees to attainment of those benchmarks. Strategic benchmark values are tentative, and may be adjusted in the course of preparation of the budget for the next fiscal year.

**Attachment 2**

## ATTAINMENT OF 2013–2017 STRATEGIC BENCHMARKS

**The EDB Strategy for the period from 2013 to 2017 was approved by the Council of the Bank in June 2013 (and updated in May 2016). In 2013–2017, a number of important events occurred which affected implementation of the previous Strategy.**

The main such events were the following:

- crisis phenomena in member-state economies: deceleration of economic growth to negative values, reduction of investment activity in the corporate sector, devaluation of national currencies, volatility of interest rates;
- imposition of trade and investment restrictions on the Russian Federation;
- revision of national and general Eurasian priorities in industrial, investment, and social policies;
- arrival of new players and withdrawal from the region of traditional players (multilateral development banks);
- sharp increase in non-performing loans, forcing the EDB in the first half of 2015 to increase its provisions for potential losses on receivables to US$223.8 million (2014: US$43.4 million).

The Strategy envisaged attainment, by the end of the implementation period in 2017, of the set of strategic benchmarks listed in Table 8.

# Table 8. Strategic Benchmarks of the Bank at the End of 2017

| | Benchmark Group | Benchmark | Unit | End of 2017 | |
|---|---|---|---|---|---|
| | | | | Plan | Actual |
| 1 | Portfolio Volume | Current Investment Portfolio | US$ billion | 3.3 | 2.3 |
| 2 | Integration Effect | Share of Projects with Integration Effect | % | at least 50 | 60.5 |
| 3 | Portfolio Quality | Share of Provisions in Book Portfolio | % | not more than 5 | 3.3 |
| 4 | Financial Result | Net Profit | US$ million | 33 | 41.7 |
| 5 | | ROE | % | 2.1 | 2.5 |
| 6 | Independent (Rating) Score | Credit Rating of the Bank | rating | One rating of the Bank is higher than, and one is equal to, the sovereign rating of the RF. | Both ratings are higher than the sovereign rating of the RF. |

Sources: *Strategy of the Bank for the Period from 2013 to 2017*, in-house EDB calculations