Annual report 2001 Annual review

Moving towards a better future



European Bank for Reconstruction and Development

The EBRD's mission

"... the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in ... countries committed to and applying the principles of multi-party democracy, pluralism and market economics."

(Article 1 of the Agreement Establishing the EBRD)

"... To fulfil on a long-term basis its purpose of fostering the transition ... the Bank shall assist the recipient member countries to implement structural and sectoral economic reforms, including demonopolisation, decentralisation and privatisation, to help their economies become fully integrated into the international economy ..." (Article 2 of the Agreement Establishing the EBRD)

Countries of operations

as of 31 December 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

Annual report 2001 Annual review

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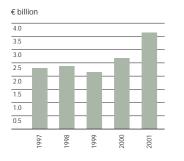
The EBRD's Annual Report 2001 comprises two separate companion volumes: the Annual Review and the Financial Report, which includes the financial statements and the financial results commentary.

Both volumes are published in English, French, German and Russian. Copies are available free of charge from the EBRD's Publications Desk:

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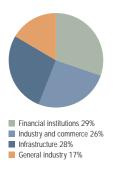
Annual commitments

1997-2001



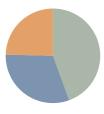
Commitments by sector

2001



Commitments by region

2001



 Central Europe 44%
 Russia and Central Asia 31%
 Southern and eastern Europe and the Caucasus 25%

2001 highlights

The countries where the EBRD operates made significant advances in the transition to market economies in 2001, enabling the Bank to increase the level of its support for ongoing economic reforms in the region.

During the year the EBRD continued to assist the transition process and exceeded its core performance targets. Business volume (\in 3.66 billion) and gross disbursements (\in 2.4 billion) reached their highest levels to date.

These achievements were made possible by – and contributed to – the continuing economic growth in the Bank's countries of operations. Their resilience to the global business slowdown was helped by sustained progress in reforms, EU accession preparations and Russia's growth.

The EBRD launched operations in FR Yugoslavia as an important part of its expanding work in south-eastern Europe. The Bank increased activities in Russia, maintained significant business volume in Ukraine, continued to actively explore opportunities in the Caucasus, and developed an Action Plan for Central Asia. It also supported the efforts of the countries preparing for accession to the European Union.

The Bank continued to place emphasis on the quality of its projects, as measured by their expected influence on the transition process, to capitalise on the lessons learned from past operations, and to expand its range of co-financing partners. In the course of the year greater emphasis was placed on development of new projects to maintain the impetus of business in the period ahead.

In response to new challenges in the reform process, the EBRD created new investment instruments to share risks, support trade, provide local currency funding and lend more to small business.

The strong level of profits in 2001 reinforced the EBRD's capacity to bear risk. Despite a more uncertain operating environment and capital market volatility, the Bank recovered a significant share of previously impaired assets and obtained good returns from both its Treasury and Banking portfolio.

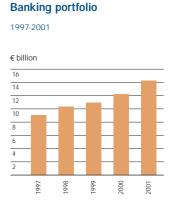
At the EBRD's Annual Meeting in London, the Bank's Governors approved the second Capital Resources Review, which is providing a blueprint for the EBRD's activities in the medium term (2001-05) within the framework of available resources.

The EBRD's commitment to good governance and transparency in its activities was underlined by the fulfilment of the Bank's commitments to its Public Information Policy in the first year of implementation.

Financial results

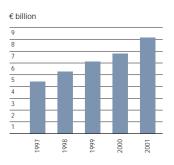
(€ million)	2001	2000	1999	1998	1997
Operating income	501.5	519.2	376.4	450.5	346.0
Expenses and depreciation	(206.7)	(192.1)	(172.8)	(158.7)	(152.1)
Operating profit before provisions	294.7	327.1	203.6	291.8	193.8
Provisions for losses	(137.6)	(174.3)	(160.9)	(553.1)	(177.7)
Profit/(loss) for the period	157.2	152.8	42.7	(261.2)	16.1
Paid-in capital	5,197	5,186	5,163	5,084	4,877
Capital instalments received (cumulative)	4,063	3,769	3,480	3,217	2,949
Total provisions and reserves	1,713	1,278	1,040	762	508
Total assets	20,947	21,290	19,595	16,047	13,495

Portfolio

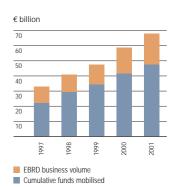


Performing assets

1997-2001



EBRD business volume and cumulative funds mobilised



Operational results

Annual **business volume** reached €3.66 billion for 102 operations, 37 per cent above the volume for the previous year. Over three-quarters of business was with private investors.

Gross disbursements reached €2.44 billion, 67 per cent above the 2000 level. Net disbursements reached €1.1 billion, more than three times the level of 2000.

Total **portfolio reflows** (including divestments, write-offs, pre-payments and repayments) reached €1.3 billion for

2001 compared with €972 million the previous year, reflecting a maturing and well-performing portfolio. The **portfolio** increased to €14.2 billion from €12.2 billion at the end of 2000.

Operating assets reached €8.8 billion, up 17 per cent. Performing assets reached €8.2 billion, one-fifth greater than in 2000.

Net **cumulative business volume**, since the Bank's foundation, reached €20.2 billion for a total project value of €67.8 billion.

Annual commitments	2001	2000	1999	1998	1997
Number of projects	102	95	88	96	108
EBRD financing (€ million)	3,656	2,673	2,162	2,373	2,315
Resource mobilisation (€ million)	6,212	5,188	4,862	7,541	4,210
Portfolio (€ million) ¹					
Banking portfolio	14,160	12,218	10,835	10,182	8,932
Operating assets	8,838	7,563	6,955	5,761	4,580
Performing assets	8,160	6,805	6,160	5,247	4,393
Cumulative funds mobilised	47,546	41,949	33,964	29,102	22,335

¹ Figures for 1997-2000 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 90. The charts reflect recalculated figures.

Transmittal letter to Governors

London, 12 March 2002

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 2001 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

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Georges Heinen Osamu Sakashita

President's message



At a time when most of the world was experiencing economic slowdown, 2001 proved to be a year of heartening achievement for our region. The EBRD shared in that success and showed a strong performance in its 10th year of operations.

The destabilising effects of 11 September, the global economic downturn and the unpredictable effects of contagion from tensions in some emerging markets all posed risks for the prospects of investment from central Europe to central Asia. And yet the reversals were limited. There was growth across almost all 27 countries of the region. Investors continued to invest and the 2001 results of the Bank were an encouraging reflection of the fundamental health of the region and appetite of investors.

The positive outcome was anchored in the work that the countries themselves have done to improve their investment environment. Those countries that have done most to embrace fully democratic systems, open markets and reform their legal and corporate frameworks have shown the most economic progress.

The process of accession to the European Union has had widespread impact, setting new standards and demanding fresh approaches. Its effects are apparent not only in the 10 countries that are candidates to join, but also in surrounding countries that are following similar paths in order to be competitive.

And, certainly, greater political stability provided a better business environment. The progress was remarkable in FR Yugoslavia in the year since the fall of the Milosevic regime – with an ambitious agenda of reform. The EBRD responded to the energy that the authorities in Belgrade showed, by moving quickly to launch an investment programme which financed banks, city water and public transportation.

Indeed, the EBRD was active right across the region. The Bank produced its greatest volume of new business ever – €3.6 billion – as well as achieving its highest net income and doubling the level of annual disbursements. Once again, the Bank was the biggest single investor in the region, not only using the traditional tools of loans and equity investments but also introducing products adapted to local needs, such as trade facilitation products, leasing and local currency lending. The EBRD also initiated new programmes to funnel money to small business.

The challenge for the year ahead will be to maintain the momentum. Both the EBRD and the countries of operations need solid strategies to attract the investment that will boost economies and provide jobs and wellbeing for the people of the region.

The Bank, for its part, will focus on developing its pipeline of projects, in partnership with investors in key sectors and regions, both in new greenfield projects and in existing enterprises.

In 2002 the EBRD will strive to maintain a steady volume of new business, but its highest goal will be to help make a real difference to people's lives. Among the most difficult ventures, but critical for a sustainable economy, is the restructuring of large industries. There may be job losses and need for a fundamental change of priorities and culture. Along with the specialised institutions, such as the World Bank and the Asian Development Bank, the EBRD will help to make restructuring and privatisations efficient and positive. The Bank will work with cities to improve infrastructure, water quality and other services, taking increased financial risk in the absence of a sovereign guarantee. It will assist with agricultural reform, encouraging private sector management of an industry that can contribute directly to poverty alleviation and better living standards. At each turn, our job is to provide investment that promotes prosperity without draining national budgets.

Sometimes the most innovative investments may take extra preparation, and the EBRD will continue to work productively with our donors to direct technical cooperation funds towards the pre-investment work for projects that can become benchmarks for other investors.

Strong results are, and will be, the product of the clientoriented approach of staff. The combination of care and expertise by our staff is the feature that, for me, most defines the EBRD.

The EBRD will work with all 27 countries to resist whatever setbacks may occur by building a strong local economy based on domestic and foreign investment. We are planning for increased investment in Russia and countries in the early or intermediate stages of transition. We will accelerate the delivery of projects and support institution building in the countries of Central Asia, the Caucasus and south-eastern Europe. In central and eastern Europe, we will continue to support the EU accession process, which is closely complementary to the transition process.

The mission of the EBRD is to serve the people of the region, building on understanding and experience. Our aim is to do more and do it better. We are confident that, thanks to the support of our shareholders and dedication of the staff, the Bank is in a strong position to meet the challenges of 2002 and has the motivation and ability to be a catalyst for further progress.

Jean Lemierre President

Addressing the needs of the region and its people

As the countries where the EBRD operates moved into the second decade of transition towards democracy and the market economy, the Bank increased its investment activity to support this vast region (27 countries from central Europe to central Asia) and its people in their unprecedented process of transition.





Overview

The EBRD's annual investment reached a record level of €3.66 billion in 2001, a 37 per cent increase over 2000. The EBRD responded to new challenges in the reform process by developing new forms of financing and by investing in all 27 of its countries of operations across a broad range of sectors. In the countries at the earlier stages of the transition process, the EBRD increased its investment by 14 per cent to €1.2 billion. This was due mainly to a significant acceleration of operations in Central Asia and south-eastern Europe. In Russia investment increased by as much as 42 per cent, from €579 million to €822 million. In the more advanced countries of central Europe €1.6 billion was invested. a 57 per cent increase in volume.

The EBRD invested in all 27 of its countries of operations in 2001.

The EBRD tailors its efforts to the specific needs of individual countries in the region. In 2001 the EBRD launched an Action Plan for the Federal Republic of Yugoslavia, which earlier in the year had become the Bank's 27th country of operations. It also maintained its lead role in the regional development of the private sector under the Stability Pact for South-eastern Europe, by helping alleviate some of the economic hardship caused by recent conflicts. In the advanced countries of central Europe the EBRD increased its activities, supporting in the process the EU accession drive. Elsewhere, it further promoted investment in Russia and Ukraine, where growth remained strong in 2001, and in the Caucasus. At the end of the year the Bank developed an Action Plan for Central Asia aimed at accelerating investment projects, especially for small business and infrastructure.

The increase in the EBRD's activities in 2001, including a record level of disbursements, took place in spite of global economic uncertainty exacerbated by the events of 11 September. Gross disbursement reached €2.4 billion, over 60 per cent higher than the total in 2000. This trend was particularly evident in the allocation of funding to Russia and Central Asia, which exceeded €810 million in 2001. Throughout the year the EBRD placed emphasis on business development to ensure that the strong momentum gained in 2001 would be maintained. The number of projects under development grew considerably, with the largest increase being recorded in Russia and countries at the early and intermediate stages of transition.

The increase in EBRD activities in 2001 was made possible by the resilience of the region in the face of global slowdown. Strong growth weakened only slightly as the region continued to benefit from progress towards market liberalisation and structural reforms. Other important factors were an improvement in political stability, progress in EU accession, high levels of trade for the energy-exporting economies, the peace process in southeastern Europe and Russia's success in maintaining recovery. For the second successive year, in 2001 almost all countries in the region recorded economic growth, averaging at 4.3 per cent.

The EBRD intensified its discussions with non-governmental organisations and other groups over the environmental impact of its investments. In particular, it stressed the responsibility of its clients by insisting on best international practice in public consultation. The Bank reinforced its support for projects that are expected to improve social conditions in the region, especially by seeking the assistance of other international financial institutions (IFIs) that specialise in this area.

Over three-quarters of the EBRD's business was conducted with the private sector in 2001. To promote reforms, the Bank introduced in its financing agreements specific conditions aimed at improving the investment climate and vigorously supported the development of economic policy by providing advice to national authorities. The Bank made a particular effort to improve the quality of its operations as measured by their expected influence on the transition process.

The EBRD applies sound banking principles to its operations. In structuring its financing in 2001, the Bank took into account the uncertainty in the investment climate, the lower risk appetite on the part of other investors, and the volatility of capital markets. The EBRD recorded a profit after provisions of €157.2 million for 2001 compared with a profit of €152.8 million for 2000. This increase was primarily due to higher net interest income, significant recoveries from projects that had experienced difficulties (in particular following the Russian crisis in 1998), strong Treasury results and continuing budgetary discipline. During the year the Bank consolidated its return to positive reserves, which increased from €65.9 million at the end of 2000 to €488.7 million at the end of 2001.

Driving the Bank's strategy forward

In April 2001 the EBRD's Board of Governors approved the second Capital Resources Review, which confirmed that the Bank has sufficient resources to implement the priorities set out in its strategy document Moving Transition Forward. The Review noted that after ten years of operations, the EBRD had established a number of benchmarks:

- > the Bank had become a major investor in the region, more than doubling its portfolio since the last Review in 1996;
- > it had achieved a growing impact on the reform process, helping to establish a market system;
- > the Bank was committed to investing in all countries that complied with democratic principles and the promotion of market economics (Article 1 of the Agreement Establishing the EBRD); and
- > it had achieved a strong level of cost control.

The Review confirmed that the EBRD is expected to have sufficient capital to support a robust and balanced development of its portfolio. This includes increasing the level of its operations in Russia and countries at the early and intermediate stages of transition and maintaining its level of operations in the advanced transition countries. The Bank's portfolio is projected to exceed €17 billion by 2005.

In the course of 2001 the institutional priorities spelled out in Moving Transition Forward continued to provide strategic guidance to the EBRD's activities.

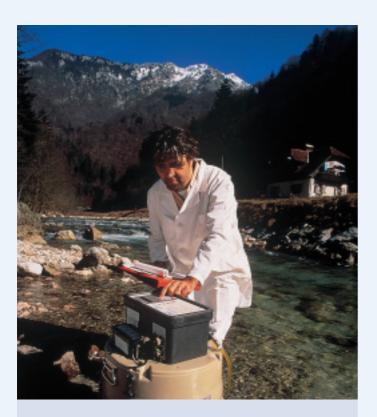
Developing an efficient financial sector

In 2001 the EBRD strengthened the region's financial systems in recognition of their key role in the development of market economies. The Bank continued to provide funding to financial institutions and to support institution-building and improvements in corporate governance. During the year the Bank invested €1.1 billion in the financial sector in 23 countries, an increase of 40 per cent over



Opposite page In 2001 the EBRD invested some €400 million in the transport sector, including an investment of €78 million to modernise railways in south-eastern Europe

Left The EBRD devoted 17 per cent of its financing in 2001 to industrial projects.



Safeguarding the environment

The EBRD is required by its mandate to take account of the environment in all of its operations. In 2001 the Bank provided financing of over €240 million in support of projects with fundamental environmental benefits in the areas of municipal infrastructure and energy efficiency. Many other projects also included environmental components, such as reductions in emissions and waste-water treatment. In the energy sector, new projects were developed promoting clean technologies and renewable energy as well as energy efficiency, waste reduction and recycling. To help address the considerable environmental challenges in the region, the Northern Dimension Environmental Partnership (NDEP) was launched in 2001. The NDEP aims to strengthen and coordinate financing of important environmental projects in northern Europe with cross-border effects, especially in north-west Russia (see page 52).

Through its investments, the Bank continues to play an important role in safeguarding the region against risks caused by nuclear facilities. Currently the EBRD manages projects totalling €1.5 billion. These include the Chernobyl Shelter Fund and the decommissioning of first-generation Soviet-designed nuclear reactors in Bulgaria, Lithuania, the Slovak Republic and Ukraine (see page 71).

the previous year. The EBRD participated in particular in the privatisation and recapitalisation of banks. New products included a guarantee facility (see page 33), leasing facilities and mortgage facilities.

Fostering entrepreneurship

The EBRD encourages entrepreneurship by providing support to small and mediumsized enterprises (SMEs) throughout the region. In 2001 it stepped up this support by investing in banks focusing on SMEs, increasing the number of credit lines to financial intermediaries and expanding its small and micro business programmes. New commitments for SME financing rose to nearly €700 million. In the EU accession countries, the EBRD expanded its operations through the EU/EBRD SME finance facility, committing a total of €223 million to 17 banks (see page 46). The average subloan size was €24,000. The Bank also developed its micro-lending programmes, which disbursed 70,000 micro and small loans worth over €650 million during the year. The Russia Small Business Fund alone provided financing of more than €280 million to micro and small enterprises. By the end of 2001, the EBRD's micro-lending programmes had disbursed over 150,000 business loans worth more than €1.4 billion.

Targeting infrastructure

In response to investment needs in infrastructure of about €35 billion annually, the EBRD expanded its investment programme, placing particular emphasis on projects in the municipal and environmental infrastructure (MEI) sector, energy efficiency, power and transport. In the MEI sector the Bank developed projects in the areas of water treatment and supply, waste-water collection and treatment, solid waste management, district heating and urban transport. In the EU accession countries the Bank's investment in infrastructure development is supporting these countries' efforts to meet EU standards.

Assisting enterprise restructuring

The EBRD continued to address the problem of the region's obsolete and non-competitive industries by participating in restructuring in areas such as energy, railways and shipbuilding. During the year the Bank played an important role in launching the restructuring process of Russia's power generation sector with a €50 million loan to RAO UES, which owns and operates the national grid (see page 40). In Romania the Bank undertook its first major restructuring project through its €113 million investment in support of the Sidex steel mill (see page 47). In Croatia the Bank helped kick-start the restructuring of the shipbuilding sector through its support for the Uljanik Shipyard (see page 35).

Supporting private equity investments

Through its equity investments, the EBRD continued to play an important role in the transition process in 2001 even though the volume of equity investments declined to \notin 476 million, from \notin 695 million in 2000. By appointing nominees to the Boards of investee companies, the Bank helps to improve corporate governance and bring added value to its investments. In 2001 a large proportion of the EBRD's equity

investments were in banks and insurance/ pension companies in central Europe. This was in addition to substantial activity in the telecommunications and property sectors. Investment in equity funds remained an important element of the Bank's activities, and a number of follow-on investments were made to support successful fund managers. The EBRD also increased the pace of its investments in the Bank's Regional Venture Funds programme in Russia and Central Asia.

Improving governance in the region

By helping to create a sound regulatory framework in its countries of operations, the EBRD fosters good governance and paves the way for foreign investment. In 2001 the Bank assisted Russia's Federal Commission for the Securities Market in developing a Corporate Governance Code endorsed in November by the Russian Government. The Code introduces unified corporate rules and procedures to form the basis for a fair and flexible corporate policy and business administration. The Bank also helped the CIS Inter-Parliamentary Assembly to draft a Model Securities Law giving the 12 countries of the CIS a single standard by which to draft national rules for their

capital markets. In addition, the EBRD helped the countries of south-eastern Europe and was in the forefront of measures to improve governance in these countries.

Improving living conditions

Following strong economic growth in some of the poorest countries in the region in 2001 - notably Albania, Armenia, Belarus, Kyrgyzstan and Moldova - living standards for the average person have improved in most countries. However, economic inequality has risen since reforms began and the number of poor people, particularly in the CIS and in south-eastern Europe, remains high. Managing the social effects of structural and institutional change remains one of the central challenges of the transition process. The private sector has a key role to play in alleviating the social burden of transition through the creation of new jobs, investments in environmentally friendly technology, and improvements to public services, particularly in the energy sector and in municipal and environmental infrastructure.



To support Russia's recovery, the EBRD has made substantial investments in agribusiness projects, widening the choice of goods for Russian consumers. Fulfilling its mandate in support of private sector activity, during the past year the EBRD continued to fund projects that lead to improved living conditions for many people in the region. This was achieved through investments in SMEs (supporting over 600,000 jobs in Russia alone), in waste management and water supply, and in energy efficiency. In some cases targeted assistance was provided to large companies, such as Polish Railways, to help manage unavoidable redundancies during the process of restructuring.

Targeting responses to regional needs

Supporting Russia's recovery

The increasing volume of EBRD investment in Russia demonstrates the Bank's commitment to help the country capitalise on reform gains. In 2001 the EBRD increased its annual investment level to €822 million, bringing the Bank's total investment in Russia to €4.3 billion. During the year the EBRD sought to promote private sector development through investments in the financial sector, natural resources, agribusiness, industrial projects, municipal infrastructure, telecommunications and small business. The EBRD also continued discussions with the authorities regarding the reform of banking and other sectors.

Accelerating activity in Central Asia

In the past decade the EBRD has built up a portfolio of more than \in 1.3 billion in Central Asia, becoming one of the most significant investors in the region. As a consequence of the global economic slowdown, the region suffered from declining interest on the part of foreign investors. It also experienced a limit on sovereign borrowing, further weakening of the business climate and isolation from world markets. During the year the Bank drew up an Action Plan – Accelerating Activity in Central Asia – focusing on private

sector development and trade facilitation, underpinned by a regional risk-sharing facility. The plan aims to accelerate the development of projects, support institutionbuilding, develop greater lending to SMEs, promote trade financing and modernise the region's infrastructure in collaboration with other institutions and donors. The plan will also help to strengthen the region following the events of 11 September.

Strengthening the reform process in the Caucasus

In 2001 the EBRD sought to bolster economic reform in Armenia, Azerbaijan and Georgia by strengthening the region's financial sector, promoting private sector development through financial assistance to SMEs and micro businesses and exploring the possibility of selective investment in infrastructure. In particular, the EBRD stepped up its support for micro and SME financing.

Economic transition and the EU accession process

The EU accession process continued to present the EBRD with the opportunity to increase investment in the accession countries and to advance the common aims shared by the Bank's mandate and EU accession. In 2001 the Bank supported the development of institutions in areas such as company law, competition policy, transport, energy and telecommunications, financial regulation and agriculture. The EBRD's volume of business remained strong, representing 54 per cent of the Bank's overall commitments in 2001. The EBRD aims to maintain a high level of activity in these countries up to and beyond EU accession. At the same time it will continue to ensure that its investments do not replace alternative sources of market finance.

Continuing support for south-eastern Europe

Under the Stability Pact for South-eastern Europe, the EBRD has been leading the development of private sector activity. The Bank has focused in particular on support for SMEs and cross-border trade, mobilising significant assistance from donors such as the European Union. In 2001 the EBRD significantly increased its activities in the region, committing €678 million to 46 new projects in Albania, Bosnia and Herzegovina, Bulgaria, FR Yugoslavia, FYR Macedonia, and Romania. In cooperation with other institutions, the EBRD participated in privatisations, the restructuring of large industrial enterprises, and financing for critical infrastructure projects. In FR Yugoslavia alone the Bank invested €232.6 million, mostly for urgently needed infrastructure projects in the power and transport sectors and for projects involving local municipalities and public utilities. The Bank also provided working capital to help a number of Yugoslav industrial companies recover lost production and export markets.

Providing a regional response

To address the needs of particular areas, the EBRD increased the regional dimension of its activities during 2001. Towards the end of the year, it developed an Action Plan for Central Asia, with the aim of increasing support for the countries affected by the recent conflict in Afghanistan. In partnership with other IFIs and donors, it also helped initiate the Northern Dimension Environmental Partnership (NDEP) to confront enormous regional environmental challenges in northern Europe (see page 52) and fortified its involvement in existing regional programmes, such as the Stability Pact for South-eastern Europe. In Russia the Bank developed an Action Plan for Kaliningrad, which forms a key part of the NDEP given the region's serious environmental problems (see page 38).



Recognising that financial institutions play a key role in developing market economies, the EBRD invested €1.1 billion in the financial sector in 2001.

Fostering partnerships in transition

By attracting funds from co-financiers, the EBRD plays a pivotal role in increasing the resources available to its countries of operations. Co-financing allows the countries to access international capital markets, promotes foreign direct investment and establishes appropriate risk sharing. In 2001 the Bank vigorously sought to build on its strong record for mobilising other sources of finance, generating total cofinancing for the year of €2.85 billion. Of this, €2.0 billion came from commercial institutions and €844 million from official co-financing institutions. In achieving these volumes, the EBRD took advantage of a gradual return of investor confidence and growth of projects in Russia, a strong flow of oil and gas transactions, and a continuing success in attracting commercial banks into long-term municipal infrastructure.

Donor funds are important in supporting the EBRD's operations as these resources are used to develop and implement projects and to assist in institution-building, such as improving the legal environment. Projects involving donor funding have been found to have a much greater impact on the transition process than projects relying solely on EBRD financing. In areas such as municipal and environmental infrastructure and SME financing, many of the EBRD's projects would not have been possible without the vital contribution made by donor funds. In 2001 the Bank launched a special Institution-Building Initiative (IBI) with the objective of using donor funding to improve the investment climate and level of skills in the EBRD's countries of operations.

Working with other institutions

The EBRD seeks to work with other institutions wherever possible to extend the impact of the Bank's financing and to benefit from other areas of specialisation. During 2001 the EBRD cooperated with other IFIs on 18 projects involving €489 million in co-financing. By working with institutions with a social mandate, such as the World Bank and the Council of Europe Development Bank, the EBRD is able to contribute to improving social conditions through mutually developed projects. Cooperation with IFIs also enhances the Bank's regional impact. In 2001 the Bank worked with the Asian

The EBRD built on its strong record for mobilising other sources of finance, generating co-financing of €2.85 billion in 2001.

Development Bank on projects in Central Asia and with the European Investment Bank in central Europe. The International Finance Corporation continued to be an important equity partner for the EBRD. The European Commission provided co-financing of €193 million, mostly through grants for municipal and environmental infrastructure, power and energy, and railways.

Ensuring transparency in the Bank's activities

The Public Information Policy (PIP) underpins the EBRD's commitment to transparency in its activities. As part of this policy, the Bank posts a substantial amount of information on its Internet site: www.ebrd.com. All draft sectoral policies, approved country strategies, and summaries of financial and other policy papers are published as well as summaries of projects in advance of Board discussion. During the year, two sector policies, 12 country strategies and 136 Project Summary Documents (PSDs) were posted in this way. To provide this increased flow of information, the Bank strengthened the unit responsible for updating the Web site and for tracking compliance with the policy. New measures were introduced mid-year to ensure that PSDs are published in the timeframe specified in the PIP. In the summer the EBRD undertook its first assessment of the implementation of the PIP and agreed to launch a review of the Policy in the near future.

In line with a basic commitment in the PIP, the Bank intensified its outreach. Throughout the year it maintained discussions with representatives of non-governmental organisations (NGOs) and the business community at events such as the Annual Meeting and in the countries in which it operates. To extend this dialogue, the Bank appointed a dedicated staff member for outreach and NGO relations.

Governance

Strengthening institutional governance

In 2001 the EBRD further strengthened measures to improve institutional governance. As a consequence of the events of 11 September, the EBRD ensures as one of its sound banking principles that its clients follow the highest standards of business practice. Integrity checks are undertaken by the Bank before committing any funds to ensure that no prospective client is on the United Nations Security Council lists of those suspected of supporting terrorist activities. Particular emphasis has been placed on measures to combat money-laundering on the part of corporate and financial institutions. In this regard the role of the Bank's Compliance Officer and collaboration with the Financial Action Task Force - the international body that oversees the fight against money laundering and financing of terrorists - have become especially relevant.

In pursuit of efficiency

In 2001 the EBRD continued to implement *Moving Transition Forward* while streamlining the processing of projects and increasing investment levels. The Bank achieved productivity gains by combining a record level of business with unchanged administrative costs in real terms. At the same time the EBRD placed considerable emphasis on improving the quality of its operations in terms of their impact on the transition process and on strengthening its standards of corporate governance.

Driven by innovation

The EBRD strives to promote flexibility and innovation in all its operations. In 2001 the Bank expanded its forms of financing to respond to the needs of countries where the transition process remains most challenging. New or enhanced facilities included the Trade Facilitation Programme, the Direct Investment Facility and local currency funding (see pages 29 and 42).

Institutional developments

Review of policies

New policies were approved in 2001 for operations in the shipping sector and in the property sector, which have undergone fundamental changes since the Bank first began operations in the early 1990s. In line with the Public Information Policy, the drafts of both these policies were posted for 45 days on the Bank's Web site, and public comments were taken into account.

In the first quarter of 2001 the EBRD completed its annual Strategic Portfolio Review (SPR), covering the Bank's strategic approach to portfolio management. The SPR included a number of new features, such as an expanded analysis of portfolio risk distribution and the potential impact of the Bank's projects on the transition process. It also covered specific portfolio management topics, including equity portfolio management, disbursements and asset recovery. The findings will help the EBRD develop its portfolio management as part of its medium-term strategy.

Compliance with Article 1

The role conceived for the EBRD is unique for an international financial institution: to underpin its goal of fostering transition to open market-oriented economies with a political mandate to promote democratic change. Article 1 of the Agreement Establishing the EBRD requires the countries in which the Bank operates to commit to and apply the principles of multiparty democracy, pluralism and market economics.

In 2001 the EBRD expanded its forms of financing to respond to the needs of countries where the transition process remains most challenging. In 2001, as part of its ongoing examination of the EBRD's operations and lending strategies, the Bank's Board of Directors reviewed the commitment of each country of operations to the obligations of Article 1. The Board expressed particular concern about the continuing lack of progress towards reform in Turkmenistan and Belarus. In both cases the President of the Bank wrote to the authorities regarding the EBRD's expectation that the situation should improve. In the case of Turkmenistan, concern was expressed regarding poor implementation of measures needed to improve the political and economic process towards democracy. In Belarus, the presidential electoral process in September was deemed to have failed to meet international norms, causing serious concern. This will be reflected in the Bank's next strategy for Belarus.

Human resources

As the EBRD matures, a growing number of staff are choosing to pursue a longerterm career in the institution. To ensure that their skills and motivation are maintained, the Bank focused on enhancing staff development during the year. The Human Resources Department was restructured, a Staff Development Committee was established to focus on developing staff, a programme of inter-departmental secondments was introduced and a number of senior vacancies were filled by internal candidates. The Bank also concentrated on improving the work-life balance of its staff with the establishment of a Work-Life Balance Committee. At the end of December 2001, the EBRD had a regular staff of 913 at its Headquarters compared with 862 in 2000, following efforts to fill all authorised positions. Locally hired staff in the Bank's Resident Offices totalled 247 compared with 238 in 2000. The ratio of male/female professional staff in the EBRD is approximately 2:1. Efforts continued to be made to ensure that the nationality of the Bank's staff reflects the multinational nature of the organisation.

Changes in senior management

During 2001 there were significant changes in EBRD senior management. In September Charles Frank retired as First Vice President after four years at the Bank. The Board of Directors paid tribute to Mr Frank's achievements and his major contribution to the institution. The EBRD welcomed as the new First Vice President, Noreen Doyle, who had been Deputy Vice President, Director, Risk Management until her appointment. Early in the year Hanna Gronkiewicz-Waltz, formerly Governor of the Central Bank of Poland, took up her position as Vice President, Human Resources and Administration. Brigid Janssen was appointed Director of Communications.

At the end of the year, Steven Kaempfer was reappointed Vice President, Finance. Ayesha Shah was appointed the new Treasurer in early 2002 following the resignation of Marcus Fedder. Mike Williams was appointed Director of Risk Management.



The EBRD's Resident Offices help to generate new business and monitor EBRD projects. The Romanian office, based in Bucharest, employs about 20 staff. By providing €588 million of financing to businesses in Poland in 2001, the Bank has helped to strengthen the economy and support the country's efforts towards EU accession.



Challenges for the future

The end of 2001 marked the completion of a decade in which the EBRD has played a key role in building market economies and contributing to better living standards in the region. In the period ahead, the Bank faces different but equally challenging tasks.

In fulfilling its commitment to sustained economic growth in the region, the EBRD must maintain its high level of commitments in the countries of central and eastern Europe and increase its activity in Russia and other CIS countries. The Bank has built a strong pipeline of potential projects, with the aim of supporting further progress in economic reform, institutional development and corporate governance. This is essential to attract foreign investment. In Russia the reform of the banking sector has been identified as a priority along with restructuring and support for small business. The EBRD intends to support the government by conducting high-level discussions on policy and institution-building and by providing financing to well-managed banks.

In the EU accession countries, which have gone farthest down the path of transition, the EBRD still has much to do. By maintaining a significant volume of new business, the Bank will support their efforts towards achieving accession, which in turn advances the transition process. For many of these countries, restructuring remains a prerequisite of entry into the EU, as does the strengthening of financial structures and institutions. In assisting these countries, the Bank will work closely with the European Commission and the European Investment Bank. As the experience of earlier EU enlargement has demonstrated, the challenges of structural adjustment and transition will continue for a number of years.

During 2001 the challenges confronting the countries of Central Asia became more apparent due to greater reluctance on the part of foreign investors to provide financing and because of the limited ability of certain governments to borrow. A further weakening of the business climate, isolation from world markets and a continuing need for investment in infrastructure created further difficulties. In seeking to ensure greater economic stability and a higher level of investment in this region, the EBRD will accelerate the delivery of projects, support institution-building, develop greater SME lending, promote trade financing and modernise infrastructure.

In south-eastern Europe and the Caucasus the EBRD intends to increase its investments to help maintain the momentum of change. In a number of these countries the challenges are formidable. For the Bank the task will be not only to help foster economic and social progress but also to build the institutions necessary to sustain such progress.

The EBRD will especially address key issues that affect the region as a whole in the transition process. The restructuring of large monolithic industries remains a crucial task in economic transformation but it can also take a heavy social toll. Therefore, the Bank will work with other institutions to lessen the hardship caused in the process. The EBRD will continue to emphasise the importance of working jointly with governments and international institutions to promote measures, such as agricultural reforms, that lead to the alleviation of poverty and improvement in living standards.

Trends in the transition process

Despite a sharp deterioration in the economic prospects elsewhere in the world, growth in the EBRD's region of operations was sustained at an average rate of 4.3 per cent in 2001. This marks the second successive year of recovery for almost all countries in the region.



- > Growth has been bolstered by continued progress in economic reform. Key drivers of this progress have been EU accession prospects as well as renewed political stability and reform commitment in Russia and elsewhere in the CIS.
- > In central and eastern Europe, growth increasingly depends on economic activity in the EU. Most CIS economies are commodity dependent and highly indebted, leaving them vulnerable to commodity price shocks and resulting macroeconomic volatility.
- > The extensive legislative activity throughout the region during 2001 demonstrates a continuing recognition of the importance of providing a predictable legal framework conducive to attracting investment.

The events of 11 September have not as some feared - had a major impact on the region so far. The rapid end of the military campaign in Afghanistan has avoided the scenario of heightened political instability in Central Asia and large refugee movements into Afghanistan's northern neighbours. Moreover, it seems that against the background of an IT-led slowdown in East Asia, the crisis in Argentina and repeated market jitters in Turkey, eastern Europe may well have been regarded as "safe play" among emerging markets. This can be seen, for instance, in continued currency strength in the Czech Republic, a successful Eurobond issue by Bulgaria, the strength of the stock market in Russia as well as several syndicated loans to companies across the region.

Economic performance has, however, varied significantly. As a result, different policy challenges are emerging in different countries, both at the macroeconomic and structural level. In the EU accession candidates, the close integration with the EU economy has in most countries led to a marked slowdown in the growth of net exports. This has not always been compensated by an increase in domestic demand. In particular in Poland, high real interest rates have continued to depress domestic demand, and as a result the country has fallen from the top to the bottom of the growth league table over the past three years. In other countries, where domestic demand has been sustained, the challenge will now be to avoid the re-emergence of "twin" external and fiscal deficits, which have caused macroeconomic volatility in the past.

In the Commonwealth of Independent States (CIS), Russia continued to benefit from high oil prices until the fourth guarter of 2001. This resulted in a healthy fiscal position, a strong (albeit declining) current account surplus and further real income gains for the majority of the population. The real appreciation of the rouble has generated increased demand for imports, which has benefited Russia's neighbours in the CIS. Russian import demand helped growth in Ukraine to reach a record level of 9 per cent in 2001. Armenia, Belarus, Moldova and Tajikistan have similarly benefited from Russia's growth while the Caspian energy producers have seen a new boom in energy-related investment activity.

As the macroeconomic situation remained broadly favourable in 2001, structural reforms have continued to advance in most countries of operations. Reforms tended to be in the areas of liberalisation and privatisation in the less advanced transition economies and in institutional reforms in the EU accession candidates. The biggest gains in 2001 were recorded by the Federal Republic of Yugoslavia (see box), but significant advances were also made in several other countries both in central and eastern Europe (CEE) and in the CIS. Notably, there has been a marked improvement in corporate governance in Russia over the past year (see below).

Progress in transition

The EBRD's Office of the Chief Economist has rated progress in transition in the Bank's countries of operations since 1994. These ratings, which are published in the annual *Transition Report*, reflect expert judgement on the most recent policy changes and developments in structural reform. In 2001, 21 countries recorded improvements in their average transition ratings, reflecting strong reform momentum throughout the region.

There have been positive developments in corporate governance and business practices in Russia over the past year. This was driven largely by the changing behaviour of controlling shareholders and managers who are beginning to act in ways that increase share values rather than to strip corporate assets and income for private gain. It is also being supported by the government through new legislation (a new Joint Stock Company Law and the Corporate Governance Code) and direct intervention in cases where the state retains important ownership stakes. However, the process of improvements in corporate governance in Russia is far



FR Yugoslavia – the EBRD's newest country of operations

One of the most encouraging developments in 2001 was the determination of the Federal Republic of Yugoslavia to make up lost ground. Before the political changes in October 2000 the Yugoslav economy was characterised by widespread price controls, restrictions on trade and access to foreign exchange, extensive enterprise arrears and an insolvent banking sector. Several cautious attempts at privatisation during the 1990s had failed. The country was effectively bankrupt after ten years of conflict and international sanctions and was in default to almost all of its creditors, including international financial institutions such as the IMF and the World Bank.

New reform-oriented governments from the 18-party coalition, the Democratic Opposition of Serbia, took over at federal level in October 2000 and at the republic level in Serbia in January 2001. The new governments at both federal and republic level (Serbia and Montenegro) have demonstrated a strong commitment to reform and a desire to make up for lost time.

The first step towards reform was price liberalisation. By the middle of 2001 almost all prices - other than those for bread, flour and utility services - had been liberalised. These measures were accompanied by strict stabilisation policies by the Central Bank. As a result, annual inflation, above 100 per cent at the end of 2000, declined to about 40 per cent by the end of 2001. The price of electricity, less than US 1 cent per kilowatt-hour at the end of 2000, was raised by 60 per cent in April 2001, although the headline rate applies only to a small number of people given affordability constraints. Increases for other utility prices are also under way. In January 2001 the federal authorities abolished the multiple exchange rate regime, replacing it with a managed float, and introduced current account convertibility. A comprehensive trade liberalisation programme in the first half of 2001 followed these measures. A new law on privatisation was approved in June. Under this law, strategic investors can acquire majority shares, allowing them to gain effective control of the company.

Right Happy Kids International, a kindergarten and primary school in Cluj, Romania, has been able to expand its facilities and increase enrolments following a €56,000 loan under the EU/EBRD SME finance facility. The school has over 200 students and provides afterschool care for another 150 children.

Opposite page Poland is one of ten countries in central and eastern Europe to have started EU accession negotiations.



from complete and will require continued attention by policy makers, international institutions and investors.

One reason for the change in approach has been the shift in enterprise incentives towards maximising long-term potential. Companies that have strengthened their commitment to sound corporate governance and business practices have seen significant increases in their share values and have achieved relatively high stock market returns. Some of the best examples of this turnaround are to be found in the oil sector, where companies such as Yukos have transformed themselves into potentially attractive business partners for Western energy companies. The rise in foreign direct investment (FDI) into Russia and the decline in capital flight also bear testimony to recent improvements. Continued support from the law enforcement agencies, such as the judiciary and the Federal Commission for Securities Markets, will be needed to sustain this trend

There is evidence that the less advanced transition economies are beginning to close the gap in structural reforms with frontrunners such as Hungary, Poland and the other EU accession countries. This was notably the case in Tajikistan, Ukraine and in south-eastern Europe but in a few countries progress continues to be hesitant. Belarus and Uzbekistan both made progress in 2001 in the liberalisation of access to foreign exchange. Belarus unified its exchange rates in September 2000 and liberalised the market further in July 2001 by allowing foreigners to take part in interbank trade. In Uzbekistan some liberalisation of exchange rate practices took place although access to the official market remains restricted. The Uzbek government has pledged rapid currency unification for 2002. Moreover, Uzbekistan has made considerable progress in infrastructure reforms and has launched a new round of privatisation, which could provide the basis for increased private investment in the future. Yet, in both Belarus and Uzbekistan, the environment for private businesses remains difficult.

In Turkmenistan, exchange rate distortions and other interventionist policies remained in place in 2001. Moreover, privatisation plans seem to have been effectively abandoned. This has earned Turkmenistan another downgrade in the EBRD's transition scores, the only downward move in the region in 2001.

The experiences highlighted above indicate that the region is following several paths to a liberalised market economy. The EU accession candidates show the clearest signs of systemic convergence, with strong gains in particular among those countries that joined the group of accession candidates after the Helsinki summit of 1999. The EBRD can play an important role in supporting structural reform in less advanced transition economies through its technical assistance projects. The Bank will continue to concentrate its efforts on those sectors where reform challenges are most evident, and where government commitment is likely to lead to rapid progress. On the other hand, where such commitment is lacking, support from the international donor community is much less likely to be effective.

The less advanced transition economies are beginning to close the gap with front-runners such as Hungary, Poland and other EU accession countries.

Recent economic developments

Conditions in the global economy have changed dramatically over the past year. In 2000, when growth in the world economy was rapid and investor confidence was strong, the transition economies of CEE and the CIS experienced their highest average growth rate since reforms began. Since the second half of 2000, however, performance of the world economy has progressively weakened and this has affected the transition countries through a slowdown in exports. The terrorist attacks on the United States in September 2001 further increased global economic uncertainty, although recent indicators suggest that both the US and the EU economies may have bottomed out by the fourth quarter of 2001.

In line with the weaker external picture, growth in the region fell to 4.3 per cent in 2001, from 5.5 per cent in 2000. Yet, this level puts the region among the strongest performers in emerging markets in 2001. Indeed, in 14 out of 27 countries, growth was higher in 2001 than the year before, mostly in the CIS. Nonetheless, much of the region is poised for slower growth in 2002, as net exports are likely to decline further before the world economy recovers towards the second half of the year. Some of the sharpest declines in growth were recorded in the region's two largest economies, Poland and Russia. As a consequence of ethnic unrest, FYR Macedonia moved sharply into recession last year, the only country in the region to do so.

In Poland a decline in domestic demand continued to hamper growth while the EU slowdown reduced the contribution of net exports. High fiscal deficits led the Central Bank to raise interest rates, which are still among the highest in eastern Europe. This has choked off investment and, with rising unemployment, depressed consumption. A strong revival of the Polish economy is not expected until the latter part of 2002.

Fiscal tightening is needed in a number of other CEE countries if growing external imbalances are to be avoided over the coming months. Fiscal imbalances exceeded 3 per cent of GDP in Croatia, the Czech Republic, Hungary and the Slovak Republic in 2001. In south-eastern Europe, this was the case in all countries except Bulgaria. Current account deficits, which had declined somewhat in 2000, were on the increase again in most countries in 2001, underlining the need for fiscal prudence. Exports to the



Growth in real GDP in the EBRD's countries of operations

	2000	2001
	(in per cent)	(in per cent)
Albania	7.8	7.3
Bosnia and Herzegovina	5.0	5.0
Bulgaria	5.8	4.5
Croatia	3.7	4.4
Czech Republic	3.1	3.5
Estonia	6.9	4.5
FR Yugoslavia	5.0	5.5
FYR Macedonia	5.1	-4.5
Hungary	5.2	4.0
Latvia	6.6	7.0
Lithuania	3.9	5.7
Poland	4.0	1.1
Romania	1.6	4.5
Slovak Republic	2.2	3.0
Slovenia	4.6	2.8
Central and eastern Europe and the Baltic states ¹	4.0	2.9
Armenia	6.0	9.6
Azerbaijan	11.1	9.2
Belarus	5.8	4.0
Georgia	1.9	3.0
Kazakhstan	9.6	13.0
Kyrgyzstan	5.1	5.3
Moldova	1.9	4.5
Russia	8.3	5.2
Tajikistan	8.3	10.2
Turkmenistan	17.6	12.0
Ukraine	5.8	9.0
Uzbekistan	4.0	3.0
Commonwealth of		
Independent States ¹	7.9	6.0
Total for the region	5.5	4.3

Notes:

Data for 2000 are preliminary actuals, mostly official government estimates. Data for 2001 represent EBRD projections.

¹ Estimates for real GDP represent weighted averages. The weights used for the growth rates were EBRD estimates of nominal dollar-GDP lagged by one year. In 2001 the EBRD benefited from the healthy economic performance in the region, as more and more investors have come to realise its enormous potential.

> EU, which are around two-thirds of the total for most countries in CEE, are likely to remain depressed for several months to come, even if the Eurozone improves. Against this background, in CEE average growth is unlikely to improve in 2002.

Nonetheless, the EU accession process is yet again proving to be an important stabilising factor. This is most evident in the capital markets and in the levels of FDI. Net FDI to EU accession countries was US\$ 18.2 billion in 2001, only marginally down on the US\$ 20.2 billion recorded in 2000, and over 70 per cent of total FDI inflows into the region. Yields in the bond market for CEE issues declined further throughout 2001 despite international diversification away from emerging markets. Encouragingly, FDI into Albania, Bosnia and Herzegovina, FR Yugoslavia and FYR Macedonia also seems to be picking up, albeit from very low levels, to around US\$ 800 million for the southern Balkans combined.

In the CIS the moderate decline in growth experienced by Russia was widely anticipated and, in fact, Russia outperformed most forecasts. The persistence of high oil prices until the third quarter of 2001 clearly helped, supporting a strong fiscal position and a healthy current account. The main factor driving growth in Russia continues to be domestic demand, both investment and consumption. Healthy corporate profits have allowed enterprises to modernise their capital stock and generate working capital needed for increased capital utilisation. Bank lending has also expanded at some 35 per cent. Domestic consumption in turn may have increased by as much as 9 per cent, supported by further real wage increases and the reduction in wage arrears. A similar pattern of an oil-fuelled boom in domestic demand was observed in Kazakhstan in 2001. Ukraine's experience of export-led growth benefiting from growing import demand from Russia is representative for most other CIS economies.

For 2002, the main uncertainty in the Russian economy concerns oil prices. If prices fall to below US\$ 16/barrel, growth could fall quite sharply from present levels. Elsewhere in the CIS, declines in growth are also in store for a number of countries. Transport costs to world markets continue to be high, increasing reliance on regional markets, particularly for exports of manufactured goods. Yet, regional integration remains hampered by numerous barriers to trade, regional instability and distorting exchange rate policies in Turkmenistan and Uzbekistan. In this respect, lasting political settlements to the conflicts in Transnistria, the southern Caucasus and Central Asia remain key factors for the region's long-term economic prospects.





Opposite page Russia's economy outperformed most forecasts in 2001, with domestic demand driving growth.

Left Croatia recorded growth of 4.4 per cent in 2001.

Moreover, the majority of CIS countries remain extremely dependent on commodity exports. The past few years have demonstrated the enormous volatility of commodity prices for some key exports, such as cotton or ferrous metals. For instance, cotton prices fell by half during 2001. FDI into the CIS continues to be concentrated in the commodity sector, in particular in oil and gas exploration. In Azerbaijan and Kazakhstan, the oil sector accounted for 75 per cent of net FDI inflows in 2001, totalling close to US\$ 2 billion, a third of the CIS total. Gold mining accounts for a similar proportion of FDI in Kyrgyzstan. For the time being, the resources sector is the region's best chance to attract large-scale foreign investment, but to turn this into lasting economic prosperity, the management of the resulting public revenue will be crucial. Both Azerbaijan and Kazakhstan created National Oil Funds during 2000-01, which will act as "buffer" funds for future generations if oil prices collapse.

In 2001 the EBRD benefited from the healthy economic performance in the region, as more and more investors have come to realise its enormous potential. In a weaker global context, investor interest in the region may temporarily decline. Yet, despite the recent slowdown in economic activity in much of the region, the mediumterm prospects remain good. The EU accession process will continue to attract investors to CEE while the reforms now under way in FR Yugoslavia should improve prospects for south-eastern Europe. In the CIS, Russia's prospects remain favourable due to the renewed reform efforts under President Putin, although enterprise adjustment is far from complete. However, indications are that in 2001 even here significant improvements were made.

Legal environment

During 2001 there was considerable legislative activity to improve commercial legislation throughout the Bank's countries of operations. A noticeable trend in the region was the general attempt to improve secured transactions regulatory regimes. In Azerbaijan a new Civil Code came into force that included provisions for the taking of security. In the Czech Republic a new regime for the creation and registration of pledges over certain assets was introduced through amendments to the Civil Code, and a pledges registry is expected to become fully operational during 2002. In Moldova a new law on pledges establishing the basis for the creation of an effective registration system was approved, while in

Hungary the recently enacted amendments to the Civil Code were implemented. These are designed to clarify existing rules and improve the present security transactions regime.

However, development of new legislation is only the first step in the process of creating a modern secured transactions regime. Implementing regulations and the creation of a pledge registry are also required. For example, despite pledge laws being enacted in early 2000 in Albania and Romania, implementation of the new laws was delayed for at least a year. New pledge registries only became fully functional in both countries in 2001. The practical impact of the new legislation in Azerbaijan, the Czech Republic and Moldova will be felt only after the implementing regulations and systems are put in place to create an effective secured transactions registration regime.

Efforts to codify civil and commercial laws continued in 2001. In the Slovak Republic, amendments to the Commercial Code have strengthened minority shareholder rights, while in Estonia the enactment of the new Contract Law enhances consumer protection and successfully reforms the country's Civil Code. In addition, extensive legislative activity to improve the commercial legislation was evident in Russia and Ukraine. In Russia a new Land Code and a new chapter to the Civil Code, replacing Sovietera laws, entered into force. In Ukraine the enactment of new Civil, Commercial and Land Codes provides fundamental and longawaited changes to the commercial legislation, which are expected to make a marked improvement to Ukraine's legal environment.

Significant legislative activity was noticeable in the financial markets and banking sector throughout the region.

Significant legislative activity was noticeable also in the financial markets and banking sector throughout the region. New securities legislation provisions were introduced in Estonia, Russia and Ukraine. The changes to the Estonian securities legislation were accompanied by the establishment of a unified financial services authority mandated to enforce and implement the new legislation. Effective enforcement of the new laws in Russia and Ukraine will be needed if the legislation is to lead to improved capital markets and corporate governance. In Kazakhstan and Uzbekistan important amendments to the currency regulations aim to liberalise the foreign exchange markets and encourage foreign investments. The enactment of money laundering legislation in FYR Macedonia and Russia testifies to the efforts being made to meet international standards.

The extensive legislative activity throughout the region during 2001 demonstrates each country's continuing recognition of the importance of providing a predictable legal framework conducive to attracting investment. The countries of central Europe and the Baltic states again led the way as the EU accession process continues to motivate broad legal reform efforts. However, legislative changes must be matched with efforts to implement and enforce these changes if improvements in the investment climate are to be realised. In 2001 the EBRD Legal Indicator Survey identified noticeable improvements in the effectiveness of commercial and financial laws in a majority of the EBRD's countries of operations. Despite these positive developments, both the EU's annual accession reports and the EBRD's legal research indicate that the implementation of new legislation continues to be a major challenge for all of the countries of the region. For this reason, the EU and other donors (including the EBRD) are placing a greater emphasis on effective legal institution-building.

Investing in the region

For the EBRD, 2001 was a year of achievement and consolidation. Annual investment of €3.66 billion and gross disbursements of €2.44 billion were the highest achieved to date.



- > The EBRD provided €1.6 billion to central Europe, its highest ever annual investment level in the region.
- > The Bank increased its commitments in Russia by 42 per cent, responding to the country's progress in reforms and renewed interest by strategic investors.
- > An Action Plan for Central Asia was launched to encourage private sector development in the region.
- > The EBRD committed over €230 million to its newest country of operations, the Federal Republic of Yugoslavia.
- > The quality of the EBRD's portfolio has remained good, with impaired assets declining.

Progress in transition

The EBRD classifies its countries of operations by their progress towards a market economy. Russia is treated separately.

- > Early/Intermediate: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FR Yugoslavia, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
- > Advanced: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

In 2001 the EBRD's annual investment reached the highest level to date in every sub-region and sector of activity. In line with the Capital Resources Review approved at the Bank's Annual Meeting in 2001, the annual business volume increased significantly in the countries at the early and intermediate stages of transition and in Russia, growing from €1.6 billion in 2000 to €2.0 billion in 2001. Annual business volume also increased in the advanced transition countries to €1.6 billion, compared with €1.0 billion in 2000. The Bank maintained a broad geographical presence by signing new transactions in each of its 27 countries of operations. A key factor in promoting increased investment by the EBRD has been an improvement in the investment climate. Discussions with governments in each of the Bank's countries of operations on priority measures in this regard continued in 2001.

In the advanced transition countries, the EBRD worked closely with the European Union to develop financial products in support of small business and munici-

palities. The Bank financed projects in capital-intensive industries (such as telecommunications, oil and power) and in infrastructure (roads, railways, waste water and property). In Poland the EBRD underwrote a local currency segment of a syndicated loan for a major Polish telecommunications provider since local banks lack the capital capacity to do so (see page 36). In the countries at the early and intermediate stages of transition, the Bank significantly increased its trade facilities and found new ways to share risks with foreign investors keen to do business - for example, financing a franchise network of auto service workshops in Ukraine. The Federal Republic of Yugoslavia became a member of the EBRD in early 2001 and the Bank committed over €230 million to projects there, working closely with the new government. This included an innovative working capital facility available for socially owned companies en route to privatisation and the creation of a micro finance bank.



Using financing provided by the EBRD's Russia Small Business Fund, Audience DeLight and Company has transformed its music business from a small retail showroom into a highly competitive guitarmaking enterprise. In 2002 the company expects to open its third workshop and to increase production from 200 to 2,000 guitars per month.

In Russia there are clear indications of renewed interest by strategic investors, and of recovery and expansion by local companies. The EBRD increased its commitments substantially during 2001, supporting strategic investors, such as General Motors, and strong local companies, such as Togliattiazot. It also assisted industrial restructuring, such as RAO UES (see page 40), and small businesses through Regional Venture Fund investments, the Russia Small Business Fund, credit lines and the Trade Facilitation Programme (see page 42). At year-end the Bank issued its first rouble-denominated funding, responding to client needs for local currency funding and helping to further develop local capital markets.

The growth in business volume was achieved in line with the EBRD's prime objective of promoting the transition to market economies. During 2001, 74 per cent of new signed projects were assessed as having the potential to achieve a good to excellent impact on the transition process.

EBRD financing	committe	ed by countr	у			
			2001			Cumulative
	Number of projects	€ million	%	Number of projects	€ million	%
Tajikistan	2	21	0.6	6	38	0.2
Albania	1	19	0.5	14	126	0.6
Armenia ¹	0	< 1	< 0.1	6	140	0.7
Turkmenistan ¹	0	1	< 0.1	4	177	0.9
Belarus ¹	0	7	0.2	6	190	0.9
Kyrgyzstan	1	5	0.1	13	190	0.9
Bosnia and Herzegov	vina 4	52	1.4	15	201	1.0
Moldova	1	10	0.3	17	211	1.0
FR Yugoslavia	7	233	6.4	7	233	1.2
Georgia	1	12	0.3	15	249	1.2
FYR Macedonia	1	33	0.9	14	270	1.3
Latvia	3	43	1.1	24	353	1.7
Estonia	1	15	0.5	37	367	1.8
Azerbaijan ¹	0	17	0.5	11	393	1.9
Slovenia	1	52	1.4	23	414	2.0
Lithuania	3	83	2.3	24	437	2.2
Bulgaria	3	60	1.6	34	536	2.7
Uzbekistan	2	107	2.9	17	690	3.4
Kazakhstan	5	177	4.8	19	797	3.9
Czech Republic	3	88	2.4	35	869	4.3
Slovak Republic	7	345	9.4	32	899	4.4
Croatia	9	281	7.7	36	937	4.6
Ukraine	6	176	4.8	44	1,294	6.4
Hungary	3	129	3.5	59	1,357	6.7
Romania	4	282	7.7	56	2,017	10.0
Poland	14	588	16.1	110	2,560	12.7
Russia	18	822	22.5	128	4,276	21.1
Total	102	3,656	100	807	20,219	100

Note: Financing for regional projects has been allocated to the relevant countries. The totals in this table may differ, therefore, from the list on pages 75 to 84, where regional projects are listed separately.

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

EBRD financing committed by see	ctor					
			2001			Cumulative
	Number of projects	€ million	%	Number of projects	€ million	%
Financial Institutions						
Bank equity	6	184	5	80	1,023	5
Bank lending	8	591	16	112	3,031	15
Equity funds	6	175	5	63	1,220	6
Non-bank financial institutions	7	93	3	24	236	1
Micro and small business programmes	6	64	2	19	403	2
Subtotal	33	1,106	30	298	5,912	29
Industry and Commerce						
Agribusiness	12	299	8	86	1,466	7
Natural resources	5	196	5	38	1,633	8
Property, tourism and shipping	4	148	4	43	831	4
Telecommunications, informatics and media	8	297	8	53	1,730	9
Subtotal	30	940	26	221	5,660	28
Infrastructure						
Energy efficiency	3	53	1	12	233	1
Municipal and environmental infrastructure	9	188	5	39	1,095	5
Power and energy	4	364	10	41	1,873	9
Transport	8	401	11	68	2,611	13
Subtotal	24	1,006	28	160	5,812	29
General Industry						
General industry	16	604	17	128	2,835	14
Total	102	3,656	100	807	20,219	100

EBRD financing committed by type of facility						
			2001			Cumulative
	Number of projects	€ million	%	Number of projects	€ million	%
Private loans	54	1,910	52	392	10,113	50
State loans	21	856	23	161	5,752	28
Equity	23	476	13	245	3,649	18
Guarantees	3	413	11	10	705	3
Total	102	3,656	100	807	20,219	100



The EBRD provides substantial support for industrial projects throughout its countries of operations.

Delivering on the EBRD's commitment to develop new instruments

Direct Investment Facility

The Direct Investment Facility (DIF) enables the EBRD to make relatively small equity investments in high-risk private sector enterprises. In 2001 the DIF approved eight investments in five countries. It also developed a pipeline of projects in Central Asia, the Caucasus, south-eastern Europe and the Russian Far East. At the end of the year the EBRD doubled the funding available through this facility.

Local currency funding

Demand for local currency financing continued to increase in 2001, particularly from the more advanced transition economies. During the year the EBRD increased its local currency lending capabilities, adding Hungarian forints and Russian roubles to the list of currencies that already included Czech korunas and Polish zlotys.

Term Lending Enhancement Facility

Under the Term Lending Enhancement Facility (TLEF), banks are able to utilise their own shortterm liquidity to expand their term-lending activities while the EBRD provides a funding commitment if there is a significant reduction in liquidity levels. The International Moscow Bank (IMB) was the first bank to benefit from a TLEF. In 2001 the EBRD explored the possibility of applying this structure to other banks in the region. During 2001 the US and EU economies started to slow down, with consequences for the economies of central and eastern Europe. As a result, the appetite of financial investors for risk waned in the face of falling equity markets and declining corporate bond ratings. With its mission to promote transition, the EBRD remained committed to the region and to financing commercial private and public sector investments.

The EBRD strives to promote flexibility and innovation in all its operations. In 2001 the Bank developed new forms of financing to meet local needs.

The Bank enhanced its marketing strategy to raise its profile with major corporate investors, both international and local. The Bank also intensified its dialogue with the governments of its countries of operations to ensure that the EBRD's operational strategy is closely aligned with their priorities – particularly for infrastructure investment. The results of this business development strategy are evident in the sizeable increase in the pipeline flow across the region. The value of projects that have passed Concept Clearance (the first stage of the Bank's approval process) in the early and intermediate countries was up 16 per cent relative to 2000. In the advanced countries the increase was 19 per cent and in Russia it was over 100 per cent higher.

The EBRD disbursed more than €2.4 billion in 2001, its highest ever annual level.

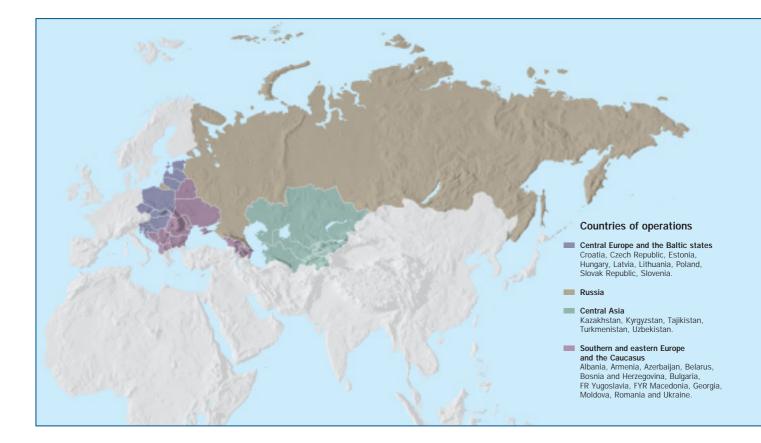
To cope with rising business volumes and to increase the Bank's responsiveness to clients, internal processes were examined to determine ways to increase productivity, enhance flexibility and make best use of existing resources. These changes have resulted in significantly higher business volume and management of a larger portfolio, with limited increases in resources. The Bank is aware that in these challenging economic times it must continue to be vigilant to maintain its responsiveness to clients and its creativity in addressing issues.

At the beginning of 2002 the Banking Department was restructured. A new Energy Business Group was formed, comprising Natural Resources, Power and Energy Utilities, and Energy Efficiency. The Industry and Commerce Group was retitled the Specialised Industries Group, which now comprises Agribusiness; Property, Tourism and Shipping; and Telecommunications, Informatics and Media. A new Infrastructure Group consists of Municipal and Environmental Infrastructure, and Transport.

EBRD gross disburser	nents by c	ountry
	2001	Cumulative
	€ million	€ million
FR Yugoslavia	7	7
Tajikistan	1	14
Albania	4	56
Bosnia and Herzegovina	17	80
Turkmenistan	41	97
Armenia	4	112
Moldova	22	123
Georgia	35	154
Kyrgyzstan	7	157
Belarus	3	176
FYR Macedonia	40	195
Latvia	52	261
Azerbaijan	23	277
Lithuania	17	313
Estonia	11	322
Slovenia	42	381
Kazakhstan	103	436
Uzbekistan	76	455
Bulgaria	46	458
Croatia	83	548
Ukraine	169	644
Czech Republic	78	666
Slovak Republic	274	772
Hungary	91	1,085
Romania	214	1,530
Poland	400	1,757
Russia	583	3,036
Total	2,442	14,114

In 2001 the EBRD provided financing of €245 million for telecommunications projects in central Europe and the Baltic states.





Central Europe and the Baltic states

In 2001 central Europe and the Baltic states experienced strong growth, driven largely by the EU accession process, which has continued to attract foreign direct investment (FDI). Considerable progress was made in the liberalisation of markets and trade, privatisation, restructuring and financial sector reforms. A large proportion of GDP is now generated by the private sector.

The EBRD played an important role in central Europe and the Baltic states in 2001 by providing \in 1.6 billion, its highest annual investment level in the region. In Poland alone the Bank has already committed some \in 2.6 billion over the past ten years, supporting projects with a total value of \in 11.5 billion. These levels of financing reflect the Bank's flexibility in responding to the needs of local businesses as well as foreign investors and its ability to find innovative ways of adapting its financing instruments to the region's changing requirements. They also point to the ongoing improvements in the investment climate in this region, which continue to provide new business opportunities for the Bank and its clients. At the same time the EBRD is always careful to ensure that its investments do not displace alternative sources of market finance.

The EBRD has firmly placed itself at the forefront of the transition process by providing a wide variety of services in central Europe and the Baltic states. These range from attracting private capital for needy sectors of the countries' economies to supporting foreign sponsors' first ventures into the region. The Bank has provided vital support to local businesses undertaking difficult restructuring challenges and has played a key role in supporting the development of the financial sector. The EBRD has also undertaken increasingly complex projects with local municipalities and utilities, often engaging in intensive dialogue with local authorities.

Through its activities, the Bank has developed an extensive portfolio and gained considerable experience in all of the countries of central Europe and the Baltic states. It has played a catalytic role in mobilising co-financing from both private and public sources. In 2001 the EBRD undertook a diverse range of projects across the region. In the industrial sector, for example, the Bank assisted the Slovalco aluminium smelter in the Slovak Republic, the modernisation of the Vetropack Straza bottling plant in Croatia and Hermes Softlab in Slovenia, one of the leading independent software developers in the region. The agribusiness sector received EBRD support for meat processing (Sokolow SA and Animex SA in Poland), food retailing (Kesko in the Baltic states - see page 33) and a malting joint venture (Soufflet Malting in the Czech Republic). In the financial sector the Bank provided pre-privatisation financing to Všeobecná Úverová Banka (VÚB) in the Slovak Republic (see page 33), and supported insurance through Balta in Latvia and Winterthur Biztosito in Hungary. A mortgage finance facility was provided to Privredna Banka Zagreb in Croatia.

Financing for municipal infrastructure included urban transport projects for Sopot and Gdansk in Poland, and water/wastewater treatment projects in Kaunas (Lithuania), Rybnik (Poland) and Zagreb (Croatia – see page 34). Other infrastructure transactions focused on railway track renewal in Lithuania, the completion of the Rijeka-Zagreb motorway in Croatia, and power generation (Patnow II in Poland). In the telecommunications sector, financing was provided to Vivendi Telecom Hungary and to mobile phone companies in the Czech Republic, Croatia and Slovenia.

The EBRD is flexible in responding to the needs of local businesses and has found innovative ways of adapting to the region's changing needs.

Throughout the region, the EBRD established credit lines for small and mediumsized enterprises (SMEs), including those located outside the capital cities. An innovative co-financing risk-participation agreement was signed with IKB, a leading German bank, allowing IKB to further expand its financing activities in the region in support of small business.

During the year the EBRD approved new country strategies for the Czech Republic, Hungary and Latvia. The Bank's plans for these countries include further support for enterprise development as a way of increasing inflows of FDI, the completion of the privatisation process, greater SME development, and assistance to the financial sector in developing a wider range of financial products and services. The EBRD will focus on the restructuring and commercialisation of infrastructure, including private sector participation, through non-sovereign financing structures. Priority will be given to strengthening corporate governance.

Croatian glass bottle maker Vetropack Straza received a €12.5 million loan from the EBRD to support the expansion of its production plant.





Agribusiness

Kesko Baltic states



Consumers in the Baltic states will have a wider choice of higher-quality and lower-priced goods as a result of an EBRD investment in Kesko, the leading Finnish retail group with outlets in Estonia and Latvia. The Bank is providing a syndicated loan of €61.3 million, of which €50.4 million is being provided by the EBRD. An additional €6.7 million is being provided in equity. Kesko will use the financing to continue the expansion of its supermarkets and hardware chains in Estonia and Latvia.

The EBRD's investment will help to modernise Baltic retailing, which will be of benefit to producers of local goods and consumers alike. Through this project, Baltic food and hardware suppliers will gain access to a wider market for their produce. This should lead to an improvement in quality and greater diversification in local production to meet the needs of a modern distribution network. A more efficient distribution system will also lead to a reduction in prices.

"Kesko has ambitious plans for the Baltic markets, which call for large amounts of capital. The EBRD is helping us to meet our business goals in these exciting markets." Juhani Järvi, Executive Vice President of Kesko

Bank equity

Všeobecná Úverová Banka (VÚB) pre-privatisation Slovak Republic



The second-largest bank in the Slovak Republic, Všeobecná Úverová Banka (VÚB), has been given new momentum with the help of an EBRD equity investment and the bank's subsequent privatisation. Substantial state ownership of the banking sector in the Slovak Republic had significantly hampered its potential for growth, and a number of banks had accumulated high levels of non-performing loans. Following a major restructuring in 1999 that radically improved its balance sheet, VÚB attracted equity investments from the EBRD and the IFC, helping to raise the confidence of potential strategic investors.

The IFC and the EBRD each bought 12.5 per cent of the shares of VÚB. Following the share purchase, the privatisation tender went ahead successfully. In November 2001 VÚB was finally purchased by the Italian bank IntesaBcI, with the EBRD and IFC exiting at this point. However, the EBRD continues to support VÚB through a €20 million credit line for on-lending to small and medium-sized enterprises (SMEs). This was provided under the EU/EBRD SME finance facility (see page 46) and includes assistance to help the bank train its staff and improve its systems.



Municipal infrastructure

Zagreb waste-water treatment concession Croatia

Zagreb's population of 900,000 will soon be able to appreciate cleaner surroundings thanks to EBRD support for the city's first ever waste-water treatment plant. Currently, waste water is discharged directly into the Sava River, causing serious pollution. An EBRD loan of €55 million will help the city to tackle this problem and to comply with EU environmental standards.

The EBRD's loan is being provided to Zagrebacke Otpadne Vode (ZOV), a private company chosen through an international tender to build, operate and maintain the treatment plant. Co-financing of €115 million has been provided by the German bank Kreditanstalt für Wiederaufbau (KfW). By lending directly to the concessionaire, the EBRD is allowing the city to use its own credit capacity for other important projects. In addition to building the plant, ZOV will also construct supporting infrastructure. Construction of the entire project is expected to take six years.

The city will control the private company through a long-term concession contract, which sets out the discharge standards that the waste water must meet. The project is an example of how public-private partnerships can produce important environmental benefits and should serve as a model for other Croatian cities.





Non-bank financial institutions DVI Regional



The standard of health care in central and eastern Europe is to be improved with the assistance of EBRD financing. The Bank is providing a loan of \in 10 million to DVI, a leading independent finance company that specialises in helping health care providers worldwide by leasing to them important medical equipment that would not otherwise be easily affordable. An additional loan of \in 20 million has been syndicated to a group of commercial banks. The syndicated approach was designed by the EBRD to respond to DVI's need to receive longer-term financing than could be provided by commercial banks alone.

The DVI project is expected to significantly improve health care in the region. As most of DVI's clients are public hospitals, patients and staff will directly benefit from newer and more sophisticated medical equipment, such as magnetic resonance imaging scanners, radiology equipment and ultrasound apparatus. The project is expected to encourage other leasing providers to enter the medical market and to promote an expansion of health care services throughout central and eastern Europe.

"With the EBRD's loan, we are helping to upgrade the region's health care sector." St John Brown, President of DVI Financial Services – Europe

Property

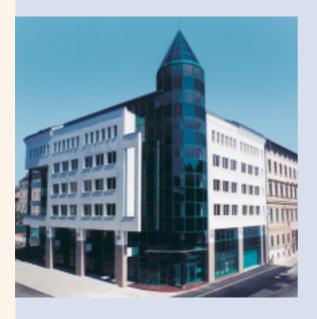
Europolis portfolio Regional



Property development in central and eastern Europe has been boosted by a €105 million investment by the EBRD in Europolis Invest, one of the largest property investment companies in the region. The financing will be used to create a regional portfolio of about 20 property assets with a total project value of approximately €1 billion under the name of Europolis. The EBRD's financing will support the diversification of Europolis, targeting the property markets in a number of countries, in particular the Baltic states, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

Europolis Invest's current portfolio comprises six properties in Budapest, Prague and Warsaw with a market value of some €260 million. The EBRD's investment will allow Europolis to focus on developments rather than acquisitions and to expand into other areas of the property market, such as business parks, warehousing, retail and leisure. The focus on development projects is expected to give a boost to local construction companies, resulting in the development of skills and new jobs in the building industries.

"Strengthened by the EBRD's strategic investment, the Europolis Group will expand its successful real estate activities into new markets." Wilfried Stadler, CEO of Investkredit Bank AG





Shipping Uljanik Shipyard Croatia

In 2001 the EBRD signed its first project in the shipbuilding sector, providing financing of ≤ 17.1 million to Uljanik Shipyard in the port-town of Pula, Croatia. The shipyard consists of two production lines capable of designing and constructing vessels of up to 80,000 dwt. Uljanik Shipyard is regarded as the best managed state-owned shipyard in Croatia, with a good track record in terms of delivery and building to a high technical specification.

The EBRD will support the medium-term financing of Uljanik Shipyard's current order book through the issuing of refund guarantees against predelivery payments. The guarantee facility will help Uljanik Shipyard to restructure and commercialise the shipyard's operations. In the longer term the project should enable the Bank to play a wider role in the restructuring and possible privatisation of the Croatian shipbuilding sector as a whole.

"With the EBRD's help, Uljanik will be able to transform itself into a successful and modern shipyard that fully meets the needs of its clients."

Anton Brajkovic, First Vice President of Uljanik Group



Tourism Viking River Cruises Hungary



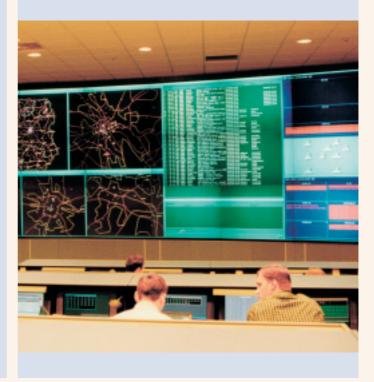
River cruises on the Danube can expect an influx in tourists following EBRD support for the introduction of a four-star standard of service on one of Europe's most scenic rivers. The EBRD has provided a loan of €17 million to Viking River Cruises, which will allow the company to purchase three cruise ships to ply the Danube and Volga rivers. About €10 million of the EBRD's financing has been used to purchase a new 150-passenger vessel that will cruise from Amsterdam to Budapest and eventually further east when the river is reopened to commercial traffic. The crew will be supplied and managed by Mahart, a Hungarian state-owned river shipping company.

The ships will expand Viking's fleet to 28 vessels, making it the largest river-cruise operator in Europe and among the five largest in the world. The project will not only promote tourism in Hungary but will also increase competition in the river-cruise market. Through the crewing and management agreements with a local company, the project will generate employment opportunities in the tourism industry. The EBRD's involvement is important because long-term financing is not readily available from commercial banks for river-cruise activities.

Telecommunications Polska Telefonia Cyfrowa (PTC) Poland

The largest ever loan to a Polish borrower was extended in 2001 to Polska Telefonia Cyfrowa, the country's leading mobile phone operator. The company received a €650 million syndicated loan arranged and underwritten by the EBRD, Deutsche Bank, Dresdner Bank Luxembourg and Deutsche Bank Polska. EBRD financing consisted of an underwriting commitment of €150 million, with a final loan amount of €75 million provided in Polish zloty. The project demonstrates the EBRD's flexibility in providing local-currency, long-term financing alongside commercial banks. The EBRD's involvement encouraged a number of domestic Polish banks and the local branches of international banks to participate in the syndication.

The financing will be used by PTC to support the growth of its GSM mobile phone network and to develop so-called "third-generation" networks. The loan is especially designed to enable the company to reduce its foreign exchange exposure. The project is the first local currency financing by the EBRD in the telecommunications sector.





Left Following support from the EBRD's Russia Small Business Fund, food retailer Meta-M has expanded its pelmeni (meat dumplings) production by 25 per cent and opened two new stores.

Below By the end of 2001 the EBRD had invested a total of €140.2 million in Russia's transport sector.

Russia

The investment climate in Russia improved during 2001 following further progress in political and economic stabilisation. Real GDP grew by 5.2 per cent and industrial production increased by 4.9 per cent despite a downward trend towards the end of the year. High oil prices and better tax collection contributed to the strengthening of the federal budget. The strong fiscal and balance of payments performances allowed Russia to resume full servicing of its external debt obligations. Russia's creditworthiness consistently improved over the year, resulting in a series of upgrades by the credit rating agencies.

In 2001 the EBRD significantly increased its new business in Russia, increasing its annual commitments to €822 million from €579 million in 2000. By the end of the year the Bank's cumulative commitments in Russia amounted to €4.3 billion. Over 80 per cent of this total is in support of the private sector. The commitments include €1.4 billion to support financial institutions, €748 million for natural resources projects, €446 million in the agribusiness sector and an investment of €752 million in industrial and manufacturing projects. The EBRD has attracted a number of major strategic investors to Russia and has developed many new forms of financing.

The EBRD's increased activity in Russia was partly in response to the country's structural reforms. These have advanced at an accelerated pace, reflecting a strong political will behind the Government's reform agenda. Improving the business climate has been a key direction of the new reform measures. The Bank assisted in this process by helping to develop a Corporate Governance Code, which is expected to improve corporate practices in Russia and lead to increased investment. The Code was approved by the Government at the end of 2001 and is to be introduced in 2002. Further protection for investors has been introduced in amendments to the Law on Joint Stock Companies. When implemented, this will reduce the risk of abusing minority shareholders through share dilution and asset stripping.



During 2001 the EBRD attracted a number of major strategic investors to Russia, developing and signing projects in hi-tech sectors, where Russia has a competitive advantage, such as mobile telecommunications and computing. In the power sector the EBRD took on a key role in the restructuring and commercialisation of the power monopoly and conducted intensive dialogue with the government on the restructuring of the banking sector. Substantial progress was made with the Bank's SME programme. The EBRD's Russia Small Business Fund lent €280 million to over 26,000 borrowers, ranging from €20 to €340,000. Further support for small business was provided through the Bank's Direct Investment Facility and the Regional Venture Funds, which provide equity capital and grant-financed support. The EBRD also developed a number of new products, such as local currency financing, warehouse bills and leasing.

Action Plan for Kaliningrad

EU enlargement will result in Russia's Kaliningrad region becoming an enclave within the European Union. The development of Kaliningrad has become a clear priority for the Russian Government, the EU and neighbouring countries. The EBRD's Action Plan for Kaliningrad is a key part of the Northern Dimension Environmental Partnership (see page 52) given the region's serious environmental problems. The region also faces a number of other major new challenges: how to create conditions for economic growth and how to attract Russian and foreign investment. The EBRD is committed to increasing its business activity in Kaliningrad. It aims to adopt an integrated approach to promoting development and investment, taking into account existing initiatives in the Baltic region and the Northern Dimension of the FU.



Agribusiness Danone Dairy Facility Russia

A wider range of high-quality dairy products will be made available to Russian consumers following EBRD support for the country's dairy sector. The Bank is providing financing of \notin 7.8 million to the Small Business Credit Bank (KMB), which will be used to provide sub-loans to Russian dairy farms.

The lack of good-quality fresh milk is currently impeding the development of high-quality dairy products, which are in high demand by Russian consumers. With the Bank's financing, farmers will be able to purchase or lease new equipment to increase production and improve milk quality. Danone Industria, the Russian dairy subsidiary of the Danone Group, has agreed to purchase the milk for its yoghurt production. It will also provide technical assistance to develop skills among the dairy farmers. In return, Danone will secure a stable supply of high-quality milk in Russia.

The project is the latest outcome of a long-term collaboration between the EBRD and the Danone Group, which has already involved five EBRD investments in Danone subsidiaries in Bulgaria, Poland, Romania and Russia.

"To sustain the fast growth of our business in Russia, we need a steady supply of highquality milk. This programme will help Russian dairy farms improve production standards and increase productivity." James Dwyer, CEO of Danone Industria

Manufacturing

GM-Avtovaz automotive factory in Togliatti Russia

Over 1,200 new jobs are to be created through an EBRD-supported project to modernise Russian car manufacturing. The Bank is providing financing of €153 million to a joint venture between General Motors Corporation (GM) and Avtovaz for the construction and operation of a factory in Togliatti. The new production site will manufacture and assemble over 75,000 Niva vehicles per year. These will be sold in Russia as a "Chevrolet Niva" and exported through the GM and VAZ international sales networks. The engine for the new Niva will meet EU standards for vehicle emissions, and the factory will conform to the EU's environment and health and safety standards.

The project is one of the largest examples of foreign direct investment in Russia since the 1998 financial crisis. The factory will combine the Western technologies and processes of GM, currently the world's top automotive manufacturer, with the Russian design and engineering skills of Avtovaz, the largest producer of vehicles in Russia. The potential of the project is increased by the fact that both partners are investing equally in the joint venture. The project will help to meet the huge modernisation needs of the Russian car manufacturing sector and will be of benefit to suppliers associated with the joint venture. Construction of the plant is well under way and the start of production is planned for September 2002.





Municipal infrastructure St Petersburg Toxic Waste Clean-Up Programme Russia

The city of St Petersburg and the EBRD have joined forces to upgrade the hazardous waste disposal site of Krasny Bor. The main aim of the project is to ensure that the site is stabilised and that alternative waste treatment is developed. Krasny Bor is the only official reception site for hazardous waste serving the city of St Petersburg. However, the site has increasingly limited storage capacity, and the current situation poses a risk to public health.

The EBRD is providing financing of €6.2 million for an investment programme that includes the construction of a liquid waste treatment plant, a drainage system and an environmental monitoring system. In addition, the project will improve waste management practices by introducing financial transparency and by setting standards on public participation in environmental decisions. Through this project, St Petersburg will be the first municipality in Russia to use environmental awareness campaigns to mobilise public support for new local environmental legislation.

The EBRD is providing about €350 million for various projects in St Petersburg. In 2001 the Bank converted US\$ 16 million of the city's debt from dollars to roubles, reducing the municipality's exposure to foreign currency risk. This is the EBRD's first rouble-denominated loan and is the first time that an IFI has lent in local currency to a Russian borrower.

"The Krasny Bor project is a good example of an environmental problem being solved through international cooperation." Vladimir Yakovlev, Governor of the city of St Petersburg



Natural resources Rosneft-Sakhalinmorneftegaz Russia

A €96 million loan from the EBRD is providing Rosneft-Sakhalinmorneftegaz (R-SMNG), a leading Russian oil and gas company, with long-term finance that it has been unable to find elsewhere. The company is engaged in exploration, production and marketing of oil and gas deposits on Sakhalin Island in the Russian Far East.

R-SMNG is majority controlled by Rosneft, a vertically integrated oil and gas company owned by the Russian state. The EBRD loan will support R-SMNG's investment programme, which aims to maintain stable production and enhance the company's financial position. In particular, the financing will allow the company to continue production drilling at Odoptu-More field and to implement an Environmental Action Plan, which includes provision for improvements in equipment and training for oil spill response and emergency response. It will also serve its working capital needs and enhance the company's liquidity by restructuring its short-term debt. The EBRD has syndicated €40 million of the loan to three commercial banks.

"The EBRD's loan is a crucial element of Rosneft's cooperation with the international financial community and ensures access to long-term financial resources." Anatoly Baranovsky, Chief Financial Officer of Rosneft Power and energy RAO UES restructuring loan Russia

A radical restructuring of Russia's power supply is being supported by an EBRD loan of €100 million to RAO UES (Unified Energy System of Russia), the country's leading power utility. The financing will help the company implement a government-approved plan to restructure Russia's power sector. To monitor the implementation of the restructuring plan, the EBRD has initiated a working group consisting of minority investors, RAO UES management and government authorities.

The restructuring of RAO UES, which employs over 660,000 people, is pivotal for the economic future of Russia. To improve the quality of the Russian power supply system, a high level of investment is needed. Equally, a more efficient and competitive power market is a prerequisite for attracting this investment.

As a first step in the restructuring process, RAO UES needs to complete the restructuring of its balance sheet and will use the EBRD loan to reduce inter-company and intra-group debts. It also requires financing to improve the reliability of the transmission grid and to reduce losses. A large part of the EBRD loan will be used to finance the upgrading of key sub-stations in the transmission network. A small part of the funding will finance the establishment of an Energy Carbon Credit Facility for the development of projects that could reduce greenhouse gas emissions. Half of the EBRD's loan was syndicated to six commercial banks.

"The EBRD and the international investment community have provided vital support for the reform of this key sector of the Russian economy."

Leonid Melamed, First Deputy Chairman of RAO UES





In Central Asia the Bank has supported entrepreneurs by providing substantial funding to small businesses.

Central Asia

All five countries in Central Asia maintained positive growth in 2001, with rates varying from 13.0 per cent in Kazakhstan to 3.0 per cent in Uzbekistan. Kazakhstan is one of the most advanced reformers in the CIS although reform efforts slowed down during the year. In Uzbekistan efforts were made to liberalise the foreign exchange market but significant exchange rate distortions continued to affect the investment climate. Turkmenistan retreated further from its commitment to structural reforms. In contrast, Kyrgyzstan and Tajikistan made significant progress in achieving macroeconomic stability and accelerated structural reforms. For the region as a whole, formidable challenges still lie ahead.

In 2001 the EBRD signed 10 new projects in Central Asia totalling €309.9 million – a 10 per cent increase over the previous year. Kazakhstan was the largest recipient (€176.9 million) followed closely by Uzbekistan (€106.9 million). Over the past year the EBRD has made substantial contributions to supporting private sector development, which is key to job creation and alleviation of poverty. Through its credit lines, the Bank has supported private entrepreneurship by mobilising a substantial flow of funding to SMEs and micro-businesses in the region. The credit lines have been particularly successful in lending to very small borrowers who do not have access to other forms of financing. In the Kazakhstan Small Business Programme, over 70 per cent of all loans have been below US\$ 5,000. The success of the programme has led to similar operations by other IFIs, promoting further job creation. At the same time the use of technical cooperation funding from donor countries has helped to develop sound financial skills. Other significant projects signed during the year include a district heating project in south-eastern Uzbekistan (see page 42) and a loan to improve Tajikistan's telecommunications system (see page 43).

The EBRD has made substantial contributions to supporting private sector development, which is key to job creation and the alleviation of poverty. In 2001 the EBRD adopted new country strategies for Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In all of these countries the Bank aims to focus on private sector development, with an increasing emphasis on small business, the financial sector, promoting FDI in the natural resources sector and intensifying efforts to improve the investment climate. In Turkmenistan the EBRD is working uniquely in the private sector as the country is lagging in the reform process.

Action Plan for Central Asia

The EBRD launched an Action Plan for Central Asia in October 2001 to promote greater economic stability and a higher level of investment in the region. The plan aims to accelerate the delivery of projects, support institution-building, develop greater SME lending, promote trade financing and modernise infrastructure. Efforts are also under way to intensify collaboration with donors, the European Union and the relevant multilateral institutions, in particular the Asian Development Bank.



Bank debt Trade Facilitation Programme Regional

Import and export trade has been given a further boost through the expansion of the EBRD's Trade Facilitation Programme (TFP), which had a record year in 2001. By guaranteeing trade transactions, the TFP stimulates international trade and strengthens the ability of local banks to provide trade financing. Business turnover for the TFP in 2001 was €346 million. The programme now comprises 63 issuing banks in 21 countries of operations and 144 confirming banks in 50 countries across the world. Two particular transactions highlight the TFP's impact.

The export of wheat from Kazakhstan to Madeira, which has little experience of working with the CIS, was supported through a letter of credit issued under the TFP. The issuing bank was Almaty Merchant Bank and the confirming bank was Deutsche Bank Frankfurt. Deutsche Bank took 50 per cent of the risk directly and the EBRD provided its guarantee for the remaining 50 per cent. Through this transaction, the TFP helped to establish a new export market.

A large intra-regional transaction involving the sale of 150 trucks from Tatra Koprivnice in the Czech Republic to Surgutneftegas in Russia also received TFP support in 2001. A letter of credit was provided; the issuing bank was IMB Moscow and the confirming bank was Société Générale in Prague. As well as supporting job creation, the transaction has helped to enhance cooperation between countries in the region.

Energy efficiency Andijan District Heating Uzbekistan

A third of a million people in the city of Andijan in south-eastern Uzbekistan will be able to heat their homes efficiently and rely on a regular supply of hot water this winter following an EBRD investment in the city's district heating system. The Bank is lending €17 million to finance vital reconstruction work.

As a result of under-investment, Andijan's heating system had become grossly inefficient. The EBRD project was developed in response to a government request for financial assistance. The private sector will be involved through an outside operator that will design, build and operate the reconstructed network. The new system will deliver sufficient heat and hot water throughout the year and will burn less fuel in the process. Increased efficiency will also result from metering heat and water consumption. A reform of the tariff system will ensure that the heating company is able to recover costs. At the same time a new subsidy system will be introduced to ensure that financial assistance is provided to those who need it.

Since the new boilers will use much cleaner fuel, there will be a significant decrease in harmful emissions. The World Bank's Prototype Carbon Fund has agreed to purchase the "carbon credits" generated from the investment programme. The project is the first for both the EBRD and Uzbekistan to utilise the Clean Development Mechanism of the Kyoto Protocol.





Transport Atyrau Airport Project Kazakhstan

Transport links to a remote but economically important part of Kazakhstan are to be greatly improved through an EBRD investment in Atyrau Airport. The Bank is providing a loan of €28 million to bring the airport's runway and ground lighting systems up to international standards. The region has been the focus of intense oil and gas exploration but to reach this remote location on the northern coast of the Caspian Sea, most travellers have been forced to transit via Almaty, nearly 2,000 km to the south east. This 4,000 km detour for travellers from the West is both costly and inefficient.

Once the first phase of the airport improvement programme has been completed, at an estimated cost of €34 million, Western carriers will be able to schedule flights direct to Atyrau. The presence of an international airport will help attract additional foreign investment to the region, create jobs and enhance overall economic efficiency in Kazakhstan. The EBRD used grant funds provided by the EU-Tacis programme to assist with the initial technical and economic studies. As part of this project, the EBRD has also used grant funds from the Japan-Europe Cooperation Fund to assist Kazakhstan with reform of the country's legal and regulatory environment for air transport.

Telecommunications Tajiktelecom Tajikistan

Making a phone call in Tajikistan will become a much simpler task as a result of an EBRD investment in the country's telecommunications system. Currently, fewer than four in every 100 Tajiks has a telephone, and the system is difficult to maintain. A \leq 14 million loan to Tajiktelecom, the national fixed-line operator, will finance the modernisation of the country's fixed-line network. Switzerland is co-financing the project with a \leq 2.2 million grant. At the same time, technical assistance in the form of grants from Japan is being provided to develop the sector's legal and regulatory framework.

The EBRD loan is supported by a sovereign guarantee from the Republic of Tajikistan and will be used to make urgent investments in new digital infrastructure, equipment for the widespread application of per-minute call charging, new international connections and improvements in power supply arrangements in rural areas. These investments will bring an improvement in the quality of service and will increase access to services for both business and the general population. The Regulatory Development Programme has made significant progress in developing a modern legal and regulatory framework.

"This deal will help improve the investment climate by financing a key element in Tajikistan's infrastructure." Nuritdin Mukhitdinov, Tajikistan's Minister of Communications



Ramada Trading, a small Romanian swimsuit company set up by husband and wife team Georgeta and Cristache Motoc, has been able to secure its future by using funding provided by the EU/EBRD SME finance facility. A loan of €53,000 has enabled the company to purchase its workshop and expand its operations.



Southern and eastern Europe and the Caucasus

In 2001 the EBRD launched operations in the Federal Republic of Yugoslavia and expanded its activities elsewhere in southeastern Europe, investing over €670 million. In the Caucasus the EBRD adopted new country strategies for Armenia and Azerbaijan while in Ukraine the Bank invested over €175 million during the year. The development of the EBRD's activities in this region reflects the renewed commitment to structural reforms and resulting improvements in the investment climate.

South-eastern Europe

South-eastern Europe benefited from a renewed level of interest from private investors and bilateral donors in 2001. Through its activities in the region, the EBRD sought to further encourage this interest by cooperating closely with other multilateral institutions and by undertaking an extensive investment programme. The Bank helped to finance the privatisation and restructuring of large industrial enterprises, the development of critical infrastructure projects and support for a large number of small enterprises.

Under the Stability Pact for South-eastern Europe, the EBRD continued to play a leading role in promoting private sector activity in the region. The Bank focused in particular on support for small and medium-sized enterprises and for cross-border trade, mobilising significant support from donors and the European Union. With the help of a US-supported SME facility, the EBRD began the process of setting up microenterprise banks in Bulgaria and Romania. This will extend the network of micro-banks that have already been established in Albania, Bosnia and Herzegovina and FR Yugoslavia (Kosovo). In 2001 financing of €82 million was provided through these banks to over 11,000 entrepreneurs.

With the support of the Italian Treasury, the EBRD continued to invest through its small equity funds in Albania and Kosovo, helping local enterprises to develop their business. The Bank also significantly expanded the scope of its trade facilitation programme in 2001, committing €72 million to banks throughout the region in support of the import and export operations of local enterprises.

In 2001 the EBRD developed an Action Plan for the Federal Republic of Yugoslavia, its newest country of operations, and provided financing of over €230 million. In January 2001 FR Yugoslavia became the EBRD's 27th country of operations. An Action Plan was adopted and in April the Bank opened a local office in Belgrade to coincide with the signing of the Bank's first investment in the country: a loan and equity investment in the Microfinance Bank. To help the Government decentralise public services, the EBRD undertook a programme of loans to local municipalities and public utilities. A loan of €60 million was provided to the city of Belgrade to upgrade the water supply, improve the efficiency of district heating and renew urban transport (see page 47). In addition, the Bank designed a custom-made €65 million working capital facility to help local industrial companies make full use of their existing capacity and to recover lost export markets.

Ukraine

In Ukraine a number of significant reforms were undertaken in the energy and agricultural sectors in 2001, including the privatisation of six electricity distribution companies. The EBRD participated in this process by providing financing of €58 million to cover a further phase of construction work on the Balkan Gas Transit pipeline, which is to carry gas from Russia to Turkey via Ukraine. During a year of rapid economic growth, an innovative €14 million project was signed to allow Ukrainian franchisees of Bosch Service to bring their existing facilities and skills into line with world standards in the automotive service sector. Two sizeable transactions totalling €36 million were signed with leading international sponsors in the beverage and grain sectors.

As the economy expanded, the Bank added more institutions to its list of intermediaries in the banking sector, extended the Trade Facilitation Programme to Ukraine and increased the provision of funding to locally based banks willing to lend to SMEs. Lending to very small businesses increased significantly, thanks partly to the establishment of the Microfinance Bank, in which the EBRD is one of the principal shareholders. By year-end, the level of monthly disbursements to micro and small enterprises had reached 978 loans for a monthly total of €8 million.

Caucasus

In the Caucasus the EBRD intensified its cooperation with the region's governments and other multilateral institutions to push forward the reform process. In Azerbaijan and Georgia the Bank continued to focus on strengthening the local banking sector and providing financing to SMEs. New country strategies for Armenia and Azerbaijan confirmed the Bank's intention to provide further support for small businesses and to develop private sector activity in the Caucasus.



Bulgarian cosmetics manufacturer Astera A.D. has received an EBRD loan of \in 5.6 million to assist with the development of new products and expansion into new markets.



Agribusiness

Grain Warehouse Receipt Programme Regional

The EBRD expanded its assistance to farmers in 2001 by doubling the Bank's Grain Warehouse Receipt Programme to €225 million. Under this programme, the farming community is able to obtain much-needed financing by using grain stored in licensed warehouses as collateral.

During 2001 more than €125 million was provided in credit lines to eight banks. The EBRD expanded its operations in Bulgaria by adding a new participating bank – Unionbank AD – which will on-lend EBRD financing to small and medium-sized enterprises in exchange for warehouse receipts. Although financing is provided on commercial terms, interest rates charged to the final borrowers are usually lower than normal, reflecting the lower risk associated with this form of financing. The programme helps to overcome the chronic lack of working capital, which is a major barrier to the development of the agribusiness sector in central and eastern Europe.

The EBRD began discussions with the Ukrainian authorities in 2001 and continued working with the Romanian Ministry of Agriculture to promote the introduction of warehouse receipts. In 2002 the Bank is expecting to increase its lending once again in a greater number of countries.

Bank debt EU/EBRD SME finance facility Regional

An ever-growing number of entrepreneurs are turning to banks supported by the EU/EBRD SME finance facility to develop their small businesses. A typical example is the case of Mr and Mrs Bugescu from Timisoara in Romania. In 2001 the couple approached the Romanian Commercial Bank for a loan to support the development of their family bakery. Using financing provided under the SME facility, the bank extended a loan of €40,000 for four years to finance the purchase of ovens and pastry equipment.

Benefiting from a long-term loan at a competitive interest rate, the couple have more than doubled their sales, increasing production from 6,000 loaves a day to 15,000. As well as expanding their distribution network, the Bugescus have reduced energy costs by converting from diesel to gas. As a result of the expansion, the workforce has grown from two people in one bakery to 36 staff across five bakeries. Annual sales have grown to €325,000 and consumers now have a wider choice of higher-quality fresh bread.

The EU/EBRD SME finance facility provides financial intermediaries in EU accession countries with the financial and technical support to finance SMEs. In 2001 the EBRD increased approved funding under the loan component to €425 million. By the end of the year the EBRD had provided 21 credit lines totalling €223 million to 17 banks in all ten EU accession countries.

"Thanks to the support of the EBRD and the EU, Banca Transilvania is in a strong position to offer long-term finance to a growing number of entrepreneurs." Iosif Pop, President of Banca Transilvania





General industry Ispat-Sidex working capital facility Romania

The privatisation of Romania's largest steel mill, Ispat-Sidex, is being assisted by EBRD financing of €113 million. Widely regarded as a milestone in Romania's economic reform, this high-profile privatisation will be of great significance to the steel industries of central and eastern Europe, where progress in restructuring has generally been slow. The EBRD's financing is being provided in the form of a short-term one-year €113 million working capital facility, €67 million of which was disbursed in November 2001. The working capital will assist in fulfilling a key condition of the privatisation agreement between the government and LNM, which owns 90 per cent of the share capital of Ispat-Sidex.

Over the past ten years, Ispat-Sidex has represented the largest single source of inter-enterprise arrears. As a result, the company has played a big part in blocking the development of the Romanian economy and in slowing down the privatisation process in the industrial sector. The injection of cash into its business and the elimination of barter, assisted by the Bank's working capital loan, will have a significant impact on the company's suppliers and customers.

Municipal infrastructure

Belgrade municipal infrastructure reconstruction programme FR Yugoslavia

The EBRD is helping to improve the lives of the people of Belgrade through a €60 million loan to upgrade the water system, improve public transport and modernise district heating. One-third of the financing has been extended to the Belgrade Water Company to improve the quality of water supply following years of under-investment. A shortage of funds for maintaining the water mains and treatment plants has resulted in low water pressures and water shortages during the summer months. The EBRD loan will finance construction of a water treatment plant that will bring an additional 2,400 litres per second on line.

The Belgrade Heating Company will use €20 million of the financing to improve the distribution system and to install meters, which will encourage customers to control their consumption. The third part of the financing will be used to improve tram lines and to buy 150 new buses for the public transport system, which is used by 80 per cent of the city's population. The bus system is currently unable to cope with demand, and delays are common. The appointment of new management will form the core of an initiative to restructure private sector participation in transport services. Air quality in the city will be improved as the new buses will meet EU standards for emissions. The loan was provided without a sovereign guarantee, allowing the Government to commit its resources to other needy projects.





Power and energy Power distribution post-privatisation Moldova

UNION FENOSA

The efficiency of Moldova's power supply is to be improved with the assistance of an EBRD investment of ≤ 34 million. The Bank is providing the financing to three recently privatised electricity companies, which are majority owned by Union Fenosa (UF), a major Spanish utility. The EBRD is providing a ≤ 28 million ten-year loan (alongside an equal amount from the IFC) and a ≤ 6 million equity investment. In structuring the loan, UF and the EBRD agreed an innovative risk-sharing structure allowing UF to avoid a traditional corporate guarantee. The loan will enable the three electricity companies, which supply electricity to some 720,000 customers, to modernise their commercial practices and power distribution networks. This will help to alleviate serious problems with losses and levels of collection.

Since privatisation, UF has improved the reliability of electricity supply, with power cuts reduced from 4,710 hours per year to 51 hours. These reductions should increase business production and encourage greater reliance on the system. The loss reduction programme will decrease pressure on the balance of payments of Moldova, which currently imports over 60 per cent of its electricity.

"Collaboration with the EBRD will allow Union Fenosa to complete the modernisation of electricity distribution in Moldova."

Ignacio Ibarra, Director for Central and Eastern Europe of Union Fenosa International

Transport

Railways recovery project Bosnia and Herzegovina

The main railway network in Bosnia and Herzegovina is to be made safer and more reliable with the help of an EBRD investment of €21 million. The loan will be used to repair an important 395 km stretch of rail track that provides a link to Hungary and Croatia through largely inaccessible terrain. Damage sustained during the war, political divisions and economic disruption have led to a rapid deterioration in Bosnia and Herzegovina's transport infrastructure. In the railway sector, this has resulted in low operating speeds, bottlenecks and concerns about safety.

To tackle this challenge, the railway companies approached the EBRD to finance investments identified in a priority investment plan. EBRD financing will help to support the economic recovery of the rail system and to improve the infrastructure on a key stretch of rail track for international business. It will assist with labour restructuring and strengthening management in the railway sector. In particular, it will help to meet the requirements of a new railway law, introduced in compliance with EU directives.

The EBRD's sovereign loan will finance the purchase of track maintenance machines, the restoration of the signalling system and a programme of labour severance. Parallel financing is being provided by the European Investment Bank. The EBRD has also mobilised grant funding from Canada, Japan and the United States to finance infrastructure work and other improvements.

"With the EBRD's loan, we can start to improve the operation of the country's railway system."

Faruk Cŭrčić, General Manager of the Bosnia and Herzegovina Railways Public Corporation



Respecting the environment and evaluating EBRD projects

The EBRD promotes environmentally sustainable development in all of its activities, recognising that safeguarding the environment is an integral part of sound business practice. Evaluation of the EBRD's projects allows the Bank to establish how well its operations meet their objectives.



- > In 2001 the EBRD provided financing of over €240 million in support of projects with fundamental environmental benefits in the areas of municipal infrastructure and energy efficiency.
- > The environmental performance of EBRD projects was *Excellent* or *Good* in 51 per cent of reviewed projects.
- > Of the 261 operations evaluated in 1996-2001, 48 per cent achieved a transition impact rating of *Medium* and 25 per cent were assessed as *High*.
- > To ensure that past experience is applied to new projects, regular feedback on lessons learned is offered at every stage of the EBRD's approval process.

Environment

The EBRD implements its environmental mandate by financing projects in sectors such as municipal infrastructure and energy efficiency (see pages 33 to 48) and by applying environmental appraisal procedures to all of the Bank's operations.

In 2001 the EBRD signed 15 environmental projects totalling €241 million. Environmental components of other investment projects included funding emission reduction technologies, waste-water treatment and environmental action plans (EAPs).

One of the EBRD's most notable environmental projects in 2001 was the St Petersburg Toxic Waste Clean-Up Programme, which aims to improve conditions at the Krasny Bor hazardous waste disposal site (see page 39). The site is the only official disposal facility for industrial hazardous waste and requires substantial upgrading. As well as improving conditions for workers and the local community, the project will help to reduce the danger of soil and groundwater contamination and possible pollution of the Gulf of Finland.

Environmental appraisal

Environmental investigations are normally undertaken early in the operation cycle so that there is time to identify environmental issues, to plan mitigation and enhancement measures, and to obtain agreement on action to be taken. Environmental conditions regarding mitigation, enhancement and monitoring are incorporated into loan agreements.

A total of 56 environmental analyses, four environmental impact assessments (EIAs) and 28 environmental audits were conducted on projects approved by the EBRD in 2001. In some cases both analyses and audits were required. As a result of these investigations, environmental components are built into the Bank's investments (see case studies on pages 33 to 48 and opposite).



General industry Slovalco aluminium smelter Slovak Republic

Following EBRD investment, Slovalco has become one of the most efficient aluminium processing plants in the world, operating to a high environmental standard. The company was established as a subsidiary of ZSNP, a state-owned aluminium production company, to build and operate a state-of-the-art smelter. After its establishment, which was supported by EBRD financing, ZSNP was able to shut down its polluting production units. With the help of new EBRD investment, Slovalco is expected to expand its production capacity by 34 per cent.

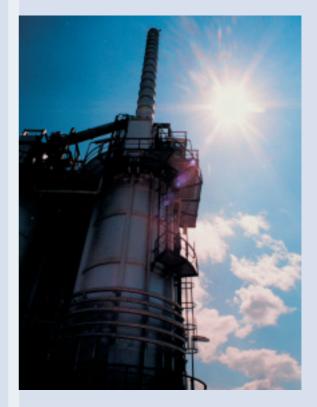
ZSNP agreed to contribute part of the proceeds from its sale of shares to the completion of the Environmental Remediation Programme (ERP), which was agreed as part of the first EBRD financing. Full compliance with the ERP is expected by 2006, with most measures to be finalised by summer 2002. As a result of the project, the environment in the Žiar valley has markedly improved. Several smelter buildings have been renovated while others have been closed down, resulting in better health conditions and significant reductions in the emissions of dust, sulphur dioxide, fluorine compounds and tars.

A large hazardous and solid waste storage facility conforming to international standards has been constructed. All process waters are recycled and no waste water is discharged from the site. Despite doubling smelting capacity to 132,000 metric tonnes per annum, Slovalco consumes only 10 per cent more energy than the original ZSNP complex.

Natural resources INA Rijeka Refinery Croatia

Pollution levels are to be significantly reduced at one of the most scenic parts of Croatia's Adriatic coast following EBRD support for Industrija nafte d.d (INA), the national oil and gas company. The Bank is providing a loan of €36 million to help the company reduce soil and groundwater contamination.

INA is committed to curbing environmental pollution and has consistently demonstrated this through the implementation of annual environment protection programmes. The loan from the EBRD will help the company to take this further by undertaking comprehensive measures at a number of locations. EBRD financing will be used to upgrade waste-water treatment and to improve waste management in line with an action programme drawn up by independent environmental consultants. The project will reduce the likelihood of oil spillage into the sea and will minimise pollution levels, including air emissions. The EBRD loan will bolster the company's pre-privatisation plans and strengthen Croatia's tourism industry by protecting the country's coastline. It will also help INA comply with international environmental standards and will assist Croatia in its integration into the European Union.



Other initiatives

Project Preparation Committee

The Project Preparation Committee (PPC) is a network of IFIs and donors whose aim is to assist in the implementation of environmental investments in central and eastern Europe and the CIS. During 2001 donors continued to finance PPC staff at the EBRD and the World Bank to help in the preparation of projects and the mobilisation of donor grants. At the EBRD seven PPC staff are involved in the development of a pipeline of projects in the areas of municipal infrastructure, energy efficiency and renewable energy. Activities in 2001 included a PPC meeting in Copenhagen to facilitate energy efficiency and renewable energy investment projects. The meeting also explored opportunities to utilise joint implementation and clean development mechanisms as financing tools.

Global Environment Facility

As part of its effort to promote environmental investments through financial intermediaries (FIs), the EBRD has explored with the Global Environment Facility (GEF) the possibility of a joint credit line to FIs to finance a reduction in pollution of the Danube River. Preparation for a pilot credit line through Slovenian FIs is under way.

ENVAC

The EBRD's Environmental Advisory Council (ENVAC), a forum of environmental experts from both the public and private sector, continued to provide the Bank with advice on issues related to the EBRD's environmental mandate. In 2001 ENVAC discussed a range of topics, including environmental and social issues associated with oil and gas projects. It also discussed biodiversity issues and the Bank's role in addressing them, and health and safety issues associated with the EBRD's operations.

Northern Dimension Environmental Partnership

At the end of the year the Northern Dimension Environmental Partnership (NDEP) was initiated, bringing together the EBRD and other IFIs, the European Union, donor agencies and Russia in a joint effort to strengthen and coordinate important environmental projects with a cross-border impact in northern Europe, particularly in north-west Russia. The NDEP Support Fund will pool grant contributions and ensure international cooperation for high-priority environmental projects. The NDEP has already identified 13 priority projects totalling €1.3 billion in the areas of water, waste and energy efficiency.

Environmental training

Under an EBRD programme primarily funded by the European Union's Phare and Tacis programmes, environmental training was provided to 22 FIs in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Russia and the Slovak Republic. The training involves a review of the FI's current environmental policies, procedures and exposure to environmental risk. The EBRD's environmental requirements are combined with the FI's existing monitoring procedures so that environmental issues are considered collectively.

Through the use of case studies, the training programme focuses on health, safety and environmental risks and opportunities such as cleaner production and energy efficiency improvements within the FI's client companies. The EBRD continued to collaborate with the International Finance Corporation (IFC), the Netherlands Development Finance Company (FMO), the Nordic Investment Bank and the Black Sea Trade and Development Bank in the development and presentation of joint approaches to environmental training for FIs.





Opposite page and left Pliva, a Croatian pharmaceutical company, and Polar Lights, an oil production company in Russia, are the first recipients of the EBRD's Corporate Environmental Awards, established to recognise clients that are committed to environmental excellence.

Assessing greenhouse gas emissions

In 2001 the EBRD commissioned a consultant to develop an efficient way of assessing greenhouse gas emissions during the Bank's environmental assessment of potential projects. This project reviewed the approach taken by other institutions, government agencies and private sector companies and developed a system suitable for Bank projects, drawing on work undertaken by a number of international bodies.

Corporate Environmental Awards

The EBRD has established Corporate Environmental Awards to promote the highest standards of environmental practice in the Bank's region of operations and to demonstrate that "good environmental practice makes good business sense". Two client companies received the award for their outstanding commitment to environmental excellence during the 2001 Annual Meeting in London. The first recipients were Pliva, a pharmaceutical company in Croatia, and Polar Lights, an oil production company in Russia. The selection was made by an independent panel comprising representatives of ENVAC, other IFIs and NGOs. The Award seeks to recognise companies that have reduced damage to the environment by introducing innovative products, services or systems or by implementing clean production technologies or recycling techniques.

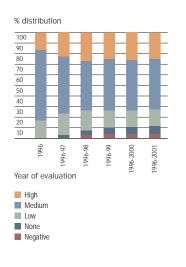
Evaluation of EBRD projects

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. The EBRD's Project Evaluation Department (PED) seeks to establish how well the Bank's operations meet their objectives. The lessons learned are used to improve the selection and design of future operations.

Transition impact and the EBRD's overall performance

In evaluating the impact that EBRD projects have on the transition process, the Bank looks in particular at their wider impact in the sector and on the economy as a whole. At the time of 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.

Transition impact ratings of EBRD projects 1996-2001



Overall performance rating of evaluated EBRD projects 1996-2001



Highly successfulSuccessfulPartly successfulUnsuccessful

As presented in the chart on the left, of the 261 operations evaluated in 1996-2001, 48 per cent achieved a transition impact rating of *Medium* and 25 per cent were assessed as *High*.

In 2001 a total of 32 per cent of evaluated projects were given transition impact ratings in the *Marginal-Negative* range, which is higher than previous years. This apparent lack of progress can be explained by the fact that the Bank operates in areas where risks are high. This endangers the sustainability of some private sector operations and prevents them from realising their full potential. The share of projects with an *Excellent-Satisfactory* rating has fallen to 68 per cent.

A new six-point rating scale on transition introduced in 1999 allows the Bank to compare the transition ratings assigned to projects at Final Review (prior to Board approval) with the ratings achieved following project completion when an evaluation is carried out. Comparisons of a group of 91 projects evaluated during 2000-01 with a group of 119 projects approved in 2001 show that while 48 per cent of projects have achieved an Excellent-Good rating at project evaluation, some 80 per cent were rated as Excellent-Good at Final Review. This suggests that projects do not always fulfil the potential identified at the project appraisal stage. This could be explained by a client's disappointing financial results, which can hinder a project's potential impact on the transition process, and a number of other risks. It could also be due to over-estimating the transition impact potential of a project at the appraisal stage.

Further analysis is needed to explain the reasons for the difference in ratings. This can only be carried out once sufficient time has passed to compare a greater number of projects assessed for transition impact at project appraisal with their outcome at project evaluation. So far only 11 projects have fallen into this category. At the end of 2002 there will be 39 such projects but this will still not represent an adequate number for reaching firm conclusions.

The overall success of the EBRD's operations is illustrated in the second bar chart on the left, which presents the Bank's overall performance ratings. This rating 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 (the Bank's ability to complement rather than replace private sources of finance). In 1996-2001, 53 per cent of evaluated projects achieved a rating of *Successful* or *Highly Successful*.

The overall performance ratings are lower than those for transition impact. This is primarily due to the impact of lower financial performance ratings, which were caused by a high-risk investment environment. 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 better used in the appraisal and structuring of projects.

Importance of learning from past experience

A key evaluation role is to ensure that past experience is applied to new projects. This begins with intensive consultation with banking teams within the EBRD on the lessons learned from project evaluation. 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. The PED also makes presentations to management and maintains a lessonslearned database for internal use. A lessons-learned database for external use is being developed.

Special studies

The EBRD's environmental performance

The EBRD has completed an independent evaluation of the Bank's environmental performance by evaluating 39 projects with strong environmental components and by analysing other environmental aspects of the Bank. In keeping with its environmental mandate, the Bank has incorporated environmental procedures into all its operations and is helping the transition countries to deal with the environmental problems inherited from the communist era.

The EBRD's evaluation concludes that the Bank has done well in regards to its environmental performance and impact in projects with a substantial environmental dimension. The Bank has incorporated environmental requirements into loan covenants and has used a number of other instruments to bring about positive environmental change. These include housing the Project Preparation Committee (see page 52) within the Bank. The EBRD has also encouraged environmental training within financial intermediaries, developed a nuclear safety programme (see page 71) and made full use of donor funding to support environmental projects.

The EBRD has been able to help clients comply with most of the relevant domestic and EU or World Bank environmental regulations and guidelines, and meet the objectives of the EBRD's Environmental Action Plans. The environmental performance was *Excellent* or *Good* in 51 per cent of the reviewed projects, 34 per cent were *Satisfactory* while only 15 per cent were rated as *Marginal*. The extent of positive environmental change was *Outstanding* or *Substantial* in 42 per cent of the reviewed projects. In 46 per cent the extent of change was *Some* and in only 15 per cent was the change rated as *None*. Most of the analysed projects show that the EBRD's environmental procedures are effectively incorporated in the Bank's project cycle. The weaknesses relate to poor feasibility studies, lack of coordination with consultants and inconsistency in environmental reporting.

On average, the EBRD has been able to improve the environmental performance of its projects from a relatively low starting point to a good level at the time of evaluation. There has been a substantial improvement in the environmental performance of projects in the municipal and environmental infrastructure (MEI) sector, in the natural resources sector and in industry and manufacturing. Environmental improvements in energy and transport projects have been less significant.

In large projects with particular environmental sensitivity it has been essential to involve a strong sponsor to meet the environmental objectives of the project. In general, the EBRD and project sponsors have had a good rapport with environmental authorities, and the Bank has encouraged clients to provide information to the public on the environmental aspects of EBRD projects. In a few cases, however, the public consultation has been insufficient.

Experience has shown that the EBRD has not always fully exploited the environmental opportunities in its projects and a more thorough system needs to be established. This would make it possible to develop in EBRD projects additional environmental benefits in the areas of waste management, recycling and energy efficiency, for example. The EBRD could consider providing more support to environmental funds and energy service companies. The Bank could also devote a higher proportion of its investment to the environmental sector. The initiative to found the Northern Dimension Environmental Partnership to finance environmental projects in the Baltic states and north-west Russia is an important development (see page 52).

The Bank should identify the resources required to allow clients to implement a formal environmental management system (EMS) and to train management. This could be through greater use of technical cooperation funding. Models for environmental reporting should be developed, which should include specific targets for pollution levels and ways of measuring deviations from environmental action plans (EAPs). Greater transparency of the EAP could be achieved with even greater collaboration with non-governmental organisations (NGOs) and stronger lines of communication with the Bank's Resident Offices.

Supporting legal transition

By the end of 2001, a total of 74 legal and institutional reform projects had been funded under the Bank's Technical Cooperation Funds Programme (TCFP) with a total value of about €11 million. The Bank has also completed 83 EBRD-funded activities related to legal transition. The special study carried out by PED in 2001 rated the Legal Transition Programme as *Successful*, with ratings for particular aspects of LTP work ranging from *Partly Successful* to *Very Successful*.

Examples of evaluated EBRD projects

Successful projects

Financial institutions

In 1998 the EBRD disbursed a US\$ 40 million (€35.6 million) loan to a major bank in a country at the intermediate stages of transition. The provision of the loan at the time of the Russian crisis signalled the EBRD's confidence in the bank's management and made funding available to local private enterprises on maturities that could not be obtained at that time from other sources. The detailed appraisal of the bank and subsequent careful monitoring enabled the EBRD to respond to changing circumstances and to be flexible in its approach. By adjusting the project in response to the changing economic situation and heightened risk, the EBRD achieved a significant impact on the transition process.

Transport sector in Estonia

To support the development of Estonia's main airport, the EBRD and the European Investment Bank (EIB) provided funding for improvements to Tallinn Airport's passenger terminal. The project complemented the Bank's earlier support for the airport's facilities. Evaluation confirmed that the passenger terminal building has been successfully completed to high standards and fully meets with international requirements. The modern terminal facilities have helped to attract private sector retail and service businesses to the airport and to indirectly encourage import and export activities. From an institution-building perspective, the airport company benefited from the introduction of new technology and the development of skills generated by the project. The airport is operating according to commercial principles and complies with internationally accepted accounting standards.

Financing of a successful crude oil production project

EBRD financing was provided alongside IFC loans for completion of a crude oil production project during a period of increasing oil prices. The financing led to the completion of a very successful project that fundamentally improved the economic situation of the host country. The project substantially increased domestic crude oil production and introduced Western standards for offshore production. Through the extensive training programmes for personnel, the project contributed to the development of new skills. The introduction of international accounting standards and management know how has had a substantial impact. The systematic implementation of higher environmental standards and safety programmes has been strongly supported by the Bank and has acted as a model for other countries.

The project is the first to be undertaken under a new production sharing framework (PSA) and has led to the establishment of many other PSAs. The syndicated loan was the first in this country and is likely to improve access to commercial banks for other projects in this sector. One of the lessons learned was the need for companies in this sector to develop local know-how. It is also very important to ensure that a majority of the participants in the PSA are also borrowers under the Bank's loan facility. This ensures stronger leverage in key areas of project implementation. It is crucial that the local oil and gas company is a participant in the PSA so that environmental issues, such as flaring, can be addressed.

Projects with a less successful outcome

Reform challenges in a foodprocessing company

The EBRD invested in the share capital of a large recently privatised food processing company alongside other private investors, institutions and local state banks. It also hired industry expertise to oversee and advise the company in the absence of a strategic industry investor. The processed foods were sold to local industrial users and to households via wholesalers and retailers. The company also exported some product lines, mostly to markets in the former eastern bloc. Reform plans included a streamlined headquarters and reorganised sales team to meet the expected increase in competition, not least from strong foreign entrants. The project included gradual downsizing, geographic concentration of the processing plants and a more efficient distribution network. This was due to be completed alongside a reorganisation and new methods for buying products from farmers. Another key feature was improved management information systems and reporting to shareholders and the Supervisory Board.

The reforms were well under way when the company encountered unexpected setbacks for some of its major products and markets. The owners believed that the ongoing reforms would help to halt the decline in due course. This would be achieved by cutting costs and increasing productivity. Continuous losses pointed, however, to a need for a more radical remedy. The owners were soon faced with a need to mobilise more financing. This was needed to meet high seasonal working capital needs and because company reserves had been depleted by continuous losses. The EBRD proposed a restructuring but the owners had difficulty in agreeing on a strategy. The situation was further complicated by the fact that some of the owners were both shareholders and lenders.

The evaluation concluded that post-privatisation reform in this sector requires the early entry of a strong strategic industry sponsor with full control. Joint ventures with diverse investors are particularly ill-suited to the necessary reforms when fundamental corporate restructuring is needed.

A minority stake in a group of companies in the food sector

The EBRD took a minority stake in a food company in south-eastern Europe with the aim of assisting in a speedy restructuring effort. The EBRD's investment was based on a favourable assessment of the established brand names and the viability of the company subject to a successful restructuring. The capital investments financed a modern production facility that due to over-optimistic sales projections and the simultaneous construction of a similar plant by the same group in central Europe led to a very low capacity utilisation. A substantial increase in sales to east European markets outside the immediate neighbouring countries proved more difficult than expected due to the lack of finance for the necessary promotion. Reduction of the heavy overstaffing at headquarters proved very difficult given the resistance of the Supervisory Board and the lack of alternative employment opportunities in the region.

Evaluation by PED concluded that the operation was not successful since it was unable to bring about a speedy restructuring. While the Bank took great care to structure its investment properly, the assessment of the timeframe needed for a fundamental restructuring was over-optimistic. In particular, the Bank only had a minority stake and had not obtained explicit agreements regarding the timetable for the restructuring from all stakeholders prior to making this investment. The key lesson is that differences of opinion between the company management and a divided Supervisory Board can lead to substantial delays in restructuring in the absence of a strong investor with a majority stake in the company.

Evaluating technical cooperation operations

PED has evaluated so far nearly 250 TC-funded consultant assignments, involving about €71 million of funding from some 30 donors under the Bank's Technical Cooperation Funds Programme (see page 64).

Examples of evaluated technical cooperation operations

Telecommunications emergency reconstruction project in Bosnia and Herzegovina

Two TC operations totalling €1.9 million were undertaken to support the US\$ 130 million telecommunications emergency reconstruction project, which received EBRD financing of US\$ 15 million. A technical programme was defined for assisting three regional operators in implementing the project. The TC operation was evaluated as very successful. Primarily, the operation reduced investment risks and accelerated the investment process.

The efficient implementation of the Bank's procurement policies and rules resulted in substantial cost savings to the operators. In addition, by introducing modern technology, further cost reductions were achieved. The operators confirmed that the same level of technology would not have been introduced without the assistance of the consultant. The development of skills is one of the reasons why the technical implementation of the project progressed well, given the prevailing conditions in Bosnia and Herzegovina. The consultant assisted the operators in preparing accounts according to international standards and helped with the company's training programme.

Transport Corridor Europe-Caucasus-Asia

To support the upgrading of a strategically important section of the Europe-Caucasus-Asia road axis, the EBRD undertook a number of TC operations. Subsequently, due to the host government's revised investment priorities and its emerging access to lending from other IFIs, the Bank's TC investment did not result in the follow-on investment anticipated by the Bank and agreed upon in principle by the host government. Assessed against this background, the overall rating of the Bank's TC endeavour was *Unsuccessful*. This was in spite of the TC-financed consultants' success in developing skills and introducing new technology in line with Western construction standards and procurement practices.

Two main lessons were learned from this operation. First, the EBRD needs to intensify consultation and cooperation with other IFIs. Where cooperation cannot be achieved at the working level, this needs to be brought to the attention of the Bank's senior management. Second, TC operations in the public sector need to be embedded in formal contractual agreements with the beneficiary or recipient in the same way that they are for private sector operations. This provides the basis for costrecovery claims in cases where agreements are not honoured for non-justifiable reasons.

Working in partnership

The EBRD plays a pivotal role in increasing the resources available to its clients by attracting funds from co-financiers. Donor funds are used to develop projects and to assist in institution-building.



- > The EBRD has led the way in attracting co-financing for long-term municipal infrastructure projects.
- > In 2001 the Bank launched an institution-building initiative aimed at improving the investment climate and developing skills in the Bank's countries of operations.
- > The TurnAround Management Programme has undertaken 880 projects with enterprises in 26 countries since its launch in 1993.
- > In 2001 the EBRD led efforts to assist Russia's Federal Commission for the Securities Market (FCSM) in developing a Corporate Governance Code.
- > The operations of the three International Decommissioning Support Funds for Bulgaria, Lithuania and the Slovak Republic were launched in 2001.

Co-financing

The EBRD is required by its founding agreement to involve other sources of financing in its operations. Success in attracting external finance increases the resources available for funding other projects and introduces the borrower to the international capital markets. The main co-financing partners for the EBRD are commercial banks, official co-financiers (such as government agencies), export credit agencies and international financial institutions.

In 2001 the debt markets of the transition economies experienced a gradual stabilisation through the first part of the year. However, there was a marked deterioration in confidence towards the end of the year in the wake of the crises in Turkey and Argentina and following the terrorist attacks in the United States on 11 September.

Russia enjoyed strong growth in the number and variety of projects that attracted cofinancing as the buoyant oil price led to a gradual return of investor confidence in the country. The strong oil price resulted in several oil and gas transactions mobilising co-financing. Beyond the oil and gas sector, the high oil price contributed to a strong business environment in Russia. The positive knock-on effect on other sectors and countries resulted in commercial banks being more willing to re-enter the region to lend on a long-term basis.

The EBRD expanded its range of co-financing partners in 2001, working with 62 commercial banks from 21 countries.

The EBRD was active in mobilising co-financing for several projects in the telecommunications sector, which has struggled to generate interest from the debt markets. The Bank also continued to lead the way in attracting co-financing for longterm municipal infrastructure projects.

Once again the EBRD expanded its range of co-financing partners, with a continuing reliance on official co-financing (especially IFIs) for borrowers in countries at the early stages of transition. There was also a high level of cooperation with the European Commission in EU accession countries. The EBRD worked with 62 commercial banks from 21 countries in 2001. Co-financing from these banks totalled €1,993 million in support of 33 projects. This is significantly higher than the total for 2000 when commercial co-financing totalled €468 million. The increase is due to a number of highvalue projects, such as Polska Telefonia Cyfrowa, that were jointly arranged by commercial banks. Listed on page 61 are some noteworthy examples of co-financing projects in 2001.



Togliattiazot, Russia's largest ammonia producer, received financing of €45 million to improve environmental standards, promote energy efficiency and provide working capital. The EBRD syndicated €17 million to commercial banks.

General industry Togliattiazot Russia

The €45 million 3½ year senior corporate loan was provided to improve environmental standards, promote energy efficiency and provide working capital for Russia's largest ammonia producer. The EBRD syndicated €17 million to commercial banks. The medium-term finance has opened up the Western financial market for Togliattiazot and will help the company to establish a track record for future long-term financing needs. The financing represents one of the largest loans to a Russian corporate since the financial crisis of 1998 and the first in the chemicals sector. The strong bank appetite underlines the growing appetite among commercial banks for lending to strong domestic Russian corporates without a Western sponsor.

Municipal infrastructure Sofijska Voda AD Bulgaria

The €31 million senior loan to Sofia's water and waste-water company was provided to improve maintenance of the city's system, enhance customer services and promote a more efficient and easy-to-use billing system. The facility comprised an EBRD loan of €18.5 million and a syndicated loan of €12.5 million. Sofijska Voda is the first privately managed water and waste-water company in Bulgaria, demonstrating that private sector capital can be mobilised for significant improvements in standards of health. The concession is the first non-recourse water concession in central and eastern Europe, structured without recourse to the foreign sponsor, International Water. The 15-year tenor is the longest tenor extended to a private Bulgarian company.

Natural resources Balkan Gas Transit II Ukraine

The €109 million 12-year loan to upgrade a key section of Ukrainian pipeline that supplies gas to south-eastern Europe and Turkey comprised an EBRD loan of €57 million and a syndicated loan of €52 million. The latter was jointly arranged and underwritten by Hypovereinsbank and coarranged by Agricultural Bank of Greece. The investment helps to overcome a major bottleneck in the transBalkan pipeline and strengthens cooperation among the countries along the route. The 12-year tenor is the longest tenor ever extended to a private Ukrainian company. It is also the first syndicated transaction in Ukraine since 1998.

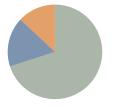
Natural resources Rosneft-Sakhalinmorneftegaz (R-SMNG) Russia

The €96 million loan to R-SMNG, a major oil and gas company, consisted of an EBRD loan of €56 million and a syndicated loan of €40 million (see page 40). R-SMNG is the sole oil and gas producer in the Russian Far East with strong export potential to Japan and South-East Asia. The tenor of 7½ years represents the longest tenor on any syndicated loan for a Russian borrower since the 1998 crisis. While the loan was guaranteed by Rosneft, syndication was achieved without any pledge of receivables arising from oil sales, which would normally be a prerequisite for commercial banks.

Telecommunications Polska Telefonia Cyfrowa (PTC) Poland

The €650 million loan to PTC, a leading Polish GSM operator, was jointly arranged with Deutsche Bank and Dresdner Bank (see page 36). It is the largest ever corporate loan for a Polish company. The EBRD's role as an underwriter for the Polish zloty equivalent of €150 million enabled the client to maximise its local currency funding and to reduce the mismatch between its assets and liabilities. The EBRD's involvement can act as a model for other countries, especially in central Europe.

Sources of co-financing funds by value in 2001



Commercial co-financing institutions 70%
 International financial institutions 17%

Official co-financing institutions 13%

Types of co-financing funds by value in 2001

	€ million
A/B loans / participations ¹	445
Parallel loans	1,568
ECA direct / guarantee or political risk insurance	10
Loans from international financial institutions	469
Equity from international financial institutions	13
Grants from international financial institutions	7
Equity	133
Grants	202
Total	2,847

IFIs and other official co-financing institutions

Co-financing with official partners in 2001 amounted to €844 million for 36 projects. International financial institutions provided the largest share, totalling €489 million (57.9 per cent) for 18 projects. The European Commission provided €193 million (22.9 per cent) for seven projects. Other official co-financiers contributed €162 million (19.2 per cent) for 19 projects.

The International Finance Corporation (IFC) was involved in nine projects totalling €34.7 million, of which about one-third was provided in equity. It concentrated in particular on micro-finance, banking and the cement industry in Albania, Bosnia and Herzegovina, Bulgaria, FR Yugoslavia (Kosovo), Georgia, Kazakhstan, Kyrgyzstan, Ukraine and Uzbekistan. The European Investment Bank (EIB) co-financed three projects in Bosnia and Herzegovina (railways), FR Yugoslavia (urban transport) and Romania (telecommunications) for a total amount of €325 million.

Other IFIs mostly provided finance in the form of loans. These included the Asian Development Bank (€78.5 million), Black Sea Trade and Development Bank (€23.5 million), Nordic Investment Bank (€9 million) and the Council of Europe Development Bank (€8 million) supporting projects in banking, general industry, natural resources, railways, telecommunications and the SME sector. The World Bank provided a grant of €6.7 million for an energy project in FR Yugoslavia while the Aga Khan Fund made an equity investment of €2.4 million in a new bank in Kyrgyzstan. The European Commission, through its various programmes, provided co-financing of €192.9 million, mostly through grants for municipal and environmental infrastructure (Lithuania), power and energy (FR Yugoslavia) and railways (Lithuania).

Kreditanstalt für Wiederaufbau (KfW) and Deutsche Entwicklungs Gesellschaft (DEG) participated in nine projects totalling \in 82.2 million while the Netherlands Development Finance Company (FMO) co-financed eight projects for an amount of \in 31.7 million. Other bilateral institutions included the French Caisse des Depots et Consignations (\in 15 million), the Investment Fund for Central and Eastern Europe, Denmark (\in 5.3 million) and the Portuguese Caixa Geral de Depositos (\in 3.8 million).

Bilateral government agencies and programmes from Canada (CIDA), Japan (Post Conflict Support Fund), the Netherlands (Ministry of Foreign Affairs) and the Swiss State Secretariat for the Economy (SECO) provided investment grants totalling €19.2 million in 2001. The financing supported seven projects in Bosnia and Herzegovina (railways), FR Yugoslavia (trade facilitation and urban transport), Tajikistan (air navigation and telecommunications), Uzbekistan (energy efficiency) and regional projects.

¹ An A/B 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.

Co-financing partners in 2001

	Curitzarland
ABB Export Bank	Switzerland
ABN Amro Bank	Netherlands
Agricultural Bank of Greece SA	Greece
Alpha Credit Bank	Greece
Banco BPI SA	Portugal
Banco Espirito Santo	Portugal
Bank Austria (HVB Group)	Austria
Bank für Arbeit und Wirtschaft Aktiengesellschaft	Austria
Bank Slaski SA	Poland
Bank Zachodni SA	Poland
Bankgesellschaft Berlin AG	Germany
Bayerische Landesbank Girozentrale	Germany
BGZ SA	Poland
BHF Bank	Germany
BIG Bank SA	Poland
BNP Paribas	France
BRE Bank SA	Poland
Canadian Imperial Bank of Commerce	Canada
CIB Bank	Hungary
Citibank, NA	USA
Commerzbank AG	Germany
Credit Lyonnais	France
Ceskoslovenska Obchodni Banka AS	Czech Republic
DePfa Investment Bank Plc	Germany
Deutsche Bank	Germany
Dexia	France
Dresdner Bank	Germany
Erste Bank	Austria
ING Bank	Netherlands
Intellectbank	Georgia
Internationale Microinvestitionen AG (IMI)	Germany
Internationale Projekt Consult	Germany
KBC Bank N.V.	Belgium
Kereskedelmi es Hitelbank RT	Hungary
Kredyt Bank SA	Poland
Landesbank Schleswig-Holstein	Germany
LG PetroBank SA	Poland
Luba Ljubljanska Banka d.d	Slovenia
Mitsubishi Bank	Japan
Mizuho Holdings, Inc	Japan
MKB – Hungarian Foreign Trade Bank	Hungary
	UK
Moscow Narodny Bank	
Moscow Narodny Bank Natexis Banques Populaires	France
	France Greece

Oesterreichische Investitionskredit AG	Austria
Orszagos Takarekpenztar es Kereskedelmi Bank RT	Hungary
Pirma Latvijas Komercbanka PLC	Latvia
PKO BP SA	Poland
Powszechny Bank Kredytowy SA	Poland
Rabobank	Netherlands
Raiffeisen Zentralbank Oesterreich	Austria
Royal Bank of Scotland	UK
Sampo Bank PLC	Finland
Slovenska Pol'nohospodarska Banka	Slovak Republic
Société Générale	France
Sumitomo Mitsui Banking Corporation	Japan
Swedbank	Sweden
Tatra Bank	Slovak Republic
TBC Bank JSC	Georgia
Vlaamse Milieuholding (VMH)	Belgium
Westdeutsche Landesbank Girozentrale	Germany
Wielkopolski Bank Kredytowy SA	Poland

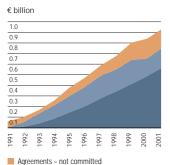
Official institutions Caisse des Depots et Consignations France Caixa Geral de Depositos Portugal Canada International Development Agency (CIDA) Canada Deutsche Entwicklungs Gesellschaft (DEG) Germany **European Commission** European Agency for Reconstruction Netherlands Development Finance Company (FMO) Netherlands Investment Fund for Central and Eastern Europe Denmark ISPA Programme European Commission Japan Fund for Post Conflict Support Japan Kreditanstalt für Wiederaufbau (KfW) Germany Netherlands Government Netherlands Phare Programme European Commission State Secretariat for the Economy (SECO) Switzerland SME Finance Facility **European Commission**

International financial institutions

IFI
IFI

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

Cumulative technical cooperation funds mobilised, committed and disbursed 1991-2001





Technical cooperation funds

The EBRD's Technical Cooperation Funds Programme (TCFP) is based on voluntary grants from donors. The Programme fosters transition to market economies by supporting private sector development in the Bank's countries of operations. The grant funding finances the work of consultants who help EBRD clients to develop projects in support of the transition process. The TCFP also assists in institution-building, supporting SMEs and developing legal and regulatory projects (see page 66).

Institution-building

In March 2001 the EBRD launched an Institution-Building (IB) Initiative aimed at improving the investment climate and developing skills in the Bank's countries of operations. During the year the EBRD had discussions with donors to establish dedicated funding sources for IB assignments. Japan has agreed to provide a dedicated IB Fund to address the institutional needs of the Central Asian countries. Several other donors have also expressed interest in creating dedicated IB Funds in addition to the support they already provide through their existing TC funds. In 2001 the TCFP funded 142 IB assignments with a total value of €71.8 million. The TCFP acts as a catalyst for foreign investment and EBRD financing. Nearly half of all signed EBRD investments (some €8.7 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 (see page 58).

During 2001 the EBRD financed 367 consultant assignments through the TCFP, bringing the total number of assignments to 2,989. Commitments during the year amounted to €128.4 million, up from €67.8 million in the previous year. This brings the total amount committed to €763.4 million, of which €577.0 million has been disbursed. Disbursements in 2001 amounted to €80.7 million compared with €75.0 million in 2000.

Nearly half of all signed EBRD investments have been supported by TC funding.

The EBRD's first project in FR Yugoslavia was an investment in the Micro Finance Bank (MFB), which provides loans to micro and small businesses. This project was supported by the EBRD's Technical Cooperation Funds Programme (TCFP).



In Russia the EBRD is working with the municipality of Perm to establish an investment programme to improve water supply and waste-water treatment facilities. The European Commission, Sweden, Switzerland and the United Kingdom provided comprehensive support for the programme, financing a feasibility study, institution-building, training and a creditworthiness enhancement programme.

A number of financial institutions have received support through the TCFP. In 2001 Ireland and the Georgia Financial Sector Fund (established with contributions from local Georgian banks) financed a resident consultant to help the National Bank of Georgia strengthen its banking supervision capacity.

The total amount of grants provided by donors reached €946.5 million by the end of 2001, up from €845.4 million at the end of 2000. The largest new contributions in 2001 came from the European Union (€36.5 million), the United States (€13.8 million) and Japan (€9.2 million).

The distribution of commitments by recipient country and by sector is shown in the tables on the right. Russia and Ukraine accounted for 25 per cent of total commitments in 2001. Well over half of all TC funding in 2001 was related to the financial sector while infrastructure accounted for around one-fifth.

Further information about the TCFP is provided in the 2001-02 EBRD Report to the Donor and Official Co-financing Community.

TC commitments by recipier	nt country			
		2001		1991-2001
	Number	€ million	Number	€ million
Russia	75	22.4	529	235.5
Ukraine	21	10.0	195	43.3
Romania	16	6.5	102	33.7
Kazakhstan	15	5.4	79	26.2
Poland	19	4.1	119	24.3
Bulgaria	11	6.3	58	19.0
Bosnia and Herzegovina	5	2.9	66	18.3
Estonia	5	0.4	161	17.0
Albania	4	2.7	74	16.6
Uzbekistan	2	0.1	47	16.3
Lithuania	5	0.5	141	14.0
Latvia	4	0.4	130	13.3
Kyrgyzstan	6	0.5	68	13.0
Slovak Republic	11	3.8	63	12.3
Belarus	0	< 0.1	81	11.6
Azerbaijan	8	2.4	49	10.4
Slovenia	7	0.9	85	10.0
FYR Macedonia	6	1.4	46	9.6
Croatia	14	1.0	87	9.3
Moldova	1	0.6	55	9.2
Georgia	11	1.2	56	9.2
Turkmenistan	3	0.3	29	8.9
Hungary	5	0.4	66	8.6
Tajikistan	4	1.5	28	8.3
FR Yugoslavia	27	4.9	32	7.5
Czech Republic	2	0.5	32	4.6
Armenia	1	0.5	24	3.7
Mongolia	4	1.4	4	1.4
Regional	75	45.6	483	148.5
Total	367	128.4	2,989	763.4

TC commitments by sector

		2001		1991-2001
	Number	€ million	Number	€ million
Finance, business	125	77.8	770	391.1
Manufacturing	106	16.8	964	113.2
Energy	32	7.3	420	87.3
Transport, storage	24	9.6	218	60.1
Community/social services	56	8.5	348	56.7
Construction	9	5.9	52	19.8
Telecommunications	4	0.9	124	19.4
Extractive industries	4	0.5	37	9.6
Agriculture, forestry, fishing	5	0.7	41	4.4
Commerce, tourism	2	0.5	15	1.8
Total	367	128.4	2,989	763.4

Legal Transition Programme

The EBRD's Legal Transition Programme helps to develop international standards of best commercial practice and to assess the state of legal reform in the Bank's countries of operations. It also assists with the development of sound legal rules and effective implementing institutions, and promotes legal reform throughout the region. Important legal reform projects that had a positive impact on transition during 2001 are summarised on the right.

The EBRD's Legal Transition Programme helps to promote legal reform and to improve corporate governance.

CIS Model Securities Law

The EBRD has helped the CIS Inter-Parliamentary Assembly draft a Model Securities Law. The Assembly approved the Model Law in November and the EBRD discussed its use and implementation at a meeting of key CIS parliamentarians and heads of securities commissions in December 2001. The EBRD project was funded by the Netherlands, with assistance from Germany. The Model Law regulates circulation of securities, the role and functions of professional market participants and the activities of a national securities regulator and is based on internationally recognised principles. The Model Law gives legislators in the 12 countries of the CIS a single standard by which to draft national rules for their capital markets. Its adoption marks an important stage in the process of harmonising commercial legislation in these former Soviet republics and holds out the prospect of increased protection for investors and prospective business partners.

FR Yugoslavia – Serbian Privatisation Law

The EBRD, in close consultation with the World Bank, assisted the Republic of Serbia with the preparation of a new Privatisation Law and related implementing regulations, which were drafted and enacted during the first half of 2001. The EBRD project was funded by the United Kingdom. The new Law represents a radical break with previous attempts to privatise state and socially owned property by establishing a clear privatisation framework. Under the new Law, at least 70 per cent of the capital of a company subject to privatisation must be offered for sale, while the remainder, up to a maximum of 30 per cent, can be transferred to the company's employees and other citizens. The new legislation puts foreign and domestic natural and legal persons on an equal footing to participate in the privatisation process and sets out a mandatory four-year time frame for the privatisation process. The new Law is expected

to help attract critical foreign investment into the Serbian economy. It was successfully used in the launch of an international tender in October 2001 to sell up to 70 per cent stakes in three cement plants, which attracted eight multinational parties.

Russian Corporate Governance Code

In 2001 the EBRD led efforts to assist Russia's Federal Commission for the Securities Market (FCSM) in developing a Corporate Governance Code. The Bank, with funding from Japan, helped to draft the Code, hosted the Code's introduction to the London-based financial and legal communities and responded to comments on the Code. The Code was endorsed by the Russian Government in November 2001 and was finalised early in 2002. The lack of sound corporate practices has damaged Russia's investment climate and is a contributing factor to Russia's inability to attract the investment necessary for sustainable economic development. Abuses of corporate power by managers, owners and controlling shareholders have had a damaging effect on both domestic and foreign investors. The Code introduces unified corporate rules and procedures to form the basis for a fair and flexible corporate policy and business administration. Use of the procedures and policies in the Code should lead to an improved corporate governance climate, which would remove one more obstacle to increased investment in Russia.

Turnaround management

The TurnAround Management (TAM) Programme aims to develop commercial and technical "know-how" by providing industry-specific advice to potentially viable enterprises. Funded by a variety of donors, the TAM Programme helps to develop local economies and in so doing, to alleviate poverty and improve social conditions.

The TAM Programme works directly with individual enterprises, advising on management skills, business planning, restructuring, improving products, reducing operating costs and developing local and export markets. In EU accession countries TAM assistance has helped enterprises meet the requirements of relevant EU directives and standards. TAM assistance has also improved awareness of the environmental impact of business activities and has helped to optimise energy use and improve health and safety for employees at work. In addition to improving business performance, the TAM Programme can help bring enterprises to the attention of potential trading partners or investors.

TAM projects have led to the introduction of strong management and improvements in productivity.

Grant funding of more than €55 million has been provided by 27 donors, including the European Commission, enabling the TAM Programme to undertake 880 projects with enterprises in 26 countries since its launch in 1993. Aggregate turnover for enterprises assisted by TAM amounts to €18.32 billion. About 667,000 people are employed by these enterprises. TAM projects have resulted in the introduction of strong management and financial controls, new approaches to design and marketing, improvements in productivity, and increases in sales and employment levels. In companies with less than 250 employees, enterprise turnover has increased by about 34 per cent and employment levels by about 12 per cent within a year. In larger companies, productivity and turnover generally increase at about the same rate but some "downsizing" is usually required. More than 80 per cent of all TAM projects have been rated "satisfactory" or "highly satisfactory" by independent evaluators.

Manufacturer of confectionery products Kazakhstan

Client: Privatised in 1992, the company had seen its sales and market share fall dramatically in the mid-1990s. In response, the company president asked for advice on how to develop the enterprise in an emerging, market-oriented economy.

TAM support: Over the course of two years, numerous visits were made by a TAM team comprising marketing, management, financial and human resources specialists. Following the implementation of their recommendations, the company's sales have risen by over 90 per cent and their market share has increased by 6 per cent.

Telephone and fibre optic cables Ukraine

Client: The company manufactures a wide range of top-quality fibre optic and copper telecom cables and electric wires. Although fully privatised, it had not developed a comprehensive business plan. There was a clear need to expand export activity, to improve its performance in international tendering and to establish long-term cooperation with a reliable cable manufacturer in western Europe.

TAM support: The TAM team helped to develop a strategic and operational business plan, including strategies for determining potential customers in new target countries, and advised the managers on how to participate in international tenders. With TAM assistance, the company increased its turnover from US\$ 10 million to US\$ 34 million and increased employment from 840 to 1,000. In addition, negotiations are well-advanced for a partnership arrangement with a large Italian group.

Bakery

Russia

Client: The company was privatised in 1994. All the profits from its shops are channelled into local social projects. The company provides excellent benefits for retired employees and provides cheaper bread to disadvantaged people in the area.

TAM support: In addition to the usual on-site visits made by the TAM team, the company managers were invited to visit an international Food and Bake Exhibition in the United Kingdom. With TAM support, they also visited three factories producing related products, and a university specialising in training for the food industry. TAM has helped the bakery to increase its turnover by over 85 per cent and to create nearly 100 new jobs.

Business Advisory Services Programme

The Business Advisory Services (BAS) Programme, based at the EBRD and managed by the TAM Group, helps medium, small and micro enterprises to improve their competitiveness in the market economy by using local business advisory services. BAS helps the enterprises to define their consultancy needs and to specify terms of reference for services to be provided by local consultants. In this way, BAS also helps to develop local consultancy services. BAS projects typically support clearly defined services, such as market research, management information systems and business planning.

The Baltics BAS Programme has helped to increase employment opportunities in the region.

The BAS Programme began in the Baltic states, where it has been operating for over six years. By the end of 2001, the Programme had undertaken 1,461 projects in more than 1,100 enterprises with a workforce of over 114,000 and aggregate sales of \notin 5.4 billion. BAS assistance has been instrumental in assisting these enterprises raise \notin 42 million in external finance. The Programme has been highly rated by external evaluators. Initially funded by the Nordic countries, which provided \notin 10.6 million, the Baltics BAS Programme has also received \notin 4.6 million from the European Commission. Enterprises involved in the Baltics BAS Programme have significantly increased their employment levels. For enterprises with fewer than 50 employees, employment has doubled over the past six years; for those with between 50 to 99 employees, employment has increased by about 50 per cent over the same period.

A North West Russia BAS Programme, funded by the Nordic countries, Germany and the United Kingdom, began in 2000 and has now carried out 65 projects in enterprises with a total turnover of €150 million and 8,500 employees. A new BAS office funded by the United Kingdom was opened in Samara in 2001 and is now fully operational.

New BAS Programmes were started in south-eastern Europe in 2001, funded by the Central European Initiative, EU Phare and the United Kingdom. A total of 160 projects have been carried out so far in Bosnia and Herzegovina, Bulgaria, Croatia and Slovenia. In addition, a Central Asian BAS Programme, funded by the Japan-Europe Cooperation Fund, has been implemented, with offices in Kazakhstan and Uzbekistan. A total of 26 projects are currently in progress.



Distributor of information technology

Croatia

Client: Established in 1997, this private company carried out its warehousing, assembly, maintenance and sales on three different sites, making its operations difficult to organise and monitor.

BAS support: The BAS Programme contributed to a feasibility study for a customdesigned building in one location. As a result, the company obtained a bank loan of €1.1 million. The company has now combined all its activities on one site, including warehousing, assembly (with a capacity for more than 200 computers per day), a testing laboratory, a maintenance department and a sales department.

Outcome: The company now employs 70 people (compared with 31 when the BAS grant was provided). It has become a leading company in the Croatian IT market, with the capacity to increase its workforce and expand its activities.



Canned fruit production company Latvia

Client: The company was established in 1994 following the privatisation of a collective farm. It has successfully expanded into the production of fruit additives.

BAS support: The BAS Programme supported the company with three projects: establishing the company's market potential; studying the feasibility of a new production plant; and preparing the company for exporting products to EU countries.

Outcome: Revenues have increased by 40 per cent annually for five consecutive years, with sales reaching €4.5 million in 2001. Employment has increased from 90 to 100 people.



St Petersburg toy manufacturer Russia

Client: The company was founded in 1995, specialising in importing plastic toys for the St Petersburg market and making quality toys at reasonable prices. Within a year, it had built up a range of 20 types of toys, manufacturing over 30,000 units per month, using ecologically safe plastic materials.

BAS support: The BAS project helped the company to develop a trademark – "Little Town" – increasing market recognition. It also assisted with creating new packaging for toys bearing the company logo and trademark.

Outcome: As a result of the BAS project, sales have grown by 30 per cent within a year and a large number of clients are now establishing longer-term relationships with the company.

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 economy and efficiency and to minimise credit risk in the implementation of the Bank's lending and investment operations. The EBRD expects all participants in the procurement process on Bank-financed projects to observe the highest standards of ethics and conduct throughout, including during contract implementation.

The EBRD closely monitors the procurement process to ensure the fair treatment of all participants.

The EBRD treats procurement in public and private sector projects differently. A private sector client is permitted to use its own commercial practices provided EBRD due diligence confirms these practices are sound, market level prices are obtained, conflicts of interest are avoided and the best interests of the Bank's clients are preserved. Procurement in public sector operations is more prescriptive. The EBRD asks its clients to use structured, transparent procedures that maximise competition and fair treatment of all participants, and it closely monitors the procurement process.

During 2001 the EBRD continued working closely with the development community to harmonise its approach to public sector procurement with that of other major lending institutions. The Bank will publish in the near future a new harmonised Standard Tender Document for Goods reflecting this effort, including a CD-ROM version for easier use by clients. The Bank's Procurement and Technical Services Unit continued to provide professional advice and services to both internal and external clients throughout 2001 and welcomes comments about any aspect of the Bank's procurement policies and procedures.

The EBRD financed a total of 120 public sector contracts in 2001 with a total contract value of €235 million. This compares with 116 contracts with a total value of €267 million in 2000. The total value of contracts awarded using open tendering procedures in 2001 amounted to €202 million, or 86 per cent of all contracts awarded by value. The majority of contracts by number - 80 in total - were for the supply of goods, with an average value of €1.8 million. To improve the effectiveness of EBRD-financed procurement, the Bank makes available background materials and documents, and regularly publishes information about forthcoming contracts on the Procurement Opportunities section of its Web site (www.ebrd.com). The business community can access this Web site at no cost.



Construction work on the Chernobyl decommissioning facilities is progressing well, with civil works on the Liquid Radioactive Waste Treatment Facility (LRTP) almost complete.

Nuclear safety

The EBRD manages the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF) and three International Decommissioning Support Funds (IDSF) 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 Assembly 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

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 economic grounds.

The NSA is now in its final phase. The shortterm safety upgrade programmes in Bulgaria, Lithuania, Russia and Ukraine have been completed, and respective grant agreements have been closed within budget. In 2001 the Assembly approved the extension of the NSA by two years to allow for completion of the decommissioning facilities in Chernobyl and a safety analysis in Russia.

As at 31 December 2001, members of the NSA Assembly (Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, the United States and the European Community) had contributed €260.6 million.

Review of Kursk 1 safety

Under the NSA, all the short-term safety upgrades for Kola, Leningrad and Novovoronezh nuclear power plants (NPPs) in Russia were successfully completed and licensed in 2001 within the budgets allocated in the respective grant agreements. Implementation of the covenants of the NSA Agreement relating to transition towards new regulatory regimes for the RBMK and VVER 440/230 reactors has been significantly delayed, however. An important breakthrough was the November 2001 agreement between the EBRD and Minatom, Rosenergoatom (the utility) and RF Gosatomnadzor (the regulator). Under this agreement, Russian experts will work with a team of international experts appointed by the EBRD to review the safety analysis report for the RBMK-type Kursk 1 reactor in south-east Russia. This joint effort, initiated in December, represents a major step forward in transparency and cooperation between Russia and the international community. The NSA Assembly of Contributors approved the funding for the programme, which will take more than a year to complete.

Construction of Chernobyl decommissioning facilities

Construction work on the two major predecommissioning facilities – the Liquid Radioactive Waste Treatment Plant (LRTP) and the Interim Spent Fuel Storage Facility (ISF) – is progressing well. Civil works at the LRTP are essentially complete, with work now focusing on the installation of plant and equipment. Civil works on the ISF – the largest interim fuel storage facility in the world – are also progressing according to schedule.

Donors have pledged more than €1.5 billion to nuclear safety funds managed by the EBRD.

Civil works on the storage modules and on the processing facility are due for completion in the first and third quarters of 2002 respectively. Procurement and manufacture of the mechanical plant and handling equipment is also at an advanced stage. A significant part of the civil and mechanical works on both projects is being undertaken by Ukrainian companies. An additional project to lay 7 km of railway track, which was contracted to a local Ukrainian organisation, was completed on schedule and within budget in November 2001. The two facilities under construction are the first significant facilities to be built on the Chernobyl site since the 1986 accident. While considerable work remains to be done, the successful completion of two important facilities supporting the timely decommissioning of Chernobyl NPP is on course.

Chernobyl Shelter Fund

The Chernobyl Shelter Fund was established to assist Ukraine in transforming the existing Chernobyl shelter ("sarcophagus") into a stable and environmentally safe system. The international donor community has pledged a total of US\$ 717 million (€766 million), 93 per cent of the total cost estimate of the Shelter Implementation Plan (SIP).

Members of the Assembly (as at 31 December 2001) are Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Kuwait, Luxembourg, Netherlands, Norway, Poland, Spain, Sweden, Switzerland, Ukraine, the United Kingdom, the United States and the European Community. In addition, Iceland, Israel, Korea, Portugal, the Slovak Republic and Slovenia have the status of donors.

The Interim Spent Fuel Storage Facility (ISF) is being constructed on the Chernobyl Nuclear Power Plant.





Civil works on the Interim Spent Fuel Storage Facility are scheduled for completion in 2002.

Chernobyl Shelter confinement selected

In April 2001 the SIP achieved the most important milestone in its programme, namely the selection of the technical concept for the New Safe Confinement (NSC). This represents the culmination of more than two years of design studies, which were themselves founded on more than a decade of investigations by Ukrainian institutes and many Western companies. Based on the advice of the International Advisory Group (IAG), a panel of experts that provides technical guidance to the EBRD, the Bank was able to agree to the selection of this concept by Energoatom. The NSC will protect the Shelter from further degradation due to adverse weather and condensation and will provide protection to the environment in the event of any accidental release of radioactive dust from a collapse of the existing unstable structures. Once erected, it will provide a safe working environment within which dismantling of unstable parts of the Shelter and waste management operations can take place. The arch of the structure will span over 260 metres and at a height of 100 metres could easily accommodate London's St Paul's Cathedral. It will constitute a challenging feat of engineering. The implementation project will be subject to international competitive tender, which is currently under preparation by a task force. It is expected that Ukrainian companies will play a prominent role in the construction and supply of materials and services.

International Decommissioning Support Funds (IDSFs)

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. Lithuania is committed to closing down reactor unit 1 of Ignalina NPP before 2005 and unit 2 of Ignalina NPP at a later date. The Bulgarian government is committed to closing units 1 and 2 of Kozloduy NPP before 2003 and units 3 and 4 before 2010. The Slovak Republic has drawn up an energy policy that commits the country to shutting down units 1 and 2 of Bohunice NPP in 2006 and 2008 respectively.

The European Commission has announced its intention to support the decommissioning of these reactors with substantial grants over a period of eight to ten years. By the end of 2001, 15 countries had joined the EC as donors to the IDSFs, and all three funds had become operational. The Funds will finance projects that 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 for improvements in energy efficiency that are linked to closure decisions. As at 31 December 2001, €146 million had been contributed to the Ignalina IDSF by Assembly members (Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Poland, Sweden, Switzerland, the United Kingdom and the European Community). A total of €96 million had been contributed by member countries (Austria, Belgium, Denmark, Greece, Netherlands, Switzerland, the United Kingdom and the European Community) to the Kozloduy IDSF while €116 million had been provided by member countries (Austria, Denmark, Netherlands, the United Kingdom and the European Community) to the Bohunice IDSF. In addition, Ireland has the status of donor in all three IDSFs, and France announced its decision to contribute to all three funds.

Launch of decommissioning funds

In 2001 the operations of the three IDSFs for Bulgaria, Lithuania and the Slovak Republic were launched in April, June and November respectively. Assemblies of Contributors, chaired by the European Commission, adopted the Rules of the Funds and approved operational documents and work programmes as well as the Framework Agreements negotiated between the EBRD and the recipient countries. Framework Agreements establish the legal basis for the operation of the funds in the three countries and incorporate commitments for early closure of Kozloduy units 1-4, Ignalina and Bohunice VI nuclear reactors. Following an international tender, a Project Management Unit was established in Lithuania in December. For Bulgaria the Assembly approved several investment projects, including the first energy efficiency project and, in principle, cofinancing of the Sofia district heating project.

Donor commitment to nuclear safety

In 2001 record levels of funding were contributed to the nuclear safety funds. A total of €528 million was committed through 29 contribution agreements between donor countries and the EBRD. The largest contribution came from the European Community – €320 million for the IDSFs and a further €100 million for the Chernobyl Shelter Fund. These contributions demonstrate the keen interest of donors in nuclear safety, and reflect their confidence in the EBRD as the fund manager.

Projects signed in 2001

At 31 December 2001

Guide

Sub-projects are shown in bold italics and italics.

The two lines following project descriptions show:

Sector • Environmental screening category • Type of financing Date of signing • EBRD financing (in € million)

At the end of each country section, the total EBRD financing for 2001

(in € million) is listed.
Loans are calculated at exchange rates current at 31 December 2001. Shares are converted to euros at exchange rates current at the date of disbursement. 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

Albania

Albania Reconstruction Equity Fund

Tealb Sh. p.k. Support for tea and spice processing and packaging unit.

Agribusiness • FI • Equity Signed 9 February • EBRD financing 0.1

Ajka

Restructuring and modernisation of the Ajka dairy factory. Agribusiness • B/1 • Equity Signed 6 June • EBRD financing 0.5

Dipiu Assistance to manufacturer of wooden rosaries and other religious objects.

General industry • FI • Equity Signed 13 June • EBRD financing 0.1

Torre Drin Shopping Centre Investment in modern shopping centre in Tirana.

Property • B/O • Equity Signed 4 October • EBRD financing 0.5

Sara

Modernisation of the winemaking process and bottling line at Sara winery.

Agribusiness • FI • Equity Signed 24 October • EBRD financing 0.1

Albital Poliuretani

Modernisation and expansion of Albital Poliuretani's production line.

General industry • FI • Equity Signed 6 December • EBRD financing 0.3

Elbasan Cement Factory

Modernisation and expansion of the Elbasan Cement Factory in central Albania.

General industry • B/1 • Loan Signed 24 April • EBRD financing 16.9

EBRD financing 18.5

Armenia

See Regional (page 84).

Azerbaijan

Azerbaijan Multibank Framework Financing Facility

Arkobank Financing for SMEs and Trade Facilitation Programme. Bank lending • FI • Loan Signed 14 March • EBRD financing 2.3

Regional Trade Facilitation Programme

International Bank of Azerbaijan EBRD financing 13.6

EBRD financing 15.8

Belarus

Regional Trade Facilitation Programme Priorbank EBRD financing 7.2

EBRD financing 7.2

Bosnia and Herzegovina

Micro-Enterprise Bank (MEB) Capital Increase

Equity investment in Bosnia and Herzegovina's first nationwide bank.

Small business finance • FI • Equity Signed 28 February • EBRD financing 0.4

Railways Recovery Project

Sovereign loan to repair an important 395 km stretch of rail track that links Bosnia and Herzegovina to Hungary and Croatia through largely inaccessible mountain terrain.

Transport • B/0 • Loan Signed 11 June • EBRD financing 21.0

Electric Power Reconstruction Project

Supply and installation of a new system for the electricity transmission network and environmental investments at four thermal power plants.

Power and energy • C/1 • Loan Signed 5 December • EBRD financing 20.0

Hrvatska Postanska Banka d.d.

Bank-to-bank loan under the framework for SME financing. Bank lending • FI • Loan

Signed 20 December • EBRD financing 2.5

Raiffeisen Bank dd - Credit Line - 2

Bank-to-bank credit line for on-lending to SMEs. Bank lending • FI • Loan Signed 21 December • EBRD financing 5.0

Regional Trade Facilitation Programme

Raiffeisen Bank d.d.BiH (former Market) EBRD financing 0.9

Zagrebacka Banka (former Hrvatska) EBRD financing 0.6

UPI Banka d.d. EBRD financing 0.1

Universal Banka d.d. EBRD financing 0.9

Bulgaria

Direct Investment Facility

Babylon Direct investment in a pharmaceutical distribution company General industry • FI • Equity Signed 19 January • EBRD financing 1.0

Balkanpharma

Modernisation of three production sites of Bulgaria's leading pharmaceuticals producer.

General industry • B/1 • Loan Signed 23 May • EBRD financing 13.5

Astera Investment Project (Restructured)

Loan to assist cosmetics manufacturer with the development of new products and additional markets General industry • B/1 • Loan

Signed 27 June • EBRD financing 5.6

Bulgaria Grain Receipt Programme

Unionbank

Finance of warehouse receipts programme in Bulgaria

Bank lending • FI • Loan Signed 11 July • EBRD financing 1.5

SME Facility, Bulgaria

Hebros Bank

Financial support to micro and small enterprises. Bank lending • FI • Loan Signed 24 September • EBRD financing 6.0

ProCredit Bank (former Microfinance Bank Bulgaria)

Establishment of specialised microfinance institution. Small business finance • FI • Loan Signed 19 December • EBRD financing 6.2

Regional Trade Facilitation Programme

United Bulgarian Bank EBRD financing 1.1

Unionbank EBRD financing 0.8

Croatia

CEDB Co-Financing Facility

EBRD financing 35.8

Frste Pension Fund

Minority equity investment in mandatory pension fund management company. Finance • FI • Equity Signed 11 September • EBRD financing 2.6

Vetropack

Renovation and expansion of Vetropack's glass production plant.

Agribusiness • B/1 • Loan Signed 27 September • EBRD financing 12.5

Autocesta Rijeka-Zagreb (ARZ)

Construction of a 22 km section of motorway between Vrbovsko and Vukova Gorica. Transport • A/O • Loan Signed 22 October • EBRD financing 90.0

Privredna Banka Zagreb – Mortgage Finance Facility

Dedicated mortgage finance loan.

Bank lending • Fl • Loan Signed 8 November • EBRD financing 40.0

Zagreb Waste Water Treatment Plant BOT

Design, construction, operation and maintenance of the first waste-water treatment plant for the city of Zagreb. Also involves the construction of supporting infrastructure

Infrastructure • A/O • Loan

Signed 14 December • EBRD financing 55.2

Uljanik Shipyard

Provision of refund guarantees to support the medium-term financing of Uljanik Shipyard's current order book, and assist with longer-term restructuring and privatisation.

Shipping • C/1 • Loan Signed 19 December • EBRD financing 17.1

EBRD financing 278.1

Czech Republic

TIW Czech N.V.

Equity investment in TIW Czech N.V., a provider of wireless telecommunications services, through its operating subsidiary Ceský Mobil.

Telecommunications • C/O • Equity Signed 2 May • EBRD financing 28.2

Brno Waste Water Treatment Plant Upgrading

Upgrading and extension of existing waste-water treatment plant Infrastructure • B/0 • Loan

Signed 2 May • EBRD financing 5.0

Credit line to the Croatian Bank for Reconstruction and Development (HBOR) for financing SMEs Co-financed by the EBRD and the Council of Europe

> Development Bank Bank lending • Fl • Loan Signed 20 March • EBRD financing 12.0

INA Rijeka Refinery Environmental Rehabilitation Modernisation of the refinery in Rijeka to increase

the quality of INA's products and raise ecological

standards Natural resources • B/1 • Loan Signed 10 May • EBRD financing 36.0

Hypo Banka Croatia

Equity investment to rehabilitate Slavonska Banka and increase Hypo Banka's share in the company to 60 per cent Bank equity • FI • Equity

Signed 27 June • EBRD financing 0.4

VIP-Net II

Extension of an existing loan to VIP-Net, enabling the telecommunications company to develop a national network and increase its market share. Telecommunications • B/0 • Loan

Signed 9 July • EBRD financing 10.0

GlobalNet

Investment to assist GlobalNet establish a business customer base

Telecommunications • B/O • Equity Signed 18 July • EBRD financing 1.8

UNIQA Versicherungen AG: Uniqa Osiguranje

Sub-investment under the UNIQA Framework

Finance • FI • Equity Signed 20 July • EBRD financing 0.5

EBRD financing 51.5

Soufflet Malting Czech

Regional private equity fund to support the grain and flour industry in central and eastern Europe. Agribusiness • B/1 • Loan

Signed 1 June • EBRD financing 10.0

Winterthur Pojistovna

Capital increase in Czech insurance company. Finance • FI • Equity

Signed 23 October • EBRD financing 3.7

Dalkia Usti Nad Labem

Refinancing of existing bonds in a combined heat and power (CHP) plant.

Energy efficiency • B/O • Loan Signed 18 December • EBRD financing 15.9

EBRD financing 62.8

Estonia

Fiesta

Sub-project of Kesko (see page 84). Expansion of the food retailer's businesses in Estonia through the acquisition and development of retail properties and the financing of retail operations.

Agribusiness • B/O • Loan

Signed 20 December • EBRD financing 12.1

EBRD financing 12.1

FR Yugoslavia

Kosovo Reconstruction Equity Fund

Alpast Support for production of PET plastic bottles. General industry • FI • Equity Signed 5 April • EBRD financing 0.3

Elsa Investment in granite and marble processing unit. General industry • FI • Equity Signed 9 April • EBRD financing 0.3

Rezonanca

Expansion of a diagnostic centre. General industry • FI • Equity Signed 30 July • EBRD financing 0.2

Guri i Kuq Completion of a mountain tourist resort.

Tourism • C/O • Equity Signed 12 November • EBRD financing 0.1

Microfinance Bank of Yugoslavia (MFB)

Equity investment and loan to "greenfield" microfinance bank to provide financial services to micro and small enterprises.

Small business finance • Fl • Loan Signed 10 April • EBRD financing 9.1

Belgrade Municipal Infrastructure Reconstruction Programme

Municipal loan to improve urban transport, water supply, waste-water treatment and district heating services in Belgrade.

Infrastructure • B/0 • Loan Signed 27 July • EBRD financing 40.0

Belgrade District Heating Rehabilitation Programme

Municipal loan to improve district heating services in Belgrade. Energy efficiency • B/0 • Loan Signed 27 July • EBRD financing 20.0

Microenterprise Bank Kosovo

Equity investment in specialised microfinance bank in Kosovo.

Small business finance • Fl • Equity Signed 19 October • EBRD financing 1.3

EPS: Emergency Power Sector Reconstruction Loan

Loan to Elektroprivreda Srbije to finance the rehabilitation and upgrade of thermal and hydro-generation plants and the transmission system.

Power and energy • B/1 • Loan Signed 25 October • EBRD financing 100.0

ZTP Belgrade Reconstruction Project

Rehabilitation of FR Yugoslavia's main railway network. Loan will finance labour severance payments, the purchase of track maintenance machinery and spare parts, and the refurbishment of electric locomotives.

Transport • B/0 • Loan Signed 25 October • EBRD financing 57.0

Tigar Pirot

Working capital financing to stimulate tyre-maker Tigar's economic activities in FR Yugoslavia.

Signed 28 November • EBRD financing 4.0 Regional Trade Facilitation Programme

Eksimbanka a.d. EBRD financing 0.3

General industry • C/1 • Loan

FYR Macedonia

Thessaloniki-Skopje Crude Oil Pipeline Project

Construction of a pipeline, from Hellenic Petroleum's facilities at Thessaloniki to the Okta refinery at Skopje, capable of carrying 2.5 million tons of crude oil a year.

Natural resources • A/0 • Loan Signed 2 January • EBRD financing 28.2

Regional Trade Facilitation Programme

Komercijalna Banka EBRD financing 3.6

Tutunska Banka AD Skopje EBRD financing 0.4

Export and Credit Bank (ECB) EBRD financing 0.1

EBRD financing 32.3

Georgia

Microfinance Bank of Georgia (MBG)

Support for portfolio growth and MBG's accelerated regional branch expansion.

Small business finance • FI • Loan Signed 17 July • EBRD financing 0.4

Microfinance Bank of Georgia (MBG) – Capital Increase

Further loan to enable MBG to expand its lending operations to micro and small enterprises.

Small business finance • FI • Loan Signed 11 October • EBRD financing 6.8

Regional Trade Facilitation Programme

Bank of Georgia EBRD financing 2.7

TBC Bank EBRD financing 0.5

United Georgian Bank (UGB) EBRD financing 0.6

EBRD financing 11.0

EBRD financing 232.4

Hungary

Winterthur Biztosito

Capital increase in Hungarian insurance company. Finance • FI • Equity

Signed 17 May • EBRD financing 3.3

Vivendi Telecom Hungary (VTH)

Medium-term senior syndicated loan to VTH, the second-largest provider of fixed-line telecommunications services in Hungary.

Telecommunications • B/0 • Loan Signed 24 August • EBRD financing 75.0

Tecnicrédito Hungary

Syndicated loan to Tecnicrédito Hungary, a consumer credit company specialising in financing the acquisition of automobiles. Finance • FI • Loan

Signed 3 December • EBRD financing 10.0

Volksbank – SME Facility

SME Facility to Volksbank, supported by the EBRD and the European Union.

Bank lending • Fl • Loan Signed 12 December • EBRD financing 10.2

EBRD financing 98.5

Kazakhstan

Post Privatisation Fund: Eagle Kazakhstan Fund

Romat

Support for pharmaceutical company. Equity funds • FI • Equity

Signed 1 July • EBRD financing 3.0

Ak-Nar

Investment in local brewery.

Equity funds • FI • Equity Signed 4 November • EBRD financing 4.0

Cumulative Preferred Redeemable Shares

Bank Turan Alum (BTA) Expansion of BTA's product range and increase of its lending operations.

Bank equity • FI • Equity Signed 24 October • EBRD financing 5.6

Kazakh Leasing Facility

Support for leasing facility via local lease company. Finance • Fl • Loan Signed 15 November • EBRD financing 5.6

Efes – Kazakhstan

Financing for Efes brewery in Kazakhstan. Agribusiness • B/0 • Loan

Signed 5 December • EBRD financing 10.7

Atyrau Airport Project

Rehabilitation of the "air-side" facilities at Atyrau Airport and associated investments to improve airport efficiency and air transport operations.

Transport • B/0 • Loan Signed 15 December • EBRD financing 28.2

Atyrau Municipal Infrastructure Development project

Improvement of the drainage system in the city of Atyrau.

Infrastructure • B/O • Loan Signed 16 December • EBRD financing 13.6

Kazakhstan Warehouse Receipt Programme

Finance to local agribusiness SMEs using commodities, normally represented by warehouse receipts, as collateral.

Halyk Savings Bank EBRD financing 5.6

Kazkommertsbank EBRD financing 11.3

Almaty Merchant Bank EBRD financing 2.8

Bank Turan Alem EBRD financing 11.3

Regional Trade Facilitation Programme

Halyk Savings Bank EBRD financing 2.6

Bank Turan Alem EBRD financing 9.5

Almaty Merchant Bank EBRD financing 2.7

Kazkommertsbank EBRD financing 0.8

Kazkommertsbank Pre-export Finance Facility EBRD financing 38.6

Halyk Savings Bank Pre-export Finance Facility EBRD financing 20.0

EBRD financing 176.2

Kyrgyzstan

Kyrgyz Investment and Credit Bank (KICB)

Investment in KICB, a new commercial bank focusing on commercial and project term loans, trade finance, short-term working capital and corporate deposits. Bank equity • FI • Equity

Signed 4 May • EBRD financing 1.6

Direct Investment Facility

BDC-Vytas Expansion of dental clinic network. General industry • FI • Equity Signed 11 May • EBRD financing 0.7

Kalipso

plant

Development of water relaxation centre. General industry • FI • Equity

Signed 19 May • EBRD financing 0.6

Issyk-Ata Hydro Power Station Rehabilitation Rehabilitation and upgrading of hydro-power plant.

Power and energy • A/O • Equity Signed 30 May • EBRD financing 0.4

Besser Kyrgyzstan Development of concrete masonry block production

General industry • FI • Equity Signed 28 September • EBRD financing 0.6

Regional Trade Facilitation Programme

JS Commercial Bank "Kyrgyzstan" (AKB) EBRD financing 0.4

EBRD financing 4.3

Latvia

Direct Investment Facility

RAF Avia Construction of new aeroplane maintenance facility, to be located in Riga international airport.

Transport • FI • Equity Signed 9 March • EBRD financing 0.7

BALTA Insurance Group

Equity investment in leading Latvian insurer. Finance • FI • Equity Signed 27 July • EBRD financing 9.2

Pleskodale

Sub-project of Kesko (see page 84). Finance the expansion of the food retailer's operations in Latvia. Agribusiness • B/0 • Loan Signed 20 December • EBRD financing 13.1

EBRD financing 23.0

Lithuania

IO Fund

Lietuvos Draudimas

Purchase of shares in Lietuvos Draudimas, the leading insurance company in Lithuania.

Finance • FI • Equity Signed 2 April • EBRD financing 0.2

Kaunas Water and Environment Project – Phase II

Improvement of water and waste-water services in the city of Kaunas, co-financed with the Kaunas Water Company and the EU ISPA Facility.

Infrastructure • B/0 • Loan Signed 20 July • EBRD financing 14.7

Lithuania Warehouse Receipt Programme

Siauliu Bankas

Finance to local agribusiness SMEs using commodities, normally represented by warehouse receipts, as collateral.

Bank lending • Fl • Loan Signed 11 September • EBRD financing 1.6

Lithuania Railways (LG) Corridor IX Project

Investment in railway infrastructure.

Transport • B/0 • Loan Signed 25 October • EBRD financing 61.0

Lietuvos Draudimas

Purchase of additional shares in Lietuvos Draudimas, the leading insurance company in Lithuania.

Finance • FI • Equity Signed 29 October • EBRD financing 3.6

EBRD financing 81.1

Moldova

Victoria Bank Credit Line (II)

Second credit line to Victoria Bank SA supporting medium-term lending to local private SMEs in Moldova. Bank lending • FI • Loan

Signed 14 December • EBRD financing 4.5

Regional Trade Facilitation Programme

Victoria Bank EBRD financing 2.8

Moldova-Agroindbank EBRD financing 1.3

MICB EBRD financing 1.0

Poland

Nova Polonia Private Equity Fund

Investment in private equity fund that focuses on SMEs in Poland.

Equity funds • FI • Equity Signed 12 January • EBRD financing 10.0

Europejski Fundusz Leasingowy (EFL)

Expansion of EFL's lease portfolio to SMEs in Poland. Finance • FI • Loan Signed 13 February • EBRD financing 35.0

Polska Telefonia Cyfrowa SP z.o.o.

Underwriting and debt financing to the leading provider of wireless telecommunications services in Poland.

Telecommunications • B/O • Loan Signed 20 February • EBRD financing 82.4

MPF – Slodownia Soufflet – Polska SARL

Modernisation and expansion of malting facilities capacity and machinery at Lech Browary site.

Agribusiness • Fl • Loan Signed 30 March • EBRD financing 4.5

Bank Zachodni - SME Facility

SME Facility to Bank Zachodni, supported by the EBRD and the EU.

Bank lending • Fl • Loan Signed 30 April • EBRD financing 10.0

Atrium Hotel Warsaw

Convertible debt facility to finance design, construction and operation of an international standard fourstar hotel in the centre of Warsaw.

Property and tourism • B/O • Loan Signed 4 May • EBRD financing 1.5

Pekao SA SME Facility

Equity investment by Poland's largest bank in the SME Facility.

Bank lending • Fl • Loan Signed 28 May • EBRD financing 20.0

Spearhead International

Development of Spearhead International's assets in Poland, allowing the company to become a low-cost, value-added supplier of food to key multinationals operating in the region.

Agribusiness • B/1 • Loan Signed 6 June • EBRD financing 12.0

Animex SA

Restructuring of Polish meat processing operations and balance sheet.

Agribusiness • C/1 • Loan Signed 20 June • EBRD financing 28.2

Sokolow SA

Support for the meat processor's business consolidation and future expansion. Agribusiness • B/1 • Loan

Signed 27 June • EBRD financing 9.9

Gdansk Urban Transport Project

Improvement of urban public transport and traffic in Gdansk.

Infrastructure • B/0 • Loan Signed 16 July • EBRD financing 12.0

Patnow II (PAK)

Construction of a new 464 MW electricity generating unit at the existing Patnow power station that will utilise energy-efficient technology with a high degree of pollution control.

Power and energy • B/0 • Loan Signed 6 August • EBRD financing 193.7

Lukas Bank

Five-year loan to support the Polish consumer finance company.

Bank lending • Fl • Loan Signed 6 September • EBRD financing 24.8

Sopot Urban Transport Project

Implementation of the traffic circulation plan. Infrastructure • B/O • Loan Signed 29 November • EBRD financing 5.0

Rybnik Sewerage Network Development Programme

Construction of a 600 km sewer network in Rybnik to improve the connection to a newly opened wastewater treatment plant.

Infrastructure • B/0 • Loan Signed 30 November • EBRD financing 16.7

Fortis Bank Polska

SME Facility to Fortis Bank Polska, supported by the EBRD and the EU.

Bank lending • FI • Loan Signed 21 December • EBRD financing 20.0

CAIB Investment

Equity investment in an investment fund management company allowing for the provision of anchor capital to a number of funds, including a third-pillar pension programme.

Finance • Fl • Equity Signed 21 December • EBRD financing 8.9

EBRD financing 494.6

EBRD financing 9.6

Romania

Banca Comerciala Romana

Financial support for the Romanian private sector. Bank lending • A/O • Loan

Signed 22 January • EBRD financing 20.0

Banca Transilvania

Support for SMEs through Banca Transilvania Bank equity • FI • Equity Signed 9 October • EBRD financing 6.8

Ispat-Sidex

Finance for a one-year revolving facility for liquidity and working capital purposes related to the privatisation of the Sidex steel plant in Romania.

General industry • C/1 • Loan Signed 30 October • EBRD financing 113.0

Alpha Bank Romania

Financial support for the Romanian private sector.

Bank lending • Fl • Loan Signed 20 November • EBRD financing 10.0

Municipal Environmental Loan Facility (MELF)

lasi

Upgrading of water and waste-water facilities. Infrastructure • B/O • Loan Signed 12 December • EBRD financing 13.2

Arad Upgrading of water and waste-water facilities. Infrastructure • B/O • Loan Signed 12 December • EBRD financing 4.5

Michelin Romania

Development of tyre-maker Michelin's operations in Romania.

General industry • C/1 • Loan Signed 27 December • EBRD financing 19.2

Road Sector Restructuring and Pitesti By-Pass

Restructuring the road sector and construction of the 15.2 km Pitesti by-pass, part of Pan European Corridor IV.

Transport • A/0 • Loan Signed 31 December • EBRD financing 60.0

Post Privatisation Fund

Continental SA EBRD financing 0.2

Regev & Instal EBRD financing 0.3

Remayer EBRD financing 0.4

Regev & Instal Loan EBRD financing 0.2

Regional Trade Facilitation Programme

RoBank EBRD financing 2.4

Banca Transilvania EBRD financing 0.1

EBRD financing 250.4

Russia

Russia Small Business Fund (RSBF)

NBD Restructuring of RSBF obligations – equity EBRD financing 2.0

NBD Bank combined Micro/Small loan EBRD financing 1.1

Small Business Credit Bank EBRD financing 33.5

Unexim Credit Line Assignment (Restructured)

Assignment of sub-loan from Unexim Credit Line. General industry • FI • Loan Signed 19 March • EBRD financing 2.4

St Petersburg Toxic Waste Emergency Clean-Up Programme

Upgrading of hazardous waste disposal site of "Krasny Bor".

Infrastructure • B/1 • Loan Signed 13 April • EBRD financing 6.2

Moscow Efes Expansion

Additional financing for the expansion of Efes Moscow brewery and distribution centre.

Agribusiness • B/0 • Loan Signed 14 June • EBRD financing 19.2

Kamaz: Loan and Equity (Restructured)

Partial restructuring of Kamaz stabilisation refinancing. General industry • C/1 • Loan Signed 15 June • EBRD financing 79.6

Danone MPF – Danone Industria LLC

Multi-Project Facility (MPF) Agreement with Groupe Danone to co-invest in dairy, confectionery and mineral water companies in Russia.

Agribusiness • FI • Equity Signed 28 June • EBRD financing 23.2

Rosneft-Sakhalinmorneftegaz (R-SMNG)

Corporate loan to support corporate strategy of the Russian oil and gas company engaged in exploration, production and marketing of oil and gas deposits on Sakhalin Island.

Natural resources • B/1 • Loan Signed 29 June • EBRD financing 56.5

Direct Investment Facility

Structured Component Industries (SCI) Investment in structured cabling systems interconnecting computers.

General industry • FI • Equity Signed 3 July • EBRD financing 1.1

IntelliKraft

Direct investment in pilot production of a new type of battery. General industry • A/O • Equity

Signed 10 August • EBRD financing 1.1

Togliattiazot

Senior corporate medium-term loan to bolster working capital and strengthen the ammonia supplier's position in the world market.

General industry • C/1 • Loan Signed 6 July • EBRD financing 45.2

International Moscow Bank (IMB)

Capital increase for International Moscow Bank, Russia's sixth-largest bank. Bank equity • FI • Equity Signed 27 July • EBRD financing 8.3

Commodity Repo Transaction

Guarantee to Rabobank for commodity financing. Agribusiness • FI • Loan Signed 30 July • EBRD financing 56.5

Custom Farm Centres

Assistance to Russian leasing company

Agribusiness • C/O • Loan Signed 14 August • EBRD financing 9.0

Danone Milk Procurement

Investments in Russian dairy farms that supply milk to Danone Industria Agribusiness • FI • Equity

Signed 30 August • EBRD financing 7.9

RAO UES Restructuring Loan

Financial restructuring of the power company prior to privatisation and improvement of operations efficiency

Power and energy • C/1 • Loan Signed 11 October • EBRD financing 50.0

SBS Assignment – Macrotech

Assignment of SBS sub-loan to Macrotech.

General industry • FI • Loan Signed 1 November • EBRD financing 0.3

Kubaka Gold Project

Development of the Kubaka gold deposit in Magadan, Russia Natural resources • C/O • Loan

Signed 6 November • EBRD financing 4.5

Kubaka Gold Project Loan Increase (Restructured)

Increase of the EBRD's existing loan to Kubaka. Natural resources • C/O • Loan

Signed 6 November • EBRD financing 4.2

General Motors – VAZ Joint Venture

Construction and operation of a factory to manufacture and assemble up to 75,000 Niva vehicles in Togliatti.

General industry • B/1 • Loan Signed 14 December • EBRD financing 153.2

Sonic Duo

Construction and operation of the third GSM 1800/ 900 MHz mobile phone network in the Moscow Licence Area

Telecommunications • B/O • Loan Signed 14 December • EBRD financing 33.9

Buryatzoloto Power Line

Construction of a power line to connect the Zun Holba gold mine to the local power grid, thus reducing emissions from diesel generators, environmental risks and the reliance on high-cost diesel-generated electricity.

Natural resources • B/O• Loan Signed 14 December • EBRD financing 9.2

Small Business Credit Bank

KMB Bank

Reorganisation of the financial institution. Small business finance • FI • Loan Signed 22 December • EBRD financing 0.6

Regional Venture Fund

North West and West Russia Internet Proekty EBRD financing 0.5

Produkty Pitania (GR European Foods) EBRD financing 5.2

Craftrise EBRD financing 4.1

ROK (OAO Fish Processing Plant No.1) EBRD financing 0.5

ESTA Regionalnye Kabelnye Seti EBRD financing 0.5

ESTA Tversviazinform EBRD financing 0.4

ESTA Telecom EBRD financing 0.4

Hotel Poljarnye Zori EBRD financing 0.1

Pokrovsky Stekolny Zavod EBRD financing 4.8

Eagle Black Earth Fund

Belgorod Fodder Factory EBRD financing 0.8

Altes Investments EBRD financing 2.2

Isoroc EBRD financing 1.4

Stroydetal EBRD financing 0.6

Tamak EBRD financing 1.4

TAKF EBRD financing 0.8 Eagle Urals Fund Altes Investments EBRD financing 6.3

TAKF EBRD financing 0.8

Kreker EBRD financing 4.0

Eagle Smolensk Fund Altes Investments EBRD financing 1.7

St Petersburg ZAO Disegni EBRD financing 2.0

ROK (OAO Fish Processing Plant No 1) EBRD financing 0.6

West Siberia Pyaterochka EBRD financing 5.6

Central Russia Bridgetown Foods EBRD financing 3.5

Torgovy Dom ERA EBRD financing 3.1

Regional Trade Facilitation Programme

International Moscow Bank EBRD financing 32.1

Vneshtorgbank Pre-export Facility EBRD financing 83.8

Savings Bank of Russia (Sberbank) EBRD financing 0.4

Vneshtorgbank EBRD financing 1.8

EBRD financing 778.2

Slovak Republic

Všeobecná Úverová Banka (VÚB) Pre-Privatisation

Assistance to VÚB prior to privatisation. Bank equity • FI • Equity Signed 9 February • EBRD financing 47.3

Slovalco Expansion - Equity

Portage equity to Hydro Aluminium for purchase of Slovalco, an aluminium smelter located in Žiar nad Hronom.

General industry • B/1 • Equity Signed 30 March • EBRD financing 74.8

Slovalco Expansion – Debt

Expansion of aluminium smelter. General industry • B/1 • Loan Signed 4 May • EBRD financing 28.2

Pol'nobanka Capital Increase III

Equity investment giving the EBRD a 20 per cent share of Pol'nobanka.

Bank equity • FI • Equity Signed 14 May • EBRD financing 10.1

Post Privatisation Fund

Radio D-Express

Equity and loan investment in a new national radio service. Fourity funds • Fl • Fourity

Signed 12 June • EBRD financing 1.0

Eduard Rada

Equity investment in a Slovak beer company. Equity funds • FI • Equity

Signed 19 November • EBRD financing 2.6

Globtel A.S.

Equity investment in Globtel as part of company's IPO. Telecommunications • C/O • Equity

Signed 14 June • EBRD financing 22.9

VÚB – SME Credit Line

Loan to Všeobecná Úverová Banka for small and medium-sized companies.

Bank lending • Fl • Loan Signed 14 June • EBRD financing 20.0

SLSP Equity

Proposed equity investment of up to 19.9 per cent in Slovenska Sporitelna (SLSP), the largest retail bank in the Slovak Republic, to support its postprivatisation programme of restructuring.

Bank equity • FI • Loan Signed 18 June • EBRD financing 97.5

Slovak Grain Receipt Programme

Pol'nobanka

30 per cent risk-sharing in the Slovak Grain Receipt Programme.

Agribusiness • FI • Loan Signed 12 November • EBRD financing 10.0

Aquachemia

Upgrade of operational and environmental performance of chemical plant. General industry • B/1 • Loan Signed 20 December • EBRD financing 8.1

iber • EBRD Intancing 0.1

EBRD financing 322.4

Slovenia

Hermes Softlab

Equity investment in the Slovenian software developer. Informatics and media • C/O • Equity

Signed 13 June • EBRD financing 3.0

Mobitel GSM

Financing for additional GSM network rollout and extension of maturities from the company's existing borrowings.

Telecommunications • B/O • Loan Signed 13 December • EBRD financing 25.0

EBRD financing 28.0

Tajikistan

Tajiktelecom modernisation project

Development and modernisation of fixed-line telecommunications network infrastructure of the national incumbent operator of Tajikistan.

Telecommunications • B/0 • Loan Signed 2 October • EBRD financing 14.7

TSA Air Navigation Systems

Modernisation of Tajikistan's ageing air navigation equipment and restructuring of the aviation sector.

Transport • B/0 • Loan Signed 2 October • EBRD financing 6.2

EBRD financing 20.9

Turkmenistan

See Regional (page 84)

Ukraine

Ukraine Microcredit Bank (UMB)

Establishment of a "greenfield" institution aiming to provide financial services to micro and small enterprises in Ukraine.

Small business finance • Fl • Loan Signed 27 June • EBRD financing 4.5

Enterprise Support Facility

West Ukrainian Commercial Bank Senior Ioan for West Ukrainian Commercial Bank. Bank lending • FI • Loan Signed 27 June • EBRD financing 2.5

Direct Investment Facility

Ukram Industries Equity investment in a US-Ukrainian joint venture. General industry • FI • Equity Signed 17 July • EBRD financing 2.5

Multi Bank Equity Finance

West Ukrainian Commercial Bank Development of equity and debt framework. Bank equity • FI • Loan

Signed 18 October • EBRD financing 4.0

ISTIL (Ukraine)

Working capital revolving credit facility to support ISTIL (Ukraine), a joint-stock company based in Donetsk, and its growing business of cast round billets and special quality bars.

General industry • C/1 • Loan Signed 15 November • EBRD financing 16.9

Balkan Gas Transit II

Construction of 70 km of parallel pipelines in the south-western part of Ukraine to reduce the bottleneck in the Ukrainian gas transportation system.

Natural resources • B/1 • Loan Signed 21 November • EBRD financing 57.6

Slavutich

Finance for investments and restructuring of the company's capital structure.

Agribusiness • B/1 • Loan Signed 21 November • EBRD financing 19.2

Cargill Ukraine: Warehouse Receipt Programme

Financing of grain storage in Ukraine. Agribusiness • FI • Loan Signed 3 December • EBRD financing 16.9

Bosch Service Franchisee Framework

Expansion of the Bosch Service Franchisee network of auto-service workshops in Ukraine.

General industry • B/1 • Loan Signed 6 December • EBRD financing 14.0

Raiffeisen Ukraine Senior Loan

Senior loan to Raiffeisen Ukraine. Bank lending • FI • Loan

Signed 14 December • EBRD financing 16.9

Hypovereinsbank Ukraine under Enterprise Support

Senior loan to Hypovereinsbank Ukraine

Bank lending • Fl • Loan Signed 18 December • EBRD financing 11.3

Radisson SAS Kyiv II

Development, design, construction, letting and management of a 213-room mid-range hotel and office centre in Kiev.

Property and tourism • B/O • Loan Signed 18 December • EBRD financing 4.5

Post Privatisation Fund

Euroventures Ukraine – International Distribution System Ltd EBRD financing 0.1

Euroventures Ukraine – Orleander EBRD financing 2.0

Regional Trade Facilitation Programme

Nadra Bank EBRD financing 1.6

Forum Bank EBRD financing 0.4

EBRD financing 175.1

Uzbekistan

Locomotive Re-Powering Project

Loan to UTY – Uzbek National Railway to re-power diesel-electric locomotives, including the installation of new diesel engines, main alternators and cooler groups. Transport • B/O • Loan Signed 12 November • EBRD financing 76.8

Andijan District Heating Improvement and Reform

Reconstruction of the Andijan district heating network

Energy efficiency • B/O • Loan Signed 12 November • EBRD financing 16.9

Regional Trade Facilitation Programme

NBU EBRD financing 13.0

EBRD financing 106.9

Regional

Trigranit II

Extension of existing equity investment in Trigranit Group, the leading commercial property developer and operator in the Czech Republic and Hungary.

Property • B/O • Equity Signed 7 February • EBRD financing 1.9

SME Equity Facility

Euroventures Danube BV Funding for SMEs in Croatia, Hungary, Romania, the Slovak Republic and Slovenia.

Equity funds • FI • Equity Signed 26 February • EBRD financing 3.8

DVI, Inc.

Finance • Fl • Loan

Syndicated loan to finance medical equipment for hospitals and diagnostic centres in the Czech Republic, Estonia, Hungary, Latvia, Lithuania and Poland.

Signed 19 March • EBRD financing 10.0

IKB Co-financing Risk Participation Agreement

Unfunded risk participation facility for companies in the Czech Republic and Poland.

Bank lending • C/O • Loan Signed 23 April • EBRD financing 70.0

Innova/3

Private equity fund to support SMEs in Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania.

Equity funds • FI • Equity Signed 23 April • EBRD financing 54.0

Environmental Investment Fund

Investment in environmental infrastructure projects and companies in the Czech Republic, Hungary and Poland.

Infrastructure • FI • Equity Signed 27 June • EBRD financing 2.2

Raiffeisen EU Enlargement Fund

Investment in private companies located in the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia. Equity funds • FI • Equity

Signed 2 July • EBRD financing 20.0

Viking River Cruises

Expansion of fleet servicing international tourists in Hungary and Russia.

Tourism and shipping • B/0 • Loan Signed 13 August • EBRD financing 16.9

Baltic Investment Fund III

Investment in one of the region's largest private equity funds, supporting medium and large companies in Estonia, Latvia and Lithuania.

Equity funds • FI • Equity Signed 27 September • EBRD financing 2.0

SME Equity Facility

Baltic SME Fund

Private equity fund, supported by the European Union and Phare funds, for smaller companies in Estonia, Latvia and Lithuania.

Equity funds • FI • Equity Signed 8 October • EBRD financing 3.0

Efes – EBI

Financing for Efes breweries in the EBRD's countries of operations. Agribusiness • C/O • Equity Signed 14 December • EBRD financing 5.6

Regional Europolis Portfolio

Development of a regional real estate portfolio of 15 to 20 property assets in the Baltic states, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

Property • B/O • Loan Signed 17 December • EBRD financing 105.0

Kesko

Expansion of the food retailer's businesses in Latvia and Estonia through the acquisition and development of retail properties and the financing of retail operations.

Agribusiness • B/O • Loan Signed 20 December • EBRD financing 17.6

Baring Vostok Private Equity Fund

Direct equity investments in medium-sized companies in Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan and Ukraine.

Equity funds • FI • Equity Signed 21 December • EBRD financing 16.9

EBRD financing 329.1

Total EBRD financing 3,655.7

Commitments by region				
		2001		Cumulative
	EBRD financing	Total project cost	EBRD financing	Total project cost
	(€ million)	(€ million)	(€ million)	(€ million)
Central Europe	1,624.1	5,483.8	8,192.1	31,682.2
Russia and Central Asia	1,132.3	2,207.9	6,167.5	17,807.1
Southern and eastern Europe				
and the Caucasus	899.2	2,175.9	5,858.9	18,275.4
	3,655.7	9,867.6	20,218.6	67,764.7

Governors

Governors and Alternate Governors

31 December 2001

Member Albania Armenia Australia Austria Azerbaijan Belarus Belaium Bosnia and Herzegovina Bulgaria Canada Croatia Cyprus Czech Republic Denmark Eavpt Estonia FR Yugoslavia Finland FYR Macedonia France Georgia Germany Greece Hungary Iceland Ireland Israel Italy Japan Kazakhstan Republic of Korea Kyrgyzstan Latvia Liechtenstein l ithuania Luxembourg Malta Mexico Moldova Mongolia Morocco Netherlands New Zealand Norway Poland Portugal Romania **Russian Federation** Slovak Republic Slovenia Spain Sweden Switzerland Tajikistan Turkey Turkmenistan Ukraine United Kingdom United States Uzbekistan European Community European Investment Bank

Governor Ermelinda Meksi Vardan Khachatryan Peter Costello Karl-Heinz Grasser Elman S Roustamov Sergei Sidorsky Didier Reynders Nikola Kragulj Milen Velchev Paul Martin Mato Crkvenac Takis Klerides Jiri Rusnok Bendt Bendtsen Hassan Ali Ali Khedr Siim Kallas Miroljub Labus Sauli Niinistö Nikola Gruevski Laurent Fabius Teimuraz Mamatsashvili Hans Fichel Nikolaos Christodoulakis Mihály Varga Valgerdur Sverrisdóttir Charlie McCreevy David Klein Giulio Tremonti Masajuro Shiokawa Oraz Jandosov Nyum Jin Roza Otunbayeva Roberts Zile Michael Ritter Dalia Grybauskaite Jean-Claude Juncker John Dalli Francisco Gil Díaz Andrei Cucu Chultemiin Ulaan Fathallah Oualalou Gerrit Zalm Phil Goff Karl E Schjøtt-Pedersen Leszek Balcerowicz Guilherme d'Oliveira Martins Mihai N Tanasescu German O Gref Brigita Schmögnerová Anton Rop Rodrigo Rato Bosse Ringholm Pascal Couchepin Abdujabor Shirinov Faik Öztrak Seyitbay Kandymov Ihor O Mitvukov Gordon Brown Paul H O'Neill Rustam S Azimov Pedro Solbes Mira Philippe Maystadt

Alternate Governor Adriana Berberi Tigran Sargsyan Chris Gallus Thomas Wieser Fuad Akhundov Nikolai P Zaichenko Jean-Pierre Arnoldi Jadranko Prlic Martin Zaimov Gaëtan Lavertu Josip Kulisic Andreas Tryfonides Zdeněk Tůma Michael Dithmer Youssef Boutros-Ghali Aare Järvan Vacant Pekka Lintu Dragan Martinovski Jean-Pierre Jouyet Vacant Caio Koch-Weser Kostas Theos Werner Riecke Thorgeir Örlygsson John Hurley Ohad Marani Lorenzo Bini Smaghi Masaru Hayami Murat Kudyshev Chol-Hwan Chon Sadridin Jienbekov Aigars Kalvitis Roland Marxer Arvydas Kregždė Jean Guill Michael C Bonello Agustín Carstens Dumitru Ursu Ochirbatyn Chuluunbat Abderrazak Lazraq Jozias van Aartsen Paul Fast Britt Shultz Krzysztof Ners Rudolfo Lavrador Mugur Isarescu Sergei I Kolotukhin Marián Jusko Darko Tolar Juan Costa Climent Sven Hegelund Oscar Knapp Negmatjon Buriev Aydin Karaöz Guvanch Geoklenov Volodymyr S Stelmakh Clare Short Alan P Larson Abdurafik A Akhadov Klaus Regling Wolfgang Roth

Chairman of the Board of Governors Governor for Portugal (Guilherme d'Oliveira Martins)

Vice Chairmen of the Board of Governors Governor for Croatia (Mato Crkvenac)

Governor for Republic of Korea (Nyum Jin)

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 2001

Director

- Jan Bielecki Scott Clark António de Almeida Joaquin de la Infiesta Peter Engström Michael Flynn Erzsébet Gém Gerlando Genuardi Laurent Guye
- Tor Hernæs Byung-Hwa Jin John Kerby Jean-Pierre Landau Heiner Luschin Serguei Ovseitchik Philippe Petit-Laurent Yuri Poluneev Enzo Quattrociocche Norbert Radermacher Karen Shepherd Bernard Snoy Kunimitsu Yoshinaga Vacant

Alternate Valentin Tsvetanov Vacant Stefanos Vavalidis León Herrera Martin Pöder Torsten Gersfelt Igor Očka Grammatiki Tsingou-Papadopetrou Ayşe Dönmezer

Rauli Suikkanen Gary Johnston Andrew Lewis Marc Jullien Gideon Schurr Igor Kovtun Vassili Lelakis Ionut Costea Francesco Saverio Nisio Clemens Kerres

Georges Heinen Masato Iso Hidde van der Veer

Director Constituency Poland / Bulgaria / Albania Canada / Morocco Portugal / Greece Spain / Mexico Sweden / Iceland / Estonia Ireland / Denmark / Lithuania / FYR Macedonia Hungary / Czech Republic / Slovak Republic / Croatia European Investment Bank Switzerland / Turkey / Liechtenstein / Uzbekistan / Kyrgyzstan / Azerbaijan / Turkmenistan / FR Yugoslavia Norway / Finland / Latvia Korea / Australia / New Zealand / Egypt United Kingdom France Austria / Israel / Cyprus / Malta / Kazakhstan / Bosnia and Herzegovina Russian Federation / Belarus / Tajikistan European Community Ukraine / Romania / Moldova / Georgia / Armenia Italy Germany United States of America Belgium / Luxembourg / Slovenia Japan Netherlands / Mongolia

Composition of Board of Directors' Committees

31 December 2001

Audit Committee

Bernard Snoy (*Chairman*) Jan Bielecki (*Vice Chairman*) António de Almeida Michael Flynn Byung-Hwa Jin Enzo Quattrociocche Karen Shepherd

Financial and Operations Policies Committee

Tor Hernæs (Chairman) Serguei Ovseitchik (Vice Chairman) Scott Clark Joaquin de la Infiesta Peter Engström Laurent Guye Jean-Pierre Landau Heiner Luschin

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 Financial and Operations Policies Committee reviews financial policies including borrowing policy, general policies relating to operations, and procedures and reporting requirements.

Budget and Administrative Affairs Committee

Gerlando Genuardi *(Chairman)* Norbert Radermacher *(Vice Chairman)* Erzsébet Gém John Kerby Philippe Petit-Laurent Yuri Poluneev Kunimitsu Yoshinaga

Board Steering Group

Enzo Quattrociocche (Chairman) Laurent Guye (Vice Chairman) Jan Bielecki Gerlando Genuardi Tor Hernæs Serguei Ovseitchik Norbert Radermacher Bernard Snoy Antonio Maria Costa (Secretary General)

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 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

12 March 2002

President

Banking

First Vice President Deputy Vice President Planning and Budgeting Director (joint report to Finance) Business Development Support Unit

Energy

Business Group Director Energy Efficiency Natural Resources Power and Energy Utilities

Infrastructure Business Group Director Municipal and Environmental Infrastructure Transport

Specialised Industries

Business Group Director Aaribusiness Property, Tourism and Shipping Telecommunications, Informatics and Media

Small Business

Corporate Recovery Team Directors (joint report to Finance)

Financial Institutions

Business Group Director Bank Lending Bank Equity Equity Funds Non-bank Financial Institutions

Equity Support Unit

Russia and Central Asia Business Group Director Kazakhstan and Kyrgyzstan (Almaty office) Russia (Moscow office)

Uzbekistan, Turkmenistan and Tajikistan (Tashkent office)

Central Europe

Business Group Director Baltic states Croatia, Hungary and Slovenia Czech and Slovak Republics (Bratislava office) Poland (Warsaw office)

Southern and Eastern Europe and the Caucasus

Business Group Director Albania, Bosnia and Herzegovina, FYR Macedonia Armenia, Azerbaijan, Belarus, Georgia and Moldova Bulgaria (Sofia office) FR Yugoslavia (Belgrade office) Romania (Bucharest office) Ukraine (Kiev office)

Direct Investment Facility Unit

Finance

Vice President

Treasury Treasurer

Deputy Treasurer and Head of Asset & Liability Management Head of Investments Credits Head of Funding Head of Investments Rates Head of Client Risk Management

Risk management Director

Director Treasury Risk Management Head of Credit

Jean Lemierre

Noreen Doyle David Hexter Josué Tanaka Bruno Balvanera

> Peter Reiniger Jacquelin Ligot Kevin Bortz Tony Marsh

Gavin Anderson Thomas Majer Roy Knighton

David Hexter Hans Christian Jacobsen Edgar Rosenmayr Izzet Guney

> David Hexter Elizabeth Wallace

Oliver Greene Charles Wrangham

Kurt Geiger Rogers LeBaron Victor Pastor Kanako Sekine Jonathan Woollett

Lindsay Forbes

Noreen Doyle (acting) Mike Davey Dragica Pilipovic-Chaffey Kazuhiko Koguchi

> Alain Pilloux George Krivicky Alain Pilloux (acting) Alexander Auboeck Irene Grzybowski

Olivier Descamps Jean-Marc Peterschmitt Hildegard Gacek John Chomel-Doe Henry Russell Salvatore Candido Andrew Seton

Frances Reid

Steven Kaempfer

Ayesha Shah Axel van Nederveen Avesha Shah (acting) Isabelle Laurent (acting) Bart Mauldin Grant Metcalfe-Smith

> Mike Williams Jean-André Sorasio Bob Harada

Mike Williams (acting) Head of Portfolio Review Head of Syndications Corporate Recovery Team Directors (joint report to Banking)

Strategic and Corporate Planning and Budgeting Director

Accounting, Reporting and Financial Control Director

Head of Financial Reporting and Expense Control Head of Funds Financial Control Head of Treasury Financial Control

Operations and Information Technology Head of Operations and Information Technology Director of IT Senior Manager, Loan and Equity Operations Senior Manager, Treasury Operations

Human Resources and Administration Vice President Director of Human Resources

Vice President

Deputy Vice President

Director of Administration

Project Evaluation Director Procurement and Technical Services Director Purchasing Principal Manager

Official Co-financing Director

Consultants Services Unit Head

Environment Director

Nuclear Safety Director

TurnAround Management Programme Managing Director

Office of the Secretary General Secretary General Deputy Secretary General

Office of the General Counsel General Counsel Deputy General Counsel Assistant General Counsel Assistant General Counsel

Office of the Chief Economist Chief Economist Deputy Chief Economist Director of Policy Studies

Internal Audit Head of Internal Audit Deputy Head of Internal Audit

Chief Compliance Office Chief Compliance Officer

Communications Director

President's Office Director

Lorenz Jorgensen Oliver Greene Charles Wrangham

Josué Tanaka

Nigel Kerby Julie Williams Teresa Godwin-Coombs Terry Cullen

> Christopher Holvoak Tim Goldstone Guy Curtis Chris Swinchatt

Hanna Gronkiewicz-Waltz Franco Furno John McNess

Joachim Jahnke

Jean-François Maquet

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Vacant

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Dilek Macit

Alistair Clark

Vince Novak

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Guide for readers

Exchange rates

Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2001. (Approximate euro exchange rates: DM 1.96, FFr 6.56, £0.61, US\$ 0.89, ¥116.27.)

Operation counting

Operations may be counted as fractional numbers if multiple subloans are grouped under one framework agreement. Totals in tables may not add due to rounding.

Definitions

Cumulative 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 and with reasonable project conditions.

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: geographic distribution

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, FR Yugoslavia, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.
- > Advanced: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.
- > The region: All the EBRD's 27 countries of operations at 31 December 2001 (see above).
- > Central Europe and the Baltic states: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.
- > Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan.
- > Southern and eastern Europe and the Caucasus: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FR Yugoslavia, FYR Macedonia, Georgia, Moldova, Romania and Ukraine.

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.
- > Concept/Structure Review: Conducted by the Operations Committee to allow management to make an 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.

Abbreviations and acronyms

The Bank, EBRD	The European Bank for Reconstruction and Development		
BAS	Business Advisory Service		
CEE	Central and eastern Europe and the Baltic states		
CEO	Chief Executive Officer		
CIS	Commonwealth of Independent States		
CSF	Chernobyl Shelter Fund		
EAP	Environmental Action Plan		
EC	European Community		
ECA	Export credit agency		
EIB	European Investment Bank		
ENVAC	Environmental Advisory Council		
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		
IFC	International Finance Corporation		
IFI	International financial institution		
IMF	International Monetary Fund		
IPO	Initial public offering		
LTP	Legal Transition Programme		
MEI	Municipal and Environmental Infrastructure		
MPF	Multi-Project Facility		
MSEs	Micro and small enterprises		
NPP	Nuclear power plant		
NSA	Nuclear Safety Account		
OECD	Organisation for Economic Cooperation and Development		
RSBF	Russia Small Business Fund		
SIP	Shelter Implementation Plan		
SMEs	Small and medium-sized enterprises		
Tacis	Technical Assistance for CIS countries (EU)		
TAM	TurnAround Management Programme		
тс	Technical cooperation		
TCFP	Technical Cooperation Fund Programme		

Further information

Publishing

The EBRD provides a range of publications, policy papers and other information.

The *Transition Report* is an annual publication examining the challenges of transition, and the macroeconomic and legal progress of the EBRD's countries of operations (published November, £30); also the *Transition Report Update* (published May, £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 Tashkent, Uzbekistan, in 2003 and in London in 2004.

Photography

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