

**INTERNATIONAL INVESTMENT BANK**

**DEVELOPMENT STRATEGY  
for 2013-2017**

**(Basic Provisions)**

**2012**

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## **Key Provisions**

The activities of the International Investment Bank (hereinafter, "IIB", "Bank") in the current, quickly changing macroeconomic conditions of operation determine the need for transformation of the IIB into a full-fledged multilateral development bank and for creation of its Development Strategy for 2013-2017 containing a clear and consistent description of the stages and directions of the transformation of the Bank.

The strategy has been developed on the basis of the analysis of both external and internal conditions of operation of the Bank, its potential in the markets of member states and in the international financial markets.

This document contains the mission and values of the IIB in accordance with which the key directions of transformation and the key tasks the implementation of which will allow the Bank to successfully develop and actively promote sustainable development of member states are determined. The following high priority directions of transformations should be mentioned:

- Expansion of the range of provided products and services, first of all, as part of the development of the credit and investment activities;
- Promotion of interaction with key economic institutions of member states (chambers of commerce and industry, national development banks, economic departments of embassies of member states, and specific ministries and agencies);
- Obtaining of a high credit rating from one or more international rating agencies;

Most urgent directions of operation of the IIB in member states:

- Concentration of resources for investment and expansion of the range of loan products for member states with limited sources of funding;
- Focusing of efforts on the introduction of tools promoting export from member states, having wide financial capabilities for attracting investments into economy.

Implementation of this Strategy must ensure:

- ✓ **full-scale use of the potential of IIB as a multilateral development bank**, including significant increase of the scale of IIB's operations - primarily related to investment activities in member states, including by raising funds in financial markets;
- ✓ **strengthening of IIB's significance for member states** by promoting increase of the mutual trade turnover and investments in enterprises of member states;
- ✓ **high efficiency of the Bank's activities** meeting the best practices of multilateral development banks.

## **1. Mission and Values of IIB**

Subject to the realities of the modern world and pursuant to the requests of member states, the provisions stated in Article II of the Agreement on the Establishment of the IIB (as amended in 1990) keep the mission of the IIB updated as follows:

**Promotion of the social and economic development, the growth in prosperity of the population and economic cooperation of member states.**

The IIB implements its mission by:

- promoting establishment of economic relations between economic entities of member states, and on the regional level, by implementing projects with participation of several countries;
- taking into account special features and needs of member states and, in particular, subject to the need for support for small and medium-sized enterprises;
- supporting the increase of export of goods and services from member states and promoting the growth in mutual investments made by member states;
- providing advice on investment opportunities, the investment climate and business organisation in member-states, directions of development of external trade relations among member states, and providing technical assistance for implementation of projects;
- promoting the opening of new opportunities in member states and sectors encountering difficulties in attracting investments in order to encourage appearance of similar initiatives in the private sector;
- implementing non-standard approaches by developing new products and services, technologically progressive and meeting the needs of member states to the fullest extent.

Goals of the IIB:

- Promotion of sustainable social and economic development of member states;
- Support for commercial and economic cooperation of member states;
- Transformation into a state-of-the-art multilateral development bank.

Objectives of the IIB:

- Improvement of its organisational structure;
- Obtaining of the international investment grade credit rating;
- Promotion of credit and investment activities;
- Improvement of operations in financial markets;
- Organisation of an effective risk management system taking into account the intensive expansion of the activities.

In member states, IIB finances cost-effective projects aimed at promoting sustainable development which:

- provide support for economic cooperation of the IIB member states;
- meet the priorities of social and economic development of member states;
- meet the responsible investment criteria.

### **1.1. Milestones of the IIB's Activities by Countries**

Collectively with member states, the IIB develops and approves country Strategies taking into account national interests of member-states and the economic situation in them.

In particular, when determining the most important prospects of positioning of the IIB in each of the member states, its financial and banking system development level is taken into consideration, including changes in interest rates, and the needs for investment in the relevant economic sectors.

The potential for becoming a significant financial institution for member states is conditioned by the Bank's ability of occupying such segments in which the investment of resources or provision of other services would ensure the achievement of the maximum effectiveness of bank transactions.

For certain countries, resources at the rates proposed by the IIB are quite in demand, and financing of projects may be provided both directly or by allocating funds to operating partner banks in the countries. Given that lending to borrowers in one of the IIB's member states may promote development of export from other member states.

For other member states, assistance to exporters of products/services in expansion of the access to external markets, including markets of other member-states, may become a priority of the Bank's activities.

Therefore, the IIB must be guided by the principle of complementability of economies of member states and serve as a financial institution ensuring the practical implementation of this principle.

### **1.2. Sustainable Development of Member States**

The transfer from the stage of formation of the market economy to the stage of economic growth puts before the IIB member states new tasks related to ensuring the GDP growth and quality improvement of the life of the population, formation of a favourable environment for the development of the society and people, ensuring long-term prospects for the social and economic development.

In the aggregate, various aspects of the "human measurement" of the economic growth form the sustainable development concept.

The sustainable development sphere includes:

- environmental science and careful environmental management, reduction of dependence of the economy on exhaustible natural resources;
- education, professional retraining and development of the human capital, support for socially vulnerable groups of population;
- energy saving and use of renewable energy sources;
- improvement of quality of life of the population due to the development of the social infrastructure;
- encouragement of small and medium-sized enterprises.

For the IIB member states having different economic development levels, priorities include various aspects of sustainable development. For the purposes of the implementation of the Bank's mission and successful performance of tasks to provide support to member-states as part of promotion of sustainable development, the Bank will focus on the following directions of activities:

- development of country strategies for the each IIB member state on the basis of the provisions of this Strategy, specifying priority directions for the period of 2013-2017;
- continuous assessment of the conformity of country strategies to the current social and economic situation in member-states;
- analysis of consequences of implementation of the general and country strategies and determination of new priorities on this basis.

### **1.3. Responsible Investment Principles**

The foundation of the IIB's activities must include the principles inherent to leading multilateral development banks.

The principles for responsible investment were developed under the UN Development Program (UNDP) in 1999 and served as a basis for the execution of the United Nations Global Compact.

Consistent application of the principles for responsible investment requires that the IIB should not only follow such principles but fund undertakings and projects meeting such principles.

When carrying out lending and investment activities, the principles for investment must reflect the “reasonable conservatism” idea which provides for:

- careful verification of loan applications and selection of projects not only from the financial point of view but also from that of compliance with the Bank's mission;
- analysis of quality features of potential investment projects and the financial standing of borrowers;
- reliability and liquidity of collateral;
- forecast of financial flows;
- economic security (subject to all AML/MLP provisions).

## 2. Key Directions of Transformation of the IIB into a State-of-the-Art Multilateral Development Bank and the Relevant Tasks

The key factor conditioning the development of the IIB Development Strategy for 2013-2017 was the need for the modification and renewal of the priorities of the Bank's activities, updating of its current tasks while fully maintaining the previously identified strategic priorities of the Bank's activities, namely:

- assistance in the implementation of the relevant priorities of the social and economic development of member states;
- support of the relevant directions of cooperation between member states.

At the same time, the Strategy provides for the application of the conservative approach to lending and treasury operations (keeping the acceptable profitability subject to the reasonable level of risks).

### 2.1. Obtaining of Intentional Grade Credit Rating by the Bank

One of the key mid-term tasks of the IIB is to obtain investment-grade credit ratings from leading rating agencies, presumably at the level of the sovereign rating of the Russian Federation. It would make possible to simplify the procedure for attracting funds from the world capital market on the acceptable terms and conditions, including by issuing and placing Eurobonds by the Bank (the international rating would be assigned to them subject to the rating of their issuer). New prospects would be open for the Bank in relation to the organisation of syndicated lending with other international financial organisations.

Subject to the special features of the rating procedure, at the first stage the Bank would prefer to obtain the credit rating of only one rating agency which would assign a relatively high credit rating with the highest probability.

In the future, when the first results of the implementation of this Strategy are available (in 2-3 years' time), it will be reasonable to obtain the rating from the second and even the third rating agency. Provided the timing for obtaining the second rating is right one can expect that it will be even higher than the first one.

### 2.2. Lending and Investment Activities

For the successful development of its lending activities in 2013-2017, the Bank will pay special attention to the following aspects:

- **formation of the customer base** providing for practical steps to attract reliable borrowers – for such purposes the Bank will take more effective measures to establish business relations with the representatives of the business community of IIB member states, take part in holding meetings with trade representatives, investment funds and consulting companies, international financial institutions, development banks of member-states for the purposes of implementing various lending forms including syndicated lending;

- **expansion of the geographic diversification of the loan portfolio** by strengthening the country approach providing for achievement of a higher proportionality between the share of the relevant member-state in the capital of the Bank and the volume of credit resources allocated to borrowers from such member state. It will promote a more efficient implementation of the mission of the Bank as an international financial institution carrying out its activities in the area of financing joint investment projects and programs of development of economies of the Bank's member states.

In the course of the implementation of this Strategy the Bank may start extending loans for the relevant projects in countries which are not its member states, which are of mutual interest for the IIB member states and may be implemented on the basis of their cooperation;

- **increase of the efficiency of work with the existing loans.**

The detailed approach of the IIB to the development of the current range of products and services is contained in the appendix to this Strategy (in Appendix 1 – features of products/services to be implemented at the Bank).

### **2.3. Activities in Financial Markets**

One of the activities aimed at the promotion of the key statutory goal of the Bank, i.e. to extend loans and finance projects in member-states, is treasury operations which can also be made in order to achieve other goals contained in the statutory documents of the IIB and the relevant resolutions of the Council of the Bank. When making treasury operations and investing funds, the Bank is guided by the leftover principle of using resources in accordance with which lending and investment operations and services are preferred. Treasury operations are also made for the purposes of supporting the required level of liquidity and additional funding of lending and investment operations given that there is a balance between the yield of instruments and their riskiness level.

Key tasks in the area of treasury operations include:

- **ensuring profitability of treasury operations acceptable for the Bank** in accordance with the financial model at the minimum risk level;
- **focusing the main part of treasury assets on operations with the instruments of developing markets of member states** – sovereign Eurobonds of member states available in the portfolio are deemed to be investments in the economies of the Bank's member states and the source of a constant coupon yield. For the purposes of increasing the effective use of equity in accordance with the statutory documents of the IIB and the need for diversification of risks, the Treasury will continue purchasing securities of member states which will be the “core” of the securities portfolio for the period of 2013-2017. In the favourable conditions in the financial markets of member states, the share of securities in the portfolio may be increased to the maximum limit of the portfolio in order to increase the flow from the regular coupon yield – given that the control over risks is exercised and in compliance with the established limits;
- **introduction of new bank products in order to increase the effectiveness of treasury operations and their compliance with the up-to-date trends of market development** (taking into account that new and derivative financial products are used

exclusively for hedging/risk control purposes) - lifting of certain effective restrictions may be presupposed. It will allow placing temporary balances of available funds to a more effective extent, ensuring the acceptable return on them and exercising strict control over the execution of operations within existing limits and limits to be specified. Actions in this area may include:

- preparation of proposals on possibility and appropriateness of investments in new bank products, including in structured instruments with the acceptable risk level which would meet the investment strategy of the Bank and the risk management policy and would not exceed the limits and restrictions approved by the Council;
- use of more profitable operations, such as the placement of interbank deposits at investment grade and non-investment grade state owned banks of the IIB member states;
- consideration of the opportunity of expanding the existing securities portfolio by securities of the municipal and corporate sectors, primarily issued in the member-states having a high investment-grade rating;
- ***development of the relationship with banking and other financial institutions*** – creation of conditions for entering into transactions involving government and corporate securities in the markets of member states, primarily in the Russian securities market as the market of the country of the place of business of the IIB, adaptation of the trading base of the Bank to the trading base of leading counterparties when entering into treasury operations, opening of new brokerage accounts and custody accounts. In the long run, the IIB may become one of the institutions of the International Financial Centre to be organised in Moscow and to become one of the leading centres in the Euro-Asian region;
- ***diversification of analytic support for treasury operations*** – will consist of permanent analysis of the market conditions, changes in the key indicators of financial markets, including foreign exchange rates, interest rates of both international markets and national markets of member states.

#### **2.4. Promotion of the Bank**

One of the important conditions of successful implementation of this Strategy is initiation of vigorous activities for promotion of the Bank, including by wider informing of the general public about the activities of IIB which will allow expanding the range of its potential customers/counterparties.

The active phase of implementation of the promotion of the Bank starts in 2013 as a set of events aimed at improving the image component of the Bank, including distribution of information and advertising materials about the activities of the IIB.

From this time forth, regular contacts must be established with the following structures:

- ***international financial institutions and representatives of the business community*** resulting in entering into agreements, memoranda of cooperation and agreements for

joint financing of the relevant projects on the basis of bilateral contacts and as a part of multilateral events;

- ***bilateral inter-governmental commissions***, regular participation of the IIB's representatives in the meetings of the commissions will allow expanding the circle of potential partners, increasing the degree of reasonableness of selection of any particular project, i.e. any project under consideration at such meetings can get support from the government to a certain extent;
- ***chambers of commerce and industry in member-states and embassies and trade representatives of the IIB member states***;
- ***banking associations and certain partner banks in the territories of member states***.

Provision of information about the IIB is to be improved on the IIB's website (improvement of the website structure, extension of its information content, operative updating of provided information).

Possible actions of the Bank aimed at increasing its recognisability and improving its image include participation in specialised conferences, forums and other events; creation of the unified reference telephone number over which potential counterparties and partners of the IIB may get key information about the Bank and information about contact persons (the so-called "call centre").

The Bank's actions in this direction will simplify the task of forming a reliable customer base due to the inflow of new requests for financing from potential customers.

One of the most promising channels of search for new projects is projects implemented in member states as part of the public-private partnership (PPP). For such projects, the IIB may be not only a co-investor but may also promote involvement of companies from other member states in their implementation.

## **2.5. Other Urgent Tasks**

During 2013-2017, the Bank will continue improving the regulatory, methodological and analytical frameworks in accordance with the principles of activities of leading international banking institutions and depending on the urgent conditions of operation of the Bank.

### ***Human Resources Policy Events***

It is planned to continue financing of training and advanced training of the Bank's employees, holding events aimed at offering incentives for the personnel, evaluating the conformity of the quality of work and potential of the employee to the requirements of the position held. Such actions will result in revealing reserves in increasing the effectiveness of work of its employees.

As directions of banking activities of the IIB are expanded, the IIB plans to select bank specialists having the relevant skills. Given that the professionalism factor will be essential.

### ***Risk Management Tasks***

The risk management system is one of the most important elements of sustainable development of the Bank. As part of this Strategy the IIB will continue further improvement of the risk management system in accordance with the international standards and recommendations of the Basle Committee on Banking Supervision.

The key directions in the area of risk management will include:

- improvement of the entire risk management “vertical,” including updating of the Bank's system of limits on a regular basis;
- implementation of progressive risk management methods in relation to active operations (lending and investment and treasury operations) in banking activities;
- revealing of new aspects of banking activities and reflection of them in the regulatory framework of IIB.

### ***Tasks Related to Organisation of Internal Control and Compliance***

When implementing this Strategy, the Internal Control and Compliance Department will evaluate the compliance/incompliance of all banking processes and systems with the provisions of the statutory documents of the Bank.

Evaluations of the Internal Control and Compliance Department will be based on the integrated analysis (both the preliminary analysis and classification of risks for each banking activity and the final one - subsequent to the results of inspections held on the basis of the relevant plans).

In this context, the following events will be held:

- related to determination of the optimal form of holding inspections of banking operations and development of plans aimed at improving the internal control system;
- related to optimisation of operating control due to strengthening attention to information flows at the Bank;
- related to updating of the fundamental principles of internal control and compliance and related regulatory documents of the Bank in accordance with the standards applied in this area by leading international financial institutions.

### ***Tasks Related to Information Technologies***

Development of information technologies (IT) is the necessary condition for achievement of strategic goals faced by the Bank. In the planned period, the IIB will continue improving the Core Banking System (CBS) in order to have high functional characteristics and reduce the aggregate costs by:

- creating a unified information space providing reliable access of users to information resources of the Bank;
- centralising storage, processing and management of information resources;
- unifying and standardising information processing routine;
- developing the information and technological infrastructure.

In order to ensure reliable implementation of banking technological processes, expedite implementation of new solutions and reduce operating costs, the IT infrastructure of the Bank will be developed on an integrated basis, including implementation of technical and software tools for processing and transmission of data, management of databases, ensuring of proper protection of information and implementation of other technological functions.

Subject to the changes in the Bank's activities, when developing the IT infrastructure the following will be ensured:

- compliance of the implemented solutions with the existing systems and applications;
- usage of solutions based on the generally accepted standards allowing the opportunity of quick adaptation of applicable solutions to the changing needs of the Bank.

When selecting technical and software tools, solutions proposed by leading developers who have positive recommendations in practice will be preferred.

In order to improve the methods of providing information about the Bank's activities, increase of the effectiveness of attracting and providing services to customers, the website of the Bank will be upgraded, its information content will be expanded, and the operating information updating technology will be improved. The website will be supplemented with important information for potential customers/counterparties, including the initial application form which can be filled in on the website and promptly redirected to the specialised unit of the Bank.

One of the remaining key tasks is to ensure information security of the IIB in order to prevent any compromise of confidentiality and integrity of information channels of the Bank. The system of protective measures will be improved on a permanent basis subject to the proportion of the possible damage extent and the protection-related costs. Great importance will be attached to uninterrupted functioning of the CBS when unforeseen circumstances occur by using solutions which are sustainable against malfunctions, backup of data, uninterrupted monitoring of functioning of the system.

## **Appendix 1. Description of Key Products of IIB**

As part of implementation of this Strategy, the range of products/services proposed by the Bank must be significantly expanded by introducing new types of products/services inherent to other multilateral development banks. This process requires updating of the internal regulatory framework and making investments in the personnel information systems and the risk management system.

Any project funded by IIB shall meet the following selection criteria:

- The project must:
  - be located in any IIB member state; or
  - presuppose delivery of goods/services from any IIB member state; or
  - be implemented on the basis of cooperation of companies located in member states.
- The project must be of high importance for the region where it is implemented for:
  - solution of local problems;
  - environmental conservation;
  - increase of investment attractiveness of the region.

The importance of the project for the region is expressed in various forms of support for the project by regional and local authorities (guarantees for loans, guarantees for sale, allocation of land plots, etc.).

- Financing of the project by the IIB aims at ensuring higher efficiency of its implementation (e.g., the project may be not interesting for the private sector (there are more attractive facilities for investment) or may have no opportunity of being started or successfully completed without the public support (due to its relationship with public structures, the IIB may facilitate the implementation of the project).
- Projects with a potentially high economic effect, including due to cooperation of several member states, and projects aimed at development of new technologies (information and nanotechnologies, energy saving, renewable sources of energy, environmental science, etc.) are preferred.
- Efficiency of the project is assessed not only on the basis of financial performance for IIB (it must provide acceptable revenue) but a positive effect for development on the whole.

## **Support for Small and Medium-Sized Enterprises (SME)**

### **Product Description**

Lending to banks and other financial institutions extending loans to small and medium-sized enterprises under programmes approved by the Bank.

### **Regional Focus**

The IIB member states.

## **Risk Management**

Risks are managed due to the work with banks having credit ratings of international rating agencies under relatively long-term programmes within the limits set forth for the Bank. As part of contractual relations with the borrowing bank, the IIB must have the right of claim against ultimate borrowers if the partner bank is declared bankrupt.

The IIB is able to actively cooperate with central banks of member states in order to select the most reliable partners in the banking system of member states and create the systems of early response to possible problems.

## **Public-Private Partnership (PPP)**

### **Product Description**

With the assistance of governments of member states, and attracting private capital, the Bank funds projects of high importance for economies of its member states.

### **Regional Focus**

The IIB member states.

### **Risk Management**

Key risks include credit risks managed on the basis of the same principles as management of credit risks of the loan portfolio. Partially, PPP risks may be shifted to co-financing credit institutions, and may be neutralised due to obtaining public guarantees.

## **Trade Financing**

### **Product Description**

Extension of loans to banks for further lending to importers (often against guarantees issued by export agencies).

### **Regional Focus**

The IIB member states.

### **Risk Management**

Risks are managed due to the work with banks having credit ratings of international rating agencies under relatively short-term programmes within the limits set forth for the Bank. As part of contractual relations with the borrowing bank, the IIB must have the right of claim against ultimate borrowers if the partner bank is declared bankrupt.

The IIB is able to actively cooperate with central banks of member states in order to select the most reliable partners in the banking system of member states and create the systems of early response to possible problems. Moreover, it is possible to use insurance against political and economic risks of lending and export agencies of exporting countries as part of trade financing programmes. Besides, it is possible to provide co-financing as part of trade financing programmes with export and import and other banks.

## **Project Financing**

### **Product Description**

Lending to project companies implementing investment projects. It is one of the most traditional products of IIB.

Financial parameters of projects

- Financing amount: from 3 to 30 million Euros
- Financing period: from 3 to 7 years
- Credit financing is provided on the terms and conditions which are close to market ones in the relevant country and the relevant currency.

### **Regional Focus**

The IIB member states.

### **Risk Management**

In 2008-2011, at the IIB a new methodology for management of credit risks of project financing was developed, underwriting, security and loan monitoring standards were made more severe.

In most cases, as a risk management tool it makes sense to involve as a partner a local bank on the co-financing terms and conditions or under an independent work contract on a commission basis for monitoring of the borrower, the security, the intended use of the funds and the project implementation progress.

### **Capital Investments**

#### **Product Description**

Purchase of stakes in the capital of companies implementing investment projects.

Financial parameters of projects

- Financing amount: from 3 to 30 million Euros
- Financing period: from 3 to 7 years
- Equity financing is based on evaluation of the fair value of the project and does not exceed 50% of the equity capital of the company raising funds. Projects with a high interest of project initiators are preferred. IRR > 30%.

### **Regional Focus**

The IIB member states.

### **Risk Management**

Most risky but potentially most profitable products with high return on the invested capital. As a rule, implemented along with credit financing and is, without limitation, a risk management tool due to the participation in the corporate management of the borrower.

### **Guarantees**

#### **Product Description**

Issue of guarantees when obtaining resources or guarantees of performance of non-financial obligations (e.g., delivery of goods, provision of a service, etc.). Actively used when raising third-party financing by partner companies and when organising participation of portfolio companies, for example, in tenders or other competitive procedures. On the basis of correct business organisation it may give a stable commission income with minimum credit risks and the unused real financing extension tool.

Commission product.

Financial parameters of projects

- Financing amount: from 3 to 30 million Euros
- Financing period: up to 3 years

### **Regional Focus**

The IIB member states.

### **Risk Management**

Potentially relatively low-risk product, especially when non-financial risks are guaranteed (e.g., contract non-performance risks), in such cases guarantees can be even covered with cash on the customer's deposits.

### **Consulting and Technical Maintenance**

#### **Product Description**

Consulting to customers on business and fund raising. Commission product.

#### **Regional Focus**

The IIB member states.

#### **Risk Management**

Control over quality of performance of the work, work with customer claims, investments in high-quality personnel.

### **Organisation of Financing**

#### **Product Description**

Mobilisation of third-party resources for the project (e.g., in the form of a syndicated loan, issue of debt securities, etc.). The product is directly competitive with services provided by investment banks and largest commercial banks worldwide and in the local market.

Commission product.

#### **Regional Focus**

The IIB member states.

#### **Risk Management**

Control over quality of performance of the work, work with customer claims, investments in high-quality personnel, partnership with financing co-organisers, gradual accumulation of competence and due to gradual accumulation of the status of participation of IIB in projects: from the underwriter to the co-organiser.

### **Management of Specialised Funds**

#### **Product Description**

The IIB may manage both cash on its balance sheet and specifically established funds diversified by sector, country, purpose or otherwise, and their cash must be used exclusively in accordance with the mission of the Bank.

For example, the IIB member states interested in implementation of projects in their countries or interested in cooperation projects may initiate establishment of specialised funds.

An important aspect of the IIB's activities is its role in distribution of the best practices and knowledge among customers and member states. The IIB may provide countries, regions or companies with consulting (technical support) in the course of implementation of projects and on account of specific allocations of countries and other donors.

In the international practice, such donors often include funds established by the relevant countries or private charitable organisations.

**Regional Focus**

The product has no special regional features.

**Risk Management**

It is necessary to develop the contractual framework carefully. Though as part of trust management a significant part of risks is assumed by the principal (grantor), it is necessary to take into account reputational risks which may be high, if management results are unsatisfactory.