Annual report 2002

Annual review

European Bank
for Reconstruction and Development

Banking on the future

Countries of operations

At 31 December 2002

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Federal Republic of Yugoslavia[1]
Former Yugoslav Republic of Macedonia
Georgia
Hungary
Kazakhstan
Kyrgyz Republic
Latvia
Lithuania
Moldova
Poland
Romania
Russian Federation
Slovak Republic
Slovenia
Tajikistan
Turkmenistan
Ukraine
Uzbekistan

[1] In February 2003 the Federal Republic of Yugoslavia was renamed 'Serbia and Montenegro'. As this Report covers 2002, we refer to the country as FR Yugoslavia.

Transmittal letter to Governors

London, 18 March 2003

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 2002 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

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Jean-Louis Six	Georges Heinen
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Imre Tarafás	Igor Očka

Annual report 2002

Annual review

Contents

The EBRD's Annual Report 2002 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:

One Exchange Square
London EC2A 2JN
Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
E-mail: pubsdesk@ebrd.com

The EBRD

The European Bank for Reconstruction and Development invests in the banks and businesses that are forming the core of strong, growing market economies in 27 countries in central and eastern Europe and across the former Soviet Union.

Its capital, provided by 62 shareholder governments and public institutions, is invested using the tools and rules of sound banking. EBRD investments, in virtually every kind of enterprise and financial institution, are mainly in the form of loans and equity, and transactions must incorporate international accounting best practice and strict transparency guidelines.

Investments are designed to set an example by benchmarking high environmental standards, demonstrating sensitivity to communities affected by projects, turning old state enterprises into successful privatised operations, or encouraging investment in new sectors or regions. All are elements of the successful transition from centrally planned to modern market economies.

In parallel, the EBRD uses its status as an international financial institution to work with the governments of post-communist economies to develop propitious investment settings, built upon open markets and fair, efficient regulations, as well as the critical components of rule of law and democracy.

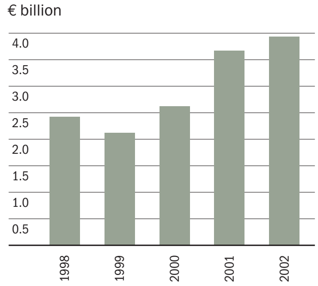
The EBRD signals the value it attaches to a favourable investment environment by publishing regular strategies that clearly relate the Bank's approach and amount of investment in a country to that country's progress in economic and political reform.

By the close of 2002, after 11 years of operations, the EBRD had invested a total of €21.6 billion ultimately in the people of the region who will prosper more as market economies grow and democracies strengthen.

2002 in numbers

- €3.9 billion invested in 102 projects, the highest business volume in the Bank's history, in support of transition across the region.

Annual commitments 1998-2002



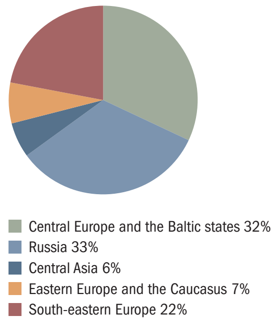
- Geographic distribution:

> €1.29 billion committed to Russia

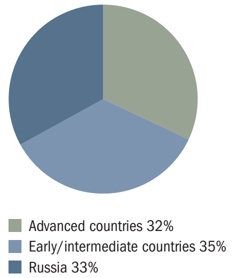
> €1.27 billion to the countries at the advanced stages of transition (central Europe and the Baltic states)

> €1.35 billion to the countries at the early and intermediate stages of transition (central Asia, southern and eastern Europe, and the Caucasus)

Commitments by region 2002

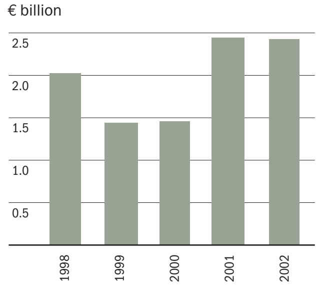


Commitments by stage of transition 2002



- Disbursements reached €2.42 billion.

Gross annual disbursements 1998-2002



- Sectoral focus:

> Financial institutions and infrastructure represent about 55 per cent of business volume.

> Sustained support to micro, small and medium-sized enterprises through a variety of financial intermediaries totalling €508 million in 2002.

EBRD financing committed by sector in 2002

	Number of projects[1]	€ million	% of total EBRD investments
Energy			
Energy efficiency	2	76	1.9
Natural resources	3	265	6.8
Power and energy	4	219	5.6
Subtotal	*10*	*560*	*14.4*
Infrastructure			
Municipal and environmental infrastructure	11	482	12.4
Transport	9	543	13.9
Subtotal	*20*	*1,025*	*26.3*
Specialised industries			
Agribusiness	12	425	10.9
Property, tourism and shipping	1	95	2.4
Telecommunications, information technology and media	6	241	6.2
Subtotal	*19*	*762*	*19.5*
Financial institutions			
Bank equity	7	311	8.0
Bank lending	13	541	13.9
Equity funds	6	126	3.2
Non-bank financial institutions	7	166	4.3
Small business finance	3	24	0.6
Subtotal	*36*	*1,168*	*29.9*
General industry			
General industry	17	385	9.9
Subtotal	*17*	*385*	*9.9*
Total	**102**	**3,899**	**100**

Note: The totals may not add up to the sum of the component parts due to rounding.

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

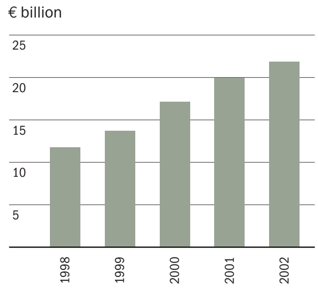
- Pipeline of potential projects prepared for 2003:

> in 2002 the Board of Directors approved a total of €4.16 billion.

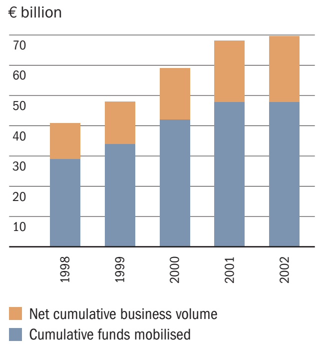
- Profit after provisions of €108.1 million.

2002 results

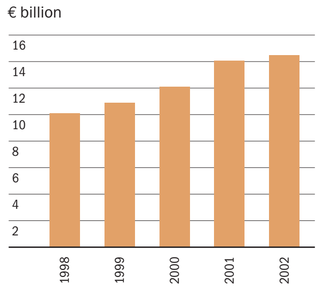
Cumulative business volume 1998-2002



Cumulative funds mobilised 1998-2002



EBRD portfolio 1998-2002



Operational results

The EBRD made a record €3.9 billion of new investments in 2002. The Bank committed €1.29 billion to Russia, €1.27 billion to the advanced transition countries (central Europe and the Baltic states) and €1.35 billion to countries at the early and intermediate stages of transition (central Asia, southern and eastern Europe, and the Caucasus). The increasing level of commitments in Russia and the early/intermediate countries reflects our continuing efforts to extend our operations further east and south.

The EBRD's investments in Russia increased by €485 million over the previous year in response to the country's improving business climate and its progress in undertaking wide-ranging reforms. We also significantly increased our commitments in south-eastern Europe, providing €865 million, a 26 per cent increase over 2001. Again this was partly due to improvements in the region's economic performance and the introduction of reforms.

About 55 per cent of new business was devoted to the financial sector and infrastructure. By continuing to support financial institutions in the Bank's regions of operations, we were able to expand the financing network for small and medium-sized businesses, which play a key role in generating growth. Among the most significant infrastructure projects over the past year were a loan to extend the road network in Russia and financing for the restructuring of Poland's railways. Disbursements reached €2.42 billion in 2002, a slight decrease on the previous year.

The value of projects approved by the Board of Directors in 2002 totalled €4.16 billion. This strong pipeline of potential projects will ensure that the EBRD continues to invest in the coming years in all of its sub-regions from central Europe to central Asia.

Annual commitments 1998-2002

	2002	2001	2000	1999	1998	**Cumulative** 1991-2002
Number of projects	102	102	95	88	96	906
EBRD financing *(€ million)*	3,899	3,656	2,673	2,162	2,373	21,647
Resource mobilisation *(€ million)*	4,862	6,212	5,188	4,862	7,541	47,516

Financial results

The EBRD recorded a profit after provisions of €108.1 million for 2002 compared with a profit of €157.2 million for 2001. The results for 2002 include a fair value adjustment of €38.3 million that is required under international financial reporting standards but which will be reversed over time and does not reflect the underlying economic performance of the Bank during the year. Excluding this impact, the EBRD recorded a profit after provisions of €146.4 million (2001: €165.9 million). The Bank's reserves increased from €488.7 million at the end of 2001 to €661.1 million at the end of 2002, primarily reflecting the profit for the year and an increase in the fair value of the Bank's listed share investments.

Financial results 1998-2002

€ million	2002	2001	2000	1999	1998
Operating income[1]	471.8	501.5	519.2	376.4	450.5
Expenses and depreciation[1]	(177.2)	(206.7)	(192.1)	(172.8)	(158.7)
Operating profit before provisions	294.7	294.7	327.1	203.6	291.8
Provisions for losses	(186.6)	(137.6)	(174.3)	(160.9)	(553.1)
Operating profit/(loss) for the year	108.1	157.2	152.8	42.7	(261.2)
Paid-in capital	5,197	5,197	5,186	5,163	5,084
Capital instalments received (cumulative)	4,350	4,063	3,769	3,480	3,217
Total provisions and reserves	1,952	1,713	1,278	1,040	762
Total assets	20,112	20,947	21,290	19,595	16,047

[1] During the year the EBRD deferred €45.2 million of direct costs related to loan origination and commitment maintenance on the balance sheet in accordance with international financial reporting standards. These costs, together with the corresponding front-end and commitment fees, will be recorded in interest income over the period from disbursement to repayment of the related loan. Excluding the effect of these deferrals, operating income was €517.0 million for the year and expenses and depreciation was €222.4 million.

Policies that drive results

In early 2002 the EBRD completed the annual assessment of portfolio management. Covering topics such as equity investment management, disbursements and asset recovery, the **Strategic Portfolio Review** (SPR) provides detail on all aspects of portfolio management over the past 12 months.

Building on the findings of the EBRD's **Capital Resources Review**, which was undertaken in 2001 to assess the adequacy of the Bank's resources, the EBRD approved a **Medium Term Strategy Update** in August 2002. The Update reaffirms that we face a range of transition challenges and opportunities across the Bank's countries of operations. Medium-term growth and risk forecasts remain positive for the region and are expected to support an expansion of our investment activity. The EBRD intends to pursue a balanced development of the Bank's portfolio and has sufficient capital to support this expansion.

The EBRD's **provisioning and liquidity policies** were reviewed during the year. The provisioning policy is designed to ensure that the Bank maintains a prudent level of provisioning against the expected losses arising from the Bank's portfolio of loans and equity investments. The purpose of the liquidity policy is to make sure that the Bank has sufficient liquidity to finance projected business volumes even in the most adverse market conditions. The reviews confirmed the adequacy of existing policies and consequently no significant changes were made to them.

Throughout the year the EBRD looked at ways of further improving our **accountability** and public disclosure and invited the public to comment on three important draft documents that are aimed at enhancing our **governance.** For all our projects we continued to make extensive checks on the integrity of all prospective clients and closely monitored the work of organisations that oversee the fight against money laundering and the financing of terrorists.

President's message

The solid progress of the EBRD region in 2002 is cause for reflection rather than complacency. In a difficult global economic environment, the region achieved economic growth and continued to attract investment. In a year when many emerging markets suffered setbacks, the EBRD worked in partnership with enterprises in the region and co-investors to produce the highest business volume the Bank has seen. Continuing progress in the countries from central Europe to central Asia will depend partly on understanding what worked and why this region has managed to defy some of the odds.

There will be different answers in each of the 27 countries of the region. And this, in itself, is a clue. Eight countries across central Europe and the Baltics were invited last year to join the European Union in 2004 and two others are likely to join later. That landmark invitation signalled new political status even if the transition to full market economies is still very much in progress. The invitation was the result of wide and deep reform of regulations and laws, policies and economic management. Russia, too, pursued new reforms, towards the further opening of the banking sector and commercialisation of the energy sector, for example, and continuing a policy of responsible economic management. Peace advanced democracy in the Balkans while in central Asia, awareness of democracy issues increased, even if the pace of change was slower. Many countries marked progress in many ways, towards modern economies and strengthened democracies.

This diversity offers some lessons about the sustained progress of the EBRD region through the past year. Transition from planned economies has been most successful in the countries where economic and political reform reinforce each other. Transition is accelerated in countries where there is a commitment to transparency, enforcing the rule of law, reducing corruption and guarding against terrorism and money laundering. These elements provide the predictability which attracts investment. And these elements stimulate democracy by opening access to even the smallest entrepreneurs in a virtuous circle that creates jobs, reduces poverty and leads to prosperity. The strength of the EBRD, as last year proved yet again, is its mandate to promote both economic and political development by basing its investment strategies on a country's efforts to open markets and democratic principles.

Transition that is based on political and economic reform may seem obvious but implementation is long and hard. The legacy of the soviet era is not just a redundant economic system and squandering of the health of people and the environment. The goal of sustainability means repairing a damaged environment, and many EBRD projects address that particular problem, directly or indirectly. But the soviet system also left cultural and intellectual obstacles. The rich mix of enlightened policy and strong markets is providing the most effective antidote.

Consider just one sector. Last year the Bank expanded its potential investments in energy efficiency projects. That means that market value is being ascribed to energy and water in a way it was not in the communist past. In the future, this will mean more electricity, water and sanitation for more people because waste will be reduced and tariffs will support the building and maintenance of infrastructure. At the same time governments must ensure that people who cannot afford market-based tariffs do not go without essential services. Energy efficiency encapsulates much of the interplay of markets, regulations and strong, supportive policy that the EBRD region must embrace – and is embracing.

Small business, too, needs – as well as builds – a democratic environment. The EBRD small and medium business activity was vibrant last year across the region, and that investment activity was supported by other programmes, such as the Legal Transition Programme, which helps to design legislation and regulations that build a supportive business environment. These are the important fruits of EBRD partnerships with donor countries that fund these critical initiatives.

Or consider how geography can influence transition. Many countries in the region have recognised there can be more economic progress with more international linkages – to the rest of the world and to immediate neighbours. Countries such as Russia have opted to join the World Trade Organization. Other groups of countries have linked with one another through security arrangements, economic unions and trade agreements or simply by trading. The EBRD's Trade Facilitation Programme, which promotes international exchanges by providing financing against future receipts, was conceived around the importance of cross-border trade.

Tight ties with neighbours both reflect and stimulate democratic openness. Linkages make for greater efficiency but are also a sign of the economic and political commitment that drive advanced countries. In 2002, when the EBRD had a particular focus on central Asia, the Bank encouraged the countries of that landlocked region to consider the positive effects that open borders can have in stimulating growth. Development of cross-border linkages has become a clearly defined stage of transition.

Transition, as we have seen this past year more than ever in the EBRD region, depends on the private sector and investment. But equally, the importance of strong public commitment to reform has come into stark relief. Countries that limit human rights, close borders or ignore corruption are less able to attract investment. Sustainable prosperity has been achieved where governments create an environment of openness, where they listen to local communities and make the political commitment to ensure fairness, competition and honesty. This is an observation that was true in 2002 and will certainly be tested in the coming year and well beyond.

Jean Lemierre
President

Banking on the future

Countries of operations

Central Europe and the Baltic states

Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.

Russia

Central Asia

Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan.

South-eastern Europe

Albania, Bosnia and Herzegovina, Bulgaria, FR Yugoslavia,[1] FYR Macedonia, Romania.

Eastern Europe

Belarus, Moldova, Ukraine.

Caucasus

Armenia, Azerbaijan, Georgia.

[1] Renamed 'Serbia and Montenegro' in February 2003.

In 2002 significant progress was achieved by the countries where the EBRD operates, and high-level and high-quality activity was undertaken by the EBRD. There was economic growth in almost all countries, important progress in making the reforms that make markets healthier, and a stream of investments that will move transition forward in different ways. The EBRD contributed with a high volume of investment across the region. This was matched by a high level of disbursements as well as the development of a strong pipeline of projects that will be realised in the coming year.

The stable health of the region and the high business volume of the Bank were particularly gratifying in the context of a difficult global environment of economic slowdown and market hesitancy in many parts of the world. The year brought into focus the importance of responsive and responsible investment as well as the value of working with many partners to promote transition.

Responding to evolving needs

In 2002 the context of the EBRD's work evolved, and with it the Bank's responses. The landmark decision by the European Union to invite eight of the Bank's countries of operations to join the EU in 2004 gave political recognition to a reality that has long driven the EBRD's work in central Europe and the Baltic states: these countries have progressed a long way in their transition to market economies. Another sign of progress was the invitation to seven of the Bank's countries of operations to begin accession talks to join NATO.

Our investment strategy reflects the region's changing needs, with emphasis on accelerating the growth of the banking sector and injecting new strength into the medium-sized businesses that are the cornerstone of central European economies. In 2002 the EBRD responded strongly to the needs of the region while being careful not to displace private sources of finance. After EU accession, the new members will have an ever-growing need for private investment to keep driving transition forward within an environment of greater competitiveness and rigorous constraints on national budgets.

The Bank achieved its largest-ever business volume in Russia in 2002 – in recognition of the appetite for investment and the improving investment climate. In both the public sector and many private enterprises, there is scope for additional financing that will attract new market players, set standards for sound business practices and lead the way into investment in new sectors and regions of Russia. The volatility of oil prices has increased the priority on drawing investment into a wide range of sectors, including the financial sector as the government pursues modernisation of the banking system. Another priority is the restructuring of large inefficient enterprises in areas such as power generation.

In Central Asia there was new-found visibility in 2002 in the aftermath of 11 September 2001. For the EBRD, the focus was sharpened too by the preparations for holding our Annual Meeting in Uzbekistan in May 2003. Along with visibility came added scrutiny of the investment climate as well as rule of law, human rights and democratic principles. The EBRD drew on a strong relationship with countries of the region to encourage an ever-improving environment for the people and investors of the region as well as support for tightening the cross-border links between neighbours within Central Asia. Encouraging smaller businesses was a particular focus for EBRD investment.

In the Balkans, peace and democratic process marked 2002. For the EBRD, that made a welcome new incentive for investment. EBRD investment in south-eastern Europe increased significantly both in privatisations and infrastructure as well as to support private sector development. But for some of the poorest countries in south-eastern Europe, along with countries in the Caucasus and Central Asia, the EBRD has joined with other international organisations and nations to offer particular help.

In conjunction with the World Bank, the Asian Development Bank and the International Monetary Fund, the EBRD has called on donor countries to increase financial assistance on grant terms to the seven poorest countries of the Commonwealth of Independent States, known as the CIS-7. The aim is to address severe economic difficulties in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan, where one in three lives in extreme poverty.

The EBRD invested in virtually all sectors in 2002 but there was particularly active work in the energy sector. The Bank supported the modernisation of Russia's power network and the restructuring of the Slovak Republic's power generation and transmission systems (see page 30). We continued to work with

↑ Eight of the Bank's countries of operations in central Europe and the Baltic states have been invited to join the European Union in 2004.

← The EBRD achieved our largest-ever business volume in Russia in 2002, increasing annual investment by €0.5 billion.

↑ In 2002 EBRD investment in south-eastern Europe reached €865 million, an increase of more than 25 per cent on the previous year.

→ The EBRD worked closely with the countries of Central Asia in 2002 to introduce reforms, increase cooperation among neighbouring countries and improve the region's investment climate.

governments on developing electricity tariffs that reflect costs while taking into account consumers' ability to pay. There was a priority to improve energy efficiency, including support for district heating networks in Bulgaria and Poland. In the natural resources sector, the EBRD invested across the region in Azerbaijan, Romania and Russia. The Bank also began consideration of potential investment in oil and gas pipelines.

In 2002 the EBRD continued to evolve new ways to tailor investment to particular domestic needs. One of the Bank's most innovative forms of financing is local currency funding, which reduces exposure to foreign currency risk. In 2002 the Bank provided finance in nine local currencies across the region, ranging from Bulgarian levs to Russian roubles. This was provided in the form of equity, loans and guarantees, and was especially important in financing for smaller businesses and municipalities that can least afford the risk of dealing in currency markets.

As part of our investment strategy, the EBRD reviews the record of each country of operations with respect to Article 1 of the Bank's Establishing Agreement: the commitment to apply the principles of **multiparty democracy, pluralism and market economics**. In 2002 the Board of Directors expressed particular concern about the lack of progress towards reform in Belarus and Turkmenistan. The President of the Bank wrote to the authorities regarding the EBRD's expectation that the situation should improve.

The EBRD's country strategy for Belarus in April 2002 and the strategy for Turkmenistan in July 2002 were accompanied by three alternative scenarios that will determine the degree and nature of the Bank's engagement depending on the course of action chosen by the authorities and their willingness to improve the political and economic situation. The Bank will continue to monitor progress in each country.

In 2002 the EBRD evolved our approaches to **transparency and governance**. There was frequent dialogue with communities and non-governmental organisations as we considered several project proposals that have elicited strong and varying views. Successful investment will depend on consideration of all views. Consultation was also important as the Bank considered ways to further improve our own accountability and transparency.

We consulted a range of stakeholders as we developed proposals to enhance the EBRD's Public Information Policy and Environment Policy and to establish a formal process for the public to have recourse in the event of a complaint about an EBRD project. A new agribusiness policy was approved in 2002 to take account of the fundamental changes in this sector over the past ten years and the increasing complexity of the Bank's operations in this field. Before launching the new policy, comments were invited from the public and these were taken into account when the policy received approval from the EBRD's Board of Directors. Agriculture was also the special theme of the EBRD's *2002 Transition Report.*

In a world that, in 2002, became more acutely concerned with terrorism, the EBRD continued to adhere closely to internationally coordinated controls on illegal use of funds. The EBRD performs extensive checks on the **integrity of all prospective clients**, including verification that they are not on the United Nations Security Council lists of those suspected of supporting terrorist activities. The Bank also closely follows the work of the Counter-Terrorism Committee established by the United Nations.

The Bank puts particular emphasis on measures to combat money laundering by corporate and financial institutions.

Improving transparency and accountability

Three draft papers published in 2002 proposed improvements to the Bank's transparency, accountability and good governance.

> *The Public Information Policy Review* proposes that the public should be invited to make comments that will be considered in the drafting of country strategies. It also proposes the translation of these key documents into the national language of the relevant country.

> *The Environmental Policy Review* proposes increasing transparency through an annual environmental report, including data on environmental expenditure in the Bank's portfolio, the Bank's own environmental achievements, and greenhouse gas emissions in the EBRD's countries of operations. Other initiatives include making information locally available to the public for certain projects, and requiring public consultation and disclosure to be developed at an early stage of the project cycle for the Bank's most sensitive projects. It also proposes the release of Environmental Impact Assessments (EIAs) in local languages and public information on project implementation, particularly for those projects that are likely to have a big impact on the environment.

> *The Independent Recourse Mechanism* (IRM) proposes a mechanism to resolve complaints or questions on whether the Bank has complied with particular policies. The IRM could be used for complaints about current projects or projects that are proposed but not yet approved.

After careful consideration of all comments received from the public, the EBRD's Board of Directors will make a decision in 2003.

We closely monitor the work of the Financial Action Task Force, the international body that oversees the fight against money laundering and the financing of terrorists. The EBRD also monitors levels of corruption in the Bank's region of operations. A survey of the business environment undertaken in the Bank's *2002 Transition Report* found significant improvement over the past few years.

The EBRD's Chief Compliance Office promotes **good governance** and ensures that the highest standards of integrity are applied to all activities of the Bank in accordance with international best practice. In particular, it deals with conflicts of interest, corruption, confidentiality and money laundering. The Office is responsible for procedures governing the ethical behaviour of Bank officials, employees and consultants, and it conducts investigations on alleged staff misconduct. It also sets the standards of integrity that the Bank expects of our business partners. In 2002 the EBRD established a telephone hotline to report allegations of fraud, corruption or other misconduct in the Bank's activities or projects.

A crucial part of the Bank's lending operations is the relationship with banks and other institutions that join with us in **commercial co-financing**. Despite a difficult climate for the global debt markets in 2002, the volume of loans from around the world to the EBRD's countries of operations increased by 18 per cent. Large-scale oil financing played a big part in this but there were also more business opportunities in Russia and an increase in bank lending appetite for Kazakhstan, Poland and Romania.

In 2002 the EBRD mobilised new lenders for a range of sectors and countries of operations, introduced new financing structures in the oil and gas sector (see below), developed largely untapped syndication markets such as Kazakhstan and Ukraine, and attracted co-financiers for long-term municipal infrastructure projects. During the year we worked with 41 commercial banks and institutions from 16 countries. These partners provided a total of €877 million of co-financing for 30 projects. The EBRD also raised €48 million from two export credit agencies.

In all of the EBRD's programmes and across the region, there was a focus on **fostering entrepreneurs**, who are at the heart of a market economy. In particular, to encourage new start-ups or to help smaller businesses to expand, the Bank used a variety of tools, such as credit lines, equity funds and micro lending programmes, to provide loans through financial intermediaries, from as little as €50 (see page 19).

Another valuable tool for reaching smaller enterprises in more challenging countries is the Direct Investment Facility (DIF), a streamlined process to provide equity and limited loan financing directly to private businesses run by experienced local entrepreneurs or foreign sponsors. They may be businesses hoping to expand or start-ups with a strong business plan. The DIF currently covers Central Asia, the Caucasus, south-eastern Europe, Belarus, Moldova, Russia and Ukraine. To date, the DIF has approved €25.5 million for 20 projects, with investments that range from €475,000 to €2.4 million.

New financing structure for Russian oil and gas sector

SeverTEK is the first joint venture between Lukoil, Russia's biggest oil producer, and Fortum, Finland's state-controlled energy group. The joint venture brings together the operating and marketing experience of these two industry leaders. When SeverTEK needed finance to develop the South Shapkino oil field in Russia, the EBRD acted in partnership with HypoVereinsbank, a leading German commercial bank. We jointly arranged a €190 million loan, half of which is provided by the EBRD and the other half fully underwritten by HypoVereinsbank.

The loan was structured on a limited recourse basis to satisfy commercial banks' needs, while giving SeverTEK flexibility over how it would market the oil. The portion of the loan underwritten by HypoVereinsbank was successfully syndicated to a consortium of seven private financial institutions from various countries (Austria, Canada, France, Germany and the Netherlands). A key factor for the participating banks was the lower risk associated with the loan structure. The funding provides an alternative to Russia's production sharing agreements (PSAs) and could create a new model for financing the Russian oil and gas sector.

Responsible investment

The year of the World Summit on Sustainable Development prompted us to look back in 2002 on the Bank's particular role in fostering sustainability in the countries where we operate. An EBRD Statement to the Summit argued that the first failure of sustainability in the planned economies was the system itself (see page 16). There is explicit recognition in the Bank's founding charter that sustainable prosperity is possible only if democracy and markets are built in tandem.

Since 1991 the Bank has invested over €20 billion, which in turn has generated almost €50 billion in financing for projects that meet the rigorous tests of sound banking, respect for the environment and, of course, transition towards a healthy market economy. But despite that commitment to sustainable development, mobilisation of mainly private financing "is not a recipe in itself for sustainability".

Across the region, the EBRD has learned that financial investment can make the most positive contribution if there are some important added ingredients, including careful preparation of projects through technical cooperation, strong institutions such as rule of law, thriving smaller businesses and respect for the opinions of local people.

Fundamental to sustainability is encouragement of the initiative of the people in the region. Supporting the growth of small businesses helps to generate wealth from the grass roots of the economy. The EBRD finances infrastructure and we work with governments to establish fair economic prices for energy and other essential services that bring water, electricity and heat to everyone in a reliable way, also taking account of the most vulnerable sections of society. Listening to the views of local people is a part of every EBRD project. This may include formal consultation with local communities if the project is likely to have a significant local impact.

Every EBRD investment contributes to sustainable development. Some, though, are designed to particularly address the legacy of non-sustainability caused by the soviet system's abuse of resources and the environment. For example, the EBRD has made major investments to help industries and municipalities to become more energy efficient, to reduce pollution and to improve the supply of services. A particular concern for the EBRD is the improvement of the region's water and waste-water systems and district heating networks. Projects in 2002 included support for the Apa Nova water treatment plant in Romania. During the year the EBRD provided financing of more than €558 million in support of 13 projects aimed at improving municipal infrastructure and energy efficiency.

Apart from the initiatives to specifically redress environmental weaknesses, many EBRD projects include environmental targets, for example to reduce atmospheric emissions and industrial waste-water discharges, and to promote waste recovery, recycling and clean technologies.

The EBRD played an active part in the World Summit on Sustainable Development, which was held in Johannesburg in September 2002. The Bank contributed to discussions on the issues of transparency and accountability in the context of sustainable development, and we developed our dialogue with governments, environmental groups and non-governmental organisations.

Reducing pollution in Kazakhstan

Kazakhmys, the world's ninth-largest copper company, will achieve world-class environmental standards thanks to an EBRD loan of €19 million. The environmental programme supported by this loan will reduce polluting carbon dioxide emissions – a by-product of smelting – and will improve air quality. According to the project schedule, Kazakhmys will comply with EU standards by the end of 2006.

Kazakhmys is one of the world's few vertically integrated copper producers. In other words, their operations start with the mining of copper ore and end with refining and production of copper cathode and copper rod. To ensure that its copper products are accepted in the international market place, Kazakhmys needs to demonstrate that it operates with high environmental standards throughout the production cycle. Although the company has had access to short-term commercial loans in the past, it was aware that most banks would be unwilling to support the upgrading of the smelter, which requires longer-term financing.

World Summit on Sustainable Development

Statement by Jean Lemierre, President of the EBRD, delivered on 2 September 2002

… At the Summit in Rio in 1992, the EBRD was acutely aware of the lack of sustainability in the former-soviet region, but had barely begun to work on solutions. The first failure of sustainability in these countries was the system itself. The new states from Central Europe to Central Asia all abandoned centrally planned systems and opted for democracy as the best hope for a sustainable future. The EBRD was founded to nurture that transition. The first article of the founding charter recognised explicitly that sustainable prosperity would thrive only if democracy and market economies were built in tandem. The Bank's main role of investing in enterprises that will build the economies of these countries is subject to regular reviews of trends in democracy and market reform. Those reviews are made public in EBRD country strategies.

The EBRD works to engender sustainable development in its 27 countries of operation. The Bank has invested €20 billion, since 1991, which in turn has catalysed more than €60 billion of further financing. That has supported privatisation, helped to restructure companies and make them viable and provided loans or equity to start-up or existing businesses. That injection of capital has all the more impact when the receiving countries have strong macroeconomic conditions and have introduced reforms.

But this mobilisation of mainly private financing is not a recipe in itself for sustainability. Across the region, the EBRD has learned that financial investment can make the most positive contribution if there are some important added ingredients. Private financing can be especially effective if it is complemented by technical co-operation to prepare projects and improve the investment environment. And the Bank has learned that other important ingredients include strong institutions, a thriving small business sector, and willingness to listen to local people.

Institutions such as enforced rule of law provide the climate that attracts investors as well as making investment long-term and predictable. The experience of the EBRD region shows the damage that corruption can do, and the prosperity that can be spurred by transparency, clear legal systems, honest judicial process and engagement in, for example, the fight against money laundering. The EBRD has learned the importance of nurturing small business to create jobs, to create businesses, to provide services to populations, and, just as important, to encourage an entrepreneurial spirit which in turn builds pressure for transparency.

The EBRD's investment work has improved over its lifetime as we have learned to listen. NGOs and local communities can offer a perspective that makes projects better, in terms of the viability of the investment itself as well as the people it affects. Respect for the communities and the environment affected by projects are part of the corporate governance of every EBRD transaction, on a par with sound banking, high international standards to guarantee shareholder rights, transparency, accounting practices and integrity. The EBRD incorporates environmental standards into every investment it makes.

The soviet legacy of abuse of resources and the environment is the specific target of many of the Bank's investments. The EBRD promotes energy efficiency, for example, by working with governments to set true market values on water, electricity and other resources, while ensuring that, perhaps through targeted programmes, people have the capacity to pay higher tariffs. The EBRD finances energy service companies, or ESCOs, that make a business of helping enterprises to save energy. And many EBRD investments integrate energy efficiency components into new investments or improvements of existing projects.

A particularly nefarious legacy of an unsustainable past is nuclear insecurity. The EBRD manages a €1.4 billion Nuclear Safety Account to make safe or de-commission ageing nuclear installations, including building safety structures around the Chernobyl nuclear plant in Ukraine. The EBRD will continue to promote sustainability in the coming decade, working closely with other international financial institutions and governments. The Bank's role of supporting market economies must be complemented by others with different expertise, to ensure education, improve health and cushion the social effects of difficult economic choices that governments must make.

Another direction for the coming years will be the EBRD's even more concerted effort to encourage trade, transportation and other links among the countries of the EBRD region and with the rest of the world. …The achievement of the last ten years has been to keep sustainability on the global agenda as part of our planning. As the EBRD has matured through this decade, it has embraced, promoted and implemented the principles of sustainability and has helped foster progress by listening to the communities we serve.

In 2002 the EBRD completed part one of a study on the potential for **renewable energy** projects in the Bank's region of operations. The region is still largely dependent on fossil and nuclear fuel for electricity generation and consequently produces a considerable volume of greenhouse gases. A very low percentage of energy is generated from renewable energy sources, such as hydro, wind, geothermal and biomass. The study was commissioned to identify the potential for renewables in each country and to identify a realistic pipeline of renewable energy projects that could be financed by the Bank.

The EBRD launched new initiatives to address inefficiencies and wastage by industrial companies. We now screen all new industrial projects at an early stage to assess their potential for **energy efficiency** and have mobilised technical cooperation funding to carry out energy audits. These have identified a number of new opportunities for financing energy improvements. In 2002 we signed our first industrial energy efficiency project with an energy service company (ESCO). Under this financing, the company invests in energy-saving measures and is paid from the resulting savings.

Another new initiative was to outline possible roles for the EBRD in the worldwide effort to reduce greenhouse gas emissions. In 2002 we started negotiations with the Dutch government on acquiring carbon credits for the Netherlands through EBRD-financed projects. The resulting income would help to improve the creditworthiness of emission-reducing projects in the EBRD's countries of operations.

↑ Wind energy is one of a number of potential renewable energy projects under consideration by the EBRD.

← In 2002 the EBRD disbursed €8 million to the Mutnovsky geothermal power plant, Russia's first renewable energy project.

The **Northern Dimension Environmental Partnership** provided donor funding of over €100 million to address severe environmental problems in north-west Russia, particularly in the areas of nuclear safety, water and waste-water treatment, and energy efficiency. The partnership consists of Russia, the European Union, international financial institutions (the EBRD, the Nordic Investment Bank and the European Investment Bank) and bilateral donors.

In 2002 the First Assembly of Contributors approved six projects for support, including the completion of the St Petersburg flood protection barrier and a waste-water treatment plant. Current donors include Denmark, the European Union, Finland, Norway, Russia and Sweden. The EBRD manages the NDEP Support Fund, which oversees donor contributions and ensures the effective delivery of international support. The NDEP could provide a model for addressing problems across other sectors and in other regions in the Bank's countries of operations.

The EBRD manages a number of funds that have been created and funded by donors to support the vital area of promoting **nuclear safety**. These include the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF), three International Decommissioning Support Funds for Bulgaria, Lithuania and the Slovak Republic, and the Northern Dimension Environmental Partnership Support Fund (NDEP). Some 28 donors, including the European Union and the G-7 countries, have pledged more than €1.6 billion so far to these funds.

The **Global Environment Facility** (GEF), which helps developing countries to fund projects that protect the global environment, provided a €8.5 million grant to the EBRD in 2002 to support the reduction of pollutants into the River Danube. This grant will be used alongside EBRD financing to help local industries, small businesses, small municipalities and agricultural businesses to improve environmental practices. A further grant was provided to pay for the services of independent environmental advisers, who will ensure that sub-projects meet the requirements of the facility.

Environmental investigations are undertaken early in the project cycle so that there is time to identify issues and solutions. A total of 49 environmental analyses, four environmental impact assessments (EIAs) and 40 environmental audits were conducted on projects approved by the EBRD in 2002. Work began in 2002 to revise the Bank's Environmental Policy (see page 13).

Improving health and safety in Russia

Health and safety at one of Russia's leading oil and gas companies is being upgraded with the help of the EBRD. As part of a €86 million loan to Rosneft-Sakhalinmorneftegaz (SMNG), which is based on Sakhalin Island in the Russian Far East, the Bank is financing a €10 million Environmental Action Plan (EAP) and monitoring an additional €33 million of capital expenditure that will result in environmental improvements. The EAP focuses on environmental management, tackling existing damage, and improving the health and safety of the 8,500 employees.

A number of safety recommendations have been made regarding the use of personal protective equipment, hearing protection and training. SMNG has agreed to develop a health and safety management system that will conform with international standards of practice over the next few years.

To help the company implement the necessary changes, the EBRD has developed an action plan using donor funding provided by the Japanese government. Three consulting companies are involved in the areas of environmental management, oil spill prevention and response, and occupational health and safety.

The EBRD is carefully monitoring progress as part of its routine procedures. One year into the project, improvements are already evident in the wearing of protective equipment, a reduction in the accident rate, the publication of safety information for employees, and compliance with safety requirements.

Early closure of soviet-designed nuclear reactors

In the early 1990s international experts took the view that soviet-designed first-generation reactors could not be upgraded to sufficient safety standards at a reasonable cost. All international nuclear safety assistance programmes are based on this assumption.

The international community has helped east European countries to shut down these nuclear power plants by providing assistance for short-term safety upgrades until closure has become feasible. The closure of Chernobyl unit 3 in 2000 is an example of the successful outcome of this policy. The Nuclear Safety Account and the Chernobyl Shelter Fund, both managed by the EBRD, have financed important projects as part of this support. Similarly the closure in 2002 of Kozloduy units 1 and 2 in Bulgaria is a result of direct support – partly funded through the International Decommissioning Support Fund (IDSF), also managed by the EBRD. The closure of Kozloduy units 3 and 4, Ignalina in Lithuania and Bohunice unit V1 in the Slovak Republic are expected to follow within the next few years.

The closure of these plants for safety reasons is a costly undertaking beyond the resources of these countries. The need to compensate for the loss of generating capacity is an even greater challenge. For this reason the IDSF funds measures to increase energy efficiency as well as providing support for immediate decommissioning. The closure of the nuclear power plants ensures a significant increase in safety and contributes to more efficient use of energy.

Promoting partnerships

Partners – such as governments and international organisations – contribute to the success of many EBRD programmes. As well as sharing in the aims, objectives and outcomes of the project, partners can provide resources, skills and know-how, which help to optimise the financial investment and mitigate the risks involved. Partnerships allow the Bank to extend into new areas and achieve more than would otherwise be possible using our resources alone. The EBRD works in particular with other international financial institutions, such as the International Finance Corporation, the European Investment Bank and the Asian Development Bank, to strengthen sectors where there is most need for investment.

Attracting funding from other sources means that the EBRD is able to put more of our own funds into projects. Grants from countries such as the United States and Japan and from institutions, such as the EU, prepare the way for new projects. They finance, for example, consultants to analyse the environmental impact of an infrastructure project, such as the St Petersburg flood protection barrier. They may also finance training in bank lending to enable the EBRD to implement a programme such as the Japan-Uzbekistan Small Business Programme. The EBRD also mobilises funding in the form of co-financing.

The EBRD uses credit lines, equity funds, micro-lending and grant funding provided by donor governments and the European Union to cooperate with commercial banks and create specialist microfinance banks that deal with **micro, small and medium-sized enterprises** (SMEs).

In the less advanced economies with a dominant state sector, the Bank's micro-lending programmes have proved to be the most successful tool for reaching small businesses. In countries with better developed private sectors, SME credit lines targeted at larger borrowers have had more impact. Equity and venture funds, on the other hand, focus on businesses that require equity risk capital. The EBRD's investment in these businesses helps to strengthen a vital sector of the economy and to improve their attractiveness to domestic investors.

The EBRD works with partners on a series of programmes for micro and small businesses in Albania, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FR Yugoslavia (Serbia and the province of Kosovo), FYR Macedonia, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Romania, Russia, Ukraine and Uzbekistan. The programmes operate in more than 350 towns and cities, and the greatest success is often in remote regions where businesses have little or no access to finance. In 2002 alone, 144,000 loans totalling €717 million were provided through these programmes.

In July 2002 the EBRD launched a €14.5 million programme to support local entrepreneurs and to strengthen the banking sector in the Kyrgyz Republic. The programme was established with co-financing from the Swiss government, the US government and the International Finance Corporation. Financing is being provided via credit lines to Kyrgyz commercial banks, which on-lend the finance to local entrepreneurs in amounts ranging from €50 to €50,000. The credit lines are twinned with technical assistance funds provided by the European

Uzbek cotton producer doubles his profits

Saliev Hufyatillo, an Uzbek private entrepreneur, owns a mini plant in Andijan where he produces cotton fabric. His plant is equipped with seven looms and one machine that straightens and cleans the cotton threads. Mr Hufyatillo had no contact with banks until he received his first loan of UZS 3 million (approximately €2,850) in 2001 from Hamkor Bank Andijan. Provided through the Japan Uzbekistan Small Business Programme, the loan allowed him to invest in new equipment and to establish a reputation for high-quality goods at affordable prices.

Since receiving his first loan, Mr Hufyatillo's turnover has almost trebled from around UZS 8 million to UZS 22 million, profit has doubled from UZS 1.5 million to UZS 3 million and the number of employees has increased from two to six. As a result of his excellent credit record, Mr Hufyatillo has realised a steady rise in the maturity and value of his loans and is now repaying his third loan of UZS 12 million (approximately €9,500). Mr Hufyatillo concludes: "I am very satisfied with the loans I have received. The loan officer visits my plant, estimates my business and helps me to complete all the necessary documents – and within a few days I receive the money."

Union and USAID to support the partner banks in developing efficient lending programmes. In 2002 the EBRD also began the process of establishing a micro-enterprise bank in FYR Macedonia, with the help of a US-supported SME facility. The bank is due to open in 2003.

Since the EBRD's first small business programme was established in 1994, more than 200,000 loans worth about €1.52 billion have been disbursed. The repayment rate of loans is as high as 99.3 per cent.

The EBRD and the United States have established the US/EBRD SME Financing Facility to promote private sector growth and economic development in south-eastern Europe and in the countries at the early or intermediate stages of transition, such as Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Like the Russia Small Business Fund, this US$ 150 million facility was created to provide access to financing for micro, small and medium-sized enterprises.

A considerable portion of the funding is earmarked for assistance and training to local banks and for efforts aimed at reducing the legal and regulatory impediments to finance for small business.

The **EU/EBRD SME Finance Facility** provides financing to banks, leasing companies and equity funds in the EU accession candidate countries for financing SMEs. It also provides technical assistance to help the financial intermediaries improve their skills for serving small businesses. In 2002 the EBRD increased our funding for the loan and leasing components of the programme to €575 million. The EU's contribution to the loan and leasing activities amounts to €85 million (with a further €20 million approved by EU Phare). By the end of 2002, the EBRD had provided 36 credit lines totalling €418 million to 25 banks and three leasing companies in the accession countries. As a result, over 12,300 loans worth €312 million have been extended to SMEs in the region, with an average loan size of €22,000. Loan repayment is 99 per cent.

Through institution-building, the SME Facility has had a significant impact on domestic financial intermediaries in the region. More than 2,000 loan officers and 100 trainers have been trained, and lengthy credit approval processes have been streamlined. Banks understand SMEs and their needs better, and offer tailored products and more customer-friendly service than in the past. With competition to finance SMEs growing in the region, high-quality service helps banks to retain good customers. Efficient procedures for SME lending are enabling intermediaries to reduce their margins, leading to better financing terms for small enterprises.

The opening of the Facility to leasing companies in 2002 is an important development because many SMEs use leasing as their first form of finance. Most new businesses lack the credit history and strong balance sheets needed to access traditional bank financing, and leasing is often the "first stop" in seeking finance when a small business needs to grow. Under this programme, loans are granted

SME finance facility
for accession countries
Sponsored by the EBRD and EU

Vintage year for family-run vineyard

The Koreinka family's ambition is to become a top-quality wine producer in Slovenia. Over the years it has invested whenever possible in new equipment to improve the production processes at the small family-owned vineyards situated in the Istrian peninsula. But development of the business has been slow due to limited resources. That was until the family turned to the EU/EBRD SME Finance Facility.

In 2002 the business took out its first commercial bank loan in its eight-year history. A loan of €40,000 was provided by Banka Koper to finance the purchase of new machinery. Benefiting from the long-term finance provided through the Facility, Koreinka Vineyards has been able to upgrade its operations and to bring its practices into line with EU standards.

The purchase of labelling equipment has allowed the family to automate the production process and has reduced the cost of outsourcing. New pumping equipment has led to a more efficient bottling process and has reduced the average time for bottling each grape variety from three days to one day. The new investments have had a dramatic impact on the efficiency of the wine production, helping the Koreinka family to improve the profitability of the vineyard and to produce high-quality wine.

St Petersburg flood barrier

St Petersburg, with its winding waterways leading to the River Neva, is low-lying and prone to regular flooding. The city has flooded almost every year since it was founded 300 years ago and nearly twice a year in the last 20 years. Work started in 1980 to build a flood protection barrier but stopped in 1987 because of concern about the barrier's impact on the environment. The barrier is currently about 65 per cent complete. In December 2002 the EBRD signed a €233 million loan (the Bank's largest-ever public sector loan) to complete construction of the flood-related aspects of the barrier, which will protect St Petersburg and its residents from serious flooding in the future.

Technical cooperation funds during the project's preparation phases allowed consultants to carry out a full environmental impact assessment and to assess the project's technical feasibility. They concluded that the project proposals satisfy relevant Russian and EU environmental, health and safety standards. Donor funds of €2 million were provided by the Netherlands, Japan, the European Union, Taipei China and the United Kingdom. The project also received a €1 million investment from the Northern Dimension Environmental Partnership Fund (see page 82) and is expected to include co-financing from the European Investment Bank and the Nordic Investment Bank.

to leasing companies in the range of €5 million to €20 million, which is used to provide lease financing to SMEs.

Financing for businesses is provided through a range of EBRD-sponsored and privately sponsored **equity funds** that have been established in the majority of the Bank's 27 countries of operations. To support small businesses, three funds have been established as part of the EU/EBRD SME Finance Facility. Other EBRD-sponsored funds provide finance to both SMEs and larger companies in areas where there is a shortage of private capital. In Russia the Regional Venture Funds (RVFs) provide equity finance to medium-sized enterprises. To date, the RVF programme has involved the commitment of about €210 million in equity from the Bank and up to €105 million in grant finance from donor governments. Privately sponsored equity funds that have received EBRD support invest in both SMEs and larger companies. To date, these funds have invested over €710 million in more than 350 smaller projects worth €5 million or less.

The EBRD uses donor-funded **technical cooperation** to finance the activities of consultants and other specialists. Technical expertise may be needed at any stage of a project, but is particularly important at the very early stages. The financing that governments and other institutions provide to fund the Bank's technical cooperation programme helps us to establish the feasibility of potential projects and to implement them successfully.

Technical cooperation funding is used in particular to support small and medium-sized enterprises and to promote legal and regulatory reform. It is also used to improve the level of skills in a variety of public and private institutions, including banks and municipalities. Under the guidance of specialist consultants, the local workforce is able to develop its expertise and respond to the increasing demand for improved skills. Strong support has been provided to local businesses through the TurnAround Management and Business Advisory Services programmes (see page 83).

More than €1 billion has been provided in grant funding since the start of the technical cooperation programme. In 2002 new commitments totalled just over €100 million. The main donors during the year were the European Union, the United States, Japan, the Netherlands and Canada. The principal beneficiaries of this funding were Russia, Poland, Ukraine, FR Yugoslavia, Kazakhstan and Uzbekistan. A large portion of the funding was used to support financial institutions serving the needs of small and medium-sized businesses and to assist infrastructure projects.

The EBRD's Trade Facilitation Programme (TFP) gives entrepreneurs the support they need to expand their import and export trade. By guaranteeing trade transactions, the programme stimulates **international trade** and strengthens the ability of domestic banks to provide trade financing. In 2002 the TFP had its best year so far, with business volume growing in real terms by 27 per cent over the previous year. Total turnover was €369 million. The total number of transactions increased from 368 in 2001 to 676 in 2002. The programme now has 74 issuing banks in 20 countries and over 400 confirming banks all over the world. Transactions supported by the TFP over the past year include the export of pharmaceutical products from Hungary to Russia, Skoda cars from the Czech Republic to Moldova and Azerbaijan, and butter from Lithuania to Uzbekistan.

Partnerships help to make funding more targeted and effective through coordination. For example, the Bank is a part of the **Project Preparation Committee** (PPC), a network of IFIs and donors that identifies, prepares and finances environmental investments in the EBRD's region of operations. The PPC is currently chaired by the United Kingdom, and a secretariat supporting the chairman is located at the EBRD. During 2002 seven donor-funded PPC staff worked at the EBRD on the development of investment projects, notably in the areas of water and sanitation, waste management, energy efficiency and renewable energy. During 2002 an independent review of some 50 PPC projects assessed their impact on the environment and the transition process.

In 2002 the EBRD began a training programme to enhance the skills of Russian consulting firms and to increase their ability to undertake **environmental monitoring**. The programme was initiated in cooperation with EU Tacis, and training was provided by leading English and Russian experts at various locations in Russia, including Ekaterinburg, Irkutsk, Moscow, Nizhny Novgorod and Volgograd. The workshops covered areas such as health and safety management, environmental monitoring and energy efficiency.

A record level of **co-financing** was provided by **official partners**, such as governments and international financial institutions (IFIs). In total, funding of €1.14 billion was mobilised for 49 projects. The largest share – totalling €612 million (53 per cent) for 25 projects – was provided by IFIs. The European Union provided €213 million (19 per cent) for eight projects while other official institutions, such as government agencies and financial institutions, contributed €315 million (28 per cent) for 26 projects. Beyond official co-financing, there is of course a strong relationship with commercial banks that also co-finance many EBRD projects.

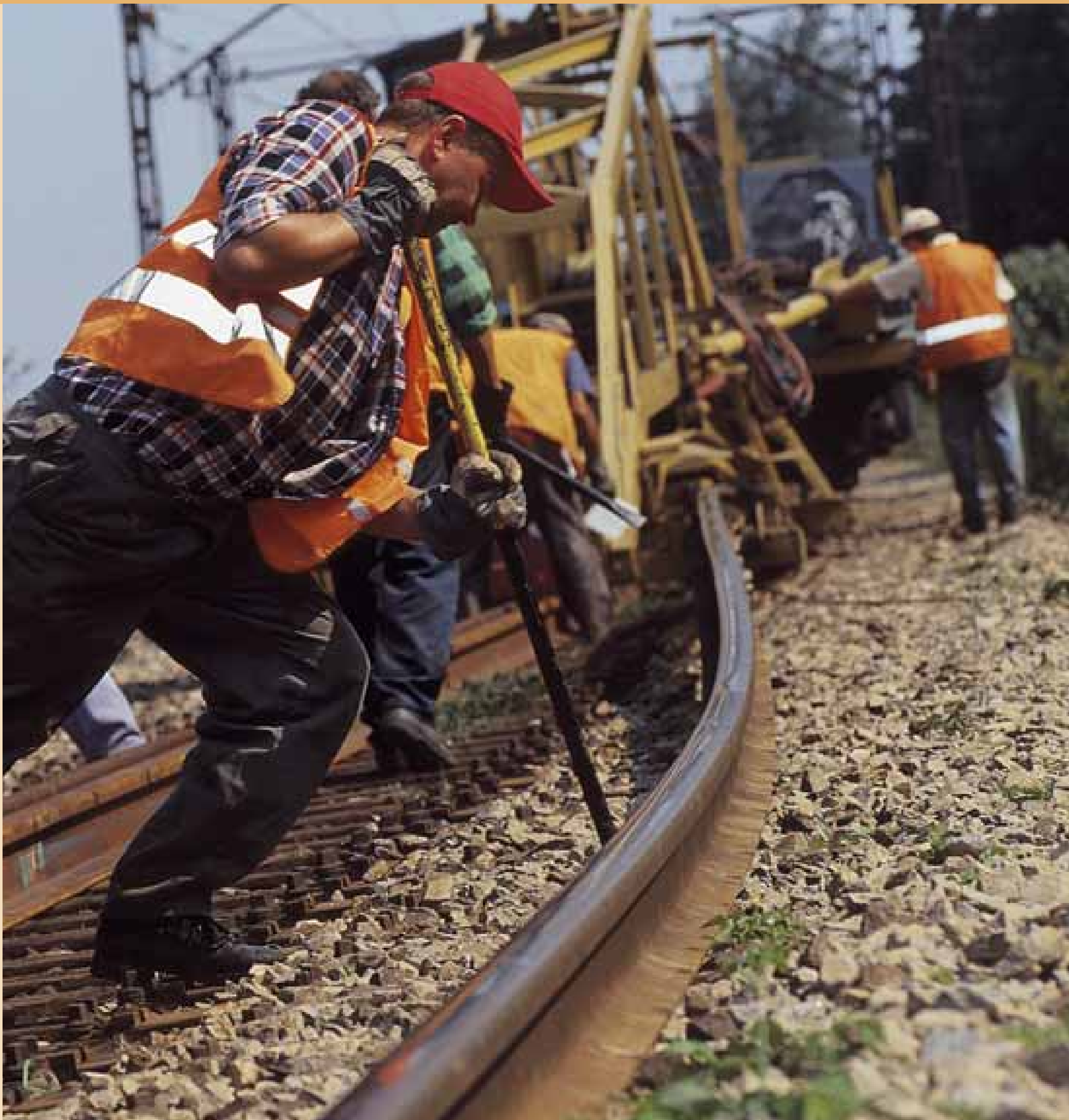
The EBRD continued to work closely with the International Finance Corporation in 2002 to develop lending for micro, small and medium-sized enterprises and to strengthen the financial sector in the Caucasus, south-eastern Europe and Central Asia. The EBRD also cooperated with the World Bank on two co-financing projects in south-eastern Europe. There is close cooperation with the Asian Development Bank in Central Asia, including co-financing projects and sharing information and views on priorities.
The EBRD's relationship with the European Investment Bank (EIB) takes various forms. In the EU accession countries the EIB co-financed seven projects with the EBRD in support of the region's infrastructure. During the year the EBRD and the EIB continued to explore ways of enhancing the efficiency of both institutions in close coordination with the European Union.

New fund attracts investment for Central Asia

In June 2002 the EBRD and a number of official donor agencies established a new co-financing facility, the Central Asia Risk-sharing Special Fund. It aims to support an increased level of investment activity in Central Asia and take additional risk, mainly through funding small business projects. The fund aims to attract €30 million in grant-based contributions from official donor agencies, of which €7.5 million has been committed so far. Germany and Switzerland have provided risk-sharing funds to support the Trade Facilitation Programme in Central Asia. Switzerland has contributed to the microfinance facility in the Kyrgyz Republic.

Like the Balkan Region Special Fund on which it was modelled, the new fund accepts grants from official donor agencies to support project preparation, to share the risks involved in financing international trade and microfinance transactions, and to provide co-investment in support of small businesses.

Central Europe and the Baltic states



Population

	million
Croatia	4.6
Czech Republic	10.3
Estonia	1.4
Hungary	10.0
Latvia	2.4
Lithuania	3.7
Poland	38.7
Slovak Republic	5.4
Slovenia	2.0

Enlargement of the European Union took a step closer in 2002. At the EU's Copenhagen Summit eight of the Bank's countries of operations – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia – were invited to join the EU in 2004. In the context of this process and to accelerate the transition to fully fledged market economies, the EBRD invested €1.3 billion in central and eastern Europe and the Baltic states in 2002, representing 32 per cent of the Bank's annual commitments.

Over the coming years the EU accession countries will require sustained levels of investment to meet the demands of the accession process and to match EU standards. The EBRD will continue our current level of investment in the region and focus on sectors where help is most needed. This includes developing partnerships with local banks to provide innovative forms of equity financing for small and medium-sized companies that will help them to grow. We will continue to provide financing for sound projects where the market is not prepared to go in areas such as restructuring of large companies, infrastructure projects without sovereign guarantees and investing in less developed areas, including small municipalities.

Investment climate

During 2002 central Europe and the Baltic states (CEB) showed considerable resilience in a difficult international climate. This resilience was assisted by the landmark decision at the European Union's Copenhagen Summit in December to invite eight transition economies to become new EU member states, giving a boost to the economic prospects for the region.

The average growth rate of GDP declined marginally to an estimated 2.3 per cent from 2.5 per cent in 2001. However, growth was above 3 per cent in most countries, excluding the Czech Republic, Poland and Slovenia. While inflation continued to decline across the region, a number of economies still face the challenges of double-digit unemployment rates and tight fiscal constraints.

Poland's economy remained weak in 2002, with growth estimated at 1.3 per cent for the year, albeit with an upward trend during the second half. Poland is relatively less trade dependent than its neighbours and has mainly suffered from weak investment and domestic consumption, partly as a result of a poor fiscal-monetary policy mix. However, with inflation subdued, the monetary authorities have substantially lowered interest rates (from 19 per cent in January 2001 to 6.75 per cent in December 2002), which may help growth to recover in 2003 to around 3 per cent.

The floods of August 2002 reduced growth in the Czech Republic by perhaps half a percentage point, to an estimated 2.5 per cent. In Hungary and the Slovak Republic, which also suffered from the floods, the impact on growth was negligible. Here, as in Croatia, growth remained relatively robust despite weak external demand. However, in most countries, the required fiscal austerity in the coming years – to correct significant loosening over the past two years and to meet the EU's requirements for monetary union – could limit growth in 2003. Slovenia, with a fiscal deficit of under 3 per cent of GDP in 2002, is the exception to this.

The three Baltic states continued to record the highest growth rates in the region – exceeding 5 per cent in all three countries. This good performance was accompanied by low inflation and far smaller fiscal imbalances than in central Europe, with the currency board regimes remaining a solid anchor for macroeconomic policy. With recent improvements in the risk ratings for Estonia and Lithuania, the Baltic region is increasingly seen as an attractive destination for foreign direct investment (FDI).

Structural reforms have continued at a steady pace in all countries of CEB.

In particular, the EU accession process has prompted significant progress in the reform of the legal framework. Recently adopted legislation includes a new law on public trading and securities in Lithuania, a new foreign exchange law in Poland and a new accounting law in the Slovak Republic. New securities markets legislation was introduced in Croatia, Estonia, Hungary and Lithuania, making capital markets more effective.

New laws on financial institutions, foreign currency and labour were adopted in Lithuania together with measures aimed at combating money laundering. The Czech Republic made progress with amendments to its Securities Commission and the Slovak Republic made important amendments to its bankruptcy law. In Slovenia new laws on payment transactions and money laundering were adopted. A new law on the Bank of Slovenia was also enacted in June 2002, regulating central bank independence.

↑ The EBRD signed 10 projects in Poland in 2002 in areas ranging from infrastructure to financial institutions.

← The EBRD invested €128 million in the energy sector in central Europe and the Baltic states in 2002.

↑ The EBRD invested almost €300 million in infrastructure projects in central Europe and the Baltic states during 2002, including the upgrade of Croatia's motorway network.

→ Tallinn Water received a €55 million EBRD loan in 2002, supporting the company's post-privatisation programme.

Growth in real GDP in 2002

	%
Croatia	4.5
Czech Republic	2.5
Estonia	5.7
Hungary	3.2
Latvia	5.5
Lithuania	6.0
Poland	1.3
Slovak Republic	4.0
Slovenia	2.9

Finally, one of the more notable legislative initiatives in CEB was the adoption of a new regime for secured transactions in the Slovak Republic (see page 85).

Challenges for the future

Looking ahead, EU accession will continue to provide a boost to the region's macro-economic performance. The Accession Treaty is due to be signed in 2003 and, following ratification, EU enlargement is expected to take place in May 2004. Risk premia have already fallen dramatically for all EU accession countries and in 2002 net FDI inflows increased to €21 billion compared with around €17 billion during the previous two years. FDI now represents about 5 per cent of the region's GDP, which is considerably higher than the levels in Spain and Portugal following their accession to the European Union.

Despite these positive trends, successful integration into the economy of the EU will continue to pose important policy challenges both on the macroeconomic and structural side. To catch up with Western income levels, the new members will require sustained high investment rates, which can only be achieved if each country remains competitive with existing EU members. The development of medium-sized companies, which are able to compete at the European level and to become an engine for domestic growth and investment, and the restructuring of traditional industrial areas will be critical in this regard.

Another key challenge is the implementation of medium-term fiscal and monetary policies that are consistent with the EU Stability Pact and pave the way for monetary union. Monetary policy will remain a major challenge in the medium term. To join economic and monetary union (EMU), the accession countries will need to achieve several goals, such as nominal inflation and interest rate convergence and stable nominal exchange rates. These challenges will be compounded by the threat of rapid swings in portfolio flows given open capital accounts and prevailing uncertainties over the date of EU accession and future parity with the euro.

EBRD activities

The EBRD maintained a strong presence in central Europe and the Baltic states in 2002 by providing a total investment of €1.3 billion, representing 32 per cent of the Bank's total commitments for the year. The Bank's overall investment in the region now totals €8.8 billion. Disbursements in 2002 totalled €918 million, close to the record level achieved in 2001.

These levels of financing reflect the Bank's flexibility in serving the needs of local businesses and in advancing the transition process. They also demonstrate our ability to offer innovative forms of financing in response to the region's changing requirements. As well as supporting the transition to market economies, the Bank's projects have helped the region in its preparations for EU accession, providing financing that has not been available from other sources.

The transition process in central Europe and the Baltic states continues to benefit from the wide variety of services provided by the EBRD. These range from attracting private capital for the most under-funded sectors to supporting foreign sponsors' first ventures into the region. The Bank has played a vital part in strengthening the financial sector by supporting innovative projects and has provided much-needed financing for local businesses undertaking demanding restructuring projects.

The EBRD has mobilised co-financing from both private and public sources. In particular, the Bank has received significant support from the European Union. In 2002 the EBRD signed a wide range of projects across the region. In the industrial sector, for example, we provided financing for the construction of a new resin manufacturing facility in Poland. This project will provide a boost to the Polish chemicals sector, which is still predominantly state-owned and suffers from lack of investment. In the agribusiness sector, the Bank supported the expansion of Getro, Croatia's largest cash and carry operator,

EBRD commitments

	2002			Cumulative		
	Number of projects[1]	€ million	% of total EBRD investments	Number of projects[1]	€ million	% of total EBRD investments
Latvia	0	9	0.2	24	321	1.5
Lithuania	1	5	0.1	25	407	1.9
Estonia	4	73	1.9	42	446	2.1
Slovenia	1	181	4.6	25	588	2.7
Czech Republic	2	69	1.8	37	902	4.2
Slovak Republic	4	121	3.1	37	952	4.4
Croatia	8	318	8.1	44	1,180	5.5
Hungary	1	27	0.7	60	1,326	6.1
Poland	10	463	11.9	118	2,688	12.4
Total	**30**	**1,265**	**32**	**412**	**8,810**	**41**

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 89 to 99, where regional projects are listed separately.

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

EBRD commitments by sector

	2002	Cumulative
	€ million	€ million
Energy		
Energy efficiency	41	144
Natural resources	0	163
Power and energy	87	344
Subtotal	*128*	*651*
Infrastructure		
Municipal and environmental infrastructure	89	628
Transport	209	1,179
Subtotal	*298*	*1,807*
Specialised industries		
Agribusiness	73	544
Property, tourism and shipping	0	314
Telecommunications, information technology and media	106	896
Subtotal	*179*	*1,753*
Financial institutions		
Bank equity	299	1,087
Bank lending	140	1,230
Equity funds	84	610
Non-bank financial institutions	113	320
Subtotal	*636*	*3,245*
General industry		
General industry	25	1,354
Subtotal	*25*	*1,354*
Total	**1,265**	**8,810**

Note: The totals may not add up to the sum of the component parts due to rounding.

and the development of Soufflet Malting in the Czech Republic, which will expand the country's malting industry.

In the financial sector the EBRD made substantial equity investments to support the privatisation of Nova Ljubljanska Banka, Slovenia's largest bank (see page 31), and to assist the second phase of privatisation of Privredna Banka Zagreb in Croatia. We also made an equity investment in the Accession Mezzanine Capital Fund, which will provide financing to private companies throughout the region, and purchased a mortgage bond in Rheinhyp-BRE – the first licensed mortgage bank in Poland. Following our investment in the Askembla Growth Fund, equity capital will be made available to small businesses in the Baltic states and Poland. In the Czech Republic and Hungary the EBRD acquired shares in two pension fund management companies.

In the infrastructure sector the EBRD took part in the privatisation of Tallinn Water. The willingness of the Bank to provide financing suited to public-private partnerships is expected to encourage other similar operations in central Europe. Other infrastructure projects included support for the restructuring of Poland's national railway (see page 29) and the upgrading of Croatia's motorway network. In the energy sector the Bank provided finance to the Slovak Republic's national power company, Slovenske Elektrarne, to improve the delivery of power and electricity (see page 30).

The EBRD further expanded our credit lines for small and medium-sized enterprises (SMEs) in 2002, signing nine agreements with banks and leasing companies in six countries. These included the extension of a syndicated loan to Europejski Fundusz Leasingowy, Poland's largest independent leasing company for equipment and vehicles, which will allow the company to expand its lease portfolio for SMEs.

Future activities

In 2002 the EBRD approved new country strategies for Croatia, Estonia, Lithuania, Poland, the Slovak Republic and Slovenia. The EBRD will concentrate its future activities on sectors that can best assist the transition to market economies and will assist the EU candidate countries in the process of accession to the European Union.

The Bank's plans include further support for under-funded sectors of the economy and assistance for the remaining stages of the privatisation process. We also aim to support greater SME development, and to help the financial sector in developing a wider range of financial products and services. For example, the Bank will provide long-term financing to mortgage lenders to support the development of the housing sector. In addition, the Bank intends to work closely with the European Union, the European Investment Bank and the relevant authorities to support investment in the infrastructure sector without sovereign guarantees, particularly in smaller towns and cities.

The EBRD's support for central Europe and the Baltic states should help the region attract additional foreign investment, which is critical for ensuring further dynamic growth. In the coming years we intend to maintain our current level of investment in the region and to focus on sectors where there is the greatest scope for advancing the transition process, such as the restructuring of inefficient large companies. We will continue to invest in the region until the markets dictate we are no longer needed.

EBRD disbursements

	2002 € million	Cumulative € million
Latvia	42	273
Lithuania	10	305
Estonia	87	406
Slovenia	79	449
Czech Republic	80	739
Slovak Republic	47	775
Croatia	263	801
Hungary	47	1,028
Poland	263	1,881
Total	**918**	**6,657**

Helping to modernise Poland's railways

Sector
Transport

Client
Polish national railways

Area
Poland

EBRD finance
€130 million loan

Other finance
€2 million technical cooperation funds from the EU

Aim
Support for rail sector restructuring

Poland's national railway company (PKP) needs to accelerate modernisation, invest in infrastructure, and expand private participation to provide an efficient railway service for its freight customers and passengers. The EBRD has made one of its largest-ever loans as part of an ongoing programme to restructure the industry. With modernisation well under way, our loan to PKP is assisting the financial restructuring of the company.

The first stage of restructuring created separate freight, passenger and infrastructure companies. The state-run monolith was restructured into 24 subsidiaries, covering infrastructure, cargo (the biggest freight rail company in central Europe), intercity passenger services, regional passenger services and many other areas. Each company is now responsible for its own business area, and is independently accountable for all its activities.

Our first loan to PKP in 2000 was for labour restructuring. This allowed the company to finance redundancy schemes and to improve productivity. Labour costs have subsequently been cut by one-fifth. This was achieved with the cooperation of the workforce and the trade unions.

The second part of the programme will allow PKP to repay or restructure debts inherited from the previous system. Our sovereign-backed loan enabled the newly created companies to start with clean balance sheets. Operating free from debt allows them to focus on productivity and efficiency improvements, and to develop their commercial operations.

EBRD support will assist the creation of a profitable market-based railway system in Poland.

The EBRD's investments have provided support for implementation of the Polish government's long-term strategy for the railway industry, which includes integrating Poland's railways with the EU railway system and achieving EU standards. The main objectives are to allow private railway companies into the infrastructure, to restructure the financing of local passenger transport, and to increase the efficiency of PKP and its subsidiaries, leading to the creation of a profitable, market-based railway system in Poland.

The EBRD's investment has been supported by EU funding for consultants specialising in the areas of business planning and legal and regulatory restructuring.

Improving the competitiveness of power supply in the Slovak Republic

Slovenske Elektrarne

Sector
Power and energy

Client
Slovenske Elektrarne

Area
Slovak Republic

EBRD finance
€87.2 million seven-year loan and guarantee to a Slovak commercial bank

Other finance
€104 million five-year loan from participating banks

Aim
Support for financial restructuring after separation into transmission, generation and heat companies

A higher demand for electricity for homes and businesses is expected following the Slovak Republic's likely accession to the European Union in 2004. In preparation for this and to satisfy accession requirements, Slovenske Elektrarne – the national power company – has undertaken the first phase of separating its generation, transmission and heat companies. The EBRD's loan enables the company to finalise its restructuring so that it is ready to compete in a liberalised market in which customers can choose their suppliers from western and central Europe.

Slovak consumers are set to benefit from lower electricity prices and better service with the help of an EBRD loan to Slovenske Elektrarne.

Slovenske Elektrarne is in good shape to enter a wider market. It has a stable supply of electricity from hydropower, thermal and nuclear sources and in recent years has exported its surplus to neighbouring countries. Its facilities are well operated and maintained to high standards, and comply with nuclear safety requirements. Strengthening the company will make it easier to meet the government's commitment to shut down two old units at one of its nuclear power plants within the next five years.

Our involvement has enabled Slovenske Elektrarne to obtain complementary long-term loans from a number of commercial banks. Under an innovative sector guarantee, we are guaranteeing the loan from a Slovak commercial bank, which is on-lending in local currency. The financial consolidation gives Slovenske Elektrarne the support it needs to undertake reform, and flexibility to pursue a long-term restructuring plan to deliver power and electricity efficiently to domestic and international markets.

Competition in the electricity sector will benefit domestic and business users, who can expect lower prices and better service standards. Completing the unbundling of the generation and transmission companies is an important step towards an eventual privatisation of parts of Slovenske Elektrarne.

Better services for customers of Slovenia's largest bank

ljubljanska banka

Sector
Bank equity

Client
Nova Ljubljanska Banka

Area
Slovenia

EBRD finance
Up to €175 million for equity investment of between 5 and 14 per cent

Aim
Support privatisation and help NLB become a leading bank in central Europe

The privatisation of Nova Ljubljanska Banka (NLB), the country's largest banking group with over 45 per cent consolidated market share, will enhance competition in Slovenia's banking sector. It is also expected to raise service standards and improve efficiency.

With EBRD support, NLB will develop new products and expand its branch network.

The EBRD has acquired 5 per cent of NLB, with provision to acquire up to a further 9 per cent. Our investment as part of NLB's privatisation represents one of our largest investments in a privatisation process in central and eastern Europe. It provides support for NLB and its strategic investors to establish NLB as a leading regional bank in central Europe.

NLB has an important strategic investor in KBC Bank of Belgium, which has acquired 34 per cent of the bank's shares. The EBRD's investment, together with that of KBC, will enable NLB to extend its banking operations, develop new products, such as mortgage lending, and expand its branch network in the region and internationally.

The privatisation will encourage high standards of corporate governance by fostering transparency and accountability among NLB's shareholders. The EBRD and KBC will have representation on the bank's supervisory board, allowing us to participate in management decisions.

The potential listing of NLB on the Ljubljana Stock Exchange by the end of 2003 will support the development of Slovenia's capital markets. The project will also assist Slovenia's accession to the European Union, as privatisation of NLB is one of the EU's recommendations.

In parallel with the EBRD financing, the Council of Europe's Development Bank (CEB) has provided a loan to NLB without a sovereign guarantee. This will enable the bank to meet the demand for borrowing in the local health sector. This form of cooperation between the EBRD and CEB increases the project's impact on the transition process by combining economic and social benefits. It could also act as a model for further cooperation.

Improving energy efficiency in Poznan's heating network

↑ Before

↑ After

Dalkia Termika

Sector
Energy efficiency

Client
Dalkia Termika

Area
Poland

EBRD finance
€36 million equity investment under an existing multi-project facility

Aim
Assist privatisation of the district heating company and improve energy efficiency

Poznan, Poland's second-largest industrial city, is one of the first cities in Poland to introduce private ownership of its district heating network. The EBRD's equity investment in Dalkia Termika will provide the company with the capital it needs to acquire and manage the system. Private sector expertise and resources are expected to reduce operating costs and improve energy efficiency and service standards.

The EBRD's investment in Dalkia will establish one of Poland's first privately owned district heating companies.

District heating networks are usually owned and maintained by the local municipality and run from a centralised boilerhouse. They are an efficient way of providing heating and hot water in densely populated areas, but frequently suffer from a low level of capital investment, infrequent maintenance and high system losses. As a result of high running costs, heating accounts for more than 10 per cent of the average Polish household budget (far higher than the EU average).

Running district heating networks and identifying opportunities for saving energy is Dalkia Termika's main line of business. Its energy efficiency measures typically involve replacing older coal-fired boilers with more modern light-oil or natural gas-fired boilers, which are more efficient and environmentally friendly. Its investment programme for Poznan is focused on expanding the network, connecting new customers, delivering efficiencies in the system, improving insulation, and extending metering.

This project is the first to be financed from a renewed multi-project facility with Dalkia International (Dalkia Termika's parent company). The EBRD has acquired 35 per cent of Dalkia Termika's shares with a pre-determined exit strategy. The rest are held by Dalkia International (the energy services arm of Vivendi Environment).

"With the acquisition of PEC Poznan and with EBRD support, Dalkia has become a major player in the Polish energy market," said Marie-Françoise Pépin, Managing Director and President of the Board, Dalkia Termika.

South-eastern Europe

Population

	million
Albania	3.4
Bosnia and Herzegovina	4.3
Bulgaria	8.1
FR Yugoslavia[1]	8.6
FYR Macedonia	2.0
Romania	22.3

[1] Renamed 'Serbia and Montenegro' in February 2003.

South-eastern Europe continued its economic recovery in 2002. In particular, Bulgaria and Romania recorded strong growth, benefiting from the prospect of EU accession. EBRD investment in south-eastern Europe increased by more than 25 per cent over 2001, reaching €865 million. This included support for privatisation, restructuring, small and medium-sized enterprises, and critical infrastructure projects, such as road-building. In the future, the Bank aims to expand investment in the region and to continue our leading role under the Stability Pact for South-eastern Europe in implementing private sector initiatives and in developing regional cooperation in infrastructure.

Investment climate

In south-eastern Europe, political stabilisation and economic recovery continued in 2002, buttressed by the efforts of the international community. Regional leaders have increasingly recognised that their future lies in closer integration with the European Union and have adopted a mix of policies consistent with this goal. Significant developments occurred in the constitutional environment in the Federal Republic of Yugoslavia following an agreement between the Republics of Serbia and Montenegro, signed in March 2002. Under this agreement, their federation has been transformed into a state union with a common market and joint defence and foreign policies. In December 2002 a draft constitutional framework for 'Serbia and Montenegro' was adopted.

Elsewhere in south-eastern Europe, FYR Macedonia became a member of the World Trade Organization in October 2002.

Structural reforms in FR Yugoslavia have proceeded at a brisk pace. The economy has responded moderately so far with growth of 4 per cent in 2002 but there are signs of gradual industrial restructuring and increasing interest from foreign investors. In other countries of south-eastern Europe, such as Albania, FYR Macedonia and Bosnia and Herzegovina, political stability is needed to sustain the progress made to date and to boost growth from present levels. The challenge for these countries will be to attract private investment while weaning themselves off foreign assistance and private grants.

Growth in real GDP in 2002

	%
Albania	4.7
Bosnia and Herzegovina	3.9
Bulgaria	4.5
FR Yugoslavia	4.0
FYR Macedonia	0.0
Romania	5.3

Bulgaria and Romania have benefited greatly from their status of EU accession candidates. Growth in both countries held up strongly in 2002, with recent estimates well above 4 per cent for both countries. Macroeconomic policies remained disciplined although in Romania in particular structural reforms will need to accelerate to meet the target date of EU accession in 2007. Legal reform continued in much of south-eastern Europe in 2002. Notable reforms included a new bankruptcy law in Albania.

Over the coming years, closer integration with the European Union is south-eastern Europe's best hope and will shape its policy priorities, including a significant legislative agenda. However, it also needs to improve infrastructure and the efficacy of the public sector.

EBRD activities

EBRD investment in south-eastern Europe increased significantly in 2002, reaching €865 million, a 26 per cent increase over 2001. Substantial financing was provided for projects in Romania, Bulgaria and the western Balkans. During the year the Bank helped with the privatisation and restructuring of large industrial enterprises, and supported the development of critical infrastructure projects, such as road-building and improvements to the power network. We also continued to support small and medium-sized enterprises (SMEs) and to strengthen the region's financial institutions.

In 2002 we significantly expanded our new business in Romania, increasing our annual commitments to €447 million from

↑ Around €210 million was invested by the EBRD in critical infrastructure projects in south-eastern Europe in 2002, including the upgrade of the road system in FR Yugoslavia.

← The Bank provided finance to small and medium-sized enterprises through Banca Comerciala Romana in 2002.

€289 million in 2001. This was partly in response to improvements in the country's macroeconomic performance and the introduction of new reforms, especially in terms of accelerating privatisations. During the year we attracted a number of major strategic investors to Romania, and substantial progress was made with our small business programme. In Bulgaria we expanded our support for the municipal sector (see page 38) and for infrastructure (power transmission).

Our activities in FR Yugoslavia supported the road sector, local industrial companies (see page 40) and the financial sector (including our first investment in Montenegro's banking sector) and we assisted with legal and policy reform. In particular, we were instrumental in helping to draft legislation concerning effective collateral for bank loans. In Albania, Bosnia and Herzegovina and FYR Macedonia we maintained a high level of involvement with critical infrastructure projects (in the power and transport sectors), supported SMEs and, in Bosnia and Herzegovina, provided a non-sovereign pre-privatisation loan to a telecommunications company (see page 40).

Under the Stability Pact for South-eastern Europe, the EBRD continued to take the lead in implementing private sector initiatives, focusing in particular on assisting SMEs and developing cross-border trade. During the year we cooperated closely with the European Union, other multilateral institutions and bilateral donors to mobilise donor funding and co-financing.

EBRD commitments

	2002			Cumulative		
	Number of projects[1]	€ million	% of total EBRD investments	Number of projects[1]	€ million	% of total EBRD investments
Albania	2	42	1.1	15	156	0.7
Bosnia and Herzegovina	2	39	1.0	18	230	1.1
FYR Macedonia	2	20	0.5	16	258	1.2
FR Yugoslavia	10	135	3.5	15	366	1.7
Bulgaria	6	182	4.7	39	667	3.1
Romania	6	447	11.5	63	2,251	10.4
Total	**28**	**865**	**22.3**	**166**	**3,928**	**18.2**

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 89 to 99, where regional projects are listed separately.

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

EBRD commitments by sector

	2002	Cumulative
	€ million	€ million
Energy		
Energy efficiency	30	103
Natural resources	95	145
Power and energy	65	529
Subtotal	*190*	*777*
Infrastructure		
Municipal and environmental infrastructure	106	337
Transport	104	667
Subtotal	*210*	*1,004*
Specialised industries		
Agribusiness	1	173
Property, tourism and shipping	0	118
Telecommunications, information technology and media	135	606
Subtotal	*136*	*896*
Financial institutions		
Bank equity	12	125
Bank lending	115	413
Equity funds	16	95
Non-bank financial institutions	3	27
Small business finance	3	22
Subtotal	*150*	*682*
General industry		
General industry	178	570
Subtotal	*178*	*570*
Total	**865**	**3,928**

Note: The totals may not add up to the sum of the component parts due to rounding.

With the help of a US-supported SME facility, the EBRD began the process of establishing a micro-enterprise bank in FYR Macedonia, which is due to open in 2003. This will extend the network of microfinance institutions that already exist in the other countries of south-eastern Europe. In 2002 these banks provided over 29,000 loans totalling some €190 million. With the support of the Italian government, the EBRD continued to invest in small equity funds in Albania and the province of Kosovo, helping local enterprises to develop their business. Work began to establish similar funds in FR Yugoslavia.

As a member of the Stability Pact's Infrastructure Steering Group, the Bank has contributed to the promotion of regional cooperation, improved donor coordination, and helped to prioritise infrastructure investments in the region. Out of 52 regional Stability Pact projects, we are active in 17, totalling €1.9 billion. The EBRD's contribution totals €650 million.

Future activities

In 2002 the EBRD approved new country strategies for Albania, FR Yugoslavia and FYR Macedonia. In Albania we will focus increasingly on developing the private sector through support for key strategic privatisations and for the development of SMEs. We will also focus on improving infrastructure, particularly in the energy and transport sectors. Similar priorities apply to FYR Macedonia, with a particular focus on regional infrastructure, restructuring of the power sector and improvement of the investment climate. The Bank's strategy for FR Yugoslavia emphasises the need to support the private sector, both locally and through foreign direct investment. In addition, a large volume of loans are still needed for investment in the power and transport sectors.

In Bulgaria and Romania the EBRD aims to provide strong support, which will assist these countries towards EU accession and towards narrowing the gap with the more advanced transition economies of central Europe. Our main areas of activity will include support for restructuring of state-run enterprises, privatisation and post-privatisation projects, the commercialisation of public infrastructure and the development of small business.

EBRD disbursements

	2002 € million	Cumulative € million
FR Yugoslavia	45	52
Albania	11	61
Bosnia and Herzegovina	11	87
FYR Macedonia	7	185
Bulgaria	54	471
Romania	263	1,568
Total	**391**	**2,424**

A new transport system for Sofia

City of Sofia

Sector
Transport

Client
City of Sofia

Area
Bulgaria

EBRD finance
€20 million ten-year loan

Other finance
€15 million loan syndicated to commercial banks. Dutch government grant of €2.5 million.

Aim
Improve bus and tram services

As many as 40 per cent of Sofia's 1,000 buses are off the road for maintenance at any one time. This means long waiting times, an unreliable service and high fares to cover maintenance costs. With the EBRD's help, a modern transport system is on its way. The ageing network of trams, buses and trolley buses is being upgraded in a four-year renewal programme, which is the most significant investment in public transport since the 1980s.

Our loan will allow operating companies to refurbish part of the tram fleet and buy 100 new buses and trolley buses. A grant from the Dutch government is funding a new and efficient passenger ticket system, which will reduce fare evasion and increase revenues.

With the EBRD's help, Sofia will soon have a modern and efficient transport system.

The city recognises the importance of involving the private sector in the upgrade programme, particularly in the running of the buses and bus workshops. Its first experience of this will be an open international tender for a contract to operate the bus services. Technical cooperation funds will be used to hire consultants who will help the city with the tender process. Privatised city-run workshops will compete for contracts, which will reduce maintenance and service costs.

Vassil Naydenov, Executive Director of Sofia Transport Holding, commented: "The EBRD loan will form the basis of our ambitious long-term improvement programme for Sofia's transport system."

The introduction of the new fleet will also reduce pollution. Noise and vibration from tram tracks will be reduced and air quality will improve. New buses will have improved fuel efficiency and performance and lower emission levels that comply with EU standards. And better public transport will reduce traffic congestion in the city centre, especially during the morning and evening rush hours.

The financing is the first EBRD loan to be provided to the Bulgarian transport sector with no sovereign guarantee. This project reflects growing collaboration between the EBRD and the city of Sofia following the implementation of road improvement and water utility privatisation programmes.

Modernisation programme for Romania's oil sector

SNP Petrom

Sector
Natural resources

Client
SNP Petrom

Area
Romania

EBRD finance
€95.4 million eight-year loan

Other finance
€47.5 million six-year loan syndicated to five banks.

€9.5 million eight-year loan from the Black Sea Trade and Development Bank.

Aim
Finance refinery modernisation programme and improve environmental practices

Cleaner petrol and reduced sulphur emissions will result from the EBRD's loan to SNP Petrom. New reactors and incinerators will allow Petrom to produce petrol more efficiently, reduce toxic waste and convert waste disposal to steam and electric power at low cost.

This is our largest long-term syndicated loan to a state-owned company in Romania. It is being used to finance modernisation and restructuring as part of Petrom's privatisation process. Measures include revamping of the company's main refining assets and making significant improvements to environmental and safety standards.

The EBRD's loan will improve environmental standards at Petrom's refinery.

As Petrom moves towards privatisation, it needs to complete its operational and managerial restructuring and raise environmental practices to EU standards. Consultants have carried out a thorough review of all key aspects of the company's business, leading to a clear restructuring and investment programme designed to improve performance and profitability.

Petrom's preliminary financial restructuring has achieved the cost reductions it required within its oil operations. The company has shed some non-core activities and reduced its labour force by about a quarter with the cooperation of the workforce. Management restructuring has resulted in the appointment of independent observers to the board.

The EBRD's involvement, with significant support from commercial banks, is helping Petrom to become more competitive and to comply with environmental and product quality standards to meet EU accession criteria. Petrom's privatisation will be an important benchmark in the modernisation of Romania's oil and gas sector.

Telekom Srpske

Sector
Telecommunications

Client
Telekom Srpske

Area
Bosnia and Herzegovina

EBRD finance
€30 million seven-year loan

Aim
Upgrade and expand the fixed line network and extend mobile coverage

Greater phone coverage for Republika Srpska

Less than 20 per cent of the homes and businesses of Republika Srpska in Bosnia and Herzegovina have a fixed phone line, and just 10 per cent of the population own a mobile phone. Poor infrastructure and slow connections to the Internet hamper both business growth and foreign investment. To meet the strong demand for new and better services, Telekom Srpske is installing with EBRD assistance new fixed lines and extending its mobile network.

EBRD support will lead to the expansion of Republika Srpska's fixed line and mobile telephone network.

The EBRD has led the reconstruction of the telecommunications sector. Following extensive donor funding, the Bank has undertaken an emergency reconstruction project. The latest example of this is a loan to Telekom Srpske to finance the development of its network.

The pre-privatisation financing for Telekom Srpske is the EBRD's largest loan in Bosnia and Herzegovina without a sovereign guarantee. It will be used to provide long-term financing that will allow the company to modernise and expand its infrastructure, convert local exchanges from analogue to digital, expand local networks, eliminate party lines, and extend mobile coverage. The project will help the company to attract a strategic investor, which will bring the finance and know-how to achieve world-class standards of service.

The government is committed to the privatisation of Telekom Srpske and the liberalisation of the market by the end of 2004. Željko Jungic, General Manager of Telekom Srpske, said: "The EBRD's support will allow the company to accelerate its development plans and to strengthen its position. The activities financed by this loan will offer new telecoms services to the people of the region, and prepare the company for privatisation."

Hemofarm Group

Sector
Pharmaceuticals

Client
Hemofarm Group

Area
Federal Republic of Yugoslavia

EBRD finance
€18 million six-year loan

Aim
Increase production and exports in the pharmaceuticals sector

Supporting health care in FR Yugoslavia

Hemofarm, the leading pharmaceutical group in FR Yugoslavia, has built its business on the production of non-brand name drugs. These are cheaper to buy than licensed brand names and make health care affordable for many people in this region. The company now needs investment to develop new products, improve efficiency and expand its market.

With the EBRD's support, Hemofarm is making health care affordable for many people in the region.

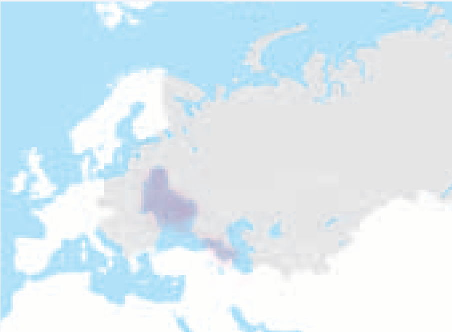
This is the EBRD's first loan to a private industrial company in FR Yugoslavia. The loan has enabled Hemofarm to buy new equipment to modernise the plant and to achieve the highest industry standards. The company is also expanding production to meet strong demand in its home and export markets. Demand has increased particularly from clients in Bosnia and Herzegovina, FYR Macedonia, Romania and Russia, its largest market.

Hemofarm is one of the most highly regarded companies in the country. Its extensive operations in and around Vrsac near the Romanian border employ 2,000 people in sales, operations and research.

Hemofarm is now well placed to improve performance and profitability. Its recent acquisition of a small local producer will enable the company to achieve further efficiencies. The consolidation of its product portfolio and the improvements financed by the EBRD project are expected to improve the company's prospects of attracting a strategic investor.

"The EBRD's loan is of great significance for Hemofarm's further development, allowing us to maintain product quality and expand exports," said Miodrag Babic, President of Hemofarm Concern.

Eastern Europe and the Caucasus



Population

	million
Eastern Europe	
Belarus	10.0
Moldova	4.3
Ukraine	49.3
Caucasus	
Armenia	3.0
Azerbaijan	8.1
Georgia	5.4

Ukraine achieved solid growth in 2002 but needs to accelerate reforms to attract much-needed foreign investment. Following an EBRD investment of €171 million in 2002, further Bank financing will depend on the extent to which the country can improve its investment climate. The three countries in the Caucasus continue to face the challenges of severe poverty, although the relatively strong growth over the past few years should help to improve living standards. In support of this process, the Bank invested €73 million in this region in 2002. Future investment in Belarus depends on the introduction of wide-ranging reforms.

Eastern Europe

Ukraine

Investment climate

Ukraine ended 2002 with growth of 4.1 per cent, down from the record level of 2001 but still a largely solid macroeconomic position with the prospect of very low inflation and a larger than expected current account surplus. However, uneven implementation of reforms has led to the suspension of foreign assistance from the International Monetary Fund (IMF) and the World Bank. Together with lower than anticipated privatisation revenues, this has resulted in a funding gap for the budget. The dismissal of the governor of the Central Bank towards the end of the year has also raised some concern over potential political interference in its independence.

Ukraine has been among the laggards in transition and will need to embark on a range of structural reforms in the coming years. Key reform challenges include the approval and implementation of measures to improve the investment climate, such as the strengthening of banking regulations, greater transparency of privatisation and a simplified tax structure.

EBRD activities

EBRD investment in Ukraine totalled €171 million in 2002 in support of agribusiness, banking and the industrial sector. The most significant projects included a loan for the development of agricultural exports (see page 44) and a working capital facility for one of the largest vegetable oil extraction plants in the country. A number of smaller loans were provided to firms in the glass and food processing industries. A further €14 million was made available to small businesses via an EBRD credit line to local Ukrainian banks. The MicroFinance Bank, which was established with our support, provided over 8,000 loans during the year totalling over €50 million.

A new country strategy for Ukraine was approved by the EBRD in 2002. The strategy confirms our commitment to support investment in energy efficiency, public utilities, small business, the financial sector and agriculture. We will also continue our nuclear safety role. The level of the Bank's future investments will depend on the extent to which Ukraine can improve its investment climate by making progress towards political consensus, a consistent tax regime, properly managed regulation and a truly independent judiciary.

EBRD commitments and disbursements in Ukraine

	2002	Cumulative
Number of signed projects[1]	5	50
Commitments *(€ million)*	171	1,293
Percentage of total EBRD investments	4.4	6.0
Disbursements *(€ million)*	225	768

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 89 to 99, where regional projects are listed separately.

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

EBRD commitments by sector in Ukraine

	2002 € million	Cumulative € million
Energy	1	271
Infrastructure	0	187
Specialised industries	128	415
Financial institutions	34	326
General industry	8	95
Total	**171**	**1,293**

Note: The totals may not add up to the sum of the component parts due to rounding.

↑ Gostomel glass factory received an EBRD loan of €11 million in 2002 to finance the refurbishment of its production facilities.

← The EBRD invested €128 million in Ukraine's agribusiness sector in 2002.

TOEPFER INTERNATIONAL

Sector
Agribusiness

Client
Toepfer Group

Area
Ukraine

EBRD finance
€76.3 million revolving credit facility

Other finance
€40 million syndicated to five commercial banks

Aim
Help develop the agricultural commodities market and set up a warehouse receipts programme

Bringing fair prices to farmers in Ukraine

Ukraine's "black earth" and good climate provide excellent growing conditions to produce abundant grain. Recent good harvests have shown the potential of Ukraine as a major grain producer and exporter, but farmers are hampered by inefficient practices in the chain that takes the grain from farmers to storage in warehouses and on to export. The EBRD is now assisting Toepfer, a world-class international trading company, to streamline this chain and to provide fair prices to farmers for their produce.

EBRD support will enable Ukrainian farmers to increase production and develop their export markets.

The Toepfer Group is one of the world's leading agricultural trading companies. The EBRD's credit line will allow Toepfer to expand its grain operations in Ukraine and increase grain exports. Toepfer will buy the grain from farmers, store and transport it, and control the chain from harvest to the export terminal. By cutting out inefficient operators and middlemen, Toepfer can pay consistent and fair prices to farmers.

Toepfer is committed to introducing best practices to the market and to building a long-term relationship with farmers. Its size and experience in running modern grain storage and transport operations sets new standards in Ukraine and acts as an example of best practice for local operators. The benefit to farmers is that they get better prices from Toepfer, which allows them to build cash reserves for the future.

"EBRD support for Toepfer will enable Ukrainian farmers to increase production and also lead to the development of a sustainable export-oriented commodities market," said Bjoern Stendel, Director of Toepfer International Ukraine.

The project is also expected to lead to the introduction of a warehouse receipts system in Ukraine, which would provide a stable source of post-harvest finance to farmers and agricultural companies. With the EBRD's help, similar programmes have been set up successfully in Croatia, Kazakhstan, Poland, Romania and Russia. For an example of our involvement in Kazakhstan, see page 68.

Moldova

Investment climate

Economic growth in Moldova has continued at a fairly rapid pace, exceeding 7 per cent in 2002. A number of previous privatisations are under review, leading to increasing concerns over the government's attitude towards private (including foreign) investors. This will complicate the country's ability to attract sufficient foreign financing, both private and official, to cover its large current account deficit. The main challenges in Moldova over the coming years are poverty reduction, the strengthening of administrative capacity at state level and improvements to the business environment to attract additional private investment.

EBRD activities

The EBRD invested €10 million in Moldova in 2002. This included credit lines to Moldova-Agroindbank and the Micro Enterprise Credit Bank for on-lending to micro, small and medium-sized enterprises. Looking ahead, we aim to expand our activities in Moldova, particularly in the private sector. We will continue to provide support to small businesses by providing finance through key local banks. We are also ready to support the privatisation process if this moves forward.

EBRD commitments and disbursements in Moldova

	2002	Cumulative
Number of signed projects[1]	2	19
Commitments *(€ million)*	10	181
Percentage of total EBRD investments	0.3	0.8
Disbursements *(€ million)*	28	148

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 89 to 99, where regional projects are listed separately.

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

EBRD commitments by sector in Moldova

	2002 € million	Cumulative € million
Energy	0	38
Infrastructure	0	52
Specialised industries	0	35
Financial institutions	10	56
Total	**10**	**181**

Note: The totals may not add up to the sum of the component parts due to rounding.

Belarus

Investment climate

Despite some progress in macroeconomic management since 2001, Belarus has yet to adopt a consistent economic reform programme, which could deliver sustainable growth. Although the economy is estimated to have grown by around 5 per cent in 2002, stocks of unsold products and losses among enterprises are increasing.

Belarus has been among the laggards in transition and will need to embark on a range of structural reforms. Key among these are the need for further price and wage liberalisation, an improved investment climate and the implementation of large-scale privatisation. The country also needs to make progress in democratic reforms.

EBRD activities

Due to the slow pace of reform in Belarus, there have been limited opportunities for EBRD investment. Our strategy, approved in 2002, proposes several alternative approaches. Until the Belarus authorities move forward in allowing democratic practices and implementing market reforms, the EBRD's involvement will be limited to monitoring existing projects and developing business initiatives in the private sector that encourage the reform process. If Belarus makes progress in democratic reforms, the EBRD would be able to undertake a broader range of activities.

EBRD commitments and disbursements in Belarus

	2002	Cumulative
Number of signed projects[1]	0	6
Commitments *(€ million)*	8	164
Percentage of total EBRD investments	0.2	0.8
Disbursements *(€ million)*	3	157

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 89 to 99, where regional projects are listed separately.

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

EBRD commitments by sector in Belarus

	2002 € million	Cumulative € million
Energy	0	34
Infrastructure	0	47
Specialised industries	0	43
Financial institutions	8	39
General industry	0	1
Total	**8**	**164**

Note: The totals may not add up to the sum of the component parts due to rounding.

Caucasus

Investment climate

Armenia and Azerbaijan recorded very strong growth of 12.9 and 10.6 per cent respectively in 2002, driven by a remarkable recovery of industry in Armenia, and by the continuing strength of the oil sector in Azerbaijan. Both countries are committed to additional structural reforms with international assistance to alleviate poverty and lay the foundations for sustained growth. For Armenia, accession to the World Trade Organization (WTO) may provide additional impetus as it should improve market access, in particular at the Turkish border. In Georgia, domestic political instability has continued to hold back investment and remains the key obstacle towards the implementation of sound macroeconomic and structural policies.

In the future, significant hopes rest with the potential role of the Caucasus as a transport corridor between Asia and Europe but this potential will depend on further stabilisation of the political environment. In addition, all three countries face major challenges in improving the investment climate in order to attract greater levels of investment.

EBRD activities

In 2002 the EBRD invested €73 million in the Caucasus to support the development of the private sector, with particular emphasis on SMEs. A new microfinance institution – the MicroFinance Bank of Azerbaijan – was established during the year. Infrastructure development was supported through an investment in the Poti Port oil terminal in Georgia. We also financed our first industrial project with a local Armenian sponsor, providing funding to a company that operates the only copper smelter in the Caucasus region.

Growth in real GDP in 2002

	%
Armenia	12.9
Azerbaijan	10.6
Georgia	3.5

↑ Moncrief Azerbaijan Oil Company plans to develop the oil fields in the lower Kura Valley using a €38 million EBRD loan.

← An EBRD loan is financing the expansion of the Poti Port oil terminal in Georgia.

EBRD commitments and disbursements

	2002				Cumulative			
	Number of commitments[1]	Commitments € million	% of total EBRD investments	Disbursements € million	Number of commitments[1]	Commitments € million	% of total EBRD investments	Disbursements € million
Armenia	1	4	0.1	3	7	122	0.6	98
Georgia	2	17	0.4	19	17	205	0.9	151
Azerbaijan	1	52	1.3	19	12	358	1.7	254
Total	**4**	**73**	**1.8**	**41**	**36**	**685**	**3.2**	**503**

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 89 to 99, where regional projects are listed separately.

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

Discussions at government level focused on the investment climate, private sector development and key reforms, both in terms of expanding opportunities for EBRD financing and monitoring projects already under implementation.

In 2002 the Bank approved new country strategies for Azerbaijan and Georgia. Despite some formidable challenges, we intend to increase our investments in the Caucasus to encourage the reform process under way in these countries. We will help to build the institutions needed to sustain this progress and to alleviate poverty, particularly through our support for private sector activity.

EBRD commitments by sector

	2002 € million	Cumulative € million
Energy	38	430
Infrastructure	11	132
Specialised industries	0	37
Financial institutions	20	78
General industry	3	8
Total	**73**	**686**

Note: The totals may not add up to the sum of the component parts due to rounding.

Russia

Population	
	million
Russia	145.4

Russia made good progress in structural reforms in 2002 and recorded solid growth of 4.3 per cent. In response, the EBRD increased investment in Russia to €1.3 billion in 2002 from €0.8 billion the previous year. This included support for both the private and public sectors. The Bank's biggest project during the year was a public sector loan to fund the completion of St Petersburg's flood protection barrier, which will protect the city's residents from the serious flooding that has been a regular occurrence for centuries.

The main challenges facing Russia over the coming years are to implement structural reforms, to reduce the country's dependence on the oil and gas sector and to attract increasing levels of investment. The Bank intends to expand our role in Russia and to increase our investment levels in areas such as infrastructure, the financial sector and small business development. We will also maintain our involvement in the Northern Dimension Environmental Partnership, which is harnessing international cooperation to address severe environmental problems in north-west Russia.

Investment climate

Russia's economy recorded a solid performance in 2002, with growth estimated at just above 4.3 per cent. After a difficult first half-year, production accelerated during the second half, driven by significant growth in the energy sector, which was buoyed by high oil prices. Growth in private consumption has remained strong over the past three years, supported by rapid real wage increases and rising employment. Real incomes surpassed their 1997 pre-crisis level in September 2002 and unemployment – at around 6 per cent – is lower than at any time since the early 1990s.

While both consumption and investment have been key factors behind Russia's growth in recent years, investment growth slowed last year, to an estimated 2.6 per cent. Although the energy sector remains a key driver of investment, there is some evidence that its overall share of investment activity declined slightly in 2002. Rising labour costs and real appreciation of the Russian rouble have eroded profit margins and reduced cash flow available for re-investment. While bank lending has continued to rise at rapid rates, this is from a low base and has failed to compensate for the fall in profits.

Macroeconomic policy continued to be prudent in 2002. A strong fiscal position was maintained as a way of building a cushion against a potential fall in oil prices and to limit the effect of Russia's strong external position on the real exchange rate. The success of this policy should allow the country to weather relatively well a decline in oil prices for at least a limited period. It also allowed Russia to reduce inflation to close to 15 per cent by the end of 2002 despite strong capital inflows.

Supported by high oil prices, Russia's balance of payments position remains strong. Notably, the capital balance is improving and the private sector has become a net importer of capital, as underlined by numerous foreign issues of corporate paper by Russian companies throughout the year. Russia's credit rating continued to improve in 2002 and early 2003. However, foreign direct investment remains low by comparison with central Europe or other emerging markets.

Progress continued in structural reforms in 2002. Russia has made significant strides in reducing the regulatory and tax burden on businesses and in improving the protection of investor rights. New legislation adopted in 2002 included new land and labour codes and important amendments to the joint-stock company law. The Russia Corporate Governance Code, adopted in March 2002, has begun to be implemented and awareness of good practice in corporate governance is gradually increasing. A new law on bankruptcy was also adopted, introducing extensive changes to the procedure of insolvency. In addition, a new arbitration procedure code will simplify the process for resolving commercial disputes, and the Duma unanimously approved amendments to the Law on Money Laundering.

Moreover, progress was made in creating a modern and comprehensive legislative framework for telecommunications (see page 85). Improvements were also made to the legal and regulatory framework governing the debt capital markets, with a view to bringing it into line with the practice of international bond markets.

↑ Two loans totalling €95,000 under the Russia Small Business Fund have enabled Devore to expand its sales network and increase revenue by over 80 per cent since 2001.

← In 2002 the EBRD invested €142 million in general industry and manufacturing projects.

↑ Production at the Vena brewery in St Petersburg has expanded following a €44 million loan from the EBRD.

→ In 2002 the EBRD invested in the improvement of key municipal services, such as the quality of the water supply in Russian cities.

Challenges for the future

Looking ahead, Russia's main challenge is to reduce the economy's and the government's dependence on the oil and gas sector. Investment in other areas of the economy remains low and the rapid real wage increases are eroding Russia's competitiveness. Moreover, Russia must do more to attract foreign direct investment and to promote domestic investment if it is to achieve sustained convergence of income levels with the OECD countries.

The introduction and implementation of a number of structural reforms are still needed in the financial sector to improve the financing of the real economy. Restoring confidence in the financial system is particularly important given the need to reduce dependence on the oil and gas sector and to limit exchange rate pressures resulting from high oil prices.

Reform challenges also remain for infrastructure, with energy tariffs requiring particular attention. Another key challenge is to improve coordination between the different layers of government, as both the business environment and economic performance vary significantly between different regions of Russia.

EBRD activities

In 2002 the EBRD significantly increased the level of new business in Russia, increasing our annual commitments to €1.3 billion from €804 million in 2001. There was particularly strong growth in the infrastructure sector. By the end of 2002 the EBRD's total investment in Russia amounted to €4.8 billion. Private sector investment accounted for 78 per cent of this total. The overall investment includes €1.34 billion to support financial institutions, €761 million for natural resources, €458 million for the agribusiness sector and €758 million for general industry and manufacturing projects.

The EBRD's growing activity in Russia reflects the progress that the government has made in undertaking political and economic reforms. Improving the business climate at both the national and local level has been a major aim of the reform process. The Bank has continuously supported this – especially in the field of legislative reform – by providing technical assistance to the Russian authorities. This has mostly been in the areas of corporate governance, capital markets, pledge law, concessions and the legal and regulatory framework for telecommunications.

In 2002 the EBRD signed projects with major strategic and local investors in sectors ranging from household goods to steel processing. We strengthened our portfolio outside the main cities, expanding our financing for smaller municipalities and regional banks and increasing our local currency funding. In the power sector the EBRD concentrated on projects with major regional utilities while continuing to maintain intensive dialogue with the relevant authorities on sector restructuring.

The EBRD's largest ever project – a €234 million loan for the St Petersburg flood barrier – was signed at the end of the year. The loan will help to fund the completion of the barrier and prevent serious flooding in St Petersburg. The city has flooded approximately twice a year for the past 20 years, and it is estimated that a major flood could cost the city as much as €4 billion. The 18-year loan will give the Russian authorities an opportunity to demonstrate best commercial practices for the construction and implementation of a large, public sector project and will introduce cost recovery and private sector involvement.

EBRD commitments and disbursements

	2002	Cumulative
Number of signed projects	26	152
Commitments *(€ million)*	1,289	4,818
Percentage of total EBRD investments	33.0	22.3
Disbursements *(€ million)*	654	3,198

Note: Financing for regional projects has been allocated to Russia where appropriate.
The totals in this table may differ, therefore, from the list on pages 89 to 99, where regional projects are listed separately.

EBRD commitments by sector

	2002 € million	Cumulative € million
Energy		
Energy efficiency	4	4
Natural resources	132	761
Power and energy	67	241
Subtotal	*203*	*1,006*
Infrastructure		
Municipal and environmental infrastructure	287	392
Transport	219	337
Subtotal	*506*	*729*
Specialised industries		
Agribusiness	174	458
Property, tourism and shipping	95	368
Telecommunications, information technology and media	0	159
Subtotal	*269*	*985*
Financial institutions		
Bank equity	0	69
Bank lending	94	625
Equity funds	19	382
Non-bank financial institutions	47	54
Small business finance	8	209
Subtotal	*168*	*1,339*
General industry		
General industry	142	758
Subtotal	*142*	*758*
Total	**1,289**	**4,818**

Note: The totals may not add up to the sum of the component parts due to rounding.

Another significant project signed at the end of the year was a loan to the Russian government to fund repairs to the world's second-highest television tower, the Ostankino Tower in Moscow. The project will have a significant impact on the transition process by ensuring equal access to the tower by government and non-government channels and by introducing commercially oriented management.

The Bank's programme for small business made good progress during the year. The Russia Small Business Fund (RSBF) provided €300 million to 44,500 borrowers, with loans ranging from €10 to €200,000. By the end of 2002, the RSBF had disbursed more than US$ 1 billion (€950 million) to over 100,000 clients. The Bank's Regional Venture Funds provided additional support for small and medium-sized enterprises (SMEs) through equity investments and accompanying grants. We further developed our product range in Russia, introducing warehouse bills and leasing.

Future activities

In October 2002 the EBRD adopted a new country strategy for Russia. The strategy outlines the Bank's contribution to Russia's economic diversification and our support for the reform process currently under way. The EBRD will continue to focus on regions where local government is constructive and where investment needs are high. We aim to increase our lending to small businesses and to provide technical assistance that will help to improve the investment climate and lead to economic diversification. We will continue to support the Northern Dimension Environmental Partnership, which is already helping to address severe environmental problems in north-west Russia (see page 18).

The main priorities for the next few years will be promoting restructuring in infrastructure, attracting strategic investors to the corporate sector, strengthening small business development, and supporting financial sector reform. When selecting projects, the EBRD will carefully take into account factors such as the promotion of private sector involvement, environmental improvements, energy-saving investments and the priorities of the Russian government.

Special emphasis will be given to projects that help to move the economy away from over-reliance on the oil and gas sector. The EBRD will step up, for example, our programme to renew municipal infrastructure and finance key transport projects. In Kaliningrad we have developed a plan that calls for significant investment in water treatment facilities, establishment of a branch of a specialised SME-lending bank, and the launch of a study to assess the difficulties faced by small business.

As a result of the reforms under way and the continuing need for investment, we recognise that our role in Russia will expand and we expect new business in this huge country to account for a growing share of our total business volume.

Sector
Forest products

Client
Stora Enso

Area
Central Europe and the countries of the former Soviet Union

EBRD finance
€100 million multi-project facility: €6 million nine-year loan for first project

Other finance
€140 million syndicated to three commercial banks: €3 million syndicated for first project

Aim
Support development of more modern and efficient production methods

Modernising the forestry sector

Industries dealing with forest products in eastern Europe typically operate with outdated facilities and low environmental awareness. In a region with abundant wood resources there is a clear need for investment in modern technologies to develop more efficient use of raw materials. The EBRD's multi-project facility with Stora Enso, the world's largest paper and board manufacturer, supports a long-term investment programme across the region. The projects to be financed are mainly in the sawn softwood and corrugated board industries.

Stora Enso will introduce new production methods to these industries. The first proposed projects to be funded are the construction of new sawmills in Karelia (in the north west of Russia, near the Finnish border) and Novgorod and a packaging plant in the Volga region.

The EBRD's projects with Stora Enso will bring modern practices and new skills to the region.

The sawmills will be the first in Russia to operate modern sorting and sawing equipment with computerised production processes and quality control systems. The second proposed project is the establishment of a new plant to produce corrugated packaging for the food processing and beverage industries.

The project breaks new ground for the EBRD. It is our first long-term regional cooperation deal and the first time we have syndicated a multi-project facility. It is also our first direct investment in the Russian sawn-wood industry.

The projects will create new jobs and bring new skills and technology to the region. Stora Enso is expected to set the highest industry standards for environment, health and safety, sustainable forest management and corporate governance. The project is also expected to increase competitiveness in the sawmill sector and associated industries, such as logging, paper and wood processing.

"Stora Enso is pleased to have the EBRD as a strong partner in its future expansion in Russia and eastern Europe," said Stora Enso's Chief Financial Officer Esko Mäkeläinen.

The multi-project facility funds a series of related projects. Future projects will be carefully screened to ensure respect for the environment and a high impact on the transition process.

New road link to Russia's Far East and less traffic for St Petersburg

Sector
Transport

Client
Rosavtodor (part of the Ministry of Transport)

Area
Russia

EBRD finance
€218 million 15-year loan

Other finance
Rosavtodor will provide up to €95 million.

Technical assistance of €1.3 million from Canada, Denmark, the European Union and Sweden.

Aim
Help Russia build its first road link to the Far East, and complete a bypass around St Petersburg

During the long winter months, people living in remote settlements in Russia's Far East are completely cut off and can be reached only by air. At the other extremity of this huge country, trucks thundering through the centre of St Petersburg create congestion and pollution. With the EBRD's help, two new road projects will transform the quality of life for these distinctly different communities.

Our first loan to the Russian road sector will help build a section of the first-ever East-West road link to the Russian Far East. When completed in 2005, a new two-lane road, covering 2,165 kilometres (between Chita and Khabarovsk) will run parallel to the Trans-Siberian railway and provide the first road connection between Moscow and Vladivostok. As well as opening up this remote region, the road will speed the movement of goods and provide an alternative to rail freight, resulting in increased availability of essential commodities and lower transport costs.

Environmental damage arising from such an enormous construction project is minimised because of strict construction regulations. The project has passed all environmental requirements and was met with overwhelming approval during the public consultation period.

Igor Slyunyaev, the head of the Russian Road Administration, Rosavtodor, comments: "The financing of the EBRD is an absolute necessity for us in order to be able to construct the Chita-Khabarovsk road and the St Petersburg bypass. Both roads are a priority for my country and I am very pleased that the EBRD is bringing its expertise to assist us with the construction and the reform of the road sector."

Construction starts this year on the EBRD-financed section of the St Petersburg eastern bypass, which will take heavy trucks away from the historic city centre. This will reduce noise and pollution, and improve road safety and air quality for St Petersburg residents.

Reform of how the road sector is financed is an integral part of the project. The EBRD is providing technical assistance to Rosavtodor to develop a road management system, to improve road safety and to upgrade quality control. This follows on from proposals (developed by consultants and now implemented) to recover some of the costs of road use by charging road users via dedicated taxes.

This project depends on close cooperation between the EBRD and the Russian Ministry of Transport, which will act as a model for future collaboration.

Giant shopping centre opens in Moscow

IKEA

Sector
Property

Client
IKEA Mos, subsidiary of IKEA Group

Area
Russia

EBRD finance
€95 million ten-year loan

Aim
Introduce a new retail concept in Russia

Up to 25 million people a year are expected to visit Mega Mall, the biggest shopping centre in eastern Europe, which opened in Moscow on 12 December 2002. The centre is the first of its kind in Russia to integrate a wide range of shops, restaurants and entertainment under one roof.

Located on the outskirts of Moscow and covering 170,000 square metres, the first phase of the development includes a shopping gallery with around 150 shops, an ice skating rink, a children's play area and a food court with cafés, bars and fast food outlets.

Designed on one level with adjacent free parking for 11,000 cars, the site was conceived and developed by IKEA and partially financed by the EBRD. We are also financing phase two of the development, which is scheduled to open in summer 2003. This will see the arrival of an 11-screen multiplex cinema, an underground car park and many more shops (making 250 in total) and restaurants.

This is IKEA's first venture into property development in Russia, expanding on the success of its two Moscow furniture stores. The shopping centre is aimed at Moscow's middle-income shoppers. Until now, Moscow's boutique-style retailing offered expensive imported goods at one extreme and cheaper, locally produced goods at the other, with little to satisfy those looking for something in between.

Apart from IKEA, the big-name stores in the new shopping centre include French hypermarket chain Auchan. Benetton and other European brand names are among the many fashion shops, around 20 of which are new to the Russian market. A department store and a big DIY retailer will open in phase two of the development. The shopping centre was expected to generate around €640 million a year in sales but initial trading figures are already exceeding those forecasts.

The new shopping centre is changing the retail landscape in Moscow and will be a welcome boost to the Russian economy. It has created 5,000 new jobs, many of them in sales, marketing and customer services, and is supporting local suppliers and the commercial property and construction sectors. It is also helping to set new standards. IKEA has even established a "Mega Mall university" to train the shopping centre's employees. IKEA plans to develop a similar shopping centre around its other Moscow store and to open its first St Petersburg store at the end of 2003.

Ingvar Olsson, Deputy General Director of IKEA MOS, said: "IKEA and the EBRD are natural partners as we share the same long-term views focused on sustainable development and corporate governance."

Sector
Manufacturing

Client
Merloni

Area
Russia

EBRD finance
€13.6 million equity investment

Aim
Modernise production and expand product lines

Better home appliances for Russian market

The home appliances market in Russia is growing rapidly to meet consumer demand for new and reliable products. To boost this market, the EBRD is helping to improve the quality of household appliances made in Russia by investing in Stinol, the country's leading refrigerator plant. The company is part of the Merloni Group, Europe's third-largest maker of home appliances (which includes Indesit and Ariston among its brands). Our investment will be used to modernise the company's production facilities.

Russian consumers will have greater access to new and reliable home appliances following an EBRD investment in Stinol.

Since 2000 Stinol has increased its production from 600,000 appliances per year to over 1.1 million. Stinol products account for around 30 per cent of the Russian market. The company is currently focusing on developing its range of refrigerators and improving their efficiency and environmental standards. Merloni would like to build on its success at Stinol and plans to expand into the production of washing machines. A new washing machine facility with the capacity of up to 1 million appliances should start operations in 2004.

Stinol's restructuring will take a number of years. During this time Merloni will develop skills in the areas of production, quality control, corporate management, distribution, marketing and after-sales service. Merloni's technical expertise and sound environmental reputation will bring additional benefits in the areas of energy efficiency, recycling, and health and safety.

The EBRD will be represented on Stinol's board of directors and will support the company's commitment to adopt best practices throughout its operations. The project is expected to promote greater competition and to support the transition process by setting new industry, environmental and governance benchmarks in Russia.

Central Asia

Population

	million
Kazakhstan	14.9
Kyrgyz Republic	4.7
Tajikistan	6.2
Turkmenistan	5.4
Uzbekistan	25.0

The countries of Central Asia are faced with the need to combat severe poverty, to introduce reforms, and to attract private investment. In 2002 a significant part of EBRD investment was devoted to the development of small businesses, which are fundamental to the alleviation of poverty and the growth of the economy. We also worked closely with the region on introducing reforms, increasing cooperation among neighbouring countries and finding ways of improving the investment climate.

In the coming years we intend to increase our levels of investment in Central Asia as we heighten our focus on the poorest countries of the Bank's region of operations and move further eastwards. In particular, we aim to encourage cross-border cooperation (especially for infra-structure projects), development of the financial sector, support for small business, and economic diversification beyond oil and gas.

Investment climate

Central Asia gained renewed international attention in the aftermath of the tragic events of 11 September 2001. However, the subsequent military intervention in Afghanistan and increased international assistance have not greatly affected economic performance in the region. Moreover, the economic reform efforts continue to lag behind other transition economies.

While there are significant differences in the levels of reform achieved over the past decade across the five Central Asian countries, all of them face the related challenges of combating severe poverty and improving the investment climate for the private sector, which remains underdeveloped in Central Asia.

After a record year in 2001, economic growth remained strong in 2002 in Kazakhstan and Tajikistan, exceeding 9 per cent in both countries. In Kazakhstan rapid production increases in the energy sector and the continued recovery of domestic light industries and services have supported growth. In Tajikistan, domestic demand has also played an important role in the recovery, with rising incomes and increasing domestic sales of foodstuffs and domestic services.

Growth in real GDP in 2002

	%
Kazakhstan	9.5
Kyrgyz Republic	– 0.5
Tajikistan	9.1
Turkmenistan	8.4
Uzbekistan	4.2

In Turkmenistan, official estimates of 21.2 per cent growth seem vastly exaggerated as gas production rose by just 3 per cent and agriculture suffered from a very poor cotton harvest.

Growth in the Kyrgyz Republic and in Uzbekistan was less strong, with GDP falling by 0.5 per cent in the former and increasing around 4 per cent in the latter. In the case of the Kyrgyz Republic the decline in GDP was almost entirely due to the disruption of production at the Kumtor gold mine following an accident earlier in the year. Other sectors of the economy have been performing well and growth is likely to regain or surpass the 2001 level by next year.

In Uzbekistan the economy remains sluggish due to the lack of private investment. Private investors have adopted a wait-and-see attitude towards the government's repeated liberalisation commitments and have been badly affected by the adoption of new trade restrictions during the year. At the same time, positive reforms such as the significant devaluation of the official exchange rate and the move of state procurement prices closer to international market levels for cotton and wheat are reducing the availability of resources for public investment.

The past year saw a number of legislative improvements in the region. Kazakhstan passed a new law on franchising, providing standard terms and conditions for franchising agreements. The Kyrgyz Republic adopted new legislation on leasing and microfinance, which will significantly improve the financing of small and medium-sized enterprises (SMEs). Progress was made by Kazakhstan and Tajikistan in their efforts to adopt a modern and investor-friendly environment for telecommunications. In addition, Uzbekistan adopted a new legal framework for leasing in August 2002 (see page 85).

↑ Through the EBRD's Direct Investment Facility, BDC Vytas has been able to expand its mobile dental clinic network in the Kyrgyz Republic.

← The EBRD's loan to Kazkommertsbank will increase lending to large companies in sectors ranging from general industry to oil and gas.

↑ The EBRD has invested over €140 million in power projects in Central Asia.

→ The EBRD invested €49 million in agribusiness projects in Central Asia in 2002.

Kazakhstan stands out among the countries of Central Asia for the strength of its macroeconomy and its financial sector. Tight fiscal policy has allowed the country to build up a strong cushion against a potential fall in oil prices. This has also helped to neutralise the strong oil-related capital inflows, kept inflation low and the real exchange rate competitive. Pension reform has led to the accumulation of €1.7 billion in domestic savings, which together with rising bank deposits has provided ample liquidity, particularly to larger Kazakhstani companies. Despite these positive developments, the economy remains highly dependent on oil. Weaknesses in the investment climate and in the corporate governance standards of Kazakhstani companies have discouraged investors from entering the non-oil economy.

In the remainder of Central Asia, the macroeconomic situation is less stable. The Kyrgyz Republic and Tajikistan suffer from a high public debt burden, remain dependent on official financing and struggle to attract private foreign investment. In Uzbekistan rich natural resource endowments provide attractive investment opportunities in principle but distortionary foreign exchange regimes and inconsistent economic policies have discouraged investors so far. However, over the past 18 months Uzbekistan has made a number of reform efforts. Turkmenistan has failed to demonstrate progress in improving the investment climate.

Challenges for the future

The economic outlook for the region will depend mainly on developments in Russia as well as future commodity prices. Overcoming this dependence through closer integration with the world economy, closer regional cooperation and economic diversification is the key economic challenge for the region. Foreign investments will play a crucial role in addressing this economic challenge. To attract greater levels of investment, the region needs to focus on improving the investment climate, including strengthening of the judiciary and fighting corruption.

To reduce dependence on oil, Kazakhstan will need to improve the investment climate for domestic SMEs, attract foreign investment to the non-energy sector and develop infrastructure to enhance the country's competitiveness and access to world markets. In the Kyrgyz Republic and Tajikistan overcoming high indebtedness is a key challenge, as is the gradual development of a domestic financial sector strong enough to support the development of SMEs and domestic entrepreneurship. In terms of attracting foreign investment, these countries have not yet benefited from relatively liberal foreign trade and exchange regimes as the pace of institutional reforms has remained slow.

In Uzbekistan the government will need to embark on serious structural reforms if it wishes to attract additional foreign investment and to exploit the country's full economic potential. It has made some progress but the country badly needs to complete its reform efforts to generate stronger private sector investment and to compensate for the necessary adjustment in the public sector. In Turkmenistan progress in structural reform has been very limited. The country needs to initiate reforms in trade and foreign exchange liberalisation and substantially reduce state interference in the economy.

EBRD activities

In 2002 the EBRD invested €221 million in Central Asia. Kazakhstan was the largest recipient (€175 million) followed by Uzbekistan (€34 million). Over the past year we have made substantial contributions to supporting private sector development, which is key to creating jobs and alleviating poverty. The EBRD is the largest investor in the private sector in Central Asia outside the oil sector. We are also the international financial institution (IFI) with the largest number of projects, with investments totalling around €1.8 billion.

Projects signed during the year include an investment in environmental improvements at a copper refinery in eastern Kazakhstan (see page 15), a loan to Kazkommertsbank to increase its lending to private companies (see page 66) and an investment to expand the production capacity of Gap-Turkmen, a leading company in Turkmenistan's clothing industry. The EBRD also provided significant support to the Trade Facilitation Programme, which promotes import and export trade.

To increase equity investments in countries with smaller business volume, we have extended the Direct Investment Facility, which provides financing directly to attractive private sector businesses led by experienced local entrepreneurs. The EBRD also launched in 2002 a Central Asian Risk Sharing Special Fund, which aims to support an increased level of activity in the region, mainly through funding small business projects (see page 22).

Through our credit lines to local banks, the EBRD has been particularly successful in providing loans to very small borrowers who do not have access to other forms of financing. The success of the programme has led to similar operations by other IFIs that operate in Central Asia, promoting further job creation. At the same time the use of technical cooperation funding from donor countries has helped to develop sound financial skills. Important products introduced in the region in 2002 include the Grain Warehouse Receipts Programme, which supports farmers and rural development (see page 68).

Through a wide range of financial intermediaries, the EBRD has already invested about €285 million in micro, small and medium-sized businesses across Central Asia. This includes €90 million in the Kazakhstan Small Business Programme, which was set up in 1998 to strengthen the SME sector. The programme has already disbursed over 40,000 micro and small loans in Kazakhstan totalling more than €230 million. To build on this, the EBRD approved in 2002 an additional €85 million for the programme, which will be disbursed in 2003. The repayment rate currently stands at over 99 per cent.

EBRD commitments

	2002			Cumulative		
	Number of projects[1]	€ million	% of total EBRD investments	Number of projects[1]	€ million	% of total EBRD investments
Tajikistan	0	0	0.0	5	31	0.1
Kyrgyz Republic	0	2	<0.1	13	143	0.7
Turkmenistan	1	10	0.3	5	163	0.8
Uzbekistan	1	34	0.9	18	612	2.8
Kazakhstan	6	175	4.5	25	818	3.8
Total	**8**	**221**	**5.7**	**66**	**1,767**	**8.2**

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 89 to 99, where regional projects are listed separately.

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

In the Kyrgyz Republic the EBRD launched a €14.5 million facility in 2002 to support the growth of micro and small enterprises. Co-financed by the Swiss government, the US government and the International Finance Corporation, the facility will provide credit lines to Kyrgyz commercial banks for on-lending finance to local entrepreneurs. Small businesses account for at least 60 per cent of the Kyrgyz workforce but financing via local banks is still limited. This facility will help to relieve part of that funding gap. As well as supporting local entrepreneurs, the facility will assist the partner banks in developing efficient lending programmes with the support of grant funding from the European Union and USAID. In 2002 the EBRD also invested alongside the Japanese government in a programme for small business in Uzbekistan (see page 67).

The EBRD's aim to foster private sector development in Tajikistan continued to encounter significant constraints due to weaknesses in the investment climate and a fragile macroeconomic situation. Weak administrative capacity, an under-developed financial sector and poor infrastructure hamper private business development and deter foreign investment. In this difficult environment, investment opportunities for the EBRD have been limited.

During the year the EBRD continued to discuss with the relevant governments how to improve the investment climate and to increase regional cooperation in Central Asia. In Kazakhstan, for example, the Bank had discussions with the Foreign Investors' Council on ways of attracting private capital.

EBRD commitments by sector

	2002 € million	Cumulative € million
Energy		
Energy efficiency	0	14
Natural resources	0	260
Power and energy	0	142
Subtotal	*0*	*416*
Infrastructure		
Municipal and environmental infrastructure	0	56
Transport	0	336
Subtotal	*0*	*393*
Specialised industries		
Agribusiness	49	79
Property, tourism and shipping	0	18
Telecommunications, information technology and media	0	45
Subtotal	*49*	*142*
Financial institutions		
Bank equity	0	14
Bank lending	131	517
Equity funds	0	41
Non-bank financial institutions	2	8
Small business finance	9	84
Subtotal	*142*	*662*
General industry		
General industry	30	154
Subtotal	*30*	*154*
Total	**221**	**1,767**

Note: The totals may not add up to the sum of the component parts due to rounding.

EBRD disbursements

	2002 € million	Cumulative € million
Tajikistan	0	12
Turkmenistan	21	70
Kyrgyz Republic	1	136
Uzbekistan	32	416
Kazakhstan	104	429
Total	**158**	**1,063**

In preparation for the Bank's Annual Meeting in Tashkent in May 2003, meetings were held with Uzbekistan's President and senior government officials to discuss structural reform efforts, the need for regional cooperation with neighbouring countries, and respect for multi-party democracy and human rights.

In cooperation with other international financial institutions, the EBRD has called for further financial assistance on grant terms to support the poorest countries of Central Asia (the Kyrgyz Republic, Tajikistan and Uzbekistan), which form part of the CIS-7.

Future activities

Over the coming years the EBRD intends to increase our level of investment in Central Asia in response to the urgent need for financing. We will work with the region to increase private capital flows, to establish market economies and to develop democracy. Fewer trade barriers, a more predictable investment climate and further economic diversification beyond oil and gas are crucial to attracting foreign investment to Central Asia. By improving these areas, the countries of the region can best secure future sustainable growth and build on the economic achievements of the first decade of independence.

In 2002 the EBRD adopted new country strategies for Kazakhstan and the Kyrgyz Republic. In both these countries we aim to focus on private sector development, with an increasing emphasis on small business, the financial sector, promoting foreign direct investment and intensifying efforts to improve the investment climate. In Kazakhstan the EBRD also plans to undertake infrastructure projects in the transport, energy and municipal sectors and to strengthen the country's agricultural sector. In the Kyrgyz Republic the Bank will focus on attracting investment to key natural resources projects in addition to supporting SMEs and the financial sector.

The EBRD also adopted a new country strategy for Turkmenistan, which outlines three alternative approaches. If the authorities make no progress in democratic and critical market reforms, the Bank will limit our activities to the promotion of private sector activities, particularly small business. If progress in democratic reform and economic liberalisation is achieved, we will broaden our range of activities to include possible investments in oil and gas projects and in the public sector. In the event that the authorities start to implement a comprehensive reform programme, the Bank would be active in a wide range of areas, both public and private.

In Tajikistan the EBRD will continue to work with the government on finding ways of improving the investment climate and developing commercial practices. While remaining realistic about the current business environment, we will continue to explore investment opportunities in the areas of private sector development, support for the financial sector, investment in small business, and public infrastructure.

Greater access to loans for private businesses in Kazakhstan

KAZKOMMERTSBANK

Sector
Bank lending

Client
Kazkommertsbank

Area
Kazakhstan

EBRD finance
€29 million four-year loan

Other finance
€21 million four-year loan syndicated to a group of international commercial banks

Aim
Increase medium-term lending to private companies

Private companies in Kazakhstan have little access to medium-term loans from banks. This restricts their ability to expand and, in turn, restricts the growth of the country's economy in certain sectors. The EBRD's loan will help to fill this financing gap for privately owned companies with viable, market-oriented plans for expansion.

The EBRD loan to Kazkommertsbank (KKB), the largest bank in Kazakhstan, will allow it to increase its medium-term lending. KKB expects to provide funding for several new projects a year, mostly to existing corporate clients. These include large companies in the metals, power, food processing, agribusiness, and oil and gas sectors. The key condition for lending to these companies is that the loans will be used for new projects rather than for refinancing.

KKB has already participated in key projects to improve access to finance, including the Kazakhstan Small Business Programme, the Trade Facilitation Programme, and the Warehouse Receipts Programme (see page 68).

This is the first syndicated loan that the EBRD has made to the financial sector in Kazakhstan. Our presence attracted significant support from commercial banks, and resulted in a longer-term arrangement than usual. The successful syndication is a positive sign of the development of the relationship between Kazkommertsbank and international commercial banks. This is essential to support the expected demand for increased lending to private companies over the coming years.

The EBRD's loan will help fill the financing gap for privately owned companies in Kazakhstan.

Andrey Timchenko, Financial Institutions Director of Kazkommertsbank, commented: "International banks are reluctant to take longer-term risks in spite of improving economic conditions and so the syndicated loan arranged by the EBRD is a very important step forward."

Giving a helping hand to small businesses in Uzbekistan

Japan-Uzbekistan Small Business Programme

Sector
Micro and small enterprises (MSEs)

Client
Uzbek commercial banks

Area
Uzbekistan

EBRD finance
€19.1 million framework for local banks to on-lend to MSEs

Other finance
€4.8 million technical assistance from the Japan-Europe Cooperation Fund

Aim
Provide finance to micro and small businesses and assist local banks to build up their MSE lending skills

Mrs Mamitova doubles her company's sales

Mrs Mamitova has been dyeing and printing cotton cloth since 1990. She specialises in cloth printing and has set up a printing and production area behind her home. When she applied for her first loan through the Japan-Uzbekistan Small Business Programme, she had four printing tools and employed 10 people at her premises, mainly women from the surrounding neighbourhood.

In 2001 she received a short-term loan of €1,500 from Hamkor Bank in Andijan city, her first-ever loan from an Uzbek bank. By October 2002 she had already received her third loan of €3,800 with a longer maturity. The loans have been used to expand her company's production capacity. She now has six small machines for dyeing and printing, and has bought an industrial iron, which is used for her own production process and to provide ironing services to other producers.

Mrs Mamitova's sales have doubled and the number of employees has grown from 10 to 15. The success of her business is prompting relatives to follow her example. Some have already become clients of the lending programme. Mrs Mamitova is already planning her next purchase, an automatic printing machine from Germany, which she hopes to finance with a further loan from the small business programme. Mrs Mamitova says: "The credit was disbursed so quickly and efficiently. We were able to double our sales in no time, and use the profits to buy new equipment."

No loan is too small for the Japan-Uzbekistan Small Business Programme. The programme provides finance to micro businesses (under ten people) and small enterprises (under 100 people) that have previously been unable to obtain bank loans. The EBRD is providing a credit line to Uzbek partner banks to on-lend to these micro and small enterprises (MSEs). Our funds are matched by technical assistance finance from the Japan-Europe Cooperation Fund.

Micro businesses typically start as sole traders or with other family members. They need just a little finance to get started or expand but find it difficult to obtain any funds from the formal financial sector because they lack collateral or a credit history. Demand for finance is high in Uzbekistan, which has many entrepreneurs in craft-based industries, trade and agricultural production.

Uzbekistan's entrepreneurs now have ready access to credit, following the launch of the EBRD's small business programme.

Four local partner banks under the programme are currently disbursing 200 loans a month in seven regions of Uzbekistan. The programme started in 2001 in a challenging legal and regulatory environment and has so far disbursed 1,700 loans to MSEs totalling €4.4 million. The key condition for lending is the ability of the business to repay the loan, as shown by their business activity and approach rather than credit history, collateral or relations with a bank.

The average loan is under €3,000 although the programme offers loans from €20 to €100,000. Loans are disbursed on average within three to four days after application (down from three to four weeks when the programme started). The repayment rate has been 100 per cent so far. The EBRD is providing consultants funded by the Japan-Europe Cooperation Fund to assist the partner banks in setting up MSE lending operations. This includes simplifying approval and disbursement procedures, and training credit personnel.

Year-round financing for farmers in Kazakhstan

Warehouse Receipts Programme

Sector
Bank lending/agribusiness

Client
Kazakh financial institutions, and private farmers, local traders and agribusiness companies

Area
Kazakhstan

EBRD finance
€105.7 million (€47 million lent directly to local companies)

Other finance
€28.5 million syndicated to participating banks

Aim
Provide funding to farmers, grain producers and traders

How it works

1. Farmers harvest their grain, store it in warehouses and get a receipt highlighting amount and quality.
2. They take this receipt to the bank and obtain finance while their grain is in store, pledged to the local bank.
3. Once the grain is sold, the farmer or the buyer repays the bank.

> *For the farmers and grain companies*

- They can choose the best time to sell their grain without having to sell at harvest time when prices are likely to be lower.
- This smoothes out price fluctuations, which keeps the price of food stable.

> *For the participating banks*

- The scheme transfers the credit risk from who is borrowing to what is being financed.
- Lending against a commodity that is relatively easy to sell lowers their risk.
- A system of regulation and regular warehouse inspections reduces the risk of damage and fraud while the grain is stored.

The idea of using grain as collateral can be traced back thousands of years. In its modern form, borrowing against grain deposits in secure warehouses gives farmers, grain companies and traders vital access to all-year-round finance. With the EBRD's involvement, the 2002 harvest in Kazakhstan is the first season in which secure finance is available against warehouse receipts.

The EBRD's Warehouse Receipts Programme provides farmers, grain companies and traders with vital access to all-year-round finance.

The scheme releases money to farmers to buy seed, fertiliser and fuel for machinery. This allows them to plan their planting cycle more effectively, which contributes to better harvests and more grain for export. Regular financing makes year-round export possible, which in turn brings more money into the economy and finances new machinery to produce higher yields.

Agriculture is essential to Kazakhstan's economy but has suffered an alarming decline in the last decade. Farming land covers 74 per cent of this enormous country but agriculture represents only 10 per cent of gross domestic product (GDP), down from 35 per cent ten years ago. By establishing a more efficient system of providing finance for the sector, the needs of small farmers can be better addressed.

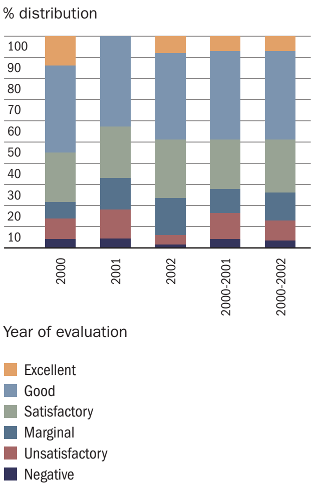
The participation of local banks is essential. The EBRD has structured a financing scheme that takes into account financial needs both pre- and post-harvest. We have chosen two main partner banks, Kazkommertsbank and Bank TuranAlem, which received €24 million to lend to agricultural producers, food processing companies and traders for pre-harvest finance and a further €24 million for post-harvest finance. We have also made €10 million available to be on-lent by three other Kazakh banks.

As well as expanding and strengthening the local banks' lending base, the EBRD (with financial assistance from USAID) assisted in drafting and improving their credit procedures in commodity-based lending. With substantial technical assistance, the legal framework for the scheme, the credit procedures and training for warehouse inspectors have all been improved.

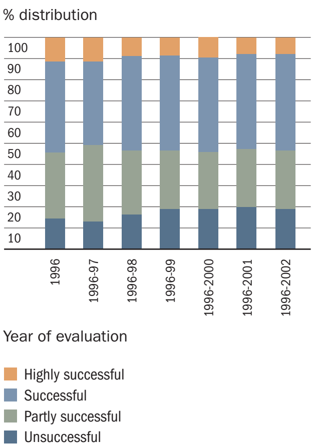
Evaluating EBRD projects

EBRD projects are normally evaluated one to two years after full disbursement has taken place. The EBRD's Project Evaluation Department (PED) seeks to establish whether the Bank's operations have met their objectives and to assess whether the EBRD is complying with the Bank's mandate. Through this process, the Bank is able to improve the selection and design of future operations. In 2002, 77 per cent of the 66 projects evaluated received an *Excellent-Satisfactory* transition impact rating.

Transition impact ratings of EBRD projects 2000-02



Overall performance rating of evaluated EBRD projects 1996-2002



Impact on the transition process

To evaluate the impact of EBRD projects on the transition process, PED looks in particular at their wider impact in 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. This involves, for example, assessing to what extent the project has promoted privatisation, developed skills, encouraged competition and supported market expansion. It might also look at how the project has improved the functioning of markets, acted as a model for other projects and set new standards in business conduct and governance.

The chart top left shows the transition impact ratings of projects evaluated in 2000-02. Of the 142 operations evaluated, 49 per cent achieved a transition impact rating of *Good* or *Excellent* and a further 25 per cent were assessed as *Satisfactory*.

In 2002 a total of 24 per cent of evaluated projects were given transition impact ratings in the *Marginal-Negative* range, which is similar to previous years. This apparent lack of progress can be explained by the fact that the Bank operates in areas where risks are high. This affects the sustainability of some private sector operations and prevents them from realising their full potential. The share of projects with an *Excellent-Satisfactory* transition impact rating in 2002 was 77 per cent.

The new six-point rating scale on transition introduced in 1999 allows the EBRD 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. So far, of the 142 projects evaluated during 2000-02, 33 have also been rated on transition impact prior to Board approval. A total of 61 per cent of these were rated *Excellent* or *Good*, but following project completion the percentage in these rating categories drops to 48 per cent, demonstrating that part of the risk identified at appraisal has materialised during project implementation.

The risk factor for these projects prior to Board approval was rated as *Medium* in 73 per cent of cases and *Low* in 15 per cent. However, following project completion the risk was rated as *Medium* for 30 per cent and *Low* for 48 per cent. This difference might reflect the fact that during the implementation of the project the risk factor becomes easier to assess as information is available on how the risk is evolving. The number of projects available for comparison is still too small to reach general conclusions and further analysis will therefore be conducted as more data becomes available.

The EBRD's overall performance

The overall success of the EBRD's operations is illustrated in the second chart on page 70, 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 1996-2002, 53 per cent of evaluated projects achieved a rating of *Successful* or *Highly Successful*. This is much lower than the percentage of projects (74 per cent) that received positive ratings for transition impact alone.

The difference between the scores on transition impact and the overall performance rating is primarily due to the impact of lower financial performance ratings, which were caused by a high-risk investment climate in the Bank's countries of operations. As in previous years, 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. During 2002 three projects scored an overall rating of *Highly Successful*. The conclusion of PED is that the Bank has been relatively successful in operating according to the Bank's mandate, especially in view of the difficult operating environment.

Importance of learning from past experience

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

Special studies

Mid-term review of the Bank's equity funds

PED carried out a mid-term review of the EBRD's investments in private equity funds (PEFs), focusing on transition impact and sustainability. The review evaluated over 70 funds run by 55 managers with a total capital of €5.2 billion, including €1.5 billion from the Bank.

Close to 50 per cent of the Bank's finance has been invested in "expansion/buy-out" funds, which take an average stake of above €6 million in medium to large private enterprises. Donor-supported (DS) funds account for about 33 per cent of EBRD financing and focus on smaller holdings in countries at less advanced stages of transition. Venture capital (VC) funds, which also focus on small to medium-sized enterprises (SMEs), have an average stake of below €2 million and represent 17 per cent of the Bank's commitments. Increasingly, the EBRD has focused on the sustainability of funds and has provided finance to support the establishment of second-generation funds.

The review found that the impact of the funds on the transition process depended on achieving sustainability. Funds that took bigger stakes in medium to large enterprises in the advanced transition countries were found to have the best prospects in terms of returns for investors and the enterprises. Conversely, investments in SME funds and in countries at the early stages of transition suffered from a lack of sustainability. The nature of the fund – whether donor-supported or not – was found to affect the nature of the fund's investments.

The amount invested by equity funds remains minute compared with the needs of the region. The review found that fostering an equity fund infrastructure can attract international and domestic investors. If fund managers are able to raise additional funds, this can provide vital capital within the region's financial systems. Some promising signs were observed in central Europe and Russia, where strong managers have raised second and third-generation funds. The fund investments were clearly seen to complement rather than replace other sources of finance. Investors need firmer proof, however, of the likely returns on their investment. Currently these range from 15 per cent for expansion/buyout funds to a negative return in others. VC and DS funds have poor to fair returns due to their low exit rates.

The evidence is clear that most stakes under €1.9 million are difficult to sell at a profit, but recent bigger investments should help to improve returns over time. The region lacks valuation benchmarks, making for uncertain returns until a bigger portfolio is realised. There are positive signs, however, for the long-term future of the portfolio. In the short-term there is a more uncertain outlook for early returns due to high commitments in certain sectors, the volatility of the region, the sensitivity to global cycles, and the impact of the reform process and EU enlargement progress.

The Bank’s handling of equity funds is increasingly state of the art, matching the highest standards and establishing tailored systems. Trouble-shooting and workout cases are efficiently undertaken. The DS and SME funds in the early transition countries suffer, however, from the lack of good examples of sustainability. Further specialisation should help to further improve the Bank’s management of equity funds. It could also help to attract long-term investors.

The review recommends that the EBRD should set a clear strategy, focusing on long-term institution-building, sustainability and standard-setting. The Bank should continue to invest in mainstream PEFs to support medium to large private enterprises.
It should also continue investing selectively in VC, SME and DS funds but only after a rigorous examination of their prospects of sustainability. The scope of the fund and the needs of the professional fund management should be taken into account. A strategy for DS funds should emphasise the need for sufficient grants.

In addition, it is essential that no new SME investments are channelled via PEFs aimed at early and intermediate transition countries, where the constraints are too great for the fund to meet its sustainability and institutional aims. Instead, the Bank should continue to channel loans through local banks and institutions, where the risks can be better mitigated and more acceptable returns achieved.

Trade Facilitation Programme

The EBRD’s Trade Facilitation Programme (TFP) is a network of 250 banks that uses EBRD guarantees to reduce payment risk in international trade with the Bank’s region of operations. The network creates over 12,000 pairs of banks that can cooperate to produce a confirmed letter of credit (LC). Since 1998 the EBRD has guaranteed over 900 LCs worth €650 million. The TFP fosters transition by reducing risk and by providing a “safety net” for trade transactions based on LCs (see page 21).

A study undertaken by PED confirms that TFP complements transition tools such as privatisation and regulatory reform across the region. TFP has been a sound way for the EBRD to foster transition in countries that offer few viable projects or that demonstrate a slow pace of reform.
By acting as a safety net for trade payments, TFP can reduce risk, such as during the political crises in FYR Macedonia in 2000.

TFP has been *Successful* overall, but needs to take bigger steps to meet the Bank’s intra-regional objective. Most of the trade has been with the West. Only 8 per cent of LCs linked exporters and importers within the Bank’s region of operations. Most LCs confirmed by a TFP bank in the Bank’s countries of operations would be in support of intra-regional trade. To date, however, a small number of Western confirming banks have dominated TFP’s activities. For example, EU-based banks confirmed 78 per cent of TFP deals. By contrast, only 24 of the 93 confirming banks in the EBRD’s region of operations have confirmed a LC, and those LCs accounted for only 4 per cent of all LCs. The Bank should develop, with the help of technical cooperation funding, more local confirming banks that can facilitate trade between the many importers and exporters based in the region.

Examples of evaluated EBRD projects

Successful projects

Russian telecommunications

In 1999 the EBRD made an equity investment of €33 million in a telecommunications company in Russia. Through this investment, the Bank supported the initial public offering (IPO) and sent a strong signal of confidence in the telecommunications market. The investment promoted network expansion and competition through the introduction of innovative and advanced services.

The Bank's evaluation of the project confirmed that the company's performance is excellent considering the difficulties experienced by the global telecommunications market. Since the EBRD joined the IPO at a fairly late stage, it was not possible for the Bank to introduce structural elements that could enhance the project's impact on the transition process. However, the Bank clearly provided much-needed support.

Through the EBRD's nominee on the board of the company, the Bank contributed to discussions about bringing in a strong domestic shareholder. The evaluation also reviewed the Bank's selection process for board nominees and the range of their responsibilities. It concluded there is a need for the Bank to monitor the performance and effectiveness of board nominees.

Sunflower seed crushing plant

The EBRD contributed to the financing of this country's first 100 per cent foreign-owned agribusiness "greenfield" project through a combination of equity and working capital financing. The foreign sponsor brought in state-of-the-art technology and built the plant within the allocated budget. The plant produces sunflower oil, which is mostly exported.

The EBRD's evaluation confirmed that the project has demonstrated resilience to the chronically depressed world price of sunflower oil. This was partly achieved through extensive training of local staff. The project complies with local and Western environmental standards. As part of the Bank's conditions, the company constructed a waste-water treatment plant, which had not been required by the local authorities. The project has created approximately 100 new skilled jobs and has been a major boost to sunflower farmers, who have improved the quality of seeds as well as crop yield.

One of the lessons learned was that the strength, both financial and technical, of the foreign sponsor is crucial to the success of such a new venture. In addition, the support provided by the Bank made it possible for the sponsor to invest in a country where foreign direct investment has been in short supply. The Bank's in-depth knowledge of the sector was extremely beneficial in putting together such a successful partnership.

Projects with a less successful outcome

Port reconstruction

In 1996 the EBRD provided a sovereign loan of €42.5 million for the reconstruction of a port, which would cost about €72 million. The loan was used to finance improvements to dry cargo berths, cargo-handling equipment and environmental practices and to support the commercialisation of activities at this important port in Central Asia. A total of €2.4 million was provided in grant funding to assist in project preparation, implementation and institution-building. Despite a short delay, the main construction work was completed in September 1999, and the overall project completed in March 2001.

The EBRD's evaluation of the project confirmed that the work on the general cargo berths was of a high standard. Also, the installation of modern equipment on the general cargo berths was carried out satisfactorily. The commercialisation of the port had been achieved, and the impact of the institution-building initiatives was positive.

The project became tarnished when the government announced in September 2001 that the port's main assets would be leased out to another state enterprise without adequate compensation to the port and without the Bank's consent. As a result, the port's ability to service the Bank's loan was jeopardised. Moreover, the government's interference in tariff setting and other areas hampered the impact of the project on the transition process. Overall, the project was rated as *Partly Successful*.

In situations of external interference, the EBRD must react quickly to avoid the potential damage gaining momentum and to make clear that the Bank is not in agreement with the action taken. Although the Bank is protected under the sovereign loan obligations, the interference changes the nature of the project and undermines its objectives. Preserving the financial viability of public sector clients is regarded as essential to the transition process.

To enhance the impact of infrastructure reforms, the Bank may need to introduce clear and verifiable transition impact milestones. The effectiveness of these would be enhanced if they are linked to loan disbursements whenever possible. In this respect, it is essential that conditions are included in the loan documentation.

Investment company for agribusiness SMEs

In 1994 the EBRD invested in a recently established investment company together with Western fund managers and a government agency in south-eastern Europe. The aim was to support agribusiness and SMEs and to promote the development of the financial sector. Both equity and loan finance was provided. Training, advisory services and financing was provided through an institution that would establish a strong local presence.

Following the first capital contributions from the EBRD and other sponsors, the investment company began disbursing to selected businesses. The local sponsor was unable, however, to make additional capital contributions as planned or to participate in the management of the company. As the company was unable to function satisfactorily in these circumstances, the EBRD was obliged to suspend participation in the project. The Bank lifted this suspension after the local sponsor had transferred its shares in the company to the Western fund managers.

The EBRD's evaluation found that the project provided much-needed finance to entrepreneurs in a number of sectors and provided management and technical support to investee companies. Progress was hampered by a number of political and economic factors, which made it impossible for the project to build a sufficient portfolio of successful investments to achieve a viable critical mass. After discussions with the fund managers, the decision was taken to wind down the investment company.

Evaluation by PED identified differences in the objectives of the EBRD and the fund managers. In addition, the selection of sub-projects showed a lack of understanding of the suitability of candidates for equity funding. The evaluation emphasised the importance of agreeing common commercial objectives with equity partners and of assessing the effect of local conditions on the suitability of various forms of financing. If the conditions of the banking sector are not conducive to lending, the authorities should be encouraged to improve conditions for intermediation.

Evaluating technical cooperation operations

PED has evaluated over 300 consultant assignments funded through technical cooperation (TC), involving almost €100 million of funding from over 30 donors under the Bank's Technical Cooperation Funds Programme. Including TC assignments evaluated during PED's special studies, the number rises to over 900 assignments involving over €250 million of funding.

Examples of evaluated technical cooperation operations

Preparation for a port development project in Central Asia

The project involved six TC operations totalling about €2.9 million, funded by three donors. The funding was used to assist the preparation and implementation of a Bank investment of €27.5 million for a port in Central Asia.

PED's evaluation rated the TC operations as *Successful*. This was supported by a satisfactory rating for transition impact. The TC operations were instrumental in bringing about the follow-on investment, which is presently under implementation.

PED's evaluation noted that the TC resources did not fully take into account the difficult operational environment. As a result, some shortcuts were undertaken, which can lead to problems for follow-on TC work or the subsequent EBRD investment. More realistic costing is required. In addition, the feasibility work was too narrowly focused on the follow-on investment. Finally, the political and strategic reasons for undertaking a project need to be separated from the economic rationale. Both aspects should be discussed separately.

Project development in Central Asia

An investment company in Central Asia supported by EBRD financing was intended to provide finance to three locally owned enterprises, making use of €1.6 million in TC funding for management services. The aim of the project was to maximise the commercial potential in ailing privatised enterprises through active management involvement and to assist the enterprises in becoming competitive and profitable market-oriented companies. The project was also intended to demonstrate to local enterprises and prospective investors the value of modern management, financial control procedures and outside investment. Unfortunately, the project did not encourage other parties to invest in similar opportunities, and saving businesses from collapse also failed.

In spite of considerable TC funding, only one relatively small investment materialised and even that one appears to be no longer financially viable. The overall assessment of the TC operations for this project is *Unsuccessful*. The TC funding was not able to help in establishing a viable private sector enterprise. The only project developed with the help of TC funds did not succeed in transforming the factory into a market-driven enterprise.

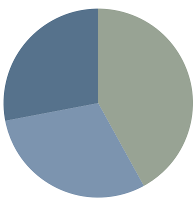
Through this project, the EBRD has learned that we must not rely too much on consultants to find investment opportunities for the Bank. Instead, providing funds to encourage the promotion of investment is sometimes a more viable approach. Investment opportunities can be identified through existing SME facilities in the region or through other donors' work with local companies. TC funding is not a substitute for unambitious management. It is vital that the recipient of TC funding is committed to the project. In future, the Bank must make sure that TC operations aimed at improving the business conduct of local management must allow consultants to adopt a long-term approach financed by sufficient TC funding.

Working in partnership

By working in partnership, the EBRD helps to increase the availability of financing and to improve the investment climate in the countries where we operate. In 2002 the Bank attracted record levels of co-financing from commercial sources and official partners, totalling over €2 billion. Technical cooperation funding from donors reached a cumulative total of €1 billion while the TurnAround Management Programme has provided support for over 950 projects.

Legal reform in the EBRD's countries of operations remained a priority in 2002. The Bank's Legal Transition Programme was influential in reforming secured transactions in the Slovak Republic, Uzbekistan's leasing law and telecommunications regulations in Russia. The Bank's commitment to nuclear safety also continued. The Northern Dimension Environmental Partnership became operational in 2002 and the Bank continued to support the Chernobyl Shelter Fund, the Nuclear Safety Account and the International Decommissioning Support Funds.

Sources of co-financing funds by value in 2002



Types of co-financing funds by value in 2002

	€ million
A/B loans / participations[1]	531
Parallel loans	549
ECA direct / guarantee or political risk insurance	48
Loans from international financial institutions	597
Equity from international financial institutions	14
Equity	21
Grants	303
Total	**2,064**

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

Co-financing

A prime objective for the EBRD is to mobilise domestic and foreign capital in the Bank's countries of operations. Success in attracting co-financing increases the resources available for funding other projects and introduces borrowers to the international debt markets. Sources of co-financing include commercial banks, official co-financiers (such as government agencies and bilateral financial institutions providing grants, parallel loans and equity), export credit agencies and other international financial institutions (IFIs). The EBRD aims to broaden and deepen the co-financing base by increasing the number of commercial lenders, and by introducing new co-financing structures and new countries into the market. By being flexible and responding to the market, we seek to maximise the sources of finance available to our clients and to work closely with the market to structure the most appropriate forms of finance.

The global debt markets faced a very difficult environment in 2002, influenced by the aftermath of the terrorist attacks in the United States on 11 September 2001, the crises in Latin American countries and the corporate crises in the United States. While global debt volumes decreased for the second consecutive year, debt volumes in the EBRD's countries of operations increased by 18 per cent. This is mostly due to large-scale oil financing as well as growing business opportunities in Russia combined with an increase in bank lending appetite for Kazakhstan, Poland and Romania. Activities in Russia ranged across a variety of sectors, including oil and gas, general industry (such as the automotive sector) and agribusiness, while Poland recorded a high level of financing for telecommunications transactions. The opening of the debt market in Kazakhstan was mainly due to investments in financial institutions.

In 2002 the EBRD helped to mobilise funds for telecommunications projects, which are still facing difficulties in generating sufficient interest from the debt markets. We introduced a new financing structure in the Russian oil and gas sector (see page 14) and set new benchmarks for structural requirements and repayment periods. The EBRD mobilised new lenders in a variety of sectors and countries of operations, attracted co-financiers for long-term municipal infrastructure projects and introduced new structures to co-finance agribusiness projects in largely untapped syndication markets such as Kazakhstan and Ukraine. Listed on page 77 are some noteworthy examples of transactions co-financed in 2002.

General industry

Petrom, Romania

A €143 million corporate loan to Petrom, the Romanian national oil company, is the largest long-term syndicated loan ever provided to a state-owned company in Romania (see page 39). It will be used to finance a modernisation programme and the company's privatisation process. The financing consists of an EBRD loan of €95.4 million and a syndicated loan of €47.5 million, €9.5 million of which was provided by the Black Sea Trade and Development Bank (BSTDB) as a parallel loan. The EBRD loan and the parallel loan are for an eight-year period while the syndicated loan is for six years. The privatisation of Petrom is a significant step towards the modernisation of the Romanian energy sector.

Financial institutions

Kazkommertsbank, Kazakhstan

A four-year loan to Kazkommertsbank is the longest tenor ever extended to a commercial bank in Kazakhstan (see page 66). It is also the first syndicated loan structure arranged by the EBRD in the banking sector in Kazakhstan. The €48 million loan will allow the bank to increase its medium-term lending to local companies. The financing consists of an EBRD loan of €29 million and a syndicated loan of €19 million.

Agribusiness

Malteurop, Ukraine

A €28.5 million loan to Malteurop, the largest malt producer in Europe, is the first long-term loan ever provided to a Ukrainian borrower. The loan will finance the expansion of the company's malt processing plant and support the construction of a second plant elsewhere in Ukraine. The loan consists of an EBRD loan of €14.8 million and a syndicated loan of €13.7 million. The loan consists of two parts: a term loan for seven years and a revolving facility for five years.

Telecommunications

MobiFon, Romania

A loan of €286 million to MobiFon will finance new investment in MobiFon's mobile network and refinance existing long-term debt. The six-year secured loan comprises an EBRD loan of €219 million, of which €114 million has been syndicated, and parallel loans of €33 million each from the Nordic Investment Bank and the Canadian export credit agency EDC. The syndicated loan was fully underwritten by ABN Amro and Bank Austria Creditanstalt.

Co-financing partners in 2002

Commercial institutions

ABN Amro Bank NV	Netherlands
AJW Jung & Wigger GmbH	Germany
Bank Austria Creditanstalt AG (HVB Group)	Austria
Bayerische Hypo-und Vereinsbank AG (HVB Group)	Germany
Bayerische Landesbank	Germany
BNP Paribas SA	France
Caja Madrid	**Spain**
Citibank NA	USA
Commerzbank AG	Germany
Crédit Agricole	France
Crédit Lyonnais	France
Danske Bank Aktieselskab	Denmark
DEPFA Bank Plc	Ireland
Dexia SA	France
Erste Bank der Oesterreichischen Sparkassen AG	Austria
Futura Investment Ltd	**Slovenia**
Hamburgische Landesbank-Girozentrale	Germany
IKB Deutsche Industriebank AG	**Germany**
ING Bank NV	Netherlands
International Finance Participation Trust (IFPT)	**Canada**
Investkredit Bank AG	Austria
JP Morgan Chase & Co	USA
KBC Bank NV	Belgium
Kredyt Bank SA	Poland
Landesbank Schleswig-Holstein Girozentrale	Germany
Lft Financial Systems GmbH (LfS)	**Germany**
Natexis Banques Populaires	France
Nordea AB (publ)	Nordics
Österreichische Volksbanken AG	Austria
Privredna Banka Zagreb dd	Croatia
Rabobank Nederland	Netherlands
Raiffeisenzentralbank Österreich AG	Austria
Raiffeisenlandesbank Burgenland Waren- und Revisionsverband rGmbH	Austria
Raiffeisenlandesbank Niederösterreich-Wien AG	Austria
Raiffeisenlandesbank Oberösterreich rGmbH	Austria
Skandinaviska Enskilda Banken AB (SEB)	Sweden
Société Générale	France
Soros Economic Development Fund	USA
Svenska Handelsbanken AB	Sweden
Tatra Bank	Slovak Republic
Zagrebacka Banka dd	Croatia

Export Credit Agencies

Export Development Canada (EDC)	Canada
The Export-Import Bank of Korea (KEXIM)	**Korea**

Official institutions

Baltic Investment Special Fund (BISF)	Nordics
Canadian International Development Agency (CIDA)	Canada
Central European Initiative (CEI)	Italy
Deutsche Entwicklungs Gesellschaft (DEG)	Germany
European Union (ISPA, Phare, Tacis)	European Commission
Government of Spain	**Spain**
International Cooperation Development Fund (ICDF)	Taipei China
Internationale Microinvestitionen AG (IMI)	Germany
Japan Bank for International Cooperation (JBIC)	Japan
Japan International Cooperation Agency (JICA)	**Japan**
Kreditanstalt für Wiederaufbau (KfW)	Germany
Ministry of Foreign Affairs	Italy
Ministry of Foreign Affairs	Netherlands
Netherlands Development Finance Company (FMO)	Netherlands
SME Finance Facility	European Commission
State Secretariat for Economic Affairs (SECO)	Switzerland
US SME Facility	USA
Western NIS Fund	USA

International financial institutions

Black Sea Trade and Development Bank	IFI
European Investment Bank (EIB)	IFI
International Finance Corporation (IFC)	IFI
Kozloduy International Decommissioning Support Fund (KIDSF)	**IFI**
Nordic Investment Bank (NIB)	IFI
World Bank (including IDA)	IFI

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

Co-financing from commercial sources totalled €877 million in 2002 supporting 30 projects. The EBRD worked with 41 commercial banks and institutions from 16 countries. The Bank also raised €48 million from two export credit agencies. There was an increase in the number of transactions co-financed with local commercial banks (mainly in the EU accession countries) and continued reliance on official co-financing (especially IFIs) for borrowers in countries at an early stage of transition.

IFIs and other official institutions

In 2002 the EBRD attracted a record level of co-financing from official partners, mobilising funding of €1.14 billion for 49 projects. International financial institutions provided the largest share, totalling €612 million (53 per cent) for 25 projects. The European Union provided €213 million (19 per cent) for eight projects. Other official institutions, such as government agencies and financial institutions, contributed €315 million (28 per cent) for 26 projects.

The International Finance Corporation (IFC) was involved in 13 projects totalling €77.5 million, about 16 per cent of which was provided in equity. The co-financing was exclusively devoted to microfinance, banking and small and medium-sized enterprises in Azerbaijan, FR Yugoslavia, FYR Macedonia, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Romania and Tajikistan. A major new development was the establishment at the EBRD of the IFC Investment Cooperation Fund with funding of €43 million, which is aimed at supporting micro-businesses in Central Asia.

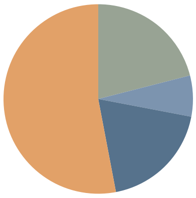
Micro-business lending and municipal services

The EBRD's success in addressing the needs of small and medium-sized enterprises has not gone unnoticed. Many donor agencies have acknowledged that this sector forms the basis of the market economy by providing income and employment to large sections of the population. The EBRD is now active in micro and small lending in 15 countries, either through newly established microfinance banks or in cooperation with local partner banks. The total amount of loans granted so far is close to €2.3 billion.

In 2002 many donor agencies supported the EBRD's small business programmes (see page 19). These include the European Union, Japan, the United States and many specialist institutions such as Kreditanstalt für Wiederaufbau (KfW), FMO and the International Cooperation Development Fund (ICDF) of Taipei China. The International Finance Corporation (IFC) has set up the IFC Investment Cooperation Fund, managed by the EBRD, with the aim of supporting micro-businesses in Central Asia. Total co-financing support committed to this sector in 2002 amounted to €90.3 million for 11 projects.

Municipal services include district heating, water supply and waste-water treatment, solid waste disposal, sewage network development and urban transport. The European Union, particularly through its Instrument for Structural Policies for Pre-Accession (ISPA), was a major donor to numerous municipal projects in 2002. The Japan International Cooperation Agency (JICA), FMO and KfW have also been very generous in their support for EBRD projects in this sector. Total co-financing support from official sources for this sector in 2002 amounted to €383.8 million for 12 projects.

Sources of official co-financing (2002)



The European Investment Bank (EIB) co-financed seven projects with the EBRD totalling €353.2 million. All of these involved public infrastructure, including modernisation of power distribution and transmission networks in Albania and Bulgaria, improvements to road transport in Croatia and FR Yugoslavia and support for the St Petersburg flood protection barrier, the EBRD's largest ever public sector loan. The Nordic Investment Bank (NIB) is also a major partner in this project. The total value of NIB co-financing in 2002 was €95.6 million.

The World Bank provided co-financing of €36.5 million for two projects. These consisted of support for the modernisation of Albania's power distribution system and a loan to improve Sofia's district heating network.

The Black Sea Trade and Development Bank provided €18.8 million for three projects: the Azerbaijan Microfinance Bank, JSC Channel Energi Poti Port (Georgia) and a pre-privatisation loan to SNP Petrom (Romania – see page 77).

The European Union, through its Instrument for Structural Policies for Pre-Accession (ISPA) and its Phare and Tacis programmes, provided €212.8 million for eight projects in Bulgaria (power and energy), Georgia (hydro-power plant), Lithuania, Poland and Romania (municipal infrastructure).

Other official financial institutions provided €236.9 million in co-financing for 15 projects. Kreditanstalt für Wiederaufbau (KfW) and Deutsche Entwicklungs Gesellschaft (DEG) participated in ten projects totalling €138.7 million. KfW's co-financing was devoted to municipal infrastructure and micro-business finance. The Netherlands Development Finance Company (FMO) co-financed seven projects, providing €54.7 million for corporate investments and micro-business finance. The Japan Bank for International Cooperation (JBIC) co-financed the Albania power distribution project (€27.7 million).

Government agencies and programmes provided grants totalling €78.1 million for 15 projects in Albania, Bulgaria, FR Yugoslavia, FYR Macedonia, Georgia, the Kyrgyz Republic, Moldova, Romania and Tajikistan. The donors were Canada, the Central European Initiative, Germany, Italy, Japan, the Netherlands, the Nordic countries (Baltic Investment Special Fund), Spain, Switzerland, Taipei China and the United States. The support focused on infrastructure (power and energy, roads), municipal services (urban transport), trade facilitation and microfinance.

Technical cooperation funds

The EBRD's investment activities are supported by a wide range of consultants and experts financed by grants from the Technical Cooperation Funds Programme (TCFP). The donor-supported Programme allows the EBRD to improve the preparation and implementation of investment projects and to provide advisory services to private and public sector clients. Priorities of the TCFP are to promote institution-building (see below), to support small and medium-sized enterprises (SMEs) and to develop legal and regulatory frameworks that assist the transition process (see page 85).

Total contributions received from donors since the establishment of the TCFP reached €1 billion during 2002. During the year, the level of new TC commitments amounted to just over €100 million. The European Union, the United States, Japan, the Netherlands and Canada were the principal donors supporting new TC assignments during 2002. Major contributions were also made through multi-donor initiatives, including the Regional Venture Fund for North-West Russia, the Russia Small Business Fund, the Mongolia TC Fund and the Balkan Region Special Fund (see table on page 82).

Russia, Poland, Ukraine, FR Yugoslavia, Kazakhstan and Uzbekistan were the main recipient countries of new TC commitments in 2002. In addition, regional (multi-country) initiatives were undertaken through the US-funded SME Financing Facility, the EU/EBRD SME Finance Facility, the EU Phare TAM (TurnAround Management) Facility and the Japan-funded BAS (Business Advisory Services) Programme in Central Asia (see page 85).

The main focus of new TC work during the year was to support financial institutions serving the needs of small and micro-businesses. Infrastructure projects also received significant levels of donor support, including municipal environmental infrastructure and district heating. Assistance to local businesses through the TurnAround Management and Business Advisory Services Programmes also received strong donor support during the year.

Institution-building

In all of the Bank's countries of operations, there is a strong demand for improved skills in public and private institutions. During 2002 the EBRD was able to address some of these needs through the implementation of more than 100 institution-building technical cooperation (TC) assignments supported by donor funds. These assignments enabled the Bank's clients to develop their expertise under the guidance of specialist consultants. Some notable examples include:

> EC-funded management assistance for local banks in the EU accession countries

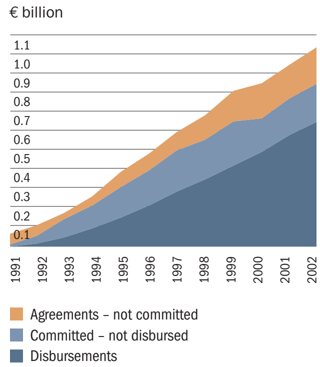
> Japanese funding to help restructure Uzbek Railways

> US-funded experts to promote the expansion of microfinance banks in FR Yugoslavia and FYR Macedonia

> UK financing for the implementation of secured transactions legislative reform in the Slovak Republic.

The total value of institution-building assignments launched in 2002 was in excess of €50 million, representing more than half of the TC programme for the year.

Cumulative TC funds mobilised, committed and disbursed 1991-2002



TC commitments by recipient country

	2002 Number	2002 € million
Russia	37	19.2
Poland	15	7.2
Ukraine	18	6.0
FR Yugoslavia	16	5.4
Kazakhstan	9	4.1
Uzbekistan	11	4.0
Azerbaijan	8	3.4
Georgia	8	2.7
Bulgaria	9	2.7
FYR Macedonia	6	2.5
Mongolia[1]	9	2.0
Romania	7	1.9
Armenia	5	1.5
Kyrgyz Republic	4	1.1
Tajikistan	2	0.8
Croatia	11	0.7
Slovak Republic	4	0.4
Lithuania	2	0.3
Slovenia	4	0.2
Bosnia and Herzegovina	2	0.2
Belarus	3	0.2
Hungary	3	0.2
Albania	1	<0.1
Turkmenistan	1	<0.1
Czech Republic	1	<0.1
Regional	65	35.0
Total	**261**	**101.7**

[1] Mongolia is not an EBRD country of operations but the Board of Directors has authorised limited activities in Mongolia, using donor funds.

New funding

The United States provided US$ 9 million during 2002 in support of the Russia Small Business Fund, the SME Financing Facility and the Ukraine micro credit programme. Additional US contributions amounting to US$ 2.8 million were provided by the US Agency for International Development and the US Trade and Development Agency to assist project preparation and implementation.

The **EC-EBRD Investment Preparation Facility** was launched in 2002. This Facility provides funding for the preparation and implementation of EBRD investment projects in the CIS region. An initial allocation of €10 million was provided for 2002.

The **Northern Dimension Environmental Partnership (NDEP)** was created to address investment needs in municipal environmental projects and nuclear clean-up in the north-west region of Russia. Contributions to the NDEP Fund at the end of 2002 amounted to €110 million. Donors include Denmark, the European Union, Finland, the Netherlands, Norway, Russia and Sweden. An NDEP Steering Group comprising the EBRD, the European Union, the European Investment Bank, Russia, the Nordic Investment Bank and the World Bank has been established to identify environmental project priorities. The St Petersburg flood protection barrier project was the first investment signed with NDEP support.

The **Mongolia TC Fund** increased operations, with nine TC commitments worth €2 million being approved during the year. The Mongolia TC Fund is supported by Japan, Luxembourg and the Netherlands. The International Cooperation Development Fund of Taipei China has announced its intention to contribute to the Mongolia TC Fund during 2003.

Further information about the TCFP is provided in the 2002-03 *EBRD Report to the Donor and Co-financing Community*.

Impact on the transition process

A study was started in 2002 to look at the impact that donor funds have had on the transition process. Around half of the EBRD's projects have benefited directly from TC funding, which has assisted with the preparation or implementation of projects. By the end of 2002, EBRD investments totalling €9 billion had been directly assisted by TC assignments. The transition process is also being aided through the advisory work provided under the Bank's Legal Transition Programme, the TurnAround Management Programme and the Business Advisory Services Programme. During 2003, the EBRD will publish an account of how donor-funded activities have assisted the transition process over the past decade.

TC commitments by donor in 2002

	€ million
European Union	54.5
United States	12.3
Japan	7.7
Regional Venture Fund: North-West Russia	4.7
Netherlands	4.2
Russia Small Business Fund	3.1
Mongolia TC Fund	2.0
Canada	1.9
Switzerland	1.6
Taipei China	1.1
Sweden	0.9
United Kingdom	0.9
France	0.9
Italy	0.8
Balkan Region Special Fund	0.7
Finland	0.7
Spain	0.5
Baltic Technical Assistance Fund	0.5
Austria	0.5
Luxembourg	0.4
Greece	0.3
Ireland	0.3
Denmark	0.2
Germany	0.2
TC Special Fund	0.2
Georgia Financial Sector Fund	0.2
Belgium	0.2
Global Environment Facility	0.1
Korea	0.1
Total	**101.7**

Note: The donor countries participating in the TC funds listed above are as follows:

> Balkan Region Special Fund – Canada, Denmark, Taipei China

> Baltic Technical Assistance Fund – Nordic countries

> Russia Small Business Fund – G7 countries, Switzerland

> Regional Venture Fund: North-West Russia – Finland, Norway, Sweden

> Mongolia TC Fund – Japan, Luxembourg, Netherlands

TurnAround Management Programme

The TurnAround Management (TAM) Programme, managed by the TurnAround Management Group (TMG) on behalf of the EBRD, aims to develop management, commercial and technical "know-how" in transition countries. To achieve this, it provides industry-specific assistance to potentially viable enterprises in all the Bank's countries of operations. 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.

Working directly with enterprises, TAM introduces improvements in management skills, business planning, restructuring, production, design, marketing and product development. It also helps to reduce operating costs and to develop local and export markets.

TAM assistance also improves awareness of the environmental impact of business activities and helps to optimise energy use and improve health and safety for employees at work. In addition to improving business performance, the TAM Programme can bring enterprises to the attention of potential trading partners or investors.

In EU accession countries, TAM assists enterprises in meeting the requirements of relevant EU directives and standards. In recognition of its success, TAM received a further €7 million grant from the EU Phare Programme in 2002 to continue its work in these countries.

Since its launch in 1993, grant funding of more than €60 million has been provided by 27 donors, including the European Union, enabling the TAM Programme to undertake 957 projects with enterprises in 26 countries. Aggregate turnover for enterprises assisted by TAM amounts to €18 billion and about 750,000 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,

Manufacturer of electrical equipment, Russia

Client: The company is a producer of electrical components and fittings. In recent years it had experienced rapid growth and expanded its workforce to over 1,000 staff. However, the management had not maintained sufficient supervision of the company development, and the company was at risk.

TAM support: The TAM team found that the inexperienced management team had been unable to cope with the changing business environment within Russia, but was eager to learn. The sales team was restructured to make use of e-business tools, and a market-sensitive pricing strategy was adopted. Modern financial control systems were introduced along with new product development procedures and a product management structure. A staff incentive scheme was introduced, which had an immediately positive effect on the quality of production and productivity.

Outcome: As a direct result of TAM involvement, the senior management have rapidly learned new skills through the practical experience of working alongside TAM advisors. The company is now strong and well organised, with a strategically focused business plan.

Manufacturer of furniture, Slovak Republic

Client: The company produces well-designed hotel and office furniture, with a high market potential in both eastern and western Europe. However, due to poor financial planning and a number of ill-advised contracts with very low profit margins, the company was in financial difficulty.

TAM support: The TAM team helped the management introduce a cashflow management system, develop and implement a long-term business plan and form new marketing and sales strategies.

Outcome: Turnover doubled in 2002 and the company has attracted a major foreign investor. At the end of the TAM team's work, the Chief Executive Officer stated that the company "could not have survived without TAM intervention".

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 15 per cent. In larger companies, productivity and turnover have also been increased 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.

Business Advisory Services Programme

The Business Advisory Services (BAS) Programme, managed by the TurnAround Management Group (TMG) on behalf of the EBRD, helps medium, small and micro-enterprises to improve their efficiency and competitiveness. BAS works with 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 typically supports clearly defined projects, such as market research, management information systems and business planning, with rapid results.

The BAS Programme is funded by a variety of donors that have provided total funding so far of €30.7 million. The Programme began in the Baltic states, where it has been operating for over seven years. By the end of 2002, the Baltic Programme had undertaken 1,582 projects in more than 1,200 enterprises, involving a workforce of over 119,000 and aggregate sales of €4.2 billion. BAS assistance has been instrumental in allowing these enterprises to raise €42 million in external finance. Initially funded by the Nordic countries, which so far have provided €11.1 million, the Baltic BAS Programme has also attracted €3.6 million from the European Union. The Programme has been highly rated by external evaluators. Analysis shows that the smaller enterprises (less than 100 employees) have experienced the greatest growth and provided most employment opportunities.

In Russia, a North West Russia BAS Programme, funded by the Nordic countries, Germany, Switzerland and the United Kingdom, began in 2000 and has carried

Plastic windows and doors, Latvia

Client: Established in 1995, the company produces plastic doors and windows, providing a full range of services – design, manufacturing and installation. Clients are primarily large construction companies. The company had developed an annual turnover of €2.4 million and a workforce of 35 employees.

BAS support: The BAS Programme helped the company to grow by implementing an automated design system and by introducing strict quality standards. The company now provides design services that are in line with best EU practices.

Outcome: Local business is expanding rapidly and the company has started exports to Belgium and Germany. In 2002 sales reached €3.5 million and the workforce expanded to 70 employees. Exports now make up 10 per cent of turnover and are likely to increase substantially over the coming years.

Shipping services, Russia

Client: The company was founded in 1992 to provide services for ships in the St Petersburg region. Services range from repair of ships and engines to supplying various types of equipment.

BAS support: Increased competition and stricter requirements from ship-owners made it crucial for the company to comply with internationally accepted quality norms. The BAS Programme provided assistance for the company to meet the required standards.

Outcome: The company has dramatically improved its market position. New contracts have been signed with several Western shipping companies and two large Russian companies. Total sales increased by 100 per cent in 2002, and another ten people were employed. Improvement in the quality of services has allowed the company to expand its client base from 600 to 900 in St Petersburg alone.

out 77 projects with enterprises, involving a total turnover of €146 million and 9,000 employees. A BAS Programme in Samara, fully funded by the United Kingdom, was established in 2001, and a total of 66 projects have been undertaken. Finland, Luxembourg and Sweden have agreed to provide €0.5 million for a two-year BAS Programme in Kaliningrad.

In south-eastern Europe, BAS programmes have been established in Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia and Slovenia, funded by EU Phare, the Central European Initiative, Austria, Germany and the United Kingdom. A total of 453 projects have been undertaken. In addition, a new office in Montenegro, fully funded by the EU under the auspices of the European Agency for Reconstruction, is being set up and will start a two-year BAS Programme in 2003.

In Central Asia the BAS Programme funded by the Japan-Europe Cooperation Fund has undertaken a total of 128 projects in Kazakhstan and Uzbekistan. In the Caucasus three new BAS offices are to be set up in Armenia, Azerbaijan and Georgia in 2003. These programmes will be funded by the EU.

Legal Transition Programme

Through the Legal Transition Programme (LTP), the EBRD helps to improve the investment climate in the Bank's countries of operations by helping to create an investor-friendly, transparent and predictable legal environment. In particular, the LTP helps to develop international standards of best commercial practice and to assess the state of legal reform in the region of operations. The LTP also assists with the development of sound legal rules and effective implementing institutions, and promotes legal reform throughout the region. Some of the most important legal reform projects conducted during 2002 are summarised below.

Slovak secured transactions

On 1 January 2003 a new regime for secured transactions in the Slovak Republic entered into force, equipping the country with one of the most advanced frameworks for secured credit in Europe and providing it with a state-of-the-art system of registration. Under the previous regime, legal procedures for taking security were slow and the chances of a creditor successfully recovering from security were uncertain. In addition, the types of asset available as security were restricted. The new system, which draws significantly on the EBRD's Model Law on Secured Transactions, will greatly facilitate taking security over assets. Under the new system, legal procedures for taking security have been streamlined. The chances of a creditor successfully enforcing the security have greatly improved, and the types of assets available as security have been expanded.

The new charges registry is operated by the Slovak Chamber of Notaries. It is held in a single electronic database, and registration is made instantly via computer terminals in notaries' offices. The information in the registry is public and can be consulted via the Internet. The EBRD acted as advisor to the Slovak government during this process. Funding was provided by the government of the United Kingdom.

Uzbek leasing law reform

The EBRD has assisted Uzbekistan in creating comprehensive and modern leasing legislation, which will ensure appropriate regulation of financial and non-financial leasing transactions (excluding property transactions). Many of the Bank's recommendations have been incorporated in a Presidential Decree, which was enacted in August 2002. The decree has introduced a number of improvements to the leasing environment in Uzbekistan. For example, lessees are now exempt from property tax on the lease equipment for the period of the lease, and leasing payments are exempt from valued-added tax.

As a result of the decree, relevant Uzbek legislation, including the Civil Code, Tax Code, Law on Leasing and Law on Customs Tariff, were amended in late 2002 by the Uzbek Parliament to bring these laws into line with the Leasing Decree. Funding for this project was provided by the government of the United Kingdom.

Telecommunications regulatory development in Russia

The EBRD has provided comprehensive advice to the Russian government on amending its telecommunications law to ensure it complies with EU/international best practice. The draft amendment to the 1995 Federal Communications Law was reviewed by the Bank to identify any legal problems. The Duma is expected to adopt the amendment in 2003. Following adoption, the EBRD will continue to help the Ministry adopt legislative and regulatory instruments needed to underpin the new regulatory framework. The first phase of the project was funded by the government of Canada. The US government is funding the second phase of the project regarding the implementation of the initiatives.

Nuclear safety

The EBRD plays a key role in promoting nuclear safety. The Bank manages the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF), the three International Decommissioning Support Funds (IDSF) for Bulgaria, Lithuania and the Slovak Republic and the Northern Dimension Environmental Partnership Support Fund (NDEP). In all, donor countries have pledged more than €1.6 billion to these funds.

In accordance with the Fund Rules, the Bank reports to donor countries through the respective Assemblies of Contributors, which 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.

Northern Dimension Environmental Partnership

The Northern Dimension Environmental Partnership (NDEP) became operational in November 2002 following the first meeting of the Assembly of Contributors. The European Union, Russia, Denmark, Finland, the Netherlands, Norway and Sweden have pledged a total of €110 million. Some €62 million of this has been earmarked for the "nuclear window". Other governments have expressed an interest in joining the fund and have agreed to commit at least the minimum contribution of €10 million.

Chernobyl Shelter Fund

The transformation of the Chernobyl "sarcophagus" into a stable structure has entered its second stage. Under Phase Two of the Shelter Implementation Plan (SIP), the key construction projects are now at an advanced stage of design. These comprise the stabilisation of the shelter enclosing the destroyed reactor and the construction of a new safe confinement around the original structure. Contracts for the implementation of these major projects are scheduled for 2003. The new safe confinement will shield the shelter from incoming water and prevent the release of radioactive dust. Once all the equipment is in place, the structure will have reached a state of long-term safety, providing a sound basis for any future work. Completion is scheduled for 2007.

Funding for the SIP is provided by the Chernobyl Shelter Fund (CSF), which was established in 1997 to assist Ukraine after the destruction of the Chernobyl nuclear reactor in 1986. The international donor community has pledged a total of €681 million towards the estimated €730 million total cost.

Members of the Assembly (as at 31 December 2002) are Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Greece, Ireland, Italy, Japan, Kuwait, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland, Ukraine, the United Kingdom and the United States. In addition, Iceland, Israel, Korea, Portugal, the Slovak Republic and Slovenia have the status of donors.

Nuclear Safety Account

The completion of two decommissioning facilities in Chernobyl and a safety review of a Russian RBMK safety report are the two remaining tasks for the Nuclear Safety Account, which was started in 1993.

Civil works at the spent nuclear fuel storage facility and the liquid radioactive waste treatment plant in Chernobyl were completed in 2002 and the installation of equipment has begun. Both plants are scheduled for completion in 2004 and will contribute to the safe decommissioning of the three reactors at the site that have already been shut down.

NDEP's nuclear projects

Projects to be financed out of the NDEP's "nuclear window" are largely based on the studies conducted by a group of international experts under the auspices of the International Atomic Energy Agency. The projects will address environmental hazards caused by the operation and decommissioning of nuclear submarines and other vessels belonging to the Russian Northern Fleet along the Barent Sea coast. Priority projects will address the safe unloading, treatment and intermediate storage of spent fuel as well as liquid and solid radioactive waste. They will also focus on the physical protection of nuclear materials. NDEP projects will form part of the overall programme for the clean-up of north-west Russia managed by the Russian government. The NDEP could also prove to be a means of coordination for a number of ongoing cooperation programmes in the area.

The MNEPR (Multilateral Nuclear Environmental Programme in the Russian Federation) agreement is yet to be signed and remains a prerequisite for the implementation of NDEP's nuclear projects. The agreement will form a legal framework for the implementation of all nuclear clean-up projects in Russia, regulating tax exemption questions, liability issues and access rights to sites.

In 2002 the first-ever independent review of a safety report for a Russian first-generation reactor (Kursk 1) was started. Western and Russian experts have produced a first interim report, which allowed the Assembly of Contributors to approve funding for the second phase of the project. A final report is expected by the end of 2003. This will provide an assessment of the quality of the Russian safety report and consequently give an indication of the plant's overall safety.

The main objective of the NSA was to finance short-term safety improvements at soviet-designed first-generation reactors (VVER 440/230 and RBMK) to reduce the risk of accidents prior to their closure. These programmes have now been completed successfully. The NSA-financed programme in Chernobyl (involving a safety upgrade and decommissioning facilities) greatly contributed to the decision to shut down the last operating unit at the site in December 2000.

The NSA agreements with Bulgaria and Lithuania established closure provisions for Ignalina and Kozloduy nuclear power plants. These served as the basis for firm commitments to closure dates in the negotiations for Lithuania's and Bulgaria's accession to the European Union. These commitments have also been integrated into the Framework Agreements for the decommissioning funds ratified by both countries in 2002.

The NSA currently has a mandate up to the end of 2004. As at 31 December 2002, members of the NSA Assembly are the European Community and 14 countries: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States.

International Decommissioning Support Funds

Three International Decommissioning Support Funds (IDSFs) were set up in 2001 to help EU candidate countries shut down their soviet-designed first-generation reactors in accordance with a timetable agreed with the EU. Bulgaria closed Kozloduy 1 and 2 at the end of 2002 and is committed to the closure of units 3 and 4 by 2006. Lithuania is committed to the closure of Ignalina I before 2005 and unit II by 2009. The Slovak Republic has agreed to close Bohunice 1 and 2 (V1) in 2006 and 2008 respectively.

The first projects supported by the IDSFs will finance the installations needed for the decommissioning process. Typically, this includes facilities for the storage of spent fuel, and radioactive waste treatment and storage. The funds will also support investments in the energy sectors in Bulgaria, Lithuania and the Slovak Republic.

↑ Construction of the Chernobyl Spent Fuel Storage Facility, the largest of its kind in the world, was completed in summer 2002.

← Kozloduy Units 1 and 2 in Bulgaria were shut down in December 2002.

Sofia district heating

Higher levels of energy efficiency in Sofia's district heating are being achieved through a unique partnership of the EBRD, the World Bank and the International Decommissioning Support Fund (IDSF). The project is funding the installation of new environmentally friendly and energy-saving equipment in the city's sub-stations, and the replacement of heating pipelines in line with Bulgaria's new energy strategy.

The grant of up to €30 million from the IDSF complements loans of €30 million and €26.4 million from the EBRD and the World Bank respectively for a project with a total cost of €114 million. This is the first time that the Bank's nuclear safety funds have been used for a co-financing project and could act as a model for other energy projects in Bulgaria, Lithuania and the Slovak Republic.

These include energy efficiency measures to facilitate the closure of the nuclear plants in a cost-effective and environmentally sound way.

Pledges to the three funds total over €500 million. Some contributors are currently considering an increase to these pledges. Members of all three Assemblies of Contributors are the European Union, Austria, Denmark, the Netherlands, Spain and the United Kingdom. Belgium and Switzerland are members of the Ignalina and the Kozloduy IDSFs. Finland, France, Germany, Luxemburg, Norway, Poland and Sweden are members of the Ignalina IDSF, and Greece is a member of the Kozloduy IDSF. Ireland is a donor to all three funds.

Procurement

Contracts awarded as part of EBRD projects must be based on the fundamental principles of non-discrimination, fairness and transparency. The EBRD's Procurement Policies and Rules enshrine these principles. 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 treats procurement in public and private sector projects differently. A private sector client can apply its own procurement practices provided the EBRD is satisfied that these practices are commercially sound, market level prices are obtained, conflicts of interest are avoided and that the best interests of the client company are preserved. Procurement in public sector operations is more prescriptive. The EBRD asks clients to use structured, transparent procedures that maximise competition and fair treatment of all participants. The Bank reviews and monitors the procurement process closely, providing non-objection at key milestones during this process.

During 2002 the EBRD continued working closely with other multilateral development banks to harmonise public sector procurement. Significant progress has been made on tender documents for the procurement of goods, the procurement of civil works and the prequalification for civil works. Furthermore, in collaboration with the World Bank, the EBRD participated in a review of procurement procedures in FR Yugoslavia and Moldova.

The EBRD continued to provide professional services to both internal and external clients throughout 2002. Services included procurement seminars and workshops for our clients and their agencies in ten countries of operations, business presentations and debriefings for tenderers.

The EBRD financed a total of 174 public sector contracts in 2002, with a total value of €505 million. This compares with 120 contracts totalling €235 million in 2001. The total value of contracts awarded using open tendering procedures amounted to €498 million, or 98.5 per cent of all contracts awarded by value. Initiatives in the transport sector account for more than 60 per cent of all public sector contracts awarded in 2002. To improve the effectiveness of EBRD-financed procurement, the Bank makes available a range of documents, and regularly publishes information about upcoming contracts on the Procurement Opportunities section of the Bank's Web site: www.ebrd.com/oppor/procure. This can be accessed at no cost to the business community.

Projects signed in 2002

At 31 December 2002

Guide

Sub-projects are shown in ***bold italics*** and *italics*.

The three lines following project descriptions show:

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

At the end of each country section, the total EBRD financing for 2002 (in € million) is listed.

Loans are calculated at exchange rates current at 31 December 2002. 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

Not included in these figures are the following items:

- trade facilitation guarantees issued and expired in 2002
- multiple investments to pre-export finance facilities under the Trade Facilitation Programme
- selldowns of EBRD commitments
- investments under private equity funds, such as the Advent Regional Fund, which are sponsored by private institutions and fund managers.

Donor-sponsored funds, such as Regional Venture Funds (RVFs), post-privatisation funds (PPFs) and reconstruction equity funds (REFs), provide a combination of equity capital and grant-financed support. Investments under these funds are included in the signed projects list, provided they are managed accounts of the EBRD.

Albania

Albania Reconstruction Equity Fund

Equity fund supporting small and medium-sized enterprises, including a biscuit factory, furniture producer, paint manufacturer and plastic bottle producer.

Equity fund • C/0 • Equity
Signed 25 April • EBRD financing 1.3
Project value 2.9

Albania power distribution rehabilitation

Upgrade of power transmission and distribution systems and substations in Tirana, Kavaja, Korca, Berat and Lushnja.

Power and energy • B/1 • Loan
Signed 18 September • EBRD financing 24.0
Project value 143.3

Albania road rehabilitation

Emergency improvements to 30 km section of road between Elbasan and Librazhd.

Transport • B/0 • Loan
Signed 16 December • EBRD financing 17.0
Project value 25.7

EBRD financing 42.3

Armenia

Armenian copper programme

Improvements to copper smelter's production capacity.

General industry • C/1 • Loan
Signed 6 December • EBRD financing 2.9
Project value 4.1

Armenia multi-bank framework

Financing for small and medium-sized enterprises and development of banking sector.

Anelik Bank
Bank lending • FI • Loan
Signed 9 December • EBRD financing 1.0
Project value 1.0

EBRD financing 3.9

Azerbaijan

Azerbaijan Microfinance Bank (AMB)

Establishment of greenfield microfinance bank to provide financial services to micro and small enterprises in Azerbaijan.

Small business finance • FI • Equity
Signed 28 June • EBRD financing 1.2
Project value 5.4

Azerbaijan multi-bank framework

Financing for small and medium-sized enterprises and development of banking sector.

Mbank
Bank lending • C/0 • Loan
Signed 29 November • EBRD financing 1.4
Project value 1.4

Moncrief Azerbaijan Oil Company

Development of oil fields in lower Kura Valley.

Natural resources • B/1 • Loan
Signed 18 December • EBRD financing 38.2
Project value 48.3

Regional Trade Facilitation Programme

International Bank of Azerbaijan
EBRD financing 10.9

EBRD financing 51.7

Belarus

Regional Trade Facilitation Programme

Priorbank
EBRD financing 7.5

EBRD financing 7.5

Bosnia and Herzegovina

Bosnia and Herzegovina SME framework

Universal Banka
Credit line to assist small and medium-sized enterprises, consumer finance and the banking sector.

Bank lending • FI • Loan
Signed 6 February • EBRD financing 2.5
Project value 3.3

UPI Banka

Equity investment in commercial bank.

Bank equity • FI • Equity
Signed 27 November • EBRD financing 2.3
Project value 2.4

Telekom Srpske

Expansion of fixed and mobile networks and preparation for privatisation.

Telecommunications • B/0 • Loan
Signed 19 December • EBRD financing 30.0
Project value 95.0

UPI Banka

Credit line to assist small and medium-sized enterprises.

Bank lending • FI • Loan
Signed 20 December • EBRD financing 2.5
Project value 2.5

Regional Trade Facilitation Programme

Raiffeisen Bank BiH (former Market)
EBRD financing 1.5

Raiffeisen Bank
EBRD financing 0.1

UPI Banka
EBRD financing 0.1

EBRD financing 39.0

Bulgaria

Bulgarian transmission network

Restructuring and commercialisation of Bulgarian power sector, bringing it in line with EU standards.

Power and energy • B/0 • Loan
Signed 16 January • EBRD financing 41.1
Project value 155.1

Isiklar/Celhart

Further investment in kraft paper and sack manufacturer.

General industry • B/1 • Loan
Signed 8 March • EBRD financing 24.5
Project value 48.5

Sofia public transport

Refurbishment of trams, purchase of new buses and trolley buses, upgrade of passenger ticket system, development of transport control system and renewal of tram tracks.

Infrastructure • B/0 • Loan
Signed 29 April • EBRD financing 20.0
Project value 34.8

Sofia district heating rehabilitation

Upgrade of distribution network and improvement of financial, commercial and environmental performance of company.

Energy efficiency • B/0 • Loan
Signed 14 August • EBRD financing 30.0
Project value 120.5

Unionbank

Acquisition of 15 per cent equity stake in bank supporting small and medium-sized enterprises.

Bank equity • FI • Equity
Signed 19 September • EBRD financing 2.2
Project value 2.2

Sodi

Extended support for Solvay S.A (Belgium) and Sisecam (Turkey) for their investment in the Bulgarian soda ash producer Sodi.

General industry • B/1 • Loan
Signed 20 December • EBRD financing 38.2
Project value 128.3

EU/EBRD SME financing facility – Phase II

Financing for small and medium-sized enterprises.

Raiffeisen Bank Bulgaria
EBRD financing 10.0

United Bulgarian Bank
EBRD financing 10.0

Regional Trade Facilitation Programme

Unionbank
EBRD financing 0.3

EBRD financing 176.3

Croatia

RZB Croatia

Credit line supporting small and medium-sized enterprises.

Bank lending • FI • Loan
Signed 16 January • EBRD financing 30.0
Project value 30.0

Getro

Expansion of retail operations in Croatia, mainly cash and carry and discount outlets.

Agribusiness • B/1 • Loan
Signed 17 April • EBRD financing 25.0
Project value 61.8

Erste & Steiermaerkische Bank

Financing for small and medium-sized enterprises.

Bank lending • FI • Loan
Signed 19 July • EBRD financing 20.0
Project value 20.0

Area control centre

Renewal of Croatia's main air traffic control centre, including construction of new building and purchase of state-of-the-art equipment.

Transport • C/0 • Loan
Signed 5 September • EBRD financing 25.0
Project value 45.0

Privredna Banka Zagreb

Acquisition of up to 22 per cent of ordinary shares and voting rights in Privredna Banka Zagreb, in final phase of privatisation.

Bank equity • FI • Equity
Signed 22 November • EBRD financing 120.0
Project value 121.0

Motorway rehabilitation project

Improvements to the European Corridor X motorway from Zabok, via Zagreb, to Brodski Stupnik.

Transport • C/0 • Loan
Signed 13 December • EBRD financing 46.5
Project value 96.5

Vip-Net

Development of essential, efficient, reliable and user-oriented telecommunications infrastructure in Croatia.

Telecommunications • B/0 • Loan
Signed 17 December • EBRD financing 26.0
Project value 150.0

Warehouse receipt programme

Expansion of Croatian grain export market through pre-financing and short-term lending against warehouse receipts for agribusiness companies, farmers and traders.

Zagrebacka Banka
EBRD financing 25.0
Project value 71.4

EBRD financing 317.5

Czech Republic

Soufflet Malting Czech

Acquisition of Moravska Sladovna Kromeriz (MSK) malting plant in Kromeriz, Czech Republic.

Agribusiness • B/1 • Loan
Signed 20 March • EBRD financing 14.0
Project value 39.0

TES Media

Acquisition of Intercable CZ, the second-largest Czech cable TV operator, and development of merged entity.

Telecommunications • C/0 • Loan
Signed 2 August • EBRD financing 9.5
Project value 36.8

Winterthur multi-project facility

Credit Suisse Life & Pensions Penzijni Fond
Acquisition of additional shares in pension fund management company, following merger with Vojensky Otevreny Podilovy Fond.

Non-bank financial institution • FI • Equity
Signed 28 October • EBRD financing 19.8
Project value 25.5

Winterthur multi-project facility

Credit Suisse Life & Pensions Pojistovna
Investment in insurance company.

Non-bank financial institution • FI • Equity
Signed 28 October • EBRD financing 0.5
Project value 5.8

EU/EBRD SME financing facility – Phase II

Financing for small and medium-sized enterprises.

Raiffeisen Bank Czech Republic
EBRD financing 10.0

EBRD financing 53.8

Estonia

Imavere sawmill

Refinance of sawmill's syndicated loan to support capital expenditure and strengthen cash flow.

General industry • B/1 • Loan
Signed 4 March • EBRD financing 7.0
Project value 12.3

LHV asset management

Investment in private pension fund management company supporting Estonian pension reform.

Non-bank financial institution • FI • Equity
Signed 31 May • EBRD financing 1.1
Project value 2.8

Tallinn Airport

Improvement to passenger terminal and provision of additional space for commercial activities.

Transport • B/0 • Loan
Signed 15 October • EBRD financing 7.5
Project value 7.5

Tallinn Water privatisation financing

Financing for post-privatisation investment programme, restructuring of balance sheet and facilitation of private sector involvement in water and waste-water services.

Infrastructure • C/1 • Loan
Signed 8 November • EBRD financing 55.0
Project value 80.0

EBRD financing 70.6

FR Yugoslavia

Raiffeisen Bank Yugoslavia

Increase of bank's equity base.

Bank lending • FI • Loan
Signed 16 January • EBRD financing 10.0
Project value 10.0

Kosovo reconstruction fund

Equity fund supporting small and medium-sized enterprises.

Equity funds • C/0 • Equity
Signed 6 February • EBRD financing 0.7
Project value 2.6

Eksimbanka

Restructuring, recapitalisation and purchase of new issued shares in bank financing small and medium-sized enterprises.

Bank equity • FI • Equity
Signed 28 February • EBRD financing 1.3
Project value 4.1

Hemofarm

Expansion and upgrade of pharmaceutical facilities in Vršac.

General industry • B/1 • Loan
Signed 12 April • EBRD financing 18.0
Project value 24.2

City of Kragujevac municipal infrastructure reconstruction programme

Supply and installation of consumer meters, improvements to water supply distribution system and waste-water collection network.

Infrastructure • B/0 • Loan
Signed 27 June • EBRD financing 5.0
Project value 7.8

City of Nis municipal infrastructure reconstruction programme

Purchase of sewer cleaning equipment, completion of city water main ring and creation of additional reservoir storage capacity.

Infrastructure • B/0 • Loan
Signed 27 June • EBRD financing 6.0
Project value 12.3

City of Novi Sad municipal infrastructure reconstruction programme

Improvement to waste-water collection and treatment.

Infrastructure • B/0 • Loan
Signed 27 June • EBRD financing 5.0
Project value 9.0

Direct Investment Facility

Progas
Production, marketing and distribution of technical gases.

General industry • C/0 • Equity
Signed 25 July • EBRD financing 0.4
Project value 1.1

Road recovery project

Republic of Serbia
Upgrade of priority road links throughout Serbia, including Corridor X, and restructuring of sector.

Transport • B/0 • Loan
Signed 31 July • EBRD financing 76.0
Project value 192.0

Prva Preduzetnicka Banka

Recapitalisation and restructuring of commercial bank.

Bank equity • FI • Equity
Signed 3 September • EBRD financing 3.0
Project value 3.0

Microfinance Bank of Yugoslavia

Expansion of finance facilities for micro and small enterprises.

Small business finance • FI • Equity
Signed 14 October • EBRD financing 1.0
Project value 5.1

Euromarket Banka

Equity investment to foster institutional development.

Bank equity • FI • Equity
Signed 19 December • EBRD financing 1.4
Project value 1.5

Euromarket Banka

Financing for small and medium-sized enterprises.

Bank lending • FI • Loan
Signed 19 December • EBRD financing 1.0
Project value 1.0

Regional Trade Facilitation Programme

Eksimbanka
EBRD financing 1.9

Euromarket Banka
EBRD financing 0.3

Raiffeisen Bank Yugoslavia
EBRD financing 1.3

EBRD financing 132.3

FYR Macedonia

Stopanska Banka

Strengthening of bank's capital base, development and restructuring of operations, and increase in lending facilities to small and medium-sized enterprises.

Bank equity • FI • Loan
Signed 24 July • EBRD financing 1.8
Project value 17.1

Civil aviation upgrade

Improvement to flight safety, management of air traffic, operation of second Macedonian airport and support of civil aviation development and institutional reform.

Transport • B/0 • Loan
Signed 30 July • EBRD financing 11.2
Project value 14.0

Regional Trade Facilitation Programme

Komercijalna Banka
EBRD financing 5.5

Export and Credit Bank (ECB)
EBRD financing 0.5

Tutunska Banka AD Skopje
EBRD financing 0.2

EBRD financing 19.2

Georgia

Channel Energy Poti Port

Construction and operation of new oil terminal.

Transport • B/1 • Loan
Signed 19 March • EBRD financing 11.1
Project value 30.1

Microfinance Bank of Georgia

Financing for micro and small enterprises.

Small business finance • FI • Loan
Signed 28 November • EBRD financing 1.3
Project value 2.1

Regional Trade Facilitation Programme

Bank of Georgia
EBRD financing 1.5

TBC Bank
EBRD financing 1.8

United Georgian Bank
EBRD financing 0.7

EBRD financing 16.4

Hungary

Parmalat multi-project facility

Hungary
Purchase of 32.5 per cent of dairy producer's capital.

Agribusiness • C/0 • Equity
Signed 16 September • EBRD financing 9.0
Project value 27.7

Winterthur multi-project facility

CD L&P Biztosito
Establishment of life, health and non-life insurance companies as well as voluntary and mandatory pension funds in Hungary.

Non-bank financial institution • FI • Equity
Signed 28 October • EBRD financing 2.5
Project value 8.1

Winterthur multi-project facility

Penztarszolgaltato
Equity investment in Hungarian pension fund management company.

Non-bank financial institution • FI • Equity
Signed 28 October • EBRD financing 0.2
Project value 2.2

EBRD financing 11.7

Kazakhstan

Kazkommertsbank syndicated loan

Financing for strong private sector companies with little access to term funding.

Bank lending • FI • Loan
Signed 20 September • EBRD financing 28.6
Project value 47.7

Kazakhmys environmental facility

Upgrade of Balkhash smelter, bringing facility in line with World Bank and EU environmental standards.

General industry • B/1 • Equity
Signed 18 December • EBRD financing 19.1
Project value 25.6

Warehouse receipts programme

Expansion of Kazakh grain export market through pre-financing and short-term lending against warehouse receipts for agribusiness companies, farmers and traders.

AMB
EBRD financing 2.4

Halyk Savings Bank
EBRD financing 4.8

Kazkommertsbank
EBRD financing 47.8

Temirbank
EBRD financing 2.9

Turan Alem Bank
EBRD financing 47.8

Project value 181.9

Regional Trade Facilitation Programme

ATFBank (formerly Almaty Merchant Bank)
EBRD financing 2.9

Bank Turan Alem (Guarantee and Pre-export)
EBRD financing 12.9

Halyk Savings Bank
EBRD financing 2.9

Kazkommertsbank
EBRD financing 1.9

EBRD financing 174.0

Kyrgyz Republic

Kyrgyz micro and small enterprise finance facility

Credit line to assist micro and small enterprises.

Ineximbank
Small business finance • FI • Loan
Signed 8 July • EBRD financing 0.7
Project value 1.7

Regional Trade Facilitation Programme

Ineximbank
EBRD financing 0.9

Kyrgyz Investment and Commercial Bank (KICB)
EBRD financing 0.3

EBRD financing 1.9

Latvia

EU/EBRD SME financing facility – Phase II

Financing for small and medium-sized enterprises.

Rietumu Banka
Bank lending • FI • Loan
Signed 23 September • EBRD financing 5.0
Project value 5.0

EBRD financing 5.0

Lithuania

Post privatisation fund

Sonex
Support for information technology systems integrator.

Equity funds • FI • Equity
Signed 6 March • EBRD financing 0.5
Project value 1.2

Lietuvos Draudimas

Participation in capital increase of insurance company.

Non-bank financial institution • FI • Equity
Signed 6 December • EBRD financing 0.3
Project value 1.8

EBRD financing 0.8

Moldova

Moldova-Agroindbank

Credit line supporting small and medium-sized enterprises.

Bank lending • FI • Loan
Signed 23 May • EBRD financing 5.7
Project value 5.7

Micro Enterprise Credit Bank

Financing for micro and small enterprises.

Small business finance • FI • Loan
Signed 27 June • EBRD financing 1.3
Project value 11.2

Regional Trade Facilitation Programme

MICB
EBRD financing 0.4

Moldova-Agroindbank
EBRD financing 0.4

Victoria Bank
EBRD financing 2.1

EBRD financing 9.9

Poland

PKP second railway restructuring and privatisation

Upgrade of railway infrastructure, restructuring of financial liabilities and reform of Polish railway industry.

Transport • B/0 • Loan
Signed 19 March • EBRD financing 130.0
Project value 130.0

Rheinhyp-BRE Bank Hipoteczny mortgage bond purchase framework

Purchase of issued mortgage bonds and support for bank's commercial and residential mortgage portfolio.

Non-bank financial institution • FI • Equity
Signed 4 April • EBRD financing 48.9
Project value 48.9

Raiffeisen Bank Polska S.A.

Financing for small and medium-sized enterprises.

Bank lending • FI • Loan
Signed 20 May • EBRD financing 20.0
Project value 20.0

Dalkia multi-project facility

Dalkia Termika
Acquisition of district heating service provider in Poznan.

Energy efficiency • C/1 • Loan
Signed 24 May • EBRD financing 36.0
Project value 109.0

Gliwice environmental investment programme

Extension and modernisation of Gliwice sewerage system and surrounding municipalities.

Infrastructure • B/0 • Loan
Signed 2 October • EBRD financing 15.0
Project value 70.2

City of Lodz road improvement

Upgrade of Lodz section of Pan-European Corridor VI and surrounding municipal streets.

Infrastructure • B/0 • Loan
Signed 16 October • EBRD financing 6.7
Project value 18.9

Krakow urban transport project

Construction of road linking Krakow with A4 motorway and upgrade of road, tram and bus infrastructure around the central railway station and the Krakow Communication Centre.

Infrastructure • A/0 • Loan
Signed 17 October • EBRD financing 11.9
Project value 60.9

Winterthur multi-project facility

Credit Suisse Life & Pensions PTE
Equity investment in pension fund management company.

Non-bank financial institution • FI • Equity
Signed 28 October • EBRD financing 0.3
Project value 15.2

Skypet

Construction and installation of new PET resin manufacturing facility.

General industry • B/1 • Loan
Signed 17 December • EBRD financing 17.5
Project value 31.8

Tel-Energo

Expansion of telecommunication provider's Polish network and acquisition of other telecom companies.

Telecommunications • B/0 • Loan
Signed 20 December • EBRD financing 69.7
Project value 108.3

EU/EBRD SME financing facility – Phase II

Financing for small and medium-sized enterprises.

BZ WBK
EBRD financing 20.0

Europejski Fundusz Leasingowy
EBRD financing 20.0

ING Bank Slaski
EBRD financing 20.0

Raiffeisen Bank Polska
EBRD financing 10.0

Raiffeisen Leasing Polska S.A.
EBRD financing 5.0

EBRD financing 431.0

Romania

Post privatisation fund

Regev and Instal
Development of gas distribution networks.

Equity funds • C/0 • Equity
Signed 23 January • EBRD financing 0.3
Project value 0.4

Micro Finance Bank Romania (MBR)

Financing for micro and small enterprises.

Small business finance • FI • Equity
Signed 11 April • EBRD financing 2.3
Project value 12.7

Municipal environmental loan facility

Brasov
Upgrade of water and waste-water facilities in Brasov.

Infrastructure • B/0 • Loan
Signed 18 May • EBRD financing 14.5
Project value 58.7

Interamerican Romania

Expansion of insurance, health care, pension management, asset management and banking operations.

Non-bank financial institution • FI • Equity
Signed 10 June • EBRD financing 3.4
Project value 3.4

SNP Petrom

Restructuring and pre-privatisation of oil and gas company and partial finance of syndicated loan for refinery's modernisation programme.

Natural resources • B/1 • Loan
Signed 1 August • EBRD financing 95.4
Project value 143.1

MobiFon corporate loan facility

Consolidation of GSM operator's existing financing.

Telecommunications • B/0 • Loan
Signed 27 August • EBRD financing 105.0
Project value 286.2

Ispat-Sidex Phase II

Replacement of existing EBRD short-term loan with long-term loan supporting restructuring of steel-maker.

General industry • B/1 • Loan
Signed 18 November • EBRD financing 95.4
Project value 430.3

Michelin Romania

Expansion of tyre maker's operations and production capacity.

General industry • B/1 • Equity
Signed 13 December • EBRD financing 1.4
Project value 22.7

Apa Nova water treatment plant

Completion of water treatment plant in Bucharest, bringing the city's facilities in line with EU environmental and health standards.

Infrastructure • B/0 • Loan
Signed 19 December • EBRD financing 55.4
Project value 188.4

EU/EBRD SME financing facility – Phase I

Financing for small and medium-sized enterprises.

Bank Post Romania
EBRD financing 10.0

Banca Transilvania
EBRD financing 4.8

EU/EBRD SME financing facility – Phase II

Financing for small and medium-sized enterprises.

Raiffeisen Romania
EBRD financing 15.0

Volksbank Romania
EBRD financing 10.0

Banca Comerciala Romana
EBRD financing 20.0

Regional Trade Facilitation Programme

Banca Transilvania
EBRD financing 3.5

RoBank
EBRD financing 2.3

Robank pre-export facility
EBRD financing 1.9

EBRD financing 440.6

Russia

Raiffeisen Bank Russia senior loan

Financing for small and medium-sized enterprises.

Bank lending • FI • Loan
Signed 16 January • EBRD financing 28.6
Project value 28.6

Pohjola Insurance Russia

Equity investment in insurance company.

Non-bank financial institution • FI • Equity
Signed 22 January • EBRD financing 0.4
Project value 1.0

Permtex

Development of oil reserves in the Perm region.

Natural resources • A/1 • Loan
Signed 22 January • EBRD financing 9.5
Project value 98.3

Merloni Russia (Stinol)

Upgrade of refrigerator plant, improving operating efficiency and developing environmentally friendly appliances.

General industry • B/1 • Portage equity
Signed 27 February • EBRD financing 13.6
Project value 136.0

DeltaLeasing

Expansion of leasing facility for small and medium-sized enterprises.

Non-bank financial institution • FI • Loan
Signed 28 February • EBRD financing 9.5
Project value 30.5

Direct Investment Facility

Intercos-IV
Equity investment in manufacturer of dyes and press-forms for the automotive industry.

General industry • FI • Equity
Signed 25 April • EBRD financing 3.2
Project value 3.2

Michelin Russia

Establishment of tyre manufacturer's production facilities and improvement of technology.

General industry • B/1 • Loan
Signed 7 May • EBRD financing 19.1
Project value 52.2

DeltaCredit mortgage finance

Financing for individuals wishing to purchase residential property.

Non-bank financial institution • FI • Loan
Signed 15 May • EBRD financing 19.1
Project value 57.2

Chupa Chups Russia

Renovation and expansion of confectionery production plant.

Agribusiness • B/1 • Loan
Signed 15 May • EBRD financing 13.4
Project value 35.5

Surgut municipal services development programme

Upgrade of municipal water and district heating system and institutional strengthening of local utilities.

Infrastructure • B/0 • Loan
Signed 21 June • EBRD financing 40.3
Project value 78.8

Vena restructuring and expansion

Expansion of brewery and restructuring of its balance sheet.

Agribusiness • B/1 • Loan
Signed 27 June • EBRD financing 44.0
Project value 86.7

SeverTEK

Drilling and construction of pipeline and other infrastructure needed to bring SeverTEK's largest field on-stream.

Natural resources • A/1 • Loan
Signed 28 June • EBRD financing 95.4
Project value 339.0

Polygrafoformleniye

Expansion of printer's production capacity, market and customer base.

General industry • B/1 • Loan
Signed 31 July • EBRD financing 10.5
Project value 10.5

Mosenergo

Partial refinance of Eurobond and investment in power projects.

Power and energy • B/1 • Loan
Signed 14 August • EBRD financing 66.8
Project value 81.1

Russia Small Business Fund

Financing for micro and small enterprises.
Chelindbank
NBD Bank
Uraltransbank

Small business finance • FI • Equity
Signed 23 August • EBRD financing 7.7
Project value 8.6

Russian agricultural commodity programme

Financing for small and medium-sized agribusiness enterprises.

Agribusiness • FI • Loan
Signed 10 September • EBRD financing 95.4
Project value 272.6

Parmalat multi-project facility

Russia
Restructuring, privatisation and modernisation of dairy and food industries, including fruit and vegetables, natural juices and bakery products.

Agribusiness • C/0 • Equity
Signed 16 September • EBRD financing 6.0
Project value 17.2

Direct Investment Facility

Firestop
Development of manufacturer of flame-retardant materials.

General industry • FI • Loan
Signed 18 September • EBRD financing 1.2
Project value 1.2

Russia road sector reform

Construction of section of St Petersburg eastern by-pass and construction of road between Chita and Khabarovsk in the Far East.

Transport • A/0 • Loan
Signed 19 September • EBRD financing 218.5
Project value 342.7

Geoilbent

Construction of gas-condensate processing plant, reducing flaring of associated gases and enabling extraction of higher value gas from its reserves.

Natural resources • B/1 • Loan
Signed 23 September • EBRD financing 26.7
Project value 114.8

Duferco – VIZ Stahl 2

Support for buy-out of minority shareholders in international steel group.

General industry • C/1 • Loan
Signed 25 September • EBRD financing 13.4
Project value 13.4

Russkiy Standard Bank term loan and equity-linked option

Expansion of bank's consumer finance business.

Bank lending • FI • Loan
Signed 1 October • EBRD financing 9.5
Project value 9.5

Chelyabinsk Electrolytic zinc smelter

Renovation of existing zinc smelter and construction of mercury recovery plant.

General industry • B/1 • Loan
Signed 9 October • EBRD financing 11.4
Project value 23.9

Caterpillar leasing framework

Leasing of Caterpillar equipment, including construction and mining equipment, diesel and natural gas engines and industrial gas turbines, to Russian companies.

Non-bank financial institution • FI • Loan
Signed 11 October • EBRD financing 0.3
Project value 0.5

IKEA Kommunarka shopping centre

Creation and operation of first giant shopping centre and entertainment complex in Moscow.

Property • B/1 • Loan
Signed 8 November • EBRD financing 95.4
Project value 200.6

Huhtamaki – Polarcup

Expansion of food packaging material production facility.

Agribusiness • C/1 • Loan
Signed 16 September • EBRD financing 12.5
Project value 41.0

Hansa Leasing Russia

Establishment of greenfield leasing and factoring company.

Non-bank financial institution • FI • Equity
Signed 28 November • EBRD financing 17.9
Project value 50.2

Stora Enso multi-project facility

Setles
Establishment of sawmill in the southern part of Karelia.

General industry • C/0 • Loan
Signed 10 December • EBRD financing 3.0
Project value 10.0

St Petersburg flood protection barrier

Completion of flood protection barrier, currently about 65 per cent complete.

Infrastructure • A/0 • Loan
Signed 20 December • EBRD financing 233.8
Project value 550.2

Chelyabinsk tube rolling plant

Modernisation of equipment and improvement of energy efficiency at pipe plant.

General industry • B/1 • Loan
Signed 20 December • EBRD financing 47.7
Project value 47.7

Kalina

Acquisition of cosmetics manufacturer's smaller Russian competitors, as well as new capital investments.

General industry • B/1 • Loan
Signed 20 December • EBRD financing 19.1
Project value 38.2

Ostankino Tower emergency construction repairs

Repair of Ostankino TV tower in Moscow, including purchase and installation of high-speed passenger and cargo lifts.

Infrastructure • C/1 • Loan
Signed 20 December • EBRD financing 13.4
Project value 13.4

Warehouse receipt programme

Expansion of Russian grain export market through pre-financing and short-term lending against warehouse receipts for agribusiness companies, farmers and traders.

Vneshtorgbank
EBRD financing 9.6

Regional Trade Facilitation Programme

Vneshtorgbank
EBRD financing 2.0

Center-Invest Bank, Rostov
EBRD financing 1.9

Chelindbank
EBRD financing 3.6

International Moscow Bank
EBRD financing 0.9

Savings Bank of Russia (Sberbank)
EBRD financing 38.1

Regional Venture Fund: Eagle Urals Fund

Modernisation and restructuring of privatised and new enterprises through equity investments, improved corporate governance and technical cooperation funding. Supports businesses in Perm, Sverdlorsk and Chelyabinsk.

Rucom

EBRD financing 3.0
Project value 3.1

Regional Venture Fund: North-west and west Russia

Modernisation and restructuring of privatised and new enterprises through equity investments, improved corporate governance and technical cooperation funding.

Karelia DSP
OAO ESTA
Pokrovsky III
Vitrina A

EBRD financing 10.4
Project value 10.9

Regional Venture Fund: Russia Partners Lower Volga

Modernisation and restructuring of privatised and new enterprises through equity investments, improved corporate governance and technical cooperation funding. Supports businesses in Volgograd, Saratov and Samara oblasts.

MTV/SIDORI

EBRD financing 4.0
Project value 4.0

Regional Venture Fund: St Petersburg

Modernisation and restructuring of privatised and new enterprises through equity investments, improved corporate governance and technical cooperation funding. Supports businesses in the St Petersburg and Leningrad region.

Morion
ZAO Disegni

EBRD financing 1.2
Project value 1.6

Regional Venture Fund: West Siberia

Modernisation and restructuring of privatised and new enterprises through equity investments, improved corporate governance and technical cooperation funding. Supports businesses in Novosibirsk, Altay, Tomsk and Kemerovo.

Protector-M

EBRD financing 0.2
Project value 1.2

EBRD financing 1,281.2

Slovak Republic

Post privatisation fund

Radio D-Express

Equity investment in new radio service.

Equity funds • FI • Equity
Signed 29 January • EBRD financing 0.3
Project value 0.6

Slovenske Elektrarne

Restructuring of state-owned power generation and transmission company.

Power and energy • C/1 • Loan
Signed 6 March • EBRD financing 87.2
Project value 191.9

Globtel A.S.

Equity investment in leading wireless telecommunications service provider.

Telecommunications • C/0 • Equity
Signed 14 June • EBRD financing 0.6
Project value 143.1

UniBanka

Completion of restructuring and turn-around of Slovak bank.

Bank equity • FI • Equity
Signed 9 October • EBRD financing 3.6
Project value 18.1

Value Growth Fund

Equity fund targeting manufacturing/ service industry companies undergoing restructuring.

Equity funds • FI • Equity
Signed 11 December • EBRD financing 8.0
Project value 17.1

EU/EBRD SME financing facility – Phase II

Financing for small and medium-sized enterprises.

CAC Leasing Slovakia

EBRD financing 15.0

EBRD financing 114.7

Slovenia

Nova Ljubljanska Banka

Privatisation of largest banking group in Slovenia.

Bank equity • FI • Equity
Signed 9 July • EBRD financing 175.0
Project value 610.0

EU/EBRD SME financing facility – Phase II

Financing for small and medium-sized enterprises.

Banka Koper

EBRD financing 5.0

EBRD financing 180.0

Turkmenistan

Gap Turkmen 3

Capital increase ensuring long-term future of first vertically integrated denim fabric and ready-made goods production complex.

General industry • B/1 • Loan
Signed 19 January • EBRD financing 10.2
Project value 10.2

EBRD financing 10.2

Ukraine

Cereol Ukraine

Purchase of raw materials for the production of refined edible sunflower oil.

Agribusiness • C/1 • Loan
Signed 1 February • EBRD financing 25.3
Project value 27.7

Gostomel glass factory

Refurbishment and replacement of glass production facilities and implementation of international accounting standards.

Agribusiness • B/1 • Loan
Signed 25 March • EBRD financing 11.4
Project value 14.3

Toepfer working capital revolving facility

Purchase, transportation, storage and export of agricultural commodities or process of commodities on a tolling basis for eventual sale locally or export.

Agribusiness • C/O • Loan
Signed 14 June • EBRD financing 76.3
Project value 145.0

Malteurop

Expansion and renovation of existing malting plant and construction of second plant on greenfield site.

Agribusiness • B/1 • Loan
Signed 11 July • EBRD financing 14.8
Project value 48.8

Grain warehouse receipt programme

Expansion of Ukrainian grain export market through pre-financing and short-term lending against warehouse receipts for agribusiness companies, farmers and traders.

Bank lending • FI • Loan
Signed 13 November • EBRD financing 9.5
Project value 9.5

Kvazar-Micro Corporation BV (KMC)

Creation of new personal computer assembly plant.

General industry • B/1 • Loan
Signed 18 November • EBRD financing 7.6
Project value 11.9

Post privatisation fund: Euroventures Ukraine

Private equity fund supporting newly privatised enterprises.
Anthousa Ltd (Furshet)
Laona Investments (formerly Alba)
Sodelem Dev. (formerly Milky Land)

EBRD financing 6.5
Project value 8.4

Regional Trade Facilitation Programme

Aval Bank
EBRD financing 4.9

First Ukrainian International Bank (FUIB)
EBRD financing 7.2

Forum Bank
EBRD financing 3.9

Kredyt Bank Ukraina (former WUCB)
EBRD financing 0.6

Nadra Bank
EBRD financing 0.8

EBRD financing 168.8

Uzbekistan

Direct Investment Facility

SealMag
Acquisition of colour offset printing equipment.

General industry • FI • Equity
Signed 28 June • EBRD financing 0.6
Project value 1.2

Uzbek Leasing International

Financing for small and medium-sized businesses.

Non-bank financial institution • FI • Loan
Signed 30 December • EBRD financing 1.9
Project value 7.1

Japan-Uzbekistan small business programme

Financing for micro and small enterprises.

Hamkor Bank
EBRD financing 1.9

Pakhta Bank
EBRD financing 6.7

Regional Trade Facilitation Programme

Asaka Bank
EBRD financing 6.4

NBU (Guarantee & Pre-export)
EBRD financing 16.4

UzDaewoo
EBRD financing <0.1

EBRD financing 33.9

Regional

Accession Mezzanine Capital

Establishment of first dedicated mezzanine fund, supporting mature companies operating in Poland, Hungary, the Czech Republic, the Slovak Republic and Slovenia.

Equity funds • FI • Equity
Signed 8 January • EBRD financing 37.5
Project value 81.5

Efes – EBI

Financing for Efes breweries in Kazakhstan, Romania, Russia and Ukraine.

Agribusiness • C/O • Loan
Signed 15 April • EBRD financing 5.5
Project value 5.5

Black Sea Fund

Equity fund supporting medium-sized enterprises and joint ventures in the Black Sea region.

Bank equity • FI • Equity
Signed 31 May • EBRD financing 9.9
Project value 30.7

Askembla Growth Fund

Private equity fund supporting medium-sized enterprises.

Equity funds • FI • Equity
Signed 29 November • EBRD financing 7.0
Project value 24.0

Heitman Central Europe Property Partners Fund

Investment in property projects (primarily office buildings, warehousing/distribution and retail shopping centres) in the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

Equity funds • FI • Equity
Signed 9 December • EBRD financing 35.0
Project value 135.2

Danfoss debt facility for industrial energy projects

Financing for energy efficiency projects in selected east European breweries.

Energy efficiency • C/O • Loan
Signed 20 December • EBRD financing 10.0
Project value 12.5

EBRD financing 104.9

Total EBRD financing 3,899.2

Structure of the EBRD

Governors and Alternate Governors

31 December 2002

Member	Governor	Alternate Governor
Albania	Arben Malaj	Dritan Shano
Armenia	Vardan Khachatryan	Tigran Sargsyan
Australia	Peter Costello	Chris Gallus
Austria	Karl-Heinz Grasser	Thomas Wieser
Azerbaijan	Elman S Roustamov	Jahangir Hadjiyev
Belarus	Sergei Sidorsky	Nikolai P Zaichenko
Belgium	Didier Reynders	Jean-Pierre Arnoldi
Bosnia and Herzegovina	Nikola Kragulj	Jadranko Prlic
Bulgaria	Milen Velchev	Martin Zaimov
Canada	John Manley	Gaëtan Lavertu
Croatia	Mato Crkvenac	Josip Kulisic
Cyprus	Takis Klerides	Andreas Tryfonides
Czech Republic	Bohuslav Sobotka	Zdeněk Tüma
Denmark	Bendt Bendtsen	Michael Dithmer
Egypt	Hassan Ali Ali Khedr	Youssef Boutros-Ghali
Estonia	Harri Õunapuu	Aare Järvan
Federal Republic of Yugoslavia	Miroljub Labus	–
Finland	Sauli Niinistö	Pekka Lintu
Former Yugoslav Republic of Macedonia	Petar Gosev	Ilija Filipovski
France	Francis Mer	Jean-Pierre Jouyet
Georgia	Teimuraz Mamatsashvili	–
Germany	Hans Eichel	Caio Koch-Weser
Greece	Nikolaos Christodoulakis	Georgios Zanias
Hungary	Csaba László	Zoltán Kazatsay
Iceland	Valgerdur Sverrisdóttir	Thorgeir Orlygsson
Ireland	Charlie McCreevy	Tom Considine
Israel	David Klein	Ohad Marani
Italy	Giulio Tremonti	Lorenzo Bini Smaghi
Japan	Masajuro Shiokawa	Masaru Hayami
Kazakhstan	Or Zeynulla Khalidollovich Kakimzhanov	Yerlen Toktagaliyevich Zhangeldin
Kyrgyz Republic	Djoomart Otorbaev	Ulan Sarbanov
Latvia	Roberts Zile	Aigars Kalvitis
Liechtenstein	Hansjörg Frick	Roland Marxer
Lithuania	Dalia Grybauskaite	Arvydas Kregždė
Luxembourg	Jean-Claude Juncker	Jean Guill
Malta	John Dalli	Michael C Bonello
Mexico	Francisco Gil Díaz	Agustín Carstens
Moldova	Stefan Odagiu	Dumitru Ursu
Mongolia	Chultemiin Ulaan	Ochirbatyn Chuluunbat
Morocco	Fathallah Oualalou	Abderrazak Lazraq
Netherlands	Hans Hoogervorst	Jaap de Hoop Scheffer
New Zealand	Phil Goff	Russell Marshall
Norway	Per-Kristian Foss	Helle Hammer
Poland	Leszek Balcerowicz	Ryszard Michalski
Portugal	Manuela Ferreira Leite	Miguel Jorge Reis Antunes Frasquilho
Republic of Korea	Yun-churl Jeon	Seung Park
Romania	Mihai N Tanasescu	Mugur Isarescu
Russian Federation	German O Gref	Sergei I Kolotukhin
Slovak Republic	Ivan Mikloš	Marián Jusko
Slovenia	Anton Rop	Sibil Svilan
Spain	Rodrigo Rato	Juan Costa Climent
Sweden	Gunnar Lund	Karin Rudebeck
Switzerland	Pascal Couchepin	Oscar Knapp
Tajikistan	Abdujabor Shirinov	Maruf Saifiev
Turkey	Faik Öztrak	Aydin Karaöz
Turkmenistan	Ymamdurdy Gandymov	Guvanch Geoklenov
Ukraine	Mykola Azarov	Volodymyr S Stelmakh
United Kingdom	Clare Short	Gordon Brown
United States	–	Alan P Larson
Uzbekistan	Rustam Sadykovich Azimov	Abdurafik A Akhadov
European Community	Pedro Solbes Mira	Klaus Regling
European Investment Bank	Philippe Maystadt	Wolfgang Roth

Chair of the Board of Governors
Governor for United Kingdom (Clare Short)

Vice Chair of the Board of Governors
Governor for Austria (Karl-Heinz Grasser)
Governor for Russian Federation (German O Gref)

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.

EBRD Directors and Alternate Directors

31 December 2002

Director	Alternate Director	Constituency
Jan Bielecki	Kalin Mitrev	Poland / Bulgaria / Albania
Scott Clark	David Plunkett	Canada / Morocco
António de Almeida	Stefanos Vavalidis	Portugal / Greece
Joaquin de la Infiesta	León Herrera	Spain / Mexico
Jos de Vries	Hidde van der Veer	Netherlands / Mongolia
Michael Flynn	Torsten Gersfelt	Ireland / Denmark / Lithuania / FYR Macedonia
Susumu Fujimoto	Osamu Sakashita	Japan
Gerlando Genuardi	Grammatiki Tsingou-Papadopetrou	European Investment Bank
Laurent Guye	Ayşe Dönmezer	Switzerland / Turkey / Liechtenstein / Uzbekistan / Kyrgyz Republic / Azerbaijan / Turkmenistan / FR Yugoslavia
Sven Hegelund	Martin Põder	Sweden / Iceland / Estonia
Tor Hernæs	Rauli Suikkanen	Norway / Finland / Latvia
Byung-Hwa Jin	Gary Johnston	Korea / Australia / New Zealand / Egypt
John Kerby	Jonathan Ockenden	United Kingdom
Igor Kovtun	Mikhail Jernov	Russian Federation / Belarus / Tajikistan
Jean-Pierre Landau	Marc Jullien	France
Michael Neumayr	Ohad Bar-Efrat	Austria / Israel / Cyprus / Malta / Kazakhstan / Bosnia and Herzegovina
Philippe Petit-Laurent	Vassili Lelakis	European Community
Yuri Poluneev	Ionut Costea	Ukraine / Romania / Moldova / Georgia / Armenia
Enzo Quattrociocche	Francesco Saverio Nisio	Italy
Norbert Radermacher	Clemens Kerres	Germany
Jean-Louis Six	Georges Heinen	Belgium / Luxembourg / Slovenia
Mark Sullivan	–	United States of America
Imre Tarafás	Igor Očka	Hungary / Czech Republic / Slovak Republic / Croatia

Composition of Board of Directors’ Committees

31 December 2002

Audit Committee
Jos de Vries *(Chairman)*
Igor Kovtun *(Vice Chairman)*
Jan Bielecki
Scott Clark
António de Almeida
Michael Flynn
Gerlando Genuardi
Byung-Hwa Jin

Financial and Operations Policies Committee
Jean-Pierre Landau *(Chairman)*
Enzo Quattrociocche *(Vice Chairman)*
Joaquin de la Infiesta
Sven Hegelund
Philippe Petit-Laurent
Yuri Poluneev
Jean-Louis Six
Mark Sullivan

Budget and Administrative Affairs Committee
Laurent Guye *(Chairman)*
Tor Hernæs *(Vice Chairman)*
Susumu Fujimoto
John Kerby
Michael Neumayr
Norbert Radermacher
Imre Tarafás

Board Steering Group
Norbert Radermacher *(Chairman)*
John Kerby *(Vice Chairman)*
Jos de Vries
Laurent Guye
Tor Hernæs
Igor Kovtun
Jean-Pierre Landau
Enzo Quattrociocche

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.

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

EBRD management

10 March 2003

President	Jean Lemierre

Banking

Front Office

First Vice President	Noreen Doyle
Deputy Vice President	David Hexter
Planning and Budgeting Director *(joint report to Finance)*	Josué Tanaka
Head of Business Development Support Unit	Bruno Balvanera
Corporate Recovery Team Director *(joint report to Finance)*	Oliver Greene

Infrastructure

Business Group Director	Gavin Anderson
Municipal and Environmental Infrastructure	Thomas Maier
Transport	Riccardo Puliti

Specialised Industries

Business Group Director	David Hexter
Agribusiness	Hans Christian Jacobsen
Property, Tourism and Shipping	Edgar Rosenmayr
Telecommunications, Informatics and Media	Izzet Güney
Small Business	Elizabeth Wallace

Energy

Business Group Director	Peter Reiniger
Natural Resources	Kevin Bortz
Power and Energy Utilities	Tony Marsh
Energy Efficiency	Jacquelin Ligot

Financial Institutions

Business Group Director	Kurt Geiger
Bank Lending	Rogers LeBaron
Bank Equity	Victor Pastor
Non-bank Financial Institutions	Jonathan Woollett
Equity Funds	Kanako Sekine
Equity Support	Lindsay Forbes

Russia and Central Asia

Business Group Director	Hubert Pandza
Russia *(Moscow office)*	Victor Pastor
Central Asia	Masaru Honma
Kazakhstan, Kyrgyz Republic and Tajikistan *(Almaty office)*	Mike Davey

Central Europe

Business Group Director	Alain Pilloux
Baltic countries	Salvatore Candido
Poland *(Warsaw office)*	Irene Grzybowski
Czech Republic and Slovak Republic *(Bratislava office)*	Alexander Auboeck
Croatia, Hungary and Slovenia *(Budapest office)*	Alain Pilloux *(acting)*

Southern and Eastern Europe and the Caucasus

Business Group Director	Olivier Descamps
Serbia and Montenegro *(Belgrade office)*	Dragica Pilipovic-Chaffey
Ukraine *(Kiev office)*	Kamen Zahariev
Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo	Jean-Marc Peterschmitt
Romania *(Bucharest office)*	Hildegard Gacek
Bulgaria *(Sofia office)*	John Chomel-Doe
Armenia, Azerbaijan, Belarus, Georgia and Moldova	George Krivicky
Direct Investment Facility	Frances Reid

Finance

Vice President	Steven Kaempfer

Treasury

Treasurer	Ayesha Shah
Deputy Treasurer and Head of Asset & Liability Management	Axel van Nederveen
Head of Investments – Credits	Ayesha Shah *(acting)*
Head of Funding	Isabelle Laurent
Head of Investments – Rates	Bart Mauldin
Head of Client Risk Management	Grant Metcalfe-Smith

Risk management

Director	Mike Williams
Risk Controller	Jean-André Sorasio
Head of Credit	Bob Harada
Head of Portfolio Review	Irena Postlova
Head of Syndications	Lorenz Jorgensen
Head of Operation Administration	Lieve Reckers
Corporate Recovery Team Director *(joint report to Banking)*	Oliver Greene

Strategic and Corporate Planning and Budgeting

Corporate Director	Josué Tanaka

Accounting, Reporting and Financial Control

Director	Nigel Kerby
Head of Financial Reporting and Expense Control	Julie Williams
Head of Funds Financial Control	Teresa Godwin-Coombs
Head of Treasury Financial Control	Terry Cullen

Operations and Information Technology

Head of Operations and Information Technology	Christopher Holyoak
Director of IT	Tim Goldstone

Human Resources and Administration

Vice President	Hanna Gronkiewicz-Waltz
Director of Human Resources	Franco Furnò
Director of Administration	John McNess

Evaluation, Operational and Environmental Support

Vice President	Fabrizio Saccomanni
Deputy Vice President	Jean-François Maquet

Project Evaluation

Corporate Director	Fredrik Korfker

Procurement and Purchasing

Director	Maurice Lepage

Official Co-financing

Director	Gary Bond

Consultants Services

Unit Head	Dilek Macit

Environment

Director	Alistair Clark

Nuclear Safety

Director	Vince Novak

TurnAround Management Programme

Managing Director	Chris Walker

Office of the Secretary General

Secretary General	Nigel Carter *(acting)*

Office of the General Counsel

General Counsel	Emmanuel Maurice
Deputy General Counsel	Norbert Seiler
Assistant General Counsel	Stephen Petri
Assistant General Counsel	Gerard Sanders

Office of the Chief Economist

Chief Economist	Willem Buiter
Deputy Chief Economist and Director of Transition Strategy and Policy Studies	Steven Fries
Director of Country Strategy and Analysis	Martin Raiser
Director of Project Design and Appraisal	Jose Carbajo

Internal Audit

Head of Internal Audit	Tarek Rouchdy
Deputy Head of Internal Audit	Ray Portelli

Communications

Director	Brigid Janssen
Deputy Director	Lawrence Sherwin

Office of the Chief Compliance Officer

Chief Compliance Officer	Jean Pierre Méan

President's Office

Director	Arnaud Prudhomme

Human resources

Staff development

The EBRD has sharpened its focus on staff development by formulating specific approaches to management development, training and mobility. All EBRD managers are required to attend a training course in performance management. The Bank has also concentrated on improving the work-life balance of its staff with the adoption of work-life balance guidelines, which encourage flexibility in working arrangements and allow greater scope for adjustable hours and working from home. Grievance and appeals procedures have also been strengthened to ensure that staff members have the right to request a review of administrative decisions that affect them.

At the end of December 2002, the EBRD had a regular staff of 907 at its Headquarters compared with 913 in 2001. Locally hired staff in the Bank's Resident Offices totalled 237, compared with 247 in 2001. The ratio of male/female professional staff in the EBRD is approximately 2:1. Recruitment strategy is designed to reflect the diversity and the multinational nature of the organisation.

Changes in senior management

During 2002 there were significant changes in EBRD senior management. In April Antonio Maria Costa resigned after seven years as Secretary General to take up a new appointment at the United Nations. Nigel Carter, the Deputy Secretary General, was appointed Acting Secretary General. In December Joachim Jahnke retired as Vice President Evaluation, Operational and Environmental Support after ten years at the Bank and was replaced by Fabrizio Saccomanni, who joined the EBRD in early 2003. Mr Saccomanni has had a distinguished career at Banca d'Italia (Central Bank of Italy) and has recently been involved with the Stability Pact for South-eastern Europe.

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 2002. (Approximate euro exchange rates: £0.65, US$ 1.05, ¥124.39.)

Operation counting

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

Abbreviations and acronyms

The Bank, EBRD	The European Bank for Reconstruction and Development
BAS	Business Advisory Services
CIS	Commonwealth of Independent States
CSF	Chernobyl Shelter Fund
DIF	Direct Investment Facility
EAP	Environmental Action Plan
EC	European Community
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ENVAC	Environmental Advisory Council
ESCO	Energy service company
EU	European Union
FDI	Foreign direct investment
FR Yugoslavia	Federal Republic of Yugoslavia
FYR Macedonia	Former Yugoslav Republic of Macedonia
G-7	Group of 7 (Canada, France, Germany, Italy, Japan, UK and USA)
GDP	Gross Domestic Product
IDSF	International Decommissioning Support Fund
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
LTP	Legal Transition Programme
MPF	Multi-Project Facility
MSEs	Micro and small enterprises
NDEP	Northern Dimension Environmental Partnership
NPP	Nuclear power plant
NSA	Nuclear Safety Account
OECD	Organisation for Economic Cooperation and Development
PPC	Project Preparation Committee
PPF	Post-Privatisation Fund
RSBF	Russia Small Business Fund
RVF	Regional Venture Fund
SMEs	Small and medium-sized enterprises
Tacis	Technical Assistance for CIS countries (EU)
TAM	TurnAround Management Programme
TC	Technical cooperation
TCFP	Technical Cooperation Fund Programme
TFP	Trade Facilitation Programme

Publishing

The EBRD provides a range of publications, policy papers and other information on its Web site (www.ebrd.com). This includes full contact details for the Bank's local offices.

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.

Production

Project manager and editor
Anthony Martin

Editorial support and picture research
Angela Hill

Design and print management
Jon Page, Steven Still

Design support
Joanna Daniel

Translation coordination
Dagmar Christiansen

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Photographer: Mike Ellis.

Yunicosmetic has received four loans through the EBRD's Russia Small Business Fund, allowing the St Petersburg-based company to more than double its sales and expand its production lines.

European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom

Switchboard/central contact
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
Telex: 8812161 EBRD L G
SWIFT: EBRDGB2L

Web site
www.ebrd.com

Requests for publications
Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
E-mail: pubsdesk@ebrd.com

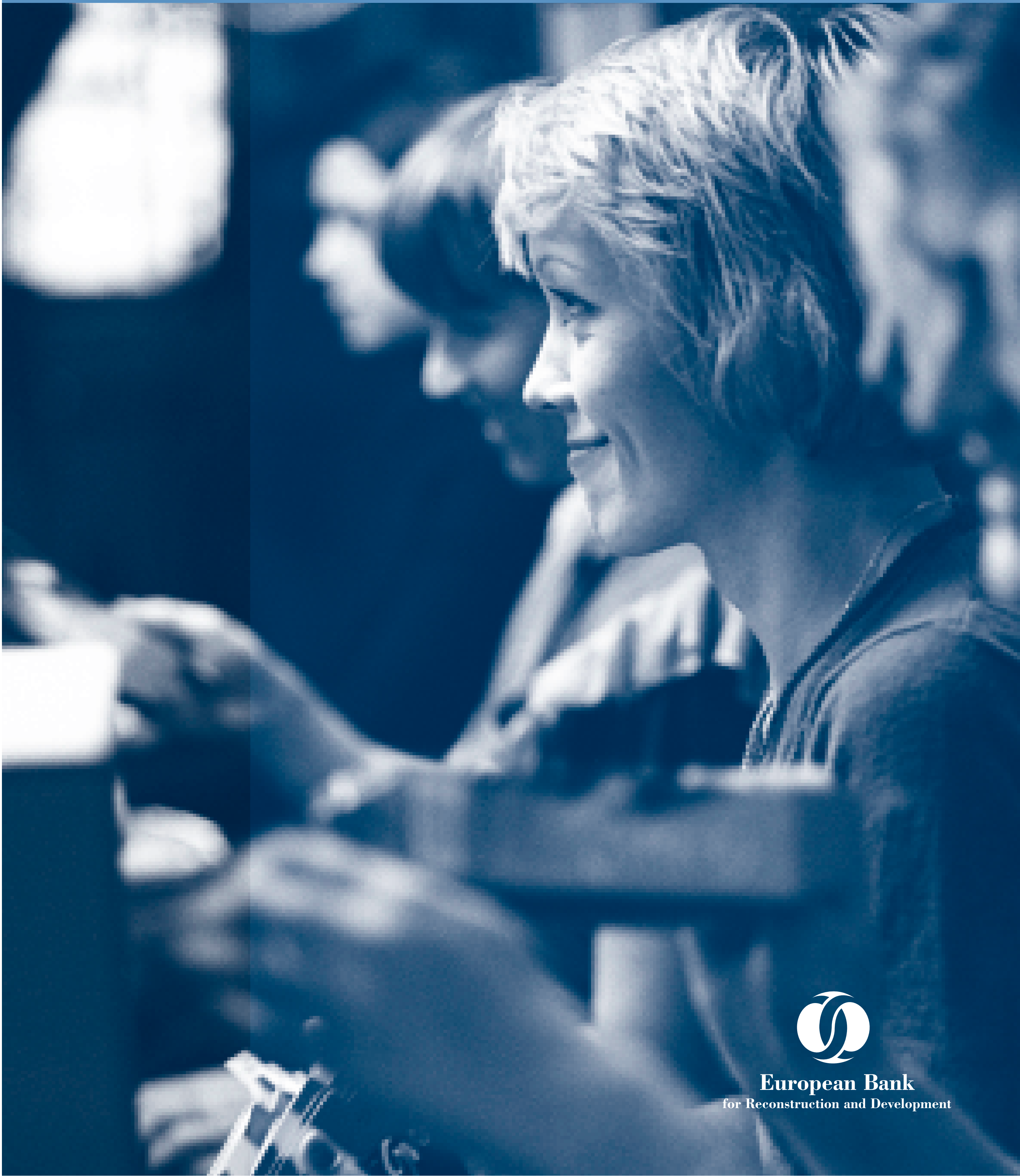
General enquiries about the EBRD
Tel: +44 20 7338 6372
E-mail: generalenquiries@ebrd.com

New project proposals
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
E-mail: newbusiness@ebrd.com

Project enquiries (existing projects)
Tel: +44 20 7338 6282
Fax: +44 20 7338 6102
E-mail: projectenquiries@ebrd.com

Annual report 2002

Financial report



European Bank
for Reconstruction and Development

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

The EBRD helps its 27 countries of operations to implement structural and sectoral economic reforms, promoting competition, privatisation and entrepreneurship, taking into account the particular needs of countries at different stages of transition. Through its investments it promotes private sector activity, the strengthening of financial institutions and legal systems, and the development of the infrastructure needed to support the private sector. The Bank applies sound banking and investment principles in all of its operations.

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

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Annual report 2002

Financial report

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The EBRD's Annual Report 2002 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:

One Exchange Square
London EC2A 2JN
United Kingdom
Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
E-mail: pubsdesk@ebrd.com

Highlights

Financial results

(€ million)	2002	2001	2000	1999	1998
Operating income[1]	471.8	501.5	519.2	376.4	450.5
Expenses and depreciation[1]	(177.2)	(206.7)	(192.1)	(172.8)	(158.7)
Operating profit before provisions	294.7	294.7	327.1	203.6	291.8
Provisions for losses	(186.6)	(137.6)	(174.3)	(160.9)	(553.1)
Operating profit/(loss) for the year	108.1	157.2	152.8	42.7	(261.2)
Paid-in capital	5,197	5,197	5,186	5,163	5,084
Capital instalments received (cumulative)	4,350	4,063	3,769	3,480	3,217
Total provisions and reserves	1,952	1,713	1,278	1,040	762
Total assets	20,112	20,947	21,290	19,595	16,047

[1] During the year the EBRD deferred €45.2 million of direct costs related to loan origination and commitment maintenance on the balance sheet in accordance with International Financial Reporting Standards. These costs, together with the corresponding front-end and commitment fees, will be recorded in interest income over the period from disbursement to repayment of the related loan. Excluding the effect of these deferrals, operating income was €517.0 million for the year and expenses and depreciation was €222.4 million.

Operational results

Annual commitments	2002	2001	2000	1999	1998	Cumulative 1991-2002
Number of projects	102	102	95	88	96	906
EBRD financing (€ million)	3,899	3,656	2,673	2,162	2,373	21,647
Resource mobilisation (€ million)	4,862	6,212	5,188	4,862	7,541	47,516

Financial results

The EBRD recorded a profit after provisions of €108.1 million for 2002 compared with a profit of €157.2 million for 2001. The results for 2002 include a charge under International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and Measurement of €38.3 million on non-qualifying hedges (2001: €8.7 million). Such charges require a fair value adjustment that will be reversed over time and which does not reflect the underlying economic performance of the Bank during the year. Excluding the impact of IAS 39, the Bank recorded a profit after provisions of €146.4 million (2001: €165.9 million). The Bank's reserves increased from €488.7 million at the end of 2001 to €661.1 million at the end of 2002, primarily reflecting the profit for the year and an increase in the fair value of the Bank's listed share investments.

Operating profit of €333.0 million before provisions and the IAS 39 adjustment was 10 per cent above the €303.4 million operating results of last year. The reduction in the value of impaired loans on which interest is excluded from the profit and loss account continued during 2002, with the restructuring of several projects. At 31 December 2002, the Bank had 23 such loans totalling €204.5 million, compared with 31 loans totalling €327.4 million at the end of 2001. Forty-three per cent or €88.8 million were in the Russian portfolio (2001: 47 per cent or €153.0 million). Successful restructuring along with a generally improved Banking portfolio performance resulted in a net credit of €0.9 million for specific provisions during the year, as new specific provision charges of €65.8 million (2001: €132.0 million) were offset by recoveries of existing specific provisions totalling €66.7 million (2001: €130.9 million). The net result was in line with a net charge of €1.1 million in 2001. Specific provisions for the impairment of identified Treasury assets of €83.6 million were raised during 2002 (2001: nil).

Banking operations achieved a net profit of €181.7 million (2001: €65.9 million) after full allocation of expenses, provisions and return on net paid-in capital. This reflected a strong performance across all revenue areas, in particular with increased returns on the equity portfolio. Net profit from the sale of share investments totalled €140.0 million in 2002 compared with €89.3 million in 2001, reflecting major exits during the year. Excluding the impact of non-qualifying hedges under IAS 39, Treasury, after full allocation of expenses and return on net paid-in capital, reported a net profit before specific provisions of €48.3 million (2001: €100.0 million). During the year specific provisions of €83.6 million were raised against three originally triple-A rated asset-backed securities (ABS) held by Treasury, giving Treasury a net loss after provisions of €35.3 million (2001: profit of €100.0 million). After the €38.3 million impact of non-qualifying hedges under IAS 39, Treasury's reported loss for the year totalled €73.6 million (2001: profit of €91.3 million).

The EBRD's gross general administrative expenses were well within budget, reflecting continuing budgetary discipline and effective cost controls, and were €15.7 million above the level of the previous year at €222.4 million (2001: €206.7 million). In sterling terms such expenses amounted to £142.0 million compared with £138.5 million in 2001. The bulk of the difference was due to a £4.0 million annual rent increase resulting from a review at end December 2001 of the lease on the Bank's headquarters building at One Exchange Square, London.

Total provisions for Banking operations amounted to €1.21 billion at the end of 2002, compared with €1.22 billion at the end of 2001. This represented 13.3 per cent of disbursed outstanding loans and equity investments (2001: 13.9 per cent) and reflects the EBRD's commitment to provide prudently for all reasonably foreseeable risks based on a continuing assessment of the portfolio and the associated inherent risks. Provisions on non-sovereign exposures represented 17 per cent of non-sovereign disbursed outstandings (2001: 18 per cent). Provisions attributable to operations in Russia accounted for approximately 27 per cent of total Banking provisions (2001: 31 per cent). Provisions on non-sovereign exposures in Russia represented 20 per cent of non-sovereign disbursed outstandings in that country (2001: 27 per cent).

Banking operations

Portfolio

New business volume in 2002 reached €3.9 billion, representing 102 projects. This is the highest level of annual commitments signed by the EBRD to date and represents an increase of 7 per cent over the level recorded in 2001 (€3.7 billion for 102 projects). Share investments and equity-linked products accounted for 16 per cent of the new business volume. The private sector share of the business volume was 71 per cent. The new business included €109 million of restructured operations.

Net cumulative business volume reached €21.6 billion by the end of 2002 (2001: €20.2 billion), representing a total project value (including co-financing) of €68.7 billion (2001: €67.8 billion). The portfolio of the Bank's net outstanding commitments grew from €14.2 billion at the end of 2001 to €14.6 billion at the end of 2002, an increase of 3 per cent.

The number of projects under development increased during 2002 following Board approval of 115 projects. These consisted of loans and share investments by the Bank totalling €4.2 billion, compared with 111 projects totalling €3.7 billion in 2001. The level of Board approvals in 2002 was the highest annual level to date. At the end of 2002 cumulative Board approvals, net of cancellations, totalled €25.4 billion (2001: €24.1 billion).

Gross disbursements totalled €2.4 billion in 2002, the same volume as achieved in 2001. Operating assets reached €9.1 billion at the end of 2002 (2001: €8.8 billion), comprising €6.8 billion of disbursed outstanding loans and €2.3 billion of disbursed outstanding share investments.

Risks

Internal rating procedures

The EBRD conducts regular reviews of individual exposures within its portfolio because of the high credit risk associated with many of the countries in which it operates. Generally all projects are formally reviewed by Risk Management at least twice a year, with more frequent reviews for those that are perceived to be more vulnerable to possible default. Annual reviews continue after project completion for private sector exposures. Each review includes a consideration of the project risk rating and, for underperforming projects, the level of impairment and corresponding specific provisions. Control of disbursement is managed by the Operation Administration Unit within Risk Management, which is responsible for checking compliance with project conditionality prior to disbursement. It also ascertains that the correct procedures are followed in line with approved policy and ensures that the portfolio is monitored for both country and sector diversification. Investments that are in jeopardy are transferred to the Corporate Recovery Unit, which reports jointly to Risk Management and Banking, to manage the restructuring process in cases where this is likely to achieve positive results.

All projects and countries of operations are assigned credit risk ratings on an internal scale from 1 (low risk) to 10 (highest risk). The Bank maintains three types of risk ratings: project, country and overall. The project rating is defined through the financial strength of the client and the risk mitigation built into the project structure. The country rating is assessed internally taking into consideration the ratings assessed by the external rating agencies.

The overall rating is the lower of the project and country rating. The exception to this for non-sovereign deals is where the Bank has recourse to unconditional sponsor support, in which case the overall rating is the project rating. For sovereign risk projects, the overall rating is the same as the country rating. For the performing portfolio, general portfolio provisions are established according to a matrix, which reflects external indicators of loss, EBRD experience, and project, sector and country risks.

In view of the markets in which it operates and its transition mandate, the EBRD expects the majority of its project ratings in normal circumstances to range from risk categories 4 to 6 (approximately equivalent to Standard & Poor's BBB to B ratings) at the time of approval. At end 2002, 75 per cent of the loan and equity portfolio was in risk ratings 4 to 6, as illustrated in the chart shown top right.

The EBRD's portfolio continued to show improvement in 2002, driven by an improving economic performance in Russia in particular, allied with a generally resilient economic performance across the region. This trend saw a number of credit rating upgrades of countries of operations by the independent rating agencies. The reduction of the classified portfolio (loans and equity investments in the risk rating categories 7 to 10), which had grown rapidly after the 1998 Russian crisis, continued and for the third consecutive year there was a significant decline in the level of impaired assets. Impaired loans reduced from €327.4 million to €204.5 million during the year. There was also a slight decrease in the level of impaired equity from €419.7 million to €414.7 million.

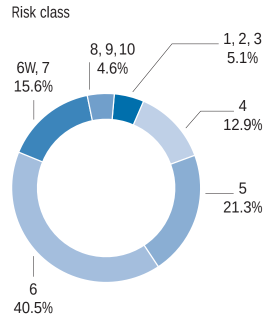
The percentage of the portfolio rated 4, 5 or 6 rose to 75 per cent from 72 per cent a year earlier. The proportion of the portfolio in the weaker performance categories of 6W to 10 fell from 23 per cent to 20 per cent.

Impaired assets

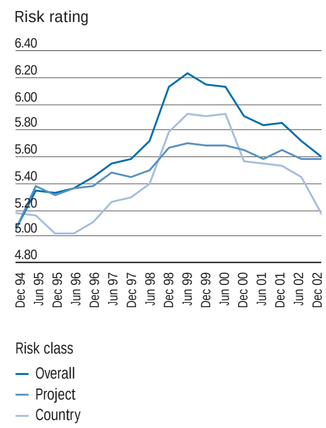
Where loan collectability is in doubt, impairment, being the difference between the carrying value of the loan and the net present value of its expected future cash flows, is recognised in the profit and loss account. Impaired equity is defined as equity investments where it is judged that there has been a permanent diminution in the value of the investment and the future recoverability is in doubt. Although projects are reviewed for impairment every six months, certain events may trigger this process sooner, for example when payments of principal or interest are more than 60 days late for non-sovereign exposure or 180 days for sovereign exposure. At this point future collectability is considered and any necessary specific provision made.

Credit quality of the Banking portfolio

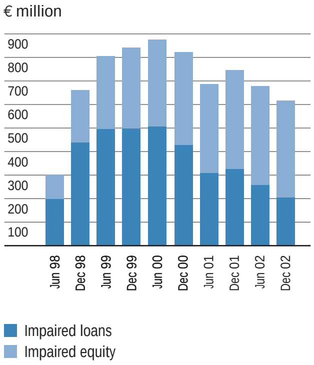
31 December 2002



Facility, overall and country weighted average risk ratings



Impaired assets



The chart on the left illustrates the historical development of the Bank's impaired assets.

The Bank's impaired assets peaked in mid-2000, largely reflecting the after-effects of the Russia crisis of 1998. Since then, through the improvements or successful restructuring of some projects and some write-offs, the level of impaired assets has declined to a level of 6.8 per cent of operating assets at 31 December 2002, compared with 8.4 per cent at 31 December 2001. Net write-offs (after recoveries from previously written off projects) were €44.6 million for 2002 (2001: €69.8 million), bringing the cumulative total of net write-offs since the Bank's inception to €299.8 million.

Financial performance

Banking operations recorded a net profit (after provisions, fully allocated expenses and the allocation of the return on capital) of €181.7 million for 2002 compared with a net profit of €65.9 million on the same basis for 2001. Excluding the deferral of front-end and commitment fees, operating income of €488.8 million from the Banking business in 2002 was 24 per cent above the €393.5 million achieved in 2001. This increase was mainly attributable to an increased contribution from the equity sector of the portfolio. Dividend income amounted to €35.9 million in 2002 compared with €20.7 million in 2001, while net profit from the sale of share investments totalled €140.0 million in 2002 compared with €89.3 million in 2001.

The contribution from this sector of the portfolio to the Bank's profit and loss account is expected to continue to show significant variability from year to year, given its dependence on the timing of equity exits. These are linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to achieve a sale of its holding.

Treasury operations

Portfolio

The value of assets under Treasury management was €9.1 billion at 31 December 2002 (2001: €10.9 billion), comprising €5.2 billion of debt securities, €2.9 billion of collateralised placements and €1.0 billion of placements with credit institutions (including repurchase agreements).

At the end of 2002, approximately 8 per cent of Treasury assets were managed by a total of 10 external asset managers. The externally managed portfolios comprised a funded and notional amount of €238.4 million of a euro-denominated interest rate trading programme[1] and €518.5 million of a US dollar-denominated mortgage-backed securities programme. The funds are managed by independent managers in order to obtain specialised services and investment techniques and to establish third-party performance benchmarks. These independent managers are required to comply with the same investment guidelines that the Bank applies to its internally managed funds.

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

Risks

For monitoring purposes, the Bank distinguishes between market, credit and operational risks, together with liquidity and settlement risks.

Market risk

Market risk is the potential loss that could result from adverse market movements. According to the market drivers concerned, market risk is divided into: (i) interest rate risk, (ii) foreign exchange risk, (iii) equity risk and (iv) commodity price risk. The latter two are not relevant to the Bank's Treasury operations. Interest rate risks are further refined into yield curve risk, which measures the impact of changes in the shape of the yield curve for a given currency, and volatility risk, which deals with risks specific to interest rate option transactions. Yield curve risk can in turn be divided into changes in the overall level of interest rates (a parallel shift of an entire yield curve), and changes in the slope or the shape of the yield curve. For foreign exchange rate risks, the distinction is also made between risk emanating from changes in the level of foreign exchange rates and those inherent to foreign exchange options. These risks have so far been limited.

At 31 December 2002, the aggregate Value at Risk (VaR) of the Bank's Treasury portfolio, calculated with reference to a 99 per cent confidence level and over a ten-trading-day horizon, stood at €4.2 million[2] (2001: €3.7 million), a moderate year-on-year increase. Its highest and lowest values over the year were €4.8 million and €2.4 million respectively.

These figures and the average utilisation during the year denote a modest utilisation of the total VaR limit for all Treasury funds, whether internally or externally managed, compared with the Board-approved Treasury Authority VaR limit which amounts to €18.0 million when expressed in the same units (99 per cent confidence level, ten-trading-day horizon).

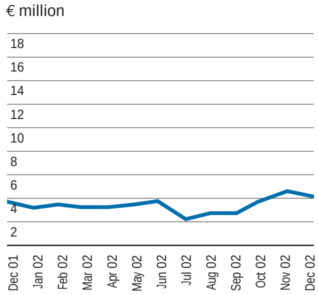
The VaR of the internally managed portfolios stood at €2.3 million at the end of 2002 (2001: €1.3 million). The range during the year was between €0.5 million and €2.7 million, similar to that observed over previous years. The size of the internally managed portfolio to which these figures relate was €8.7 billion as at 31 December 2002 (2001: €10.2 billion).

In addition, market risks incurred on the externally managed portfolios exhibited a year-end VaR of €0.8 million (2001: €0.4 million) for the euro-denominated programme and €2.7 million (2001: €2.2 million) for the USD-denominated programme.[3] The net asset value of these externally managed portfolios was respectively €28.2 million (2001: €49.9 million) and €352.5 million (2001: €405.8 million) at 31 December 2002.

The specific contribution from foreign exchange risk to the overall VaR stood at €0.2 million at year-end (2001: €0.6 million). As in previous years, this contribution was limited at all times in 2002 and never exceeded €1.5 million. Interest rate positioning thus continued to represent the majority of the Bank's market risk exposure.

Total VaR – overall limit: €18.0 million

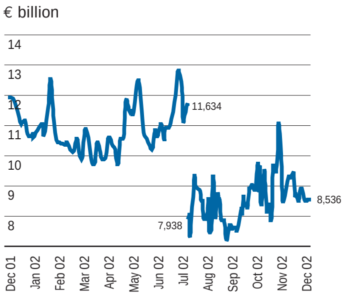
(10 trading days, 99% confidence level, BIS compliant dataset)



[2] This means that the Bank had a 1 per cent chance of experiencing a loss of at least €4.2 million over a horizon of ten trading days, due to adverse movements in interest rates and foreign exchange rates. The aggregate VaR reported here is based on a linear P&L, i.e. assumes that changes in the value of the Bank's portfolio are proportional to changes in the risk drivers (interest rates, foreign exchange rates). Options VaR, reported on further in the text, examines departures from linearity.

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

Evolution of the overall Treasury credit exposure in 2002 [1]



[1] The break in the data series on 6 August 2002 represents the changeover from the previous credit exposure measurement method to the one current at 31 December 2002. There are two primary reasons why the overall exposure fell substantially upon adoption of the new methodology: 1) the new approach takes into account, whereas the old one did not, netting, where allowable under legal documentation, and portfolio effects whereby some trades naturally hedge the exposure of other trades with a given counterparty; and 2) the new approach recognises that the maximum exposures to different counterparties will naturally occur at different time points in the future while the previous approach implied that all maximum counterparty exposure occurred immediately and simultaneously.

Interest rate and foreign exchange options were used more frequently than in previous years. However, options VaR,[4] a measure of the departure of the Bank's position from linearity, stood at only €0.05 million at year-end and represented only a fraction of total VaR throughout the year.

Credit risk

Credit risk is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness, such as its downgrading by a rating agency, at any time until the maturity of the longest-dated transaction outstanding with that counterparty. More precisely, it can be referred to as pre-settlement risk, as opposed to settlement risk that occurs only at the time, typically at the onset and at the maturity, when an exchange of cash or securities occurs in a transaction. As a special case, potential losses due to downgrading or, more generally, any change in the relative credit quality of securities are also often known as spread risk or credit spread risk (e.g. risks inherent in hedging a long corporate bond position with a short position in government bonds). Also monitored is concentration risk, which is the risk arising from too high a proportion of the portfolio being allocated to a specific country, industry sector, obligor, type of instrument or individual transaction.

Risk Management normally assigns internal credit ratings, determined with reference to available ratings by approved credit rating agencies and to the internal assessment of the creditworthiness of counterparties. The internal credit rating scale ranges from 1 to 10, the same as that used for the Banking Department's exposures. The Board-approved Treasury Authority states the minimum rating and maximum tenor by type of eligible counterparty. The actual exposure size limit and/or tenor limit attributed to individual counterparties may be smaller or shorter, respectively, based on the likely direction of its credit quality over the medium term or on sector considerations. Individual counterparty lines for banks, corporates and insurance companies are measured, monitored and reviewed by Risk Management on a regular basis.

In 2002, the Bank upgraded its credit exposure measurement methodology for Treasury credit risk. Previously the methodology was based on additive transaction-by-transaction notional amounts for cash instruments and "add-ons" for derivatives, which in particular did not fully factor in diversification effects or the benefits from close-out netting provisions and collateral agreements. The new methodology uses a Monte Carlo simulation technique that produces, to a high degree of confidence, maximum exposure amounts at future points in time for each counterparty (i.e. counterparty exposure profiles).

[4] Options VaR is computed on a portfolio comprising a) the options (interest rate, foreign exchange) held by the Bank; and b) delta-hedges made of discount bonds and spot foreign exchange positions in relevant currencies. Its computation involves a) a Monte Carlo simulation to generate the portfolio's P&L profile; b) a full valuation of each option and delta-hedge in the portfolio; and c) the same confidence level and trading horizon at linear VaR. By construction, Options VaR captures the non-linear aspects of the P&L of the options portfolio of the Bank. Although the delta-hedges are notional ones, in the sense that they have not been necessarily traded by Treasury in the market, the mirror images of these delta-hedges are taken into account in the computation of linear VaR, so as to render both risk measures consistent and complementary.

The overall credit exposure incurred by the Bank in its Treasury transactions, defined as the peak amount from the overall credit exposure profile created from the aggregation of all counterparty exposure profiles, is subject to a limit set out in the Risk Management Guidelines. Additionally, overall credit risk limits for ABS and for credit derivatives are applied. Large exposure limits and diversification triggers are also in place, together with the specific monitoring of the counterparties to which the Bank has its largest exposures. The Bank devotes particular attention to minimising the risks inherent in over-the-counter derivatives and foreign exchange transactions. These require appropriate documentation to be in place prior to trading, including master agreements, unwinding upon credit downgrading clauses, unilateral break clauses for long-dated transactions and collateral agreements.

Treasury credit exposure, calculated under the new methodology at 31 December 2002 was €8.5 billion.

Despite the reductions in the credit ratings of assets and bank counterparties in the difficult environment of 2002, the overall quality of the Treasury credit exposure remained high, although below the level of 2001. At year-end 2002, the average credit rating weighted by peak counterparty exposure was 1.69 (on the Bank's internal rating scale, broadly equivalent to an external rating of AA+ by Standard & Poor's or Fitch Ratings and Aa1 by Moody's).

At year-end 2001, the weighted average rating was 1.60 based on exposures calculated under the prior measurement approach. Some 96.5 per cent of exposure from Treasury transactions was of investment grade quality. Exposure to below investment grade risk resulted from the rapid and substantial downgrading of ratings during the year from a few ABS investments that were originally rated 1.0 (AAA/Aaa equivalent).

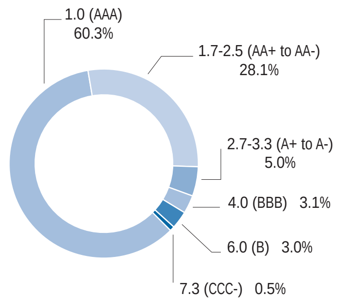
The portfolio's credit risk exposure was diversified across 24 countries with no more than 8 per cent of the exposure in any one country at 31 December 2002, with the exception of the United States of America at 40.3 per cent (2001: 37.5 per cent).

Almost three-quarters of the overall exposure was to banks (41.2 per cent) or to ABS instruments (31.9 per cent).

Credit risk mitigation techniques continued to be actively pursued, notably in the areas of over-the-counter (OTC) derivative transactions and foreign exchange transactions. At the end of 2002, 72.1 per cent[5] of the Bank's credit exposure to OTC derivative and foreign exchange transactions was with counterparties with which both a Master Agreement (MA) and a Credit Support Annex (CSA) had been completed. As a consequence, transactions with counterparties either collateralised or 1.0-rated (AAA/Aaa equivalent) in their own right, or, in many cases, both collateralised and 1.0-rated, accounted at year-end 2002 for 96.7 per cent of the overall OTC derivatives and foreign exchange exposure, compared with 99.7 per cent at year-end 2001.

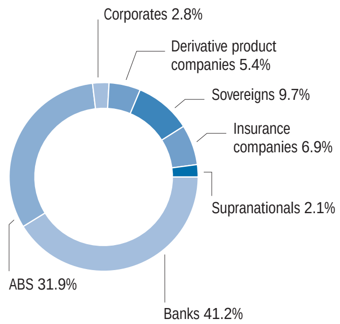
Credit quality profile of the Treasury portfolio

31 December 2002



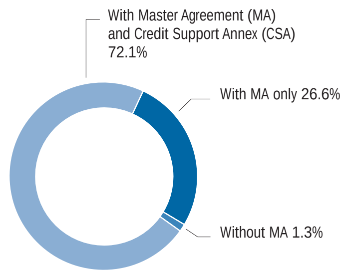
Exposure by counterparty type

31 December 2002



OTC derivatives and foreign exchange exposure[1]

31 December 2002



[1] Percentages are relative to aggregated marked-to-market credit exposure.

[5] The decrease from 94.6 per cent reported at 31 December 2001 is due to a significant increase in transaction volume with, and corresponding exposure to, a small number of 1.0/AAA/Aaa rated counterparties with which no collateral agreement has been put in place, as well as to the change of methodology in credit exposure measurement. The number of collateral agreements put in place covers the vast majority of active counterparties. Under the Bank's standard collateral agreements triple-A rated counterparties are not required to post collateral.

Operational risk

Operational risk for Treasury transactions is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Liquidity risk and settlement risk also display some operational risk features.[6]

Liquidity risk is risk arising from the inability to meet short-term cash requirements, difficulties in accessing capital markets for long-term funding, or the inability to liquidate positions in a timely fashion and without adversely affecting market price. In theory, it can also materialise if surplus liquidity has to be invested at below-market rates. Settlement risk is risk incurred on transactions involving payment and/or delivery of cash and/or securities by both parties to a transaction, where no settlement mechanism exists that would ensure that each transfer is conditional upon the other transfer simultaneously occurring. Risk would materialise by the counterparty defaulting precisely when a transaction is being settled, once the outgoing transfer is made and before the incoming transfer is received.

Management of operational risk in the EBRD's Treasury transactions has continued to emphasise risk monitoring and risk mitigation, rather than operational risk measurement, pending further progress in the quantification techniques for operational risk in the industry at large.

An Operational Risk Management Group, chaired by the Vice-President, Finance and co-ordinated by the Director, Risk Management, has been set up, its objective being to develop an integrated Bank-wide operational risk management framework, including responsibilities for identification, assessment, management and mitigation of the Bank's principal exposures to operational risk.

Risk maps are regularly produced by the Bank's external auditors and discussed with the Audit Committee. Responses are developed to mitigate those risks which are perceived to be both financially significant and likely to occur. Such mitigation includes segregation of duties at all stages of processing transactions, maintenance and upgrade of systems and a regular review of compliance with the Bank's policies.

In terms of operational risk mitigation, substantial progress has been achieved in systems development. For Treasury transactions in particular, the Bank's back-office and general ledger systems as well as the credit risk measurement and monitoring systems have been replaced. This process yielded significant improvement in the quality of the transaction data.

Operational risk indicators have been reviewed and further enhanced during the year. The Bank is currently engaged in an exercise to establish key risk indicators across the whole range of its activities which will be introduced later in 2003 as an enhancement to the Bank's management of operational risk.

Financial performance

Treasury operations, excluding the impact of non-qualifying hedges under IAS 39, recorded a profit of €48.3 million for 2002 before provisions but after fully allocated expenses and the allocation of the return on capital. This compared with a profit of €100.0 million on the same basis for 2001. During the year specific provisions of €83.6 million (2001: nil) were raised to reflect the credit rating downgradings of three originally triple-A rated ABS held by Treasury, giving a net loss after provisions of €35.3 million (2001: profit of €100.0 million). This year's performance reflected the difficult credit conditions which prevailed in the capital markets throughout 2002. After the €38.3 million impact of non-qualifying hedges under IAS 39, Treasury's reported loss for the year totalled €73.6 million (2001: profit of €91.3 million).

Funding

Capital

Paid-in capital totalled €5.2 billion at 31 December 2002 and at 31 December 2001, with the number of the EBRD's subscribed shares being almost two million. The fifth instalment of the capital increase became due in April 2002, and paid-in capital received increased to €4.3 billion, from €4.1 billion at the end of 2001.

Overdue capital of cash and promissory notes to be deposited totalled €19.4 million at the end of 2002 (2001: €31.1 million) and a further €4.8 million of encashments of deposited promissory notes is also overdue (2001: €9.1 million). Of the €24.2 million total overdue, €15.8 million relates to the capital increase.

[6] Settlement risk materialises upon a credit event affecting the counterparty; however, its mitigation relies heavily upon the ability to stop an outgoing payment or transfer with minimal previous notice. Liquidity risk is mainly experienced in situations of market disruption, which in turn could be caused by a failure in industry-wide payment systems.

Capital adequacy

The Bank's original authorised share capital was €10.0 billion. By Resolution No. 59, adopted on 15 April 1996, the Board of Governors approved a doubling of the Bank's authorised capital stock to €20.0 billion. The increase allowed the Bank to continue to implement its operational strategy on a sustainable basis.

The Bank's capital usage is guided by statutory and financial policy parameters. Article 12 of the Agreement limits the total amount of outstanding loans, equity investments and guarantees made by the Bank in its countries of operation to the total amount of the Bank's unimpaired subscribed capital, reserves and surpluses, establishing a 1:1 gearing ratio. Article 12 also limits the total amount of disbursed equity investments to the total of the Bank's unimpaired paid-in subscribed capital, surpluses and general reserve.

Consistent with the objective of capital preservation, the EBRD regularly reviews its historic and projected capital adequacy, applying a number of different measures including its statutory headroom limit (i.e. the amount of funds the Bank has available to commit to new loans, equity investments and guarantees before it reaches its 1:1 gearing ratio limit) and the Bank's own risk capital model, which distinguishes between debt and equity risks, sovereign and non-sovereign risks.

In accordance with the requirements of Article 5.3 of the Agreement, the Bank completed a review of its capital stock during 2001. This second Capital Resources Review included a review of the transition impact and operational activity of the Bank, an assessment of the economic outlook and transition challenges in the region, the formulation of the medium-term portfolio development strategy and objectives, and a detailed analysis of the Bank's projected future financial performance and capital adequacy. The traditional headroom measure of capital adequacy was reviewed and further supplemented with a risk-based analysis applying the Bank's own risk capital model. This approach is being reviewed annually as part of the Bank's medium-term strategy updates. The 2002 update confirmed that the Bank should have sufficient capital to fulfil its medium-term portfolio development objectives within the stated risk and financial assumptions. The analysis of future financial performance confirmed the Bank to be on course to implement its manageable growth strategy, with portfolio turnover and profit generating further headroom and risk-bearing capacity for the Bank to continue to enhance its transition impact and operational activity.

Borrowings

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

Total borrowings at 31 December 2002 stood at €13.4 billion, a decrease of €1.0 billion compared with 2001. There were 134 new issues under the EBRD's medium- to long-term borrowing programme at an average after-swap cost of Libor minus 39 basis points. The average remaining life of medium- to long-term debt decreased slightly during the year to stand at 8.7 years at 31 December 2002 (2001: 9.0 years). To take advantage of favourable borrowing opportunities in the market during December 2002, €0.5 billion of borrowing capacity was pre-authorised against the 2003 medium- to long-term borrowing programme. Of this, €162.5 million was utilised.

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

Expenses

Operating expenditure in 2002 of £128.8 million was £2.7 million or 2.1 per cent higher than in 2001. However, excluding the £4.0 million increase in the cost of the Bank's London headquarters in 2002 following the rent review, operating costs reduced by £1.3 million, or 1.0 per cent.

Overall staff costs were broadly similar to 2001, with gross costs up by 2.7 per cent, a 33 per cent increase in recovery and non-staff costs lower by £1.0 million.

The Bank continues to focus on budgetary discipline, effective cost controls and a proactive cost-recovery programme. When translated into euro, the EBRD's general administrative expenses, including depreciation, were €222.4 million (2001: €206.7 million).

During the year the Bank deferred €45.2 million of direct costs related to loan origination and commitment maintenance on the balance sheet. These costs, together with the corresponding front-end and commitment fees, which will be recorded in interest income, will be amortised over the period from disbursement to repayment of the related loan. Therefore the reported figure for general administration expenses and depreciation for the year was €177.2 million. In prior years the Bank's policy has been to record both fee income and direct costs related to loan origination and commitment maintenance in the period in which they occurred. Due to the increase in volume of front-end and commitment fees as the Bank's portfolio has grown, it has become necessary to defer these direct costs and related fees and record them in the profit and loss account over the period from disbursement to repayment of the related loan in accordance with IAS 18.

Provisions

The EBRD's general portfolio provisioning relating to the impairment of unidentified assets on non-sovereign exposures is based on a risk-rated approach, as assessed by the Bank's independent Risk Management department and applied at the end of the month of disbursement. A separate methodology is applied for all sovereign risk assets, which takes into account the Bank's preferred creditor status afforded by its members. The Bank takes specific provisions for the impairment of identified assets as required on a case-by-case basis. Provisions are based on outstanding net disbursements at the relevant reporting date.

The application of the EBRD's provisioning policy resulted in a charge for the year of €186.6 million compared with the 2001 charge of €137.6 million. The charge in 2002 included Treasury specific provisions of €83.6 million (2001: nil) reflecting the difficult credit conditions in capital markets during the year. The 2002 charge for Banking provisions of €103.0 million was split between general portfolio provisions for the impairment of unidentified assets, which totalled €103.9 million compared with €136.4 million in 2001, and specific provisions for the impairment of identified assets, which were a net credit of €0.9 million in 2002 compared with a net charge of €1.1 million in 2001. Lower net disbursements were the principal influence on the general portfolio provisions charge. As in 2001, substantial asset recoveries following the restructuring of projects and the consequent reversal of specific provisions totalling €66.7 million offset new specific provision charges of €65.8 million during the year.

As a result total provisions for Banking operations stood at €1.21 billion at the end of 2002, which amounted to 13.3 per cent of the outstanding disbursed portfolio of loans and equity investments (2001: €1.22 billion and 13.9 per cent).

Outlook for 2003

The EBRD has budgeted for a modest profit in 2003. This reflects the vulnerability of results due to continued uncertainty in the economic environment and in financial markets.

Additional reporting and disclosures

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

Principles of financial management and risk management

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

The EBRD's financial management aims to:

> pursue financial viability;

> build up reserves and ensure sustainable profitability;

> follow market and performance orientation in all its activities;

> work within a comprehensive risk management framework; and

> ensure transparency and accountability at all levels and support effective corporate governance.

The EBRD's financial policies define the financial and risk parameters that apply to Banking and Treasury operations. These policies include provisioning, pricing and liquidity policies as well as the Treasury Authority. The provisioning policy determines the amount of general portfolio provisions for, and the process for applying specific provisions to, all assets. To provide a check on the appropriateness of the policy, total provisions are regularly reviewed against expected losses produced by the Bank's Risk Capital Model. The provisioning policy is reviewed annually. Pricing policies determine the considerations and parameters used to price loans, guarantees and equity investments. The liquidity policy determines the amount of liquid assets required by the Bank. The liquidity policy's annual review in 2002 reconfirmed the outcome of a 2001 review of EBRD liquidity management against recent guidelines recommended by the Basel Committee on Banking Supervision. Furthermore, the financial policies define capital utilisation and provide portfolio risk parameters for Banking operations, hedging policies, equity valuation, exit procedures and strategies, underwriting, risk management and corporate governance policies. These policies are reviewed regularly in light of experience and external developments.

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

The EBRD's independent Risk Management department has overall responsibility for the measurement, monitoring and mitigation of all risks incurred by the Bank in both its Banking and Treasury operations. The Director, Risk Management, acts as the Bank's firm-wide Risk Manager and participates in the meetings of the Bank's Executive Committee. The department seeks to ensure that any risks are correctly identified and appropriately managed and mitigated through comprehensive and rigorous processes, which reflect best industry practice.

The EBRD is exposed to credit risk in both its Banking operations and its Treasury activities. Credit risk arises since borrowers and Treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could be impaired. Most of the EBRD's credit risk is in the Banking portfolio. All ordinary operations are reviewed on a regular basis to identify promptly any changes required in the assigned risk ratings and any actions required to mitigate increased risk. Exposures are measured against portfolio risk limits and reported to the Audit Committee on a quarterly basis.

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

The Bank monitors its exposure to market risk through a combination of limits, based primarily on VaR, and a variety of additional risk measures. Risk Management computes VaR on a daily basis. The Bank's overall VaR limit is set in the Board-approved Treasury Authority. Foreign exchange transactions are further constrained by a VaR sub-limit dedicated to foreign exchange exposures. For internal monitoring purposes, VaR is defined as the potential loss that could be incurred, due to adverse fluctuations in interest rates and foreign exchange rates, over a one-day horizon and computed with a 95 per cent confidence level. For enhanced comparability across institutions, VaR numbers displayed in the Annual Report are however scaled up to a 99 per cent confidence level, over a ten-trading-day horizon. Additional VaR measures are communicated to senior Finance management, in particular for drilling from aggregate VaR measures down to individual market factors (marginal VaR and VaR sensitivities). Monte-Carlo simulation-based VaR numbers are also produced on a daily basis. For the entire portfolio *eVaR* (expected loss beyond VaR) aims at quantifying the impact of large changes in market drivers. For the options portfolio dedicated *options VaR* computations are performed, so as to verify whether the standard assumptions that underlie VaR calculations hold true.

A number of other risk measures are employed to complement VaR data with numbers produced using a different set of assumptions, so that material risks are not ignored by focusing on one particular set of risk measures. Foreign exchange risk and the various types of interest rate risks, whether for outright exposures or for options, are monitored with sensitivity-based measures, independently for each currency and type of option. A series of stress tests is produced on an ongoing basis. These primarily encompass: (i) stress-testing the options portfolio for joint large changes in the level of the price of the underlying security and that of volatility; (ii) analysing, for each currency separately, the profit and loss impact of large deformations in the level and shape of the yield curve; (iii) the production of stress tests based on historical scenarios; (iv) specific stress tests aimed at quantifying the impact of a breakdown in correlations.

Operational risk is determined by examining risk-related exposure other than those falling within the scope of credit and market risk. This includes the risk of loss that may occur through errors or omissions in the processing and settlement of transactions, in the reporting of financial results or failures in controls. Operational risk is further refined into:

> *transaction risk*, which considers all types of errors in the processing of transactions, whether in the areas of execution, booking and settlement, or due to inadequate legal documentation;

> *control risk*, or breakdown in the controls surrounding trading activities, such as unidentified limit excesses, unauthorised trading or trading outside policies, or insufficient controls on the processing of transactions;

> *people risk* or dependency on a limited number of key personnel, inadequate or insufficient staffing in trading, risk management, operations processing and reporting activities, or inadequate skills level or training; and

> *systems risk*, defined as errors or failures in transaction support systems, ranging from errors in the mathematical formulae of pricing or hedging models or in the computation of the marked-to-market value of transactions (*model risk*), to inadequate disaster recovery planning.

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

> the EBRD's code of conduct;

> disaster recovery/contingency planning;

> the Public Information Policy;

> integrity due diligence procedures;

> procedures regarding corrupt practices and money laundering;

> procedures to be followed in the event of fraud or suspected fraud;

> information management policy; and

> procurement policies.

The Bank has a Chief Compliance Officer and an Anti-Money-Laundering Officer who are responsible for maintaining the Bank's policies of sound business standards and corporate practices. Anti-money-laundering reviews are conducted internally and the Bank seeks to ensure that anti-money-laundering policies and procedures are maintained by its customers. The Bank takes measures to ensure that it is not inadvertently dealing with terrorists or terrorist activities. The Bank conducted a special review in 2001 to ensure compliance with the UN Security Council Resolution regarding the Prevention of Terrorism. Extensive financial and integrity due diligence is integrated into the Bank's normal approval of new business and review of its existing transactions. Even though the Bank is not a deposit-taking institution, it has extensive "know your customer" policies which include identification of specific integrity concerns and independent review of these risks. The Bank provides regular corporate integrity and anti-money-laundering seminars to its staff and to external bodies to raise skill levels and to increase awareness of these concerns.

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

Use of derivatives

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

All risks arising from derivative instruments are combined with those deriving from all other instruments dependent on the same underlying risk factors and subject to overall market and credit risk limits, as well as stress tests. Additionally, special care is devoted to those risks that are specific to the use of derivatives, through, for example, the monitoring of volatility risk for options, spread risk for swaps and basis risk for futures.

For the purpose of controlling credit risk in over-the-counter derivative transactions, the EBRD's policy is to pre-approve each counterparty individually and to review its eligibility regularly. Individual counterparty limits are allocated in compliance with guidelines that set a maximum size and duration of exposure, based on the counterparty's internal credit rating. For those counterparties that are deemed eligible for foreign exchange and over-the-counter derivatives, a maximum portion of the individual counterparty limit is allocated to these instruments. Utilisation of limits, whether individual counterparty limits or foreign exchange and over-the-counter derivatives limits, is calculated daily for all counterparties.

Derivative transactions in particular are normally limited to the highest-rated counterparties. Furthermore, the EBRD pays great attention to mitigating Treasury derivatives credit risks through systematic recourse to a variety of credit enhancement techniques. Over-the-counter derivatives transactions are systematically documented with Master Agreements, providing for close-out netting. The Bank has sought to expand the scope for applicability of this provision through documenting the widest possible range of instruments transacted with a given counterparty under a single Master Agreement, notably foreign exchange transactions.

The EBRD has continued to expand its use of collateral agreements in relation to its activity in over-the-counter derivatives. By the end of 2002, approximately 72 per cent of the Bank's gross exposure to derivatives counterparties was with counterparties with whom a collateral agreement had been completed, and negotiations for signing such agreements were under way with all remaining active counterparties rated below triple-A. As a result 97 per cent of the Bank's exposure to foreign exchange and over-the-counter derivatives was either with counterparties rated triple-A in their own right, or with counterparties with whom a collateral agreement had been completed, allowing for receipt of collateral in the form of cash or triple-A rated government securities.

Corporate governance

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

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

All the powers of the EBRD are vested in the Board of Governors representing the Bank's 62 shareholders. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors while retaining overall authority.

Board of Directors and Board Committees

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

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

> the Audit Committee;

> the Budget and Administrative Affairs Committee; and

> the Financial and Operations Policies Committee.

The composition of these committees during 2002 is detailed in the separate Review section of the Annual Report.

The President and the Executive Committee

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

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

Reporting

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

Compensation policy

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

> to be competitive in order to attract and retain high-calibre employees;

> to take account of differing levels of responsibility;

> to be sufficiently flexible to respond rapidly to the market; and

> to motivate and encourage excellent performance.

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

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

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

Financial statements

Profit and loss account

For the year ended 31 December 2002	Note	Year to 31 December 2002 € 000	Year to 31 December 2001 € 000
Interest and similar income			
From loans	8	**355,959**	423,828
From fixed-income debt securities and other interest		**259,498**	476,543
Interest expenses and similar charges		**(303,012)**	(574,121)
Net interest income		**312,445**	326,250
Dividend income from share investments		**35,886**	20,689
Net fee and commission income	4	**11,197**	38,850
Financial operations			
Net profit on sale of share investments		**140,049**	89,343
Net profit on dealing activities and foreign exchange	5	**10,581**	35,041
IAS 39 impact on non-qualifying hedges	6	**(38,311)**	(8,698)
Operating income		**471,847**	501,475
General administrative expenses	7	**(158,590)**	(189,743)
Depreciation	13	**(18,577)**	(16,993)
Operating profit before provisions		**294,680**	294,739
Provisions for losses	8	**(186,602)**	(137,557)
Operating profit for the year		**108,078**	157,182

Balance sheet

At 31 December 2002	Note	€ 000	31 December 2002 € 000	€ 000	31 December 2001 € 000
Assets					
Placements with and advances to credit institutions		**990,207**		781,378	
Collateralised placements		**2,932,443**		2,867,937	
Debt securities	9	**5,197,124**		7,214,548	
			9,119,774		10,863,863
Other assets	10		**1,431,617**		677,485
Loans and share investments					
Loans	11	**6,289,444**		6,112,052	
Share investments	11	**1,980,074**		1,747,301	
			8,269,518		7,859,353
Property, technology and office equipment	13		**43,562**		44,874
Paid-in capital receivable	16		**1,247,727**		1,501,718
Total assets			**20,112,198**		20,947,293
Liabilities and members' equity					
Borrowings					
Amounts owed to credit institutions		**599,898**		508,327	
Debts evidenced by certificates	14	**12,761,856**		13,927,335	
			13,361,754		14,435,662
Other liabilities	15		**892,722**		826,318
Subscribed capital	16	**19,789,500**		19,789,500	
Callable capital	16	**(14,592,845)**		(14,592,845)	
Paid-in capital	16		**5,196,655**		5,196,655
Reserves and profit for the year			**661,067**		488,658
Members' equity			**5,857,722**		5,685,313
Total liabilities and members' equity			**20,112,198**		20,947,293
Memorandum items					
Undrawn commitments	12		**5,474,017**		5,322,481

Statement of changes in members' equity

	31 December 2002 € million	31 December 2001 € million
Share capital		
Subscribed capital	**19,789.5**	19,789.5
Callable capital	(**14,592.9**)	(14,592.9)
Paid-in capital	**5,196.6**	5,196.6
Reserves and profit for the year:		
General reserve		
Balance at the beginning of the year	**356.2**	90.6
Internal tax for the year	**4.9**	5.2
IAS 39 opening transitional reinstatement	**–**	218.4
Fair value movement of available-for-sale assets and cash flow hedges for the year	**59.4**	42.0
Balance at the end of the year	**420.5**	356.2
Special reserve		
Balance at the beginning of the year	**136.6**	125.6
Qualifying fees and commissions from the prior year	**21.0**	11.0
Balance at the end of the year	**157.6**	136.6
Accumulated profit and loss reserve		
Balance at the beginning of the year	(**161.3**)	(303.1)
Qualifying fees and commissions from the prior year	(**21.0**)	(11.0)
Profit set aside from the prior year	**157.2**	152.8
Balance at the end of the year	(**25.1**)	(161.3)
Operating profit for the year	**108.1**	157.2
Total reserves and profit for the year	**661.1**	488.7
Total members' equity	**5,857.7**	5,685.3

The **general reserve** includes the retention of internal tax paid in accordance with Article 53 of the Agreement Establishing the Bank, which requires that all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank and which is retained for its benefit. The balance at the end of the year relating to internal tax is €43.7 million (2001: €38.8 million). The Bank implemented IAS 39 in 2001, and the related movements in reserves reflect the movement in the fair value of available-for-sale assets and cash flow hedges. The associated movement in 2002 increased reserves by €59.4 million. This comprised an increase of €103.7 million related to the fair valuing of the Bank's listed share investments and decreases related to Treasury available-for-sale assets and cash flow hedges of €41.7 million and €2.6 million respectively. At the year end the Bank had purchased £60.0 million in the forward foreign exchange market as a partial hedge against the budgeted sterling expenses for 2003. The fair valuing of these transactions resulted in an unrealised loss of €2.6 million which was held in reserves at the year end. This loss will be released to the profit and loss account in the 2003 financial year as the hedged expenditure is incurred. During 2002 €27.3 million has been transferred from reserves to the profit and loss account (€34.5 million transferred out of reserves as a result of realised gains on the sale of listed share investments and €7.2 million of unrealised losses transferred out in relation to Treasury available-for-sale assets). Specific provisions raised for the impairment of Treasury assets in 2002 have resulted in the transfer of previous mark-to-market losses from reserves to the profit and loss account.

The **special reserve** is maintained, in accordance with the Agreement, for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Bank associated with loans, guarantees and underwriting the sale of securities, until such time as the Board of Directors determines that the size of the special reserve is adequate. In accordance with the Agreement it is intended that an amount of €5.3 million (2001: €21.0 million), being qualifying fees and commissions recognised in the profit and loss account in the year to 31 December 2002, will be appropriated in 2003 from the profit for the year to 31 December 2002 and set aside to the special reserve.

The **accumulated profit and loss reserve** brought forward from prior years represents the accumulated losses after appropriations of qualifying fee and commission income to the special reserve.

Statement of cash flows

For the year ended 31 December 2002	€ 000	Year to 31 December 2002 € 000	€ 000	Year to 31 December 2001 € 000
Cash flows from operating activities				
Operating profit for the year	**108,078**		157,182	
Adjustments for:				
Gross provisions for losses before recoveries from assets previously written off	**208,990**		137,557	
Unwinding of the discount relating to impaired identified assets	(**2,171**)		(5,737)	
Depreciation	**18,577**		16,993	
Realised gains on share investments	(**140,049**)		(89,343)	
Profit on disposal of property, technology and office equipment	(**23**)		(22)	
Internal taxation	**4,889**		5,193	
Unrealised gains on dealing securities	**1,284**		388	
Realised losses/(gains) on available-for-sale securities	**4,884**		(968)	
Foreign exchange	(**1,736**)		(6,519)	
Operating profit before changes in operating assets	**202,723**		214,724	
(Increase)/decrease in operating assets:				
Interest receivable and prepaid expenses	(**64,242**)		160,599	
Marked-to-market	(**243,862**)		(1,226,889)	
Increase/(decrease) in operating liabilities:				
Interest payable and accrued expenses	**2,670**		(238,992)	
Net cash used in operating activities		(**102,711**)		(1,090,558)
Cash flows from investing activities				
Proceeds from repayments and prepayments of loans	**2,483,549**		1,713,874	
Net placements with credit institutions	(**171,786**)		(38,186)	
Proceeds from sale of share investments	**336,457**		320,055	
Proceeds from sale of available-for-sale securities	**2,647,600**		2,470,290	
Proceeds from sale of property, technology and office equipment	**142**		23	
Purchases of available-for-sale securities	(**1,684,192**)		(2,826,516)	
Funds advanced for loans and share investments	(**3,733,851**)		(3,027,961)	
Purchase of property, technology and office equipment	(**17,384**)		(22,996)	
Net cash used in investing activities		(**139,465**)		(1,411,417)
Cash flows from financing activities				
Capital received	**253,991**		249,619	
Issue of debts evidenced by certificates	**8,751,592**		12,553,275	
Redemption of debts evidenced by certificates	(**8,510,614**)		(12,122,461)	
Net cash from financing activities		**494,969**		680,433
Net increase/(decrease) in cash and cash equivalents		**252,793**		(1,821,542)
Cash and cash equivalents at beginning of year		**3,045,843**		4,867,385
Cash and cash equivalents at 31 December [1]		**3,298,636**		3,045,843

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

	2002 € 000	2001 € 000
Placements with and advances to credit institutions	**966,091**	721,543
Collateralised placements	**2,932,443**	2,703,616
Amounts owed to credit institutions	(**599,898**)	(379,316)
Cash and cash equivalents at 31 December	**3,298,636**	3,045,843

Note: Operating profit includes dividends received of €35.9 million for the year to 31 December 2002 (31 December 2001: €20.7 million).

Notes to the financial statements

1. Establishment of the Bank

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development ("the Bank"), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 ("the Agreement"). At 31 December 2002 the Bank's shareholders comprised 60 countries, together with the European Community and the European Investment Bank.

ii Headquarters Agreement

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

2. Significant accounting policies

i Accounting convention

The financial statements have been prepared in accordance with the Bank's Accounting Policies, which comply with International Financial Reporting Standards (IFRS), as approved by the International Accounting Standards Board (IASB), and the overall principles of the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions.

ii Financial instruments

IAS 39, Financial Instruments: Recognition and Measurement became a requirement for financial reporting periods beginning on or after 1 January 2001. The standard provides comprehensive guidance on the accounting treatment for all financial instruments. Financial instruments are categorised into financial assets, financial liabilities and derivatives, with the latter now required to be recognised on the balance sheet.

A Financial assets

(a) Dealing

This category comprises assets acquired for the purpose of generating profits from short-term price fluctuations. Such assets are measured at fair value on the basis of market quotes with all changes in value reported in the profit and loss account as they occur. Assets held in this category are accounted for at the trade date.

(b) Loans and receivables

Loans and receivables originated by the Bank are measured at amortised cost less any provision for impairment or uncollectibility, unless they form part of a qualifying hedging relationship with a derivative position (see "Hedge accounting" below). This occurs in cases of fixed rate loans that, through association with individual swaps, are transformed from a fixed rate basis to a floating rate basis. In such cases, the loan is re-measured to fair value in respect of interest rate risk with the change in value reported in the profit and loss account as an offset to the change in value of the related swap. This category of financial asset is recognised at settlement date.

(c) Available-for-sale

This category comprises assets that do not specifically belong to one of the other categories. For the Bank this comprises its share investments and the majority of its Treasury portfolio. Such assets are measured at fair value on the balance sheet. The standard affords a one-off option to recognise changes in the fair value of these assets either in reserves or in the profit and loss account. The Bank has chosen to record changes in fair value through reserves, as disclosed in the "Statement of changes in members' equity", until the financial asset is sold, collected or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative profit or loss previously recognised in reserves is included in the profit and loss account. The Bank has decided to report changes in the fair value of these assets through reserves as it believes it would be misleading to recognise immediately in its profit and loss account short-term price fluctuations on assets that are generally intended to be held for the medium to long term.

Where an available-for-sale asset is the hedged item in a qualifying fair value hedge (see "Hedge accounting" under "Derivatives" below), the fair value gain or loss attributable to the risk being hedged is reported in the profit and loss account rather than reserves. This is to ensure there is consistency of reporting as the fair value changes on the derivative acting as the hedge must be reported in the profit and loss account. Hedge accounting features in Treasury positions where asset swaps are used to transform the returns on fixed interest-rate securities to a floating rate basis.

Share investments
The basis of fair value for listed share investments is the quoted closing market price on the balance sheet date less specific provisions following objective evidence of impairment. The Bank's unlisted share investments are held at historic cost, because there is no active market to allow for a fair value to be determined, less any provisions for impairment at the balance sheet date. Purchases and sales of share investments are recorded at trade date. Note 11 analyses listed and unlisted share investments indicating purchases and sales.

Treasury portfolio
The fair value of assets comprising Treasury's available-for-sale portfolio is based on bid quotes obtained from third party sources. Included in this category are collateralised placements, which are structures wherein the risks and rewards associated with the ownership of a reference asset are transferred to another party through the use of a swap contract and economically are a form of collateralised lending.

B Financial liabilities

(a) Liabilities held for dealing

This occurs where the Bank has sold debt securities it does not yet own, known as "short" selling, with the intention of buying those securities more cheaply at a later date and thus generating a dealing profit. Such liabilities are measured at fair value with all changes in value reported in the profit and loss account as they occur.

(b) All other financial liabilities

With the exception of liabilities held for dealing, all other financial liabilities are measured at amortised cost, unless they form part of a qualifying hedge relationship with a derivative position (see "Hedge accounting" below).

C Derivatives

All derivatives are measured at fair value with immediate effect in the profit and loss account unless they form part of a qualifying cash flow hedging relationship (see "Hedge accounting" below). In this case, the fair value of the derivative is taken to reserves to the extent that it is a perfect hedge to the identified risk. Any hedge ineffectiveness will result in that proportion of the fair value remaining in the profit and loss account.

Hedge accounting
Hedge accounting is designed to bring consistency of accounting treatment to financial instruments, which would not otherwise be permitted. A valid hedge relationship exists when a specific relationship can be identified between two or more financial instruments in which the change in value of one instrument, the "hedge", is highly negatively correlated to the change in value of the other, the "hedged item". To qualify for hedge accounting this correlation must remain within boundaries of 80 to 125 per cent.

The Bank's hedging activities are primarily designed to mitigate interest rate risk by using swaps to convert fixed interest rate risk, on both assets and liabilities, into floating rate risk. Such hedges are known as "fair value" hedges. In such cases, the fair value changes on the hedged items, attributable to the risks being hedged, are reported in the profit and loss account along with the fair value changes on the swaps.

IAS 39 requires that hedge relationships must be identified to an individual asset or liability, or similar groups thereof. Hedges of net risks between assets and liabilities ("macro" hedging) do not qualify for hedge accounting. The Bank, in common with most financial institutions, engages in such macro hedging on grounds of cost, prudence and efficiency. However because this type of hedging does not qualify for hedge accounting under IAS 39, the fair value changes of the hedging derivatives are immediately reflected in the profit and loss account, while no such adjustment is made in respect of the movements in fair value of the hedged item being reflected. The fair value changes arising on the net positions hedged, which would otherwise largely offset the change in fair values of the derivatives, cannot be reported in the profit and loss account and therefore increases volatility. However, provided the macro hedges are economically effective, the short term gains and losses impacting the profit and loss account are reversed over time as the net income or expense on the underlying positions accrues into the profit and loss account.

The Bank engages in cash flow hedges in order to minimise the exchange rate risk associated with its future administrative expenses being incurred in sterling. The amount and timing of such hedges fluctuates in line with the Bank's views on opportune moments to execute the hedges. The majority of any such hedging activity is for the following financial year but hedges beyond one year can be undertaken. Hedging is mainly through the purchase of sterling in the forward foreign exchange market, but currency options can also be used. Such hedging activity is explicitly identified and appropriately documented by the Bank's Treasury department.

For further information on risk and related management policies refer to the section on risk in the Financial Results commentary.

iii Foreign currencies

In accordance with Article 35 of the Agreement, the Bank used the European Currency Unit (ECU) as the reporting currency for the presentation of its financial statements. Following the replacement of ECU with euro (€) from 1 January 1999, the reporting currency, for the presentation of the financial statements, is euro. The measurement currency is also euro, as this is the primary currency of economic activity within the Bank.

Monetary assets and liabilities denominated in foreign currencies are translated into euro at spot rates at 31 December 2002. Non-monetary items are expressed in euro at the exchange rates ruling at the time of the transaction. Revenue and expense items are translated into euro at the rate on the date on which they occurred, except for sterling expenses, which are hedged and converted at the weighted average hedge rate.

iv Capital subscriptions

The Bank's share capital is denominated in euro. However, in addition to settling their capital obligations in euro, members are also entitled to settle in United States dollars or Japanese yen. For this purpose, a fixed exchange rate for each currency was defined in Article 6 of the Agreement and these fixed exchange rates are used to measure the value of the associated capital as reported in "Members' equity" in the balance sheet. Current exchange rates are, however, used to report the corresponding value of capital receivable on the asset side of the balance sheet. The difference between the current value of capital receivable and its Agreement value is reported in the profit and loss account.

In order to ensure that capital receipts due in United States dollars or Japanese yen retain, at a minimum, their value as determined by the Agreement's fixed rates, the Bank's policy is to lock in their euro value through foreign exchange hedge contracts. These hedge contracts are marked to market in accordance with IAS 39 with any gain or loss being recorded in the profit and loss account.

v Associates

The Bank has considered both IAS 28 and the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions, in relation to its share investments and has taken advantage of the provision in IAS 28 which, as the Bank does not produce consolidated financial statements, allows for investments in associates to be held at cost. In cases where the Bank holds 20 per cent or more of an investee company, the Bank does not normally seek to exert significant influence. Since the Bank does not prepare consolidated financial statements, all such equity investments are carried at cost, with disclosure in note 11 of their book value and of the profit and loss impact were equity accounting principles to have been applied.

vi Provision for losses

Where the collectability of identified loans and advances and future cash flows from identified unlisted share investments is in doubt, specific provisions for impairment, being the difference between the carrying value of the asset and the net present value of expected future cash flows, are recognised in the profit and loss account. If a specific provision for impairment is made for a listed share investment or Treasury asset, where there is objective evidence of the impairment available, any change in fair value that had previously been recognised in reserves is reversed from reserves and taken to the profit and loss account. Assets are reviewed for impairment normally every six months by the Bank's independent Risk Management function. Resulting adjustments may include the unwinding of the discount in the profit and loss account over the life of the loan, and any adjustments required in respect of a reassessment of the initial impairment.

Provisions for impairment of classes of similar assets that are not individually identified as impaired are calculated on a portfolio basis for loans, advances and unlisted share investments. The methodology used for assessing such impairment is based on a risk-rated approach for non-sovereign assets applied at the end of the month of disbursement. A separate methodology is applied for all sovereign risk assets which takes into account the Bank's preferred creditor status afforded by its members. The effect of applying this methodology is considered to approximate to the calculation of impairment on a portfolio basis, being the difference between the carrying value of the groups of similar assets and the net present value of their expected future cash flows.

Impairment, as determined above, is deducted from the loans, share investments and Treasury asset categories on the balance sheet. Impairment of guarantees is applied when the guarantees are effective and for trade finance is based on utilisation. The methodology is consistent to that on non-sovereign risk assets (as above) and is included in "Other liabilities".

Impairment, less any amounts reversed during the year, is charged to the profit and loss account under the caption "Provisions for losses", as summarised in note 8. When a loan is deemed uncollectable or there is no possibility of recovery of a share investment, the principal is written off against the related estimated impairment. Subsequent recoveries are credited to the profit and loss account if previously written off.

vii Property, technology and office equipment

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

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

viii Accounting for leases

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

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

ix Interest, fees and commissions and dividends

Interest is recorded on an accruals basis. Where collectability is in doubt, impairment, being the difference between the carrying value of the loan and the net present value of expected future cash flows, is recognised in the profit and loss account. Assets are reviewed individually for impairment normally every six months by the Bank's independent Risk Management function. Resulting adjustments may include the unwinding of the net present value discount in the profit and loss account over the life of the loan, and any adjustments required in respect of a reassessment of the initial impairment. For loans on which interest has been deferred, income may however be recognised when received based on the underlying performance of the project.

Front-end fees and commitment fees are deferred, together with the related direct costs of originating and maintaining the commitment, and are recognised as an adjustment to the effective yield, being recorded in the profit and loss account over the period from disbursement to repayment of the related loan. If the commitment expires without the loan being drawn down, the fee is recognised as income on expiry.

In prior years the Bank's policy was to record front-end fees as income when the loan became effective and to record commitment fees as income over the period during which the commitment existed. Due to the comparatively small volume of front-end and commitment fees earned in prior years, the impact of applying this policy was considered to approximate to the impact of deferring such fees, together with their related costs, and recognising these as an adjustment to the effective yield. Due to the increase in volume of these fees as the Bank's portfolio has grown (front-end and commitment fees have increased by 57 per cent between 2001 and 2002 and 112 per cent between 2000 and 2002), the Bank considers it now more appropriate to incorporate these fees and the related direct costs in the effective yield of the loan in a more specific manner. No adjustment to prior year figures is required since such an adjustment would be immaterial as the method previously used provided a reasonable approximation.

Fees received in respect of services provided over a period of time are recognised as income as the services are provided. Other fees and commissions are taken to income when received. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings.

Dividends relating to share investments are recognised when received.

x Staff retirement plan

The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits to substantially all of its staff. Under the defined contribution scheme, the Bank and staff contribute to provide a lump sum benefit. The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme.

All contributions to the schemes and all other assets and income held for the purposes of the schemes are kept by the Bank separately from all of its other assets. Actual contributions made to the defined contribution scheme are charged to the profit and loss account and transferred to the schemes' independent custodians. The charge to the profit and loss account in respect of the defined benefit scheme is based on the current service cost and other actuarial adjustments as determined by qualified external actuaries. Also included in this charge are actuarial gains and losses in excess of a 10 per cent corridor which are amortised over the estimated average service life remaining of the Bank's employees. The 10 per cent corridor is the higher of 10 per cent of the defined benefit obligation or fair value of assets. The actuaries also advise the Bank as to the necessary contributions to be made to the defined benefit scheme which are transferred to the schemes' independent custodians.

xi Taxation

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

xii Government grants

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

3. Segment information

Business segments

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

Primary reporting format – business segment:

	Banking 2002 € 000	**Treasury 2002 € 000**	**Aggregated 2002 € 000**	Banking 2001 € 000	Treasury 2001 € 000	Aggregated 2001 € 000
Interest income	**355,959**	**259,498**	**615,457**	429,539	470,832	900,371
Other income	**187,132**	**10,581**	**197,713**	148,882	35,041	183,923
Total segment revenue	**543,091**	**270,079**	**813,170**	578,421	505,873	1,084,294
Less interest expenses and similar charges	**(229,049)**	**(217,860)**	**(446,909)**	(336,155)	(406,057)	(742,212)
Allocation of capital benefit	**129,507**	**14,390**	**143,897**	151,282	16,809	168,091
Less IAS 39 impact of non-qualifying hedges	**–**	**(38,311)**	**(38,311)**	–	(8,698)	(8,698)
Less general administrative expenses	**(141,222)**	**(17,368)**	**(158,590)**	(174,753)	(14,990)	(189,743)
Less depreciation	**(17,585)**	**(992)**	**(18,577)**	(15,379)	(1,614)	(16,993)
Segment result before provisions	**284,742**	**9,938**	**294,680**	203,416	91,323	294,739
Provisions for losses	**(103,030)**	**(83,572)**	**(186,602)**	(137,557)	–	(137,557)
Operating profit / (loss) for the year	**181,712**	**(73,634)**	**108,078**	65,859	91,323	157,182
Segment assets	**8,500,856**	**10,363,615**	**18,864,471**	8,111,665	11,333,910	19,445,575
Paid-in capital receivable			**1,247,727**			1,501,718
Total assets			**20,112,198**			20,947,293
Segment liabilities	**8,500,856**	**10,363,615**	**18,864,471**	8,111,665	11,333,910	19,445,575
Members' equity receivable			**1,247,727**			1,501,718
Total liabilities			**20,112,198**			20,947,293
Capital expenditure	**16,456**	**928**	**17,384**	20,811	2,185	22,996

Interest expense and similar charges, and the capital benefit total €303.0 million (2001: €574.1 million) which is the Bank's "Interest expenses and similar charges" as reported in the profit and loss account.

Secondary reporting format – geographical segment:

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

	Segment revenue 2002 € 000	Segment revenue 2001 € 000	**Segment assets 2002 € 000**	Segment assets 2001 € 000
Advanced countries [1]	**286,068**	248,045	**4,006,043**	3,703,838
Early/Intermediate countries [2]	**166,649**	216,380	**2,881,641**	3,015,176
Russian Federation	**90,374**	113,996	**1,613,172**	1,392,651
Total	**543,091**	578,421	**8,500,856**	8,111,665

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

[2] Early/Intermediate countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Federal Republic of Yugoslavia, Former Yugoslavia Republic of Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In February 2003 the Federal Republic of Yugoslavia was renamed "Serbia and Montenegro". As this Report covers 2002, we refer to the country as FR Yugoslavia.

Geographical segment data in respect of Banking activities is disclosed above. A geographical analysis of Treasury activities is not considered beneficial due to the use of derivative instruments switching revenues into different currencies and locations to that from which the assets originate. The geographical segment revenue above and the Treasury business segment revenue together form total segment revenue of €813.2 million (2001: €1.1 billion).

4. Net fee and commission income

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

	2002 € 000	2001 € 000
Front-end fees	**31,104**	17,101
Commitment fees	**14,139**	11,702
Guarantee fees	**4,001**	2,594
Management fees	**2,995**	2,411
Trade finance fees	**2,812**	2,195
Other	**1,389**	2,847
Gross fee and commission income	**56,440**	38,850
Deferral of front-end and commitment fees	**(45,243)**	–
Net fee and commission income	**11,197**	38,850

Front-end and commitment fees received in 2002, together with an equal amount of related direct costs shown in gross administrative expenses below, have been deferred on the balance sheet and will be recorded in interest income over the period from disbursement to repayment of the related loan in accordance with IAS 18.

5. Net profit on dealing activities and foreign exchange

	2002 € 000	2001 € 000
Available-for-sale portfolio	**(4,884)**	968
Dealing portfolio	**13,729**	31,005
Foreign exchange	**1,736**	3,068
Net profit on dealing activities and foreign exchange	**10,581**	35,041

For the available-for-sale portfolio, the realised gains and losses arose on disposal of debt securities in that portfolio. In the case of the dealing portfolio, net profit includes both realised and unrealised gains or losses together with associated interest income and expense.

6. IAS 39 impact on non-qualifying hedges

IAS 39 impact on non-qualifying hedges does not derive from dealing activities but is a consequence of the accounting rules introduced by IAS 39. This accounting standard requires all derivatives to be fair valued in the profit and loss account. In the case of derivative positions taken for hedging purposes (which represents the majority of the Bank's derivatives exposure) it does not permit recognition of the largely offsetting changes in fair value of the underlying hedged balance sheet positions in the absence of a specific one-to-one hedge relationship. In line with modern risk management practices, much of the Bank's hedging activity is conducted on a portfolio as opposed to individual asset basis, and this form of hedging does not qualify for special hedge accounting treatment under IAS 39. There are two principal categories of derivative hedging activity conducted by the Bank which do not qualify for hedge accounting.

First, derivatives macro-hedging the Bank's fixed-rate loan book, in which the Bank exchanges the fixed rate flows on the loan assets in return for floating interest payments using swap contracts, are subject to fair value accounting, while the fixed rate loan assets being hedged are not. As the Bank is paying fixed rates of interest in these contracts, increases in the relevant interest rates, essentially US dollar and the euro, will result in mark-to-market gains on these contracts, while the converse will happen if rates fall. Taking into account the average life of these fixed rate exposures, the US dollar and euro interest rates have fallen in the order of 2.11 per cent and 0.87 per cent in 2002 generating unrealised IAS 39 losses of €20.8 million for the year. These charges do not represent an economic loss and will be recouped over the life of the fixed rate loans.

Second, the derivatives hedging the Bank's capital to be received in US dollar or Japanese yen are subject to fair value accounting while the underlying capital sums receivable are not. This difference in measurement will cause interim volatility in the profit and loss account until the transactions settle. The Bank has recorded an IAS 39 loss of €17.5 million in this connection for the year 2002. These charges do not represent an economic loss and will reverse over time as the capital is received in cash, but fluctuating interest and exchange rates will continue to cause reported profit and loss volatility in the interim.

The International Accounting Standards Board has issued an exposure draft containing amendments to IAS 39, which, if adopted, would permit hedge accounting treatment to be applied to a broader range of hedging activity.

7. General administrative expenses

	2002 € 000	2001 € 000
Personnel costs [1]	**128,141**	121,675
Overhead expenses net of government grants [2, 3]	**75,692**	68,068
General administrative expenses [4]	**203,833**	189,743
Deferral of direct costs related to loan origination and commitment maintenance [5]	**(45,243)**	–
Net general administrative expenses	**158,590**	189,743

1 The average numbers of staff included in personnel costs during the year were: regular staff of 903 (2001: 866), contract staff of 89 (comprising special contract staff of 40 and interns/short-term staff of 49), locally hired staff in Resident Offices of 254, and Board of Directors personnel of 73. Of these 54 were externally funded.

Staff numbers at 31 December 2002 were: regular staff of 893 (2001: 894), contract staff of 93 (comprising special contract staff of 38 and interns/short-term staff of 55), locally hired staff in Resident Offices of 247, and Board of Directors personnel of 73. Of these 54 were externally funded.

In addition, 137 Project Bureau staff (2001: 211) were engaged by the Regional Venture Funds and Russia Small Business Fund on projects in the Russian Federation.

2 During the year, government grants of €2.1 million (2001: €2.1 million) were taken to the profit and loss account.

3 Included in overhead expenses above are the following fees in respect of work performed by the Bank's auditors:

	2002 € 000	2001 € 000
Services as auditors [(a)]	**122**	113
Further assurance services		
Tax compliance	**3**	3
Other non-audit services [(b)]		
Consultancy services	**1,332**	76
Consultancy services – countries of operations	**30**	228
	1,362	304

(a) Services as auditors have been recorded on an accruals basis.

(b) Payments to the auditors for consulting and advisory services during the period of audit appointment are recorded on a cash basis and reflect payments to Arthur Andersen in 2001 and for the period from 1 January 2002 to 31 July 2002 and to Deloitte & Touche for the period from 1 August 2002 to 31 December 2002. Deloitte & Touche entered into an agreement with Arthur Andersen under which partners and staff of Arthur Andersen joined Deloitte & Touche as of 1 August 2002. The Bank appointed Deloitte & Touche as auditors in succession to Arthur Andersen with effect from that date. Of the fees for other non-audit services of €1.4 million, 84 per cent relates to contracts entered into by Deloitte & Touche prior to 1 August 2002.

4 Sterling general administrative expenses totalled £128.8 million (2001: £126.1 million).

5 Direct costs related to loan origination and commitment maintenance in 2002, together with front-end and commitment fees received shown in net fee and commission income above, have been deferred on the balance sheet and will be recorded in interest income over the period from disbursement to repayment of the related loan.

8. Summary of provisions for losses

Profit and loss charge / (release)	Loans € 000	Share investments € 000	Total loans and share investments € 000	Guarantees and other € 000	Treasury provisions € 000	**2002 Total € 000**	2001 Total € 000
Portfolio provision for the impairment of unidentified assets:							
Non-sovereign risk assets	57,141	30,193	87,334	(1,288)	–	**86,046**	126,724
Sovereign risk assets	(1,422)	–	(1,422)	–	–	**(1,422)**	7,471
Guarantees	–	–	–	19,289	–	**19,289**	2,218
Specific provisions for the impairment of identified assets [1]	(28,238)	27,355	(883)	–	83,572	**82,689**	1,144
For the year ended 31 December 2002	**27,481**	**57,548**	**85,029**	**18,001**	**83,572**	**186,602**	
For the year ended 31 December 2001	15,128	122,040	137,168	389	–		137,557

[1] During the year new specific provisions for the impairment of identified assets of €149.3 million were made and €66.6 million were released resulting in a net charge to the profit and loss account of €82.7 million.

Movement in provisions	Loans € 000	Share investments € 000	Total loans and share investments € 000	Guarantees and other € 000	Treasury provisions € 000	**2002 Total € 000**	2001 Total € 000
At 1 January	598,508	606,660	1,205,168	19,032	–	**1,224,200**	1,212,093
Charge	27,481	57,548	85,029	18,001	83,572	**186,602**	137,557
Unwinding of the discount relating to the provision for the impairment of identified assets [1]	(2,171)	–	(2,171)	–	–	**(2,171)**	(5,737)
Foreign exchange adjustments	(70,491)	–	(70,491)	(194)	(2,346)	**(73,031)**	24,395
IAS 39 opening reinstatement adjustment	–	–	–	–	–	**–**	(74,296)
Release against amounts written off [2]	(19,863)	(24,713)	(44,576)	–	–	**(44,576)**	(69,812)
At 31 December	**533,464**	**639,495**	**1,172,959**	**36,839**	**81,226**	**1,291,024**	1,224,200
Analysed between							
Portfolio provision for the impairment of unidentified assets:							
Non-sovereign risk assets	288,757	320,083	608,840	1,027	–	**609,867**	553,177
Sovereign risk assets	64,669	–	64,669	–	–	**64,669**	75,592
Specific provisions for the impairment of identified assets	180,038	319,412	499,450	–	81,226	**580,676**	578,908
Deducted from assets	533,464	639,495	1,172,959	1,027	81,226	**1,255,212**	1,207,677
Included in other liabilities	–	–	–	35,812	–	**35,812**	16,523
At 31 December	**533,464**	**639,495**	**1,172,959**	**36,839**	**81,226**	**1,291,024**	1,224,200

[1] Included in interest income from loans is €2.2 million relating to the unwinding of the net present value discount.

[2] Release against amounts written off is reduced by €22.4 million relating to receipts from previously written off investments which have been deducted from the charge for the year.

9. Debt securities

Analysis by issuer	**Book value 2002 € 000**	Book value 2001 € 000
Governments	**296,763**	719,651
Public bodies	**400,108**	689,181
Other borrowers	**4,500,253**	5,805,716
At 31 December	**5,197,124**	7,214,548

Analysis by portfolio		
Available-for-sale portfolio	**4,403,371**	5,861,808
Dealing portfolio		
Internally managed funds	**241,213**	814,715
Externally managed funds	**552,540**	538,025
	793,753	1,352,740
At 31 December	**5,197,124**	7,214,548

10. Other assets

	2002 € 000	2001 € 000
Interest receivable	**209,633**	166,461
Mark-to-market valuation of derivative assets	**378,048**	1,723
Treasury deals pending settlement	**449,947**	177,248
Other	**393,989**	332,053
At 31 December	**1,431,617**	677,485

11. Loans and share investments

Outstanding disbursements	Loans € 000	Unlisted share investments € 000	Listed share investments € 000	Total share investments € 000	Total loans and share investments € 000
At 1 January 2002	6,713,069	1,486,568	867,393	2,353,961	9,067,030
IAS 39 movement in fair value revaluation	8,165	–	103,736	103,736	111,901
Disbursements	3,350,230	300,959	82,662	383,621	3,733,851
Repayments, prepayments and disposals	(2,483,549)	(115,143)	(81,265)	(196,408)	(2,679,957)
Foreign exchange movements	(722,356)	–	–	–	(722,356)
Written off	(41,624)	(22,141)	(3,200)	(25,341))	(66,965)
At 31 December 2002	**6,823,935**	**1,650,243**	**969,326**	**2,619,569**	**9,443,504**
Provisions at 31 December 2002 [1]	(534,491)	(525,133)	(114,362)	(639,495)	(1,173,986)
Total outstanding disbursements at 31 December 2002	**6,289,444**	**1,125,110**	**854,964**	**1,980,074**	**8,269,518**
Total outstanding disbursements at 31 December 2001	6,112,052	984,151	763,150	1,747,301	7,859,353

[1] Provisions for loans includes €1.0 million for bonds held as banking assets classified in note 8 under guarantees and other.

At 31 December 2002 the Bank categorised 23 loans as impaired, totalling €204.5 million (2001: 31 loans totalling €327.4 million). Specific provisions on these assets amounted to €180.0 million (2001: €262.1 million). Interest has been excluded from the profit and loss account of approximately €9.7 million as a result of the estimated impairment. The unwinding of the net present value discount relating to provisions for the impairment of identified assets has added €2.2 million of income to the profit and loss account in interest income from loans.

Of the net profit on sale of share investments of €140.0 million, €56.4 million relates to profit on the sale of unlisted share investments, which were held at cost of €121.8 million at the time of sale, because their fair value could not previously be measured reliably.

Since the Bank has no subsidiaries it does not prepare consolidated financial statements. It accounts for all unlisted share investments at cost less provision for impairment. If the Bank were to have equity accounted for all investments in which it owns 20 per cent or more of the investee share capital, the book value of which, included in share investments in the balance sheet at 31 December 2002, was approximately €694.4 million, the net incremental impact on the profit and loss account would be a profit of approximately €46.8 million (2001: €574.0 million and €46.1 million respectively). This represents the Bank's share of net profits or losses from the most recent available audited financial statements of its investee companies. The Bank's share of retained earnings in respect of these investee companies since acquisition would be a profit of approximately €371.0 million (2001: €264.4 million). Due to the time delay in obtaining audited financial statements that have been prepared in accordance with International Financial Reporting Standards from all investee companies, these figures are based on profits or losses from the most recent 12-month period for which such information is available.

Listed below are all share investments where the Bank owned greater than or equal to 20 per cent of the investee share capital at 31 December 2002 and where the Bank's total investment less specific provisions on the impairment of identified assets exceeded €20.0 million. Significant shareholdings are normally only taken in anticipation of, wherever possible, subsequent external participation.

	%
Lafarge: Romania	38
Baring Vostok Private Equity Fund	32
Danone MPF – Danone Industria LLC	30
European Property Group	25
Lafarge: Polska	22
General Motors – VAZ JV	20

12. Analysis of operational activity

Analysis by country	**Outstanding disbursements 2002 € 000**	Outstanding disbursements 2001 € 000	**Undrawn commitments 2002 € 000**	Undrawn commitments 2001 € 000
Albania	**32,887**	30,696	**88,800**	62,237
Armenia	**57,593**	74,205	**24,198**	26,997
Azerbaijan	**164,270**	210,940	**101,631**	92,792
Belarus	**54,815**	75,654	**7,583**	13,665
Bosnia and Herzegovina	**76,427**	73,604	**135,018**	113,090
Bulgaria	**273,722**	323,080	**165,337**	42,110
Croatia	**525,094**	383,581	**373,084**	379,187
Czech Republic	**359,308**	376,532	**113,776**	139,823
Estonia	**230,679**	228,881	**23,931**	22,867
FR Yugoslavia	**48,877**	6,566	**312,046**	225,815
FYR Macedonia	**73,658**	114,587	**71,562**	74,214
Georgia	**95,833**	115,456	**49,692**	70,418
Hungary	**507,379**	492,555	**106,112**	135,583
Kazakhstan	**342,841**	306,120	**319,644**	329,228
Kyrgyz Republic	**72,422**	106,687	**1,587**	24,426
Latvia	**89,147**	112,292	**19,719**	48,669
Lithuania	**186,843**	209,555	**67,005**	89,745
Moldova	**92,271**	87,822	**22,585**	62,313
Poland	**1,411,194**	1,249,510	**535,949**	598,251
Romania	**950,037**	996,919	**423,942**	364,520
Russian Federation	**1,898,097**	1,724,770	**1,107,185**	764,791
Slovak Republic	**390,270**	382,649	**141,773**	83,990
Slovenia	**252,281**	202,981	**118,755**	11,190
Tajikistan	**9,327**	11,255	**18,989**	22,790
Turkmenistan	**82,509**	56,910	**54,853**	77,396
Ukraine	**467,652**	432,126	**388,812**	542,255
Uzbekistan	**235,476**	300,017	**196,367**	233,938
Regional	**462,595**	381,080	**484,082**	670,181
At 31 December	**9,443,504**	9,067,030	**5,474,017**	5,322,481

Analysis by instrument				
Loans	**6,771,193**	6,652,604	**4,278,988**	4,008,212
Share investments	**2,619,569**	2,353,961	**669,368**	782,671
Debt securities	**52,742**	60,465	**–**	–
Guarantees	**–**	–	**525,661**	531,598
At 31 December	**9,443,504**	9,067,030	**5,474,017**	5,322,481

Analysis by sector				
Commerce and tourism	**344,442**	213,194	**104,494**	111,949
Community and social services	**227,882**	160,251	**132,612**	151,193
Energy/power generation	**1,060,148**	1,042,309	**1,236,411**	1,499,977
Extractive industries	**522,775**	595,356	**282,723**	183,491
Finance	**3,302,277**	2,958,269	**1,581,523**	1,272,207
Manufacturing	**1,918,466**	2,039,655	**513,123**	755,453
Primary industries	**193,297**	139,031	**154,074**	150,736
Telecommunications	**834,335**	897,086	**192,855**	160,264
Transport and construction	**1,039,882**	1,021,879	**1,276,202**	1,037,211
At 31 December	**9,443,504**	9,067,030	**5,474,017**	5,322,481

13. Property, technology and office equipment

	Property € 000	Technology and office equipment € 000	Total € 000
Cost			
At 1 January 2002	67,501	96,791	164,292
Additions	362	17,022	17,384
Disposals	(386)	(789)	(1,175)
At 31 December 2002	**67,477**	**113,024**	**180,501**
Depreciation			
At 1 January 2002	40,523	78,895	119,418
Charge	4,836	13,741	18,577
Disposals	(328)	(728)	(1,056)
At 31 December 2002	**45,031**	**91,908**	**136,939**
Net book value			
At 31 December 2002	**22,446**	**21,116**	**43,562**
At 31 December 2001	26,978	17,896	44,874

There were no additions during the year for assets purchased under finance leases. The related minimum payments under finance leases amount to €0.5 million, of which €0.3 million are due within 12 months of the balance sheet date and €0.2 million are due after one year but within five years of the balance sheet date. These future payments are included in "Other liabilities".

14. Debts evidenced by certificates

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

	Principal at nominal value € 000	Fair value adjustment € 000	Adjusted principal value € 000	Currency swaps payable/ (receivable) € 000	**Net currency obligations 2002 € 000**	Net currency obligations 2001 € 000
Australian dollars	754,594	(58,286)	696,308	(696,308)	**–**	–
Canadian dollars	87,818	(33,010)	54,808	(54,808)	**–**	–
Czech koruna	158,806	(12,815)	145,991	(145,991)	**–**	–
Euro	1,473,285	323,681	1,796,966	437,202	**2,234,168**	3,231,384
Gold bullion	335,038	(49,899)	285,139	(285,139)	**–**	–
Hong Kong dollars	73,410	(68,478)	4,932	(4,932)	**–**	–
Hungarian forints	7,045	–	7,045	–	**7,045**	7,734
Japanese yen	2,008,992	715,557	2,724,549	(2,393,613)	**330,936**	441,219
New Taiwan dollars	741,961	723	742,684	(742,684)	**–**	–
Polish zloty	95,686	2,985	98,671	(70,858)	**27,813**	–
Russian roubles	5,284	–	5,284	–	**5,284**	14,233
Singapore dollars	82,426	(391)	82,035	(82,035)	**–**	–
Slovak koruna	14,693	7,388	22,081	(22,081)	**–**	–
South African rands	449,939	117,110	567,049	(567,049)	**–**	–
Sterling	2,663,250	77,605	2,740,855	(1,015,785)	**1,725,070**	2,134,434
Turkish lire	116,275	53,508	169,783	(169,783)	**–**	–
United States dollars	3,235,475	(617,799)	2,617,676	5,813,864	**8,431,540**	8,098,331
At 31 December	**12,303,977**	**457,879**	**12,761,856**	**–**	**12,761,856**	**13,927,335**

During the year the Bank redeemed €247.1 million of bonds and medium-term notes prior to maturity generating a net gain of €4.3 million.

15. Other liabilities

	2002 € 000	2001 € 000
Interest payable	**159,264**	126,018
Mark-to-market valuation of derivative assets	**94,492**	340,451
Treasury deals pending settlement	**218,528**	157,223
Other	**420,438**	202,626
At 31 December	**892,722**	826,318

16. Subscribed capital

	Number of shares 2002	2002 Total € 000	Number of shares 2001	2001 Total € 000
Authorised share capital	**2,000,000**	**20,000,000**	2,000,000	20,000,000
of which				
Subscriptions by members – initial capital	**991,975**	**9,919,750**	991,975	9,919,750
Subscriptions by members – capital increase	**986,975**	**9,869,750**	986,975	9,869,750
Subscribed capital	**1,978,950**	**19,789,500**	1,978,950	19,789,500
Unallocated shares [1]	**6,050**	**60,500**	6,050	60,500
Authorised and issued share capital	**1,985,000**	**19,850,000**	1,985,000	19,850,000
Not yet subscribed	**15,000**	**150,000**	15,000	150,000
At 31 December	**2,000,000**	**20,000,000**	2,000,000	20,000,000

[1] Shares potentially available to new or existing members.

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

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

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

Summary of paid-in capital receivable:	2002 € 000	2001 € 000
Promissory notes issued by members:		
– not yet due for encashment	**333,643**	354,469
– due for encashment	**4,806**	9,090
Total promissory notes received	**338,449**	363,559
Paid-in subscribed capital:		
– amounts not yet due	**889,880**	1,107,099
– amounts due but not yet received	**19,398**	31,060
Total paid-in subscribed capital receivable	**909,278**	1,138,159
Paid-in capital receivable at 31 December	**1,247,727**	1,501,718

16. Subscribed capital (continued)

Statement of capital subscriptions

At 31 December 2002 Members	Total shares (number)	Resulting votes[1] (number)	Total capital € 000	Callable capital € 000	Paid-in capital[2] € 000
Members of the European Union					
Austria	45,600	45,600	456,000	336,300	119,700
Belgium	45,600	45,600	456,000	336,300	119,700
Denmark	24,000	24,000	240,000	177,000	63,000
Finland	25,000	25,000	250,000	184,370	65,630
France	170,350	170,350	1,703,500	1,256,335	447,165
Germany	170,350	170,350	1,703,500	1,256,335	447,165
Greece	13,000	13,000	130,000	95,870	34,130
Ireland	6,000	6,000	60,000	44,250	15,750
Italy	170,350	170,350	1,703,500	1,256,335	447,165
Luxembourg	4,000	4,000	40,000	29,500	10,500
Netherlands	49,600	49,600	496,000	365,800	130,200
Portugal	8,400	8,400	84,000	61,950	22,050
Spain	68,000	68,000	680,000	501,500	178,500
Sweden	45,600	45,600	456,000	336,300	119,700
United Kingdom	170,350	170,350	1,703,500	1,256,335	447,165
European Community	60,000	60,000	600,000	442,500	157,500
European Investment Bank	60,000	60,000	600,000	442,500	157,500
Other European countries					
Cyprus	2,000	2,000	20,000	14,750	5,250
Iceland	2,000	2,000	20,000	14,750	5,250
Israel	13,000	13,000	130,000	95,870	34,130
Liechtenstein	400	391	4,000	2,950	1,050
Malta	200	200	2,000	1,470	530
Norway	25,000	25,000	250,000	184,370	65,630
Switzerland	45,600	45,600	456,000	336,300	119,700
Turkey	23,000	23,000	230,000	169,620	60,380
Countries of operations					
Albania	2,000	1,592	20,000	14,750	5,250
Armenia	1,000	791	10,000	7,370	2,630
Azerbaijan	2,000	985	20,000	14,750	5,250
Belarus	4,000	4,000	40,000	29,500	10,500
Bosnia and Herzegovina	3,380	3,380	33,800	24,930	8,870
Bulgaria	15,800	15,800	158,000	116,520	41,480
Croatia	7,292	7,292	72,920	53,780	19,140
Czech Republic	17,066	17,066	170,660	125,861	44,799
Estonia	2,000	2,000	20,000	14,750	5,250
FR Yugoslavia	9,350	9,350	93,500	68,960	24,540
FYR Macedonia	1,382	1,351	13,820	10,200	3,620
Georgia	2,000	742	20,000	14,750	5,250
Hungary	15,800	15,800	158,000	116,520	41,480
Kazakhstan	4,600	4,600	46,000	33,920	12,080
Kyrgyz Republic	2,000	1,042	20,000	14,750	5,250
Latvia	2,000	2,000	20,000	14,750	5,250
Lithuania	2,000	2,000	20,000	14,750	5,250
Moldova	2,000	1,326	20,000	14,750	5,250
Poland	25,600	25,600	256,000	188,800	67,200
Romania	9,600	9,600	96,000	70,800	25,200
Russian Federation	80,000	80,000	800,000	590,000	210,000
Slovak Republic	8,534	8,534	85,340	62,939	22,401
Slovenia	4,196	4,196	41,960	30,940	11,020
Tajikistan	2,000	636	20,000	14,750	5,250
Turkmenistan	200	178	2,000	1,470	530
Ukraine	16,000	13,880	160,000	118,000	42,000
Uzbekistan	4,200	4,200	42,000	30,970	11,030
Non-European countries					
Australia	20,000	20,000	200,000	147,500	52,500
Canada	68,000	68,000	680,000	501,500	178,500
Egypt	2,000	1,750	20,000	14,750	5,250
Japan	170,350	170,350	1,703,500	1,256,335	447,165
Korea, Republic of	20,000	20,000	200,000	147,500	52,500
Mexico	3,000	3,000	30,000	21,000	9,000
Mongolia	200	200	2,000	1,470	530
Morocco	1,000	1,000	10,000	7,000	3,000
New Zealand	1,000	1,000	10,000	7,000	3,000
United States of America	200,000	200,000	2,000,000	1,475,000	525,000
Capital subscribed by members	**1,978,950**	**1,970,632**	**19,789,500**	**14,592,845**	**5,196,655**
Unallocated shares	6,050		60,500		
Authorised and issued share capital	**1,985,000**		**19,850,000**		

[1] Voting rights are restricted for non-payment of amounts due in respect of the member's obligations in relation to paid-in shares. Total votes before restrictions amount to 1,978,950 (2001: 1,978,950).

[2] Of paid-in capital, €4.3 billion has been received (2001: €4.1 billion). Some €0.9 billion is not yet due (2001: €1.1 billion), which relates primarily to the capital increase and is payable on or before 15 April 2005.

17. Net currency position

	Euro € 000	United States dollars € 000	Japanese yen € 000	Sterling € 000	Other currencies € 000	**Total € 000**
Assets						
Placements with and advances to credit institutions	226,709	687,890	29,231	11,399	34,978	**990,207**
Collateralised placements	1,270,727	1,374,460	–	–	287,256	**2,932,443**
Debt securities	554,958	3,738,591	318,839	572,733	12,003	**5,197,124**
Other assets	854,510	(287,731)	775,962	94,274	(5,398)	**1,431,617**
Loans	2,386,670	3,694,098	4,292	313	204,071	**6,289,444**
Share investments	–	–	–	–	1,980,074	**1,980,074**
Property, technology and office equipment	43,562	–	–	–	–	**43,562**
Paid-in capital receivable	666,300	453,675	127,752	–	–	**1,247,727**
Total assets	**6,003,436**	**9,660,983**	**1,256,076**	**678,719**	**2,512,984**	**20,112,198**
Liabilities and members' equity						
Amounts owed to credit institutions	(371,568)	(49,109)	(401)	(135,367)	(43,453)	(**599,898**)
Debts evidenced by certificates	(1,796,966)	(2,617,676)	(2,724,549)	(2,740,855)	(2,881,810)	(**12,761,856**)
Other liabilities	226,017	(838,565)	(150,316)	(88,038)	(41,820)	(**892,722**)
Members' equity	(5,904,966)	44,524	1,303	691	726	(**5,857,722**)
Total liabilities and members' equity	(**7,847,483**)	(**3,460,826**)	(**2,873,963**)	(**2,963,569**)	(**2,966,357**)	(**20,112,198**)
Net assets / (liabilities)	(**1,844,047**)	**6,200,157**	(**1,617,887**)	(**2,284,850**)	(**453,373**)	**–**
Derivative instruments	(219,331)	(6,097,237)	1,620,081	2,286,665	2,409,822	**–**
Currency position at 31 December 2002	(**2,063,378**)	**102,920**	**2,194**	**1,815**	**1,956,449**	**–**
Currency position at 31 December 2001	(1,760,019)	5,625	4,220	5,759	1,744,415	**–**

In addition to the Bank's functional currency, euro, currencies individually disclosed are those in which the Bank primarily raises funds (see note 14) and which expose the Bank to exchange rate risk. Amounts aggregated under "Other currencies" and which, after allowing for derivative instruments, expose the Bank to exchange rate risk, are primarily derived from the currency risks undertaken through the Bank's share investments in countries of operations where currency hedges are not readily available.

18. Liquidity position

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

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

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

	Up to and including 1 month € 000	Over 1 month and up to and including 3 months € 000	Over 3 months and up to and including 1 year € 000	Over 1 year and up to and including 5 years € 000	Over 5 years € 000	Maturity undefined € 000	**Total € 000**
Assets							
Placements with and advances to credit institutions	966,091	–	–	16,077	8,039	–	**990,207**
Collateralised placements	2,782,745	149,698	–	–	–	–	**2,932,443**
Debt securities	395,929	130,443	313,298	2,296,949	2,060,505	–	**5,197,124**
Other assets	869,161	(78,585)	272,743	55,178	313,120	–	**1,431,617**
Loans	365,944	443,738	1,161,442	3,108,889	1,563,884	(354,453)	**6,289,444**
Share investments	–	–	–	–	–	1,980,074	**1,980,074**
Property, technology and office equipment	–	–	–	–	–	43,562	**43,562**
Promissory notes received	–	–	132,227	199,628	473	6,121	**338,449**
Paid-in capital subscribed but not yet due	–	–	296,627	593,253	–	–	**889,880**
Overdue capital	–	–	–	–	–	19,398	**19,398**
Total assets	**5,379,870**	**645,294**	**2,176,337**	**6,269,974**	**3,946,021**	**1,694,702**	**20,112,198**
Liabilities and members' equity							
Amounts owed to credit institutions	(542,217)	(57,681)	–	–	–	–	**(599,898)**
Debts evidenced by certificates	(536,350)	(112,924)	(1,355,047)	(4,570,017)	(6,187,518)	–	**(12,761,856)**
Other liabilities	(390,953)	(31,541)	(201,355)	(104,702)	(72,679)	(91,492)	**(892,722)**
Members' equity	–	–	–	–	–	(5,857,722)	**(5,857,722)**
Total liabilities and members' equity	**(1,469,520)**	**(202,146)**	**(1,556,402)**	**(4,674,719)**	**(6,260,197)**	**(5,949,214)**	**(20,112,198)**
Net liquidity position at 31 December 2002	**3,910,350**	**443,148**	**619,935**	**1,595,255**	**(2,314,176)**	**(4,254,512)**	**–**
Cumulative net liquidity position at 31 December 2002	**3,910,350**	**4,353,498**	**4,973,433**	**6,568,688**	**4,254,512**	**–**	**–**
Cumulative net liquidity position at 31 December 2001	165,582	3,984,115	4,432,445	6,336,593	5,172,529	–	**–**

19. Interest rate risk

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

Repricing interval	Up to and including 1 month € 000	Over 1 month and up to and including 3 months € 000	Over 3 months and up to and including 1 year € 000	Over 1 year and up to and including 5 years € 000	Over 5 years € 000	Non-interest-bearing funds € 000	**Total € 000**
Assets							
Placements with and advances to credit institutions	966,091	–	–	16,077	8,039	–	**990,207**
Collateralised placements	2,777,816	154,627	–	–	–	–	**2,932,443**
Debt securities	1,834,752	1,395,092	486,582	855,291	465,731	159,676	**5,197,124**
Other assets	1,059,429	–	209,633	–	–	162,555	**1,431,617**
Loans	1,241,265	2,282,822	2,620,219	401,404	278,225	(534,491)	**6,289,444**
Non-interest-earning assets including paid-in capital receivable	–	–	–	–	–	3,271,363	**3,271,363**
Total assets	**7,879,353**	**3,832,541**	**3,316,434**	**1,272,772**	**751,995**	**3,059,103**	**20,112,198**
Liabilities and members' equity							
Amounts owed to credit institutions	(599,898)	–	–	–	–	–	(**599,898**)
Debts evidenced by certificates	(2,493,103)	(1,097,778)	(1,137,525)	(4,181,334)	(3,852,116)	–	(**12,761,856**)
Other liabilities	(411,116)	–	322,219	–	–	(803,825)	(**892,722**)
Members' equity	–	–	–	–	–	(5,857,722)	(**5,857,722**)
Total liabilities and members' equity	(**3,504,117**)	(**1,097,778**)	(**815,306**)	(**4,181,334**)	(**3,852,116**)	(**6,661,547**)	(**20,112,198**)
Net assets	4,375,236	2,734,763	2,501,128	(2,908,562)	(3,100,121)	(3,602,444)	**–**
Derivative financial instruments	(1,979,127)	(1,110,078)	(4,225,970)	3,313,247	4,001,928	–	**–**
Interest rate risk at 31 December 2002	**2,396,109**	**1,624,685**	(**1,724,842**)	**404,685**	**901,807**	(**3,602,444**)	**–**
Cumulative interest rate risk at 31 December 2002	**2,396,109**	**4,020,794**	**2,295,952**	**2,700,637**	**3,602,444**	**–**	**–**
Cumulative interest rate risk at 31 December 2001	4,281,177	6,680,180	4,145,953	3,923,225	2,845,093	–	**–**

The Bank's interest rate risk measurement is complemented by accepted market techniques including Value-at-Risk (VaR), spread risk and volatility risk on which frequent management reporting takes place. At 31 December 2002, the Bank's total VaR, including externally managed investment programmes, calculated with reference to a 99 per cent confidence level over a 10-trading-days horizon, was €4.2 million (2001: €3.7 million), taking into account partial diversification effects.

20. Credit-related information on Treasury derivative financial instruments

	2002 € 000	2001 € 000
Credit derivatives [1]	**3,824,279**	4,005,656
Swaps and over-the-counter option agreements: [2]		
Pre netting/collateral agreements [3]	**2,121,531**	1,156,976
Post netting/collateral agreements [3]	**742,287**	298,668

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

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

[3] For pre netting/collateral agreements the proportion of exposure to triple-A rated counterparties was 24 per cent, while for post netting/collateral agreements this proportion was 43 per cent.

21. Average balance sheet

	2002 € 000	2002 € 000	2001 € 000	2001 € 000
Assets				
Placements with and advances to credit institutions	**2,172,841**		2,397,501	
Collateralised placements	**3,044,281**		2,403,867	
Debt securities	**5,724,767**		7,364,961	
		10,941,889		12,166,329
Other assets		**614,681**		958,569
Loans and share investments				
Loans	**6,112,325**		5,564,671	
Share investments	**1,810,834**		1,633,521	
		7,923,159		7,198,192
Property, technology and office equipment		**47,135**		39,770
Paid-in capital receivable		**1,331,329**		1,597,465
Total assets		**20,858,193**		21,960,325
Liabilities and members' equity				
Borrowings				
Amounts owed to credit institutions	**1,177,612**		735,009	
Debts evidenced by certificates	**12,976,929**		13,039,578	
		14,154,541		13,774,587
Other liabilities		**863,324**		2,547,176
Subscribed capital	**19,789,500**		19,793,908	
Callable capital	(**14,592,845**)		(14,590,058)	
Paid-in capital		**5,196,655**		5,203,850
Reserves and profit for the year		**643,673**		434,712
Members' equity		**5,840,328**		5,638,562
Total liabilities and members' equity		**20,858,193**		21,960,325
Memorandum items				
Undrawn commitments		**5,225,531**		4,722,113

The average balance sheet is based on daily averaging.

22. Operating lease commitments

The Bank leases its headquarters building in London and certain of its Resident Office buildings in countries of operations. These are standard operating leases and include renewal options, periodic escalation clauses and are mostly non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the Bank's headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. Such a review was concluded in March 2002 and was effective from 25 December 2001. The Bank has a break clause effective in the year 2006, which allows the Bank to terminate the lease.

The Bank has entered into sub-lease arrangements for two floors of its headquarters building. The terms of the sub-leases mirror the terms of the Bank's head lease. The total minimum future lease payments expected to be received under these sub-leases is €18.0 million at 31 December 2002 (31 December 2001: €22.1 million). Income from sub-lease payments for the year amounted to €5.2 million (31 December 2001: €4.2 million).

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

Payable:	**2002 € 000**	2001 € 000
Not later than one year	**31,695**	34,858
Later than one year and not later than five years	**84,191**	121,617
At 31 December	**115,886**	156,475

23. Staff retirement schemes

Defined benefit scheme

A full actuarial valuation of the defined benefit scheme is performed at least every three years by a qualified actuary using the projected unit method. For IAS 19 purposes this is rolled forward annually to 31 December. The most recent valuation was as at 30 June 2002. The present value of the defined benefit obligation and current service cost were calculated using the projected unit credit method.

Amounts recognised in the balance sheet are as follows:

	2002 € 000	2001 € 000
Fair value of plan assets	**69,784**	73,174
Present value of the defined benefit obligation	(**73,261**)	(69,332)
	(**3,477**)	3,842
Unrecognised actuarial losses [1]	**42,845**	25,683
Prepayment at 31 December	**39,368**	29,525

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

At 1 January	**29,525**	25,419
Exchange differences	(**1,828**)	543
Contributions paid	**22,849**	13,069
Total expense as below	(**11,178**)	(9,506)
At 31 December	**39,368**	29,525

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

Current service cost	(**11,756**)	(11,180)
Interest cost	(**4,368**)	(3,957)
Expected return on assets	**6,147**	5,770
Amortisation of actuarial loss	(**1,201**)	(139)
Total included in staff costs	(**11,178**)	(9,506)

[1] These unrecognised actuarial losses represent the difference between the actuarial assumptions at the beginning of the period and the actual experience of the Plan. The two primary causes are lower than expected asset returns and decline in the discount rate used to value the Plan's liabilities.

Principal actuarial assumptions used:

Discount rate	**5.50%**	5.75%
Expected return on plan assets	**7.50%**	7.50%
Future salary increases	**4.00%**	4.00%
Average remaining working life of employees	**15 years**	15 years

Actuarial gains and losses in excess of a corridor (10 per cent of the greater of assets or liabilities) are amortised over the remaining working life of employees.

Defined contribution scheme

The pension charge recognised under the defined contribution scheme was €6.1 million (2001: €5.9 million) and is included in "General administrative expenses".

24. Other fund agreements

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

At 31 December 2002 the Bank administered 81 technical cooperation fund agreements (2001: 74) for an aggregate of €785.1 million (2001: €768.0 million) which includes €300.9 million for the Tacis and Phare programmes of the European Commission under the Bangkok and Investment Preparation Facilities. Of this pledged amount, funds received at 31 December 2002 totalled €680.4 million. The total uncommitted balance of the funds at 31 December 2002 was €141.4 million. In addition, the Bank administered 73 project-specific technical cooperation agreements for an aggregate amount of €48.5 million.

The Bank also administered 12 investment cooperation fund agreements for an aggregate amount of €63.0 million and two EU Pre-accession Preparation Funds for an aggregate amount of €34.8 million for the specific purpose of co-financing EBRD projects.

Following a proposal by the G-7 countries for a multilateral programme of action to improve safety in nuclear power plants in the countries of operations, the Nuclear Safety Account (NSA) was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for funding immediate safety improvement measures. At 31 December 2002, 15 contributors had made pledges up to a total amount of €260.6 million, using the fixed exchange rates defined in the Rules of the NSA.

At their Denver Summit in June 1997, the G-7 countries and the European Union endorsed the setting up of the Chernobyl Shelter Fund (CSF). The CSF was established on 7 November 1997, when the Rules of the CSF were approved by the Board, and became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system. At 31 December 2002, 23 contributors had made pledges up to a total amount of €548.6 million using the fixed exchange rates defined in the Rules of the CSF.

In 1999, in pursuit of their policy to accede to the European Union, three central European countries, namely Lithuania, Bulgaria and the Slovak Republic, undertook firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 type of reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of eight to ten years, and invited the Bank to administer three International Decommissioning Support Funds (IDSFs). On 12 June 2000, the Bank's Board of Directors approved the Rules of the Ignalina, Kozloduy and Bohunice IDSFs and the role of the Bank as their Administrator. The Funds will finance selective projects which will support the first phase of decommissioning of the designated reactors as well as finance measures for facilitating the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency which are consequential to the closure decisions. At 31 December 2002, 16 contributors had made pledges to the Ignalina IDSF up to a total amount of €147.5 million, 10 contributors had made pledges to the Kozloduy IDSF up to a total amount of €97.9 million and seven contributors had made pledges to the Bohunice IDSF up to a total amount of €117.9 million, using the fixed exchange rates defined in the Rules of Funds.

In 2001, the Nordic Investment Bank hosted a meeting with participants from Belgium, Finland, Sweden, the European Commission and international financial institutions with activities in the Northern Dimension Area (NDA) at which it was agreed to establish the Northern Dimension Environmental Partnership to strengthen and co-ordinate financing of important environmental projects with cross-border effects in the NDA. On 11 December 2001, the Bank's Board of Directors approved the Rules of the Northern Dimension Environmental Partnership Support Fund and the role of the Bank as Fund Manager. At 31 December 2002, six contributors had made pledges up to a total of €100.0 million.

Audit fees payable to the Bank's auditors in respect of the 2002 audits of the technical cooperation and nuclear safety funds totalled €191,000 (2001: €176,500). Services as auditors have been recorded on an accruals basis. In addition, during 2002 the Bank's auditors, on a global basis, earned €0.7 million (2001: €1.9 million) in respect of due diligence and general business consultancy services funded by the technical cooperation funds. This represents approximately 1.0 per cent of the 2002 (2001: 2.3 per cent) total spend by the technical cooperation funds on services from consultancy providers in support of the Bank's investments in the countries of operations. These consultancy contracts are awarded in accordance with the Bank's standard procurement rules. Payments to the auditors for consulting and advisory services during the period of audit appointment are recorded on a cash basis and reflect payments to Arthur Andersen in 2001 and for the period from 1 January 2002 to 31 July 2002 and to Deloitte & Touche for the period from 1 August 2002 to 31 December 2002. Deloitte & Touche entered into an agreement with Arthur Andersen under which partners and staff of Arthur Andersen joined Deloitte & Touche as of 1 August 2002. The Bank appointed Deloitte & Touche as auditors in succession to Arthur Andersen with effect from that date.

25. Post balance sheet events

There have been no material post-balance sheet events that would require disclosure or adjustment to these financial statements. On 18 March 2003, the Board of Directors reviewed the financial statements and authorised them for issue. These financial statements will be submitted for approval to the Annual Meeting of Governors to be held on 5 May 2003.

Summary of Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered, *inter alia*, under the terms of Rules and Regulations approved by the Board of Directors of the Bank. At 31 December 2002, the Bank administered 11 Special Funds: eight Investment Special Funds and three Technical Cooperation Special Funds. In addition, the activities of one Investment Special Fund were completed during the year and the Fund was terminated. Extracts from the financial statements of the Special Funds are summarised in the following tables, together with a summary of contributions pledged by Donor country. Financial statements for each Special Fund have been separately audited. The audited financial statements are available on application to the Bank. Audit fees payable to the Bank's auditors relating to the 2002 audit of the Special Funds totalled €74,500 (2001: €61,000). Deloitte & Touche entered into an agreement with Arthur Andersen under which partners and staff of Arthur Andersen joined Deloitte & Touche as of 1 August 2002. The Bank appointed Deloitte & Touche as auditors in succession to Arthur Andersen with effect from that date.

The objectives of the Special Funds are as follows:

The Baltic Investment Special Fund and The Baltic Technical Assistance Special Fund:
To promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania.

The Russia Small Business Investment Special Fund and The Russia Small Business Technical Cooperation Special Fund:
To assist the development of small businesses in the private sector in the Russian Federation.

The Moldova Micro Business Investment Special Fund:
To assist the development of micro businesses through support for small and medium-sized enterprises in the Republic of Moldova. The Fund was terminated in 2002 following the successful completion of the activities.

The Financial Intermediary Investment Special Fund:
To support financial intermediaries in the countries of operations of the Bank.

The Italian Investment Special Fund:
To assist the modernisation, restructuring, expansion and development of small and medium-sized enterprises in certain countries of operations of the Bank.

The SME Finance Facility Special Fund:
To alleviate the financing problems of small and medium-sized enterprises in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

The Balkan Region Special Fund:
To assist the reconstruction of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FR Yugoslavia, FYR Macedonia and Romania.

The EBRD Technical Cooperation Special Fund:
To serve as a facility for financing technical cooperation projects in countries of operations of the Bank.

The EBRD SME Special Fund:
To assist the development of small and medium-sized enterprises in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FR Yugoslavia, FYR Macedonia and Romania.

The Central Asia Risk Sharing Special Fund:
To provide a risk-sharing facility for SME credit lines, micro finance programmes, the Direct Investment Facility and the Trade Facilitation Programme in the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

Investment Special Funds

Extract from the profit and loss account for the year ended 31 December 2002	The Baltic Investment Special Fund € 000	The Russia Small Business Investment Special Fund € 000	The Financial Intermediary Investment Special Fund € 000	The Italian Investment Special Fund € 000	The SME Finance Facility Special Fund € 000	The Balkan Region Special Fund € 000	The EBRD SME Special Fund € 000	The Central Asia Risk Sharing Special Fund € 000	Aggregated Investment Special Funds € 000
Operating profit/(loss) before provisions	259	(5,374)	(1,067)	(779)	(16,140)	(1,170)	(10,049)	(267)	(34,587)
(Charge)/release for provisions for losses	(555)	5,485	(396)	(237)	(180)	–	(646)	–	3,471
(Loss)/profit for the year	**(296)**	**111**	**(1,463)**	**(1,016)**	**(16,320)**	**(1,170)**	**(10,695)**	**(267)**	**(31,116)**
Extract from the balance sheet at 31 December 2002									
Loans	8,415	26,512	3,869	2,804	–	–	2,119	–	43,719
Provisions for losses	(203)	(1,694)	(507)	(363)	–	–	(247)	–	(3,014)
	8,212	24,818	3,362	2,441	–	–	1,872	–	40,705
Share investments	7,894	3,058	2,452	2,729	1,906	–	–	–	18,039
Provisions for losses	(2,932)	(1,529)	(578)	(885)	(333)	–	–	–	(6,257)
	4,962	1,529	1,874	1,844	1,573	–	–	–	11,782
Placements and other assets	26,499	21,546	4,853	10,730	4,581	13,286	17,891	6,911	106,297
Contributions not yet received	–	–	3,817	–	86,000	–	1,880	689	92,386
Total assets	**39,673**	**47,893**	**13,906**	**15,015**	**92,154**	**13,286**	**21,643**	**7,600**	**251,170**
Other liabilities and provisions for losses	7	6,936	16	6	4,282	1,275	2,634	128	15,284
Contributions	41,500	59,351	14,015	13,435	110,000	13,152	32,336	7,739	291,528
Reserves and (loss)/profit for the year	(1,834)	(18,394)	(125)	1,574	(22,128)	(1,141)	(13,327)	(267)	(55,642)
Total liabilities and contributors' resources	**39,673**	**47,893**	**13,906**	**15,015**	**92,154**	**13,286**	**21,643**	**7,600**	**251,170**
Undrawn commitments and guarantees	9,685	76,973	947	840	33,015	17,653	11,761	14,735	165,609

Technical Cooperation Special Funds

Extract from the statement of movement in fund balance and balance sheet for the year ended 31 December 2002	The Baltic Technical Assistance Special Fund € 000	The Russia Small Business Technical Cooperation Special Fund € 000	The EBRD Technical Cooperation Special Fund € 000	Aggregated Technical Cooperation Special Funds € 000
Balance of fund brought forward	4,790	9,554	87	14,431
Contributions received	1,400	2,980	182	4,562
Interest and other income	106	3,911	5	4,022
Disbursements	(2,241)	(2,390)	(79)	(4,710)
Other operating expenses	(77)	(2,045)	(5)	(2,127)
Balance of fund available	**3,978**	**12,010**	**190**	**16,178**
Cumulative commitments approved	23,474	65,608	1,056	90,138
Cumulative disbursements	(20,263)	(61,065)	(873)	(82,201)
Allocated fund balance	3,211	4,543	183	7,937
Unallocated fund balance	767	7,467	7	8,241
Balance of fund available	**3,978**	**12,010**	**190**	**16,178**

Special Fund contributions pledged by donor country

	The Baltic Investment Special Fund € 000	The Russia Small Business Investment Special Fund € 000	The Financial Intermediary Investment Special Fund € 000	The Italian Investment Special Fund € 000	The SME Finance Facility Special Fund € 000	The Balkan Region Special Fund € 000	The EBRD SME Special Fund € 000	The Central Asia Risk Sharing Special Fund € 000	The Baltic Technical Assistance Special Fund € 000	The Russia Small Business Technical Cooperation Special Fund € 000	The EBRD Technical Cooperation Special Fund € 000	Aggregated Special Funds € 000
Austria	–	–	–	–	–	276	–	–	–	–	–	276
Canada	–	2,707	–	–	–	1,472	–	–	–	4,309	–	8,488
Denmark	8,940	–	–	–	–	750	–	–	1,450	–	–	11,140
European Community	–	–	–	–	110,000	–	–	–	–	–	–	110,000
Finland	8,629	–	–	–	–	–	–	–	1,411	–	–	10,040
France	–	7,686	–	–	–	–	–	–	–	4,980	–	12,666
Germany	–	9,843	–	–	–	2,250	–	2,389	–	3,025	–	17,507
Iceland	427	–	–	–	–	–	–	–	69	–	–	496
Italy	–	8,401	–	13,435	–	–	–	–	–	1,360	–	23,196
Japan	–	21,162	–	–	–	–	–	–	–	3,295	–	24,457
Netherlands	–	–	–	–	–	1,546	–	–	–	–	–	1,546
Norway	7,732	–	–	–	–	1,145	–	–	1,256	–	–	10,133
Sweden	15,772	–	–	–	–	–	–	–	2,564	–	–	18,336
Switzerland	–	2,360	–	–	–	4,218	–	5,350	–	1,244	–	13,172
Taipei China	–	–	12,278	–	–	1,495	–	–	–	–	–	13,773
United Kingdom	–	–	–	–	–	–	–	–	–	12,824	247	13,071
United States of America	–	7,192	1,737	–	–	–	32,336	–	–	27,657	–	68,922
Total at 31 December 2002	**41,500**	**59,351**	**14,015**	**13,435**	**110,000**	**13,152**	**32,336**	**7,739**	**6,750**	**58,694**	**247**	**357,219**

Independent auditors' report to the Governors of the European Bank for Reconstruction and Development

We have audited the financial statements of the European Bank for Reconstruction and Development for the year ended 31 December 2002 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Members' Equity and the related Notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein, for the purpose of submitting approved and audited financial statements to the Board of Governors as required by Article 27 of the Agreement Establishing the Bank and Section 13 of the By-Laws.

This report is made solely to the Bank's Board of Governors, as a body, in accordance with Article 24 of the Agreement Establishing the Bank. Our audit work has been undertaken so that we might state to the Bank's Board of Governors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and its Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of management and auditors

Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and the overall principles of the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions. Our responsibility is to audit the financial statements in accordance with International Standards on Auditing.

We report to you our opinion as to whether the financial statements are presented fairly in all material respects.

We read the other information contained in the Financial Report section of the Annual Report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information unless we specifically indicate in writing otherwise.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the financial statements and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in all material respects, the state of the Bank's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
London

18 March 2003

European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom

Switchboard / central contact
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
Telex: 8812161 EBRD L G
SWIFT: EBRDGB2L

Web site
www.ebrd.com

Requests for publications
Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
E-mail: pubsdesk@ebrd.com

General enquiries about the EBRD
Tel: +44 20 7338 6372
E-mail: generalenquiries@ebrd.com

New project proposals
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
E-mail: newbusiness@ebrd.com

Project enquiries (existing projects)
Tel: +44 20 7338 6282
Fax: +44 20 7338 6102
E-mail: projectenquiries@ebrd.com