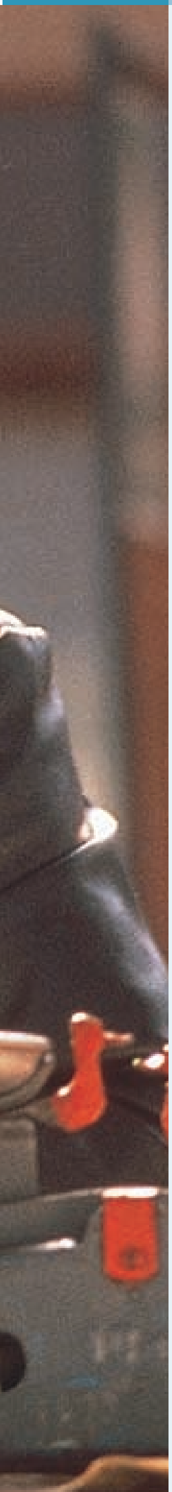
Annual report 1999

European Bank
for Reconstruction and Development



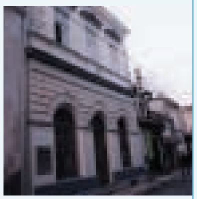



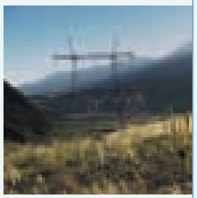
The European Bank for Reconstruction and Development (EBRD) began operations in 1991. The Bank's mandate is to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the countries of central and eastern Europe and the Commonwealth of Independent States (CIS) committed to and applying the principles of multiparty democracy, pluralism and market economics.

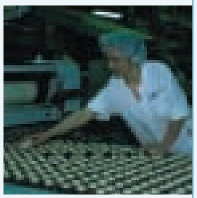
The EBRD helps its 26 countries of operations to implement structural and sectoral economic reforms, promoting competition, privatisation and entrepreneurship, taking into account the particular needs of countries at different stages of transition. Through its investments it promotes private sector activity, the strengthening of financial institutions and legal systems, and the development of the infrastructure needed to support the private sector. The Bank applies sound banking and investment principles in all of its operations.

In fulfilling its role as a catalyst of change, the Bank encourages co-financing and foreign direct investment from the private and public sectors, helps to mobilise domestic capital, and provides technical cooperation in relevant areas. It works in close cooperation with other international financial institutions, and with international and national organisations. In all of its activities, the Bank promotes environmentally sound and sustainable development.

1999 highlights







For the EBRD, 1999 was a year of consolidation and refocusing of activities following the Russian crisis of the previous year and the subsequent setback to economic growth in the region. The Bank laid the foundations for its contribution to the second decade of transition.

In the early part of the year, the Bank undertook a fundamental review of its operations and assessed the lessons to be learned. It developed revised operational priorities for the medium term, *Moving Transition Forward*, which were endorsed unanimously by Governors at the Annual Meeting in London in April.

As these priorities were implemented in the course of 1999, the EBRD achieved a turnaround, increasing the volumes of new commitments while the portfolio continued to perform steadily. The Bank returned to profitability and began to rebuild its reserves.

The EBRD strengthened its pipeline of potential projects throughout the year, placing the Bank in a sound position to meet the challenges of 2000 and beyond.

In response to the Kosovo conflict, which affected the whole of the Balkan region, the EBRD participated in Stability Pact meetings and launched a South Eastern Europe Action Plan. The Bank assumed a leading role among international financial institutions in fostering investment and supporting economic recovery.

The EBRD signed 88 projects in the course of the year totalling €2.2 billion. This figure includes transactions amounting to €166 million to restructure signed projects that had been affected by the financial crisis in the region.

The geographical distribution of annual commitments was in line with the ranges projected in the 1999 budget. Commitments in the early/intermediate group of countries were almost half of the total. The EBRD maintained a significant presence in countries at the advanced stages of transition (over 40 per cent of all transactions). About 10 per cent of total commitments were in Russia, which is below the Bank's target and significantly lower than the previous year's total (23 per cent) due to the aftermath of the financial crisis.

Earning assets increased by €1 billion to reach €6.5 billion at the end of the year. This represents a rise of 18 per cent over the year and of 45 per cent since the end of 1997.

Operating profit before provisions was €203.6 million, partially due to strong Treasury performance and equity sales as well as strictly controlled costs. Provisions were €160.9 million.

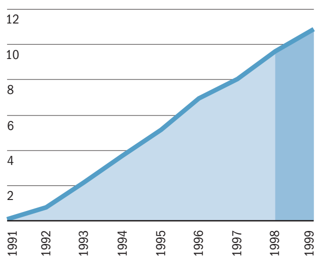
The Bank continued to mobilise significant external co-financing, generating €2.5 for every €1 it invested. As of the end of 1999, the total value of projects in which the EBRD had participated since its inception was €48 billion, compared with €43 billion at the end of the previous year.

The EBRD's efforts to review its policy priorities and to reorganise its operational structure provided the platform for the Bank's response to the 1998 financial crisis in the region. New policies were approved for small and medium-sized enterprises (SMEs), natural resources, telecommunications and the financial sector. A new Public Information Policy was also developed, which will be submitted for Board approval later in 2000.

The Bank developed a new human resources strategy and made a number of organisational changes. In particular, the Banking Department was reorganised to improve its ability to respond to the needs of the region. The role of the Resident Offices was enhanced by moving a number of country team directors from headquarters to the countries of operations.

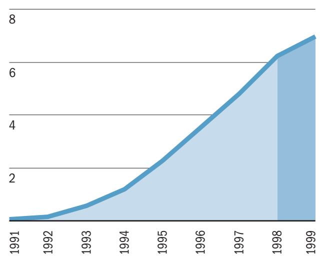
Banking portfolio

at 31 December 1999 (€ billion)



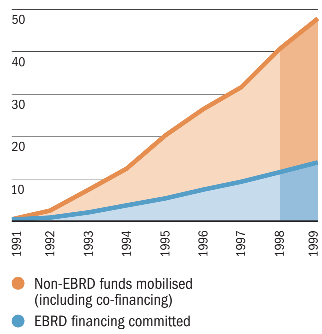
Banking assets

at 31 December 1999 (€ billion)



Cumulative funds mobilised

at 31 December 1999 (€ billion)



Financial results

(€ million)	**1999**	**1998**	**1997**	**1996**	**1995**
Operating income	376.4	450.5	346.0	243.7	241.2
Expenses and depreciation	172.8	158.7	152.1	146.4	158.3
Operating profit before provisions	203.6	291.8	193.8	97.3	82.9
Provisions for losses	160.9	553.1	177.7	92.4	75.4
Profit/(loss) for the period	42.7	(261.2)	16.1	4.9	7.5
Authorised capital	20,000	20,000	20,000	10,000	10,000
Paid-in capital	5,163	5,084	4,877	2,965	2,965
Capital instalments received (cumulative)	3,480	3,217	2,949	2,916	2,842
Total provisions and reserves	1,040	762	508	263	165
Total assets	19,595	16,047	13,495	10,964	8,728

Operational results

Annual commitments	**1999**	**1998**	**1997**	**1996**	**1995**
Number of projects	88	96	108	95	110
EBRD financing (€ million)	2,162	2,373	2,315	2,188	2,000
Resource mobilisation (€ million)	4,862	7,541	4,210	3,819	4,972
Portfolio (€ million)[1]					
Banking portfolio	10,835	10,182	8,932	7,263	5,652
Banking assets	6,955	5,761	4,580	3,202	2,083
Performing assets	6,160	5,247	4,393	3,168	2,058
Additional funds mobilised	33,964	29,102	22,335	18,926	14,773

[1] Figures for 1995-98 are as reported for those years. They do not reflect subsequent changes due, for example, to exchange rates, cancellations, syndications or restructuring. Terms are defined on page 104. The charts above reflect recalculated figures.

On 1 January 1999, when the euro replaced the national currencies of each of the 11 participating countries, the EBRD changed its reporting currency from ECU to the euro. Figures relating to 1998 and previous years have been restated accordingly in euro at the effective rate of exchange of 1 euro to 1 ECU.

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Vorwort des Präsidenten

Für die EBWE war 2000 ein erfolgreiches Jahr. Im Rahmen eines verbesserten Wirtschaftsklimas erreichten wir einen Rekord bei der Zeichnung von Neugeschäften. Es gelang uns, nach der Krise von 1998 die finanzielle Gesundheit der Bank wiederherzustellen. Die Bank ist jetzt noch besser in der Lage, den Übergang zur Marktwirtschaft in Mittel- und Osteuropa und in der Gemeinschaft Unabhängiger Staaten zu fördern. Sie feiert ihr zehnjähriges Bestehen in dem Bewusstsein, dass ihre Rolle wichtiger ist als je zuvor. Die Herausforderungen sind gewaltig.

In den weiter fortgeschrittenen Ländern Mittel- und Osteuropas rechnen wir mit vielen Neugeschäften in Verbindung mit dem Beitrittsprozess zur EU, der selbst eine weitere Herausforderung der Bank im Hinblick auf den Transformationsprozess darstellt. Unsere Arbeit wird sich mehr und mehr auf komplexere Transaktionen konzentrieren, insbesondere industrielle Restrukturierungen und die schwierigeren Sektoren wie kommunale Infrastruktur, Agrarwirtschaft und die New Economy.

Wir werden unsere Aktivitäten in Russland und der Ukraine ausweiten, wo eine riesige Investitionsbereitschaft besteht und wo wir dazu beitragen müssen, eine Kultur der guten Unternehmensführung zu entwickeln.

Im Jahr 2000 spielte die EBWE eine Schlüsselrolle im Stabilitätspakt für Südosteuropa. Ende des Jahres begrüßten wir die Bundesrepublik Jugoslawien als 27. Einsatzland. Damit öffnete sich für Initiativen der EBWE in der Balkanregion ein umfangreiches Betätigungsfeld.

Wir werden weiterhin in den zentralasiatischen Ländern investieren, wo nach wie vor schwierige gesellschaftliche Bedingungen herrschen und Investitionsmöglichkeiten bisher noch begrenzt waren.

Die Bank ist zum größten Einzelinvestor in Mittel- und Westeuropa und der Gemeinschaft Unabhängiger Staaten geworden. Aufgrund unserer starken lokalen Präsenz durch die Länderbüros und des Dialogs mit Geschäftsleuten, Regierungen und lokalen Behörden kennen wir die Region gut. Wir haben in den letzten zehn Jahren gelernt, dass transparente, berechenbare und faire Regelungen und Institutionen für gut funktionierende Märkte unerlässlich sind, dass Liberalisierung und Privatisierung zum Wachstum beitragen und dass die demokratische Achtung der Rechenschaftspflicht von seiten der Regierungen entscheidend ist. Wir bauen unsere Zukunft auf unseren Erfolgen auf und dem, was wir aus den bisherigen Erfahrungen gelernt haben.

An der Schwelle eines neuen Jahrzehnts wollen wir unsere Rolle als Bank im öffentlichen Sektor verbessern und Märkte bewegen, indem wir Risiken übernehmen und andere Investoren durch unser Beispiel ermutigen. Wir werden uns ständig um Innovationen bemühen, um uns den entstehenden lokalen Bedürfnissen anpassen zu können. Gleichzeitig werden wir den Kunden gerecht werden. Mit klaren Schwerpunkten und fachkundigen und engagierten Mitarbeitern sind wir bereit, uns den beträchtlichen Herausforderungen zu stellen, die auf dem Weg zu einer funktionierenden Marktwirtschaft noch vor uns liegen.

Aber kein Markt kann funktionieren, wenn es nicht auch gelingt, die Armut zu mildern, die Gesundheitsfürsorge zu verbessern und das Bildungswesen zu fördern. Obwohl die Sorge dafür nicht im direkten Verantwortungsbereich der Bank liegt, werden wir mit anderen internationalen Institutionen und Ländern zusammenarbeiten, um sicherzustellen, dass diese Grundbedürfnisse der Menschen angesprochen werden.

Im ersten Jahr meiner Amtszeit als Präsident der Bank freue ich mich über die Gelegenheit, die Arbeit meiner Vorgänger weiter zu entwickeln und zur Bewältigung der Herausforderungen der kommenden Jahre beizutragen.

Jean Lemierre
Präsident, EBWE

Begleitschreiben

London, den 13. März 2001

An die Gouverneure

Gemäß Artikel 35 des Übereinkommens zur Errichtung der Bank sowie Abschnitt 11 der Satzung legt das Direktorium dem Gouverneursrat den beigefügten Jahresbericht der Bank für das Jahr 2000 vor.

Zum Jahresbericht gehören der genehmigte und geprüfte Jahresabschluss, der gemäß Artikel 27 des Übereinkommens sowie Abschnitt 13 der Satzung vorzulegen ist. Gemäß Artikel 10 des Übereinkommens enthält er außerdem einen gesonderten Abschluss für die Sonderfonds und befasst sich, wie in Artikel 35 des Einkommens vorgeschrieben, mit der Auswirkung der Geschäftstätigkeit der Bank auf die Umwelt.

Präsident

Jean Lemierre

Direktoren	Stellvertretende Direktoren
António de Almeida	Stefanos Vavalidis
Byongwon Bahk	Gary Johnston
Joaquin de la Infiesta	Carlos Escribano
Peter Engström	Martin Põder
Michael Flynn	Torsten Gersfelt
Erzsébet Gém	Igor Očka
Gerlando Genuardi	Grammatiki Tsingou-Papadopetrou
Laurent Guye	Ayşe Dönmezer
Tor Hernæs	Rauli Suikkanen
Jean-Pierre Landau	Marc Jullien
Heiner Luschin	Gideon Schurr
Michael McCulloch	Andrew Lewis
Patrice Muller	Tom MacDonald
Sergej Owsejtschik	Igor Kowtun
Philippe Petit-Laurent	Vassili Lelakis
Jurij Polunejew	Ionut Costea
Enzo Quattrociocche	Francesco Saverio Nisio
Norbert Radermacher	Clemens Kerres
Karen Shepherd	Nicht besetzt
Bernard Snoy	Georges Heinen
Walentin Zwetanow	Jan Bielecki
Pim van Ballekom	Hidde van der Veer
Kunimitsu Yoshinaga	Masato Iso

Countries of operations
At 31 December 1999

Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Former Yugoslav Republic of Macedonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russian Federation, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

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President's foreword

In 1999 the EBRD experienced an extraordinary year. The crisis conditions that persisted in our countries of operations after the 1998 rouble devaluation put many investments – and indeed the course of transition – in peril.

The Bank's management responded by undertaking a thorough portfolio review, reorganising the Banking Department and forging a new strategy. These efforts strengthened the EBRD. We have a clear direction and returned to profitability. Ultimately, the Bank is better placed to take on new risks to continue to assist transition across central and eastern Europe and the Commonwealth of Independent States.

Credit is due to all corners of the Bank: to our management, our staff and to our shareholders, who remained steadfast in their support of the Bank amid difficult times.

There are clear lessons to be learned from this experience. The first is that the EBRD needs flexibility and creativity to meet its challenges. This requires an even more business-oriented approach to its activities. We have seen that an increased emphasis on the *real* economy – supporting small and medium-sized enterprises and the banks that lend to them as well as carefully targeted infrastructure and industrial investments – can deliver economic and social benefits.

Another lesson is that reforms pay off. Those countries that made the tough policy decisions at the start of transition are now the most advanced, and have proved the most resilient to external shocks. Further progress will depend on further reforms. The main responsibility in achieving success lies with the countries themselves. Yet it is equally evident that the international community also has a crucial role to play. The best thing the world's established market economies can do for the transition countries is to ensure their *own* sustained growth and to liberalise their markets. There can be no complacency.

My time at the EBRD is unfortunately coming to a close as I assume another set of challenges at the International Monetary Fund. I leave with mixed emotions – anxious to take on my new role, yet sad to be leaving an organisation of which I have become so fond. Having travelled extensively throughout our countries of operations, I have come to realise the extent to which the EBRD is held in high regard, and even looked upon as a beacon of hope. This presents the Bank with a duty to improve its work. I will look back on the EBRD with great confidence, knowing it has the people and the vision to meet its lofty expectations.

Köhler

Horst Köhler
President
March 2000

Letter of transmittal

London, 7 March 2000

To Governors

In accordance with Article 35 of the Agreement Establishing the Bank and Section 11 of its By-Laws, the enclosed Annual Report of the Bank for 1999 is submitted by the Board of Directors to the Board of Governors.

The Annual Report includes the approved and audited financial statements required to be submitted under Article 27 of the Agreement and Section 13 of the By-Laws. It also contains a separate statement on the Special Funds resources, in accordance with Article 10 of the Agreement Establishing the Bank, and covers the environmental impact of the Bank's operations, as required under Article 35 of the Agreement.

President

Horst Köhler

Directors	Alternate Directors
Byongwon Bahk	Jim Short
Peter Engström	Baldur Erlingsson
Sylvain de Forges	Lucien Bernadine
Torsten Gersfelt	Tony Brown
Joaquin de la Infiesta	Carlos Escribano
Wilhelm Jaggi	Mehmet Kaytaz
Roger Lavelle	Walter Cernoia
Heiner Luschin	Gideon Schurr
Michael McCulloch	Andrew Lewis
Patrice Muller	Tom MacDonald
Kari Nars	Rolf Næss
Igor Očka	Károly Soós
Serguei Ovseitchik	Michail Tatianchenko
Philippe Petit-Laurent	Vassili Lelakis
Yuri Poluneev	Ionut Costea
Enzo Quattrociocche	Pasquale Terracciano
Norbert Radermacher	Clemens Kerres
Karen Shepherd	Vacant
Bernard Snoy	Georges Heinen
Valentin Tsvetanov	Jan Bielecki
Pim van Ballekom	Dick Knook
Stefanos Vavalidis	António de Almeida
Kunimitsu Yoshinaga	Masato Iso

Overview

In 1999 the repercussions of the previous year's financial crisis in Russia confronted the EBRD with a formidable challenge. The earlier part of the year, in particular, was characterised by the continuing slowdown in business activity and increased risk in many of the Bank's countries of operations, which affected a large portion of the EBRD's portfolio. Investment conditions were further overshadowed, particularly in south-eastern Europe, by the Kosovo crisis.

The EBRD responded strongly by developing revised medium-term operational priorities, which helped the Bank to restore its activities in the region to pre-crisis levels. During the year the EBRD signed 88 projects totalling €2.2 billion, while earning assets increased by €1 billion to reach a total of €6.5 billion. The Bank recorded €42.7 million profit and began to rebuild its reserves.

Although the most pessimistic fears for the region failed to materialise, the economic setback for Russia and its neighbouring countries was severe. However, the EBRD's vigorous activities in 1999 show that, even in a difficult investment climate, the transition to a market economy offers investment opportunities that reward countries committed to reform as well as investors. This demonstrates that, in the long run, reforms pay off and that when difficulties arise, recovery can be swift.

Moving transition forward

Following the financial crisis of 1998, the EBRD reconfirmed its strong commitment to all of its countries of operations. In particular, the Bank undertook a number of measures to support the transition process in the wake of the crisis, to protect the viability of its projects and to enhance its portfolio management. Early in the year the EBRD revised its operational strategy. *Moving Transition Forward: Operational Priorities for the Medium Term* was approved by the Board of Directors in March 1999 and endorsed unanimously by the Board of Governors at the Bank's Annual Meeting in April (see box below).

New operational priorities

Moving Transition Forward states that the EBRD's core business is the financing of projects, primarily in the private sector, which advance the transition. The Bank applies sound banking principles to all its operations and ensures that its activities are "additional" to alternative market sources of finance.[1] The active and entrepreneurial management of its existing portfolio is an essential part of its core business. The Bank requires sound business practices in all its business partners, and an active approach to the environment is integrated into all its work.

The EBRD fosters transition in all of its countries of operations, taking careful account of a country's commitment to economic and political reform, and responding in a positive and timely manner to advances in the transition.

Particular priorities are to:

- help create a sound financial sector linked to the needs of enterprises and households;
- provide leadership for the development of business start-ups and small and medium-sized enterprises (SMEs);
- pursue commercial approaches and a full range of financial structures for infrastructure development;
- demonstrate, through carefully selected projects, effective approaches to restructuring viable large enterprises;
- take an active approach to equity investment; and
- promote a sound investment climate and stronger institutions on the basis of its project experience and investor perspective.

In implementing these priorities, the EBRD will:

- adopt a strategic approach to portfolio management in its work to foster the transition so that
  – the portfolio as a whole embodies the transition objectives and operational priorities of the Bank;
  – the portfolio is balanced across countries, products and risk categories to achieve transition impact while safeguarding the Bank's financial viability; and
  – all projects in the portfolio are actively managed throughout their cycle.
- pursue partnership and effectiveness through
  – working as a creative and constructive partner with countries of operations and with clients;
  – working closely with other international financial institutions (IFIs) and the European Union;
  – enhancing the mobilisation of official and private sources of co-financing;
  – seeking to create clusters of activities in selected municipalities, regions or sectors; and
  – promoting intra-regional infrastructure and trade.
- strengthen its presence in countries of operations, in particular through an enhanced role for the Resident Offices.

[1] The principle of additionality ensures that the EBRD's activities do not displace commercial sources of finance, on reasonable terms, that would be associated with a comparable impact on the transition process. For a fuller definition see page 104.

An EBRD equity investment will help fund the continuing expansion of the Warsaw-based Kredyt Bank, one of the leading private banks in Poland.

A key element of the new priorities is a strategic approach to portfolio management. Under this approach, both the stock of existing projects and the flow of new commitments will be managed to have an impact on the transition process while balancing risks, returns and costs across the portfolio. Due to the considerable size and complexity of the EBRD's portfolio and the significant increase in risk in parts of the region, the Bank recognises that it is increasingly important to manage its operations from the perspective of the portfolio as a whole.

Operational results

After a difficult first half of the year, due to the immediate effects of the previous year's financial crisis, the EBRD met, and in several cases exceeded, its 1999 operational targets. A vigorous revival of projects in the pipeline took place as efforts were undertaken to strengthen the portfolio.

The Board of Directors approved 99 projects in 1999, amounting to €2.6 billion. The volume of Board approvals during the year was 30 per cent higher than in 1998, resulting in a year-end stock of approved projects that was 10 per cent higher than at the end of the previous year.

Signed projects in 1999 totalled €2.2 billion involving 88 operations. This includes restructuring transactions of €166 million. Commitments in the countries at the early or intermediate stages of transition increased substantially, by almost €170 million, reaching a total of €1,039 million. In particular, the EBRD signed seven projects in Ukraine totalling €243 million, which was the largest level of commitments among the Bank's countries of operations in 1999. In the countries at the advanced stages of transition, commitments reached €906 million compared with a high level of €952 million the previous year. Commitments in Russia in 1999 totalled €217 million, having reached €546 million in 1998.

The portfolio of the Bank, net of repayments and cancellations, reached €10.8 billion compared with €10.2 billion at the end of 1998. Cumulative additional funds committed by other investors as part of EBRD operations stood at €34 billion as at the end of 1999.

Earning assets increased by close to 20 per cent, to €6.5 billion as at 31 December 1999, up from €5.5 billion the previous year.

The level of projects entering the pipeline during 1999 showed an encouraging trend at all stages of the EBRD's approval process, with the number of projects at the Final Review stage (before approval by the Board of Directors) being 52 per cent higher in 1999 than in 1998. The number of projects at the Initial Review stage were 27 per cent higher, while projects at the first stage of the approval cycle (Concept Clearance) were 49 per cent higher than in 1998. Overall, the total number of projects in the pipeline at the end of 1999 was 15 per cent higher in value, at €10.2 billion, than at the end of 1998 (€9.0 billion).

Implementing the Bank's operational strategy

Throughout the year the EBRD promoted the transition process and the development of competitive markets in the region, recognising that a sound investment climate and strengthened institutions are equally important for the functioning of markets. Specific country strategies were developed, and the Bank intensified its work on the legal aspects of transition, focusing on areas where it has particular expertise.

Financial sector

The EBRD has always placed special emphasis on the financial sector, recognising that a well-functioning market economy requires a sound and effective financial sector capable of commanding the confidence of the population, of facilitating monetary transactions and of intermediating efficiently between savers and investors. The Bank's revised medium-term priorities emphasised the need for the EBRD to continue to support the financial sector by investing in financial institutions, by developing skills and by promoting sound business practices.

In July 1999 the EBRD's Board of Directors approved a new policy for the financial sector, which reflected developments in the region and the Bank's experience with operations in this sector. A key element of the revised policy was the need to develop a country-specific approach, which would be integrated into an overall vision of how the financial sector should function and develop. Specifically, the Bank seeks to increase the diversity of institutions and the range of financial instruments in the local financial sector, to extend the financing available to SMEs and to strengthen the corporate governance and business practices of local financial institutions. The policy also recognises that confidence and competition in an independent financial sector are fundamental factors that shape the development of the financial sector in a market economy.

1

2

1 Recognising the importance of infrastructure to the transition process, the EBRD substantially increased its transport portfolio in 1999.

2 In July 1999 the EBRD adopted a new strategy for supporting small and medium-sized enterprises, focusing on improving the investment climate and expanding the level of funding available for SMEs.

3 In the wake of the Kosovo crisis, the EBRD increased its commitments in the surrounding countries of south-eastern Europe, including Albania.

During the year the EBRD focused on the role of market processes and of government in fostering financial sector development. The aftermath of the Russian banking crisis, the need for bank restructuring in Russia, and the impact of the crisis on the financial systems of neighbouring countries required and received urgent attention. In project design and implementation, particular emphasis was placed on mitigating risk, intensifying portfolio management and strengthening the corporate governance role of the EBRD. By the end of 1999, the Bank had signed some 250 projects in the financial sector totalling €4.2 billion, which represents 30 per cent of the Bank's total signings to date.

Promoting SMEs

In 1999 the EBRD intensified its support for the SME sector in recognition of the vital role that SMEs and new businesses play in promoting economic growth and competition in the region.

In September the EBRD launched a new strategy – *Promoting SMEs in the Transition* – which aims to:

- expand the level of financing for SMEs;
- improve the investment climate; and
- create support networks for these enterprises.

In particular, the strategy aims to support SMEs in all of the EBRD's countries of operations by strengthening the financial institutions that are dedicated to providing financing for these enterprises and by improving the business environment for SMEs. The Bank will work primarily with financial intermediaries to provide financing, but SMEs will be an important consideration across all of the Bank's activities.

The EBRD worked closely with the European Union, bilateral institutions and other IFIs, such as the International Finance Corporation, on the establishment of a number of micro-enterprise banks. New projects developed in 1999 include the Kosovo Micro-enterprise Bank and the Ukraine Microfinance Bank.

In April the EBRD and the European Commission established an SME Finance Facility to provide both equity and loan financing for SMEs in EU accession countries. The European Union granted financing of €50 million and the Bank provided €75 million. The main aim of the facility is to encourage local banks and private equity funds to expand their SME operations over the medium to long term. The EBRD also launched negotiations with the United States on the creation of a new Trust Fund for SMEs.

Infrastructure and environment

Infrastructure was identified in 1999 as one of the EBRD's key priorities in view of its central role in the transition process. Emphasis was placed on the municipal and environmental infrastructure sector, energy efficiency, power and transport, in both the public and private sectors. In EU accession countries the EBRD cooperated closely with the European Investment Bank and the European Union.

The EBRD committed €161 million to the municipal and environmental infrastructure sector in 1999 in support of projects with a total value of €327 million, mainly in water supply, sewerage and waste-water treatment. By the end of the year, the Bank had committed a total of €556 million in the sector in more than 125 municipalities in 15 countries. The Bank continued to focus on countries at the advanced stages of transition, with 70 per cent of commitments in 1999 being devoted to EU accession countries.

The EBRD also strengthened its transport portfolio, signing 12 projects during the year totalling €315 million. This increased the total transport portfolio to €2.0 billion. Some 60 per cent of the new projects in this sector were in the Baltic states and the Commonwealth of Independent States (CIS), including Ukraine and the countries in the Caucasus and Central Asia. As in previous years, financing in the sector involved cooperation with other IFIs and bilateral donors.

3

Investment climate and co-financing

Throughout the year, the EBRD redoubled its efforts to work in partnership with its countries of operations in generating new projects. This involved speaking out on risks and other problems, notably corruption and poor governance, which had contributed to the earlier financial crisis. At the same time, the Bank increased its cooperation with Foreign Investment Advisory Councils and sought to combine the EBRD's unique expertise with the experience gained by other IFIs and the European Union. The Bank maintained discussions with senior government officials through a series of visits by the President of the EBRD and the Board of Directors to shareholder countries, including many of the Bank's countries of operations.

Conditions in the debt markets for the majority of the EBRD's countries of operations remained extremely challenging, affecting co-financing activity. As a result, there was a decrease in the total number of co-financed operations from 89 in 1998 to 58 in 1999. The total amount of co-financing fell from €1.9 billion to €1.5 billion. The key elements that caused this were a diminished appetite among both commercial and official co-financiers to take long-term exposure in countries at the early or intermediate stages of transition, especially Russia, and a high degree of caution even in advanced countries for all but the most creditworthy borrowers. Nevertheless, the Bank provided flexible and innovative co-financing solutions for operations involving telecommunications (over €100 million) and transport infrastructure (€100 million) in addition to financing for banks and a dedicated funding facility in the Balkan region. Co-financing with official partners in 1999, including IFIs, totalled €601 million, involving 37 projects in 16 countries.

Other operational priorities

Response to the Kosovo crisis

The EBRD responded strongly to the crisis in the Balkans, launching the Balkan Region Action Plan aimed at the affected countries of the region.

A specific plan for Kosovo was set up in September with the unanimous support of the EBRD's shareholders, which welcomed the Bank's efforts to play a prominent role in the reconstruction efforts. The Bank's initiatives were developed into a broad range of activities under the South Eastern Europe Action Plan, which complements the Stability Pact for South-Eastern Europe, an initiative of the European Union. Although Kosovo is neither a member of the Bank nor on the territory of a member of the Bank, the Board of Directors agreed to EBRD involvement through the channelling of donor grants and through cooperation with existing project partners in neighbouring countries.

The EBRD made a significant contribution in the wake of the crisis, making full use of its unique experience and its investment record of more than €2.5 billion in the region, particularly in the private sector. In addition to direct operations in its member countries affected by the conflict (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia and Romania), the Bank initiated activities in Kosovo. In view of its experience in promoting private sector trade and investment, the EBRD was given the leading role in developing a regional private sector approach.

In October the Bank's Board of Directors approved the Balkan Region Special Fund (BRSF) as a vehicle for mobilising donor finance for both technical cooperation and co-financing for projects in the most directly affected countries.

Common aims of the transition process and EU accession

The transition process and the enlargement of the European Union both aim to reinforce open markets, competition, privatisation and democracy in the region. The EBRD welcomes, therefore, the European Council's decision in December to conduct EU accession negotiations with ten of the Bank's countries of operations (see page 22). This will boost the transition process, give new impetus to political change, require discipline in implementing reforms, and provide incentives for democratic and market-oriented institutions.

EU enlargement continued to have important implications for the EBRD's advanced countries of operations in 1999, resulting in increased demand for infrastructure and municipal financing, especially in the energy, transport and environmental sectors. During the year the Bank pursued both private and public infrastructure investment in close cooperation with the European Investment Bank, the European Union and other IFIs, focusing on the environment, energy efficiency, railway reform, and reform of the power sector.

Economic developments

In 1999 macroeconomic developments throughout the region revealed that reforms pay, both as a way of protecting an economy from financial shocks and as a means of reducing the likelihood of such shocks. Furthermore reform-minded countries, even during such a shock, tend to respond more flexibly and more successfully.

While much of the region continued to be influenced, in varying degrees, by the previous year's financial crisis, countries most committed to the reform process emerged largely unscathed and continued to make good progress. For example, the countries of central and eastern Europe and the Baltic states remained resilient to the crisis, with the expectation of EU accession strengthening

1

1 An EBRD loan for Lietuvos Žemės Ūkio Bankas (Lithuanian Agricultural Bank) was one of five syndicated loans successfully arranged by the EBRD in the financial sector in 1999.

2 EBRD President Horst Köhler shakes hands with British Prime Minister Tony Blair at the opening of the EBRD's 1999 Annual Meeting, which was held in London. Also pictured (from left to right) are Antonio Maria Costa (EBRD Secretary General), Clare Short (UK Secretary of State for International Development) and Yannos Papantoniou (then Chairman of the EBRD Board of Governors).

financial stability, bringing structural reforms and propelling economic growth. In contrast, growth rates in 1999 slowed down considerably in countries with strong trade links with Russia, especially where there were macroeconomic weaknesses and structural flaws. In the CIS, the deterioration of the macroeconomic environment put renewed pressure on stabilisation programmes.

The countries committed to transition developments continued to be favoured by foreign investors, with the inflow of foreign direct investment (FDI) into central and eastern Europe and the Baltic states reaching an estimated US$ 16.1 billion for the year. In the CIS, where FDI fell to an estimated US$ 4.5 billion from US$ 5.7 billion in 1998, there was evidence of a renewed investor interest coupled with Russia's recovery towards the end of 1999. Emerging market borrowers found it difficult to raise funds on international markets, as bond spreads remained very high, especially for the countries most affected by the financial crisis.

Financial results

Profit after provisions for the year was €42.7 million, compared with a loss after provisions of €261.2 million for 1998. The EBRD returned to profitability in 1999 on the strength of sound results, notably from the equity portfolio and Treasury activities, continued budgetary discipline and a significantly reduced provisions charge.

Operating income before general administrative expenses of €376.4 million was below the €450.5 million operating results of last year. Net interest, dividend, fee and commission income were lower than last year, primarily due to the impact of the Russia crisis. The results from the equity portfolio reflected a profit contribution of €128.5 million from the sale of share investments which, while below the record €168.7 million gain reported in 1998, was more than 60 per cent above the level achieved in 1997. Dividend income of €13.9 million was less than half that of 1998 as the Russian crisis affected the profitability of a number of the Bank's investee companies. Treasury had another profitable year and capitalised on attractive funding opportunities as well as good returns on higher asset volumes.

Provisions for Banking operations totalled €1.1 billion at the year-end, compared with €0.9 billion at the end of 1998. This represented 16.2 per cent of disbursed outstanding loans and equity investments (1998: 15.7 per cent) and reflects the EBRD's commitment to provide prudently for existing and anticipated risks based on a continuing assessment of the portfolio and the associated inherent risks.

Institutional developments

The EBRD responded to the challenge to its activities in 1999 by reviewing and adapting its strategies and policies and by adjusting its organisation and structure.

Policy and strategy reviews

In addition to the approval of new operational and financial priorities, *Implementing Priorities: Medium-Term Strategy 2000-2003,* the Board of Directors approved *Promoting SMEs in the Transition,* the Telecommunications, Informatics and Media Operations Policy, the Natural Resources Operations Policy, and the Financial Sector Operations Policy. The Board of Directors also reviewed the Energy Operations Policy, which was posted on the Bank's Web site for 45 days before Board review, making it the first policy to undergo this innovative process. The EBRD also developed a new Public Information Policy, which will be submitted for Board approval in the first half of 2000.

The Bank also decided to create a new position of Chief Compliance Officer, who would be responsible for managing potential conflicts of interest and reviewing other integrity matters arising in the context of operations.

2

Monitoring of Article 1

The EBRD aims to foster the transition to a market economy in all countries of the region that are committed to, and applying the principles of, multi-party democracy, pluralism and market economics. Opportunities for sound investment depend on the climate created for them. Therefore, the level and nature of the Bank's activities in a particular country have been and will continue to be strongly influenced by its commitment to reform.

As part of its ongoing examination of the EBRD's operations and lending strategies, the Board of Directors reviewed the commitment of each country to obligations under Article 1 of the Agreement Establishing the Bank. Concern was expressed about the commitment to, and progress towards, the obligations under Article 1 in Belarus and Turkmenistan. Elections in some Central Asian countries in 1999 were judged by international observers not to conform fully to international standards of free and fair elections.

Management of resources

Budgetary discipline

The EBRD maintained its strong record of budgetary control in 1999. Expressed in sterling, the Bank's general administrative expenses were well within budget and comparable to those for 1998, reflecting effective cost controls. However, due to the strengthening of sterling during 1999, the expenses in euro terms were €14.1 million higher than the previous year's level, reaching a total of €172.8 million. Productivity continued to increase in 1999, with a portfolio that was 11 per cent larger in terms of number of projects, and 6 per cent larger by volume, compared with the preceding year.

Introduction of the euro

The EBRD changed its reporting currency from ECU to the euro from 1 January 1999, when the euro replaced the currencies of each of the 11 participating countries. The main impact for the Bank was the modification of its processing and accounting systems. The EBRD's transaction processing and accounting systems were successfully modified to accommodate the change and as a result there was no adverse impact on either the Bank or its clients.

Human resources

As at the end of December 1999, the EBRD had a total of 951 employees at its Headquarters and 256 staff in Resident Offices, compared with 927 and 242 in the preceding year. During the course of the year, proposals were developed and discussed by the Board of Directors regarding the Bank's human resources and its staffing of Resident Offices over the medium term. These proposals included the need to take a longer-term view of personnel issues, to give greater attention to career development, to improve the quality of the Bank's human resources management and to enhance the Bank's local presence in its countries of operations.

Year 2000

Under a Bank-wide Year 2000 Programme, the EBRD thoroughly tested all critical IT systems. Measures to test and correct any deficiencies in the Bank's systems were completed within the IT budget for 1999. The Year 2000 issue did not affect the Bank's business activities but the potential impact continued to be monitored in the first quarter of the year.

Capital increase

In 1999, Azerbaijan and Spain deposited legal instruments to subscribe to the EBRD's capital increase as approved by the Board of Governors in 1996. The number of shareholders participating rose to 56 (out of the total of 60 members) and brought the total amount subscribed to 97.2 per cent of the EBRD's €10 billion capital increase. This reinforced the earlier indication by subscribers of their full support for the Bank's mandate and operations in the transition process.

Annual Meeting

The EBRD's Annual Meeting was held in London in April 1999. It was opened by statements delivered by the Chairman of the Board of Governors, the Prime Minister of the United Kingdom and the EBRD President. During the ensuing debate the Bank's Governors unanimously endorsed the policy document, *Moving Transition Forward,* and provided guidance to management in a number of important policy areas.

The Business Forum, which took place alongside the Annual Meeting, attracted over 1,500 participants and, as usual, aimed to promote business and investment in the EBRD's countries of operations. Its theme was *"Commitment and partnership for long-term investment"*. Its programme comprised 26 country presentations and ten seminars. The Business Forum opened with a Roundtable of Business Leaders chaired by the EBRD President.

Reorganisation of Banking Department

The complex and challenging environment in which the EBRD operates places a special premium on close integration of the staff skills required to design and implement effective projects. In response to this need, a reorganisation of the Banking Department was announced in June 1999. The Banking Department teams were organised into six business groups: three country groups (Central Europe; Russia and Central Asia; Southern and Eastern Europe and the Caucasus) and three sector groups (Financial institutions; Infrastructure; and Industry and commerce).

1 Regional cooperation will be a central theme at the EBRD's 2000 Annual Meeting, which will take place in Riga, Latvia.

2 The EBRD will continue to emphasise the development of the SME sector in recognition of the vital role that SMEs play in promoting economic growth and competition.

Within the country groups, it was decided that country team directors should be located in the ten largest Resident Offices, and staffing and skills in these and other offices should be further strengthened to enable the Resident Offices to undertake increased operational responsibilities over time. This restructuring is expected to bring the EBRD's work even closer to its countries of operations, promoting flexibility and efficiency in the allocation of resources. It will also strengthen the managerial capacity of the Bank and enhance accountability for decisions and their implementation.

Changes in senior management

In the autumn, Nicholas Stern resigned as Chief Economist and Special Counsellor to the President to return to the London School of Economics and to a consulting firm operating in the private sector. The Board of Directors expressed its appreciation for Mr Stern's valuable contribution in defining the Bank's strategic role, especially his work on the economic issues related to transition.

Challenges for the future

Having staged a recovery in 1999, the challenge for the EBRD as it enters the second decade of transition is to build on this and move forward in implementing its medium-term strategy. The Bank's medium-term business plan for 2000-2003 calls for an increase in investment in its countries of operations, with a target of more than €3 billion a year by 2003. The EBRD's determination to vigorously pursue new business opportunities will result in a steady rise in commitments as the Bank continuously explores new ways to implement its mandate and to take advantage of progress in transition.

Despite the region's achievements to date, particularly in the advanced countries, the second decade of transition presents significant challenges, requiring further progress in institution-building and strong measures to combat corruption and crime. In the financial sector, the EBRD will continue to focus on establishing sound banking systems. Of central importance to the Bank's strategy is the development of a broad SME sector, as mentioned above. Another investment priority is infrastructure, especially the municipal and environmental sectors, making use of a wide range of financing methods. Other priorities are support for the restructuring of potentially viable large enterprises and an active approach to equity investments.

The EBRD will seek to enhance its impact by developing, where appropriate, a cluster approach designed to take advantage of the common aims shared by the Bank's projects and other initiatives at the municipal or regional level. To achieve this, the Bank will concentrate on reform-minded administrations committed to change. Municipal infrastructure projects and the promotion of SMEs are the key components of such an approach. The Bank will also seek to advance the transition process through cross-border projects where possible. The EBRD will increasingly focus on regional cooperation, which will be a central theme of the Bank's 2000 Annual Meeting in Riga, Latvia.

To enable it to fulfil its mandate, the EBRD intends to continue to build up its reserves, to achieve sustainable profitability accompanied by strict cost control and budget discipline, and to maximise the use of capital resources.

Developments in the region

Ten years after the fall of the Berlin Wall, the investment climate across the EBRD's 26 countries of operations continues to show great diversity. The experience of the past decade has demonstrated that the process of transition from the command to the market economy is complex, difficult and lengthy. The upheavals can be profound and severe. However, over the last ten years there have also been remarkable achievements.

The 1999 *Transition Report,* for which the EBRD's Office of the Chief Economist takes responsibility, notes that ten years of transition have resulted in most goods and services being produced by the private sector and exchanged in markets. Democratic systems have been established rapidly, with fair and free elections in most countries leading to the democratic change of governments. The political process has shown robustness in the face of crises and hardship. Strong commitment to market reform and democratic processes has been shown across the political spectrum and has been maintained across changes of government. There is little likelihood of a return to the old political structures. These achievements are fundamental landmarks of the 20th century.

Trends in the transition process

The EBRD's assessment of the transition process, published in the annual *Transition Report,* demonstrates that progress has slowed down markedly over the last two years, compared with 1994-97. Nevertheless, 12 of the EBRD's countries of operations made progress in 1999 according to the Bank's overall transition scores. Countries that have achieved the greatest progress in reform over the past year include Bosnia and Herzegovina, Bulgaria, Romania and Tajikistan, all of which are introducing long-delayed reforms. Tajikistan has achieved steady progress in small-scale privatisation and is preparing for full current account convertibility. Faced with major macroeconomic imbalances, Romania has redoubled reform efforts in the areas of privatisation and banking reform. In May 1999 the National Bank of Romania withdrew the licence of Bancorex, a large and deeply troubled state bank with over 70 per cent of its total loans classified as non-performing.

Bulgaria has continued to build on its comprehensive reform programme. Over the past year, it has advanced significantly with small-scale privatisation, largely through management-employee buy-outs, and it has further liberalised its trade and foreign exchange regime. Bosnia and Herzegovina has achieved significant advances in reform over the past year, including the reduction of internal barriers to trade between entities within the country and the adoption of a new banking law.

Latvia and Lithuania have also pressed ahead significantly with reforms over the past year. Both countries have applied to join the European Union, and at the end of 1999 they were invited to enter into accession negotiations, as were Bulgaria, Romania and the Slovak Republic. Latvia joined the World Trade Organization in February 1999. It also tightened banking regulations as the National Bank of Latvia acted to resolve the insolvencies of a number of banks affected by the crisis in Russia. In Lithuania there was significant progress in the development of non-banking financial institutions through the privatisation of the dominant state insurance company and the establishment of private pension funds.

In other countries of central and eastern Europe, progress in the development of institutions that support markets and private enterprise has been more gradual. Over the past year, Croatia, the Czech Republic, Estonia and Slovenia have each strengthened their banking regulations. In Croatia, Estonia and Slovenia new banking laws have given the central banks much stronger supervisory powers, including the authority to appoint administrators to oversee the restructuring or liquidation of insolvent banks. The Czech Republic has pressed ahead with the privatisation of three of the five largest state banks, while Slovenia has opened its banking market to the entry of foreign bank branches.

The effects of the crisis in Russia continued to be felt throughout the Commonwealth of Independent States (CIS) in 1999. In Russia itself, the failure of the authorities to enforce the basic rights of creditors and of minority shareholders in the wake of the banking crisis represents a setback in the effectiveness of banking regulations. Considerable progress has been achieved in strengthening the legal framework for the resolution of banking troubles, but the tolerance of asset stripping from banks and the lack of protection afforded to bank creditors have impaired the effectiveness of basic prudential regulations, such as capital adequacy requirements. A series of defaults by large corporations was also accompanied by the diversion of assets, as controlling shareholders of troubled enterprises largely ignored the rights of creditors and minority shareholders.

The ongoing problem of inadequate protection for minority shareholder rights has had a direct impact on a number of EBRD projects, including the Bank's investment in Chernogorneft (a subsidiary of a larger oil company), whose bankruptcy is subject to court hearings. These problems highlight the importance of institution-building if a successful transition is to be sustained in Russia.

Ukraine overcame the immediate financial consequences of the Russia crisis, successfully restructured a part of its domestic and foreign debt and maintained, on the whole, macroeconomic financial stability. Slow structural reforms were, to a large extent, the main factor behind the country's negative growth. At the end

The Kosovo crisis in 1999 displaced 700,000 refugees to the neighbouring countries of FYR Macedonia and Albania and caused major disruptions in trade and investment throughout the region.

of 1999 a decree on the privatisation of farmland was signed by the re-elected President.

Elsewhere in the CIS, some reversals in price and trade liberalisation have occurred. In Belarus existing price controls were further tightened and a ceiling on price increases was decreed. Kazakhstan and Uzbekistan adopted trade barriers in early 1999 against imports from neighbouring countries, including Kyrgyzstan and Russia, as well as from each other. In Kazakhstan, these measures have proved to be temporary, but the commitment to market reforms in Belarus and Uzbekistan has been weak.

The commitment to political reform is also weak in a number of countries. In Belarus, power remains concentrated in the hands of the President, and recent government decrees have cast a shadow on private sector ownership. In Turkmenistan the President's term of office has been extended indefinitely, and elections in Kazakhstan, Tajikistan and Uzbekistan in 1999 did not conform to international standards of free and fair elections.

In contrast to these reversals, achievements in trade and foreign exchange liberalisation have been preserved in the face of significant external pressures in south-eastern Europe as well as in Moldova and the Caucasus. Albania and FYR Macedonia have sustained their progress in reform against the difficult background of the Kosovo conflict, assisted by the Stability Pact for South-Eastern Europe (see box below). Armenia, Georgia and Moldova have resisted the re-introduction of currency controls despite large exposures to Russian trade and considerable currency volatility. All three have stabilised their economies through a combination of fiscal consolidation and official external support from International Monetary Fund adjustment loans.

Impact of the Kosovo war

The Kosovo crisis came at a time when south-eastern Europe was already facing challenging economic problems and worsening external conditions. The war affected economies in the region in a number of ways.

Refugees

The temporary displacement of refugees put a heavy strain on the social and economic infrastructure of neighbouring countries, especially Albania and FYR Macedonia – which together accommodated about 700,000 refugees at the peak of the crisis.

Trade

Most economies bordering the Federal Republic of Yugoslavia (FRY) have been affected by disruptions to their trade. Reduced export revenues, higher costs of essential imports and in some cases trade diversion will exert pressure on current accounts across the region. The loss of the Yugoslav market has had a significant impact on FYR Macedonia, although exports to FRY have started to pick up again.

Most countries in the region continue to be affected by the disruption to transport routes. The River Danube and Serbian roads and railways provide key routes from south-eastern Europe to western Europe, which is the main trading partner for most countries in the region. It is estimated that the closure of Serbia raised transport costs in some cases by up to 50 per cent for exports to the EU. Although restoration work to the transport and storage infrastructure in FRY is under way, transit trade will continue to be diverted for some time.

Investment

The uncertainty engendered by the crisis has had an adverse impact on the confidence of investors and consumers, affecting spending and the current and capital accounts. Initially, the conflict in FRY disrupted the availability of loans in some transition economies, but conditions eased relatively quickly. There are no indications of a widespread collapse in foreign direct investment (FDI). A number of countries have made progress with privatisation-related sales of large assets (for instance, Bulgaria and Croatia). Proceeds of these sales can play an important role in helping to cover budget and external deficits.

Structural reform

All countries in the region have continued, and at some occasions even accelerated, difficult reforms during the course of 1999.

Stability Pact for South-Eastern Europe

One of the broader effects of the Kosovo crisis has been to focus public attention on south-eastern Europe as a region. It has prompted the launching by the international community of a major new initiative, the Stability Pact for South-Eastern Europe.[1] This aims to support countries in south-eastern Europe in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region.

The economic integration of the region into the European and world economies is a central objective under the Pact. The Pact's main organisational structure is the South-East European Regional Table, which brings together representatives of the participant countries. The Regional Table reviews progress in implementing the Pact's projects and initiatives, provides guidance for advancing its objectives, and ensures coordination on democracy, economic reconstruction and security.

In the context of the Pact, the EU has launched a Stability and Association Process. This focuses on progressive integration into EU structures as a way of promoting regional cooperation, security and development, with the eventual prospect of EU membership.

Conditions for opening negotiations relate to democracy, rule of law, human rights, economic reform, good neighbourly relations and compliance with the Dayton Accord (for Bosnia and Herzegovina, Croatia and FRY). It is likely that negotiations will begin first in 2000 with FYR Macedonia and Albania.

1 The Stability Pact is an initiative of the EU, formally launched at the Sarajevo summit. Participants include the beneficiary countries in south-eastern Europe, several other central and east European countries, the EU and other Western donors as well as a number of international organisations.

Growth in real GDP in central and eastern Europe, the Baltic states and the CIS

(in per cent)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Level of real GDP in 1998 (1989=100)	Estimated level of real GDP in 1999 (1989=100)
Albania	9.8	-10.0	-28.0	-7.2	9.6	8.3	13.3	9.1	-7.0	8.0	8.0	89	96
Bulgaria	0.5	-9.1	-11.7	-7.3	-1.5	1.8	2.9	-10.1	-7.0	3.5	2.0	66	68
Croatia	-1.6	-7.1	-21.1	-11.7	-8.0	5.9	6.8	6.0	6.5	2.5	-0.2	78	78
Czech Republic	1.4	-1.2	-11.5	-3.3	0.6	3.2	6.4	3.8	0.3	-2.3	0.0	95	95
Estonia	8.1	-6.5	-13.6	-14.2	-9.0	-2.0	4.3	3.9	10.6	4.0	-1.0	77	76
FYR Macedonia	0.9	-9.9	-7.0	-8.0	-9.1	-1.8	-1.2	0.8	1.5	2.9	2.0	72	73
Hungary	0.7	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.1	95	99
Latvia	6.8	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.0	-0.5	59	59
Lithuania	1.5	-5.0	-5.7	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-4.0	65	62
Poland	0.2	-11.6	-7.0	2.6	3.8	5.2	7.0	6.1	6.9	4.8	4.1	117	122
Romania	-5.8	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.9	-5.4	-5.0	78	74
Slovak Republic	1.4	-2.5	-14.6	-6.5	-3.7	4.9	6.9	6.6	6.1	4.4	1.5	99	101
Slovenia	-1.8	-4.7	-8.9	-5.5	2.8	5.3	4.1	3.5	4.6	3.9	3.8	104	108
Central and eastern Europe and the Baltic states [1]	*-0.1*	*-6.6*	*-10.7*	*-3.6*	*0.4*	*3.9*	*5.5*	*4.0*	*3.8*	*2.6*	*1.9*	*95*	*97*
Armenia	14.2	-7.4	-17.1	-52.6	-14.8	5.4	6.9	5.9	3.3	7.2	4.0	41	43
Azerbaijan	-4.4	-11.7	-0.7	-22.6	-23.1	-19.7	-11.8	1.3	5.8	10.0	7.4	44	47
Belarus	8.0	-3.0	-1.2	-9.6	-7.6	-12.6	-10.4	2.8	11.4	8.3	3.0	78	80
Georgia	-4.8	-12.4	-20.6	-44.8	-25.4	-11.4	2.4	10.5	11.0	2.9	3.0	33	34
Kazakhstan	-0.4	-0.4	-13.0	-2.9	-9.2	-12.6	-8.2	0.5	1.7	-1.9	1.3	61	62
Kyrgyzstan	8.0	3.0	-5.0	-19.0	-16.0	-20.1	-5.4	7.1	9.9	2.1	2.2	60	62
Moldova	8.5	-2.4	-17.5	-29.1	-1.2	-31.2	-1.4	-7.8	1.3	-8.6	-5.0	33	31
Russia	0.0	-4.0	-5.0	-14.5	-8.7	-12.7	-4.1	-3.5	0.8	-4.6	2.0	55	56
Tajikistan	-2.9	-1.6	-7.1	-29.0	-11.0	-18.9	-12.5	-4.4	1.7	5.3	3.7	42	44
Turkmenistan	-6.9	2.0	-4.7	-5.3	-10.0	-17.3	-7.2	-6.7	-11.3	5.0	17.0	55	65
Ukraine	4.0	-3.4	-11.6	-13.7	-14.2	-23.0	-12.2	-10.0	-3.2	-1.7	-0.5	37	36
Uzbekistan	3.7	1.6	-0.5	-11.1	-2.3	-4.2	-0.9	1.6	2.5	4.4	4.1	91	94
Commonwealth of Independent States [2]	*0.6*	*-3.7*	*-6.0*	*-14.2*	*-9.3*	*-13.8*	*-5.2*	*-3.5*	*0.9*	*-3.5*	*1.9*	*54*	*55*
Central and eastern Europe, the Baltic states and the CIS	**0.3**	**-5.0**	**-8.1**	**-9.5**	**-5.0**	**-6.0**	**-0.4**	**-0.2**	**2.1**	**-1.1**	**1.9**	**66**	**67**

Notes:
Data for 1989-98 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank and the OECD. Data for 1999 are preliminary actuals, mostly official government estimates. Estimates of growth for Bosnia and Herzegovina are only available since 1995 and therefore are not included in this summary table.

[1] Estimates for real GDP represent weighted averages for Albania, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The weights used for the growth rates were EBRD estimates of nominal dollar-GDP lagged by one year; those used for the index in the last column were EBRD estimates of GDP converted at PPP US$ exchange rates in 1989.

[2] Here taken to include all countries of the former Soviet Union, except Estonia, Latvia and Lithuania. Estimates of real GDP represent weighted averages. The weights used for the growth rates were EBRD estimates of nominal dollar-GDP lagged by one year; those used for the index in the last column were EBRD estimates of GDP converted at PPP US$ exchange rates in 1989.

Legal environment

In 1999 there continued to be uneven and inconsistent improvement in the legal environment across the region. Progress in developing an effective and comprehensive commercial legal system was characterised by "two steps forward and one back" as many countries continued to adopt and refine their commercial laws (bankruptcy, company and pledge) while others (the Czech Republic and Romania) experienced a setback in both the extensiveness and effectiveness of these laws.

Some of the inconsistency can be explained by a lack of political consensus on the direction of economic and legal reform. In addition, as businesses and lawyers gain experience with new commercial laws, they can identify their shortcomings and problems of implementation. On the positive side, new civil codes, including provisions on commercial relations, came into force in Armenia, Belarus and Turkmenistan. New pledge laws were enacted in both Albania and Romania but will come into force only once implementation issues are resolved.

In the telecommunications sector, there was a focus on privatisation and the creation of a competitive mobile market in 1999 rather than on the improvement of the regulatory environment. However, during the year both Albania and Bosnia and Herzegovina adopted new telecommunications policies to assist the development of the sector. Croatia and Uzbekistan adopted new telecommunications laws, and Georgia enacted a law establishing an independent regulatory body, which has yet to be created.

More progress was evident in the financial sector, where the overall legal environment continued its slow but steady improvement. A number of countries began to focus attention on the development of sound capital markets. Bulgaria, Kyrgyzstan and Slovenia all adopted new legal frameworks for their securities markets, while the Slovak Republic agreed on a reform process focusing on the creation of an independent financial supervisory authority. Russia took the important step of passing a law creating a bank restructuring agency (ARCO). However, as witnessed in the commercial sector, these laws suffered from a lack of effectiveness. The development of well-staffed, properly funded and sufficiently powerful regulatory bodies continued to lag behind the revisions in both securities and banking laws.

Many of the Bank's countries of operations have begun to recognise the importance of legal institutions for the creation of a stable, efficient market economy. Those that have recognised the need for legal institution-building to improve the effectiveness of their legal system have continued to request the services and technical assistance provided by the EBRD's Office of the General Counsel (see below).

Legal transition

The EBRD's Legal Transition Programme (LTP) works to improve the legal environment of the Bank's countries of operations by fostering interest in and advancing legal reform throughout the region. The LTP focuses primarily on six legal areas: bankruptcy, company law/corporate governance, concessions, financial market regulation, secured transactions and telecommunications.

In 1999 the EBRD's Legal Transition Team began to develop ways of measuring legal reform developments in the six key areas of the LTP. The Bank developed a Regional Secured Transactions Survey, which provides an objective assessment of secured lending laws in the region. This will be published on the EBRD's Web site in early 2000. Similar analytical tools are being developed for company law/corporate governance and bankruptcy. This work was complemented by the EBRD's annual Legal Indicator Survey, which provides a measure of the extensiveness and effectiveness of various commercial laws in the region. Its results are published in the Bank's legal journal, *Law in transition.*

The EBRD's participation in international standard-setting efforts was expanded in 1999. In response to the Asian and Russian financial crises in 1998, IFIs and other international organisations have increased their efforts to develop international or harmonised standards for commercial relations. The EBRD is working closely with the World Bank on its Insolvency Initiative to develop international principles of bankruptcy and is a member of the OECD's Global Corporate Governance Forum. The EBRD is also working with United Nations institutions on the development of harmonised standards for concessions and is coordinating its efforts to promote capital market regulation with the International Organisation of Securities Commissions.

During 1999 the EBRD faced a growing demand for legal technical assistance and legal policy advice as many of the Bank's countries of operations recognised the continuing need for legal institution-building. The EBRD initiated new legal reform projects in each of the LTP's six focus areas, ranging from bankruptcy and capital market projects in Hungary and the Czech Republic to telecommunications projects in Armenia, Georgia, Kazakhstan and Ukraine.

The Secured Transactions Project continued to prepare legislation and a new registry system for Moldova and began discussions for new projects in Georgia, the Slovak Republic, Slovenia and Turkmenistan. In Russia the EBRD worked with the Federal Commission for the Securities Market to introduce company and securities law amendments designed to improve corporate governance. Work was also initiated with the Central Bank of Russia to provide assistance on bank insolvency and restructuring.

1

2

1 Russia achieved an estimated GDP growth rate of 2 per cent in 1999, its highest level since the start of transition.

2 An EBRD investment in Československá Obchodní Banka a.s. has helped to finalise the privatisation of this major Czech bank and to encourage bank restructuring efforts throughout the Czech and Slovak Republics.

Throughout these projects, the EBRD has worked closely with government officials to provide substantive legal policy advice in an effort to improve the investment climate in the Bank's countries of operations.

Lastly, during 1999 the EBRD continued to promote legal reform through the publication of two issues of *Law in transition*. The spring and autumn 1999 issues focused on financial markets and corporate governance respectively. The EBRD also continued its intensive coordination efforts with the European Commission, the International Finance Corporation, the International Monetary Fund and the World Bank as well as with bilateral donors providing legal reform assistance.

Macroeconomic developments

Macroeconomic developments in much of the region in 1999 continued to be heavily influenced by the 1998 crisis in Russia. In the first half of 1999, growth rates slowed considerably in countries with strong trade links with Russia, including the Baltic states, Moldova and Azerbaijan. Other countries are finding that their recoveries are being delayed.

However, developments in Russia are pointing towards recovery. In the first half of 1999 GDP declined by only 1 per cent year-on-year, and industrial output picked up considerably following the real depreciation of the rouble in August 1998. Preliminary estimates indicate that, for the year as a whole, GDP increased by 2.0 per cent, the highest growth rate recorded in Russia since the start of the transition, while industrial output was up by more than 8 per cent. The exchange rate has returned to relative stability and inflation is coming down rapidly – end-year inflation of 37 per cent in 1999 was less than half the 1998 level.

Similar trends are beginning to emerge in other CIS countries, and positive growth appears to have been achieved for a majority of countries during the second half of 1999. Only Moldova (-5 per cent) and Ukraine (-0.5 per cent) among CIS economies showed a decline in output for the year as a whole. For the first year since the transition started, all Central Asian economies recorded positive growth. Turkmenistan in particular enjoyed the highest growth in the CIS – 17 per cent – in 1999 as a result of the resumption of gas exports.

Within central and eastern Europe and the Baltic states (CEE) the overall picture is one of continued resilience, but with considerable variation between countries. Economic performance in the three Baltic states dipped significantly, reflecting fall-out from the Russia crisis. On the positive side, recent figures for the Czech Republic suggest that the recession finally ended in the second quarter of 1999, although overall output growth for the year was 0 per cent. The decline in output in Romania, although severe, was less than some had expected, and there are signs that the recession is bottoming out. Countries in south-eastern Europe have suffered to different degrees as a result of the Kosovo crisis. Growth slowed down in Bulgaria and Croatia due to loss of exports and (in Croatia) tourism receipts, but rapid rates of growth continued in Albania (8 per cent) and Bosnia and Herzegovina (8 per cent). Annual growth in Hungary and Poland slowed down because of business cycle effects but remains strong, at around 4 per cent in both cases.

Inflation across CEE halted its decline in 1999, partly as a result of the increasing prices of energy imports, but remains largely under control. Although the unweighted average for the region rose slightly in 1999 to 8.8 per cent, end-year inflation was in single figures in all but three countries (Hungary, Romania and the Slovak Republic). Albania recorded the lowest year-end rate in CEE, at -1 per cent. In the CIS, however, the deterioration of the macroeconomic environment put renewed pressure on the stabilisation programmes of a number of countries. In the first half of the year, inflation rose substantially (more than doubled) in Georgia, Moldova, Kyrgyzstan, Turkmenistan, Ukraine and Uzbekistan, ranging from 21 per cent in Georgia to 43 per cent in Moldova. However, this upward pressure mostly abated in the second half of the year, and in two of these cases (Ukraine and Uzbekistan), the end-year rate was slightly below the 1998 level. The lowest rate in the CIS was achieved by Azerbaijan, which recorded a rate of -0.5 per cent.

Foreign direct investment

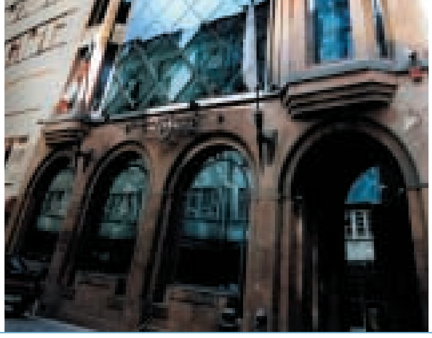
(net inflows recorded in the balance of payments)

	1995	1996	1997	1998	1999 (estimate)	Cumulative FDI-inflows 1989-99	FDI-inflows per capita 1989-99	FDI-inflows per capita 1998	FDI-inflows per capita 1999	FDI-inflows as % of GDP 1998	FDI-inflows as % of GDP 1999
			(in millions of US dollars)					*(in US dollars)*		*(% of GDP)*	
Albania	70	90	48	45	43	427	128	13	13	1.5	1.2
Bulgaria	98	138	507	401	500	1,890	230	48	61	3.3	3.9
Croatia	96	509	302	781	850	2,734	605	173	188	3.6	4.2
Czech Republic	2,526	1,276	1,275	2,485	4,000	13,856	1,344	241	388	4.4	7.4
Estonia	199	111	130	575	300	1,682	1,169	397	208	11.0	5.9
FYR Macedonia	9	11	16	118	30	184	95	59	16	3.3	0.9
Hungary	4,410	1,987	1,653	1,453	1,414	17,770	1,764	144	140	3.1	2.9
Latvia	245	379	515	303	250	2,020	833	124	103	4.7	3.8
Lithuania	72	152	328	921	400	1,934	524	249	108	8.6	3.9
Poland	1,134	2,741	3,041	4,966	6,642	20,047	518	128	172	3.2	4.3
Romania	417	263	1,224	2,040	1,000	5,464	243	91	45	4.9	3.0
Slovak Republic	194	199	84	374	650	2,059	381	70	120	1.8	3.3
Slovenia	171	178	295	154	50	1,145	574	77	25	0.8	0.3
Central and eastern Europe and the Baltic states	*9,639*	*8,033*	*9,416*	*14,614*	*16,129*	*71,212*	*647*	*140*	*122*	*4.2*	*3.5*
Armenia	25	18	52	221	150	474	123	58	39	11.6	8.0
Azerbaijan	282	661	1,093	1,024	614	3,716	459	128	76	24.9	15.4
Belarus	15	73	198	142	150	605	59	14	15	1.0	1.4
Georgia	6	54	236	221	96	622	116	41	18	4.2	2.2
Kazakhstan	964	1,137	1,320	1,149	1,250	6,928	451	74	81	5.2	7.8
Kyrgyzstan	96	47	83	102	39	405	86	22	8	6.2	3.4
Moldova	73	23	71	86	25	327	76	20	6	4.6	2.5
Russia	1,663	1,665	4,036	1,734	1,241	10,839	74	12	9	0.6	0.7
Tajikistan	20	25	30	12	29	137	22	2	5	0.9	2.7
Turkmenistan	233	108	108	62	60	753	154	13	12	2.7	2.9
Ukraine	257	526	581	747	600	2,862	57	15	12	1.7	1.9
Uzbekistan	-24	90	167	176	226	765	31	7	9	1.7	3.0
Commonwealth of Independent States	*3,610*	*4,426*	*7,975*	*5,675*	*4,480*	*28,434*	*142*	*34*	*24*	*5.4*	*4.3*
Total	**13,249**	**12,459**	**17,391**	**20,290**	**20,609**	**99,646**	**405**	**89**	**75**	**4.8**	**3.9**

Sources: IMF, Central Banks and EBRD estimates.

Note:

For most countries, figures cover only investment in equity capital and in some cases contributions-in-kind. For those countries (e.g. Estonia, Slovak Republic) where net investment into equity capital was not easily available, more recent data include reinvested earnings as well as inter-company debt transactions. The increasing outward FDI flows of transition economies are driving a wedge between net and gross FDI inflows. In 1998, for example, gross inflows exceeded net inflows by 15% in Croatia, 30% in the Slovak Republic, 7% in Slovenia, and 36% in Russia.



Bulgaria made considerable progress in reform in 1999 but will need to undertake further reforms in the second decade of transition along with the other countries of south-eastern Europe and the CIS.

Capital flows

Transition economies gained significant access to capital markets only after macroeconomic stabilisation had begun to take hold. Prior to 1994, significant capital flows occurred in only a few CEE countries, notably Hungary and the Czech Republic, but after some initial hesitancy, capital flows increased sharply between 1994 and 1997. In 1998, capital flows to Russia collapsed by more than half, along with the domestic financial system, with a further decline in 1999. However, they have remained relatively stable in CEE.

Foreign direct investment (FDI) can be a crucial catalyst in the transition, but it is also more likely to be directed to countries with a strong commitment to reform. In CEE there was an approximate fourfold increase between 1993 and 1999, from US$ 4 billion to US$ 16 billion (see table). Compared with many other emerging markets, this region has been relatively successful in attracting FDI. Particularly notable increases were registered in the Czech Republic and Poland. In the former, foreign investors have been attracted to the new business zones with enhanced infrastructure provided by the municipalities, while the privatisation of banks and other large enterprises in Poland continued to attract substantial foreign investor interest. In the CIS, FDI peaked in 1997, fuelled by equity investments in Russia. Following the crisis in Russia in 1998, total FDI across the CIS fell from US$ 5.7 billion to US$ 4.5 billion, but preliminary figures for 1999 indicate a recovery in Russia, although not yet to the levels seen in 1997.

Since the end of 1997, it has been more difficult for emerging market borrowers to raise funds in international financial markets. For example, in 1998 total syndicated lending was less than half the level recorded in 1997. Initially, the conflict in Kosovo further disrupted the availability of loans in some transition economies, but conditions eased quickly for the more advanced countries.

Macroeconomic indicators in a number of countries in the region continue to indicate significant vulnerability of the economy to internal and external shocks. Several countries combine high current account deficits with significant budgetary imbalances, including Armenia, Kyrgyzstan, Lithuania, Moldova and the Slovak Republic. Another country showing vulnerability in a number of areas is Russia, despite 1998's traumatic macroeconomic adjustment and recent signs of a modest recovery. Capital flight continues to occur on a large scale, and macroeconomic policy continues to face serious challenges in the region's largest economy, with significant uncertainty as a result for its neighbours in the CIS.

With very few exceptions, the international debt burden is not high by international standards. However, it has been growing very rapidly over the past few years, especially in some of the smaller CIS countries. The large number of countries with significant current account deficits provides some indication of this. Armenia and Kyrgyzstan show particularly high figures for gross external debt to current account revenues (in excess of 400 per cent in the case of Armenia), although it should be noted that this measure does not distinguish between debt on commercial terms (to which these countries have little access) and low-interest loans, mainly from bilateral sources and international organisations.

Although conditions in emerging markets became more settled in 1999 than in the two preceding years, data on liquid domestic liabilities to international reserves as well as short-term debt show that several countries, including Romania, Russia and Ukraine, are vulnerable to shifts in portfolio preferences. In Hungary and the Czech Republic, short-term debt is relatively high, although a sudden cut-off from international lending to refinance these obligations remains unlikely.

Challenges of the second decade of transition

Looking to the future, the *Transition Report* draws a number of conclusions.

The Report emphasises the need to complement liberalisation and privatisation with the development of institutions and behaviour that support the functioning of markets and private enterprise. Political and economic competition are essential. The challenge for the second decade of transition lies with the democratic process, the entry and expansion of new private firms and continuing international integration.

The less advanced countries in south-eastern Europe and the CIS need to redouble their efforts to complete liberalisation and lay the basis for macroeconomic stability. To help achieve this, governments should reduce obstacles to the development of new enterprises, which can provide new employment opportunities and promote economic growth. Throughout the region the state must play a strong and leading role in developing market institutions. Transforming the state remains a priority for all the transition economies.

There is clear evidence that rapid liberalisation and stabilisation as well as progress in small-scale privatisation have yielded significant benefits in terms of stronger growth in output. Over the medium term, the transition economies are well-placed, in principle, for rapid growth because of their high level of skills and their potential for rapid improvements in productivity following the introduction of new technologies. This potential has begun to be realised, primarily in central and eastern Europe. The main challenge for the south and east of the region is to break out of the cycle of policy instability and poor governance.

The Report concludes that the transition will be a long and difficult process. If the rewards of transition are to be realised and popular support for the process is to be retained, it is vital to learn from the experience of the first ten years of transition and to deepen commitment to reforms. A key source of growth and innovation are small and medium-sized enterprises (SMEs), which help to provide competition. Policies for promoting SMEs are central to a successful transition. Another core requirement of the second decade of transition is a favourable climate for investment. It is therefore vital that governments throughout the region create the conditions under which the private sector will invest.

Review of 1999 operations

The EBRD's operating results in 1999 were very encouraging, particularly in light of the difficult operating environment in the first half of the year. The Russian crisis of August 1998 undermined the economic viability of many of the projects in the Bank's pipeline, which consequently had to be rebuilt. Non-viable projects were eliminated or put on hold. New projects, suited to the changed circumstances, were developed.

As a result, the EBRD's level of commitments in the first part of the year was very low, totalling less than €50 million in the first quarter. The volume of commitments picked up steadily during the remainder of the year, reaching almost €1.0 billion in the month of December alone.

The total of commitments for 1999 was €2.2 billion for the year, just below the record of almost €2.4 billion in the previous year. This performance was achieved in spite of a collapse in the volume of commitments in Russia, which fell from €761 million in 1997 and €546 million in 1998 to €217 million in 1999. Commitments in the countries at the early/intermediate stages of transition increased substantially, rising by nearly €170 million, to a total of €1,039 million in 1999. Volume in the advanced transition countries was €906 million, compared with the very high level of €952 million in the previous year. The private sector share of commitments in 1999 was 75 per cent.

Projects signed in 1999 included a number of difficult and innovative transactions. For example, a new trade facilitation programme was launched, and the M1/M15 project was restructured, requiring considerable ingenuity. The transactions regarding Golden Telecom and the Slovak electric utility provided these clients with better access to capital markets. The grain receipts financing programme was extended to Bulgaria, and innovative credit structures were used for the alluvial gold financing project in Russia and the Balkan gas transit project in Ukraine.

The first long-term local currency financings were launched – the Bydgoszcz water project in Polish zloty and the Brno water project in Czech koruna.

Credit lines to banks and equity funds for on-lending to SMEs and other SME-oriented lending and investment activities totalled about €454 million in 1999. The Russia Small Business Credit Bank was established as a critical part of the effort to resuscitate the micro and small business lending programme in Russia in the wake of the August 1998 crisis. Micro-finance banks were established in Albania and Kosovo, and the activities of the micro-finance bank in Bosnia and Herzegovina were expanded.

A considerable effort was made to restructure the EBRD's portfolio. A total of €166 million in assets were restructured, about 8 per cent of the volume of commitments in 1999. Performing assets increased by 18 per cent from €5.2 billion to €6.2 billion.

The Banking portfolio reached €10.8 billion, an increase of 6 per cent compared with 1998. Portfolio growth was limited as a result of an active effort to cancel €1.1 billion of idle, unutilised commitments, the majority in high-risk countries.

Project disbursements in 1999 were €1.4 billion compared with €2.4 billion in 1998, reflecting a decline in the level of disbursements in Russia. As of the end of 1999, disbursements totalled €7.0 billion (for a list of disbursements by country, see page 80).

The active pipeline of potential projects reached €10.2 billion, an increase of €1.2 billion from the previous year. New Board approvals were up by 31 per cent, Final Reviews by 52 per cent and Initial Reviews by 27 per cent compared with the previous year. To assist the approval process, detailed transition checklists have been developed to assess the contribution of individual projects to the transition of different sectors.

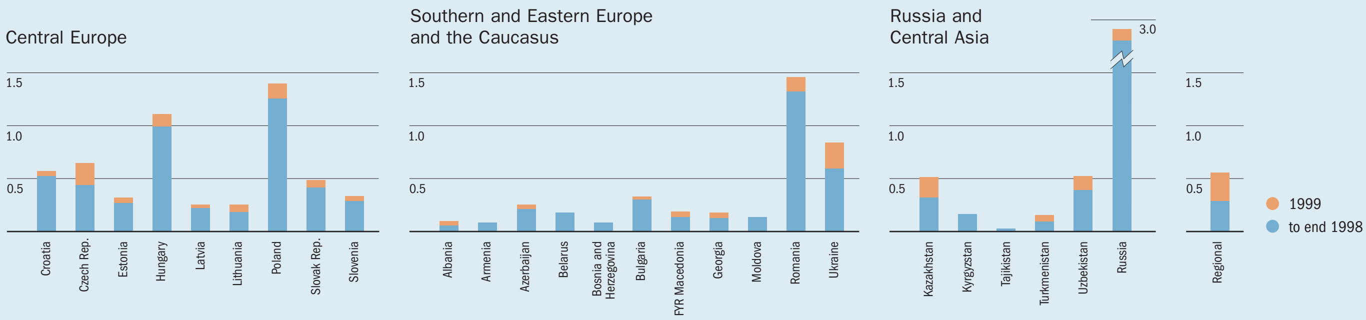
Transition impact of the EBRD's activities

The EBRD's core business is the financing of projects that advance the transition to market economies. Detailed assessments of how the Bank's projects will advance the transition occur at an early stage in the project cycle to ensure that operations are designed to achieve the highest possible impact in the region. The "transition impact" of a project can occur in three broad ways. First, projects can contribute to the structure and extent of markets by enhancing competition in the project sector or expanding market interactions in other sectors. Second, projects may enhance institutions and policies that support markets by encouraging more widespread private ownership and entrepreneurship or by improving institutions, laws and policies that promote market functioning and efficiency. Third, projects can improve market-based behaviour patterns through the development of new methods and skills or by setting standards for corporate governance and business conduct.

During 1999 the EBRD continued to foster the transition to market economies by investing in projects with high transition impact. For an assessment of the transition impact of EBRD projects from previous years, see page 48.

Cumulative EBRD financing committed by country

€ billion



Equity exits were substantial at €139 million in 1999, compared with the previous year's total of €111 million. The equity share of commitments in 1999 was 31 per cent, significantly above the target range of 17-21 per cent and close to the record level of 33 per cent achieved in 1998.

The Russian crisis badly damaged the Bank's portfolio, particularly projects in Russia but also projects in other countries dependent on Russian markets. Impaired assets grew from €519 million to a peak of €824 million at the end of August 1999 before declining to €795 million by the end of the year.

The Banking Department implemented an in-depth reorganisation to advance the new operational priorities, to clarify responsibility and accountability, and to further increase efficiency through specialisation and pooling of resources. The Department established six business groups. Three groups are sector-oriented: the Financial Institutions Group, the Industry and Commerce Group, and the Infrastructure Group. Three groups are country-oriented: Russia and Central Asia; Central Europe; and Southern and Eastern Europe and the Caucasus. To further the knowledge of the Bank within the business community, a Marketing and Business Development Unit was created to support the new business efforts of the six groups.

The EBRD accelerated the decentralisation of staff to Resident Offices. The number of local professionals increased from 66 at the end of 1998 to 85 at the end of 1999. The ratio of staff based in Resident Offices to total professional staff grew from 29 per cent in 1998 to 34 per cent at the end of 1999.

EBRD financing committed by country

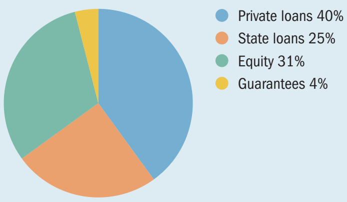
	1999			Cumulative		
	Number[1]	*€ million*[2]	*%*	*Number*[1]	*€ million*[2]	*%*
Tajikistan	2	3	<1	4	14	<1
Armenia	0	1	<1	3	82	1
Bosnia and Herzegovina	2	7	<1	9	82	1
Albania	3	41	2	11	93	1
Moldova	1	<1	<1	12	133	1
Turkmenistan	1	63	3	4	154	1
Kyrgyzstan	1	6	<1	10	162	1
Belarus	0	0	0	7	170	1
Georgia	4	44	2	12	172	1
FYR Macedonia	4	47	2	11	179	1
Lithuania	3	62	3	17	249	2
Latvia	3	29	1	19	252	2
Azerbaijan	3	41	2	10	254	2
Estonia	5	46	2	33	315	2
Bulgaria	3	27	1	24	325	2
Slovenia	1	40	2	20	329	2
Slovak Republic	3	70	3	22	481	4
Kazakhstan	4	183	8	11	507	4
Uzbekistan	3	131	6	14	519	4
Regional	8	267	12	30	553	4
Croatia	4	44	2	25	565	4
Czech Republic	3	205	9	27	642	5
Ukraine	7	243	11	29	832	6
Hungary	4	117	5	54	1,106	8
Poland	6	147	7	76	1,398	10
Romania	5	134	6	46	1,456	11
Russia	6	164	8	85	2,723	20
Total	**88**	**2,162**	**100**	**624**	**13,745**	**100**

1 Operations may be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement.

2 The totals for each country exclude regional projects, which are presented as a separate item in this table.

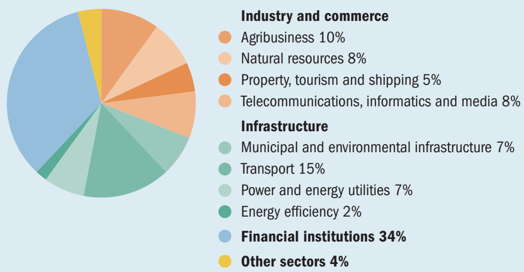
EBRD financing committed by type of facility

1999



EBRD financing committed by sector

1999



EBRD financing committed by type of facility

	1999			Cumulative		
	Number[1]	*€ million*	*%*	*Number[1]*	*€ million*	*%*
Private loans	36	862	40	276	6,508	47
State loans	20	548	25	127	4,046	29
Equity	29	664	31	214	3,003	22
Guarantees [2]	3	88	4	6	188	1
Total	**88**	**2,162**	**100**	**624**	**13,745**	**100**

1 Operations may be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement.

2 Includes other off-balance-sheet items.

The new organisation placed the EBRD in a better position to implement the three pillars of its new strategy for small and medium-sized enterprises (SMEs): a focus on lending and investing activities for micro, small and medium-sized enterprises; using policy dialogue for the creation of an appropriate investment climate for SMEs; and working with organisations that can provide support networks for SMEs. Responsibility for the first of these three pillars was assigned to the Financial Institutions Group. A special inter-disciplinary unit was set up under the Banking Deputy Vice President to manage the other two activities and to promote support for SMEs throughout the Department.

EBRD financing committed by sector

	1999			Cumulative		
Sector	*Number[1]*	*€ million*	*%[2]*	*Number[1]*	*€ million*	*%[2]*
Financial Institutions						
Financial institutions						
Subtotal	*32*	*735*	*34*	*247*	*4,165*	*30*
Industry and Commerce						
Agribusiness	9	222	10	55	871	6
Natural resources	5	180	8	30	1,146	8
Property, tourism and shipping	5	102	5	36	565	4
Telecommunications, informatics and media	7	180	8	44	1,330	10
Subtotal	*25*	*684*	*32*	*164*	*3,912*	*28*
Infrastructure						
Energy efficiency	1	34	2	7	171	1
Municipal and environmental infrastructure	7	161	7	21	556	4
Power and energy utilities	4	155	7	30	1,162	8
Transport	12	315	15	59	1,952	14
Subtotal	*24*	*665*	*31*	*116*	*3,841*	*28*
Other sectors						
Subtotal	*8*	*78*	*4*	*97*	*1,827*	*13*
Total	**88**	**2,162**	**100**	**624**	**13,745**	**100**

1 Operations may be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement.

2 Percentage for each team is calculated over the grand total.

The EBRD fostered a clustering approach in 1999 by pursuing groups of projects regionally across countries to promote common areas of activity or by focusing on regions within countries, particularly larger countries, to enhance the impact of the Bank's projects on the transition process. Examples of this were the focus on rail restructuring projects in the Caucasus and the identification of more advanced regions within Russia for intensified effort.

Another example of the regional approach was the formulation by the EBRD of a South Eastern Europe Action Plan. The Bank played a lead role in promoting activities in south-eastern Europe, including in Kosovo, in the aftermath of the recent conflict. EBRD activities in the two most affected countries, Albania and FYR Macedonia, increased substantially. Seven projects totalling €89 million were signed despite the disruption caused by the war.

New guidelines were established for the selection, training and supervision of EBRD nominees to Boards of Directors of enterprises in which the Bank has invested. The purpose was to enhance the contribution of the nominees to corporate governance and economic transition and to manage potential conflicts of interest successfully.

The EBRD intensified its efforts to work more effectively with other international financial institutions (IFIs). Particularly noteworthy was the effort to work closely with the World Bank and the International Monetary Fund (IMF) in Russia on bank restructuring. Important progress was made in working more closely with the European Investment Bank (EIB) and the European Union. The Tallinn airport and Estonian railway projects were financed jointly with the EIB. The EU-EBRD SME finance facility in EU accession countries was launched successfully, and the Uzbek railway project was the first EBRD operation to be financed jointly with the Asian Development Bank.

In 1999 four Banking Department teams – Agribusiness; Property, tourism and shipping; Power and energy utilities; and Natural resources – each sponsored one-week seminars through the Joint Vienna Institute (JVI) aimed at developing the practical management skills of company managers and government officials. Additional support was provided by EBRD lawyers.

The JVI was established by the EBRD, the Bank for International Settlements, the International Bank for Reconstruction and Development, the IMF and the Organisation for Economic Cooperation and Development in association with the Government of Austria. The World Trade Organization joined in 1998, when all of the sponsors agreed to extend the mandate of the JVI for an additional five-year period to 2004. Since the inception of the JVI, over 10,000 participants from the EBRD's countries of operations have been trained on its courses.

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1 Hungary has received EBRD financing of over €1,100 million in support of more than 50 projects since the establishment of the Bank.

2 Estonia benefited from five EBRD projects in 1999, including two infrastructure operations.

Central Europe

The EBRD continued to play an important part in the economic transition of central European countries in 1999. The further development of financial institutions, the stabilisation of macroeconomic conditions and relative political stability in central Europe have resulted in rapid growth in the financial markets with substantial funding from foreign lenders and international investors. These developments have allowed the financial markets to increasingly satisfy investment demand, and have led the EBRD to focus its activities on areas where it can support the transition process by complementing rather than competing with private sources of finance. At the same time the Bank is aware that these international capital flows are very selective and not always a stable source of financing over the longer term.

In 1999 the EBRD focused its efforts on financial institutions, infrastructure, and support for the development of the corporate sector. The Bank committed a total of €906 million in central Europe in 37 separate operations. In the financial sector, the Bank continued to support the privatisation of major local banks but also increased its involvement in the non-bank sector, such as insurance and leasing. EBRD investments in infrastructure focused principally on improving water quality in the region as well as supporting critical rail and airport projects in the Baltic states. The Bank also made a significant effort to support local companies with innovative debt financing and through direct equity investments.

The EBRD continued to introduce new financial products and structures to respond to the evolving needs of the region. For example, it participated in its first bond issue in support of SPP, the Slovak gas utility. In Poland the EBRD worked with private banks to provide the EIB with a commercial risk guarantee, which allowed a €250 million EIB loan to the Polish telecom company TPSA to become effective.

One of the key developments in 1999 for central Europe was the decision of the European Union at the Helsinki Summit to initiate accession negotiations with Bulgaria, Latvia, Lithuania, Romania and the Slovak Republic. Negotiations are already under way with five other accession candidates: the Czech Republic, Estonia, Hungary, Poland and Slovenia.

The EBRD's strategy for the region reflects the common aims shared by the EU accession process and the Bank's transition mandate. The Bank and the European Union continued their close cooperation through the provision of technical assistance from the Commission and increasingly through the co-financing of investment projects. A good example of such cooperation is the Polish dairy facility project, which involved a loan of €24 million from the EBRD and a grant of €8 million from EU Phare to improve quality standards in this key sector. The EBRD also signed its first project under the EU-EBRD SME finance facility, which aims to support the development of small and medium-sized companies in central Europe.

Over the medium term, the EBRD expects to increase its level of activities in central Europe, particularly in infrastructure.

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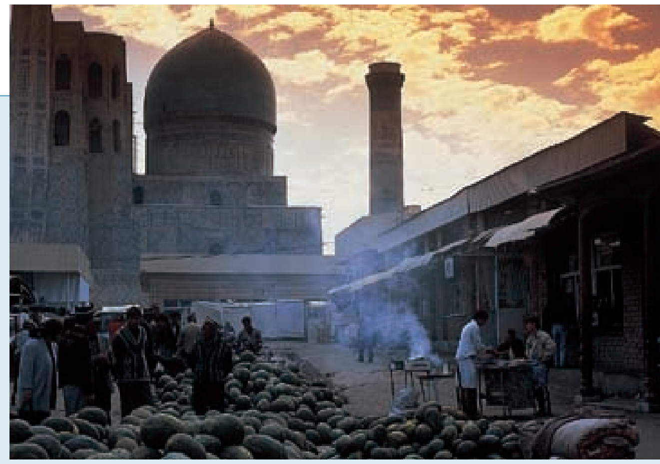

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3 Despite challenging market conditions caused by the 1998 financial crisis, the EBRD remains committed to Russia as a long-term partner.

4 Recognising that transition will take a long time in the five Central Asian countries, the EBRD has altered its strategy to focus on the development of SMEs and micro businesses.

Russia and Central Asia

In 1999 the EBRD's activities in Russia continued to be affected by the financial crisis of the previous year. Despite the difficult investment conditions, the Bank signed new operations during the year totalling €217 million. By the end of 1999 the EBRD's portfolio in Russia consisted of 85 projects with a total value of €2.7 billion.

During the year the EBRD provided support to SMEs through the Bank's largest micro and small loans programme, the Russia Small Business Fund (RSBF). In total, the RSBF granted almost 7,300 micro and small business loans worth US$ 60 million in 1999, bringing the overall commitments since the programme's inception in 1994 to almost 31,000 loans with a value of over US$ 380 million.

The EBRD also provided support for the restructuring of privatised medium-sized enterprises through a number of private equity funds – Regional Venture Funds (RVFs) – established by the Bank and donor governments. These funds provide a combination of equity capital and grant-financed consulting support, which enterprises receive during or after privatisation.

Through programmes such as the RSBF and the RVFs, as well as through the Bank's direct lending and equity investments, the EBRD has managed to reach clients in the majority of the 89 regions in Russia.

One of the greatest difficulties for the EBRD's operations in Russia was the continued low level of business and governance standards in 1999. Arbitrariness and highly discretionary and discriminatory practices were the main problems in the investment climate during the year. In general, the overall business environment was less receptive to positive "demonstration effects", making it more difficult for the Bank's model operations in SME development and municipal finance to be emulated elsewhere.

Despite difficult market conditions, the EBRD remains committed to Russia as a long-term partner at this difficult time. Moreover, given its special mandate, its higher risk-taking capacity and its experience with the transition process, the role of the Bank is greater than ever. Recent shifts in the priorities and strategies of the other international organisations involved in Russia have also provided the Bank with a greater and more demanding scope of activities. The EBRD's key priority in these circumstances is to assist in a comprehensive way in halting and reversing the current confidence/credibility crisis permeating the Russian economy and society.

The five Central Asian countries were all seriously affected by the Russian financial crisis. The depressed international market prices of key commodities, such as oil, gold, cotton, copper and other base metals, dealt a further blow to these economies. The subsequent recovery in the oil price and the devaluation of currencies, forced by Russia's large devaluation, helped to restore competitive balances, but full-scale recovery remained a distant prospect. These events led the EBRD to review its strategy for the region.

The main outcome of this review was a better understanding of the limited development options open to these countries owing to their location and the few, specialised and oversized manufacturing roles that they had developed within the former Soviet Union. The EBRD concluded that transition in these countries would take more time than originally estimated, and that it was more likely to happen at the level of SMEs or micro businesses. Therefore, the Bank placed greater emphasis on strengthening the region's financial institutions through technical assistance programmes and funding so that they could provide liquidity to commercial entrepreneurs. The EBRD also intensified its discussions with the relevant government ministries concerning the main flaws in the investment climate that are discouraging foreign investors.

The Bank continued to promote and assist the privatisation process and to provide financing to alleviate the infrastructure bottlenecks through investments in the power, transportation and telecommunications sectors. Emphasis was also placed on the regulatory practices needed to bring about the necessary investment returns.

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1 In the Caspian Sea region, the EBRD is helping small, independent oil companies to develop onshore oil and natural gas resources.

2 The EBRD's South Eastern Europe Action Plan aims to support Bulgaria and the other Balkan countries that were affected by the 1999 conflict in Kosovo.

Southern and Eastern Europe and the Caucasus

The EBRD expanded its operations in 1999 in the early and intermediate transition countries of southern and eastern Europe and the Caucasus. This is part of a long-term commitment to develop opportunities further east, where revival of economic growth will create additional demand for long-term capital. With a limited access to capital markets for most of these countries, the Bank's role remains critical.

The Kosovo conflict dominated the EBRD's activities in south-eastern Europe in 1999. In response to the crisis, the Bank launched a Balkan Region Action Plan, which aimed to support the countries affected by the conflict. In September the Bank produced a specific plan for Kosovo, which received unanimous support from its shareholders. These initiatives were subsequently developed into a South Eastern Europe Action Plan (SEEAP), which gives the EBRD a prominent role in promoting investment and assisting economic recovery in the region. The SEEAP complements the Stability Pact for South-Eastern Europe, which was launched by the international community in the wake of the crisis.

The main aims of the SEEAP are to increase the flow of investment capital into the countries of south-eastern Europe through direct operations, including loans and equity investments, and to promote new institution-building initiatives. During the year the biggest increases in EBRD commitments were achieved in the countries most affected by the crisis, namely Albania, FYR Macedonia and Bosnia and Herzegovina. This reflects a clear response from the government in each country to sustain and accelerate economic reform. The EBRD signed projects totalling €95 million in these three countries in 1999 while the Bank's total commitments in south-eastern Europe during the year totalled more than €300 million.

In addition to operations in member countries of the region, the EBRD initiated a number of activities in Kosovo, including the establishment of a micro-finance bank and the creation of Kosovo's first equity fund, which also received significant equity capital from the Italian Government. The EBRD also made progress on the financing of a large foreign direct investment in the steel sector.

Towards the end of the year the EBRD developed a series of regional initiatives designed to promote private sector growth. The main areas of support will be fostering cross-border trade and investment, supporting SMEs, taking a commercial approach to regional infrastructure, and improving the investment climate in the region. This would involve providing a guarantee facility for trade finance, SME and micro-enterprise financing, risk guarantee funds, and working capital for local contractors. The EBRD plans to seek donor support for these initiatives at the Stability Pact conference in March 2000 and at subsequent conferences.

Under the trade finance guarantee facility, the EBRD aims to promote cross-border trade by helping local banks obtain credit lines from foreign banks and by developing new products, including long-term trade financing for local exporters. The EBRD would guarantee to the foreign bank that the local bank will repay its loan, using grant funds from donors to cover its own risk.

The SME/micro-finance credit programme would promote longer-term lending by local banks to SMEs and micro-enterprises, which are often unable to obtain loans through other means. The EBRD has already established new micro-lending facilities, and hopes to obtain donor funding to make this form of financing available throughout south-eastern Europe, including Kosovo.

To provide further support for the private sector, the EBRD aims to increase the availability of equity funding for small businesses on a selective basis so that undercapitalised firms in the region with insufficient equity to obtain loans can increase their creditworthiness. Another of the EBRD's aims is to establish a donor-funded political risk guarantee fund for Kosovo and the other countries of the region.

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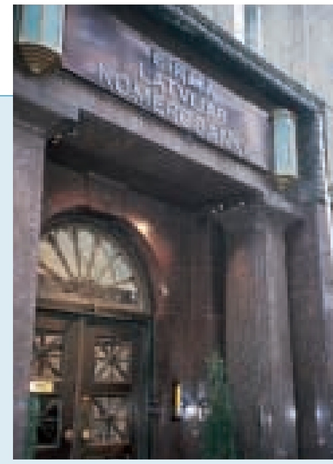

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3 EBRD projects in the financial sector totalled €735 million in 1999. These included a credit line to Banca Transilvania for on-lending to small and medium-sized businesses throughout Romania.

4 EBRD support for Rigas Komercbanka, one of Latvia's most important financial institutions, helped to restructure the bank, which resumed operations in 1999 under the new name of Pirmā Latvijas Komercbanka.

Lastly, the EBRD would like to assist the many local companies/contractors in south-eastern Europe that are ineligible for funding from IFIs for infrastructure projects due to insufficient working capital. The Bank is therefore investigating ways of providing funding or guaranteeing financial support to local banks to enable them to provide working capital finance.

In the Caucasus the EBRD signed projects totalling €85 million in 1999 in support of agribusiness, manufacturing, power and energy, property and tourism, and transport. One of the most notable projects was a loan to Azerbaijan Railways to upgrade the infrastructure of the Trans-Caucasian Railway following a similar project in Georgia the previous year.

In Ukraine seven projects totalling €243 million were signed by the EBRD during the year. These ranged from a project to improve water supply and waste-water treatment in one of the country's largest industrial centres to equity investments in the financial sector.

Financial institutions

One of the EBRD's key policy objectives is to support the development and creation of a financial sector which is based on sound banking principles, provides high-quality services to both the corporate and retail sector of the economy and operates on principles of transparency and good corporate governance.

The EBRD endeavours to contribute to this development by making equity investments in financial institutions and providing funds to local intermediaries, which in turn are being used to finance the private enterprise sector, with a particular emphasis on SMEs. Part of its work is focused on policy dialogue with local governments and authorities on issues such as financial sector reform, privatisation, corporate governance, business climate, regulation and supervision.

During 1999 the financial sector in the region continued to feel the effects of the Russian crisis in August 1998. The repercussions were felt in the financial and enterprise sector of many economies in the EBRD's countries of operations and put the financial sector through a serious test. Foreign direct investment slowed down in the majority of countries of operations. The EBRD played a significant role in supporting the financial sector by emphasising the importance of equity investments, by participating in restructurings, by establishing a new trade finance facility to promote trade and by encouraging syndicated debt transactions with EBRD participation.

Furthermore, the non-bank financial sector activities, particularly insurance, experienced rapid growth in 1999 and there was strong demand for EBRD participation in this sector.

EBRD signed operations to financial institutions

Cumulative as at 31 December 1999

	Number of projects	*€ million*	*% of total*
Bank equity	**64**	**726**	**17**
Bank debt	**102**	**2,275**	**54**
Loans without sovereign guarantee	79	1,507	
Loans with sovereign guarantee	19	684	
Trade facilitation	4	84	
Equity funds [1]	**60**	**947**	**22**
Donor-sponsored funds [2]	14	234	
Venture equity funds	25	247	
Large equity funds	21	466	
Micro	**8**	**216**	**5**
Non-bank financial institutions	**15**	**83**	**2**
Total	**250**	**4,247**	**100**

1 Includes sector-specific equity funds.

2 These operations represent investments in 27 donor-sponsored funds.

1 The EBRD's revised financial sector policy highlights the need to facilitate the privatisation of state-owned banks, to support private sector SMEs and to strengthen corporate governance.

The Financial Institutions Group continues to be one of the key business groups, contributing one-third of the Bank's signings in 1999 and representing 30 per cent of cumulative commitments. The support of SMEs is a cornerstone of the work of the Financial Institutions Group and in particular the support of micro and small enterprises which have limited access to traditional finance. Special initiatives for this segment were launched in conjunction with special programmes for micro-finance, based on the successful Russia Small Business Fund programme. In addition, a joint facility with EU Phare was established in support of SMEs in the EU accession countries.

During the year, the Financial Institutions Group was organised into five product sectors: bank debt, bank equity, equity funds, micro and small business finance, and non-bank financial institutions. This will allow the best possible use of resources, skills and professional experiences within the Financial Institutions Group.

The EBRD's Board of Directors approved a revised financial sector policy in July 1999. This states that the Bank's main objectives are to:

- increase the diversity of institutions and the range of financial instruments in the local financial sector;
- reach new types of customers, particularly private sector SMEs;
- broaden the geographical coverage of the Bank's projects in the financial sector;
- strengthen the corporate governance and business practices of local financial institutions;
- facilitate foreign direct investment into the local financial sector;
- facilitate mergers within the region where appropriate; and
- support privatisation of state-owned financial institutions.

The EBRD substantially increased its activities in the financial sector during 1999, signing 32 operations with a total value of €735 million. The total value of commitments in this sector at the end of 1999 stood at €4,165 million.

Bank equity

Bank equity remains a very important product of the EBRD. During 1999 new equity investments were made and the EBRD participated in a further four capital increases. Equity investments were made in countries where the projects would have a significant impact on the transition process – for example, Ukraine, Armenia and Tajikistan. The EBRD also participated in some key privatisations, such as CSOB in the Czech and Slovak Republics. In FYR Macedonia the EBRD participated in the privatisation of Stopanska Banka and also invested in the Romanian Bank for Development, which was the first bank privatisation in Romania. Furthermore, the EBRD converted a loan into equity in Slovanska Banka in Croatia, which has been sold after undergoing state-sponsored rehabilitation.

The need for consolidation of the banking sector in many of the EBRD's countries of operations is evident, and many banks lack the capital to make the necessary investments in IT and infrastructure. The EBRD supports a consolidation process and is prepared to support it through capital participation.

In addition, there is a strong need to continue privatisation of state-owned banks and their restructuring. The EBRD worked on a variety of transactions in 1999 and is presently involved in several large restructurings and privatisations of banks. The overall quality of the EBRD's equity portfolio is healthy and it has made satisfactory returns on its investments. As an indicator, the running internal rate of return on the EBRD's equity portfolio is around 20 per cent per annum.

During the year the EBRD divested from mature equity investments where the original objectives of the investment had been achieved in terms of supporting the transition process and contributing towards the creation of a healthy and competitive financial sector.

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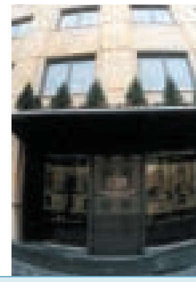

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2 Wielkopolski Bank Kredytowy in Poland was one of the first financial institutions to receive financing under a new EU-EBRD SME finance facility approved in 1999.

3 The EBRD's syndicated loan to Vilniaus Bankas, Lithuania's largest private sector bank, will help the institution to deal with the increasing demand for on-lending to private sector enterprises.

In particular, the EBRD completed the sale of BPH Poland and sold its stake in Unibanka Latvia to SE-Banken of Sweden. In Hungary the Bank sold its shares in K & H Bank to KBC Bank of Belgium and Banco Espirito Santo of Portugal. In Lithuania the EBRD encouraged Bankas Hermis and Vilniaus Bankas in their merger talks and subsequently sold its shares in Bankas Hermis.

The EBRD continued to support restructuring and privatisation of banks but also the consolidation of smaller banks into larger domestic banks with a focus on providing better financial products and services.

Bank debt

Syndicated loans

In 1999 the EBRD successfully arranged five syndicated loans in the financial institutions sector, providing financing to Vilniaus Bankas and Agricultural Bank in Lithuania, Hansa Capital in Estonia, First Investment Bank in Bulgaria and Latvijas Unibanka in Latvia. The amount of direct EBRD financing totalled €58.2 million and a further €112.2 million was syndicated to participating commercial banks. In all these cases, the syndications were the first to be undertaken since the Russian crisis.

EU-EBRD finance facility

In April 1999 the EBRD's Board of Directors approved an EU-EBRD SME finance facility, which will provide financing for SMEs in the ten EU accession countries. A total of €75 million was committed by the Bank while a further €50 million was allocated from the European Commission's Phare budget for the provision of technical cooperation and grant funding. The main objective of this facility is to encourage financial intermediaries (local banks and private equity funds) to expand their SME operations over the medium to long term. The facility comprises two "windows": loans and equity.

Equity window: The facility will not invest directly into SMEs but into private equity funds designed to address the needs of SMEs. The size of the funds is expected to range between €10-15 million on average, and the maximum investment will be restricted to €1 million for a minority stake. The funds will be managed by independent fund managers.

Loan window: Loans will be granted to participating banks for on-lending to SMEs. In addition, technical cooperation will be provided to train bank staff in SME loan appraisal, supervision and loan administration skills and to assist in the implementation of procedural, organisational and managerial changes required for SME lending.

During 1999 the EBRD and the EU approved projects under the loan window with Wielkopolski Bank Kredytowy and Bank Slaski in Poland and Banca Transilvania in Romania.

Trade facilitation

Under the Trade Facilitation Programme (TFP), the EBRD issues guarantees in favour of confirming banks (CBs) to guarantee the obligations of issuing banks (IBs) in its countries of operations.

In January 1999 the EBRD launched an extended TFP covering all 26 countries of operations. The initial limit approved by the Bank was €100 million, which is expected to increase to €200 million in 2000. The aims of the TFP are to support trade, both intra- and inter-regional, to help participating banks create track records with Western banks, and to strengthen trade finance capabilities. The new facility is open to all banks registered in the region, including banks with majority foreign ownership.

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1 The export of cotton from Uzbekistan was one of the many transactions supported by the EBRD's new Trade Facilitation Programme, which was launched in 1999.

2 An EBRD investment in Micro-Enterprise Bank in Bosnia and Herzegovina has helped the bank to open new branches and to disburse over 3,000 loans with minimal arrears.

As of the end of 1999, 22 issuing banks in 13 countries had been accepted into the TFP with total limits approaching €200 million. The intention is to include at least one or two IBs in each of the EBRD's countries of operations, creating a network of around 60 IBs by the end of 2000. A total of 61 CBs have joined the programme. Most are located in Western countries, but an increasing number are in the Bank's countries of operations.

Since July 1999, when the first EBRD guarantee was issued, a total of 42 guarantees have been issued amounting to €66 million. The volume of transactions covered by the guarantees totalled €77 million, the difference representing risk sharing by CBs. Transactions included cotton exports from Uzbekistan, the importing of wheat to Kazakhstan, sugar to Azerbaijan and pharmaceuticals and medical supplies to FYR Macedonia, Russia and Uzbekistan. The programme has been instrumental in supporting SME trade, particularly imports to FYR Macedonia. One guarantee supported the reconstruction of a war-damaged business centre in Sarajevo by a FYR Macedonian construction firm.

In south-eastern Europe the first Bosnian IB was signed into the TFP and three others are expected to follow shortly. FYR Macedonia is the leading participant in the programme, having completed 23 transactions for a total of €6.2 million through three banks.

In other parts of the EBRD's region of operations, Uzbekistan was the leading participant in the TFP in 1999, mostly for the export of cotton, followed by Kazakhstan and Russia.

Equity funds

Private equity funds continued to be the most significant source of equity financing for SMEs in the EBRD's countries of operations. By the end of 1999, the EBRD had committed €947 million to 73 equity funds, making the Bank the largest investor in this segment in its countries of operations.

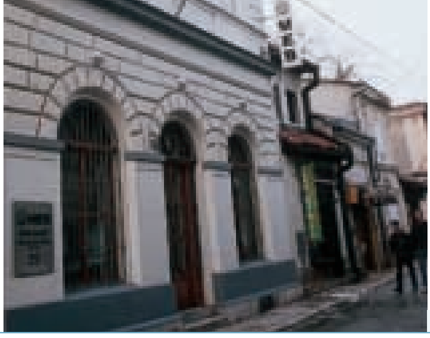
The funds are a very effective intermediary for mobilising additional sources of financing, which occurs at two stages. The first stage is at the fund level as investors commit their capital, while the second stage takes place at the investee company level as equity investment enables investee companies to obtain additional local debt and/or equity financing.

Total capital raised for funds in which the EBRD has participated was €3.8 billion as of the end of 1999. These commitments have mobilised €2.6 billion from private investors in addition to €270 million of technical assistance contributed by donors. As a result, equity investments totalling over €1 billion have been made in over 500 companies based and operating in the region in a wide variety of industry sectors. These investments have contributed to mobilising total financing of over €3.5 billion for companies in the region.

The EBRD has invested in three types of funds in terms of their structure, dimensions and investment strategy: venture equity funds, large equity funds and donor-sponsored funds.

Venture equity funds

Sponsored by private institutions and fund managers, venture equity funds finance early-stage development, targeting deals between €1.8 million and €5 million. The EBRD normally invests up to 30 per cent of the total capital of the fund and has a leading role in the investment decisions and in defining the policies of the fund. By the end of 1999, the portfolio comprised 25 funds, with total capital of €924 million, of which the EBRD had provided €247 million.



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In 1999 the EBRD invested in one new venture equity fund, Information and Communication Technology and Industrial Electronic Fund Ltd. This fund, which had an initial closing of €47 million, is sponsored by TechnologieHolding and Sitra. The EBRD committed €16 million.

Large equity funds

Sponsored by private institutions and fund managers, large equity funds comprise large regional funds or large country funds targeting projects of over €5 million, with a particular focus on privatisation, buy-outs and expansion capital. Fund structures are relatively complex with multiple managers/advisors, co-investment structures and industry networks. The funds may invest a portion of their capital in medium to large companies, and target larger businesses in the telecommunications, energy and infrastructure sectors. By the end of 1999, the portfolio comprised 21 funds of this type, with total capital of €2.2 billion, of which the EBRD had provided €466 million.

In 1999 the EBRD made commitments to five new large equity funds. The most significant of these is the €300 million AIG New Europe Fund, sponsored by AIG, with an EBRD commitment of €47 million. The Bank also committed €50 million to the Power & Energy Private Equity Fund, €20 million to the Energy Efficiency and Joint Implementation Fund, €22 million to the Emerging Europe Capital Investors Ltd and €59 million for co-investment with the TPG Fund.

Donor-sponsored funds

Together with several donor governments, the EBRD has established a number of private equity funds to support the privatisation and restructuring of medium-sized enterprises. These funds provide a combination of equity capital and grant-financed support. By financing pre-investment due diligence as well as post-investment management support, the grant is intended to reduce the equity risk associated with the economic and political environment in which the fund operates. This allows the EBRD to expand the range of its investment and to be the first investor in higher-risk countries.

By the end of 1999, the portfolio comprised 27 funds, with a total capital of €620 million, of which the EBRD has approval to commit up to €491 million. The funds usually target early-stage or small deals worth up to €1.8 million. They include Regional Venture Funds (RVFs) in Russia and Post-Privatisation Funds (PPFs) in the Baltic states, Bulgaria, Kazakhstan, Romania, the Slovak Republic and Ukraine. They also include Small Equity Funds in the Baltic states, Bulgaria, Poland and Russia (Nizhny Novgorod and St Petersburg) and a donor-supported fund in Albania.

In 1999 the EBRD invested in one new donor-sponsored fund, the SEAF – Macedonia fund, a €12 million fund, with an EBRD investment of €4 million.

Micro and small business finance

The EBRD launched a new strategy for small and medium-sized enterprises (SMEs) in 1999.

Under the new SME strategy, the EBRD will focus on:

- expanding the level of financing for SMEs;
- improving the investment climate; and
- creating support networks for these enterprises.

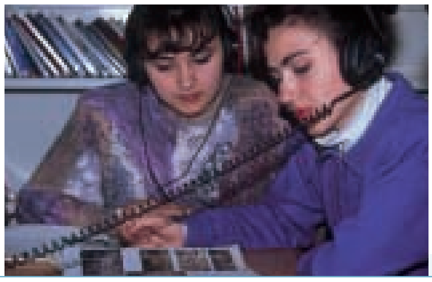
Specifically, the strategy aims to address SME needs in all of the EBRD's countries of operations by strengthening the financial institutions dedicated to financing the growth of SMEs and by improving the business environment for these enterprises. While the Bank will work primarily through financial intermediaries to provide financing, SMEs will be an important consideration across all of the Bank's activities.

The EBRD's largest micro and small enterprise (MSE) lending programme, the Russia Small Business Fund (RSBF), underwent a year of rebuilding in 1999. The programme pursued a dual strategy of continuing to work with Sberbank and a number of the surviving regional banks while making an investment in a new bank specialising in MSE credit, the Russia Small Business Credit Bank (KMB).

EBRD micro and small loans committed in 1999

	Number of loans	Volume of loans	Outstanding portfolio	Arrears of less than 30 days
		(US$ million)	*(US$ million)*	*(%)*
Russia	7,299	59.7	57.9	4.67[1]
Kazakhstan	2,485	17.7	10.3	1.62
Bosnia and Herzegovina	2,334	10.5	7.3	0.32
Albania	926	16.5	7.3	1.19
Ukraine	774	11.7	5.7	2.42
Total	**13,044**	**116.1**	**88.5**	**2.44**

[1] Active banks.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By June, Sberbank had reached pre-crisis lending levels and by the end of the year was consistently making over 550 loans a month worth more than US$ 3 million. The recovery was not so rapid in the regional banks, which continue to suffer from a lack of liquidity. However, a number are showing encouraging signs. Far East Bank, Petrovsky and NBD Bank, for example, will remain a key element in future RSBF strategy. During the year the RSBF granted a total of 7,299 MSE loans worth US$ 60 million, bringing the overall total since the programme's inception in 1994 to almost 31,000 loans with a value of over US$ 380 million.

In 1999 KMB helped not only to revive the existing RSBF operation but also to act as a showcase micro and small enterprise finance institution committed to complete transparency and strong corporate governance. By the end of the year KMB had granted 1,250 new micro and small loans worth almost US$ 20 million. By December, monthly volume had built up to US$ 5 million and this level is expected to grow in 2000. The over-30-days arrears rate on this portfolio currently stands at 0.2 per cent. Demand definitely revived in 1999 and KMB is making headway in establishing itself as a force in the MSE loan marketplace. The bank has so far opened branches in Moscow, Nizhny Novgorod, Novosibirsk, Omsk, Samara, St Petersburg, Togliatti and Yekaterinburg.

The Kazakhstan Small Business Programme (KSBP) grew steadily in 1999 and has now disbursed over 3,200 loans for a total of over US$ 25 million. The KSBP is working with seven banks in eight regions of the country. The high quality of the loan portfolio was maintained despite difficult economic conditions. Participating banks were successful in reaching the smallest borrowers – one-third of all loans disbursed have been for amounts of less than US$ 2,000. Continued regional growth is planned in 2000 to expand the KSBP throughout Kazakhstan.

After a difficult start in Ukraine owing to the effects of the Russian crisis, the joint KfW-EBRD Ukraine micro credit programme started showing good results in the second half of 1999 and ended the year with 774 loans disbursed worth US$ 10.6 million. Similar to the strategy being pursued in Russia, the Ukraine Microfinance Bank (UMFB) is being established in order to increase competition in the MSE sector. The bank will work alongside other participating banks. The EBRD's investment in UMFB was approved in December 1999 and is expected to be completed in the first half of 2000.

In Bosnia and Herzegovina the EBRD's investment in Micro-Enterprise Bank (MEB) made excellent progress in 1999. As of the end of the year, MEB had disbursed almost 3,300 loans worth nearly DM 26 million, and the arrears rate on the portfolio remained exceptionally low at 0.3 per cent over 30 days. MEB has established branches in Bihac, Ilidza, Sarajevo and Tuzla, and expects to open another branch in Mostar in the first half of 2000. The bank reached breakeven in 1999 ahead of projections, and should further consolidate its financial position in 2000.

The EBRD's Board approved an investment in FEFAD Bank in Albania in July 1999. FEFAD was set up as a foundation by KfW and is being converted into a dedicated MSE bank along the lines of MEB in Bosnia and Herzegovina. This process should be completed in the first quarter of 2000.

In 2000 the EBRD will build on these initiatives and expects the establishment of further micro-lending programmes and specialised micro-finance institutions. Although all those efforts are supported by donor funds, initially it is the EBRD's objective to make these programmes sustainable without the support of donor funds in the medium term.

Non-bank financial institutions

During 1999 the EBRD stepped up its activities in the non-bank financial institutions sector, predominantly taking minority equity participations in insurance companies and pension fund management companies. A total of ten new transactions were signed during the year with new commitments of €65.6 million.

The EBRD is one of the largest financial investors in the insurance and pensions sector. The non-bank financial institutions sector also includes leasing, consumer finance, mortgage institutions, local asset management and mutual funds. By the end of 1999 the Bank had participated in nearly all of the countries in the region where the reforms for the provision of mandatory pensions have been, or are in the process of being, introduced.

Insurance companies

The EBRD signed four new insurance company equity investments during the year. Two of the investments – Ceska Rakouska pojistovna in the Czech Republic and Austrija Osiguranje in Croatia – were the first investments made alongside the Austrian insurance group UNIQA (formerly Bundeslaender) under a multi-project facility signed with UNIQA in 1998. A new life insurance company was established in Poland together with Wiener Staedtische of Austria, a sister company to the non-life company, Heros S.A., in which the Bank has been a shareholder for the last four years. The EBRD also signed a minority equity participation in the Bulgarian Insurance & Pensions Group. In addition to the new equity participations in insurance companies, the EBRD increased its equity participation in the Russian insurance company Principal from 10 per cent to 32.5 per cent.

1 The EBRD has established small business loan programmes in Albania, Bosnia and Herzegovina, Georgia, Kazakhstan, Kosovo, Moldova, Russia and Ukraine.

2 An EBRD loan for the development of Tallinn Airport in Estonia is expected to result in an increase in the airport's capacity and greater passenger comfort.

The successful multi-project facility with the Swiss insurer Winterthur was extended for a further three years and increased by SFR 50 million to SFR 100 million. As of the end of 1999, the Bank had invested in seven Winterthur insurance and pensions businesses in the Czech Republic, Hungary and Poland. During the year the Bank also participated in a capital increase for Winterthur's insurance business in Hungary.

Pensions

In 1999 the EBRD signed an equity investment in the Bulgarian pension fund management company Doverie via the investment in the Bulgarian Insurance & Pensions Group described above. Having operated a voluntary pension fund in Bulgaria for the last five years, Doverie is well-positioned to participate in the mandatory pension reforms passed by the Bulgarian parliament towards the end of 1999. In Croatia the Bank signed a minority equity investment in a mandatory pension fund management company, led by Erste of Austria, following the adoption of pension reforms by the Croatian parliament. In addition to the two new pension fund company investments, the EBRD participated in capital increases for the Winterthur voluntary and mandatory pension fund management companies in Hungary.

Infrastructure

As part of the reorganisation of the Banking Department in 1999, an infrastructure group was created, consisting of four teams: Municipal and environmental infrastructure, Transport, Power and energy utilities, and Energy efficiency. The teams have similarities in terms of the monopoly status of many of their clients; the role of the government in the regulation of each sector; and the financing structure and risk characteristics of the EBRD's investments. The Infrastructure Group was established to encourage the development of new forms of financing for the infrastructure sector, to increase awareness of the Bank's activities in this sector, and to develop common areas of activity between the four teams.

In 1999 the EBRD invested €665 million in a total of 24 infrastructure projects. Infrastructure projects accounted for nearly one-third of the Bank's commitments in 1999.

The largest share of the EBRD's infrastructure commitments was the transport sector (47 per cent), followed by municipal and environmental infrastructure (24 per cent), power and energy (23 per cent), and energy efficiency (5 per cent). Just over 35 per cent of the EBRD's infrastructure investments were in countries at the advanced stages of transition.

Almost 64 per cent of EBRD financing concerned sovereign projects in the public sector – mainly in the transport sector and, to a lesser extent, in the power sector. There was also an increasing emphasis on non-sovereign public financing. In the power sector the number of private projects continued to grow in 1999. Among the innovations in the infrastructure sector were the first local currency loans in the Czech Republic and Poland, the first equity funds in the power and energy efficiency sectors, and the first corporate investments in municipal utilities without municipal guarantees.

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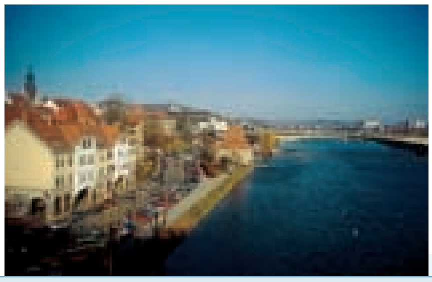

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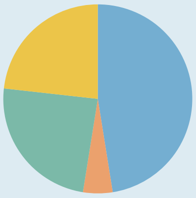
Infrastructure Group commitments

1999



The portfolio of infrastructure commitments grew in 1999 to over €3.8 billion in support of projects with an estimated value of €11 billion. As a result of restructuring and cancellations, as of the end of the year, 100 per cent of the EBRD's assets in the infrastructure portfolio were performing.

The EBRD has already had a significant impact in the infrastructure sector through projects that have now been fully disbursed. These include a loan of €30 million for a road reconstruction project in Croatia, which financed the completion of a major road between Zagreb and the Adriatic coast as well as road improvements on high-priority routes. The EBRD has also completed an €11.5 million equity investment in the partial privatisation of the Budapest Municipal Sewerage Company, which has brought private participation into a key sector of Hungary's economy. In the power sector the EBRD has fully disbursed a loan of €27 million to Orsha Power Plant in Belarus, which has helped to modernise the plant and to improve the reliability of domestic supply.

Municipal and environmental infrastructure

The EBRD strengthened its presence in the municipal and environmental infrastructure (MEI) sector in 1999, providing financing of €161 million in support of projects with a total value of €327 million. Investments were mainly in the areas of water supply, sewerage and waste-water treatment, with close to 70 per cent of the Bank's commitments in EU accession countries. For the first time the Bank signed MEI projects in the Czech Republic, Slovenia and Ukraine.

Despite the impact of the Russian financial crisis, which in many countries severely constrained the financial capacity of regional and municipal authorities, the level of EBRD commitments remained at the same level as the previous year. By the end of 1999 the Bank had committed a total of €556 million to municipal infrastructure and services projects in about 125 municipalities in 15 countries.

In 1999 the EBRD became the first international financial institution to provide financing to municipal water and sewerage companies without a full financial guarantee from the municipalities. The projects involved financing for three water and sewerage companies: a loan of €42.5 million for a public-private partnership in Brno in the Czech Republic; a €26 million loan for a company entirely owned by the municipality of Bydgoszcz in Poland; and a loan of €24.7 million for a company that is to be privatised by the municipality of Timisoara in Romania.

In all three projects highlighted above, the EBRD played an important role in developing service agreements between the respective municipalities and the water and sewerage companies. Such agreements, or operating contracts, are designed to set quality standards for service provision while providing economic incentives for efficiency gains. They also ensure, in the case of private sector participation, a fair sharing of risks and benefits between public and private parties.

One of the EBRD's most significant projects during the year was a "build-operate-transfer" (BOT) operation in the water sector, which was the first in the region to involve a process of international competitive bidding. The project concerned a waste-water treatment plant in Maribor, Slovenia, which will be constructed under a BOT contract between the city of Maribor and a private operator. Under the contract, all risks for construction and operation have been transferred to the private sector. The Bank played a key role in developing the BOT approach and structuring the transaction. As well as providing a loan of €28.1 million, of which €13.3 million was syndicated, the EBRD mobilised technical assistance for the tendering, appraisal and negotiation of the BOT contract.

Other important EBRD investments in 1999 include a water and sewerage project in Kaliningrad in Russia, where the Bank is cooperating closely with the Government of Sweden and a number of other co-financiers. An EBRD loan of €17.9 million will help to improve the supply of safe and clean drinking water for the city's

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1 The waste-water treatment plant in Brno, Czech Republic, received a significant EBRD investment in 1999, which will allow the plant to expand its operations and improve efficiency.

2 An EBRD investment in Slovenia is helping to establish a waste-water treatment plant in Maribor, which will allow the city's waste water to be treated according to EU standards.

3 An EBRD loan to improve track maintenance at Ukraine's state railway company will lead to more reliable rail freight services at lower cost and will make the country's goods more competitive in the international market place.

4 Baku port in Azerbaijan has benefited from an EBRD loan, which will help to improve the port's facilities and to restructure its operations.

population, and will lead to a significant reduction in the environmental pollution of the Baltic Sea. A similar project was undertaken in Zaporizhzhia, Ukraine, where an EBRD loan of €27.9 million will help in reducing the level of pollution in the Dnieper River. The financing will also improve the efficiency and quality of water and waste-water services for the population of one of the country's most important industrial centres. Both projects are to be repaid through the revenue from user charges.

In all of its operations, the EBRD continued to support the decentralisation of responsibility for the funding and provision of municipal services. The Bank encouraged municipalities and utilities to assume service responsibilities and to become accountable to local constituencies. It also continued to encourage a shift in attitude from reliance on government grants towards financial self-sufficiency.

In response to the new priorities for taking transition forward, the EBRD sought to develop, where appropriate, a cluster approach designed to take advantage of the common aims shared by the Bank's projects and other initiatives at the municipal or regional level. Working closely with local and regional authorities committed to reform, the Bank is exploring investments in a multitude of municipal infrastructure and services sectors, where EBRD projects are already under way, in order to promote the financing of small and medium-sized enterprises.

Transport

The EBRD added 12 projects to its portfolio of transport operations in 1999. Totalling €315 million, these commitments bring the overall value of the Bank's transport operations to €2.0 billion. New operations were mainly in the Baltic states and in the CIS, including Ukraine and countries in the Caucasus and Central Asia. These projects accounted for over 60 per cent of the Bank's commitments in this sector in 1999 and were the result of several years' work in developing opportunities in the eastern part of the region.

The EBRD's projects covered all the main areas of the transport sector, but the main focus was once again on railways. Five new railway projects were signed, accounting for just over half of the total of commitments in 1999. These included large operations in Kazakhstan (€64.8 million) and Ukraine (€51.7 million), both of which involve the establishment of modern track maintenance and renewal systems, which are vital for improving the efficiency of railway operations. In Uzbekistan the EBRD provided a loan of €39.8 million for the provision of new electric freight locomotives as part of a co-financing package with the Asian Development Bank. In Estonia a loan of €14.9 million is helping to refurbish the Narva marshalling yard, which complements ongoing investment in the east-west mainline financed by the European Investment Bank (EIB).

In Azerbaijan the EBRD provided a loan of €20.1 million to Azerbaijan Railways to improve the infrastructure of the Trans-Caucasian Railway. This project follows a similar operation signed in 1998 in Georgia. Together with a new commitment of €16.1 million to the Baku Port Ferry Terminal in Azerbaijan, these two projects represent a significant improvement to the trade route to Europe. Co-financing was provided by EU Tacis.

1 KEGOC, the national grid company in Kazakhstan, has received a major EBRD investment, which will support the restructuring of the Kazakh power sector and encourage the development of an efficient and competitive electricity market.

The EBRD's new commitments in the railway sector will strengthen the significant contribution that the Bank has already made to the development of the railway system, which is by far the most dominant mode of transport in the region. As of the end of 1999, the EBRD had loan agreements with 17 railway enterprises, including all of the key railways in central Europe and the Baltic states.

The EBRD signed its first private sector project in the ports sector in 1999. The Bank provided a loan of €9.9 million to a joint venture supported by a Belgian strategic investor to build and operate a new container terminal in the Port of Ventspils in Latvia. The EBRD also provided a loan of €10 million to Hungarian Railways for basic infrastructure related to an intermodal terminal on the outskirts of Budapest. This project is conditional on the selection by the railways of a private sector strategic partner to operate the terminal. Co-financing was provided by EU Phare.

Two commitments were made in the road sector during the year, the most significant being a loan of €66.8 million for the restructuring of the M1/M15 motorway project in Hungary. The EBRD also made a loan of €10 million to the Albanian Government as part of an international effort to modernise the main east-west highway linking Albania with former Yugoslavia and the rest of south-eastern Europe. The EBRD attracted €4.1 million in grant financing from the Italian Government and the Central European Initiative for this project.

Two new airport projects were signed in 1999, including a loan of €7.6 million for the second phase of development at Tallinn Airport in Estonia, with co-financing provided by the EIB. On a smaller scale, a loan of €3 million was provided in Tajikistan for urgent improvements to Khoujand Airport.

Power and energy utilities

In 1999 the EBRD consolidated its support for the power and energy sector, signing four projects totalling €155 million. For the first time, private sector projects exceeded public sector transactions, both in number and in the amount of Bank financing. This reflects the growing demand for private sector financing following the implementation of sector reforms. All were in countries at the early or intermediate stages of transition.

One of the EBRD's most significant projects in the private sector was an equity investment of US$ 50 million in the EIF Group Central and Eastern European Power Fund. This will invest in small to medium-sized projects involving power and heat generation and distribution in central and eastern Europe and the Baltic states. The Fund will have a capital of up to US$ 250 million, which will be partly used to support the privatisation process.

Financing of €51 million from the EBRD will allow Gastransit, a closed joint-stock company, to build the first entirely privately financed gas compressor station in southern Ukraine. This new compressor will help overcome the bottlenecks in the gas transportation system and will improve the delivery of Russian gas to Turkey. This is the first time that pipeline-operating services in Ukraine will be provided on the basis of a cash-based commercial contract in line with international industry practices.

In support of the efforts of the Georgian Government to privatise distribution and to improve collection, the EBRD provided a corporate loan of €30 million to the recently privatised Telasi distribution company. The loan will enable Telasi to improve distribution to the capital city of Tbilisi and the surrounding region. It will also greatly improve the level of collection, which is needed to fund reinvestment and modernisation of the power sector.

In the public sector the EBRD provided the national grid company in Kazakhstan with €45 million to upgrade the country's transmission system and to promote the development of a competitive power market. The project will also support the privatisation of ten power distribution companies and the development of regulation needed to attract further private sector interest.

2 An EBRD loan to KESH, Albania's electricity utility, will help to modernise the company's hydro power plants and to ensure a more reliable electricity supply in the wake of the Kosovo conflict.

3 The Energy Efficiency and Joint Implementation Fund will use EBRD funding to invest in energy efficiency projects across a range of sectors, including district heating, public lighting and industry.

In Albania the EBRD extended €30 million to the state-owned power company, KESH, to reduce system losses, to upgrade hydro power capacity and to improve the overall reliability of the power system. The project also introduces private sector management by placing distribution under a performance-based management contract.

The EBRD also played an active role in catalysing the privatisation of distribution in several countries, including Armenia, Kazakhstan, Kyrgyzstan, Moldova, Romania and Ukraine.

Many of the Bank's projects in the power and energy sector will help to improve energy efficiency on the supply side and reduce atmospheric emissions. The power transmission project in Kazakhstan, for instance, will lower transmission losses and thereby reduce the need for coal-fired generation, resulting in reductions in CO_2 emissions. In Georgia the Telasi project will reduce distribution losses as well as finance metering of consumers. In 1999 the EBRD released a revised Energy Operations Policy, which was published on the Bank's Web site for public comment prior to approval by the Bank's Board of Directors. The policy outlines the EBRD's key objectives for the energy sector and will be submitted to the Board in spring 2000.

Energy efficiency

The EBRD continued to develop the key areas of district heating and energy service companies (ESCOs) in 1999, signing projects with a total value of €168 million. These included the Bank's first energy efficiency equity fund and an industrial energy efficiency project in Lithuania. However, adverse market conditions and the impact of the Russian financial crisis on the energy sector in the countries at the early and intermediate stages of transition restricted the opportunities for new commitments. As of the end of 1999, the Bank's overall commitment in the energy efficiency sector was €171 million in support of projects with a total value of €464 million.

During the year the EBRD established new ESCOs in the Czech Republic, Hungary, Poland and Romania. These will introduce energy conservation measures at no initial cost to the customer, guaranteeing energy savings that are used by the customer to pay back the initial investment. The new ESCOs will complement the companies that the Bank has already established in Lithuania, the Slovak Republic and Ukraine, bringing the total number to 14. These have involved over €100 million of EBRD financing together with €220 million from commercial co-financing.

A key achievement for the EBRD in 1999 was the establishment of the Energy Efficiency and Joint Implementation Fund, into which the EBRD invested €20 million. A further €41 million was provided by private sector investors. The Fund will make equity investments in companies involved in providing energy efficiency goods or services or in cases where equity can be used to realise energy savings. The Fund will also seek to take advantage of "carbon trading" agreements once such frameworks have been agreed and confirmed by national governments. Under these agreements, Western industrialised nations may seek to meet their quotas for reductions in carbon emissions by funding energy efficiency investments in other parts of the world.

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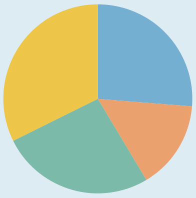
Industry and Commerce Group commitments

1999



In the industrial sector the EBRD provided a debt and equity facility of €5.6 million to the Drobe Wool company in Lithuania. The facility will be used to finance Drobe's privatisation, restructuring and modernisation and includes significant energy efficiency benefits.

In 1999 the EBRD's energy efficiency activities benefited from the reorganisation of the Banking Department, which has led to close cooperation between the Bank's municipal, energy and energy efficiency activities, resulting in the coordination of marketing, product development and the development of new projects. The preparation of new investment projects in the energy efficiency sector accelerated in 1999 and is expected to lead to a marked increase in financing commitments in the years ahead. These are likely to include the establishment of new ESCOs, further progress in structuring public-private partnerships with municipal district heating companies and a greater focus on Central Asia.

Industry and commerce

The Industry and Commerce Group was created in 1999 when the Banking Department was reorganised. It consists of four banking teams: Agribusiness; Natural resources; Property, tourism and shipping; and Telecommunications, informatics and media.

The establishment of the group underlines the importance of sector-specific know-how. One of its aims is to explore the common areas of activity between the teams, which primarily focus on financing private sector projects.

During 1999 the group signed 25 projects totalling €684 million, representing a 21 per cent increase over the previous year. Industry and commerce projects accounted for 32 per cent of the EBRD's commitments in 1999.

The largest share of the industry and commerce commitments was in the agribusiness sector (32 per cent), followed by telecommunications, informatics and media (26 per cent) and natural resources (26 per cent), and property, tourism and shipping (15 per cent). A total of 29 per cent of the commitments in the industry and commerce sector for 1999 were in countries at the advanced stages of transition.

There was an increasing focus in 1999 on private sector projects, which constituted 86 per cent of the group's total commitments during the year and accounted for 94 per cent of the project pipeline for 2000. Equity projects represented an increasing share of new commitments and amounted to 25 per cent of signings in 1999.

Among the most innovative transactions in the industry and commerce sector were the largest private project in Ukraine (undertaken with Cargill in the food sector), the grain receipt programme in Bulgaria, the first ever private deal in Turkmenistan (signed with Dragon Oil), and a Russian gold facility. Other significant projects included the first shopping centre project in the Slovak Republic and an equity investment in Golden Telecom, the first initial public offering of a Russian and Ukrainian company on the NASDAQ stock exchange since the financial crisis in August 1998. By the end of 1999, the cumulative total of commitments in the industry and commerce sector stood at over €3.9 billion.

EBRD financing has already resulted in a number of improvements in the industry and commerce sector. Projects where financing has been fully disbursed include a loan of €26.4 million for the modernisation of the telecommunications network in FYR Macedonia. As a result, almost 80,000 new subscribers were connected to the network and modern high-quality services were introduced. In Poland an EBRD loan of €9.4 million was used to construct a new office development in Warsaw. The completion of the Sienna Centre has helped to overcome the severe shortage of modern office accommodation in the city. A similar project in Riga, Latvia, financed construction work on the Valdemara Centre, providing over 10,000 metres of office and retail space on a prime city-centre site.

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1 In response to increasing demand for financing in the agribusiness sector, the EBRD signed nine projects in 1999, including a loan to the Georgian Wines and Spirits Company – the country's leading wine exporter – which will help the company to increase its production capacity.

2 Danone Ciastka, Poland's leading biscuit manufacturer, has benefited from an EBRD investment that will allow the company to expand its operations.

3 An EBRD loan to Baltika, Russia's leading brewery, will help the company to expand its production capacity and to develop its distribution network.

Agribusiness

Demand for EBRD funding in the agribusiness sector increased significantly in 1999, resulting in the highest ever level of annual EBRD commitments in this sector. During the year nine operations were signed with a total value of €222 million, 28 per cent above the 1998 level. Most of these investments (82 per cent) were in Russia and in early and intermediate transition countries. As of the end of 1999, the total agribusiness portfolio was €0.87 billion, which represents approximately 6 per cent of the Bank's total portfolio.

This high demand can be partially explained by the series of devaluations following the Russian financial crisis in August 1998. These devaluations penalised exporters to Russia and other CIS countries and benefited companies with local production facilities that do not rely too heavily on imported raw materials. As a result, most leading international agribusiness companies maintained, or even expanded, their investment plans in the region. This trend helped the EBRD to attract additional investment and to close the first syndications in the CIS countries since the crisis.

In Russia the EBRD provided Baltika, the country's biggest and most successful brewery, with a €39.9 million loan, of which €7.8 million was syndicated. The loan will help the company to expand its production capacity at its two existing sites and to develop its distribution network across Russia. In Ukraine the Bank provided Dnipropetrovs'k Oil Extraction Plant, the largest edible oil crushing plant in the country, with a €43.3 million loan, which included a €18.1 million syndication to four participating banks. The funding will help the company to expand its sales of edible oil under the Oleina brand, which is the market leader in Russia and Ukraine.

A number of major international and local agribusiness companies worked with the EBRD for the first time in 1999. In addition to Baltika, which is mentioned above, the Bank cooperated with Cargill of the United States, the world's largest privately owned agribusiness company. The Bank jointly financed with Cargill the construction of a "greenfield" sunflower seed processing plant in Ukraine, providing financing of €56 million in the form of debt and equity. In Georgia the EBRD financed the modernisation of the Georgian Wines and Spirits Company, which is partly owned by the multinational group Pernod Ricard. In Lithuania the Bank invested €11.5 million in the expansion and modernisation of the country's largest dairy processor, Rokiskio Suris, which is well-established in the US, Russian and domestic markets.

The EBRD expanded cooperation with a number of its existing clients in 1999. In its fifth investment under the €101 million multi-project facility with Groupe Danone, the Bank acquired a minority stake in Danone Ciastka, the leading Polish biscuit manufacturer. Alongside Carlsberg, the Bank made an equity investment in the Lithuanian brewery Svyturys in conjunction with another longstanding EBRD partner, the Danish Investment Fund for Central and Eastern Europe.

The EBRD continued to develop and expand its financing instruments for small and medium-sized enterprises. Following successful implementation of the innovative Grain Receipt Programme in the Slovak Republic, the Bank expanded the programme into Bulgaria and hopes to extend it to other countries in 2000. The Bank worked with the European Commission, the Polish authorities and local commercial banks in 1999 to develop a programme aimed at improving milk quality in the light of the country's EU accession process.

In 1999 the EBRD renewed its Framework Agreement with the United Nations Food and Agriculture Organization (FAO). Under this agreement, the Bank and the FAO have provided technical assistance to various companies and government agencies in the region. For example, in Kosovo the Bank and the FAO jointly participated in the reconstruction process by providing assistance to local agribusiness companies, helping them to prepare investment plans and raise financing. This assistance was provided as part of a larger rural reconstruction initiative, which is also supported by the World Bank and by the European Union. Other technical cooperation projects under the framework were implemented in Bulgaria, Croatia, FYR Macedonia, Poland and Ukraine.


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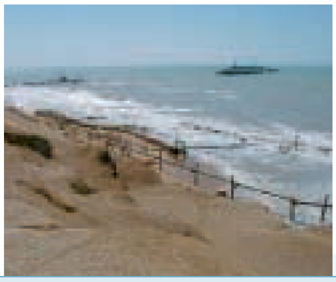
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1 Permtex LLC, a Russian oil production company, has received an EBRD loan that will support the development of oil reserves in the Urals.

2 An EBRD loan to Dragon Oil, an oil and gas exploration company in the Caspian Sea region, will help to encourage further investment into the most important sector of Turkmenistan's economy.

Natural resources

The natural resources sector made a strong recovery in 1999 from the negative effects of the previous year's fall in prices. However, investments in new projects continued to decline, with signs of investor interest appearing only in the last few months of the year.

During 1999 the EBRD signed projects in Russia, the Slovak Republic and Turkmenistan, totalling €180 million. As of the end of the year, the EBRD's portfolio in the natural resources sector stood at €1.1 billion, involving 30 projects.

In early 1999 the EBRD approved a new Natural Resources Operations Policy, which outlines how the Bank aims to respond to the varying needs of its countries of operations. In Russia, for example, efforts are to focus on helping oil companies achieve better levels of corporate governance and management. The policy also identifies new financial instruments that will be used to tackle some of the serious problems in the transition process. In particular, the EBRD will use more sophisticated medium-term working capital loans for enterprises operating in this sector. The EBRD's main objectives, as outlined in the policy, are to:

- increase private sector participation and promote strategic investment in the oil, gas and mining industries;
- reduce transportation bottlenecks and ensure competitive market access;
- improve the regulatory and institutional framework; and
- set high standards of business conduct and environmental protection.

In the Caspian Sea region and in Central Asia the EBRD is participating in the development by small independent oil companies of onshore oil and natural gas resources. In 1999 the Bank signed its first natural resources project in Turkmenistan, extending a loan of €59.8 million to Dragon Oil for the development of an oilfield. This is expected to reach a production level of around 200,000 barrels per day and will make a significant contribution towards the country's export diversification. The project is expected to lead to the development of similar projects in Turkmenistan and elsewhere in the region.

In the Slovak Republic the EBRD provided financing of €30 million to allow Slovenský Plynárenský Priemysel, š.p., a state-owned gas distribution company, to introduce an integrated IT system and to modernise and extend its distribution network. In Russia a loan of €25 million from the EBRD was extended to Permtex LLC to develop oil reserves in the Perm region.

In central and eastern Europe the EBRD aims to assist the transition process and EU accession by supporting the privatisation, conversion and modernisation of the oil industry. In Croatia, FYR Macedonia, Lithuania and Romania, for example, the Bank has been working closely with state-owned companies, governments and strategic sponsors in the oil and gas sector, supporting projects involving pipelines, refineries and distribution. Although these projects are financially complex, they make a significant contribution to the transition process in these countries.

In the mining sector the EBRD approved a framework facility of up to €116 million to finance the short-term working capital needs of alluvial gold producers in Russia. These are mostly small to medium-sized enterprises, each producing relatively modest amounts of gold. The facility will be renewable annually for up to three years and will finance the production of up to 12 tonnes of gold. The first projects under the framework were signed in December 1999.

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3 Retail and office development in the Czech Republic is being supported by an EBRD investment in the European Property Group.

4 Alpha Properties Group has received an EBRD loan that will help to boost the underdeveloped commercial property sector in northern Poland.

Property, tourism and shipping

The EBRD strengthened its role in the property sector in 1999, signing five projects with a total value of €102 million. This is twice as high as the total for 1998 and brings the overall value of EBRD projects in the property and tourism sector to €565 million.

In central Europe the EBRD focused on equity and quasi-equity financing in the property sector, with the aim of encouraging further private sector investment, while in eastern Europe and the CIS the Bank continued to concentrate on providing loans.

In its first major equity investment in the property sector, the EBRD committed €34.3 million to the European Property Group to support the development of commercial property operations in the Czech Republic. The financing will be used to invest in retail and office development and is expected to encourage further investment and competition in the country's property sector.

Another equity investment – totalling €13.5 million – was made by the EBRD in TAP Investment Ltd. Through this project, the Bank became an equity partner in a number of prominent retail and office developments in Hungary, including the West End City Centre and the Polus Centre in Budapest.

In Poland the EBRD made its first direct financing outside the Warsaw property market, extending a €9.4 million convertible loan to Alpha Properties Group. The loan will help the company to expand its property development activities in northern Poland, where it is represented through its fully owned subsidiary JWK Invest. In addition to supporting commercial property, the project will also assist in the development of residential accommodation, which the EBRD is supporting for the first time.

Partial financing for the planning, construction and operation of the Polus Centre in Bratislava was provided by the EBRD through a €23 million senior loan to Polus Inv. S.r.o., a company sponsored by TrizecHahn Corporation. The Centre will comprise shopping, entertainment, office and parking facilities and will help to promote further development of the commercial property sector in the Slovak Republic.

In Central Asia the EBRD extended a €9.8 million senior loan to Samal Properties to complete the construction of an office development in Almaty, Kazakhstan. Turan Alem Bank is the majority shareholder in the project, which is expected to stimulate the development of better quality commercial property in the city.

In Azerbaijan the EBRD signed its first project under the Bank's Direct Investment Fund Programme, which was set up to assist small and medium-sized enterprises. The project consists of a €1.6 million investment in the Silk Road Motel, a 142 room 3-star motel located just to the south of Baku. Although the financing is for a small amount, the project will have a significant impact on the transition process by demonstrating a financing structure that is new to the local market and by developing local skills in the service industry.

Despite the depressed state of the world shipping and shipbuilding industries throughout most of 1999, the EBRD continued to support both sectors. As of the end of the year, the EBRD had signed projects with a total value of €260 million in the shipping sector, and the Bank is currently reviewing a number of new projects. These include proposals from privatised river-sea operators and river cruise specialists and a number of potential refund guarantee facilities for both privatised and publicly owned shipyards.

In 1999 the EBRD disbursed €1.9 million under a medium-term facility to JSSC Ukrrichflot, a fully privatised river-sea operator from Kiev. This was used to purchase two dry cargo vessels from the Romanian shipyard, Societatea Comerciala Navol S.A., and assisted in the upgrading of the company's fleet. The EBRD also extended its support to North Western Shipping Company of St Petersburg by advancing a new commitment of €3.4 million. This will be used to assist in the acquisition of a general cargo vessel from the Volgograd shipyard in Russia.

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1 An EBRD project in support of GSM mobile telephone services in Romania is helping to expand the country's network and has mobilised significant co-financing.

2 The EBRD's investment in Golden Telecom, a leading provider of telecommunications services in the CIS, is helping to support the development of innovative services and to expand the telecommunications network.

Telecommunications, informatics and media

The EBRD was the leading institutional investor in private sector operations in the telecommunications, informatics and media (TIM) sector in 1999. In particular, the Bank continued to support the establishment of a high-quality, readily accessible and affordable telecommunications service, which is vital for the economic success of the region. During the year the EBRD signed seven projects with a total value of €180.3 million, all of which were in the private sector. This brings the total signed commitments in the TIM sector to €1.3 billion, covering 44 projects in 20 countries with total project costs of €7.3 billion.

In 1999 the EBRD's Board of Directors approved a new Telecommunications, Informatics and Media Operations Policy. This reflects the EBRD's objectives for the TIM sector, which are to:

- promote network expansion to increase access to telephone services and to improve the quality of service;
- encourage the emergence of innovative and advanced communications services;
- accelerate the privatisation process;
- develop regulatory and legal frameworks; and
- extend the development of the sector beyond basic telephone services.

The EBRD continued to work closely with other IFIs, especially the World Bank, the European Investment Bank and the European Commission (EC). In September the EBRD and the EC signed a Memorandum of Understanding to promote the development of the telecommunications sector in central and eastern Europe and the CIS. The Bank is also working with other institutions to implement the telecommunications aspects of the Stability Pact for South-Eastern Europe.

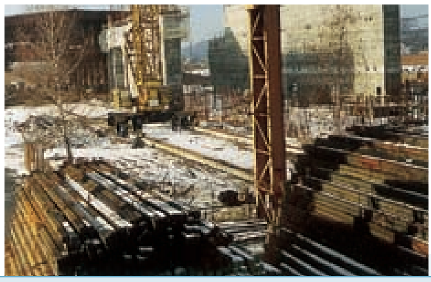
In 1999 the EBRD extended loans to GSM mobile telephone companies in Croatia (€22.4 million), FYR Macedonia (€18.7 million) and Romania (€10 million) to help them extend their networks. In Croatia and Romania the Bank's participation mobilised co-financing totalling €191 million. In FYR Macedonia the Bank's project will help to expand telecommunications services and meet the increase in demand, which arose initially from activities related to the crisis in neighbouring Kosovo.

In Central Asia the EBRD undertook its first telecommunications project in Kazakhstan, extending a loan of €49.8 million to Kazaktelecom. The project will help to accelerate the privatisation of the incumbent operator by attracting a foreign strategic investor, extending and modernising the Kazakh telecommunications infrastructure and improving the regulatory environment.

Elsewhere in the CIS the EBRD made an equity investment of €32.6 million in Golden Telecom, a leading provider of integrated telecommunications services to businesses and other high-usage customers in Kiev, Moscow, St Petersburg and other cities in the CIS. The investment will help the company to expand its network and will promote the emergence of innovative and advanced services that are crucial for the competitiveness of businesses within the region. In Russia the EBRD made a loan of €16.8 million to the New Telephone Company to finance the expansion of landline telephone services in Vladivostok and GSM mobile telephone services for Primorsky Krai in the Russian Far East.

To support small and medium-sized enterprises, the EBRD invested €16.9 million in the Technologieholding Central and Eastern European Fund, which specialises in investments in SMEs in the information and communications technology sector and in the industrial electronic sector in the Czech Republic, Hungary and Poland. Further support for Poland was provided through a guarantee facility of €30 million, which will allow TPSA, the Polish incumbent operator, to access financing from the European Investment Bank. The EBRD's participation in the project mobilised official co-financing of €220 million.

The EBRD continued to support governments in the region in their efforts to reform the telecommunications, informatics and media sector. Technical cooperation funding is being used to implement legal and regulatory reform programmes in Albania, Armenia, Bosnia and Herzegovina, Georgia, Kazakhstan, Tajikistan and Ukraine.



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3 An EBRD loan for Ózdi Acélművek Kft Minimill, a producer of steel reinforcing bars and wire rods in Hungary, will allow the company to expand and to create new jobs.

4 An EBRD investment in Saaktsio Sazogadoeba MINA (Ksani), a glass bottle manufacturer in Georgia, will help to complete the company's privatisation and to improve its productivity and competitiveness.

5 A/O Gap Turkmen, a denim factory in Turkmenistan, has benefited from the Bank's first private sector operation in the country.

Other sectors

Manufacturing and distribution projects are undertaken by the EBRD's country teams rather than the industry sector groups listed above.

Manufacturing

In the largest foreign investment outside the oil sector in Georgia, the EBRD committed €8.8 million to Saaktsio Sazogadoeba MINA, a glass bottle manufacturer. The project is being sponsored by the leading Turkish glass manufacturer, Turkiye Sise ve Cam Fabrikalari AS (Sisecam). The financing will help to complete the privatisation of the state-owned company and will improve productivity, energy efficiency and product competitiveness. It will also help to bring environmental practices up to international standards. Co-financing is being provided by the IFC.

In the wake of the Kosovo conflict, the EBRD provided a loan of €8.7 million to Alkaloid A.D., a leading manufacturer of pharmaceuticals, chemicals, cosmetics, coatings and herbs in FYR Macedonia. The project is particularly significant as it is the first industrial project that the Bank has financed in this country without a foreign strategic investor. The loan will be used to finance the modernisation of the company's pharmaceutical production facilities through the establishment of a new Good Manufacturing Practice facility. Co-financing is being provided by the IFC.

In its first private sector investment in Turkmenistan, the EBRD extended financing of €3 million to the joint-stock company A/O Gap Turkmen, a denim factory. This follows the Bank's €29.4 million investment in 1995. The 1999 capital increase will support the company's long-term economic viability and may serve as a model for further foreign investment in Turkmenistan.

In Romania the EBRD provided a loan of €8.5 million to Ambro, a privatised pulp and paper factory. Ambro is part of the international packaging group Sical. The investment will assist the company's restructuring by providing new technology, which will improve Ambro's cost competitiveness and raise environmental standards (see page 43).

In Hungary the EBRD made a €10.2 million loan to Ózdi Acélművek Kft Minimill, the country's only producer of steel reinforcing bars and wire rods. The loan will be used to provide partial finance for a new electric arc furnace that will help this medium-sized local enterprise to improve cost efficiency and provide jobs in an economically depressed region.

The EBRD is helping to expand the production capacity of Estonia's forest and paper industry by extending a €5.1 million loan to AS Imavere Saeveski, a joint-stock company that operates one of Estonia's most modern sawmills. The loan supports the development of new technology that will strengthen the company's competitiveness in the export markets by making production more flexible and introducing the company to new markets.

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1 Russian gold-producing companies must meet strict environmental, health and safety criteria to qualify for financing under the EBRD's new framework facility for gold production.

2 An EBRD loan to Alkaloid A.D., a manufacturing company in FYR Macedonia, will help the company obtain Good Manufacturing Practice certification, which is a pre-requisite for sales to Western countries.

Environment

As directed by its mandate, the EBRD promotes environmentally sound and sustainable development in all of its activities, recognising that safeguarding the environment is an integral part of sound business practice. The EBRD implements its environmental mandate by financing projects in sectors such as municipal infrastructure and energy efficiency (see pages 32-33 and 35-36) and by applying environmental appraisal procedures to all of the Bank's operations.

In 1999, 14 environmental projects were signed with a total EBRD commitment of €196 million. Environmental components of other investment projects included funding emission reduction technologies, waste-water treatment and other environmental expenditure related to Environmental Action Plans (EAPs).

Environmental due diligence investigations are normally undertaken early in the operation cycle in order to allow time to identify environmental concerns and opportunities, to plan mitigation and enhancement measures, and to obtain agreement on action to be taken before the project is approved by the EBRD's Board of Directors. Environmental conditions, relating to mitigation and enhancement measures and monitoring, are incorporated into loan agreements.

Fifty-three environmental analyses, including one environmental impact assessment, and 23 environmental audits were conducted on projects approved by the Board of Directors in 1999. In some cases both analyses and audits were required.

Natural resources

An EBRD investment in Permtex, an oil production company in Russia (see page 38), had a number of environmental objectives. These included the reduction of gas flaring and air emissions, compliance with national standards and World Bank environmental guidelines and good industry practice, improved environmental, health and safety management, and efficient utilisation of gas and water resources. To reduce the environmental impact of the project, the company is utilising low-toxicity drilling muds, modern mud-drilling technology, and directional or horizontal drilling. A gas turbine unit will be built to utilise associated gas to generate electricity for the company's own needs. The introduction of modern and environmentally sound oil industry technology, know-how and practices will improve the company's environmental performance and reduce environmental damage.

Under the EBRD's framework facility for gold-producing companies (GPCs) in Russia (see page 38), the selection process for GPCs undertaken by consultants will include environmental, health and safety criteria. Shortlisted GPCs will be subjected to additional health, safety and environmental due diligence. Each selected GPC must agree to an EAP, which will indicate both short-term and longer-term measures to improve their performance. Each credit proposal will be reviewed by the EBRD's Environmental Appraisal Unit and will be subject to Bank approval. During the course of the EBRD's financing, the GPCs' implementation of required health, safety and environmental measures will be monitored.

A technical cooperation (TC) programme was initiated in 1999 in Kyrgyzstan to establish a Business Council and Community Forum to facilitate discussion between interested parties following a cyanide spillage in May 1998 connected with the Kumtor gold project (co-financed by the EBRD). A TC initiative was also launched in Turkmenistan to help develop the country's national oil spill preparedness and contingency capabilities. To this end, a workshop was held in Ashghabat in November 1999 in cooperation with the UN's International Maritime Organisation and the Caspian Environment Programme.

3 Rokiskio Suris, the largest cheese producer in the Baltic states, received an EBRD equity investment that will help the company comply with EU and Lithuanian environmental standards.

Power and energy

Environmental benefits from power and energy sector projects signed by the EBRD in 1999 largely related to efficiency improvements. For example, the modernisation of Kazakhstan's transmission grid company KEGOC will reduce energy losses in the system and will therefore reduce associated emissions of air pollutants. The loan to Telasi, the Georgian power distribution company, will help to improve the efficiency and reliability of the distribution system in Tbilisi by reducing system losses (see page 34). The implementation of an EAP by Telasi will also improve safety at the facilities and help to achieve international standards of environmental management.

Environmental benefits resulting from the EBRD's investment in the EIF Group Central and Eastern European Power Fund are likely to include efficiency improvements and better resource management. The first sub-project to be financed by the Fund involves the upgrading of a coal-fired heat and power generating plant in Poland owned by Daewoo Motors Polska. The upgrading includes the installation of environmental control equipment, such as flue gas desulphurisation and electrostatic precipitators, which will significantly reduce emissions of sulphur oxides and particulates.

Industry

An EBRD loan to Ambro, a pulp and paper mill in Romania (see page 41), will improve environmental conditions at the plant. Based on the findings of the environmental due diligence, an EAP was developed. Implementation of the EAP over a period of three years will ensure the company's compliance with Romanian and EU environmental standards and with World Bank guidelines. The key components of the EAP, which will cost US$ 12 million, include improvements in the treatment of black liquor, waste water and sludge, the re-use of ash filtrate, improvements in general housekeeping, environmental monitoring and training.

The EBRD's investment in Alkaloid A.D., a manufacturing company in FYR Macedonia (see page 41), will significantly improve the company's environmental performance measured against EU and World Bank standards within a three-year programme. The results of the environmental due diligence indicated that Alkaloid required investments in waste-water treatment, waste management and air emissions abatement. A number of other upgrades will be required to meet international standards at existing facilities, including the implementation of a company-wide air emission monitoring programme, waste-water monitoring, the upgrade of storage facilities, the removal of underground storage tanks, and improvements in worker health and safety programmes. These are set out in a detailed EAP, which was agreed with the company. This will assist the company in achieving Good Manufacturing Practice (GMP) certification, which is necessary for selling in some international markets.

An independent environmental audit of A/O Gap Turkmen, in which the EBRD has made an equity investment, confirmed that the company fully complied with relevant environmental, health and safety standards in Turkmenistan as well as with EU Directives. The production machines fully comply with EU occupational health and safety requirements. Gap Turkmen is generally considered to be the most modern, well-equipped and environmentally friendly company operating in Turkmenistan and has had a significant "demonstration effect" for other enterprises in the country.

Agribusiness

An EBRD investment in Rokiskio Suris, a Lithuanian producer of dairy goods (see page 37), has enabled the company to tackle the environmental problem of waste water from milk processing, which contained high levels of organic pollutants, particularly whey. As a result of the Bank's due diligence, the company investigated alternative solutions, including the construction of a new waste-water treatment plant and the separation of the waste liquors in order to recover lactose for sale. Both of these elements were built into the company's EAP, which will be completed by the beginning of 2001. The EBRD will receive annual environmental reports on the implementation of commitments made in the EAP.


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Environmental audits and analyses of other EBRD agribusiness projects were conducted where required and resulted in the formulation of EAPs to ensure that facilities will meet the Bank's requirements. Issues typically included the need to improve waste-water treatment, to monitor incoming process waters, to improve solid waste management, and to achieve better "housekeeping".

Transport

A number of projects signed by the EBRD in the rail, road and port sectors in 1999 will result in environmental benefits. For example, as a result of environmental due diligence, a major environmental component was included in the Trans-Caucasian Railway project in Azerbaijan (see page 33). Improvements to a tanker wagon washing plant will enable it to operate at full capacity and will ensure that cleaning and waste-water management are carried out effectively and in accordance with relevant environmental standards.

A TC project on improving vehicle fuels, emissions and testing was completed by the EBRD in 1999. With the financial assistance of EU Phare, the project investigated the potential financing opportunities for the Bank and its financial intermediaries relating to the phase-out of lead in petrol, vehicle emission standards and safety testing. Based on an initial assessment of all ten EU accession countries, Bulgaria, Lithuania and Poland were chosen for more extensive investigations. This produced a detailed list of potential investment projects, which are currently being investigated by the Bank. These include: the upgrading of refineries and terminals; the remediation of contaminated soil and water at refineries, terminals and petrol stations; the upgrading of vehicle fuels testing schemes; and the upgrading of vehicle inspection systems.

Financial intermediaries

All financial intermediary (FI) projects were subject to the EBRD's environmental procedures for financial intermediaries. FIs reported to the Bank on environmental issues associated with sub-projects as part of their proposed investment evaluations, and, after disbursement, on the implementation of environmental procedures across their corporate and lending operations. Reflecting the growing diversity of the EBRD's FI portfolio, the environmental procedures were refined and expanded to cover leasing, franchising and operations in the insurance and pensions sector.

The full range of environmental procedures and guidance materials for FIs was included in an Electronic Environmental Due Diligence Procedures Manual for FIs, drawing on best practice and experience in FI environmental training over the last few years. The CD-ROM manual is expected to improve significantly the user-friendliness, dissemination and accessibility of the Bank's environmental guidance material for FIs.

Thirty FIs were trained in 1999, under the Bank's ongoing environmental training programme, in Albania, Azerbaijan, Belarus, Bulgaria, the Czech Republic, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russia, Tajikistan and Uzbekistan. As a result of the EBRD's training programme, there is evidence of growing environmental awareness on the part of FIs and the adoption of a more proactive approach in addressing environmental issues.

Other initiatives

The Project Preparation Committee (PPC), whose Secretariat is located at the EBRD, continued to help match donor co-financing for environment-related projects with the market-based financing available from the EBRD and other IFIs. In 1999 the PPC organised a sub-regional PPC meeting in Bucharest, where 19 projects in Romania and Bulgaria were presented for donor consideration. The PPC also organised a regular PPC meeting in London, where 40 IFI projects were presented for donor consideration. In addition, a private sector-focused meeting was held in Helsinki to discuss the PPC's potential contribution to enhancing private sector investments for environmental objectives.

The EBRD's Environmental Advisory Council (ENVAC), a forum of environmental experts from the Bank's countries of operations and OECD countries, continued to advise the President and staff on policy and strategy issues related to the Bank's environmental mandate. Two meetings of the ENVAC were held in 1999, one in Krakow, Poland, and the other at the Bank's headquarters. Among the topics discussed were the Bank's role in facilitating EU accession through environmental improvements on industrial projects, working with municipalities, environmental financing and global environmental issues.

During the EBRD's Annual Meeting in London in April 1999 a well-attended seminar was held on the theme "Better environment is better business". The seminar was chaired by Jan-Olaf Willums, senior vice president of Storebrand, and included contributions from Bank clients working in mainstream banking, venture capital investment and the chemicals sector. Mr Willums concluded the meeting by saying that investors are increasingly focusing on companies that aim to improve on what is already good environmental performance as this is where there can be significant competitive advantage and enhanced profits.

Two editions of the EBRD's bulletin *Environments in transition* were published during 1999, covering topics such as renewable energy and vehicle emissions and testing, and reporting on specific Bank projects in the metallurgical, oil refining and solid waste management sectors.

3

1 EBRD projects in the railway sector in 1999 included a loan to Estonian Railways, which will help to improve environmental standards regarding track maintenance and waste management.

2 A technical cooperation project completed by the EBRD in 1999 identified a number of potential projects for improving vehicle fuels, emissions and testing in the EBRD's region of operations.

3 The Chernobyl Shelter Fund, which is administered by the EBRD, financed the completion of a number of important safety measures in 1999 at the Chernobyl nuclear power plant in Ukraine.

Nuclear safety

The EBRD administrates the Nuclear Safety Account (NSA) and the Chernobyl Shelter Fund (CSF), in accordance with their respective Fund Rules, and provides technical, project management, financial, legal and administrative services. The Bank reports to contributors through the Assembly of Contributors of the NSA and CSF respectively, which oversee management of the respective Funds, approve work programmes and the annual financial statements, and decide on the financing of individual projects. The EBRD is reimbursed from the Funds for all the costs that it incurs.

Nuclear Safety Account

At their Munich Summit in July 1992, the G-7 heads of state and government offered the countries of central and eastern Europe a multilateral programme of action to improve safety in their nuclear power plants (NPPs). This was to comprise immediate measures in: operational safety improvements; near-term technical safety improvements to plants, based on safety assessments; and enhancement of regulatory regimes. It was also to create the basis for longer-term safety improvements by considering the scope for replacing less safe plants by developing alternative energy sources and the more efficient use of energy and by examining the potential for upgrading plants of more recent design.

The G-7 advocated setting up a supplementary multilateral mechanism to address immediate operational and technical safety improvement measures not covered by bilateral programmes, and invited the international community to contribute to the funding. In February 1993 the G-7 officially proposed that the EBRD set up a Nuclear Safety Account, to receive contributions by donor countries to be used for grants for safety projects in the region. The NSA was established by the Bank shortly thereafter.

The EBRD prepares projects and submits them for approval to the Assembly of Contributors. As of 31 December 1999, pledges to the NSA totalling €260.6 million had been made by the European Community and 14 countries: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States of America.

Activities of the NSA

The NSA has given priority to high-risk reactors (VVER 440/230 and RBMK reactors). The primary objective was to reduce original design and operational safety deficiencies by investments in equipment for short-term safety measures that would improve safety levels for a limited period until closure. Agreements have been made with the countries concerned on conditions for transition towards new regulatory regimes based on in-depth safety assessments, development of the power sectors and the early shutdown of high-risk reactors on safety and economical grounds.

As of 31 December 1999, projects in Bulgaria, Lithuania, Russia and Ukraine had been approved by the Assembly of Contributors, and grant agreements had been signed by the relevant governments, the utilities and the EBRD. Almost all of the short-term safety upgrades have been successfully completed. The NSA is now focusing on supporting the decommissioning of the Chernobyl NPP in Ukraine. Full implementation of the EBRD's Procurement Policies and Rules has led to efficient use of the Fund's assets with full adherence to the original budget.

The slow pace of reforms in some of the NSA countries of operations has had a negative impact on the transition to a better nuclear safety culture. The EU accession process has, however, led to closure decisions in the accession countries that generally conform with covenants of the NSA grant agreements. The European Commission has announced that it intends to support the consequences of decommissioning for Kozloduy (Bulgaria), for Ignalina (Lithuania) and also for Bohunice (Slovak Republic) with a grant of €200 million each over a period of eight to ten years. It has asked the EBRD to administer a multilateral decommissioning support fund for this purpose.

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1 The EBRD-administered Nuclear Safety Account has implemented projects in Bulgaria, Lithuania, Russia and Ukraine, with an emphasis on short-term safety upgrades.

2 In 1999 the Bulgarian Government announced that it was committed to closing four units at the Kozloduy nuclear power plant.

Bulgaria

The NSA-funded safety upgrading project at Kozloduy NPP was fully implemented and commissioned by the end of 1998. In November 1999, in the context of discussions on EU accession, the Bulgarian Government announced its commitment to close Units 1–4 at the earliest possible date, thus fulfilling the covenant of the €24 million grant agreement signed in June 1993. Units 1 and 2 would be definitely closed down before 2003, and Units 3 and 4 before the previously envisaged closure dates of 2008 and 2010, with specific definitive closure dates to be determined by 2002.

Lithuania

A €34.8 million project of 20 short-term safety upgrades for Ignalina NPP (two RBMK 1500 reactors), which was signed in February 1994, was basically completed by the end of 1999.

In July 1999 the Lithuanian safety authority VATESI granted a licence for the operation of Unit 1 over a limited five-year period with 20 conditions of validity. This licence takes into account the findings and recommendations of international experts, which are mainly based on the results of the NSA-financed (€8 million) in-depth safety assessment.

In the grant agreement, the Lithuanian Government has made the commitment not to prolong operation of the two units at the plant beyond the time when the reactor channels will have to be changed. The energy strategy approved by the Lithuanian Parliament in autumn 1999 reconfirmed this early closure in accordance with the covenants of the grant agreement. Ignalina Unit 1 will therefore be closed down before 2005 and Ignalina Unit 2 at a later time, taking into account the age difference between Units 1 and 2. This later date is to be specifically determined by 2004 in the next energy strategy.

Russia

By the end of 1999 Leningrad NPP (four RBMK 1000 reactors) had been granted €30.4 million, while Rosenergoatom, Novovoronezh and Kola NPPs (four VVER 440/230 reactors) had been granted €45.1 million under agreements signed in June 1995. These projects include 41 short-term safety upgrades. Following the Russian financial crisis in 1998, additional NSA financing of local goods and services assisted in accelerating the completion of almost all the safety upgrades for Novovoronezh, Kola and Leningrad NPPs. Specific support is being provided to RF Gosatomnadzor, in the form of a grant worth €1.5 million. This will assist in establishing compliance with international practice in the licensing process of the short-term safety upgrades, with the support of technical safety organisations.

The NSA agreements also provide for transition towards new regulatory regimes of ten designated units with RBMK and VVER 400/230 reactors based on in-depth safety assessments. According to the provisions of the agreement, longer-term operating licences for operation of these units up to the end of their original design lifetime will be issued by the Russian authorities only if the plant operators can demonstrate that plant safety levels comply with internationally recognised safety principles, internationally formulated safety guidelines and established practices. This Russian licensing programme experienced further delays during 1999.

In addition, the preparation of a least-cost investment plan for the development of relevant parts of the Russian power sector was launched.

Ukraine

Equipment for safety measures at the Chernobyl NPP were commissioned in 1999 under an €118 million project signed in November 1996. This project is part of a comprehensive programme to support Ukraine's decision to close Chernobyl NPP by 2000, in accordance with the Memorandum of Understanding between Ukraine and the G-7/European Community.

The NSA project addresses preparation for the closure of Units 1, 2 and 3 through two pre-decommissioning facilities (liquid radioactive waste treatment and interim spent fuel storage) as well as short-term safety measures at Unit 3 prior to closure. The equipment for these safety measures was delivered in 1998.

Contracts for facilities ensuring safe storage of the spent fuel and processing of the liquid radioactive waste were signed in summer 1999. These two turnkey facilities are scheduled to be ready by 2002, and 50 per cent of the contract value is expected to be sub-contracted to local Ukrainian companies.

Chernobyl Shelter Fund

At the G-7 Denver Summit of 1997 the G-7, the European Community and Ukraine endorsed the setting up of a supplementary multilateral funding mechanism to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system, with measures as described in the "Chernobyl Unit 4 Shelter Implementation Plan" (SIP) of 31 May 1997. The G-7 and the European Community pledged US$ 300 million and called upon concerned governments and other donors to join the initiative to ensure full implementation of the SIP.

The SIP was developed in spring 1997 under the joint sponsorship of the EC's Tacis programme and the US Department of Energy. It defines the procedures for choosing technical options without defining the ultimate technical decision. The principal technical goals were developed into 297 activities, which were priced and incorporated into a project schedule. This indicates that the SIP will take about eight to nine years to complete at a cost of about US$ 760 million.

The EBRD's Board of Directors agreed in September 1997 that the Bank would be the Fund administrator and approved the Rules of the Fund in November 1997. The Pledging Conference in New York in November 1997, co-chaired by President Kuchma of Ukraine and US Vice President Gore, attracted 13 new donor countries to join the G-7 and the European Community in making pledges in favour of the CSF. The Fund became operational in December 1997, when the minimum requirement of eight contributors had entered into contribution agreements with the EBRD.

As of 31 December 1999, the European Community and 21 countries had made contributions to the SIP, totalling US$ 393 million. The countries are: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Kuwait, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, Ukraine, the United Kingdom and the United States of America. In addition, Iceland, Poland,[1] Portugal and the Slovak Republic have donated a total of US$ 3.5 million.

1 Poland became a full member of the Assembly of Contributors on 11 January 2000.

Recent activities of the Shelter Implementation Plan

The basic institutional framework for the complex SIP project has now been finalised, having required concerted effort and close cooperation with the Government of Ukraine.

In February 1999 the Cabinet of Ministers of Ukraine signed the decree authorising a "nuclear guarantee" for all SIP contractors, in line with the Vienna Convention. This triggered the effectiveness of the conventional insurance, thus establishing full coverage for all SIP participants. The tax-exempt status of the SIP, enacted in December 1998, was put into practice in the second quarter of 1999, when necessary implementation procedures became operational.

The in-kind contribution of Ukraine, which includes provision of project infrastructure and services as well as funding of Ukrainian projects integrated in the SIP, provided the project's offices in July 1999 and critical funds in the last quarter of the year. Importantly, Ukraine's draft 2000 budget now contains a separate line item for the SIP. Effective partnership with the Ukrainian authorities will continue to be vital to ensure an environment conducive to efficient progress of the SIP.

The fifth grant agreement, signed in July 1999, which provided €111 million for the supply of SIP equipment and associated services, increased the total grant to €265 million. The procurement plan for the SIP equipment and the construction infrastructure is now under way. Approximately 98 per cent of the procurement will be carried out through open tendering.

The completion in December 1999 of the emergency repair of the beams supporting the roof of the Shelter eliminated the most imminent threat of collapse. From an environmental viewpoint, this repair, completed just before the onset of winter, is certainly the most important achievement of 1999.

The main elements of the first phase of the SIP – engineering and investigative studies – are now more than 60 per cent complete. Preparation for transition to the second phase of the project is well under way. This will start in mid-2000 and involves new project organisation structure and major construction contracts.

Following the statement of the June 1999 Summit in Cologne, the G-7 countries took the lead in organising a second pledging conference, to take place in the first half of 2000. This timely initiative, fully supported by the non-G-7 members of the Assembly of Contributors, will allow execution of new grant agreements and will continue the momentum of the project, which is so important for its timely and efficient completion.

Evaluation of Bank operations

Project evaluation is the assessment of the performance of completed projects and programmes through systematic analysis of their outputs or outcomes against expected or planned results. It also involves the evaluation of categories of operations and patterns of experience through thematic and sector-oriented studies.

The EBRD's Project Evaluation Department (PED) seeks to measure how closely the Bank's operations meet a broad range of objectives, thereby assessing the Bank's transition effectiveness. It looks for significant lessons to be learned from the EBRD's completed operations, and uses the lessons of other international financial institutions to help in shaping future operations. To learn from experience during the project cycle, it also tries to gain evaluation experience with ongoing projects and existing programmes.

The independence in which project evaluation activities are carried out supports objectivity and transparency.

Evaluating projects

The project evaluation process concentrates on operations one to two years after full disbursement has taken place. To date, the EBRD has prepared 97 Operation Performance Evaluation Reviews (OPERs) on private and public sector investment operations, comprising 39 per cent of the 248 operations ready for post-evaluation. It has also carried out 101 assessments of expanded monitoring reports (self-evaluation of projects by operation leaders – OLs) in order to validate the OL's findings. Through the OPERs and these assessments, a total of 198 projects have been covered, comprising 78 per cent of operations ready for evaluation. As of the end of 1999, the EBRD had committed funds to 496 projects, 40 per cent of which have been evaluated or assessed.

Apart from the OPERs on investment and public sector operations, the EBRD has also carried out evaluations of large technical co-operation (TC) operations, thematic and impact studies as well as mid-term reviews of Bank operations. In total, 142 evaluation reports have been produced since 1993.

Transition impact and the EBRD's overall transition effectiveness

In judging whether the EBRD has performed according to its mandate, PED focuses its post-evaluation exercises on the transition impact of projects in a particular sector and in the economy as a whole. Over the past few years, the Bank has made progress in enhancing the way in which the transition impact of a project is assessed and rated at the concept clearance stage (ex ante) and one to two years after disbursement (ex post). To evaluate transition impact, experienced staff undertake an analytical process, during which they apply a number of transition indicators[1] to each project. The findings on transition impact can then be used to assess the Bank's overall performance in this area.

The 1999 results reflect the performance of EBRD projects prepared in earlier years. Therefore, it is the underlying medium-term trend that is significant rather than the results of a particular year. Results up to the end of 1999 show that 75 per cent of operations evaluated in 1996-99 achieved a transition impact rating of "medium" or "high". This is a relatively good outcome in view of the young age of the evaluated portfolio and the challenging economic environment in the region. A total of 26 per cent of operations evaluated during this period were rated "high" on transition impact, which is identical to the results of 1996-98.[2]

Transition impact ratings of post-evaluated EBRD projects 1996-99

	Negative %	None %	Low %	Low-Negative %	Medium %	High %	Medium-High %	Total number of projects evaluated
1996	0	0	23	23	63	14	77	35
1997	0	6	25	31	42	28	70	36
1998	4	8	14	26	43	31	74	49
1999	4	10	8	22	52	26	78	50
1996-97	0	3	24	27	52	21	73	98
1996-98	2	4	20	26	48	26	74	120
1996-99	3	6	16	25	49	26	75	170

The assessment of projects indicates that transition impact could be improved in some cases. In this respect, it is important to note that the evaluated projects were primarily prepared during 1991-97 and that the EBRD has focused increasingly on transition impact since 1996. This change in focus, emphasising the need to select projects with a higher transition impact, is expected to result in better transition performance ratings in the future.

[1] A set of seven transition indicators are applied to the company/client, industry/sector and the economy in general: competition, market expansion, private ownership, frameworks for markets, skills transfer, demonstration effects and standards for corporate governance. These indicators were developed by the EBRD's Office of the Chief Economist in cooperation with PED.

[2] Transition ratings before this period were not sufficiently refined, and the checklist of transition indicators had not been fully developed.

Overall transition effectiveness of evaluated EBRD projects 1996-99

	Unsuccessful %	Partly successful %	Successful %	Highly successful %	Successful/ Highly successful %	Total number of projects evaluated
1996	14	31	43	11	54	35
1997	11	42	36	11	47	36
1998	22	20	53	4	57	49
1999	22	24	46	8	54	50
1996-97	13	37	39	11	50	98
1996-98	17	30	45	8	53	120
1996-99	18	28	45	8	53	170

The overall rating of the EBRD's operational performance, as presented in the table above, is described as the EBRD's overall "transition effectiveness" due to the high weight given to transition impact. However, the table also takes account of projects' performance ratings regarding "additionality", environmental performance, financial performance, fulfilment of objectives and the Bank's investment performance. It shows that the percentage of projects rated "successful" or higher remains at 53 per cent in both 1996-98 and 1996-99. However, due to the deterioration of the economic situation in the Bank's countries of operations, the percentage of "unsuccessful" projects increased from 13 per cent in 1996-97 to 18 per cent in 1996-99.

The projects analysed in the table above are a representative sample of the projects ready for evaluation. On the basis of this evaluation work, the portfolio has maintained an acceptable quality and the EBRD has successfully fulfilled its mandate since its inception. One of the areas in need of further improvement is the financial performance of projects, which should be achieved through greater progress in project appraisal.

The importance of past experience

Apart from ensuring that the EBRD has functioned according to its mandate (accountability), it is essential that the project evaluation process also generates important lessons from past operations. Through Bank-wide dissemination of these lessons, bankers are able to improve future operations (quality management). A substantial amount of staff time is allocated to disseminating evaluation findings to Bank staff as early as project appraisal and through "lessons learned" workshops. In this way, the lessons are properly shared and can be integrated into the design and structure of new projects.

Cooperation on evaluation among multilateral development banks (MDBs)

PED continued to cooperate closely with the evaluation departments of the other MDBs through the Evaluation Cooperation Group (ECG). This group was established in 1996 in response to the report of the Task Force on MDBs, which was created by the ministerial Development Committee. A key Task Force recommendation was that MDBs should harmonise "criteria, techniques, and practices for measuring results among evaluation units". Over the past years the ECG has helped to strengthen partnerships among MDB evaluators. The participants are the EBRD, the World Bank, the International Finance Corporation (IFC), the three other regional development banks (the Asian Development Bank, the African Development Bank and the Inter-American Development Bank) and the European Investment Bank. As a result, progress has been made in harmonising and improving evaluation methods for operations in both the public and private sector.

ECG members completed an "evaluation benchmarking" exercise in 1999, which helped to harmonise evaluation criteria. The establishment of "Good Practices Standards for Private Sector Evaluation" was a particular achievement of the ECG during the year. The ECG will continue to work on the remaining differences in practices, including certain areas of public sector evaluation and the evaluation of institutional development. The ECG will persist with its efforts to identify best practices, promote evaluation capacity development in countries of operations, make evaluation results comparable and translate evaluation findings into operational standards.

Thematic lessons from investment operations

In keeping with the EBRD's disclosure policy, the lessons presented below are drawn from both positive and negative aspects of EBRD projects during recent years. They are intended to help increase the overall quality of the Bank's future portfolio by enabling staff at all levels to learn both from successful and unsuccessful operations.

Examples of evaluated EBRD projects

Projects with a successful outcome

Credit line and subordinated loan to emerging private sector bank
In 1995 the EBRD extended a credit line accompanied by technical assistance to an emerging private bank in one of the Baltic states. A subordinated loan was subsequently granted in 1998. PED concluded that thorough project preparation and assessment of the bank had resulted in a strong management team and firm commitment to best practice in corporate governance. These qualities were encouraged by the EBRD by working closely with the bank, and this has enabled the institution to overcome several difficult periods in the development of the Baltic states' financial sector. The bank has developed into a strong institution with substantial foreign participation. In PED's view, the bank now has an important role in serving local businesses. Its success has boosted competition in the sector, enhancing the stability and sustainability of the whole banking system and advancing the transition process. The EBRD's involvement in this financial institution was instrumental in bringing about these positive developments.

Municipal and environmental infrastructure (MEI) operation
The EBRD has lent €10.2 million to finance water and waste-water investments over the past four years in Estonia. This has been provided through a state-guaranteed loan to water utility companies owned by 12 small municipalities. A privatised central water utilities company was selected to channel sub-loans for local implementation. Technical co-operation (TC) funding supported a twinning programme between a major Nordic city and the water utility companies, involving training at all levels. PED found that institutional reform is developing well and that this will eventually help Estonia's accession to the European Union. Environmental objectives were also adequately met. In addition, the EBRD's thorough project monitoring has been instrumental in bringing this multi-faceted operation to a successful conclusion.

Energy efficiency project
An energy efficiency project in central Europe involved the turnaround of a large heating installation and maintenance company at an early stage of post-privatisation into a profitable, market-oriented energy service company (ESCO). This project was successfully concluded with sponsor support from a pan-European group in utilities and services that had a clear strategy to expand into new Eastern markets. The EBRD provided financing for the ESCO, which focused initially on helping municipal and public buildings bring about energy efficiency improvements through conversion from oil to gas.

A "greenfield" bank for micro-enterprise loans
The EBRD is co-founder of a new bank for micro-enterprise loans in eastern Europe, which will lend mainly to small entrepreneurs in trade and services. Other sponsors include international and bilateral financiers and consultants, who initially managed the bank. A mid-term review by PED recently confirmed excellent start-up results after only two years of operations. It was concluded, however, that true sustainability requires increasing market exposure. The new bank had lent to almost 2,000 micro and small firms while repayment arrears were still under 1 per cent. Loan officers and branch managers were locally trained staff but senior management, supported by technical assistance, were expatriates. In PED's view, excellent lending productivity was helped by internal systems and training of high calibre. Grant-adjusted break-even was considered within reach. This could ultimately help to demonstrate to hesitant commercial banks that micro-lending could be profitable. TC-funded advice, significant equity capital and soft foreign loans had supported the new bank. PED believes that the remaining challenge for the bank is to become less reliant on such grant support. Deposit-taking is still at a pilot stage and needs a substantial investment in banking infrastructure in order to expand. In the medium to longer term more financial intermediation is needed to help the bank become self sufficient.

Projects with a less successful outcome

Restructuring of a large industrial complex
The EBRD provided a considerable loan to a large engineering complex in a "one-company town". With the company's sales falling as a result of the difficult economic climate, the EBRD's project aimed to provide the company with some breathing space. Deeper corporate reforms were expected to follow as a result of technical advice from Western industrial firms. The market downswing became protracted, however. Since the company was a dominant local employer, in common with many other "one-company towns" in the region, profound large-scale restructuring involving the break-up of the company into smaller components and down-scaling would have resulted in high levels of redundancy. This met strong political and social opposition, as no significant funding was in place to mitigate the social consequences. Consequently, large-scale restructuring was avoided, and the existing managers initiated a modest reduction in capacity without undertaking more radical reform. PED concluded that during the appraisal of this project the EBRD failed to identify some insurmountable social, political and managerial problems. In addition, the lack of a robust reform plan and the absence of a committed sponsor whose capital was at risk were identified by PED as significant drawbacks. A plan for mitigating the social effects of redundancies should have been drawn up since past experience has shown that without such a plan very large enterprises of this type in "one-company towns" are reluctant to undertake reforms.

Minority equity investment in large existing commercial bank
When the EBRD acquired a minority stake in a leading commercial bank in one of the largest transition economies, it was expected that the Bank's investment would lead to improved corporate governance through the EBRD's representation on the Supervisory Council. The project was also expected to attract additional financing and possible investment in the bank by other Western investors. However, the EBRD's involvement coincided with a decline in the bank's fortunes, and the EBRD was unable to influence developments. Four years later the bank's banking licence was withdrawn and the EBRD lost its entire investment. The PED concluded that:

- the EBRD's original assessment of the bank had placed too much emphasis on the bank's capital adequacy and on the high agency ratings and positive media reports; and
- risk mitigation measures had not been sufficiently direct, depending on coordination and cooperation with other projects that did not materialise as hoped, or had not been in line with wider EBRD objectives in this sector.

Banking sector in Russia

Corporate governance

Although fostering good corporate governance has been one of the most important objectives of many EBRD projects and a key element of the Bank's policy for the banking sector in Russia, a number of projects have fallen short of acceptable standards and have put the reputation of the Bank at risk. Ineffective institution-building has been both symptom and cause, especially in the sphere of financial institutions. In some projects in the Russian banking sector, the EBRD has had too little influence from the start to have any realistic prospect of having an impact on formal governance issues, especially when the Bank was only a creditor.

Basing strategy on thorough analytical and background knowledge of the banking system, its development and rationale

Analysis of several EBRD projects in the Russian financial sector reveal an apparent assumption that the new Russian banking sector would perform an intermediary role similar to that performed by banking sectors in established market economies. Not enough attention was paid to the strong influence on the Russian banking sector of the legacy of the planned economy and of the dramatic period of banking and enterprise reform that took place just before the fall of communism.

Interpretation of the signals of excessive government borrowing

The absence of normal credit operations in the real economy constitutes a high risk when the magnitude of government bonds clearly demonstrates the lack of an adequate tax and other revenue collection system and when the size of the investment in government paper by financial institutions becomes excessive. It is essential for the EBRD to have a thorough insight into the economy as a whole, as important macroeconomic signals can help to direct the Bank's investments towards areas of high transition impact.

Currency risk

The EBRD needs to re-evaluate its strategy for managing currency risk, showing greater concern for the needs of the economy of each country of operations, including a broader concern for local capital market trends and development. It is particularly unfortunate if recipients of Bank financing recycle funds into international financial markets to avoid currency risk, so reducing the impact of the EBRD's financing in the country's economy. Currency risk can be allayed through appreciation of the currencies of the countries of operations and by adopting a much longer timeframe for the Bank's lending operations than originally envisaged.

Controlling the use of an institution's funds

Notwithstanding the "fungibility" of a bank's financial resources, it is still essential that the EBRD makes every effort to have the firmest possible knowledge, control or assurances concerning how the Bank's funds are likely to be used when it invests in financial institutions. It is of key importance to make sure that no speculative activities are encouraged as a result of the Bank's financing. Given that international markets treat an EBRD investment in a financial institution (whether as lender or shareholder) as some form of risk mitigation, it is important to try to exert some control over any increased access to foreign financing that the Bank's interest in a financial institution may bring about.

Appraising minority positions in banks prior to their realisation

When taking a minority position in a financial institution with the aim of fostering good corporate governance, the EBRD must make sure that progress in this area has good prospects. The identification of fellow shareholders with common objectives and the detailing of these objectives in a shareholders' agreement are very important steps.

Restructuring large enterprises

Reform of large enterprises and mitigation of political and managerial constraints

The EBRD has learned that large-scale restructuring of large enterprises needs the full support of local authorities to help mitigate the social effects of redundancies. Without this support, such enterprises will be profoundly adverse to radical reform. Another requirement is the need for new competent turnaround management with full owner backing. Programmes must also be in place to mitigate the adverse social effects of redundancies. The EBRD will seek to collaborate with local authorities and financial institutions such as the World Bank on a few carefully selected operations that aim to demonstrate successful restructuring of large enterprises. Most of these projects are expected to have the support of new strategic industry sponsors.

Widespread barter and the efficiency of markets

Widespread barter in the economy will delay the transition process. Projects that support the reform of enterprises producing goods can be put at risk by barter. Market-based pricing and cost accounting and improved accounts/audits in terms of transparency and accountability are areas where the EBRD can improve standards. However, even these measures cannot deal with widespread barter. Consequently, it might be necessary for the Bank to avoid projects in sectors and industries with a high degree of barter, such as the commercial vehicle industry.

Supporting large-scale enterprise reform

Direct intervention by the EBRD to help with the reform of large-scale enterprises in Russia following privatisation will prove difficult under prevailing conditions. Western companies' incentive for direct investment will be low, at least in the short term. Currently, large enterprises are legally prevented from yielding majority control to foreign owners and management, even if they are in dire need of reform. The conditions for EBRD investment in large-scale enterprises should include:

- full backing from relevant central and local authorities based on prior dialogue and agreements;
- the yielding of control to competent turnaround management with commitment over time from a strategic investor or to reform-minded owners in long-term incentive-based management contracts; and
- agreed action plans, including ways of mitigating the social consequences of restructuring and the resulting redundancies.

Micro and small enterprise (MSE) financing

The EBRD's objectives in MSE financing

MSE projects should have clearly defined objectives to avoid uncertainty in the execution and monitoring of the project and any potential loss of efficiency. Each MSE operation should have a clearly defined target group and requires credit technology, sufficient resources, a number of agents and a series of targets. The fulfilment of these requirements will help to bring about effective deal structuring and monitoring. It will also help to phase-out the grant elements in TC and capital funding in line with appropriate time plans and in accordance with the EBRD's mandate.

A cautious approach to non-lending investments

Investments in systems and infrastructure in "greenfield" MSE banks may be justified on a limited pilot basis but not on a larger scale if based on subsidies or high margins in imperfect markets. Returns for offering accounts, transfers and retail banking services may justify owner or strategic alliances with commercial banks as an alternative to investment in self-contained banking systems and infrastructure.

Municipal and environmental infrastructure (MEI) operations

Economies of scale in financing small municipalities through strong domestic intermediaries

The provision of MEI financing to small municipalities via domestic intermediaries can benefit from economies of scale in project preparation and implementation management, resulting in a greater impact on the transition process.

MEI programmes and the selection of domestic financial institutions

Tendering or other forms of contracting with clear competitive elements should be used for the selection of financial intermediaries. The selected bank or institution should have a clear strategic orientation towards the municipal market and a capacity to serve municipalities and their utilities in a way that would be supportive of expanded domestic capital markets.

Water and waste-water investment financing for small municipalities

Channelling of financing to small local municipal utilities via a central intermediary can be an efficient way of fostering MEI investments and institutional change. Competitive selection of intermediaries will generally be preferable to negotiated contracting. EBRD projects should seek to link municipalities to the financial market and to market-based contracting for implementation support.

MEI programmes and performance monitoring at sub-borrower level

MEI programmes should introduce performance monitoring of sub-borrowers in a way that will encourage domestic intermediaries to continue this process, adapting the criteria to reflect domestic standards.

Other operational activities

Co-financing

The Agreement Establishing the EBRD requires the Bank to involve other sources of financing in its operations. The main co-financing partners for the EBRD are:

- commercial banks: through EBRD loan participations, assignments, bonds, parallel loans and credit lines;
- official co-financiers, such as government agencies and bilateral financial institutions providing grants, parallel loans and equity;
- export credit agencies (ECAs): through direct financing, export credit and investment insurance guarantees;
- international financial institutions (IFIs): sovereign and private sector lending for larger projects or in countries where private sources remain unavailable.

For the EBRD's countries of operations, co-financing has the dual benefit of introducing borrowers to the international capital markets and promoting foreign direct investment. The choice of co-financing partner must always take into account the specific needs and wishes of the client, and may depend on whether it is a private or public sector project as well as on specific market conditions affecting commercial and official co-financiers.

Conditions in the debt markets for most emerging economies were extremely challenging throughout 1999, with a very low appetite among private financial institutions to lend on a long-term basis in countries at the early or intermediate stages of transition. In these countries, commercial banks reduced many of their credit or country limits, resulting in increased reliance on official co-financing sources, especially IFIs. This was particularly the case in Russia. As market confidence deteriorated, lending to advanced transition countries was also affected, resulting in stricter terms and conditions.

As a result of these difficult market conditions, the total volume of co-financing mobilised by the EBRD in 1999 fell to €1.5 billion, compared with €1.9 billion in 1998. However, there was a moderate increase in the cumulative number of co-financing partners, and the Bank adapted to the difficult operating environment by providing flexible and innovative co-financing solutions.

The EBRD worked with 51 commercial banks from 13 countries in 1999. Co-financing from these banks comprised €324 million in support of 19 projects. A total of €210 million of co-financing was provided by six ECAs, either through direct lending, political risk insurance or under their guarantee schemes. ECAs were involved in six projects in five countries.

Official co-financing institutions (excluding ECAs) were involved in 37 operations in 1999, contributing a total of €601 million. Co-financing through other IFIs, covering loans, equity and guarantees, involved 21 operations, totalling €407 million. Other official sources co-financed 22 operations, amounting to €194 million.

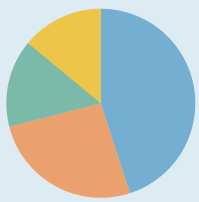
Types of co-financing funds by value in 1999

	€ million
A/B loans/participations [1]	324
Parallel loans	172
Guarantees	190
ECA direct / guaranteed / insurance	210
Loans from international financial institutions	359
Guarantees from international financial institutions	30
Equity	37
Grants	143
Total	**1,465**

[1] An A/B loan structure is where the EBRD finances a portion of the loan (the A portion) from its own funds and syndicates the remainder (the B portion) to commercial lenders.

Sources of co-financing funds by value

1999



Co-financing support for private and state sector operations in 1999

	Number	Total project cost € million	EBRD finance € million	Co-financing € million	Co-financing %
Private sector	44	3,939	585	852	58
State sector	14	1,269	415	613	42
Total	**58**	**5,208**	**1,000**	**1,465**	**100**

Commercial co-financing institutions

Throughout 1999 the political and economic environment in Russia was perceived by most commercial co-financiers as prohibitively unstable. This had a significant impact on the co-financing efforts of the EBRD in the countries that were most affected by Russia's economic situation, namely the CIS and Russia's trading counterparts. Many commercial co-financiers were forced to refocus primarily on the lending opportunities available to them in more advanced countries.

Among commercial co-financiers, the largest proportion of co-financing in 1999 was provided by commercial banks. Some noteworthy examples of the Bank's flexible response to the challenging environment were:

- multi-sourced financing of US$ 105 million for MobiFon SA, Romania, a GSM phone operator, jointly arranged with ABN AMRO Bank NV, involving two tranches of export credit financing, funding from the Nordic Investment Bank and a loan syndicated to commercial lenders;
- US$ 65 million of multi-sourced financing for Europort, Poland, for a grain terminal at Gdansk, jointly arranged with Royal Bank of Canada Europe Limited, involving export credit financing, funding from the Nordic Investment Bank and a loan syndicated to commercial banks;
- a variety of syndicated senior and subordinated loans for banks in the Baltic states, Bulgaria and Slovenia, working with arrangers such as ABN AMRO Bank NV, Bankgesellschaft Berlin AG, RZB-Austria, and Hamburgische Landesbank;
- financing of US$ 21.2 million for an intermodal cargo and container handling and storage terminal at Ventspils Port in Latvia, involving a syndicated loan of US$ 10.6 million;
- a €30 million participation in a €250 million guarantee facility for an EIB loan to TPSA, Poland, arranged by Sumitomo Bank.

These examples highlight the desire of the EBRD to be involved in co-financings with commercial and investment banks as joint arrangers. They also indicate the Bank's readiness to participate, where appropriate, in transactions arranged solely by other lenders.

The EBRD continued to place great emphasis on strong cooperation with ECAs, which contributed €210 million of co-financing in 1999. The Bank maintained a close dialogue with both the International Union of Credit and Investment Insurers (the Berne Union), participating in every meeting of the Union's Investment Insurance Committee and Export Credit Insurance Committee. It also cooperated closely with the OECD's Export Credit Group.

IFIs and other official co-financing institutions

Co-financing with official partners in 1999 amounted to €601 million for 37 EBRD operations. In view of the challenging market conditions, IFIs provided the largest share, totalling €406.8 million (67 per cent) for 21 projects. Other official co-financiers contributed €194.3 million (32 per cent) to 22 projects. Official co-financing covered 16 countries of operations and two regional programmes, reaching a wide range of sectors.

Among the IFIs, the World Bank group provided the largest amount of co-financing. The International Bank for Reconstruction and Development co-financed one large power operation in Kazakhstan, providing €139.5 million, while the International Finance Corporation co-financed 11 operations, primarily in industry, small and medium-sized enterprises (SMEs), micro-business and power, contributing €89.9 million.

The Nordic Investment Bank (NIB) provided co-financing of €50.4 million for four projects in municipal and environmental infrastructure, telecommunications and port development. The European Investment Bank (EIB) co-financed one project in the transport sector, contributing €10 million.

Five new IFI partners were involved in co-financing operations: the European Investment Fund provided €29.7 million for a telecommunications project in Poland; the Black Sea Trade and Development Bank contributed €12 million to a power and energy project in the Balkan region; the OPEC Fund for International Development provided €5 million for the Uzbekistan SME credit line; the Asian Development Bank invested US$ 70 million in the Uzbekistan Railway project; and the Aga Khan Fund participated in a bank equity project in Tajikistan.

Among the other official partners, the European Commission provided co-financing of €104 million for six projects in support of SMEs, municipal and environmental infrastructure, port development, railways and road transport.

Bilateral financial institutions concluded a number of significant co-financing operations, primarily in industry, SMEs and transport. A total of €49 million was provided by Kreditanstalt für Wiederaufbau (KfW), Deutsche Entwicklungs Gesellschaft, Internationale Microinvestitionen (IMI), the Netherlands Development Finance Company (FMO) and the Western NIS Fund of the USA.

A number of government agencies provided co-financing on a grant basis. The Italian Government provided grants of €14.1 million, directly or through the Central European Initiative, for three projects in Albania, Bosnia and Herzegovina and Kosovo. Other grants were provided by the governments of Denmark and Sweden (€3.0 million and €14.9 million respectively), the governments of France and Norway (€1.5 million) and the Japanese Fund for Post-Conflict Support (€2.5 million) for projects in Estonia, Russia and Tajikistan.

A significant level of official co-financing was provided in support of the EBRD's South Eastern Europe Action Plan. For example, the Swiss Government was the first contributor to the Balkan Region Special Fund (BRSF), which was established by the Bank to co-finance transactions under the Trade Facilitation Programme in Albania, Bosnia and Herzegovina and FYR Macedonia.

Co-financing partners in 1999

Commercial institutions

ABN AMRO Bank	Netherlands
ABN AMRO Bank – various lenders	Netherlands
Allied Irish Banks plc	**Ireland**
American Express Bank	**USA**
Auxiliaire du Crédit Foncier de France	France
Banca Nazionale del Lavoro	Italy
Bank Austria Creditanstalt	Austria
Bank für Arbeit und Wirtschaft Aktiengesellschaft	**Austria**
Bank Kreiss	**Germany**
Bank Rozwoju Eksportu SA	Poland
Bankgesellschaft Berlin AG	Germany
Banque et Caisse d'épargne de l'Etat	Luxembourg
Banque Nationale de Paris	France
Banque Paribas	France
Banque Paribas (various others – bond issue)	France
Bayerische Landesbank Girozentrale	Germany
BBL Financial Services Dublin Ltd	Belgium
BG Bank	Germany
Bikuben Girobank	Denmark
BNP Dresdner Bank	Germany
Bulbank	**Bulgaria**
Caisse de Dépôts et Consignations	**France**
Československá Obchodní Banka A.S.	**Czech Republic**
Chase Manhattan Bank	USA
Citibank, NA	USA
Commerzbank	Germany
Crédit Lyonnais	France
De Nationale Investerings Bank NV	Netherlands
Deutsche Bank	Germany
Deutsche Girozentrale	Germany
DG Bank	Germany
Dresdner Bank	Germany
Efibanca SpA	Italy
Erste Bank	Austria
Europa Bank	Germany
Hamburgische Landesbank	Germany
HypoVereinsbank	Germany
ING Bank	Netherlands
Jupiter Asset Management (East European Food Fund)	**UK**
KBC Bank N.V.	Belgium
Landesbank Rheinland-Pfalz	Germany
Landesbank Schleswig-Holstein	Germany
Leoniabank	**Finland**
MeritaNordbanken	Sweden
Natexis Banque	France
Österreichische Investitionskredit AG	Austria
Raiffeisen Landesbank Burgenland	**Austria**
Raiffeisen Landesbank Niederösterreich	**Austria**
Raiffeisen Landesbank Oberösterreich	**Austria**
Raiffeisen Zentralbank Österreich	Austria
Republic National Bank of New York	**USA**
San Paolo Bank	Italy
Société Centrale des Caisses d'épargne	France
Société Générale	France
Soros Economic Development Fund	**USA**
Sumitomo Bank	Japan
Swedbank	**Sweden**
Triodos Bank	**Netherlands**
Unibank	Denmark
Vereins- und Westbank	**Germany**
WGZ-Bank	**Germany**
Westdeutsche Landesbank Girozentrale	Germany

Official institutions

Central European Initiative (CEI)	Italy
Deutsche Entwicklungs Gesellschaft (DEG)	Germany
European Commission	**Instrument for Structural Policies for Pre-accession**
European Commission	**Large Scale Infrastructure Facility**
European Commission	Phare/Tacis
Government of Denmark	Denmark
Government of France	France
Government of Norway	Norway
Government of Sweden	**Sweden**
Government of Switzerland	Switzerland
International Cooperation Development Fund, Taipei China/Financial Intermediary Investment Special Fund (FIISF)	**Taipei China**
Internationale Microinvestitionen AG (IMI)	**Germany**
Japan Fund for Post-Conflict Support	Japan
Kreditanstalt für Wiederaufbau (KfW)	Germany
Ministry of Foreign Affairs	Italy
Ministry of the Treasury	Italy
Netherlands Development Finance Company (FMO)	Netherlands
Western NIS Fund	USA

International financial institutions

Aga Khan Fund (AKF)
Asian Development Bank (ADB)
Black Sea Trade and Development Bank
European Investment Bank (EIB)
European Investment Fund
International Finance Corporation (IFC)
Nordic Investment Bank (NIB)
Opec Fund for International Development
World Bank

Export credit agencies

Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)	France
Export Development Corporation (EDC)	Canada
Israel Foreign Trade Risks Insurance Corp. (IFTRIC)	**Israel**
Exportkreditnämnden (EKN)	Sweden
Österreichische Kontrollbank (OeKB)	Austria
Office National du Ducroire (OND)	**Belgium**

Organisations co-financing with the EBRD for the first time in 1999 are shown in **bold**.

Substantial commitments were also made by other donors (Canada, France, Italy, the Netherlands, Taipei China and the United States) for projects that are under development in south-eastern Europe.

The first SME co-financing transaction was undertaken in 1999, with funding from the OPEC Fund. In addition, the Financial Intermediary Investment Special Fund used funding from the International Cooperation Development Fund of Taipei China to finance the Fund's first two projects, in Azerbaijan and Lithuania.

Technical cooperation funds

The EBRD's Technical Cooperation Funds Programme (TCFP) supports the Bank's aim to foster the transition to market economies and to promote entrepreneurial initiative in its countries of operations.

To advance the transition process, the EBRD needs to assist its clients, both public and private, in preparing and structuring sound investment projects. Outside expertise is often needed to develop investment ideas to a standard that meets the requirements of investors and lenders. This need is met by the Bank's donor-funded TCFP.

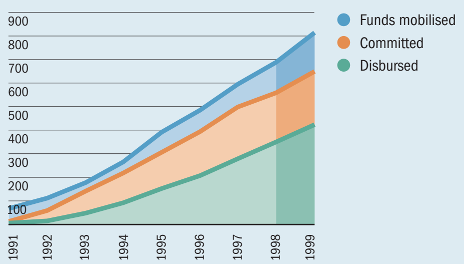
Technical cooperation (TC) funds are also used to promote institutional and legal reform, which are prerequisites for a successful transition to market economies. These activities are carried out in close cooperation with other international financial institutions (IFIs) and donor agencies and focus on areas where the Bank has strong operational experience. The TCFP also promotes the development of a local consultant industry through increased use of local consultants.

The use of TC funds is always related to the three key principles that govern all the activities of the EBRD: transition impact, sound banking principles and "additionality" (complementing rather than competing with other private sources of finance). For example, feasibility studies and due diligence funded by technical cooperation help the Bank to assess whether the project will facilitate the mobilisation of other sources of financing, thereby increasing the impact of the investment. Technical cooperation has therefore increased the amount of investments generated by the EBRD. It has also enhanced the impact of these investments on the transition process while ensuring compliance with sound banking principles.

During the year the EBRD financed 289 consultant assignments through the TCFP, bringing the total number of assignments to 2,381. Cumulative commitments for these assignments reached €646.8 million by the end of 1999. Commitments during the year amounted to €89.4 million, compared with €80.3 million in the previous year. The total value of cumulative disbursements by the end of 1999 stood at €421.3 million, of which €71.3 million was disbursed in 1999.

Cumulative technical cooperation funds mobilised, committed and disbursed 1991-99

€ million



Technical cooperation commitments by recipient country

	1999 Number	1999 € million	1991-99 Number	1991-99 € million
Russia	57	32.1	424	238.0
Ukraine	23	3.5	156	31.9
Romania	1	0.2	76	29.8
Poland	16	2.2	96	20.7
Kazakhstan	7	0.4	57	20.1
Bosnia and Herzegovina	9	6.4	56	18.5
Uzbekistan	12	1.8	43	15.5
Estonia	12	1.8	153	15.4
Bulgaria	14	5.3	44	14.4
Albania	3	0.1	67	12.7
Kyrgyzstan	4	3.3	62	13.3
Lithuania	14	0.6	126	12.7
Slovak Republic	2	0.5	50	11.9
Latvia	9	0.5	112	11.4
Belarus	2	0.3	75	11.4
Hungary	1	0.1	60	10.1
Slovenia	1	1.0	77	9.5
Moldova	7	0.6	53	8.7
Azerbaijan	5	1.2	38	8.6
Turkmenistan	2	0.5	24	7.9
Croatia	10	2.0	47	7.4
Tajikistan	3	0.9	20	6.2
Georgia	5	0.4	38	5.6
Czech Republic	1	0.1	29	5.3
FYR Macedonia	5	0.6	34	4.4
Armenia	2	0.3	24	3.3
Yugoslavia (Kosovo)	1	0.2	1	0.2
Regional	61	22.8	339	91.9
Total	**289**	**89.4**	**2,381**	**646.8**

1

2

1 Technical cooperation funding is helping to develop wholesale and retail markets in the agribusiness sector.

2 The EBRD's technical cooperation funds have supported the upgrading of a number of hydro-power schemes.

A total of 71 per cent of all TC commitments have been related to either the preparation of EBRD investments (30 per cent) or the implementation of such investments (41 per cent), including support for the implementation of Regional Venture Funds, Post-Privatisation Funds and credit lines. The remaining funds have been committed to advisory services (24 per cent), training (3 per cent) and sector studies (1 per cent). Most TC funding is provided in support of the financial sector or in the development of small and medium-sized enterprises.

Since 1991 the TCFP has supported the generation of 316 signed EBRD projects, for which the Bank has committed financing of €7.3 billion. Technical cooperation has therefore had both a direct and indirect impact on the transition process through the investments that it has supported.

In 1999 the EBRD signed eight new Technical Cooperation and Special Fund Agreements, bringing the total to 67. This includes a new SME Finance Facility totalling €6.25 million, which was established as an untied[1] Special Fund by the European Commission, and two untied TC funds established by the UK Government. In addition, 12 existing TC funds were replenished and two project-specific TC agreements were signed. Total grant resources for technical cooperation increased by €127.4 million, bringing the cumulative figure to €813.5 million by the end of 1999. Canada, Italy and Switzerland amended their TC Fund Agreements, allowing for a more flexible use of funds.

During the year the EBRD signed a new contribution agreement with Germany for the Technical Cooperation Special Fund (TCSF). The TCSF is an untied facility funded through reimbursed TC funds previously allocated to private sector operations and/or through direct donor contributions. By the end of 1999, the TCSF amounted to €0.9 million, of which €0.7 million had been committed.

Technical cooperation commitments by sector

	1999 Number	1999 € million	1991-99 Number	1991-99 € million
Finance, business	64	52.7	596	339.9
Manufacturing	114	16.4	739	90.2
Energy	39	6.8	369	76.8
Transport, storage	24	6.1	179	47.1
Community / social services	27	3.5	267	46.9
Telecommunications	7	1.5	110	16.9
Construction	1	1.0	37	13.6
Extractive activities	5	1.1	35	10.3
Agriculture, forestry, fishing	6	0.2	35	3.8
Commerce, tourism	2	0.2	13	1.4
Non-classifiable establishments	–	–	1	0.1
Total	**289**	**89.4**	**2,381**	**646.8**

1 Untied funds can be used without any restriction as to the nationality of the firm or experts contracted.

Technical Cooperation Fund Agreements

At 31 December 1999

Donor	Date of initial Agreement	Currency	Amount including replenishments (million)	EUR equivalent (million)
Austria	31 Dec 91	USD	5.00	4.98
Belgium (Federal Government)	27 Sept 94	BEF	30.00	0.74
Belgium (Flemish Government)	9 Nov 94	EUR	0.40	0.40
Belgium (Walloon Government)	16 Mar 95	BEF	15.00	0.37
Canada	24 Jan 92	CAD	7.66	5.25
Canada (TAM Programme)	30 Mar 99	CAD	0.55	0.38
Denmark	1 July 92	EUR	3.12	3.12
Denmark, Finland, Iceland, Norway, Sweden (TAM Nordic Council)	22 Sept 95	DKK	7.00	0.94
European Community (Bangkok Facility) [1]	15 Oct 91	EUR	268.78	268.78
European Community (Bosnia and Herzegovina Micro-Credit Programme)	26 June 98	EUR	1.50	1.50
European Community (Bulgaria PPF)	1 May 98	EUR	15.00	15.00
European Community (Polish SRP)	12 Dec 96	EUR	2.00	2.00
European Community (Romanian PPF)	10 Oct 96	EUR	10.00	10.00
European Community (Slovak PPF)	3 Apr 96	EUR	8.00	8.00
European Community (TAM Phare Regional)	26 June 95	EUR	5.90	5.90
Finland	13 Jan 92	FIM	25.55	4.30
Finland, Norway, Sweden (RVF for North West Russia) [2]	5 July 94	USD	20.00	19.86
France (Foreign Affairs)	1 Aug 91	FRF	20.51	3.13
France (RVF for Southern Russia) [2, 3]	28 Feb 95	FRF	120.00	18.29
France (Treasury)	26 Mar 92	FRF	30.46	4.64
FYR Macedonia (Financial Sector) [4]	14 Feb 96	DEM	1.58	0.81
Georgia (Financial Sector) [4]	12 Dec 96	USD	0.40	0.40
Germany	11 Dec 92	DEM	10.00	5.11
Germany KfW	27 Sept 95	DEM	12.51	6.40
Greece	4 Apr 95	GRD	299.00	0.91
Iceland	3 Dec 92	EUR	0.26	0.26
Ireland	17 Sept 93	EUR	1.34	1.34
Israel	14 Apr 92	ILS	1.04	0.25
Italy	14 Apr 92	ITL	9,000.00	4.65
Italy (Albania Reconstruction Equity Fund)	28 Sept 98	USD	3.00	2.99
Italy (Bosnia and Herzegovina SME)	1 Oct 99	EUR	1.60	1.60
Italy (Central European Initiative)	14 Apr 92	ITL	41,135.00	21.24
Italy (RVF for Western Russia) [2]	6 June 95	USD	20.00	19.92
Italy (SME for Kosovo)	18 Nov 99	EUR	0.85	0.85
Japan	5 July 91	JPY	12,761.45	124.33
Korea, Republic of	25 Apr 93	USD	0.60	0.59
Luxembourg	26 Nov 91	EUR	0.70	0.70
Moldova – Agroindbank S.A. [4]	18 Dec 98	USD	0.02	0.02
Netherlands	20 Nov 91	NLG	25.08	11.38
Netherlands (Dutch Environment)	22 June 95	NLG	0.90	0.44
Netherlands (Eastern Ukraine PPF)	30 Jan 97	NLG	8.60	3.90
Netherlands (Transition)	3 Nov 97	NLG	3.00	1.36
New Zealand	10 July 92	NZD	0.33	0.17
Norway (Environment and energy)	16 Apr 91	NOK	27.60	3.42
Norway (General)	27 Apr 93	EUR	1.50	1.50
Portugal	20 Oct 92	PTE	80.00	0.40
Spain	21 July 92	ESP	566.00	3.40
Spain (Southern Ukraine PPF)	17 Jan 97	EUR	20.00	20.00
Sweden	13 Aug 91	SEK	55.00	6.42
Sweden (TAM and BAS Programme)	11 Dec 98	EUR	1.00	1.00
Switzerland	31 Mar 92	CHF	12.52	7.80
Taipei China	16 Sept 91	USD	20.00	19.92
Turkey	17 June 92	TRL	10,000.00	0.02
Turkmenistan (Financial Sector) [4]	15 Mar 99	USD	0.00	0.00
United Kingdom [5]	25 Nov 91	GBP	4.52	7.27
United Kingdom – B [6]	14 Mar 94	GBP	3.72	5.99

Technical Cooperation Fund Agreements (continued)

At 31 December 1999

Donor	Date of initial Agreement	Currency	Amount including replenishments (million)	EUR equivalent (million)
United Kingdom – C [7]	25 Mar 94	GBP	3.96	6.37
United Kingdom – D [8]	8 Apr 99	GBP	1.39	2.24
United Kingdom – E [9]	28 Oct 99	GBP	1.00	1.61
USA	30 July 91	USD	1.27	0.91
USA (Evergreen)	3 June 94	USD	4.53	4.51
USA (RVF for Lower Volga Region) [2]	29 Sept 94	USD	20.00	19.92
USA (US Advisors)	10 Nov 97	USD	0.95	0.94
Total of Technical Cooperation Funds				**700.86**
Special Funds				
Baltic Technical Assistance Special Fund	14 Apr 92	EUR	20.72	20.72
Russia Small Business Technical Cooperation Special Fund	18 Oct 93	USD	65.15	55.65
EBRD Technical Cooperation Special Fund [10]	12 Sept 95	EUR	0.86	0.86
EC SME Finance Facility [11]	7 Apr 99	EUR	6.25	6.25
Total of Special Funds				**83.48**
Project-specific Funds				**29.15**
Total of Technical Cooperation Funds				700.86
Total of Special Funds				83.48
Total of Project-specific Funds				29.15
Total of all technical cooperation agreements				**813.49**

Investment Cooperation Funds

At 31 December 1999

Donor	Date of initial Agreement	Currency	Amount including replenishments (million)	EUR equivalent (million)
Austria – Bosnia and Herzegovina	5 Dec 96	ATS	66.20	4.81
European Community (Maritza Unit 8)	29 Dec 97	EUR	7.50	7.50
European Community (Micro-Enterprise Bank)	25 June 98	EUR	6.00	6.00
European Community (MUDP II)	19 Mar 98	EUR	27.40	27.40
Italy – Bosnia and Herzegovina	12 Sept 96	USD	7.50	7.47
Japan Fund for Post-Conflict Support	11 July 97	JPY	1,000.00	9.74
Norway – Bosnia and Herzegovina	24 Apr 97	NOK	63.14	7.82
Norway – Eastern Slavonija	12 Dec 97	NOK	30.00	3.72
Norway – Micro-Enterprise Bank d.d.	2 June 98	NOK	2.70	0.33
Total of Investment Cooperation Funds				**74.79**

[1] The Agreement amount has been amended by the EBRD to reflect the annual revision of the facility by the EC (Bangkok Facility). Included in the Agreement is €1.28 million representing funds assigned to implementation projects.

[2] The table lists all technical cooperation agreements that the EBRD manages directly and for which it has received contributions. Additional Regional Venture Funds are not administered by the EBRD: these are recorded as official co-financing (see page 54).

[3] The fund agreement was terminated by mutual consent in June 1999. The agreement amount will be amended in 2000 to reflect the final value of the fund following the payment of all outstanding obligations under the termination agreement.

[4] Contributions to these funds consist of technical assistance fees payable by the borrowers under the terms of loan agreements between the EBRD and certain financial intermediaries. The fees are payable on the interest payment dates defined in the loan agreements and are recorded as agreement and contribution amounts on the date of receipt.

[5] The activities of the UK Fund are in Russia. Uncommitted funds were transferred to the United Kingdom-D Fund during the year.

[6] The activities of the United Kingdom-B Fund are in the countries of the former Soviet Union, excluding Russia. Uncommitted funds were transferred to the United Kingdom-D Fund during the year.

[7] The activities of the United Kingdom-C Fund are in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

[8] The activities of the United Kingdom-D Fund are in eastern Europe and Central Asia.

[9] The activities of the United Kingdom-E Fund are in central and south-eastern Europe.

[10] Agreement and contribution amounts include repayments made by various beneficiaries and direct contributions from donors. These amounts are recorded as agreements and contributions on the date of receipt.

[11] The total Fund value is €50 million, of which €6.25 million has been allocated for technical cooperation.

Technical Cooperation Funds replenished since the initial Agreement.

TurnAround management

TurnAround Management Programme

The TurnAround Management (TAM) Programme provides industrial management expertise and develops new business skills at the senior management level of small and medium-sized enterprises in the EBRD's countries of operations. Through these activities, the Programme helps to advance the transition process by making companies more competitive in the region's developing market economies.

The grant funding provided by the European Commission, the Russian Privatisation Center, the Nordic Council of Ministers and other bilateral donors has enabled the TAM Programme to undertake 650 projects in 23 countries since its launch in July 1993. To date, these donors have committed more than €44 million to the Programme, which will fund more than 750 projects in total.

An analysis of the 241 enterprises in which TAM projects have been completed shows combined annual sales of €5.4 billion, 20 per cent higher than sales recorded by these enterprises at the start of the Programme. This has been achieved with minimal loss of jobs, the total workforce falling by less than 11 per cent, from 280,000 to 248,000. In addition, external finance totalling more than €770 million has been raised by 86 of these enterprises.

In the countries that have begun negotiation for accession to the European Union (the Czech Republic, Estonia, Hungary, Poland and Slovenia) TAM teams are focusing on improving production, safety, health and environmental standards to help these countries meet the requirements for accession.

Business Advisory Services Programme

The Business Advisory Services (BAS) Programme complements the TAM Programme by helping small and micro enterprises achieve the standards required of countries seeking accession to the European Union. Supervised by the TAM Programme, the BAS Programme provides assistance to enhance the competitiveness, marketing and financial management of companies as well as their implementation of ISO quality systems and strategic planning.

The BAS Programme currently operates in the Baltic states, where it has been rated as highly satisfactory by external operational audits and evaluations, and in north-west Russia. The Programme is also to be extended to south-eastern Europe.

By the end of 1999, the BAS Programme had undertaken 980 projects with more than 850 enterprises, which have a workforce of over 110,000 and approximate aggregate sales of US$ 4 billion. A number of these enterprises are clients of local financial institutions financed by the EBRD and, as a consequence of BAS assistance, have raised US$ 27 million in external finance.

Initially funded by the Nordic countries, which provided €4.4 million, the BAS Programme has also received €3.85 million from the European Commission. In addition, the Nordic Council of Ministers has committed a further €4.6 million. Of this total, €1.85 million has been allocated to provide assistance to very small enterprises (up to 50 employees), which have the highest growth rate in employment in the Baltic states. Since its launch in the second part of 1998, this "micro-BAS" programme has already advised over 170 client enterprises.

Procurement and contracting

The EBRD's Procurement Policies and Rules are based on the fundamental principles of non-discrimination, fairness and transparency. They are designed to promote efficiency and effectiveness and to minimise credit risk in the implementation of the Bank's lending and investment operations.

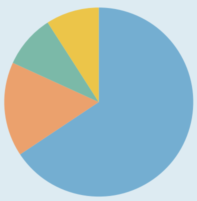
A clear distinction exists between procurement in the public and private sectors in terms of procedures. Procurement for a private sector project is undertaken in accordance with commercial procedures that are considered best practice in the relevant industry. No particular rules and procedures are prescribed. Through its due diligence process in connection with such projects, the EBRD ensures that procurement and contracting is carried out with no conflict of interest and that sound purchasing methods have been applied in the best interest of the Bank's clients.

Procurement in the EBRD's public sector operations is governed by the Bank's Procurement Policies and Rules, which stipulate that open tendering should normally be applied. Open tendering ensures equal opportunities for all interested parties, irrespective of nationality. The Bank requires clients as well as any other firms and individuals involved to observe the highest standard of ethics and conduct during procurement and execution of EBRD-financed projects.

To help all parties involved in procurement, the EBRD makes available a range of material, such as standard tender documents and procurement guidance notes. Invitations to tender, expressions of interest, contract award information and other essential information regarding EBRD-funded contracts are also published on the Procurement opportunities pages of the Bank's Web site. Publication of the printed version of *Procurement Opportunities* ceased in December 1999 and has been fully replaced by a Web page version available at no cost. This development permits quicker notification and a wider circulation of tender opportunities and procurement-related information.

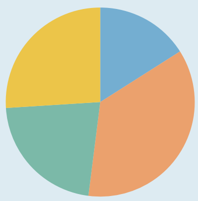
Method of procurement for contracts awarded in the public sector in 1999

by number



Contracts awarded in the public sector by contract type in 1999

by number



Definition of procurement methods

Open tendering: procedures under which all interested suppliers or contractors are given adequate notice of the client's requirements and equal opportunity to submit a tender.

Competitive tendering: the process of selecting a consultant from proposals received from a short list of firms.

Local competitive tendering: tenders conducted in accordance with national procedures acceptable to the EBRD (which must allow foreign firms to participate).

Selective tendering: procedures similar to those of open tendering except that the client pre-selects qualified firms which are then invited to submit tenders.

Shopping: a simplified form of competitive purchasing that requires written quotations from suppliers, including foreign firms where possible.

Single tendering: a procedure allowed only in exceptional cases where a single firm is invited to submit its tender without prior public notification.

Definition of contract types

Supply of goods: contracts for the provision of plant and equipment where installation and commissioning represents a small proportion of the contract value.

Construction of works: contracts for civil and other construction works to an agreed design, e.g. roads and buildings, including specified plant, equipment, fixtures and fittings to be incorporated in the structure.

Supply and installation: contracts for the provision of plant and equipment where installation represents a substantial proportion of the value of the contract.

Consultant services: contracts with consultants to provide professional advice and related services and to perform specific tasks.

In 1999 the EBRD continued to work closely with multilateral development banks (MDBs) and other international financial institutions in harmonising its position on public sector procurement issues, such as fraud and corruption and the standardisation of tender documentation. The final version of an MDB master tender document for the procurement of goods was agreed and issued in October 1999. The EBRD fully participated in the drafting and review of this document and is continuing to provide input on the drafting of other standard tender documentation.

The EBRD's Procurement and Technical Services Unit continued to provide professional advice and services to both internal and external clients throughout the year. A number of presentations on how to work with the Bank's Procurement Policies and Rules were made to clients, suppliers and consultants, either directly or at international and national conferences.

During 1999 a total of 140 contracts were financed by the EBRD under its public sector operations, amounting to a total contract value of €362 million. This compares with 329 contracts with a total value of €436 million in 1998. The downturn can largely be attributed to the reduced number of public sector projects signed during the latter part of 1998 and the early part of 1999.

There was a significant increase during the year in the proportion, by value, of contracts placed using open tendering procedures. The total value of contracts awarded following these procedures amounted to €340 million, or 94 per cent of the total value of all contracts placed during 1999, compared with 80 per cent for 1998. Civil works contracts accounted for over half of the total value of contracts placed in 1999, with an average contract value of €5.7 million. The majority of contracts placed were for the supply of goods – 51 in total – with an average contract value of €900,000.

The contract with the highest value in 1999 (€64 million) was for the turnkey construction of a geothermal power station in Russia.

Financial results and financial statements

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Statement of cash flows
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Financial results

The EBRD returned to profitability in 1999 on the strength of good operating results, especially from the equity portfolio and Treasury activities, continued budgetary discipline and a significantly reduced provisions charge. Specific provisions decreased due to the improved portfolio performance in the latter part of the year in the aftermath of the financial crisis in Russia, while general provisions were lower than last year following higher cancellations, repayments and prepayments. Profit after provisions for the year was €42.7 million, compared with a loss after provisions of €261.2 million for 1998.

Operating income before general administrative expenses of €376.4 million was below the €450.5 million operating results of last year. Net interest, dividend, fee and commission income were lower than last year, primarily due to the impact of the Russia crisis. Net interest income was adversely affected by an increase in non-performing assets in the first half of the year, although these started to decline in the second half of the year. At the end of 1999, 26 loans totalling €452.7 million were on non-accrual status, mainly in the Russian portfolio, compared with 16 loans totalling €289.8 million at the end of 1998.

The results from the equity portfolio reflected a profit contribution of €128.5 million from the sale of share investments which, while below the record €168.7 million gain reported in 1998, was more than 60 per cent above the level achieved in 1997. Dividend income of €13.9 million was less than half that of 1998 as the Russia crisis affected the profitability of a number of the Bank's investee companies. Treasury had another profitable year and capitalised on attractive funding opportunities as well as good returns on higher asset volumes.

The EBRD's general administrative expenses expressed in sterling were well within budget and comparable to those for 1998, reflecting continuing budgetary discipline and effective cost controls. However, due to the strengthening of sterling during 1999, the Bank's general administrative expenses, including depreciation, when expressed in euro, were €14.1 million above the level of the previous year at €172.8 million (1998: €158.7 million).

Provisions for Banking operations totalled €1.1 billion at the year-end, compared with €0.9 billion at the end of 1998. This represented 16.2 per cent of disbursed outstanding loans and equity investments (1998: 15.7 per cent) and reflects the EBRD's commitment to provide prudently for existing and anticipated risks based on a continuing assessment of the portfolio and the associated inherent risks. Provisions attributable to operations in Russia accounted for approximately 48 per cent of total provisions (1998: 50 per cent); non-sovereign provisions represented 37 per cent of non-sovereign disbursed outstandings in that country (1998: 35 per cent).

The implementation of a new accounting standard on employee benefits (IAS 19) resulted in an amount of €20.5 million being credited to retained earnings. As a result of this credit and the profit after provisions of €42.7 million for 1999, the Bank's reserve position improved from a deficit of €158.5 million at 31 December 1998 to a deficit of €91.3 million at 31 December 1999.

Banking operations

Portfolio

The Board of Directors approved 99 operations totalling €2.6 billion in 1999, compared with 82 operations amounting to €2.0 billion in 1998. Cumulative approvals at the end of 1999 amounted to €16.5 billion, net of cancellations (1998: €14.5 billion). The total cumulative value of Board-approved operations amounted to €55.9 billion at 31 December 1999 compared with €50.6 billion at the end of 1998. This included primary resource mobilisation of €39.4 billion at the end of December 1999 (1998: €36.1 billion).

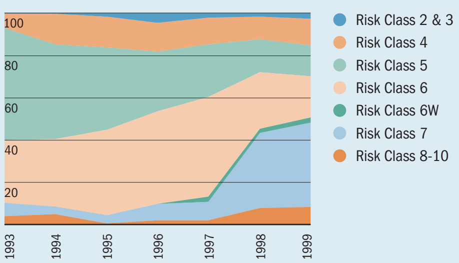
During the year, 88 operations with a value of €2.2 billion were signed, compared with 96 projects with a value of €2.4 billion in 1998. The share of projects signed in the private sector in 1999 was 75 per cent of the commitments signed in 1999, and the equity share was 31 per cent, compared with 80 per cent and 33 per cent respectively in 1998.

Cumulative gross commitments at 31 December 1999 totalled €13.7 billion and commitments outstanding (net of cancellations and repayments except repayments made against revolving loans) amounted to €10.8 billion.

Project disbursements (net of multiple disbursements against revolving loan facilities) in 1999 were €1.4 billion, compared with €2.4 billion in 1998. Total repayments for the year including loan repayments and prepayments, and share divestments (net of multiple repayments against revolving loan facilities) amounted to €690 million compared with €680 million in 1998.

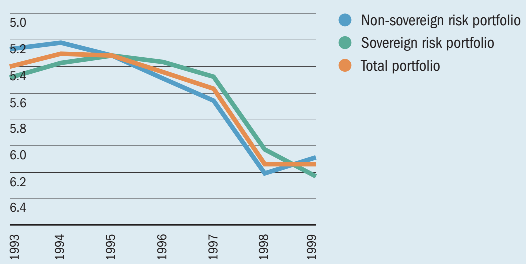
Overall risk rating profile of the loan, guarantee and share investment portfolio over time by signed amounts

Percent of total portfolio



Weighted average overall risk rating profile over time by signed amounts

Weighted average overall risk rating



Outstanding disbursements as at 31 December 1999 totalled €6.9 billion (1998: €5.7 billion) comprising €5.3 billion of loans (1998: €4.3 billion) and €1.6 billion of share investments (1998: €1.4 billion).

Risks

The EBRD's loan and share investments are reviewed on an ongoing basis by the Bank's independent Risk Management department, which assigns credit risk ratings to individual operations, ranging from 1 (low risk) to 10 (expected loss). These ratings are both project and country-specific, and the overall risk rating is usually taken from the higher risk of project or country. In view of the markets in which it operates and its transition mandate, the Bank expects its project-specific ratings in normal circumstances to range from risk categories 4 to 6 at the time of approval. The average overall risk rating of new projects signed in 1999 was 5.73 (1998: 6.02). The weighted average overall risk rating of the signed portfolio at 31 December 1999 was 6.14 (31 December 1998: 6.14).

By the end of 1999, the percentage of signed operations in overall risk categories 4 to 6 fell from 53 per cent at 31 December 1998 to 47 per cent. Those in risk category 6W (Watch List) & 7 (Special Attention) increased to 42 per cent (1998: 35 per cent) and those in categories 8 (Sub-standard) and 9 (Doubtful) remained at 8 per cent. This change in risk category distribution of signed projects principally reflected the continued deterioration in the Bank's portfolio in Russia and other affected countries in the first half of 1999 in the aftermath of the Russia crisis and is illustrated in the graph above. However, signs of stabilisation began to occur in the second half of the year, when the average rating of the portfolio improved slightly.

For the year as a whole the average rating of the signed portfolio remained unchanged at 6.14. The sovereign risk portfolio showed a deterioration during the year from 6.03 to 6.23 reflecting an increasing concentration of this portfolio in higher risk countries at the early transition stage. In contrast, the average rating for the non-sovereign risk portfolio improved during the year from 6.21 to 6.09 mainly as the result of new projects signed during the year with lower risk profiles. The ratings for the portfolio as a whole have yet to show material recovery from the adverse risk developments in the aftermath of the Russian financial crisis.

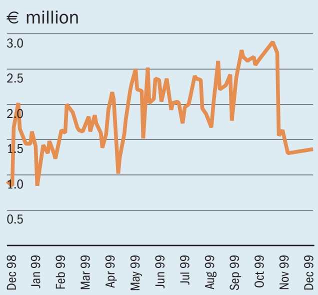
Performance

Operating income of €313.7 million for 1999 from the EBRD's core Banking business was 19 per cent below the level of €385.3 million for 1998, primarily due to lower profits from the sale of share investments and lower fees, commissions and dividends received. Banking operating income represented 83 per cent of the Bank's operating income (1998: 86 per cent, 1997: 82 per cent). Profit from the sale of share investments of €128.5 million accounted for 41 per cent of Banking's operating income, compared with €168.7 million and 44 per cent in 1998. Net interest income represented 46 per cent of operating income (1998: 37 per cent), fee and commission income 8 per cent (1998: 12 per cent) and dividend income 5 per cent (1998: 7 per cent).

The sale of a small number of the EBRD's more mature shareholdings has generated a significant proportion of the income received from the share investment portfolio. The contribution from this sector of the portfolio to the Bank's profit and loss account is expected to show significant variability from year to year, given its dependence on the timing of equity exits, which is linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to effect a sale of its holding. Exits will increase as the growing equity portfolio continues to mature, but it remains difficult to forecast the potential timing and income from such exits.

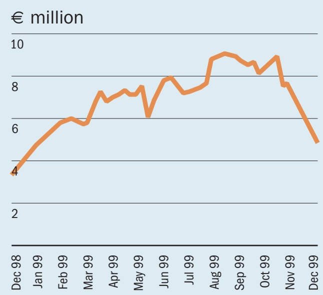
Internally managed portfolio VaR in 1999

(10 trading days, 99% confidence level; BIS data set)



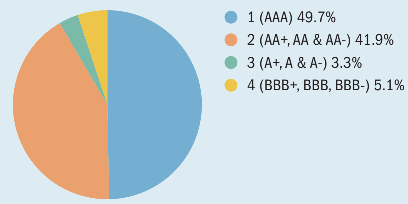
Total undiversified VaR – Overall limit: €18.0m in 1999

(10 trading days, 99% confidence level; BIS data set)



Credit quality profile of the Treasury portfolio

31 December 1999



Treasury operations

Portfolio

The value of assets under Treasury management was €10.6 billion at 31 December 1999 (1998: €8.2 billion), comprising €7.8 billion of debt securities and €2.8 billion of placements with credit institutions.

At the end of 1999, approximately 5 per cent of Treasury assets were managed by a total of 12 external asset managers. The externally managed portfolios comprised a funded and notional amount of €353.1 million of a euro-denominated interest rate trading programme[1] and €472.5 million of a US dollar-denominated mortgage-backed securities programme. The funds are managed by independent managers in order to obtain specialised services and investment techniques and to establish third-party performance benchmarks. These independent managers are required to comply with the same investment guidelines as the Bank applies to its internally managed funds.

Risks

The aggregate market exposure increased year on year while remaining well within the Bank's risk appetite. As at 31 December 1999, the Value at Risk (VaR) of internally managed portfolios, calculated with reference to a 99 per cent confidence level over a ten-trading-day horizon, stood at €1.3 million[2] (1998: €0.9 million), having been in a range of €0.8 million to €2.9 million for most of the year and reflecting more active position taking and higher levels of liquidity in the second half of the year.

In addition, market risks incurred on the externally managed portfolios exhibited a year-end VaR of €1.0 million (1998: €1.1 million) for the euro-denominated programme and €2.4 million (1998: €1.4 million) for the US dollar-denominated programme.

Accordingly, as at 31 December 1999, the VaR of the aggregate portfolio (99 per cent confidence level, ten-trading-day horizon) totalled €4.7 million (1998: €3.4 million). These figures should be interpreted against the background of a total portfolio size averaging €10.1 billion during the year and the VaR limit for all Treasury funds, whether internally or externally managed, adopted with the new Treasury Authority in December 1998, equivalent to €18.0 million at the 99 per cent confidence level and a ten-trading-day horizon as referred to in the graphs in this section.

The overall quality of Treasury credit exposure remained high, with the weighted average credit risk rating slightly better than AA+ (equates to 1.7 on the EBRD's internal scale). At the end of 1999, 91.6 per cent of the overall exposure was rated AA- or better (1998: 87.8 per cent). All exposures were investment grade quality or better, with only sovereign-related exposures in Greece and Korea and one fully secured derivatives exposure falling below the internal rating equivalent of A-.

The Treasury portfolio's credit exposure was diversified across 25 countries with not more than 9.0 per cent of the exposure in any one country, with the exceptions of the United States at 38.1 per cent and the United Kingdom at 11.9 per cent (1998: 30.6 per cent and 7.5 per cent respectively).

Performance

Treasury had a strong performance in 1999, contributing €54.3 million profit after provisions (1998: €46.0 million). This was a result of managing higher volumes and a performance that exceeded expectations. Treasury's dealing portfolio, which is accounted for on a mark-to-market basis, reflected the recovery in the high-grade credit market after the nervous end to 1998 following the Asian and Russian market crises.

[1] In the euro programme, managers are assigned notional amounts for interest rate positioning without being allocated the actual cash funds.

[2] In other words, the EBRD had a 1% chance of experiencing a loss of at least €1.3 million over a horizon of ten trading days, due to adverse movements in interest rates and foreign exchange rates.

Funding

Capital

Paid-in capital totalled €5.2 billion at 31 December 1999, up from €5.1 billion at 31 December 1998. All but four members have now subscribed to the capital increase, with instruments of subscription deposited for 972,200 shares. This increases the EBRD's subscribed shares to over 1.9 million shares. The second instalment of the capital increase became due during April 1999, and paid-in capital received increased to €3.5 billion cumulative, from €3.2 billion at the end of 1998.

Overdue capital of cash and promissory notes totalled €31.9 million at the year-end (1998: €10.5 million), with approximately €25.2 million relating to the capital increase, of which €5.0 million has been paid since 31 December 1999. A further €4.0 million of encashments of deposited promissory notes is also overdue, of which €3.0 million relates to the initial capital.

Capital adequacy

The increase in the EBRD's authorised capital to €20.0 billion, approved in April 1996, was intended to allow the Bank to continue to implement its manageable growth strategy on a sustainable basis without further recourse to capital replenishments. In light of its commitment to be self-sustaining, the Bank has been proactive in pursuing efforts to ensure effective and efficient use of capital.

In implementing its operational strategy, the EBRD's capital usage is guided by the Bank's statutory and financial policy parameters. In this regard, the Bank is refining its processes for assessing capital usage and capital adequacy by supplementing its traditional measures of headroom with risk assessment.[3] Further work in this area will continue as part of regular financial policy and capital reviews.

Borrowings

The EBRD's borrowing policy is governed by two key principles. First, it seeks to match the maturity profile of its assets and liabilities to minimise refinancing risk. Second, it seeks to ensure the availability of long-term funds at optimum cost effectiveness for the Bank.

Total borrowings at 31 December 1999 stood at €12.6 billion, an increase of €2.9 billion compared with 1998. There were 41 new issues under the EBRD's medium- to long-term borrowing programme at an average after-swap cost of Libor minus 35 basis points. The average remaining life of medium- to long-term debt was extended during the year to stand at 8.1 years at 31 December 1999 (1998: 7.1 years).

In addition to medium- to long-term debt, the figure for total borrowings also reflects short-term debt categorised as debts evidenced by certificates that the Bank raises for cash management purposes.

Expenses

General administrative expenses and depreciation for the year were €172.8 million, (1998: €158.7 million). Administrative expenses were well within the 1999 budget, reflecting the EBRD's continuing commitment to budget discipline, effective cost controls and a proactive cost-recovery programme.

The increase was principally due to the higher actual sterling/euro foreign exchange rates prevailing during the year, with an average rate of 1.53 euro to sterling in 1999 compared with 1.48 in 1998. The actual weighted average rate achieved was lower than this due to the EBRD's policy of entering into exchange rate contracts to ensure that the largely sterling-denominated expenses, when translated into euro for reporting purposes, are not adversely affected by movements in the euro/sterling exchange. Consequently, a weighted average euro to sterling exchange rate of 1.36 was achieved for expenses (1998: 1.29). The profit associated with this activity resulted in a cost reduction of €20.3 million in 1999, compared with €21.8 million in 1998. The increase in expenses in euro in 1999 compared with 1998 also reflected an accrual made for unpaid leave at 31 December 1999 as the Bank implemented IAS 19 (Employee Benefits).

The EBRD also entered into a series of forward foreign exchange contracts to hedge the cost of sterling required for future general administrative expenses. At 31 December 1999 the market value of these options showed a gain of €24.6 million (1998: €17.5 million). In accordance with the Bank's accounting policy, this gain has been deferred and will be recognised in the respective expenditure years.

[3] Headroom is the amount of funds that the EBRD has available to commit to new loans, equity investments and guarantees before it reaches its 1:1 gearing ratio limit. The 1:1 gearing ratio stipulates that the total amount of outstanding loans, equity investments and guarantees made by the Bank in its ordinary operations cannot exceed the total amount of its unimpaired subscribed capital, reserves and surpluses.

Provisions

The EBRD's general provisioning on non-sovereign exposures is determined by the overall credit-risk rating of individual loans and equity investments, as assessed by the Bank's independent Risk Management department. For sovereign projects, a uniform general provision of 3 per cent on outstanding disbursed sovereign risk exposures is applied, which takes account of risk and the Bank's preferred creditor status afforded by its members. In addition, the EBRD makes a provision against general unforeseen risks to the total portfolio of 0.75 per cent of signed commitments outstanding in view of the Bank's portfolio concentration. Furthermore, the EBRD takes specific provisions as required on a case-by-case basis.

The consistent application of the EBRD's provisioning policy resulted in a charge for the year of €160.9 million, which is significantly lower than the 1998 charge (which reflected the initial assessment of the impact of the Russia crisis) and 90 per cent of that in 1997. Specific provisions decreased due to the improved portfolio performance while general provisions were lower than last year following higher cancellations, repayments and prepayments. Of this, a credit of €5.3 million related to Treasury provisions (see below). Banking provisions of €166.2 million included a net charge of €142.1 million for specific provisions made in 1999, with total specific provisions reaching €632.3 million at the end of the year. A significant proportion of the specific provisions related to projects in Russia. The general provision for sovereign risk assets increased by €14.1 million to €66.3 million at the end of 1999.

As a result of these charges for 1999, total provisions for Banking operations reached €1.1 billion, which amounted to 16.2 per cent of the outstanding disbursed portfolio of loans and equity investments (1998: €0.9 billion and 15.7 per cent).

Total provisions relating to the Treasury portfolio stood at €6.3 million at the year-end (1998: €11.1 million). Of this figure, €3.0 million related to derivative positions (1998: €6.2 million) and €3.3 million to debt securities (1998: €4.9 million). The provision in respect of derivatives fluctuates with the mark-to-market and tenor of the positions together with the credit rating of the counterparty. The provision in respect of debt securities is based on the nominal holdings of bonds and the credit rating of the issuer. The provision was reduced in 1999 in light of upgrading of issuer credit ratings.

Outlook for 2000

The EBRD has budgeted for a modest profit in 2000. The financial results will, however, remain vulnerable to continuing uncertainties in the operational environment in which the Bank is working.

The Bank intends to continue to rebuild reserves and take all necessary prudent measures with a view to consolidating its financial viability.

Additional reporting and disclosures

Through its reports and disclosures, the EBRD follows the reporting conventions of private sector financial institutions, in line with its policy to reflect best industry practice.

Principles of financial management and risk management

The financial policies of the EBRD follow the guiding principles of sound financial management, building on the Agreement Establishing the Bank and providing the financial framework within which the Bank pursues its mandate.

The EBRD's financial management aims to:

- pursue financial viability;
- build up reserves and ensure sustainable profitability;
- follow market and performance orientation in all its activities;
- work within a comprehensive risk management framework; and
- ensure transparency and accountability at all levels and support effective corporate governance.

The EBRD is exposed to credit risk in both its Banking operations and its Treasury activities. Credit risk arises since borrowers and Treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could be impaired. Most of the credit risk is in the Banking portfolio. The EBRD's independent Risk Management department, headed by a member of the Bank's Executive Committee, seeks to ensure that any risks are correctly identified and appropriately managed and mitigated through a comprehensive and rigorous credit process. This process is reviewed annually by the Audit Committee of the Board to determine its effectiveness and efficiency and is fine-tuned, taking into account experience gained. All ordinary operations are reviewed on a regular basis to identify promptly any changes required in the assigned risk ratings and any actions required to mitigate increased risk.

The EBRD's main market risk exposure is that movements of credit spreads, interest rates and foreign exchange rates may adversely affect positions taken by the Bank, particularly in its Treasury portfolio. The EBRD aims to limit and manage market risks to the extent possible in its portfolio of Treasury assets through active asset and liability management and management of foreign exchange exposures. Interest rate risks are managed through a combination of matching the interest rate profile of assets and liabilities and the use of derivatives. Through a combination of limit reporting and VaR reporting, exposures to foreign currency and interest rate risks are measured independently of the Treasury function to ensure compliance with authorised limits.

In a manner consistent with the EBRD's objective of capital preservation, particularly with respect to the Treasury portfolio, both VaR and stress-testing figures are computed in terms of risk over and above the Bank's Libor-based benchmark for investments.[1] The Bank pays particular attention to the fact that the market risk incurred should remain well within the boundaries of its appetite for risk; thus VaR trends and stress-tests are closely monitored.

The EBRD adopted in 1998 a revised Treasury Authority – that is, the document by which the Board of Directors delegates authority to the Vice President Finance to manage the Bank's Treasury operations and which defines the risk parameters to be observed in these activities.

The Treasury Authority defines rules and practices at the operational level. Recent amendments include:

- the explicit definition of the role of Risk Management;
- the replacement of the original duration-based limit with a VaR limit, which de facto had been the EBRD's primary tool for controlling market risk for two years;
- the ability for the Bank's Treasury to manage actively foreign exchange exposures in its asset and liability management and investment process within the overall market risk framework and the VaR limit; and
- the authority for the EBRD to hedge its financial risks via asset or risk classes which Treasury could not otherwise invest in or be exposed to, through the purchase of put options.

The implementation of the Risk Management Enhancement Programme for Treasury Transactions was continued in 1999. The objective of this ongoing Programme is to ensure that the EBRD's approach to managing risk in its Treasury activities is kept in line with the evolving best market practice in the industry. Progress along these lines is regularly reviewed by the Audit Committee of the Bank's Board of Directors.

Operational risk is determined by examining all aspects of risk-related exposure other than those falling within the scope of credit and market risk. This includes the risk of loss that may occur through errors or omissions in the processing and settlement of transactions, in the reporting of financial results or failures in controls. A recent review and reorganisation of the Bank's operating processes will contribute further to the mitigation of this risk.

Within the EBRD, there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls, checks and balances and segregation of duties, which protect the EBRD from any initial exposure to operational risk. These are supplemented with:

- the EBRD's code of conduct;
- disaster recovery/contingency planning;
- policy on public access and disclosure of information;
- integrity due diligence procedures;
- procedures regarding corrupt practices and money laundering;
- procedures to be followed in the event of fraud or suspected fraud;
- information management policy;
- guidelines for management of operational risk in Treasury; and
- procurement policies.

[1] A VaR of zero, for instance, would indicate the absence of any foreign exchange risk and that the interest rate exposure on the Bank's assets matched perfectly that of its liabilities.

Use of derivatives

The EBRD's use of derivatives is primarily focused on hedging interest rate and foreign exchange risks arising from both its Banking and Treasury activities. Market views expressed through derivatives are undertaken as part of Treasury's activities. All interest rate and currency exposures are subject to overall VaR limits. In addition, the Bank uses credit derivatives as an alternative to investments in specific securities or to hedge certain exposures.

In the area of Treasury risk management, the EBRD has adopted the G-30 recommendations on the use of derivatives and is committed to following best industry practice. The Bank complies fully with all aspects relevant to end-users as defined by the G-30. It also has elected to comply with recommendations relating to market makers as it uses derivatives for strategic positioning within clearly defined limits.

The interest rate risks arising from derivative instruments are combined with those deriving from all other instruments dependent on interest rates. Special care is devoted to those risks that are specific to the use of derivatives, through, for example, the monitoring of volatility risk for options, spread risk for swaps and basis risk for futures.

For the purpose of controlling credit risk in its Treasury transactions, the EBRD's policy is to approve each counterparty individually and to review its eligibility regularly. Individual counterparty limits are allocated in compliance with guidelines that set a maximum size and duration of exposure based on the counterparty's credit rating. Derivative transactions in particular are normally limited to AA- or better-rated counterparties, with single A rated counterparties accepted only when exposure is fully collateralised.

The EBRD seeks to mitigate Treasury credit risks further through systematic recourse to a variety of credit enhancement techniques. Over-the-counter derivatives transactions are systematically documented with Master Agreements, providing for close-out netting, and the Bank has sought to expand the scope for applicability of this provision through documenting the widest possible range of instruments transacted with a given counterparty under a single ISDA-based Master Agreement.

The EBRD has continued to expand its use of collateral agreement in relation to its activity in over-the-counter derivatives. By the end of 1999, 89 per cent of the Bank's gross exposure to derivatives counterparties was subject to collateral agreements, and negotiations for signing such agreements were under way with all remaining active counterparties.

Corporate governance

The EBRD is committed to effective corporate governance, with responsibilities and related controls throughout the Bank properly defined and delineated. Transparency and accountability are integral elements of its corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for and disseminated to each level of responsibility within the EBRD, to enable the system of checks and balances on the Bank's activities to function effectively.

The EBRD's governing constitution is the Agreement Establishing the Bank, which provides that the institution will have a Board of Governors, a Board of Directors, a President, Vice Presidents, officers and staff.

All the powers of the EBRD are vested in the Board of Governors representing the Bank's 60 shareholders. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors while retaining overall authority.

Board of Directors and Board Committees

Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the EBRD's general operations and policies. It exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors.

The Board of Directors has established three Board Committees to assist the work of the Board of Directors:

- the Audit Committee;
- the Budget and Administrative Affairs Committee; and
- the Financial and Operations Policies Committee.

The composition of these committees during 1999 is detailed on page 100.

The President and the Executive Committee

The President is elected by the Board of Governors and is the legal representative of the EBRD. Under the guidance of the Board of Directors, the President conducts the current business of the Bank.

The Executive Committee is chaired by the President and is composed of members of the EBRD's senior management.

Reporting

The EBRD's corporate governance structure is supported by appropriate financial and management reporting. In its financial reporting the Bank aims to provide appropriate information on the risks and performance of its activities, and to observe best practice in the content of its public financial reports. In addition, the Bank has a comprehensive system of reporting to the Board of Directors and its committees. Detailed information is available to enable management to monitor the implementation of business plans and the execution of budgets.

Compensation policy

The EBRD has designed a market-oriented staff compensation policy, within the constraints of the Bank's status as a multilateral institution, to meet the following objectives:

- to be competitive in order to attract and retain high-calibre employees;
- to take account of differing levels of responsibility;
- to be sufficiently flexible to respond rapidly to the market; and
- to motivate and encourage excellent performance.

To help meet these objectives, the EBRD's shareholders have agreed that the Bank use market comparators for its staff compensation and that salary and bonus be driven by performance.

The bonus programme allocations are structured to recognise individual and team contributions to the EBRD's overall performance. Bonus payments, although an important element of the total staff compensation package, are limited as a percentage of base salaries. In general, bonus payments do not exceed 30 per cent of base salaries.

The EBRD's Board of Directors, the President and Vice Presidents are not eligible to participate in the bonus programme. The Board of Governors establishes the remuneration of the Board of Directors and the President, whereas the Vice Presidents' remuneration is established by the Board of Directors.

Year 2000

In response to the Year 2000 challenge, all critical systems were tested thoroughly under a Bank-wide Year 2000 programme. All activities undertaken to test and correct for any Year 2000 deficiencies in the EBRD's systems were satisfactorily completed within flat nominal IT budgets in 1999. While the Bank's business activities were unaffected by the Year 2000 issue, the potential Year 2000 impact continues to be monitored and remains part of an ongoing review process through the first quarter of 2000.

Euro

Following the commencement of the third stage of European Monetary Union (EMU) on 1 January 1999 when the euro replaced the national currencies of each of the 11 participating countries, the EBRD changed its reporting currency from ECU to the euro.

As the Agreement Establishing the Bank did not require amendment, the main impact of the introduction of the euro on the EBRD has been in the modification of the Bank's processing and accounting systems; this involved all ECU-denominated transactions being converted as necessary and rebooked into euro. These included loans and equity investments in the Banking portfolio and bonds, swaps and the Bank's own debt issuances as well as associated collateral positions in the Treasury portfolios.

Consolidated financial statements

Profit and loss account

For the year ended 31 December 1999	Note	Year to 31 December 1999 € 000	Year to 31 December 1998 € 000
Interest and similar income			
From loans		**297,073**	278,907
From fixed-income debt securities and other interest		**368,377**	292,178
Interest expenses and similar charges		(**478,885**)	(366,233)
Net interest income		**186,565**	204,852
Dividend income from share investments		**13,899**	30,761
Net fee and commission income	4	**25,847**	44,729
Financial operations			
Net profit on sale of share investments		**128,530**	168,724
Net profit on dealing activities and foreign exchange	5	**21,584**	1,440
Operating income		**376,425**	450,506
General administrative expenses	6	(**159,685**)	(143,172)
Depreciation	12	(**13,162**)	(15,506)
Operating profit before provisions		**203,578**	291,828
Provisions for losses	7	(**160,911**)	(553,061)
Profit/(loss) for the period		**42,667**	(261,233)

Balance sheet

At 31 December 1999	Note	€ 000	31 December 1999 € 000	€ 000	31 December 1998 € 000
Assets					
Placements and debt securities					
Placements with and advances to credit institutions		**2,773,490**		2,945,224	
Debt securities	8	**7,865,490**		5,272,705	
			10,638,980		8,217,929
Other assets	9		**994,620**		743,853
Loans and share investments					
Loans	10	**4,756,369**		3,894,987	
Share investments	10	**1,238,960**		1,147,453	
			5,995,329		5,042,440
Property, technology and office equipment	12		**41,009**		43,322
Paid-in capital receivable	15		**1,924,695**		1,999,086
Total assets			**19,594,633**		16,046,630
Liabilities					
Borrowings					
Amounts owed to credit institutions		**743,657**		554,354	
Debts evidenced by certificates	13	**11,818,129**		9,171,069	
			12,561,786		9,725,423
Other liabilities	14		**1,961,040**		1,395,332
Subscribed capital	15	**19,640,750**		19,290,750	
Callable capital	15	(**14,477,645**)		(14,206,395)	
Paid-in capital			**5,163,105**		5,084,355
Reserves			(**133,965**)		102,753
Profit/(loss) for the period			**42,667**		(261,233)
Members' equity			**5,071,807**		4,925,875
Total liabilities and members' equity			**19,594,633**		16,046,630
Memorandum items					
Commitments	11		**3,880,872**		4,420,742

Statement of changes in members' equity

For the year ended 31 December 1999	Subscribed capital € 000	Callable capital € 000	Conversion reserve € 000	General reserve € 000	Special reserve € 000	Accumulated reserve € 000	Subtotal reserves € 000	Profit/(loss) for the year € 000	Total € 000
At 31 December 1997	18,369,100	(13,492,115)	57,972	20,074	74,012	(69,629)	82,429	16,150	4,975,564
Pension fund restatement as at 1 January 1998	–	–	–	–	–	15,438	15,438	–	15,438
Exchange rate differences on conversion of share capital receipts	–	–	(118)	–	–	–	(118)	–	(118)
Internal tax for the year	–	–	–	4,292	–	–	4,292	–	4,292
Qualifying fees from the prior year	–	–	–	–	22,371	(22,371)	–	–	–
Profit set aside from the prior year	–	–	–	–	–	16,150	16,150	(16,150)	–
Capital increase	921,650	(714,280)	–	–	–	–	–	–	207,370
Loss for the year	–	–	–	–	–	–	–	(261,233)	(261,233)
Effect on 1998 of restated pension	–	–	–	–	–	–	–	5,087	5,087
At 31 December 1998	19,290,750	(14,206,395)	57,854	24,366	96,383	(60,412)	118,191	(256,146)	4,946,400
Exchange rate differences on conversion of share capital receipts	–	–	(895)	–	–	–	(895)	–	(895)
Internal tax for the year	–	–	–	4,885	–	–	4,885	–	4,885
Qualifying fees from the prior year	–	–	–	–	19,327	(19,327)	–	–	–
Loss set aside from the prior year	–	–	–	–	–	(261,233)	(261,233)	261,233	–
Transfer to reserves from restatement of pension	–	–	–	–	–	5,087	5,087	(5,087)	–
Capital increase	350,000	(271,250)	–	–	–	–	–	–	78,750
Profit for the year	–	–	–	–	–	–	–	42,667	42,667
At 31 December 1999	**19,640,750**	**(14,477,645)**	**56,959**	**29,251**	**115,710**	**(335,885)**	**(133,965)**	**42,667**	**5,071,807**

The conversion reserve represents exchange rate differences arising on the conversion of share capital receipts in currencies other than euro. It is Bank policy to enter into forward foreign exchange rate contracts to fix the known euro value of future capital subscriptions denominated in United States dollars and Japanese yen. The differences arising on the euro amounts obtained through these contracts and the euro amounts determined by the fixed exchange rates are taken directly to the conversion reserve. Replacement foreign exchange contracts are entered into where scheduled receipts or encashment dates have not been met which may also require adjustments to the conversion reserve.

The general reserve consists of internal tax paid in accordance with Article 53 of the Agreement which requires that all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank. Under the Agreement, the Bank retains the internal tax deducted for its benefit. Under Article 53 of the Agreement and Article 16 of the Headquarters Agreement, salaries and emoluments paid by the Bank are exempt from United Kingdom income tax.

The special reserve is maintained, in accordance with the Agreement, for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Bank associated with loans, guarantees and underwriting the sale of securities, until such time as the Board of Directors determines that the size of the special reserve is adequate. In accordance with the Agreement it is intended that an amount of €9.8 million, being qualifying fees and commissions earned in the year to 31 December 1999, will be appropriated in 2000 from the profit for the year to 31 December 1999 and set aside to the special reserve.

The accumulated reserve brought forward from prior years represents the accumulated losses after appropriations of qualifying fee and commission income to the special reserve. €20.5 million has been credited to opening reserves as a result of the implementation of IAS 19 (Employee benefits), see note 23.

Statement of cash flows

For the year ended 31 December 1999	€ 000	Year to 31 December 1999 € 000	€ 000	Year to 31 December 1998 € 000
Cash flows from operating activities				
Operating profit/(loss) for the period	**42,667**		(261,233)	
Adjustments for:				
Provision for losses	**160,911**		553,061	
Depreciation	**13,162**		15,506	
Realised gains on share investments	**(128,530)**		(168,724)	
Internal taxation	**4,885**		4,292	
Unrealised (gains)/losses on marked to market portfolio	**(3,172)**		2,943	
Realised gains on investment portfolio	**(2,764)**		(4,824)	
Foreign exchange movements on provisions	**59,658**		(13,961)	
Operating profit before changes in operating assets	**146,817**		127,060	
(Increase)/decrease in operating assets:				
Interest receivable and prepaid expenses	**(137,778)**		(203,466)	
Net decrease in positions held in marked to market portfolio	**303,129**		264,108	
Increase in operating liabilities:				
Interest payable and accrued expenses	**298,588**		142,396	
Net cash provided in operating activities		**610,756**		330,098
Cash flows from investing activities				
Proceeds from repayment of loans	**1,427,841**		1,004,993	
Net placements with credit institutions	**1,128,166**		(1,143,840)	
Proceeds from sale of share investments	**259,012**		256,334	
Proceeds from redemptions/sale of investment securities	**1,958,576**		3,031,712	
Purchases of investment securities	**(4,604,509)**		(3,091,379)	
Funds advanced for loans and share investments	**(2,740,571)**		(2,335,284)	
Purchase of property, technology and office equipment	**(10,849)**		(12,012)	
Net cash used in investing activities		**(2,582,334)**		(2,289,476)
Cash flows from financing activities				
Capital received	**153,140**		148,710	
Conversion reserve	**(895)**		(118)	
Issue of debts evidenced by certificates	**4,871,412**		3,552,282	
Redemption of debts evidenced by certificates	**(2,284,950)**		(1,194,731)	
Net cash provided by financing activities		**2,738,707**		2,506,143
Net increase in cash and cash equivalents		**767,129**		546,765
Cash and cash equivalents at beginning of period		**1,365,200**		818,435
Cash and cash equivalents at 31 December [1]		**2,132,329**		1,365,200

[1] Cash and cash equivalents comprise the following amounts maturing within 3 months.

	1999 € 000	1998 € 000
Placements with and advances to credit institutions	**2,710,356**	1,788,919
Amounts owed to credit institutions	**(578,027)**	(423,719)
Cash and cash equivalents at 31 December	**2,132,329**	1,365,200

Note: Operating profit includes dividends received of €13.9 million (1998: €30.8 million).

Notes to the consolidated financial statements

1 Establishment of the Bank

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development ("the Bank"), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 ("the Agreement"). As at 31 December 1999 the Bank's shareholders comprised 58 countries, together with the European Community and the European Investment Bank.

ii Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected therewith in the United Kingdom are defined in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed in London upon the commencement of the Bank's operations on 15 April 1991.

2 Significant accounting policies

i Accounting convention

The financial statements have been prepared in accordance with the Bank's Accounting Policies, which comply with International Accounting Standards (IAS) and the principles of the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions.

The Bank's balance sheet is stated in accordance with the historical cost convention with the exception of debt securities and related derivatives held for dealing purposes, which are held at market prices, and freehold property, which is held at fair market value. Financial assets and liabilities are included on the balance sheet when associated risks and rewards have been assumed.

ii Foreign currencies

In accordance with Article 35 of the Agreement, the Bank uses the European Currency Unit (ECU) as the unit of measure for the presentation of its financial statements. Following the replacement of ECU with euro from 1 January 1999, the unit of measurement for the presentation of the financial statements is euro (€). The 1998 comparatives have been restated accordingly in euro at the effective rate of exchange of 1 euro to 1 ECU.

Monetary assets and liabilities denominated in foreign currencies are translated into euro at spot rates as at 31 December 1999. Non-monetary items are expressed in euro at the exchange rates ruling at the time of the transaction. Revenue and expense items are translated into euro at the rate at which they occurred, except for sterling expenses, which are hedged and converted at the weighted average hedge rate.

Exchange gains and losses and hedging costs arising on contracts entered into as hedges of specific revenue or expense transactions and of anticipated future transactions are deferred, and included in 'Other assets' or 'Other liabilities', until the date of such transactions, at which time they are included in the determination of such revenue and expenses. All other exchange gains and losses relating to hedge transactions are recognised in the profit and loss account in the same period as the exchange differences on the items covered by the hedge transactions. Costs on such contracts, which are no longer designated as hedges, are included in the profit and loss account.

iii Capital subscriptions

Under the Agreement, capital subscriptions by members shall be settled either in euro, United States dollars or Japanese yen. Capital subscriptions in United States dollars or Japanese yen are settled at fixed exchange rates as defined in Article 6.3 of the Agreement.

Outstanding promissory notes held in United States dollars and Japanese yen at the balance sheet date are translated into euro at market rates as at 31 December 1999 in accordance with the Bank's policy detailed in (ii) above. The differences between these euro values and those determined by the fixed exchange rates are included in 'Other assets' or 'Other liabilities'.

iv Debt securities

Debt securities intended to be held for the long term or to maturity are carried on an amortised cost basis less any provisions. The amortised premium or discount on acquisition is recognised in interest income. Securities held for dealing purposes are marked to market and the resultant gain or loss is immediately taken to the profit and loss account and included, together with the interest income arising from and the interest expense of funding these securities, within 'Net profit on dealing activities and foreign exchange'.

v Share investments

Share investments are carried at cost less any provisions.

Share investments providing the Bank with an option to redeem its investment for an interest-based return with creditworthy counterparties have the risk characteristics associated with debt instruments and, accordingly, are classified and accounted for as loans. Dividends received on an investment (accounted for as a loan) are not recognised as income but deferred until the investment is disposed of when they will be offset against the proceeds of disposal.

The Bank has considered the definition of associates in both IAS 28 and the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions, in relation to its share investments. The Bank considers that, in general, even where 20 per cent or more of the equity is held, these share investments do not come within the definition of associates, since the Bank does not normally exert significant influence over the operations of the investee companies. Details of the Bank's share investments that exceed 20 per cent of the investee share capital and where the historical cost less specific provisions exceeds €10.0 million are provided in note 10.

vi Provisions for losses and general portfolio risks

Provisions made are classified as specific, general or portfolio as follows:

Specific provisions are made against identified loans and advances representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value.

General provisions in respect of possible losses on non-sovereign risk assets that are not specifically identified at year-end are applied in two stages: at commitment and at disbursement. General provisions in respect of sovereign risk assets are established at the time of disbursement. For Regional Venture Funds and Post-Privatisation Funds the first stage provision is itself applied in two stages: at the signing of the framework agreement and then at the commitment of the individual sub-investment.

Portfolio risks provisions are made in respect of losses which, although not specifically identified, are judged to be inherent in the portfolio of contractual commitments (including guarantees), loans and share investments at the balance sheet date. This provision is also made when the framework agreement is signed for Regional Venture Funds and Post-Privatisation Funds.

Provisions made, less any amounts released during the period, are charged to the profit and loss account. The Bank's provisions are detailed in note 7. When a loan is deemed uncollectable or there is no possibility of recovery of a share investment, the principal is written off against the related provision. Subsequent recoveries are credited to the profit and loss account if previously written off.

vii Property, technology and office equipment

Property, technology and office equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over the estimated life as follows:

Freehold property: Nil
Improvements on leases of less than 50 years unexpired: Unexpired periods
Technology and office equipment: 1 year.

Freehold property is carried at fair market value. The property is valued at regular intervals of five years and if necessary the carrying value in the financial statements will be adjusted accordingly.

viii Accounting for leases

Leases of equipment where the Bank assumes substantially all the benefits and risks of ownership are classified as finance leases. The assets are treated as if they had been purchased outright at the values equivalent to the estimated value of the underlying lease payments during the periods of the lease. The corresponding lease commitments are included under liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. The equipment acquired under such leasing contracts is capitalised and depreciated in accordance with (vii) above.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. The Bank has entered into such leases for most of its office accommodation, both in London and in the Bank's countries of operations. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

ix Interest, fees and commissions and dividends

Interest is recorded on an accruals basis. For loans on which the Bank has allowed interest and fee payments to be deferred or capitalised, income may however be recognised when received based on the underlying performance of the project. The Bank does not recognise income on loans where collectability is in doubt, or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received.

Front-end fees are recorded as income when the agreement is signed or the loan becomes effective, whichever is the later date. Commitment fees and fees received in respect of services provided over a period of time are recorded as income over the period during which the commitment exists or the services are provided. Other fees and commissions are taken to income when received. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings.

Dividends are recognised when received.

x Staff retirement plan

The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits to substantially all of its staff. Under the defined contribution scheme, the Bank and staff contribute equally to provide a lump sum benefit upon retirement. The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme. All contributions to the schemes and all other assets and income held for the purposes of the schemes are kept by the Bank separately from all of its other assets and can be used only for providing the benefits under the schemes. Actual contributions made to the defined contribution and defined benefit schemes are charged to the profit and loss account and transferred to the schemes' independent custodians. Contributions made to the defined benefit scheme equate to the current service costs as advised by qualified external actuaries. Actuarial gains and losses in excess of a 10 per cent corridor are amortised over the estimated average service life remaining of the Bank's employees. The 10 per cent corridor is the higher of 10 per cent of the defined benefit obligation or fair value of assets. The 1998 comparatives have been restated.

xi Taxation

In accordance with Article 53 of the Agreement, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services.

xii Government grants

Government grants relating to fixed asset expenditure considered as part of the initial establishment of the Bank are recognised in the profit and loss account on a straight-line basis over the same period as that applied for depreciation purposes. Other grants are matched against the qualifying expenditure in the period in which it is incurred. The balance of grants received or receivable that have not been taken to the profit and loss account is carried in the balance sheet as deferred income within 'Other liabilities'.

xiii Derivative financial instruments

In the normal course of business the Bank is a party to contracts for derivative financial instruments including currency and interest rate swap agreements, futures, options and forward exchange rate contracts. These instruments are used to hedge interest rate risk and currency exposures associated with the Bank's assets and liabilities and anticipated future cash flows in foreign currencies and to recognise market views in Treasury's investment activities. The Bank also acts as an intermediate provider of these instruments to its clients, hedging itself against any related exposures by offsetting transactions with third parties. Derivative transactions, which are treated in the financial statements as hedges, must eliminate or substantially reduce the risk of loss from the position being hedged, be designated as a hedge at inception and continue to be effective throughout the hedge period. Profits and losses arising from hedging instruments are recognised on the same basis as those arising on the items being hedged. Derivatives associated with the Bank's treasury dealing activities are marked to market with the associated gains and losses being immediately taken to the profit and loss account under 'Net profit on dealing activities and foreign exchange'. The Bank sets aside a provision on its swap and over-the-counter options portfolio allowing for credit risks, closeout costs and ongoing administration costs.

xiv Subsidiary company

The consolidated annual financial statements include the Bank's investment in The Minotaur Fund Limited, a mutual fund company incorporated with limited liability in Bermuda, in which the Bank owns 100 per cent of the shares. This company had no operational activity during the year and is in the process of being wound up.

3 Segment information

Business segments

For management purposes the business of the Bank is comprised primarily of Banking and Treasury operations. Banking activities represent investments in projects which, in accordance with the Agreement Establishing the Bank, are made for the purpose of assisting the countries of operations in their transition to a market economy, while applying sound banking principles. The main investment products are loans, share investments and guarantees. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's foreign exchange and interest rate risks, and assisting clients in asset and liability management matters.

Primary reporting format – business segment:

	1999 Banking € 000	**1999 Treasury € 000**	**1999 Aggregated € 000**	1998 Banking € 000	1998 Treasury € 000	1998 Aggregated € 000
Interest income	**298,302**	**367,148**	**665,450**	279,984	291,101	571,085
Other income	**168,276**	**21,584**	**189,860**	244,214	1,440	245,654
Total segment revenue	**466,578**	**388,732**	**855,310**	524,198	292,541	816,739
Less interest expenses and similar charges	(**240,009**)	(**335,740**)	(**575,749**)	(239,416)	(238,539)	(477,955)
Less general administrative expenses	(**147,309**)	(**12,376**)	(**159,685**)	(132,291)	(10,881)	(143,172)
Less depreciation	(**11,859**)	(**1,303**)	(**13,162**)	(14,048)	(1,458)	(15,506)
Segment result before provisions and the allocation of capital	**67,401**	**39,313**	**106,714**	138,443	41,663	180,106
Provisions	(**166,184**)	**5,273**	(**160,911**)	(546,242)	(6,819)	(553,061)
Net (loss)/profit after provisions and before the allocation of capital benefit	(**98,783**)	**44,586**	(**54,197**)	(407,799)	34,844	(372,955)
Allocation of capital benefit	**87,178**	**9,686**	**96,864**	100,550	11,172	111,722
Net profit after provisions and the allocation of capital benefit	(**11,605**)	**54,272**	**42,667**	(307,249)	46,016	(261,233)
Segment assets	**6,220,733**	**11,449,205**	**17,669,938**	5,218,808	8,828,736	14,047,544
Paid-in capital receivable			**1,924,695**			1,999,086
Total assets			**19,594,633**			16,046,630
Segment liabilities	**6,220,733**	**11,449,205**	**17,669,938**	5,218,808	8,828,736	14,047,544
Members' equity receivable			**1,924,695**			1,999,086
Total liabilities			**19,594,633**			16,046,630
Capital expenditure	**9,775**	**1,074**	**10,849**	10,883	1,129	12,012

Interest expense and similar charges, and the capital benefit from above together total €478.9 million (1998: €366.2 million) which is the Bank's 'Interest expenses and similar charges' as reported in the profit and loss account.

Secondary reporting format – geographical segment:

Banking activities in the countries of operations are divided into three regions for internal management purposes.

	Segment revenue 1999 € 000	Segment revenue 1998 € 000	**Segment assets 1999 € 000**	Segment assets 1998 € 000
Advanced countries [1]	**217,936**	266,528	**2,746,986**	2,292,225
Early/Intermediate countries [2]	**154,176**	157,431	**2,319,480**	1,798,563
Russian Federation	**94,466**	100,239	**1,154,267**	1,128,020
Total	**466,578**	524,198	**6,220,733**	5,218,808

[1] Advanced countries are Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

[2] Early/Intermediate countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

4 Net fee and commission income

The main components of net fee and commission income are as follows:

	1999 € 000	1998 € 000
Front-end fees	**8,959**	17,308
Commitment fees	**10,906**	16,216
Management fees	**3,489**	3,082
Other	**2,493**	8,123
Net fee and commission income	**25,847**	44,729

5 Net profit on dealing activities and foreign exchange

	1999 € 000	1998 € 000
Investment portfolio	**2,764**	4,824
Dealing portfolio	**25,440**	(6,471)
Foreign exchange	(**6,620**)	3,087
Net profit on dealing activities and foreign exchange	**21,584**	1,440

Net profit on dealing activities represents, in the case of the Bank's investment portfolio, the realised gains arising on disposal of debt securities in that portfolio. In the case of the dealing portfolio, net profit/(loss) includes both realised and unrealised gains or losses together with associated interest income and expense.

6 General administrative expenses

	1999 € 000	1998 € 000
Personnel costs [1]	**95,954**	89,288
Overhead expenses net of government grants [2]	**63,731**	53,884
General administrative expenses	**159,685**	143,172

The Bank has a policy of entering into exchange rate contracts to ensure that the largely sterling denominated expenses, when translated into euro for reporting purposes, are not adversely affected by any strengthening of sterling against the euro. The application of this policy had the impact of reducing general administrative expenses by €20.3 million in 1999 (1998: €21.8 million). Also the Bank has entered into a series of forward foreign exchange contracts to hedge the cost of sterling required for future general administrative expenses. Hedges are in place for approximately 37 per cent of the estimated expenditure for 2000 and 30 per cent for 2001. At 31 December 1999 the market value of these options showed a gain of €24.6 million, which, in accordance with the Bank's accounting policy, has been deferred and will be recognised in the respective years.

[1] The average numbers of staff included in personnel costs during the year were: regular staff of 836 (1998: 794), contract staff of 72 (comprising special contract staff of 48 and interns/short-term staff of 24), locally hired staff in Resident Offices of 217, and Board of Directors personnel of 78. Of these 38 were externally funded.

Staff numbers at 31 December 1999 were: regular staff of 833 (1998: 789), contract staff of 71 (comprising special contract staff of 48 and interns/short-term staff of 23), locally hired staff in Resident Offices of 225, and Board of Directors personnel of 78. Of these 38 were externally funded.

In addition, 207 Project Bureau staff (1998: 188) were engaged by the Regional Venture Funds and Russia Small Business Fund on projects in the Russian Federation.

[2] During the year, government grants of €2.1 million were taken to the profit and loss account (1998: €2.1 million).

7 Provisions for losses and general portfolio risks

Profit and loss charges	Loans € 000	Ordinary share investments € 000	Total loans and share investments € 000	Guarantees and other € 000	Treasury provisions € 000	**1999 Total € 000**	1998 Total € 000
Provision charge this year:							
General provisions on							
Outstanding disbursements	(18,118)	32,241	14,123	1,336	(5,273)	**10,186**	103,574
Outstanding commitments	(21,556)	6,808	(14,748)	–	–	**(14,748)**	21,501
Guarantees	–	–	–	4,481	–	**4,481**	1,206
General sovereign risk provisions	14,128	–	14,128	–	–	**14,128**	4,766
Specific provisions	70,439	71,613	142,052	–	–	**142,052**	412,850
Portfolio risk	2,463	1,058	3,521	1,291	–	**4,812**	9,164
For the year ended 31 December 1999	**47,356**	**111,720**	**159,076**	**7,108**	**(5,273)**	**160,911**	
For the year ended 31 December 1998	328,675	216,370	545,045	1,197	6,819		553,061

Movement in provisions	Loans € 000	Ordinary share investments € 000	Total loans and share investments € 000	Guarantees and other € 000	Treasury provisions € 000	**Total € 000**
At 1 January 1999	560,511	344,633	905,144	3,723	11,117	**919,984**
Provision charges	47,356	111,720	159,076	7,108	(5,273)	**160,911**
Foreign exchange adjustments	59,056	–	59,056	126	476	**59,658**
Release against amounts written off	19	(9,479)	(9,460)	–	–	**(9,460)**
At 31 December 1999	**666,942**	**446,874**	**1,113,816**	**10,957**	**6,320**	**1,131,093**
Analysed between						
General provisions on outstanding disbursements	109,155	141,503	250,658	1,891	6,320	**258,869**
General sovereign risk provisions	66,254	–	66,254	–	–	**66,254**
Specific provisions	396,489	235,860	632,349	–	–	**632,349**
Provisions for losses deducted from assets	571,898	377,363	949,261	1,891	6,320	**957,472**
General provisions on outstanding commitments	29,742	54,293	84,035	–	–	**84,035**
General provision on guarantees	–	–	–	6,013	–	**6,013**
Portfolio risk	65,302	15,218	80,520	3,053	–	**83,573**
Provisions for general portfolio risks	95,044	69,511	164,555	9,066	–	**173,621**
At 31 December 1999	**666,942**	**446,874**	**1,113,816**	**10,957**	**6,320**	**1,131,093**

General provisions are based on a risk-rated approach for non-sovereign risk assets applied in two steps. An initial amount of 50 per cent of the provision is made at the time of commitment and the remaining 50 per cent at disbursement. For all sovereign risk assets a 3 per cent provision is made on outstanding disbursements which takes account of the Bank's preferred creditor status afforded by its members. In the case of Regional Venture Funds and Post-Privatisation Funds, the first 25 per cent is taken when the framework agreement is signed. The second 25 per cent is taken when the individual sub-investment is signed and the remaining 50 per cent of the provision is taken on disbursement. The provision based on commitments is included, together with a portfolio risk provision applied at a rate of 0.75 per cent against all commitments net of repayments, in 'Other liabilities'. General provisions made at disbursement together with specific provisions are shown as a deduction from the loans and share investments asset categories.

General provisions on Treasury investments assets are made on a risk-rated basis with no distinction made between sovereign and non-sovereign investments and are deducted from 'Debt securities'.

8 Debt securities

Analysis by issuer	**1999 Book value € 000**	1998 Book value € 000
Governments	**618,693**	777,079
Public bodies	**1,042,636**	653,558
Other borrowers	**6,204,161**	3,842,068
At 31 December	**7,865,490**	5,272,705

Analysis by portfolio		
Investment portfolio	**6,093,159**	3,183,590
Dealing portfolio		
Internally managed funds	**1,160,547**	1,128,528
Externally managed funds	**571,476**	950,406
	1,732,023	2,078,934
Banking portfolio	**40,308**	10,181
At 31 December	**7,865,490**	5,272,705

9 Other assets

	1999 € 000	1998 € 000
Interest receivable	**414,501**	385,624
Treasury-related	**502,710**	297,661
Other	**77,409**	60,568
At 31 December	**994,620**	743,853

10 Loans and share investments

Outstanding disbursements	Loans € 000	Ordinary share investments € 000	Total loans and share investments € 000
At 1 January 1999	4,341,361	1,430,441	5,771,802
Disbursements	1,953,279	325,843	2,279,122
Repayments, prepayments and disposals at cost	(1,427,841)	(130,482)	(1,558,323)
Foreign exchange adjustments	461,449	–	461,449
Written off	19	(9,479)	(9,460)
At 31 December 1999	**5,328,267**	**1,616,323**	**6,944,590**
Provisions at 31 December 1999	(571,898)	(377,363)	(949,261)
Total net of provisions at 31 December 1999	**4,756,369**	**1,238,960**	**5,995,329**
Total net of provisions at 31 December 1998	3,894,987	1,147,453	5,042,440

At 31 December 1999 the Bank had 26 loans amounting to €452.7 million (1998: 16 loans totalling €289.8 million) in non-accrual status due to overdue interest and principal repayments. Specific provisions amounting to €314.2 million (1998: €143.6 million) have been made against these loans.

Listed below are all share investments where the Bank owned more than 20 per cent of the investee share capital at 31 December 1999 and where the Bank's total investment less specific provisions exceeded €10.0 million. Significant shareholdings are normally only taken in anticipation of, wherever possible, subsequent external participation.

	% Ownership
Budapest Bank	32
Danone – Ciastka	25
East Europe Food Fund	21
GAP Turkmen	20
Hortex	23
Lafarge Romania	38
Polish Private Equity Fund	33
Stalexport	31
United Bulgarian Bank	35

11 Analysis of operational activity

Analysis by country	**Outstanding disbursements 1999 € 000**	Outstanding disbursements 1998 € 000	**Committed but not yet disbursed 1999 € 000**	Committed but not yet disbursed 1998 € 000
Albania	**27,813**	28,826	**51,780**	30,954
Armenia	**53,497**	46,738	**9,581**	12,620
Azerbaijan	**177,144**	98,510	**69,335**	94,010
Belarus	**110,467**	108,703	**16,049**	17,190
Bosnia and Herzegovina	**35,218**	17,240	**44,177**	53,238
Bulgaria	**237,604**	186,075	**43,211**	87,927
Croatia	**275,975**	260,156	**187,612**	190,496
Czech Republic	**277,548**	140,123	**115,159**	146,032
Estonia	**204,925**	178,533	**27,650**	24,150
Former Yugoslav Republic of Macedonia	**74,278**	79,255	**66,988**	43,554
Georgia	**53,541**	39,984	**110,926**	72,675
Hungary	**486,828**	460,693	**118,935**	256,407
Kazakhstan	**161,072**	91,202	**304,070**	237,051
Kyrgyzstan	**101,723**	80,842	**36,764**	48,274
Latvia	**105,123**	80,119	**82,212**	94,032
Lithuania	**187,581**	121,406	**24,597**	30,171
Moldova	**72,884**	55,391	**40,784**	85,859
Poland	**741,775**	723,695	**332,832**	366,261
Romania	**794,627**	625,484	**369,635**	499,878
Russian Federation	**1,619,082**	1,469,767	**595,887**	1,102,843
Slovak Republic	**253,505**	226,574	**39,550**	28,636
Slovenia	**184,266**	156,456	**36,267**	75,422
Tajikistan	**8,655**	2,081	**5,126**	10,867
Turkmenistan	**31,272**	27,430	**117,996**	94,801
Ukraine	**310,203**	220,538	**459,885**	366,180
Uzbekistan	**220,392**	146,299	**227,539**	206,980
Regional	**179,870**	109,863	**346,325**	144,234
At 31 December	**6,986,868**	5,781,983	**3,880,872**	4,420,742

Analysis by instrument

Loans	**5,328,267**	4,341,361	**2,961,410**	3,677,589
Ordinary share investments	**1,616,323**	1,430,441	**731,080**	539,953
Debt securities	**42,278**	10,181	**–**	–
Guarantees	**–**	–	**188,382**	203,200
At 31 December	**6,986,868**	5,781,983	**3,880,872**	4,420,742

Analysis by sector

Commerce and tourism	**291,964**	257,319	**78,240**	108,100
Community and social services	**136,908**	49,880	**113,501**	200,810
Energy/power generation	**568,345**	386,149	**1,061,068**	1,041,224
Extractive industries	**607,385**	437,684	**174,201**	160,057
Finance	**2,292,162**	2,045,428	**1,124,407**	1,272,420
Manufacturing	**1,439,086**	823,381	**527,541**	555,092
Primary industries	**109,458**	101,900	**16,713**	39,461
Telecommunications	**702,812**	639,954	**230,584**	162,512
Transport and construction	**838,748**	1,040,288	**554,617**	881,066
At 31 December	**6,986,868**	5,781,983	**3,880,872**	4,420,742

12 Property, technology and office equipment

	Property € 000	Technology and office equipment € 000	Total € 000
Cost			
At 1 January 1999	67,043	56,528	123,571
Additions	872	9,977	10,849
Disposals	–	(693)	(693)
At 31 December 1999	**67,915**	**65,812**	**133,727**
Depreciation			
At 1 January 1999	29,012	51,237	80,249
Charge	4,327	8,835	13,162
Disposals	–	(693)	(693)
At 31 December 1999	**33,339**	**59,379**	**92,718**
Net book value			
At 31 December 1999	**34,576**	**6,433**	**41,009**
At 31 December 1998	38,031	5,291	43,322

Additions include €1.5 million of computer equipment purchased under finance leases, with related depreciation of €0.5 million. The related minimum payments under finance leases amount to €1.6 million, of which €0.5 million are due within 12 months of the balance sheet date and €1.1 million are due after 1 year but within 5 years of the balance sheet date. These future payments are included in 'Other liabilities'.

13 Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related swaps at 31 December 1999 are summarised below:

	Principal at nominal value € 000	Unamortised premium € 000	Adjusted principal value € 000	Currency swaps payable/ (receivable) € 000	**1999 Net currency obligations € 000**	1998 Net currency obligations € 000
Australian dollars	271,941	1,670	273,611	(273,611)	**–**	–
Canadian dollars	133,790	–	133,790	(133,790)	**–**	–
Czech koruna	44,307	–	44,307	(44,307)	**–**	–
Estonian kroons	6,397	–	6,397	(6,397)	**–**	–
Euro	2,524,205	22,540	2,546,745	9,292	**2,556,037**	2,175,115
Gold bullion	739,941	–	739,941	(739,941)	**–**	–
Greek drachmas	234,988	–	234,988	(234,988)	**–**	–
Hong Kong dollars	519,103	–	519,103	(519,103)	**–**	–
Hungarian forints	7,852	–	7,852	–	**7,852**	11,889
Japanese yen	1,133,034	–	1,133,034	(584,507)	**548,527**	585,549
New Taiwan dollars	622,048	–	622,048	(622,048)	**–**	–
Polish zloty	285,957	–	285,957	(285,957)	**–**	–
Russian roubles	38,589	349	38,938	(38,938)	**–**	–
Singapore dollars	89,726	–	89,726	(89,726)	**–**	–
Slovak koruna	54,200	–	54,200	(54,200)	**–**	–
South African rands	467,002	4,822	471,824	(471,824)	**–**	–
South Korean won	76,873	–	76,873	(76,873)	**–**	–
Sterling	2,093,598	5,493	2,099,091	(570,067)	**1,529,024**	447,009
United States dollars	2,430,968	8,736	2,439,704	4,736,985	**7,176,689**	5,951,507
At 31 December	**11,774,519**	**43,610**	**11,818,129**	**–**	**11,818,129**	9,171,069

During the year the Bank redeemed €336.7 million of bonds and medium-term notes prior to maturity generating a net gain of €4.7 million.

14 Other liabilities

	1999 € 000	1998 € 000
Interest payable	**388,345**	356,679
Treasury-related	**1,287,561**	754,064
Other	**111,513**	105,512
Provisions for general portfolio risks	**173,621**	179,077
At 31 December	**1,961,040**	1,395,332

15 Subscribed capital

	1999 Number of shares	1999 Total € 000	1998 Number of shares	1998 Total € 000
Authorised share capital	**2,000,000**	**20,000,000**	2,000,000	20,000,000
of which				
Subscriptions by members – initial capital	**991,875**	**9,918,750**	991,875	9,918,750
Subscriptions by members – capital increase	**972,200**	**9,722,000**	937,200	9,372,000
Subtotal – subscribed capital	**1,964,075**	**19,640,750**	1,929,075	19,290,750
Shares to be allocated [1]	**4,675**	**46,750**	4,675	46,750
Unallocated shares [2]	**16,250**	**162,500**	16,250	162,500
Authorised and issued share capital	**1,985,000**	**19,850,000**	1,950,000	19,500,000
Not yet subscribed	**15,000**	**150,000**	50,000	500,000
At 31 December	**2,000,000**	**20,000,000**	2,000,000	20,000,000

[1] Shares potentially available to the countries previously forming part of Yugoslavia.
[2] Shares potentially available to new or existing members.

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of €10,000. Payment for the paid-in shares subscribed to by members is made over a period of years determined in advance. Article 6.4 of the Agreement provides that payment of the amount subscribed to the callable capital shall be subject to call, taking account of Articles 17 and 42 of the Agreement, only as and when required by the Bank to meet its liabilities. Article 42.1 provides that in the event of termination of the operations of the Bank, the liability of all members for all uncalled subscriptions to the capital stock shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

Under the Agreement, payment for the paid-in shares of the original capital stock subscribed to by members was made in five equal annual instalments. Of each instalment, up to 50 per cent was payable in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the subscribing member and payable to the Bank at par value upon demand. Under Resolution No. 59, payment for the paid-in shares subscribed to by members under the capital increase is to be made in eight equal annual instalments, and a member may pay up to 60 per cent of each instalment in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the member and payable to the Bank at par value upon demand.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of unallocated shares and votes, is set out in the following table. Under Article 29 of the Agreement, the voting rights of members that have failed to pay any part of the amounts due in respect of their capital subscription obligations are proportionately reduced for so long as the obligation remains outstanding.

Summary of paid-in capital receivable:	1999 € 000	1998 € 000
Promissory notes issued by members:		
Not yet due for encashment	**237,079**	128,414
Due for encashment	**4,027**	2,976
Total promissory notes received	**241,106**	131,390
Paid-in subscribed capital:		
Amounts not yet due	**1,651,737**	1,857,213
Amounts due but not yet received	**31,852**	10,483
Total paid-in subscribed capital	**1,683,589**	1,867,696
Paid-in capital receivable at 31 December	**1,924,695**	1,999,086

16 Promissory notes issued by member countries

Currency of issue	Total received € 000	Exchange gain € 000	Amount drawn down € 000	**1999 Amount outstanding € 000**	1998 Amount outstanding € 000
Euro	822,616	–	(706,206)	**116,410**	69,093
Japanese yen	162,077	11,630	(142,740)	**30,967**	13,687
United States dollars	462,965	11,497	(380,733)	**93,729**	48,611
At 31 December	**1,447,658**	**23,127**	(**1,229,679**)	**241,106**	131,391

The promissory notes or other obligations deposited relating to share capital are denominated in euro, United States dollars or Japanese yen. In accordance with a policy adopted by the Board of Directors for the drawdown of promissory notes or other obligations deposited by members in connection with their initial subscriptions, each such promissory note or other obligation deposited in 1992 or later has been drawn down in three equal annual instalments. The policy adopted in connection with subscriptions to the capital increase calls for the drawdown of promissory notes or other obligations in five equal annual instalments.

Promissory notes or other obligations denominated in United States dollars or Japanese yen have been translated into euro either at the rates of exchange ruling at the dates of drawdown, or, if outstanding at the year end, at market rates ruling at 31 December 1999.

17 Net currency position

	Euro € 000	Japanese yen € 000	Sterling € 000	United States dollars € 000	Other currencies € 000	**Total € 000**
Assets						
Placements with and advances to credit institutions	193,894	71,260	6,604	2,481,487	20,245	**2,773,490**
Debt securities	1,520,426	1,302,056	466,483	4,320,062	256,463	**7,865,490**
Other assets	169,706	103,771	86,973	309,867	324,303	**994,620**
Loans	1,447,534	2,489	–	3,295,802	10,544	**4,756,369**
Share investments	40,398	–	–	–	1,198,562	**1,238,960**
Property, technology and office equipment	41,009	–	–	–	–	**41,009**
Paid-in capital receivable	1,091,333	202,545	–	630,817	–	**1,924,695**
Total assets	4,504,300	1,682,121	560,060	11,038,035	1,810,117	**19,594,633**
Liabilities						
Amounts owed to credit institutions	(254,833)	(165,630)	(10,920)	(312,147)	(127)	(**743,657**)
Debts evidenced by certificates	(2,546,745)	(1,133,034)	(2,099,091)	(2,439,704)	(3,599,555)	(**11,818,129**)
Other liabilities	(945,370)	(32,265)	(118,225)	(553,215)	(311,965)	(**1,961,040**)
Total liabilities	(3,746,948)	(1,330,929)	(2,228,236)	(3,305,066)	(3,911,647)	(**14,522,826**)
Net assets/(liabilities)	**757,352**	**351,192**	(**1,668,176**)	**7,732,969**	(**2,101,530**)	**5,071,807**
Off balance sheet instruments	3,089,441	(346,021)	1,660,377	(7,707,377)	4,633,660	**–**
Currency position at 31 December 1999	**3,846,793**	**5,171**	(**7,799**)	**25,592**	**2,532,130**	**5,071,807**
Currency position at 31 December 1998	3,763,954	755	405	(94,454)	1,255,215	4,925,875

In addition to the Bank's functional currency, euro, currencies individually disclosed are those in which the Bank primarily raises funds (see note 13) and which expose the Bank to exchange rate risk. Amounts aggregated under 'Other currencies' and which, after allowing for off balance sheet instruments, expose the Bank to exchange rate risk, are primarily derived from the currency risks undertaken through the Bank's share investments in countries of operations where currency hedges were not readily available.

18 Liquidity position

Liquidity is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank's commitment to maintaining a strong liquidity position is embodied in policies which require a minimum target liquidity ratio, based on a multi-year context, of 45 per cent of its next three years' net cash requirements, with full coverage of all committed but undisbursed project financing, together with a requirement that 40 per cent of its net Treasury investments mature within one year. This policy is implemented by maintaining liquidity in a target zone, above the required minimum level, of 90 per cent of the next three years' net cash requirements.

The table below provides an analysis of assets, liabilities and members' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the 'Maturity undefined' category.

	Up to and including 1 month € 000	Over 1 month and up to and including 3 months € 000	Over 3 months and up to and including 1 year € 000	Over 1 year and up to and including 5 years € 000	Over 5 years € 000	Maturity undefined € 000	**Total € 000**
Assets							
Placements with and advances to credit institutions	2,184,849	525,507	63,134	–	–	–	**2,773,490**
Debt securities	146,550	255,122	1,868,235	2,990,169	2,605,414	–	**7,865,490**
Other assets	511,528	43,464	379,024	33,208	27,396	–	**994,620**
Loans	148,229	150,634	536,402	2,419,545	1,676,968	(175,409)	**4,756,369**
Share investments	–	–	–	–	–	1,238,960	**1,238,960**
Property, technology and office equipment	–	–	–	–	–	41,009	**41,009**
Paid-in capital receivable	–	1,751	342,984	1,269,006	275,290	35,664	**1,924,695**
Total assets	2,991,156	976,478	3,189,779	6,711,928	4,585,068	1,140,224	**19,594,633**
Liabilities							
Amounts owed to credit institutions	(422,472)	(155,555)	–	–	(165,630)	–	(**743,657**)
Debts evidenced by certificates	(431,286)	(1,364,649)	(768,569)	(4,856,641)	(4,396,984)	–	(**11,818,129**)
Other liabilities	(369,156)	(42,549)	(314,310)	(232,175)	(174,017)	(828,833)	(**1,961,040**)
Members' equity	–	–	–	–	–	(5,071,807)	(**5,071,807**)
Total liabilities and members' equity	(1,222,914)	(1,562,753)	(1,082,879)	(5,088,816)	(4,736,631)	(5,900,640)	(**19,594,633**)
Liquidity position at 31 December 1999	**1,768,242**	(**586,275**)	**2,106,900**	**1,623,112**	(**151,563**)	(**4,760,416**)	**–**
Cumulative liquidity position at 31 December 1999	**1,768,242**	**1,181,967**	**3,288,867**	**4,911,979**	**4,760,416**	**–**	**–**
Cumulative liquidity position at 31 December 1998	1,015,029	1,176,186	2,345,586	3,200,832	4,416,766	–	–

15 Subscribed capital (continued)

Statement of capital subscriptions

At 31 December 1999 Members	Total shares (number)	Resulting votes[1] (number)	Total capital € 000	Callable capital € 000	Paid-in capital[2] € 000
Members of the European Union					
Austria	45,600	45,600	456,000	336,300	119,700
Belgium	45,600	45,600	456,000	336,300	119,700
Denmark	24,000	24,000	240,000	177,000	63,000
Finland	25,000	25,000	250,000	184,370	65,630
France	170,350	170,350	1,703,500	1,256,335	447,165
Germany	170,350	170,350	1,703,500	1,256,335	447,165
Greece	13,000	13,000	130,000	95,870	34,130
Ireland	6,000	6,000	60,000	44,250	15,750
Italy	170,350	170,350	1,703,500	1,256,335	447,165
Luxembourg	4,000	4,000	40,000	29,500	10,500
Netherlands	49,600	49,600	496,000	365,800	130,200
Portugal	8,400	8,400	84,000	61,950	22,050
Spain	68,000	59,500	680,000	501,500	178,500
Sweden	45,600	45,600	456,000	336,300	119,700
United Kingdom	170,350	170,350	1,703,500	1,256,335	447,165
European Community	60,000	60,000	600,000	442,500	157,500
European Investment Bank	60,000	60,000	600,000	442,500	157,500
Other European countries					
Cyprus	2,000	2,000	20,000	14,750	5,250
Iceland	2,000	2,000	20,000	14,750	5,250
Israel	13,000	13,000	130,000	95,870	34,130
Liechtenstein	400	400	4,000	2,950	1,050
Malta	200	200	2,000	1,470	530
Norway	25,000	25,000	250,000	184,370	65,630
Switzerland	45,600	45,600	456,000	336,300	119,700
Turkey	23,000	23,000	230,000	169,620	60,380
Countries of operations					
Albania	2,000	1,717	20,000	14,750	5,250
Armenia	1,000	1,000	10,000	7,370	2,630
Azerbaijan	2,000	1,120	20,000	14,750	5,250
Belarus	4,000	4,000	40,000	29,500	10,500
Bosnia and Herzegovina	3,380	2,451	33,800	24,930	8,870
Bulgaria	15,800	15,800	158,000	116,520	41,480
Croatia	7,292	7,292	72,920	53,780	19,140
Czech Republic	17,066	17,066	170,660	125,861	44,799
Estonia	2,000	2,000	20,000	14,750	5,250
Former Yugoslav Republic of Macedonia	1,382	1,364	13,820	10,200	3,620
Georgia	2,000	1,117	20,000	14,750	5,250
Hungary	15,800	15,800	158,000	116,520	41,480
Kazakhstan	4,600	4,451	46,000	33,920	12,080
Kyrgyzstan	2,000	1,417	20,000	14,750	5,250
Latvia	2,000	2,000	20,000	14,750	5,250
Lithuania	2,000	2,000	20,000	14,750	5,250
Moldova	2,000	1,683	20,000	14,750	5,250
Poland	25,600	25,600	256,000	188,800	67,200
Romania	9,600	9,600	96,000	70,800	25,200
Russian Federation	80,000	80,000	800,000	590,000	210,000
Slovak Republic	8,534	8,534	85,340	62,939	22,401
Slovenia	4,196	4,196	41,960	30,940	11,020
Tajikistan	2,000	1,011	20,000	14,750	5,250
Turkmenistan	200	193	2,000	1,470	530
Ukraine	16,000	15,360	160,000	118,000	42,000
Uzbekistan	4,200	4,105	42,000	30,970	11,030
Unallocated shares reserved for countries previously forming part of Yugoslavia	4,675[3]	–	46,750	32,730	14,020
Non-European countries					
Australia	10,000	10,000	100,000	70,000	30,000
Canada	68,000	68,000	680,000	501,500	178,500
Egypt	2,000	1,750	20,000	14,750	5,250
Japan	170,350	170,350	1,703,500	1,256,335	447,165
Korea, Republic of	20,000	20,000	200,000	147,500	52,500
Mexico	3,000	3,000	30,000	21,000	9,000
Morocco	1,000	1,000	10,000	7,000	3,000
New Zealand	1,000	1,000	10,000	7,000	3,000
United States of America	200,000	200,000	2,000,000	1,475,000	525,000
Capital subscribed by members	**1,964,075**	**1,944,877**	**19,640,750**	**14,477,645**	**5,163,105**
Unallocated shares	20,925		209,250		
Authorised and issued share capital	**1,985,000**		**19,850,000**		

[1] Voting rights are restricted for non-payment of amounts due in respect of the member's obligations in relation to paid-in shares. Total votes before restrictions amount to 1,959,400 (1998: 1,924,400).

[2] Of paid-in capital, €3.480 billion has been received (1998: €3.217 billion), €31.9 million is overdue (1998: €10.5 million). In addition €3.2 million relates to overdue encashments of deposited promissory notes (1998: €3.0 million). €1.652 billion is not yet due (1998: €1.857 billion), which relates primarily to the capital increase and is payable on or before 15 April 2005.

[3] The voting rights attached to these shares have been suspended pending their reallocation.

19 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Securities that comprise the Bank's dealing portfolio are assumed to reprice within the 'Up to and including 1 month' category.

Repricing interval	Up to and including 1 month € 000	Over 1 month and up to and including 3 months € 000	Over 3 months and up to and including 1 year € 000	Over 1 year and up to and including 5 years € 000	Over 5 years € 000	Non-interest-bearing funds € 000	**Total € 000**
Assets							
Placements with and advances to credit institutions	2,184,849	525,507	63,134	–	–	–	**2,773,490**
Debt securities	3,583,905	2,158,016	471,944	1,209,482	442,143	–	**7,865,490**
Other assets	310,463	–	414,501	–	–	269,656	**994,620**
Loans	754,914	1,343,772	2,526,283	830	307,615	(177,045)	**4,756,369**
Non-interest-earning assets including paid-in capital receivable	–	–	–	–	–	3,204,664	**3,204,664**
Total assets	6,834,131	4,027,295	3,475,862	1,210,312	749,758	3,297,275	**19,594,633**
Liabilities							
Amounts owed to credit institutions	(422,472)	(155,555)	–	–	(165,630)	–	(**743,657**)
Debts evidenced by certificates	(287,399)	(2,251,034)	(997,510)	(4,471,355)	(3,810,831)	–	(**11,818,129**)
Other liabilities	(519,317)	–	(388,344)	–	–	(1,053,379)	(**1,961,040**)
Members' equity	–	–	–	–	–	(5,071,807)	(**5,071,807**)
Total liabilities and members' equity	(1,229,188)	(2,406,589)	(1,385,854)	(4,471,355)	(3,976,461)	(6,125,186)	(**19,594,633**)
Net assets	5,604,943	1,620,706	2,090,008	(3,261,043)	(3,226,703)	(2,827,911)	**–**
Derivative financial instruments	(1,694,098)	(480,557)	(4,242,363)	3,190,315	3,226,703	–	**–**
Interest rate risk at 31 December 1999	**3,910,845**	**1,140,149**	(**2,152,355**)	(**70,728**)	**–**	(**2,827,911**)	**–**
Cumulative interest rate risk at 31 December 1999	**3,910,845**	**5,050,994**	**2,898,639**	**2,827,911**	**2,827,911**	**–**	**–**
Cumulative interest rate risk at 31 December 1998	2,258,733	2,926,191	2,436,198	2,436,198	2,436,198	–	–

The Bank's interest rate risk measurement is complemented by accepted market techniques including Value-at-Risk ("VaR"), spread risk and volatility risk on which frequent management reporting takes place. At 31 December 1999, the Bank's total VaR, including externally managed investment programmes, calculated with reference to a 99 per cent confidence level over a 10-trading-days horizon, was €4.7 million (1998: €3.4 million).

20 Credit-related information on Treasury derivative financial instruments

	1999 € 000	1998 € 000
Credit derivatives [1]	**2,070,629**	2,223,998
Swaps and over-the-counter option agreements: [2]		
Pre netting/collateral agreements	**877,018**	1,034,766
Post netting/collateral agreements	**330,394**	650,496

The Bank is highly selective in its choice of counterparties and considers that non-performance does not represent a significant risk. Derivative transactions in particular are normally limited to AA- or better-rated counterparties, with single A rated counterparties accepted only when exposure is fully collateralised.

[1] These amounts represent the total notional value of all credit derivatives contracted by the Bank.

[2] These amounts represent the replacement cost to the Bank in the event of non-performance by the counterparties to those swap and over-the-counter option agreements that have a positive value to the Bank.

21 Estimated realisable value information

Presented below is information on the estimated realisable values of the Bank's financial assets and liabilities. This represents the estimated amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists for a particular instrument, quoted prices have been used. Where an active market does not exist, estimated values have been derived from internal pricing models based on discounted cash flow techniques, except in the case of share investments (see (d) below).

The following should be noted in the presentation of estimated realisable values set out below:
(a) The value of short-term financial instruments, i.e. those maturing within one year, approximates to the value stated in the Bank's balance sheet.
(b) The value in respect of debt securities and debts evidenced by certificates incorporates the estimated realisable value of associated derivative instruments. For the Bank's issues of debts evidenced by certificates that are private placements, information is available only for those issues in which the Bank has subsequently repurchased part of the issue.
(c) The balance sheet value of loans is stated net of provisions, which approximates to their estimated realisable value. Due to the fact that the Bank manages its interest rate risk on a portfolio basis, it is not possible to identify the specific derivative instruments which hedge the interest rate risk on the Bank's loan portfolio. Consequently, the stated amount of the loan portfolio does not allow for the estimated value of any associated hedging derivative instrument.
(d) The value of share investments that are traded on a recognised stock exchange is determined using quoted stock exchange prices. The Bank's quoted share investments are generally in markets which are relatively illiquid and volatile and the value presented below makes no additional allowance for this. In all other cases value is assumed to correspond with the Bank's historical cost, net of provisions.

	Balance sheet value 1999 € 000	Estimated realisable value adjustment 1999 € 000	**Estimated realisable value 1999 € 000**	Estimated realisable value 1998 € 000
Assets				
Placements with and advances to credit institutions	2,773,490	–	**2,773,490**	2,945,224
Debt securities	7,865,490	(1,853)	**7,863,637**	5,212,106
	10,638,980	(1,853)	**10,637,127**	8,157,330
Loans	4,756,369	–	**4,756,369**	3,894,987
Share investments	1,238,960	318,203	**1,557,163**	1,366,680
Other non-financial assets	2,960,324	–	**2,960,324**	2,786,261
Total assets	**19,594,633**	**316,350**	**19,910,983**	16,205,258
Liabilities				
Amounts owed to credit institutions	(743,657)	–	(**743,657**)	(554,354)
Debts evidenced by certificates	(11,818,129)	10,942	(**11,807,187**)	(9,162,323)
	(12,561,786)	10,942	(**12,550,844**)	(9,716,677)
Other non-financial liabilities	(1,961,040)	–	(**1,961,040**)	(1,395,332)
Members' equity	(5,071,807)	–	(**5,071,807**)	(4,925,875)
Total liabilities and members' equity	(**19,594,633**)	**10,942**	(**19,583,691**)	(16,037,884)
Net estimated realisable value at 31 December			**327,292**	167,374

Debt securities held in the Bank's investment portfolio are intended to be held to maturity and are consequently stated in the balance sheet at amortised cost.

22 Operating lease commitments

The Bank leases its headquarters building in London and certain of its Resident Office buildings in countries of operations. These are standard operating leases which include renewal options and periodic escalation clauses and are non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. After such a review rent may stay the same or be increased. The Bank has a break clause effective in the year 2006, which allows the Bank to terminate the lease. The headquarters lease requires the Bank to restore the premises to their original condition. A reserve, to cover the estimated full cost of this reinstatement, is built up monthly, based on an estimate by the Bank's quantity surveyors. The costs associated with restoring the Resident Offices are not considered material and therefore no equivalent provision is made.

The Bank has entered into sub-lease arrangements for two floors of its headquarters building. The terms of the sub-leases mirror the terms of the Bank's head lease. The total minimum future lease payments expected to be received under these assignments is €18.6 million at 31 December 1999. Income from sub-lease payments for the year amounted to €3.6 million.

Minimum future lease payments under long-term non-cancellable operating leases are shown below.

Payable:	**1999 € 000**	1998 € 000
Not later than one year	**26,222**	21,579
Later than one year and not later than five years	**100,371**	83,100
Later than five years	**40,630**	56,246
At 31 December	**167,223**	160,925

23 Staff retirement scheme

Defined benefit scheme

A full actuarial valuation of the defined benefit scheme is performed every three years by a qualified actuary using the projected unit method. For IAS 19 purposes this will be rolled forward annually. The most recent valuation was as at 31 August 1999 and has been reviewed subsequently to ensure there has been no material change to 31 December 1999. The key assumptions used are as disclosed below. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Amounts recognised in the balance sheet are as follows:

	1999 € 000	1998 € 000
Fair value of plan assets	**65,058**	51,071
Present value of the defined benefit obligation	(**50,726**)	(41,424)
	14,332	9,647
Unrecognised actuarial losses	**8,374**	10,878
Prepayment in the balance sheet at 31 December	**22,706**	20,525
Movement in the prepayment (included in 'Other assets')		
At 1 January	**20,525**	–
Effect of adopting revised IAS 19	**–**	15,438
As restated	**20,525**	15,438
Exchange differences	**571**	1,115
Contributions paid	**10,789**	9,221
Total expense as below	(**9,179**)	(5,249)
At 31 December	**22,706**	20,525

23 Staff retirement scheme (continued)

The amounts recognised in the profit and loss account are as follows:

	1999 **€ 000**	1998 € 000
Current service cost	**9,823**	6,668
Interest cost	**2,899**	2,128
Expected return on assets	**(3,865)**	(3,547)
Amortisation of actuarial loss	**322**	–
Total included in staff costs	**9,179**	5,249

Principal actuarial assumptions used:

Discount rate	**5.50%**	7.00%
Expected return on plan assets	**6.50%**	8.25%
Future salary increases	**3.50%**	4.25%
Average remaining working life of employees	**15 years**	15 years
Actual return of plan assets	**24.5%**	15.5%

Defined contribution scheme

The pension charge recognised under the defined contribution scheme was €4.4 million (1998: €3.7 million) and is included in 'General administrative expenses'.

24 Other fund agreements

In addition to the Bank's operations and the Special Funds programme, the Bank administers numerous bilateral and multilateral grant agreements to provide technical assistance and investment support in the countries of operations. These agreements focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The resources provided by these fund agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

At 31 December 1999 the Bank administered 63 technical cooperation fund agreements (1998: 56) for an aggregate of €700.9 million (1998: €597.8 million) which includes €268.8 million for the Tacis and Phare programmes of the European Commission under the Bangkok Facility. Of this pledged amount, funds received at 31 December 1999 totalled €493.5 million. The total uncommitted balance of the funds at 31 December 1999 was €157.5 million. In addition, the Bank administered 58 project-specific technical cooperation agreements for an aggregate amount of €29.1 million.

The Bank also administered seven investment cooperation fund agreements during the year for an aggregate amount of €39.9 million and two EU Pre-accession Preparation Funds for an aggregate amount of €34.9 million for the specific purpose of co-financing EBRD projects.

Also, the Bank administered the EBRD – Japan Special Earmarked Fund which was established in 1994 as a mechanism to channel the Japanese contributions to the Russia Small Business Programme.

Following a proposal by the G-7 countries for a multilateral programme of action to improve safety in nuclear power plants in the countries of operations, the Nuclear Safety Account ("the NSA") was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for funding immediate safety improvement measures. At 31 December 1999, 15 contributors had made pledges up to a total amount of €260.6 million, using the fixed exchange rates defined in the Rules of the NSA.

At their Denver Summit in June 1997, the G-7 and the European Union endorsed the setting up of the Chernobyl Shelter Fund ("the CSF"). The CSF was established on 7 November 1997, when the Rules of the CSF were approved by the Board, and became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system. At 31 December 1999, 22 contributors had made pledges up to a total amount of €291.3 million using the fixed exchange rates defined in the Rules of the CSF.

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the European Bank for Reconstruction and Development as of 31 December 1999, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 71 to 89. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 1999, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and the overall principles of the European Community's Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Arthur Andersen

Arthur Andersen
London, 7 March 2000

Summary of Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered, *inter alia,* under the terms of Rules and Regulations approved by the Board of Directors of the Bank. At 31 December 1999, the Bank administered ten Special Funds: seven Investment Special Funds and three Technical Cooperation Special Funds. Extracts from the financial statements of the Special Funds are summarised in the following tables, together with a summary of contributions pledged by donor country. Financial statements for each Special Fund have been separately audited. The audited financial statements are available on application to the Bank.

The objectives of the Special Funds are as follows:

The Baltic Investment Special Fund and
The Baltic Technical Assistance Special Fund:

To promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania.

The Russia Small Business Investment Special Fund and
The Russia Small Business Technical Cooperation Special Fund:

To assist the development of small businesses in the private sector in the Russian Federation.

The Moldova Micro Business Investment Special Fund:

To assist the development of micro businesses through support for small and medium-sized enterprises in the Republic of Moldova.

The Financial Intermediary Investment Special Fund:

To support financial intermediaries in the countries of operations of the Bank by investing in their capital.

The Italian Investment Special Fund:

To assist the modernisation, restructuring, expansion and development of small and medium-sized enterprises in certain countries of operations of the Bank.

The SME Finance Facility Special Fund:

To alleviate the financing problems of small and medium-sized enterprises in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

The Balkan Region Special Fund:

To assist the reconstruction of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia and Romania.

The EBRD Technical Cooperation Special Fund:

To serve as a facility for financing technical cooperation projects in countries of operations of the Bank.

Investment Special Funds

Extract from the profit and loss account for the period ended 31 December 1999	The Baltic Investment Special Fund € 000	The Russia Small Business Investment Special Fund € 000	The Moldova Micro Business Investment Special Fund € 000	The Financial Intermediary Investment Special Fund € 000	The Italian Investment Special Fund € 000	The SME Finance Facility Special Fund € 000	The Balkan Region Special Fund € 000	Aggregated Investment Special Funds € 000
Operating (loss)/profit before provisions	(6,752)	5,411	292	804	1,075	(25)	–	805
Release/(charge) for provisions for losses	468	8,371	145	(73)	(172)	–	–	8,739
(Loss)/profit for the period	**(6,284)**	**13,782**	**437**	**731**	**903**	**(25)**	**–**	**9,544**
Extract from the balance sheet at 31 December 1999								
Loans	7,740	26,525	1,014	–	–	–	–	35,279
Provisions	(161)	(11,733)	(507)	–	–	–	–	(12,401)
	7,579	14,792	507	–	–	–	–	22,878
Share investments	8,466	3,398	–	1,735	–	–	–	13,599
Provisions	(555)	(1,699)	–	(39)	–	–	–	(2,293)
	7,911	1,699	–	1,696	–	–	–	11,306
Placements and other assets	25,150	46,414	898	4,814	12,596	9,977	–	99,849
Contributions not yet received	–	–	–	7,969	–	40,000	3,115	51,084
Total assets	**40,640**	**62,905**	**1,405**	**14,479**	**12,596**	**49,977**	**3,115**	**185,117**
Other liabilities and provisions	365	27,149	5	116	258	2	–	27,895
Contributions	41,500	59,351	1,261	13,783	11,435	50,000	3,115	180,445
Reserves and (loss)/profit for the period	(1,225)	(23,595)	139	580	903	(25)	–	(23,223)
Total liabilities	**40,640**	**62,905**	**1,405**	**14,479**	**12,596**	**49,977**	**3,115**	**185,117**
Commitments	2,955	52,432	1,594	1,743	3,484	6,250	–	68,458

Technical Cooperation Special Funds

Extract from the statement of movement in fund balance and balance sheet for the year ended 31 December 1999	The Baltic Technical Assistance Special Fund € 000	The Russia Small Business Technical Cooperation Special Fund € 000	The EBRD Technical Cooperation Special Fund € 000	Aggregated Technical Cooperation Special Funds € 000
Balance of fund brought forward	1,297	14,641	396	16,334
Contributions received	9,405	6,946	144	16,495
Interest and other income	39	3,319	7	3,365
Disbursements	(1,777)	(8,279)	(242)	(10,298)
Other operating expenses	(706)	(211)	(7)	(924)
Balance of fund available	**8,258**	**16,416**	**298**	**24,972**
Cumulative commitments approved	18,047	51,598	748	70,393
Cumulative disbursements	(12,523)	(43,795)	(566)	(56,884)
Allocated fund balance	5,524	7,803	182	13,509
Unallocated fund balance	2,734	8,613	116	11,463
Balance of fund available	**8,258**	**16,416**	**298**	**24,972**

Special Fund contributions pledged by donor country

	The Baltic Investment Special Fund € 000	The Russia Small Business Investment Special Fund € 000	The Moldova Micro Business Investment Special Fund € 000	The Financial Intermediary Investment Special Fund € 000	The Italian Investment Special Fund € 000	The SME Finance Facility Special Fund € 000	The Balkan Region Special Fund € 000	The Baltic Technical Assistance Special Fund € 000	The Russia Small Business Technical Cooperation Special Fund € 000	Aggregated Special Funds € 000
Canada	–	2,707	–	–	–	–	–	–	4,309	7,016
Denmark	8,940	–	–	–	–	–	–	1,450	–	10,390
European Community	–	–	–	–	–	50,000	–	–	–	50,000
Finland	8,629	–	–	–	–	–	–	1,411	–	10,040
France	–	7,686	–	–	–	–	–	–	4,980	12,666
Germany	–	9,843	–	–	–	–	–	–	3,025	12,868
Iceland	427	–	–	–	–	–	–	69	–	496
Italy	–	8,401	–	–	11,435	–	–	–	1,360	21,196
Japan	–	21,162	–	–	–	–	–	–	3,295	24,457
Norway	7,732	–	–	–	–	–	–	1,256	–	8,988
Sweden	15,772	–	–	–	–	–	–	2,564	–	18,336
Switzerland	–	2,360	1,261	–	–	–	3,115	–	1,244	7,980
Taipei China	–	–	–	12,046	–	–	–	–	–	12,046
United Kingdom	–	–	–	–	–	–	–	–	12,824	12,824
United States of America	–	7,192	–	1,737	–	–	–	–	24,620	33,549
Total at 31 December 1999	**41,500**	**59,351**	**1,261**	**13,783**	**11,435**	**50,000**	**3,115**	**6,750**	**55,657**	**242,852**

Projects approved in 1999

At 31 December 1999

Albania

FEFAD Bank

To assist an institution providing financial services to private sector MSEs and to develop sound micro and small lending techniques.

Finance • FI • Shares
Approved 20 July • Signed 23 July
Funds approved 1.2 • Total investment 1.2

Emergency Road Rehabilitation Project

To fund emergency improvements to a 30 km section of the road between the Port of Durres and the FYR Macedonian border.

Construction • B/0 • Loan
Approved 2 November • Signed 8 December
Funds approved 10.0 • Total investment 95.7

Albania Power Sector Reconstruction

Reorganisation of the existing loan to allow for modernisation of the main hydro plants and thus a more reliable electricity supply.

Energy Generation • B/1 • Loan
Approved 16 November • Signed 8 December
Funds approved 30.0 • Total investment 61.0

Albanian Mobile Communications

To help support the company's forthcoming privatisation, extend coverage of telecoms services and encourage regulatory reform.

Telecommunications • B/0 • Loan
Approved 30 November
Funds approved 5.0 • Total investment 5.0

International Distribution for Albania

Financing of the first cinema in Albania.

Telecommunications • A/0 • Shares
Approved 14 December • Signed 22 December
Funds approved 0.2 • Total investment 0.2

Armenia

SME Financing through a Multi-Bank Framework

To provide local private banks with equity capital or credit lines for on-lending to SMEs.

Finance • FI • Loan
Approved 20 July
Funds approved 6.7 • Total investment 6.7

Armagrobank

First operation to benefit from new SME Multi-Bank Framework.

Approved 20 July
Funds approved 3.5 • Total investment 3.5

Azerbaijan

Regional TFP: International Bank of Azerbaijan

Sub-project of Regional Trade Facilitation Programme.

Finance • FI • Loan
Approved 12 January • Signed 13 July
Funds approved 2.0 • Total investment 1.9

Baku Port Development Project

To promote restructuring at the port's ferry terminal.

Ports and Inland Waterways • B/0 • Loan
Approved 2 November • Signed 10 December
Funds approved 16.1 • Total investment 22.2

Trans-Caucasian Rail Link Project

To restructure the Azerbaijani section of the Trans-Caucasian link, the main international transit route between Baku and the Georgian ports.

Railways • B/1 • Loan
Approved 2 November • Signed 10 December
Funds approved 20.1 • Total investment 37.8

Bosnia and Herzegovina

Framework for SME Financing

Credit line for lending to qualifying banks, which will on-lend the funds to domestic private SMEs.

Finance • FI • Loan
Approved 9 March
Funds approved 3.5 • Total investment 12.0

Hrvatska Banka Credit Line

Approved 9 March • Signed 13 December
Funds approved 3.3 • Total investment 5.0

Market Banka Credit Line

Approved 2 November • Signed 14 December
Funds approved 1.7 • Total investment 2.5

UPI Banka Credit Line

Approved 16 November • Signed 17 December
Funds approved 1.7 • Total investment 4.0

Micro Enterprise Bank

Additional equity to increase the bank's capital in compliance with new legislation and to enable it to expand its activities.

Finance • FI • Shares
Approved 23 March • Signed 6 April
Funds approved 0.3 • Total investment 0.9

Pivara Tuzla

To modernise a privately owned brewery, improve the quality of its products and increase regional sales.

Food and Beverages • B/1 • Loan
Approved 7 September
Funds approved 6.1 • Total investment 9.4

Guide

The three lines following project descriptions show:

Sector • Environmental screening category • Type of financing
Date of Board approval • Date of signing if before 7 March 2000
EBRD funds approved • Total project investment (in € million)

Loans are calculated at exchange rates current at 31 December 1999.

Shares are converted to euros at exchange rates current at the date of disbursement. This may lead to a discrepancy between EBRD funds and total investment.

The totals may not add up to the sum of the component parts due to rounding.

Environmental screening categories

The project requires:

A – a full environmental screening impact assessment
B – an environmental assessment
C – no environmental impact assessment or environmental analysis
0 – no environmental audit
1 – an environmental audit
FI – Financial institutions

Bulgaria

Bulgaria Grain Receipts Programme – Framework

To allow creditworthy Bulgarian banks to finance the seasonal working capital needs of local farmers, using warehouse receipts as security.

Finance • FI • Loan
Approved 6 July
Funds approved 20.5 • Total investment 20.5

Expressbank

First intermediary to secure funding as part of the Framework.

Approved 20 July • Signed 26 July
Funds approved 5.1 • Total investment 5.1

Bulgaria Wholesale Markets (Revised Investment Plan)

To construct, upgrade and integrate four agricultural wholesale and farmers' markets.

Wholesale and Retail Trade • B/1 • Loan
Approved 20 July • Signed 5 August
Funds approved 10.0 • Total investment 33.9

First Investment Bank Syndicated Loan

To strengthen the funding base of a reliable private commercial bank, allowing it to continue to finance local SMEs.

Finance • FI • Loan
Approved 20 July • Signed 6 August
Funds approved 5.0 • Total investment 10.5

Bulgarian Transmission Network

To support the restructuring, commercialisation and demonopolisation of the Bulgarian power sector.

Energy Transmission • B/0 • Loan
Approved 16 November
Funds approved 59.8 • Total investment 193.8

Bulgarian Tourist Credit Line

Credit line to the Bulgarian-American Enterprise Fund to promote tourism in Bulgaria.

Finance • FI • Loan
Approved 30 November
Funds approved 20.5 • Total investment 20.5

Bulgarian Insurance Group

To help the Group invest in and manage insurance and pension fund management companies and health insurance funds.

Finance • FI • Shares
Approved 14 December • Signed 20 December
Funds approved 5.1 • Total investment 17.1

Croatia

Extension of the Framework for SME Financing in Croatia

To support the development of SMEs and the mortgage financing market by financing a number of privately owned banks.

Finance • FI • Loan
Approved 6 July
Funds approved 19.4 • Total investment 19.4

Bjelovarska Banka

Approved 6 July • Signed 22 December
Funds approved 7.7 • Total investment 7.7

Trgovacka Banka

Approved 6 July • Signed 21 December
Funds approved 3.6 • Total investment 3.6

Croatia GSM

To fund the construction and operation of a GSM 900 network and contribute to the reform and liberalisation of the telecoms sector by introducing competition and creating 600 jobs.

Telecommunications • B/0 • Loan
Approved 20 July • Signed 14 October
Funds approved 22.4 • Total investment 241.6

Rijeka Sewerage Services Improvement Programme

To privatise existing water and sewerage services, ensuring the treatment of all of Rijeka's municipal waste water.

Gas and Sanitary Services • B/0 • Loan
Approved 16 November • Signed 23 December
Funds approved 7.5 • Total investment 15.0

Erste Pension Fund

Equity investment to open a new pension fund.

Finance • FI • Shares
Approved 14 December • Signed 22 December
Funds approved 1.3 • Total investment 2.9

Czech Republic

Ceska Sporitelna Capital Increase

To support the restructuring of the bank's balance sheet prior to its forthcoming privatisation.

Finance • FI • Shares
Approved 20 July
Funds approved 24.9 • Total investment 210.5

Brno Waste Water Treatment Plant Upgrading

To enlarge and upgrade the waste-water treatment plant and part of the city's sewerage network and to support private sector involvement.

Gas and Sanitary Services • B/0 • Loan
Approved 16 November • Signed 21 December
Funds approved 42.5 • Total investment 65.7

CSOB Privatisation (Equity)

To finalise the privatisation of Československá Obchodní Banka a.s. (CSOB). All shares will now be owned by KBC Bank, the EBRD, the IFC and domestic shareholders.

Finance • FI • Shares
Approved 30 November • Signed 20 December
Funds approved 125.0 • Total investment 125.0

European Property Group

To expand the portfolio of a key developer in the Prague commercial property market via acquisitions and developments.

Miscellaneous Services • B/0 • Shares
Approved 30 November • Signed 22 December
Funds approved 34.3 • Total investment 144.5

Estonia

PPF – Baltic PPF – Tallegg

Sub-investment of the Baltic PPF.

Finance • C/0 • Shares
Approved 27 April • Signed 18 May
Funds approved 2.8 • Total investment 2.8

Hansa Capital Syndicated Leasing Finance Facility

Syndicated senior loan for on-lending to subsidiaries in Estonia, Latvia and Lithuania.

Finance • FI • Loan
Approved 8 June • Signed 18 June
Funds approved 13.3 • Total investment 40.0

Imavere Sawmill Expansion II

To finance the expansion of the new sawmill line.

Forestry and Paper • B/1 • Loan
Approved 14 December • Signed 22 December
Funds approved 5.1 • Total investment 7.4

FYR Macedonia

Regional TFP: Export-Import Banka

Sub-operation of Regional Trade Facilitation Programme.

Finance • FI • Loan
Approved 12 January • Signed 22 June
Funds approved 2.6 • Total investment 2.6

Regional TFP: Komercijalna Banka

Sub-operation of Regional TFP.

Finance • FI • Loan
Approved 12 January • Signed 22 June
Funds approved 1.5 • Total investment 1.5

Regional TFP: Stopanska Banka

Sub-operation of Regional TFP.

Finance • FI • Loan
Approved 12 January • Signed 5 November
Funds approved 2.7 • Total investment 2.7

SEAF Macedonia

Fund managed by the Small Enterprise Assistance Funds (SEAF) to make equity and quasi-equity investments in local SMEs with strong growth potential.

Finance • FI • Shares
Approved 27 April • Signed 20 July
Funds approved 4.0 • Total investment 13.0

Alkaloid-AD

To modernise the production facilities of a Skopje-based pharmaceuticals company, assisting it in obtaining GMP certification, a prerequisite for sales to the West.

Pharmaceutical and Medical • B/1 • Loan
Approved 6 July • Signed 20 July
Funds approved 8.7 • Total investment 35.4

Emergency GSM Extension and Network Modernisation Project

To double the capacity of Makedonski Telekomunikacii's GSM network, and improve the service's efficiency.

Telecommunications • B/0 • Loan
Approved 21 September • Signed 12 October
Funds approved 18.7 • Total investment 18.7

Stopanska Banka a.d., Skopje

To fully privatise and restructure Stopanska Banka, and to help modernise the computer systems, upgrade branch networks and train personnel.

Finance • FI • Shares
Approved 30 November • Signed 21 December
Funds approved 9.2 • Total investment 27.7

Georgia

Georgian Wines

To support the development of a top Georgian wine exporter by helping upgrade its facilities and equipment, increase production and improve product quality.

Food and Beverages • B/1 • Loan
Approved 20 July • Signed 29 September
Funds approved 5.0 • Total investment 5.0

AES Telasi

To restructure, modernise and provide working capital for this already privatised electricity distribution network that services Tbilisi.

Energy Distribution • B/0 • Loan
Approved 8 December • Signed 30 December
Funds approved 29.9 • Total investment 146.4

Hungary

M1-M15 Motorway Restructured Project

To ensure the continued operation of the motorway.

Construction • A/0 • Loan
Approved 6 July • Signed 19 August
Funds approved 66.8 • Total investment 205.7

OTP Bank Equity Investment

To support the final stage of the privatisation of Hungary's largest bank, and assist in its regional expansion.

Finance • FI • Shares
Approved 19 October • Signed 26 October
Funds approved 21.5 • Total investment 22.9

Ózdi Acélművek Kft Minimill project

To enable Hungary's only producer of reinforcing bars and wire rod to restart steel-making.

Light Manufacturing • B/1 • Loan
Approved 2 November • Signed 26 November
Funds approved 10.2 • Total investment 17.6

Budapest Intermodal Logistics Centre, basic infrastructure

To help finance private construction of a railway line connection servicing a new private logistics centre in Budapest.

Transport Services • B/0 • Loan
Approved 14 December • Signed 29 December
Funds approved 10.0 • Total investment 20.0

Kazakhstan

Regional TFP: Halyk Savings Bank

Sub-operation of Regional Trade Facilitation Programme.

Finance • FI • Loan
Approved 12 January • Signed 30 July
Funds approved 7.8 • Total investment 7.8

Regional TFP: Bank Turan Alem

Sub-operation of Regional TFP.

Finance • FI • Loan
Approved 12 January • Signed 12 August
Funds approved 1.3 • Total investment 1.2

Turan Alem Towers (Samal Properties)

To help finance the construction, letting and management of an office development in Almaty.

Miscellaneous Services • B/0 • Loan
Approved 6 July • Signed 13 July
Funds approved 9.8 • Total investment 27.9

Kazaktelecom Debt (KTC)

To strengthen the national telecommunications operator.

Telecommunications • C/0 • Loan
Approved 7 September • Signed 18 December
Funds approved 49.8 • Total investment 49.8

Kazaktelecom Pre-privatisation Portage Equity Acquisition

To support KTC's modernisation through expansion of its telecommunications infrastructure and completion of its privatisation.

Finance • FI • Shares
Approved 7 September
Funds approved 69.7 • Total investment 69.7

KEGOC Power Transmission and Rehabilitation Project

To complete the privatisation of power distribution companies.

Energy Generation • B/0 • Loan
Approved 19 October • Signed 3 December
Funds approved 44.8 • Total investment 254.8

KTZ Track Maintenance and Commercialisation Project

To upgrade the railway network by financing the purchase of track maintenance equipment, funding severance pay and retraining, and building management skills.

Railways • B/0 • Loan
Approved 30 November • Signed 3 December
Funds approved 64.8 • Total investment 89.7

AES Altai Power Group Corporate Loan

To upgrade power generation facilities and distribution network, improving efficiency and environmental performance.

Energy Generation • B/1 • Loan
Approved 30 November
Funds approved 29.9 • Total investment 29.9

Latvia

Ventspils Port Multi-Purpose/Intermodal Terminal Project

To build and operate a new privately owned intermodal terminal to handle cargo traffic in the Baltic Sea and to promote Ventspils as a gateway to Russia.

Ports and Inland Waterways • B/1 • Loan
Approved 11 May • Signed 29 June
Funds approved 9.9 • Total investment 31.5

Pirma Latvijas Komercbanka (equity and debt)

Investment in a commercial bank.

Finance • FI • Loan and shares
Approved 20 July • Signed 14 September
Funds approved 9.0 • Total investment 101.4

Latvijas Unibanka (syndicated loan)

Syndicated loan for on-lending so that the bank can extend its private sector lending activities.

Finance • FI • Loan
Approved 5 October • Signed 17 November
Funds approved 15.0 • Total investment 45.0

Lithuania

Rokiskio Suris

To upgrade the production capacity and increase the productivity of the largest cheese producer in the Baltic states by financing its capital expenditure programme.

Food • B/1 • Shares
Approved 27 April • Signed 27 April
Funds approved 11.5 • Total investment 13.9

Vilniaus Bankas

Syndicated loan to Lithuania's largest private sector bank for on-lending to private sector enterprises.

Finance • FI • Loan
Approved 27 April • Signed 5 May
Funds approved 25.0 • Total investment 75.0

Carlsberg MPF – Svyturys

Sub-project under the Carlsberg Multi-Project Facility (MPF), consisting of equity investment in the second-largest Lithuanian brewery.

Food and Beverages • B/0 • Shares
Approved 8 June • Signed 17 June
Funds approved 9.5 • Total investment 47.1

Drobe Wool

To enable one of Lithuania's largest textile mills to privatise, restructure and modernise its manufacturing facilities.

Textile Manufacturing • B/1 • Loan and shares
Approved 5 October • Signed 30 December
Funds approved 7.6 • Total investment 20.8

Agricultural Bank Syndicated Loan

Syndicated loan to provide support for private sector activities.

Finance • FI • Loan
Approved 16 November • Signed 9 December
Funds approved 5.0 • Total investment 14.9

Kaunas Energy Sector and Modernisation Project

To restructure and improve Kaunas's energy supply.

Energy Generation • B/1 • Loan
Approved 14 December
Funds approved 31.9 • Total investment 54.8

Moldova

Regional TFP: Victoria Bank

Sub-investment of the Regional Trade Facilitation Programme.

Finance • FI • Loan
Approved 12 January • Signed 13 October
Funds approved 0.05 • Total investment 0.05

Victoria Bank Capital Increase II

To help one of Moldova's largest private commercial banks consolidate its capital base and extend its loan portfolio to SMEs.

Finance • FI • Shares
Approved 25 May • Signed 14 June
Funds approved 0.3 • Total investment 1.7

Poland

Kredyt Bank S.A. Capital Increase III

To fund the continuing expansion of a private Warsaw-based bank.

Finance • FI • Shares
Approved 9 February • Signed 25 February
Funds approved 8.6 • Total investment 95.5

WBK SME Facility

To increase WBK's lending to SMEs.

Finance • FI • Loan
Approved 7 April • Signed 6 December
Funds approved 10.0 • Total investment 10.0

Kredyt Bank Term Loan

To enable a private universal bank with the third-largest branch network in Poland to expand its long-term lending activities, principally to SMEs.

Finance • FI • Loan
Approved 6 July
Funds approved 50.0 • Total investment 125.0

L&G ESCO Poland

Landis & Gyr ESCO sub-project in Poland under a multi-project facility, which aims to develop and implement energy service activities with public and private sector clients in Poland.

Energy Saving • C/0 • Loan and shares
Approved 20 July • Signed 30 July
Funds approved 2.9 • Total investment 8.4

Alpha Properties

Convertible debt to finance the development, renovation and management of a property portfolio in the Tri-City area (around Gdansk, Sopot and Gdynia).

Miscellaneous Services • B/0 • Loan and shares
Approved 7 September • Signed 9 November
Funds approved 12.2 • Total investment 76.0

Polish Dairy Facility – Framework

EBRD credit lines via three Polish commercial banks (Bank Slaski, Rabobank Polska and WBK) aimed at modernising a number of dairy companies and upgrading milk quality to EU standards.

Finance • FI • Loan
Approved 7 September

Bank Slaski

Funds approved 8.0 • Total investment 10.7

Rabobank Polska

Funds approved 8.0 • Total investment 10.7

WBK

Funds approved 8.0 • Total investment 10.7

Wieden Zycie (Life)

To help establish Polish life insurer.

Finance • FI • Shares
Approved 21 September • Signed 14 October
Funds approved 1.0 • Total investment 9.6

EIB Guarantee Facility for TPSA

Part of a commercial guarantee, enabling Telekomunikacja Polska S.A. (TPSA) to make the first drawdown on loan agreements with the EIB.

Telecommunications • C/0 • Loan
Approved 21 September • Signed 30 November
Funds approved 30.0 • Total investment 250.0

Danone MPF – Danone Ciastka

Sub-project to co-invest in regional food projects.

Food • FI • Shares
Approved 19 October • Signed 8 November
Funds approved 19.4 • Total investment 77.5

LG Petro Bank S.A.

Bank-to-bank loan to provide funding for clients of this bank.

Finance • FI • Loan
Approved 2 November • Signed 7 December
Funds approved 19.9 • Total investment 29.9

Eastbridge II

To finance the refurbishment and modernisation of a leading Polish department store chain.

Wholesale and Retail Trade • B/0 • Loan
Approved 30 November
Funds approved 18.1 • Total investment 18.1

Bydgoszcz Water Supply and Sewerage Services Development Programme

To modernise the sewer system and integrate it with new waste-water treatment plants, and to upgrade the water treatment station.

Gas and Sanitary Services • B/0 • Loan
Approved 14 December • Signed 31 December
Funds approved 26.0 • Total investment 62.8

Lafarge Polska II

To modernise Lafarge's existing cement plants and fund the construction of a new cement line.

Wholesale and Retail Trade • B/0 • Loan
Approved 14 December
Funds approved 49.8 • Total investment 154.4

Romania

Banca Transilvaniei SME Finance Facility

Sub-project under an EBRD-EU Regional Finance Facility for SMEs in the EU accession countries.

Finance • FI • Loan
Approved 7 April • Signed 17 December
Funds approved 5.0 • Total investment 5.0

Sical

To enable Ambro, a pulp and paper mill and subsidiary of Sical, to modernise production facilities at its plant in Suceava, while doubling capacity and improving cost competitiveness.

Forestry and Paper • B/1 • Loan
Approved 11 May • Signed 5 November
Funds approved 9.0 • Total investment 67.7

Privatisation of Romanian Development Bank

Equity investment, comprising 5 per cent of RDB shares, to consolidate the privatisation of Romania's strongest bank.

Finance • FI • Shares
Approved 7 September • Signed 24 November
Funds approved 20.5 • Total investment 220.0

Dalkia ESCO Romania

Sub-project under a multi-project facility to finance energy service companies.

Energy Distribution • C/0 • Loan and shares
Approved 19 October • Signed 14 December
Funds approved 7.1 • Total investment 27.4

Suez-Lyonnaise MPF Timisoara Water Concession Project

To finance investments in the private provision of municipal services, including water supply, waste-water treatment, solid waste disposal, district heating and energy.

Gas and Sanitary Services • B/0 • Loan
Approved 30 November • Signed 21 December
Funds approved 24.7 • Total investment 54.3

Russia

Regional TFP: Vneshtorgbank

Sub-operation of Regional Trade Facilitation Programme.

Finance • FI • Loan
Approved 12 January • Signed 22 June
Funds approved 5.5 • Total investment 5.5

RSBF – Russian Microfinance Bank (equity)

To reorganise and recapitalise a financial institution into a specialised micro and small lending institution and to finance micro and small enterprises throughout Russia.

Finance • FI • Shares
Approved 9 March
Funds approved 3.0 • Total investment 6.0

JSC Baltika Brewery

Corporate loan to Russia's leading brewery to enable it to expand its production capacity, develop its distribution network and strengthen its long-term working capital.

Food and Beverages • B/1 • Loan
Approved 23 March • Signed 15 June
Funds approved 31.9 • Total investment 39.8

Kaliningrad Water and Environmental Services Project

To part-finance improvements to the water supply and waste-water treatment in Kaliningrad.

Gas and Sanitary Services • B/0 • Loan
Approved 27 April • Signed 4 July
Funds approved 17.9 • Total investment 62.5

Kaluga Brewery

To finance the construction of a brewery in Kaluga and the establishment of a distribution network for the brewery's products.

Food and Beverages • B/1 • Shares
Approved 27 April • Signed 30 June
Funds approved 29.9 • Total investment 124.5

North Western Shipping Company Follow-on Loan

To help refinance a new building, and to provide funding for the upgrading of safety equipment for vessels and for other working capital purposes.

Transport Services • B/0 • Loan
Approved 27 April • Signed 11 November
Funds approved 3.4 • Total investment 3.4

RSBF – NBD (restructuring of RSBF exposure)

To restructure US$ 700,000 of senior debt under the Russia Small Business Fund as a subordinated loan and to take an equity option.

Finance • FI • Loan
Approved 20 July • Signed 27 July
Funds approved 0.5 • Total investment 0.7

Gold Pre-Production Financing

Framework to provide pre-production financing for gold-producing companies.

Mining and Minerals Processing • FI • Loan
Approved 2 November
Funds approved 115.8 • Total investment 130.2

Polyarnaya

Approved 2 November • Signed 29 December
Funds approved 6.0 • Total investment 6.0

Chukotka

Approved 16 November • Signed 29 December
Funds approved 8.4 • Total investment 8.4

Slovak Republic

Embraco Slovakia

To enable Embraco Europe to build a new commercial refrigeration compressor plant in Spisska Nova Ves and achieve substantial cost reductions.

Heavy Manufacturing • B/0 • Loan
Approved 26 January
Funds approved 12.5 • Total investment 49.3

Polus Center

To plan, construct and operate a 57,300 sq m office, retail and leisure facility in the Nove Mesto district of Bratislava.

Miscellaneous Services • B/0 • Loan
Approved 20 July • Signed 18 August
Funds approved 23.0 • Total investment 68.9

Slovak Grain Receipt Programme – Pol'nobanka

To support a local bank in providing lending for the seasonal working capital needs of farmers by using warehouse receipts as security.

Food • FI • Loan
Approved 20 July • Signed 30 July
Funds approved 10.2 • Total investment 20.5

Slovenský Plynárenský Priemysel, š.p.

To finance through a five-year bond issue a programme for the state-owned SPP, which transports and distributes natural gas. The programme involves capacity expansion and purchase of IT systems.

Oil and Gas Production • B/1 • Loan
Approved 5 October • Signed 21 October
Funds approved 30.0 • Total investment 150.0

Slovenia

Framework for Financing Financial Institutions

To provide debt, equity and quasi-equity financing to selected banks that are private or undergoing privatisation.

Finance • FI • Loan and shares
Approved 20 July
Funds approved 25.0 • Total investment 25.0

Nova Ljubljanska Banka

Approved 20 July • Signed 6 August
Funds approved 15.0 • Total investment 30.0

SKB Banka Housing Loan

Approved 20 July • Signed 27 August
Funds approved 10.0 • Total investment 10.0

Tajikistan

Khoujand Airport

To finance emergency airport rehabilitation, including repairs to the runway and associated drainage systems, and to improve Tajikistan's transport infrastructure.

Airports and Air Navigation Systems • B/0 • Loan
Approved 9 March • Signed 22 April
Funds approved 3.0 • Total investment 5.5

TSOB Equity Investment

Investment in Tojiksodirotbonk Bank (TSOB).

Finance • FI • Shares
Approved 7 September • Signed 26 November
Funds approved 0.5 • Total investment 0.5

Turkmenistan

Gap Turkmen 2

To support the first vertically integrated denim fabric and ready-made goods production complex in Turkmenistan.

Textile Manufacturing • B/1 • Shares
Approved 20 July • Signed 10 November
Funds approved 3.0 • Total investment 14.9

Dragon Oil

To support commercial development of offshore hydrocarbon reserves in the Turkmenistan section of the Caspian Sea.

Oil and Gas Production • A/1 • Loan
Approved 14 December • Signed 20 December
Funds approved 59.8 • Total investment 479.3

Ukraine

Kiev International Bank

To uphold the EBRD's 35 per cent participation in a recently established Ukrainian bank and support its status as majority foreign-owned.

Finance • FI • Shares
Approved 23 March • Signed 21 October
Funds approved 1.8 • Total investment 1.8

DOEP (Amended)

To purchase raw materials necessary to produce refined edible sunflower oil.

Food • C/1 • Loan
Approved 27 April • Signed 5 May
Funds approved 43.3 • Total investment 73.2

Cargill Industrial Complex

To build and operate a sunflower seed processing facility in Donetsk, the first foreign direct investment in a large greenfield project in Ukraine's food sector.

Food • B/0 • Loan and shares
Approved 27 April • Signed 30 June
Funds approved 55.8 • Total investment 95.7

Kyivstar GSM

To assist with the design, installation and operation of a national GSM 900 mobile telephone network in Ukraine by making a loan and quasi-equity investment in ZAO Kyivstar GSM 900, a Ukrainian closed joint-stock company.

Telecommunications • B/0 • Loan and shares
Approved 21 September
Funds approved 34.1 • Total investment 135.0

Railway Development Project

To purchase track maintenance machinery and track improvement materials for the major rail corridor between L'viv and Kiev.

Transport Services • B/0 • Loan
Approved 5 October • Signed 6 December
Funds approved 51.7 • Total investment 93.9

Iveco Ukraine

To finance the development of Iveco Ukraine, which will manufacture vehicles, engines and components, and to help modernise the automotive industry in Ukraine.

Motor Vehicles and Components • B/1 • Shares
Approved 19 October
Funds approved 21.0 • Total investment 85.1

Balkan Gastransit Project

To construct a new compressor station in Tarutino. The increased capacity will be used to transport additional gas via the existing gas pipeline through Romania and Bulgaria.

Oil and Gas Production • B/1 • Loan
Approved 19 October • Signed 21 December
Funds approved 50.7 • Total investment 76.6

Subordinated Credit Facility to Raiffeisenbank

To provide a subordinated loan to Raiffeisenbank Ukraine (RBU) that will strengthen its capitalisation and allow it to extend its lending operations without exposure to foreign exchange risk.

Finance • FI • Loan
Approved 30 November • Signed 23 December
Funds approved 10.0 • Total investment 10.0

Ukraine Microcredit Bank (UMB)

To establish an independent bank specialising in micro lending.

Finance • FI • Loan and shares
Approved 8 December
Funds approved 12.3 • Total investment 32.7

Uzbekistan

Regional TFP: NBU

Issuing bank agreement under the Regional Trade Facilitation Programme.

Finance • FI • Loan
Approved 12 January • Signed 22 June
Funds approved 32.4 • Total investment 32.4

Regional TFP: Asaka Bank

Sub-operation of the Regional TFP.

Finance • FI • Loan
Approved 12 January • Signed 22 June
Funds approved 2.8 • Total investment 2.8

Arsin White Goods

To privatise and refurbish a refrigerator plant venture in Samarkand, and to establish a distribution, retailing and service network throughout Uzbekistan.

High Tech and Electronic • B/1 • Loan and shares
Approved 27 April
Funds approved 23.8 • Total investment 76.6

Uzbek Railways Freight Traction Renewal and Management Project

To enhance the performance of the Uzbek rail freight business and to increase its profitability and commercial viability as part of a wider railways modernisation project.

Transport Services • B/0 • Loan
Approved 20 July • Signed 1 December
Funds approved 39.8 • Total investment 39.8

Kasansay-Tekmen Wool Products 2

To extend an equity stake in an integrated textiles plant and to create 14,000 jobs.

Textile Manufacturing • C/1 • Shares
Approved 20 July • Signed 17 September
Funds approved 5.0 • Total investment 17.1

Regional

450 Wireless Systems Fund Ltd

To support a range of cellular and radio communication networks in the Bank's countries of operations and to help develop mobile telephone operations in central and eastern Europe.

Finance • FI • Shares
Approved 12 January • Signed 11 January 2000
Funds approved 14.9 • Total investment 72.4

Regional Trade Facilitation Programme

Framework to fund a new two-year Trade Facilitation Programme, providing €100 million to selected banks to support foreign trade transactions of eligible beneficiaries and contribute to the rebuilding of a market trade finance infrastructure disrupted by the recent financial crisis.

Finance • FI • Loan
Approved 12 January
Funds approved 42.2 • Total investment 42.2

Technologieholding Central and Eastern European Fund

To support a range of information and communications technology-related and industrial electronic companies primarily operating in Poland, Hungary and the Czech Republic.

Finance • FI • Shares
Approved 26 January • Signed 2 June
Funds approved 16.9 • Total investment 49.8

SME Finance Facility

Framework for an EBRD-EU finance facility for ten EU accession countries, providing term loans and equity to financial intermediaries in order to facilitate the expansion of lending to SMEs.

Finance • FI • Loan and shares

Approved 7 April

Funds approved 60.0 • Total investment 125.0

EIF Group Central and Eastern Europe Power Fund Limited

To establish a closed-end venture capital fund for investing in small to medium-sized power generation and distribution projects, thereby contributing to the privatisation, upgrading and modernisation of energy facilities.

Finance • FI • Shares

Approved 6 July • Signed 16 December

Funds approved 49.8 • Total investment 249.0

Golden Telecom

To support a leading alternative telecommunications operator in the CIS, providing customers with competitive local exchange carrier (CLEC), broadband data, and cellular and Internet services.

Telecommunications • B/O • Shares

Approved 7 September • Signed 30 September

Funds approved 32.6 • Total investment 135.3

Dexia – FondElec Energy Efficiency and Emissions Reduction Fund

To create a closed-end venture capital fund that will invest in small to medium-sized power and heat generation and distribution projects and companies in central and eastern Europe and the Baltic states.

Finance • FI • Shares

Approved 5 October • Signed 22 December

Funds approved 20.0 • Total investment 100.0

Trigranit

To make an equity investment in the Trigranit Group via an offshore company.

Miscellaneous Services • B/O • Shares

Approved 2 November • Signed 7 December

Funds approved 13.6 • Total investment 88.0

Head Eastern Europe Insurance Fund

To make an investment in a private equity fund.

Finance • FI • Shares

Approved 16 November

Funds approved 19.8 • Total investment 99.5

Abbreviations and acronyms

The Bank, EBRD The European Bank for Reconstruction and Development
CEE Central and eastern Europe and the Baltic states
CIS Commonwealth of Independent States
CSF Chernobyl Shelter Fund
EAP Environmental Action Plan
EC European Community
ECA Export credit agency
ECU European Currency Unit
EIB European Investment Bank
ENVAC Environmental Advisory Council
ESCO Energy service company
ESE Early Stage Equity
EU European Union
FDI Foreign direct investment
FYR Macedonia Former Yugoslav Republic of Macedonia
G-7 Group of 7 (Canada, France, Germany, Italy, Japan, UK and USA)
GDP Gross Domestic Product
IFC International Finance Corporation
IFI International financial institution
IMF International Monetary Fund
Libor London Interbank Offered Rate
LTP Legal Transition Programme
MPF Multi-Project Facility
MSEs Micro and small enterprises
NPP Nuclear power plant
NSA Nuclear Safety Account
OECD Organisation for Economic Cooperation and Development
Phare Poland and Hungary: Aid for Economic Restructuring (EU)
PPF Post-Privatisation Fund
RSBF Russia Small Business Fund
RVF Regional Venture Fund
SIP Shelter Implementation Plan
SMEs Small and medium-sized enterprises
SRP Special Restructuring Programme
Tacis Technical Assistance for CIS countries (EU)
TAM TurnAround Management Programme
TC Technical cooperation
TCFP Technical Cooperation Fund Programme
VaR Value at Risk

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