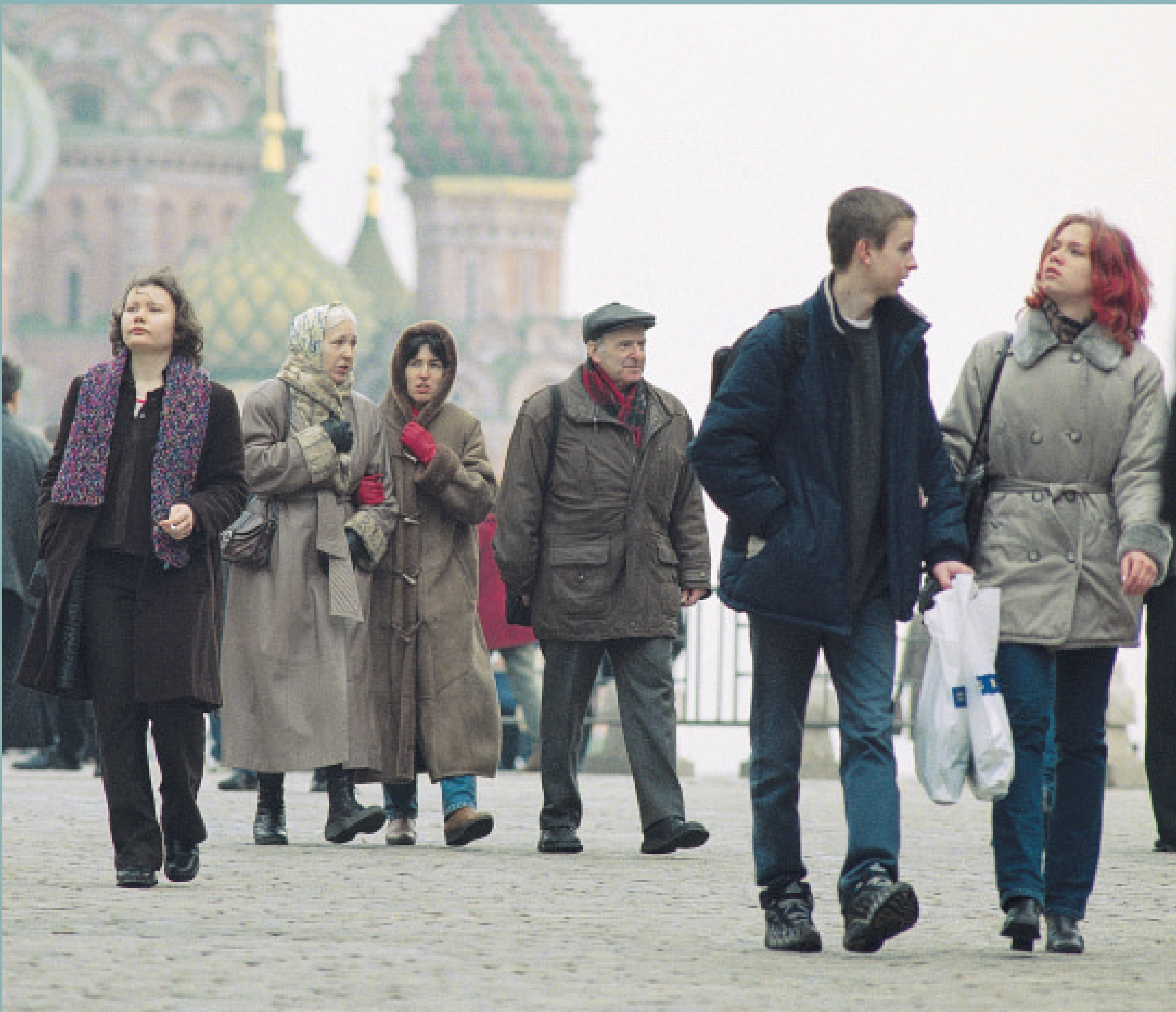
# Annual report 2000

European Bank
for Reconstruction and Development



## Countries of operations

*as of 31 January 2001*

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

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 27 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.

# 2000 highlights

**For the EBRD's countries of operations, 2000 brought a recovery of investment and a consolidation of output, with the region experiencing positive economic growth. In helping the countries to achieve these successes, the Bank significantly increased its commitments in the region and consolidated its return to profitability.**

**The EBRD continued to invest in projects that advance the transition to market economies and mobilised considerable domestic and foreign investment in support of these activities. In the autumn the EBRD launched a Capital Resources Review and undertook a review of its impact on the transition process, which confirmed that the Bank is well placed to build on its successful experiences in the region.**

**Operational targets for the year were generally exceeded, as the Bank continued to implement its revised medium-term operational priorities, *Moving Transition Forward*. The EBRD signed 95 projects totalling €2.7 billion, the highest annual commitment level to date.**

**The EBRD consolidated its return to profitability, recording a net profit of €153 million. This was principally due to equity disposals, Treasury operations and continued budgetary discipline. The Bank achieved positive reserves in 2000, reversing the earlier financial setback. Banking operations showed a profit for the first time, making a substantial contribution to the EBRD's positive overall results.**

**During the course of the year the EBRD played an active role in the implementation of the Stability Pact for South-Eastern Europe, becoming the single largest institutional investor in the region. In December the EBRD accepted the Federal Republic of Yugoslavia as its 27th country of operations and the Bank began to assess its role in reconstructing the country's economy.**

**In May the EBRD's Board of Governors unanimously elected Jean Lemierre as the Bank's fourth President following the departure of Horst Köhler, who was appointed Managing Director of the International Monetary Fund.**

The portfolio of the Bank's net outstanding commitments grew by 13 per cent to €12.2 billion by the end of 2000. The private sector share of the portfolio was 68 per cent.

Annual business volume in the advanced countries of central and eastern Europe increased by 14 per cent in 2000, representing 39 per cent of the EBRD's annual commitments. Activity in Russia more than doubled, with its overall share rising to 22 per cent. The early and intermediate countries recorded a 2 per cent increase, reaching a share of 39 per cent of annual business volume.[1]

Gross disbursements grew slightly to €1.5 billion in 2000 in line with the Bank's target range for the year. The Bank's operating assets reached €7.6 billion.

The Bank's pipeline of projects under consideration increased significantly. Projects passing final review stage in 2000, before Board approval, reached €3.8 billion, an increase of 27 per cent over 1999. Projects at the earlier stages of the project cycle also increased by more than 15 per cent.

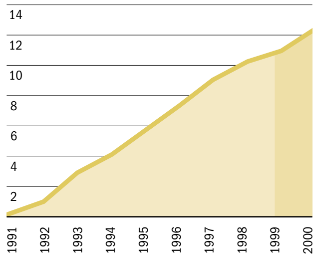
The EBRD continued its long record of zero-growth budget, achieving greater productivity with a negligible increase in staff.

The Bank approved a new Public Information Policy and revised its Provisioning Policy.

[1] See page 108 for a definition of these country groupings.

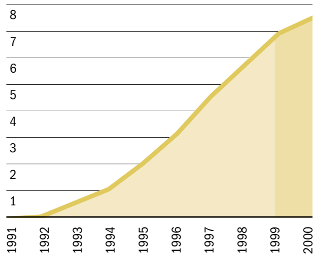
### Banking portfolio

at 31 December 2000 (€ billion)



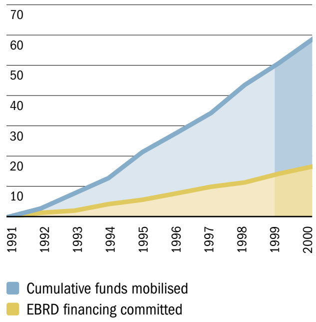

### Operating assets

at 31 December 2000 (€ billion)




### Cumulative funds mobilised

at 31 December 2000 (€ billion)




## Financial results

| (€ million) | **2000** | **1999** | **1998** | **1997** | **1996** |
|---|---|---|---|---|---|
| Operating income | 519.2 | 376.4 | 450.5 | 346.0 | 243.7 |
| Expenses and depreciation | (192.1) | (172.8) | (158.7) | (152.1) | (146.4) |
| Operating profit before provisions | 327.1 | 203.6 | 291.8 | 193.8 | 97.3 |
| Provisions for losses | (174.3) | (160.9) | (553.1) | (177.7) | (92.4) |
| Profit/(loss) for the period | 152.8 | 42.7 | (261.2) | 16.1 | 4.9 |
| Authorised capital | 20,000 | 20,000 | 20,000 | 20,000 | 10,000 |
| Paid-in capital | 5,186 | 5,163 | 5,084 | 4,877 | 2,965 |
| Capital instalments received (cumulative) | 3,769 | 3,480 | 3,217 | 2,949 | 2,916 |
| Total provisions and reserves | 1,278 | 1,040 | 762 | 508 | 263 |
| Total assets | 21,290 | 19,595 | 16,047 | 13,495 | 10,964 |

## Operational results

| **Annual commitments** | **2000** | **1999** | **1998** | **1997** | **1996** |
|---|---|---|---|---|---|
| Number of projects | 95 | 88 | 96 | 108 | 95 |
| EBRD financing (€ million) | 2,673 | 2,162 | 2,373 | 2,315 | 2,188 |
| Resource mobilisation (€ million) | 5,188 | 4,862 | 7,541 | 4,210 | 3,819 |
| **Portfolio** (€ million)[1] | | | | | |
| Banking portfolio | 12,218 | 10,835 | 10,182 | 8,932 | 7,263 |
| Operating assets | 7,563 | 6,955 | 5,761 | 4,580 | 3,202 |
| Performing assets | 6,805 | 6,160 | 5,247 | 4,393 | 3,168 |
| Additional funds mobilised | 41,949 | 33,964 | 29,102 | 22,335 | 18,926 |

[1] Figures for 1996-99 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 108. The charts above reflect recalculated figures.

# Contents

# President's foreword

For the EBRD, 2000 was a rewarding year. In an improved economic climate we signed our highest level of new business. We restored the Bank's financial health after the crisis of 1998, putting the Bank in an even stronger position to foster transition to market economies in central and eastern Europe and the Commonwealth of Independent States. As the EBRD celebrates its tenth anniversary, its role is as relevant as ever and the challenges are great.

In the more advanced countries of central and eastern Europe, we foresee a high level of new business to accompany the process of EU accession, itself a target complementary to the transition challenges of the Bank. Our work will increasingly focus on more complex transactions, especially industrial restructurings and the more difficult sectors such as municipal infrastructure, agribusiness and the new economy.

We will expand our activities in Russia and Ukraine, where there is a huge appetite for investment and a need for our contribution to developing a corporate culture of good governance.

During 2000 the EBRD played a key role in the Stability Pact for South-Eastern Europe. At the end of the year we welcomed the Federal Republic of Yugoslavia as the Bank's 27th country of operations, which redefined the considerable potential for EBRD initiatives in the Balkan region.

We will continue to invest in the Central Asian countries, where difficult social conditions still prevail and investment opportunities have to date been more limited.

The Bank has become the largest single investor in central and eastern Europe and the Commonwealth of Independent States. We know the region well through a strong local presence in our Resident Offices, and dialogue with businesses, governments and local authorities. We have learned over ten years that transparent, predictable and fair rules and institution building are essential for well-functioning markets, that liberalisation and privatisation contribute to growth, and about the crucial need for democratic accountability of governments. Our future will be built on our successes and on the lessons learned from our experience.

As we launch a new decade, we resolve to enhance our role as a public sector bank that moves markets forward by taking risks that will encourage other investors to follow. We will constantly innovate to adapt to evolving local needs. And we will stay attuned to the client. With a clear focus and an expert and dedicated staff, we feel ready to take on the very considerable challenges that lie ahead in our goal of making markets work.

But no market is functional unless it ultimately alleviates poverty, improves health care and promotes education. Although these concerns are not part of the Bank's direct responsibilities, we will work with other international institutions and countries to ensure that these most fundamental needs of people are addressed.

In my first year as the Bank's President, I am delighted to have the opportunity to develop the work of my predecessors and to help to meet the challenges of the coming years.

Jean Lemierre
*President, EBRD*

# Letter of transmittal

London, 13 March 2001

## 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 2000 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

Jean Lemierre

| Directors | Alternate Directors |
|---|---|
| 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 |
| Serguei Ovseitchik | Igor Kovtun |
| Philippe Petit-Laurent | Vassili Lelakis |
| Yuri Poluneev | Ionut Costea |
| Enzo Quattrociocche | Francesco Saverio Nisio |
| Norbert Radermacher | Clemens Kerres |
| Karen Shepherd | Vacant |
| Bernard Snoy | Georges Heinen |
| Valentin Tsvetanov | Jan Bielecki |
| Pim van Ballekom | Hidde van der Veer |
| Kunimitsu Yoshinaga | Masato Iso |

# Overview

**For the EBRD's countries of operations, economic growth was stronger in 2000 than in any year since the transition began, a performance underpinned by improvements in the region's external competitiveness and solid growth in the world economy. The EBRD helped to foster this growth and to support the transition to market economies by significantly increasing its commitments in the region while ensuring that it complemented rather than replaced alternative sources of finance. At the same time the Bank recorded strong financial results.**

During the year the EU accession candidates benefited from the strength of the European economy and inflows of capital in anticipation of EU membership. Most of the Commonwealth of Independent States (CIS) experienced export- and investment-driven growth thanks to gains in competitiveness achieved following major currency devaluations. Energy exporters, such as Russia and the Caspian Sea countries, profited from high oil prices, experiencing an increase in real incomes, exports and tax revenues.



Throughout the region, the enhanced business prospects created an opportunity to improve economic management and corporate governance, and to strengthen the institutions that support a well-functioning market economy. Improved economic growth and advances in stabilisation encouraged foreign investors to increase their activities in the region in 2000. It is significant that this increase in foreign direct investment was concentrated in the countries that had made the most progress in the transition to a market economy. However, continued structural reform and fiscal restraint is needed to maintain this trend as the favourable external environment may not last.

In 2000 the EBRD continued to build on its revised operational priorities, as outlined in *Moving Transition Forward.* During the year the Bank signed 95 projects totalling €2.7 billion, while disbursements increased by 3 per cent, reaching a cumulative total of €11.4 billion. Profits of €153 million showed further improvement on previous years. The volume of projects approved by the Bank's Board of Directors in 2000 reached €3.6 billion.

The EBRD continued to review its operational priorities as it entered its tenth year of activity. In particular, it formulated innovative ways to support small and medium-sized enterprises (SMEs), to restructure large enterprises and to develop a regional approach to business. The Bank also approved a new Public Information Policy, revised its Provisioning Policy and modified its Principles of Planning and Budgeting.

In autumn 2000 the EBRD launched its statutory five-year Capital Resources Review and undertook a review of its impact on the transition process, concluding that the Bank is well placed to build on its successful experiences in the region. The EBRD continued with its reorganisation of the Banking Department and increased the number of staff in its Resident Offices.

## Operational results

The EBRD's commitments reached €2.7 billion in 2000, representing an increase of 24 per cent over the level achieved in 1999 and the highest annual business volume recorded by the Bank to date. Disbursements by the EBRD in 2000 reached €1.5 billion across all of the Bank's countries of operations, with the largest share in Croatia, Poland, Romania and Russia.

The EBRD's portfolio increased to €12.2 billion by the end of 2000, exceeding the Bank's business plan target. Operating assets reached €7.6 billion at the end of 2000 compared with €7.0 billion in 1999. The size of the increase was affected by a high level of repayments resulting from the Bank's maturing portfolio.

Annual business volume in the countries at the advanced stages of transition increased from €906 million in 1999 to €1,034 million in 2000, an increase of 14 per cent. In terms of the overall share of EBRD commitments during the year, this represented 39 per cent, slightly down on the level recorded in 1999 – 42 per cent – but in line with the Bank's target.

Commitments in the early and intermediate transition countries increased from €1,039 million in 1999 to €1,060 million in 2000, representing 39 per cent of the Bank's annual business volume. In Russia annual commitments more than doubled, from €217 million in 1999 to €579 million in 2000, with its share of the annual business volume rising from 10 per cent in 1999 to 22 per cent in 2000.

As a reflection of the generally improved business climate in the region, repayments of EBRD loans reached €681 million by the end of the year, compared with €482 million for 1999. Cancellations were limited to €387 million, compared with €1,086 million in the previous 12 months. The equity share of EBRD commitments throughout its countries of operations reached 23 per cent in 2000.

The EBRD sought to rebuild confidence in the financial sector in 2000 and increased its lending to small and medium-sized enterprises through financial intermediaries.

## Financial results

During 2000 the EBRD consolidated its return to profitability, recording a profit after provisions of €152.8 million for the year compared with a profit of €42.7 million for 1999. As a result, the Bank achieved a return to positive reserves (€65.9 million at 31 December 2000) and reversed most of the financial setback of 1998.

Operating income before general administrative expenses of €519.2 million was almost 40 per cent above the €376.4 million operating results of last year, with all revenue areas performing better in 2000. In particular, net interest income of €273.3 million was 46 per cent above the 1999 reported level, and dividend income of €28.1 million from share investments was more than double the total for 1999. Profit of €166.8 million from the sale of share investments was 30 per cent higher than in 1999.

Provisioning charges of €174.3 million for 2000 were slightly higher than those in 1999, which totalled €160.9 million. Total provisions for Banking operations amounted to €1.2 billion at the year-end, compared with €1.1 billion at the end of 1999.

Banking operations achieved profitability during the year for the first time, showing a net profit of €79.1 million after full allocation of expenses, provisions and capital benefit. This was primarily due to increases in net interest income and profit from the sale of share investments. The EBRD's portfolio also benefited from an improving climate across the region led by a recovery in Russia. Treasury had another profitable year, increasing net profit by more than a third to €73.7 million and capitalising on attractive investment and funding opportunities.

The EBRD's general administrative expenses were well within budget and comparable to those for 1999, reflecting continuing budgetary discipline and effective cost controls. Expressed in sterling, they totalled £129.5 million, representing 93 per cent budget utilisation.

## Implementing the EBRD's operational priorities

In keeping with its mandate, the EBRD focuses on the financing of projects, primarily in the private sector, which advance the transition, taking careful account of each country's progress in economic and political reform. The Bank applies sound banking principles to all its operations and ensures that its activities are additional to, rather than competing with, alternative sources of market finance. The active and entrepreneurial management of its existing portfolio is an essential part of its core business. An active approach to the environment is also integrated into all its work.

In the course of 2000 the Bank continued to pursue the priorities spelled out in *Moving Transition Forward*. These include:

- helping to create sound financial sectors linked to the needs of enterprises and households;
- providing leadership for the development of business start-ups and SMEs;
- pursuing commercialisation in infrastructure development, using a full range of financial structures;
- demonstrating, through carefully selected examples, effective approaches to restructuring viable large enterprises;
- promoting the real economy, making equity investments and assisting entrepreneurs; and
- promoting a sound investment climate and stronger institutions on the basis of its project experience and investor perspective.

1 A hazelnut packaging factory was one of 2,500 micro and small enterprises to receive loans in 2000 from the Microfinance Bank of Georgia, which was supported by equity and debt financing from the EBRD.

2 The EBRD has committed almost €1 billion to municipal and environmental services in central and eastern Europe and the CIS.

## Enhancing confidence in financial intermediaries

In 2000 the EBRD continued to rebuild confidence in the region's financial systems following the financial crisis of 1998. In particular, it broadened its range of products and developed projects throughout its region of operations. In 2000 it increased its commitments in advanced transition countries, expanding its involvement in private equity funds and insurance. The EBRD also signed a significant number of projects in Russia and the early/intermediate countries, focusing on trade finance, micro credits, support for SMEs and bank privatisation and restructuring. During the year the EBRD signed 295 transactions totalling €840 million. These included 194 trade facilitation guarantees totalling €142 million, which have helped to encourage a recovery in exports in the region.

## Promoting small business

SME financing in the EBRD's countries of operations was expanded in 2000. At the heart of each SME country programme is the aim to strengthen financial institutions dedicated to providing financing to these enterprises and to improve the business environment. The programmes encompass a range of initiatives to strengthen links between the Bank's large corporate clients and local SMEs and to create support networks for these enterprises. New commitments for SME financing almost doubled in 2000, rising to €360 million compared with €187 million in 1999 and covering all of the EBRD's countries of operations. Ten banks participated in the EU-EBRD SME Finance Facility and there was a sharp increase in activities in the Bank's micro lending programmes and the Regional Venture Funds (see page 30).

The number of micro and small loans provided under EBRD programmes more than doubled between 1999 and 2000, with over 50,000 loans disbursed during the year. The EBRD's flagship micro and small enterprise lending programme, the Russia Small Business Fund (RSBF), had a strong year in 2000. The Fund surpassed pre-crisis lending levels, making over 13,800 loans to micro and small enterprises worth €130 million. Since the project began in 1994, almost 45,000 loans totalling €537 million have been made to Russian small businesses. Significant progress was also made in the EBRD's small business programmes in Albania, Bosnia and Herzegovina, Georgia, Kazakhstan, Moldova, Ukraine and on the territory of Kosovo in the Federal Republic of Yugoslavia.

## Supporting infrastructure and environment

Years of neglect under the former command economies have left municipal services in the EBRD's countries of operations in severe need of financing. As the EBRD has a unique mandate to promote environmentally sound development in all of its activities, projects were developed in a range of sectors in 2000, allowing the Bank to work across the full private-public spectrum of financing. Investments were mainly in the areas of water treatment and supply, waste-water collection and treatment, solid waste management, district heating and urban transport. During the year the EBRD provided financing of €211 million in support of nine transactions in the municipal and environmental infrastructure sector with a total value of €883 million. This brings the Bank's total commitments in municipal and environmental services to almost €1 billion spread across 90 municipalities in 18 countries, covering about 30 million people.

## Effective approaches to restructuring

The EBRD continued to support enterprise restructuring during 2000. Financing was committed alongside strategic investors in areas such as steel, chemicals and textiles. The Bank's restructuring operations in the railway sector were expanded through the Polish PKP project, which is designed to improve the productivity and competitiveness of the country's railway system. The EBRD also made significant progress in restructuring a number of existing client companies in cases where this went hand in hand with the restructuring of EBRD financing.


③ The EBRD was a key participant in the recapitalisation of Russia's KMB-Bank, which granted small loans totalling over €64 million in 2000.

④ Over 50,000 borrowers benefited in 2000 from the Bank's micro and small enterprise lending programmes and institutions.

### Fostering entrepreneurship in the real economy

Equity is the EBRD's key instrument to promote good corporate governance and to foster transition. Over 50 per cent of the Bank's equity portfolio is in the financial institutions sector, consisting of investments in banks, insurance companies and private equity funds. In 2000 the EBRD broadened its equity portfolio, making investments in countries where the progress towards transition has been less advanced, such as Albania, FYR Macedonia and Kyrgyzstan. The Bank also made its first equity investment in a Russian bank since the 1998 financial crisis with the recapitalisation of International Moscow Bank. Through the Bank's portfolio of private equity funds, some 600 individual sub-investments have been made, largely in SMEs. As an active minority shareholder, the EBRD is represented on the appropriate governing bodies of the investee companies and has helped to foster entrepreneurship in these companies.

### Promoting a sound investment climate

In 2000 the EBRD continued to promote a sound investment climate by working with governments to improve economic management, the regulatory framework and the legal environment. Attention focused on areas such as bankruptcy, corporate governance and financial market regulation. The Bank also pursued legal remedies where necessary. In Russia, for example, the EBRD took legal action to enforce its right to repayment by Chernogorneft, a large oil company. The Bank's action tested Russia's relatively new bankruptcy law and demonstrated to other creditors that legal remedies can and should be obtained. In another case, the EBRD achieved an amicable settlement of the substantial unpaid obligations of Uneximbank, a major Russian bank. The resolution avoided a lengthy bankruptcy or liquidation, which would have been costly and resulted in considerably smaller recoveries for other lenders. The project demonstrated an effective way of reaching a settlement when severe difficulties are encountered.

## Responding to regional needs

### Investing in early and intermediate transition countries

In the early and intermediate transition countries the EBRD's annual business volume grew from €1,039 million in 1999 to €1,060 million in 2000, representing 39 per cent of the Bank's annual commitments. While the major countries in terms of volume of operations were Ukraine, Romania, Kazakhstan and Bulgaria, specific attention was paid to ensuring an appropriate business level in the smaller countries in this transition group. The level and range of activities in each country tended to reflect the degree of progress in transition and the governments' efforts to improve the business climate.

### Supporting Russia's recovery

In both political and economic terms, 2000 represented a significant breakthrough in the economic and political stabilisation of Russia. A recovery in output was facilitated by the significant increase in energy prices on world markets, the delayed impact of the massive 1998 rouble devaluation and the Government's efforts to recover from the earlier financial crisis.

In 2000 the EBRD supported these developments, committing €579 million. This resulted in the share of EBRD commitments in Russia rising from 10 per cent in 1999 to 22 per cent in 2000. The increase reflects the Bank's increasing ability to respond to the rapidly changing operating environment. In September the EBRD's new strategy for Russia confirmed the Bank's commitment to supporting SMEs, infrastructure development, financial intermediaries, foreign direct investment and good corporate governance.

### Shared goals with EU accession

The transition process, which the EBRD supports in all of its activities, and the EU accession process are both intended to achieve market liberalisation, competition and privatisation and to strengthen democracy. The EBRD welcomed the outcome of the European Council meeting in Nice in December, at which

1 Following approval of the Federal Republic of Yugoslavia as the EBRD's 27th country of operations, the Bank began preparations for the opening of a local office in Belgrade.

substantive steps were taken to accelerate EU accession negotiations with a number of the Bank's countries of operations. The activities of the Bank are often complementary to the EU accession process, and the investment needs of the accession countries have increased the opportunities for the EBRD to invest in central Europe. In 2000 the EBRD's commitments in these countries amounted to €1,034 million, representing about 39 per cent of the Bank's overall total.

### Assisting developments in south-eastern Europe

Following the election of a new democratic government in FR Yugoslavia in October 2000, the Board of Governors voted unanimously in December to admit the country as a member of the EBRD.

Throughout 2000 the EBRD played a key role among international financial institutions (IFIs) in advancing the objectives of the Stability Pact for South-Eastern Europe. The Bank's activities fell into three main categories: regional private sector finance initiatives; infrastructure finance; and increased business volume in the region. Private sector initiatives included an EBRD commitment of €58 million under the Trade Facilitation Programme, which supports improved trade flows in the region. Other private sector initiatives included small and micro-enterprise finance for businesses and banks and support for six "quick-start" infrastructure projects.

During the year the EBRD committed €523 million to the countries of south-eastern Europe. In the republics of former Yugoslavia, including Bosnia and Herzegovina, Croatia, FYR Macedonia and Slovenia, the Bank has committed a cumulative total of over €1.5 billion to 77 projects. On the territory of Kosovo[1] in FR Yugoslavia the EBRD provided technical assistance in 2000 for the establishment of a micro enterprise bank. The EBRD has also developed a growing pipeline of projects in response to increasing investor confidence in south-eastern Europe.

[1] Kosovo forms part of FR Yugoslavia, which became a member of the EBRD in January 2001. Accordingly, during 2000, the Bank's activities in Kosovo were restricted to the use of technical cooperation funds in accordance with an action plan for Kosovo adopted by the Bank in 1999.

## Fostering partnerships in transition

In pursuing its transition priorities, the EBRD continued to work in partnership with its countries of operations and foreign investors. By cooperating during the year with official institutions, including other IFIs and the EU, and with private lenders and investors, the Bank built on its strong record of mobilising other sources of finance for its projects.

The EBRD has established co-financing relationships with some 260 partners in both the commercial and official sectors. The total amount of co-financing mobilised by the Bank in 2000 amounted to €1.4 billion, consisting of €468 million from commercial banks and €881 million from official co-financing institutions, such as IFIs. In the private sector the EBRD worked with 27 commercial banks from 13 countries in 2000 in support of 24 projects. Since it was established, the Bank has committed €16.6 billion to the region and has mobilised a further €41.9 billion, making a total investment of close to €59 billion.

Donor grant funds play an important role in supporting the EBRD's transition efforts. Through the Technical Cooperation (TC) Funds Programme, the Bank uses donor funds to hire consultants and experts to assist clients, both public and private, in structuring sound investment projects. The TC Programme has been active in support of SMEs, environmental and municipal infrastructure, legal transition and the development of management skills. In 2000 the EBRD financed 295 consultant assignments through the TC Programme, bringing the total number to 2,651. With the strong backing of the Bank's donor community, the TC Programme has recorded total commitments in excess of €650 million since the EBRD was established.

❷ The shelter built around Chernobyl Unit 4 after the 1986 accident will be converted into an environmentally safe system for a period of about 100 years. During this period a method will be devised for the ultimate disposal of the nuclear waste from the wrecked reactor.

❸ The Bank's 2000 Annual Meeting in Riga, Latvia, focused on regional cooperation and attracted over 2,000 international business people to its Business Forum.

## Nuclear safety

The EBRD has an important nuclear safety role in its region of operations. On behalf of the international community, the Bank administers funds for nuclear safety, for which more than €1.5 billion has been pledged to date: the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund and the International Decommissioning Support Funds (IDSFs) for Bulgaria, Lithuania and the Slovak Republic. Framework agreements for the IDSFs incorporate closure decisions for the old reactors at Kozloduy, Ignalina and Bohunice Nuclear Power Plants and broadly conform with the covenants of the NSA grant agreements. They are expected to be signed in early 2001. In the case of Russia, where all the short-term safety upgrade projects have now been successfully completed, a number of nuclear safety conditions included in the agreement are still to be met. In view of the ageing nature of the first-generation nuclear plants in Russia and the lack of in-depth safety assessments, this situation is causing serious concern for the NSA and its contributors.

On 15 December 2000 the Ukraine Government permanently closed the Chernobyl Nuclear Power Plant. This was a covenant of the NSA and a major condition of an EBRD loan of US$ 215 million (€230 million) approved by the Board of Directors on 7 December 2000 for the completion and safety upgrade of two other nuclear power plants. Other loan conditions require the local borrower (Energoatom) to improve the nuclear safety of all its plants and operations. In addition, conditions under the guarantee agreement require the Government of Ukraine to strengthen nuclear regulation in the country and to advance the reform of the electricity sector.

# Institutional developments

## Policy and strategy reviews

In early 2000 the EBRD approved a new Energy Operations Policy, which sets out how the Bank will promote efficiency throughout the energy cycle, from primary energy conversion through to generation, transmission and distribution to end users. In early summer the Public Information Policy was approved by the Bank after a year-long review of the 1996 Public Access and Disclosure of Information Policy (see box below).

### Public Information Policy

In July 2000 the EBRD approved a new Public Information Policy (PIP), which strengthens several key aspects of the Bank's 1996 Public Access and Disclosure of Information Policy. As well as broadening the scope of the information that the EBRD releases to the public, the PIP introduces a number of important new elements into the Bank's policy-making process. Under the PIP, the following documents are posted on the Bank's Web site:

- draft sectoral policies for a period of 45 calendar days for public comment prior to Board of Directors approval;
- Board-approved sectoral policies;
- Board-approved country strategies; and
- summaries of the Bank's other medium-term strategy papers after Board approval.

The PIP also states that:

- timeliness and compliance will be emphasised in the release of Project Summary Documents (PSDs), which provide details about EBRD projects in the pipeline; and
- sponsors of environmentally sensitive projects will be encouraged to publish full Environmental Impact Assessments (EIAs) on their own Web sites.

1 The EBRD transferred a number of posts from Headquarters to its Resident Offices to expand its local presence in the region.

2 Jean Lemierre was elected as the EBRD's fourth President at the Bank's 2000 Annual Meeting and took office in June.



A review of the EBRD's Sovereign Pricing Policy was completed in June, including consideration of a risk-differentiated approach. Having assessed the benefits and disadvantages, the Bank decided to maintain its existing policy of uniform pricing while introducing a procedure for considering policy exceptions under certain criteria. Since its introduction, a small number of projects have satisfied the criteria, and in these cases policy exceptions have been made.

The EBRD's Provisioning Policy was refined during 2000 to reflect the Bank's portfolio experience and the results of the Risk Capital Project. As well as reaffirming the fundamental principle that the Bank needs to build up adequate provisions and reserves relative to the risks in its portfolio, the revised policy introduces a greater level of differentiation and simplifies the provisioning process. Some of the policy's main elements are that:

- provisions are applied to all Banking loan and equity investments at disbursement and to all Treasury operations;
- general provisions for non-sovereign Banking assets are differentiated based on country, asset class, sector and project risk;
- general provisions for sovereign Banking assets continue to be expressed as a uniform per cent regardless of country risk.

In the latter part of the year the EBRD began a major exercise to develop a new Capital Resources Review (see box). In tandem with this, the Bank undertook a review of its impact on the transition process. The Transition Impact Retrospective, to be released in spring 2001, aims to identify the areas where the EBRD has succeeded in advancing the transition process and to highlight sectors and countries where the Bank has encountered difficulties.

### Capital Resources Review

Under the Agreement Establishing the EBRD, the Board of Governors is required to review the capital stock of the Bank at least every five years. Accordingly, the first Capital Resources Review was approved at the Bank's Annual Meeting in April 1996. During 2000 the following tasks were undertaken to prepare for the second Capital Resources Review, which will be presented to the Board of Governors at the 2001 Annual Meeting:

- analysis of operational and financial performance since last review;
- review of the Bank's transition impact to date;
- assessment of economic, country and portfolio risk outlook;
- assessment of future progress in the transition process and demand for EBRD services;
- formulation of strategic portfolio management framework of the Bank;
- definition of portfolio development trends;
- analysis of the EBRD's current financial performance; and
- capital adequacy analysis.

In the course of the review the EBRD confirmed the validity of its mandate. It also acknowledged the continuing need to apply sound banking principles to all of its operations, to complement rather than replace alternative sources of finance and to support the transition process.

## Compliance with Article 1

The EBRD promotes multi-party democracy, pluralism and market economics in its countries of operations, as outlined in Article 1 of the Agreement Establishing the Bank. An important lesson of the Bank's ten years of operations is that the countries that apply these principles reap the greatest economic benefits. 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.

In 2000, as part of its ongoing examination of the EBRD's operations and lending strategies, the Board of Directors reviewed the commitment of each country of operations to obligations under Article 1. Particular concern was expressed about commitment to, and progress towards, these obligations in Turkmenistan and Belarus, where there was international criticism of the handling of the parliamentary elections. In some other Central Asian countries, international observers judged that elections were a step forward but did not fully conform with international standards of fairness.

### Membership for FR Yugoslavia and Mongolia

In 2000 the EBRD accepted the Federal Republic of Yugoslavia as the Bank's 27th country of operations. The Bank will provide urgently needed assistance by:

- identifying and supporting local creditworthy banks, with an emphasis on strengthening their institutional capabilities and providing funding to micro enterprises and SMEs;
- financing the working capital requirements of export-oriented medium-sized and large companies undergoing privatisation;
- making infrastructure investments in the public sector, with an early emphasis on airport navigation and refurbishment, power rehabilitation and railway improvements;
- making loans to local municipalities for water supply, district heating or environmental services; and
- mobilising bilateral technical assistance funding to support enterprise and financial sector reforms, which are prerequisite for increasing foreign investment and for developing efficient local financial intermediaries.

At the EBRD's 2000 Annual Meeting it was announced that Mongolia would become a new member of the Bank, and this became effective on 9 October.

### Human resources

As at the end of December 2000, the EBRD had a regular staff of 862 at its Headquarters compared with 833 in 1999. Locally hired staff in the Bank's Resident Offices totalled 238 compared with 226 in 1999. A total of 15 posts have been moved from Headquarters to Resident Offices as part of the Bank's efforts to enhance its local presence in the region. During the year the Bank conducted a staff survey to identify ways to maximise its human resources potential. Following a review of the results, senior management instructed each department in the Bank to report regularly on progress in this area.

### Changes in senior management

During 2000 the EBRD witnessed major changes in its senior management. In April Horst Köhler was appointed Managing Director of the IMF. The Bank's Board of Directors paid tribute to Mr Köhler's significant achievements during his time as President, especially the management of the Bank's post-1998 period. Charles Frank, First Vice President, assured a sound transition to the new President, Jean Lemierre, who took office at the end of June.

Mr Lemierre was elected by the Bank's Governors as the fourth President of the EBRD at the Bank's 2000 Annual Meeting. He joined the Bank from the French Treasury, where he served as the Directeur du Trésor following a distinguished career in the French administration. He was also Chairman of the Paris Club and of the EU Economic and Monetary Committee.

During the year the EBRD welcomed the appointment of the new Vice President, Personnel and Administration, Hanna Gronkiewicz-Waltz, who had been Governor of the Central Bank of Poland. She replaced Miklos Nemeth, who left in April, having played an important role in the Bank since its inception. Joachim Jahnke was re-appointed Vice President, Evaluation & Operational and Environmental Support, for a two-year term. The Bank's new Chief Economist, Willem Buiter, took up his position in June, after being a Member of the Monetary Policy Committee of the Bank of England and Professor at Cambridge University.

## Challenges for the future

Over the past ten years, the EBRD's countries of operations and their peoples have gained wide-ranging political and economic freedoms. Free and fair elections are now increasingly the norm, while political and civil liberties have taken root. Market economics prevail throughout the region, with most goods and services produced by the private sector and exchanged under competitive conditions. The financial sector is regaining its crucial role as an intermediary. In line with its mandate, the EBRD has played an important part in bringing about these achievements.

As the EBRD approaches its tenth anniversary, it is clear that transition remains a long and complex process and that upheavals can be harsh. To preserve growth and stabilisation in the region, it is vital to focus on building a strong economy, promoting good governance, supporting well-functioning markets, and alleviating poverty in the period ahead. The Bank will continue to adapt its policies, operations and products to promote these developments.

The EBRD will contribute to economic growth by maintaining its level of commitments in the advanced countries, by increasing its activity in Russia and by expanding its financing in the early and intermediate transition countries.

The Bank will redouble its efforts to promote good governance, which is essential for attracting foreign investment. The EBRD will continue to assist countries in improving the certainty and quality of the law, the transparency of public sector decision-making, the protection of minority shareholders, the fight against corruption and the elimination of bureaucratic interference. The Bank will focus in particular on the implementation of new laws.

One of the key priorities of the EBRD is the promotion of well-functioning markets since investors are more likely to commit resources if high-quality regulatory frameworks and institutional arrangements foster competition.

In parallel with the advances in the transition process, there has been an increase in the levels of poverty in the region, which have reached an unacceptably high proportion of the population in some countries. Although the EBRD has no specific mandate to alleviate poverty, it is committed to helping governments and other institutions to address these problems. It will therefore pursue co-financing opportunities with the European Investment Bank, the European Union, the Council of Europe Development Bank and, in particular, the World Bank.

The EBRD recognises that social and economic conditions remain difficult in large areas of the region. In particular, the benefits of the transition process need to be extended so that living conditions are improved, especially for those parts of the population that have suffered the most, such as the elderly and the unemployed. In carrying out its Capital Resources Review, the EBRD has acknowledged that significant progress has been made throughout the region but it is also aware that difficult challenges remain for the second decade of transition. This was confirmed by the Bank's Transition Impact Retrospective, which provides evidence of how the EBRD can address these challenges and increase its impact on the transition process by building on its more successful experiences.

In the coming year, global business conditions are likely to be more challenging than they were in 2000. For the CIS countries, the favourable effect on competitiveness of the large currency depreciations that followed the Russia crisis of 1998 are wearing off. Therefore, further transition progress in the region will depend ever more critically on governments' commitment to reform. The EBRD will continue to support this process as it moves into its second decade of activity in the region.

# Recent developments in the transition process

**Economic growth in the EBRD's region of operations was stronger in 2000 than in any year since the transition began. For the second year in a row, growth was higher in the Commonwealth of Independent States (CIS) than in central and eastern Europe and the Baltic states (CEE). Almost all countries shared in the upswing, benefiting from the strong performance of the world economy during 2000. With a global slowdown likely, this favourable external environment will not be repeated in 2001.**

Most CIS countries experienced export- and investment-driven growth thanks in no small part to large gains in competitiveness achieved through a sharp fall in external currency values. This improvement in external competitiveness will prove short-lived unless there is continued structural reform and fiscal restraint. Net oil and gas exporters, such as Russia and the Caspian Sea nations, experienced an increase in real incomes, exports and tax revenues as a result of the high oil prices that prevailed for much of 2000. Most market forecasters expect oil prices to be lower in 2001 and it is essential that macroeconomic prudence is maintained to manage commodity price risks.

The EU accession candidates in central and eastern Europe and the Baltic states benefited from the strength of the EU economy and from enhanced inflows of foreign direct investment (FDI) in anticipation of EU membership. The re-integration of the Federal Republic of Yugoslavia into the wider European and global economies at the end of 2000 represents good news for the whole of south-eastern Europe.

Throughout the EBRD's region of operations, the enhanced business prospects in 2000 created an opportunity to improve economic management and corporate governance and to strengthen the legal, regulatory and supervisory institutions that support a well-functioning market economy. Improved market conditions will help to encourage foreign investors to increase their activities in the region. While FDI continued to grow to some US$ 26 billion in 2000, it remained concentrated in the countries that had made the most progress in the transition to a market economy. For the region as a whole there is much scope for further increases in FDI.

With improved economic performance, real incomes have increased in many countries, most significantly in Russia, where real wages grew by over 20 per cent in 2000. Sustaining this improvement will require further productivity gains, which will impose adjustment costs on old, inefficient enterprises. The improvement in the economic outlook of the region is taking place against a background of daunting social policy challenges, which will require increased government attention in the years to come.

## Progress in transition

Since 1994, the EBRD's Office of the Chief Economist has published annual assessments of progress in transition in all its countries of operations in its *Transition Report.* While these ratings are subjective, they reflect expert judgement on the most recent policy changes and developments in structural reform. In 2000 the average overall transition rating registered its largest rise since 1997, with 22 countries achieving increases in their scores, two showing no change, and only two showing a decline. Not only has the overall average score registered its largest increase in recent years but also the variation in the average scores across most countries has continued to narrow. Nevertheless, significant differences persist in the patterns of reform between countries at more and less advanced stages of transition.

Countries that have achieved the greatest progress in reform over the past year include the Former Yugoslav Republic of Macedonia, Georgia and Tajikistan as they continue to make progress on long-delayed reforms, particularly in the areas of price and trade liberalisation, small-scale privatisation and competition policy. The scope for reform in these countries has increased following the end of the Kosovo war and the recovery from civil conflicts.

Noticeable progress was achieved in some of the countries recently invited to begin negotiations on EU accession, particularly Bulgaria and Lithuania but also Latvia and the Slovak Republic. A particular impetus to reforms has come from privatisation to foreign strategic investors, with Bulgaria, Lithuania and the Slovak Republic attracting increased flows of privatisation-related FDI. Reforms in the financial sector have also shown progress.

While some of the newer applicants for EU accession have made noticeable strides in reform, the front-runners in the accession process have also continued to improve. Reflecting a sound and well-established prudential framework and increased investor confidence and activity, Poland and Hungary are now regarded as having reached a level of performance in the securities market that is not too dissimilar from the level of more mature emerging markets. More generally, the EU accession process is prompting the advanced reformers to make further adjustments to laws and regulations and to improve their enforcement in the areas of competition policy (Slovenia), financial regulation and corporate governance (the Czech Republic and the Slovak Republic) as well as commercialisation of infrastructure and the environment.

1 Progress was made in the reform of the financial sector in 2000 but much more needs to be done to stabilise financial institutions and to promote greater financial intermediation.

In the CIS, progress in reform was mostly concentrated in the area of liberalisation, while enterprise restructuring, competition policy and reforms in the financial sector continue to lag behind. Three CIS countries (Belarus, Kazakhstan and Russia) returned to earlier levels of liberalisation by reversing some of the administrative controls on prices and trade that were imposed in the wake of the Russian crisis in 1998. Following Kyrgyzstan's lead in 1999, Georgia was the second CIS country to accede to the World Trade Organization in 2000. Armenia is set to follow soon. Under the new government in Ukraine, several reform initiatives were taken, including promoting the privatisation of large state enterprises (including public utilities), the preparation of a new tax code, and banking sector consolidation. Meanwhile, Moldova continued to liberalise domestic prices by raising energy tariffs to cost-recovery levels.



In Russia there has been some improvement in the areas of governance and enterprise restructuring, as shown by a sharp decline in barter and the resolution of a few high-profile corporate governance abuses. Steps were also taken in tax reform. Moreover, experience has demonstrated the great costs of low standards of corporate governance for enterprises themselves, in terms of low asset values and lack of access to financing. Realisation of the benefits of improved behaviour may thus be growing among Russian entrepreneurs. However, it is too early to judge whether these developments will last and lead to sustained improvements in enterprise performance. Indeed, relative to the ambitious plans issued in summer 2000, the pace of structural reform seemed to slow towards the end of the year, as resistance by vested interest groups gathered strength. Capital flight remains high and after falling during early 2000, returned to an estimated average of US$ 2.0 billion per month.

The Russian authorities need to seize the opportunity to advance reforms in critical areas, such as the judiciary, public administration, payments discipline in infrastructure and bank restructuring. The proposed measures in the government's reform programme are encouraging, but the test will be in their effective implementation. The EBRD is actively involved in discussions with the government to support reforms in the railway and energy sectors. It has also prepared a number of projects with large Russian corporates aimed at improving financial transparency and corporate governance.

Among all the countries in the region, only Turkmenistan and Uzbekistan registered further declines in their average transition scores in 2000, as they continued to backtrack in reform. These reversals reflect growing economic distortions, involving the channelling of subsidies to chronically loss-making producers at the expense of the rest of the economy. Having repeatedly promised exchange rate unification for the beginning of 2001, the Uzbek government seems yet again to be slipping on its own timetable.

With the election of new democratic governments in Yugoslavia at both Federal and Serbian Republic levels, the start of serious structural reform is now an utmost priority in this country. By comparison with its neighbours, FR Yugoslavia lags a long way behind in all areas of transition. However, the new authorities have already taken a number of significant steps towards reform, including the introduction of full currency convertibility and the abolition of the multiple exchange rate regime. Privatisation of key state-owned enterprises has stalled in the past few years, and in those firms where private ownership dominates, insiders have remained largely in control. The banking system is in shambles after years of state intervention and macroeconomic instability.

The new Yugoslav government faces enormous challenges but it can benefit from a decade of reform experience elsewhere in the region. If economic transition gets seriously under way in FR Yugoslavia, the benefits for south-eastern Europe would be significant. At the same time, the dramatic fall in the standard of living of the Yugoslav population will require close attention to be paid to the social consequences of reforms, which are likely to shape reform efforts in the region in years to come.

2 Along with the other EU accession countries, Poland achieved solid growth in real GDP in 2000.

## Recent economic developments

Economic growth returned to many of the transition countries in 2000. The recovery that began in Russia and many other countries around the middle of 1999 strengthened during 2000 and average growth for the region as a whole exceeded 5 per cent (see table on page 16). Moreover, almost all countries in the region now have relatively stable exchange rates and declining inflation rates. But perhaps the most striking aspect of the current recovery is that for the first time since the start of transition, it is broadly based across the region. Indeed, growth rates in a majority of countries in the CIS in 2000 exceeded those achieved in CEE. In 2000, for the first time, the region's largest economy, Russia, grew faster than the region's second-largest economy, Poland.

Over recent years, growth in CEE has been associated with robust export performance, particularly in Hungary and Estonia. In 1999 this general pattern was temporarily broken for some countries as important export markets collapsed following the Russian economic crisis. In 2000, however, there was a return to this earlier pattern.

All countries of the region benefited significantly from strong growth in the EU. This was especially true for Hungary, with growth at 5 per cent for 2000 as a whole. The recovery in the Czech Republic was also mainly driven by exports to the EU, although domestic demand began to pick up during the second half of the year. In Poland the increase in export growth helped to sustain aggregate output performance despite a slowdown in domestic demand triggered by tight monetary policies.

Growth in the Baltic states resumed strongly in 2000, with particularly strong export-led growth in Estonia. Similarly, fuelled by EU demand, export-led growth occurred in south-eastern Europe. For example, exports in Bulgaria increased 12.5 per cent in US dollar terms in 2000 after a 5 per cent decline in 1999. In Romania, growth of around 2 per cent finally returned in 2000, with exports rising at double digit rates on the back of a large real exchange rate adjustment. In south-eastern Europe the normalisation of the relationship between the EU and FR Yugoslavia and resulting reductions in transport costs should give a further boost to export trade and hence to growth in 2001.

Gross domestic product (GDP) growth in CEE is expected to continue strongly in 2001, with growth largely remaining at the high levels of 2000 in Estonia, Hungary, Latvia, Poland and Slovenia while rising in almost all other countries. There are a number of risks to this positive outlook, however. Most importantly, a sharp downturn in the EU – following a slowdown in the United States – would significantly dent growth prospects in CEE. At the same time, continued high growth may increasingly exert inflationary pressure and put renewed strain on external balances.

Careful attention needs to be paid therefore to getting the right balance for macroeconomic policy. In particular, the openness of the region's capital and goods markets reduces the ability of central banks to combat inflation while maintaining a competitive exchange rate. Therefore, the main burden of adjustment will have to be carried by fiscal policy.

One encouraging development in the region has certainly been the recovery of Russia and many other CIS countries. Growth in 2000 is estimated at 5 per cent or more in nine of the 12 CIS countries. Price levels and exchange rates have become more stable, although the majority of countries still remain vulnerable. Only Uzbekistan, which is paying an increasing price for its distortionary multiple exchange rate policies, and Moldova, hit by another bad harvest, are bucking the general positive trend. There are also concerns about the sustainability of gas-export driven growth in Turkmenistan and credit-fuelled expansion in Belarus.

The recovery in the CIS has been driven by the strong supply response following sharp real exchange rate depreciations in 1998-99. This view is supported by the fact that it is not only the resource-based economies, such as Russia and Kazakhstan, that are growing strongly but also other countries in the region, such as – for the first time since the start of transition – Ukraine. Moreover, just as Russia's decline in 1998 affected its main trading partners in the CIS, Russia's regained macroeconomic strength had beneficial effects on exporters from other CIS countries.

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

(in per cent)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Projected level of real GDP in 2000 (1989=100) | GDP per capita in 2000 (in US dollars) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Albania | -28.0 | -7.2 | 9.6 | 8.3 | 13.3 | 9.1 | -7.0 | 8.0 | 7.3 | 7.2 | 102 | 1,195 |
| Bulgaria | -11.7 | -7.3 | -1.5 | 1.8 | 2.1 | -10.9 | -6.9 | 3.5 | 2.4 | 4.5 | 70 | 1,484 |
| Croatia | -21.1 | -11.7 | -8.0 | 5.9 | 6.8 | 6.0 | 6.5 | 2.5 | -0.4 | 3.6 | 80 | 4,245 |
| Czech Republic | -11.6 | -0.5 | 0.1 | 2.2 | 5.9 | 4.8 | -1.0 | -2.2 | -0.8 | 2.5 | 97 | 4,909 |
| Estonia | -13.6 | -14.2 | -9.0 | -2.0 | 4.3 | 3.9 | 10.6 | 4.7 | -1.1 | 6.4 | 82 | 3,409 |
| FYR Macedonia | -7.0 | -8.0 | -9.1 | -1.8 | -1.2 | 1.2 | 1.4 | 2.9 | 2.7 | 5.5 | 78 | 1,689 |
| Hungary | -11.9 | -3.1 | -0.6 | 2.9 | 1.5 | 1.3 | 4.6 | 4.9 | 4.5 | 5.0 | 104 | 4,721 |
| Latvia | -10.4 | -34.9 | -14.9 | 0.6 | -0.8 | 3.3 | 8.6 | 3.9 | 1.1 | 5.0 | 63 | 2,935 |
| Lithuania | -5.7 | -21.3 | -16.2 | -9.8 | 3.3 | 4.7 | 7.3 | 5.1 | -4.2 | 2.9 | 64 | 3,045 |
| Poland | -7.0 | 2.6 | 3.8 | 5.2 | 7.0 | 6.1 | 6.9 | 4.8 | 4.1 | 4.1 | 127 | 4,108 |
| Romania | -12.9 | -8.8 | 1.5 | 3.9 | 7.1 | 3.9 | -6.1 | -5.4 | -3.2 | 2.0 | 77 | 1,600 |
| Slovak Republic | -14.6 | -6.5 | -3.7 | 4.9 | 6.7 | 6.2 | 6.2 | 4.1 | 1.9 | 2.0 | 102 | 3,736 |
| Slovenia | -8.9 | -5.5 | 2.8 | 5.3 | 4.1 | 3.5 | 4.6 | 3.8 | 5.0 | 4.7 | 114 | 9,319 |
| *Central and eastern Europe and the Baltic states* [1] | *-10.7* | *-4.4* | *-1.2* | *3.7* | *5.5* | *4.7* | *4.0* | *2.6* | *1.2* | *4.0* | *99* | – |
| Armenia | -11.7 | -41.8 | -8.8 | 5.4 | 6.9 | 5.9 | 3.3 | 7.2 | 3.3 | 6.0 | 63 | 504 |
| Azerbaijan | -0.7 | -22.6 | -23.1 | -19.7 | -11.8 | 1.3 | 5.8 | 10.0 | 7.4 | 11.0 | 52 | 507 |
| Belarus | -1.2 | -9.6 | -7.6 | -12.6 | -10.4 | 2.8 | 11.4 | 8.3 | 3.4 | 6.0 | 85 | 807 |
| Georgia | -20.6 | -44.8 | -25.4 | -11.4 | 2.4 | 10.5 | 10.8 | 2.9 | 3.0 | 2.0 | 34 | 555 |
| Kazakhstan | -13.0 | -2.9 | -9.2 | -12.6 | -8.2 | 0.5 | 1.7 | -1.9 | 1.7 | 9.6 | 68 | 1,115 |
| Kyrgyzstan | -5.0 | -19.0 | -16.0 | -20.1 | -5.4 | 7.1 | 9.9 | 2.1 | 3.7 | 5.1 | 66 | 275 |
| Moldova | -17.5 | -29.1 | -1.2 | -31.2 | -1.4 | -7.8 | 1.3 | -6.5 | -4.4 | 0.0 | 32 | 326 |
| Russia | -5.0 | -14.5 | -8.7 | -12.7 | -4.1 | -3.5 | 0.8 | -4.6 | 3.5 | 7.7 | 62 | 1,582 |
| Tajikistan | -7.1 | -29.0 | -11.0 | -18.9 | -12.5 | -4.4 | 1.7 | 5.3 | 3.7 | 8.3 | 47 | 158 |
| Turkmenistan | -4.7 | -5.3 | -10.0 | -17.3 | -7.2 | -6.7 | -11.3 | 5.0 | 16.0 | 17.6 | 75 | 415 |
| Ukraine | -11.6 | -13.7 | -14.2 | -23.0 | -12.2 | -10.0 | -3.0 | -1.9 | -0.4 | 6.0 | 39 | 640 |
| Uzbekistan | -0.5 | -11.1 | -2.3 | -4.2 | -0.9 | 1.6 | 2.5 | 4.4 | 4.1 | 1.5 | 96 | 298 |
| *CIS* [2] | *-6.0* | *-14.1* | *-9.3* | *-13.8* | *-5.2* | *-3.5* | *0.9* | *-3.5* | *3.1* | *7.4* | *59* | – |
| **Central and eastern Europe, the Baltic states and the CIS** | **-8.1** | **-9.7** | **-5.6** | **-5.8** | **-0.3** | **0.2** | **2.2** | **-1.0** | **2.1** | **5.3** | **71** | **–** |

Notes:

Data for 1991-99 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Cooperation and Development (OECD). Data for 2000 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] Estimates for real GDP represent weighted averages for CIS countries. The weights used for the growth rates were EBRD estimates of nominal dollar-GDP lagged by one year; those used for the index were EBRD estimates of GDP converted at PPP US$ exchange rates in 1989.

Industrial production in 2000 increased across the board in the CIS, ranging from 2.3 per cent in Moldova to 14.6 per cent in Kazakhstan, with Russia and Ukraine reporting rises of about 9 per cent and 13 per cent respectively. In Russia and several Central Asian countries, as well as in Azerbaijan, the robust performance of the commodities sector has led the way in industrial recovery. However, it is notable that in the present recovery light consumer goods industries, such as food products, textiles and the producers of household appliances, are growing strongly for the first time since the start of transition. The gains in competitiveness against Western importers has been one important factor behind the recovery of manufacturing in the CIS.

If the present gains are to be sustained once the present competitiveness has been eroded, however, domestic producers will need to undertake deeper adjustment. There are already signs of a marked slowdown in industrial production in Russia as growing domestic demand shifts increasingly to imports. It remains to be seen whether the positive business opportunities provided by the current macroeconomic environment will provide sufficient incentives for managers to undertake necessary investments and painful adjustments to face up to this growing competition.

Moreover, despite the recent improvements, the long-term costs of the Russian crisis for many of the countries of the CIS continue to be substantial. The depreciation of the real exchange rate, while good for competitiveness, has caused the external debt burden of many of the countries of the CIS to increase dramatically. Some of the smaller economies, such as Georgia, Kyrgyzstan, Moldova and Tajikistan, face constant challenges to service the growing external debt, while Russia and Ukraine are still awaiting the completion of external debt restructuring.

If commodity prices fall against the backdrop of a less favourable global economic environment, debt-servicing problems would be exacerbated for many CIS countries. Furthermore, many of the countries have experienced banking crises since 1998, which all but swept away their banking systems. Although the cost of these crises has been limited because of the weak links between the banking sector and the real economy across the region, the fragility of public finances has been aggravated by the cost of bailouts. However, longer-term development cannot proceed without a functioning financial system and in many CIS countries, most notably Russia, the measures taken to stabilise financial institutions and to promote deeper financial intermediation remain seriously inadequate.

## Capital flows

The past year has seen a moderate recovery in capital flows to the transition economies in tandem with the resurgence of the regional and global economies. However, capital flows have become clearly more differentiated since the crisis in Russia in 1998, both in terms of recipient countries and of types of flows. In terms of types of capital flows, FDI has been more robust and less affected by market volatility than other types, such as bonds, equity flows and syndicated lending.

International capital flows into the region are of fundamental importance to the economic transition, and can make a significant contribution to realising the region's growth potential. Domestic financial systems are still unable to offer sufficient support to investors. In addition, savings are limited, especially during the recovery from the transition recession when the expectations of future earnings stimulate consumption.

Capital flows have contributed significantly to lowering the costs of financing investment and have been a key source for the financing of rising investment demand, particularly in the advanced countries. Sustaining growth at current rates remains a challenge and the limits to this type of efficiency-driven growth have become apparent in several CEE countries (notably Poland) in the combination of high current account deficits and significant reliance on FDI.

While the improved economic prospects have been important in luring investors back to the region in 2000, particularly to Russia, the growth in net inflows has been moderate in volume. Total net capital flows rose to an estimated US$ 17 billion in 2000 – compared with US$ 12 billion in 1999 – but this is still well below the peak of US$ 30 billion in 1997. The upturn in US and European interest rates and continuously high growth in these two regions have diverted capital flows away from emerging markets, including the transition economies. More recently, emerging market worries – triggered by Argentina's and Turkey's financial woes – have led to outflows of short-term portfolio investment from the region.

The strengthening of investor confidence in the region is most evident in the substantial improvement in borrowing terms. Notwithstanding recent turbulence, yield spreads for most emerging markets fell during 2000 following the recoveries in East Asia and Russia and sustained growth in industrial market economies.

Russia's debt rescheduling with private foreign creditors as well as growing political stability after the Presidential elections have helped to lure investors back to the region. The agreement reached with London Club creditors in February 2000 involves an exchange of outstanding debt for eurobonds. This reduces significantly the net present value of the debt and lengthens its maturity profile.

## Foreign direct investment

(net inflows recorded in the balance of payments)

| | 1996 | 1997 | 1998 | 1999 | 2000 (estimate) | Cumulative FDI-inflows 1989-2000 | Cumulative FDI-inflows per capita 1989-2000 | FDI-inflows per capita 1999 | FDI-inflows per capita 2000 | FDI-inflows as % of GDP 1999 | FDI-inflows as % of GDP 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *(in millions of US dollars)* | | | | | | *(in US dollars)* | | | *(% of GDP)* | |
| Albania | 97 | 42 | 45 | 51 | 92 | 546 | 161 | 15 | 27 | 1.4 | 2.3 |
| Bulgaria | 138 | 507 | 537 | 806 | 820 | 3,152 | 388 | 98 | 101 | 6.5 | 6.8 |
| Bosnia and Herzegovina | 0 | 0 | 100 | 90 | 117 | 307 | 75 | 21 | 29 | 2.1 | 2.8 |
| Croatia | 509 | 302 | 781 | 1,350 | 750 | 3,984 | 885 | 299 | 167 | 6.7 | 3.9 |
| Czech Republic | 1,276 | 1,275 | 2,641 | 4,912 | 4,500 | 19,424 | 1,884 | 476 | 436 | 9.3 | 8.9 |
| Estonia | 111 | 130 | 574 | 222 | 277 | 1,882 | 1,307 | 154 | 193 | 4.3 | 5.7 |
| FYR Macedonia | 12 | 18 | 175 | 27 | 100 | 368 | 184 | 14 | 50 | 0.8 | 3.0 |
| Hungary | 1,987 | 1,653 | 1,453 | 1,414 | 1,650 | 19,420 | 1,935 | 140 | 164 | 2.9 | 3.5 |
| Latvia | 379 | 515 | 303 | 331 | 300 | 2,400 | 1,016 | 136 | 127 | 5.0 | 4.3 |
| Lithuania | 152 | 328 | 921 | 478 | 295 | 2,307 | 626 | 129 | 80 | 4.5 | 2.6 |
| Poland | 2,741 | 3,041 | 4,966 | 6,348 | 9,299 | 29,052 | 751 | 164 | 240 | 4.1 | 5.9 |
| Romania | 415 | 1,267 | 2,079 | 1,070 | 1,000 | 6,768 | 303 | 48 | 45 | 3.1 | 2.8 |
| Slovak Republic | 199 | 84 | 374 | 701 | 1,500 | 3,611 | 669 | 130 | 278 | 3.6 | 7.4 |
| Slovenia | 188 | 340 | 250 | 144 | 133 | 1,534 | 768 | 72 | 67 | 0.7 | 0.7 |
| *Central and eastern Europe and the Baltic states* | *8,202* | *9,500* | *15,198* | *17,943* | *20,834* | *94,755* | *782* | *135* | *143* | *3.9* | *4.3* |
| Armenia | 18 | 52 | 221 | 131 | 150 | 605 | 159 | 34 | 39 | 7.1 | 7.8 |
| Azerbaijan | 661 | 1,093 | 1,024 | 510 | 500 | 4,092 | 502 | 64 | 61 | 12.8 | 12.1 |
| Belarus | 73 | 198 | 142 | 225 | 171 | 852 | 83 | 22 | 17 | 2.9 | 2.1 |
| Georgia | 54 | 236 | 221 | 60 | 101 | 687 | 128 | 11 | 19 | 2.2 | 3.4 |
| Kazakhstan | 1,137 | 1,320 | 1,143 | 1,584 | 1,350 | 8,706 | 588 | 106 | 91 | 10.0 | 8.2 |
| Kyrgyzstan | 47 | 83 | 109 | 35 | 42 | 450 | 95 | 8 | 9 | 2.9 | 3.2 |
| Moldova | 23 | 71 | 88 | 34 | 100 | 438 | 102 | 8 | 23 | 2.6 | 7.1 |
| Russia | 1,665 | 4,036 | 1,734 | 746 | 2,000 | 12,344 | 85 | 5 | 14 | 0.4 | 0.9 |
| Tajikistan | 18 | 18 | 25 | 21 | 19 | 141 | 22 | 3 | 3 | 1.9 | 1.9 |
| Turkmenistan | 108 | 108 | 62 | 89 | 100 | 882 | 165 | 18 | 19 | 4.8 | 4.5 |
| Ukraine | 526 | 581 | 749 | 494 | 583 | 3,341 | 67 | 10 | 12 | 1.6 | 1.8 |
| Uzbekistan | 90 | 167 | 226 | 201 | 231 | 1,021 | 41 | 8 | 9 | 2.6 | 3.1 |
| *CIS* | *4,419* | *7,963* | *5,744* | *4,130* | *5,347* | *33,559* | *170* | *25* | *26* | *4.3* | *4.7* |
| **Total** | **12,622** | **17,463** | **20,942** | **22,074** | **26,181** | **128,314** | **500** | **84** | **89** | **4.1** | **4.5** |

Sources:
IMF, Central Banks and EBRD estimates.

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.

Gross inflows of FDI are in some cases considerably higher than net inflows on account of increasing intra-regional investment flows.

Also in early 2000 Ukraine offered to exchange its outstanding external debt for new seven-year euro and US dollar-denominated eurobonds in order to relieve its heavy debt burden in 2000 and 2001. The offer was accepted by bondholders owning more than 95 per cent of the outstanding debt.

The trend with respect to equity prices was less clear cut during 2000, following the generally subdued performance of stock markets around the world. After sharp rises during 1999 that continued into early 2000, stock prices fell back during the remainder of the year, to close slightly below the value of end 1999 in most countries. Moreover, of the many emerging stock markets in the region, only Hungary and Poland have achieved a level of liquidity that makes them an attractive market for new issues.

FDI is the one element of net private investment into transition economies that has been consistently positive. FDI into transition economies has been remarkably resilient, reaching an estimated US$ 26.2 billion in 2000, up from US$ 17.5 billion in 1997 (see table on page 18). Almost 60 per cent of FDI into the region in 2000 was destined for countries in CEE, primarily the Czech Republic, Hungary and Poland. In south-eastern Europe, Bulgaria, Croatia and Romania are the primary destinations for FDI. Among the CIS countries, Kazakhstan and Russia attract the bulk of FDI, largely due to their natural resources sectors.

Cross-country differences in FDI per capita are very large. Whereas average cumulative FDI inflows per capita between 1989 and 2000 were US$ 782 in CEE, they only amounted to US$ 170 in the CIS. Furthermore, even neighbouring countries often register large variations. For instance, whereas in Hungary cumulative FDI per capita over the past decade was US$ 1,935, in Romania it only amounted to US$ 303. In the CIS, Kazakhstan received US$ 588 in FDI inflows per capita between 1989 and 2000, whereas neighbouring Uzbekistan only received US$ 41.

Such large cross-country discrepancies are also characteristic of other emerging markets. Globally, FDI tends to be concentrated among a few large recipient countries, while the majority of developing countries receive very little FDI. Comparing FDI inflows across the world, economies in CEE are on average receiving roughly the same amount of FDI per dollar of GDP as south, east and south-east Asia. At the same time, they are receiving less than Latin America and the Caribbean and more than Africa. In terms of inflows per capita, CEE receives more than any other region apart from Latin America and the Caribbean. In the CIS, by contrast, FDI remains very low due to inadequacies in the investment climate. This will need to be at the forefront of the policy agenda if the former Soviet republics are to catch up with the EU accession candidates during the next decade of transition.

## Legal environment

The transition countries continued to focus on improving the legal framework in support of efficient market economies during 2000. Progress in adopting and amending commercial laws continued, and significant improvements continued to be made in capital market and banking regulations. As in the past, the EU accession countries led the way in reforming their legal systems, with the goal of entering the EU acting as a major incentive for harmonising laws and regulations with the European Community's *acquis communautaire*.

Increased international attention to the investment climate was the driving force behind legal transition in the CIS countries. However, the EBRD's Legal Indicator Survey, which measures the extensiveness and effectiveness of commercial and financial laws in the region, continued to reveal that the difficult work of building legal institutions to implement and enforce new laws continues to lag significantly behind the legislators' work. This lack of implementation undermines the public's confidence in the establishment of the rule of law.

In 2000 the codification of civil and commercial laws continued as countries replaced outdated codes in order to provide a more coherent and comprehensive structure to their laws. Poland adopted a new Commercial Code to replace its 1934 Code, while Lithuania adopted a new Civil Code replacing one from 1964. Turkmenistan adopted a new Law on Enterprises, which governs the formation, functioning and dissolution of both public and private companies, to replace the original 1993 law.

Financial market legislation continued to be a focus of legal reform efforts in 2000. Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania and Poland revised or adopted financial market laws in an effort to harmonise their laws with the *acquis*. With continued international attention focusing on corporate governance standards and financial market regulation, Armenia, FYR Macedonia and Romania also revised their securities and banking laws in an attempt to adopt international best practice and to improve shareholder protection. The effective implementation of these new laws will be key to whether these efforts improve financial market regulation in these countries.

The Czech Republic and the Slovak Republic moved to streamline their bankruptcy procedures and to improve the enforcement of security by adopting amendments to their bankruptcy legislation and by beginning to work with the EBRD to improve their secured transactions laws. In Russia legal reform played a prominent role in the new government's economic reform plans but little new legislation was enacted during 2000. Significantly, Russia adopted legislation affecting the structure and relationship between federal legislative and executive bodies as well as changes to Part II of the Tax Code dealing with value added tax (VAT), excise, personal, income and social taxes.

New telecommunications laws were enacted in Albania, the Czech Republic, Estonia and Poland. These laws created independent regulatory bodies and/or provided for further liberalisation of the telecommunications market in each country. During the year, telecommunications privatisation was completed in FYR Macedonia and Poland. In Ukraine, privatisation advanced with the passage of a much-delayed law allowing the government to sell a minority share in the state operator to a strategic investor. In contrast, privatisations in Bulgaria and Latvia were delayed or came under dispute during the year.

## 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.

The EBRD continued developing analytical tools in 2000 for measuring legal transition in the LTP's six focus areas. Early in the year the EBRD published a Regional Secured Transactions Survey on its Web site, which provides an objective assessment of secured lending laws in the region. The Bank finalised a corporate governance checklist during the year and made significant progress in developing similar analytical tools for bankruptcy and banking law. This work was complemented by the EBRD's annual Legal Indicator Survey. These legal assessments are now being incorporated into the EBRD's credit policies and risk assessments.



The EBRD continued its participation in international standard-setting efforts in 2000. In conjunction with the World Bank and the United States Agency for International Development, the EBRD organised and funded a Central Europe and Baltic States Workshop on Effective Insolvency Systems as part of the World Bank's Insolvency Initiative to develop international principles of bankruptcy. Insolvency system reform was also discussed by international and regional experts at a seminar during the EBRD's Annual Meeting in Riga. The EBRD also participated in a number of international insolvency meetings, which led to the decision by the United Nations Commission on International Trade Law to begin the development of a legislative guide for insolvency law reform.

The EBRD continued its work with United Nations institutions and the Organisation for Economic Cooperation and Development on harmonising standards for concessions, including the preparation of a model concession law. In addition, the EBRD participated in the Financial Stability Forum's efforts to coordinate the development and use of international financial standards.

The LTP's legal technical assistance projects and legal policy advice continued to expand in 2000. During the year the EBRD successfully completed its two largest legal transition projects: assistance to the Czech Securities Commission; and company and securities law reform assistance to Russia's Federal Commission on the Securities Market (FCSM). At the end of the year the EBRD initiated a high-profile project to address a key problem in Russia – poor corporate governance. The EBRD will help the Russian FCSM develop a Corporate Governance Code. In addition, the Bank began work with the FCSM on creating a legal framework for the expansion of the rouble bond market.

The EBRD developed a comprehensive secured transactions project in 2000 focusing on both legal reform and institution-building for the Slovak Republic. Similar projects are under discussion in the Czech Republic and Russia. In Slovenia the EBRD initiated a project to develop a framework concession law and in Azerbaijan work was begun to help develop a Baku Stock Exchange. The EBRD continued its telecommunications reform work in Armenia, Bosnia and Herzegovina, Georgia, Kazakhstan, Tajikistan, Ukraine and the territory of Kosovo in FR Yugoslavia. In all of 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.

The EBRD continued to promote legal reform throughout the transition countries through the publication of two issues of *Law in transition*. The spring and autumn 2000 issues focused on insolvency and secured transactions respectively. The EBRD also continued its coordination and collaboration 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.

# Review of banking operations

## Overview

**The EBRD had strong operating results in 2000. Annual business volume reached €2.7 billion, the highest ever in the Bank's history and 24 per cent above the €2.2 billion achieved in 1999. Investment levels in Russia more than doubled to €579 million compared with €217 million in 1999. New business volume in the advanced transition countries was the highest ever at €1,034 million compared with €906 million in 1999. Business volume in the early and intermediate transition countries increased from €1,039 million to €1,060 million.**

The Bank intensified its focus on advancing the transition process, incorporating conditions in its financing agreements that require beneficiaries to increase transparency and improve corporate governance. The EBRD continued to facilitate the privatisation of banks, telecommunications and energy utilities, and industrial companies. In its policy dialogue with central and municipal governments, the Bank stressed the need for independent regulation, cost-recovery tariffs, and the financial viability and commercialisation of public utilities. The EBRD was actively involved in helping insolvent banks to restructure and in working to improve bank regulation and capital adequacy. The Bank's emphasis on private sector development was reflected in a private sector share of commitments of 78 per cent in 2000.

The EBRD's activities in support of micro, small and medium-sized enterprises (SMEs) continued to grow. Micro and small enterprise financing recovered in Russia to levels exceeding those achieved before the 1998 Russian financial crisis. SME financing was started in the EU accession countries with the assistance of EU Phare grants. The Bank's SME financing activities in south-eastern Europe were bolstered by the establishment of a new trust fund with an initial contribution from the United States. In total, some 50,000 new loans to small businesses were made in 2000 compared with 14,000 in 1999.

In line with its mandate, the EBRD continued to finance complex and innovative projects, contributing to the transition in each country of operations. For example, the Bank initiated a warehouse receipt programme in Russia, thereby financing working capital needs for primary agriculture through this programme and other inventory-based lending activities.

The first long-term international loan was extended to a local government in Central Asia without state guarantee, involving financing of €21 million for the city of Almaty for improvements to the collection and safe disposal of municipal waste.

The EBRD financed a particularly significant project in Ukraine, providing four electric power generating companies with one-year working capital of €108 million. The project imposes a number of key conditions for the reform of the electricity sector in Ukraine, including targets for privatisation of the distribution companies and cash collection rates.

**EBRD financing committed by country**

| | 2000 | | | Cumulative | | |
|---|---|---|---|---|---|---|
| | *Number*[1] | *€ million* | *%* | *Number*[1] | *€ million* | *%* |
| Tajikistan | 0 | 0 | 0.0 | 4 | 17 | 0.1 |
| Albania | 1 | 2 | 0.1 | 13 | 105 | 0.6 |
| Armenia | 2 | 44 | 1.7 | 5 | 133 | 0.8 |
| Bosnia and Herzegovina | 3 | 61 | 2.3 | 12 | 145 | 0.9 |
| Turkmenistan [2] | 0 | 2 | 0.1 | 4 | 169 | 1.0 |
| Belarus [3] | 0 | 2 | 0.1 | 6 | 173 | 1.0 |
| Kyrgyzstan | 1 | 1 | 0.1 | 12 | 177 | 1.1 |
| Moldova | 4 | 43 | 1.6 | 16 | 193 | 1.2 |
| Georgia | 1 | 38 | 1.4 | 13 | 226 | 1.4 |
| FYR Macedonia | 2 | 65 | 2.4 | 13 | 241 | 1.5 |
| Latvia | 2 | 49 | 1.8 | 22 | 293 | 1.8 |
| Azerbaijan | 1 | 82 | 3.1 | 11 | 359 | 2.2 |
| Estonia | 3 | 57 | 2.1 | 37 | 360 | 2.2 |
| Slovenia | 2 | 20 | 0.7 | 22 | 361 | 2.2 |
| Lithuania | 4 | 108 | 4.0 | 22 | 378 | 2.3 |
| Bulgaria | 7 | 116 | 4.3 | 31 | 482 | 2.9 |
| Slovak Republic | 1 | 18 | 0.7 | 23 | 552 | 3.3 |
| Uzbekistan | 2 | 57 | 2.1 | 15 | 580 | 3.5 |
| Kazakhstan | 3 | 127 | 4.8 | 14 | 655 | 4.0 |
| Croatia | 5 | 153 | 5.7 | 29 | 728 | 4.4 |
| Czech Republic | 2 | 51 | 1.9 | 33 | 793 | 4.8 |
| Ukraine | 10 | 293 | 11.0 | 40 | 1,171 | 7.1 |
| Hungary | 1 | 13 | 0.5 | 57 | 1,204 | 7.3 |
| Romania | 4 | 126 | 4.7 | 50 | 1,677 | 10.1 |
| Poland | 17 | 566 | 21.2 | 96 | 1,978 | 11.9 |
| Russia | 18 | 579 | 21.7 | 106 | 3,406 | 20.6 |
| **Total** | **95** | **2,673** | **100** | **708** | **16,553** | **100** |

Note: This table refers to projects signed by the EBRD. For a list of projects approved by the Board of Directors in 2000, see page 96.

[1] Sub-projects signed under framework agreements are counted as fractional numbers.

[2] Two sub-projects were signed under a Board-approved framework.

[3] Three sub-projects were signed under a Board-approved framework.

**EBRD financing committed by sector**

| | 2000 | | | Cumulative | | |
|---|---|---|---|---|---|---|
| | *Number*[1] | *€ million* | *%* | *Number*[1] | *€ million* | *%* |
| **Financial institutions** | | | | | | |
| Bank equity | 7 | 73 | 3 | 73 | 831 | 5 |
| Bank lending | 7 | 302 | 11 | 105 | 2,546 | 15 |
| Equity funds | 9 | 263 | 10 | 59 | 1,014 | 6 |
| Non-bank financial institutions | 4 | 70 | 3 | 19 | 142 | 1 |
| Small business finance | 4 | 80 | 3 | 13 | 303 | 2 |
| *Subtotal* | *32* | *788* | *29* | *269* | *4,836* | *29* |
| **Industry and commerce** | | | | | | |
| Agribusiness | 16 | 352 | 13 | 73 | 1,210 | 7 |
| Natural resources | 4 | 228 | 9 | 32 | 1,359 | 8 |
| Property, tourism and shipping [2] | 4 | 70 | 3 | 40 | 684 | 4 |
| Telecommunications, informatics and media | 3 | 125 | 5 | 47 | 1,494 | 9 |
| *Subtotal* | *26* | *774* | *29* | *192* | *4,747* | *29* |
| **Infrastructure** | | | | | | |
| Energy efficiency | 1 | 17 | 1 | 7 | 188 | 1 |
| Municipal and environmental infrastructure | 8 | 211 | 8 | 29 | 822 | 5 |
| Power and energy | 7 | 267 | 10 | 36 | 1,512 | 9 |
| Transport | 5 | 216 | 8 | 64 | 2,248 | 14 |
| *Subtotal* | *21* | *711* | *27* | *136* | *4,770* | *29* |
| **General industry** | | | | | | |
| General industry | 17 | 400 | 15 | 111 | 2,200 | 13 |
| **Total** | **95** | **2,673** | **100** | **708** | **16,553** | **100** |

[1] Sub-projects signed under framework agreements are counted as fractional numbers.

[2] Excludes sector-specific equity funds.

The EBRD continued to expand its financial sector activities across countries and sectors. Its non-bank financial institutions portfolio more than doubled during 2000. SMEs received particular attention, with the implementation of the EU-EBRD SME Finance Facility, the extension of the micro credit programme in Russia and in other countries, and expansion of the Trade Facilitation Programme (TFP) with the provision of €142 million in new loans and advances.

Boosted by this increased level of operational activity, the portfolio of the EBRD grew from €10.8 billion at the end of 1999 to €12.2 billion at the end of 2000, an increase of 13 per cent.

**EBRD financing committed by type of facility**

| | 2000 | | | Cumulative | | |
|---|---|---|---|---|---|---|
| | *Number* | *€ million* | *%* | *Number* | *€ million* | *%* |
| Private loans | 48 | 1,259 | 47 | 334 | 8,079 | 49 |
| State loans | 14 | 599 | 22 | 140 | 4,911 | 30 |
| Equity | 32 | 605 | 23 | 228 | 3,242 | 20 |
| Guarantees | 2 | 210 | 8 | 7 | 321 | 2 |

Project disbursements in 2000 were €1.5 billion, compared with €1.4 billion in 1999, and the EBRD's operating assets reached €7.6 billion compared with €7.0 billion in 1999.

The EBRD achieved these results while continuing to build a strong investment pipeline. New Board approvals were up by 38 per cent, final reviews by 27 per cent and initial reviews by 16 per cent compared with 1999. At €3.6 billion, the level of Board approvals in 2000 was the second-highest level achieved by the EBRD, the highest being €4.0 billion in 1997.

A sustained focus on portfolio quality resulted in a slight decrease in the level of impaired assets, from €795 million in 1999 to €758 million in 2000, and in a reduction in the level of additions to impaired assets, from €338 million in 1999 to €160 million in 2000. Significant results were achieved in the restructuring of impaired assets. Performing assets increased by 10 per cent, from €6.2 billion to €6.8 billion.

The improvement of portfolio quality following the events of 1998, combined with high capital gains achieved through equity exits, contributed to the best financial results of the Banking Department since the creation of the EBRD. Banking operations achieved profitability during the year for the first time, showing a net profit of €79.1 million.

The implementation of the Banking Department reorganisation into six business groups, including three sector-oriented groups (Financial Institutions, Industry and Commerce, and Infrastructure) and three country-oriented groups (Central Europe, Russia and Central Asia, and Southern and Eastern Europe and the Caucasus) was completed, with the groups successfully closing their first full year of operational activity. The EBRD is also stepping up its marketing activity in support of its portfolio development strategy.

The EBRD has pursued an active decentralisation approach, with a continuing shift of staff resources to the Resident Offices. The professional staff in the Resident Offices increased from 71 in 1996 to 107 in 1999 and to 134 at the end of 2000. With a number of country directors now working in the field, the Resident Offices have undertaken additional activities related to country strategy, portfolio development and management, and policy dialogue.

**EBRD disbursements by country**

| | 2000 € million | Cumulative € million |
|---|---|---|
| Tajikistan | 2 | 13 |
| Albania | 6 | 51 |
| Turkmenistan | 16 | 54 |
| Bosnia and Herzegovina | 22 | 61 |
| Moldova | 10 | 98 |
| Armenia | 25 | 103 |
| Georgia | 48 | 114 |
| Kyrgyzstan | 15 | 144 |
| FYR Macedonia | 34 | 151 |
| Belarus | 2 | 166 |
| Latvia | 29 | 201 |
| Azerbaijan | 42 | 242 |
| Lithuania | 77 | 290 |
| Kazakhstan | 79 | 299 |
| Estonia | 18 | 310 |
| Slovenia | 35 | 335 |
| Uzbekistan | 49 | 362 |
| Bulgaria | 96 | 404 |
| Ukraine | 96 | 453 |
| Croatia | 101 | 486 |
| Slovak Republic | 19 | 489 |
| Czech Republic | 29 | 584 |
| Hungary | 27 | 978 |
| Romania | 144 | 1,279 |
| Poland | 213 | 1,345 |
| Russia | 231 | 2,356 |
| **Total** | **1,464** | **11,367** |

## Activities by stages of transition

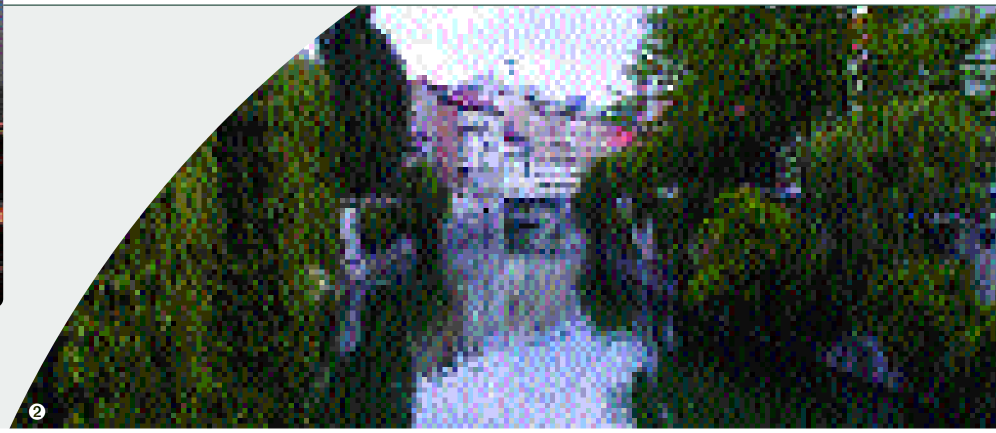
### Advanced countries

In 2000 the EBRD recorded its highest-ever annual volume of new business in the advanced countries, signing projects totalling €1,034 million. This was achieved in spite of the challenge of ensuring that its activities remain additional to, rather than competing with, alternative sources of market finance. A significant impact on the transition process was achieved in the Baltic states, Croatia and Poland, which accounted for 90 per cent of the Bank's activities in this region. A more modest impact was achieved in the Czech Republic, Hungary, the Slovak Republic and Slovenia, where projects are under development.

EBRD financing continued to complement private capital flows into central Europe in 2000 and the Bank played an important role in helping the countries of central Europe in their transition to market economies. The process of accession to the European Union has created a need for additional investment in the ten accession countries – Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia – and has stretched the existing resources in the region. At the same time, it has increased the opportunities for the EBRD to invest in central Europe and to advance the common aims shared by the Bank's mandate and EU accession.

❶ By the end of 2000 the EBRD had committed more than €550 million to the Slovak Republic in support of 23 projects.

❷ In Slovenia the EBRD's investments in infrastructure and other key areas have complemented progress in the EU accession process.



In the corporate sector the EBRD supported a wide range of initiatives, such as privatisation of Lietuvos Telekomas, modernisation of a major Polish cement producer, support for Slovenian chemicals and Lithuanian fertilisers, investment in selected local companies (particularly in the agribusiness and pharmaceuticals sectors in Croatia) and various property transactions. An innovative grain receipt programme was launched in the Slovak Republic. Other innovative projects include the financing of municipal utilities without state guarantees and the provision of local currency financing, which was extended to projects in the Czech Republic and Poland.



In the financial sector the EBRD significantly expanded its support for SMEs, providing financing via credit lines to local banks. The EBRD also increased its equity investments in local banks and undertook a number of transactions in the insurance sector. Furthermore, substantial investments were made by the Bank in domestic and regional equity funds. EBRD support for infrastructure in central Europe focused on railways restructuring (Poland) and on municipalities, including water treatment and district heating projects.

Cooperation between the EBRD and the European Commission increased substantially. About €100 million was signed under the framework of the SME Facility, the second stage of which was approved by the Commission in the course of the year. By the end of 2000, banks in Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovenia had benefited from this facility. The Bank also provided credit lines under the Polish dairy facility, which aims to improve quality standards in milk production. EBRD funding of €24 million and an EC grant of €8 million is being channelled to Polish dairy companies via three commercial banks in Poland. Co-financing between the Bank and the Instrument for Structural Policies for Pre-accession (ISPA) in the municipal area developed very strongly.

The EBRD aims to maintain its activities in central Europe at the high level achieved to date while using its best efforts to increase activities in countries such as the Czech Republic, Hungary, the Slovak Republic and Slovenia.

## Russia

In 2000 the EBRD increased its commitments in Russia by over 250 per cent compared with 1999, achieving a business volume almost comparable to the levels recorded before the 1998 financial crisis. The Bank signed 18 projects during the year totalling €579 million. In addition, the EBRD provided over 13,800 loans worth €130 million under its micro and small enterprise programme, the Russia Small Business Fund. By the end of 2000 the EBRD's overall commitments in Russia totalled €3.4 billion.

This increase in the portfolio reflects not only a gradual improvement in the business climate but is also a result of the Bank's new strategy for Russia. This was approved in September, replacing the operational policy adopted immediately after the 1998 crisis. It confirms that the EBRD's priorities in Russia are support for SMEs, infrastructure development, strengthening of financial intermediaries, foreign direct investment (FDI) projects and the promotion of good corporate governance. As part of its loan agreements, the EBRD imposes a number of governance conditions. If these are not met, the Bank delays disbursement. For example, in the case of Lukoil, a leading Russian oil company, the EBRD will disburse financing only if the company provides audited accounts in line with international accounting standards, as stipulated in the loan agreement.

In 2000 the EBRD focused in particular on governance issues in the corporate sector. Projects such as Viz Stahl, Severstal (see page 44) and St Petersburg hazardous waste are good examples of the use of strict criteria in selecting business partners. During the year 25 per cent of total commitments were targeted at SMEs, and the Bank supported 21 projects through its Regional Venture Funds and Direct Investment Facility. Direct support for financial intermediaries accounted for 15 per cent of total commitments.

3 The EBRD's annual commitments in Russia more than doubled in 2000, reaching €579 million compared with €217 million in 1999.

4 The EBRD played an important part in supporting economic recovery in south-eastern Europe, increasing its commitments in Bosnia and Herzegovina and many other countries in the region.

A large share of commitments in 2000 was devoted to agribusiness and the metal sector, which each accounted for approximately 20 per cent of the year's business volume. Several of the projects in these two sectors were financed with foreign partners, reflecting a recovery of investor interest in these two areas. In the infrastructure sector the EBRD financed several important municipal, environmental and transport projects.

Progress was made during the year in achieving a more successful policy dialogue with the new Government on issues relating to the restructuring of monopolies, large state companies and the energy sector. The EBRD worked closely with several Duma committees, most notably in promoting the Draft Federal Law on Warehouse Depositary Receipts. When approved, this law should significantly increase the Bank's ability to lend to the agriculture sector. As a member of the Steering Committee of the Foreign Investment Advisory Council, the EBRD continued to play an active role and encouraged the introduction of international accounting standards, strong corporate governance and other structural reforms.

The EBRD supported the Federal Securities Commission by funding the drafting of the Law on Securities as well as its Guideline Rules for Corporate Governance and other pieces of securities legislation. In addition, the EBRD helped the Centre for Corporate Law and Corporate Governance by financing a technical cooperation project on the development of a corporate governance rating system.

During the year the EBRD continued to work on restructuring projects affected by the 1998 financial crisis, insisting on fair and transparent debt restructuring, bankruptcy and liquidation mechanisms. Uneximbank and Kamaz are the two most significant examples of this.

There was limited progress in the reform of the banking sector despite the Bank's efforts to work with ARCO – Russia's agency for restructuring credit organisations – and all levels of government. However, Russia began the process of amending laws regarding bank bankruptcy, Central Bank legislation and the banking system in general. During the year the EBRD concentrated on supporting foreign bank subsidiaries and KMB-Bank, which is performing very well.

## Early and intermediate countries

The EBRD played a significant role in the early and intermediate countries during 2000, advancing the objectives of the Stability Pact for South-Eastern Europe, approving membership of the Federal Republic of Yugoslavia, assisting the reform process in Ukraine and supporting the development of Central Asia.

Launched in response to the Kosovo crisis in 1999, the Stability Pact aims to promote investment and to assist economic recovery in south-eastern Europe. The Bank has helped to achieve these objectives by expanding its commitments in the region and by taking a lead role among international financial institutions (IFIs) in promoting private sector development.

At the start of the year the EBRD organised a meeting for IFIs operating in the region, at which a number of specific priorities were agreed. These were presented to donors in March 2000, which resulted in €356 million being pledged for new private sector initiatives in the region.

One of the first priorities was the expansion of the EBRD's Trade Facilitation Programme, which aims to encourage intra-regional trade. Another major priority was support for SMEs and micro businesses through the establishment of micro-enterprise banks and small equity funds in Albania, Bosnia and Herzegovina, FYR Macedonia and on the territory of Kosovo in FR Yugoslavia.

1 Azerbaijan has received over €350 million of EBRD financing since the establishment of the Bank.

The EBRD was the "lead financier" for three "quick-start" infrastructure projects identified at the donors conference in March. The three projects – two concerning water supply and waste treatment and one in the road sector – were all signed during the year and are in the process of being implemented. Another three "quick-start" projects in the transport sector were co-financed by the EBRD together with other IFIs. The six projects total €168 million, of which €95 million is being provided by the EBRD.

During the year the EBRD provided direct funding totalling €523 million to south-eastern Europe. There was a significant increase in commitments in the larger countries in the region, such as Bulgaria and Romania, but the EBRD also expanded its activities in the smaller countries, such as Bosnia and Herzegovina and FYR Macedonia. Approximately half of all new commitments in the region were infrastructure projects. During the year a total of €127 million was raised in grant co-financing for EBRD projects in south-eastern Europe.

FR Yugoslavia applied for membership of the EBRD shortly after the election of a new democratic government in October 2000. In December the Bank's Board of Governors approved its membership application, which became effective in January 2001. The EBRD has already sent several teams to meet key government officials and members of the business community and is planning to establish a local office in Belgrade with a resident Country Director. The Bank's action plan for FR Yugoslavia is outlined on page 11.

In Romania the EBRD experienced a difficult investment climate but developed a number of innovative projects designed to support the financial sector and to promote the development of SMEs. At the same time the Bank made a major contribution to the modernisation of the energy sector, supporting the establishment of an energy transmission company. Commitments during the year totalled €126 million.

In Ukraine the EBRD added substantially to its portfolio, both in the public and private sectors. The Bank helped to accelerate the pace of transition by making the reform of energy and public utility sectors a condition of the major infrastructure loans that it signed during the year. The EBRD also continued to promote the development of SMEs through its financial sector lending, adding to the number of Ukrainian banks that act as intermediaries for credit line facilities. The Bank concluded a number of larger transactions involving local private companies and foreign investors, undertaking projects in the agribusiness, airline, manufacturing and telecommunications sectors. The EBRD's total commitments in Ukraine in 2000 amounted to €293 million.

In the Caucasus the EBRD signed projects totalling €210 million in 2000 in support of agribusiness, financial institutions, natural resources, and power and energy. Significant projects included a major investment in Azerbaijan's oil industry, a loan to the Microfinance Bank of Georgia for on-lending to micro and small businesses, and support for the privatisation of the electricity sector in Armenia.

In spite of the difficult investment climate in Central Asia, the EBRD signed six projects in 2000 totalling €187 million. The largest level of commitments was in Kazakhstan, where the Bank focused on further strengthening of the financial sector and improving the country's infrastructure to provide a better operational environment. Signed projects were in the areas of solid waste management, road sector development and a credit facility for the financial sector. In Uzbekistan the EBRD engaged in policy dialogue at a high level to improve the very difficult investment climate and continued to support the development of SMEs through the implementation of credit lines. Its most significant project was a loan for the expansion of the Zarafshan-Newmont gold mining project.

❷ Despite the investment difficulties in Uzbekistan, the EBRD continued to support the development of small business.

❸ The EBRD supported the capital increase of Pekao, one of the largest banking groups in Poland, and helped to place newly issued shares on the stock exchange.

The EBRD's operations in Kyrgyzstan were constrained by a slow recovery from the financial crisis of 1998 and by the general tightening of the fiscal and monetary policies by the authorities. Despite a crisis in the local banking sector, the Bank succeeded in introducing a micro-finance component to its SME credit line in response to the needs of both banks and their clients. In an effort to further enhance the financial sector, trade facilitation programmes were signed with two private banks. As the political and economic situation in Tajikistan started to improve, the Bank focused on the areas of air transport and telecommunications, undertaking considerable preparatory work. A new strategy for Turkmenistan was approved by the EBRD in March 2000. Recent political and economic developments in the country have given rise to serious concerns, and the Bank has accordingly adopted a graduated response based on different levels of improvement.

## Activities by sector

### Financial institutions

One of the EBRD's key objectives is to support the development of financial sectors that are based on sound banking principles and that provide high-quality services to both the corporate and retail sectors of the economy while operating on principles of transparency and good corporate governance.

The EBRD endeavours to contribute to this development by making equity investments in financial institutions and by providing funding to local financial intermediaries, which in turn finance the private enterprise sector – in particular, SMEs. Part of the Bank's work is focused on dialogue with local governments and authorities on issues such as regulation and supervision of the financial sector, privatisation, corporate governance and business climate.

The EBRD was very active in the financial sector in 2000 as the year produced the first sustained evidence of recovery from the Russian financial crisis of 1998, with increasing levels of confidence being demonstrated in the financial systems in most of the Bank's countries of operations. The EBRD's financial sector portfolio and earning assets grew significantly. At the same time, the portfolio matured, with debt being repaid and equity positions being sold to strategic investors. The quality of the financial sector portfolio improved, with better performance from the existing portfolio and new high-quality commitments, particularly in central Europe. A total of 38 per cent of new signings were in advanced transition countries.

Existing programmes were expanded while new products and programmes were introduced. New projects were signed in 24 countries of operations, and work has started on developing a pipeline of projects in FR Yugoslavia. A good distribution was achieved between debt and equity, and there was increased emphasis on non-bank financial institutions. SMEs received particular attention with the implementation of the EU-EBRD SME Finance Facility, expansion of the micro credit programme

1 An EBRD investment in National Commercial Bank supported the first privatisation in the Albanian banking sector since the collapse of the communist regime in the early 1990s.

in Russia and in other countries and active utilisation of the Trade Facilitation Programme for small and medium-sized transactions. The Financial Institutions Business Group signed 31 per cent of the Bank's new business in 2000.

**EBRD signed operations to financial institutions**

Cumulative as at 31 December 2000

| | *Number of projects* | *€ million* | *% of total* |
|---|---|---|---|
| **Bank equity** | **73** | **831** | **17** |
| **Bank debt** | **105** | **2,546** | **51** |
| Loans without sovereign guarantee | 84 | 1,737 | |
| Loans with sovereign guarantee | 19 | 697 | |
| Trade Facilitation | 2 | 112 | |
| **Equity funds** [1] | **67** | **1,177** | **24** |
| Donor-sponsored funds [2] | 17 | 375 | |
| Venture equity funds | 25 | 222 | |
| Large equity funds | 25 | 580 | |
| **Micro** | **13** | **303** | **6** |
| **Non-bank financial institutions** | **19** | **142** | **3** |
| **Total** | **277** | **4,999** | **100** |

[1] Includes sector-specific equity funds.

[2] These operations represent investments in 30 donor-sponsored funds.

### *Bank equity*

In 2000 there was a consolidation and broadening of the EBRD's equity portfolio. Transactions with existing clients were undertaken through four capital increases and through the conversion into equity of the EBRD's subordinated loan to the Bank of Georgia. The EBRD also made equity investments in new clients in countries where the progress towards transition has been less advanced, such as Albania, FYR Macedonia and Kyrgyzstan.

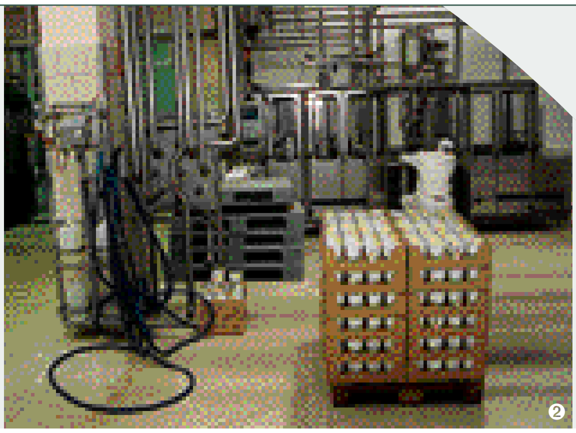
Through these investments, the EBRD aimed to recapitalise and restructure local financial institutions, to strengthen their competitive position in the market and to enhance their ability to offer better services and products to local clients.

In the case of West Ukrainian Commercial Bank, the EBRD was able to attract and invest for the first time alongside a central European investor, Kredyt Bank Poland. This transaction was ground-breaking, demonstrating that majority foreign-owned central European banks have started to implement strategies for expansion in the region. In 2000 the EBRD also made its first equity investment in a Russian bank since the 1998 financial crisis with the recapitalisation of International Moscow Bank. This transaction sent a message of confidence to the local banking sector. More transactions are expected in Russia in 2001 assuming that progress continues to be made in reforms to the banking sector.

The maturity of the EBRD's portfolio has meant that, in line with the original investment objectives, the number of equity exits via sales to strategic investors increased. Following significant EBRD support for recapitalisation and restructuring, some of the Bank's investee companies have become attractive to international strategic investors. Having completed its investment mandate, the EBRD sold its stakes in Bankas Hermis (Lithuania), which was acquired by the Swedish-owned Vilniaus Bankas, and in Varazdinska Banka (Croatia), which was purchased by the largest Croatian bank, Zagrebacka Banka. The EBRD also sold its shares in Kredyt Bank (Poland), where one of the existing foreign shareholders – Banco Portugues do Espirito Santo – purchased the stake, and in United Bulgarian Bank (Bulgaria), which was acquired by the National Bank of Greece. The EBRD's stake in Market Banka in Bosnia and Herzegovina was acquired by Raiffeisen Bank. These sales generated significant capital gains for the EBRD and have left the local banks with committed strategic investors which are prepared to increase their involvement in the local banking systems.

❷ EBRD funding is being channelled to dairy companies via three commercial banks in Poland under the Polish Dairy Facility.

❸ Under the EU-EBRD SME Finance Facility, Ceska Sporitelna in the Czech Republic provides loans of up to €150,000 to small and medium-sized enterprises.



The EBRD will continue to work actively with its existing clients. For example, it completed an innovative transaction to support the Pekao capital increase in Poland. The EBRD not only subscribed to new shares and purchased some outstanding shares from an existing shareholder, but it also helped the bank to successfully place newly issued shares on the stock exchange. Support for capital markets was provided by backing the tradability of the GDRs issued by the bank and also by providing after-market support to ensure that, following the listing of the new shares, their price would remain stable for an initial period. This transaction has had a strong demonstration effect and a positive impact on the liquidity and tradability of the new share issue. The EBRD hopes to repeat this transaction elsewhere and to support the use of stock exchanges as a means of raising capital.

### *Bank debt*

In 2000 the EBRD continued to provide debt financing for banks and support for trade throughout the region. During the year the EBRD expanded its product range and recorded its highest ever number of debt facilities. It also significantly increased its regional trade activities. A total of 23 debt facilities were signed totalling €212 million, and an additional 25 trade issuing bank agreements were completed.

The EBRD's activities had a broad geographical coverage. Transactions were pursued in all of the Bank's countries of operations, resulting in debt and/or bank trade facilities being signed or in trade guarantees being issued in 24 countries.

The EBRD provided subordinated debt to a number of banks in the region. This debt qualifies as Tier II capital and allows the banks to leverage their lending activities in the region. Facilities totalling €47 million were signed with Citibank in Kazakhstan and with Raiffeisen Bank and International Moscow Bank in Russia. These three facilities are examples of close cooperation with foreign-owned banks. The two transactions in Russia also represent the first two debt facilities provided by the EBRD to Russian banks since the 1998 crisis.

*EU-EBRD Finance Facility*

In October 2000 the EBRD's Board of Directors approved an increase in the EU-EBRD SME Finance Facility from €75 million to €250 million. The facility is aimed at the ten EU accession countries. The main objective of this debt facility is to encourage local banks to become involved in SME operations or to expand their involvement over the medium to long term. Individual sub-loans are limited to €150,000, and the average loan size should not exceed €50,000. The debt facility is provided alongside technical assistance and grant funding from the European Commission's Phare budget.

Nine new facilities totalling €78 million were signed in 2000. Banks that entered the programme in 2000 comprised Bank Slaski and Fortis Bank Polska in Poland, Union Bank in Bulgaria, Latvijas Unibanka in Latvia, Nova Kreditna Banka Maribor and Bank Koper in Slovenia, Ceska Sporitelna in the Czech Republic, Sampo Pank in Estonia and Siauliu Bankas in Lithuania. The programme is now in place in eight accession countries, and additional facilities are to be extended in the remaining accession countries during the first quarter of 2001.

### *Trade Facilitation Programme*

The new Trade Facilitation Programme (TFP) is now fully operational. In December 2000 the EBRD approved an extension to the programme limit from €100 million to €250 million to allow for an expected increase in business volumes in 2001.

As at the end of 2000, 46 issuing banks in 20 countries[1] had been accepted into the TFP, with total limits exceeding €365 million. Additional banks are expected to be signed during the first quarter of 2001, which will substantially complete the network of issuing banks. The facility provided significant support for intra-regional trade, with 22 guarantees issued, totalling €22 million.

[1] Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Romania, Russia, Slovak Republic, Ukraine and Uzbekistan.

During the year 194 trade transactions were guaranteed, totalling €142 million. Since the start of the programme in 1999, 245 guarantees have been issued, totalling €223 million. These covered transactions totalling €274 million. The difference represents direct risk sharing by confirming banks, or 19 per cent of the total. Typical transactions included the Russian mint's production of rupee coins for the Indian Treasury, export of combine harvesters from Russia to Kazakhstan and a broad range of exports and imports of foods, consumer goods, medical supplies and industrial equipment. The programme has been instrumental in supporting SMEs, especially in south-eastern Europe.

A total of 130 confirming banks have been included in the programme throughout the major countries of the world, including 29 in the EBRD's countries of operations. The fast efficient service provided by the TFP has enhanced the EBRD's image among banks active in trade finance.

During the year a new pre-export finance revolving credit facility was launched under the TFP. This provides uncommitted facilities to eligible banks in the EBRD's countries of operations for on-lending to sub-borrowers requiring working capital for trade-related activities.

### *Equity funds*



All of the EBRD's countries of operations have at least one equity fund in which the EBRD participates. The EBRD's equity fund portfolio consists of two categories: private equity funds and donor-sponsored funds. Both of these are pools of direct investments entailing private equity/venture capital investment strategies. The donor-sponsored funds are established to invest in less advanced transition economies or with specific development purposes. They usually receive grant financing from donor governments, mainly to supplement their operating costs. Together with several donor governments, the EBRD has established a number of donor-sponsored funds to support the privatisation and restructuring of medium-sized enterprises.

The EBRD's equity funds play an important role in terms of "additionality" and transition impact. First, through their investment approach, skills and know-how are developed in the local companies. Second, over time the investment activities led by these funds create an "equity culture" in the region, which is critical for cultivating entrepreneurs needed by a market-oriented economy. Third, by generating attractive returns, the funds attract a large sum of institutional capital to the region. In fact, equity funds continue to be the most significant source of equity financing for private companies in the EBRD's countries of operations.

By the end of 2000, the EBRD had committed €1.2 billion to 79 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 €4.9 billion as of the end of 2000. As a result, equity investments totalling nearly €1.5 billion have been made so far in over 550 companies based and operating in the region in a wide variety of industry sectors.

#### *Private equity funds*

Private equity funds are sponsored by private institutions and fund managers. By the end of 2000, the portfolio comprised 48 funds of this type, with total capital of €4.1 billion, of which the EBRD had provided €802 million.

In 2000 the EBRD made commitments to six new private equity funds. The most significant of these are the Polish Enterprise Fund IV and the Baring Vostok Private Equity Fund, both of which have an EBRD commitment of €54 million. In both cases, the EBRD was an investor in the predecessor funds, which showed a proven track record and demonstrated an ability to implement the Bank's objectives effectively. Both funds have attracted institutional investors of the highest reputation. The EBRD also committed a total of €70 million to NIS Restructuring Facility, Argus Capital Partners, Heitman Central Europe Property Fund and Baltic Investment Fund III.

#### *Donor-sponsored funds*

Donor-sponsored 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. The main products in this category are 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. The Bank has also signed the first investment under the EU-EBRD SME Finance Facility for equity investments in SMEs in the Czech Republic and the Slovak Republic and is preparing investments under this facility in other EU accession countries.

1 An EBRD loan was provided through a financial intermediary in Bulgaria to finance the refurbishment of a small food shop in Sofia.

2 A priority of the EBRD is the development of SMEs, which play a vital role in stimulating economic growth.

As at the end of 2000, the portfolio comprised 29 funds, with a total capital of €728 million, of which the EBRD had committed €355 million. The funds usually target early-stage or small deals worth up to €1.8 million. In 2000 donor-sponsored funds achieved excellent results. The RVF Programme demonstrated resilience and a much-improved performance, with new commitments totalling €58 million in 14 new investee companies. In addition, the first exit was made by the St Petersburg RVF, and it was done profitably. It is expected that the RVF Programme will play a crucial role for the Bank in expanding its direct investment activities in Russia. PPFs also had a successful year, with €23 million in new investments in 16 companies.

### *Micro and small business finance*

In total the EBRD's micro and small enterprise lending programmes and institutions reached over 50,000 borrowers in 2000, granting a total volume of €261.2 million of loans with an average loan size of approximately €5,000. This represents an increase in volume terms of more than 120 per cent compared with 1999.

#### *Russia Small Business Fund*

The EBRD's flagship micro and small enterprise lending programme, the Russia Small Business Fund (RSBF), had a resurgent year in 2000. After consolidating in 1999, 2000 saw the programme surpass pre-crisis lending levels, making over 13,800 loans to micro and small enterprises worth €130 million, a 104 per cent increase over 1999. Since the project began in 1994, almost 45,000 loans have been made to Russian small businesses, totalling €537 million.

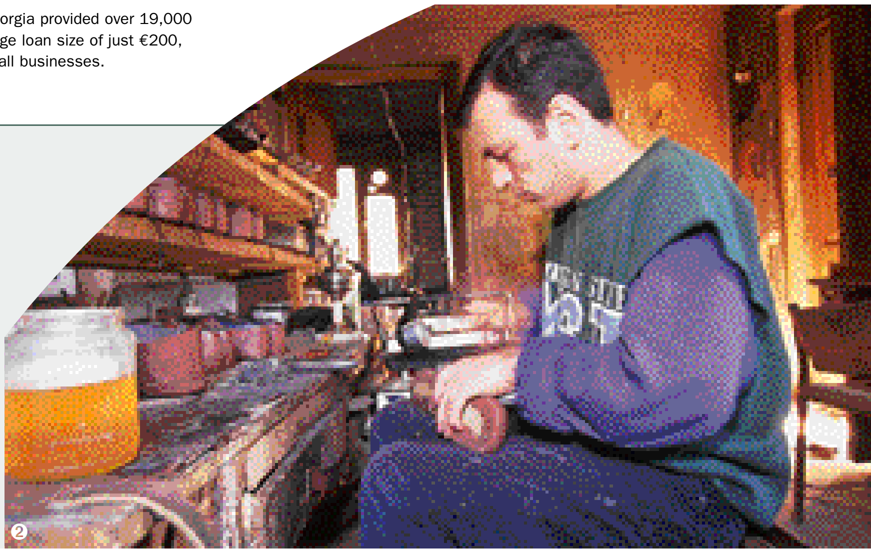
The RSBF continued to work intensively with Sberbank, while Small Business Credit Bank (KMB-Bank) has established itself as a key partner bank. The RSBF also continued to cooperate with several smaller regional banks to supplement the nationwide approach.

Sberbank disbursed over 8,000 loans for nearly €56.6 million during 2000, a 70 per cent increase over 1999. Progress was not so dramatic in the regional banks, which remain undercapitalised. However, Far East Bank, Petrovsky and NBD Bank all continued to generate stable lending volumes and in total made over 800 loans worth €9.8 million during the year. Investment Bank of Kuban became the RSBF's first new partner bank for two years when it joined the programme in October.

KMB-Bank developed rapidly in 2000, tripling the level of disbursements achieved in 1999. During the year KMB granted over 4,600 micro and small loans worth almost €64.1 million. By December, monthly volume had built up to €7.5 million, and the over-30-days arrears rate on this portfolio currently stands at only 0.6 per cent, an outstanding performance considering the rapid expansion. KMB's recapitalisation, in which the EBRD was a key participant, was completed in December, bringing in Soros Economic Development Fund, DEG (Germany) and Triodos Bank (Netherlands). This capital injection will allow the bank, which focuses on micro and small enterprises, to further expand in 2001, and to increase its regional coverage from the 11 branches and offices currently open across Russia.

#### *Albania*

The EBRD's investment in FEFAD Bank in Albania was completed in February 2000. FEFAD was set up as a foundation by KfW and has been converted into a bank dedicated to micro and small enterprises along the lines of Micro Enterprise Bank (MEB) in Bosnia and Herzegovina. This conversion into a bank, the parallel change of management, and the injection of fresh capital have all had a positive effect, and FEFAD Bank granted as many loans in 2000 as it had in its previous five years of operation. The portfolio doubled in size to €15 million at year-end, with an over-30-days arrears rate of 1.8 per cent.



1 Following an investment by the EBRD, Micro Enterprise Bank in Bosnia and Herzegovina increased its lending to micro and small enterprises, disbursing over 3,000 loans during the year.

2 The Microfinance Bank of Georgia provided over 19,000 loans in 2000, with an average loan size of just €200, to promote the growth of small businesses.

*Bosnia and Herzegovina*

In Bosnia and Herzegovina the EBRD's investment in MEB made solid progress in 2000. During the year, MEB disbursed over 3,000 loans worth over €12.8 million, and the arrears rate on the portfolio remained exceptionally low at 0.6 per cent over 30 days. MEB has established branches in Bihac, Ilidza, Sarajevo, Tuzla and Mostar in the Federation of Bosnia and Herzegovina. In November MEB became the first bank registered in the Federation to open a branch in Banja Luka in Republika Srpska. The bank is now offering housing reconstruction loans to individuals as well as loans to micro and small enterprises, and demand remains strong across the whole country.

*Georgia*

In Georgia the EBRD provided both equity and debt funding to Microfinance Bank of Georgia (MBG) during 2000. MBG has developed a highly successful consumer loan business, which granted over 19,000 loans in 2000, with an average size of just €200. The bank granted over 2,500 loans to micro and small enterprises for a total volume of €18.6 million during the year. A capital increase is planned for early 2001, which will increase the EBRD's holding to 10 per cent.

*Kazakhstan Small Business Programme*

The Kazakhstan Small Business Programme (KSBP) developed ahead of expectations in 2000, disbursing more than twice as many loans as in 1999. To date, the Programme has disbursed almost 8,800 loans for a total of over €69.4 million. The KSBP is working with seven banks in 14 towns and cities. The quality of the loan portfolio has remained exemplary, with negligible loan arrears. The KSBP is particularly successful at reaching the smallest borrowers: approximately two-thirds of all loans granted have been for amounts of less than €5,000. Regional expansion in 2001 will bring the remaining significant towns in the country into the KSBP.

*Moldova*

In June the EBRD made an equity investment of €107,000 in a specialised micro-finance institution in Moldova. Micro Enterprise Credit (MEC) was set up as a finance company under Moldovan law, and it is planned to convert to a commercial bank operation in 2001. The EBRD currently holds a share of 15.3 per cent in MEC, which will be increased to 20 per cent at the time of conversion. In 2000 MEC disbursed 230 loans for a total amount of €1.8 million.

*Ukraine*

The joint KfW-EBRD Ukraine micro credit programme made positive progress in 2000, disbursing 2,000 loans totalling €26.3 million. The over-30-days arrears rate on this portfolio stood at only 0.8 per cent. The institution-building process in the partner banks is progressing, and the banks are increasingly incorporating micro lending technologies into their core lending operations. In December 2000 the Ukraine Micro Finance Bank (MFB) was registered by the National Bank. MFB will start its operations in Kiev, but will soon open branches/offices in at least three regions, including the city of Slavutich, near Chernobyl.

*Technical assistance*

The EBRD has provided technical assistance to Micro Enterprise Bank in Kosovo (MEBK), which was established in January 2000. MEBK has proved exceptionally successful, providing much-needed financial services to micro and small enterprises via five branches in towns across Kosovo. By the end of the year, MEBK had granted over 800 loans worth €5.1 million, and the arrears on this portfolio stood at zero, a remarkable achievement considering the highly unstable operating environment.

*Future lending*

In 2001 the EBRD plans to build on this achievement by developing programmes focusing on micro and small enterprises and specialised financial institutions in many of the Bank's remaining countries of operations. Initiatives are planned in Azerbaijan, Belarus, Bulgaria, FR Yugoslavia, FYR Macedonia, Kyrgyzstan

3 The EBRD's micro credit programme in Ukraine was boosted by the establishment in late 2000 of the Ukraine Micro Finance Bank.

and Romania. Although all these efforts are supported by donor funds in the start-up phase, it is the EBRD's aim to ensure that these programmes are sustainable without the support of donor funds in the medium term.

### *Non-bank financial institutions*

During 2000 the EBRD increased its focus on non-bank financial institutions activity with ten new transactions totalling €70 million. The emphasis continued to be on investments in the insurance and pensions sectors, where the Bank is now the largest financial investor in the region. However, the EBRD's non-bank financial institutions activity broadened during the year to include a well-developed pipeline of projects in the leasing sector as well as in local asset management companies, mortgage institutions and consumer finance companies, which are expected to be completed in early 2001.

#### *Insurance*

In response to the strong growth of the insurance sector in central Europe, the EBRD made further capital contributions to the Winterthur insurance businesses in the Czech Republic, Hungary and Poland through the Framework Agreement. In early 2000 the Bank made an equity investment in the largest insurer in the Baltic states, Lietuvos Draudimas. This was undertaken alongside the majority owner, the Danish insurer Codan, which had originally acquired its investment during privatisation. The EBRD increased its investment in the Polish insurance company, Energo Asekuracja, through a capital increase, the proceeds of which will be used to establish a life assurance subsidiary of the current non-life operation.

Following the EBRD's successful investment in the Bulgarian Insurance & Pensions Group alongside the Deutsche Bank/Kardan joint venture, TBI Holding, the Bank decided to invest directly in TBIH with 24 per cent of the equity through a capital increase. It also provided additional term loan facilities. The capital increase will enable TBIH to make further insurance and pension investments in the region alongside its holdings in the Insurance & Pensions Group. With its new investments in 2000, the EBRD increased its equity investments, both direct and indirect, in the insurance sector to 16.

#### *Pensions*

Through an investment in TBIH, the EBRD indirectly invested in pension fund management companies Tatry in the Slovak Republic and Doverie in Bulgaria. The Bank also has investments in Erste Pension Fund in Croatia and three Winterthur pension funds in the Czech Republic, Hungary and Poland. The EBRD continues to play an active role with the authorities both in advance of the introduction of pension reforms as well as after the implementation of the reforms. The Bank anticipates making further pension fund investments in 2001 in Romania with the introduction of the long-awaited mandatory reforms as well as in the Baltic states and Kazakhstan.

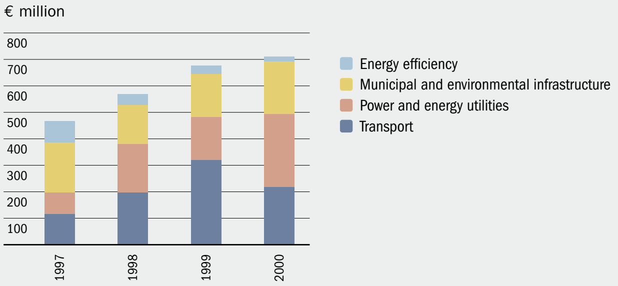
#### *Leasing*

During 2000 the EBRD participated in the capital increase of Uzbek Leasing. Given the importance of the leasing sector in the development of SMEs, the Bank devoted additional resources to developing its pipeline of leasing activities, with a number of projects expected to come to fruition in early 2001.

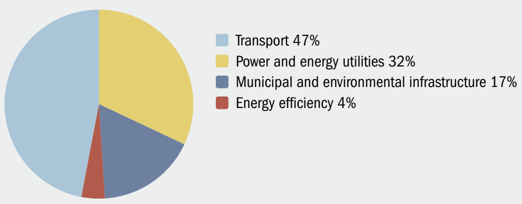
#### *Mortgage institutions*

The EBRD recognises the importance of a mortgage industry in its countries of operations, particularly as there is a medium-term need to broaden the scope of local capital market instruments available for the fast-growing local institutional investor base, including life insurance companies and pension funds. The Bank has developed an active pipeline in this sector that is expected to result in new projects in 2001.

**Infrastructure commitments 1997-2000**




**Infrastructure commitments as at end 2000**




## Infrastructure

The EBRD's activities in the infrastructure sector are divided into four areas: municipal and environmental infrastructure (MEI), transport, power and energy utilities, and energy efficiency. In 2000 the Bank continued to increase its commitments in the infrastructure sector, providing total financing of €711 million, compared with €665 million in 1999 (see graph above). Commitments were divided fairly evenly between three main areas: municipal infrastructure and services, power and energy utilities, and transport. Almost two-thirds of projects signed in 2000 were in the early and intermediate transition economies, with the remaining third being signed in countries at the advanced stages of transition.



In recent years the nature of the EBRD's financing in the infrastructure sector has changed significantly. An initial emphasis on sovereign debt has given way to an increasing share of private and non-sovereign public financing. In 2000 state sector financing (comprising sovereign guarantees or sovereign loans) accounted for 62 per cent of new commitments while private sector financing represented 20 per cent of the total. Public sector financing without a sovereign guarantee accounted for 18 per cent, the vast majority of this being in the municipal sector. In future years the EBRD expects the share of private and non-sovereign public financing to show rapid growth, particularly in the power and municipal sectors.

By the end of 2000, the EBRD's total commitments in the infrastructure sector amounted to €4.8 billion, accounting for one-third of the Bank's total commitments. The majority of these commitments are in the transport and power and energy sectors, with shares of 47 per cent and 32 per cent respectively.

MEI activities have grown rapidly over the last few years. In 2000 they represented over 30 per cent of new infrastructure commitments while their share in cumulative infrastructure commitments increased to 17 per cent. There is also potential growth for the energy efficiency sector, especially in municipal district heating.

Portfolio management and project monitoring have become increasingly important as commitments continue to grow. In 2000 the EBRD appointed a portfolio manager with specific responsibility for risk and portfolio management in the infrastructure sector. By the end of the year, less than 1 per cent of total assets in this sector were non-performing.

At the end of 2000, infrastructure projects under preparation totalled €4.0 billion, including a significant proportion in countries at the advanced stages of transition. In all of the Bank's countries of operations state sector financing will continue to be an essential part of the EBRD's infrastructure investments, especially in the early and intermediate transition economies. However, the share of non-sovereign financing and private sector projects is expected to grow to over 50 per cent of the total.

Future projects are likely to be concentrated in Russia and the advanced transition economies of central Europe, where there is considerable scope for increased EBRD involvement in the infrastructure sector. Increasing demand for EBRD financing is particularly expected in the area of municipal infrastructure in the private sector or on a non-sovereign basis.

Over the coming years the EBRD aims to increase the volume of its annual financing commitments in the infrastructure sector to over €1 billion. To achieve this, the Bank will need to provide financing on terms that are not available elsewhere and to take transition-related risks that markets or other IFIs are not yet ready to take.

### *Municipal and environmental infrastructure*

In the municipal and environmental infrastructure (MEI) sector the EBRD provided financing of €211 million in 2000 in support of nine transactions with a total value of €883 million. These projects involved investments in 12 municipalities and were mainly in the areas of water supply, waste-water treatment and municipal solid waste management. In three countries the Bank invested in the municipal sector for the first time: Bulgaria, FYR Macedonia and Kazakhstan.

1 Waste-water treatment was a key area of EBRD support for infrastructure in central Europe in 2000.

2 EBRD financing was provided to five cities in FYR Macedonia to finance urgently needed water and sewerage services.

By the end of 2000, the EBRD's cumulative portfolio in the sector of municipal and environmental services – including water, waste water, district heating and urban transport – totalled almost €1 billion. Approximately 90 municipalities in 18 countries have now received EBRD financing, benefiting almost 30 million people.

In line with its policy of supporting the decentralisation of municipal infrastructure and services, the EBRD continued to focus in 2000 on providing financing without sovereign guarantees. Over 60 per cent of the Bank's financing during the year was provided on a public, non-sovereign basis and 18 per cent in the private sector.

More than half of the EBRD's financing in 2000 was devoted to municipalities in advanced transition economies. This reflects the more advanced state of municipal finances in these countries and the significant demand for funding on a non-sovereign basis, which is not readily available elsewhere.

Two important trends that began in 1999 were strengthened in 2000. First, the EBRD continued to provide loans to public municipal utilities without a guarantee from the parent municipality. Second, a number of existing sovereign loans to municipal entities were converted into non-sovereign loans. Almost half of the MEI projects financed by the Bank in 2000 concerned municipalities or municipal utilities that had received EBRD loans in earlier years.

The EBRD deepened its cooperation with the European Union in 2000, particularly in improving environmental protection in the area of water and waste water in the EU accession countries. Five investment projects supported by the EBRD received grant co-financing from the European Union in 2000. Four of these – in Constanta, Krakow, Riga and Wroclaw – received funds from the EU's Instrument for Structural Policies for Pre-accession (ISPA). In total, the European Union has contributed €318 million to environmental infrastructure projects financed by the EBRD.

One of the EBRD's most significant projects in 2000 was a €31 million loan to Sofijska Voda, Bulgaria's first privately managed water company. More than 1 million residents will benefit from this project, which marks the culmination of years of close cooperation between Sofia and the Bank on developing a strategy to involve the private sector in the provision of water and sewerage services. The financing will allow the company to improve maintenance of the city's pipe system, enhance customer service and promote a more efficient billing system.

In Estonia the EBRD provided a loan of €23 million to Tallinna Vesi, the municipal water and sewerage company in Tallinn. The transaction supports the privatisation of the company by establishing new terms and conditions for existing debt in advance of the privatisation process. The conversion of a sovereign-guaranteed loan to a corporate loan will make the company more attractive to international bidders and sends a signal to the markets that revenue-earning municipal services can be financed without sovereign or municipality guarantees.

**Case study: Municipal and Environmental Action Programme, FYR Macedonia**

The EBRD completed its first infrastructure project under the "quick start" programme of the Stability Pact for South-Eastern Europe in 2000. A €69.5 million programme coordinated by the Bank, including an EBRD loan of €21 million, will solve severe problems with water supply and waste-water services in five cities in FYR Macedonia. The financing will allow five public water utilities to extend distribution networks, to improve water treatment and to create four new waste-water treatment plants. The project will have an impact on the transition process by promoting the decentralisation and commercialisation of municipal services. As well as providing clean and safe drinking water, the project is expected to encourage other municipal utilities to adopt similar financing approaches.

1 An EBRD loan to PKP, the Polish National Railway Company, will help to restructure the company and improve productivity.

2 Ukraine International Airlines received EBRD financing to support the development of its routes between Ukraine and western Europe.

In Central Asia the EBRD invested in two projects in Almaty, the largest city in Kazakhstan. The first involved a loan of €21 million to the city for improvements to the collection and safe disposal of municipal waste. This is the first time that a long-term international loan has been extended to a local government in Central Asia without a state guarantee. The second project in Almaty was a loan of €8 million to Almaty Sui, the city's water and sewerage company, to finance improvements to the water supply and waste-water treatment.

Projects in the pipeline will continue to respond to the need for an improvement in urban services and infrastructure, particularly in the areas of water supply, waste-water treatment, solid waste management, urban public transport and district heating.



### *Transport*

In 2000 the EBRD continued to respond to the need for investment in the transport sector, signing five projects totalling €216 million. This brings the Bank's total commitments in this sector to €2.2 billion.

The EBRD's biggest commitment in the transport sector during the year involved the restructuring of PKP, the Polish National Railway Company. The Bank provided a €100 million loan, which is designed to improve the productivity and competitiveness of Polish rail transport services by funding labour redundancy payments. The financing is in support of a radical restructuring programme, which will result in the creation of at least three independent companies, in which private participation will be sought. It will greatly enhance PKP's financial performance, allowing the company to prepare a privatisation strategy and to attract further investment.

In the road sector two significant projects were signed by the EBRD in 2000: a loan for upgrading the M06 highway in Ukraine and financing to improve the Almaty-Bishkek road in Central Asia as part of a co-financing package with the Asian Development Bank (ADB).

**Case study: Upgrading of M06 highway, Ukraine**

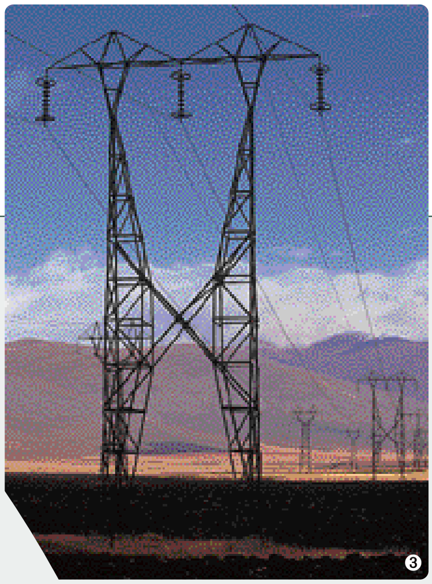
One of Ukraine's most important roads, linking Kiev with the Hungarian border, is to be upgraded with the help of an EBRD loan of €75 million. In addition to encouraging cross-border trade, the loan will help the Ukrainian road administration to undertake substantial reforms in road sector financing and to separate operational and regulatory functions. The project will introduce competitive tendering for civil works contracts and is expected to encourage private sector investment in the construction industry, which is currently dominated by state-owned enterprises.

The EBRD's €31 million project in Kazakhstan will primarily finance improvements to a 50 km section of the Almaty-Bishkek road but it will also include a number of small-scale improvements to access roads. Upgrading of the remainder of the route is being financed by ADB. The main aims of the project are to promote regional trade in Central Asia and to support the Government in improving the planning and finance of the road sector.

In the private sector the EBRD signed two transport projects in 2000. In Russia the EBRD provided a €4 million loan for the development of a state-of-the-art air cargo terminal at St Petersburg's Pulkovo Airport. The terminal represents one of the first privately financed infrastructure projects in Russia and is expected to make a significant contribution to improving the transport infrastructure in the north west. The Bank's second private sector project was a €6 million equity investment in Ukraine International Airlines alongside international strategic investors. The financing will help the Ukrainian airline to meet market demand and to offer a credible alternative to western European airlines.

During the year the EBRD built up a substantial pipeline of projects which it aims to finance over the coming years. These mainly concern roads and railways, where opportunities are arising to provide financing on a non-sovereign basis. This type of financing will become increasingly important – especially in the more advanced transition economies – as governments' capacity to provide sovereign guarantees becomes more and more limited following the adoption of more prudent financial policies.

3 The privatisation of four Armenian electricity distribution companies was assisted by an EBRD equity investment.



### *Power and energy utilities*

The EBRD strengthened its support for the power and energy utilities sector in 2000, signing seven projects totalling €267 million – compared with €155 million in 1999. All of the Bank's commitments were in countries at the early or intermediate stages of transition, where there is a growing demand for investment.

In 2000 the EBRD approved a new Energy Operations Policy, which emphasises the need for the efficient use of primary energy. The Bank aims to improve energy efficiency at all stages – from primary energy conversion to end use – by promoting market development and energy efficiency in supply as well as consumption. The new policy also confirmed the Bank's strategy for nuclear safety and nuclear power investments. In particular, the Bank is committed to improving the safety of nuclear production by acting as an administrator of donor funding (see page 62) and by participating in projects that will directly improve the safety of first-generation nuclear power plants.

The largest EBRD commitment during the year was a €108 million loan, which will provide one year's working capital for four Ukrainian electric power generating companies. The project aims to catalyse reform of the electricity industry by imposing a number of key conditions, including targets for privatisation of the distribution companies and cash collection rates. Under the terms of the financing, the Bank extended the loan to the Government of Ukraine, which will on-lend the proceeds to each of the generating companies.

Strict conditions have also been applied to a proposed loan for the completion and safety upgrade of the Khmelnitsky 2 and Rovno 4 nuclear power plants in Ukraine. The loan was approved by the EBRD's Board of Directors in December 2000 subject to four key conditions being fulfilled: the permanent closure of the last nuclear power unit at Chernobyl; the provision of a number of important safety assurances, including a report from international nuclear regulators that the Ukraine regulator has the necessary independence and resources to ensure that operations of Ukrainian nuclear facilities are conducted according to Western safety standards; the availability of all necessary external financing for the operation; and confirmation of the support of the International Monetary Fund (IMF) for the country's economic and fiscal reform programme.

The EBRD continued its support for the electricity sector in Bosnia and Herzegovina, providing a €50 million sovereign loan for three regional electricity companies. The financing will allow the country to integrate its electricity transmission systems into the European network and will improve the efficiency of electricity distribution.

**Case study: Romanian National Power Grid Company**

The EBRD provided vital support for the liberalisation of Romania's electricity industry by helping to establish Transelectrica as an independent transmission company and to modernise the national grid. An EBRD loan of €55 million was instrumental in separating the state electricity utility into independent operating companies and prepared the way for the creation of a competitive electricity market in Romania. The project has also enabled the country to fulfil one of the requirements for accession to the European Union. EBRD financing led to an additional €96 million being provided by the European Investment Bank along with a €20 million grant from EU Phare.

Privatisation of the electricity sector in Armenia received support from the EBRD in 2000. Alongside international partners, the Bank agreed to make an equity investment of up to €21 million in four distribution companies at the time of their privatisation. Using its position as a potential major investor, the EBRD held discussions with the Armenian Government over the framework for privatisation, including the legislative and regulatory framework. Formal tenders for private investment were issued during the year. The EBRD financing is expected to encourage further foreign investment.

An EBRD loan to Harpen in the Czech Republic will be used to refurbish district heating plants, resulting in substantial energy savings and improved heating services for consumers.

In Moldova the EBRD made a €5 million equity investment alongside Union Fenosa Internacional of Spain in three power distribution companies as part of the privatisation of the country's electricity sector. The Bank is also providing a €27 million loan to the privatised companies, which will be used to modernise their distribution networks, reduce losses and increase efficiency.

EBRD projects under development are concentrated in central Europe and in Russia, with a growing emphasis on the private sector and non-sovereign financing. This will allow the Bank to continue to play a role in the advanced transition economies by providing financing on terms that are currently not available in commercial markets.



### *Energy efficiency*

The EBRD continued to support the development of energy efficiency investments in 2000, making good progress on the preparation of a number of new projects. The Bank's commitments during the year totalled €17 million, bringing the EBRD's cumulative commitments in this sector to €188 million.

The focus of activity in 2000 was the development of district heating investments. This sector faces fundamental problems, especially in the early and intermediate transition economies, making it challenging to develop sound projects. Problems to be overcome include the setting of user tariffs at levels below the actual cost of production, inadequate cash generation by district heating companies and poor operational performance. In addition, the pace of commercialisation and privatisation in this sector has been slow. As a result, investment opportunities in 2000 were limited.

During the year the EBRD started the development of so-called public sector energy management programmes targeted at large municipalities, government departments and public companies that consume significant amounts of energy. The Bank is assisting several of these organisations in the structuring of energy-saving projects, in which it will seek to involve private operators and investors through energy service companies (ESCOs).

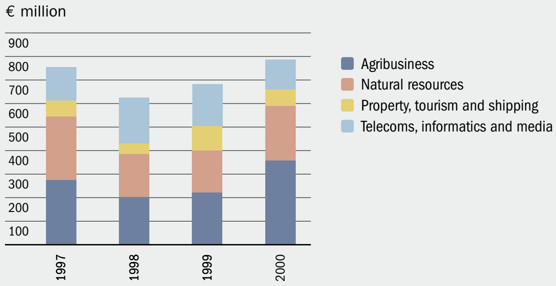
The EBRD also worked closely with a number of countries in exploring the opportunities created by the United Nations Framework Convention on Climate Change. These would include market-based instruments for environmental protection created by the 1997 Kyoto Protocol, particularly Joint Implementation and the Clean Development Mechanism.

**Case study: Harpen district heating, Czech Republic**

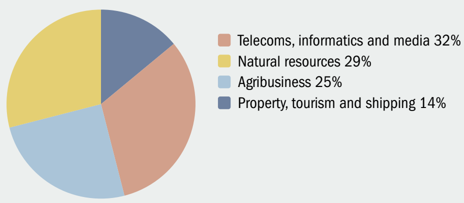
Around 20 towns and cities in the Czech Republic will benefit from modern plants providing heating services and hot water as a result of an EBRD loan to Harpen ČR. This is the Bank's first loan in support of the country's district heating sector. EBRD financing of €17 million was extended to the subsidiary of the German utility Harpen AG to help refurbish district heating plants and to reduce greenhouse gas emissions. The loan will finance critical investments in a number of smaller heating sub-projects, reducing energy consumption and improving heating services for customers. The project supports the transition process by advancing private sector participation in the financing and operation of municipal services in the Czech Republic.

The EBRD continued to contribute financing to a number of ESCOs. These implement projects that support efficient energy utilisation and that contribute to the overall reduction of atmospheric emissions in the region. A reduction in energy consumption and associated emissions is being achieved by energy efficiency investments through the newly established Dexia-FondElec Energy Efficiency and Emission Reduction Fund, in which the Bank is a major shareholder.

**Industry and commerce commitments 1997-2000**




**Industry and commerce commitments as at end 2000**




## Industry and commerce

The EBRD's primary focus in the industry and commerce sector is on the financing of private sector projects in four main areas: agribusiness; natural resources; property, tourism and shipping; and telecommunications, informatics and media. During 2000 the EBRD signed 26 projects totalling €774 million, representing a 13 per cent increase on the previous year and accounting for 29 per cent of the EBRD's commitments in 2000. A total of 4 per cent of the EBRD's commitments in 2000 were in Central Asia. Of particular note was the Bank's first private sector project in Armenia. Some 39 per cent of new signings were in countries at the early and intermediate stages of transition while 30 per cent were in Russia. By the end of 2000 the EBRD's total business volume in industry and commerce amounted to €4.7 billion.

There was an increasing focus in 2000 on innovation and on private sector projects, which constituted 99 per cent of the EBRD's total commitments in industry and commerce during the year. Equity investments represented an increasing share of new commitments and amounted to 20 per cent of signings in 2000.

One of the Bank's major achievements in 2000 was an innovative approach to financing the working capital needs of farmers. The EBRD signed its first project under a Warehouse Receipts Programme, which allows SMEs in the agribusiness sector to obtain working capital by using grain stored in licensed warehouses as collateral. The EBRD also undertook a number of other inventory-based lending activities during the year, which are expected to increase the level of lending in the agricultural sector.

In the natural resources sector the EBRD undertook its first equity transaction in Azerbaijan. Its investment in Moncrief Oil was also the Bank's first conversion of an oil production joint venture into a production-sharing agreement. In 2000 the EBRD signed its first regional property fund, committing significant financing to the Heitman Central Europe Property Fund, a property investment vehicle that aims to achieve equity gains by developing property projects in the Czech Republic, Hungary and Poland.

In the telecommunications sector the EBRD made significant equity investments in the initial public offering (IPO) of Lithuanian Telecom and in Vimpelcom, a listed Russian mobile phone company.

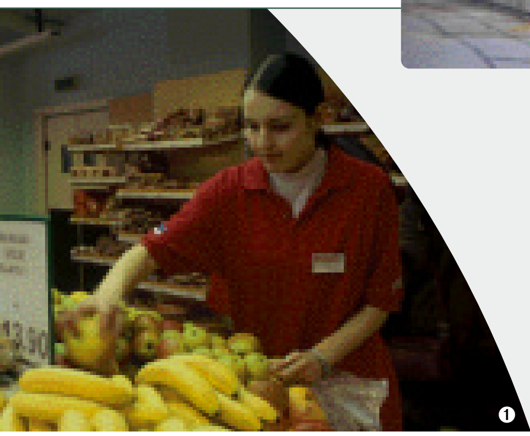
Co-financing partners in 2000 included Cargill, EBS, Pernod Ricard, Skanska, Telenor, TIW and Ukrrichflot.

### *Agribusiness*

In 2000 the EBRD made a significant increase to its commitments in the agribusiness sector. During the year the EBRD signed 16 projects totalling €352 million, representing an increase of 52 per cent on the total for 1999 and a doubling of the value of projects signed in 1998. Agribusiness is now the third-largest sector in EBRD activities after financial institutions and manufacturing. As of the end of 2000, the EBRD had commitments of €1.2 billion in the agribusiness sector, accounting for almost 20 per cent of the EBRD's direct finance to the corporate sector.

This growth in activities is due to increasing investor confidence in the sector and to the EBRD's success in attracting new clients through extensive marketing efforts. For example, in 2000 the EBRD arranged Croatia's largest-ever industrial sector financing, providing a €170 million syndicated loan to Agrokor, a leading food company. Project funding consisted of €70 million from the EBRD and up to €100 million from local and foreign commercial lenders. By allowing Agrokor to expand into neighbouring countries, the financing will promote regional cooperation in south-eastern Europe and is expected to encourage further investment. In Russia the EBRD provided a €32 million syndicated loan to Louis Dreyfus Vostok, a grain trading company and a subsidiary of the French company Louis Dreyfus.

The EBRD continued its cooperation in 2000 with Cargill, a major agribusiness group, following a joint investment in Ukraine in 1999. The EBRD developed this cooperation by providing a loan of €64 million (of which €32 million is to be syndicated) to Lifosa, a phosphate fertiliser company and one of Lithuania's largest companies. The financing will be used to expand production and increase efficiency at the company's facilities.



1. An equity investment by the EBRD in Baltic Food Holding will help the company to expand its supermarket operation and associated wholesale activities in Estonia, Latvia and Lithuania.
2. EBRD financing was extended to Louis Dreyfus Vostok for the purchase of grain at harvest and for subsequent processing and trading.
3. Yerevan Brandy Company, Armenia's largest brandy producer, benefited from an EBRD loan that will help the company to improve quality standards and increase production capacity.

**Case study: Warehouse receipts programme, Regional**

The EBRD addressed the chronic lack of working capital in the agricultural sector by expanding its warehouse receipts programme in 2000. The programme allows the farming community to obtain much-needed financing by using commodities stored in licensed warehouses as collateral. Together with Expressbank in Bulgaria and Polnobanka in the Slovak Republic, the EBRD continued to expand the programme. Since 1998, almost 300 sub-loans have been provided using this financing instrument. The EBRD also joined forces with Rabo Invest, the Russian subsidiary of Rabobank International, to offer a new commodity-backed financing programme that will provide EBRD support of €54 million for the development of the Russian agricultural sector. This represented the first project under the EBRD's €108 million regional warehouse receipts programme approved in 2000. The aim of the programme is to overcome the lack of seasonal financing that is one of the key problems of the agribusiness sector in transition economies. It is also expected to encourage further commercial investment in the sector.

Similarly, in the beverage sector, the EBRD continued its successful partnership with Pernod Ricard by signing a €22 million loan with Yerevan Brandy Company (YBC), Armenia's leading brandy producer and a subsidiary of the French company. The project is the Bank's first significant private sector project in Armenia and will help YBC improve quality standards at its production facilities. Further support for the beverage sector was provided through a €6.1 million loan to modernise Pivara Tuzla, one of the oldest breweries in Bosnia and Herzegovina. Since this is one of the first foreign investments in the country's private sector, it will also highlight the potential of Bosnian companies to foreign investors. In both cases, private sector funds were not available for these projects.

The food retail sector was one of the fastest growing areas of activity for the EBRD in 2000. In Bulgaria the EBRD extended a loan of €13.7 million to Ramstore Bulgaria A.D, a wholly owned subsidiary of the leading Turkish food retailer Migros. The loan will finance the construction of a chain of supermarkets across the country and will provide Bulgarian consumers with a wider choice of food items at lower prices. Similar assistance was provided by the EBRD to Baltic Food Holding (BFH) sponsored by Swedish and Norwegian groups Axfood and Selvaag. Financing of €12.1 million will allow BFH to acquire new supermarkets, upgrade its existing stores and expand wholesale operations in the Baltic states. This area of activity is expected to continue to grow in 2001, especially in the CIS countries.

In recognition of the important role that the restructuring of the agricultural sector will play in the EU accession process, the EBRD also started to cooperate with the European Commission on developing new financing tools. In Poland the EBRD developed together with the EC a €32 million facility aimed at improving standards in the dairy sector. The facility will be implemented through three Polish banks: WBK, Rabobank Polska and Bank Slaski.

Under its agreement with the Food and Agriculture Organization (FAO) of the United Nations, the EBRD continued to provide technical assistance to various companies and government agencies in the region.

### *Natural resources*

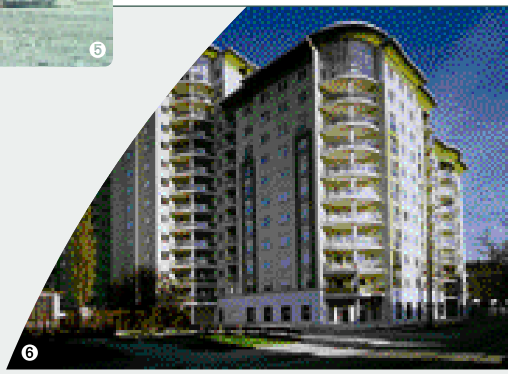
The EBRD's investments in the natural resources sector have increased private sector participation and promoted strategic investment in the oil, gas and mining industries. They have also reduced transportation bottlenecks, ensured competitive market access and improved the regulatory and institutional framework. Furthermore the EBRD has set high standards of business conduct and environmental protection.

During 2000 the EBRD signed six transactions in the natural resources sector in Azerbaijan, Georgia, Russia and Uzbekistan, totalling €310 million (including a syndicated amount of €82 million). As of the end of 2000, the Bank had signed 32 projects in this sector totalling €1.4 billion.

4 An investment by the EBRD in Moncrief Oil will support the commercial development of onshore oil in Azerbaijan through an innovative production-sharing agreement.

5 An EBRD loan to Zarafshan-Newmont will allow the company to expand its operations at the Muruntau gold mine in Uzbekistan.

6 An EBRD investment in Globe Trade Centre supported the listing of this property development company on the Warsaw Stock Exchange.



**Case study: Moncrief Oil, Azerbaijan**

An innovative production-sharing agreement was financed by the EBRD in 2000 in support of Moncrief Oil, an independent oil company. Financing of €55 million was provided, consisting of a loan of €44 million and an equity investment of up to €11 million. The financing will support the commercial development and rehabilitation of onshore oilfields in Azerbaijan. The project involves the conversion of an existing joint-venture agreement beetween PetOil and SOCAR, the State Oil Company of Azerbaijan, into a production-sharing agreement with Moncrief Oil. This is the first time that such a project has been undertaken in Azerbaijan and it is hoped that it will attract new foreign investment into the oil sector. The financing will be used to improve wells, increase production and to undertake environmental measures. The project will help to increase oil production volumes in the region and will encourage the adoption of higher standards of business conduct and environmental protection.

In the gold sector the EBRD extended a loan of €32 million to Zarafshan-Newmont, which processes ore from the Muruntau gold mine in Uzbekistan, the largest gold mine in the CIS. The Bank's original investment in the company in 1993 was the first major foreign investment in Uzbekistan and helped to encourage further inward investment. It is anticipated that this new loan will have a similar effect. The EBRD also signed a €2 million gold pre-production facility. This will provide financing to Russian alluvial gold producers, who have limited access to capital. It will also expose them to Western credit criteria and to stringent due diligence standards.

### *Property, tourism and shipping*

In 2000 the EBRD strengthened its presence in the property and hotel sector by signing six new transactions with a total value of €103 million. As of the end of 2000, the overall value of EBRD projects in the property and tourism sector amounted to €684 million.

In central Europe the EBRD continued its strategy of focusing on equity and quasi-equity financing in the property sector and on establishing property funds, with the aim of encouraging further private sector investment. In eastern Europe and the CIS, however, the Bank continued its policy of concentrating on the provision of loans.

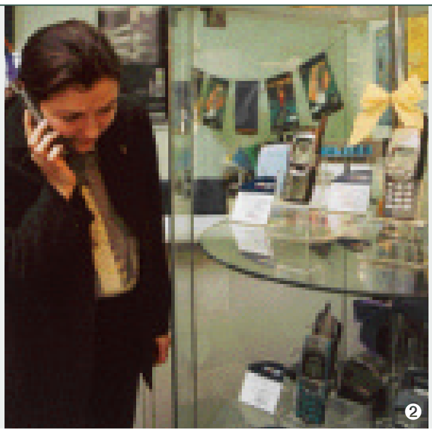
In its first major investment in a regional property fund, the EBRD committed €28.2 million to the Heitman Central Europe Property Fund, which aims to achieve long-term equity gains through the development, redevelopment and subsequent sale of properties in the Czech Republic, Hungary and Poland. The project will contribute to the development of secondary property markets in the region and will expand the local markets for office space, warehousing and retail facilities. The EBRD's involvement is expected to have an impact on the transition process by encouraging further investment by international investors in the property sector.

In Poland the EBRD invested €17.4 million in Globe Trade Centre (GTC) S.A., a property developer in Poland, with the aim of assisting in the company's growth, supporting its listing on the Warsaw Stock Exchange (WSE) and widening the investor base of the company. The EBRD's involvement in this project is expected to improve the liquidity of property stock on the WSE and to attract local institutional investment in the short to medium term. The Bank's investment in GTC is the first project in the property sector to address the strengthening of local capital markets, which is a pre-requisite for a mature property sector.

The EBRD continued its long and successful relationship with Skanska AB, the Swedish-based international construction and development group, by providing a loan of €14.5 million for the development, construction and operation of a 366 room four star hotel in the centre of Warsaw. The hotel will continue the development of the Atrium programme, one of the largest property projects in the region.

❶ Ukrrichflot has received an EBRD loan that will help to finance modernisation of its river-sea fleet in Ukraine.

❷ An EBRD equity investment in Vimpelcom, the leading mobile phone provider in Russia, will allow the company to increase its network coverage and launch Internet services.



**Case study: Victoria International Property, Romania**

The development of a modern office building in Bucharest was supported by an EBRD loan of €8.2 million for Victoria International Property. The financing will be used to construct some 17,000 square metres of office and commercial space in the centre of the city. The centre is expected to set a new standard of property development by featuring large-scale open planning, which will offer flexible office accommodation to expanding companies. It will also meet the need for high-quality cost-effective office space in Bucharest. Due to its high visibility, the project will demonstrate the feasibility of undertaking similar projects in the capital and elsewhere in the region.

In Bulgaria the EBRD signed a €5 million credit line with the Bulgarian American Credit Bank for on-lending to small and medium-sized enterprises with a special focus on tourism. This is the first of a series of similar credit lines that is due to be established with local banks in Bulgaria.

In 2000 the Bank continued to actively support the shipping and shipbuilding sector. As at the end of the year, the Bank had committed €283 million – mainly in the form of long-term syndicated loan financing – in support of projects with a total value of €1.1 billion. The financing has mostly been provided to shipping companies in Russia.

To date, the EBRD's involvement in the shipping sector has centred on financing the construction of new vessels on behalf of deep-sea shipping operators. However, the Bank has recently sought to diversify its portfolio and to concentrate on projects with a particularly strong impact on the transition process. This will involve the financing of shipyards – mainly through the issuing of refund guarantees and working capital facilities – and the financing of river and river-sea vessels.

In line with this new approach, the EBRD extended a €15 million loan to JSSC Ukrrichflot, a fully privatised river-sea operator from Kiev. The funding will be used to finance the acquisition of two general cargo vessels to be built at the Navol Shipyard in Romania. The project aims to promote Ukrainian exports and inter-regional trade and to assist in the restructuring and modernisation of JSSC Ukrrichflot's river-sea fleet.

### *Telecommunications, informatics and media*

The EBRD is the leading institutional investor in private sector operations in the telecommunications, informatics and media (TIM) sector in its countries of operations. Through a variety of projects, the Bank has supported the development of high-quality and affordable telecommunications services, which are recognised as vital for the economic growth of the region.

In 2000 the EBRD's countries of operations suffered from a lack of global investor support for the technology sector, resulting in the scaling-back or postponement of a number of initial public offerings (IPOs). Despite this, the EBRD ended the year with three new projects totalling €125 million. These were all in the private sector and were primarily equity investments. This brings the Bank's total commitments in the TIM sector to €1.5 billion, comprising 47 projects in 20 countries in support of operations with a total value of €8.7 billion.

The EBRD's commitments reflect its policy to promote network expansion, to encourage the emergence of innovative and advanced communication services, to accelerate the privatisation process, to develop regulatory and legal frameworks and to extend the development of the sector beyond basic telephone services.

In 2000 the EBRD continued to work closely with other IFIs, especially the World Bank and the European Investment Bank. The EBRD also cooperated with the European Commission under a Memorandum of Understanding that is designed to promote the development of the telecommunications sector in the Bank's region of operations. Another area of cooperation for the EBRD was the Stability Pact for South-Eastern Europe, involving joint activities with other institutions to develop telecommunications projects.

Two of the EBRD's key projects in 2000 involved equity investments in Lietuvos Telekomas, Lithuania's incumbent fixed-line operator, and in Vimpelcom, the leading Russian mobile phone provider.

3 Ista, a Ukrainian battery company, received EBRD funding to increase capacity and to extend its product range.

**Case study: Lietuvos Telekomas**

In the first significant initial public offering in Lithuania, the EBRD invested €51.8 million in Lietuvos Telekomas, buying a 7.7 per cent stake in the company. The sale of 25 per cent of the Government's stake on both the London and Vilnius stock exchanges forms an essential element of the Government's privatisation programme. The EBRD's involvement continues the Bank's eight-year relationship with the company, which has seen it make the transition from a wholly government-owned enterprise to 90 per cent private ownership.

The EBRD's €33.1 million investment in Vimpelcom was made as part of the company's equity and convertible bond offerings on the New York Stock Exchange (NYSE), making it the first Russian company to be listed on the NYSE. The listing raised a total of €250 million to further develop the company's cellular telecommunications business. The project is expected to send a positive signal to international capital markets of the long-term potential of the telecommunications sector in Russia.

By supporting Lietuvos Telekomas and Vimpelcom, the EBRD demonstrated its commitment to the telecommunications sector and provided vital support for these public transactions at a difficult time for technology stocks.

In Ukraine the EBRD provided Kyivstar, the country's second-largest mobile network operator, with a loan of €32.2 million and a quasi-equity investment of €4.5 million. The project will support the company's twin objectives of expanding the national network and improving customer service. Due to the currently low access to fixed-line services in Ukraine, cellular technology is all the more important.

Significant effort is being made by the EBRD to support e-commerce and smaller technology companies. In 2000 the Bank approved an Internet framework facility of €35.4 million to be used to finance e-commerce projects in central and eastern Europe. In December the Bank signed its first commitment under the framework, extending €3.2 million to Rila Solutions, an e-services company based in Bulgaria.

In 2000 the EBRD continued to support governments in implementing legal and regulatory reform programmes in the TIM sector by providing technical cooperation funding in Albania, Armenia, Bosnia and Herzegovina, Georgia, Kazakhstan, Tajikistan, Ukraine and on the territory of Kosovo in FR Yugoslavia.

## General industry

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

### *Manufacturing*

The EBRD helped the largest pharmaceutical company in central and eastern Europe, Pliva d.d. of Croatia, to build a state-of-the-art research institute in Zagreb for the development of new medicines. The Bank will co-underwrite, alongside the International Finance Corporation (IFC), a €82 million seven-year unsecured loan. The project will strengthen Pliva's research and development capacity, particularly in the field of macrolides, and will assist the company in becoming an important regional player in the pharmaceutical industry.

Two projects in the cement sector will increase efficiency and aid expansion. A €20 million loan to Croatia's second-largest cement producer, Nasice Cement d.d., will support plans to reduce the company's operating costs by switching from gas to coal as the principal source of fuel in the cement kiln. It will also provide financing for potential acquisitions in related businesses in the region. The project is expected to have an impact on the transition process by enhancing competition in the building materials sector and by acting as a successful example of post-privatisation restructuring.

In Poland a loan of €75 million will enable Lafarge Cement Polska to modernise its cement production facilities. The investment will be used to finance construction of a new cement plant and to upgrade another. The company is a subsidiary of Lafarge and one of the country's leading cement producers. As well as improving Lafarge's competitiveness, the EBRD's investment is expected to

1 EBRD financing is helping Celhart, a Bulgarian paper mill, improve the quality and capacity of its paper production.

have a positive impact on ancillary businesses that support the building products sector.

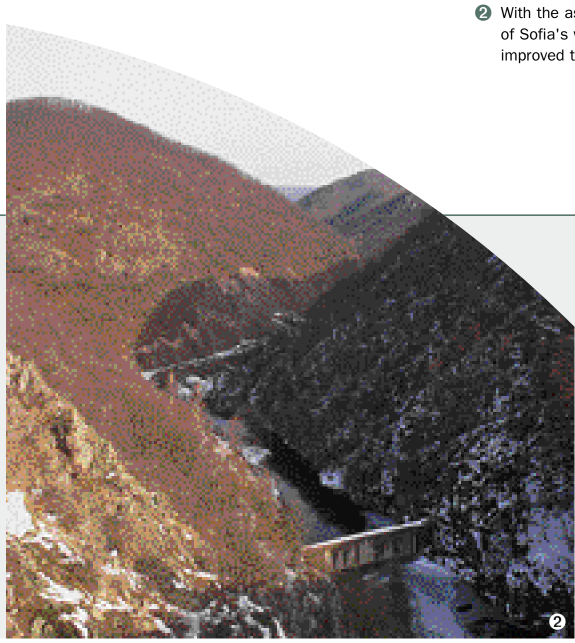
To strengthen the textile industry, the EBRD made two loans in 2000. A €10 million loan to Fibrex SA, a Romanian nylon producer, will support the restructuring effort following its privatisation. RadiciNylon, based in Italy, is the third-largest nylon fibre producer in Europe and having already integrated Fibrex into its worldwide operations strategy intends to modernise the plant and increase production capacity.

Lending further support to the expansion of Slovenia's textile industry, the EBRD provided a syndicated €15 million loan to the yarn producer Yulon, with the participation of Bank Austria Aktiengesellschaft. After privatisation in 1995, when it was acquired by the Italian company Bonazzi, Yulon was successfully transformed from near bankruptcy into the most efficient Slovenian textile producer. The seven-year loan will enable Yulon to increase its spinning capacity and invest in a new plant located in one of the less developed regions of Slovenia. The project will contribute to the transition process by introducing state-of-the-art technology into the industry and by developing the skills of the local workforce.

The steel sector in Russia was the focus of two projects in 2000. The EBRD is extending a revolving trade finance facility of €33.3 million to OAO Severstal, a major steel company in Russia and the sixth-largest in Europe, which has had no access to international capital markets or working capital from foreign banks since the 1998 financial crisis. The company employs 44,000 workers and boasts the lowest production costs of any Russian steel mill. The facility is intended to provide a more tax-efficient and flexible form of pre-export finance, reopening access to a type of funding that was widely available before the financial crisis. The funds will be used to pay for raw materials, energy and other services involved in the manufacturing process. The EBRD intends to syndicate part of the financing. This project demonstrates that despite the difficult investment climate in Russia, companies that have made considerable progress in improving corporate governance and transparency can regain access to financing.

An EBRD equity investment of €5.75 million in Viz Stahl, a specialist Russian steel plant located in Yekaterinburg, will support modernisation of the existing production facilities, restore a part of its original capacity, and improve product quality and energy efficiency. The EBRD's investment in the company will contribute to further strengthening of the company's financial transparency and corporate governance standards.

Also in Russia, the EBRD provided a €16.5 million long-term loan to Chelyabinsk Electrolytic Zinc Smelter, the largest such plant in the country. The company is majority-owned by Vitol, a major international oil trading and refining group. The funds will be used for renovation and expansion of the existing facility to comply with Russian and international environmental standards and to produce high-grade zinc.



❷ With the assistance of an EBRD loan, the maintenance of Sofia's water and waste-water services will be improved through private sector involvement.

## 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 34-38) and by applying environmental appraisal procedures to all of the Bank's operations.

In 2000 ten environmental projects were signed with a total EBRD commitment of €228 million. Environmental components of other investment projects included funding emission reduction technologies, waste-water treatment and 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.

A total of 48 environmental analyses, including three environmental impact assessments (EIAs), and 29 environmental audits were conducted on projects approved by the Board of Directors in 2000. In some cases both analyses and audits were required.

### Natural resources

EBRD financing for Moncrief Oil will help to rehabilitate, over a three- to five-year period, the Mishovdag and Kemaleddin fields in Azerbaijan, located approximately 80 km south west of Baku in a desert and scrubland area (see page 41). This will reduce environmental risks and improve worker safety. In-fill drilling will use low toxicity, water-based drilling muds and blow-out preventers. The project will implement good industry standards in an area that has suffered from poor standards in the past. Moncrief has agreed to provide information to, and consult with, people who may be affected by the project. The company is developing and implementing a Community Programme following a series of meetings with interested parties, such as herders and nearby communities.

The EBRD provided its third funding facility to Zarafshan-Newmont in 2000 for the expansion of its existing gold heap leaching operations near the Muruntau gold mining complex in Uzbekistan (see page 41). A full EIA was undertaken on the original project signed in 1993. This identified potential impact and reviewed the adequacy of proposed mitigation measures included in the project design. The planned expansion facilities will continue to ensure "zero discharge" to surface and ground water, using practices and design standards applied in the United States. These include the use of plastic liners to minimise leachate losses to the sub-surface.

### Power and energy

Environmental benefits from the EBRD's power and energy sector projects signed in 2000 related mainly to efficiency improvements. For example, the upgrading of Romania's transmission system, part-financed by an EBRD loan to Transelectrica, the country's newly established power grid company, will reduce system losses and, therefore, associated emissions of air pollutants. Similar environmental benefits will arise from a sovereign loan to Bosnia and Herzegovina, which will help to re-establish a more efficient and reliable local transmission system. Equity investments in the power distribution companies of Armenia and Moldova will help finance maintenance works involving the implementation of EAPs to improve safety at the facilities and to achieve international environmental standards (see page 37).

An EBRD loan to Harpen ČR will help to refurbish and manage the operation of selected district heating plants in the Czech Republic (see page 38). The company is in compliance with all applicable national regulations, and the planned investments will bring it into full compliance with EU environmental standards. The project will facilitate the conversion of plants from coal to natural gas use. Energy transportation losses will be reduced from the present 40 per cent to 5 to 10 per cent, significantly reducing atmospheric emissions.

❶ With support from the EBRD, the Lafarge Cement Plant in Poland is undertaking a modernisation programme that will result in significant environmental benefits.

❷ Drobe, a major manufacturer in the Lithuanian textile industry, has received EBRD financing to make a number of key investments, including the improvement of hazardous waste storage and handling.

❸ Pivara Tuzla, one of the oldest breweries in Bosnia and Herzegovina, will use EBRD financing to improve waste-water treatment and to achieve better energy efficiency.

❶

❷

## General industry

An EBRD loan to Lafarge Cement Polska to modernise its cement production facilities in Poland is being used to finance the construction of a new cement plant and to upgrade another plant (see page 43). The proposed investment programme will result in significant environmental benefits. The use of the latest dry process technology will result in reduced environmental impact, primarily through reduced emissions and more efficient energy use. The proposed investments were structured to fully meet Polish and EU environmental standards.

Severstal, the largest Russian steel and rolled products manufacturer, has committed itself to implement an EAP, including the closure of its open-hearth furnace operations in 2001, as part of an EBRD financing package (see page 44). This will make the company one of the few Russian mills that have permanently abandoned open-hearth steel production. The EAP also includes measures to reduce air emissions from the coke production plant, to increase the efficiency of the blast furnaces, to modernise steel production facilities, to construct a new waste-water treatment plant and to develop an environmental management system in line with international standards.

To support the privatisation of Lithuania's textile industry, the Bank provided loan and equity financing to Drobe, one of the largest manufacturers of wool fabrics in central and eastern Europe. To further improve environmental, health and safety management systems, an EAP was developed by the company and agreed with the Bank. One of the key investments planned in the near future involves the improvement of hazardous waste storage and handling. Significant energy efficiency and energy savings will also be achieved by the modernisation of the facilities.

An EBRD loan to Fibrex SA, a Romanian nylon producer, is being used to support its restructuring following privatisation (see page 44). An environmental audit was carried out by independent environmental consultants, and a five-year EAP was developed, which includes short-term, low-cost remediation measures and action to be implemented under future investment projects.

## Agribusiness

The EBRD's environmental appraisal of operations in the agribusiness sector continued to focus on the use of environmental audits and analyses, where appropriate. Issues associated with a Bank-financed brewery in Bosnia and Herzegovina – Pivara Tuzla – and a brandy distilling operation in Armenia – Yerevan Brandy – included the need to improve waste-water treatment, to regulate the quality and use of process water, to improve solid waste management, and to achieve better "housekeeping" including energy efficiency. A number of operations provided short-term credit to farmers involved in grain production in Bulgaria, Russia and the Slovak Republic through grain warehouse receipt programmes (see page 40). In these operations, grain quality issues related to pesticide residues and other contaminants and health and safety issues were the main focus of attention.

In the dairy sector the EBRD is providing financing through financial intermediaries to raise the quality of milk production to EU standards. Individual sub-loans to Polish dairy farmers are subject to due diligence in order to determine the measures that are required to upgrade the facilities to meet Polish and EU health, safety and environmental standards. These measures are incorporated into individual loan agreements and monitored.

## Transport

There were no significant environmental issues associated with the five projects signed by the EBRD in the transport sector in 2000. The environmental due diligence carried out on the motorway projects in Ukraine and Kazakhstan showed that the impact would be limited to noise, safety and air quality during construction (see page 36). Mitigation measures to address these issues are being included in tender documents.

The EAP for the new air cargo terminal at St Petersburg Airport, which will replace an existing less energy-efficient terminal, will ensure that operations are carried out in an environmentally sound manner in accordance with international environmental standards. The environmental analysis carried out on Ukrainian International Airlines, which received EBRD financing in 2000, revealed that



the company has programmes related to fuel management and engine management which will result in reduced fuel consumption. The airline is implementing fleet replacement programmes in line with international aviation standards in order to reduce noise pollution when using EU airports (see page 36).

### Financial intermediaries

All financial intermediary (FI) projects are subject to the EBRD's environmental requirements for FIs. These include the adoption of environmental due diligence procedures satisfactory to the Bank, annual environmental reporting, adherence to the Bank's FI Environmental Exclusion List, and the requirement that clients comply, at a minimum, with host country health, safety and environmental regulations and standards. In 2000, the EBRD's environmental requirements for trade finance were redefined, reporting formats were improved, and the FI Environmental Exclusion List was expanded.

Under the EBRD's ongoing environmental training programme, FIs were trained in 2000 in Azerbaijan, Bulgaria, the Czech Republic, Hungary, Kazakhstan, Kyrgyzstan, Moldova, Poland, Romania, Russia, Tajikistan, Turkmenistan and Uzbekistan. EBRD environmental specialists participated in the development and presentation of an environmental due diligence training workshop in Istanbul for FI clients of the EBRD and other financing institutions.

The CD-ROM based 'Environmental Risk Management for Financial Institutions' manual, which contains information on environmental due diligence for financial institutions and national and international regulatory requirements within the Bank's countries of operations, was issued to all the EBRD's FI clients. The CD-ROM is currently being updated and translated into Czech, Polish, Romanian and Russian for release early in 2001.

The EBRD hosted two workshops on IFI Financial Intermediary Operations and the Environment in 2000. These were attended by environmental specialists from a number of multilateral and bilateral financial institutions. Several working groups were established, focusing on issues such as environmental reporting, institutional strengthening and legal provisions.

### Other initiatives

The Project Preparation Committee (PPC) is a network of IFIs and donors promoting the implementation of environment-related investments in central and eastern Europe and the CIS. The PPC continued to facilitate the matching of donor grant financing with EBRD and other IFI financed projects. The EBRD currently hosts five PPC staff, financed by donors, who assist the Bank in furthering its environmental portfolio. Activities in 2000 included the organisation of a PPC meeting in Berne, where a total of 15 EBRD environment-related projects in the CIS and south-eastern Europe were presented to donors for co-financing. A meeting in Almaty, Kazakhstan, was devoted to water supply and sanitation projects in the CIS, during which nine EBRD projects were presented. The Almaty meeting coincided with a meeting of economic, finance and environment ministers on water management and investments, in which the EBRD participated.

The Environmental Advisory Council (ENVAC), a forum of environmental experts from the public and private sectors, continued to provide the EBRD with advice on issues related to the Bank's environmental mandate. Two meetings were held in 2000. The topics discussed included opportunities for the EBRD to promote financially viable projects with significant environmental benefits, the environmental issues associated with public-private partnership projects in the environmental infrastructure sector, and support for SMEs.

In September 2000 the EBRD hosted a meeting of the Multilateral Financial Institutions (MFI) working group, which addresses issues of coordination related to environmental policies and requirements to improve the efficiency and effectiveness of co-financed and other projects. The meeting was attended by representatives of 13 MFIs, the United Nations Environment Programme and a representative of the bilateral financial institutions. Among the topics discussed were an ongoing study of the environmental and social requirements of IFIs, the environmental appraisal of non-capital expenditure operations, performance indicators and reporting, and social issues.

As in previous years, management and staff from the Banking Department, the Environmental Appraisal Unit and other support departments met with representatives of environmental groups during the EBRD's Annual Meeting to discuss policy and project-related issues, culminating with an NGO meeting with the Acting President. Environmental staff met with community representatives and NGOs on project-related missions in Azerbaijan, Kyrgyzstan, Russia and Turkmenistan. The Community and Business Forum (CBF) initiative in Kyrgyzstan, funded by the UK Government's Department for International Development, is being developed as a model for the region. The CBF has helped to disseminate information and to encourage dialogue. It has mobilised "seed" funding for a Small Grant Programme, which is targeted at community development and capacity-building in selected villages.

Two editions of the EBRD's *Environments in transition* bulletin were published during 2000. These covered a variety of topics, such as the EBRD's role in facilitating the environmental aspects of the EU accession process, the International Decommissioning Support Funds, and recent municipal and environmental infrastructure projects. During the year the EBRD also published *Serving the environment,* which describes the Bank's contribution to improving the environment and nuclear safety.

# Evaluation of EBRD operations

Project evaluation involves the assessment of operations once investment has been completed. This normally occurs one to two years after full disbursement has taken place. Performance ratings are assigned according to how the project has fulfilled the EBRD's mandate. The ratings focus on impact on the transition process and the application of sound banking principles. They also assess "additionality" and environmental performance. In addition, technical cooperation operations are evaluated, applying the same means of assessment that are used for EBRD investments.

Operational lessons are identified and disseminated in various ways. The Bank's Project Evaluation Department (PED) produces three types of evaluation reports:

- Operation Performance Evaluation Reviews (OPERs), which build on field work, interviews and additional analysis that is often supported by external expertise;
- PED assessments of self-evaluation reports, which are prepared by operation teams in the Banking Department;
- thematic and sector-oriented evaluation reports, which seek to identify patterns of experience.

The PED seeks to establish how well the EBRD's operations meet their objectives, thereby assessing the Bank's transition effectiveness. The lessons learned from the EBRD's operations and from the experience of other international financial institutions are used to improve the selection and design of future operations. The EBRD makes use of relevant lessons in formulating strategy papers and is also keen to learn from the evaluation of ongoing operations. The independent status of the PED ensures objectivity, transparency and accountability.



## Evaluating projects

By early 2001, PED had evaluated 239 of the 308 projects where full disbursement had taken place. The results are therefore fairly representative. A total of 75 per cent of the projects were given medium to high ratings for transition impact (44 per cent medium and 31 per cent high). Transition impact ratings were higher for public sector operations (where infrastructure dominates) than for private sector projects. There was little variation according to the size of the investment or to its status as loan or equity.[1] These results confirm that the EBRD continues to operate according to its mandate to advance the transition process in its countries of operations.

Of the 239 projects evaluated, 115 were covered by OPER reports and 124 by PED assessments of Banking's self-evaluation reports. The remaining 23 per cent were covered by self-evaluation reports prepared by Operation Leaders, which have not been independently validated by PED. Performance ratings for these projects are not included in the tables below.

[1] The overall transition impact ratings are slightly better on average for loans compared with equity, reflecting a slightly greater percentage of loans in infrastructure.

### Transition impact and the EBRD's overall transition effectiveness

In evaluating the transition impact of projects, the EBRD looks in particular at their wider impact in the sector and on the economy as a whole. At project evaluation, PED assesses transition impact using the same criteria applied by the EBRD during the selection and approval of projects. Some of the key indicators are promotion of privatisation, the development of skills, the encouragement of competition and support for market expansion. Other key aspects are institution-building to improve the functioning of markets, positive demonstration effects, and the setting of new standards in business conduct and governance. These criteria are constantly being developed by the PED and the Bank's Office of the Chief Economist. Of the 212 operations evaluated in 1996-2000,[2] 43 per cent achieved a transition impact rating of "medium" and 33 per cent were assessed as "high".

**Transition impact ratings of evaluated EBRD projects 1996-2000**

| | Negative % | None % | Low % | Low-Negative % | Medium % | High % | Medium-High % | Number of evaluated projects |
|---|---|---|---|---|---|---|---|---|
| 1996 | 0 | 0 | 17 | 17 | 66 | 17 | 83 | 35 |
| 1997 | 0 | 6 | 25 | 31 | 42 | 28 | 70 | 36 |
| 1998 | 6 | 6 | 14 | 26 | 41 | 33 | 74 | 49 |
| 1999 | 6 | 12 | 8 | 26 | 50 | 24 | 74 | 50 |
| 2000 | 2 | 12 | 5 | 19 | 19 | 62 | 81 | 42 |
| 1996-97 | 0 | 3 | 21 | 24 | 54 | 23 | 77 | 71 |
| 1996-98 | 3 | 5 | 18 | 26 | 48 | 27 | 75 | 120 |
| 1996-99 | 4 | 6 | 15 | 25 | 49 | 26 | 75 | 170 |
| 1996-2000 | 3 | 8 | 13 | 24 | 43 | 33 | 76 | 212 |

A total of 24 per cent of evaluated projects were given transition impact ratings in the low-negative range, which is similar to previous years. This apparent lack of progress may be due to the difficulties experienced as a result of the Russian financial crisis in 1998. This put the sustainability of some private sector operations at risk and therefore affected their transition impact potential. A stable share of medium-high transition impact ratings can therefore be regarded as positive, although it is too early to draw any firm conclusions. The economic crisis in 1998 highlighted the systemic institutional weaknesses in the region, as indicated in recent evaluation reports, but the signs of resumed growth should enhance the transition impact potential of new private sector operations.

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

The overall success of the EBRD's operations is illustrated in the table below, which presents overall "transition effectiveness" ratings. "Transition effectiveness" gives a high weighting to transition impact but also includes other performance ratings, such as the fulfilment of project objectives, financial performance, environmental performance and additionality. In 1996-2000, 54 per cent of evaluated projects achieved a rating of successful or highly successful.

**Overall transition effectiveness of evaluated EBRD projects 1996-2000**

| | Unsuccessful % | Partly successful % | Successful % | Highly successful % | Successful/ Highly successful % | Number of evaluated projects |
|---|---|---|---|---|---|---|
| 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 |
| 2000 | 17 | 24 | 45 | 14 | 59 | 42 |
| 1996-97 | 13 | 37 | 39 | 11 | 50 | 98 |
| 1997-98 | 17 | 30 | 45 | 8 | 53 | 120 |
| 1998-99 | 18 | 28 | 45 | 8 | 53 | 170 |
| 1996-2000 | 18 | 27 | 45 | 9 | 54 | 212 |

The transition effectiveness ratings are lower than those for transition impact. This is primarily due to the impact of lower financial performance ratings, which was caused by a high-risk investment environment hampering the financial sustainability of many EBRD projects. In several project evaluations it was concluded that the Bank could have mitigated the industry-specific risk more effectively and that specialist knowledge of the industry must be used in the appraisal and structuring of projects. The EBRD was generally more successful in identifying industry risk when it made use of specialist knowledge of specific sectors.

## Dissemination of lessons

Apart from performance ratings to meet the accountability needs of a public institution, a key evaluation role is to ensure that past experience is applied to new projects. This begins with intensive consultation with operation teams on the lessons in draft evaluation reports. Regular feedback is also offered at every stage of the approval process to provide bankers with relevant past experience. Case-based workshops are held and tailored to the specific needs of Banking teams. Other activities include presentations to management and the maintenance of a lessons-learned database for internal and external use.

## Investment operations – some thematic lessons from evaluations

The following lessons are taken from key examples of successful and less successful EBRD operations since the Bank was established. They are presented in line with the Bank's Public Information Policy and selected for their potential to influence future strategy.

**Infrastructure projects with a high potential for transition impact and low risk.** Both public and private infrastructure projects can involve relatively low risk when linked to and conditional on institutional and enterprise reform. This supports continuing emphasis on infrastructure in the Bank's future operations.

**Institutional and regulatory reform in support of markets.** Direct investment in carefully selected private sector projects can have a significant impact on the transition when institutional and regulatory reform has been undertaken in support of markets. Conversely, slow reform efforts may hamper the sustainability of private sector investments. The risk to wider transition impact and to the Bank's investment can therefore be very high. Excessive systemic risk can limit the level of direct private sector intervention in some areas, justifying investment by other institutions in conjunction with policy dialogue.

**Risk mitigation for investments in "brownfield" industry complexes.** Risks to investments in large conglomerates can generally be mitigated satisfactorily only if full owner control is yielded to new sponsors. These need to be strong parties in the industry with a clear strategic reason for entry reflected in material investments and managerial support. A proven record in complex enterprise turnaround in the industry under emerging-market conditions is desirable. In addition, measures may need to be in place to mitigate adverse social effects caused by redundancies, in particular in "one-company towns". These lessons are currently applied in the Bank's cautious selection of large enterprises in need of support for post-privatisation reform.

**Weighting the risk of government securities.** In the event of a country's supervisory authorities failing to insist on risk-weighting of the government's securities, the EBRD should recalculate capital adequacy ratios to assess whether a more prudent approach would make a material difference to the Bank's position.

**Ownership investigation in newly formed or restructured banks.** It is essential to carry out a thorough study of the ownership of banks to establish the motivation of owners as well as the extent of their financial resources. Since ownership is frequently hidden behind front companies, it is often necessary to establish who owns these companies and whether there is a common ownership. In the case of individual shareholders, it is important to find

## Examples of evaluated EBRD projects

### Projects assessed as successful

**Staged financing supports the privatisation of a national telecoms operator**

A number of years ago the EBRD lent the equivalent of over €100 million with a sovereign guarantee to a national telecoms operator to modernise and extend its network. The state-owned monopoly in central Europe was subsequently converted into a joint-stock company. The Government undertook gradual privatisation after network congestion had been reduced and investments had been completed for long-distance and international services. The achievement of financial self-sufficiency through new tariff policies and improved financial planning paved the way for the second stage of privatisation. To encourage this and to attract a strategic investor to assume management responsibility for the corporatised company until the expiry of its monopoly, the EBRD extended a new corporate loan similar in size to the original loan. As a result, the Government was successful in selling a significant stake in the company to a foreign strategic investor. The new investor currently holds a significant minority stake in the company with control over its management. PED's evaluation verified that the Bank was instrumental in bringing about the privatisation process. New telecommunications legislation and regulation were introduced, especially to introduce competition in mobile services. Substantial infrastructure investments benefited domestic suppliers while international suppliers helped to develop skills in the telecoms sector. The process facilitated growth in mobile services in particular.

**EBRD helps local bank to develop new services**

The EBRD lent comparatively large sums to a leading bank in a country at the intermediate stage of transition for on-lending to small and medium-sized enterprises (SMEs) and to home owners for mortgage financing. Long-term financing, as provided by the EBRD, was not available via commercial channels and allowed the client bank to gain gradual access to international capital markets. Moreover, the relative stability of the recipient bank allowed the EBRD to lend to a bank on a direct basis without a sovereign guarantee for the first time in this country. EBRD support helped the bank to develop a new focus on small business and retail banking. Evaluation confirmed that the EBRD's financing was successful in meeting the needs of the new market economy. The financing helped to promote new banking products and encouraged similar activities by foreign banks and newly privatised banks. This project was well-designed and implemented. It helped to set a positive example for other domestic banks and had a significant impact on the transition process.

**Turnaround success in Russian manufacturing company achieved with strategic investor support**

Following the privatisation in the early 1990s of a producer of building materials and components for the engineering industry in Russia, a strategic investor was sought to support reforms. The EBRD contributed equity financing via a controlling consortium in parallel with another multinational financier. Investments helped to improve product quality and energy efficiency as well as reduce risks concerning health and safety and the environment. Evaluation of the project confirmed that a long-term development strategy by a strong sponsor was key to the success of the project. The financing had a significant impact on the transition process, and good management helped to withstand a market downturn after the economic crisis in 1998. The project demonstrated how a company can successfully adapt its sales, production, quality control and accounting. The reform of the manufacturing firm was achieved because of the intervention of a competent and motivated strategic investor, which was able to gain full control of the company. As a minority investor, the EBRD remains on the supervisory board and is ready to intervene if necessary. PED's evaluation confirmed that further cuts in the workforce are needed to approach international productivity levels. Recent discussions have focused on possible international and domestic support to mitigate the social impact of further redundancies.

out whether they can be expected to act in their own interests or whether they are under obligation to other parties.

**Alternative strategies for local investment support in absence of banking reforms.** The decision to stop supporting a strong non-reformist regional bank should be taken only after careful consideration of the alternatives, taking account of the EBRD's country and sector strategies. Attempts to change a bank's behaviour from within or through policy dialogue should be considered if there is no obvious competitor to support. If the regional banking market is unlikely to offer efficient assistance to investment activity for some time, the EBRD should focus its attention on supporting the corporate sector, either directly or through regional funds.

## Examples of evaluated EBRD projects

### Projects with a less successful outcome

**A significant minority stake in a manufacturing company under domestic manager-owners fails to produce good results**

The EBRD took a significant minority stake in a central European producer of technical equipment for buildings. The company had been privatised, leaving its top managers as the main shareholders. The EBRD's investment was based on a favourable evaluation of the company and its management. The capital investments resulted in the production of state-of-the-art products, which met the highest industry standards. However, sales were significantly lower than projected. An increase in sales to Western markets proved more difficult than expected and would have required major investments in the development of sales and distribution. Moreover, most of western Europe was already oversupplied. EBRD representatives on the company's supervisory board sought to encourage cost-cutting in response to the sluggish markets. They also put forward proposals to reschedule commercial bank loans and mobilised some turnaround management support. The management/owner majority, however, rejected any radical measures. A Bank-led search for a new strategic investor proved unsuccessful.

Evaluation by PED concluded that the operation had largely failed to support the transition process. The domestic managers/owners had failed to adopt reforms, placing the EBRD's equity investment in jeopardy. A more comprehensive appraisal could have helped to identify and mitigate some of the risks. Adequate structuring could have insisted that investment by the Bank was conditional on prior debt restructuring. The EBRD's minority stake was not sufficient for the Bank to play a key role in support of reform. The key lessons are that investments in corporate restructuring can experience difficulties in the absence of strong external strategic sponsors. Another lesson is that incumbent management in complex manufacturing companies are prone to asset accumulation rather than streamlining and cost-cutting in response to adverse markets.

**Equity investment leads to slow reform of a large agribusiness group at its post-privatisation stage**

The EBRD made an equity investment, with an optional follow-on loan, to a major partly privatised agribusiness group, which focused on foreign and domestic trading as well as the collection, storage and processing of some key domestic crops and agri-products. The Government retained an ownership stake alongside management and workers. EBRD representation on the corporate supervisory board, a programme of investments and reform led by the incumbent management were expected to pave the way for final privatisation in the medium term with the possible entry of strategic sponsors into some of the main business lines. The company's shares were widely held before the Bank's participation. Progress in reform was expected to be greeted favourably on the domestic market for equities, providing a potential exit route for the Bank. However, the reform process was hampered by management responding to signals from the Government rather than the markets. Another constraint was the difficulty in monitoring the performance of a multitude of subsidiaries.

Evaluation a few years after the equity investment recognised that the EBRD and its nominees on the Board had made considerable efforts to intensify reforms and to promote privatisation. The structure of manager and worker shareholders alongside a government stake limited the influence of the Bank and other minority shareholders. Privatisation of some of the main business lines met with political opposition in view of the links with the rest of the agriculture sector. Despite the potential for a high transition impact, the company's structure could not mitigate some of the key risks. The Bank's equity stake emerged as a poor investment, and the company never qualified for the intended reform loans. One of the key lessons is that restructuring of major former state monopolies is prone to excessive risk unless control is yielded at an early stage to competent strategic investors. As a minority investor, the EBRD cannot normally expect to form stable owner alliances in support of radical reform when the Government retains a significant stake alongside incumbent managers and workers. Large agribusiness groups with significant links to domestic primary agriculture can lead to additional political and regulatory risk, which may be mitigated only if the Government gives a binding commitment to firm privatisation timetables.



## Cooperation with other MDBS and donor institutions

The EBRD collaborates extensively with other multilateral development banks (MDBs). In 2000 the Bank chaired the Evaluation Co-operation Group (ECG) and participated in its working groups on private and public sector evaluation. New joint studies were commissioned by the EBRD during the year with technical cooperation support from Sweden and the United States. These included studies on the evaluation of institutional development and on harmonising the evaluation of public sector operations. The EBRD will continue to participate in joint ECG work on evaluation methods and harmonisation, contributing to and benefiting from the experience of other MDBs. PED also participates regularly in the Development Assistance Committee Working Party on Aid Evaluation of the OECD. These consultations have resulted in mutually beneficial cooperation on project evaluation.

## Evaluating technical cooperation operations

Evaluation of technical cooperation (TC) includes in-depth OPERs of large TC operations, thematic studies and independent assessments of completion reports on TC operations by banking teams.

Since 1993, 30 OPERs have been prepared and nine special studies/mid-term reviews have been undertaken on projects and on areas where technical cooperation has played an important role. In addition, three studies on the quality and cost-effectiveness of Project Completion Reports have been completed since 1998. These studies have covered over 180 TC-funded consultant assignments, involving about €52 million of funding from some 30 donors under the EBRD's Technical Cooperation Funds Programme (representing about 8 per cent of total TC grants to the Bank). The evaluations concern TC-funded services in support of EBRD investments as well as "stand-alone" TC operations. The table below provides a general picture of the overall success of these TC operations, with the proviso that it includes too few examples to be considered as a representative sample of all TC operations.

The results are regarded by PED as largely satisfactory, although it is notable that, in contrast with reports on investment operations, no TC reports have yet achieved a "highly successful" rating. A common finding from these evaluations is that client commitment and "ownership" is a key condition for success. Another recurrent lesson is that monitoring by the EBRD can improve the outcome. A special study in 1999 indicated that investment operations with TC support generally obtained higher transition impact ratings than investment projects without TC assistance. Out of the 239 evaluated investment operations evaluated since 1993, 142 had received some form of TC support.



### Performance ratings of TC projects 1993-2000

| | Unsuccessful % | Partly successful % | Successful % | Highly successful % | Number of projects evaluated through OPERs | TC funding € million |
|---|---|---|---|---|---|---|
| 1993 | 0 | 3 | 97 | 0 | 5 | 7.3 |
| 1993-94 | 0 | 18 | 82 | 0 | 8 | 8.6 |
| 1993-95 | 0 | 22 | 78 | 0 | 11 | 9.8 |
| 1993-96 | 0 | 23 | 77 | 0 | 14 | 11.9 |
| 1993-97 | 3 | 20 | 76 | 0 | 17 | 17.7 |
| 1993-98 | 2 | 30 | 68 | 0 | 22 | 29.7 |
| 1993-99 | 4 | 32 | 65 | 0 | 26 | 32.6 |
| 1993-2000 | 4 | 33 | 63 | 0 | 30 | 35.0 |

### Examples of evaluated technical cooperation operations

#### Successful advisory services linked to small business loans

The EBRD lent €10.7 million to SMEs via commercial banks in Kyrgyzstan, a country with little SME credit on offer and still at an early stage of transition. The loan was channelled through the National Bank of Kyrgyzstan. The financing was accompanied by about €2.2 million of TC funding from various donors to assist the banks and their clients. SME lending consultants helped the banks to develop their credit systems and provided on-the-job training for staff. TC funding was also used to set up local business advisory service centres supported by SME consultants. The centres assisted entrepreneurs in preparing business plans and in improving management techniques. Evaluation conducted in 2000 found that the TC support had been a success. The loan was disbursed in spite of the country's adverse macroeconomic conditions, and the sub-loans were repaid and the funds on-lent to new SME borrowers. SME lending skills were developed effectively, with potential for extending this know-how into the banking sector as a whole. Several advisory centres were well-established. The project was seen as a model for SME support in the region, combining EBRD finance with TC-funded advice for both the intermediary banks and the SMEs.

#### Mixed results from TC support for Russian railway

To assist the Russian Ministry of Railways (MPS) in its plans to modernise the country's railway systems, the EBRD launched 13 TC operations totalling about €3.8 million. The studies and advisory components were intended to prepare the way for major capital investments and to support new strategies. Following completion of the TC operations, PED rated the transition impact as satisfactory. The TC operations had helped, for example, in the restructuring of MPS's auxiliary activities. The evaluation also confirmed that four in-depth TC-funded studies had clearly facilitated investments, including an EBRD loan of €97 million. Several other studies proved less successful in boosting investments, which were down-scaled to about a third of the originally envisaged amount. A recommended maintenance and improvement strategy was being successfully implemented but support for the signalling systems needed further refinement. Overall, the series of TC operations was rated as "partly successful".

# 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 the majority of the EBRD's countries of operations stabilised considerably during 2000, although the appetite among private financial institutions to lend long-term in countries at the early or intermediate stages of transition remained extremely low.

While many of the countries in south-eastern Europe experienced continuing political and economic problems, the market's appetite for projects in the more advanced countries began to grow. A small group of quality borrowers from these countries has continued to have access to the markets, and in most cases these borrowers are able to access the markets without IFI support.

Despite the strengthening of market appetite for debt in many of the EBRD's countries of operations during the year, there continued to be a high reliance on official, and especially on IFI, co-financing sources throughout 2000 for borrowers in early and intermediate transition countries.

With the world oil price remaining low for most of 1999, the volume of transactions for the oil sector remained low during most of 2000 due to the time lag before new projects come on-stream. This has continued to affect the volume of co-financing for Russian borrowers, where oil or oil-substitute projects play a large role.

Reflecting these market conditions, the total amount of co-financing mobilised by the EBRD in 2000 dropped slightly to €1.4 billion, from €1.5 billion in 1999. There was, however, an increase in the cumulative number of co-financing partners.

The EBRD worked with 27 commercial banks from 13 countries in 2000. Co-financing from these banks totalled €468 million in support of 24 projects. ECAs were not active in co-financing with the EBRD in 2000, reflecting both the cautious cover policy of most ECAs towards early or intermediate transition countries and the ability of commercial banks to cover co-financing needs in the majority of projects.

The EBRD maintained a strong dialogue with the International Union of Credit and Investment Insurers (the Berne Union – the leading ECAs' umbrella organisation) through its participation at the Berne Union's general meetings. The EBRD also provided facilities and logistical support to the Berne Union for its meetings with central and eastern European ECAs. The EBRD was also strongly involved in meetings of the OECD's Export Credit Group in Paris, most notably on the issue of harmonisation of environmental standards among ECAs.

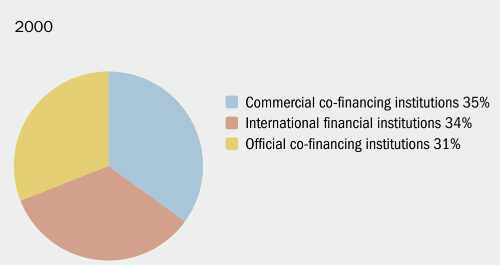
Official co-financing institutions (excluding ECAs) were involved in 32 operations in 2000, contributing a total of €881 million. Co-financing through other IFIs, covering loans and equity, involved 15 operations, totalling €463 million. Other official sources co-financed 22 operations, amounting to €417 million.

**Types of co-financing funds by value in 2000**

| | € million |
|---|---|
| A/B loans / participations [1] | 370 |
| Parallel loans | 139 |
| Guarantees | 38 |
| ECA direct / guaranteed or political risk insurance | 13 |
| Loans from international financial institutions | 369 |
| Equity from international financial institutions | 95 |
| Equity | 20 |
| Grants | 321 |
| **Total** | **1,365** |

[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**



### Co-financing support for private and state sector operations in 2000

| | Number | Total project cost € million | EBRD finance € million | Co-financing € million | Co-financing % |
|---|---|---|---|---|---|
| Private sector | 45 | 2,285 | 703 | 824 | 60 |
| State sector | 9 | 1,317 | 340 | 541 | 40 |
| **Total** | **54** | **3,602** | **1,043** | **1,365** | **100** |

## Commercial co-financing institutions

Among commercial co-financiers, the largest proportion of co-financing in 2000 was provided by commercial banks. Since the financial crisis in Russia in August 1998, commercial banks have been less willing to make loans in early or intermediate transition countries, and this has been accompanied by higher loan yield expectations. In the early or intermediate transition countries, co-financiers limited themselves in 2000 to lending to projects that are securely structured with hard currency revenues.

Listed below are some noteworthy examples of co-financing projects with commercial co-financiers in 2000.

***Agrokor, Croatia:*** This €170 million syndicated loan for Croatia's largest food company was a major success, attracting a large group of banks for the long tenor of seven years (see page 39). It represents both the largest corporate syndication in Croatia and the longest tenor for a Croatian corporate.

***Maribor waste-water concession, Slovenia:*** This €33 million transaction represents a continuing effort by the EBRD to mobilise co-financing in the municipal sector. This type of debt is a challenge mainly because municipal financing requires very long tenors (more than ten years). In this project the EBRD attracted three major Western banks to co-finance a loan with a tenor of 13 years. The EBRD intends to build on this by seeking to attract banks to other municipal transactions in more challenging regions.

***Dniepropetrovsk Oil Extraction Plant (DOEP), Ukraine:*** In a year with very little co-financing activity in the Commonwealth of Independent States, this €56 million project represents an exception. The fact that the project raised co-financing from a group of four major Western banks is thanks to a combination of sponsor and the client's track record, demonstrating the criteria for successful commercial co-financing in a challenging environment.

***Italian-Romanian Industrial Development Enterprise (IRIDE), Romania:*** This €22 million property project is important as it is still very difficult to attract long-term financing for projects in Romania. This project was well-structured and was attractive to banks that specialise in property lending. It therefore appealed to specialist lenders in the market.

## IFIs and other official co-financing institutions

Co-financing with official partners in 2000 amounted to €880.7 million for 32 EBRD operations. Once again IFIs provided the largest share, totalling €463.2 million (52.6 per cent) for 15 projects. The European Commission provided €277.6 million (31.5 per cent) for 10 projects. Other official co-financiers contributed €139.9 million (15.9 per cent) for 15 projects.

Among the IFIs, the International Finance Corporation (IFC) and the European Investment Bank (EIB) were the most prominent. IFC co-financed nine operations totalling €178.8 million, covering areas such as industry, large-scale bank privatisation, micro-credit, restructuring, lease finance and power sector privatisation. The EIB participated in three operations amounting to €165.5 million, mainly in public environmental infrastructure and the power and energy sector.

The Asian Development Bank (ADB) co-financed two operations totalling €70.2 million in road sector development and in a lease-finance company. The World Bank, through the International Development Association (IDA), provided co-financing of €32.2 million for one operation in the power and energy sector. The OPEC Fund for International Development co-financed a credit line for small and medium-sized enterprises (SMEs) in Bosnia and Herzegovina.

The Council of Europe Development Bank (CEB) concluded for the first time a co-financing operation with the EBRD, providing €15 million for the restructuring and privatisation of PKP, the Polish National Railways Company. The CEB loan will be used for training purposes and is expected to accentuate the transition impact of the project.

The European Commission, through its various programmes, such as Phare and the Instrument for Structural Policies for Pre-Accession, provided a total amount of €277.6 million in grant-based co-financing for projects in the municipal infrastructure, power and energy, agribusiness, SME and micro-credit sectors.

Bilateral financial institutions were also involved in a number of projects. The Netherlands Development Finance Company (FMO) co-financed two operations totalling €21.5 million. Kreditanstalt für Wiederaufbau (KfW) and Internationale Microinvestitionen (IMI), both from Germany, provided co-financing of €5.2 million for two projects regarding trade facilitation and micro-credit.

A number of government and non-government agencies provided co-financing on a grant or concessional basis. The French Ministry of Finance provided €26.9 million for a municipal services project in Kazakhstan. The Nordic countries, through the Baltic Investment Special Fund, provided €15.7 million for two SME projects in the Baltic states. The US Treasury co-financed €10.7 million for SME financing in south-eastern Europe. The International

Cooperation and Development Fund of Taiwan co-invested €2.4 million in a Lithuanian textile company. DOEN Foundation (Netherlands) and Western NIS Fund (USA) participated in various micro-credit operations in Moldova and Ukraine.

As part of the Stability Pact for South-Eastern Europe, various high-priority projects were concluded. A major infrastructure project, the FYR Macedonia environment action programme, was co-financed by Germany, Greece, Portugal and Switzerland for a total amount of €29.4 million. In addition, technical cooperation grants totalling €3.3 million were provided by Canada, Denmark and Japan in support of programme management and implementation. Austria, Germany and Norway contributed to the regional trade facilitation programme for south-eastern Europe. Italy, through the Italian Investment Special Fund and the Kosovo Account of the Albania Reconstruction Equity Fund, supported micro, small and medium-sized business in Albania, Bosnia and Herzegovina and the territory of Kosovo in FR Yugoslavia with grants amounting to €15.4 million.

## Co-financing partners in 2000

### Commercial institutions

| | |
|---|---|
| American Express Bank | USA |
| **Banco Santander** | **Spain** |
| Bank Austria Creditanstalt | Austria |
| **Bank Hapoalim** | **Israel** |
| BNP Paribas | France |
| Citibank, NA | USA |
| Commerzbank | Germany |
| Credit Agricole Indosuez | France |
| Dexia | France |
| DG Bank | Germany |
| Dresdner Bank | Germany |
| **FinnVenture IV Ky** | **Finland** |
| **FinnVenture V Ky** | **Finland** |
| **Hypo Alpe-Adria-Bank AG** | **Austria** |
| HypoVereinsbank | Germany |
| J.P. Morgan Chase & Co. | USA |
| MeritaNordbanken | Sweden |
| Natexis Bank | France |
| **Privredna Banka** | **Croatia** |
| Rabobank | Netherlands |
| Raiffeisen Zentralbank Osterreich | Austria |
| **Rijecka Banka dd** | **Croatia** |
| Slovenska Pol'nohospodarska Banka | Slovak Republic |
| Société Générale | France |
| **Standard Bank** | **UK** |
| **Stedbanka doo** | **Croatia** |
| **United European Bank** | **Switzerland** |
| **Vilniaus Bankas** | **Lithuania** |
| Zagrebacka Banka | Croatia |

### Official institutions

| | |
|---|---|
| Baltic Investment Special Fund (BISF) | Nordics |
| Ministry for Economic Cooperation and Development (BMZ) | Germany |
| ISPA Programme | European Commission |
| LSIF Programme | European Commission |
| **Obnova Programme** | **European Commission** |
| Phare Programme | European Commission |
| Netherlands Development Finance Company (FMO) | Netherlands |
| **German-Ukraine Fund (KfW)** | **Germany** |
| **Government of Norway** | **Norway** |
| International Cooperation Development Fund (ICDF) | Taipei China |
| Internationale Microinvestitionen AG (IMI) | Germany |
| Investment Fund for Central and Eastern Europe | Denmark |
| Kreditanstalt für Wiederaufbau (KfW) | Germany |
| Ministry of Economic Affairs | Netherlands |
| Ministry of Environment | Finland |
| **Ministry of Finance** | **France** |
| **Ministry of Finance** | **Portugal** |
| **Ministry of Foreign Affairs** | **Austria** |
| Ministry of Foreign Affairs | Norway |
| **Ministry of National Economy** | **Greece** |
| **State Secretariat for the Economy (SECO)** | **Switzerland** |
| Swedish International Development Cooperation Agency (Sida) | Sweden |
| **US SME Trust Fund** | **USA** |
| Western NIS Fund | USA |

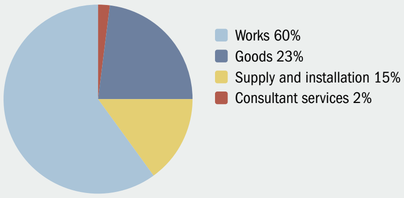
### International financial institutions

| | |
|---|---|
| Asian Development Bank (ADB) | IFI |
| **Council of Europe Development Bank** | **IFI** |
| European Investment Bank (EIB) | IFI |
| International Finance Corporation (IFC) | IFI |
| Multilateral Investment Guarantee Agency (MIGA) | IFI |
| OPEC Fund for International Development | IFI |
| World Bank/IDA | IFI |

Organisations co-financing with the EBRD for the first time in 2000 are shown in **bold.**

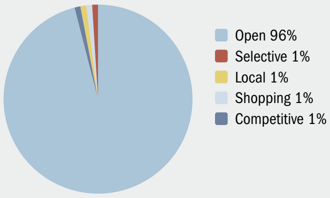
**Contracts awarded in the public sector by contract type in 2000**

by value




**Method of procurement for contracts awarded in the public sector in 2000**

by value




## 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 standards of ethics and conduct during procurement and execution of EBRD-financed projects. The Bank's Procurement Policies and Rules were revised in 2000 to provide guidance to tenderers about their rights during the procurement process and the roles of the various parties involved.

To help all parties involved in procurement, the EBRD makes available a range of materials, such as standard tender documents and procurement guidance notes. Invitations to tender, expressions of interest, contract award and other essential information regarding EBRD-funded contracts are also published regularly on the Procurement Opportunities section of the Bank's Web site (www.ebrd.com), which the business community can access at no cost.

In 2000 the EBRD continued to work closely with multilateral development banks 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. Following issuance of a master tender document for the procurement of goods in 1999, work started on harmonising prequalification for tenders and the selection of consultant documents. The EBRD is assisting in the drafting of these documents. Furthermore, it has taken the lead in developing detailed measures to further reduce the risk of fraud and corruption throughout the procurement process.

The EBRD Procurement and Technical Services Unit continued to provide professional advice and services to both internal and external clients throughout 2000. In particular, it developed new training material and undertook a number of presentations for clients, suppliers, contractors and consultants on how to work with the Bank's Procurement Policies and Rules. These were conducted on a bilateral basis or at national and international conferences.

During 2000 a total of 102 contracts were financed by the EBRD under its public sector operations, amounting to a total contract value of €235 million. This compares with 173 contracts with a total value of €401 million in 1999. The downturn can largely be attributed to the reduced number of public sector projects signed during the latter part of 1998 and early 1999 and to the fact that procurement has not started on many of the public sector projects approved in 2000.

There was a significant increase during the year in the proportion of contracts awarded through open tendering procedures. The total value of contracts awarded in this way amounted to €225 million, or 96 per cent of the total value of all contracts awarded during 2000, compared with 92 per cent for 1999. Civil works contracts accounted for over half of the total value of contracts awarded in 2000, with an average contract value of €7.05 million. The majority of contracts – 53 in total – were for the supply of goods, with an average contract value of €1.02 million.

❶ The EBRD used technical cooperation funding to train credit officers in the Micro Enterprise Bank in Bosnia and Herzegovina.

❷ Following an EBRD investment in Teplichnoye, a horticultural company in Russia, technical cooperation funding was used to train staff in the use of modern technology.

## 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. Under the TCFP, the Bank mobilises grant funds from donors to support activities that are of fundamental importance to the transition process. These include the development of SMEs, environmental and municipal infrastructure, institution-building and the mobilisation of foreign investment for the financing of projects with high "demonstration effects".

A key objective of the TCFP is to enable the EBRD 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, which acts as a catalyst for foreign investment and Bank financing. Nearly half of all signed EBRD investments (some €7.6 billion) have been supported by TC funding. A study carried out by the Bank's Project Evaluation Department has confirmed that the transition impact of TC-supported investments is significantly higher than the impact achieved by other investments.

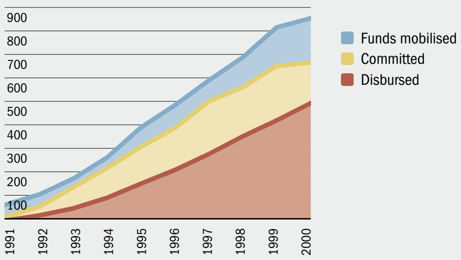
Around three-quarters of all TC commitments have been used to support EBRD investments, either in the preparation phase or during implementation. This includes support for the implementation of Regional Venture Funds (RVFs), Post-Privatisation Funds and credit lines. The remaining funding has been committed to advisory services, training and sector studies. Most TC funding is provided in support of the financial sector or in the development of SMEs.

Around one-quarter of all TC funding is used to support projects aimed at improving the investment climate and transition to market economies rather than supporting specific investments. Such projects often focus on areas such as institution-building, support for the SME sector and legal reform. Support for legal and regulatory reforms is primarily carried out through the EBRD's Legal Transition Programme (see page 20) while advice to SMEs is provided to a large extent through the Bank's TurnAround Management (TAM) Programme and Business Advisory Services Programme (see page 61). These activities are carried out in close cooperation with other international financial institutions (IFIs) and donor agencies and focus on areas where the EBRD has strong operational experience. The TCFP also promotes the development of a local consultant industry through increased use of local consultants.

Major contributions to the EBRD's TC funds have been provided by the European Commission (under the Bangkok Facility) and Japan. Along with other bilateral donors, these contributions have been used to support a broad range of consulting assignments. In addition, donor support has been provided through special programmes, such as the Russian RVFs (funded by the EC, Finland, France, Germany, Italy, Norway, Sweden and the United States), Small Business Initiatives (funded by the EC and the United States) and the Central European Initiative (funded by Italy). Examples of the types of TC work being carried out with donor support during 2000 are presented on page 58.

During 2000 the EBRD financed 295 consultant assignments through the TCFP, bringing the total number of assignments to 2,651. Commitments during the year amounted to €67.7 million, compared with €89.4 million in the previous year, bringing the cumulative total for these assignments to €659.0 million by the end of 2000. The total value of cumulative disbursements by the end of the year stood at €496.3 million, of which €75.0 million was disbursed in 2000.

**Cumulative technical cooperation funds mobilised, committed and disbursed 1991-2000**




The EBRD signed seven new Technical Cooperation and Special Fund Agreements in 2000, bringing the total to 74. These include a new SME Special Fund totalling €0.98 million, which was established as an untied[1] Special Fund by the US Government, and one untied TC fund established by the United Kingdom Government. In addition, 22 existing TC funds were replenished and seven project-specific TC agreements were signed. Total grant resources for technical cooperation increased by €32 million during the year, bringing the cumulative total to €845.4 million by the end of 2000.

A complete description of the Bank's donor-funded programmes is provided in the 2000 EBRD *Report to the Donor Community*. Among the highlights of TC work initiated during the year were the following. In Ukraine a two-year consultancy assignment in support of a micro-credit bank was approved, aimed at enabling the bank to develop a stable and reliable organisational structure. In Kazakhstan the Bank hired consultants to improve the regulatory tariff mechanism in the power sector. As part of the Bank's TAM Programme, funding was approved to provide management assistance to 24 enterprises in the CIS region. In Romania, donor funds supported a creditworthiness analysis of local governments and municipal authorities as part of due diligence studies for a Bank loan programme. In Uzbekistan a consultant provided assistance to the national railways to assist with procurement and implementation of a locomotive fleet renewal project.

The average consultancy assignment approved during the year was €231,000. The largest assignments (several in excess of €500,000) were those linked to current or potential EBRD investments, including those in support of micro-finance banks, commercial banks, municipal environmental projects and infrastructure projects. Smaller assignments tended to be those without an investment link, including TAM and Business Advisory Services (BAS) assignments, general sector reviews and some legal transition assignments.

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



**TC commitments by recipient country**

| | 2000 Number | 2000 € million | 1991-2000 Number | 1991-2000 € million |
|---|---|---|---|---|
| Russia | 36 | 11.3 | 458 | 219.1 |
| Ukraine | 26 | 6.1 | 177 | 34.0 |
| Romania | 11 | 0.7 | 89 | 30.4 |
| Kazakhstan | 8 | 3.9 | 65 | 21.4 |
| Poland | 12 | 2.9 | 108 | 21.4 |
| Bosnia and Herzegovina | 7 | 1.0 | 62 | 18.6 |
| Estonia | 5 | 1.2 | 156 | 16.4 |
| Uzbekistan | 3 | 0.2 | 46 | 15.8 |
| Albania | 4 | 3.3 | 71 | 15.4 |
| Bulgaria | 4 | 0.2 | 47 | 14.3 |
| Lithuania | 15 | 2.1 | 138 | 13.9 |
| Latvia | 14 | 1.7 | 126 | 13.3 |
| Kyrgyzstan | 3 | 0.1 | 64 | 13.3 |
| Belarus | 6 | 0.3 | 81 | 11.6 |
| Slovak Republic | 2 | 0.1 | 52 | 10.9 |
| Slovenia | 2 | 0.2 | 79 | 9.6 |
| Azerbaijan | 5 | 1.2 | 43 | 9.5 |
| Moldova | 2 | 0.7 | 54 | 8.6 |
| Turkmenistan | 2 | 0.5 | 26 | 8.5 |
| Croatia | 25 | 2.0 | 72 | 8.3 |
| Georgia | 7 | 2.7 | 45 | 8.3 |
| Hungary | 2 | 0.2 | 61 | 8.3 |
| FYR Macedonia | 7 | 3.1 | 40 | 7.2 |
| Tajikistan | 5 | 1.0 | 24 | 6.8 |
| Czech Republic | 1 | <0.1 | 30 | 5.4 |
| FR Yugoslavia (Kosovo) | 6 | 3.4 | 6 | 3.4 |
| Armenia | – | – | 24 | 3.3 |
| Regional | 75 | 17.5 | 407 | 101.8 |
| **Total** | **295** | **67.8** | **2,651** | **659.0** |

**TC commitments by sector**

| | 2000 Number | 2000 € million | 1991-2000 Number | 1991-2000 € million |
|---|---|---|---|---|
| Finance, business | 57 | 29.5 | 650 | 327.4 |
| Manufacturing | 123 | 13.9 | 863 | 100.4 |
| Energy | 39 | 10.3 | 402 | 83.5 |
| Transport, storage | 19 | 5.0 | 197 | 51.0 |
| Community / social services | 38 | 4.7 | 291 | 48.7 |
| Telecommunications | 9 | 1.6 | 120 | 18.7 |
| Construction | 7 | 1.9 | 43 | 14.3 |
| Extractive industries | 1 | 0.2 | 35 | 9.3 |
| Agriculture, forestry, fishing | 2 | 0.6 | 37 | 4.3 |
| Commerce, tourism | – | – | 13 | 1.4 |
| **Total** | **295** | **67.8** | **2,651** | **659.0** |

## Technical Cooperation Fund Agreements

At 31 December 2000

| Donor | Date of initial Agreement | Currency | Amount including replenishments (million) | EUR equivalent (million) |
|---|---|---|---|---|
| Austria | 31 Dec 91 | USD | 5.00 | 5.37 |
| 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 | 5.48 |
| Canada (South East Europe) [1] | 8 Aug 00 | CAD | 5.00 | 3.58 |
| Canada (TAM Programme) | 30 Mar 99 | CAD | 0.55 | 0.39 |
| Denmark | 1 July 92 | EUR | 3.90 | 3.90 |
| Denmark, Finland, Iceland, Norway, Sweden (TAM Nordic Council) | 22 Sept 95 | DKK | 7.00 | 0.94 |
| European Community (Bangkok Facility) [2] | 15 Oct 91 | EUR | 276.43 | 276.43 |
| 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 | 33.65 | 5.66 |
| Finland, Norway, Sweden (RVF for North West Russia) [3] | 5 July 94 | USD | 20.00 | 21.41 |
| France (Foreign Affairs) | 1 Aug 91 | FRF | 20.51 | 3.13 |
| France (RVF for Southern Russia) [3, 4] | 28 Feb 95 | FRF | 47.34 | 7.22 |
| France (Treasury) | 26 Mar 92 | FRF | 60.46 | 9.22 |
| FYR Macedonia (Financial Sector) [5] | 14 Feb 96 | DEM | 1.94 | 0.99 |
| Georgia (Financial Sector) [5] | 12 Dec 96 | USD | 0.67 | 0.72 |
| Germany | 11 Dec 92 | DEM | 10.00 | 5.11 |
| Germany KfW | 27 Sept 95 | DEM | 12.51 | 6.40 |
| Greece | 4 Apr 95 | GRD | 419.00 | 1.23 |
| Iceland | 3 Dec 92 | EUR | 0.26 | 0.26 |
| Ireland | 17 Sept 93 | EUR | 1.60 | 1.60 |
| Israel | 14 Apr 92 | ILS | 1.04 | 0.28 |
| Italy | 14 Apr 92 | ITL | 9,000.00 | 4.65 |
| Italy (Albania Reconstruction Equity Fund) | 28 Sept 98 | USD | 3.00 | 3.22 |
| Italy (Bosnia and Herzegovina SME) | 1 Oct 99 | EUR | 1.60 | 1.60 |
| Italy (Central European Initiative) | 14 Apr 92 | ITL | 41,135.00 | 21.35 |
| Italy (RVF for Western Russia) [3, 6] | 6 June 95 | USD | 6.41 | 6.88 |
| Italy (SME for Kosovo) | 18 Nov 99 | EUR | 0.85 | 0.85 |
| Japan | 5 July 91 | JPY | 14,181.23 | 132.69 |
| Korea, Republic of | 25 Apr 93 | USD | 0.60 | 0.64 |
| Kyrgyzstan (Financial Sector) [5] | 28 July 98 | USD | 0.00 | 0.00 |
| Luxembourg | 26 Nov 91 | EUR | 0.95 | 0.95 |
| Moldova – Agroindbank S.A. [5] | 18 Dec 98 | USD | 0.06 | 0.07 |
| Netherlands | 20 Nov 91 | NLG | 27.26 | 12.37 |
| Netherlands (Dutch Environment) | 22 June 95 | NLG | 0.90 | 0.41 |
| 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 | 3.35 |
| Norway (General) | 27 Apr 93 | EUR | 1.50 | 1.50 |
| Portugal | 20 Oct 92 | PTE | 150.00 | 0.75 |
| Russian Privatisation Centre – TAM Russian Federation Programme | 10 May 00 | EUR | 0.31 | 0.31 |
| 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 | 55.01 | 6.23 |
| Sweden (TAM and BAS Programme) | 11 Dec 98 | EUR | 1.00 | 1.00 |
| Switzerland | 31 Mar 92 | CHF | 12.52 | 8.22 |
| Taipei China | 16 Sept 91 | USD | 18.50 | 19.88 |
| Turkey | 17 June 92 | TRL | 10,000.00 | 0.02 |
| Turkmenistan (Financial Sector) [5] | 15 Mar 99 | USD | 0.03 | 0.03 |
| United Kingdom [7] | 25 Nov 91 | GBP | 4.47 | 7.16 |
| United Kingdom-B [8] | 14 Mar 94 | GBP | 3.68 | 5.89 |
| United Kingdom-C [9] | 25 Mar 94 | GBP | 3.96 | 6.34 |

## Technical Cooperation Fund Agreements (continued)

At 31 December 2000

| Donor | Date of initial Agreement | Currency | Amount including replenishments (million) | EUR equivalent (million) |
|---|---|---|---|---|
| United Kingdom-D [10] | 8 Apr 99 | GBP | 1.48 | 2.37 |
| United Kingdom-E [11] | 28 Oct 99 | GBP | 2.00 | 3.20 |
| United Kingdom-F [12] | 8 Aug 00 | GBP | 1.00 | 1.60 |
| USA | 30 July 91 | USD | 1.27 | 0.91 |
| USA (EBRD SME Cooperation Fund) [13] | 24 July 00 | USD | 1.50 | 1.61 |
| USA (Evergreen) | 3 June 94 | USD | 4.53 | 4.87 |
| USA (RVF for Lower Volga Region) [3] | 29 Sept 94 | USD | 20.00 | 21.49 |
| USA (US Advisors) | 10 Nov 97 | USD | 1.15 | 1.23 |
| **Total of Technical Cooperation Funds** | | | | **715.70** |
| **Special Funds** | | | | |
| Balkan Region Special Fund | 15 Sept 99 | EUR | 3.71 | 3.71 |
| 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 | 55.72 |
| EBRD SME Special Fund [14] | 28 June 00 | USD | 0.90 | 0.98 |
| EBRD Technical Cooperation Special Fund [15] | 12 Sept 95 | EUR | 0.88 | 0.88 |
| EC SME Finance Facility [16] | 7 Apr 99 | EUR | 12.50 | 12.50 |
| **Total of Special Funds** | | | | **94.51** |
| **Project-specific Funds** | | | | **35.15** |
| Total of Technical Cooperation Funds | | | | 715.70 |
| Total of Special Funds | | | | 94.51 |
| Total of Project-specific Funds | | | | 35.15 |
| **Total of all technical cooperation agreements** | | | | **845.36** |

1 The Canada (South East Europe) Fund can be used for both technical cooperation and co-financing of investments.

2 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.

3 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).

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

5 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.

6 The fund agreement was terminated by mutual consent in May 2000. The agreement amount was amended in June 2000 to reflect the final expected value of the fund following the payment of all outstanding obligations under the termination agreement.

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

8 The activities of the UK-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.

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

10 The activities of the UK-D Fund are in eastern Europe and Central Asia.

11 The activities of the UK-E Fund are in central and south-eastern Europe.

12 The activities of the UK-F Fund are in south-eastern Europe.

13 The total Fund value is €2.5 million, of which €1.5 million has been allocated for technical cooperation.

14 The total Fund value is €7.5 million, of which €0.9 million has been allocated for technical cooperation.

15 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.

16 The total Fund value is €50 million, of which €12.5 million has been allocated for technical cooperation.

Technical Cooperation Funds replenished since the initial Agreement.



## Investment Cooperation Funds

At 31 December 2000

| 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 (Maritsa Unit 8) | 29 Dec 97 | EUR | 7.50 | 7.50 |
| European Community (Micro-Enterprise Bank) | 25 June 98 | EUR | 11.00 | 11.00 |
| European Community (MUDP II) | 19 Mar 98 | EUR | 27.40 | 27.40 |
| Italy – Bosnia and Herzegovina | 12 Sept 96 | USD | 7.50 | 8.06 |
| Japan Fund for Post-Conflict Support | 11 July 97 | JPY | 1,000.00 | 9.36 |
| Norway – Bosnia and Herzegovina | 24 Apr 97 | NOK | 63.14 | 7.66 |
| Norway – Eastern Slavonija | 12 Dec 97 | NOK | 30.00 | 3.64 |
| Norway – Micro-Enterprise Bank d.d. | 2 June 98 | NOK | 6.97 | 0.84 |
| Norway – Micro-Enterprise Bank Kosovo | 20 June 00 | USD | 0.50 | 0.54 |
| Switzerland – FYR Macedonia MEAP | 21 Dec 00 | CHF | 16.30 | 10.70 |
| **Total of Investment Cooperation Funds** | | | | **91.51** |

## Turnaround management

### TurnAround Management Programme

The TurnAround Management (TAM) Programme was created in the early 1990s as a result of cooperation between the EU Phare Programme, the EBRD and the United Nations Development Programme. With the aim of developing commercial and technical "know-how" in potentially viable enterprises, TAM provides industry-specific advice, which is funded by a variety of donors. The TAM Programme helps to advance the transition process by developing local economies, which in turn helps to alleviate poverty and to improve social conditions.

The TAM Programme works directly with individual enterprises, advising on developing management skills, business planning, restructuring, improving products, reducing operating costs and developing local and export markets. It also assists the EU accession countries in meeting requirements for manufacturing and product standards. Other areas of activity include improving awareness of environmental impact, optimising energy use, and improving health and safety for employees at work.

In addition to improving business performance, the TAM Programme helps management to bring improvements to the attention of potential investors, such as the EBRD and other financial institutions. Following the completion of TAM projects, enterprises frequently succeed in attracting external investment. TAM also advises enterprises about restructuring and expansion following the commitment of this investment.

The grant funding provided by the European Commission, the Nordic Council of Ministers and other bilateral donors has enabled the TAM Programme to undertake 770 projects in 24 countries since its launch in July 1993. To date, a total of 22 donors have committed more than €52 million to the Programme, which will fund more than 870 projects in total.

In the 306 enterprises where TAM projects have been completed, combined annual sales total US$ 7.04 billion, which is an increase of 16 per cent since the start of the Programme. This has been achieved without severe job losses, with the total workforce remaining at 89 per cent of the original level. External finance totalling more than US$ 860 million has been raised by 96 of these enterprises. Of this total, US$ 308 million has been provided by the EBRD or its intermediaries.

### Business Advisory Services Programme

The EBRD's Business Advisory Services (BAS) Programme complements the TAM Programme by helping small and micro enterprises achieve the standards required to compete in market economies. Managed by the TAM Management Group, the BAS Programme helps small and micro enterprises to enhance their competitiveness, marketing and financial management and to implement ISO quality systems and strategic planning.

The Baltics BAS Programme has been operating for over five years in Estonia, Latvia and Lithuania, where it has been rated as "highly satisfactory" by external audits and evaluations. By the end of 2000, the Programme had undertaken over 1,200 projects in more than 900 enterprises with a workforce of over 110,000 and aggregate sales of US$ 4 billion. As a consequence of BAS assistance, these enterprises have raised US$ 39 million in external finance.

Initially funded by the Nordic countries, which provided €9 million, the Baltics BAS Programme has also received €3.2 million from the European Commission. Of this total, €1.85 million has been allocated to providing 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 half of 1998, this "micro-BAS" programme has already advised over 280 enterprises.

The Baltics BAS Programme has significantly increased employment levels for the smaller enterprises. In the case of companies with less than 50 employees, the average increase has been 54 per cent while for companies with between 50 and 100 employees it has increased by an average of 33 per cent.

Two new BAS programmes were started in 2000: a Northwest Russia programme, funded mainly by the Nordic countries, and a programme in Croatia, funded by the Central European Initiative.

New BAS programmes are planned for early 2001. These will be in Bulgaria and Slovenia, with funding from EU Phare, and in Kazakhstan and Uzbekistan, with funding from the Japan-Europe Cooperation Fund.

1 The EC and 17 countries pledged close to €200 million for the Ignalina Fund following a safety assessment of the Ignalina reactor in Lithuania.

## Nuclear safety

The EBRD administrates the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF) and, since June 2000, the three International Decommissioning Support Funds (IDSFs) for Bulgaria, Lithuania and the Slovak Republic. In all, donor countries have pledged more than €1.5 billion to the five Funds. In accordance with the Fund Rules, the Bank reports to donor countries through the respective Assemblies of Contributors. These oversee management of the Funds, approve work programmes and annual financial statements and decide on the financing of individual projects. The EBRD provides technical, project management, financial, legal and administrative services and 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 an NSA 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 NSA has given priority to high-risk reactors (VVER 440/230 and RBMK reactors), with the primary objective of reducing original design and operational safety deficiencies. This is achieved by investing 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 early shutdown of high-risk reactors on safety and economical grounds. The EBRD prepares projects and submits them for approval to the Assembly of Contributors. As at 31 December 2000, members of the NSA Assembly (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) had contributed €260.6 million, thus fully meeting their commitments.

#### *Implementation*

By the end of 2000, all the short-term safety upgrade projects in Bulgaria, Lithuania, Russia and Ukraine were successfully completed, with only minor close-out activities remaining. 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 decision of Ukraine to close Chernobyl NPP, and its subsequent closure in December 2000 – a key covenant in the NSA Agreement with Ukraine – were undoubtedly the most significant events of the year for the NSA and for nuclear safety in general. The covenants of the NSA Agreements with Bulgaria and Lithuania relating to the closure of the Kozloduy VVER 440/230 and Ignalina RBMK reactors have now been incorporated into the draft Framework Agreements for the IDSFs for these two countries. The closure policies of the two countries are largely in line with the NSA Agreements.

❷ Once constructed, the spent fuel facility will store spent nuclear fuel from the Chernobyl nuclear reactors, the last of which was closed in December 2000.

The situation in Russia remains an exception. Whereas all the short-term safety upgrades have now been successfully completed and licensed – with only a few minor activities at St Petersburg remaining for early 2001 – a number of nuclear safety conditions of the NSA Agreement with Russia have not been met. Russia restarted reactor unit 1 at Kursk NPP in autumn 2000, which is seen by the contributors and the Bank as a breach of the NSA Agreement. There have also been further delays on the implementation of the covenants of the NSA Agreement that relate to the transition towards new regulatory regimes for the designated RBMK and VVER 440/230 reactors on the basis of individual in-depth safety assessments. The current situation is a matter of serious concern for the NSA and its contributors. This has been further aggravated by the Ministry of Atomic Energy's expressed intention to extend the life of the oldest VVER and RBMK reactors beyond their design lives, which start to expire in 2001.

The focus of the NSA is now very much on supporting the decommissioning of Chernobyl NPP in Ukraine. The NSA is financing two major pre-decommissioning facilities (liquid radioactive waste treatment and interim spent fuel storage) as well as several smaller, related infrastructure projects. Construction of the two major facilities is progressing towards completion by mid-2003. A large proportion of the contract value is being sub-contracted to local Ukrainian companies.

## Chernobyl Shelter Fund

At the G-7 Denver Summit in 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 shelter ("sarcophagus") into a stable and environmentally safe system. The G-7 and the European Community pledged US$ 300 million (€320 million) and called upon concerned governments and other potential donors to join the initiative to ensure full funding for the Shelter Implementation Plan (SIP).

SIP was developed in spring 1997 under the joint sponsorship of the European Community's Tacis programme and the US Department of Energy, and agreed upon by Ukraine, the G-7 and the European Union. It defines the procedures for choosing technical options without defining the ultimate technical solution. The principal technical goals were developed into 297 activities, which were priced and incorporated into a project schedule. This indicated that the SIP would take about eight to nine years to complete, at an estimated cost of US$ 768 million (€820 million).

In September 1997 the EBRD's Board of Directors agreed that the Bank would be the Fund Administrator, and in November 1997 approved the Rules of the Fund. The ensuing Pledging Conference in New York in November 1997, co-chaired by President Kuchma of Ukraine and US Vice President Gore, attracted new donor countries in addition to the G-7 and the European Community. The Fund became operational in December 1997.

The second Pledging Conference in Berlin in July 2000 confirmed the commitment of the international donor community by raising the total pledged amount to US$ 717 million (€766 million), approximately 93 per cent of the total SIP cost estimate. Members of the Assembly (as at 31 December 2000) are the European Community and 22 countries (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Kuwait, Luxembourg, Netherlands, Norway, Poland, Spain, Sweden, Switzerland, Ukraine, the United Kingdom and the United States). In addition, Iceland, Israel, Korea, Portugal and the Slovak Republic have the status of donors.

*Implementation*

The first phase of the SIP – engineering studies and emergency interventions – was completed in 2000. The SIP is now entering its second phase, which will be characterised by installation of monitoring systems and major construction activities for the stabilisation of the Shelter and its new confinement (an engineered barrier to the environment designed to last approximately 100 years).

In May the EBRD accepted a key decision on the stabilisation, marking the end of the first phase. Comprehensive reviews and guidance by the International Advisory Group (a group of independent Western and Ukrainian experts, which assists the Bank and the Assembly in dealing with the complex technical issues of the SIP), have been instrumental in this achievement. Reviews of other decisions are at an advanced stage. Of particular importance are the strategy for the removal of nuclear waste and the concept of the new confinement. If these decisions are taken, as scheduled, in early 2001, the SIP will be on course for completion in 2007.

However, there are still many challenges ahead in technical, organisational and institutional areas. A significant improvement in Ukraine's regulatory framework is one of the prerequisites for the success of the SIP. Ongoing conversion of the nuclear regulator into the State Nuclear Regulatory Committee of Ukraine, which was established in December by decree of the President of Ukraine, is of vital importance for an efficient and predictable regulatory process, as is the further streamlining of other regulatory procedures.

The contracts for the Project Management Unit (PMU) Consultant and the Licensing Consultant have been extended to the end of the project. This extension allowed for the introduction of lessons learned in the first phase, which primarily concern increased Ukrainian staffing of the PMU and authority to take decisions. These improvements, achieved in late 2000, will need to be maintained and further strengthened under the imminent organisational changes in the wake of the closure of Chernobyl NPP. Close cooperation and concerted efforts with the Government of Ukraine in overseeing and dealing with these key issues remain very important.

The Berlin Pledging Conference provided almost full funding for the entire project and will allow the EBRD to allocate funds in 2001 to the new Grant Agreements with Ukrainian recipients. A total of €297 million has already been committed (as at 31 December 2000) through six Grant Agreements, and contracts under these Grants exceed €100 million.

## International Decommissioning Support Funds

Assisted by the EU accession process, the governments of Bulgaria, Lithuania and the Slovak Republic have taken decisions to close their RBMK and VVER 440/230 reactors, broadly in line with covenants in the NSA Agreements.

Lithuania is committed to closing down reactor unit 1 of Ignalina before 2005 and unit 2 of Ignalina at a date to be determined within the framework of Lithuania's next energy strategy, which will be prepared no later than 2004. In November 1999 the Bulgarian Government announced its commitment to close units 1 and 2 of Kozloduy NPP before 2003, and units 3 and 4 before the previously envisaged closure dates of 2008 and 2010, with specific closure dates to be determined by 2002. In January 2000 the Slovak Republic agreed a new energy policy, which commits the country to shutting down units 1 and 2 of Bohunice NPP in 2006 and 2008 respectively.

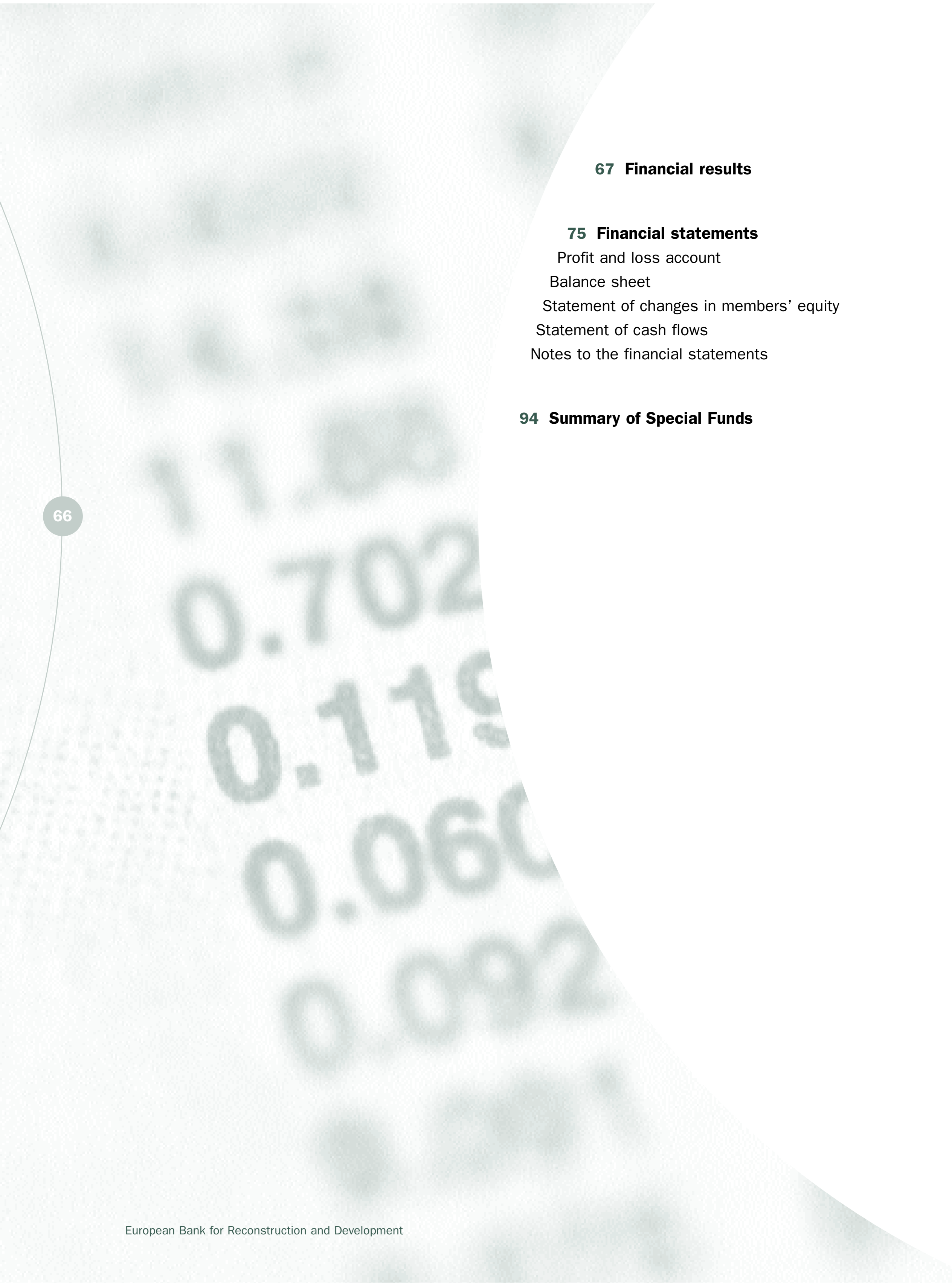
During the EU accession dialogue process, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of eight to ten years, and invited the EBRD to administer three IDSFs. In June 2000 the EBRD's Board of Directors approved the Rules of the respective IDSFs and the role of the Bank as their administrator.

The Funds will finance projects that will support the first phase of decommissioning of the designated reactors. They will also finance measures for facilitating the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency, which are consequential to closure decisions.

An international pledging conference for the Ignalina IDSF was held in Vilnius in June 2000. Pledges totalling €191 million were secured from the European Community, eight EU countries, Norway and Poland. As at 31 December 2000, the Bank had either concluded or was finalising contribution agreements totalling €134 million with the European Community and nine countries: Austria, Belgium, Denmark, Finland, Netherlands, Norway, Poland, Sweden and Switzerland. In addition, the European Community and the Netherlands had either concluded or were finalising contribution agreements totalling €87 million for the Kozloduy IDSF.

Throughout the year, in cooperation with the recipient countries and the European Commission, the Bank focused on preparing draft Framework Agreements, identifying and preparing projects for potential financing by the respective IDSFs, and setting up administrative arrangements for the management of the Funds. Conditions are now in place for the first Assembly of Contributors meetings for both Lithuania and Bulgaria in early 2001, which would render the IDSFs operational and allow project work to start. Dialogue with the Slovak Republic is also in progress, and the first Assembly meeting is scheduled for 2001.

# Financial results and financial statements



# Financial results

**During 2000 the EBRD consolidated its return to profitability and recorded a profit after provisions of €152.8 million for the year compared with a profit of €42.7 million for 1999. As a result, the Bank achieved a return to positive reserves (€65.9 million at 31 December 2000) and reversed most of the financial setback of 1998.**

Operating income before general administrative expenses of €519.2 million was almost 40 per cent above the €376.4 million operating results of last year, with all revenue areas performing better in 2000. In particular, net interest income of €273.3 million was 46 per cent above the 1999 reported level, and dividend income of €28.1 million from share investments was more than double the total for 1999. Profit of €166.8 million from the sale of share investments was 30 per cent higher than in 1999. During 2000 the reduction in non-accrual assets had a positive impact on net interest income. At 31 December 2000, 26 loans totalling €363.8 million were on non-accrual status, compared with 26 loans totalling €452.7 million at the end of 1999; 72 per cent or €260.1 million were in the Russian portfolio (1999: 85 per cent or €382.8 million).

Provisioning charges of €174.3 million for 2000 were slightly higher than those in 1999, which totalled €160.9 million. This increase was due to higher Treasury provisions, which represented a €7.2 million charge in 2000 (1999: €5.3 million credit). The credit in 1999 principally reflected an improvement in the risk rating of Korean exposures, allowing provisions to be reduced from the 1998 year-end levels. Banking provisioning charges in 2000 were similar to those of the previous year, at €167.2 million (1999: €166.2 million). New specific provisions on Banking assets were lower in 2000 than in 1999 due to asset recoveries resulting from restructurings, reduction in non-accrual loans and improved portfolio performance.

In the aftermath of the Russian crisis the EBRD experienced a number of problem exposures in its equity portfolio. The Bank has taken significant provisions against these. Reflecting the nature of the risks taken, it is unlikely that the Bank will recover substantial amounts from these investments. Charges for general provisions relating to Banking assets were higher than last year. Although restructured projects permitted reversals of specific provisions, they still remained high risk, thus attracting high general provisions. The risk profile of new project disbursements was higher risk than in 1999 (see below).

Banking operations achieved profitability during the year for the first time, showing a net profit of €79.1 million (1999: loss of €11.6 million) after full allocation of expenses, provisions and capital benefit. This was primarily due to increases in net interest income and profit from the sale of share investments. However, all revenue areas outperformed their 1999 levels. Treasury had another profitable year, increasing net profit after full allocation of expenses, provisions and capital benefit by more than a third to €73.7 million (1999: profit of €54.3 million), capitalising on attractive funding opportunities as well as achieving good returns on higher asset volumes.

The EBRD's general administrative expenses expressed in sterling were well within budget and comparable to those for 1999, reflecting continuing budgetary discipline and effective cost controls. However, due to the strengthening of sterling during 2000, the Bank's general administrative expenses, including depreciation, when expressed in euro, were €19.3 million above the level of the previous year at €192.1 million (1999: €172.8 million).

Total provisions for Banking operations amounted to €1.2 billion at the end of 2000, compared with €1.1 billion at the end of 1999. This represented 15.8 per cent of disbursed outstanding loans and equity investments (1999: 16.2 per cent) and reflects the EBRD's commitment to provide prudently for existing and foreseeable risks based on a continuing assessment of the portfolio and the associated inherent risks. Provisions attributable to operations in Russia accounted for approximately 37 per cent of total provisions (1999: 51 per cent); non-sovereign provisions represented 34 per cent of non-sovereign disbursed outstandings in that country (1999: 37 per cent).

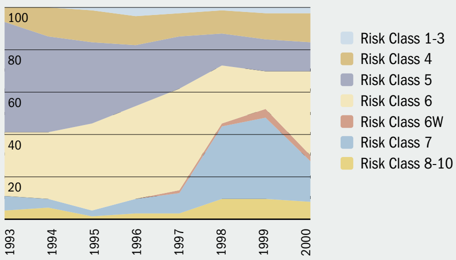
## Banking operations

### Portfolio

New business volume in 2000 reached €2.7 billion, representing 95 projects. This is the highest level of annual commitments achieved by the EBRD to date and represents an increase of 24 per cent over the level recorded in 1999 (€2.2 billion for 88 projects). The equity share of the new business volume was 23 per cent and the private sector share was 78 per cent. The new business included €198 million of restructured operations.

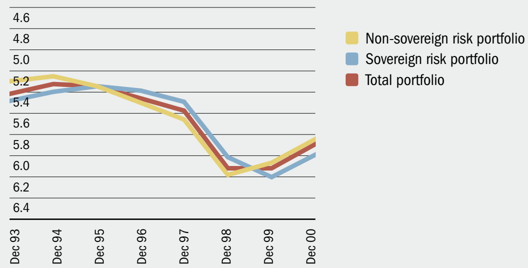
Net cumulative business volume reached €16.6 billion by the end of 2000 across all the EBRD's countries of operations, compared with €13.7 billion at the end of 1999. The portfolio of the Bank's net outstanding commitments grew from €10.8 billion at the end of 1999 to €12.2 billion at the end of 2000, an increase of 13 per cent.

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




(Per cent of total portfolio)

**Weighted average overall risk rating profile over time by signed amounts**




The pipeline of projects under development was strengthened during 2000 following Board approval of 107 projects. These consisted of loans and share investments by the Bank totalling €3.6 billion compared with 99 projects totalling €2.6 billion in 1999. The level of Board approvals in 2000 was the second-highest annual level to date. At the end of 2000 the cumulative approvals, net of cancellations, amounted to €20.2 billion (1999: €16.5 billion). The total project value of the cumulative Board approvals amounted to €70.6 billion compared with €55.9 billion at 31 December 1999. This includes the mobilisation of €50.4 billion at the end of December 2000 compared with €39.4 billion at the end of December 1999.



Gross disbursements totalled €1.5 billion in 2000, an increase of 3 per cent from last year. Operating assets reached €7.6 billion at the end of 2000 (1999: €7.0 billion), comprising €5.6 billion of loans and €1.9 billion of share investments.

## Risks

The EBRD conducts regular reviews of individual exposures within its portfolio because of the high credit risk associated with many of the countries in which it operates. All projects that have not reached completion are formally reviewed by Risk Management at least twice a year, with more frequent reviews for exposures that are perceived to be more vulnerable to default. Annual reviews continue after project completion for private sector exposures. Each review includes a consideration of the project risk rating and, for underperforming projects, the level of specific provisions. Control of disbursement is managed by the Operation Administration Unit within Risk Management, which is responsible for ensuring compliance with project conditionality prior to disbursement. It also ensures that the correct procedures are followed in line with approved policy. In addition, the portfolio is monitored for both country and sector diversification.

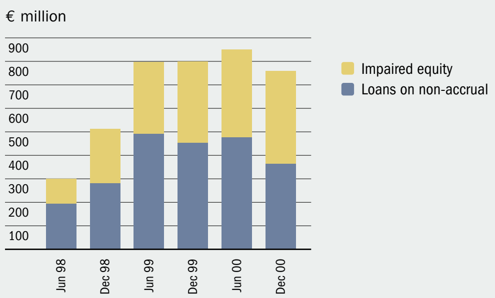
Investments that are in jeopardy are transferred to the Corporate Recovery team, reporting jointly to Risk Management and Banking, for management of the restructuring process in cases where this is likely to achieve positive results. The Corporate Recovery team works closely with both Risk Management and Banking in the development and implementation of the particular strategy for these situations.

All projects and countries of operations are assigned credit risk ratings on an internal scale from 1 (low risk) to 10 (expected loss). For the performing portfolio, general provisions are established according to a matrix based on both external indicators of loss as well as EBRD experience, taking into account perceived project, sector and country risks. The general provisioning model used by the Bank was enhanced in 2000, using recent portfolio experience and a new model to generate expected losses from individual projects.

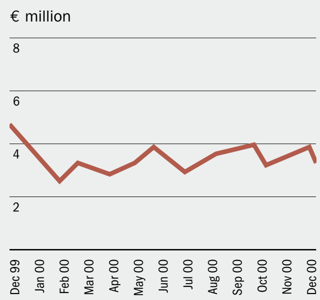
In view of the markets in which it operates and its transition mandate, the EBRD expects its project-specific ratings in normal circumstances to range from risk categories 4 to 6 (roughly equivalent to Standard & Poor's BBB to B ratings) at the time of approval. The average project risk rating of new projects signed in 2000 was 5.55 (1999: 5.36). The weighted average project risk rating of the signed portfolio at 31 December 2000 was 5.65 (1999: 5.68).

The EBRD's portfolio benefited in 2000 from a steadily improving credit climate across the region led by a recovery in Russia. The risk ratings of a number of countries of operations were upgraded by the Bank as well as by external rating agencies. The proportion of classified operations fell as a result of the resolution of a number of previous problem exposures and because of the growth in the overall portfolio. By the end of 2000, the percentage of signed operations in overall risk categories 4 to 6 rose from 47 per cent at 31 December 1999 to 68 per cent. Those in risk category 6W (Watch List) and 7 (Special Attention) declined to 23 per cent (1999: 42 per cent) and those in categories 8 (Sub-standard), 9 (Doubtful) and 10 (likely loss) decreased to 7 per cent (1999: 8 per cent).

**Non-accruals and impaired equity**




**Total undiversified VaR – Overall limit: €18 million**




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

The EBRD's risk portfolio improved over the year, with the average overall risk rating of the signed portfolio decreasing to 5.91 (1999: 6.14). Both the sovereign and non-sovereign sectors saw considerable improvement during 2000.

Loans are placed on non-accrual when payments are more than 60 days late for non-sovereign exposure or 180 days for sovereign exposure. In addition, performing loans may also be placed on non-accrual if future payment default is anticipated. Impaired equity is defined as all those equity investments against which specific provisions have been taken.

### Performance

For the first time Banking operations achieved profitability after provisions on a fully allocated basis, with net profit after provisions of €74.0 million for 2000 compared with a net loss of €11.6 million on the same basis for 1999. Operating income of €423.0 million from the EBRD's core Banking business in 2000 was 35 per cent above the level of €313.7 million for 1999. All income-generating areas in 2000 outperformed their 1999 levels, in particular net interest income from loans (37 per cent increase), dividend income (more than doubled) and net profit on the sale of share investments (30 per cent increase).

The sale of a small number of the EBRD's more mature shareholdings 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. These are linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to achieve 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.

## Treasury operations

### Portfolio

The value of assets under Treasury management was €12.4 billion at 31 December 2000 (1999: €10.6 billion), comprising €7.1 billion of debt securities and €5.3 billion of placements with credit institutions (including repurchase agreements and total return swaps).

At the end of 2000, approximately 3 per cent of Treasury assets were managed by a total of 11 external asset managers. The externally managed portfolios comprised a funded and notional amount of €357.3 million of a euro-denominated interest rate trading programme[1] and €364.3 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 that the Bank applies to its internally managed funds.

### Risks

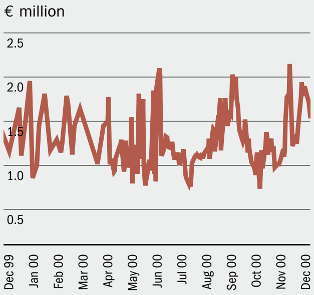
As at 31 December 2000, the aggregate Value at Risk (VaR) of the EBRD, calculated with reference to a 99 per cent confidence level and over a ten-trading-day horizon, stood at €3.3 million[2] (1999: €4.7 million).

These figures denote a modest utilisation of the total VaR limit for all Treasury funds, whether internally or externally managed. This limit is set out in the Bank's Treasury Authority, and amounts to €18.0 million when calculated with reference to a 99 per cent confidence level and a ten-trading-day horizon.

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

[2] In other terms, the EBRD had a 1 per cent chance of experiencing a loss of at least €3.3 million over a horizon of ten trading days, due to adverse movements in interest rates and foreign exchange rates.

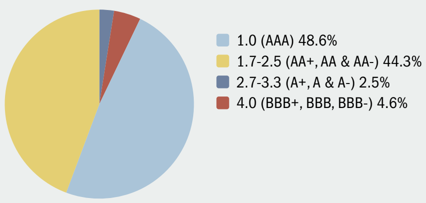
### Internally managed positions




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

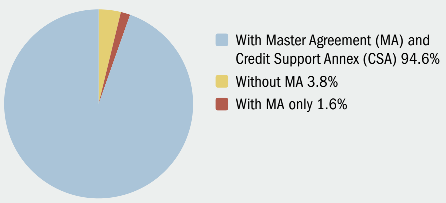
### Credit quality profile of the Treasury portfolio

31 December 2000




### OTC derivatives exposure*

31 December 2000




* Percentages are relative to the gross marked-to-market credit exposure.

The VaR of the internally managed portfolios stood at €1.6 million (1999: €1.3 million). The range during the year was between €0.7 million and €2.2 million, comparable, if somewhat narrower, to that experienced in 1999.

As in previous years, the contribution from foreign exchange risk to the total VaR number was fairly limited at all times in 2000, never exceeding €0.8 million, with interest rates positioning therefore representing the bulk of the EBRD's market risk exposure. The size of the internally managed portfolios to which these figures correspond was €10.7 billion as at 31 December 2000 (1999: €9.3 billion).

In addition, market risks incurred on the externally managed portfolios exhibited a year-end VaR of €0.6 million (1999: €1.0 million) for the euro-denominated programme and €1.2 million (1999: €2.4 million) for the US dollar-denominated programme.[3] The net asset value of these externally managed portfolios, as at 31 December 2000, was €45.8 million and €364.3 million respectively.

The overall quality of Treasury credit exposure remained high, with the weighted average credit risk rating of 1.65 on the EBRD's internal rating scale (slightly better than AA+). At the end of 2000, 92.9 per cent of the overall exposure was rated 2.5 (split rated between A+ and AA-) or better (1999: 91.6 per cent). All exposures were investment grade quality or better, with only sovereign-related exposures in Korea and fully secured derivatives exposure to a single counterparty falling below the internal rating of 3.3 (equivalent to A-).

The portfolio's credit risk exposure was diversified across 22 countries, with no more than 8.6 per cent of the exposure in any one country, with the exception of the United States at 38.1 per cent (same as 1999).

[3] The VaR of the US dollar-denominated programme is computed by an external risk information provider.

Credit risk mitigation techniques were actively pursued, notably in the area of over-the-counter (OTC) derivative transactions. At the end of 2000, 94.6 per cent of the EBRD's gross credit exposure to OTC derivative transactions was with counterparties with which both a Master Agreement (MA) and a Credit Support Annex (CSA) had been completed.

Management of operational risk in the EBRD's Treasury transactions has focused to date on risk monitoring and risk mitigation, as appropriate quantification techniques for risk measurement are still debated in the industry at large. In particular, attention has been given to ensuring that the principle of segregation of duties is complied with at all stages of the processing of transactions.

The EBRD has performed a review of all its strategic systems and initiated the replacement of its back-office and general ledger systems in a Bank-wide process, encompassing both Treasury and Banking operations.

Risk maps are regularly produced and submitted to the Audit Committee of the Board, with discussion increasingly focused on operational risk and the sub-categories adopted by the EBRD (systems risk, transactions risk, operational control risk and people risk). The operational risk indicators used to monitor Treasury transactions are also currently under review.

## Performance

Treasury achieved a strong performance in 2000, contributing €73.7 million profit after provisions (1999: €54.3 million). This increase is principally attributable to improved margins earned on Treasury's investment portfolio where financial assets were available at historically wide spreads in volatile market conditions.

## Funding

### Capital

Paid-in capital totalled €5.2 billion at 31 December 2000 and at 31 December 1999. All but three members have now subscribed to the capital increase, with instruments of subscription deposited for 982,300 shares (1999: 972,200). This increases the number of the EBRD's subscribed shares to almost 2.0 million. The third instalment of the capital increase became due in April 2000, and paid-in capital received increased to €3.8 billion cumulative, from €3.5 billion at the end of 1999.

Overdue capital of cash and promissory notes totalled €24.6 million at the end of 2000 (1999: €31.9 million), with approximately €17.9 million relating to the capital increase. A further €5.5 million of encashments of deposited promissory notes is also overdue, of which €3.1 million relates to the capital increase.

### Capital adequacy

In implementing its operational strategy, the EBRD's capital usage is guided by the Bank's statutory and financial policy parameters. Headroom is the amount of funds that the Bank 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.

In accordance with the requirements of Article 5.3 of the Agreement Establishing the EBRD, the Bank started a review of its capital stock during 2000, which will be finalised during 2001. The traditional headroom measure of capital adequacy has been reviewed and further supplemented with a risk-based analysis applying the Bank's own risk capital model.

### Borrowings

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

Total borrowings at 31 December 2000 stood at €14.1 billion, an increase of €1.5 billion compared with 1999. There were 38 new issues under the EBRD's medium- to long-term borrowing programme at an average after-swap cost of Libor minus 31 basis points. The average remaining life of medium- to long-term debt was extended during the year to stand at 9.5 years at 31 December 2000 (1999: 8.1 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 expressed in sterling were £129.5 million for 2000, well within budget and comparable to those for the previous year (1999: £129.4 million), reflecting continuing budgetary discipline, effective cost controls and a proactive cost-recovery programme. When translated into euro, the EBRD's general administrative expenses, including depreciation, were €192.1 million (1999: €172.8 million).

The increase in expenses expressed in euro was due to the higher actual sterling/euro foreign exchange rates prevailing during the year, with an average rate of 1.64 euro to sterling in 2000 compared with 1.53 in 1999. The actual weighted average rate achieved by the Bank was lower than this due to the EBRD's policy of entering into exchange rate contracts to minimise the impact of any strengthening of sterling against the euro on the largely sterling-denominated expenses, when translated into euro for reporting purposes. Consequently, a weighted average euro to sterling exchange rate of 1.52 was achieved in 2000 for expenses (1999: 1.36), resulting in a cost reduction of €15.0 million in 2000, compared with €20.3 million in 1999.

The EBRD also 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 42 per cent of the 2001 expenses budget. At 31 December 2000, the market value of these options showed a gain of €12.8 million (1999: €24.6 million). In accordance with the Bank's accounting policy, this gain has been deferred and will be recognised in subsequent years.

## Provisions

The EBRD's general provisioning on non-sovereign exposures is based on a risk-rated approach, as assessed by the Bank's independent Risk Management department and applied at the end of the month of disbursement. For sovereign projects, a uniform general provision of 3 per cent on outstanding disbursed sovereign risk exposures is applied, which takes account of the Bank's preferred creditor status afforded by its members. The EBRD takes specific provisions as required on a case-by-case basis. Provisions are based on net disbursements at the relevant reporting date.

The application of the EBRD's provisioning policy resulted in a charge for the year of €174.3 million, which is 8 per cent higher than the 1999 charge of €160.9 million. Banking provisions were €167.2 million compared with €166.2 million in 1999 while Treasury provisions (see below) amounted to a €7.2 million charge (1999: €5.3 million credit). Although total Banking provisions were at a similar level to the previous year, the division between specific and general provisions was different. Specific provisions represented 62 per cent of Banking provisions in 2000 (1999: 86 per cent), reflecting the improved portfolio performance and asset recoveries. General provisions represented 38 per cent of Banking provisions in 2000 (1999: 14 per cent), reflecting a number of projects that were returned to general provisioning from specific provisions following their restructuring as well as a number of project downgradings in the portfolio.

As a result of these charges for 2000, total provisions for Banking operations reached €1.2 billion, which amounted to 15.8 per cent of the outstanding disbursed portfolio of loans and equity investments (1999: €1.1 billion and 16.2 per cent).

Provisions relating to the Treasury portfolio totalled €13.2 million at the end of 2000 (1999: €6.3 million).

## Outlook for 2001

The EBRD has budgeted for a profit in 2001, although well below the level of 2000. The 2001 result is vulnerable to continuing uncertainty in the operational environment, in particular the impact of the current global economic slowdown and reduced buoyancy in equity markets.

## 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's financial policies define the financial and risk parameters that apply to Banking and Treasury operations. These policies include provisioning, pricing and liquidity policies as well as the Treasury Authority. The provisioning policy determines the amount of general provisions for, and the process for applying specific provisions to, all assets. Pricing policies determine the considerations and parameters used to price loans, guarantees and equity investments. The liquidity policy determines the amount of liquid assets required by the Bank. Furthermore, the financial policies define capital utilisation and provide portfolio risk parameters for Banking operations, hedging policies, equity valuation, exit procedures and strategies, underwriting, risk management and corporate governance policies.

The Treasury Authority is the document by which the Board of Directors delegates authority to the Vice President Finance to manage the EBRD's Treasury operations and which defines the risk parameters to be observed in these activities. The credit process describes the procedures for approval, management and review of Banking exposures. The Financial and Operations Policies Committee reviews the Treasury Authority, and the Bank's Audit Committee reviews the Credit Process. Both are submitted to the Board for approval. 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 comprehensive and rigorous processes.

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. 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 movement of interest rates and foreign exchange rates may adversely affect positions taken by the Bank in its Treasury portfolio. The EBRD aims to limit and manage market risks to the extent possible in its portfolio of Treasury assets and borrowings through active asset and liability management and management of foreign exchange exposures. Interest rate risks are managed through a combination of synthetically matching the interest rate profiles of assets and liabilities, mainly through the use of derivatives for hedging purposes. Exposures to foreign currency and interest rate risks are measured independently of the Treasury function to ensure compliance with authorised limits, including VaR limits.

In a manner consistent with the EBRD's objective of capital preservation, particularly with respect to the Treasury portfolio, sensitivities to market risk factors, 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.

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.

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;
- the Public Information Policy;
- 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; and
- procurement policies.

The Bank also monitors progress in risk management matters under the framework provided by the Risk Management Enhancement Programme for Treasury Transactions, which was introduced in 1995. The objective of this ongoing programme is to ensure that the EBRD's approach to managing market, credit and operational risk in its Treasury activities is kept in line with the evolving best market practice in the industry. Progress in measuring, monitoring and mitigating these risks is regularly reviewed by the Audit Committee of the Bank's Board of Directors.

[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. In addition, the Bank uses credit derivatives as an alternative to investments in specific securities or to hedge certain exposures.

All risks arising from derivative instruments are combined with those deriving from all other instruments dependent on the same underlying risk factors and subject to overall market and credit risk limits. Additionally, 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 pre-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 the highest rated counterparties. Furthermore, the EBRD pays great attention to mitigating Treasury derivatives credit risks 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. 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 International Swaps and Derivatives Association (ISDA)-based Master Agreement.

The EBRD has continued to expand its use of collateral agreements in relation to its activity in over-the-counter derivatives. By the end of 2000, 95 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 62 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 2000 is detailed on page 104.

### 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 closely 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 should use market comparators for its staff compensation and that salary and bonus should 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.

# Financial statements

## Profit and loss account

| For the year ended 31 December 2000 | Note | **Year to 31 December 2000 € 000** | Year to 31 December 1999 € 000 |
|---|---|---|---|
| Interest and similar income | | | |
| From loans | | **410,190** | 297,073 |
| From fixed-income debt securities and other interest | | **581,345** | 368,377 |
| Interest expenses and similar charges | | (**718,223**) | (478,885) |
| **Net interest income** | | **273,312** | 186,565 |
| Dividend income from share investments | | **28,081** | 13,899 |
| Net fee and commission income | 4 | **29,379** | 25,847 |
| Financial operations | | | |
| Net profit on sale of share investments | | **166,770** | 128,530 |
| Net profit on dealing activities and foreign exchange | 5 | **21,685** | 21,584 |
| **Operating income** | | **519,227** | 376,425 |
| General administrative expenses | 6 | (**179,002**) | (159,685) |
| Depreciation | 12 | (**13,099**) | (13,162) |
| **Operating profit before provisions** | | **327,126** | 203,578 |
| Provisions for losses | 7 | (**174,334**) | (160,911) |
| **Profit for the year** | | **152,792** | 42,667 |

## Balance sheet

| At 31 December 2000 | Note | **€ 000** | **31 December 2000 € 000** | € 000 | 31 December 1999 € 000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Placements and debt securities | | | | | |
| Placements with and advances to credit institutions | | **5,344,328** | | 2,773,490 | |
| Debt securities | 8 | **7,075,502** | | 7,865,490 | |
| | | | **12,419,830** | | 10,638,980 |
| Other assets | 9 | | **763,672** | | 994,620 |
| Loans and share investments | | | | | |
| Loans | 10 | **4,940,425** | | 4,756,369 | |
| Share investments | 10 | **1,386,372** | | 1,238,960 | |
| | | | **6,326,797** | | 5,995,329 |
| Property, technology and office equipment | 12 | | **38,894** | | 41,009 |
| Paid-in capital receivable | 15 | | **1,740,817** | | 1,924,695 |
| **Total assets** | | | **21,290,010** | | 19,594,633 |
| **Liabilities** | | | | | |
| Borrowings | | | | | |
| Amounts owed to credit institutions | | **455,745** | | 743,657 | |
| Debts evidenced by certificates | 13 | **13,621,661** | | 11,818,129 | |
| | | | **14,077,406** | | 12,561,786 |
| Other liabilities | 14 | | **1,960,609** | | 1,961,040 |
| Subscribed capital | 15 | **19,742,750** | | 19,640,750 | |
| Callable capital | | (**14,556,615**) | | (14,477,645) | |
| Paid-in capital | | | **5,186,135** | | 5,163,105 |
| Reserves and profit for the year | | | **65,860** | | (91,298) |
| **Members' equity** | | | **5,251,995** | | 5,071,807 |
| **Total liabilities and members' equity** | | | **21,290,010** | | 19,594,633 |
| **Memorandum items** | | | | | |
| Undrawn commitments | 11 | | **4,655,228** | | 3,880,872 |

## Statement of changes in members' equity

| For the year ended 31 December 2000 | Subscribed capital € 000 | Callable capital € 000 | Conversion reserve € 000 | General reserve € 000 | Special reserve € 000 | Accumulated reserve € 000 | (Loss)/profit for the year € 000 | Reserves and profit for the year € 000 | Total € 000 |
|---|---|---|---|---|---|---|---|---|---|
| At 31 December 1998 | 19,290,750 | (14,206,395) | 57,854 | 24,366 | 96,383 | (60,412) | (256,146) | (137,955) | 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 | – | – |
| Transfer to reserves from restatement of pension | – | – | – | – | – | 5,087 | (5,087) | – | – |
| Capital increase | 350,000 | (271,250) | – | – | – | – | – | – | 78,750 |
| Profit for the year | – | – | – | – | – | – | 42,667 | 42,667 | 42,667 |
| At 31 December 1999 | 19,640,750 | (14,477,645) | 56,959 | 29,251 | 115,710 | (335,885) | 42,667 | (91,298) | 5,071,807 |
| Internal tax for the year | – | – | – | 4,366 | – | – | – | 4,366 | 4,366 |
| Qualifying fees from the prior year | – | – | – | – | 9,848 | (9,848) | – | – | – |
| Profit set aside from the prior year | – | – | – | – | – | 42,667 | (42,667) | – | – |
| Capital increase | 102,000 | (78,970) | – | – | – | – | – | – | 23,030 |
| Profit for the year | – | – | – | – | – | – | 152,792 | 152,792 | 152,792 |
| **At 31 December 2000** | **19,742,750** | **(14,556,615)** | **56,959** | **33,617** | **125,558** | **(303,066)** | **152,792** | **65,860** | **5,251,995** |

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 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.

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. Article 53 of the Agreement, as supplemented by Article 16 of the Headquarters Agreement, provides that 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 €11.0 million (1999: €9.8 million), being qualifying fees and commissions earned in the year to 31 December 2000, will be appropriated in 2001 from the profit for the year to 31 December 2000 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.

## Statement of cash flows

| For the year ended 31 December 2000 | € 000 | Year to 31 December 2000 € 000 | € 000 | Year to 31 December 1999 € 000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Operating profit for the year | **152,792** | | 42,667 | |
| Adjustments for: | | | | |
| Provision for losses | **174,334** | | 160,911 | |
| Depreciation | **13,099** | | 13,162 | |
| Realised (gains) on share investments | (**166,770**) | | (128,530) | |
| Internal taxation | **4,366** | | 4,885 | |
| Unrealised (gains) on marked to market portfolio | (**2,389**) | | (3,172) | |
| Realised (gains) on investment portfolio | (**1,829**) | | (2,764) | |
| Foreign exchange movements on provisions | **37,562** | | 59,658 | |
| Operating profit before changes in operating assets | **211,165** | | 146,817 | |
| Decrease/(increase) in operating assets: | | | | |
| Interest receivable and prepaid expenses | **8,033** | | (137,778) | |
| Net decrease in positions held in marked to market portfolio | **41,251** | | 303,129 | |
| Increase in operating liabilities: | | | | |
| Interest payable and accrued expenses | **130,649** | | 298,588 | |
| **Net cash provided in operating activities** | | **391,098** | | 610,756 |
| **Cash flows from investing activities** | | | | |
| Proceeds from repayment of loans | **1,410,119** | | 1,427,841 | |
| Net placements with credit institutions | (**21,197**) | | 1,128,166 | |
| Proceeds from sale of share investments | **253,175** | | 259,012 | |
| Proceeds from sale of investment securities | **3,129,471** | | 1,958,576 | |
| Purchases of investment securities | (**2,244,432**) | | (4,604,509) | |
| Funds advanced for loans and share investments | (**2,190,162**) | | (2,740,571) | |
| Purchase of property, technology and office equipment | (**10,984**) | | (10,849) | |
| **Net cash provided/(used) in investing activities** | | **325,990** | | (2,582,334) |
| **Cash flows from financing activities** | | | | |
| Capital received | **206,907** | | 153,140 | |
| Conversion reserve | – | | (895) | |
| Issue of debts evidenced by certificates | **4,721,974** | | 4,871,412 | |
| Redemption of debts evidenced by certificates | (**2,910,913**) | | (2,284,950) | |
| **Net cash provided by financing activities** | | **2,017,968** | | 2,738,707 |
| **Net increase in cash and cash equivalents** | | **2,735,056** | | 767,129 |
| **Cash and cash equivalents at beginning of year** | | **2,132,329** | | 1,365,200 |
| **Cash and cash equivalents at 31 December** [1] | | **4,867,385** | | 2,132,329 |

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

| | 2000 € 000 | 1999 € 000 |
|---|---|---|
| Placements with and advances to credit institutions | **5,182,779** | 2,710,356 |
| Amounts owed to credit institutions | (**315,394**) | (578,027) |
| **Cash and cash equivalents at 31 December** | **4,867,385** | 2,132,329 |

Note: Operating profit includes dividends received of €28.1 million (1999: €13.9 million).

# Notes to the 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 2000 the Bank's shareholders comprised 59 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 (€).

Monetary assets and liabilities denominated in foreign currencies are translated into euro at spot rates as at 31 December 2000. 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 2000 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 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. In cases where the Bank holds 20 per cent or more of an investee company, the Bank does not normally seek to exert significant influence. Since the Bank does not prepare consolidated financial statements, all equity investments, including associates, are carried at cost, with disclosure of their book value and of the profit and loss impact were equity accounting principles to have been applied to share investments that exceed 20 per cent. These disclosures and further 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 million are provided in note 10.

### vi Provisions for losses and general portfolio risks

Provisions made are classified as specific or general 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 are based on a risk-rated approach for non-sovereign risk assets applied at the end of the month of disbursement. For all sovereign risk assets a 3 per cent provision is made which takes into account the Bank's preferred creditor status afforded by its members. General provisions together with specific provisions are shown as a deduction from the loans and share investments asset categories. The provision for guarantees is applied when effective and based on utilisation using a consistent methodology to the general provision on non-sovereign risk assets and is included in 'Other liabilities'.

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 the book value of 'Debt securities'.

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.

**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 loan becomes effective. 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 from the date when the loan becomes effective. 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 are charged to the profit and loss account and transferred to the schemes' independent custodians. The charge to the profit and loss account in respect of the final benefit scheme includes actuarial gains and losses, the current service cost and other actuarial adjustments as determined by qualified external actuaries. Also included in this charge are actuarial gains and losses in excess of a 10 per cent corridor which 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 actuaries also advise the Bank as to the necessary contributions to be made to the final benefit scheme which are transferred to the schemes' independent custodians.

**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 are 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'.

## 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:**

| | **Banking 2000 € 000** | **Treasury 2000 € 000** | **Aggregated 2000 € 000** | Banking 1999 € 000 | Treasury 1999 € 000 | Aggregated 1999 € 000 |
|---|---|---|---|---|---|---|
| Interest income | **415,805** | **575,730** | **991,535** | 298,302 | 367,148 | 665,450 |
| Other income | **224,230** | **21,685** | **245,915** | 168,276 | 21,584 | 189,860 |
| **Total segment revenue** | **640,035** | **597,415** | **1,237,450** | 466,578 | 388,732 | 855,310 |
| Less interest expenses and similar charges | (**350,948**) | (**516,088**) | (**867,036**) | (240,009) | (335,740) | (575,749) |
| Allocation of capital benefit | **133,932** | **14,881** | **148,813** | 87,178 | 9,686 | 96,864 |
| Less general administrative expenses | (**164,861**) | (**14,141**) | (**179,002**) | (147,309) | (12,376) | (159,685) |
| Less depreciation | (**11,855**) | (**1,244**) | (**13,099**) | (11,859) | (1,303) | (13,162) |
| **Segment result before provisions** | **246,303** | **80,823** | **327,126** | 154,579 | 48,999 | 203,578 |
| Provisions | (**167,177**) | (**7,157**) | (**174,334**) | (166,184) | 5,273 | (160,911) |
| **Net profit/(loss) after provisions** | **79,126** | **73,666** | **152,792** | (11,605) | 54,272 | 42,667 |
| **Segment assets** | **6,591,157** | **12,958,036** | **19,549,193** | 6,220,733 | 11,449,205 | 17,669,938 |
| Paid-in capital receivable | | | **1,740,817** | | | 1,924,695 |
| **Total assets** | | | **21,290,010** | | | 19,594,633 |
| **Segment liabilities** | **6,591,157** | **12,958,036** | **19,549,193** | 6,220,733 | 11,449,205 | 17,669,938 |
| **Members' equity receivable** | | | **1,740,817** | | | 1,924,695 |
| **Total liabilities** | | | **21,290,010** | | | 19,594,633 |
| Capital expenditure | **9,940** | **1,044** | **10,984** | 9,775 | 1,074 | 10,849 |

Interest expense and similar charges, and the capital benefit from above together total €718.2 million (1999: €478.9 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 2000 € 000** | Segment revenue 1999 € 000 | **Segment assets 2000 € 000** | Segment assets 1999 € 000 |
|---|---|---|---|---|
| Advanced countries [1] | **235,207** | 217,936 | **2,869,969** | 2,746,986 |
| Early/Intermediate countries [2] | **285,081** | 154,176 | **2,637,139** | 2,319,480 |
| Russian Federation | **119,747** | 94,466 | **1,084,049** | 1,154,267 |
| **Total** | **640,035** | 466,578 | **6,591,157** | 6,220,733 |

Geographical segment data in respect of Banking activities is disclosed above. A geographical analysis of Treasury activities is not considered beneficial due to the use of derivative instruments switching revenues into different currencies and locations to that from which the assets originate. The geographical segment revenue above and the Treasury business segment revenue together form total segment revenue of €1.2 billion.

[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, Former Yugoslav Republic of 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:

| | 2000 € 000 | 1999 € 000 |
|---|---|---|
| Commitment fees | **11,669** | 10,906 |
| Front-end fees | **9,685** | 8,959 |
| Management fees | **3,434** | 3,489 |
| Trade finance fees | **2,496** | 1,048 |
| Other | **2,095** | 1,445 |
| **Net fee and commission income** | **29,379** | 25,847 |

## 5 Net profit on dealing activities and foreign exchange

| | 2000 € 000 | 1999 € 000 |
|---|---|---|
| Investment portfolio | **749** | 2,764 |
| Dealing portfolio | **22,925** | 25,440 |
| Foreign exchange | (**1,989**) | (6,620) |
| **Net profit on dealing activities and foreign exchange** | **21,685** | 21,584 |

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 includes both realised and unrealised gains or losses together with associated interest income and expense.

## 6 General administrative expenses

| | 2000 € 000 | 1999 € 000 |
|---|---|---|
| Personnel costs [1] | **111,183** | 95,954 |
| Overhead expenses net of government grants [2] | **67,819** | 63,731 |
| **General administrative expenses** [3] | **179,002** | 159,685 |

The Bank has a policy of entering into exchange rate contracts to minimise the impact of any strengthening of sterling against the euro on the largely sterling denominated expenses, when translated into euro for reporting purposes. The application of this policy had the impact of reducing general administrative expenses by €15.0 million in 2000 (1999: €20.3 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 42 per cent for 2001. At 31 December 2000 the market value of these transactions shows a gain of €12.8 million, which, in accordance with the Bank's accounting policy, has been deferred and will be recognised in the subsequent year.

[1] The average numbers of staff included in personnel costs during the year were: regular staff of 848 (1999: 836), contract staff of 64 (comprising special contract staff of 38 and interns/short-term staff of 26), locally hired staff in Resident Offices of 232, and Board of Directors personnel of 76. Of these 39 were externally funded.

Staff numbers at 31 December 2000 were: regular staff of 862 (1999: 833), contract staff of 56 (comprising special contract staff of 28 and interns/short-term staff of 28), locally hired staff in Resident Offices of 238, and Board of Directors personnel of 75. Of these 39 were externally funded.

In addition, 206 Project Bureau staff (1999: 207) 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 (1999: €2.1 million) were taken to the profit and loss account.

[3] Sterling general administrative expenses totalled £119.3 million (1999: £118.9 million).

## 7 Provisions for losses and general portfolio risks

| **Profit and loss charges** | Loans € 000 | Share investments € 000 | Total loans and share investments € 000 | Guarantees and other € 000 | Treasury provisions € 000 | **2000 Total € 000** | 1999 Total € 000 |
|---|---|---|---|---|---|---|---|
| Provision charge this year: | | | | | | | |
| General provisions on | | | | | | | |
| Outstanding disbursements | 78,537 | 140,878 | 219,415 | 2,033 | 7,157 | **228,605** | 10,186 |
| Outstanding commitments | (29,742) | (54,293) | (84,035) | (6,013) | – | (**90,048**) | (14,748) |
| Guarantees | – | – | – | 14,305 | – | **14,305** | 4,481 |
| General sovereign risk provisions | 1,866 | – | 1,866 | – | – | **1,866** | 14,128 |
| Specific provisions | 21,171 | 80,396 | 101,567 | 1,612 | – | **103,179** | 142,052 |
| Portfolio risk | (65,302) | (15,218) | (80,520) | (3,053) | – | (**83,573**) | 4,812 |
| **For the year ended 31 December 2000** | **6,530** | **151,763** | **158,293** | **8,884** | **7,157** | **174,334** | |
| For the year ended 31 December 1999 | 47,356 | 111,720 | 159,076 | 7,108 | (5,273) | | 160,911 |

| **Movement in provisions** | Loans € 000 | Share investments € 000 | Total loans and share investments € 000 | Guarantees and other € 000 | Treasury provisions € 000 | **Total € 000** |
|---|---|---|---|---|---|---|
| At 1 January 2000 | 666,942 | 446,874 | 1,113,816 | 10,957 | 6,320 | **1,131,093** |
| Provision charges | 6,530 | 151,763 | 158,293 | 8,884 | 7,157 | **174,334** |
| Foreign exchange adjustments | 39,322 | – | 39,322 | (1,475) | (285) | **37,562** |
| Release against amounts written off | (112,719) | (18,177) | (130,896) | – | – | (**130,896**) |
| **At 31 December 2000** | **600,075** | **580,460** | **1,180,535** | **18,366** | **13,192** | **1,212,093** |
| *Analysed between* | | | | | | |
| General provisions on outstanding disbursements | 194,039 | 282,381 | 476,420 | 4,061 | 13,192 | **493,673** |
| General sovereign risk provisions | 68,121 | – | 68,121 | – | – | **68,121** |
| Specific provisions | 337,915 | 298,079 | 635,994 | – | – | **635,994** |
| Provisions for losses deducted from assets | 600,075 | 580,460 | 1,180,535 | 4,061 | 13,192 | **1,197,788** |
| Provisions for losses deducted from other liabilities | – | – | – | 14,305 | – | **14,305** |
| **At 31 December 2000** | **600,075** | **580,460** | **1,180,535** | **18,366** | **13,192** | **1,212,093** |



During the year ended 31 December 2000 the Bank refined its general provision methodology taking into account the experience gained from ongoing operations and the developments in market practice in the banking industry. At the date when the refined methodology was first applied, the difference in total provisions from those calculated using the previous methodology was not material. As disclosed in note 2 vi), general provisions as at 31 December 2000 are now calculated on disbursed assets using a risk-rated approach for non-sovereign assets and at 3 per cent for sovereign risk assets. The provision for general portfolio risks, carried by the Bank in prior periods in other liabilities, which comprised general provisions on commitments and for portfolio risk, has been incorporated into this new general provision calculation which is accounted for as a deduction from the carrying value of the related assets.

## 8 Debt securities

| Analysis by issuer | **Book value 2000 € 000** | Book value 1999 € 000 |
|---|---|---|
| Governments | **701,060** | 618,693 |
| Public bodies | **904,537** | 1,042,636 |
| Other borrowers | **5,469,905** | 6,204,161 |
| **At 31 December** | **7,075,502** | 7,865,490 |

| *Analysis by portfolio* | | |
|---|---|---|
| Investment portfolio | **5,208,121** | 6,093,159 |
| Dealing portfolio | | |
| Internally managed funds | **1,190,365** | 1,160,547 |
| Externally managed funds | **625,440** | 571,476 |
| | **1,815,805** | 1,732,023 |
| Banking portfolio | **51,576** | 40,308 |
| **At 31 December** | **7,075,502** | 7,865,490 |

## 9 Other assets

| | **2000 € 000** | 1999 € 000 |
|---|---|---|
| Interest receivable | **382,853** | 414,501 |
| Treasury-related | **290,964** | 502,710 |
| Other | **89,855** | 77,409 |
| **At 31 December** | **763,672** | 994,620 |

## 10 Loans and share investments

| **Outstanding disbursements** | Loans € 000 | Share investments € 000 | Total loans and share investments € 000 |
|---|---|---|---|
| At 1 January 2000 | 5,328,267 | 1,616,323 | 6,944,590 |
| Disbursements | 1,480,940 | 455,091 | 1,936,031 |
| Repayments, prepayments and disposals at cost | (1,410,119) | (86,405) | (1,496,524) |
| Foreign exchange movements | 254,131 | – | 254,131 |
| Written off | (112,719) | (18,177) | (130,896) |
| **At 31 December 2000** | **5,540,500** | **1,966,832** | **7,507,332** |
| Provisions at 31 December 2000 | (600,075) | (580,460) | (1,180,535) |
| **Total net of provisions at 31 December 2000** | **4,940,425** | **1,386,372** | **6,326,797** |
| Total net of provisions at 31 December 1999 | 4,756,369 | 1,238,960 | 5,995,329 |

At 31 December 2000 the Bank had 26 loans amounting to €363.8 million (1999: 26 loans totalling €452.7 million) in non-accrual status due to overdue interest and principal repayments. Specific provisions amounting to €278.9 million (1999: €314.2 million) have been made against these loans.

Since the Bank has no subsidiaries it does not prepare consolidated financial statements. It accounts for all share investments at cost less provision for permanent diminution in value. If the Bank were to have equity accounted for all investments in which it owns 20 per cent or more of the investee share capital, the book value of which, included in share investments in the balance sheet as at 31 December 2000, was approximately €585.0 million, the net incremental impact on the profit and loss account would be a profit of approximately €17.2 million. This represents the Bank's share of net profits or losses from the most recent available audited financial statements of its investee companies. Due to the time delay in obtaining audited financial statements that have been prepared in accordance with International Accounting Standards from all investee companies, these figures are based on profits or losses from the most recent 12-month period for which such information is available.

Listed below are all share investments where the Bank owned more than 20 per cent of the investee share capital at 31 December 2000 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** |
|---|---|
| Black Sea Fund | 32 |
| Budapest Bank | 34 |
| Cargill Industrial Complex | 33 |
| Danone – Ciastka | 25 |
| East Europe Food Fund | 21 |
| Lafarge – Romania | 38 |
| Lafarge – Kujawy and RMC | 22 |
| Lafarge – Malogoszcz and Wierzbica | 22 |
| Polish Private Equity Fund | 33 |

## 11 Analysis of operational activity

| *Analysis by country* | **Operating assets 2000 € 000** | Operating assets 1999 € 000 | **Undrawn commitments 2000 € 000** | Undrawn commitments 1999 € 000 |
|---|---|---|---|---|
| Albania | **31,924** | 27,813 | **46,926** | 51,780 |
| Armenia | **74,666** | 53,497 | **29,724** | 9,581 |
| Azerbaijan | **204,204** | 177,144 | **90,171** | 69,335 |
| Belarus | **87,903** | 110,467 | **7,365** | 16,049 |
| Bosnia and Herzegovina | **57,133** | 35,218 | **79,903** | 44,177 |
| Bulgaria | **305,924** | 237,604 | **57,670** | 43,211 |
| Croatia | **336,318** | 275,975 | **232,733** | 187,612 |
| Czech Republic | **294,691** | 277,548 | **141,801** | 115,159 |
| Estonia | **199,082** | 204,925 | **40,760** | 27,650 |
| Former Yugoslav Republic of Macedonia | **94,377** | 74,278 | **88,122** | 66,988 |
| Georgia | **89,481** | 53,541 | **85,502** | 110,926 |
| Hungary | **489,086** | 486,828 | **108,158** | 118,935 |
| Kazakhstan | **233,800** | 161,072 | **324,552** | 304,070 |
| Kyrgyzstan | **109,782** | 101,723 | **25,778** | 36,764 |
| Latvia | **95,534** | 105,123 | **68,576** | 82,212 |
| Lithuania | **250,858** | 187,581 | **54,531** | 24,597 |
| Moldova | **75,109** | 72,884 | **69,229** | 40,784 |
| Poland | **863,884** | 741,775 | **526,418** | 332,832 |
| Romania | **880,414** | 794,627 | **339,971** | 369,635 |
| Russian Federation | **1,494,710** | 1,619,082 | **732,937** | 595,887 |
| Slovak Republic | **206,613** | 253,505 | **35,628** | 39,550 |
| Slovenia | **200,879** | 184,266 | **22,322** | 36,267 |
| Tajikistan | **10,972** | 8,655 | **2,786** | 5,126 |
| Turkmenistan | **40,473** | 31,272 | **111,467** | 117,996 |
| Ukraine | **336,531** | 310,203 | **629,728** | 459,885 |
| Uzbekistan | **255,443** | 220,392 | **217,526** | 227,539 |
| Regional | **243,192** | 179,870 | **484,944** | 346,325 |
| **At 31 December** | **7,562,983** | 6,986,868 | **4,655,228** | 3,880,872 |

*Analysis by instrument*

| | | | | |
|---|---|---|---|---|
| Loans | **5,540,500** | 5,328,267 | **3,527,185** | 2,961,410 |
| Ordinary share investments | **1,966,832** | 1,616,323 | **806,876** | 731,080 |
| Debt securities | **55,651** | 42,278 | **–** | – |
| Guarantees | **–** | – | **321,167** | 188,382 |
| **At 31 December** | **7,562,983** | 6,986,868 | **4,655,228** | 3,880,872 |

*Analysis by sector*

| | | | | |
|---|---|---|---|---|
| Commerce and tourism | **222,636** | 291,964 | **72,016** | 78,240 |
| Community and social services | **122,133** | 136,908 | **126,859** | 113,501 |
| Energy/power generation | **847,324** | 568,345 | **1,393,283** | 1,061,068 |
| Extractive industries | **506,013** | 607,385 | **263,123** | 174,201 |
| Finance | **2,330,210** | 2,292,162 | **1,166,492** | 1,124,407 |
| Manufacturing | **1,807,801** | 1,439,086 | **596,054** | 527,541 |
| Primary industries | **111,902** | 109,458 | **106,053** | 16,713 |
| Telecommunications | **709,042** | 702,812 | **210,735** | 230,584 |
| Transport and construction | **905,922** | 838,748 | **720,613** | 554,617 |
| **At 31 December** | **7,562,983** | 6,986,868 | **4,655,228** | 3,880,872 |

Note: the term ‘operating assets’ replaces ‘outstanding disbursements’ and is before provisions and the term ‘undrawn commitments’ replaces ‘committed but not yet disbursed’.

## 12 Property, technology and office equipment

| | Property € 000 | Technology and office equipment € 000 | Total € 000 |
|---|---|---|---|
| *Cost* | | | |
| At 1 January 2000 | 67,915 | 65,812 | 133,727 |
| Additions | 796 | 10,188 | 10,984 |
| Disposals | – | (220) | (220) |
| **At 31 December 2000** | **68,711** | **75,780** | **144,491** |
| *Depreciation* | | | |
| At 1 January 2000 | 33,339 | 59,379 | 92,718 |
| Charge | 4,617 | 8,482 | 13,099 |
| Disposals | – | (220) | (220) |
| **At 31 December 2000** | **37,956** | **67,641** | **105,597** |
| *Net book value* | | | |
| **At 31 December 2000** | **30,755** | **8,139** | **38,894** |
| At 31 December 1999 | 34,576 | 6,433 | 41,009 |

Additions include €1.0 million of computer equipment purchased under finance leases, with related depreciation of €0.2 million. The related minimum payments under finance leases amount to €1.0 million, of which €0.4 million are due within 12 months of the balance sheet date and €0.6 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 2000 are summarised below:

| | Principal at nominal value € 000 | Unamortised premium € 000 | Adjusted principal value € 000 | Currency swaps payable/ (receivable) € 000 | **Net currency obligations 2000 € 000** | Net currency obligations 1999 € 000 |
|---|---|---|---|---|---|---|
| Australian dollars | 253,422 | – | 253,422 | (253,422) | **–** | – |
| Canadian dollars | 139,652 | – | 139,652 | (139,652) | **–** | – |
| Czech koruna | 45,566 | – | 45,566 | (45,566) | **–** | – |
| Estonian kroons | 6,389 | – | 6,389 | (6,389) | **–** | – |
| Euro | 1,752,395 | 21,255 | 1,773,650 | 490,972 | **2,264,622** | 2,556,037 |
| Gold bullion | 707,179 | – | 707,179 | (707,179) | **–** | – |
| Greek drachmas | 227,668 | – | 227,668 | (227,668) | **–** | – |
| Hong Kong dollars | 337,553 | – | 337,553 | (337,553) | **–** | – |
| Hungarian forints | 7,549 | – | 7,549 | – | **7,549** | 7,852 |
| Japanese yen | 1,480,864 | – | 1,480,864 | (1,000,863) | **480,001** | 548,527 |
| New Taiwan dollars | 831,544 | – | 831,544 | (831,544) | **–** | – |
| Polish zloty | 603,486 | – | 603,486 | (603,486) | **–** | – |
| Russian roubles | 33,189 | – | 33,189 | (33,189) | **–** | – |
| Singapore dollars | 93,023 | – | 93,023 | (93,023) | **–** | – |
| Slovak koruna | 51,956 | – | 51,956 | (51,956) | **–** | – |
| South African rands | 501,224 | – | 501,224 | (501,224) | **–** | – |
| South Korean won | 74,720 | – | 74,720 | (74,720) | **–** | – |
| Sterling | 2,878,284 | – | 2,878,284 | (1,008,663) | **1,869,621** | 1,529,024 |
| United States dollars | 3,564,551 | 10,192 | 3,574,743 | 5,425,125 | **8,999,868** | 7,176,689 |
| **At 31 December** | **13,590,214** | **31,447** | **13,621,661** | **–** | **13,621,661** | 11,818,129 |

During the year the Bank redeemed €212.9 million of bonds and medium-term notes prior to maturity generating a net gain of €5.0 million.

## 14 Other liabilities

| | **2000 € 000** | 1999 € 000 |
|---|---|---|
| Interest payable | **369,246** | 388,345 |
| Treasury-related | **1,437,085** | 1,287,561 |
| Other | **154,278** | 285,134 |
| **At 31 December** | **1,960,609** | 1,961,040 |

## 15 Subscribed capital

| | Number of shares 2000 | 2000 Total € 000 | Number of shares 1999 | 1999 Total € 000 |
|---|---|---|---|---|
| Authorised share capital | **2,000,000** | **20,000,000** | 2,000,000 | 20,000,000 |
| *of which* | | | | |
| Subscriptions by members – initial capital | **991,975** | **9,919,750** | 991,875 | 9,918,750 |
| Subscriptions by members – capital increase | **982,300** | **9,823,000** | 972,200 | 9,722,000 |
| Subtotal – subscribed capital | **1,974,275** | **19,742,750** | 1,964,075 | 19,640,750 |
| Shares to be allocated [1] | **4,675** | **46,750** | 4,675 | 46,750 |
| Unallocated shares [2] | **6,050** | **60,500** | 16,250 | 162,500 |
| Authorised and issued share capital | **1,985,000** | **19,850,000** | 1,985,000 | 19,850,000 |
| Not yet subscribed | **15,000** | **150,000** | 15,000 | 150,000 |
| **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 which 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:** | 2000 € 000 | 1999 € 000 |
|---|---|---|
| Promissory notes issued by members: | | |
| – not yet due for encashment | **317,368** | 237,079 |
| – due for encashment | **6,420** | 4,027 |
| Total promissory notes received | **323,788** | 241,106 |
| Paid-in subscribed capital: | | |
| – amounts not yet due | **1,392,463** | 1,651,737 |
| – amounts due but not yet received | **24,566** | 31,852 |
| Total paid-in subscribed capital receivable | **1,417,029** | 1,683,589 |
| **Paid-in capital receivable at 31 December** | **1,740,817** | 1,924,695 |

## 15 Subscribed capital (continued)

### Statement of capital subscriptions

| At 31 December 2000 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 | 62,730 | 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 | 1,592 | 20,000 | 14,750 | 5,250 |
| Armenia | 1,000 | 960 | 10,000 | 7,370 | 2,630 |
| Azerbaijan | 2,000 | 1,114 | 20,000 | 14,750 | 5,250 |
| Belarus | 4,000 | 4,000 | 40,000 | 29,500 | 10,500 |
| Bosnia and Herzegovina | 3,380 | 2,240 | 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 | 125,860 | 44,800 |
| Estonia | 2,000 | 2,000 | 20,000 | 14,750 | 5,250 |
| Former Yugoslav Republic of Macedonia | 1,382 | 1,382 | 13,820 | 10,200 | 3,620 |
| Georgia | 2,000 | 992 | 20,000 | 14,750 | 5,250 |
| Hungary | 15,800 | 15,800 | 158,000 | 116,520 | 41,480 |
| Kazakhstan | 4,600 | 4,381 | 46,000 | 33,920 | 12,080 |
| Kyrgyzstan | 2,000 | 1,292 | 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 | 1,558 | 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 | 62,940 | 22,400 |
| Slovenia | 4,196 | 4,039 | 41,960 | 30,940 | 11,020 |
| Tajikistan | 2,000 | 886 | 20,000 | 14,750 | 5,250 |
| Turkmenistan | 200 | 180 | 2,000 | 1,470 | 530 |
| Ukraine | 16,000 | 15,360 | 160,000 | 118,000 | 42,000 |
| Uzbekistan | 4,200 | 4,137 | 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 | 20,000 | 20,000 | 200,000 | 147,500 | 52,500 |
| 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 |
| Mongolia | 200 | 200 | 2,000 | 1,470 | 530 |
| 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** | **1,974,275** | **1,957,235** | **19,742,750** | **14,556,615** | **5,186,135** |
| Unallocated shares | 10,725 | | 107,250 | | |
| **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 1,969,600 (1999: 1,959,400).

[2] Of paid-in capital, €3.77 billion has been received (1999: €3.48 billion), €24.6 million is overdue (1999: €31.9 million). In addition €5.5 million relates to overdue encashments of deposited promissory notes (1999: €3.2 million). €1.40 billion is not yet due (1999: €1.65 billion), most of 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.

## 16 Promissory notes issued by member countries

| *Currency of issue* | Total received € 000 | Exchange gain € 000 | Amount drawn down € 000 | **Amount outstanding 2000 € 000** | Amount outstanding 1999 € 000 |
|---|---|---|---|---|---|
| Euro | 917,646 | – | (758,510) | **159,136** | 116,410 |
| Japanese yen | 179,235 | 12,037 | (153,035) | **38,237** | 30,967 |
| United States dollars | 512,864 | 25,781 | (412,230) | **126,415** | 93,729 |
| **At 31 December** | **1,609,745** | **37,818** | (**1,323,775**) | **323,788** | 241,106 |

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 draw down, or, if outstanding at the year end, at market rates ruling at 31 December 2000.

## 17 Net currency position

| | Euro € 000 | United States dollars € 000 | Japanese yen € 000 | Sterling € 000 | Other currencies € 000 | **Total € 000** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Placements with and advances to credit institutions | 1,852,811 | 3,428,701 | 29,347 | 19,311 | 14,158 | **5,344,328** |
| Debt securities | 1,023,798 | 4,618,294 | 1,023,658 | 340,830 | 68,922 | **7,075,502** |
| Other assets | 110,285 | 435,515 | 29,580 | 49,609 | 138,683 | **763,672** |
| Loans | 1,521,667 | 3,378,122 | 10,429 | – | 30,207 | **4,940,425** |
| Share investments | – | – | – | – | 1,386,372 | **1,386,372** |
| Property, technology and office equipment | 38,894 | – | – | – | – | **38,894** |
| Paid-in capital receivable | 996,618 | 562,981 | 181,218 | – | – | **1,740,817** |
| **Total assets** | **5,544,073** | **12,423,613** | **1,274,232** | **409,750** | **1,638,342** | **21,290,010** |
| **Liabilities** | | | | | | |
| Amounts owed to credit institutions | (285,144) | (11,679) | (140,351) | (1,616) | (16,955) | (**455,745**) |
| Debts evidenced by certificates | (1,773,650) | (3,574,743) | (1,480,864) | (2,878,284) | (3,914,120) | (**13,621,661**) |
| Other liabilities | (1,050,022) | (655,652) | (26,080) | (117,382) | (111,473) | (**1,960,609**) |
| **Total liabilities** | (**3,108,816**) | (**4,242,074**) | (**1,647,295**) | (**2,997,282**) | (**4,042,548**) | (**16,038,015**) |
| **Net assets/(liabilities)** | **2,435,257** | **8,181,539** | (**373,063**) | (**2,587,532**) | (**2,404,206**) | **5,251,995** |
| Derivative financial instruments | 1,428,807 | (8,189,499) | 377,441 | 2,586,612 | 3,796,639 | **–** |
| **Currency position at 31 December 2000** | **3,864,064** | (**7,960**) | **4,378** | (**920**) | **1,392,433** | **5,251,995** |
| Currency position at 31 December 1999 | 3,846,793 | 25,592 | 5,171 | (7,799) | 1,202,050 | 5,071,807 |

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 | 4,304,354 | 878,425 | 128,870 | – | 32,679 | – | **5,344,328** |
| Debt securities | 223,843 | 233,507 | 326,851 | 2,707,375 | 3,583,926 | – | **7,075,502** |
| Other assets | 336,823 | 34,328 | 345,847 | 21,255 | 25,419 | – | **763,672** |
| Loans | 221,857 | 142,890 | 797,860 | 2,404,103 | 1,635,875 | (262,160) | **4,940,425** |
| Share investments | – | – | – | – | – | 1,386,372 | **1,386,372** |
| Property, technology and office equipment | – | – | – | – | – | 38,894 | **38,894** |
| Paid-in capital receivable | – | – | 384,189 | 1,324,217 | – | 32,411 | **1,740,817** |
| **Total assets** | **5,086,877** | **1,289,150** | **1,983,617** | **6,456,950** | **5,277,899** | **1,195,517** | **21,290,010** |
| **Liabilities** | | | | | | | |
| Amounts owed to credit institutions | (314,098) | (1,296) | – | – | (140,351) | – | (**455,745**) |
| Debts evidenced by certificates | (2,092,513) | (266,733) | (1,626,198) | (4,584,235) | (5,051,982) | – | (**13,621,661**) |
| Other liabilities | (333,071) | (89,265) | (379,655) | (63,614) | (142,536) | (952,468) | (**1,960,609**) |
| Members' equity | – | – | – | – | – | (5,251,995) | (**5,251,995**) |
| **Total liabilities and members' equity** | (**2,739,682**) | (**357,294**) | (**2,005,853**) | (**4,647,849**) | (**5,334,869**) | (**6,204,463**) | (**21,290,010**) |
| **Liquidity position at 31 December 2000** | **2,347,195** | **931,856** | (**22,236**) | **1,809,101** | (**56,970**) | (**5,008,946**) | **–** |
| **Cumulative liquidity position at 31 December 2000** | **2,347,195** | **3,279,051** | **3,256,815** | **5,065,916** | **5,008,946** | **–** | **–** |
| Cumulative liquidity position at 31 December 1999 | 1,768,242 | 1,181,967 | 3,288,867 | 4,911,979 | 4,760,416 | – | – |

## 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 | 4,304,354 | 878,425 | 161,549 | – | – | – | **5,344,328** |
| Debt securities | 3,143,418 | 2,029,642 | 317,561 | 1,039,460 | 545,421 | – | **7,075,502** |
| Other assets | 98,486 | – | 382,854 | – | – | 282,332 | **763,672** |
| Loans | 589,046 | 1,589,321 | 2,264,846 | 351,521 | 407,851 | (262,160) | **4,940,425** |
| Non-interest-earning assets including paid-in capital receivable | – | – | – | – | – | 3,166,083 | **3,166,083** |
| **Total assets** | **8,135,304** | **4,497,388** | **3,126,810** | **1,390,981** | **953,272** | **3,186,255** | **21,290,010** |
| **Liabilities** | | | | | | | |
| Amounts owed to credit institutions | (314,098) | (1,296) | – | – | (140,351) | – | (**455,745**) |
| Debts evidenced by certificates | (2,199,970) | (437,986) | (1,454,946) | (4,476,777) | (5,051,982) | – | (**13,621,661**) |
| Other liabilities | (413,977) | – | (369,245) | – | – | (1,177,387) | (**1,960,609**) |
| **Members' equity** | – | – | – | – | – | (5,251,995) | (**5,251,995**) |
| **Total liabilities and members' equity** | (**2,928,045**) | (**439,282**) | (**1,824,191**) | (**4,476,777**) | (**5,192,333**) | (**6,429,382**) | (**21,290,010**) |
| **Net assets** | 5,207,259 | 4,058,106 | 1,302,619 | (3,085,796) | (4,239,061) | (3,243,127) | **–** |
| Derivative financial instruments | (887,537) | (2,489,491) | (3,947,829) | 3,085,796 | 4,239,061 | – | **–** |
| **Interest rate risk at 31 December 2000** | **4,319,722** | **1,568,615** | (**2,645,210**) | **–** | **–** | (**3,243,127**) | **–** |
| **Cumulative interest rate risk at 31 December 2000** | **4,319,722** | **5,888,337** | **3,243,127** | **3,243,127** | **3,243,127** | **–** | **–** |
| Cumulative interest rate risk at 31 December 1999 | 3,910,845 | 5,050,994 | 2,898,639 | 2,827,911 | 2,827,911 | – | – |

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 2000, 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 €3.3 million (1999: €4.7 million).

## 20 Credit-related information on Treasury derivative financial instruments

| | 2000 € 000 | 1999 € 000 |
|---|---|---|
| Credit derivatives [1] | **3,133,554** | 2,070,629 |
| Swaps and over-the-counter option agreements: [2] | | |
| Pre netting/collateral agreements | **717,220** | 877,018 |
| Post netting/collateral agreements | **103,140** | 330,394 |

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 which have entered into a collateral agreement with the Bank.

[1] These amounts represent the total notional value of all credit derivatives, including total return swaps, 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 2000 € 000 | Estimated realisable value adjustment 2000 € 000 | **Estimated realisable value 2000 € 000** | Estimated realisable value 1999 € 000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Placements with and advances to credit institutions | 5,344,328 | – | **5,344,328** | 2,773,490 |
| Debt securities | 7,075,502 | (1,994) | **7,073,508** | 7,863,637 |
| | 12,419,830 | (1,994) | **12,417,836** | 10,637,127 |
| Loans | 4,940,425 | – | **4,940,425** | 4,756,369 |
| Share investments | 1,386,372 | 232,920 | **1,619,292** | 1,557,163 |
| Other non-financial assets | 2,543,383 | – | **2,543,383** | 2,960,324 |
| **Total assets** | **21,290,010** | **230,926** | **21,520,936** | 19,910,983 |
| **Liabilities** | | | | |
| Amounts owed to credit institutions | (455,745) | – | (**455,745**) | (743,657) |
| Debts evidenced by certificates | (13,621,661) | 17,823 | (**13,603,838**) | (11,807,187) |
| | (14,077,406) | 17,823 | (**14,059,583**) | (12,550,844) |
| Other non-financial liabilities | (1,960,609) | – | (**1,960,609**) | (1,961,040) |
| **Members' equity** | (5,251,995) | – | (**5,251,995**) | (5,071,807) |
| **Total liabilities and members' equity** | (**21,290,010**) | **17,823** | (**21,272,187**) | (19,583,691) |
| **Net estimated realisable value at 31 December** | | | **248,749** | 327,292 |

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 and include renewal options, 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 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 €17.4 million at 31 December 2000. Income from sub-lease payments for the year amounted to €3.9 million.

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

| Payable: | **2000 € 000** | 1999 € 000 |
|---|---|---|
| Not later than one year | **26,536** | 26,222 |
| Later than one year and not later than five years | **98,988** | 100,371 |
| Later than five years | **17,321** | 40,630 |
| **At 31 December** | **142,845** | 167,223 |

## 23 Staff retirement schemes

**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 2000. 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:

| | **2000 € 000** | 1999 € 000 |
|---|---|---|
| Fair value of plan assets | **81,095** | 65,058 |
| Present value of the defined benefit obligation | (**57,286**) | (50,726) |
| | **23,809** | 14,332 |
| Unrecognised actuarial losses | **1,610** | 8,374 |
| **Prepayment at 31 December** | **25,419** | 22,706 |

Movement in the prepayment (included in 'Other assets'):

| | | |
|---|---|---|
| At 1 January | **22,706** | 20,525 |
| Exchange differences | (**120**) | 571 |
| Contributions paid | **11,119** | 10,789 |
| Total expense as below | (**8,286**) | (9,179) |
| **At 31 December** | **25,419** | 22,706 |

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

| | | |
|---|---|---|
| Current service cost | (**9,778**) | (9,823) |
| Interest cost | (**3,712**) | (2,899) |
| Expected return on assets | **5,524** | 3,865 |
| Amortisation of actuarial loss | (**320**) | (322) |
| **Total included in staff costs** | (**8,286**) | (9,179) |

Principal actuarial assumptions used:

| | | |
|---|---|---|
| Discount rate | **6.50%** | 5.50% |
| Expected return on plan assets | **7.50%** | 6.50% |
| Future salary increases | **4.00%** | 3.50% |
| Average remaining working life of employees | **15 years** | 15 years |

**Defined contribution scheme**

The pension charge recognised under the defined contribution scheme was €5.1 million (1999: €4.4 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 2000 the Bank administered 68 technical cooperation fund agreements (1999: 63) for an aggregate of €715.7 million (1999: €700.9 million) which includes €276.4 million for the Tacis and Phare programmes of the European Commission under the Bangkok Facility. Of this pledged amount, funds received at 31 December 2000 totalled €576.5 million. The total uncommitted balance of the funds at 31 December 2000 was €182.4 million. In addition, the Bank administered 65 project-specific technical cooperation agreements for an aggregate amount of €35.1 million.

The Bank also administered nine investment cooperation fund agreements during the year for an aggregate amount of €56.6 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. This Fund was terminated by mutual consent in October 2000 and the balance transferred to the Japan-Europe Cooperation Fund.

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 2000, 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 countries 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 2000, 22 contributors had made pledges up to a total amount of €344.3 million using the fixed exchange rates defined in the Rules of the CSF.

In 1999, in pursuit of their policy to accede to the European Union, three central European countries, namely Lithuania, Bulgaria and the Slovak Republic, undertook firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 type reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of eight to ten years, and invited the Bank to administer three International Decommissioning Support Funds (IDSFs). On 12 June 2000, the Bank's Board of Directors approved the Rules of the Ignalina, Kozloduy and Bohunice IDSFs and the role of the Bank as their Administrator. The Funds will finance selective projects which will support the first phase of decommissioning of the designated reactors as well as financial measures for facilitating the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency which are consequential to the closure decisions.
At 31 December 2000, eight contributors had made pledges to the Ignalina International Decommissioning Support Fund up to a total amount of €18.0 million using the fixed exchange rates defined in the Rules of the Ignalina IDSF. By that date, no contribution agreements had yet been concluded for the Kozloduy and Bohunice IDSFs.



**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 2000, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 75 to 93. 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 2000, 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, 13 March 2001

# 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 2000, the Bank administered 11 Special Funds: eight 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.

**The EBRD SME Special Fund:**

To assist the development of small and medium-sized enterprises in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia and Romania.



## Investment Special Funds

| **Extract from the profit and loss account for the period ended 31 December 2000** | 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 EBRD SME Special Fund € 000 | Aggregated Investment Special Funds € 000 |
|---|---|---|---|---|---|---|---|---|---|
| Operating profit/(loss) before provisions | 2,397 | 6,345 | 251 | 630 | 1,240 | (532) | (204) | (238) | 9,889 |
| (Charge)/release for provisions for losses | (837) | (4,551) | 329 | (441) | (43) | (62) | – | – | (5,605) |
| **Profit/(loss) for the period** | **1,560** | **1,794** | **580** | **189** | **1,197** | (**594**) | (**204**) | (**238**) | **4,284** |
| **Extract from the balance sheet at 31 December 2000** | | | | | | | | | |
| Loans | 5,913 | 38,303 | 448 | 814 | 1,471 | – | – | – | 46,949 |
| Provisions | (442) | (14,159) | (224) | (110) | (190) | – | – | – | (15,125) |
| | 5,471 | 24,144 | 224 | 704 | 1,281 | – | – | – | 31,824 |
| Share investments | 9,938 | 5,356 | – | 2,400 | 86 | 600 | – | – | 18,380 |
| Provisions | (1,452) | (2,678) | – | (476) | (25) | (62) | – | – | (4,693) |
| | 8,486 | 2,678 | – | 1,924 | 61 | 538 | – | – | 13,687 |
| Placements and other assets | 27,928 | 42,281 | 1,762 | 4,643 | 12,199 | 8,849 | 9,696 | 6,875 | 114,233 |
| Contributions not yet received | – | – | – | 8,597 | – | 40,000 | 750 | 1,075 | 50,422 |
| **Total assets** | **41,885** | **69,103** | **1,986** | **15,868** | **13,541** | **49,387** | **10,446** | **7,950** | **210,166** |
| Other liabilities and provisions | 50 | 31,553 | 6 | 33 | 6 | 6 | 165 | 3 | 31,822 |
| Contributions | 41,500 | 59,351 | 1,261 | 15,066 | 11,435 | 50,000 | 10,485 | 8,185 | 197,283 |
| Reserves and profit/(loss) for the period | 335 | (21,801) | 719 | 769 | 2,100 | (619) | (204) | (238) | (18,939) |
| **Total liabilities** | **41,885** | **69,103** | **1,986** | **15,868** | **13,541** | **49,387** | **10,446** | **7,950** | **210,166** |
| Undrawn commitments and guarantees | 13,239 | 60,885 | 950 | 1,424 | 1,929 | 8,053 | 6,268 | 907 | 93,655 |

## Technical Cooperation Special Funds

| **Extract from the statement of movement in fund balance and balance sheet for the year ended 31 December 2000** | 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 | 8,258 | 16,416 | 298 | 24,972 |
| Contributions received | – | 1,551 | 17 | 1,568 |
| Interest and other income | 246 | 2,656 | 8 | 2,910 |
| Reimbursements of disbursements | – | 269 | – | 269 |
| Disbursements | (2,735) | (7,785) | (120) | (10,640) |
| Other operating expenses | (5) | (52) | (8) | (65) |
| **Balance of fund available** | **5,764** | **13,055** | **195** | **19,014** |
| Cumulative commitments approved | 20,218 | 59,625 | 879 | 80,722 |
| Cumulative disbursements | (15,258) | (51,580) | (686) | (67,524) |
| Allocated fund balance | 4,960 | 8,045 | 193 | 13,198 |
| Unallocated fund balance | 804 | 5,010 | 2 | 5,816 |
| **Balance of fund available** | **5,764** | **13,055** | **195** | **19,014** |

## 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 EBRD SME Special Fund € 000 | The Baltic Technical Assistance Special Fund € 000 | The Russia Small Business Technical Cooperation Special Fund € 000 | Aggregated Special Funds € 000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Austria | – | – | – | – | – | – | 276 | – | – | – | 276 |
| Canada | – | 2,707 | – | – | – | – | 1,472 | – | – | 4,309 | 8,488 |
| Denmark | 8,940 | – | – | – | – | – | 750 | – | 1,450 | – | 11,140 |
| European Community | – | – | – | – | – | 50,000 | – | – | – | – | 50,000 |
| Finland | 8,629 | – | – | – | – | – | – | – | 1,411 | – | 10,040 |
| France | – | 7,686 | – | – | – | – | – | – | – | 4,980 | 12,666 |
| Germany | – | 9,843 | – | – | – | – | 2,250 | – | – | 3,025 | 15,118 |
| Iceland | 427 | – | – | – | – | – | – | – | 69 | – | 496 |
| Italy | – | 8,401 | – | – | 11,435 | – | – | – | – | 1,360 | 21,196 |
| Japan | – | 21,162 | – | – | – | – | – | – | – | 3,295 | 24,457 |
| Norway | 7,732 | – | – | – | – | – | 1,145 | – | 1,256 | – | 10,133 |
| Sweden | 15,772 | – | – | – | – | – | – | – | 2,564 | – | 18,336 |
| Switzerland | – | 2,360 | 1,261 | 655 | – | – | 3,097 | – | – | 1,244 | 8,617 |
| Taipei China | – | – | – | 12,674 | – | – | 1,495 | – | – | – | 14,169 |
| United Kingdom | – | – | – | – | – | – | – | – | – | 12,824 | 12,824 |
| United States of America | – | 7,192 | – | 1,737 | – | – | – | 8,185 | – | 24,677 | 41,791 |
| **Total at 31 December 2000** | **41,500** | **59,351** | **1,261** | **15,066** | **11,435** | **50,000** | **10,485** | **8,185** | **6,750** | **55,714** | **259,747** |

# Projects approved in 2000

**At 31 December 2000**

**EBRD Board-approved projects in 2000**

| | Number[1] | € million | % |
|---|---|---|---|
| Albania | 1 | 2 | 0.1 |
| Georgia | 1 | 3 | 0.1 |
| Kyrgyzstan | 1 | 4 | 0.1 |
| Slovenia | 1 | 10 | 0.3 |
| Latvia | 1 | 12 | 0.3 |
| Estonia | 3 | 30 | 0.8 |
| Moldova | 3 | 33 | 0.9 |
| Uzbekistan | 2 | 35 | 1.0 |
| Hungary | 1 | 35 | 1.0 |
| Armenia | 2 | 43 | 1.2 |
| Bosnia and Herzegovina | 2 | 53 | 1.4 |
| Azerbaijan | 1 | 54 | 1.5 |
| Bulgaria | 4 | 61 | 1.7 |
| Czech Republic | 2 | 64 | 1.8 |
| Lithuania | 3 | 92 | 2.5 |
| Kazakhstan | 6 | 98 | 2.7 |
| FYR Macedonia | 3 | 110 | 3.0 |
| Slovak Republic | 2 | 117 | 3.2 |
| Romania | 5 | 179 | 4.9 |
| Croatia | 5 | 197 | 5.4 |
| Russia | 13 | 379 | 10.4 |
| Ukraine | 8 | 486 | 13.4 |
| Regional | 14 | 767 | 21.1 |
| Poland | 22 | 776 | 21.3 |
| **Total** | **107** | **3,640** | **100** |

[1] Sub-projects signed under framework agreements are counted as fractional numbers. Project approval does not always lead to a signed commitment.

## Albania

**Privatisation of the National Commercial Bank**

To assist in Albania's first financial sector privatisation, advancing the banking system, corporate governance and mobilisation of savings.

Finance • FI • Shares
Approved 25 January • Signed 8 June
Funds approved 2.3 • Total investment 2.1

## Armenia

**Yerevan Brandy Company**

Loan to Armenia's largest brandy producer, in partnership with Pernod Ricard, to boost production and quality in a key sector for exports.

Food products • B/1 • Loan
Approved 21 March • Signed 20 October
Funds approved 21.5 • Total investment 53.7

**Power Sector Distribution Privatisation**

Investment in four regional electricity companies, the privatisation of which should reduce losses and improve quality of supply to consumers.

Energy distribution • B/1 • Shares
Approved 19 September • Signed 5 December
Funds approved 21.5 • Total investment 21.5

## Azerbaijan

**Moncrief Oil**

This production-sharing agreement in Azerbaijan for the rehabilitation of two oilfields is sponsored by Moncrief Oil.

Oil and gas production • B/1 • Shares
Approved 27 June • Signed 21 August
Funds approved 53.9 • Total investment 185.1

## Bosnia and Herzegovina

**Micro Enterprise Bank (MEB)**

A loan for on-lending to private micro and small enterprises, enabling MEB to further consolidate its position.

Finance • FI • Loan
Approved 13 June • Signed 2 October
Funds approved 2.7 • Total investment 2.7

**Electric Power Reconstruction Project**

Sovereign loan to improve reliability of the national electricity supply by installing power monitoring, control and energy management systems.

Energy transmission • C/1 • Loan
Approved 31 October • Signed 2 November
Funds approved 50.0 • Total investment 249.8

## Bulgaria

**BNP-Dresdner (Bank) Bulgaria – Capital Increase (4th)**

Equity investment in BNP-Dresdner Bulgaria.

Finance • FI • Shares
Approved 25 January • Signed 25 January
Funds approved 2.0 • Total investment 2.0

**Foodstores Sofia**

For construction of a chain of hypermarkets and supermarkets across the country, improving the efficiency of the local food distribution sector.

Wholesale and retail trade • B/1 • Loan
Approved 21 March • Signed 20 June
Funds approved 13.7 • Total investment 39.2

**Isiklar/Celhart (2)**

Second phase of upgrade and expansion of pulp and paper mill.

Forest and paper • B/0 • Loan
Approved 4 April • Signed 26 May
Funds approved 10.7 • Total investment 32.2

**Guide**

Sub-projects are shown in *italics*.

The three lines following project descriptions show:

Sector • Environmental screening category • Type of financing
Date of Board approval • Date of signing if before 28 February 2001
EBRD funds approved • Total project investment (in € million)

Loans are calculated at exchange rates current at 31 December 2000.

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 analysis

C – no environmental impact assessment or environmental analysis

0 – no environmental audit

1 – an environmental audit

FI – Financial intermediary

**Sofia Water System Concession**

To help the country's first privately managed water and waste-water company improve its services, benefiting more than 1 million city residents.

Sanitary services • B/0 • Loan

Approved 3 October • Signed 15 December

Funds approved 31.0 • Total investment 98.7

***Rila Solutions***

Sub-project under the regional Internet Framework. Equity investment in a growing Internet software developer.

Telecommunications • B/0 • Shares

Approved 31 October • Signed 21 December

Funds approved 3.2 • Total investment 9.7

## Croatia

**Slavonska Banka D.D. Osijek**

Medium-term credit facility for on-lending, mainly to SMEs, and to give one of Croatia's largest banks the flexibility to issue guarantees.

Finance • FI • Loan

Approved 31 May • Signed 22 November

Funds approved 20.0 • Total investment 20.0

***Senior Loan to Bank Austria Creditanstalt Croatia***

The first sub-project under the regional Framework Facility for Bank Austria Creditanstalt.

Finance • FI • Loan

Approved 5 September • Signed 11 November

Funds approved 10.0 • Total investment 10.0

**Pliva Research Facility**

To finance construction of a state-of-the-art research institute in Zagreb for central and eastern Europe's largest pharmaceutical company.

Pharmaceutical and medical • B/0 • Loan

Approved 19 September • Signed 17 November

Funds approved 26.9 • Total investment 121.6

**Agrokor**

The largest investment of its kind in Croatia, to help the country's biggest food firm improve its operations and raise its international profile.

Food products • C/1 • Loan

Approved 3 October • Signed 30 November

Funds approved 70.0 • Total investment 160.0

**Leclerc Croatia**

To provide financing for hypermarkets in Croatia.

Wholesale and retail trade • B/0 • Loan

Approved 14 November

Funds approved 35.6 • Total investment 150.0

***Spansko Supermarket***

Sub-project under Leclerc Croatia.

Wholesale and retail trade • B/1 • Loan

Approved 14 November

Funds approved 14.4 • Total investment 34.1

**Nasice Cement**

To assist Croatia's second-largest cement producer to reduce its operating costs by switching from gas to coal as main fuel in the cement kiln.

Heavy manufacturing • B/1 • Loan

Approved 12 December • Signed 15 December

Funds approved 20.0 • Total investment 25.0

## Czech Republic

***Ceska Sporitelna SME Facility***

Sub-project under the EU-EBRD SME Finance Facility.

Finance • FI • Loan

Approved 4 April • Signed 6 December

Funds approved 20.0 • Total investment 20.0

**Harpen ÉR District Heating Loan Facility**

To refurbish district heating plants, improving services and cutting greenhouse gas emissions. Arranged and co-financed with Commerzbank Praha.

Energy saving • B/1 • Loan

Approved 31 October • Signed 15 December

Funds approved 17.1 • Total investment 37.6

**TIW Eastern Europe N.V.**

Equity investment in Cesky Mobil via TIW Czech.

Telecommunications • C/0 • Shares

Approved 12 December

Funds approved 26.9 • Total investment 139.7

## Estonia

**Micro and Small Enterprise Facility**

To support development of private business by providing medium-term loans to local banks in Estonia for on-lending to micro and small enterprises.

Finance • FI • Loan

Approved 4 April

***Eesti Uhispank***

Sub-project under the Micro and Small Enterprise Facility.

Approved 4 April • Signed 30 August

Funds approved 3.0 • Total investment 11.0

***Hansapank***

Sub-project under the Micro and Small Enterprise Facility.

Approved 4 April • Signed 28 July

Funds approved 5.0 • Total investment 10.0

**Baltic Food Holding**

To expand the company's supermarket operation and associated wholesale and distribution activities in Estonia, Latvia and Lithuania.

Wholesale and retail trade • B/0 • Shares

Approved 31 May • Signed 15 June

Funds approved 12.1 • Total investment 57.4

**Tallinna Vesi Pre-Privatisation Financing**

To support Tallinn Water Company's privatisation by restructuring existing debt of €23 million, making the company more attractive to potential investors.

Sanitary services • B/0 • Shares

Approved 5 September

Funds approved 10.0 • Total investment 10.0

## FYR Macedonia

**Export & Credit Bank A.D. Skopje**

Equity investment to support expansion of the medium-sized bank's operations and so help consolidate the country's banking sector.

Finance • FI • Shares

Approved 3 May • Signed 15 May

Funds approved 3.1 • Total investment 3.1

**Municipal and Environmental Action Programme (MEAP)**

This project, to provide urgently needed water and sewerage services in five cities, is the first completed by the EBRD under the "quick start" programme of the Stability Pact for South-Eastern Europe.

Sanitary services • B/0 • Loan

Approved 19 September • Signed 22 September

Funds approved 20.8 • Total investment 53.3

***Duferco – Makstil Facility***

Sub-project under the regional Duferco Working Capital and Guarantee Facility.

Heavy manufacturing • C/1 • Guarantee

Approved 14 November • Signed 19 December

Funds approved 32.2 • Total investment 32.2

**Thessaloniki-Skopje Crude Oil Pipeline**

Loan towards a new pipeline, linking Thessaloniki to Skopje, to reduce transportation costs and give FYR Macedonia a reliable source of oil.

Pipelines • A/0 • Loan

Approved 19 December • Signed 2 January 2001

Funds approved 53.7 • Total investment 112.8

## Georgia

**Microfinance Bank of Georgia**

To encourage the development of micro and small enterprises in Georgia's private sector by bringing them into the formal banking system.

Finance • FI • Loan
Approved 7 March • Signed 30 March
Funds approved 3.4 • Total investment 3.4

## Hungary

**BorsodChem II**

A subscription to shares representing up to 9.1% of BorsodChem's capital, in a capital increase being considered by the company.

Chemicals • C/1 • Shares
Approved 31 October
Funds approved 34.7 • Total investment 34.7

## Kazakhstan

**Halyk Savings Bank of Kazakhstan Eurobond Issue**

Participation in an issue arranged by JP Morgan for Kazakhstan's largest retail bank, which accounts for over half of the country's retail deposits.

Finance • FI • Loan
Approved 3 May
Funds approved 16.1 • Total investment 16.1

**Subordinated Debt Facility to Citibank Kazakhstan**

To strengthen the bank's capitalisation and allow it to extend its lending operations without exposure to foreign exchange risk.

Finance • FI • Loan
Approved 3 May • Signed 25 September
Funds approved 21.5 • Total investment 21.5

**Demir Kazakhstan Bank**

Equity investment to facilitate expansion, enhance corporate governance and increase effective competition in a very small banking sector.

Finance • FI • Shares
Approved 27 June
Funds approved 3.2 • Total investment 3.2

**Agrokaz**

To finance the purchase of agricultural equipment to be leased to small enterprises in northern Kazakhstan.

Heavy manufacturing • C/0 • Loan
Approved 14 November
Funds approved 5.1 • Total investment 13.1

**Road Sector Development Project**

To rehabilitate the regionally important 245km stretch of road linking Almaty to Bishkek, in Kyrgyzstan.

Construction • B/0 • Loan
Approved 28 November • Signed 8 December
Funds approved 30.6 • Total investment 131.2

**Almaty Solid Waste Management Rehabilitation Project**

Loan to the city of Almaty to improve the collection and safe disposal of municipal waste, bringing public health and environmental benefits.

Sanitary services • B/1 • Loan
Approved 19 December • Signed 21 December
Funds approved 21.5 • Total investment 26.4

## Kyrgyzstan

**Kyrgyz Investment and Commerical Bank (KICB)**

To strengthen the financial sector and allow this new bank to provide support to the country's developing commercial and industrial sectors.

Finance • FI • Shares
Approved 13 July
Funds approved 4.2 • Total investment 18.3

## Latvia

**Riga Water Company Corporate Loan**

To improve the city's water and waste-water system. The service utility will be the first in Latvia to receive a direct corporate loan from an IFI.

Sanitary services • B/0 • Loan
Approved 14 November • Signed 20 November
Funds approved 11.8 • Total investment 160.4

## Lithuania

**LDB/LZUB Share Swap**

Transaction to enable exit from the Lithuanian Development Bank and to facilitate privatisation of the Lithuania Agricultural Bank.

Finance • FI • Shares
Approved 11 January • Signed 14 January
Funds approved 1.6 • Total investment 4.8

**Lifosa**

To enable an export-oriented, privatised fertiliser company, partnered by Cargill, to expand production, increase efficiency and improve logistics.

Primary production • B/1 • Loan
Approved 4 April • Signed 29 September
Funds approved 32.2 • Total investment 68.3

**Lietuvos Telekomas IPO**

Investment to support the first significant initial public offering in Lithuania, assisting the country's incumbent fixed-line telecoms operator.

Telecommunications • C/0 • Shares
Approved 31 May • Signed 12 June
Funds approved 51.8 • Total investment 365.8

***PPF – Baltic PPF – Sonex***

Sub-project under the Post-Privatisation Equity Fund. IT systems integrator.

Finance • C/0 • Shares
Approved 27 June • Signed 11 July
Funds approved 1.6 • Total investment 1.6

***Siauliu Bankas SME Loan***

Revolving credit line, the first for a Lithuanian bank provided under the EU-EBRD SME Finance Facility.

Finance • FI • Loan
Approved 28 November • Signed 6 December
Funds approved 5.0 • Total investment 5.0

## Moldova

**Power Distribution Equity Investment**

Investment with UFISA of Spain in three power distribution companies to support the continuing privatisation of Moldova's electricity sector.

Energy distribution • C/0 • Warrants/options
Approved 4 April • Signed 15 December
Funds approved 5.4 • Total investment 5.4

**Micro Enterprise Credit S.A.**

To set up a greenfield financial institution specialising in services to micro and small enterprises, which would otherwise have scant access to formal sector finance.

Finance • FI • Shares
Approved 31 May • Signed 22 June
Funds approved 1.1 • Total investment 1.1

**Post-Privatisation Power Distribution Loan**

To enable power distribution companies to renovate, modernise and provide working capital for their networks.

Energy distribution • C/1 • Loan
Approved 28 November • Signed 21 December
Funds approved 26.9 • Total investment 53.7

## Poland

### PKP Restructuring and Privatisation Project

To improve the productivity and competitiveness of rail transport services by funding labour severance payments as part of restructuring.

Transport services • B/0 • Loan
Approved 25 January • Signed 11 December
Funds approved 100.0 • Total investment 231.0

### KZP – Poland (Trebruk) – III

Financial restructuring of paper mill in Kostrzyn.

Forest and paper • C/1 • Shares
Approved 7 March • Signed 6 April
Funds approved 15.3 • Total investment 49.6

### Cementownia Chelm – Restructuring

Restructuring of existing financing with a leading Polish cement producer.

Wholesale and retail trade • B/1 • Loan
Approved 18 April • Signed 8 June
Funds approved 26.1 • Total investment 26.1

### Energo-Asekuracja S.A.

Capital increase in a Polish insurer to support its expanding activities in the non-life sector and to fund a start-up life assurance venture.

Finance • FI • Shares
Approved 18 April • Signed 29 May
Funds approved 5.2 • Total investment 22.7

### Globe Trade Centre S.A. Initial Public Offering

Investment in the first IPO of a property company in central and eastern Europe. Listing is on the Warsaw and London stock exchanges.

Miscellaneous services • B/0 • Shares
Approved 18 April • Signed 16 May
Funds approved 32.2 • Total investment 86.0

### Treasury Lines to Polish Banks

Facility to open up an important and innovative source of raising domestic currency in one of the region's most advanced countries.

Finance • FI • Treasury line
Approved 31 May
Funds approved 107.5 • Total investment 107.5

### CAIB Investment Fund Company S.A.

Equity stake in a local investment fund management company and anchor capital for new funds, some offering products for the third-pillar pension programme.

Finance • FI • Shares
Approved 13 June
Funds approved 19.7 • Total investment 19.7

### Hortex Debt

Working capital loan financing assessment.

Food products • B/1 • Loan
Approved 27 June • Signed 21 July
Funds approved 12.4 • Total investment 12.4

### Polish Enterprise Fund IV

The fund, for investments chiefly in the healthcare, IT, telecoms and consumer-related sectors, is managed by Enterprise Investors Corporation.

Finance • FI • Shares
Approved 27 June • Signed 2 October
Funds approved 53.7 • Total investment 322.4

### Kruszwica II

Capital increase to support an existing investment in a leading edible oil producer and support privatisation and restructuring in a key sector.

Food products • B/1 • Shares
Approved 13 July • Signed 20 December
Funds approved 1.2 • Total investment 5.8

### Warsaw Traffic Management Project

Loan to the city for an urban traffic control system, including road improvements.

Transport services • B/0 • Loan
Approved 13 July
Funds approved 15.0 • Total investment 15.0

### Argus Capital Partners

Operation to mobilise private sector capital in setting up an equity investment fund.

Finance • FI • Shares
Approved 25 July • Signed 26 September
Funds approved 27.4 • Total investment 168.7

### Empik Centrum Investment Loan III

To help complete the refurbishment programme of Poland's leading department store chain, repositioning it as a modern, consumer-focused retailer.

Wholesale and retail trade • C/0 • Loan
Approved 5 September • Signed 21 September
Funds approved 19.1 • Total investment 30.0

### Europejski Fundusz Leasingowy S.A. Syndicated Loan

Syndicated loan to enable the country's largest independent equipment and vehicles lessor to expand its lease portfolio to SMEs in Poland.

Finance • C/0 • Loan
Approved 5 September • Signed 13 February 2001
Funds approved 35.0 • Total investment 100.0

### Pekao S.A. Derivative

Capital increase in Polish bank.

Finance • FI • Shares
Approved 3 October • Signed 27 October
Funds approved 13.5 • Total investment 13.7

### Pekao S.A. Equity Acquisition

Equity investment in one of the largest banking groups in Poland, to maintain the EBRD's stake of Pekao's enlarged capital.

Finance • FI • Shares
Approved 17 October • Signed 27 October
Funds approved 43.0 • Total investment 67.4

### Krakow Plaszow II Waste Water Treatment Plant Modernisation

To enable Krakow to upgrade its waste-water treatment plant, comply with EU environmental standards and reduce pollution in the Vistula River.

Sanitary services • B/0 • Loan
Approved 31 October • Signed 28 December
Funds approved 21.7 • Total investment 81.0

### Polska Telefonia Cyfrowa Sp.z.o.o.

Underwriting commitment as part of a syndicated senior loan, enabling PTC to lessen exposure to forex fluctuations and fund network development.

Telecommunications • B/0 • Underwriting
Approved 31 October • Signed 16 February 2001
Funds approved 150.0 • Total investment 650.0

### Atrium Hotel, Warsaw

To finance the design, construction and operation of a 4-star hotel in the centre of Warsaw, as part of the Atrium property programme.

Tourism and leisure • B/0 • Shares
Approved 14 November • Signed 20 December
Funds approved 16.0 • Total investment 82.5

### Wroclaw Multi-Sector Municipal Infrastructure Project

Second loan to the city of Wroclaw, to improve the water supply, sewerage and solid waste sectors to comply with EU environmental standards.

Sanitary services • B/0 • Loan
Approved 14 November • Signed 19 December
Funds approved 30.2 • Total investment 90.4

### Gdansk and Sopot Urban Transport Project

Loans to two cities to finance improvements in urban transport infrastructure, such as tram systems, road underpasses and traffic management.

Transport services • B/0 • Loan
Approved 28 November
Funds approved 17.0 • Total investment 65.0

### Nova Polonia Fund

Equity investment in a fund which will in turn invest in SMEs in Poland and other countries of operations.

Finance • FI • Shares
Approved 12 December • Signed 12 January 2001
Funds approved 10.0 • Total investment 80.0

***Soufflet MPF – Slodownia Soufflet Polska SARL Extension***

Increased co-investment under the Group Soufflet Multi-Project Facility approved in 1997, to increase the plant's production capacity.

Food products • FI • Loan
Approved 19 December
Funds approved 4.5 • Total investment 5.6

## Romania

**Unirea S.A.**

Financing to support seed purchase and construction of a bottling and refining line.

Food products • B/1 • Loan
Approved 25 July
Funds approved 25.8 • Total investment 39.2

**Fibrex Working Capital Facility**

Loan to provide post-privatisation support for, and increase production of, a nylon fibre producer owned by an Italian company, RadiciNylon.

Textile manufacturing • C/1 • Loan
Approved 17 October • Signed 30 November
Funds approved 10.0 • Total investment 32.2

**Municipal Environmental Loan Facility (MELF)**

Framework to provide co-financing to EU-ISPA funded investments in the water, waste-water and solid waste management sectors, to comply with EU accession requirements on environmental standards.

Sanitary services • FI • Loan
Approved 14 November
Funds approved 60.0 • Total investment 230.0

***MELF: Sub-project Constanta***

Loan to upgrade the waste-water infrastructure of Romania's main tourist destination on the Black Sea, guaranteed by the district of Constanta.

Sanitary services • B/0 • Loan
Approved 14 November • Signed 18 November
Funds approved 20.0 • Total investment 100.4

**Establishment of Romanian National Power Grid Company (NPGC)**

To help the national power grid company become the backbone of a new market-driven electricity sector, by upgrading systems and training staff.

Energy transmission • B/0 • Loan
Approved 28 November • Signed 8 December
Funds approved 55.3 • Total investment 219.7

**Victoria Centre Offices**

To finance the development and construction of a 17,000m$^2$ modern office building in Bucharest.

Miscellaneous services • B/0 • Loan
Approved 28 November • Signed 29 December
Funds approved 8.2 • Total investment 34.5

## Russia

**Louis Dreyfus Vostok**

Medium-term revolving working capital facility to enable the company to purchase grain at harvest for subsequent processing and trading.

Food products • C/0 • Loan
Approved 11 January • Signed 7 February
Funds approved 23.6 • Total investment 50.5

**Louis Dreyfus Vostok Extension**

Loan to Vostok guaranteed by Louis Dreyfus.

Food products • B/1 • Loan
Approved 25 January • Signed 29 August
Funds approved 32.2 • Total investment 64.5

**International Moscow Bank Recapitalisation**

The recapitalisation of Russia's fourth-largest bank was the EBRD's first major transaction in the country's banking sector since the 1998 crisis.

Finance • FI • Shares
Approved 25 January • Signed 19 April
Funds approved 10.3 • Total investment 76.8

**Russian Reinsurance Company**

To support the long-term development of Russian Reinsurance Company, one of a few independent reinsurance carriers in an undercapitalised sector.

Finance • FI • Shares
Approved 22 February
Funds approved 8.2 • Total investment 26.9

**Lukoil Medium Term Working Capital Facility**

Medium-term loan to Russia's leading oil company, to provide working capital for export-related payments, crude-oil production and processing.

Oil and gas production • C/1 • Loan
Approved 7 March • Signed 15 May
Funds approved 80.6 • Total investment 161.2

**Custom Farm Centres**

Loan to John Deere Finance to purchase agricultural machinery for leasing, the EBRD's first leasing project in Russia.

Heavy manufacturing • C/0 • Loan
Approved 21 March
Funds approved 8.6 • Total investment 161.2

**Severstal Short Term Trade Related Facility**

Revolving trade facility to Russia's largest steel company to provide a more tax-efficient and flexible form of pre-export finance.

Heavy manufacturing • C/1 • Loan
Approved 4 April • Signed 23 June
Funds approved 37.6 • Total investment 191.3

**St Petersburg Air Cargo Terminal Pulkovo**

To build a state-of-the-art air cargo terminal that will make a major contribution to improving the transport infrastructure in north-west Russia.

Airports and air navigation systems • B/0 • Loan
Approved 3 May • Signed 10 October
Funds approved 4.3 • Total investment 40.6

**Russia Telco**

Equity investment in Vimpelcom, Russia's leading mobile phone operator, to provide low-cost services for customers in and around Moscow.

Telecommunications • B/0 • Shares
Approved 31 May • Signed 21 July
Funds approved 33.1 • Total investment 314.0

**Subordinated Credit Facility to Raiffeisenbank Moscow**

To strengthen the bank's capitalisation and support it in developing retail operations and providing medium-term finance for Russian businesses.

Finance • FI • Loan
Approved 31 May • Signed 9 October
Funds approved 21.5 • Total investment 21.5

**Chelyabinsk Electrolytic Zinc Smelter**

The EBRD's first long-term loan to a Russian industrial firm since the 1998 crisis will raise environmental standards and expand capacity.

Heavy manufacturing • B/1 • Loan
Approved 27 June • Signed 9 October
Funds approved 16.1 • Total investment 46.2

***Duferco – Viz Stahl Facility***

Sub-project under the regional Duferco Working Capital Guarantee Facility.

Heavy manufacturing • C/1 • Guarantee
Approved 14 November • Signed 19 December
Funds approved 37.6 • Total investment 37.6

***Viz Stahl Equity Investment***

Sub-project under the regional Duferco Working Capital and Guarantee Facility.

Heavy manufacturing • B/1 • Shares
Approved 14 November • Signed 19 December
Funds approved 5.4 • Total investment 5.4

**Warehouse Receipts Programme – Rabo Invest**

Innovative commodity-backed financing programme, the first project under the EBRD's regional Warehouse Receipts Programme.

Primary production • FI • Guarantee
Approved 14 November • Signed 15 November
Funds approved 53.7 • Total investment 153.7

**St Petersburg Toxic Waste Emergency Clean-Up Programme**

Loan to the city to upgrade the only official hazardous waste disposal site of Krasny Bor, an “environmental hot spot” requiring priority action.

Sanitary services • B/1 • Loan

Approved 28 November

Funds approved 5.9 • Total investment 11.0

## Slovak Republic

**Všeobecná úverová banka (VUB) Pre-Privatisation**

Purchase of up to 20% of VUB’s capital and a credit line under the EU-EBRD SME Finance Facility, to enable the bank to achieve privatisation.

Finance • FI • Shares

Approved 14 November • Signed 9 February 2001

Funds approved 90.0 • Total investment 90.0

**Globtel, A.S.**

Equity investment in Globtel to part-finance the ongoing restructuring programmes of the selling shareholders as part of the company’s IPO.

Telecommunications • C/0 • Shares

Approved 12 December

Funds approved 26.9 • Total investment 263.3

## Slovenia

**Yulon Expansion**

To enable a yarn producer to invest in plant in a less-developed region of Slovenia, lending further support to the country’s textile industry.

Textile manufacturing • B/0 • Loan

Approved 31 May • Signed 21 July

Funds approved 9.5 • Total investment 20.0

## Ukraine

**Cerealia Boryspil Cereal Plant**

Equity stake alongside Sweden’s Cerealia food group to support the expansion of Boryspil, Ukraine’s leading breakfast cereal company.

Food products • C/0 • Shares

Approved 4 April • Signed 29 June

Funds approved 3.3 • Total investment 8.6

**Ukraine Enterprise Support Facility**

Framework facility for selected banks to on-lend to qualifying private sector enterprises, increasing the supply of much-needed term finance.

Finance • FI • Loan

Approved 3 May

Funds approved 27.9 • Total investment 27.9

***Credit Lyonnais Ukraine***

Sub-project of Ukraine Enterprise Support Facility.

Approved 3 May

Funds approved 5.4 • Total investment 5.4

***First Ukrainian International Bank***

Sub-project of Ukraine Enterprise Support Facility.

Approved 3 May • Signed 26 October

Funds approved 10.7 • Total investment 10.7

***West Ukrainian Commercial Bank***

Sub-project of Ukraine Enterprise Support Facility.

Approved 3 May

Funds approved 2.5 • Total investment 2.5

**Ukrrichflot II**

To assist in the current finance of five river/sea dry cargo vessels and enable Ukrrichflot to acquire two new vessels, all built in Romania.

Transport services • B/0 • Loan

Approved 5 September • Signed 20 October

Funds approved 6.1 • Total investment 60.6

**Fuel Purchase Loan Facility**

Seasonal working capital facility, in support of Ukraine’s energy sector reforms, to help four government-owned generating companies buy oil.

Energy distribution • B/0 • Loan

Approved 3 October • Signed 6 October

Funds approved 107.5 • Total investment 107.5

**Rehabilitation of M06 Highway and Reform of Road Sector Financing**

Loan to rehabilitate sections of one of Ukraine’s key roads, and assist with the restructuring of road sector finance and administration.

Construction • B/0 • Loan

Approved 31 October • Signed 11 December

Funds approved 75.0 • Total investment 100.0

**Ista Centre**

Corporate loan and revolving capital facility to support the expansion of the company’s battery production capacity.

Light manufacturing • B/1 • Loan

Approved 28 November • Signed 14 December

Funds approved 10.7 • Total investment 13.1

**Ukraine International Airlines**

Equity investment to help the airline meet market demand for passenger and cargo services between Ukraine and western Europe.

Transport services • B/0 • Shares

Approved 28 November • Signed 14 December

Funds approved 6.1 • Total investment 5.8

**K2/R4 Completion Project**

Loan to Energoatom for the completion and safety upgrade of two nuclear power plants, approved subject to conditions including the permanent closure of the Chernobyl facility.

Energy generation • A/1 • Loan

Approved 7 December

Funds approved 231.0 • Total investment 1,591.0

## Uzbekistan

**Uzbek Leasing International Capital Increase and Senior Loan**

Equity investment and loan for an existing leasing firm targeting private SMEs, which follows an investment approved by the EBRD in 1995.

Finance • FI • Shares and loan

Approved 4 April • Signed 15 June

Funds approved 2.5 • Total investment 13.9

**Zarafshan-Newmont Third Facility**

To facilitate expansion of a heap leaching facility that processes ore from the Muruntau gold mine, the largest in the CIS.

Mining and minerals processing • B/1 • Loan

Approved 17 October • Signed 14 December

Funds approved 32.2 • Total investment 49.4

## Regional

**Caucasus Fund**

To invest primarily in private enterprises located or substantially operating in the Caucasus countries of Armenia, Azerbaijan and Georgia.

Finance • FI • Shares

Approved 11 January

Funds approved 8.6 • Total investment 8.6

**Frontera Resources**

To help finance repairs and drilling related to two production-sharing contracts, supporting commercial oil development in Azerbaijan and Georgia.

Oil and gas production • A/1 • Loan

Approved 7 March • Signed 15 May

Funds approved 64.5 • Total investment 650.0

**EU Phare SME Finance Facility Extension**

Extension of loans to be provided to banks participating with the EBRD in the facility.

Finance • FI • Loan

Approved 4 April

Funds approved 55.0 • Total investment 200.0

**Heitman Central Europe Property Partners Fund**

Investment fund organised by Heitman International which will invest in property projects in the Czech Republic, Hungary and Poland.

Miscellaneous services • FI • Shares
Approved 27 June • Signed 29 September
Funds approved 28.2 • Total investment 141.0

**Private Equity Funds Co-Investment Facility**

A new facility which will enable the EBRD to co-invest alongside the private equity funds in which it is already a shareholder.

Finance • FI • Shares
Approved 27 June
Funds approved 38.7 • Total investment 79.0

**US-EBRD SME Finance Facility**

The programme, part-funded by the United States, will allow the EBRD to increase its support for small businesses in south-eastern Europe, including Kosovo.

Finance • FI • Loan
Approved 27 June
Funds approved 107.5 • Total investment 161.2

**Baltic Investment Fund III LP**

Private equity fund to invest in medium-sized companies and so help strengthen the private sector in Estonia, Latvia and Lithuania.

Finance • FI • Shares
Approved 25 July • Signed 3 November
Funds approved 8.0 • Total investment 25.5

**Framework Facility for Bank Austria Creditanstalt**

Framework facility for the provision of senior and subordinated debt financing to the bank's subsidiaries operating in the EBRD's countries of operations.

Finance • FI • Loan
Approved 5 September
Funds approved 50.0 • Total investment 50.0

**Raiffeisen CEE Private Equity Fund LP**

Equity operation to mobilise private sector funds for equity investments primarily in central and eastern Europe.

Finance • FI • Shares
Approved 5 September
Funds approved 20.0 • Total investment 150.0

**Baring Vostok Private Equity Fund**

The fund will invest in medium-sized companies, chiefly in Russia and Ukraine, focusing on the oil & gas, telecoms, high-tech, forestry and consumer-product sectors.

Finance • FI • Shares
Approved 3 October • Signed 13 December
Funds approved 53.7 • Total investment 161.2

**EU-EBRD SME Finance Facility Phase II**

Additional funding for the programme.

Finance • FI • Loan
Approved 3 October
Funds approved 140.0 • Total investment 150.0

**Internet Framework/Red-stars.com**

Equity framework to finance Internet-related projects in central and eastern Europe.

Telecommunications • C/0 • Shares
Approved 31 October
Funds approved 26.9 • Total investment 26.9

***Red-stars.com co-investment facility***

Co-investment with red-stars.com.

Finance • C/0 • Shares
Approved 31 October
Funds approved 5.4 • Total investment 107.5

**TBI Holding**

Financing package to a Dutch insurance and pensions company to enable the EBRD to reach firms that are too small for direct investment.

Finance • FI • Shares
Approved 31 October • Signed 4 December
Funds approved 23.2 • Total investment 47.5

**Duferco Working Capital and Guarantee Facility**

Framework facility to Duferco Group. The first two specific guarantee agreements are for Makstil and Viz-Stahl, two steel plants majority-owned by Duferco Group in FYR Macedonia and Russia.

Heavy manufacturing • C/1 • Guarantee
Approved 14 November
Funds approved 69.8 • Total investment 128.9

**Warehouse Receipts Programme**

Framework to support agricultural commodity financing initiatives throughout the Bank's countries of operations.

Primary production • FI • Loan
Approved 14 November
Funds approved 53.7 • Total investment 107.5

**DVI**

Syndicated A/B loan to finance the leases or sales contracts of medical equipment by hospitals and diagnostic centres in central and eastern Europe.

Finance • FI • Loan
Approved 12 December
Funds approved 10.0 • Total investment 40.0

***Trigranit II***

Sub-project under the Regional Private Equity Fund Co-Investment Facility. Extension of equity investment in central Europe's leading commercial property developer, chiefly for a convention centre in Budapest.

Miscellaneous services • B/0 • Shares
Approved 19 December • Signed 7 February 2001
Funds approved 4.2 • Total investment 12.9

| | |
|---|---|
| **Funds approved** | **3,639.5** |
| **Total investment** | **11,626.6** |

# Governors

## Governors and Alternate Governors

**31 December 2000**

| Member | Governor | Alternate Governor |
|---|---|---|
| Albania | Ermelinda Meksi | Adriana Berberi |
| Armenia | Levon Barkhudaryan [1] | Vahan Shirkhanyan [1] |
| Australia | Peter Costello | Kay Patterson |
| Austria | Karl-Heinz Grasser | Thomas Wieser |
| Azerbaijan | Elman S Roustamov | Fuad Akhundov |
| Belarus | Valeriy I Kokorev | Nikolai P Zaichenko |
| Belgium | Didier Reynders | Jean-Pierre Arnoldi |
| Bosnia and Herzegovina | Neven Tomic | Enver Backovic |
| Bulgaria | Muravey Radev | Martin Zaimov |
| Canada | Paul Martin | Gaëtan Lavertu |
| Croatia | Mato Crkvenac | Josip Kulisic |
| Cyprus | Takis Klerides | Andreas Chimarides |
| Czech Republic | Pavel Mertlík | Josef Tosovský |
| Denmark | Marianne Jelved | Michael Dithmer |
| Egypt | Hassan Ali Ali Khedr | Youssef Boutros-Ghali |
| Estonia | Siim Kallas | Aare Järvan |
| Finland | Sauli Niinistö | Leif Fagernäs |
| FYR Macedonia | Nikola Gruevski | Trajko Slaveski |
| France | Laurent Fabius | Jean-Pierre Jouyet |
| Georgia | Teimuraz Mamatsashvili | – |
| Germany | Hans Eichel | Caio Koch-Weser |
| Greece | Yannos Papantoniou | Stefanos Avgouleas |
| Hungary | Zsigmond Járai | Werner Riecke |
| Iceland | Valgerdur Sverrisdóttir | Thorgeir Őrlygsson |
| Ireland | Charlie McCreevy | John Hurley |
| Israel | David Klein | Avi Ben-Bassat |
| Italy | Vincenzo Visco | Mario Draghi |
| Japan | Kiichi Miyazawa | Masaru Hayami |
| Kazakhstan | Yerzhan Utembaev | Anvar Saidenov |
| Republic of Korea | Nyum Jin | Chol-Hwan Chon |
| Kyrgyzstan | Roza Otunbayeva | Urkaly Isaev |
| Latvia | Roberts Zile | Aigars Kalvitis |
| Liechtenstein | Michael Ritter | Roland Marxer |
| Lithuania | Jonas Lionginas | Arvydas Kregždė |
| Luxembourg | Jean-Claude Juncker | Jean Guill |
| Malta | John Dalli | Michael C Bonello |
| Mexico | Francisco Gil Díaz | Agustín Carstens |
| Moldova | Andrei Cucu | Dumitru Ursu |
| Mongolia | Chultemiin Ulaan | Ochirbatyn Chuluunbat |
| Morocco | Fathallah Oualalou | Noureddine Omary |
| Netherlands | Gerrit Zalm | Jozias van Aartsen |
| New Zealand | Phil Goff | Paul East |
| Norway | Karl E Schjøtt-Pedersen | Olav Soleng |
| Poland | Hanna Gronkiewicz-Waltz | Krzysztof Ners |
| Portugal | Joaquim Pina Moura | Manuel Baganha |
| Romania | Decebal Traian Remes | Emil Ghizari |
| Russian Federation | German O Gref | Sergei I Kolotukhin |
| Slovak Republic | Brigita Schmögnerová | Marián Jusko |
| Slovenia | Anton Rop | Senka Maver |
| Spain | Rodrigo Rato | Juan Costa Climent |
| Sweden | Bosse Ringholm | Sven Hegelund |
| Switzerland | Pascal Couchepin | Oscar Knapp |
| Tajikistan | Murotali M Alimardonov | Husein Aliev |
| Turkey | Selçuk Demiralp | Ferhat Emil |
| Turkmenistan | Seyitbay Kandymov | Guvanch Geoklenov |
| Ukraine | Ihor O Mityukov | Victor A Yushchenko |
| United Kingdom | Gordon Brown | Clare Short |
| United States of America | Lawrence H Summers | Alan P Larson |
| Uzbekistan | Rustam S Azimov | Abdurafik A Akhadov |
| European Community | Pedro Solbes Mira | Giovanni Ravasio |
| European Investment Bank | Philippe Maystadt | Wolfgang Roth |

[1] Until December.

**Chairman of the Board of Governors**

Governor for France (Laurent Fabius)

**Vice Chairmen of the Board of Governors**

Governor for Hungary (Zsigmond Járai)
Governor for Sweden (Bosse Ringholm)

All the powers of the EBRD are vested in the Board of Governors. The Board of Governors has delegated many of its powers to the Board of Directors, which is responsible for the direction of the general operations of the Bank and, among other activities, establishes policies and takes decisions concerning loans, equity investments and other operations in conformity with the general directions of the Board of Governors.

The President chairs the Board of Directors. Under the direction of the Board, the President conducts the business of the Bank and, as head of staff, is responsible for its organisation and for making staff appointments.

# Directors

## Directors and Alternate Directors

**31 December 2000**

| Directors | Alternate Directors | Constituencies |
|---|---|---|
| Byongwon Bahk | Gary Johnston | Korea / Australia / New Zealand / Egypt |
| Sylvain de Forges | Marc Jullien | France |
| Joaquin de la Infiesta | Carlos Escribano | Spain / Mexico |
| Peter Engström | Martin Põder | Sweden / Iceland / Estonia |
| Michael Flynn | Torsten Gersfelt | Ireland / Denmark / Lithuania / FYR Macedonia |
| Gerlando Genuardi | Grammatiki Tsingou-Papadopetrou | European Investment Bank |
| Tor Hernæs | Rauli Suikkanen | Norway / Finland / Latvia |
| Wilhelm Jaggi | Ayşe Dönmezer | Switzerland / Turkey / Liechtenstein / Uzbekistan / Kyrgyzstan / Azerbaijan / Turkmenistan |
| Heiner Luschin | Gideon Schurr | Austria / Israel / Cyprus / Malta / Kazakhstan / Bosnia and Herzegovina |
| Michael McCulloch | Andrew Lewis | United Kingdom |
| Patrice Muller | Tom MacDonald | Canada / Morocco |
| Serguei Ovseitchik | Igor Kovtun | Russian Federation / Belarus / Tajikistan |
| Philippe Petit-Laurent | Vassili Lelakis | European Community |
| Yuri Poluneev | Ionut Costea | Ukraine / Romania / Moldova / Georgia / Armenia |
| Enzo Quattrociocche | Francesco Saverio Nisio | Italy |
| Norbert Radermacher | Clemens Kerres | Germany |
| Karen Shepherd | Vacant | United States of America |
| Bernard Snoy | Georges Heinen | Belgium / Luxembourg / Slovenia |
| Károly Soós | Igor Očka | Hungary / Czech Republic / Slovak Republic / Croatia |
| Valentin Tsvetanov | Jan Bielecki | Bulgaria / Poland / Albania |
| Pim van Ballekom | Evert-Jan van Vrouwerff | Netherlands / Mongolia |
| Stefanos Vavalidis | António de Almeida | Greece / Portugal |
| Kunimitsu Yoshinaga | Masato Iso | Japan |

## Composition of Board of Directors' Committees

**31 December 2000**



### Audit Committee

Heiner Luschin *(Chairman)*
Peter Engström *(Vice Chairman)*
Byongwon Bahk
Sylvain de Forges
Serguei Ovseitchik
Bernard Snoy
Valentin Tsvetanov

### Budget and Administrative Affairs Committee

Enzo Quattrociocche *(Chairman)*
Joaquin de la Infiesta *(Vice Chairman)*
Gerlando Genuardi
Patrice Muller
Philippe Petit-Laurent
Pim van Ballekom
Stefanos Vavalidis
Kunimitsu Yoshinaga

### Financial and Operations Policies Committee

Wilhelm Jaggi *(Chairman)*
Károly Soós *(Vice Chairman)*
Michael Flynn
Tor Hernæs
Michael McCulloch
Yuri Poluneev
Norbert Radermacher
Karen Shepherd

### Board Steering Group

Patrice Muller *(Chairman)*
Serguei Ovseitchik *(Vice Chairman)*
Heiner Luschin
Peter Engström
Enzo Quattrociocche
Joaquin de la Infiesta
Wilhelm Jaggi
Károly Soós
Antonio Maria Costa *(Secretary General)*

The Audit Committee considers the appointment and scope of work of the external auditors; and reviews financial statements and general accounting principles, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation.

The Budget and Administrative Affairs Committee considers general budgetary policy, proposals, procedures and reports. It also considers personnel, administrative and organisational matters, and administrative matters relating to Directors and their staff.

The Financial and Operations Policies Committee reviews financial policies including borrowing policy, general policies relating to operations, and procedures and reporting requirements.

The Board Steering Group was established in 1994 to improve coordination between the Board of Directors and management on arrangements for meetings of the Board, Committees and workshops.

# Contacting the EBRD

13 March 2001

| | |
|---|---|
| **President** | Jean Lemierre |

## Banking

| | |
|---|---|
| First Vice President | Charles Frank |
| Deputy Vice President | David Hexter |
| Planning and Budgeting Director *(joint report to Finance)* | Josué Tanaka |
| Small Business Directors | Gavin Anderson<br>Elizabeth Wallace |
| Marketing and Business Development Director | Reinhard Schmoelz |
| Corporate Recovery Team Directors *(joint report to Finance)* | Oliver Greene<br>Charles Wrangham |
| Equity Support Unit | Lindsay Forbes |
| Direct Investment Facility Unit | Frances Reid |

**Infrastructure**

| | |
|---|---|
| Business Group Director | Johan Bastin |
| Municipal and Environmental Infrastructure | Thomas Maier |
| Power and Energy Utilities | Tony Marsh |
| Energy Efficiency | Jacquelin Ligot |
| Transport | Roy Knighton |

**Industry and Commerce**

| | |
|---|---|
| Business Group Director | Peter Reiniger |
| Agribusiness | Hans Christian Jacobsen |
| Natural Resources | Kevin Bortz |
| Property, Tourism and Shipping | Edgar Rosenmayr |
| Telecommunications, Informatics and Media | Izzet Guney |

**Financial Institutions**

| | |
|---|---|
| Business Group Director | Kurt Geiger |
| Bank Lending | Rogers LeBaron |
| Bank Equity | Kurt Geiger *(Acting)* |
| Non-bank Financial Institutions | Jonathan Woollett |
| Equity Funds | Kanako Sekine |

**Russia and Central Asia**

| | |
|---|---|
| Business Group Director | David Hexter |
| Russia *(Moscow office)* | Dragica Pilipovic-Chaffey |
| Kazakhstan and Kyrgyzstan *(Almaty office)* | Mike Davey |
| Uzbekistan, Turkmenistan and Tajikistan *(Tashkent office)* | Kazuhiko Koguchi |

**Central Europe**

| | |
|---|---|
| Business Group Director | Alain Pilloux |
| Baltic countries | George Krivicky |
| Poland *(Warsaw office)* | Irene Grzybowski |
| Czech and Slovak Republics *(Bratislava office)* | Alexander Auboeck |
| Croatia, Hungary and Slovenia *(Budapest office)* | Hans Peter Achermann |

**Southern and Eastern Europe and the Caucasus**

| | |
|---|---|
| Business Group Director | Olivier Descamps |
| Ukraine *(Kiev office)* | Andrew Seton |
| Albania, FYR Macedonia, Bosnia and Herzegovina | Henry Russell |
| Romania *(Bucharest office)* | Salvatore Candido |
| Bulgaria *(Sofia office)* | Jean-Marc Peterschmitt |
| Armenia, Azerbaijan, Belarus, Georgia and Moldova | Hildegard Gacek |

## Finance

| | |
|---|---|
| Vice President | Steven Kaempfer |
| Deputy Vice President | Noreen Doyle |

**Treasury**

| | |
|---|---|
| Treasurer | Marcus Fedder |
| Deputy Treasurer and Head of Funding | Ayesha Shah |
| Head of Investments – Credits | Constantine Kazantzidis |
| Head of Investments – Rates | Bart Mauldin |
| Head of Analytics | – |
| Head of Asset and Liability Management | Axel van Nederveen |
| Head of Client Risk Management | Grant Metcalfe-Smith |

**Risk management**

| | |
|---|---|
| Director | Noreen Doyle |
| Risk Controller | Jean-André Sorasio |
| Head of Credit | Bob Harada |
| Head of Portfolio Review | Mike Williams |
| Head of Syndications | Lorenz Jorgensen |
| Corporate Recovery Team Directors *(joint report to Banking)* | Oliver Greene<br>Charles Wrangham |

**Strategic and Corporate Planning and Budgeting**

| | |
|---|---|
| Director | Josué Tanaka |

**Accounting, Reporting and Financial Control**

| | |
|---|---|
| Director | Nigel Kerby |
| Head of Financial Reporting and Expense Control | Julie Williams |
| Head of Funds Financial Control | Teresa Godwin-Coombs |
| Head of Treasury Financial Control | Terry Cullen |

**Operations and Information Technology**

| | |
|---|---|
| Head of Operations and Information Technology | Christopher Holyoak |
| Director of IT | Tim Goldstone |

## Personnel and Administration

| | |
|---|---|
| Vice President | Hanna Gronkiewicz-Waltz |
| Director of Personnel | Franco Furno |
| Director of Administration | John McNess |

## Evaluation, Operational and Environmental Support

| | |
|---|---|
| Vice President | Joachim Jahnke |
| Deputy Vice President | Jean-François Maquet |

**Project Evaluation**

| | |
|---|---|
| Director | Fredrik Korfker |

**Procurement and Technical Services**

| | |
|---|---|
| Director | Peter Pease |

**Purchasing**

| | |
|---|---|
| Principal Manager | David Wiseman |

**Official Co-financing**

| | |
|---|---|
| Director | Gary Bond |

**Consultants Services**

| | |
|---|---|
| Unit Head | Dilek Macit |

**Environmental Appraisal**

| | |
|---|---|
| Director | Tim Murphy |

**Nuclear Safety**

| | |
|---|---|
| Director | Vince Novak |

**TurnAround Management Programme**

| | |
|---|---|
| Managing Director | Michael McAlister |

## Office of the Secretary General

| | |
|---|---|
| Secretary General | Antonio Maria Costa |
| Deputy Secretary General | Nigel Carter |

## Office of the General Counsel

| | |
|---|---|
| General Counsel | Emmanuel Maurice |
| Deputy General Counsel | Norbert Seiler |
| Assistant General Counsel | Stephen Petri |
| Assistant General Counsel | Gerard Sanders |

## Office of the Chief Economist

| | |
|---|---|
| Chief Economist | Willem Buiter |
| Deputy Chief Economist | Ricardo Lago |
| Director of Policy Studies | Steven Fries |

## Internal Audit

| | |
|---|---|
| Head of Internal Audit | Tarek Rouchdy |
| Deputy Head of Internal Audit | Ray Portelli |

## Communications

| | |
|---|---|
| Director | Brigid Janssen |

## President's Office

| | |
|---|---|
| Director | Arnaud Prudhomme |

# Local offices

**Albania**
Rruga Deshmoret
e4 Shkurtit No. 26
Tirana
Albania
Tel: +355 42 32898
Fax: +355 42 30580
Head of Office: Giulio Moreno

**Armenia**
20 Bagramian Avenue
375019 Yerevan
Armenia
Tel: +3742 540 425
Fax: +3742 540 430
Acting Head of Office: Jürgen Schramm

**Azerbaijan**
5 Sabir Street
370004 Baku
Azerbaijan
Tel: +99 412 971 014
Fax: +99 412 971 019
Head of Office: Thomas Moser

**Belarus**
Gertsena 2
220050 Minsk
Belarus
Tel: +375 172 110 370
Fax: +375 172 110 410
Head of Office: Hildegard Gacek
*(based in Headquarters)*

**Bosnia and Herzegovina**
4 Obala Kulina Bana
2nd Floor
71000 Sarajevo
Bosnia and Herzegovina
Tel: +387 33 667 945
Fax: +387 33 667 950
Head of Office: Serean Ghinescu

**Bulgaria**
17 Moskovska Street
1000 Sofia
Bulgaria
Tel: +359 2 987 6611
Fax: +359 2 981 5336
Country Director: Jean-Marc Peterschmitt

**Croatia**
Petrinjska 59
5th Floor
10000 Zagreb
Croatia
Tel: +385 1 4812 400
Fax: +385 1 4819 468
Head of Office: Andrew Krapotkin

**Czech Republic**
Karlova 27
11000 Prague 1
Czech Republic
Tel: +4202 2423 9070
Fax: +4202 2423 3077
Head of Office: Jacob Sadilek

**Estonia**
Roosikrantsi 11
4th Floor
10109 Tallinn
Estonia
Tel: +372 6418 548
Fax: +372 6418 552
Head of Office: Urmas Paavel

**FYR Macedonia**
Dame Gruev 14
Business Centre Index
91000 Skopje
FYR Macedonia
Tel: +389 91 113 262
Fax: +389 91 126 047
Head of Office: Philippe Leclercq

**Georgia**
Ninochkheidze 38
380008 Tbilisi
Georgia
Tel: +995 32 920 512
Fax: +995 32 923 845
Head of Office: Jürgen Schramm

**Hungary**
Rakoczi ut 42
1072 Budapest
Hungary
Tel: +36 1 266 6000
Fax: +36 1 266 6003
Country Director: Hans Peter Achermann

**Kazakhstan**
Kazybek Bi 41
4th Floor
480100 Almaty
Kazakhstan
Tel: +7 3272 58 14 76
Fax: +7 3272 58 14 22
Country Director: Mike Davey

***Liaison office:***
Beibitshilik Street 21
47300 Astana
Kazakhstan
Tel: +7 3172 580 204
Fax: +7 3172 580 201
Analyst: Leyla Abdimomunova

**Kyrgyzstan**
26 Geologicheskaya Street
720005 Bishkek
Kyrgyzstan
Tel: +996 312 530 012
Fax: +996 312 666 284
Head of Office: Fernand Pillonel



**Latvia**
Valdemara Centre
21 Kr. Valdemara Street
LV 1010 Riga
Latvia
Tel: +371 750 5520
Fax: +371 750 5521
Head of Office: Urmas Paavel

**Lithuania**
A. Jaksto 5
3rd Floor
2600 Vilnius
Lithuania
Tel: +370 2 227 258
Fax: +370 2 224 666
Head of Office: Urmas Paavel

**Moldova**
Room 309
31 August 1989 Street 98
MD 2012 Chisinau
Moldova
Tel: +373 2 248 414
Fax: +373 2 249 363
Head of Office: Hildegard Gacek
*(based in Headquarters)*

**Poland**
53 Emili Plater Street
Warsaw Financial Center
Suite 1300
00-113 Warsaw
Poland
Tel: +48 22 520 5700
Fax: +48 22 520 5800
Country Director: Irene Grzybowski

**Romania**
8 Orlando Street
Sector 1
Bucharest
Romania
Tel: +40 1311 3300
Fax: +40 1312 2233
Country Director: Salvatore Candido

**Russia**
36 ul. Bolshaya Molchanovka
Stroenie 1
121069 Moscow
Russia
Tel: +7 095/501 787 1111
Fax: +7 095/501 787 1122
Country Director: Dragica Pilipovic-Chaffey

***Regional office:***
25 Nevsky Prospect
191186 St Petersburg
Russia
Tel: +7 812 326 2525
Fax: +7 812 326 2526
Head of Office: Robert Sasson

***Regional office:***
Office 404
46 Verhneportovaya Street
690003 Vladivostok
Russia
Tel: +7 4232 51 77 66
Fax: +7 4232 51 77 67
Head of Office: Elena Danysh

***Regional office:***
Office 605
World Trade Center
44 Kuibishev Street
620026 Yekaterinburg
Russia
Tel: +7 34 32 59 61 50
Fax: +7 34 32 59 61 51
Head of Office: Tatyana Yemboulaeva

**Slovak Republic**
Grösslingova 4
81814 Bratislava
Slovak Republic
Tel: +421 7 5296 7835
Fax: +421 7 5292 1459
Country Director: Alexander Auboeck

**Slovenia**
Trg Republike 3
9th Floor
1000 Ljubljana
Slovenia
Tel: +386 14 26 3600
Fax: +386 14 26 3636
Acting Head of Office: Murat Yildiran

**Tajikistan**
29 Shotemur Street
Office 36-38
734025 Dushanbe
Tajikistan
Tel: +992 372 210 763
Fax: +992 372 210 763
Mission Adviser: Muzaffar Usmanov

**Turkmenistan**
95 Azadi Street
744000 Ashgabat
Turkmenistan
Tel: +993 12 51 22 63
Fax: +993 12 51 03 18
Head of Office: Jaap Sprey

**Ukraine**
27/23 Sofiyvska Street
01001 Kiev
Ukraine
Tel: +380 44 464 01 32
Fax: +380 44 464 08 13
Country Director: Andrew Seton

**Uzbekistan**
International and Banking
Financial Centre
1 Turab Tula Street
4th Floor
700003 Tashkent
Uzbekistan
Tel: +998 711 39 40 14
Fax: +998 711 20 61 21
Head of Office: Kenji Nakazawa

# Guide for readers

## Abbreviations and acronyms

| | |
|---|---|
| **The Bank, EBRD** | The European Bank for Reconstruction and Development |
| **ADB** | Asian Development Bank |
| **BAS** | Business Advisory Services |
| **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 |
| **EIA** | Environmental Impact Assessment |
| **EIB** | European Investment Bank |
| **ENVAC** | Environmental Advisory Council |
| **ESCO** | Energy service company |
| **EU** | European Union |
| **FDI** | Foreign direct investment |
| **FI** | Financial intermediary |
| **FR Yugoslavia** | Federal Republic of Yugoslavia |
| **FYR Macedonia** | Former Yugoslav Republic of Macedonia |
| **GDP** | Gross domestic product |
| **IDSF** | International Decommissioning Support Fund |
| **IFC** | International Finance Corporation |
| **IFI** | International financial institution |
| **IMF** | International Monetary Fund |
| **IPO** | Initial public offering |
| **Libor** | London Interbank Offered Rate |
| **LSIF** | Large Scale Infrastructure Facility |
| **LTP** | Legal Transition Programme |
| **MDB** | Multilateral development bank |
| **MPF** | Multi-Project Facility |
| **NGO** | Non-governmental organisation |
| **NPP** | Nuclear power plant |
| **NSA** | Nuclear Safety Account |
| **OECD** | Organisation for Economic Cooperation and Development |
| **OPER** | Operation Performance Evaluation Review |
| **PED** | Project Evaluation Department |
| **PPF** | Post-Privatisation Fund |
| **PPP** | Purchasing power parity |
| **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 |
| **TFP** | Trade Facilitation Programme |
| **VaR** | Value at Risk |



## Definitions

**Additional funds mobilised**

Resources committed by other investors as part of EBRD operations.

**Additionality**

"Additionality" is a key principle of the EBRD's operations, enshrined in the Agreement Establishing the Bank. According to this principle, the Bank avoids displacing commercial sources of funding when financing a project as long as these commercial funds are available on reasonable terms – in light of the risks involved – and as long as the transition impact of the project is not seriously diminished as a result of project conditions that are different from those that the Bank would impose.

**Assets**

- *Operating assets:* Loans and equity investments owned by the EBRD, excluding assets purchased by the EBRD Treasury; net of those assets written off. Technically speaking operating assets are net disbursements. "Banking assets" can be used to reflect the operating assets of the Banking Department as a whole.
- *Earning assets:* Operating assets less non-accrual loans.
- *Impaired assets:* Non-accrual loans and impaired equity investments.
- *Performing assets:* Operating assets less impaired assets.
- *Portfolio:* Operating assets plus undrawn commitments of the Bank; sometimes referred to as "outstanding commitments".

**Country grouping**

The EBRD classifies its countries of operations by their progress towards a market economy. Russian and Regional projects are treated separately.

- *Early/Intermediate:* Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.
- *Advanced:* Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.

**Status of operation or facility**

- *Concept Clearance:* A screening conducted by the Banking Vice Presidency to determine whether an operation is eligible for consideration under the Bank's policies and priorities and whether significant resources should be allocated to progressing it further.
- *Initial Review:* Conducted by the Operations Committee to allow management to make an initial assessment of an operation and to offer guidance to the operation team.
- *Final Review*: Represents the final credit and policy review by the Operations Committee before the operation is presented to the Board. Sign-off is required by relevant units and departments of the Bank.
- *Board Approval:* Approval of an operation by the Board of Directors represents the commitment of the Bank to provide financing.
- *Commitments:* Legally binding obligations of the EBRD to invest a defined sum of money in loans or equity investments, or to provide guarantees, within a specified period of time subject to agreed conditions, as approved by the Board.
- *Disbursements:* Funds paid by the Bank to purchase loans or equity investments according to its commitments.

## Exchange rates

Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2000. (Approximate euro exchange rates: DM 1.96, FFr 6.56, £0.62, US$ 0.93, ¥106.87.)

## Operation counting

Operations may be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement. Totals in tables may not add due to rounding.

# Further information

## Publishing

The EBRD provides a range of publications, policy papers and other information.

The *Transition Report* is an annual publication examining the problems of transition, and the macroeconomic and legal progress of the EBRD's countries of operations (published November, £30); also the *Transition Report Update* (published April, £15).

Periodicals include *Environments in transition* (the EBRD's environmental programme, including project updates) and *Law in transition* (the EBRD's legal journal).

All published items are available from the Publications Desk at the EBRD (Tel: +44 20 7338 7553; Fax: +44 20 7338 6102). Most are also posted on the EBRD's Web site (www.ebrd.com).

## Annual Meeting

The EBRD's Annual Meeting includes a business programme which is open to potential investors in the region. For details contact the Annual Meetings Management Unit (Tel: +44 20 7338 6625; Fax: +44 20 7338 7320).

The Annual Meeting is to be held in Bucharest, Romania, in 2002, in Tashkent, Uzbekistan, in 2003 and in London in 2004.

Published by the
**European Bank for Reconstruction and Development.**

Compiled and edited by the Publishing Unit, Communications Department.
French, German and Russian language versions translated by the Translation Unit.
Designed and produced by the Design Unit.
Printed in England by Ventura Litho Limited.

Cover and interior printed on environmentally responsible paper.
Printed on Consort Royal Silk using ECF pulp (Elemental Chlorine Free) from farmed forests.

ref: 4872

**European Bank for Reconstruction and Development**
One Exchange Square
London EC2A 2JN
United Kingdom

**Switchboard/central contact:**
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
Telex: 8812161 EBRD L G
SWIFT: EBRDGB2L

**Web site:**
www.ebrd.com

**Requests for publications:**
Tel: +44 20 7338 7553
Fax: +44 20 7338 6102

**General enquiries about the EBRD:**
Tel: +44 20 7338 6372

**Project enquiries/proposals:**
Tel: +44 20 7338 6282
Fax: +44 20 7338 6102

**Marketing & Business Development contact:**
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380

Cover: Red Square, Moscow.
Photographer: Nikolai Ezhevski.