



**Eurasian Development Bank**

INVESTING IN DEVELOPMENT & INTEGRATION

***Anti-Crisis Fund***  
***of the Eurasian Economic Community (EurAsEC):***

***New instrument of financial and economic cooperation  
in the Europe and Central Asia Region***

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**April 2011**

## EurAsEC Anti-Crisis Fund

- On June 9, 2009, the Treaty on the Establishment of the EurAsEC Anti-Crisis Fund (ACF) was signed by the Russian Federation, the Republic of Belarus, the Republic of Armenia, the Republic of Kazakhstan, the Kyrgyz Republic and the Republic of Tajikistan
- Mission: to assist member countries in overcoming the consequences of global financial crisis, to ensure their long-run economic and financial stability, and to foster economic integration between them

## Eurasian Economic Community: Key Facts

- EurAsEC is an international organization that fosters multilateral economic cooperation among its member states
- Established on October 10, 2000
- Members: Republic of Belarus, Republic of Kazakhstan, Kyrgyz Republic, Russian Federation, Republic of Tajikistan
- Observers: Republic of Armenia, Republic of Moldova, Ukraine
- Mission: to enable the Community to become a rapidly developing organization for regional integration in the near future, able to ensure effective use of existing economic potential to raise the living standard of its peoples
- EurAsEC follows UN principles and international law
- 2003 – Observer status at UN General Assembly
- 2007 – Cooperation resolution between UN and EurAsEC

[www.evrazes.com](http://www.evrazes.com)

## Eurasian Development Bank (EDB): Key Facts

- Mission: to spur growth and the development of market economies, and to promote trade and economic integration of its member states through investment activity
- Statutory capital: exceeds US\$1.5 billion
- By February 28, 2011, EDB's investment portfolio has reached US\$2.5 billion. The total value of projects in EDB's pipeline is currently around US\$13.1 billion, of which the estimated share of Bank's financing is over US\$2.5 billion. By the end 2013 investment portfolio is projected to increase to US\$4.4 billion
- Under the Agreement with six Founding States EDB manages ACF resources

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## Contributions to ACF



### Total of **US\$8.5 billion**

- Russian Federation – **US\$7.5 billion**
- Republic of Kazakhstan – **US\$1 billion**
- Republic of Belarus – **US\$10 million**
- Republic of Armenia – **US\$1 million**
- Kyrgyz Republic – **US\$1 million**
- Republic of Tajikistan – **US\$1 million**

### Terms of Payment

- **10 per cent** paid in cash (US\$ and/or Euro)
- **90 per cent** paid in the form of simple, non-convertible, non-interest-bearing bill of exchange

## ACF Country Access Limits

- The limits are maximum possible levels of ACF financing available to a member country
- Set by the ACF Council in proportion to gross national income (GNI) per capita, which is used as a proxy for the absorptive capacity of the economy
- All ACF loans are counted towards this limit
- Limits are revised annually by the ACF Council based on proposals of ACF Manager
- Russia indicated that it will use its limit only to finance large-scale integration projects

ACF Member State	% of Total Resources of the Fund	US \$ Million
Republic of Armenia	13	1,106.69
Republic of Belarus	21	1,787.73
Republic of Kazakhstan	24	2,043.12
Kyrgyz Republic	3	255.39
Russian Federation	37	3,149.81
Republic of Tajikistan	2	170.26

## Key Principles (I)

- Long-term strategy of cooperation with a borrowing country
- Detailed economic, financial and social analysis
- Support of sustainable growth and development
- Transparency at all stages of project cycle
- Full accountability for the use of funds verified by independent audit

## Key Principles (II)

Lending decisions are based on the assessment of:

- Extent and urgency of country financing needs
- Country creditworthiness, the need to maintain long-term fiscal and debt sustainability
  - Careful consideration is given to long-term debt sustainability
  - A country's access limit should be used over 3-5 years depending on the borrower's needs
- The ability of a borrower to absorb ACF funds, measured by:
  - Its institutional capacity to achieve targets established in ACF programs and projects (targets are set by countries themselves)
  - Effectiveness of its governance and anti-corruption framework: ACF pays close attention to assessments made by the World Bank, the IMF, and other IFIs



## Fund Products

- **Financial Credits (FCs)** are extended only to central governments to support adjustment programs that they have formulated to restore budgetary stability and to strengthen the balance of payments. Such programs should meet the objectives of the Fund and include measures to achieve macroeconomic stability, strengthen the budget and/or the balance of payments, improve business climate and foster trade between the countries of EurAsEC
- **Investment Loans (ILs)** are primarily to support big investment projects that spur integration between member states, e.g. power and infrastructure. The Fund's ILs may also support big national investment projects. ILs can be attracted either by the Governments of member countries or by companies implementing the project.

All ACF loans :

- Are repayable, have finite maturities, and carry interest (no grants)
- Are extended in USD or EUR

## Financial Credits

- Programs supported by FCs should be internally consistent, help the borrowers to achieve macroeconomic stability, ensure long-term development and preserve fiscal and debt sustainability
- Financial credits **support a limited number of specific policy actions, defined by the Governments themselves**, which are key to the success of national anti-crisis programs
- Policy implementation is measured by specific indicators and is evaluated by the Fund's Council on the basis of reports from the ACF Manager

### EXAMPLES

- **Improved budget efficiency and transparency; improved quality of public administration** (measured by decreased number of in-year amendments, lowering of the deviation coefficients (actual vs. planned, scope and quality of publicly available budget documents, number of sectors introduced non-financial performance indicators, level of accountability for meeting these indicators, etc.)
  - **Greater energy efficiency** (share of losses in the system and its dynamics, level of profitability, access to and quality of services etc)
  - **Improvements in social security efficiency and targeting to soften the effects of the crisis on vulnerable social groups** (coverage, targeting – errors of inclusion and exclusion, budget burden etc)
- If an FC is extended in several tranches, the Council decides on the disbursement of a given tranche upon the evaluation of the borrower's success in implementing the policy measures agreed under previous tranches

# Indicative Financial Terms for FCs

Terms and conditions Types of financial credits	Interest base (% annual basis)	Spread over interest base	Front-end fee (% of the amount of commitment)	Commitment fee (% annual)	Maturity including grace period (years)	Grace period (years)	Duration of the program (years)	Requirements for co-financing by the recipient
Stabilization credits for low-income member countries	1-3%	none	none	none	up to 20	up to 5	up to 3	none
Sovereign loans for middle-income member countries	LIBOR	Variable spread calculated for each 6-month accrual period as a difference between the cost of funding of the Russian Federation and The Republic of Kazakhstan on the international markets and LIBOR	none	none	up to 10	up to 5	up to 3	none

Note: Financial terms of ACF loans to low-income countries comply with the requirements of IMF programs (grant element of at least 35%)

## First Past the Post: FC to Tajikistan

- 23 August 2010: EDB, as ACF Manager, has disbursed a US\$ 70 million financial credit from the ACF funds to the Ministry of Finance of the Republic of Tajikistan
- Terms: maturity - 20 years, including 5-year grace period; fixed interest rate of 1% per annum, no additional fees or charges
- Objective: maintain the level of budgetary financing of social sectors (education, health, social protection)
- Results: As of December 31, 2010, US\$ 62 million had been disbursed.
- The Mid-term Manager's Report assessed positively the implementation record of most reforms agreed under this credit

## FC to Kyrgyz Republic

- EDB is preparing a financial credit to the Kyrgyz Republic
- Objectives: support the Anti-Crisis Program aimed at the rebuilding stability in the country after the socio-political and ethnic crises of 2010.

### **Key Priorities**

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Budget and financial system support

Relief for the victims of socio-political crises in April-June 2010

Relief for the victims of natural disasters

Support to the Pension Fund

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# Investment Loans

- ACF Investment Loans are available to:
  - Member countries
  - Companies implementing projects of national relevance (required collateral: sovereign guarantee, guarantee of a first-class bank, liquid assets)
- ACF will only support projects with no alternative sources of financing (from the market, other IFIs, and EDB itself) and reasonable risk level. If a viable project can be funded by other sources partially, ACF may step in to fund the residual gap
- ACF loans are granted in any form used in international practice, except the participation in charter capital
- Minimum loan sizes of investment loans are:
  - US\$30 million for countries with GNI per capita greater than US\$5,000
  - US\$10 million for countries with GNI per capita below US\$5,000

# Indicative Financial Terms for ILs

Terms and conditions Recipient	Interest base (% annual basis)	Spread over interest base	Risk premium	Front-end fee (% of the amount of commitment)	Commitment fee (% annual basis)	Maturity including grace period (years)	Grace period (years)	Requirements for co-financing by the recipient (% of project value)	Requirements for co-financing by the end-recipient (% of project value)
ACF Member-State	LIBOR	Variable spread calculated for each 6-month interest accrual period as a difference between the cost of funding of the Russian Federation and the Republic of Kazakhstan on the international markets and LIBOR	To be determined by the ACF Council based on project risks and other risks	up to 1%	0,5%	up to 15	up to 5	none	no less than 20%
Project company	LIBOR			up to 1%	0,5%	up to 10	up to 5	no less than 20%	–

Note: Financial terms of ACF loans to low-income countries comply with the requirements of IMF programs (grant element of at least 35%)

## **ILs under Preparation**

- Appraisals are underway for five investment projects, including interstate initiatives:
- Transport infrastructure
- Energy infrastructure and energy efficiency



## Key Documents

### Treaties and Agreements

- Treaty on the Establishment of the EurAsEC Anti-Crisis Fund
- Statute of the EurAsEC Anti-Crisis Fund
- Agreement on the Management of the Resources of the EurAsEC Anti-Crisis Fund

### Regulations adopted by the ACF Council

- Regulation on the Use of ACF Funds for Providing Financial Credits
- Regulation on the Use of ACF Funds for Providing Investment Loans
- Regulation of the Investment of Temporary Idle Resources of the Fund

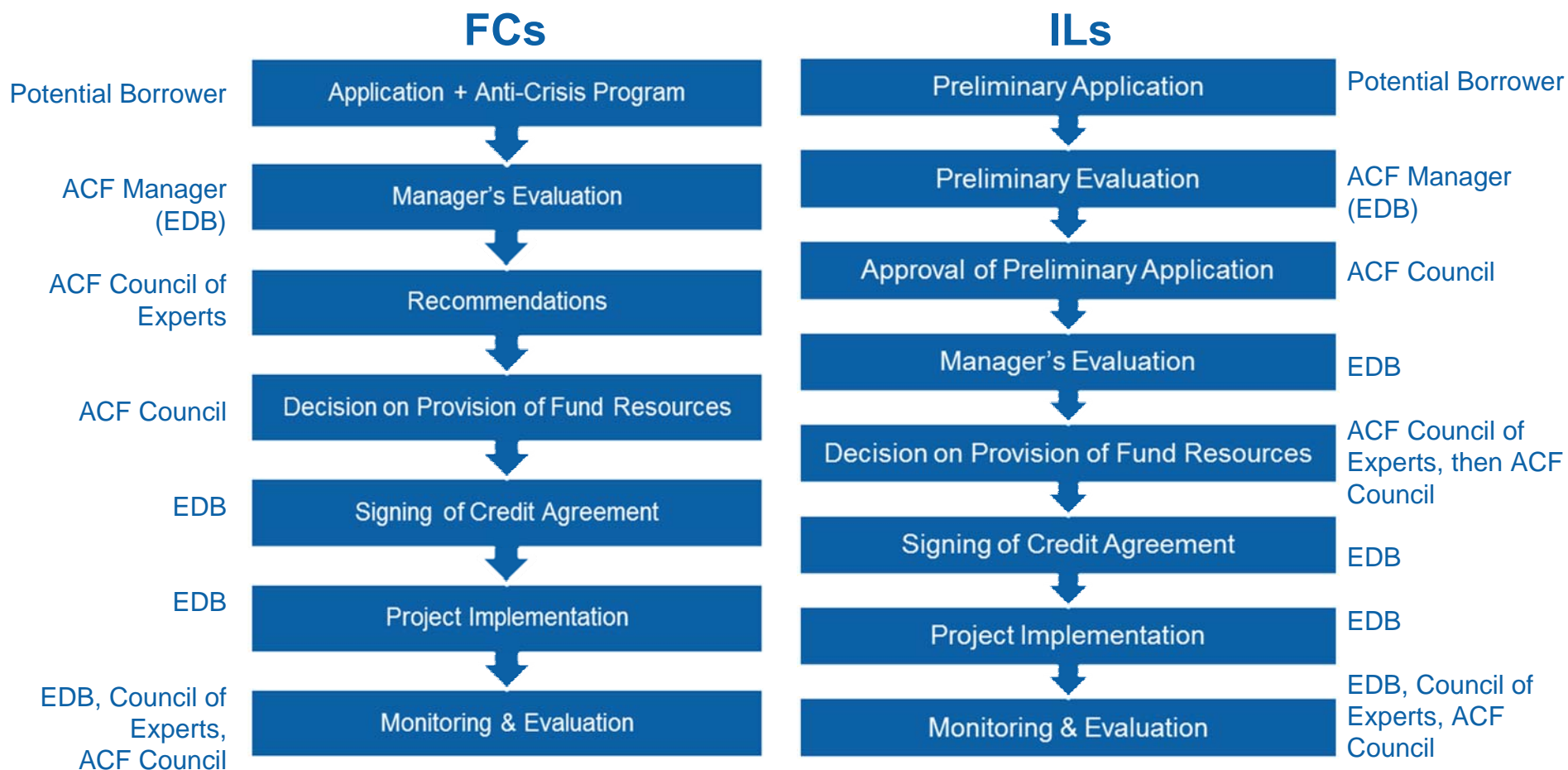
### EDB's Internal Procedures

- Procurement Policies
- Disbursement and Financial Management Policies
- Monitoring and Evaluation
- Environmental and Social Safeguards
- Disclosure Policy

# Governance Mechanisms



# ACF Project Cycle



## International Cooperation

- EDB as ACF Manager coordinates its activities with other IFIs in the following areas:
  - Co-financing of programs and projects
  - Policy coordination
  - Joint technical assistance for investment projects, including the preparation of feasibility studies
  - Joint preparation of analytical papers on economic development and integration trends in member states
  - Exchange of information

**World Bank****European Bank  
for Reconstruction and Development**