

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

**STRATEGY FOR POLAND
REPORT ON THE
INVITATION TO THE PUBLIC TO COMMENT
AS PART OF THE REVIEW PROCESS**

Strategy for Poland: Report on the invitation to the public to comment

1. Invitation to the public to comment as part of the review process.

In accordance with the EBRD Public Information Policy (PIP), an invitation to comment on the review of the Strategy for Poland, along with a Management Note on the issues to be addressed in the strategy, were posted on the Web page on 16 December 2005. The public was invited to submit comments, based on the Note and the previous strategy already on the Web site since 25 May 2004. The public was asked to submit comments no later than 10 February 2006 so that they could be taken into account in the review process.

No comments were received during the public comment period.

Management Note

Invitation to comment on the Bank's Country Strategy Review for Poland

The EBRD has started work on the revision of its Strategy for Poland. Comments are invited to help the Bank in revising its Strategy. Any comments should be submitted to the Bank no later than 10 February 2006 so that they can be taken into account. The current Strategy - which has been available on the EBRD Web site since 25 May 2004 - is attached as a basis on which to comment.

The first Article of the *Agreement Establishing the Bank* states that “the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.”

In order to achieve these objectives, the Bank primarily provides finance for investment projects, with a special focus on the private sector, carefully selecting projects that promote transition, by:

- creating, expanding and improving markets;
- establishing and strengthening of institutions, laws and policies that support markets; and
- facilitating the adoption of market-oriented skills and sound business practices.

In addition, every Bank project is examined for its environmental impact and the EBRD lays special emphasis on projects that are oriented directly towards environmental improvements and energy efficiency.

At the time of the approval of the last strategy in 2004, the Bank noted that the Polish economy had made considerable progress in liberalisation of markets and trade, privatisation, restructuring and financial sector reform and was considered one of the most advanced transition economies of the region with over 70% of GDP generated by the private sector and an important role of SMEs. Some of the transition challenges identified at the time included:

- Undertaking fiscal reforms to reduce expansionary spending policies and ensure capacity to co-finance the Cohesion and Structural Funds.
- Accelerating structural reform in public administration, health, education and the various social protection systems with a particular emphasis on their financing.
- Improving the investment climate so as to attract foreign direct investment which had started to lag and facilitate new business creation by improving functioning of labour markets, efficiency of judiciary; reducing national and local administrative barriers; ensuring a predictable and sound tax environment and eliminating corruption.
- Accelerating development and modernisation of national and local infrastructure.
- Further improving access to finance by small and medium size enterprises.

- Completing the modernisation of state-owned companies, restructuring and privatising where appropriate to improve the long-term competitiveness of these companies.
- Focused investments in the agribusiness sector aimed at improving competitiveness, quality and sanitary standards of domestically-produced food products and increasing exports, including encouragement of movement of labour into non-farm employment.

The Bank's strategy was developed to help address a number of these challenges and to support Poland's accession to the European Union. The strategic priorities for the Bank in Poland included:

- Actively support the completion of the modernisation and privatisation of Polish enterprises, especially in the more difficult sectors and in those sectors requiring liberalisation. Support foreign direct investment which contributes to transition and regional development.
- Support the domestic private sector, in particular SMEs, by expanding the availability of finance and working with the Polish authorities to continue SME finance programs with local financial intermediaries post-accession.
- Contribute to the further development of the financial sector by supporting consolidation of banking, insurance, and pension funds; supporting the expansion of the capital markets through promotion of new financial products; continue to supply capital to the private equity industry to support its long-term viability and contribute to the privatisation and development of the remaining important financial intermediaries.
- Support continued investment in infrastructure and environment, especially at the local level, minimising reliance on sovereign guarantees while maximising effective absorption of EU Structural and Cohesion Funds and the building of institutional capacity.

During 2004 and year-to-date 2005, municipal and environmental finance, as well as SME support continued to be an important part of the Bank's activities within a private sector focus. In that period, the Bank concluded several transactions under the leasing window of the EU/EBRD SME Finance Facility with leasing companies expanding thereby the financial products available to SMEs. The Bank also launched the EU/EBRD Municipal Finance Facility with the first agreement for a risk sharing with ING Bank Slaski. The facility is expected to encourage local financial intermediaries to lend to meet the investment needs of smaller municipalities. The Bank has expanded its revenue-backed financing approach to the public transport sector (e.g. Gdansk, Krakow), and applied new financing instruments such as revenue bonds in the water sector (Bydgoszcz). The Bank also developed innovative approaches for co-financing Cohesion and Structural Funds (e.g. alongside a private water operator in Gdansk). The Bank invested as an anchor investor in two zloty denominated, on-shore closed-end property funds traded on the Warsaw Stock Exchange contributing thereby to the development of a new investment instrument for

pension and investment funds as well as supporting the development of the secondary property market in Poland. The Bank continued to directly support private equity funds as well as investing with them, thus providing capital directly to medium sized enterprises in the chemical and food processing enterprises. During 2004, the Bank invested alongside Rabobank International in BGZ, Poland's largest agricultural Bank, to support restructuring and upgrading of BGZ to transform it into a modern and efficient commercial bank, focusing on rural finance. Financing of Celsa's investment in Huta Ostrowiec and PKP Energetyka (the latter without the state guarantee) reflects the Bank's on-going commitment to the more difficult sectors in Poland. By providing capital to Dalkia Polska, the Bank aimed to support privatisation of a district heating and co-generation utility in Lodz with a view to improving energy efficiency and environmental standards. The Bank continued support to the power sector modernisation and its involvement in structuring of a major investment in PAK power plant proved essential to secure commercial lenders participation. The Bank has supported the expansion of the retail industry by providing financing alongside local commercial banks to Kaufland.

As of 31 October 2005 the Bank had committed EUR 3,346 million to 143 projects which attracted a further EUR 8,885 million from sponsors and co-financiers.

The Bank now intends to develop a new Strategy that will provide guidance for the EBRD activities in Poland, identifying the main challenges which the Bank is best placed to confront. As such, the Strategy cannot address all of the development issues a country faces and necessarily must be selective in identifying issues where the Bank has the experience and ability to play a constructive role.

Therefore to prepare the new Strategy for Poland it would be useful for the Bank to receive comments on the business and economic environment as it relates to the Bank's operational priorities and activities in the following areas:

1. Issues related to infrastructure needs and development

This could include issues concerning (i) absorption of the Structural and Cohesion Funds, especially in transport and municipal sector; (ii) public-private partnership as a means of meeting investment needs; and, (iii) power, energy, municipal and environmental infrastructure with particular interest in issues related to restructuring, liberalisation, energy efficiency, and other environmental improvements.

2. Issues related to investment climate and private sector activities, including SMEs

This could include issues concerning (i) fostering the development of micro and small and medium enterprises; (ii) the regulatory environment for enterprises (such as issues related to taxation, labour regulations, licensing, etc.); (iii) the functioning of public administration; and (iv) corporate governance. We seek your views on how serious these issues are for businesses and how you think the EBRD could help to overcome them.

3. Issues related to availability of finance

This could include issues concerning (i) the level of financial intermediation of the banking sector; (ii) the development of the capital markets and in particular increasing the ability of pension funds to invest in the real economy; (iii) the future of the Warsaw Stock Exchange; and (iv) growth of non-bank finance sector (private equity, leasing, mortgage banking, insurance, etc.).

4. Issues related to the social impact of EBRD investments

This could include issues concerning (i) small- and medium-sized enterprises that enhance opportunities for entrepreneurship, job creation and social flexibility; (ii) restructuring and modernisation of remaining state-owned industries; (iii) regional investment and investments aimed at moving labour to non-farm activities; (iv) private investment in healthcare, and (v) social and environmental impact of infrastructure investment including tariff reform and affordability.

5. Issues related to the environmental impact of EBRD activities

This could include issues concerning environmental improvements and energy efficiency.

The Bank's policy dialogue is always closely co-ordinated with the IMF, the World Bank, other IFIs and the EU in order to ensure the coherent implementation of its strategy. Co-financing opportunities with commercial banks, other IFIs and EU programmes are always strongly sought, to address among other things the social or environmental components in the restructuring projects and to support municipal services projects.

The Bank will take into account all comments received. A summary of these, with staff responses, will be posted on the Web site following the Board approval of the revised Strategy. The Country Strategy is, however, a Bank document and the responsibility for its contents remains with the Bank.