2017-2018 Operational Report

IFCA
Investment Facility for Central Asia

AIF
Asia Investment Facility

IFP
Investment Facility for the Pacific
Introduction

The Investment Facility for Central Asia (IFCA), Asia Investment Facility (AIF) and Investment Facility for the Pacific (IFP) are three of the EU’s regional blending facilities. These innovative financial instruments use EU development funding to leverage additional investment from European and regional finance institutions and from the private sector to implement key investments in their target regions.

This report covers the Facilities’ operational activities in 2017-2018 and provides a detailed picture of the projects funded over this time. The projects approved in 2017-2018 cover a wide variety of sectors. The main focus of IFCA in the reporting period was on the private sector and water and sanitation. The AIF also funded projects in these areas, in addition to agriculture, energy, healthcare, transport, the environment and urban development. Two new IFP projects were approved in the reporting period, both in 2018. These are both regional projects, one of which targets improved access to sustainable energy, and one - the private sector, specifically financing for micro, small and medium-sized enterprises.

The report provides an overview of how the three investment facilities support the EU’s development priorities in their respective regions. Reflecting the vulnerability of countries in all three regions to the effects of climate change, climate action is a key focus of the blending facilities. To evaluate the combined impact of climate adaptation and mitigation efforts within the blending projects, the report provides an analysis of what share of the blending contributions can be reported as climate action support according to the Rio Convention on Climate Change.

This report covers the seventh and eighth years of activity for the IFCA, the fifth and sixth for the AIF (although launched in 2010, the first grants were not finalised until 2012), and the fourth and fifth years for the IFP. Since it was launched in 2010, total IFCA contributions of €180 million have leveraged close to €1.1 billion in financing for investments in partner countries, with the potential to have a significant impact on people’s lives and on economic development in the countries in question. The AIF has contributed €241 million to 39 projects in a range of sectors, leveraging almost €5.6 billion. The contribution of the IFP, launched in 2012, has been more modest but no less significant in terms of its impact on beneficiaries. The €30 million provided by the Facility has leveraged €288 million in support of energy, transport, water, and private sector and urban development projects in the Pacific region.

The three investment facilities act as a catalyst to leverage the funds needed to finance large projects in key sectors in beneficiary countries. Thanks to this investment, the IFCA, AIF and IFP speed up the implementation of vital projects that might otherwise struggle to source funding. By targeting sectors of vital socio-economic importance, and with their focus on good governance and the economic empowerment of women, the facilities act as drivers of sustainable and inclusive economic growth, helping to reduce inequalities in their respective regions.
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The European Union and its Member States are the world’s leading provider of Official Development Assistance and a key promoter of the UN 2030 Agenda and its Sustainable Development Goals.

Much of this support has been channelled through development financial instruments. In April 2018, I presented the report *Investing in Sustainable Development*, which shows how much the EU has done in recent years in terms of mobilising various financial resources and partnerships to help achieve the Sustainable Development Goals worldwide and leave no-one behind. The report confirms the role of the EU and its Member States as the main engine of sustainable development in the world. It also demonstrates that EU trade and development instruments, including ‘blending’, are strengthening market access opportunities, helping to ensure that development assistance is as effective, impactful and inclusive as possible.

Much of our EU development cooperation has been put to good use in the Central Asian, Asian and Pacific regions where – with our partners – we have achieved excellent results by supporting key investments through blended finance.

With this in mind, in November 2018 the EU announced €124 million worth of cooperation programmes to promote sustainable development in Central Asia. This included a set of regional programmes, worth over €88 million, supporting the private sector, trade and investment in the region, as well as helping to protect the environment and promote the rule of law. As part hereof, the Investment Facility for Central Asia (IFCA) is also receiving a boost, which will encourage further sustainable investment.

In the period covered by this report, 14 Asia Investment Facility (AIF) projects were approved, with a total blending value of over €88 million, leveraging over €2.4 billion to finance projects focused, among others, on urban development, energy, transport, water and sanitation.

In the Pacific region, during the same period, the Investment Facility for the Pacific (IFP) supported two projects with an expected investment size of €80 million.

The 2030 Agenda is an opportunity for the European Union to reinvigorate its role as a champion of sustainable development. The efficacy of the blending mechanism as an instrument to deliver the level of financing required to implement key investments in large-scale infrastructure projects, to tackle climate change, to increase access to finance, and make a real difference in people’s lives, is clear. The IFCA, AIF and IFP will therefore continue to play a major role in the EU’s development work in the Central Asian, Asian and Pacific regions.
The European Union launched the Investment Facility for Central Asia (IFCA) in 2010. Since then, the instrument has supported the development priorities of EU partners in the Central Asia region in a wide range of socially and economically important sectors – from energy and the environment to water and sanitation and transport. Like the other blending mechanisms, the IFCA uses primarily grant funding to leverage loans or other funding from finance institutions to implement important investments in five countries in Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.
The European Commission allocated €205 million to the IFCA for 2010-2018, which the Facility has used to provide various types of support. There are a number of financing modalities possible under the IFCA, including direct investment grants, technical assistance, guarantees and risk-sharing mechanisms. Since 2010, the lion’s share of IFCA support, accounting for approximately 60% of total funding, has been in the form of investment grants. Technical assistance, which helps ensure the long-term sustainability of projects, has accounted for almost 32% of support, and risk capital has accounted for 8%. The IFCA contributions provided in this way are used to leverage finance in support of key projects that improve energy infrastructure, increase environmental protection, promote small and mid-sized business, and improve social services and infrastructure in partner countries.

The core objective in providing this funding is to support sustainable development, economic growth and poverty reduction in the region. One of the main prerequisites in this regard is the provision of access to economic opportunity through the creation of decent jobs. The Facility is helped in delivering this aim by its focus on engaging the private sector, and particularly micro, small and medium-sized enterprises, as drivers of job creation. Moreover, the Facility’s gender equality requirements ensure that the funding provided contributes to the economic empowerment of women in the region, making the benefits of development more equitable and inclusive.

Another key objective of the Facility is to support partner countries as they strive to adapt to and mitigate the effects of climate change and many of the projects approved for IFCA support have climate action as a significant or principal component.

To ensure overall coherence of IFCA operations and that operations have a synergetic impact on development outcomes across Central Asia, other branches of the Commission beyond development cooperation are also consulted. Thereafter the IFCA Board, which includes representatives from the European Commission, Member States, and the European External Action Service, provides its opinion.

The Facility also promotes close interaction between multilateral and bilateral European Finance Institutions, Regional Development Banks, partner countries and beneficiary institutions in Central Asia to ensure that the development assistance provided has the greatest possible impact.

Pooling resources through the IFCA helps improve the coherence of donor actions, and IFCA benefits from the international expertise and regional knowledge contained within these partnerships. In this way, the Facility can ensure that the assistance it delivers supports the development priorities of partner countries and targets urgent development needs in the region, delivering real benefits to people.
IFCA AT A GLANCE

The European Commission allocated an overall amount of €205 million to the IFCA for 2010-2018.

Amount of approved projects, 2010-2018

- 2010: €5.2 million
- 2011: €22.7 million
- 2012: €19.2 million
- 2013: €20.8 million
- 2014: €14.3 million
- 2015: €38.8 million
- 2016: €24.7 million
- 2017: €21.1 million
- 2018: €13 million

IFCA Portfolio, 2010-2018

Breakdown by sector:
- Environment: 21.3%
- Energy: 16.5%
- Water: 1.7%
- Multi-sector: 20.4%
- Private: 40.1%

Breakdown by type of support:
- Investment grant: 60%
- Financial support: 36%
- Technical assistance: 32%
- Risk capital: 8%

Key IFCA figures, 2010-2018

- IFCA financing to 29 approved projects: €179.8 million
- FI financing to approved projects: €722 million
- Total investment of leveraged IFCA contribution: €1 096 million
Kazakhstan (7%)  
€5.4 million / 2 projects*

Kyrgyzstan (48%)  
€86.6 million / 12 projects

Uzbekistan (4%)  
€8.2 million / 1 project

Turkmenistan (5%)  
€9.1 million / 3 projects

Tajikistan (12%)  
€22.4 million / 3 projects

Regional (24%)  
€41.1 million / 6 projects

* Cancelled projects not included
1. OVERVIEW

The Commission approved IFCA contributions to four projects in 2017-2018, with an overall contribution of €34.1 million, leveraging a total investment of €125.5 million, which equates to almost €4 leveraged by every euro provided. Three projects, with a combined IFCA contribution of €21.1 million were approved in 2017, and one – with an IFCA contribution of €13 million – in 2018.

Three of the projects approved in 2017-2018 had a national focus and one was regional in scope. The three national projects are being implemented in Tajikistan, Turkmenistan and Kyrgyzstan. The largest IFCA contribution approved in 2017-2018 was €13 million, which will leverage a total of over €50 million to support water and wastewater investment in Kyrgyzstan. This project will rehabilitate some of the most deteriorated sections of the country’s water supply network and will reduce water losses and energy consumption, making an important initial contribution towards economical and responsible groundwater resources management. The second largest IFCA support in the reporting period, a contribution of €7.9 million, went to Tajikistan to support solid waste management projects. The IFCA contribution will leverage over €19 million in investments to promote EU standards in the waste management sector by introducing a proper collection and disposal of solid waste in landfills designed to EU standards.

The Advice for Small Businesses in Turkmenistan project, with an IFCA contribution of €5.3 million, supports the private sector and, in particular, small and mid-sized businesses. It will strengthen the competitiveness of SMEs by targeting skill gaps, improving business management, and encouraging innovation through the delivery of business advice and training. Finally, the regional SME Finance Facility for Central Asia will use its IFCA contribution of €7.8 million to leverage €49.5 million to provide long-term financing to SMEs in Central Asia in order to allow them to grow, invest more in production and trading capacities, and become more competitive.

As regards the sectoral distribution of IFCA support, the environmental sector accounted for two of the IFCA projects approved in 2017-2018, with a combined IFCA contribution of €20.9 million leveraging €70 million in investment. The remaining two projects approved in the reporting period target the private sector, where the combined IFCA contribution of €13.2 million is leveraging investment of over €55 million, tapping into the potential of this sector as an engine of economic growth and job creation.

One of the projects approved by the Commission in 2017-2018 consists of an investment grant alone, and one consists of technical assistance. Of the two remaining projects, one combines investment grant support with technical assistance, and one – technical assistance with guarantees. In total, the investment grant component of the IFCA contributions in the reporting period amounts to €16.2 million (48%), while technical assistance accounts for €12.75 million (37%), guarantees account for €4 million (12%) and fees account for €1.13 million (3%).
2. SUPPORTING EU POLICY GOALS IN CENTRAL ASIA

In providing development assistance to the Central Asia region, the EU has a number of overarching objectives, chief among which is the goal of reducing poverty by promoting sustainable economic development in the region, while respecting human rights, the rule of law and the principles of democracy and good governance.

Within these overarching objectives, the EU targets specific areas that will help ensure that economic growth is inclusive and equitable, and that the projects funded support the development priorities of partner countries in the region and address real social needs, ensuring that nobody is left behind.

Economic development is a key prerequisite for building prosperous and stable societies in Central Asia. Economic growth rates in the region are strong, but job creation is not keeping pace with population growth, so unemployment is a problem, particularly for young people. While the Central Asian economies have seen strong growth, this growth has not been evenly spread through the society, and social inequality and poverty are widespread, resulting in significant levels of migration.

Water is a relatively scarce commodity in the region and competition for shared water resources has been the cause of regional tensions. In this context, improving the efficiency of water systems and protecting the environment has been a specific focus of EU development policy, as well as supporting the region’s capacity to mitigate and adapt to the effects of climate change.

To address these and other policy goals in the region, Central Asia has seen an increase in the amount of aid coming from the EU over the years, with €1.1 billion in grant funding earmarked under the Development Cooperation Instrument for 2014-2020, a 62% increase on the previous programming period. This funding is likely to increase even further in 2021-2027.

With this increase in funding, there is an obligation to ensure that the aid provided delivers the most impact possible for every euro spent. By using development funding to leverage finance for major projects in the region, the IFCA is a key instrument by which the EU delivers the required impact. This has been the case since the first projects were approved in 2010, and is equally true for the period covered by this report.

In 2017-2018, two of the projects approved for IFCA funding target the private sector – one in Turkmenistan and one at a regional level. This engagement of the private sector, and particularly of small and medium-sized businesses as drivers of job creation and inclusive economic growth supports the EU’s policy goal of building prosperous and stable societies in the region. The other two projects supported in the two-year period address water and waste management, in support of the policy objectives of the Development Cooperation Instrument and the EU’s Regional Strategy for Central Asia. IFCA also addresses cross-cutting challenges, such as the need to adapt to and mitigate the effects of climate change and two of the projects in 2017-2018 have climate action as a significant component.

By pooling resources through the IFCA, the EU helps improve the coordination and coherence of donor actions in support of partner countries as they work towards their sustainable development goals in the region.
3. PROJECTS

PRIVATE SECTOR

Advice for Small Businesses in Turkmenistan

TURKMENISTAN

Total budget: €5.84 million + €60 million expected SME financing
IFCA contribution: €5.34 million
Lead finance institution: EBRD
Co-financiers: Partner country with €0.5 million
Type of IFCA support: Technical assistance

Turkmenistan is looking to diversify its economy and facilitate import substitution and export promotion, with a special focus on SMEs as drivers of economic growth. In addition to introducing innovative approaches to production, improving the skills and qualifications of employees will play a key role in improving competitiveness in the SME sector.

It is this need that the Advice for Small Businesses in Turkmenistan project aims to address. The project will strengthen the competitiveness of SMEs in Turkmenistan by targeting skills gaps, strengthening business management, and encouraging innovation through the delivery of business advice and training. Building on the lessons learned from the existing IFCA-funded business advisory programme 2015-2017, the project will put more focus on market development activities, particularly on professional training for local consultants to support the SME sector.

Through individual SME advisory projects with local consultants and international experts, the project will provide relevant vocational on-the-job training for client companies and their employees in an effort to encourage innovation and upskilling of staff. The project will also support value chain development, including local supplier and partner development, to enhance local market systems.

Sector development activities conducted as part of the project will disseminate best practices in a range of sectors, including five key areas: agribusiness, construction, transport, textiles and tourism. In addition, activities will also target other priority sectors such as manufacturing and services. In implementing the project, the EBRD will work closely with complementary EU projects in the area of vocational education, in particular through partnerships with established vocational education and training (VET) councils to ensure that the needs of local SMEs are incorporated when developing relevant VET curricula and job profiles.

The IFCA contribution to the project will help SMEs in Turkmenistan to improve their competitiveness by providing access to high quality business advice and enhancing managerial capacity. The project will also enhance SMEs’ ability to attract external financing by improving the financial literacy of senior managers and, more broadly, supporting the local consultancy market in delivering much needed services. The project will seek to enable SMEs to access at least €60 million in investments over the course of its implementation period.
WATER AND SANITATION

Support to the Kyrgyz Republic for water and wastewater investments, Phase 3

KYRGYZ REPUBLIC

**Total budget:** €50.72 million

**IFCA contribution:** €12.92 million

**Lead finance institution:** EBRD with €21.65 million

**Co-financiers:** ADB with €8 million and SECO with €8.1 million

**Type of IFCA support:** Investment grant

The EBRD has established a sovereign investment framework targeting water projects in secondary cities in the Kyrgyz Republic. This framework addresses common problems in the country’s water and wastewater sector through a number of relatively small but well-designed projects. This approach aims at achieving maximum impact under existing affordability and public debt constraints in the country. To date, the framework covers 15 cities, supporting projects that address urgently needed infrastructure rehabilitation needs.

The EBRD investment framework builds on the bank’s track record in supporting municipal sector reforms across the country and is a vehicle to support critical investments in the sector, which would be difficult to finance on a standalone basis. These investments have important environmental, economic and social benefits. Stakeholder Participation Programmes foreseen within each sub-project will integrate poverty and social issues into the proposed tariff reforms, helping the water utilities to improve their corporate governance.

With this project, the EBRD aims specifically to support water and wastewater investments in the cities of Kerben, Isfana, Naryn, Karakol, Jalalabad and the rural regions of Myrza-Ake, Kurshab and Don Bulak. By rehabilitating some of the most deteriorated sections of the water supply network, the project will reduce water losses and energy consumption, thereby making an important contribution towards economical and responsible groundwater resources management.

The implementation of priority investments will promote EU standards across the sector and provide access to much needed infrastructure and services for the population. In addition, the sub-projects will provide access to basic infrastructure for both the population and the commercial sector, and will support improvements in public health, which is a key prerequisite for development and poverty reduction. Energy efficiency will also be improved by the project – and reduced energy consumption will help balance out energy price hikes. Strategic high-priority grid extensions will help increase the connection rate and the number of people benefitting from the improved services.

IFCA grant support will allow municipalities and utilities to meet high service and environmental standards while respecting affordability constraints. With each proposed sub-project being financed by a small and affordable loan co-financed by substantial capital grants, water companies will be able to carry out critical infrastructure improvement to achieve operational and financial sustainability of their operations.

When the quality of municipal services improves, there is greater willingness to pay more for those services, which in turn generates resources for further improvements in quality, maintenance and extended service areas.
A World Bank survey has revealed that access to long-term finance is one of the most significant challenges limiting the growth and development of small and medium-sized enterprises (SMEs) in Central Asia. Global financial crises have added to a worsening economic environment in the region, undermining the survival and growth of SMEs. The offer of new loans by banks in the region has decreased for SMEs, while non-bank sources of finance are almost non-existent.

At the same time, financial literacy levels are low in SMEs in the region, while management skills are often poor. It is therefore essential to offer SMEs better access to business advice so that they can target their products effectively, both domestically and abroad.

The EBRD has established a special facility – the EUEBRD SME Finance Facility for Central Asia (“the Facility”) – to provide long-term financing to SMEs in Central Asia in order to allow them to grow, invest more in production and trading capacities, and become more competitive.

EU financial support provided under Phase 1 to the Facility has played a critical role in the four countries targeted, especially in the poorest. For Phase 2, the EBRD will deploy a new integrated approach, offering valued-added advice as well as finance. The EBRD will help SMEs to grow and improve their competitiveness by providing knowledge and international expertise, delivered by local consultants and international industry advisers.

The action will involve a combination of direct financing (debt, equity or quasi-equity) and risk sharing. Under Phase 2, the EBRD is expecting to accelerate its activities, notably in Kazakhstan. Phase 2 will target SMEs with growth potential, spanning a range of industries, from agribusiness to manufacturing and transport. Companies with up to 500 employees will be eligible.

The EU financial support will provide added-value by allowing the EBRD to expand its outreach to poorer countries and rural areas, provide longer-term financing, and attract other co-financiers into more sophisticated financial structures and financing with longer tenor. Furthermore, the IFCA-funded technical assistance will act as a catalyst for SME growth.

By the end of 2024, all loans and investments will have been repaid and any remaining funding used for the guarantee provision will be returned to the European Commission.
Like other municipal services, the solid waste sector in Tajikistan has suffered from a chronic lack of investment since the collapse of the Soviet Union. As a result of years of underinvestment, the existing waste management practices and facilities in Tajikistan are generally poor. At present, solid waste is disposed of at dumping sites, where operations do not meet even basic environmental, health and safety standards.

In an effort to address this issue, the EBRD set up the Solid Waste Management (SW) Framework in late 2014 with up to €23.6 million earmarked to address urgent needs for solid waste management upgrades in Tajikistan. By the end of 2018 under the SW Framework, two sub-projects have been signed: Khorog Solid Waste and Nurek Solid Waste. As part of the current support programme, the EBRD is now seeking to make additional investments, covering the cities of Kulob, Isfara, Yavan and Khujand to address urgent solid waste management upgrades.

Kulob, Isfara and Yavan have outdated solid waste infrastructure and dumping sites that are in need of urgent rehabilitation.

The lack of sanitary landfill and collection points is a public health hazard and is one of the top priorities in the three cities. This support programme will improve the quality and reliability of solid waste management and landfill operations, involving the renovation and construction of collection points, expansion of the network, and the acquisition of modern equipment for the collection, transportation and disposal of solid waste.

The investments will promote EU standards in the sector by introducing proper collection and disposal systems of solid waste in landfills designed to EU standards, with the exception of hazardous waste that cannot be currently segregated from the municipal solid waste (MSW).

By creating a relationship between the EBRD and bilateral and international donors to arrange relatively high grant co-financing amounts, the IFCA contribution will facilitate priority investments in urgent upgrades without imposing hardship on the population, who will not be subjected to the tariff increases that would be required if these upgrades were fully financed by loans.

Implementing priority investments will improve environmental and hygiene standards, and provide access to much needed waste collection and landfilling infrastructure and services for the population. In addition, the sub-projects will build on capacity through project implementation, including engineering and design, procurement and contract supervision, thereby enhancing the sustainability and efficiency of waste management companies.
AIF
The Asia Investment Facility

The core objective of the Asia Investment Facility (AIF) is to promote investments in projects across the Asia region that will have a significant impact in terms of sustainable development and reduce inequalities in the region. Since support to the first project was approved in 2012, AIF contributions have been leveraged to raise the large sums needed to implement major development projects across the Asia region in a range of sectors: from energy, water and the environment to transport and the private sectors.
As one of the EU’s blending facilities, the AIF provides funds to mobilise loans and other support for projects that promote sustainable, socially inclusive development, but which might otherwise struggle to raise the required funding on the market. In approving projects for funding, the AIF prioritises socially significant sectors that have the potential to improve people’s lives through the provision of access to essential services, or that create economic opportunities and jobs, helping to ensure that all levels of society benefit from Asia’s economic growth.

Certain Asian countries are disproportionately vulnerable to severe weather and to other effects of climate change. The AIF has a climate change focus, supporting public and private investments in strategic areas and assisting partner countries in their efforts to adapt to and mitigate climate change effects.

The AIF provides support in various ways, including direct investment grants, technical assistance, guarantees and risk sharing mechanisms. The most common form of support provided to projects over the past six years has been technical assistance, followed by investment grants, with risk capital in third place.

The European Commission’s contribution to the AIF, which is made available from the Development Cooperation Instrument (DCI), is decided annually. It allocated a total of €304 million to the AIF for 2010-2018. Through the AIF, these funds are used to support increased investment in key projects that create better access to services through improved infrastructure, protect the environment and create sustainable economic opportunities.
The European Commission allocated an overall amount of €304 million to the AIF for the period 2010-2018. While the Facility was launched in 2010, the first projects were finalised by April 2012.

Amount of approved projects, 2010-2018

- €16.18 million in 2012
- €21.62 million in 2013
- €27.02 million in 2014
- €28.37 million in 2015
- €42.76 million in 2016
- €45.49 million in 2017
- €59.53 million in 2018

Key AIF figures 2010-2018

- AIF financing to 39 approved projects: €241 million
- FI financing to approved projects: €4.1 billion
- Total investment of leveraged AIF contribution: €5.6 billion
Regional (7%)
€16.6 million / 4 projects

India (13%)
€31.1 million / 4 projects

Pakistan (3%)
€7.4 million / 2 projects

Nepal (1%)
€2.4 million / 1 projects

Bangladesh (9%)
€20.7 million / 4 projects

Myanmar (22%)
€43.7 million / 4 projects*

Vietnam (13%)
€31 million / 6 projects

Cambodia (10%)
€23.1 million / 3 projects

Philippines (2%)
€5 million / 1 project

Laos (4%)
€10.6 million / 2 projects

Indonesia (5%)
€7.3 million / 1 project*

Sri Lanka (2%)
€5.9 million / 1 project

China (2%)
€5.6 million / 1 project

Mongolia (7%)
€16.7 million / 3 projects

* Cancelled projects not included
A total of 14 projects were approved to receive AIF funding in 2017-2018, with seven projects approved per year. The total AIF contribution in the reporting period amounted to €88.3 million, which will be used to leverage funding for projects with a total investment value of €2.4 billion.

Of the projects approved in 2017-2018, one had a regional focus: Cities and Climate in Asia (CICLASIA), which will provide technical assistance to cities in Asia to enable them to support low-carbon, resilient urban projects. Three projects in Vietnam were approved for AIF funding in the reporting period, with a total AIF funding of €13.4 million leveraging almost €1.8 billion to finance transport, energy and urban development projects. India, Mongolia, Myanmar and Cambodia had two projects each in the reporting period, with one project in Lao PDR. China joined the AIF family for the first time in 2018, with an AIF contribution of €5.4 million to support the China Green Cities Development Fund (CGCDF).

In terms of sectoral distribution, urban development received the greatest amount of support in 2017-2018, both in terms of the number of projects funded and the amount of total AIF contribution. In total, the AIF contribution of €31.8 million will leverage €360 million to support urban development projects in Myanmar, India, China and Vietnam, as well as throughout the region with one regional project. Two multi-sector projects received €20.7 million in AIF funding, which will raise €1.72 million to support water, agriculture, education and healthcare projects in Cambodia and India. Three projects approved for funding in 2017-2018 target the environmental sector, with a total AIF contribution of almost €20 million leveraging €179.5 million for projects in Mongolia, Cambodia and Myanmar.

Two projects in the transport sector, one in Lao PDR and one in Vietnam, received combined AIF funding of €11.6 million that will contribute to leveraging almost €1.5 billion. The remaining two projects targeted the energy and private sectors. They both received AIF contributions of €2.1 million, one of which will leverage almost €3 million to extend a programme of support for Mongolian economic diversification through SME access to finance. The second will leverage a total of €204 million to foster electricity generation from renewable energy sources in Vietnam.

Thirteen of the 14 projects that were approved by the AIF board in 2017-2018 have a technical assistance component, with €63.8 million in total earmarked for this purpose (72% of AIF contributions). Of the 13 projects with a technical assistance component, nine consist of technical assistance alone, while four combine this assistance with an investment grant. In total, the investment grant component of the AIF contributions in 2017-2018 amounts to €20.9 million (24%). Fees amounted to €3.44 million (4%). The combined AIF contributions of €88.3 million will contribute to leveraging a total investment of €2.4 billion, which equates to just over €28 leveraged by every euro provided by the AIF.
2. SUPPORTING EU POLICY GOALS IN ASIA

The EU has major political, cultural and economic ties with the Asia region, which is now Europe’s main trading partner. These links between Europe and Asia are set to become even stronger, following the adoption of a joint communication on Connecting Europe and Asia in September 2018. This communication calls for increased connectivity within Asia and between Asia and Europe, and targets a number of key sectors for cooperation, including transport, energy, the digital sector and the so-called ‘human dimension’, which includes cooperation in education, research, innovation and other areas.

While Asian economies have seen impressive growth, even in the wake of the global economic crisis, this growth has not been evenly spread across the continent and major inequalities exist, both between and within countries in the region. Asia has made impressive progress in eradicating poverty, but extreme poverty continues to exist and is a particular focus of the EU’s development policy in the region.

The impressive economic growth that Asia experienced has not come without a cost – particularly as regards the impact of increased agriculture and industry on the environment. Population growth is also taking its toll in this regard, with associated negative impacts in terms of uncontrolled urbanisation, water scarcity or land degradation. Countries in the region are also disproportionately vulnerable to the negative effects of climate change, so the provision of support to the climate change adaptation and mitigation actions of partner countries in the region is a key focus of EU policy.

Many of the projects approved for funding in 2017-2018 reflect these policy goals. Sustainable urban development is targeted by a number of projects – from the regional Cities and Climate in Asia (CICLASIA) programme, to projects supporting sustainable urban development in Myanmar, India, China and Vietnam. To these we can add waste and water management projects in Mongolia and Cambodia and a number of other projects that aim to mitigate the negative environmental impact of economic growth across the region. The policy areas of transport and energy highlighted in the new joint communication are also reflected in the list of projects approved for AIF funding in 2017-2018, with projects supported in Vietnam and Lao PDR.

Finally, 12 of the 14 projects approved for AIF funding in the period covered by this report have climate action as a principal or significant objective, with over €52 million or 62% of the overall AIF contribution being reported as climate action support.

By providing a framework for the joint funding of priority projects in the region by the EU, its partner financial institutions and other development partners in the region, the AIF not only helps to achieve the EU’s policy goals in the region, but also supports the policy objectives of its partners, helping to ensure that growth in the region is sustainable and leaves nobody behind.
3. PROJECTS

ENERGY

Fostering electricity generation from renewable energy sources in Vietnam

VIETNAM

Total budget: €204.14 million

AIF contribution: €2.14 million

Lead finance institution: AFD with €50 million

Co-financiers: Partner country with €152 million

Type of AIF support: Investment grant

Technical assistance

Electricity consumption in Vietnam has increased by an average of 14% over the past two decades and is expected to further increase sharply in the coming years, as a result of industrialisation and population growth. To meet this increased demand, the Vietnamese authorities aim to multiply electricity production fourfold by 2030, compared to 2015. Specifically, Vietnam intends to reduce its dependency on coal-fired plants (33.5%) and invest more in renewable energies. Further to developing hydropower, which currently accounts for 38% of Vietnam’s power, the plan includes increasing installed wind energy capacity by 6 GW and solar energy capacity by 12 GW by 2030. The national strategy aims to lower greenhouse gas (GHG) emissions by 8% in 2030, compared to a projected business-as-usual (BAU) scenario. The reduction could be as high as 25% with international support.

In terms of hydropower, a constraint on meeting these targets is that most of the suitable sites are already in use. The state-owned EVN owns 61% of installed capacity, with room for improvement of its operation and management of existing hydropower plants. In addition EVN’s current health and safety practices on construction sites fall below international standards, which is a disincentive for international investors.

The EU blending funds provide technical assistance, with a dual aim: improving health, safety and environment management systems on the hydropower extension construction sites handled by EVN, and maximising power generation from existing hydropower plants by optimising their operation and maintenance processes.

AFD financial support for the project takes the form of a €50 million loan for the acquisition of electromechanical equipment for the extension of the Ialy hydro power plant in Gia Lai Province, which will increase the power plant capacity by 350 MW to 1080 MW.

Activities financed by the EU are expected to end in 2021 and the project itself will be completed in 2023.
China Green Cities Development Fund (CGCDF)

**CHINA**

**Total budget:** €7.82 million

**AIF contribution:** €5.57 million

**Lead finance institution:** KfW Development Bank with €1.5 million

**Co-financiers:** Partner country with €0.75 million

**Type of AIF support:** Technical assistance

China has adopted a national plan (2014-2020) to make all of its mainland cities healthier and more sustainable, with improved air and water quality, lower pollution, less waste, better designed buildings and public spaces, and cleaner transport. The New Type Urbanisation Plan (NTUP) also includes the social and cultural aspects of urban living. However, Chinese cities often face tight budget constraints and do not have sufficient public financing to implement the infrastructure required by the NTUP. Development banks such as KfW therefore have an increasing role to play, but the local authorities that act as Project Executing Agencies (PEAs) for investment projects often lack the know-how to ensure that they meet international sustainability standards and consider innovative green technologies. This means that international finance, such as KfW’s funding, which is subject to international standards, could not be made available.

To overcome this double bind, the China Green Cities Development Fund (CGCDF) will finance crucial technical assistance to PEAs during the preparation, pre-investment and implementation phase of urban green infrastructure investment projects. The CGCDF also foresees supporting the development of infrastructure through credit lines or result-based and policy-based lending. The AIF funding helps to pave the way for subsequent investments estimated at over €2 billion.

The timing of the CGCDF action coincides with the implementation of the 13th Five-Year Plan (2016-2020) of the Chinese Government, with its main focus on environmental protection, better access to education and improved health services, and more innovation.
Support for Mongolian economic diversification through SME access to finance (Extension)

**MONGOLIA**

**Total budget:** €2.77 million  
**AIF contribution:** €2.14 million  
**Lead finance institution:** EBRD  
**Co-financiers:** Private sector with €0.63 million  
**Type of AIF support:** Technical assistance

Mongolia can be described as having two economies: a mining industry (essentially copper and coal), centred on large companies and exports, and a parallel economy centred on SMEs supplying local goods and services. Mining is a resource-driven economy with high, but volatile economic prospects. SMEs, on the other hand, systematically experience an under-supply of financing. Indeed, access to finance has been identified as the primary obstacle to SME growth in Mongolia.

The present initiative is an extension to the Support for Mongolian Economic Diversification through SME Access to Finance programme, which is exclusively dedicated to non-mining SME investment and development. The overall aim of the programme is to foster sustainable economic diversification in Mongolia through increased access to finance for small and medium-sized businesses.

Blending EU and EBRD funds, the programme targets micro, small and medium-sized companies in a variety of industries, excluding the extractive industries. It covers all 21 provinces of Mongolia and aims to increase financing for rural SMEs, by improving and increasing the access of SMEs to finance through loans to Mongolian commercial banks for on-lending to SMEs. It also offers risk sharing and co-financing with local banks and microfinance institutions, as well as EBRD direct lending. In addition, the programme provides business advice to mostly micro, small and medium companies and supports policy dialogue in order to improve the business environment, develop new financial products and strengthen business associations.
Thamountaya – Sustainable management of marine and coastal resources through satellite technology

**MYANMAR**

**Total budget:** €69.99 million

**AIF contribution:** €10 million

**Lead finance institution:** AFD with €43.9 million

**Co-financiers:** Partner country with €16.09 million

**Type of AIF support:** Investment grant, Technical assistance

Myanmar’s fishing sector plays an important role in the national economy and the livelihoods of those living along its 1,600 km of coastline. With an Exclusive Economic Zone (EEZ) of 650,000 km², the sector produced some 3 million tons in 2017. Fish consumption is one of the highest in South-East Asia, while Myanmar exported a total of 438,706 tons of fishery products – mainly to Thailand and China.

However, the whole marine ecosystem is seriously affected by overfishing and, according to the UN Food and Agriculture Organization (FAO), the area around the highly biodiverse Myeik archipelago is a global hotspot for illegal, unreported and unregulated fishing (IUU) by both national and foreign vessels. At the same time, near-shore ecosystems, including mangroves, coral reefs and seagrass meadows, are subject to degradation and are not monitored at national level. Furthermore, coastal zones will increasingly experience adverse impacts of climate change, which may also disrupt fishing activities and cause physical changes in marine ecosystems.

This situation is exacerbated by Myanmar’s outdated legal framework, ineffective vessel registries and related controls, limited monitoring, control and surveillance capacity, weak vessel tracking and monitoring.

The overall objective of the Thamountaya - Sustainable Management of Marine and Coastal Resources through Satellite Technology project is therefore to improve the sustainable management of marine and coastal resources that are vulnerable to climate change, through the shared use of satellite technology. It will achieve this through an efficient data collection and analysis system, which is key for the sustainable management of fisheries and will help to reduce national and foreign illegal, unreported and unregulated (IUU) fishing in the Myanmar Exclusive Economic Zone.

The project aims to help improve the scientific knowledge underlying the better management of marine resources and the assessment of their vulnerability to climate change. Other benefits include better monitoring and mitigation of climate change impacts on the vulnerable marine and coastal environment.

The EU contribution will help put marine resources management on a more sustainable development pathway, thereby reducing potential future asset losses. It will also finance activities dedicated to improving the safety of fishermen at sea through the design and implementation of a weather early alert system. Another important social impact resulting from the EU contribution is the improvement of living conditions for coastal communities.

The implementation period of the project is 6 years.
Supporting tertiary care and nursing education in India through Aga Khan ‘New Health Institution’ and ‘College of Nursing’ project in Mumbai

**India**

**Total budget:** €98.85 million  
**AIF contribution:** €8.85 million  
**Lead finance institution:** AFD with €45 million  
**Co-financiers:** Partner country with €45 million  
**Type of AIF support:** Technical assistance, Investment grant

India’s investment in the health sector has been increasing, but still only represents 4.7% of GDP (compared to the worldwide average of 9.1%). India faces a general shortage of practitioners, notably in the nursing sector, with only 1 nurse per 2,500 inhabitants. Around one in five nursing graduates emigrate, mostly because of low wages and poor working conditions in India. At the same time, the growth of the Indian middle-class has increased demand for preventive and tertiary care and diagnosis, which requires more state-of-the-art equipment and qualified human resources.

Indian healthcare provision is divided between the public sector – offering universal health services, accessible for all and free of charge – and the private sector, accounting for 55% of the total number of beds. The demand for private care is driven by the low quality of care delivered in public health institutions and inadequate hospital infrastructure.

In Mumbai, the public health system represents only 30% of the city’s hospitals. The private sector has over 1,100 hospitals or nursing care centres that are managed by cooperatives, societies, firms, religious bodies, charitable trusts and non-governmental organisations (NGOs). The Indian authorities recognise the private not-for-profit sector as a major player in the healthcare system and aims for people from all social backgrounds to have access to private hospitals, through subsidised beds for poor and destitute patients.

As a private institution involved in several (free) public preventive programmes and in dispensing healthcare to low-income destitute people, the Aga Khan’s hospital in Mumbai is fully in line with India’s health strategy.

The purpose of the present project is to improve health conditions for the population of Mumbai by providing better access to tertiary care and developing high-quality education for nurses, as well as fostering greater social acceptance of the nursing profession. These objectives will be tackled via a three-pronged strategy:

- construction of the New Health Institution (NHI), funded by the AFD and the Prince Ali Khan Hospital (PAKH) with state-of-the-art equipment and certified sustainable infrastructure;
- construction and running of the Aga Khan College of Nurses Mumbai (AKCoN-Mumbai), funded by the EU; and
- strengthening of the Maharashtra Nursing Association, financed by the EU.

The AIF grant is to be allocated to the construction budget of the Aga Khan’s College of Nurses, as well as providing technical assistance to the college and the Maharashtra Nursing Association.
Climate-Resilient Infrastructure in North-Central Vietnam (CRUIV)

**VIETNAM**

**Total budget:** €155 million

**AIF contribution:** €4.99 million

**Lead finance institution:** AFD with €122 million

**Co-financiers:** Partner country with €28 million

**Type of AIF support:** Technical assistance

The project aims to increase the climate resilience of the urban infrastructure in five such intermediate cities in the region: Phat Diem in Ninh Binh province, Ngoc Lac in Thanh Hoa province, Hoang Mai in Nghe An province, and Huong Khe and Thach Ha in Ha Tinh province. For each of the five municipalities there is an existing master plan for infrastructure development, which addresses transport supply, flood protection and drainage, water supply, and solid waste management. An AFD-funded component of the project comprises upgrading the urban infrastructure and services.

A second (AIF-funded) component consists of capacity building and technical assistance, offering support to the four provinces to manage the project. This includes general training on flood risk management (prevention, forecast and crisis management, and risk culture), as well as the application of these concepts to each local situation to identify the origin of the risk – including watershed management and possible interactions with hydraulic infrastructure, such as dams. Other components of the training include flood risk prevention, land use planning, flood risk management and wastewater management.

The goals for the target cities are that, by 2020, 90% of dwellings are connected to the drinking water system; 80% of their area is covered by a drainage system; 40% of city dwellings graded 4 and 5 (60% in cities belong to class 3) are connected to a sewage system; and 40% of the wastewater is treated.

Rapidly urbanising cities in the north-central region of Vietnam need to upgrade their infrastructure and the supply of services, in a context of increasing vulnerability to extreme weather events. The five ‘intermediate’ cities targeted by the present project have populations of between 10 000 and 100 000 inhabitants. In these cities the drainage systems are generally underdeveloped and inefficient, leading to flooding, especially in the monsoon season. The existing road systems are undersized and poorly maintained, often becoming inaccessible during the rainy season, leading to potential isolation. There are no sewage networks – the existing wastewater treatment system consists of septic tanks, which are then released into the environment, and water supplies are insufficient in some districts of the affected provinces.
Lao resilient rural roads

**LAO PDR**

- **Total budget:** €69.35 million
- **AIF contribution:** €5.35 million
- **Lead finance institution:** EIB with €20 million
- **Co-financiers:** WB with €23.6 million, NDF with €11 million and partner country with €9.4 million
- **Type of AIF support:** Investment grant

Road is the dominant mode of transport in Lao PDR, responsible for 98% of passenger-kilometres and 86% of freight movements. Road transport is central to the country’s ‘from land-locked to land-linked’ policy and therefore to its economic development and the reduction of poverty. Yet Lao PDR is one of the Association of South-East Asian Nations (ASEAN) region’s most vulnerable countries to natural hazard, experiencing five major storms or tropical cyclones over the past two decades. This means that the local transport infrastructure – especially unsealed roads – is particularly vulnerable to flash floods, landslides and backwater flooding that accompany climate-related events. Only 9% of local roads (provincial, district and rural roads) are paved, and only 50% are in good or fair condition. Furthermore, their technical design has not accounted for greater climate variability and a potential increase in the frequency of extreme events.

The Lao resilient rural roads project consists of several small and medium-sized investment schemes to carry out rehabilitation works on provincial and district roads in six provinces of Laos that have been identified as highly vulnerable to natural hazards. These provinces also have some of the highest levels of poverty in the country. The project will focus on local roads. Climate resilience interventions may include elevating flood-prone road sections, paving road sections with steep slopes and sections passing through large communities, improving or constructing drainage systems, and improving or stabilising slopes.

As well as the construction component, the project will also support institutional development. This will include the preparation of finance and policy frameworks, improved planning, prioritisation and governance systems, as well as increased technical capacity for the road sector. The aim is to maximise the effectiveness of public expenditure on road transport, increase the proportion of the provincial roads network that is in good and fair condition, while consolidating its safety and resilience to climate events.

The project is aligned with the Lao PDR Government’s eighth national socio-economic development plan (2016-2020), which aims to foster sustained and inclusive economic growth based on green growth principles that will help mitigate the effects of natural disasters.

The AIF grant, blended with the EIB finance, will allow the government to double its road rehabilitation programme and thus reach about twice as many rural villages and beneficiaries. Without the AIF grant, these additional project components would be postponed or even cancelled. In addition, the AIF grant will generate considerable temporary employment during project implementation as well as help sustain employment in the transport sector.

The project will bring a range of positive benefits to local communities, including improved quality and reliability of travel, increased access to social, educational and healthcare services, and local agricultural and business development, by creating better economic conditions for both local farmers and SMEs.
Supporting Smart Cities Mission for a more inclusive and sustainable urban development in India

**India**

- **Total budget**: €106.24 million
- **AIF contribution**: €6.24 million
- **Lead finance institution**: AFD with €100 million
- **Co-financiers**: n/a
- **Type of AIF support**: Technical assistance

According to the last (2011) Indian census, around one third of India’s population lives in urban areas and contributes nearly two-thirds of its GDP. Of this population, around 65 million people live in slums and 35% of urban households live below the poverty line. The proportion of the population living in urban areas is predicted to rise to 40% by 2031. Urban growth in India over the past decades has largely been unplanned, with dramatic social and environmental impacts. Slums have multiplied and the urban infrastructure has become overloaded and congested. The natural environment is increasingly polluted, while sensitive areas are encroached upon. In the past, urban development projects were often disconnected from the surrounding context and elaborated as stand-alone infrastructure projects.

The Smart Cities Mission (SCM), launched by the Government of India, is intended to underpin a shift from urban infrastructure projects to urban integrated projects, leveraged by smart solutions, which should lead to the emergence of more sustainable and inclusive urban initiatives, with 109 cities selected to take part in the programme and to submit proposals. If a proposal is selected, the city gains access to an annual grant from the Government of India (€14.2 million/year) spanning a 5-year period.

A smart city project has to be based on a territorial analysis and defined through an integrated urban approach, with urban dwellers at its core. The urban services provided through the Smart Cities Mission should be enhanced by the use of smart solutions (ICT and internet of things), while the proposed project is developed through an extensive, participative approach with urban dwellers.

The current project has two main components: extending additional financing to innovative measures and smart solutions, thus emphasising inclusiveness and sustainability and, secondly, providing technical assistance during the preparation and implementation phases. A main added value of the EU contribution is to put in place a decentralised monitoring and evaluation system based on outcome indicators. In addition, the creation of a practitioners’ network will emphasise the role of city cooperation and peer learning.
TRANSPORT / URBAN DEVELOPMENT

Transport, Waterfront and Heritage Urban Project (TWHUP): Contributing to a resilient and democratic pathway for Yangon region

MYANMAR

Total budget: €85.5 million
AIF contribution: €9.8 million
Lead finance institution: AFD with €70.5 million
Co-financiers: Partner country with €5.20 million
Type of AIF support: Technical assistance

The population of Myanmar’s Yangon region is expected to double from 5 million to around 10 million by 2030 and to have tripled by 2050. This growth is already putting pressure on transportation and services, while its historic built heritage is deteriorating, alongside the spread of informal settlements and increasing urban poverty. This situation is exacerbated by Yangon’s susceptibility to rapid-onset, recurring natural hazards, such as cyclones, floods and earthquakes. Yet the region is called upon to play a key role in the social, political and economic development of Myanmar.

To fulfil its potential, Yangon needs investment in urban infrastructure and to reinforce its local governance. Key challenges will be the development of reliable and efficient river and urban land transport, and conservation of its downtown heritage sites. The Transport, Waterfront, Heritage Urban Project (TWHUP) is a response to these challenges. Related to this investment-related package, the project will also finance a resilience-oriented strategic technical assistance (STA) initiative to strengthen the capacities of local authorities to plan and implement TWHUP. This STA will also contribute to the development of resilience through sustainable, coherent strategies and projects that take account of disaster risk reduction. The AIF grant will support the investments by financing most of the design and supervision of works. More generally, the AIF-financed STA will help put Yangon on a more resilient development pathway.

Among the expected outcomes, the development of more efficient river and urban transport will help relieve road congestion and lower CO2 levels. Gender-sensitive aspects of the project will contribute to safer public spaces for women in downtown Yangon and opportunities for women to participate in shaping the project.
notably for poorer communities. Also there have been knock-on effects on the environment, such as polluted watercourses resulting in untreated wastewater.

Recognising the needs of these provincial cities, the government has set a goal of universal piped water supply for urban areas by 2025 and improved access to effective sanitation services. The Provincial Water Supply and Sanitation Project (PWSSP) is designed to support this effort. The aim is to extend and improve the coverage and performance of water and sanitation services in four of Cambodia's largest provincial towns (Battambang, Kampong Cham, Siem Reap and Sihanoukville). This will give residents improved access to safe, piped water, and effective wastewater and sewage management services, while helping to reform the management and performance of the sector.

While households in the project area are keen to be connected to water and sewage systems, they are wary of the costs. The project will therefore provide free access to sewage connections, while subsidising connection to mains water supply for poorer families, at rates of between 100% and 30%, depending on household poverty status. The sanitation component of the project should result in major environmental benefits, through reduced direct discharge of sewerage into the drainage system. Women will benefit particularly by improvements in family health, and less time spent collecting and buying drinking water. The AIF grant will finance activities that are key to improving the sustainability of the investments and to achieving the social and economic objectives of the project. These include institutional technical assistance, agronomic experimentation, and support to farmers and water user communities for water and infrastructure management.

Since the 1993 elections, which brought Cambodia back into the international development community after its period of conflicts, the country's provincial towns and cities have been growing at a faster rate than rural areas. About one fifth of the 15.45 million population (2016 figures) now lives in urban areas. This proportion is expected to rise to about 30% by 2030. Over recent decades, former provincial towns have grown into secondary cities and communication hubs, with economies boosted by tourism and commerce.

However, infrastructure and services in the water supply and sanitation sector have not kept pace with this urbanisation for a number of reasons. Firstly, investment in Cambodia’s urban water and sanitation services has tended to concentrate on the capital, Phnom Penh. At the same time, fragmented responsibility for urban water and sanitation services between different ministries has contributed to poor coordination and planning. Increasing pressure on already inadequate water supply and sanitation services has led to deteriorating health conditions,
SOLID WASTE MANAGEMENT

Green cities framework: Ulaanbaatar solid waste modernisation sub-project

MONGOLIA

Total budget: €15.36 million
AIF contribution: €4.94 million
Lead finance institution: EBRD with €9.74 million
Co-financiers: Partner country with €0.68 million
Type of AIF support: Investment grant
Technical assistance

Ulaanbaatar is the largest city in Mongolia. Every year it generates an estimated 1.1 million tons of waste, most of which goes into landfill sites. But these sites are often not well designed, are close to capacity, and currently there are only three managed landfill sites in Ulaanbaatar. Of particular concern is the increasing amount of construction waste entering landfill sites, usually without it being crushed or recycled. About 10% (100 000 tons per year) of the total waste in the city is generated by the construction industry to meet the demands of a rapidly increasing population (from 0.8 million in 2000 to 1.3 million in 2016, mostly due to migration from rural areas).

The recycling industry is not well developed in the city and is mainly limited to high-value waste, such as metals, paper and cardboard. Transportation of solid waste to landfill sites is divided between 7 private and 13 municipal companies and does not usually include a recycling component. There is a domestic reprocessing capacity for some of this material, but most recycling is carried out by groups of waste-pickers operating at landfill sites, focusing on recyclables with an economic (e.g. as opposed to an environmental) value. These waste-pickers trade the recyclables through a network of about 200 ‘kiosks’, 158 of which are permanent. While the water sector has already received substantial international finance, the solid waste sector is lagging behind, both in terms of investment and institutional development.

The Green cities framework (GrCF): Ulaanbaatar solid waste modernisation sub-project will finance priority investments designed to expand landfill capacity, and build a new construction and demolition waste (CDW) plant for the city. Machinery and equipment needed to operate the landfill and CDW plant will also be purchased. This sub-project is one of the first under the GrCF and will promote disposal of solid waste in landfill sites that are designed to EU standards.

The project aims to help avoid environmental pollution related to the lack of landfilling capacity and to introduce proper management practices in relation to construction waste. Environmental benefits include an estimated reduction of CO₂ emissions (on average 18 000 tonnes per annum or 300 000 tonnes by 2037). The CDW plant should also reduce the use of virgin materials for construction. The project includes the provision of technical assistance for institutional reform of the solid waste sector.
Asia has become the main driver of global economic growth, accounting for 27% of global GDP today and is expected to rise to 50% by 2050. This dynamism is largely based on Asian’s rapid urbanisation, with 13 of the world’s 23 mega-cities located in Asia. But this growth is proving to come at the price of significant social and environmental problems. Asia’s population has more than tripled, from 1.4 billion in 1950 to 4.4 billion today and increasingly concentrated in urban areas (1.9 billion urban-dwellers today, expected to rise to 3.1 billion by 2025). Around 30% of the urban population live in slums. Apart from the uneven distribution of the economic gains of Asia’s spectacular growth, essential services, such as water supply, sanitation and the management of solid waste, have not kept pace. Meanwhile, increased traffic volume causes widespread congestion and pollution. Asia now accounts for 12 of the world’s 20 most polluted cities.

Local governments are aware that resilient urban development requires a clear strategic framework and many have plans to move towards more sustainable low-carbon planning, notably in the light of climate change challenges. Many of Asia’s megacities are, after all, in coastal areas, which are particularly exposed to the effects of climate change. Yet financial and institutional constraints, as well as a lack of financial and technical skills, are often obstacles to successful project preparation.

The CIties and CLimate in ASIA (CICLASIA) project is therefore designed to provide technical assistance to cities in Asia to enable them to develop low-carbon, resilient urban projects, bridging the gap between planning and the implementation of infrastructure investments. Twelve medium-sized cities (from 250 000 to 5 million inhabitants) will be targeted for support between 2018 and 2022, in the form of technical assistance – pre-feasibility studies, vulnerability studies, impact studies, preliminary and detailed design – and capacity building for local governments to implement the projects.

The expected outcomes include development of the competencies to prepare structured, low-carbon and resilient urban projects ready to be financed, as well as awareness of the frameworks to implement these projects.
Located in the south of the country, Ho Chi Minh City (HCMC) is Vietnam’s economic centre. With a population of over 8 million (2016), growing at around 2.9% per year, the city contributes around 20% of Vietnam’s GDP. Most of the future growth is expected to occur in the suburban areas and surrounding provinces. By 2025, over 14 million people are projected to be living in the greater HCMC area, with 10 million in HCMC itself. This rapid growth is making it urgent to develop a functional, resilient and environmentally sustainable urban public transport system. The existing system essentially consists of an inefficient and poorly integrated bus network, with the result that the majority (80%-90%) of all trips are made using private vehicles, mostly motorcycles. The existing road infrastructure is reaching saturation, with severe congestion throughout the day, making private transport not sustainable as the principal mode of transport.

The Government of Vietnam is well aware of the impact of inadequate transport infrastructure on economic growth. The 2016 Urban Transport Master Plan (TMP) for HCMC proposes developing eight mass rapid transit (MRT) lines of 173 km, one tramway and two monorails of 56 km. In addition, six rapid transit bus lines are also planned. The 11 km MRT Line 2 is one of four MRT lines prioritised in the TMP and will form the backbone of the future MRT system.

The TMP aims to achieve an urban public transport share of 45%-50% by 2020 for HCMC. This will not only require large investments, but also considerable preparation and the on-time implementation of MRT line development projects. In order to gain an exact and reliable estimate of the project’s total investment cost it is essential to run a full feasibility study (FS) that meets international standards. As the HCMC authorities do not have the financial or human resources to commission a full FS, the EU-AIF funding will be used to finance a FS on the Line 2 extension, in order to mobilise further debt funding.

Implementation of the core part of the project is also expected to reduce noxious and GHG emissions within the project area.
WAT4CAM (Water resources management and agricultural transition for Cambodia)

CAMBODIA

Total budget: €73.1 million

AIF contribution: €11.8 million

Lead finance institution: AFD with €55.8 million

Co-financiers: Partner country with €5.5 million

Type of AIF support: Technical assistance

The national strategy of the Royal Government of Cambodia (RGC) to alleviate poverty and promote economic growth focuses on agriculture, climate change and the management of water resources as key levers. Specific priority areas include improving hydro-agricultural infrastructures and the management of irrigated water, implementing the management of integrated water resources and developing more productive, but also more resilient cropping systems, with a reduced use of chemical pesticides and fertilisers.

The present action supports the RGC strategy by helping finance the upgrading and extension of about 15,000 ha of irrigation perimeters in order to render farmers more secure and offer some resilience against climate change. The action also provides for training in irrigation and social water management, integrated water resources and agro-ecological intensification. By improving agricultural productivity in the rehabilitated irrigation systems through technical assistance support, the EU grant will help improve the efficiency of investments in irrigation infrastructures. This, in turn, will create additional revenue generation for farmers, facilitating their access to markets and credit.

While building on previous AFD initiatives, the present action provides a bridge between different government agencies responsible for agriculture and water management policies.

About 78% of Cambodia’s 15.8 million inhabitants live in rural areas (2016) and depend mainly on agricultural production (40% of jobs and 30% of GDP). This production is particularly concentrated on the Mekong/ Tonle Sap hydrological system, which is very vulnerable to the effects of climate change – e.g. an increased frequency and severity of drought and flood events, together with greater variability between the beginning and end of the rainy season. With 79% of Cambodia’s cultivated area devoted to growing rice, this vulnerability is exacerbated by a lack of efficient irrigation infrastructure, poor water management practices, and a lack of access to credit and inputs. While paddy production tripled (from 3 million to 9 million tons) between 2009 and 2016, and exports of rice multiplied from 12,000 tons to 540,000 tons in the same period, this growth is unsustainable without improved practices.
The Investment Facility for the Pacific (IFP) was launched in 2012 to support investment in projects in the Pacific region with the potential to promote sustainable economic growth and reduce poverty. The Facility is funded under the European Development Fund (EDF) and like the other blending facilities it steps in to fund projects where the market fails to offer sufficient or affordable financing.

IFP contributions support investments in projects located in the Pacific region namely: the Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tonga, Tuvalu and Vanuatu. Some contributions support regional operations targeting two or more of these countries.

The IFP supports high-priority investment projects with the potential to promote inclusive and sustainable socio-economic development in the region. In particular, the Facility targets investments in sustainable energy, transport, water and sanitation, environmental protection, private sector development and improved social service delivery.

The island states of the Pacific are also particularly vulnerable to the impacts of climate change and, as a result, efforts to adapt to and mitigate these impacts are a core element of the IFP strategy.
AT A GLANCE
For the 2012-2018 period, the European Commission has allocated a total amount of €30 million for the IFP from the 10th EDF intra-ACP.

Regional (68.4%)
€20 million / 2 projects

Timor-Leste (16.2%)
€4.75 million / 1 project

Fiji (15.4%)
€4.5 million / 1 project
1. SUPPORTING EU POLICY GOALS IN THE PACIFIC

The IFP is a major channel through which the European Union funds its policy goals in the Pacific region. In support of Priority Areas 1 and 2 of the European Development Fund's Regional Indicative Programme 2014-2020, the IFP specifically targets regional economic integration, particularly trade and private sector development, and the sustainable management of natural resources and the environment. With respect to the latter, it places particular emphasis on sustainable fisheries and sustainable waste management.

Pacific island states are extremely vulnerable to the impacts of climate change, particularly severe weather and rising sea levels. Reflecting this, a key goal of EU policy in the region is to support these states in their efforts to mitigate and adapt to these effects. The IFP also plays a role in these efforts.

Two projects were approved for IFP funding in the period covered by this report. Both of these projects are regional in scope, both were approved in 2018 and both reflect the policy objectives highlighted above.

Tapping into the potential of micro, small, and medium-sized enterprises as drivers of economic development and job creation, the Pacific MSME Finance Project will provide banks in four partner countries in the region with additional capital, enabling them to increase lending to MSMEs. The resulting growth in MSMEs is expected to help alleviate poverty by creating decent jobs, with a particular focus on young people and women. This project will also contribute to the policy goal of promoting regional integration, by encouraging increased exchange of information and cooperation between stakeholders in the participating countries.

The second project approved for funding in 2018 is the Pacific Window of the Electrification Financing Initiative (ElectriFI), which aims to invest in private enterprises that increase or improve access to and supply of sustainable energy. Access to renewable energy will help support socio-economic development in the region and will contribute to the region’s efforts to mitigate and adapt to the effects of climate change.

By tackling some of the root causes of poverty – lack of access to decent work opportunities and to basic services, such as energy, both projects will support the EU’s policy objectives for sustainable and inclusive development and the eradication of poverty in the region in line with the Sustainable Development Goals.
2. PROJECTS

PRIVATE SECTOR

Pacific Micro, Small, and Medium Enterprise (MSME) Finance Project

REGIONAL: SAMOA, SOLOMON ISLANDS, TONGA, VANUATU

Total budget: €70.4 million

AIF contribution: €12 million

Lead finance institution: ADB with €28.8 million

Co-financiers: Partner country with €24.4 million and other contributions for €5.2 million

Type of IFP support: Investment grant
Technical assistance

These project goals will be structured in three components. The first will see the banks receiving the funds needed to increase their capital, enabling them to increase their lending to MSMEs. As part of the second component, the banks will receive technical assistance to improve their operations, including their management of delinquent loans and their provision of loans and other banking products to MSMEs. Finally, under the third component, training will be provided on basic business management skills such as record keeping, budgeting, procurement, and contingency planning. This training will also cover accounting and preparation of financial statements, preparing business plans and applying for loans, and marketing.

The project aims to strengthen the management capacities and IT systems of the banks in question, so that they can operate on a more commercial basis and provide a full range of financial services. Furthermore, the project will improve the business skills of entrepreneurs at MSMEs, enabling them to access credit on reasonable terms and conditions. The project is also designed to produce regional benefits through increased trade and information and knowledge sharing among stakeholders in the participating countries.

The project will support sustainable economic development and diversification in the partner countries. The expected growth in the MSME sector will alleviate poverty by providing jobs, including for young people and women. Thanks to the EU’s contribution, the scope of the project can increase from two to four countries. The IFP contribution will finance the preparatory technical assistance and 36% of other technical assistance associated with the project.

This will allow the lead Finance Institution to allocate its resources to finance most of the large capital injections, technology improvements, and capacity building support needed to return the banks to health and enable them to increase their MSME lending on a sustainable basis.
The European Commission launched the Electrification Financing Initiative (ElectriFI) in December 2015 as an impact investment facility with a mandate to invest in private enterprises that increase or improve access to and supply of sustainable energy in developing countries.

The objectives of the Initiative’s Pacific Window are in line with its overall objectives – the funding provided aims to offer interim financing solutions to help projects overcome obstacles or reach a level of maturity at which the private sector can take over. The funding provided through this Window should result in increased or improved end-user access to affordable, reliable, sustainable and modern energy.

The investment scope of ElectriFI, including the Pacific Window, includes off-grid business models, with a focus on solar home systems or mini-grid solutions, in addition to investments in on-grid enterprises and in companies active in energy efficiency and energy savings. Investments take the form of equity, quasi equity, junior debt, senior debt and guarantees.

The results of the project will be measured by impact indicators, including the number of investments processed and carried out, the amounts leveraged, the number of new connections reached, the installed capacity, the increased share of energy output from renewable sources and the volume of greenhouse gasses mitigated.

The EU contribution will be used for investments and technical assistance for promising renewable energy projects with the potential to improve conditions for socio-economic development in the target countries. A particular focus will be made on projects that would otherwise struggle to be implemented without ElectriFI support.
On the frontline of the battle against climate change

The Central Asian, Asian and Pacific regions are highly vulnerable to the negative effects of climate change, and every year countries in these regions suffer the devastating impacts of severe weather. Climate change effects, including higher temperatures and rising sea levels, are having a major detrimental impact on countries in all three regions, and climate change is hampering economic development, threatening energy security and causing untold human misery.

According to the joint communication Connecting Europe and Asia – Building blocks for an EU Strategy, published in 2018, it is estimated that Asia will require over €1.3 trillion a year of infrastructure investment in the coming decades to maintain today’s growth rates and to adapt to climate change. Unless climate action is mainstreamed into development policy, climate change could force millions of people into extreme poverty, wiping out the gains in poverty reduction achieved in recent decades.

In an effort to support partner countries in meeting their commitments in terms of climate finance, specific climate change windows (CCWs) were created in the EU regional blending facilities. The CCWs encompass both public and private investments in strategic areas, such as transport, energy, environment, water, sanitation and the environment.

The main objectives behind the establishment of CCWs in the EU regional blending facilities are as follows:
1. Establish a tracking system for climate change-related operations.
2. Ensure transparency of EU financing of climate change projects, including by making a distinction between programmed funds within geographical instruments and new, additional resources.
3. Guarantee better tracking and EU visibility for all its climate actions.
4. Mainstream the fight against climate change in projects co-financed by the EU.
5. Attract additional financing for climate change.

The tracking system is based on the contribution of each project to the climate mitigation and/or adaptation objectives of the Rio Convention on Climate Change:

- Rio Marker 1: projects where the contribution to mitigating and/or adapting to climate change represents a significant objective (40% of the IFCA/AIF/IFP contribution can be reported as climate action support);
- Rio Marker 2: projects where the contribution to mitigating and/or adapting to climate change represents the principal objective (100% of the IFCA/AIF/IFP contribution can be reported as climate action support).

Mitigation measures include:
- limiting the emission of greenhouse gases caused by human activity;
- improving energy efficiency and increasing energy saving;
- increasing the production and use of renewable energy;
- protecting and/or enhancing greenhouse gas sinks and reservoirs.

Adaptation measures include:
- reducing human and environmental vulnerability to the impact of climate change;
- promoting climate change adaptation technologies, including the related infrastructures;
- measures for emergency prevention and preparedness to cope with natural disasters.

At the 21st Session of the Conference of Parties to the United Nations Framework Convention on Climate Change (COP21) in Paris in December 2015, countries pledged to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.
Results

IFCA

Of the 29 IFCA contributions approved between 2010 and 2018, 18 have a climate action component. From a total IFCA contribution of €176 million, €60 million can be reported as climate action support according to the Rio Convention on Climate Change.

Of the 18 projects with a climate action component, 6 can be reported as Rio Marker 2, with IFCA contributions to be reported as climate action support totalling almost €34 million (100% of the IFCA grant contribution counted). The other 12 projects were reported as Rio Marker 1, with IFCA contributions to be reported as climate action support totalling over €26 million (41% of the IFCA grant counted).

AIF

Between 2012 and 2018, 33 of the 39 AIF contributions target climate actions. Out of the €232 million AIF contribution approved, almost €155 million can be reported as climate action support according to the Rio Convention on Climate Change (Rio Marker 1: 40% of the AIF grant; Rio Marker 2: 100% of the AIF grant contribution).

A total of 18 AIF contributions can be reported as Rio Marker 2, involving total AIF contributions of almost €124 million to be reported as climate action support (100% of the AIF grant contribution counted). Another 15 projects were reported as Rio Marker 1, with AIF contributions of €31.3 million to be reported as climate action support (39% of the AIF grant counted).

IFCA contribution to climate change

- Rio Marker 0: 11 projects, 38%
- Rio Marker 1: 12 projects, 41%
- Rio Marker 2: 6 projects, 21%

AIF contribution to climate change

- Rio Marker 0: 6 projects, 15%
- Rio Marker 1: 15 projects, 39%
- Rio Marker 2: 18 projects, 46%
The European Union remains committed to strengthening its global partnerships and to making the most efficient use of its development resources. Our international cooperation, which not only provides development assistance to partners around the world, aims to have a positive impact on sustainable development and people’s lives. To this end, we work to ensure that EU assistance promotes inclusive and sustainable growth to eradicate poverty and create decent jobs for all.

Blended finance is an effective way of achieving these objectives, as this report shows. Three of the EU’s regional blending facilities, the Investment Facility for Central Asia (IFCA), the Asia Investment Facility (AIF) and the Investment Facility for the Pacific (IFP) have consistently supported investments in their respective regions with the potential to significantly improve people’s lives. By offering innovative solutions to implement development projects, these investment facilities ensure that EU development assistance forms part of a development strategy that addresses long-term objectives.

At a time when inequality in the world is increasing, the focus of blending projects on gender equality and the creation of economic opportunities for young people has helped to make economic development more inclusive. By targeting the development of the private sector in particular, blending facilities are making it possible to tap into the potential of this sector as an engine for the creation of sustainable and decent jobs. By making development assistance more collaborative and engaging a wider range of stakeholders, the investment facilities are contributing to the fight against inequality.

Since their creation, the three blending facilities for the region have contributed €435 million in EU funding to projects with a total investment volume of more than €7 billion. In the 2017–2018 period covered by this report, 14 Asia Investment Facility (AIF) projects were approved, with a total EU contribution of over €88 million, leveraging a combined total over €2.4 billion. In the same period, the Investment Facility for Central Asia saw four projects approved, with a total EU contribution of over €33 million, which will leverage a total of almost €124 million to finance private sector development and sanitation projects across the Central Asia region.

Climate action continues to be a major focus of the AIF, IFCA and IFP. All the EU blending facilities have Climate Change Windows, leveraging public sector funds to catalyse private sector investment in clean energy projects and climate change action. Since 2007, 62% of EU blending funding has been used to finance projects with climate change objectives, with around €1 billion committed worldwide to green projects with an estimated total value of €25 billion, also attracting financing from private investors.

With their capacity to leverage the funds needed to finance large, socially impactful development projects, the Investment Facility for Central Asia, Asia Investment Facility and the Investment Facility for the Pacific are ideal vehicles to effectively deliver European development assistance to where it is needed most. I believe that these instruments will continue to be key elements in Europe’s development effort, helping to deliver on the promise of sustainable and inclusive development.

**IFCA AIF IFP**

**Closing remarks**

Stefano Manservisi
Director-General for International Cooperation and Development
EU Blending Frameworks

A new governance structure for blending instruments was agreed with the EU Member States in 2014. Within this new structure, the EU implements blending operations under the DCI, EDF, ENI (European Neighbourhood Instrument) and IPA (Instrument for Pre-Accession Assistance) Blending Frameworks, corresponding to the financing instruments supporting the Union’s external policies. The Blending Frameworks, through their corresponding facilities, cover the countries and thematic operations concerned.

The European Commission adopted in September 2017 the External Investment Plan (EIP) to encourage investment in our partner countries in Africa and the EU Neighbourhood region, to strengthen our partnerships and contribute to achieve the Sustainable Development Goals and transition through reforms, helping to address some root causes of migration. Part of the EIP is the new European Fund for Sustainable Development (EFSD) as an integral financing mechanism to support investments by public financial institutions and the private sector. The External Investment Plan builds on the EU’s experience in the Neighbourhood Investment Facility (NIF) and the African Investment Facility (AIF), which are now integrated within the EIP.

Project assessment and Board opinion

A blending operation needs to be developed by a financial institution, as it involves the provision of a loan or other type of financing from one or more financial institutions. The lead financial institution is in charge of submitting a project proposal, using a project application form, for discussion and assessment at a Technical Assessment Meeting. These meetings are chaired by the Commission with the participation of the European External Action Service (EEAS) and financial institutions.

Based on the results of the discussions at the Technical Assessment Meeting, proposals may be considered mature enough for submission to the Board, may be returned for re-submission at a subsequent meeting or may be rejected. The Board is responsible for formulating opinions on blending operations. It is chaired by the Commission with the participation of the EEAS and EU Member States, as voting members, and the financial institutions as observers.

Secretariat

The Secretariat of the EU Blending Frameworks is run by the Commission. The Secretariat supports the management of the EU Blending Frameworks by providing support, including in the assessment process and formulation of opinions by the Board, coordination of consultations and organisation of technical assessment and Board meetings, reporting, dissemination of information, sharing of best practices and training. The Directorate-General for International Cooperation and Development (DG DEVCO) provides support to the DCI and EDF Blending Frameworks.
## Operations supported by IFCA in 2010-2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Year of approval</th>
<th>Title of the project</th>
<th>Rio Marker</th>
<th>Consortium of Finance Institutions</th>
<th>Sector</th>
<th>Total project cost (€ million)</th>
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<td>EBRD</td>
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**Total** 1,096.0
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<th>Type of IFCA support</th>
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<th>Construction of the project started?</th>
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</table>
## Operations supported by AIF in 2012-2018

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<th>Country</th>
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<th>Title of the project</th>
<th>Rio Marker</th>
<th>Consortium of Finance Institutions</th>
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<th>Total project cost (€ million)</th>
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<tr>
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<td>2012</td>
<td>Structured Microfinance Fund for Asia (MIFA Debt Fund)</td>
<td>KFW,IFC</td>
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<td>2012</td>
<td>Support to carbon-linked incentive mechanisms to support the implementation of Indonesian energy efficiency and renewable energy policy</td>
<td>KFW</td>
<td>Environment</td>
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<td>Capacity-Building and Development of the Hydropower Sector in Pakistan</td>
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<td>Construction of the project started?</td>
<td>EU financed TA/Guarantee/Risk Capital started?</td>
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## Operations supported by IFP in 2014-2018

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<th>Title of the project</th>
<th>Rio Marker</th>
<th>Consortium of Finance Institutions</th>
<th>Sector</th>
<th>Total project cost (€ million)</th>
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<tbody>
<tr>
<td>Fiji</td>
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<td>Technical Economic Feasibility Study for Lower Ba Hydropower Development</td>
<td>EIB, ADB</td>
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<td>Pacific Micro, Small, and Medium Enterprise (MSME) Finance Project</td>
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<td><strong>Total</strong> 388.20</td>
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**Total** 5,585.52
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Notes: TA = Technical Assistance, IG = Investment Grant
# ACRONYMS

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<th>Description</th>
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<td>AFD</td>
<td>Agence Française de Développement</td>
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<td>AIF</td>
<td>Asia Investment Facility</td>
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<td>AKCoN-Mumbai</td>
<td>Aga Khan College of Nurses Mumbai</td>
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<td>ASEAN</td>
<td>Association of South-East Asian Nations</td>
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<td>BAU</td>
<td>Business as usual</td>
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<td>CCW</td>
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<td>CDW</td>
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<td>China Green Cities Development Fund</td>
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<td>CIF</td>
<td>Caribbean Investment Facility</td>
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<td>Government of Cambodia</td>
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<td>Ho Chi Minh City</td>
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<tr>
<td>IFCA</td>
<td>Investment Facility for Central Asia</td>
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<td>IFP</td>
<td>Investment Facility for the Pacific</td>
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<tr>
<td>IPA</td>
<td>Instrument for Pre-Accession Assistance</td>
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<tr>
<td>IUU</td>
<td>Illegal, unreported and unregulated</td>
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<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau</td>
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<tr>
<td>LAIF</td>
<td>Latin America Investment Facility</td>
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<tr>
<td>MRT</td>
<td>Mass Rapid Transit</td>
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<td>MSW</td>
<td>Municipal solid waste</td>
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<tr>
<td>NDF</td>
<td>Nordic Development Fund</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
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<tr>
<td>NHI</td>
<td>New Health Institution</td>
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<tr>
<td>NTUP</td>
<td>New Type Urbanisation Plan</td>
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<td>PAKH</td>
<td>Prince Ali Khan Hospital</td>
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<td>PDR</td>
<td>People’s Democratic Republic</td>
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<tr>
<td>PEA</td>
<td>Project Executing Agency</td>
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<td>RGC</td>
<td>Royal Government of Cambodia</td>
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<tr>
<td>SCM</td>
<td>Smart Cities Mission</td>
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<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<tr>
<td>STA</td>
<td>Strategic technical assistance</td>
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<tr>
<td>SW Framework</td>
<td>Solid Waste Management Framework</td>
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<tr>
<td>TMP</td>
<td>Transport Master Plan</td>
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<tr>
<td>VET</td>
<td>Vocational education and training</td>
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