2016 EPTATF
Eastern Partnership Technical Assistance Trust Fund
Annual Report
This EPTATF Annual Report has been prepared in accordance with the “Rules relating to the establishment and administration of the EPTATF” and the “EPTATF Rules of Procedure”.

1 “Rules relating to the establishment and administration of the EPTATF” and the “EPTATF Rules of Procedure” were approved by the EIB’s Management Committee in November 2010 and by the Contributors Committee on 13 December 2010.
EIB lending volumes in the Eastern Partnership Countries, under the External Lending Mandate (ELM), continued to increase in 2016 as the Bank manifested its position as one of the main financiers in the region with total lending amounting to a record EUR 1.6bn. In terms of economic development, significant impact was achieved through the funding of projects providing vital services for citizens in the transport, municipal infrastructure, and energy sectors and by supporting the private sector and job creation through the funding of SMEs and midcaps.

The slowdown of economic activity in the region, largely as a result of stagnation in global economic growth, low oil prices and the conflict in Ukraine, continues to pose challenges. Not least so in Ukraine, which nevertheless dominated EIB activities in 2016 with total lending volume reaching EUR 801m, some 50% of total lending volume in the Eastern Partnership Countries. Over the period 2014-2016 the EIB provided loans totalling more than EUR 3bn in Ukraine, targeting a wide range of sectors, while providing substantial advisory support alongside its financing. In 2016, the EIB also delivered a record level of financing amounting to EUR 622m in Georgia.

The good progress made with the implementation of the Association Agreements and Deep and Comprehensive Free Trade Area agreements (AA/DCFTA) with the EU raises expectations of positive effects from increased investment inflows and enhanced trade opportunities in the near future. The agreements, which were signed in 2014, fully entered into force in Georgia and Moldova in 2016, while in Ukraine they were provisionally applied. The underlying preferential terms offer opportunities to deepen bilateral economic ties between these countries and the EU and boost economic growth in the future. In support of DCFTA implementation in Georgia, Moldova and Ukraine, the Bank’s Eastern Partnership Technical Assistance Trust Fund (EPTATF) approved a EUR 5.4m Technical Assistance operation titled “Agri-food Value Chain Development” to improve resource efficiency, reduce losses and waste along the value chains, enhance product safety and quality, and improve product competitiveness on national and international markets in all three Eastern Partnership Countries.

Since its establishment in 2010, the EPTATF has brought together EU policy dialogue, EIB lending and Donors’ contributions to leverage investments in the Eastern Partnership Countries. By supporting EIB cli-
ents in project preparation and implementation, the EPTATF has contributed to the bankability of those projects and strengthened institutional capacities, making it easier for the EIB to provide vital funding. At end-2016, 23 operations amounting to EUR 24.3m had been approved thanks to Donors’ contributions amounting to EUR 30.6m. In 2016, the EPTATF was replenished with additional contributions of EUR 5m from Austria, Germany, Lithuania and Sweden. Fundraising will remain a priority for 2017 in order to provide additional crucial technical assistance for the preparation and implementation of investment projects in the region, tailored support of upstream studies, sector development strategies and/or policy and institutional reforms. A total of EUR 27.6m will be sought to meet existing pipeline needs.

The EIB looks forward to continued close cooperation both with the EPTATF contributors and its target countries to ensure the quality and sustainability of investments in the Eastern Partnership. This report demonstrates the EPTATF’s aspiration to further enhance the added value and development impact of EIB-managed Trust Fund operations.

**Vazil HUDAK**
EIB Vice-President
Eastern Partnership in 2016

The Year at a Glance
In Ukraine, real output GDP declined 9.9% year-on-year in 2015. The overall economic downturn was driven by shrinking production in the east, decreasing investment and prevailing economic uncertainty. The contraction of trade with Russia has also contributed to the steep economic decline. A nascent recovery emerged in 2016, with the GDP growth of 2.3% largely attributed to the strengthening of consumer and investor confidence, and easing of credit conditions. In addition, inflation followed the downward trend bottoming at 12.5% in November 2016, after peaking at 60.9% in April 2015.

In Georgia, the situation is more positive following progress with the Deep and Comprehensive Free Trade Area (DCFTA) agreement with the EU. Economic and political disruptions within Georgia’s main trading partners had a negative effect on its export performance in 2015, with trade declining 0.3% (versus 6% growth in 2014). Weakening foreign demand also negatively impacted manufacturing, which contracted by 4.9% in 2015. Although investment fell from 30% in 2014 to 17% in 2015, it remained the main driver of GDP growth. On the other hand, the DCFTA opportunities in Georgia point to a positive outlook for progressing with reforms and economic growth. This was reflected in annual GDP growth of 2.7% in 2016.

After economic contraction in Moldova of 0.5% in 2015, the economy started recovering with 4% GDP growth in 2016. Moderate economic growth was supported by a positive contribution in terms of private consumption and a build-up of inventory stocks. However, the contribution of net exports remained negative. Inflation decelerated significantly from 13.6% in January 2016 to 2.6% in November 2016. Disinflationary dynamics were driven by decreasing food and energy prices and currency stabilisation.

The slowdown of Armenia’s GDP growth rate to 2.5% in 2015 combined with weakened domestic conditions triggered depreciation of the local currency and a widening of the fiscal deficit. Since Armenia is highly dependent on remittances from Russia (around 14.1% of GDP in 2015), the worsening economic conditions in Russia resulted in the decline of remittances by more than 25% between 2014 and 2015. Moreover, falling copper prices had a negative effect on domestic economic activity in Armenia. Lower base metal prices further challenged economic conditions in Armenia, with annual real GDP growth of 0.2% in 2016.
The low oil price environment generated substantial pressure on Azerbaijan’s internal and external position. While growth decelerated to 1.1% in 2015, the economy further contracted by 3.8% in 2016. Stagnating public investment and low credit activity also contributed to the overall economic deterioration. Compared to 2015, average inflation accelerated sharply in 2016 from 4.1% to 12%. Two significant devaluations of the national currency (Manat) were performed in 2015. On 21 February 2015, the Central Bank of Azerbaijan (CBA) announced a devaluation of the Manat by 33.5% against the US dollar and 30% against the euro. A second sharp devaluation occurred in December 2015 in a last resort attempt by the policy makers to curb the pressures on the economy caused by low oil revenues and the resulting erosion of the country’s foreign reserve position. After the second devaluation, the central bank announced that it was abandoning the currency peg to the USD and moving to a free float.

Most of the EU’s restrictive measures against Belarus were suspended on 31 October 2015. Belarus has a long tradition of close political and economic connections with Russia and the process of economic transition has been slow, uneven and subject to reversals. In late 2014, Belarus experienced an exchange rate crisis which contributed to a 3.8% decline in GDP in 2015. Support from Russia helped to alleviate some of the immediate consequences of the crisis but did not address the underlying rigidities. External shocks, structural weaknesses and underlying rigidities were at the root of Belarus’s weak economic performance, with real GDP dropping by 3% in 2016.
The EIB lent EUR 1.6bn to the Eastern Neighbourhood in 2016, which is the highest amount ever extended by the EIB in the Eastern Partnership Countries, despite the heightened economic instability that affected Ukraine and the continuation of the conflict in eastern Ukraine that led the EU to impose economic sanctions on Russia, including the suspension of new EIB loans in that country. Since 2007, the total volume of EIB lending to the Eastern Neighbourhood amounts to EUR 7.5bn.

In 2016, EIB lending volumes in the Eastern Neighbourhood continued to increase and the Bank became one of the main financiers in the region. 2016 lending amounted to EUR 1.6bn, which is the highest amount ever extended by the EIB in the Eastern Partnership Countries since 2007, of which 100% was under the ELM. Support to transport infrastructure accounted for EUR 750m, demonstrating the EIB’s active role in promoting transport connectivity in the region as well as sustainable transport. EIB financing in 2016 also supported other crucial sectors such as local private sector development, energy, and municipal and social infrastructure.

A further important achievement in 2016 in the region was that 41% of signatures supported climate action. The main contributors to this percentage were operations signed in the areas of sustainable transport and energy efficiency with the remainder coming from credit lines. This reflects the potential to reduce the energy intensity of economies in the region and the role that the EIB plays by stepping up its financing and advisory support in that field. The EIB is financing a flagship energy efficiency project with a EUR 120m loan to refurbish teaching, research and supporting facilities at several universities across Ukraine.

Similarly, EIB financing targeted energy interconnections to help partner countries reduce energy dependency and bolster their resilience. This included a EUR 41m loan to finance the Ungheni-Chisinau gas pipeline between Moldova and Romania.
In 2016, the Bank continued to support the local private sector, through both intermediated lending and direct loans. Loans for SMEs and midcaps accounted for 26% of the EIB’s lending in the region in 2016. In this context, the EIB signed a programme to support the development of domestic agro industries in Georgia based on the value chain concept. The EIB is also backing larger agricultural companies via direct investment loans. In 2016, the EIB agreed to provide EUR 71m to finance the investment plan of Nibulon, a major privately-owned Ukrainian grain producer and exporter. The EIB and the EC signed a Delegation Agreement under the “DCFTA Initiative East”, funded by the Neighbourhood Investment Facility (NIF): this initiative will provide targeted financial and technical support in the countries that have signed the Association Agreement with the EU in order to facilitate wider access to finance for SMEs.

Moreover, the EIB Group deployed the “Innovfin – EU Finance for Innovators” programme in associated countries in the region under the Horizon 2020 initiative (Armenia, Georgia, Moldova, Ukraine), providing a series of integrated and complementary financing tools and advisory services targeting investments in research and innovation.

Lending to Ukraine continued to be a dominant feature of EIB activities in the region as part of the EU support package for Ukraine. The EIB fully delivered on its commitment: over the period 2014-2016, the EIB Group signed 15 transactions totalling more than EUR 3bn targeting a wide range of sectors and provided substantial advisory support alongside its financing. In order to implement the package of loan operations in the difficult environment prevailing in Ukraine, the EIB, in close collaboration with the Ukrainian authorities, set up a dedicated Task Force, including additional expert staff in the Kiev representative office, to deliver a targeted approach to ensure accelerated project preparation and implementation of investments. In 2016 the EIB also delivered a record level of financing for projects in Georgia.

For the period 2014-2020, the Bank has been entrusted by the European Union with an External Lending Mandate of EUR 4.8bn to support projects in the Eastern Neighbourhood Countries. In addition, the Bank has established the Neighbourhood Finance Facility covering the whole Neighbourhood region, under which it will finance EUR 3bn worth of projects at its own risk.
Cooperation with the European Commission

The EU’s objective of developing a special relationship with its neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the EU’s values, is the basis of the revised European Neighbourhood Policy (ENP). The EU utilises the European Neighbourhood Instrument (ENI) to channel the bulk of EU funding to the ENP partner countries via the Neighbourhood Investment Facility (NIF).

The Bank cooperates extensively with the European Commission mainly through blending with the NIF and the Eastern Europe Energy Efficiency and Environmental Partnership (E5P). The NIF provides funding to projects across a range of sectors whereas the E5P, which is also funded by other donor contributions, has a more specific focus. The EIB taps into these complementary funding sources to achieve combined objectives and enhance the impact for beneficiaries.

In 2016, three Delegation Agreements in the Eastern Neighbourhood region were signed – the Kutaisi Wastewater Project in Georgia, the Ukraine Railway Modernisation Project, and the regional programme DCFTA Initiative East – for a total amount of around EUR 74m. This is a new record high volume for NIF grant funding entrusted to the EIB in one year. Since the NIF is not only a mechanism for allocating funding but also for cooperation with other IFIs, this underlines the growing importance of good cooperation with partner institutions and the EC. The type of support awarded by the NIF in the Eastern Neighbourhood, in terms of number of projects supported, continues to be Investment Grants and Technical Assistance. The large increase in the volume of contracted funding, however, is due to the DCFTA Initiative East, which includes two financial instruments and accounts for EUR 61.5m. It will help to ensure the successful implementation of the EU’s Deep and Comprehensive Free Trade Area (DCFTA) agreements by providing targeted financial and technical support to SMEs in the countries concerned: Ukraine, Moldova and Georgia. A set of targeted instruments (risk capital, technical assistance, portfolio guarantees) seeks to address the market gaps in those countries and underpins the objectives of the DCFTA, aimed at a progressive removal of barriers and creation of the necessary conditions for bringing the SME sectors of the partner countries’ economies into line with EU standards.
In 2016 the EIB’s projects in the Eastern Neighbourhood benefited from NIF financing to the tune of EUR 74m.

Cooperation with international financing institutions

The Bank cooperates closely with the other international financing institutions active in the Eastern Neighbourhood Countries, in particular through co-financing of projects under the Neighbourhood Investment Facility. Cooperation with the European Bank for Reconstruction and Development (EBRD) is based on a Memorandum of Understanding signed by the EIB, the EBRD and the EC in 2012. Agence Française de Développement (AfD), Kreditanstalt für Wiederaufbau (KfW) and the EIB cooperate closely in connection with the Mutual Reliance Initiative (MRI).
The Eastern Partnership Technical Assistance Trust Fund (EPTATF) was established in December 2010 as a multi-donor, multi-sector trust fund designed to enhance the quality and development impact of the European Investment Bank’s operations in the Eastern Partnership Countries by providing well-targeted technical assistance (TA). The factors driving the creation of the Fund were the slow uptake of financing, attributed to a lack of resources for project preparation, and the limited implementation capacity of promoters in the region.

At end-2016, the EPTATF had received pledges from contributors totalling EUR 36.2m (of which EUR 30.6m paid-in). During 2016, EPTATF was replenished with additional contributions of EUR 5m from Austria, Germany, Lithuania and Sweden. Countries currently eligible for EPTATF support are Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The Fund is also open to cross-border or regional projects.

**Priority sectors**

- Local private sector development, support to small and medium-sized enterprises;
- Development of social and economic infrastructure: transport, energy, water, sanitation, environmental protection, agriculture and rural development, urban infrastructure, education and research, information and communications technology;
- Climate change mitigation and adaptation.

**Types of support**

Support throughout the project cycle:

a. identification: e.g. sector and master plans;

b. preparation: e.g. pre-feasibility or feasibility studies; technical, economic and financial appraisal; environmental and social impact assessments, upstream studies, gender analysis;

c. implementation: strengthening project management and operational skills, e.g. technical, procurement, financial, O&M and advisory service functions.

The EPTATF also provides support for capacity-building programmes such as the training of officials in beneficiary countries, as well as offering institutional programmes – internships and secondments providing people from the beneficiary countries with the opportunity to gain experience of working at the EIB for a period of time.

**The governing body**

The EPTATF is governed by a Contributors Committee that meets twice a year. Contributions can come from Member States of the European Union, the European Commission, the Eastern Partnership Countries and interested third parties. The Committee offers a valuable forum for contributors and the Bank to exchange information on strategy, policy and projects with a view to enhancing cooperation and better responding to the challenges in Eastern Partnership Countries.
Sweden is strongly committed to its Eastern European Neigh-
bours. The Eastern Partnership Technical Assistance Trust
Fund (EPTATF) represents an important part of our commit-
ment. The Fund provides high-quality technical assistance
support that enables major investments in clean water, solid
waste management, energy and heating services, safe trans-
port links and small business development for millions of
people. The Fund has proven to be instrumental in enabling
EIB loans and important investments to meet climate and en-
vironment challenges and facilitate strong, sustainable and
inclusive growth. Sida is proud of the partnership with the
EIB and European countries within EPTATF. Sweden was one
of the initiators of EPTATF and we are pleased to be able to
continue our engagement, together with a growing group of
contributors.

Poland

Due to geopolitical factors and shared experience, the Eastern
Partnership Countries have a special significance in Poland’s
foreign policy and development cooperation. As a country
which successfully underwent a transformation and modern-
isation process, Poland provides its support for sustainable
socio-economic development and key reforms in the Eastern
Partnership Countries. To ensure the effectiveness of these ef-
forts, it is necessary to ensure synergies between the financial
support coming from international institutions and bilateral
development aid provided by state donors. In this context, the
activities of international development banks and their trust
funds can be crucial. Poland appreciates the activities within
the EPTATF which are leading to transfer of know-how and
strengthening the Eastern Partnership Countries’ capacities.
Thanks to its technical assistance in crucial sectors, the EPTATF
is an important instrument for EIB’s lending policy.

Statements from contributors

Poland

Joanna Wronecka

Undersecretary of State for Development Cooperation, Africa, Middle East, Asia, Economic Diplomacy and Human Rights

Sweden

Carin Jämtin

Director-General for Swedish International Development Cooperation Agency
The Government of Armenia gives importance to reforms going on in the water sector in the framework of cooperation with several international donors. In parallel with the continuing launch of institutional, legal, structural and tariff reforms in the system of the Republic of Armenia’s State Committee for the Water Economy, a very important step was the asset revaluation process related to the handing over of the property to the Lessee. In 2016, a grant agreement was concluded between the Republic of Armenia’s State Committee for the Water Economy and the European Investment Bank for the implementation of a “Technical Assistance – Asset Registration and Valuation Support to SCWE” Programme, which had positive results. Thanks to these achievements and in line with this mutual cooperation, we hope and look forward to continuing our cooperation in the scope of irrigation improvement works. One of the top priorities in future will be the involvement of 560 communities, which are currently excluded from the service area, in the operator’s service area.

This TA related to the flood risk management project has improved the Government’s capacity to respond to the commitments made under the Association Agreement between the Republic of Moldova and the EU regarding the approximation of the Floods Directive. The project completed in 2016 helped the Government to gain a better understanding of the actual situation at national level. An exhaustive study covering the whole country and setting the basis for a national strategy was carried out with EPTATF support. Key deliverables such as flood risk and flood hazard maps have been made available to the main stakeholder, especially for prevention purposes and to support the decision-making process by local authorities.

Set perspectives on the necessary measures to be implemented in the short, medium and long term: the most critical zones in terms of risk and damages were identified. All these data were gathered together and structured into a set of measures that can be used as a basis to approach financiers with concrete proposals. They can also be incorporated into larger scope projects such as climate change adaptation projects.

Use an inclusive approach with extensive dialogue with the main stakeholders: the criteria used for prioritisation were defined by the Moldovan stakeholders. We consider the TA to be very timely and necessary for the country.
### EPTATF to date (2010-2016)

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td><strong>8 Donors</strong></td>
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<td><strong>EUR million</strong></td>
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<td><strong>EUR million</strong></td>
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<td><strong>EUR million</strong></td>
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<td><strong>Disbursed</strong></td>
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<td><strong>EUR million</strong></td>
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<td><strong>23 operations</strong></td>
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Over the past six years, the EPTATF portfolio has developed, with 23 operations approved by contributors for a total value of EUR 24.3m.

83% of the Trust Fund’s operations provide Technical Assistance in support of EIB lending and have helped or will help to enhance the quality of EIB projects in the Eastern Neighbourhood. By supporting EIB clients in project preparation and implementation, Donors’ assistance helps to address the challenges in the infrastructure sector, facilitating investments that will enhance utility performance, accelerate sector reform, transform markets and improve services to people.

The remaining 17% of operations provides institutional support to the beneficiaries. In total, the Bank has welcomed 11 secondees and 26 trainees to participate in the capacity-building programme financed by the EPTATF. They contribute valuable expertise and experience while acquiring knowledge to transfer back to client countries.

Out of the three EPTATF upstream study operations, two regional ones conducted in all cities of the Eastern Partnership (EaP) Countries are of the utmost importance: the ELENA East energy efficiency study with a disbursed amount of EUR 189,000 conducted in 2012 influenced the design of a number of EIB-financed energy efficiency projects and added energy efficiency aspects to environmental and municipal infrastructure projects. The study on Private Sector Financing with a disbursed amount of EUR 200,000 conducted in 2013 helped to assess the financing needs of SMEs and identify market failures that hinder the development of the SME sector.

In addition, since 2012, the EPTATF provides a budget envelope for dissemination activities with an approved amount of EUR 150,000 in order to reach a larger regional audience through the organisation of relevant side events or sessions at international conferences or by supporting beneficiary governments’ efforts to step up awareness beyond a technical audience.

Results highlights

Looking back over six years of operations, the Eastern Partnership Technical Assistance Trust Fund continues to prove its worth. It has contributed to the bankability of projects and strengthened institutional capacities, facilitating funding from the EIB and other financiers.

- Seventeen technical assistance operations targeted project preparation and the implementation of priority projects proposed by the beneficiaries.
- Three operations supported upstream studies (two regional and one in Ukraine) in areas of high investment potential – energy efficiency, transport and SME support.
- Two operations include capacity-building activities through internship and secondment programmes, consultancy for project acceleration and cross-regional awareness-raising.
- One operation supports the budget envelope for dissemination activities.
Since inception, the total cost of the projects is EUR 5.3bn, of which EUR 2.4bn (or 45%) was financed by the EIB’s own resources. The Bank’s lending was supported by EPTATF grants amounting to EUR 12.7m, thus the Donor funds achieved a significant leverage of 190x. Additional grants, dissemination activities, secondment and internship programmes, not directly linked to the Bank’s lending and therefore not forming part of the leverage, totalled EUR 9.9m.

Overall, the EPTATF contributes to the EU Eastern Neighbourhood Policy’s objectives in both economic and political terms. It brings together the EU’s policy dialogue with EIB lending and Donor grants to leverage investments in Eastern Partnership Countries.
The EPTATF has helped enhance the Bank’s role in the Eastern Partnership Countries and has contributed to the Bank’s lending in the Eastern Neighbourhood, which by the end of 2016 had reached a total of EUR 7.5bn.

2016 was a significant year, as EPTATF continued to scale up its activities. At end-2016, 23 operations amounting to EUR 24.3m had been approved thanks to Donors’ contributions amounting to EUR 30.6m.

- Three TA operations, in two countries and one regional, were approved in 2016.
- Three contracts in three countries in the transport, energy and water sectors and one regional capacity-building programme were completed in 2016.
- In 2016, the Fund was replenished with additional paid-in contributions of EUR 5m from Austria, Germany, Lithuania and Sweden. An amount of GBP 4.8m was pledged by the UK and will be paid into the Fund between 2017 and 2019.
The EPTATF Contributors Committee met on 21 June 2016 at the headquarters of the European Investment Bank in Luxembourg to receive an update on EIB lending operations in 2016 in the Eastern Neighbourhood, approve new financial proposals and adopt the 2015 EPTATF Annual Report.

The EPTATF Contributors Committee meeting was preceded by a seminar covering EIB sector strategies, region/country needs and priorities, an outlook of the EIB Trust Funds, the EIB Results Management Framework and EPTATF strategy.
Results in 2016

The following EPTATF operations made significant progress during 2016

**Ukraine:** Modernisation and Safety Improvements of the Road Network in Ukraine (EUR 1 600 000)

*In progress*
- The TA activities gained traction through the first part of 2016, building lines of communication with relevant stakeholders, compiling and analysing relevant documents and procedures.
- A comprehensive report with suggestions for safety measures in Ukrainian road design standards was approved by the beneficiaries.
- A report on road planning and design procedures was drafted and submitted to the beneficiaries for consideration.
- The development of road safety management procedures and capacity and the identification of pilot project sites started, including road accident data analysis, removal of accident-prone locations, and a Road Safety Audit.
- The national road safety campaign ‘Face to Face’ was prepared and launched by the Minister of Infrastructure in December 2016, continuing into February 2017.

The project supports the EIB loan of EUR 300m (active).

**Moldova:** Preparation of Solid Waste Management Projects in three regions (EUR 1 200 000)

*In progress*
- Baseline Note, Demand & Design Note, Site Selection Report, Option Analysis Note, Institutional Set-up Note were produced for all three regions: “Region 4 Chisinau region”, “Region 6 East Centre”, “Region 7 Balti region”.
- Capacity-building activities in the form of support and on-the-job training given to the Programme Management Unit and other stakeholders were commenced by the consultants.

The project supports the EIB loan of EUR 100m (active).

**Armenia:** Support to the Central Bank of Armenia for the implementation of the APEX Loan for SMEs (EUR 5 000 000)

*In progress*
- The loan was disbursed and almost fully allocated as of end-2016, which was a result of (i) the project’s design, responding to demand for longer-term finance (including in local currency) and resulting in a large number (17) of financial intermediaries engaging in the allocation of project funds, and (ii) the capacity of German-Armenian Fund (GAF) and Central Bank of Armenia (CBA) and latterly the engagement of GAF, participating financial intermediaries and final beneficiaries with the EPTATF-funded TA. As a result, in 2016 the Central Bank of the Republic of Armenia requested the EIB to provide another loan of similar type and the EIB responded by developing the EUR 50m Armenia Apex II Loan for SMEs and Mid-Caps (2016-0481).
- On 2 February 2016, the Technical Assistance Cooperation Agreement between the EIB and the Central Bank of the Republic of Armenia was signed, consisting of sets of activities to support qualified financial intermediaries, final beneficiaries and GAF to ensure that sub-projects are implemented.

The project supports the EIB loan of EUR 50m (fully disbursed).

**Georgia:** WIMP II Water Sector (EUR 500 000)

*In progress*
- Consultant monitoring, reporting, providing technical audits and advice on the implementation of water projects.
- A request for an extension of the TA (additional amount of EUR 250 000) will be made to contributors during the first half of 2017 to enable the finalisation of the implementation phase of the WIMP II project and the preparation of the KWW project (formerly WIMP III).

The project supports the EIB loan of EUR 40m (in preparation).
Regional – Eastern Partnership Countries

Technical Assistance Consultant (EUR 5 000 000)

In progress
During 2016 the TA Consultant focused on the TAs assigned to Ukraine, given the urgent requirements and the largest budget allocated within the EPTATF programme with the following outputs:

Ukraine Municipal Infrastructure Programme
• Prepared and finalised the draft TOR for the Programme Management Support Unit (PMSU) and drafted TOR for the consultancy assignments for Dniprowater and Ilichivsk implementation supervision water projects;
• Contributed to the preparation of the Programme Procedures Manual and TOR for the long-term PMSU support;
• Facilitated finalisation and signing of the TA Cooperative Agreements with the three district heating utilities selected.

Ukraine Early Recovery Project
• Participated in the finalisation of the procurement procedure;
• Prepared the draft TOR for the implementation monitoring assignment (with possible involvement of UNDP);
• Extensively cooperated during the technical negotiation phase, discussing the UNDP-proposed operation conditions, level of effort and the Logical Framework Scheme.

Higher Education Energy
• Prepared TOR for PMSU, along with budget and justification for NIF TA grant;
• Contributed to the delivery of the energy audit results to the participant universities;
• Extensively cooperated with the Ministry of Education and the EIB in finalising the necessary arrangements for the lending agreement signature in 2016.

Dnipropetrovsk Metro Extension
• Facilitated finalisation of the TOR for the preparation of a City Transport Plan;
• Extensively cooperated with the newly elected city mayor’s office for comments on the proposed TA TOR;
• Facilitated finalisation of the TA Cooperation Agreement and issuance of the execution copy for signing by the relevant parties;
• Contributed to the preparations for consultancy procurement.

Internship Programme (EUR 500 000)
Six trainees were hosted by the EIB in 2016. They developed their skills in various areas, from finance to legal and policy analysis, and experienced being part of an international and multicultural working environment.

Secondment Programme (EUR 1 100 000)
The EIB hosted eleven secondees in 2016, of which seven continue to work at the Bank to exchange knowledge and build capacity.
Moldova Flood Protection Study

Context

The Republic of Moldova is prone to different kinds of natural hazards including drought, floods, severe weather, earthquakes and landslides. Severe floods occurred in 2010, forcing the evacuation of more than 3,000 people and causing total damage and associated economic losses estimated at USD 77m. Several studies have been carried out in the past related to hydrology and flooding but there was a lack of a comprehensive study for flood risk assessment for the whole country and for the identification of measures to reduce such risk. In order to tackle this problem, the Ministry of Environment of the Republic of Moldova requested EIB support for the development of a disaster/flood risk reduction master plan and in 2011 the EPTATF CC approved an amount of EUR 2m to conduct the study, including the assessment of flood risks, the preparation of a flood risk management plan outlining the required investments in the short, medium and long term and an institutional and capacity assessment including roles and mandates.

Activities

TA activities were targeted to improve the institutional and regulatory frameworks, which would ultimately lead to greater sustainability of flood risk management in the country, strengthened capacities for climate change adaptation and the creation of new flood protection infrastructures at priority locations. The operation developed a Master Plan for flood prevention and protection for the entire territory of Moldova that included flood risk assessments and surveys required to undertake hydraulic modelling and prepare flood hazard, flood risk and reforestation maps. Together with the Master Plan, the project envisaged a capacity-building training programme for the promoter to use modelling systems in order to update the models’ outputs and the Master Plan.

Key achievements and results

This technical assistance operation ran from October 2013 to May 2016. It identified flood risk areas in Moldova and measures to reduce that risk. The project also strengthened the promoter’s capacity to prepare flood risk assessment and management plans in line with the EU’s Floods Directive and Water Framework Directive.

The TA operation developed a countrywide flood management Master Plan and Phased Investment Programme until 2036 in conjunction with a short-term Investment Plan covering the first seven years of the programme. The related Phased Investment Programme together with the short-term Investment Plan served as the basis for the preparation of a loan operation with a total project cost that could go up to EUR 60m, of which 50% could be financed by the EIB and the other half by a loan from the Council of Europe Development Bank identified as a potential partner. The loan signature is expected to take place in 2018.

To conclude, the project contributed to improving flood protection infrastructure in Moldova and minimising the risk of floods, which will have a significant impact on preventing environmental disasters, preserving people’s livelihoods – notably in farming (but also other economic activities) – and on the population’s overall quality of life.
Higher Education Energy Efficiency Audit

Context

Ukraine is one of the most energy-intensive countries in the world, giving it huge potential for energy efficiency improvement. Having become a full member of the Energy Community as of 1 February 2011, Ukraine was obliged to implement a number of European directives and regulations, which would harmonise Ukrainian energy legislation with the EU’s legal framework. The implementation of Directive 2010/31/EU on the energy performance of buildings (EPBD) and adoption of the National Energy Efficiency Action Plan are two of the key obligations for Ukraine within the Energy Community.

Reflecting the enormous investment needs in the education sector in Ukraine, the Bank was approached in 2013 by the Ministry of Education, Science, Youth and Sports of Ukraine (MoES) with the request to finance a long-term investment programme in the fields of energy efficiency, refurbishment and expansion at selected universities in Ukraine. The Ministry and the universities concerned also stated their need for support during the project preparation and implementation phases. The total investment volume of the programme was estimated at some EUR 170m. Investments included the modernisation of university facilities, with a particular focus on energy efficiency measures.

Activities

The abovementioned paved the way for the EIB to request TA from the EPTATF Donors in April 2014, with the objective of performing energy audits that will establish a feasible pilot investment programme, identifying and prioritising investment measures in compliance with the applicable energy efficiency requirements and other technical specifications and standards of the selected investments. As a result of the approved TA operation (EUR 250 000), a final audit report was produced. The report summarised the results from the energy audits carried out in three universities: the National Pedagogical Dragomanov University, the Kharkiv Polytechnic Institute and the Lviv Polytechnic National University. The energy audit of the first portfolio of buildings including 59 higher education buildings in total (corresponding to 342 000m² of heated areas) defined the scope of the refurbishment works, summarised the results of a fact-finding mission and collected the initial data. The audit report revealed significant heat energy and electric energy saving potential in the university buildings.

Key achievements and results

The energy audits performed served to establish a priority investment programme, identifying and prioritising investment measures in compliance with the applicable energy efficiency requirements and other technical specifications and standards of the selected investments. The project improved the performance of the Ukrainian universities included in the European Higher Education Area and the European Research Area by increasing the teaching and research capabilities of the selected universities. Accordingly, the project follows EU actions aimed at increasing investment in research and education facilities in order to achieve the objectives of the EU 2020 strategy. The project investments will reduce energy consumption and improve the energy efficiency of the university campuses. The project is also in line with the EU-Ukraine Association Agreement, signed in June 2014, which also encourages the two parties to step up their cooperation in the field of higher education, aimed in particular at reforming and modernising the education systems and enhancing the quality and relevance of the higher education system and institutions. In addition, the Agreement has contributed to the modernisation and enhancement of existing energy infrastructures and the promotion of energy efficiency and energy savings as high priority areas.

In terms of climate action adaptation and mitigation, the project contributed to, on average, 60% savings in terms of final energy in the university buildings and facilities.
2016 in figures

The charts below serve as an illustration that the Trust Fund has comprehensive cover in respect of sectors (environment, energy, transport, water, agriculture, SME activities, municipal infrastructure and institutional activities) and beneficiary countries, reflecting priorities in line with the joint objectives of the EIB and the Fund’s donors.

Operations by sector

Water is the sector that is the largest recipient of EPTATF funding, followed by municipal infrastructure and transport.

Sector distribution (share of amounts approved)

- Water: 32%
- Municipal Infrastructure: 26%
- Transport: 17%
- SMEs: 3%
- Agriculture: 6%
- Energy: 2%
- Environment: 5%
- Institutional: 9%

Half of the TA projects address climate change and hence significantly contribute to the EIB priority of climate action support in the Eastern Partnership Countries.
Operations by country

At end-2016, six technical assistance and one upstream study operations in Ukraine were approved for a total amount of up to EUR 10m. In Moldova, one TA operation has been completed while two operations contributing to project implementation and preparation respectively are still ongoing with an approved amount of EUR 3.7m. In Armenia, two TA operations contributing to the transport and water sectors have been completed, one in the SME sector is ongoing and one in the agriculture sector has been approved (but not yet signed), all with an approved amount of EUR 3.7m. In Georgia, two TA operations are active in the water sector with a disbursed amount of EUR 3.75m. The remaining seven assignments are horizontal regional initiatives covering all countries eligible for EPTATF support, for which purpose a total of EUR 3.2m was approved.
Contributors and financial status

2016 was a successful year as a result of the increased amount of contributions made to the Trust Fund. Austria and Sweden renewed their contributions by pledging EUR 1m and EUR 1.8m respectively. With an additional EUR 1m from Germany, EUR 0.2m from Lithuania and EUR 5.4m from the UK, pledged contributions totalled EUR 9.4m in 2016. By the end of 2016 total pledges amounted to EUR 36.2m and total paid-in contributions reached EUR 30.6m, which demonstrates the commitment to the Eastern Partnership and the overall satisfaction with the activities and orientations of the Fund.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total pledged contributions</th>
<th>Total paid-in contributions</th>
<th>Of which received in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>11 000 000</td>
<td>11 000 000</td>
<td>1 000 000</td>
</tr>
<tr>
<td>France</td>
<td>800 000</td>
<td>800 000</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>2 817 000</td>
<td>2 817 000</td>
<td>1 000 000</td>
</tr>
<tr>
<td>Latvia</td>
<td>100 000</td>
<td>100 000</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>350 000</td>
<td>150 000</td>
<td>50 000</td>
</tr>
<tr>
<td>Poland</td>
<td>1 000 000</td>
<td>1 000 000</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>13 350 000</td>
<td>13 390 347</td>
<td>2 901 350</td>
</tr>
<tr>
<td>UK</td>
<td>6 770 000</td>
<td>1 371 000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>36 188 000</strong></td>
<td><strong>30 628 347</strong></td>
<td><strong>4 951 350</strong></td>
</tr>
</tbody>
</table>

Overview of the financial situation of the Fund

<table>
<thead>
<tr>
<th></th>
<th>Of which in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>EUR 36.2m</td>
</tr>
<tr>
<td>Paid-in</td>
<td>EUR 30.6m</td>
</tr>
<tr>
<td>Committed</td>
<td>EUR 24.3m</td>
</tr>
<tr>
<td>Signed</td>
<td>EUR 15.3m</td>
</tr>
<tr>
<td>Disbursed</td>
<td>EUR 9.8m</td>
</tr>
<tr>
<td>Available funds</td>
<td>EUR 5.1m</td>
</tr>
</tbody>
</table>
Moving forward

The EIB’s objectives

The strategic orientations of the EIB’s activities in the Eastern Neighbourhood are based on the operational guidelines related to the 2014-2020 External Lending Mandate (ELM).

The EIB’s activities in the region are aligned with EU external policies and actions. The Bank will continue supporting the European Neighbourhood Policy, by financing investment projects that contribute to the achievement of ELM high-level objectives, namely:

- Local private sector development, in particular support for SMEs;
- Development of social and economic infrastructure;
- Climate change mitigation and adaptation.

The EIB’s operational priorities in the Eastern Neighbourhood will remain focused on supporting investments in the region aligned with key priority areas established between the EU and Eastern Partnership Countries, in particular:

- Economic development and market opportunities, notably through support to SMEs and private sector companies.
- Investments in infrastructure targeting connectivity, energy efficiency and security, environment and climate action.
- Support for the implementation of the Association Agreements with Georgia, Moldova and Ukraine.
- Research and Innovation through the deployed “Innovfin – EU Finance for Innovators” programme under the Horizon 2020 initiative in Armenia, Georgia, Moldova and Ukraine, providing complementary financing tools and advisory services in the RDI sector and to innovative companies.

The EIB will now be active in all countries of the Eastern Partnership region. In that respect, the Republic of Belarus became eligible under the ELM in 2016 and the EIB is in a position to start financing projects in this country.

In the context of its operations, the EIB will continue to complement its operations with advisory and technical assistance, which play a key role in delivering high-quality investments.
During 2016, the EPTATF continued to support the quality and sustainability of the EIB’s investments in the Eastern Partnership Countries and in view of the continuous investment needs in the region, higher demand for technical assistance is anticipated for 2017 and beyond.

So far, the EPTATF has proven to be a flexible instrument that can be deployed rapidly for technical advisory support. It is expected that the EPTATF will continue to provide well-targeted TA in order to identify, prepare and implement projects that will benefit from EIB lending, and support the realisation of the ELM’s high-level objectives while helping in the capacity building of the beneficiary countries and the institutions involved.
During 2016, the EPTATF approved a EUR 5.4m regional Technical Assistance operation titled “Agri-food Value Chain Development” to improve resource efficiency, reduce losses and waste along the value chains, enhance product safety and quality, and improve product competitiveness on national and international markets in all three Eastern Partnership countries. The implementation of the AA/DCFTA agreements raises expectations of positive effects from increased investment inflows and enhanced trade opportunities in the near future in Georgia, Moldova and Ukraine.

In terms of the EPTATF’s geographical coverage and in the context of the European Commission’s Delegated Decision of 15 April 2016, Belarus became an eligible country under the External Lending Mandate. Framework Agreement (FWA) negotiations started in spring 2016 and were concluded in Minsk in November 2016. Subsequent to the conclusion of the FWA and Contributors’ approval of the inclusion of Belarus in the EPTATF framework, Belarus, which is geographically already a part of the Eastern Partnership initiative, could become a new beneficiary of the EPTATF during the second half of 2017.

Finally, in order to strengthen the Bank’s operational efficiency by streamlining and standardising its activities to the extent feasible, a Partnership Platform for Funds (PPF), an EIB-managed multi-region, multi-contributor and multi-sector platform has been established within the Bank. Discussions are underway in order to transfer the EPTATF into the PPF. Contributors will be consulted during 2017 with a concrete proposal on this matter.

It should be noted that the implementation of both lending and related technical assistance may be impacted by continued political instability and macro-economic challenges in the Eastern Neighbourhood, broader security concerns and the refugee crisis, which have so far mainly affected countries in the Southern Neighbourhood but also the Western Balkans and the European Union.
Annex I.

Abridged financial statements

BALANCE SHEET
As at 31 December 2016 (in EUR '000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
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<td>21 650</td>
<td>21 050</td>
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<tr>
<td>Other assets</td>
<td>5</td>
<td>555</td>
<td>495</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
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<td>22 205</td>
<td>21 545</td>
</tr>
<tr>
<td><strong>LIABILITIES AND CONTRIBUTORS' RESOURCES</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
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<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>6</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Amounts owed to third parties</td>
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<td>1 738</td>
<td>1 427</td>
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<tr>
<td><strong>Total liabilities</strong></td>
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<td>1 756</td>
<td>1 444</td>
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<tr>
<td><strong>CONTRIBUTORS' RESOURCES</strong></td>
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<tr>
<td>Contributions</td>
<td>8</td>
<td>30 628</td>
<td>25 677</td>
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<tr>
<td>Retained earnings</td>
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<td>-10 179</td>
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<tr>
<td><strong>Total contributors' resources</strong></td>
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<tr>
<td><strong>Total liabilities and contributors' resources</strong></td>
<td></td>
<td>22 205</td>
<td>21 545</td>
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</table>

INCOME STATEMENT
For the year ended 31 December 2016 (in EUR '000)

<table>
<thead>
<tr>
<th></th>
<th>From 01.01.2016 to 31.12.2016</th>
<th>From 01.01.2015 to 31.12.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects financed</td>
<td>-4 447</td>
<td>-2 317</td>
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<tr>
<td>General administrative expenses</td>
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<td>-99</td>
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<tr>
<td>Other expenses</td>
<td>-18</td>
<td>-17</td>
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<tr>
<td><strong>Total operating expenses</strong></td>
<td>-4 603</td>
<td>-2 433</td>
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<tr>
<td><strong>Net loss for the financial year</strong></td>
<td>-4 603</td>
<td>-2 433</td>
</tr>
</tbody>
</table>
## Annex II.

### Table: EPTATF list of projects

<table>
<thead>
<tr>
<th>No</th>
<th>Country</th>
<th>Title</th>
<th>Sector</th>
<th>Type of operation</th>
<th>Approved amount</th>
<th>Climate change contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>EUR</td>
<td>EUR</td>
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<tr>
<td><strong>Completed operations</strong></td>
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<td></td>
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<tr>
<td>1</td>
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<td>Energy Efficiency Programme, ELENA East</td>
<td>Energy</td>
<td>Upstream study</td>
<td>200 000</td>
<td>200 000</td>
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<tr>
<td>2</td>
<td>Regional</td>
<td>Private sector financing and the role of risk-bearing instruments</td>
<td>SMEs</td>
<td>Upstream study</td>
<td>200 000</td>
<td>n.a.</td>
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<tr>
<td>3</td>
<td>Ukraine</td>
<td>Identification and preparation of railway infrastructure projects</td>
<td>Transport</td>
<td>TA</td>
<td>200 000</td>
<td>200 000</td>
</tr>
<tr>
<td>4</td>
<td>Armenia</td>
<td>M6 border interstate road</td>
<td>Transport</td>
<td>TA</td>
<td>1 000 000</td>
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<tr>
<td>5</td>
<td>Ukraine</td>
<td>Higher education energy audits</td>
<td>Energy</td>
<td>TA</td>
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<td>250 000</td>
</tr>
<tr>
<td>6</td>
<td>Moldova</td>
<td>Flood protection</td>
<td>Water</td>
<td>TA</td>
<td>2 000 000</td>
<td>2 000 000</td>
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<tr>
<td>7</td>
<td>Armenia</td>
<td>Water sector assets registration and valuation</td>
<td>Water</td>
<td>TA</td>
<td>700 000</td>
<td>n.a.</td>
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<tr>
<td><strong>Ongoing Operations</strong></td>
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<tr>
<td>8</td>
<td>Regional</td>
<td>Budget envelope for dissemination</td>
<td>Institutional</td>
<td>Capacity building</td>
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<td>n.a.</td>
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<tr>
<td>9</td>
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<td>500 000</td>
<td>n.a.</td>
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<tr>
<td>10</td>
<td>Regional</td>
<td>Eastern Partnership Secondment Programme, Phases I, II</td>
<td>Institutional</td>
<td>Capacity building</td>
<td>1 100 000</td>
<td>n.a.</td>
</tr>
<tr>
<td>11</td>
<td>Regional</td>
<td>TA Consultant</td>
<td>Institutional</td>
<td>TA</td>
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<td>n.a.</td>
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<tr>
<td>12</td>
<td>Ukraine</td>
<td>Mykolayiv Vodokanal Project</td>
<td>Environment (Water)</td>
<td>TA</td>
<td>1 400 000</td>
<td>1 400 000</td>
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<tr>
<td>13</td>
<td>Moldova</td>
<td>Technical audits in road sector programme</td>
<td>Transport</td>
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<td>500 000</td>
<td>n.a.</td>
</tr>
<tr>
<td>14</td>
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<td>Municipal Infrastructure Programme (UMIP)</td>
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<td>3 300 000</td>
<td>3 300 000</td>
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<tr>
<td>15</td>
<td>Ukraine</td>
<td>Modernisation and safety improvements on road network</td>
<td>Transport</td>
<td>TA</td>
<td>1 600 000</td>
<td>n.a.</td>
</tr>
<tr>
<td>16</td>
<td>Georgia</td>
<td>Water infrastructure modernisation project (WIMP)</td>
<td>Water</td>
<td>TA</td>
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<td>250 000</td>
</tr>
<tr>
<td>17</td>
<td>Armenia</td>
<td>APEX Loan</td>
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<td>TA</td>
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<tr>
<td>18</td>
<td>Moldova</td>
<td>Preparation of solid waste programme</td>
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<td>1 200 000</td>
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<td>Ukraine</td>
<td>Early recovery framework loan</td>
<td>Municipal infrastructure</td>
<td>TA</td>
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<td>20</td>
<td>Ukraine</td>
<td>Dnipropetrovsk Metro traffic concept and marketing study</td>
<td>Transport</td>
<td>TA</td>
<td>200 000</td>
<td>200 000</td>
</tr>
<tr>
<td><strong>Operations approved by EPTATF Contributors, contract not yet signed</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>21</td>
<td>Georgia</td>
<td>Kutaisi Wastewater Project</td>
<td>Water</td>
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<td>22</td>
<td>Armenia</td>
<td>Armenia rural framework loan</td>
<td>Agriculture</td>
<td>TA</td>
<td>1 500 000</td>
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<tr>
<td>23</td>
<td>Regional</td>
<td>Long-term expert on transport sector in Georgia and Armenia</td>
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<td>TA</td>
<td>550 000</td>
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<tr>
<td><strong>TOTAL EPTATF OPERATIONS</strong></td>
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</tr>
</tbody>
</table>

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EUR

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Eastern Partnership Technical Assistance Trust Fund
Annual Report