

## **MEMORANDUM OF UNDERSTANDING**

between

Permanent International Secretariat of the Council of the Baltic Sea States (CBSS)

and

KfW

and

State Corporation "The Bank for Development and Foreign Economic Affairs  
(Vnesheconombank)" (Vnesheconombank)

Whereas:

- CBSS is an overall political forum for regional inter-governmental cooperation. The Members of the Council are the eleven states of the Baltic Sea Region as well as the European Commission. The CBSS encompasses all multilateral intergovernmental regional cooperation in areas agreed by its Members. It also acts as a focal point of information and coordination. The CBSS initiates and implements regionally important, strategic projects and explores their financing with a view to focusing work in areas where it creates most added value, in line with CBSS long-term priorities.
- KfW is a German public law institution (*Anstalt des öffentlichen Rechts*), which through its advisory and lending business serves particularly the economy, society and environment in Germany, Europe and worldwide. Its fields of activities comprise, inter alia, the promotion of small and medium-sized enterprises (SME), the protection of the environment and climate, development of infrastructure, export and project finance and the promotion of developing and transition countries.

- Vnesheconombank is a Russian state corporation established to support the competitiveness of the Russian Federation economy, its diversification, to support investment activities and other promotional activities in order to implement projects in the Russian Federation and abroad, including projects involving foreign capital, aimed, inter alia, at developing infrastructure, innovations, environmental protection and small and medium business support, public-private partnerships.
- Pilot Financial Initiative (PFI) is a program of financial cooperation initiated by KfW and Vnesheconombank. This undertaking is considered as the first step towards creation of an open financial Platform, which is intended to attract financial partners and financial resources for projects aimed at sustainable economic development and cooperation in the geographic area of CBSS, regional know-how transfer as well as to multiply the effect of CBSS investments and to implement subregionally focused programs. The Platform is open to accession of other financial institutions acting in the region of CBSS.

## **1 Purpose of the Agreement**

The Secretariat of CBSS welcomes a decision by KfW and Vnesheconombank to launch and implement a Pilot Financial Initiative (PFI) in the geographic pilot areas.

The said cooperation between KfW and Vnesheconombank will be in line with the purposes, functions and priorities of CBSS, KfW and Vnesheconombank. The cooperation will comprise the following main areas where appropriate:

## **2 Fields of cooperation**

### *2.1 Finance for Small and medium-sized enterprises (SME) in the field of innovation and modernisation:*

SME is a critically important segment of economy, providing a very substantial part of production, services, employment, investments and innovations in the countries of CBSS.

CBSS, KfW and Vnesheconombank shall endeavour to cooperate regarding the further strengthening and broadening of SME in the field of innovation and modernisation. KfW and Vnesheconombank will therefore facilitate the access of SME in the field of innovation and modernisation to financial services through lending to financial institutions, which have a meaningful presence in the pilot areas of the initiative and demonstrate a clear commitment to finance SME.

CBSS, KfW and Vnesheconombank will further aim to advance energy efficiency of SME, thereby reducing greenhouse gas emission and assist the sustainable development in the target regions of the Initiative.

#### *2.2 Finance for Public-Private-Partnership Projects (PPP):*

PPP offers a substantial potential for modernisation of economy in the geographic pilot areas and for strengthening of economic cooperation in the geographic area of CBSS.

CBSS, KfW and Vnesheconombank shall endeavour to cooperate regarding the development of PPP in the geographic pilot areas, focusing on sustainable development in the field of municipal and regional infrastructure, energy efficiency, ecology, climate protection, comprehensive development of territories.

#### *2.3 Other fields of cooperation*

The areas of activities may potentially be extended according to priorities of CBSS and accession of new partner financial institutions to the Platform.

### **3. Geographic pilot areas:**

CBSS, KfW and Vnesheconombank will start the PFI activities in the following parts of South Eastern Baltic Sea Area and North West Russia: Kaliningrad Region, Leningrad Region, Novgorod Region, Pskov Region, City of Saint Petersburg.

The activities may be extended in the future to other CBSS countries alongside with accession of further financial institutions and/or modification in priorities of CBSS.

### **4. Form and procedures of cooperation**

*CBSS, KfW and Vnesheconombank intend to cooperate as follows:*

#### *4.1. Steering Committee (SC)*

CBSS, KfW and Vnesheconombank intend to establish a SC of the PFI, which will initially consist of 6 members. Each party will be represented by two members of the SC and the number of SC members may increase upon other parties joining the Platform. The SC will convene on a regular basis to semi-annual meetings. Its main function will be to assess and approve the project proposals introduced by KfW and/or Vnesheconombank and/or other future parties of the Platform, supervise and evaluate the implementation of PFI and report on it to the CBSS Committee of Senior Officials (CSO). The SC will be chaired by a SC member nominated by the Secretariat of the CBSS in consultation with the CSO troika. The chairman will have the rights of decisive vote and veto.

The final decisions of KfW and Vnesheconombank on participating in the financing of projects will be taken by KfW and Vnesheconombank in their sole discretion and are subject to internal and external approvals based on regulations relevant for each of these financial institutions.

#### *4.2. Structure of finance:*

KfW intends to provide Vnesheconombank or other financial institutions from the CBSS region joining the Platform with long-term promotional loans for implementation of the projects approved by SC and subject to necessary internal and external approvals relevant for the financial institution. Using the targeted funding from KfW, Vnesheconombank or other financial institutions from the CBSS region joining the Platform will finance the projects approved by SC (subject to necessary internal and external approvals relevant for the financial institution) either directly or through the system of subsidiaries (MSP-Bank, Svyaz-Bank, Globex-Bank, FCPF or others) and/or through respective network of the Russian or other CBSS countries partner banks based on on-lending principles. The final terms and conditions of the loans of the Russian banks or other financial institutions based or operating in other CBSS countries to the final borrowers may differ according to the individual project requirements and risk profiles. The project monitoring will be conducted according to the procedures yet to be adopted by SC.

#### *4.3. Investments and technical assistance:*

Selected Platform projects of special importance to the CBSS may receive limited financial support from the Secretariat of the CBSS, subject to previous approval by the CBSS Committee of Senior Officials. It may be conducted in two forms:

- technical assistance: promotional grants for project documentation and training/consulting,
- targeted investments in selected pilot projects with a high potential in experience dissemination, primarily with a distinct energy efficiency and environmental impact effect.

#### *4.4 Other forms of cooperation:*

CBSS, KfW, Vnesheconombank and other future participants of the Platform may decide to extend the forms of cooperation, including holding conferences, seminars, round tables, trainings within the fields of cooperation.

In the future in line with possible further extension and subject to the agreement of the parties, the parties may consider to establish a financial fund serving the purpose of this Memorandum either as a separate financial vehicle or as a part of other international financial initiatives.

#### **5. Intended implementation:**

The opening SC session is intended to be held in June 2012. Its exact date and place will be determined by agreement of all three parties. During the opening session KfW and Vnesheconombank will introduce the first set of potential projects for SC approval.

#### **6 Legal effect and terms**

This Memorandum does not create or express any legally binding agreement by the parties and consequently does not and will not establish or express any legally binding rights, obligations or representations of either CBSS or KfW or Vnesheconombank or any other party in the future joining the Platform.

This Memorandum shall be entered into by the parties thereto on the date set out below for a period of three years. Thereafter, the MoU shall be automatically renewed every year for a period of one year each, unless either party gives a one-month prior written notice not to renew this Memorandum.

This Memorandum is drawn up in the English language in 3 (three) originals, one for each party.

Date: \_\_\_\_\_ **May, 2012**

Jan Lundin  
Permanent International Secretariat of the Baltic Sea States (CBSS)

Stephan Opitz  
KfW

Michael Kopeikin  
Bank for Development and Foreign Economic Affairs