Abstract

The paper provides an economic analysis of the appropriate use of subsidies, including technical cooperation (TC) funds, in projects financed by multilateral development banks (MDBs). Special attention is paid to the EBRD. Most of its projects are in the private sector. EBRD projects must have ‘transition impact’, satisfy ‘sound banking principles’ and be ‘additional’ with respect to alternative, private sources of finance. We show that there is an economic cost to TC funds and how it can be measured in practice, and we analyze how blended finance (involving project finance and technical cooperation funds or other subsidies) should be treated in order to comply with sound banking principles and transition impact objectives. We advocate a more comprehensive, consolidated accounting of *all* costs incurred in investment projects, so as to enhance the transparency of MDB operations and thus to improve MDB accountability to shareholders, donors and tax payers. We also develop an analytical framework for determining the appropriate repayment of TC by a private sector client.