This paper aims at analysing the activities of international and regional development banks in the Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, as well as Russia, Armenia and Belarus. The international financial organisations engaged in the region include the Asian Development Bank (ADB), the World Bank (WB), the Eurasian Development Bank (EDB), the European Bank for Reconstruction and Development (EBRD), and the Islamic Development Bank (IsDB). The legal ground for activities of any international development bank (IDB) in the country is, first of all, the country’s membership in the bank, which is also provided with immunity and the status of international organisation.

Development banks provide medium- and long-term financing for capital-intensive projects that are not very attractive to private investors. At the same time, the implementation of these projects is of great importance to the country’s economy. First of all, these are infrastructural projects that lay the foundations for the further development of industrial production and the provision of essential living standards including energy, transport, communications and municipal infrastructure. Some of the development banks also aim to support the social sector by financing projects in education and medicine, as well as the corresponding reforms.

Financing provided by the international development banks in 2010 exceeded the target value that was previously pledged in commitments to support the post-crisis development and stability of the banking sector. These support measures helped to prevent a crisis in the system and the collapse of monetary lending to the real economy. At the same time the region still faces a challenge in real sector credit financing and a high risk of possible aftershocks. Together with governments and the European interstate
institutions, the IDBs are doing their joint best to solve the region’s problems by providing local currency financing to unhedged borrowers and developing local capital markets.

The year 2010 is also notable for the IDBs’ efforts to enhance the efficiency of their activities, which is studied in the “Improving the Organisational Effectiveness of Development Banks” section of the current paper.

It should be noted, however, that the annual reports for 2010 had not been published when this article was written, so it is based on the data published by the IDBs on their official websites. At the same time this paper does not aim to compare the quantitative index of investments.

**Priority Areas of Activity in 2010**

The major investment areas for international development banks have traditionally been energy, transport and transport infrastructure, which account for a considerable part of the sectoral structure of investment portfolios, as well as targeted financial support for small and medium-sized enterprises. For instance, transport projects account for 51% of the total ADB projects approved in 2010 in the countries of the region mentioned above, 78% of the IsDB projects and 31.5% of the IFC’s projects in the region in 2010. Energy projects make up around 20% of the EBRD total financing, and 40% of the EDB project portfolio. Investments in the financial sector are also significant, with 13% of the ADB projects given to targeted microfinancing initiatives, 38.1% of the total IFC projects this year, 24.8% of EBRD total investments and a shade less of the EDB funding (18%).

Meanwhile, as the world is coping with the after-effects of the global financial and economic crisis, issues of energy efficiency, climate change and environment, as well as multilateral partnership between development institutions, are coming to the fore once again.

**Environmental Issues and Mitigation of Climate Change**

Leading international development banks (IDBs) and the International Monetary Fund (IMF) have mapped out an action plan to support sustainable global recovery and have agreed to finance the mitigation of climate change within the framework of the Copenhagen Agreement. In addition to the necessary anti-crisis support, the IDBs focus their attention on crisis prevention, supporting sustainable growth and development, and, especially, the need for taking measures against climate change. IDBs and the IMF supported the obligation undertaken by developed nations within the framework of the Copenhagen Agreement to provide developing countries with additional immediate financing of $30 billion in 2010-2012 and to raise another $100 billion by 2020 in order to help them cope with the
consequences of climate change and substantially cut greenhouse gas emissions, which is a must to stop the global temperature rising. IDBs confirmed their intention to provide technical assistance to the UN process and underlined the importance of signing a legally binding international agreement on climate change prevention after 2012 as soon as possible. IDBs have the necessary expertise and capabilities to catalyse state and private resources in order to invest them efficiently in low-carbon technologies and projects for adapting to climate change in developing countries. The Clean Technology Fund (CTF) is ready to allocate $4.3 billion for co-financing the development and use of solar energy, environmentally safe municipal transport and other similar projects.

The First Asian Solar Energy Forum was held in Manila within the framework of the Asian Solar Energy Initiative (ASEI). The participants of the forum noted that multilateral development institutions, such as ADB with its development partners, are in a position to play a catalytic role in technology transfer facilitation and knowledge sharing for solar energy development. However, high initial capital investments in solar energy and the perception of high risks keep many investors from putting up the capital for solar energy developments. The Forum was organised by ADB in association with the International Energy Agency (IEA), the United Nations Industrial Development Organisation (UNIDO) and the Renewable Energy and Energy Efficiency Partnership (REEEP). ASEI will also establish and, initially, host the Solar Energy Forum, an international knowledge-sharing platform that will track solar development projects, discuss new solar power proposals and incentive mechanisms, and organise major conferences. ASEI will also be responsible for raising concessional funds from donor countries to partly mitigate the risks of the high up-front capital costs of investing in solar energy, as well as design other innovative ways to attract private-sector investment.

Climate Investment Funds (CIFs) are unique financing instruments designed to pilot low-carbon and climate-resilient development through an extended fund facility provided by the African Development Bank, ADB, EBRD, Inter-American Development Bank and the World Bank Group.

The Multilateral Carbon Credit Fund (MCCF) funded by the EBRD and the EIB is active in Central European and Central Asian countries. In 2010 the fund closed two deals for purchasing carbon credits (CO₂ emission quotas) in Armenia and Ukraine.

**Energy Efficiency**

Energy efficiency is of key importance to the sustainable development of the Eurasian region, which is characterised by relatively high energy intensity. In order to implement the corresponding programs and coordinate their efforts, development institutions are establishing strategic partnerships. The
improvement of energy efficiency and reduction of energy consumption will boost the industry’s competitiveness, release resources and cut CO$_2$ emissions. Investments in energy efficiency are usually spent on the replacement or modernisation of outdated production and heating facilities, the installation of metering equipment, thermal insulation, renovation of heat and electricity distribution systems, as well as different projects in the fields of biomass, biogas and solar energy. Energy-intensive sectors such as the production of building materials, the food-processing industry and light industry are usually the principal choices for investment.

In particular, the Eastern Europe Energy Efficiency and Environment Partnership (E5P) Fund was founded in 2009 and, a year later, began to finance projects in the fields of improving the energy efficiency of central heating, waste water treatment and waste management, including waste-to-energy projects. The partnership unites the Nordic Investment Bank (NIB), European Investment Bank (EIB), EBRD, WB, IFC and the Nordic Environment Finance Corporation (NEFCO), as well as the European Commission and the government of Sweden, and receives strong political support especially from Denmark, Norway and the Baltic states.

According to the IFC report “Energy Efficiency: A New Resource for Sustainable Growth” published in 2010 around 70% of Ukrainian industrial companies could reduce production costs by raising the energy efficiency of their production facilities, which would also help raise their competitiveness under the post-crisis conditions. The report also recommends to improve planning and control over energy consumption at industrial companies, as well as widening awareness of the benefits received through financing energy efficiency projects.

The EBRD and the Japan Bank for International Cooperation (JBIC) signed a memorandum of understanding to support economic and social development in Central and Eastern Europe, Russia, the Caucasus and Central Asia, with a special focus on energy efficiency and climate-related projects.

Under the Memorandum, the EBRD and JBIC will cooperate in co-financing environmental projects, the development of carbon emission reduction instruments, co-financing of large infrastructure and corporate projects, and the non-sovereign financing of municipal infrastructure, that are linked to climate-related projects in particular, as well as local currency financing in the region.

In addition, development institutes are implementing local energy efficiency programs, aimed at solving highly specialised problems. For instance, IFC – a member of the World Bank Group, – in partnership with the Ministry for Foreign Affairs and the Ministry of Employment and the Economy of Finland, is implementing a new Russia Residential Energy Efficiency Advisory
Services Project, which aims to stimulate investment into the energy-efficient renovation of residential multifamily buildings and to reduce CO\textsubscript{2} emissions in Russia. Energy consumption in residential housing could be halved, which would reduce CO\textsubscript{2} emissions by approximately 150 million tons per year. The project will create an effective legal and institutional platform to support local homeowner associations and housing management companies in obtaining access to financing.

The Asian Development Bank (ADB) is active in implementing energy efficiency projects in Central Asian countries. So, ADB signed an agreement with the Uzbek Finance Ministry to boost the efficiency of Uzbekistan’s electricity supply through the construction of Central Asia’s first 800 mW combined cycle gas turbine (CCGT) power plant and an array of other projects. The government of Uzbekistan has put energy saving and improving the energy efficiency of industrial companies at the top of its economic agenda.

**Multilateral Partnership**

The year 2010 is notable for the launch of several large-scale investment projects, jointly financed by several international and national development banks, as well as commercial banks.

The EBRD, IFC, and FMO (the entrepreneurial development bank of the Netherlands) have joined up with Asia Debt Management Hong Kong (ADM Capital) to establish the ADM CEECAT Recovery Fund to invest in mid-size companies facing financing difficulties as a result of the financial crisis.

The ADM CEECAT Recovery Fund, targeting Central and Eastern Europe, Central Asia and Turkey, will help the region recover from the crisis by supporting companies that represent a major source of jobs and significantly contribute to economic development.

The EBRD will invest €60 million, IFC €35 million, and FMO €15 million in the targeted €300 million ADM CEECAT Recovery Fund, which will be managed by ADM Capital.

The fund’s investments will focus on rehabilitating operationally strong but financially distressed companies via restructuring, rescheduling, refinancing, debt-equity swaps and liquidity management. It will also fund growth opportunities where alternative sources of capital are not available.

The EBRD, EIB and IFC, and the shareholders of Nabucco and Nabucco Gas Pipeline International GmbH signed a mandate letter that marks the start of the appraisal process of the Nabucco project, a required step towards a potential financing package of up to €4 billion. The Nabucco gas pipeline project is the flagship project for meeting future EU gas demand and will
diversify Europe’s pool of supplier countries. The potential financing package will consist of up to €2 billion from the EIB, up to €1.2 billion from the EBRD (up to €600 million for the EBRD’s account and up to €600 million to be syndicated to commercial banks) and up to around €800 million from IFC (up to €400 million for the IFC account and up to €400 million to be syndicated to commercial banks).

The involvement of the three international financial institutions (IFIs) is a demonstration of global and European support for the project and represents an important milestone in ensuring the overall financing of Nabucco. The early involvement of the IFIs will support Nabucco in meeting the highest standards in environmental and social risk evaluation and procurement. The appraisal of the project will include a thorough assessment of commercial, social and environmental aspects. The Nabucco gas pipeline project addresses the EU’s priority goal of achieving energy security via the diversification of gas routes and gas supplies.

The IDBs have also supported the project for the expansion and modernisation of St. Petersburg’s Pulkovo International Airport on the basis of a public-private partnership. The total loan financing package of approximately €716 million will be provided by IFC, EBRD, the EDB, NIB, the Black Sea Trade and Development Bank (BSTDB), Russia’s Vneshekonombank, and several commercial banks.

Moreover, the IsDB joined the IFIs’ working group on counteracting corruption.

**Improving the Organisational Effectiveness of Development Banks in 2010**

**Asian Development Bank**

In 2010 the ADB made efforts to enhance the effectiveness of its activities in accordance with the recommendations made in the Development Effectiveness Review 2009, paying special attention to co-financing, supporting educational programs and boosting the developmental impact of implemented projects.

Thus, the ADB spurred its work with donors on attracting them to joint funds and establishing new funds. The ADB launched a multilateral Urban Financing Partnership Facility to help drive environmental infrastructure improvements in urban centres, with the government of Sweden the first to inject funds. In 2010 the government of Spain provided an additional $5 million each to the ADB-administered Water Financing Partnership Facility (WFPF) and Clean Energy Financing Partnership Facility (CEFPF). The government of Luxembourg has committed a further €1.5 million to another ADB fund, the Financial Sector Development Partnership Fund. The ADB
and ASEAN nations, along with the People’s Republic of China, Japan, and the Republic of Korea, established a jointly owned Credit Guarantee and Investment Facility (CGIF), as a trust fund of the ADB with initial capital of $700 million, including the ADB’s contribution of $130 million and a combined $570 million from the ASEAN+3 governments.

The ADB returned to the US dollar bond market twice this year with the pricing of a $2.5 billion five-year global benchmark bond issue and a $3 billion three-year global benchmark bond issue, proceeds of which were used in the bank’s non-concessional lending operations.

In 2010, the ADB initiated the modernisation of business processes in order to improve the quality and efficiency of its operations, as well as reduce expenditure. Moreover, the ADB launched a human resources plan, Our People Strategy, to be more transparent in staff recruitment, compensation and promotion. The strategy foresees the introduction of a collective assessment scheme aligned with the regular monitoring of project implementation. The ADB will be recruiting a significant number of new staff, both internationally and locally over the next three years. Our People Strategy provides the framework for ensuring ADB has high-calibre, motivated people with technical and interpersonal skills that match client needs, managers who are inspiring, proactive and accountable, and a workplace environment to support them. Our People Strategy will guide ADB human resources management until 2015.

ADB reviews its public relations policy every five years. In 2010, the bank began a regular review process to improve the policy’s efficiency, transparency and relevancy. The renewed public relations policy will be approved by the Board of ADB directors in 2011 after a series of public discussions and consultations.

### Table 15.1.
ADB projects in 2010 in the region by sector (loans)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Armenia</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Tajikistan</th>
<th>Russia</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural, irrigation, water supply</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>140</td>
</tr>
<tr>
<td>Transport infrastructure</td>
<td>210</td>
<td>456</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>781</td>
</tr>
<tr>
<td>Microfinance</td>
<td>-</td>
<td>150</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>200</td>
</tr>
<tr>
<td>Energy, ecology</td>
<td>-</td>
<td>-</td>
<td>16.7</td>
<td>-</td>
<td>340</td>
<td>356.7</td>
</tr>
<tr>
<td>Economic, municipal, infrastructure services</td>
<td>-</td>
<td>-</td>
<td>48.5</td>
<td>-</td>
<td>-</td>
<td>48.5</td>
</tr>
</tbody>
</table>

ADB’s investment priority in the region is the development of transport corridors within the framework of the Central Asia Regional Economic Cooperation (CAREC) Program. ADB has served as CAREC’s Secretariat
since 2000. In 2010 Pakistan and Turkmenistan joined the organisation. Starting 2001, around $10.4 billion was invested in the transportation sector within the framework of the CAREC Program, including $219 million for trade facilitation, and $2.5 billion for energy projects.

**World Bank Group**

In order to support the new post-crisis strategy of the World Bank Group (WBG) and a comprehensive reform package to make the bank faster, more flexible and more accountable, the WBG shareholders approved the first general capital increase for the World Bank for more than 20 years.

This measure included the increase of $86.2 billion in capital for the International Bank for Reconstruction and Development (IBRD) – the arm that lends to developing countries – from a general capital increase and a selective capital increase linked to the change in voting powers; this includes $5.1 billion in paid-in capital; a $200 million increase in the capital of the IFC – the WBG’s private sector arm – as part of an increase in shares for developing and transition countries. The IFC will also consider raising additional capital subject to board approval by issuing a hybrid bond to shareholding countries and by retaining earnings. The voting power of Developing and Transition Countries (DTCs) at IBRD was increased to 47.19%. The IBRD 2010 realignment resulted from a selective capital increase of $27.8 billion, including paid-in capital of $1.6 billion. The voting power of Developing and Transition Countries at IFC was increased to 39.48%. The IFC 2010 realignment resulted from a selective capital increase of $200 million and an increase in the basic votes for all members. The IBRD and IFC shareholdings will be reviewed every five years.

The World Bank Group opened free access to its statistical databases and challenged the global community to use the data to create new applications and solutions to help poor people in the developing world. The WBG provided free, open and easy access to its comprehensive set of data on living standards around the globe – some 2,000 indicators, including hundreds that go back 50 years. Drawing from numerous data sources and working with statistical partners, the WBG has worked intensively to modernise its storehouse of statistics to create data.worldbank.org, a new, user-friendly data access site.

In 2010 the WBG commenced the development of a new energy strategy a framework for rendering assistance to developing countries in improving access to energy sources, and boosting the transition to a more environmentally friendly scheme for developing energy. The new energy strategy may be approved in 2011. The bank also held broad consultations on its new environmental strategy to discuss challenges and opportunities of environmentally sustainable growth and development, the bank’s role in
meeting these challenges and making use of opportunities, as well as ways of reaching a balance between economic development and ecological safety, and many other issues.

The World Bank is taking active part in environmental initiatives. In 2010 the bank launched two new climate programs – Scaling-up Renewable Energy Program for Low Income Countries (SREP) and Forest Investment Program (FIP). Both programs receive financing via the Strategic Climate Fund (SCF) – one of two trust funds established within the framework of international Climate Investment Funds (CIF). The Clean Technology Fund (CTF) has supported investment plans for Columbia, Indonesia, Kazakhstan and Ukraine.

Also in 2010, the World Bank published the intermediate outcomes of its water strategy implementation, which was adopted in 2003 and focuses on improving the quality of drinking water and solving problems of growing hydrological instability due to climate change. In addition to an array of successful projects in the water sector, the bank achieved progress in improving sanitation in countries with limited access to water.

IFC, a member of the WBG, has also financed a set of investment projects in 2010 that add to the WBG’s operational effectiveness.

### Table 15.2.
IFC projects in 2010 in the region by sector (loans)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Armenia</th>
<th>Belarus</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Tajikistan</th>
<th>Russia</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ million</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>8</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>516</td>
<td>534</td>
</tr>
<tr>
<td>Accommodation &amp; Tourism Services</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>441</td>
<td>441</td>
</tr>
<tr>
<td>General</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Construction and Real Estate</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>41.66</td>
<td>50.66</td>
</tr>
<tr>
<td>Nonmetallic Mineral Product Manufacturing</td>
<td>-</td>
<td>30</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Electric Power</td>
<td>-</td>
<td>-</td>
<td>40</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>5</td>
<td>2</td>
<td>7.8</td>
<td>1.3</td>
<td>-</td>
<td>16.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>17</td>
<td>45</td>
<td>42</td>
<td>7.8</td>
<td>1.3</td>
<td>1288.66</td>
<td>1401.76</td>
</tr>
</tbody>
</table>

**European Bank for Reconstruction and Development**

The shareholders of the EBRD have decided to increase the bank’s capital by 50% and so pave the way for a rise in EBRD investments over the next five years as the region emerges from the sharpest throes of recession. The bank’s Board of Governors approved the capital increase in the context of their overall endorsement of the bank’s strategy for the period 2011-
2015. As a result, the bank’s capital will rise to €30 billion from €20 billion, via a temporary increase in callable capital of €9 billion and a transfer from reserves to paid-in capital of €1 billion. The EBRD’s strategy for the next five years envisages a continued high demand for the bank’s investments. The New Growth Agenda aims specifically to address economic vulnerabilities that were unmasked in the region during the crisis, particularly, imbalances such as the mismatch between external and domestic sources of financing, the continuing lack of diversification within the economies of the region and the need for a strong focus on energy efficiency to boost competitiveness and achieve low-carbon growth. In the broader context of investments over the next five years, there will be a significant focus on tackling energy efficiency, climate change and helping to ensure energy security as well as accelerating transition in the infrastructure sectors. EBRD via its investments in the corporate sector, the also supports the further diversification of economies, helping to reduce some countries’ dependence on raw materials or a limited number of product groups. The bank invests in infrastructure, paying special attention to projects in the fields of energy efficiency and continuity of power supply. The West Balkans and less developed countries of the Caucasus and Central Asia are among the bank’s priority investment directions.

The EBRD has launched an initiative to develop local currency and capital markets in the region of its operations in order to help reduce unhedged foreign currency borrowing and the region’s dependence on external capital, which have emerged as the key vulnerabilities in the EBRD region during the global economic crisis. The Local Currency and Local Capital Markets Initiative aims to support and complement the actions of many governments in the region, which are helping to build up local sources of domestic funding and reduce the use of foreign exchange in the domestic financial system. Crucially, the initiative does not look at promoting the use of local currency in isolation, but at the overall macroeconomic, regulatory and market framework to ensure long-term, sustainable and liquid local currency markets.

In 2010 the EBRD stepped up its work with co-investors. For instance, Taipei increased its support for the EBRD projects by contributing $2 million in additional financing to the bilateral Taiwan Business – EBRD Technical Cooperation Fund and the multi-donor Early Transition Countries Fund.

Last year the EBRD issued $1 billion five-year global bonds to finance its operations and widened its range of products. In particular, the bank together with Daiwa Securities Group introduced new EBRD microfinance bonds. The funding will be raised under the EBRD’s Global Medium Term Note Program. Proceeds will support EBRD operations to fund financial institutions that provide microfinance to small businesses. The inaugural
issuance of EBRD's Microfinance Bonds will be arranged by Daiwa Capital Markets and distributed by Daiwa Securities Co. Ltd. to Japanese retail and institutional investors.

Another novelty of 2010 was the new rouble interest rate swap derivative instrument, Overnight Index Swaps (OIS). An OIS gives Russian market participants the possibility for the first time to manage overnight interest rate risk exposure in roubles without using cash assets or resorting to currency swaps. The use of the OIS in Russia was made possible by the launch of the Rouble Overnight Index Average (Ruonia), which is calculated on a daily basis by the Central Bank of Russia, based on the contributions of 31 banks. Ruonia is the Russian equivalent of the Euro Overnight Index Average (Eonia), a weighted average of all overnight unsecured lending transactions made by 57 contributing banks in the Euro area’s interbank market. The Eonia index is calculated by the European Central Bank.

Moreover, the EBRD launched an online training facility under its Trade Finance Program for EBRD member issuing banks. The training facility will provide courses to banks in 29 countries from Central Europe to Central Asia, aiming to ensure bank staff have the requisite skills to issue, process and honour traditional trade products in line with the International Chamber of Commerce trade rules.

In order to improve its operating activities, the EBRD initiated reorganisation of its management structure and created the position of Managing Director for Russia. Unfortunately, EBRD operations in Russia were overshadowed by the investigation into the alleged criminal activities of a group of Russian bank officials.

The results of the EBRD activities are reflected in the following table 15.3.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Armenia</th>
<th>Belarus</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Tajikistan</th>
<th>Russia</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME</td>
<td>13</td>
<td>-</td>
<td>-</td>
<td>5.4</td>
<td>2</td>
<td>-</td>
<td>20.4</td>
</tr>
<tr>
<td>Lending to banks, financial institutions</td>
<td>55</td>
<td>-</td>
<td>50</td>
<td>1.4</td>
<td>-</td>
<td>554</td>
<td>660.4</td>
</tr>
<tr>
<td>Equity in banks</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>148</td>
<td>150.4</td>
</tr>
<tr>
<td>Energy efficiency and climate change</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>237.5</td>
<td>244.5</td>
</tr>
<tr>
<td>Non-bank financial institutions</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8.9</td>
<td>-</td>
<td>56.765.6</td>
<td></td>
</tr>
<tr>
<td>Municipal and environmental infrastructure</td>
<td>-</td>
<td>-</td>
<td>62.9</td>
<td>-</td>
<td>10</td>
<td>11.3</td>
<td>84.2</td>
</tr>
<tr>
<td>Equity funds</td>
<td>-</td>
<td>-</td>
<td>49.5</td>
<td>-</td>
<td>-</td>
<td>50</td>
<td>99.5</td>
</tr>
<tr>
<td>Property and tourism</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>89</td>
<td>89</td>
</tr>
</tbody>
</table>
For the Islamic Development Bank (IsDB), 2010 was a year of active work with its member states. The bank held consultations with each of its member states on working out cooperation agreements in line with the country’s key priorities. The partnership strategy is part of the bank’s new business model, which aims to improve the interaction of the IsDB with its member states, introduce a strategic approach to regulating the bank’s activities on development financing in these countries, and aid the implementation of the IsDB Vision 2020 strategy.

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In 2010 the IsDB approved a capital increase from the current 16 billion to 18 billion Islamic dinars. Moreover, the IsDB board of governors approved the increase of Nigeria’s subscription in the IsDB capital to reach 1.384 billion Islamic dinars (about $600 million). Following that increase, Nigeria was afforded the right to appoint a permanent executive director representing it on the board of executive directors, subject to paying the first share of the announced subscription in IsDB capital. Therefore, the Board of IsDB Executive Directors will be immediately widened from 16 to 18 members, with nine of them being appointed to represent major shareholding member countries and the other nine elected by the Board of Governors.
In order to finance planned growth in IsDB operations, the bank has successfully updated its Sukuk Trust Certificate Issuance program and increased the ceiling of the program from $1.5 billion to $3.5 billion.

The results of the IsDB investment activities in the region are listed in the table 15.4.

**Eurasian Development Bank**

The institutional development of the Eurasian Development Bank (EDB), the youngest development bank, has continued throughout 2010. Belarus completed the procedures required for joining the EDB, and became the fifth full member. The bank signed agreements on the terms of its presence and investment activities in Armenia, Tajikistan and Belarus, and opened representative offices in Minsk and Yerevan.

The EDB became a member of the two leading international professional associations: the International Swaps and Derivatives Association (ISDA) and the International Capital Market Association (ICMA). Membership of these associations enables the EDB to perfect its system of market risk management on an ongoing basis in line with current market trends, and play an active role in preparing and discussing respective regulations.

The EDB also widened its range of products by approving the Program of Trade Financing Instruments and Development of Mutual Trade, and the Program for Supporting the Development of Small and Medium-Sized Enterprises, aimed at securing loans for real sector businesses by providing target credit facilities to financial institutions.

Moreover, the EurAsEC Anti-Crisis Fund (ACF) was put into operation. The ACF was established in 2009 by six states of the region. The ACF mission is to help its member states overcome the implications of the global financial crisis. The EDB has been appointed manager of the ACF.

In order to expand funding of its investment operations, the EDB had its Euro-Commercial Paper Program registered for a total of $3.5 billion. The purpose of the program is to raise financial market resources for a term of up to one year.

The results of the EDB investment activities in the region are listed in the table 15.5.

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1 *International Swaps and Derivatives Association (ISDA)* was founded in 1985 and now has membership of more than 800 entities from 57 countries. The ISDA specialises in identifying and reducing risks associated with derivatives.

2 *International Capital Market Association (ICMA)* was founded in 1969 and has about 350 members from 45 countries. Since its inception the ICMA has played a central role in creating the global framework for the operation of financial markets based on the rules and recommendations of the modern economy and production.
IFI projects in 2010 in the region by country

Armenia

The Asian Development Bank provided a loan to help build a new terminal at Zvartnots International Airport in Yerevan, Armenia, helping the airport to increase the number of destinations it serves and boost the frequency of flights. By the time the terminal opens in 2012, the airport should be able to handle about 3.2 million passengers a year, up from the current 1.8-2.0 million. This project is crucial for a landlocked country. The financing of the project will reach $40 million.

In 2010 the EBRD contributed around $80 million in financing, including to Armenia’s financial sector projects and a carbon credits deal within the framework of the Multilateral Carbon Credit Fund. The EBRD has agreed to buy carbon credits from a group of ten small hydropower plants in Armenia, bundled into a single project under the Clean Development Mechanism (CDM) framework.

The Eurasian Development Bank embarked on full-scale work in Armenia in 2010. The bank provided funding to two banks under its SME support program, and financed a grain export deal to enhance food security. In 2010 the EDB provided a total of $80 million for Armenia.

The World Bank Group focused its attention on infrastructural gaps in transportation, education, healthcare and water supply areas in Armenia in 2010. In particular, the WBG approved financing for a road rehabilitation project to drastically improve the accessibility of the country’s main road network for the rural population and to create employment. It will also help Armenia mitigate the impact of the global economic crisis on the country’s economy.

The bank also supports the health system modernisation project to widen primary healthcare services on the basis of family medicine. Moreover, the International Development Association (IDA, a member of the WBG) and the

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### Table 15.5. EDB projects by sector in 2010

<table>
<thead>
<tr>
<th>Sector</th>
<th>Armenia</th>
<th>Belarus</th>
<th>Kazakhstan</th>
<th>Tajikistan</th>
<th>Russia</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance (including Direct Investment Funds)</td>
<td>50</td>
<td>50</td>
<td>-</td>
<td>3</td>
<td>75.1</td>
<td>178.1</td>
</tr>
<tr>
<td>Agriculture</td>
<td>30</td>
<td>-</td>
<td>106.5</td>
<td>-</td>
<td>-</td>
<td>136.5</td>
</tr>
<tr>
<td>Transport</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Extractive productions (including metals)</td>
<td>-</td>
<td>-</td>
<td>48.7</td>
<td>-</td>
<td>-</td>
<td>48.7</td>
</tr>
<tr>
<td>Energy</td>
<td>-</td>
<td>-</td>
<td>385</td>
<td>-</td>
<td>44.2</td>
<td>429.2</td>
</tr>
<tr>
<td>Chemicals, oil and gas</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>TOTAL</td>
<td>80</td>
<td>50</td>
<td>540.2</td>
<td>3</td>
<td>309.3</td>
<td>982.5</td>
</tr>
</tbody>
</table>
International Bank for Reconstruction and Development (IBRD, a member of the WBG) provided loans of $21 million and $4 million respectively to provide assistance to the poor and support development of human capital assets in Armenia.

**IFC (a member of the WBG)** launched the Armenia Sustainable Energy Finance Project, which aims to establish a sustainable market for energy efficiency and renewable energy investments and contribute to Armenia’s energy self-sufficiency by working with local and international financial institutions. Established in January 2010, the program is supported with funds from the Austrian Ministry of Finance. Moreover, the IFC opened credit facilities for real estate and financial sectors to support financial institutions and SMEs.

**Belarus**

According to the IMF statement made after the Article IV consultations with the Belarusian authorities in November 2010, Belarus avoided a recession and resumed economic growth but there are still serious vulnerabilities. The first order of business should be to reduce the current account deficit. The IMF also welcomed the authorities’ initiatives on further economic liberalisation and the promotion of entrepreneurship focusing on the development of small and medium enterprises.

The **World Bank** has approved a $42.5 million loan and a $5.5 million Global Environment Facility (GEF) grant for the Integrated Solid Waste Management Project for the Republic of Belarus. The project will strengthen national capacity for managing hazardous waste, and support Belarus in meeting its obligations under the Stockholm Convention on Persistent Organic Pollutants.

What is more, the World Bank has approved a $150 million loan for Belarus for a road upgrading and modernisation project, which will help develop Belarusian transport infrastructure on a strategic transit corridor and introduce electronic tolling. The project is part of the Belarus government’s Roads of Belarus National Transport Development Program, which covers the period 2006-2015. Implementation of the project will start in 2011 and will take four years.

The **EBRD** and **IFC**, a member of the World Bank Group, have agreed to make a convertible loan totalling $8.5 million ($3.5 and $5 million respectively) to finance the construction of a greenfield detergent plant in Belarus. The project is topical for Belarus as over 90% of detergents are imported, mainly from Russia and Poland.

Moreover, the IFC provided a $30 million corporate loan to the Belarusian Alutech Group of companies engaged in the nonmetallic mineral product manufacturing sector. The proposed transaction will support the company’s
strategic growth through vertical integration, cost optimisation and operational efficiency.

In 2010 the Republic of Belarus paid its share in the charter capital of the EDB, thus completing the procedures required for joining the EDB, and became the fifth full member. The EDB opened a representative office in Minsk and embarked on investment activities in Belarus. The bank agreed to provide $99.8 million for the construction of Polotsk hydroelectric power plant in Belarus. The project envisages the construction of hydropower stations on the Western Dvina River. The EDB’s funds will be used to finance the hydraulic complex of the Polotsk plant including design, construction, equipment and spare parts, assembly, pre-commissioning, testing, commissioning and personnel training.

Besides, the EDB supports projects for delivery of spare parts for assembling multi-purpose loaders, public cleansing vehicles and excavators to be sold in Russia and other CIS countries, which will promote cooperation between the two major machinery manufacturers, and boost commodity turnover between Russia and Belarus. The bank also provided $50 million for SME and trade financing projects.

Kazakhstan

The financial crisis has emphasised the challenges currently faced by Kazakhstan, such as strong dependence on primary industries and commodity exports, and the banking system’s excessive reliance on foreign capital markets, as well as the need to accelerate the development of its energy and transport infrastructure.

The EBRD’s Board of Directors has adopted a new strategy for Kazakhstan, which reinforces the bank’s commitment to further support the Kazakh economy and sets out the priorities for its activities in the country over the next three years. The bank will support the development of the private sector by financing projects promoting innovation, best business and environmental practices, as well as energy efficiency. In order to help diversify the country’s economy, the EBRD intends to invest up to $1 billion in projects that will be selected by the bank in close cooperation with Kazakhstan’s Industry and Trade Ministry and Samruk-Kazyna National Welfare Fund. In this regard, the parties signed a trilateral memorandum of understanding, according to which the parties will cooperate in selecting, preparing and implementing different industrial and infrastructural projects in Kazakhstan. The choice of projects will be determined by their sound market principles and economic efficiency.

In 2010, the EBRD invested a total of around $470 million in various economic sectors in the country. The bank assisted the implementation of projects for the renewal of railway rolling stock and the modernisation of
Kazakhstan’s railway network, restoration of the water supply and sewerage system in Aktau and Shymkent, as well as enhancement of urban transport in Almaty. The EBRD finances the construction of an oil and gas field chemicals production plant in Kazakhstan and the completion of exploration works at Petrolinvest’s main oilfields. The bank’s projects in the financial sector are aimed at supporting Kazakhstan’s exporters and importers when financing of the real economy remains limited.

Moreover, the EBRD and Samruk-Kazyna National Welfare Fund have established the Kazakhstan Capital Restructuring Fund (KCRF), to the amount of $121.5 million to help Kazakhstan’s companies restructure their debts. KCRF will be capitalised with $100 million at the first closing, with the EBRD and KCM each committing $49.5 million and ADM Capital investing 1%. The fund is expected to increase its capital base by attracting additional investors.

In 2010 the ADB investments in Kazakhstan topped $606 million, including $456 million for the implementation of two large-scale transport projects within the framework of the MFF–CAREC Transport Corridor investment program: Western Europe–Western China International Transit Corridor section in Zhambyl region, Project 3 ($173 million) and the Aktau–Beineu Road, Project 1 ($283 million). The bank also supports the SME project, which aims to widen access to medium-term financing for small and medium-sized enterprises via the local banks. The first tranche will make up $150 million.

The World Bank approved a $17 million loan for the Kazakhstan Tax Administration Reform Project (TARP). The project, with an overall value of $57 million, is co-financed by the government of Kazakhstan (to the tune of $40 million). The project will facilitate efforts to make the Tax Administration more efficient and effective through the introduction of modern standards. Moreover, the World Bank provided a $29.2 million loan for the Technical and Vocational Education Modernisation Project for Kazakhstan. The Kazakh government co-financed the project in the amount of $4 million.

The IFC provided financial support for three projects in Kazakhstan in 2010 at a total sum of $42 million. The loan for $40 million was provided to JSC Central-Asian Electric Power Corporation (CAEP Co.) to finance its comprehensive investment plan to support major energy efficiency and environmental improvements and support its growth strategy. The $2 million went to Ust Kamenogorsk Poultry Farm, JSC.

The Eurasian Development Bank increased its investment portfolio by $540 million. The bank took part in a large-scale investment project for construction of a third power unit at the Ekibastuz GRES-2 power plant to help restore the unity of Russia’s and Kazakhstan’s power grids. Moreover,
the EDB proceeded to finance the construction and launch of a new production facility with a full production cycle, from ore mining and dressing to metal tin production. The implementation of this project will effectively create a new sub-sector in the country’s non-ferrous metallurgy. Along with that the bank financed export-oriented projects in the republic’s agricultural sector.

The Islamic Development Bank invested around $30 million in leasing transactions in the agricultural sector.

Kyrgyz Republic

In April–June 2010, Kyrgyzstan faced widespread social and political instability that had a negative influence on the country’s economic development. Bishkek hosted the international donors’ conference, during which the representatives of the Kyrgyz government, civil society, private sector, international development organisations and bilateral donors discussed the role of each partner in the process of moving towards peace and understanding, as well as Kyrgyzstan’s recovery. In support of the government program and the proposals of the Joint Economic Assessment and the United Nations Flash Appeal, donors have pledged a total of about $1.1 billion to support vital government expenses and services, social needs and vital investments.

The Asian Development Bank invested over $65.2 million in providing emergency assistance to the country.

The World Bank provided $70 million for the Emergency Recovery Project to provide financing for high-priority expenditure in emergency recovery and reconstruction, and to support the rehabilitation and repair of energy infrastructure and networks to ensure country-wide energy supplies in the winter period. Moreover, the bank approved additional financing of $10 million for the National Road (Osh–Batken–Isfana) Rehabilitation Project.

The EBRD allocated over $6 million for supporting small and medium-sized businesses in Kyrgyzstan.

Investments by the Islamic Development Bank came to $18.5 million and were spent on financing projects in transport infrastructure and agriculture, as well as SME support.

Russia

Russia traditionally attracts investors with its broad investment opportunities. Almost all international development banks operating in the region took part in the project for the expansion and modernisation of St. Petersburg’s Pulkovo International Airport. The total loan financing
package of approximately €716 million will be provided by IFC, EBRD, the EDB, NIB, the Black Sea Trade and Development Bank (BSTDB), Russia’s Vneshekonombank, and several commercial banks.

The **EBRD’s** investment portfolio in Russia increased by around $2.8 billion in 2010. The bank was active in Russia’s telecommunications, financial sector, transport, real estate, natural resources, manufacturing and other fields. Moreover, the Multilateral Carbon Credit Fund (MCCF) closed its second deal in Russia by purchasing carbon credits from Air Liquide Severstal resulting from an energy efficiency project involving a modern Air Separation Unit in Russia’s Vologda region.

The **EDB** invested $309 million in Russia’s projects in 2010, including the construction of a high-tech complex for the production of polycrystalline silicon, modernisation of OJSC Yenisei Territorial Generating Company (TGC-13), and projects in transport infrastructure and the financial sector.

The **World Bank** approved a $25 million loan for the Financial Education and Financial Literacy Project for the Russian Federation. Moreover, the bank provided a $100 million loan for the Preservation and Promotion of Cultural Heritage Project. The project will also help cultural institutions to strengthen their internal capacity for cultural heritage management. In 2010 the **IFC** launched the implementation of 14 projects in different spheres, including construction and transport. The projects’ overall value topped $1.2 billion.

**Tajikistan**

The **World Bank** Group launched a new Country Partnership Strategy (CPS) for Tajikistan, which provides the framework for the World Bank Group’s assistance to Tajikistan for 2010-2013. The main objectives of the new CPS, prepared at a time when Tajikistan is addressing the impacts of the global economic crisis, are to reduce the negative impact of the crisis on the poor and vulnerable and to pave the way for sustainable and inclusive post-crisis growth. The new CPS envisages World Bank Group financing of about $140 million over the next four years through the International Development Association (IDA) and about $62 million to be attracted through trust funds. Key initiatives will include strengthening the business environment and access to finance; boosting agricultural productivity; improving the reliability of electricity and water supply; expanding the country’s energy production and export potential; and enhancing human capital through higher-quality education and health services. The World Bank Group will selectively use a variety of instruments to support the priority areas identified in the new CPS. These will include investment operations, budget support and analytical work. The World Bank approved the $24.4 million Fourth Programmatic Development Policy Grant for the
Republic of Tajikistan to help the government mitigate the impact of the global economic slowdown and to help it continue to implement its medium-term reform program.

Also the World Bank approved a $2 million grant as an Additional Financing for the Education Modernisation Project in Tajikistan. The Additional Financing will be complemented by the capacity building and technical assistance activities focused on learning assessment funded by the Russian Education Aid for Development (READ). The World Bank also provided a $10 million grant as additional financing for the Ferghana Valley Water Resource Management Project in Tajikistan. The main objective of the additional financing is to increase the coverage of the drained and irrigated areas in Bobojon Gafurov and Kannibodom districts, strengthen the early warning system of the Kayrakkum Dam, and assess geotechnical risks associated with the dam. The International Development Association provided $3 million for a healthcare project to raise the potential and management efficiency of basic benefit packages and financing of the primary healthcare per capita on the national, regional and local levels. IFC financed a project in food industry.

The EurAsEC Anti-Crisis Fund disbursed a $70 million financial credit to Tajikistan to maintain the level of budgetary financing of social sectors (education, health and social protection) as originally legislated in 2010.

The EBRD supported small farmers, cotton and edible oil producers in Tajikistan. The total amount of EBRD investments in 2010 topped $22 million, including financing of projects for widening the electronic payment services and improving water supply in North Tajikistan.

The IsDB focused its attention on projects in transport infrastructure, energy and agriculture by investing a total of $34 million.

The EDB provided financial support of $3 million within the framework of the microfinancing program.

Uzbekistan

Uzbekistan has the most industrialised and energy-intensive economy in Central Asia. It uses four times more energy than the world average to produce one dollar of gross domestic product. This is due to aging and dilapidated energy infrastructure, low technological base and lack of investment. Thus, improving the energy efficiency of industrial enterprises is a key task for Uzbekistan’s government.

The World Bank approved a $25 million credit to Uzbekistan for the Energy Efficiency Facility for Industrial Enterprises Project (UZEEF). Improving energy efficiency and reducing energy consumption in the production process will improve Uzbek industries’ overall competitiveness, free up scarce gas resources for exports and reduce greenhouse gas emissions.
The ADB participated in financing the project for the construction of a new power plant to improve energy security and facilitate regional energy trade. The project also aims to increase energy efficiency and save energy through clean power generation. The ADB financing of $340 million will help fund the construction of Central Asia’s first 800 MW combined cycle gas turbine (CCGT) power plant. Moreover, the ADB provided a $50 million loan and a $600,000 grant to three Uzbek banks to help them finance micro and small enterprises, with around 25% of microloans to be extended to women.

The IsDB will extend a record $167.2 million for the reconstruction and upgrading of the M·39 highway in the Surkhandarya region, the biggest IsDB endeavour in Uzbekistan to date. Moreover, the IsDB will provide $11.7 million in financing for the construction and equipping of 13 secondary schools and the training of 300 teachers in rural areas.

**Directions for Further Growth**

As specified in the current review, the international development banks play a significant role in the development of the region’s economies. However, this work should be continued. The region obviously has a high need for wider investments focused on a sustainable long-term development that will raise the standards and quality of living in the post-soviet states. It is necessary to secure capital inflow and attract strategic investors to the private sector. The region’s economies need diversification, improvement of corporate and state governance, the introduction of openness and transparency standards, as well as the implementation of business environment and social responsibility principles. Given Central Asia’s particular exposure to the implications of climate change, additional requirements must be set for the environmental impact assessment level. The bulk part of future investments should be directed to basic infrastructural sectors needed for sustainable economic development: energy, transport infrastructure, and municipal and telecommunications infrastructure.

At the same time, it is worth noting that the international development banks are currently the most competent investors in the region, able to provide financing for capital-intensive projects and add knowledge and expertise, consistent with modern requirements.