Annual report 2003

Annual review

European Bank
for Reconstruction and Development

Driving forward

The European Bank for Reconstruction and Development invests in the businesses and banks that form the core of strong market economies in 27 countries from central Europe to central Asia. Our capital is provided by 60 governments and two international institutions.

The EBRD invests in virtually every kind of enterprise and financial institution, mainly in the form of loans and equity. Investments are designed to advance the transition to market economies and to set the highest standards of corporate governance. We do not finance projects that can be funded on equivalent terms by the private sector. In support of our investment activities, the EBRD conducts policy dialogue with governments to develop the rule of law and democracy.

Transmittal letter to Governors

London, 2 March 2004

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 2003 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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Annual report 2003

Annual review

Contents

The EBRD's Annual Report 2003 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:

Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
E-mail: pubsdesk@ebrd.com

2003 in numbers

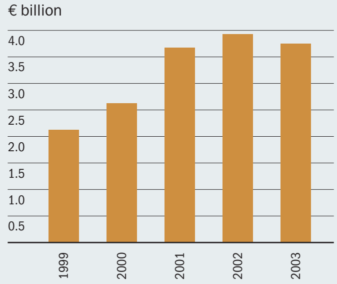
€3.7 billion

committed to a record number of projects across the region.

119 projects

signed in 2003, bringing the cumulative total of EBRD projects to over 1,000.

Annual commitments 1999-2003[1]



[1] The year-end value of annual commitments was deflated by the depreciation of the dollar-to-euro exchange rate by some 20 per cent over the year.

Geographic distribution:

€1.10 billion

committed to Russia.

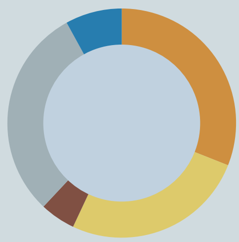
€1.17 billion

to advanced transition countries (central Europe and the Baltic states).

€1.45 billion

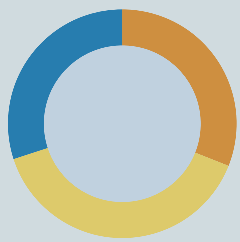
to early and intermediate transition countries (Central Asia, southern and eastern Europe, and the Caucasus).

Commitments by region 2003



- Central Europe and the Baltic states 31%
- South-eastern Europe 26%
- Eastern Europe and the Caucasus 5%
- Russia 30%
- Central Asia 8%

Commitments by stage of transition 2003



- Advanced countries 31%
- Early/intermediate countries 39%
- Russia 30%

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

Early/intermediate:
Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Romania, Serbia and Montenegro, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

Sectoral focus:

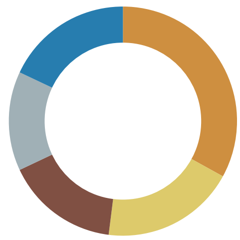
One-third

of business volume devoted to financial institutions to support local enterprises.

Two-thirds

of investment devoted to infrastructure, energy, manufacturing and other sectors, such as agribusiness, property/tourism and telecoms.

EBRD financing committed by sector 2003

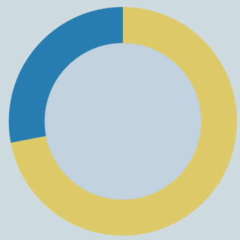


- Financial institutions 33%
- Infrastructure (municipal infrastructure and transport) 19%
- Energy 16%
- Manufacturing 14%
- Other sectors (agribusiness, property/tourism and telecommunications) 18%

72 per cent

of EBRD projects are in the private sector.

Percentage of private and state sector investment 1991-2003

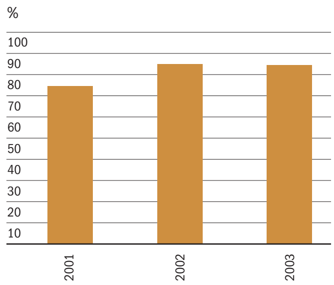


- Private 72%
- State 28%

83 per cent

of the EBRD's investments in 2003 were rated as having a "good" or "excellent" impact on the transition process.

Transition impact of signed projects 2001-03

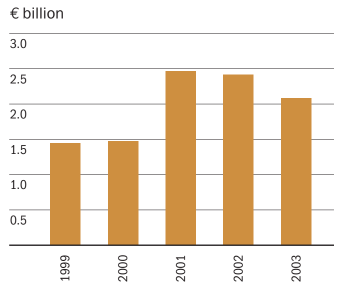


- Projects rated, at the time of signing, as having a "good" or "excellent" impact on the transition process.

€2.10 billion

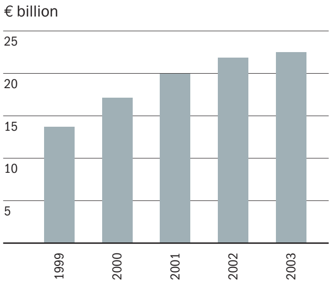
disbursed in 2003.

Gross annual disbursements 1999-2003[1]

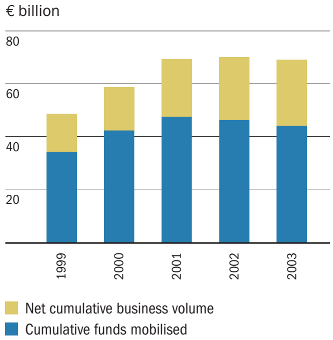


[1] In 2003 disbursements were lower than in 2002 because of a higher proportion of guarantees in the Bank's business volume. The total was also affected by the depreciation of the dollar-to-euro exchange rate over the year.

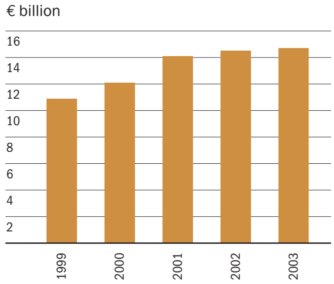
Cumulative business volume 1999-2003



Cumulative funds mobilised 1999-2003



EBRD portfolio 1999-2003



€22.7 billion

cumulative business volume – this has mobilised an additional €45.8 billion.

€378.2 million

profits after provisions.

Annual commitments 1999-2003

	2003	2002	2001	2000	1999	Cumulative 1991-2003
Number of projects	119	102	102	95	88	1,017
EBRD financing (€ million)	3,721	3,899	3,656	2,673	2,162	22,668
Resources mobilised (€ million)	5,307	4,862	6,212	5,188	4,862	45,822

Financial results 1999-2003

(€ million)	2003	2002	2001	2000	1999
Operating income[1]	557.9	471.8	501.5	519.2	376.4
Expenses and depreciation[1]	(158.0)	(177.1)	(206.7)	(192.1)	(172.8)
Operating profit before provisions	399.9	294.7	294.7	327.1	203.6
Provisions for impairment	(21.7)	(186.6)	(137.6)	(174.3)	(160.9)
Net profit for the year	378.2	108.1	157.2	152.8	42.7
Paid-in capital	5,197	5,197	5,197	5,186	5,163
Capital instalments received (cumulative)	4,626	4,350	4,063	3,769	3,480
Total provisions and reserves	2,159	1,952	1,713	1,278	1,040
Total assets	22,045	20,112	20,947	21,290	19,595

[1] During the year the EBRD deferred €45.2 million (2002: €45.2 million) of direct costs related to loan origination and commitment maintenance on the balance sheet in accordance with the 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 €603.1 million (2002: €517.0 million) for the year and expenses and depreciation amounted to €203.2 million (2002: €222.3 million).

New projects in 2003

Financial institutions

Through loans, guarantees and equity investments, the EBRD boosted the financial sector in 2003 to help it better serve the needs of local enterprises. Financial institutions represented **33 per cent** of our entire business for the year.

Bank debt

Loans to banks for on-lending to local enterprises continued to expand, reaching a total of **€333 million** in 2003. This included increased financing for small business in the EU accession countries and a new programme to provide financing to local municipalities through the financial sector. We also increased the annual number of transactions provided under the EBRD's Trade Facilitation Programme to 939, totalling **€319 million**.

Equity

The EBRD signed ten bank equity transactions in 2003, ranging from a €0.1 million capital increase to a €88 million pre-privatisation investment. New commitments totalling **€135 million** were invested in the early/intermediate transition countries and Russia. The Bank continued to be a leading investor in private equity funds, which provide equity finance to local enterprises. We invested some **€55 million** in central Europe in 2003 and provided **€13 million** of investment under the EBRD-managed Regional Venture Fund Programme in the early/intermediate transition countries and Russia.

Other finance

The financing of micro and small enterprises (MSEs) through local banks continued to grow in 2003 (see page 19). New commitments in the form of equity investments and loans to local banks totalled **€83 million**. The MSE programme was extended to four new countries, bringing the total number of countries covered by the programme to 18. We substantially expanded our financing of insurance companies, leasing companies and specialist mortgage lending institutions. New business totalled **€295 million**, mostly in the advanced transition countries.

Infrastructure

Municipal infrastructure and transport projects were undertaken across the region in 2003, representing **19 per cent** of the EBRD's investments.

Municipal and environmental infrastructure

Projects to improve the region's water and waste-water systems formed a large part of EBRD investment in the municipal infrastructure sector in 2003. We also made investments to improve the road network in city centres and to upgrade district heating. Projects signed during the year totalled **€188 million** and generated significant commercial bank funding. Around half of these were in the EU accession countries, reflecting the continuing demand for EBRD investment in these areas. We also continued to invest in Romania and Russia. New initiatives included industrial waste-water treatment in Hungary and a joint venture with the UK-based water operator United Utilities (see page 27).

Transport

New projects in 2003 ranged from a €2 million loan to upgrade Tashkent Airport in Uzbekistan to a €230 million loan to finance major road construction in Russia. The total value of projects signed by the Bank during the year was **€512 million**. As in previous years, there was a strong state focus, with sovereign loans accounting for 70 per cent of the total. This reflects continuing state dominance in the transport sector. However, lending to state-owned entities without a sovereign guarantee and private sector projects are expected to account for an increasing proportion of the EBRD's transport portfolio in the future.

Energy

Oil and power projects dominated EBRD energy investments in 2003. Increasing focus was also placed on energy efficiency and environmental standards in the sector. Energy projects represented **16 per cent** of the Bank's total commitments for the year.

Natural resources

Development of the Russian oil sector remained an important area for the EBRD in 2003. The Bank provided a €59 million loan to Transnefteproduct, the state-owned manager of Russia's refined oil pipelines, to upgrade the network, increase capacity and improve spill prevention. We also invested in Lukoil-Perm to improve environmental practices and operational efficiency. A landmark project to improve environmental standards in central Europe was signed during the year. The EBRD provided €150 million to Hungary's national oil and gas company, MOL, to finance desulphurisation and to meet EU accession standards. In Bulgaria we signed our first oil retail loan to fund the building of petrol stations. Total EBRD investment in 2003 amounted to **€238 million**.

Power and energy

Despite difficulties in the global power market, the EBRD achieved a record level of investment in 2003. The Bank signed five projects totalling more than **€313 million**. These included our first private sector investment in Bulgaria's power sector and our first cross-border project – between FYR Macedonia and Bulgaria. We also financed electricity distribution, coal production and generation expansion. Three of the projects involved partnerships with new strategic investors. In addition, we undertook a series of discussions on policy issues. These included working with the EU on a regional energy market for south-eastern Europe and liaising with the Russian Government on the restructuring of the country's power sector.

Energy efficiency

One of Europe's first carbon trading funds was established by the EBRD and the Dutch Government in 2003 to reduce greenhouse gas emissions (see page 22). All EBRD projects are now examined for energy-saving opportunities through an initiative supported by grants from the Dutch, Greek and Italian governments. New projects with energy efficiency components amounted to **€36 million** in 2003, including a potash investment in Russia and a railway modernisation project in Romania.



Other sectors

Agribusiness, property and tourism, and telecommunications projects represented **18 per cent** of the EBRD's total commitments in 2003. Investments in manufacturing totalled **14 per cent** of the Bank's business volume for the year.

Agribusiness

A high level of commitments was achieved in the agribusiness sector in 2003, with total EBRD financing of **€324 million**. In particular, the Bank signed projects in some of the poorest countries of the region. Nestlé in Uzbekistan, WJ Group in Moldova and Groupe Castel in the Caucasus are all expected to boost these countries' economies. In the food retail sector new projects were signed to develop Cora hypermarkets in Hungary (see page 28) and to build Billa supermarkets in Bulgaria, Romania and Ukraine. We also assisted Bonduelle, the world's leading producer of processed vegetables, with its expansion into Russia.

Property and tourism

Hotels, residential property and office developments all benefited from EBRD financing in 2003. A total of eight projects worth **€159 million** were signed, covering 11 countries. One of the biggest beneficiaries was the leisure sector. A loan of €41 million to the German tourism group TUI will be used to refurbish holiday hotels and clubs in five countries across central and south-eastern Europe (see page 35). The Bank signed its first office development projects in Azerbaijan and Serbia and Montenegro. We also used an innovative form of "mezzanine" financing for a new residential development in Poland. In 2004 the trend towards a larger geographical reach is expected to continue.

Telecommunications, information technology and media

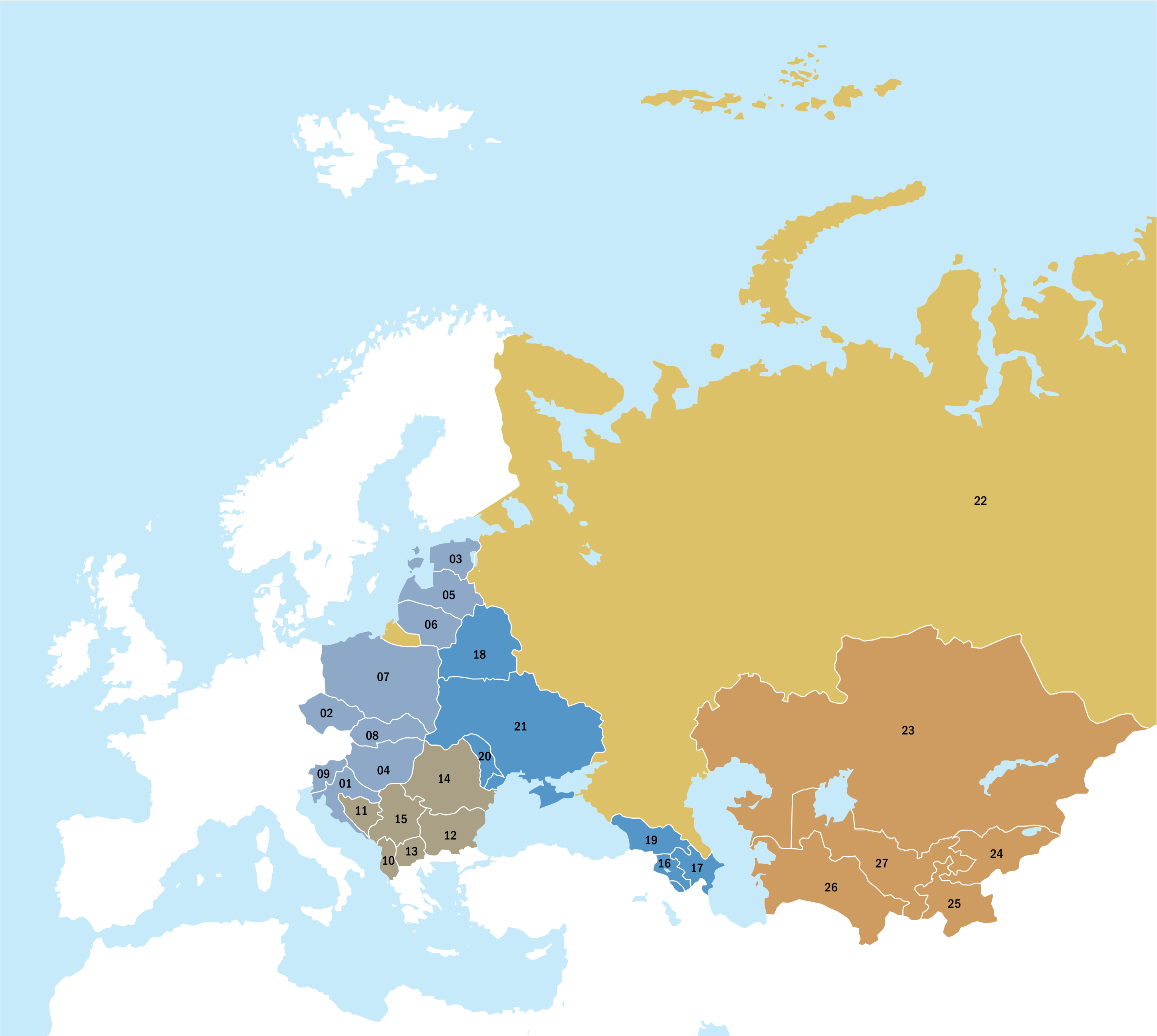
In 2003 the EBRD expanded into new areas such as cable TV and broadband services (Aster City in Poland and Astral Telecom in Romania), electronic billboards (News Outdoor in Russia) and data transmission using innovative laser technology (Laserbit in Hungary). At the same time we increased our core business in mobile telecommunications (Vodafone in Albania and NTC in Russia). In addition to our own financing of **€202 million**, projects signed during the year attracted a further €900 million from commercial banks and other sources. This included our first syndicated loan to the Kazakh telecoms sector (see page 60). We also participated in a number of events aimed at addressing regulatory and investment issues.

Manufacturing

In 2003 the EBRD invested **€516 million** in 27 manufacturing projects, spanning 10 countries and covering a broad range of sectors. The majority of the projects were signed in Russia, including a fibreboard production facility (Kronospan), a float glass plant (Pilkington) and an aircraft manufacturing facility (Sirocco Aerospace, see page 51). Other notable signings included the establishment of a joint venture between the world's largest steel producer and a Russian steelmaker (Severstal-Arcelor), the regional expansion of a Croatian cement producer (Nasicecement) and the construction of Romania's first brick factory (Wienerberger).

Where we operate

As of 31 December 2003



Central Europe and the Baltic states

01 Croatia
02 Czech Republic
03 Estonia
04 Hungary
05 Latvia
06 Lithuania
07 Poland
08 Slovak Republic
09 Slovenia

(see page 24)

South-eastern Europe

10 Albania
11 Bosnia and Herzegovina
12 Bulgaria
13 FYR Macedonia
14 Romania
15 Serbia and Montenegro

(see page 32)

Eastern Europe and the Caucasus

16 Armenia
17 Azerbaijan
18 Belarus
19 Georgia
20 Moldova
21 Ukraine

(see page 40)

Russia

22 (see page 48)

Central Asia

23 Kazakhstan
24 Kyrgyz Republic
25 Tajikistan
26 Turkmenistan
27 Uzbekistan

(see page 56)

President’s message

As the countries of the EBRD region move further along the road of transition, the Bank itself is in transition. The results of 2003 are a vivid illustration of the road taken, and provide signposts to the future.

Economic growth in the countries of the region underpinned the Bank’s most active programme of investment ever. We have never done so many new projects – 119 – right across the 27 countries from central Europe to Russia and central Asia. They were projects that were chosen for their potential to propel transition to market economies. Business volume of €3.7 billion and profits of €378 million are an indication of sound investments and strong returns on projects designed to attract private investors into the region.

Next year will certainly be different. The Bank will use its successful results of 2003 to continue to follow new directions. Strong profits will be ploughed back into investments that are perhaps more risky but carry proportionately higher rewards to the people of the region. The emphasis will continue to shift to helping the least advanced countries that have the least ability and the most need to attract investment. In the poorest countries, in the Balkans, Caucasus and Central Asia, there will be new programmes for small-scale investment to encourage entrepreneurs and traders who are at the heart of a market economy. The structure of transactions will be adapted to suit the difficult business climates. Credibility and a record of profitable investment accumulated in 2003 make it feasible for the Bank to move in this direction.

In the eight EBRD countries embarking on membership of the European Union in 2004, the Bank's investment will continue in forms that are adapted to the particular needs of a group of countries that have made dramatic progress by developing their markets and democratic processes in tandem. Yet they are still very much in transition to full market economies. The Bank will focus on bolstering middle-sized businesses and developing the banking sector as well as offering help for municipalities to provide better public services, such as transportation, water and heating, on a sustainable basis.

In countries such as Russia, the EBRD will focus on the disparities between the biggest cities and the hinterland by increasing its investments in smaller towns and rural areas. Projects to support agribusiness, restructure municipal services and finance small business could most help these non-urban areas as well as build infrastructure.

This roadmap for 2004 will be drawn by the lessons of 2003. This past year was characterised by smaller projects, especially in smaller countries, as well as the development of some enormous projects, such as the Baku-Tbilisi-Ceyhan pipeline. In both large and small transactions, the Bank honed its ability to work with local people to adapt to local needs. On the BTC project, the EBRD held public hearings so that people in Georgia and Azerbaijan could ask questions, get explanations and suggest better solutions. Added to the many meetings and other interactions the Bank held with non-governmental organisations in London and elsewhere, this project set new standards for the Bank in listening to people affected by its investments.

Indeed, in 2003 the Bank drew up a formal mechanism for any local community affected by an EBRD project to register concerns. The new Independent Recourse Mechanism, which takes effect in 2004, provides a transparent way to ensure that projects comply with relevant standards and procedures and improves the Bank's accountability.

In 2003 we also held multi-city hearings to update the Environmental Policy, a cornerstone of the operations of the Bank. And the Public Information Policy was improved to make the Bank's key policies and strategies more accessible by translating them into the local languages of the countries of operations.

The EBRD's commitment to listen to all its constituencies was reaffirmed too in the context of the Annual Meeting in Uzbekistan in 2003. This was an occasion for vibrant dialogue, centred on the unique mandate of the Bank to promote democracy as well as market principles. It was a rare occasion for us to meet together with the presidents of Central Asian countries to discuss regional issues.

As 2003 proved, listening is a fundamental part of doing business, and not least, listening to clients. This is all the more important within an emerging trend for more enterprises in the region to invest at home, in their own or neighbouring countries. The EBRD realigned its staffing policy to locate more bankers in the region. Taking the expertise gained at Headquarters to work close to clients, they are in the best position to judge the opportunities and needs of these countries.

The Bank's investment strategy is based on the professional judgement of bankers in the region and those in London as well as on the policy dialogue that my senior colleagues and I conduct continuously with political and business leaders in the countries of the EBRD. What I hear from presidents of countries and small businesses alike, from every country of the region, is the prediction that the road ahead may be bumpy but the road of transition is the right one to follow.

Jean Lemierre
President

01 Driving forward

The EBRD was active and achieved much in the past year but the Bank's activity must also be seen as a reflection of a region that is fast moving forward.

The EBRD region outperformed the rest of the world for the third straight year and the economies of all 27 countries from central Europe to central Asia grew. Eight transition countries forged ahead to complete long preparations for membership of the European Union (EU) in 2004. EU enlargement is a milestone, both economically and politically. It shows that these countries have made substantial progress on the road to becoming effective and well-functioning market economies and marks another stage in the process of deeper integration into the EU's single market.

Russia strode towards greater economic strength and integration with the world economy in 2003. Elsewhere, evolving political developments included an encouraging resurgence of democratic processes in Georgia. New economic reforms were introduced to improve the investment climate in a number of countries, and there were some new instances of countries joining together in cross-border investments.

The EBRD worked apace. In 2003 the Bank signed more transactions than ever before, identifying strong projects in every country and virtually every sector. But in moving forward, the Bank also paused to listen to people, to determine how the needs have evolved and how priorities should be shifted. Equally important, as the Bank moved forward, it introduced new ideas and innovative products that are designed to help us achieve the purpose of the EBRD: helping countries to make the most effective transition to full democracy-based market economies.

The EBRD's roadmap

Buoyed by the strong performance of the region, the EBRD invested €3.7 billion in 2003, fully meeting the target for the year. We undertook a record number of projects, many on a smaller scale than previously. In total, we financed 119 projects, compared with 102 the previous year.

In 2003 more than 80 per cent of the investments the Bank undertook were rated as having a "good" or "excellent" impact on the transition process. There were projects signed during the year in all 27 countries where we operate, and in proportions that were in line with targets.

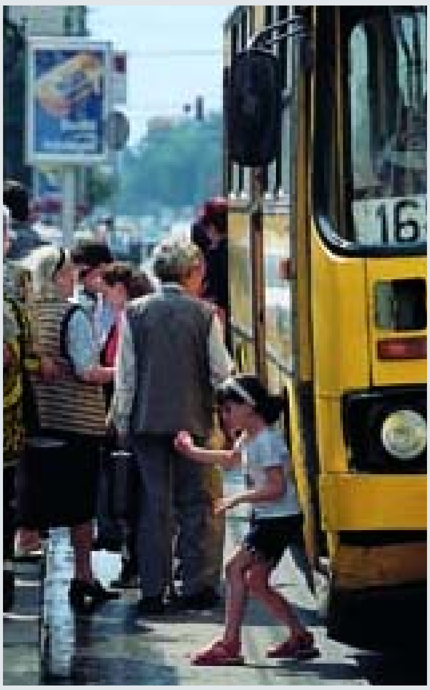
In the advanced countries of central Europe and the Baltic states, there is a continuing need to complement market sources of financing as the process of transition continues. In 2003 a 31 per cent share of EBRD business volume was in these countries. This proportion will decline gradually in coming years but will remain significant to meet the need for continued investment following EU accession.

The countries at the earlier stages of transition – Central Asia, southern and eastern Europe and the Caucasus – received 39 per cent of financing in 2003. This part of the region, which includes some of the poorest countries that are most in need of EBRD investment, will be an increasingly important focus for the Bank. The volume of EBRD investment in these countries is expected to expand over the next few years as we increase the share of our activities in this region.

Russia received 30 per cent of EBRD investment in 2003. Building on Russia's solid growth and sound economic policies, the EBRD invested in projects in both the public and private sectors. These ranged from small business initiatives to major projects in the oil and gas sector.

In future years, our share of activities in Russia is likely to expand as we respond to the huge investment need in this country.

The depreciation of the dollar-to-euro exchange rate by some 20 per cent over the year deflated the year-end value of business volume and disbursements. The exchange rate also slightly distorted the regional distribution of investment because deals in Russia and early transition countries were transacted in (weaker) dollars, while central European transactions were in (stronger) euros. Disbursements in 2003 reached €2.1 billion, slightly lower than in 2002 because of the exchange rate depreciation and the higher proportion of guarantees in the Bank's business volume. The stock of EBRD impaired assets was at the lowest year-end level since 1997, decreasing from €619 million at end-2002 to €492 million at the end of 2003.



Investing in projects from small to large

In Lithuania we invested €7 million in 2003 to improve traffic management and boost business in Vilnius, a major engine of the country's economy. The project supports other municipal developments under way in the city and is expected to lead to further investments by the EBRD and other financial institutions in the city's infrastructure.

At the other end of the spectrum, the EBRD provided a €88 million loan to Banca Comerciala Romana, the largest bank in Romania, to support its eventual privatisation and to boost the country's prospects for EU accession.

The impact of the EBRD's own financing was amplified by the Bank's most successful ever effort to attract commercial institutions to **co-finance deals**. Commercial institutions invested some €2.7 billion alongside the EBRD, exceeding by 30 per cent the previous record achieved in 2001. Syndicated financing was extended to projects in 15 countries, with the highest volume in Hungary (€1.1 billion), followed by Russia (€397 million), Bulgaria (€346 million) and Poland (€310 million). Only two of the co-financed projects in Russia were in the lucrative oil sector, showing the commitment of the EBRD to support a diverse industrial base and the willingness of co-financing partners to support these activities. Across the region, co-investment was attracted to a wide range of new activities, from the steel sector, potash production and warehouse logistics to the electricity sector.

Listening is the key

A permanent part of the Bank's work is to listen to what people have to say about our projects, to constantly review priorities and – guided by shareholders and within rigorous institutional processes, such as the Medium-term Strategy Update – to recalibrate and, if necessary, shift focus.

This constant analysis happens in many ways: by assessing where the greatest needs are and the potential impact in the region; by meeting and listening to local populations; and by honing the Bank's own tools for communication with its many constituencies. This was a year when all those elements came strongly into play.

While there was progress and growth across the region, some countries clearly faced particular difficulties. In the most advanced countries, investment strategies will be geared to key challenges, such as

Attracting commercial lenders

The EBRD's investment in Severstal-Arcelor is a good example of how we are able to attract commercial lenders to groundbreaking projects in a challenging sector. This project was the first major joint venture in the Russian steel sector between a leading local producer and the largest Western steel manufacturer. The seven-year €90 million loan will finance the construction of a production line for steel aimed primarily at the domestic car industry. By syndicating €32 million to a group of commercial lenders from western Europe and Canada, the EBRD was able to introduce a new source of financing and increase the impact of our own loan.

In central Europe the EBRD provides added value by working alongside commercial banks in areas where we have particular expertise, such as environmental activities and industrial restructuring. One such example was our participation in a €750 million investment in MOL, the Hungarian oil and gas company. An EBRD loan of €150 million aimed at improving the company's environmental performance was provided alongside a €600 million loan that MOL raised from a syndicate of commercial banks.

restructuring large corporations and supporting the expansion of local companies that will form the backbone of the new economy within the European Union. The Medium-term Strategy Update also prescribes relatively more attention to Russia and countries further east that lag behind central Europe and that need more help in the future to accelerate their transition to full market economies.

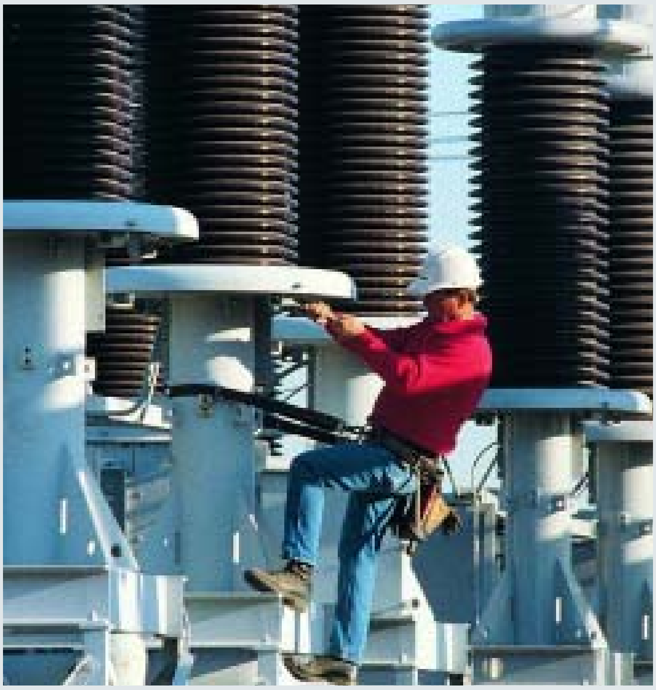
In 2003 the EBRD continued to support the core areas of the economy across the 27 countries where we operate. We also paid particular attention to the needs of some of the **poorest countries**. A grouping consisting of Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan became the subject of an initiative to address the poverty and obstacles to investment in these countries. In 2003 the EBRD commissioned a study to identify ways that the Bank could provide special help beyond the traditional investment programme. During 2004 we will move to implementing new tools and programmes designed especially for the most challenging investment environments, focusing on areas such as regional cooperation and public sector reform.

One of the tools already in use is the **TurnAround Management Programme**, which brings successful business leaders from around the world to some of the neediest countries to help struggling companies transform their working practices. Funded entirely by donors, the programme helps to develop local economies and to prepare the way for future EBRD investment.

A fundamental aspect of EBRD investment is our insistence on respect for **democratic principles**. Part of every Country Strategy is an assessment of commitment to, and application of, the principles of multi-party democracy, pluralism and market economics enshrined in Article 1 of the EBRD charter. In Belarus and Turkmenistan the EBRD continued a policy of limited investment, restricted to private sector projects that encourage the reform process, because of serious concerns about the application of Article 1.

In March 2003 the Bank adopted a new strategy for Uzbekistan that links the Bank's engagement in the country to verifiable improvements in the political and economic spheres. The strategy sets out seven benchmarks, indicating where Uzbekistan needs to take a number of critical steps to place it on a path of sustained progress towards multi-party democracy and a market economy. This includes respect for human rights in light of the findings of the Rapporteur for the UN High Commissioner for Human Rights, who reported evidence of "systematic" torture in the country.

Following the adoption of the strategy, progress on the seven benchmarks was reviewed during the EBRD's Annual Meeting in Tashkent in May 2003 and at two follow-up staff monitoring missions, headed by the Bank's Secretary General



Investing across borders

One element of support to smaller countries is helping them to combine strength through cross-border investments. In 2003 we financed our first cross-border loan in the power sector. A €40 million investment in Elektrostopanstvo na Makedonija (ESM), the state-owned power utility in FYR Macedonia, will help to build a 150 km transmission line that will cross into neighbouring Bulgaria, benefiting both countries. The project is also expected to fuel the creation of a regional electricity market in south-eastern Europe.

in July and November. This was followed by a visit by a delegation of the Bank's Board of Directors in February 2004 in preparation for a review of the Bank's strategy for Uzbekistan in 2004. The EBRD will also consider assessments by other international and non-governmental organisations (NGOs).

In December the Board of Directors decided to initiate the process to enable **Mongolia** to become one of the EBRD's countries of operations. Since Mongolia previously came under the sphere of influence of the former Soviet Union and currently faces similar difficulties to many of the countries where the Bank operates, the EBRD believes that we may have a role to play in promoting the transition to a market economy in this country. In January 2004 the Bank's Board of Directors and Board of Governors expressed unanimous support to admit Mongolia as a recipient country. To do so, an amendment of the Agreement Establishing the Bank is required as Mongolia is located outside the territory for EBRD activities originally specified by the Agreement.

One prominent project reviewed by the EBRD in 2003 was the **Baku-Tbilisi-Ceyhan** (BTC) oil pipeline, which broke new ground for the Bank in designing a project to respect the concerns of the people. There were many meetings and exchanges of correspondence with NGOs as well as the sponsor, business and government authorities and other stakeholders.

Before the project was considered by the EBRD's Board of Directors in November 2003, the Bank worked with the International Finance Corporation to hold six public meetings in Azerbaijan, Georgia and Turkey. Some 800 local people came to express their concerns about land compensation, jobs and the route of the pipeline through environmentally sensitive areas. The public meetings were an opportunity to understand concerns as well as to provide information and explanations to the local communities about the construction and operation of the pipeline and how monitoring can ensure environmental safety.

A report on the many consultations was considered by the EBRD's Board of Directors when deciding whether to finance the project. Sensitivity to needs in the region also prompted parallel initiatives alongside the project financing. The EBRD and BP have agreed to launch a Regional Development Initiative to create long-term jobs and sustainable economic development after pipeline construction is complete. The initiative will foster private sector growth through a broad range of grassroots initiatives, such as loans and grants to micro-businesses, training programmes and infrastructure. The EBRD and BP have each earmarked up to €20 million in grants and loans for the initiative.

Another major consultation process underpinned an updated **environmental policy** (see page 18). Again, the EBRD went on the road to talk to the people in the region, and beyond, who use, and are affected by, the Environmental Policy. It was an important consultation that certainly improved the quality of the revised policy, but also reinforced the importance of respect for the environment in all of the EBRD's investment activity.

The approach to projects such as BTC and updates of policies, such as the Environmental Policy, underscore a commitment to **transparency and accountability**. The Public Information Policy, which sets out clear guidelines on how to achieve two-way communication with the public, also underwent a full review in 2003.

New Environmental Policy

Following extensive public consultation involving workshops in London, Szentendre, Moscow and Baku, the EBRD approved a new Environmental Policy in April 2003. The new policy covers not only ecological and health and safety issues but also employment concerns, such as child labour, forced employment and discrimination in the workplace. It also sets parameters for reviewing community issues, such as the impact of EBRD investments on local communities and their cultural heritage.

Under the revised policy, all EBRD-financed projects must meet national and all relevant international standards. Any project involving resettlement, indigenous people or cultural heritage is required to meet the Safeguard Policies of the World Bank.

Many improvements have been made to public consultation and disclosure of information. For example:

- Environmental Impact Assessments (EIAs) – prepared for the EBRD's most environmentally sensitive projects (classified as "Category A") – must be made available to the public in the relevant local language.
- During the preparation of EIAs, a Public Consultation and Disclosure Plan must be drafted to identify those affected by the project. It must also document how the client intends to communicate with these people, the types of information to be disclosed and how comments will be taken into account.
- Following consultation on an EIA, the client must report back to those affected to let them know how their comments have been taken into account and must inform them of the final decisions taken on the project.
- For less environmentally sensitive projects (classified as "Category B"), a summary of the key issues and the measures to be taken will be disclosed to local communities before the project is considered by the EBRD's Board of Directors.
- Following EBRD approval of the project, the client must report annually to the public on environmental, health and safety, and consultation issues if the project is Category A. For all other categories of projects, the environmental status of the project will be regularly updated on our web site (under the relevant Project Summary Document).

To improve the EBRD's accountability, we will publish, from 2004, an annual report on the environmental aspects of the Bank's investments and performance on corporate responsibility.

The new **Public Information Policy** introduces more and easier interaction with local communities and the public at large. Under the policy, the EBRD invites the public to participate in the preparation of the new strategy for each of our countries of operations. The EBRD highlights the issues to be addressed and asks the public to comment on these and any other issues arising from the existing strategy. At least eight weeks are allowed to gather comments from the public. The Board of Directors sees all comments before approving the strategy. The comments are subsequently published on the Bank's web site. These guidelines also apply to any new sector policies.

The EBRD posts a timetable for forthcoming strategy reviews on our web site so that NGOs and other interested parties can fully participate in the consultation process. Once the strategy has been approved by the Board, the final version is also posted.

On a pilot basis, each approved country strategy is being translated into the relevant local language. The main policies that govern transparency and dialogue with the public – the Public Information Policy, the Environmental Policy and a new Independent Recourse Mechanism – are also being translated.

The **Independent Recourse Mechanism** establishes a procedure for dealing with complaints from those who might be adversely affected by an EBRD-financed project. It determines whether the Bank has complied with specific policy requirements. The IRM may also assess whether the Bank should employ problem-solving techniques, such as independent fact-finding, to assist in resolving the complaint. It is due to come into effect later in 2004.

In addition to new policies, the Bank introduced a new **organisational structure** in 2003, separating treasury functions from the risk management of these operations, to meet current best financial practice and the highest standards of corporate governance (see page 102). To keep the Bank in line with the most recent developments in this area, the EBRD's Board of Directors agreed to set up a Working Group to review the terms of reference of the Bank's Audit Committee. In another institutional development, a decision was taken – following a review of options – for the Bank's headquarters to remain at One Exchange Square rather than move to a new location.

The EBRD's Chief Compliance Officer ensures that the highest standards of ethical behaviour are applied by Bank staff in their professional activities. He considers the conflicts of interest that may arise and investigates cases of suspected misconduct by staff where appropriate. Within the Bank, the Chief Compliance Officer also promotes the standards of **integrity** and related controls that we apply in our operations and to our clients, in particular those designed to identify and counter money-laundering, terrorist financing and corrupt practices.

Travelling together

The main operations of the EBRD consist of loans and equity to finance enterprises in many sectors. But the Bank has developed a palette of approaches to cater to specific needs in particular places, periods and environments. We have dramatically expanded financing for small businesses over the years and we have introduced new facilities, such as carbon-trading for environmentally helpful projects and a programme to stimulate all-important international trade. Often, partner organisations offer funding and other kinds of support.

An important tool is financing for small business. In many of the early transition countries, small loans are in short supply or simply unavailable. To meet the growing need for this form of financing, the EBRD provides credit lines to local banks for on-lending to micro and small enterprises (MSEs). We also invest in equity funds that support small businesses and we create specialist microfinance institutions.

In 2003 we introduced some innovations in the MSE programme, such as "express" micro loans that are typically disbursed within 24 hours. Borrowers are not required to provide collateral and can receive amounts ranging from €550 to €2,400. To reach some of the more far-flung settlements, the programme created "mobile branches", which can provide remote communities with their first access to banks. The scheme was piloted with great success in a mountainous area of Georgia.

Supporting small businesses

In 2003 the EBRD provided almost 200,000 loans amounting to €956 million through lending programmes for micro and small enterprises (MSEs). By fostering a thriving MSE sector, we support innovation, competition and transparency, which are fundamental to greater job creation, poverty alleviation and economic growth. Since its inception, the MSE programme has provided more than 450,000 loans worth €2.47 billion. With donor support, financing is provided through 52 financial institutions operating in 18 countries.

A little money goes a long way

Boriana Ltd is a family-run company based in a small village in the Rhodopa mountain region of Bulgaria. Its main business is to create wooden floorboarding using logs supplied from the local forests. By 2003 the company's need for additional capital was growing fast. Business was booming from an increasing number of customers, and discounts were available if it could order larger quantities from its suppliers. To meet its need for finance, the company turned to Raiffeisen Bank Bulgaria, which benefits from the EU/EBRD SME Finance Facility.

After a thorough analysis, the company was granted a €10,000 loan for 24 months. With the help of this funding, Boriana Ltd increased sales by 24 per cent. Orders from the local market went up and the company began exporting to Greece, resulting in higher profits. Six months later the company applied for more finance and received a loan of €4,700 under the Facility to buy wood-processing equipment. The new machinery has helped the company to increase production capacity and to achieve even greater efficiency.

The United States has been the largest supporter of these MSE programmes, contributing €71 million to date. The **US/EBRD SME Finance Facility** promotes private sector growth in south-eastern Europe and in the countries at the early or intermediate stages of transition. Since its inception in 2000, the Facility has provided almost 200,000 loans totalling €950 million to micro, small and medium-sized enterprises (SMEs) in 12 countries. These have been provided through a network of local banks. By maintaining an average loan size of under €5,000, the Facility is able to meet the needs of very small businesses that find it difficult to obtain financing elsewhere. The Facility also aims to reduce the legal and regulatory impediments to finance for small business.

The MSE programme was extended in 2003 to Croatia, FYR Macedonia, Serbia and Montenegro and also to Tajikistan as part of the EBRD's effort to support our poorest country of operations. In the first two months alone some 165 loans were disbursed in Tajikistan, with an average loan size of €1,900. In countries where the programme is more established, such as Bulgaria and Ukraine, the number of loans has reached 2,000 and 5,000 a month respectively. In Kazakhstan the programme celebrated its fifth year and has disbursed more than 75,000 loans.

The **EU/EBRD SME Finance Facility** provides financing to banks, leasing companies and equity funds in the EU accession countries to support their financing to small and medium-sized companies (SMEs). In addition to EBRD credit lines, the Facility provides technical assistance to the participating institutions to help them develop their capacity to serve the needs of SME clients. Already some 2,700 loan and credit officers have been trained. In 2003 the EBRD increased available funding under the programme to €700 million. The EU has made available up to €114 million to support loan and leasing activities.

The operations in the programme cover all ten countries that are destined to join the European Union. At the end of 2003, 26 banks and 18 leasing companies had joined the Facility and the EBRD's commitments to signed projects had reached €645 million. As a result, over 25,000 loans and leases with a total value of €590 million have been extended to SMEs throughout the region. The Facility has succeeded in reaching companies at the lower end of the SME market by keeping the average loan size as low as €25,500. Because of the Facility, SME clients are benefiting from easier access to finance and a better quality of service.

Another way of providing investment where it is most needed is through the EBRD's **Direct Investment Facility** (DIF). This provides equity financing to private enterprises in some of the poorer regions that are not well covered by other sources of funding. These include the Caucasus, Central Asia, south-eastern Europe, parts of Russia, and the neighbouring countries of Belarus, Moldova and Ukraine. By the end of 2003, the DIF had approved 29 projects in 14 countries, and had disbursed approximately €25 million. Investments averaging €600,000 are provided to entrepreneurs in the poorest regions, increasing to up to €2 million in higher-income regions. The DIF also encourages professional management practices, greater transparency and improved corporate governance.

The EBRD's **Trade Facilitation Programme** (TFP) guarantees trade transactions to stimulate import and export trade. It also provides short-term loans to selected banks for on-lending to local exporters and importers. More than 30 per cent of transactions under the programme are linked with agricultural products and equipment, such as the export of tractors from Belarus to Moldova, and wine from Moldova to Russia. The majority of transactions support small business, with more than 50 per cent of all deals under €100,000. Many of these transactions would not occur without the programme.

In 2003 the TFP expanded its business volume by 47 per cent over the previous year. The total number of transactions increased from 676 in 2002 to 939 in 2003 and cumulative turnover reached €467 million. In November the programme signed its 2,000th transaction – a credit arrangement that will help Moldova import grain from Kazakhstan – and topped the €1 billion mark. The programme now has 79 issuing banks in the region and over 450 confirming banks all over the world. By supporting trade, the programme helps not only job creation but also cooperation and understanding between countries.

Many of the countries where we operate are still battling with the legacy of the past, when little heed was paid to the **environment**. Levels of pollution were allowed to rise with little remedial action being taken. To tackle this legacy and to ensure that sound environmental practices are followed for all new facilities, a steady stream of investment is needed.

Many EBRD projects have a clear environmental objective – for example, to improve energy efficiency or to clean up a city's water supply – but we also include environmental conditions in projects where the primary investment is for another purpose, such as the construction of a new factory. During the environmental appraisal of each project, the EBRD identifies issues that need to be addressed by the client. These become binding within the project's legal agreement.

Tackling environmental problems in north-west Russia

In north-west Russia a wide range of environmental projects are being supported by a cooperative effort between the Russian Government and the international community. The Northern Dimension Environmental Partnership (NDEP) brings together the expertise of the EBRD, the European Commission, the European Investment Bank, the Nordic Investment Bank, Russia and the World Bank to address issues such as nuclear safety, water supply, waste-water treatment and energy efficiency.

Current donors to the Fund include the European Community, Canada, Denmark, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom. Out of the overall contribution of €196 million, a total of €148 million has been earmarked for nuclear safety projects. The Fund is managed by the EBRD under the supervision of an Assembly of Contributors.

By the end of 2003, 13 projects – totalling over €1.3 billion – had been identified. The Assembly has approved NDEP co-financing of €39 million for seven projects, ranging from waste-water treatment plants to district heating. The EBRD provided funding for four NDEP projects in 2003. These include helping the city of Archangelsk to upgrade its water treatment facilities and to eliminate discharges of untreated sewage into the Barents Sea.

In 2003 the EBRD invested €413 million in environmental projects involving municipal infrastructure, energy efficiency and clean-up operations. These included a waste-water treatment project in Wroclaw, Poland’s fourth-largest city, and an operation to improve energy efficiency at Uralkaly, Russia’s largest potassium producer. We also invested a further €234 million to cover environmental expenditure required in other sectors, such as manufacturing and agribusiness, as a result of Environmental Action Plans, for example.

The EBRD makes an assessment of **greenhouse gas emissions** – current and future levels – for every project that we finance. Of the projects signed by the Bank in 2003, 22 were assessed as having significant levels of emissions. These projects were mainly in the power and energy and industrial sectors. For those involving the refurbishment of existing facilities, our investment is expected to lead to a fall in emissions. For projects involving the construction of new facilities, all have been designed to ensure that greenhouse gas emissions are in line with current best practice.

Greenhouse gas emissions pose a threat not only to the countries where the EBRD operates but to the whole world. To help reduce global emissions, the EBRD has worked with the Dutch Government to establish one of Europe’s first **carbon trading funds**. Created in October 2003, the Carbon Credit Fund will invest in “climate-friendly” projects that reduce greenhouse gas emissions in countries ranging from central Europe to Russia and Ukraine.

Carbon credits are created when a project reduces or avoids the emission of gases such as carbon dioxide and methane. Eligible projects include improvements to district heating systems and renewable energy projects, such as solar power and wind energy. Dutch funding of €32 million will be provided to achieve these reductions, which will have the added benefit of helping the Netherlands to meet its obligations under the Kyoto Protocol. The EBRD is in discussion with other countries about the establishment of similar funds.

The EBRD commitment to sustainable development underpinned the participation of the EBRD President at a world conference in Kyoto, Japan, on sustainable use of water as well as at the Fifth Ministerial "Environment for Europe" Conference, which took place in Kiev in May 2003.

Many of the EBRD's activities in support of the environment are undertaken in cooperation with other international bodies. In 2003 the EBRD approved the first investment project to be co-financed with the **Global Environment Facility** (GEF). The Bank is providing up to €45 million to help Slovenia clean up the Danube River basin. Funding is provided to local banks for on-lending to private sector companies and smaller municipalities. These use the funding to undertake projects that reduce pollution entering the basin. EBRD finance was supported by grant funding of €10 million from the GEF.

Funding for **nuclear safety** projects is provided through the Nuclear Safety Account, the Chernobyl Shelter Fund, the Northern Dimension Environmental Partnership Support Fund and three International Decommissioning Support Funds, which have total donor funding of €1.6 billion. The EBRD manages the funds on behalf of the donors. Projects approved in 2003 include grant funding for constructing storage facilities in Bulgaria and Lithuania for spent nuclear fuel and waste.

Co-financing for EBRD projects across many sectors is provided by **international financial institutions** and other official partners, such as government agencies. In 2003 we mobilised a total of €597 million from these sources for over 50 projects. The largest single contributor was the IFC, which provided €162 million in support of eight projects. These mainly focused on microfinance, banking, telecommunications and manufacturing. Other co-financiers included the European Community, the European Investment Bank, the Netherlands Development Finance Company and the Nordic Investment Bank.

Sustainable use of resources

The EBRD has particular initiatives to promote the sustainable use of resources – for example, in forest management. Any project involving forestry is carefully reviewed during the environmental appraisal stage, and specific requirements are incorporated in the project documentation. Clients that own forests or carry out logging operations are helped to implement internationally recognised standards of sustainable forest management. Companies purchasing wood for their operations must ensure that the wood does not originate from protected forests and that the biodiversity of the forest ecosystem is maintained. These procedures were followed by two companies that received EBRD investment in 2003: Kronospan's fibreboard plant and UPM-Kymmene's Pestovo sawmill in Russia.

02 Central Europe and the Baltic states

As eight countries moved closer to membership of the European Union in 2003, the EBRD invested more than €1 billion alongside leading Western companies to support innovative projects across the region.

Investment climate

At the historic Copenhagen Summit in December 2002 eight countries in central Europe and the Baltic states (CEB) were invited by the European Union to join the EU in May 2004. During 2003 these countries – along with Croatia, which applied formally in February 2003 for EU membership – showed macroeconomic resilience and continued commitment to reform.

The strongest performing countries in 2003 were the Baltic states, which together with Croatia were the only economies to grow by more than 4 per cent. On the back of rapidly rising private spending and an increase in both domestic and foreign investment, the Baltic states have been the fastest growing economies in the whole of eastern Europe for three years running, earning them the nickname “the Baltic tigers”.

For 2003 an average growth rate of 3.3 per cent was recorded for the whole of CEB, aided by an upturn in the Polish economy, which is showing signs of recovery after a protracted period of slow growth. The other CEB countries grew by 2 to 4 per cent in 2003. In many of these countries, growth is supported by buoyant private and public spending whereas investment and exports have increased only slightly. Growth has also been supported by strong improvements in productivity.

The significant fiscal expansion in the larger CEB countries, which has supported growth over the last few years, has created a problem for the region. In the four largest CEB countries – the Czech Republic, Hungary, Poland and the Slovak Republic – consolidated general government deficits for the past two years have exceeded 4 per cent of GDP. In each country, a large part of the deficit is structural and points to the need for fiscal reforms – particularly in the social security system – as well as further reform of public administration.

Much of the recent expansion in these countries is the result of increased discretionary public spending, particularly increases in public sector wages and pensions in the run-up to elections. Several governments have recently expressed their resolve to tackle these fiscal problems. In the Slovak Republic, a bold tax reform was put in place in 2003, introducing a flat rate income tax and a single rate VAT. These measures, in conjunction with pension, health care and higher education reforms, are expected to enhance the efficiency and effectiveness of the public sector and reduce its size relative to GDP. The Czech and Hungarian governments have also begun comprehensive plans for fiscal consolidation. The bulk of the necessary and painful spending cuts and/or tax increases have, however, yet to take place in these fiscal consolidation programmes. This undermines their credibility.

Exports are showing signs of recovery across the region and grew strongly in several countries, while all countries except Poland, the Slovak Republic and Slovenia recorded current account deficits of 4 per cent of GDP or more in 2003. In several CEB countries the deficits are 6 per cent or higher. Because there is significant potential for high rates of growth to catch up with EU living standards and for high returns from investment, sizeable current account deficits can still be part of a sustainable long-term process of closing the productivity gap with existing EU members.

EU accession in May 2004 is an economic and political milestone.

It is key for these countries that the resources borrowed from abroad are invested efficiently at home. In the medium and longer term, they need to generate high returns. Together with spending restraint, this will support the external primary surpluses that permit the servicing of these external obligations.

The estimate for aggregate net foreign direct investment (FDI) into CEB in 2003 is around €7.2 billion, down from €22.6 billion in 2002. So far the financing of high current account deficits is not at risk since increased portfolio inflows and international bank lending have compensated for the decrease in direct investment. However, these flows can be highly volatile. This risk may also be compounded by “convergence plays” by investors exploiting differences between high CEB interest rates and low EU and US interest rates. Although investors are confident that the CEB currencies are unlikely to weaken vis-à-vis the euro as the CEB countries prepare for eventual adoption of the euro, such convergence plays are risky. Their success rests on fragile assumptions and beliefs, and can unwind suddenly.

A great deal of legislative activity took place in 2003, in many cases prompted by the desire to prepare each country’s legislation for EU accession. Croatia, Lithuania and Poland revised their insolvency legislation to improve the treatment of bankruptcy and reorganisation processes. In the Czech Republic, however, the insolvency law reform process stalled during 2003 and is due to be further developed during 2004.

Croatia introduced crucial amendments to the law on commercial companies to enhance the protection of minority shareholders and to define clearly the responsibilities of executive and supervisory boards. Hungary approved new legislation to reduce corruption and to increase transparency in the use of public funds. The law also provides that all government contracts involving large sums of money must be made public by state and local authorities.

Lithuania has adopted a new concession law, which came into force in October 2003. Although it has had a legal framework for concessions in place since 1996, not a single concession had been granted under the old law. The new law, drafted with EBRD technical assistance, will provide for a much more flexible regime for public-private partnerships (see page 73).

The accession of eight countries to the EU in May 2004 is a milestone, both economically and politically. It marks a significant advance in the process of deeper integration into the EU’s single market and indicates continued restructuring, innovation and real convergence but it does not signify the end of the transition process. The CEB countries have made substantial progress on the road to becoming effective, well-functioning market economies but important gaps remain – for example, in the breadth and depth of these countries' financial markets and in the restructuring of sensitive sectors, such as energy, heavy industry and agriculture. Improvements are needed in public administration, especially at the regional and municipal levels, and in the judiciary to make effective use of EU funding and to improve the business environment.

Fiscal policy will have to play an increasingly central role over the medium term in stabilising output; monetary policy is becoming geared towards exchange rate stability as the countries prepare for the adoption of the euro. Greater flexibility in responding to outside factors would therefore be extremely valuable, emphasising the need for early and effective fiscal consolidation in some CEB countries. Early adoption of the euro is a serious challenge for some of the accession countries, given the need to attain a sustainable government fiscal position and to achieve convergence with current members of the EU.

Growth in real GDP

	2003 %	2002 %
Croatia	4.6	5.2
Czech Republic	3.0	2.0
Estonia	4.5	6.0
Hungary	3.0	3.3
Latvia	7.0	6.1
Lithuania	8.9	6.8
Poland	3.6	1.4
Slovak Republic	3.9	4.4
Slovenia	2.3	3.2

Improving water services in central Europe

Improving the quality of drinking water, modernising sewage treatment and reducing leaks are just some of the benefits that will result from private sector involvement in three municipal water companies – Tallinna Vesi (ASTV) in Estonia, Aqua Bielsko-Biala in Poland and Sofijska Voda (SV) in Bulgaria.

The three companies have been part of a successful joint venture between United Utilities, a UK multi-utility, and International Water, owned by American firms Bechtel and Edison. Following the withdrawal of International Water from this arrangement, United Utilities approached the EBRD to take the place of its former partner. The Bank's involvement will help to ensure that there are no interruptions to the improvement programmes under way.

The EBRD has acquired 50 per cent of International Water's interest in the three companies, with United Utilities acquiring the balance. "Our commitment is to deliver high-quality services to our customers in central Europe. In the EBRD, we feel we have a partner who shares our long-term commitment to the region," said Les Bell, Managing Director of United Utilities International.

Increasing consumer choice

The growth of hypermarkets in Hungary is good news for both customers and local food producers. Farmers and local growers benefit from an increase in demand for their goods while consumers enjoy greater choice. This dual benefit is to be strengthened following EBRD support for the expansion of a hypermarket chain operated under the Cora name.

The Louis Delhaize Group, which already has six hypermarkets in Hungary, is working on the construction of another three hypermarkets across the country, using a €160 million loan arranged by the EBRD and supported by a group of commercial banks led by RZB of Austria.

In addition to increasing their overall sales, local food producers will benefit from the hypermarkets' assistance in upgrading quality standards and providing training in areas such as food hygiene and presentation. The company is also working with producers to develop the markets in organic products and other speciality foods.

Prompt payment from the hypermarkets and long-term sales contracts should help local suppliers obtain financing from their banks for further investments. At the same time, consumers will benefit from a reduction in the cost of food prices as a result of the hypermarkets' economies of scale and improved efficiency.

The project with Louis Delhaize is expected to lead to new store developments in Romania and Serbia and Montenegro. "With the EBRD's involvement, we were able to raise significant financing from the commercial market to complement the Bank's loan," said Vincent Descours, Chief Financial Officer of the Louis Delhaize Group. "With strong financial backing, we are well-positioned to continue our growth in central and south-eastern Europe."

EBRD commitments

	2003 Number of signed projects[1]	2003 Commitments € million	2002 Number of signed projects	2002 Commitments € million	Cumulative Number of signed projects	Cumulative Commitments € million
Croatia	5	125	8	318	51	1,232
Czech Republic	4	82	2	69	41	916
Estonia	1	26	4	73	42	451
Hungary	6	379	1	27	66	1,526
Latvia	1	45	0	9	24	332
Lithuania	1	16	1	5	27	393
Poland	10	315	10	463	129	2,843
Slovak Republic	1	138	4	121	38	1,012
Slovenia	1	44	1	181	26	506
Total	**30**	**1,170**	**30**	**1,265**	**444**	**9,210**

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 83 to 99, where regional projects are listed separately.

[1] Sub-projects signed under framework agreements are counted as fractional numbers. In this table the numbers have been rounded.

EBRD activities

The EBRD invested €1.2 billion in central Europe and the Baltic states (CEB) in 2003, bringing the Bank's overall commitments in the region to €9.2 billion. Disbursements during the year totalled €914 million.

The EBRD's strong presence in CEB reflects the continuing demand for our services even as countries reach an advanced stage of transition. It is also a reflection of the Bank's efforts to adapt our products to the changing requirements of our clients and to provide finance where it is most needed, in areas such as enterprise restructuring and business expansion. Many of the Bank's projects in 2003 have assisted the CEB countries in meeting EU accession requirements.

The Bank continued to cooperate closely with the European Union through the EU/EBRD SME Finance Facility and the creation of the EU/EBRD Municipal Finance Facility. This new €120 million facility will provide smaller municipalities (with fewer than 100,000 inhabitants) with financing for infrastructure projects that will help them meet EU standards for environment, health and safety.

In many projects the EBRD joined forces with leading Western companies.

In a number of projects we combined our expert knowledge of the region with the expertise of leading Western companies. This included working with Germany's leading insurer Allianz in the Slovak Republic, financing supermarket expansion in Poland with the French group Intermarché, and restructuring a cement plant in Slovenia with the world leader in building materials Lafarge. We also worked alongside the German electronics group Siemens in a transport project in the Czech Republic and acted in partnership with the leading electricity distributor E.ON to support a privatisation project in the Slovak Republic (see page 30).

Another successful project involving a major Western investor was a €350 million financing facility to develop a petrochemical complex in Plock, central Poland. The EBRD provided €85 million to support a joint venture between Orlen, Poland's largest petroleum refiner, and Basell, a leading petrochemical producer in the Netherlands. The participation of a leading Western player in this sector will help to modernise the petrochemical industry in Poland by introducing state-of-the-art technology and best business practice. The project was selected by Project Finance Magazine as its European Petrochemicals Deal of the Year for 2003.

The largest recipient of EBRD financing in 2003 was Hungary (€379 million), followed by Poland and the Slovak Republic. Projects were spread across a wide range of sectors, including agribusiness, financial institutions, municipal infrastructure, natural resources, property, telecommunications and transport.

Plugging into a more efficient network

Shifting electricity companies from state ownership to the private sector can bring benefits to the economy, the companies themselves and their customers through more efficiency, greater investment and better collection of bills.

Around 1 million customers in the Slovak Republic will see these improvements first hand following the first stage of the privatisation of Zapadoslovenska Energetika (ZSE), the electricity distribution company in the west of the country.

For the Slovak Republic, this transaction marks an important milestone in the country's plans to achieve a market-based power sector in line with EU membership requirements. The EBRD has been actively involved with the Government throughout the process and the Bank's presence was instrumental in bringing leading international investors into the country's energy sector.

The EBRD purchased a 9 per cent stake in ZSE from E.ON Energie, one of Europe's leading energy companies, which had previously purchased a 49 per cent stake in the distribution company. The combination of E.ON's technical skills and the Bank's knowledge of the region will help ZSE to upgrade its business and support the liberalisation of the energy sector.

ZSE is now well-positioned to invest in its transmission network, which serves customers ranging from households to heavy industry. Improvements in management and operations will lead to a reduction in costs and a stronger focus on customer service. The success of this privatisation should also lead to further private sector involvement in the country's energy system, including the privatisation of the state-owned generator.

"We are confident that the combination of E.ON Energie and the EBRD will bring benefits to our customers and employees in the region and support the long-term restructuring of the energy sector in the Slovak Republic," said Johannes Teyssen, Chairman of E.ON Energie. Technical cooperation funding was provided by the United Kingdom and the United States.

EBRD disbursements

	2003 € million	2002 € million	Cumulative € million
Croatia	160	264	942
Czech Republic	89	80	791
Estonia	19	87	423
Hungary	164	47	1,141
Latvia	23	42	267
Lithuania	18	10	304
Poland	268	264	2,058
Slovak Republic	140	47	865
Slovenia	33	79	467
Total	**914**	**918**	**7,258**

In particular, we expanded our property activities, financing projects in hotel development and residential property. In Croatia and Hungary we provided finance to upgrade and expand hotel facilities to cater for international tourists. In Poland we made a loan of €30 million to Dom Development to finance new residential property in the Warsaw area. The project will help to increase the availability of affordable housing, which is in short supply in Poland. Dom will use part of the money to build the 18-hectare Park Mokotów project, which will be one of the largest housing developments in Europe. The project is the Bank’s first investment in the housing market in our countries of operations.

In the infrastructure sector the EBRD financed projects ranging from a solid waste programme in Zagreb, which will protect the city’s water sources, to a traffic management project in Vilnius, which will reduce congestion and pollution levels in the city centre.

Looking ahead

In 2003 the EBRD approved new country strategies for the Czech Republic, Hungary and Latvia. The Bank will continue to seek ways of improving the investment climate and developing the legal framework to achieve sustainable growth. We will focus in particular on developing financial products that are not readily available elsewhere and continue to support restructuring, the privatisation process and the expansion of local businesses. In infrastructure we will seek to introduce schemes that do not rely on a sovereign guarantee.

The EBRD will assist the CEB countries with the challenges of EU accession, which will still be significant following enlargement of the EU in May 2004. The Bank will play an important role, for example, in helping central and local governments to make cost-effective use of the increased EU funding available after accession. There will also be a need to encourage greater private sector investment.

Innovation and the ability to remain at the cutting edge to address these challenges in the transition process will be essential. The shift in privatisation opportunities is likely to reduce our involvement in the financial sector but to enhance our participation in infrastructure markets and complex industrial sectors. Accordingly, we will continue to expand our use of equity rather than debt, to support local rather than central governments, and to move into areas such as insurance or leasing companies rather than banks. We also expect to develop further our collaboration with the EU and the European Investment Bank.

03 South-eastern Europe

In 2003 the EBRD took a lead role in promoting private sector initiative, from support for privatisation and restructuring to investment in new areas of activity, such as tourism.

Investment climate

The recent stability in south-eastern Europe (SEE) has supported substantial growth over the past three years. This has been fostered by increasing cooperation among countries in this region and by closer ties to the European Union. Two countries in SEE, Bulgaria and Romania, are candidates for EU accession in January 2007.

Associated with the improved economic performance has been significant restructuring of enterprises. In 2003 SEE grew by about 4.5 per cent, with particularly strong growth in the two largest economies, Bulgaria and Romania, and in Albania, which achieved growth of 6 per cent. All SEE countries are growing, including the Former Yugoslav Republic of Macedonia, which is still recovering from the inter-ethnic conflict of 2001. In Serbia and Montenegro, modest growth arose mostly from the services sector while industrial production remained weak and agriculture suffered from a prolonged drought. Over recent months there have been tentative signs of a recovery in the industrial sector in Montenegro.

Long-term growth and prosperity in Serbia and Montenegro will depend on further restructuring in the enterprise and financial sector, especially in large state-owned and socially owned enterprises and banks. In addition to large-scale privatisations, a sustained inflow of investment is required to generate higher growth rates in the medium term.

Two SEE countries, Romania and Serbia and Montenegro, have seen a significant improvement in their inflation performance. In Romania inflation fell to 14.1 per cent, just outside the end-year target of 14.0 per cent, despite significant increases in energy prices and other services. Serbia and Montenegro has also witnessed a major fall in inflation, to single-digit levels at the end of 2003. For the other four SEE countries, inflation has remained at low levels.

Over the past few years, several SEE countries have initiated a process of fiscal adjustment. While Albania maintains a relatively large budget deficit in SEE at 5.7 per cent in 2003, its general government deficit has come down from over 12 per cent of GDP in 1997. In Romania the fiscal deficit has declined gradually from a peak of 5 per cent of GDP in 1998 to 2.7 per cent in 2003. Fiscal performance has also improved in Serbia and Montenegro, owing to much higher revenue collection and greater budgetary discipline in state enterprises. Nevertheless, fiscal deficits in several countries of SEE remain high.

As in the large CEB countries, significant government deficits in SEE countries tend to be mirrored by large and persistent current account deficits. Although these have decreased significantly from their record levels in 2001, the average for the region still exceeded 9 per cent in 2003 – with a particularly high deficit of close to 20 per cent of GDP in Bosnia and Herzegovina. The risk of unsustainable twin deficits is being exacerbated by the region's large investment requirements, a decline in aid and an already substantial debt burden. The SEE region has so far had limited success in financing its investments through private capital flows, often relying instead on official aid.

To achieve higher growth, the SEE region will have to attract greater private investment. However, the SEE countries typically receive only about one-sixth of the total net private capital inflows to transition economies. In some countries, remittances – money transfers from expatriates – are a more significant source of inflow than foreign direct investment (FDI). However, while remittances are sometimes channelled into the creation of small business and investment, they are used primarily for the consumption of imports.

Structural and institutional reforms are moving ahead and the region as a whole has begun to catch up with central Europe and the Baltic states in terms of progress in transition. During 2003, advances in reform were evident in Bulgaria, which is on course for EU membership in 2007 despite delays in key privatisations.

In the other EU candidate country, Romania, the implementation of reforms slowed down in the first part of 2003 but it has picked up again. EU membership in 2007 is still achievable provided that a strong pace of reform is maintained over the next few years.

Bulgaria and Romania remain on course for EU accession in 2007.

In the western Balkans – Albania, Bosnia and Herzegovina, FYR Macedonia, and Serbia and Montenegro – the EU reaffirmed its commitment to the Stabilisation and Association Process (SAP) at the Thessaloniki summit in June 2003. This should continue to serve as an incentive for reform in these countries.

During 2003, Bosnia and Herzegovina and Serbia and Montenegro made progress in a number of areas, including small-scale privatisation, improvements to the business environment and strengthening of financial discipline in the enterprise sector. However, both countries are advancing from an early stage of reform. The assassination of the Serbian Prime Minister, Zoran Djindjic, in March 2003 was followed by a crackdown on organised crime and corruption but reform momentum was lost later in the year in the run-up to presidential and parliamentary elections.

Notable progress was made in secured transactions legislation in SEE. In early 2003 a new law on contractual pledge was adopted by FYR Macedonia, which applies to all forms of property. In May 2003 Serbia adopted a law on registered charges over movable property. This was drafted with EBRD technical assistance but implementation remains a key challenge as the necessary registry is still to be established. Along with enhanced efforts to tackle corruption, the new law is designed to attract much-needed foreign investment and to increase domestic investment.

The fiscal challenges facing the SEE region are considerable. In most countries the balances are negative even before interest payments on public debt are taken into account. Bulgaria and Romania are facing the additional cost of conforming with EU requirements for legal and regulatory standards. To assist this process, EU funding of €1.2 billion for Bulgaria and €2.8 billion for Romania will be provided. For the rest of the region, donor funding is being scaled down and a reduction in public spending will be necessary.

Boosting tourism in south-eastern Europe

Bulgaria and Romania can offer visitors fine climates and magnificent scenery but many of their hotels require upgrading to meet the needs of well-travelled tourists.

The EBRD and Europe’s largest tourism company, TUI of Germany, are helping local hoteliers in these countries to modernise their accommodation to attract more international tourists in the three and four star categories. This will provide a boost to the countries’ economies and expand business opportunities in a variety of sectors from construction to retailing.

The Bank has lent €41 million to TUI which will on-lend smaller amounts to a wide range of local hotels on a case-by-case approach. TUI will market and use these hotels on an exclusive basis. Under the agreement, TUI will also extend loans to hotels in Montenegro, Hungary and Croatia. The EBRD’s financing is expected to mobilise as much as €80 million in investments. By working with TUI, the EBRD is able to fund a range of hotel projects that would be too small for the Bank to fund directly.

TUI will provide training for local hotel employees to raise standards to international levels. In the longer term, the project will also help to increase competition in the tourism sector. Mr Heim, TUI’s Regional Director for South-eastern Europe, confirms: “TUI regards this region as a prime destination for families and we are confident that the supply of high-quality accommodation and leisure facilities will help to develop this market.”

Reducing pollution in the power sector

The Maritza East III power station near Bulgaria's southern city of Stara Zagora was identified as Europe's worst source of sulphur pollution in the 1990s. The 840MW plant uses lignite for fuel, which is in plentiful supply in Bulgaria. Unfortunately, lignite has a very high sulphur content which produces acid rain unless properly treated, causing serious damage to vegetation, buildings and water supplies.

To remedy this problem, the EBRD and a group of commercial banks are funding the modernisation of the power station, bringing it up to EU environmental standards, a requirement for Bulgaria's accession in 2007. The transaction is the biggest foreign investment in Bulgaria and the country's first major private investment in the power sector. Financing of €650 million will refurbish the plant, increasing its efficiency, while the installation of scrubbers will cut sulphur dioxide emissions by 95 per cent.

By upgrading rather than shutting down the plant, Bulgaria can maintain an important portion of its generating capacity, thus supporting the early retirement of its oldest nuclear units at Kozloduy. The project is one of the most complex the Bank has undertaken, taking six years to complete. Tom Wray from Maritza East III power company stated: "EBRD support has allowed us to complete this transaction in the midst of a severe downturn in the global power sector, underlining the importance of the project."

The EBRD has committed a total of €112 million while nine commercial banks, comprising both Bulgarian and international lenders, have provided the balance. Some €70 million of the EBRD loan has subsequently been syndicated to the Black Sea Trade and Development Bank and other financial institutions. Maritza East III is owned by two foreign energy companies, Entergy and Enel, and the Bulgarian transmission company NEK.

In a business environment where FDI continues to be weak, domestic investment rates remain low and productivity is only just recovering, governments need to tackle the continuing problems of taxation, corruption and the slow progress in institutional reform. While each country is at a different stage of development, there is a common need to enhance trade and cross-border cooperation, to develop infrastructure and to strengthen the financial sector. It is also crucial to reduce the "informal" sector and to expand the formal economy. This will require a broader tax base, allowing low taxation at the bottom end of the scale, and an efficient system for business licensing and regulation.

Growth in real GDP

	2003 %	2002 %
Albania	6.0	4.7
Bosnia and Herzegovina	3.5	5.5
Bulgaria	4.5	4.8
FYR Macedonia	2.8	0.7
Romania	4.5	4.9
Serbia and Montenegro	2.0	4.0

EBRD commitments

	2003 Number of signed projects[1]	2003 Commitments € million	2002 Number of signed projects	2002 Commitments € million	Cumulative Number of signed projects	Cumulative Commitments € million
Albania	2	47	2	42	15	170
Bosnia and Herzegovina	2	36	2	39	19	259
Bulgaria	8	240	6	182	46	848
FYR Macedonia	3	102	2	20	20	307
Romania	14	385	6	447	75	2,361
Serbia and Montenegro	9	149	10	135	24	509
Total	**38**	**959**	**27**	**864**	**198**	**4,454**

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 83 to 99, where regional projects are listed separately.

[1] Sub-projects signed under framework agreements are counted as fractional numbers. In this table the numbers have been rounded.

EBRD activities

EBRD investment in south-eastern Europe totalled €959 million in 2003. In particular, the Bank increased investment in Albania, Bulgaria, FYR Macedonia, and Serbia and Montenegro. Financing included support for the privatisation and restructuring of important financial institutions to strengthen the banking sector and to improve assistance for small and medium-sized enterprises (SMEs). The EBRD backed local and foreign industrial companies, contributed to the modernisation of the regional electricity sector and supported the development of critical local and regional infrastructure, such as transport networks, transmission lines and municipal utilities.

Some of the EBRD's most significant signings in 2003 included equity participations in the privatisation of Banca Comerciala Romana in Romania (see page 38) and in the pre-privatisation of the insurance company INSIG in Albania. We supported SMEs through credit loans to local banks, leasing companies and microfinance institutions throughout south-eastern Europe.

In the corporate sector, the EBRD backed foreign investors in new areas such as tourism (see page 35) and helped local enterprises to expand domestically and into neighbouring countries, particularly in the agribusiness sector. For example, the EBRD provided a €10 million loan to Marbo, a leading snack food producer with plants in Serbia and Montenegro and in Bosnia and Herzegovina, to help it expand production and increase its exports to other countries in south-eastern Europe.

The EBRD helped countries to combine strength through cross-border investments.

In the energy sector EBRD support for the Maritza East III thermal power plant in Bulgaria will help to reduce pollution levels significantly (see page 36). The groundbreaking deal involved private financing for the first time in Bulgaria's power sector. Another landmark deal was the Bank's power transmission interconnection project between FYR Macedonia and Bulgaria, which constitutes a key step towards the development of a regional electricity market in south-eastern Europe.

Road traffic in the region will be eased through an EBRD loan to FYR Macedonia to finance the Skopje bypass, which will reduce congestion in the capital. The financing will also be used to upgrade other sections of the pan-European network of roads in FYR Macedonia.

Under the EU's Stability Pact for South-eastern Europe, the EBRD continued to take the lead role in implementing private sector initiatives in the region. These focused in particular on assisting SMEs and developing cross-border trade. The Bank worked closely with the European Union, other multilateral institutions and bilateral donors to mobilise grants and co-financing.

As a member of the Infrastructure Steering Group (ISG), established under the Stability Pact to promote developments in infrastructure and to improve coordination among key donor institutions, the EBRD helped to prioritise infrastructure investments in south-eastern Europe. Out of 51 Stability Pact projects, the EBRD is active in 21 worth €2.1 billion. Of this total, the EBRD is providing €800 million.

Supporting the privatisation of Romania's largest bank

The successful privatisation of Banca Comerciala Romana (BCR), Romania's largest commercial bank, is a key step in the development of the country's economy and its EU accession prospects.

In 2002, difficult international market conditions prevented attempts by the Romanian Government to sell BCR to an international strategic investor. In view of the importance of the bank's successful privatisation, the Government continued the process by inviting the EBRD and the International Finance Corporation (IFC) to participate.

In 2003 the EBRD agreed to buy a 25 per cent stake in BCR together with the IFC for a combined investment of €176 million. The transaction marks the first stage of a three-step programme leading to the privatisation of the bank by the end of 2006.

Before then, the EBRD and IFC will work with BCR's management and the Romanian privatisation agency, APAPS, to upgrade the bank's operations. This will involve enhancing corporate governance and risk management and undertaking a wide-ranging review of strategy and operations.

The strengthening of the bank's operations will boost its prospects for a successful sale to a strategic investor and raise standards across the Romanian banking sector as a whole. "The Government of Romania is committed to completing the successful privatisation of BCR," said Ovidiu Musetescu, President of APAPS. "With the support of the EBRD and IFC, the bank will be in a stronger position than ever."

BCR's 3 million customers will see a variety of benefits as the process evolves, including improved access to account information, better customer services and a broader range of banking products.

EBRD disbursements

	2003 € million	2002 € million	Cumulative € million
Albania	14	11	70
Bosnia and Herzegovina	23	11	103
Bulgaria	36	55	501
FYR Macedonia	17	7	185
Romania	173	263	1,531
Serbia and Montenegro	66	46	120
Total	**329**	**393**	**2,509**

The EBRD continued to cooperate with the United States through the US/EBRD SME Finance Facility. In July 2003 a new micro-enterprise bank was established in FYR Macedonia. This joins the network of microfinance institutions that have already been established in Albania, Bosnia and Herzegovina, Bulgaria, Romania, Serbia and Montenegro and the province of Kosovo. In 2003, financing of €280 million was provided through these banks to over 48,000 entrepreneurs.

Complementing this effort, the Business Advisory Service and the TurnAround Management programme have further expanded their reach in south-eastern Europe (see page 70). These programmes provided extensive support to SMEs in the region, either through local advisory firms or through specialist industrial advisors. The EBRD also significantly expanded the scope of the Trade Facilitation Programme in 2003, committing €49 million to banks throughout the region in support of the import and export operations of local enterprises (see page 21).

Looking ahead

In 2003 the EBRD approved new country strategies for Bosnia and Herzegovina, Bulgaria and Romania. In Bosnia and Herzegovina the Bank will focus on developing the private sector through support for key privatisations. We will also expand the range of financing for SMEs and support local and regional infrastructure, particularly in municipal services and the road network.

In Bulgaria and Romania, the EBRD will continue to assist with the EU accession process. In addition to supporting the corporate and financial sectors, we will focus on developing private and non-sovereign financing for infrastructure and utilities, such as energy and telecommunications. In both these countries, we will intensify our efforts to attract co-financing from commercial banks and other sources. We will also make use of EU pre-accession funds to improve these countries' capacity to move forward.

In Serbia and Montenegro the EBRD will continue to focus on building public confidence in local banks, which suffer from a severe shortage of capital. We will also work alongside foreign investors to support restructuring and privatisation. Other sectors to benefit from EBRD assistance will be energy and infrastructure. Similar priorities apply to Albania and FYR Macedonia.

04 Eastern Europe and the Caucasus

Strong growth in 2003 was accompanied by EBRD investment of almost €200 million, focusing on the financial sector, agribusiness and manufacturing.

Investment climate

Growth of at least 6 per cent was recorded in Ukraine, Moldova and Belarus in 2003. In the Caucasus growth was even higher while inflation rates are among the lowest in the former Soviet Union.

In Ukraine the continued strong growth of industrial production and a surge in construction activity more than offset the impact of the low grain harvest on agricultural output. As a result, the economy grew by an estimated 8.1 per cent compared with 4.8 per cent the previous year. However, the strong growth was accompanied by a rise in inflation, mainly reflecting the effects of the poor harvest.

During 2003 Ukraine largely completed its small-scale privatisation programme while the large-scale programme met its target for privatisation revenues for the first time. In addition, there were a number of important legislative developments, including the approval of reductions in corporate and personal income tax, pension reform and the introduction of a mortgage law. All these reforms took effect at the beginning of 2004.

The key challenges for Ukraine are to complete tax reform and broaden the tax base. Further measures are also required to improve standards of corporate governance, to complete negotiations on membership of the World Trade Organization (WTO) and to approve and implement a new programme for large-scale privatisation.

GDP growth in Moldova slowed slightly in 2003 compared with the previous year but it was still quite robust at an estimated 6 per cent. Positive developments included the resolution of a protracted conflict over the sale of three electricity companies. Nevertheless, the pace of reform has remained slow and foreign investment is constrained by the difficult investment climate. Privatisation is proceeding very slowly and official lending from the IMF and the World Bank has come to a halt. The Government is currently in arrears on some of its debt obligations.

Moldova faces a number of challenges over the medium term. Re-establishing access to finance from the IMF and the World Bank is crucial. Reforms in the heat and power sectors and greater budgetary constraints for state-owned enterprises are needed. A clear commitment by the authorities to the market economy and limitations on state interference would help to restore investor confidence.

In Belarus, GDP rose by 6.8 per cent in 2003. This reflects continued growth in industrial production, which offset weaker agricultural output during the first half of the year. However, more than a third of larger enterprises are reported as loss making. Inflation remains on a downward path and the annual rate is now below 30 per cent. Some progress was achieved in structural reforms, mainly with small-scale privatisation, deregulation for business activities and the introduction of further banking reforms.

Despite these improvements, Belarus is still at an early stage of reform. Little progress has been made on large-scale privatisation and levels of foreign direct investment remain low. Key challenges include the reduction or removal of impediments to private sector activity and further measures to restructure enterprises and attract more foreign investment. In addition, tighter monetary and fiscal policies are required to lower inflation further.

All countries in the Caucasus enjoyed robust growth in 2003.

All countries in the Caucasus enjoyed robust growth in 2003. Azerbaijan has reaped the benefits in recent years of windfall gains from high oil prices and rising investment, much of it in the natural resources sector. In 2003 it recorded growth of 11.2 per cent.

Although growth in recent years was spread across many sectors, the economy remains highly dependent on oil and gas, which accounts for around 30 per cent of GDP.

In Georgia, growth was 7 per cent, the highest rate in recent years, despite the political crisis at the end of the year. However, the Government failed to comply with IMF conditions under the current three-year Poverty Reduction and Growth Facility (PRGF). This resulted in the suspension of the IMF programme in August 2003. Key reforms in public finance are essential for the new government to negotiate another IMF programme in 2004 and debt rescheduling under the Paris Club. Armenia recorded double-digit GDP growth for the second year in a row, based partly on a strong performance of the industrial sector. In addition, it joined the WTO in 2003.

Macroeconomic policy came under pressure in the Caucasus during 2003, notably in Georgia where government revenue targets for the year were not met and inflation exceeded the target of 5 per cent. Inflation also rose sharply in Armenia on the back of increased food prices but it remains low in Azerbaijan at around 3.5 per cent. The authorities in all three countries remain committed to macroeconomic stabilisation and tight monetary policies. Current account deficits in all three countries are among the highest in the CIS.

Helping entrepreneurs in Azerbaijan

Fakhraddin Bakhishev and Mahir Mishiyev form the FM Partnership, a brick-making business in the city of Sumgait in Azerbaijan. The company supplies bricks and other materials to the local construction industry.

As orders increased over the years, the company realised it needed new investment to meet this demand. Turning to Unibank for help, they received a €238,000 three-year loan, allowing them to increase production capacity and improve the range of their products.

Helping small and medium-sized enterprises (SMEs), such as FM Partnership, is the main activity of Unibank, one of the biggest private banks in Azerbaijan and the first private sector merger in the country's banking sector. Since 2002, Unibank has provided small businesses with access to longer term loans through a €1 million credit line provided jointly by the EBRD and the International Co-operation and Development Fund of Taipei China.

In 2003 the EBRD provided further support by acquiring a 20 per cent stake in Unibank, our first in a local bank in Azerbaijan. Our financing will strengthen Unibank's capital base and help the bank to develop new products. As a result, the bank will improve its services to SMEs and be able to pursue its long-term aim of becoming the leading full-service bank in the country – providing a full range of services to retail and business customers. Training and other assistance is being supported through funding from the EU's Tacis programme.

Regional support for Caucasus drinks industry

France's Groupe Castel is the leading distributor of wine in Europe and the second biggest worldwide. Hoping to establish a foothold in the emerging markets, Castel was one of the very first international companies to invest in the Caucasus in 1997.

Over the past six years the group has developed its presence in the market in beer, wine and water across Armenia, Azerbaijan, Georgia and Russia. But despite its successes elsewhere, Castel struggled to make its investments deliver the required returns.

In late 2001 the company set about a wholesale restructuring of its businesses in the region, and sought assistance from the EBRD. As a result, the Bank is acquiring a 35 per cent stake in the holding company to help Castel restructure the production and distribution processes of its subsidiaries.

The stronger management structure and improved standards of corporate governance will assist the company in getting back on track. This transaction will also act as a model for similar projects in this challenging region and should help to attract additional investment.

"Groupe Castel is determined to make its investments in the Caucasus a success and with the EBRD alongside this is more achievable than ever," said Pierre Castel, President of Groupe Castel. Castel is also active in Central Asia and is considering further investments in this region with the support of the Bank.

Progress was made in the privatisation of large enterprises and in the fight against corruption. Nevertheless, all three countries in the Caucasus face considerable challenges, especially in the areas of enterprise restructuring, fiscal reform and the creation of an investor-friendly environment. The region has potential as a transport corridor between Asia and Europe but this depends on greater political stability, including resolution of the dispute over Nagorno Karabakh.

Growth in real GDP

	2003 %	2002 %
Armenia	13.9	12.9
Azerbaijan	11.2	10.6
Belarus	6.8	4.7
Georgia	7.0	5.6
Moldova	6.0	7.2
Ukraine	8.1	4.8

EBRD commitments

	2003 Number of signed projects[1]	2003 Commitments € million	2002 Number of signed projects	2002 Commitments € million	Cumulative Number of signed projects	Cumulative Commitments € million
Armenia	0	5	1	4	6	90
Azerbaijan	3	25	1	52	16	280
Belarus	1	19	0	8	7	158
Georgia	3	17	2	17	20	185
Moldova	1	15	2	10	20	162
Ukraine	6	116	5	171	58	1,279
Total	**14**	**196**	**11**	**260**	**127**	**2,153**

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 83 to 99, where regional projects are listed separately.

[1] Sub-projects signed under framework agreements are counted as fractional numbers. In this table the numbers have been rounded.

EBRD activities

In eastern Europe (Belarus, Moldova and Ukraine) the EBRD signed projects totalling €150 million in 2003. One of the most significant projects was an internationally syndicated loan to a private sector bank in Belarus.

EBRD investment in Ukraine concentrated on agribusiness, banking and the industrial sector. The most important projects included loans to a leading cardboard packaging producer (see page 46), Ukraine's largest private ship operator and one of the country's largest glass manufacturers. We also provided loans to grain trading companies and retail traders. A further €33 million was made available to small and medium-sized enterprises (SMEs) via an EBRD credit line to local Ukrainian banks. Over 35,000 loans were provided through the US/EBRD SME Finance Facility during 2003 totalling over €135 million.

During the year the EBRD held discussions with the Ukrainian Government and local authorities on establishing a framework for direct lending to municipalities. We continued to lead the Energy Task Force forum in cooperation with the Ministry for Fuel and Energy.

In Moldova the EBRD established a Warehouse Receipts Programme, which allows farmers to gain access to finance by using grain and other commodities as collateral. We also extended a loan to Victoriabank, the second-largest bank in the country, to help meet the demand from entrepreneurs for medium to long-term finance.

The EBRD gave priority to supporting domestic banking and local private enterprise.

The loan of €29 million to Priorbank, Belarus's largest private bank, will allow the institution to provide urgently needed short and medium-term loans to the private sector. The loan is in line with the EBRD's strategy of restricting its investments in Belarus to the private sector, and in particular to activities that support SMEs. The EBRD is providing €10 million while the remaining €19 million has been syndicated to six international commercial banks. The EBRD has been a shareholder in Priorbank since 1997 and has been instrumental in transforming it from a state-controlled bank to the largest privately owned institution in the country.

In the Caucasus (Armenia, Azerbaijan and Georgia) the EBRD gave priority to supporting the development of domestic banking and local private enterprise in 2003. A total of six projects were signed, amounting to €47 million.

Particular emphasis was placed on supporting local banks that lend to SMEs and micro enterprises. Foreign trade was promoted through the EBRD's Trade Facilitation Programme. This support included credit lines to a cooperative bank in Armenia and a recently established micro-finance institution, the Micro Finance Bank of Azerbaijan (MFBA). The loan to MFBA will help the bank expand beyond Baku to towns and regions of the country where access to finance is often sparse. In Georgia more than 12,000 loans totalling some €45 million were provided to entrepreneurs through the US/EBRD SME Finance Facility in 2003.

The EBRD provided financing directly to several agribusiness enterprises in the Caucasus. In the property sector the Bank supported the development of commercial real estate in Azerbaijan.

Saving trees and securing jobs in Ukraine

In a country with limited forestry such as Ukraine, waste paper recycling plays an important role in maintaining the country's resources. The policy makes good sense both commercially and environmentally. As well as saving trees, it provides a cost-effective and versatile raw material.

Recycling is integral to the success of Ukraine's leading cardboard packaging company, Rubizhansky Kartonno-Tarniy Kombinat, which relies on waste paper for over 90 per cent of its raw materials. Following a €11 million loan from the EBRD, the company is now engaged in a five-year programme that will support the creation of a network of waste paper collection centres and secure a ready supply of its key raw material.

With demand for packaging growing at some 10 per cent a year across eastern Europe, our investment will help the company to meet this demand. It will also increase the proportion of waste paper recycled in Ukraine and promote commercially viable recycling practices.

EBRD financing will contribute to the extensive modernisation of Rubizhansky's home plant in Rubinzhe and the expansion of another plant near Kiev with new and upgraded machinery. Under the plans, the company will invest in a new electricity generation plant that will provide it with a stable and more efficient energy supply.

"With the EBRD's assistance, we will now be in a stronger position to serve our multi-national clients with the high-quality products they need while improving the environmental aspects of our business," said Gennadiy Minin, General Manager at Rubizhansky.

The company provides an important source of employment and revenue to the local community in Rubinzhe where other traditional employers, such as heavy industry, are still in need of structural reform.

EBRD disbursements

	2003 € million	2002 € million	Cumulative € million
Armenia	1	2	82
Azerbaijan	5	19	218
Belarus	5	3	141
Georgia	13	19	140
Moldova	8	26	133
Ukraine	161	225	748
Total	**193**	**294**	**1,462**

Looking ahead

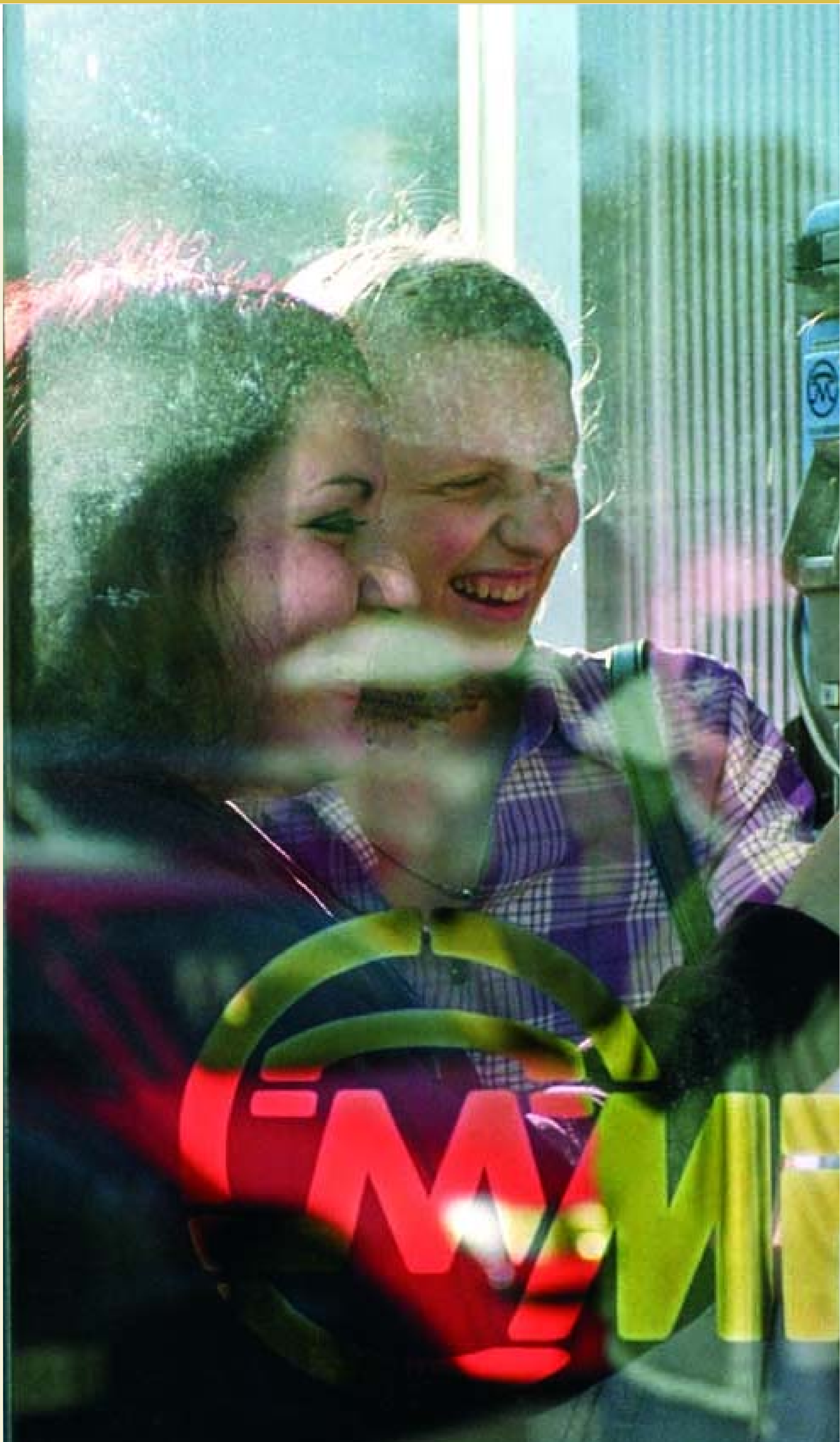
The EBRD's new strategy for Moldova highlights the priority areas as private sector development, policy dialogue with the authorities to improve the investment climate and support for small business entrepreneurs. Particular emphasis will be placed on the energy sector, which is in substantial need of investment. In Belarus the EBRD's activities are limited to private sector projects that encourage the reform process. However, if the authorities make progress in democratic and market reforms, the Bank would be able to undertake a broader range of activities, as outlined in our country strategy.

The updated strategy for Ukraine confirms the EBRD's commitment to supporting investment in transport, energy efficiency, small to large-scale local businesses, the financial sector and agriculture. We will also continue our emphasis on enhancing the nuclear safety of the energy sector. 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 a consistent tax regime, properly managed regulation and a truly independent judiciary.

In 2003 the EBRD approved new country strategies for Armenia and Azerbaijan. The Bank aims to help these countries attract investment by improving the regulatory environment, developing infrastructure, strengthening the financial sector and supporting SMEs. We aim to increase financing to small businesses, find suitable equity investment opportunities in local banks and provide large investments in infrastructure if accompanied by regulatory and institutional reform. In Azerbaijan we will support measures for diversifying the economy and reducing dependence on oil and gas.

Despite some formidable challenges, the EBRD intends to increase its investment in the Caucasus and eastern Europe to support the momentum of change, particularly in Georgia. We will help to build the institutions necessary to sustain progress and encourage poverty reduction, especially through our support for small and micro enterprises. Moldova and the three Caucasus countries will receive particular attention in 2004 as part of the Bank's effort to address the needs of the poorest countries. The Bank will use the findings of an independent study commissioned in 2003 to determine new ways of providing assistance where it is most needed.

05 Russia



On the back of Russia's strong economic performance, the EBRD invested over €1 billion in 2003, ranging from support for small business to our largest-ever project financing road construction.

Investment climate

The Russian economy continued to perform robustly in 2003 on the back of continued high oil prices and sound macroeconomic policies. GDP grew by 7.3 per cent, compared with 4.7 per cent in 2002, and industrial output expanded by 7 per cent.

Household consumption remained the key driver of demand but there are clear indications that private investment is starting to pick up. Investment growth rose to about 12.5 per cent, providing a boost to the machinery and construction sectors. Fuels aimed at the export market and non-ferrous metals remain the main contributors to growth but economic development is gradually becoming broader-based. Despite strong inflationary pressures caused by a high level of capital inflows, the Government has kept inflation at 12 per cent, the higher end of its target range.

High oil prices and strong economic growth ensured that revenue remained buoyant, and the federal budget registered an overall surplus of 1.7 per cent of GDP for 2003. Financial reserves – fiscal savings resulting from windfall oil revenues – also increased substantially, amounting to €6.9 billion at the beginning of 2004. Favourable export opportunities boosted current account revenues, with the current account surplus growing to an estimated €34.1 billion (US$ 39.1 billion) from €31.2 billion (US$ 29.5 billion) in 2002.

Capital account transactions showed a substantial degree of volatility. However, over the year, there was a significant reduction in capital flight and in net private capital outflows. The fourth quarter of 2003 recorded net private capital inflows of €2.1 billion, driven primarily by short-term bank borrowings. Reflecting the strong current and capital account performances, international reserves grew by €23.1 billion (US$ 29.1 billion) to a record high of €60.9 billion (US$ 76.9 billion) by the end of the year, and to €65.3 billion (US$ 84.1 billion) by late January 2004.

The strong aggregate economic performance in 2003 was associated, with declining capital flight, increased levels of foreign investment and booming bond and equity markets. This was despite a certain degree of volatility during the year. In October 2003, Moody's increased its sovereign rating to "investment grade" based on the country's strong macroeconomic performance and sound economic policies. Standard and Poor's also raised Russia's sovereign rating to BB+, one notch below investment grade, while suggesting that a move to investment grade would depend on further progress in key areas of economic restructuring, such as banking, judicial, administrative, energy and monopoly reforms. However, the relationship between the Government and the business community in terms of tax compliance issues, corporate governance and property rights is still to be determined.

Progress in structural and institutional reforms in 2003 was mixed. Despite a slowdown in the run-up to parliamentary elections, there were advances in foreign trade and currency liberalisation with the adoption of the new Customs Code and a new law on currency regulation and control. Amendments to the law on trademarks and to the patent law have introduced tougher penalties for the production of counterfeit goods but enforcement remains a problem.

High oil prices and sound economic policies boosted growth in 2003.

Power sector reform has seen advances, including the adoption of a set of key reform laws and clarification of the schedule for further reform. However, gas sector reform has been held up by

the lack of agreement about the desirable pace and direction of reforms. There has been tangible progress also in the area of non-bank financial institutions, notably in strengthening the institutional framework for pension reform, liberalising the insurance sector and developing the corporate bond market.

Looking ahead, the biggest challenges for Russia are to promote the restructuring, modernisation and diversification of the economy, to reduce the burden of bureaucracy and to continue the reform of the judiciary. Progress in these areas is needed to make the ongoing output recovery sustainable. The excessive dependence on exhaustible natural resources with volatile international prices makes the economy vulnerable to domestic and international "shocks". Domestic cost and price inflation have outstripped productivity growth in the non-oil and gas industries. Together with continued rouble strength, this increases the challenge to promote steady efficiency improvements outside the natural resources sector.

While the Russian public sector has pursued a prudent fiscal-financial policy, a number of Russian corporates, many in the natural resources sector, have borrowed heavily in hard currency. Since oil, gas and other global commodity prices influence the external value of the rouble, many Russian corporate borrowers do not have a natural hedge against their hard currency exposure. This makes for potential vulnerability.

Quicker progress in financial sector reforms would help to improve access to finance, assist the diversification process and reduce vulnerability to large-scale capital flows. Transforming the financial reserves into a fully-fledged stabilisation fund from 2004 may help to manage the fiscal, monetary and exchange rate implications of the volatile commodity prices.

Take-off for Russian aircraft makers

Russia has a proud heritage in aerospace technology. During the Soviet era, Russian companies were world leaders in the manufacture of both civil and military aircraft. But following the collapse of the Soviet Union, investment in this hi-tech sector fell sharply, leading to a dramatic decline in Russia's ability to compete in the international aerospace market.

In the EBRD's first venture in the aircraft manufacturing business, we are helping to revive this sector by providing Sirocco Aerospace Russia with a €36 million loan to finance construction of a new export-oriented version of the Tupolev cargo aircraft, which is currently undergoing European certification. The Rolls-Royce powered aircraft will be built at Aviastar's advanced assembly facility in the Volga region, which employs some 7,000 people.

The company's first export contract is to supply five aircraft to two airlines in China, the world's fastest growing aviation market. The loan will also help to re-establish Russia as an effective, low-cost competitor in the aircraft markets in Africa, the Middle East and the Pacific Rim.

"The Tupolev is a proven aircraft, well-positioned to compete internationally. With EBRD support, we can move more quickly into these new markets," said Dr Kamel, Chairman of Sirocco Aerospace.

The project is also expected to develop skill levels as Tupolev will benefit from the expertise of Western aircraft companies involved in the supply of parts and the certification process.

The pace of structural and institutional reforms is expected to increase under the new government to be formed following the presidential election in March 2004. The specific elements of the policy and reform agenda will only become known when the Chairman of the Government is approved by the Duma and submits his programme. According to current indications, social sector reforms and further tax and regulatory reforms, including in the energy sector, will be among the key priorities. The single most important challenge over the medium term will be the reform of public institutions, including public administration, the civil service and law enforcement agencies.

EBRD activities

In 2003 EBRD investments in Russia totalled €1.1 billion and gross disbursements amounted to €449 million. The Bank's total commitments reached €5.2 billion. The high level of EBRD investment reflects the Government's progress in achieving political and economic reforms, which have significantly improved the investment climate.

EBRD projects have contributed to the transition process by restructuring the corporate sector, improving infrastructure, promoting competition, supporting financial sector reform and small business, enhancing corporate governance and developing technological skills. Our projects have also attracted additional investment from foreign investors.

The largest project signed during the year was a €230 million loan to support construction of the St Petersburg eastern bypass and the Chita-Khabarovsk road in the Russian Far East. Infrastructure projects accounted for 29 per cent of the EBRD's total business volume in 2003. Other large infrastructure projects signed during the year were two investments in St Petersburg's waste-water treatment plants and financing to support water services in Yaroslavl.

Almost one-third of the projects signed in 2003 were in manufacturing. The two largest projects were a €63 million investment in Kronospan Russia to finance the construction of a fibreboard construction facility and a €58 million loan to Pilkington Russia to help the company construct and operate a new glass plant.

A major joint-venture project was the EBRD's €45 million investment in Severstal-Arcelor, which brings together a leading Russian steel producer and the largest Western steel manufacturer. A large proportion of the loan was successfully syndicated to a group of commercial banks (see page 15).

In the oil and gas sector the EBRD provided financing of €56 million to upgrade the pipeline network of Transnefteproduct and to help Lukoil-Perm improve environmental practices and operational efficiency. Another major sector supported by the EBRD in 2003 was agribusiness. The Bank provided €65 million to finance small enterprises, a vegetable canning plant, brewery expansion and grain trading.

In the financial sector the EBRD invested €258 million in the form of credit lines, equity investments and guarantees. The financing is being used to support foreign trade, leasing, small and medium-sized enterprises (SMEs) and the restructuring and modernisation of enterprises across Russia.

The Russia Small Business Fund has provided €1.5 billion to entrepreneurs.

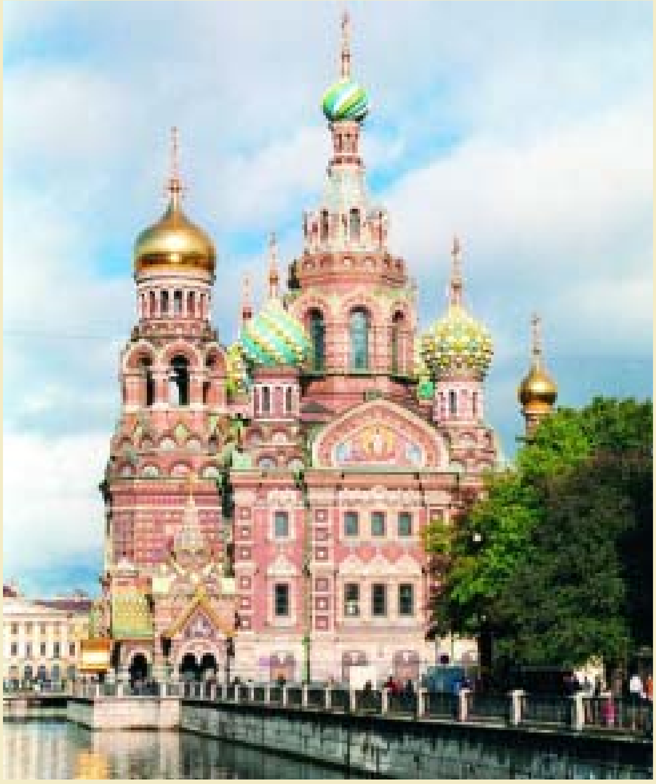
To provide finance to micro and small enterprises (MSEs), the EBRD channels funding through the Russia Small Business Fund (RSBF). By the end of 2003, the RSBF had provided over 168,000 loans to MSEs totalling €1.5 billion. In 2003 alone it provided more than 50,000 loans through its six partner banks and the specialist microfinance bank, KMB. Funding for the RSBF consists of EBRD financing and donor grants from the European Union and a number of governments.

Powering ahead with energy efficiency

Egypt's world-famous Aswan Dam is just one of the big international clients seeking to benefit from Russia's expertise in power generation. The dam's generators are to be modernised by Russia's biggest power generation equipment company, the Power Machines Group (PMG). To help PMG fulfil this prestigious contract and many others from countries as far afield as India, China, Vietnam and Brazil, the EBRD is providing a €28 million loan. Around 40 per cent of this amount will be used by PMG to offer attractive payment terms to other potential customers, helping it to make further inroads into this competitive market.

The balance of the loan will support PMG's modernisation of its plants in St Petersburg and Moscow, introducing efficiency measures that will cut the Group's energy requirements by around 30 per cent. The EBRD loan is the first long-term financing that the company has raised from a Western lender. As well as assisting in the restructuring of the company, the loan will help to improve corporate governance in line with the country's new Corporate Code of Governance. This will set important benchmarks for other Russian companies to emulate. An energy efficiency audit of PMG was funded by the Greek Government.

"The EBRD's loan recognises the progress we have made so far but, more importantly, it will help us to build on this to become one of the leading international companies in power generation equipment," said Evgeniy Yakovlev, PMG's Chief Executive Officer.



Protecting St Petersburg's drinking water

By cleaning up its waste water, St Petersburg is in danger of contaminating the city's water supply. This paradox exists because huge quantities of dried sludge are being deposited in a landfill site near the city where toxic substances can seep into the local water table.

With the landfill close to capacity, the city's water company, Vodokanal, is now constructing a large incinerator to burn the sludge following an EBRD loan of €24 million. This is the most efficient and environmentally friendly form of disposal, cutting solid waste volumes by 95 per cent and safeguarding the city's underground water reservoirs. Under the terms of the financing, Vodokanal will also secure the existing landfill site to reduce the risk of pollution.

Once the incinerator is up and running, the plant will be able to treat greater volumes of waste water, which will further cut the amount of effluent contamination in the Baltic Sea. The project would be the first in Russia to call upon the private sector to run the plant following completion.

The Bank has a strong relationship with Vodokanal following three previous successful financings. "The EBRD has helped us to change our approach to business. The positive impact of this change is even greater than the benefits of the investments alone," said Felix Karmazinov, General Director of Vodokanal.

This transaction is the third project to be financed under the Northern Dimension Environmental Partnership (NDEP – see page 74). Besides the EBRD's loan, the Nordic Investment Bank is lending €9 million while the NDEP is providing a €6 million grant. A €10 million grant has been contributed by Sweden, which has also provided €2.5 million to Vodokanal in institutional support. The United Kingdom has provided grants to finance the project's environmental analysis.

EBRD commitments and disbursements

	2003	2002	Cumulative
Number of signed projects[1]	27	26	171
Commitments (€ million)	1,100	1,289	5,174
Disbursements (€ million)	449	655	3,227

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 83 to 99, where regional projects are listed separately.

[1] Sub-projects signed under framework agreements are counted as fractional numbers.
In this table the numbers have been rounded.

In north-west Russia a wide range of projects are supporting environmental initiatives as part of the Northern Dimension Environmental Partnership (NDEP). NDEP uses donor funding and EBRD finance to make improvements in areas such as nuclear safety, waste-water treatment, water supply and energy efficiency. In 2003 the Bank provided financing for four NDEP projects.

Looking ahead

To support diversification of the corporate sector, the EBRD will continue to address the slow pace of restructuring for large and state-owned companies. In promoting transparency and efficiency, we will not only seek to encourage further foreign investment but will also address the transition needs of the widespread monopolies in the Russian economy.

The EBRD will support the consolidation of the Russian banking sector and will seek to strengthen competition and promote institution building in the financial sector. Key areas will be assisting the restructuring of state banks, supporting regional banks and helping to create universal banks. The EBRD will continue to address the financing needs of SMEs by seeking to expand our small business programmes and by broadening their regional outreach.

We will promote the commercialisation of municipal services and encourage private participation in these services. This will be supported by intensified policy dialogue with municipal authorities and institution-building initiatives.

To develop infrastructure and transport systems, the EBRD will strive to promote commercialisation and to reform infrastructure financing. In cooperation with the federal authorities, we will focus on improving regulatory frameworks and clarifying operational functions.

In the energy sector the EBRD will have further discussions with the government on power sector reforms, including restructuring of the gas sector.
We will also continue to participate in restructuring selected regional energy companies and will participate in pipeline developments to improve tariff and access policies.

06 Central Asia

To meet the urgent need for financing in some of the poorest countries, the EBRD invested almost €300 million in 2003 to support private sector growth in tandem with democratic reform.

Investment climate

Most countries in Central Asia grew strongly in 2003, with the exception of Uzbekistan where the performance of the economy was sluggish. This was due to tighter domestic restrictions on the use of cash following the easing of restrictions on the external convertibility of the Uzbek currency. The investment climate for the private sector remained difficult in Uzbekistan, as privatisation slowed and international trade and transit with the rest of the region remained restricted. Private initiative and enterprise continued to be stifled by pervasive bureaucratic and administrative controls and by economic and political repression. The strong growth in the rest of the region is from a low base and significant investment climate issues continue to affect the region as a whole, including limited regional cooperation, excessive bureaucracy and high levels of corruption.

In Kazakhstan, growth reached 9 per cent in 2003 on the back of significant investments and booming consumption demand. Oil and gas production increased 15 per cent, and continues to play a crucial role in the Kazakh economy. Economic growth is set to continue as long as oil prices remain favourable. Tajikistan recorded growth of about 10 per cent, based partly on a strong performance in construction and the industrial sector.

The Kyrgyz Republic's economy recovered strongly last year after the difficulties encountered in the previous year. The economy in Turkmenistan also appears to be growing rapidly, based on official statistics, but prospects for sustainable private sector development in this country remain limited as long as the state retains a tight control of all key sectors in the economy.

Growth in real GDP

	2003 %	2002 %
Kazakhstan	9.0	9.8
Kyrgyz Republic	6.3	-0.5
Tajikistan	10.2	9.1
Turkmenistan	11.4	5.1
Uzbekistan	1.0	4.2

Inflation remains low in Kazakhstan and the Kyrgyz Republic, and slowed significantly in Uzbekistan. Further efforts to reduce inflation in the region are needed. Fiscal deficits throughout the region are generally quite low, with the exception of the Kyrgyz Republic, where fiscal management has improved nevertheless in the context of an IMF-supported programme.

Progress in transition was achieved in a number of areas in 2003. These included significant consolidation of the banking sector and infrastructure reform in Kazakhstan. In the Kyrgyz Republic the Government is tackling corruption and adopted new legislation to strengthen corporate governance.

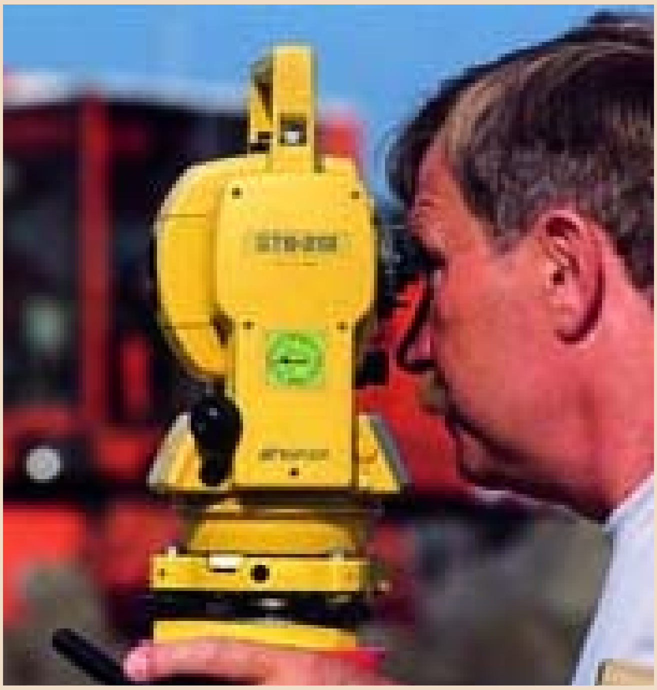
Central Asia's main challenge is to integrate further into the world economy.

In Tajikistan utility prices are increasing towards cost-recovery levels and collection rates are rising. The Government in Uzbekistan also achieved full exchange rate convertibility for current account transactions in October 2003 but many of the potential benefits from freer access to foreign exchange cannot be realised because of high and increasingly distortionary trade barriers and tight controls on domestic access to cash.

Considerable reform was undertaken in company law in 2003. Both Kazakhstan and the Kyrgyz Republic adopted new laws on joint-stock companies. These introduced a significant increase in minimum capital requirements, forcing a number of businesses to opt for the less onerous limited liability company structure. The same approach was adopted by Uzbekistan by presidential decree.

Looking ahead, Central Asia's main challenge is to integrate further into the world economy. Enhanced regional cooperation and the reduction of transit costs within the region would lead to greater trade and investment opportunities. For the Kyrgyz Republic and Tajikistan, overcoming high indebtedness remains a key challenge along with further improvements to the investment climate.

In Kazakhstan the Government's strategy for economic diversification, adopted in May 2003, must be combined with a reduction of obstacles to private sector development. Turkmenistan and Uzbekistan need to embark on serious structural reforms and reduce state interference in the economy if they wish to exploit the full potential of their economies.



Improving the road system in Kazakhstan

In a country bigger than western Europe but with a population of little more than the Netherlands, roads provide a vital link for Kazakhstan's dispersed communities. But for Kazakh drivers, tight state budgets in the 1990s have meant that some 65 per cent of the country's 23,000 km of highways are in poor repair.

In the west of the country near the Caspian coast, road quality will improve dramatically following an EBRD loan of €95 million to the Kazakh Government. The financing, expected to be bolstered by a loan of around €40 million from the Asian Development Bank, will fund the upgrading of a 900km road, improving links between Kazakhstan's main port of Aktau and the regional centre of Atyrau.

Work on the route started in the 1960s but was never completed and much of the road is currently in poor condition. The new road will improve access to Kazakhstan's oil-rich western region and the Caspian Sea. With oilfield development vital to the country's economic growth, the road provides an important route for the transport of equipment and personnel.

"With EBRD support, this project will play an important part in the upgrading of an important international transport corridor linking Turkmenbashi, Atyrau and Astrakhan, which is vital for the countries of Central Asia and Russia," said Erik Khamsinovich Sultanov, Chairman of the Kazakh Government's Roads Committee.

The project will also lead to greater recovery of road costs from drivers, with fees for road use linked to the type of vehicle. This will result in more sustainable financing for the road sector in the future. A grant from the EU's Tacis programme funded part of the project's preparation costs.

Extending the phone network in Kazakhstan

Communities and businesses in Kazakhstan need a reliable phone network to provide an effective means of communication across this vast country. The national telecoms operator, Kazakhtelecom, is pursuing a network expansion and modernisation programme that aims to achieve this by providing advanced fibre optic connections across the country.

The EBRD has worked closely with Kazakhtelecom since 1999, helping to promote significant improvements in efficiency, management performance, corporate governance and financial results. In 2003 we stepped up our support for the company by extending a €87 million syndicated loan.

The seven-year loan, a record for the Kazakh telecommunications sector, was co-arranged by Standard Bank London and syndicated to a number of international banks. It will provide additional resources for investment in the development of Kazakhstan's network and services.

"We are delighted with the confidence shown by the EBRD in our company through this record-breaking transaction and look forward to working with the Bank on future projects," said Kanat Nurov, Vice President and Chief Financial Officer of Kazakhtelecom.

The EBRD will continue to support the telecommunications sector in Kazakhstan as it faces the challenges of market liberalisation and increased competition. Previous EBRD support has included assistance to the Kazakh Government in implementing a transparent regulatory framework for the sector. The governments of Japan and Taipei China each contributed €200,000 in donor funding for this programme while the European Community provided €364,000.

EBRD activities

In 2003 the EBRD invested €295 million in Central Asia. The largest recipient was Kazakhstan (€264 million) followed by Uzbekistan (€26 million). Investment included substantial contributions to private sector development, which is key to creating jobs and alleviating poverty. Total EBRD financing in Central Asia amounts to €1.7 billion, making the Bank the leading investor among international financial institutions (IFIs) operating in this region.

Projects signed during the year include a major road project in Kazakhstan (see page 59), support for Kazakhtelecom's network expansion and a private sector loan to a leading cotton producer in Uzbekistan (see page 63). The EBRD also expanded the Trade Facilitation Programme in Tajikistan and Turkmenistan to promote regional and international trade.

The EBRD's Direct Investment Facility (DIF) was extended to Turkmenistan in 2003. The Facility seeks to increase equity investments in countries with smaller business volume by providing finance directly to private sector businesses led by experienced local entrepreneurs.

Through 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. Technical cooperation funding from donor countries has helped to develop operational and lending skills in these banks.

EBRD commitments

	2003 Number of signed projects[1]	2003 Commitments € million	2002 Number of signed projects	2002 Commitments € million	Cumulative Number of signed projects	Cumulative Commitments € million
Kazakhstan	6	264	6	175	32	872
Kyrgyz Republic	2	2	0	2	14	123
Tajikistan	0	3	0	0	6	29
Turkmenistan	0	1	1	10	5	125
Uzbekistan	2	26	1	34	21	527
Total	**10**	**295**	**8**	**221**	**77**	**1,676**

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 83 to 99, where regional projects are listed separately.

[1] Sub-projects signed under framework agreements are counted as fractional numbers. In this table the numbers have been rounded.

In 2003 the Bank extended the micro and small business lending programme to Tajikistan. The EBRD is providing a €5.5 million credit line for on-lending to small and micro clients through Tajikistan's local banking system. Loans of up to €80,000 will be made available. Some 76,000 business loans totalling over €300 million have already been provided through the Bank's small business programme to entrepreneurs in Kazakhstan, the Kyrgyz Republic and Uzbekistan. The programme is supported by significant donor contributions from the European Community, Japan, the United Kingdom and the United States.

To support farmers and rural development, the EBRD expanded the Grain Warehouse Receipts Programme in 2003. An additional €20 million loan was extended to Kazkommertsbank to provide farmers, grain companies and traders in Kazakhstan with access to all-year-round finance. By using grain and fixed assets as collateral, farmers are able to obtain finance to buy seed, fertiliser and fuel for machinery.

In an initiative to encourage cross-border cooperation, the EBRD acquired a 25 per cent stake in the Kyrgyz Republic's Inexim Bank alongside a strategic investment by Kazakhstan's Temirbank. The investment will help Inexim Bank develop its retail business and promote regional cooperation between Kyrgyz and Kazakh banks.

The EBRD is developing new initiatives to support the poorest countries of Central Asia.

To generate additional investment in Central Asia, the EBRD made use of the Central Asia Risk Sharing Special Fund, which was introduced in mid-2002. This combines donor grants with EBRD finance to channel funding to small business projects and trade facilitation programmes. The fund aims to attract €30 million in grant-based contributions.

During 2003 the EBRD discussed with governments in the region how to improve the investment climate and to increase regional cooperation in Central Asia. In Kazakhstan the Bank had discussions with the Foreign Investors' Council on ways of attracting private capital. At the EBRD's Annual Meeting in Tashkent in May 2003, meetings were held with the presidents of Kazakhstan, the Kyrgyz Republic and Tajikistan and with senior government officials to discuss structural reform, regional cooperation with neighbouring countries, and respect for multi-party democracy and human rights. The EBRD also participated in the second Ministerial Conference on Central Asia Economic Co-operation in November 2003.

Along with other IFIs, the EBRD is developing initiatives to support the poorest countries of Central Asia (the Kyrgyz Republic, Tajikistan and Uzbekistan), which form part of the CIS-7. The Bank participated in the CIS-7 Conference in Lucerne in January 2003, which brought together the major IFIs, bilateral donors and representatives of the CIS-7 countries. The conference debated a range of economic, institutional and social issues and underlined the importance of achieving better governance and fighting corruption. The EBRD plans to launch a comprehensive programme to enhance project development in these countries in early 2004.

Looking ahead

In the future, the EBRD aims to provide increased levels of financing to Central Asia to meet the urgent need for investment. We will strive to increase private capital flows and to strengthen market economies in the context of developing democracy. To attract foreign investment, the countries of Central Asia need to reduce trade barriers, to establish a more predictable investment climate and to diversify beyond oil and gas. Improvement in these areas will allow these countries to attain sustainable growth and to build on their economic achievements.

In 2003 the EBRD adopted new country strategies for Uzbekistan and Tajikistan. In both these countries, the focus is on private sector development as well as critical infrastructure projects, with an increasing emphasis on small businesses, the financial sector, promoting foreign direct investment and intensifying efforts to improve the investment climate.

In the new strategy for Uzbekistan, the EBRD established seven benchmarks in both the political and economic spheres, indicating where the country needs to take a number of critical steps to place it on a path of sustained progress towards

EBRD disbursements

	2003 € million	2002 € million	Cumulative € million
Kazakhstan	188	104	542
Kyrgyz Republic	1	1	116
Tajikistan	3	0	13
Turkmenistan	8	21	69
Uzbekistan	19	32	370
Total	**220**	**159**	**1,110**

multi-party democracy and a market economy. The Bank reviewed progress on these benchmarks at our Annual Meeting in Tashkent in May 2003 and at two subsequent staff monitoring missions later in the year. In early 2004 a delegation of the Bank's Board of Directors visited the country in preparation for a review of the strategy later in 2004.

In Turkmenistan the EBRD's activities are currently limited to the promotion of private sector activities, particularly small business. The Bank's strategy outlines three alternative approaches for future EBRD involvement. If the situation in Turkmenistan remains the same, we will continue with our current level of activity. We would extend our range of activities to other areas such as oil and gas only if the authorities make progress in democratic and critical market reforms.

Promoting private sector growth in Uzbekistan

Uzbekistan is one of the world's biggest producers of cotton and the second-biggest exporter but only about 25 per cent of its cotton is processed domestically. The rest is exported unprocessed, representing a big loss of potential earnings for the country.

Developing this key industry by increasing domestic cotton processing is a priority for the Government. Plans are in place to more than quadruple the value of Uzbek textile exports from €95 million in 2001 to €397 million by 2005.

With an EBRD loan of €10 million, the Bursel Tashkent Textile company will be at the forefront of an expansion in cotton garment exports. The loan will help to build a new state-of-the-art factory, near Tashkent, which will produce knitted cotton garments, such as underwear, nightwear and T-shirts, primarily for export to North American and European markets. The OPEC Fund for International Development is also providing a €4 million loan.

The project will create around 1,200 new jobs and will be the first factory to be majority privately owned in the textile sector in Uzbekistan. Increasing the role of the private sector in this area is a priority for both the EBRD and the Government.

The sponsor is Bursel Textile, a Turkish company and part of the Bursel Group, which has been successfully operating in Uzbekistan since 1991. "With this EBRD loan, we are able to benefit from the competitive advantages of Uzbekistan in the cotton sector and move into producing high-quality garments for our customers. This will complement our existing businesses in the country," said Burhan Enustekin, Chairman of Bursel Textile.

07 Partner funding

Funding from donor countries and official institutions helps the EBRD to prepare the ground for future investment and to strengthen our projects. It also allows the Bank to develop management expertise in struggling companies, to finance legal reform and to promote nuclear safety.

Technical cooperation

To prepare the way for new projects, the EBRD makes use of donor funding from governments and the European Community. This "technical cooperation" funding allows the Bank to hire consultants and other experts, who help our clients in both the private and public sector to prepare for EBRD investment. The funding is also used to help us implement this investment successfully.

Total funding in 2003 amounted to €73 million. This was mostly provided by the European Community, the United States, Italy, Switzerland and Japan. Over the past decade, almost half of our investment projects have been supported by TC funding.

One of the main objectives is to develop the small business sector. In 2003 some €45 million of TC funding (60 per cent of the total) was directed to helping small businesses. The EBRD uses the funding to show banks and other financial institutions how to promote and manage loans and equity investments for micro, small and medium-sized enterprises.

Small business programmes supported by TC funding include the EU/EBRD SME Finance Facility for the EU accession countries (see page 20) and the US/EBRD SME Finance Facility for south-eastern Europe and countries at the early and intermediate stages of transition. TC funding also supports the Russia Small Business Fund and the Bank's Direct Investment Facility, which provides equity finance in some of the poorer regions (see page 21). In parallel, the EBRD offers expert assistance directly to small businesses through the TurnAround Management Programme and the Business Advisory Services Programme (see page 71).

Infrastructure projects receive a significant proportion of TC funding. In the municipal, energy and transport sectors, experts are employed to help design and implement projects. Most assignments support policy reform, including the reform of tariffs for public utilities. TC funding is also used to help city authorities become creditworthy. This allows EBRD projects to be financed without recourse to sovereign guarantees. In 2003 some €11 million of TC funding was channelled to infrastructure projects. Other sectors receiving assistance include agribusiness, commercial banking, leasing and manufacturing. The EBRD also uses TC funding to introduce legal and regulatory reform through the Legal Transition Programme (see page 73).

In 2004 a priority will be to develop further partnership arrangements to address the needs of seven early transition countries (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan). These are the poorest countries where the EBRD operates and face considerable barriers to investment. In recent years the main focus of TC activity in these countries has been microfinance and trade facilitation. The Bank is developing new initiatives as part of a coordinated international effort to promote investment, institutional development and management skills in this region.

Further information about TC funding is provided in the *2004 EBRD Report to the Donor and Official Co-financing Community.*

Funding small businesses in the Kyrgyz Republic

In the Kyrgyz Republic, donors and the EBRD have launched a successful commercial initiative to fund small businesses. The Kyrgyz Micro and Small Enterprise Finance Facility was established in April 2002 with funding of €12.1 million to provide micro and small enterprises (MSEs) with a sustainable source of financing via the local banking sector. The Facility is funded by the EBRD, the United States and the International Finance Corporation (IFC). Switzerland and the United States are providing risk-sharing funds to support the Facility, and technical cooperation support is being supplied by the European Community, the Netherlands, Switzerland and the United States.

The Facility is already achieving results. Over 2,400 loans totalling €3.6 million have been disbursed to a wide range of MSEs. The Facility is currently financing over 400 MSEs each month and, given the current growth trends, it is expected to reach more than 1,000 MSEs a month by the end of 2004. The repayment rate has been 100 per cent.

Mobilising investment

By funding key preparatory work and developing management skills, TC funding plays a key role in generating capital for investment projects. Over the past decade around €620 million of TC funding has been used in support of EBRD investment. The total value of these projects has been €35 billion. Some €11 billion of this has been invested by the EBRD, with the balance provided by clients and co-financing partners. In total, every €1 of TC funding has led to an additional investment of €56.

TC funding involves risks, and not every TC assignment leads to an EBRD investment. The likelihood depends partly on the investment climate in each country but the success rate is high. Over the past decade, the proportion of TC assignments that have led to projects signed by the Bank has been close to 85 per cent.

TC commitments by recipient country

	Number	€ million
Russia	31	7.6
Ukraine	12	5.0
Mongolia[1]	12	4.0
Serbia and Montenegro	9	2.9
Kazakhstan	8	2.6
Kyrgyz Republic	11	2.5
Romania	7	2.1
Tajikistan	7	1.9
Georgia	10	1.8
Croatia	7	1.5
Albania	3	1.4
Bulgaria	4	1.3
Uzbekistan	8	1.0
Poland	1	0.8
Slovenia	4	0.8
Bosnia and Herzegovina	4	0.8
Slovak Republic	3	0.8
Moldova	4	0.7
FYR Macedonia	8	0.6
Azerbaijan	3	0.6
Turkmenistan	6	0.2
Hungary	3	0.2
Lithuania	2	0.1
Armenia	4	0.1
Czech Republic	1	0.1
Latvia	1	<0.1
Regional	78	32.1
Total	**251**	**73.2**

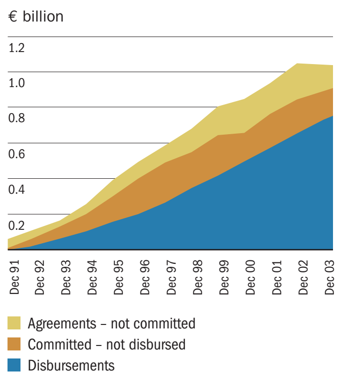
[1] Mongolia is not an EBRD country of operations but the Board of Directors has authorised limited activities in Mongolia, using donor funds.

TC spending commitments by donor

	2003 € million	2002 € million
European Community	28.5	54.5
United States	10.0	12.3
Italy	6.0	0.8
Switzerland	4.9	1.6
Japan	4.6	7.7
Mongolia Cooperation Fund[1]	4.0	2.0
Canada	3.3	1.9
United Kingdom	2.6	0.9
Finland	1.3	0.7
Netherlands	1.0	4.2
Baltic Technical Assistance Fund[2]	0.9	0.5
Regional Venture Fund: North-West Russia[3]	0.9	4.7
Taipei China	0.9	1.1
Global Environment Facility	0.8	0.1
Luxembourg	0.6	0.4
Ireland	0.6	0.3
Russia Small Business Fund[4]	0.5	3.1
Norway	0.4	–
France	0.3	0.9
Sweden	0.3	0.9
Balkan Region Special Fund[5]	0.2	0.7
Germany	0.2	0.2
Denmark	0.2	0.2
Moldova Financial Sector TC Fund	0.1	–
Technical Cooperation Special Fund	0.1	0.2
Austria	0.1	0.5
Spain	0.1	0.5
Israel	<0.1	–
Georgia Financial Sector TC Fund	<0.1	0.2
Belgium	<0.1	0.2
Total	**73.2**	**101.7**

[1] Mongolia Cooperation Fund – Japan, Luxembourg, Netherlands, Taipei China
[2] Baltic Technical Assistance Fund – Nordic countries
[3] Regional Venture Fund: North-West Russia – Finland, Norway, Sweden
[4] Russia Small Business Fund – G7 countries, Switzerland
[5] Balkan Region Special Fund – Canada, Denmark, Taipei China

Cumulative technical cooperation funds mobilised, committed and disbursed 1991-2003



Co-financing from official sources

In 2003 the EBRD mobilised co-financing of €597 million from official sources in support of 51 projects. This consisted of €304 million (51 per cent) from international financial institutions (IFIs), €87 million (14 per cent) from the European Community and €207 million (35 per cent) from other official institutions, such as government agencies and bilateral financial institutions. The financing was provided in a variety of ways. Half was provided in the form of equity (23 per cent) or grants (25 per cent). The other half was provided as parallel loans (39 per cent) or loan participations (13 per cent).

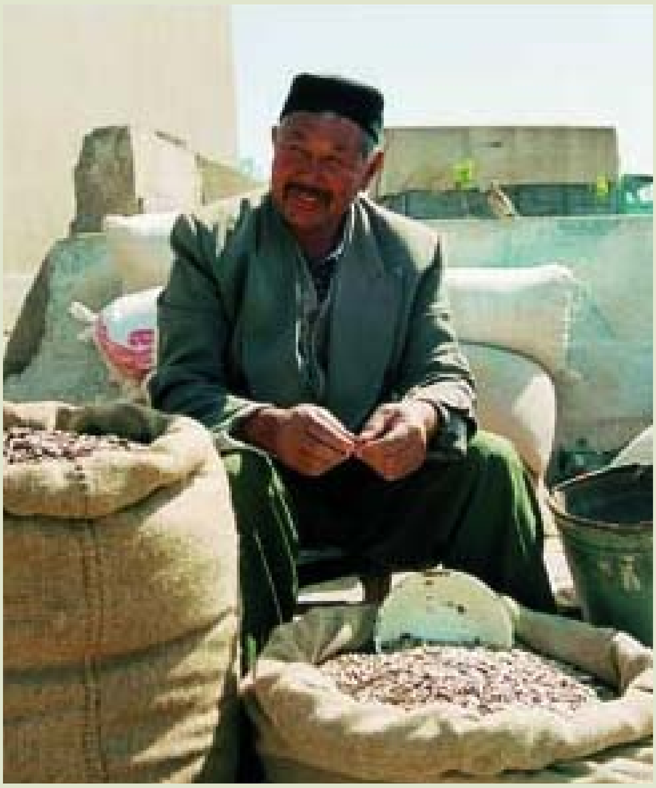
International financial institutions

The largest IFI contribution was provided by the International Finance Corporation (IFC), which supplied €162 million, the majority of which was provided in equity. The co-financing mostly focused on support for the banking sector, microfinance, telecommunications and manufacturing. This was channelled to Albania, Bulgaria, the Kyrgyz Republic, Moldova and Russia.

Significant financing was provided by the Nordic Investment Bank (NIB), which co-financed two projects with the EBRD, providing €54 million in support of waste-water treatment plants in St Petersburg. The Nordic Environment Finance Corporation was also involved in one of these projects, contributing €4 million. In central Europe the European Investment Fund participated in two private equity funds totalling €25 million in the Czech Republic and Hungary. In Slovenia the EBRD concluded a co-financing agreement for €8 million with the Global Environment Facility in support of an environmental credit line.

IFIs provided over €300 million in support of EBRD projects in 2003.

IFI co-financing in south-eastern Europe was provided by the European Investment Bank (EIB) in the form of two loans totalling €31 million to upgrade Montenegro Airport and to modernise the power system in Serbia and Montenegro. In Bulgaria co-financing of €20 million was provided by the Black Sea Trade and Development Bank to support environmental improvements at the Maritza East III power station in Bulgaria.



Increased focus on early transition countries

The EBRD and the international donor community have recognised the specific needs of the early transition countries in south-eastern Europe, the Caucasus and Central Asia, where there is a growing need to support the local private sector and to finance infrastructure projects in an effort to reduce poverty. In addition to strong support from the IFC for small business, bilateral institutions and agencies are providing funding in key areas that have a significant impact on the transition process. These include the Bank’s Trade Facilitation Programme, which is supported by Germany, Switzerland and the Netherlands (FMO). Municipal services are receiving grants from the European Community, Denmark, Finland, the Netherlands, Sweden and Switzerland for improvements to waste-water treatment, district heating and urban transport. In the small business sector, grants are being provided by the European Community, Germany, Japan, Switzerland, the United Kingdom and the United States while support for enterprise development has been extended by the EC, Germany (DEG), Italy, Switzerland and the ICDF-Taiwan.

In 2003 the EBRD and the Council of Europe Development Bank agreed to review potential areas of cooperation in situations where we share the same client.

European Community

The European Community provided €87 million through its Phare and Tacis programmes and the Instrument for Structural Policies for Pre Accession (ISPA). Most of its funds were in the form of grants to support municipal environmental infrastructure in Romania and Russia while about 8 per cent was in support of equity operations in the EU accession countries.

Bilateral finance

Bilateral financial institutions provided €123 million in 2003. The largest contribution was from the Netherlands Development Finance Company (FMO), which co-financed projects totalling €60 million in Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Romania and Ukraine. These projects mainly focused on supporting micro, small and medium-sized enterprises, trade facilitation, telecommunications and manufacturing. Significant financing was also provided by Kreditanstalt für Wiederaufbau (KfW) and Deutsche Investitions- und Entwicklungsgesellschaft (DEG), which together contributed €46 million for projects in support of microfinance, telecommunications, equity funds and the power sector.

Swedfund contributed €9 million for two projects in support of municipal infrastructure and equity funds. Other funding from bilateral institutions included €4 million from FinnFund for an infrastructure project in Russia and €2 million from the IØ Fund of Denmark for a project in Lithuania. The International Cooperation and Development Fund (ICDF-Taiwan) provided financing of €2 million for two small business projects in Azerbaijan and Lithuania.

Sources of official co-financing in 2003

International financial institutions	€ million
International Finance Corporation	161.7
Nordic Investment Bank (including Nordic Environment Finance Corporation)	58.0
European Investment Bank	30.9
European Investment Fund	25.0
Black Sea Trade and Development Bank	20.0
Global Environment Facility	7.9
	303.5

Official institutions[1]	
Bilateral agencies, government agencies and programmes	€ million
European Community (including ISPA, Phare and Tacis)	87.0
Netherlands (Netherlands Development Finance Company and Ministry of Foreign Affairs)	62.8
Germany (Kreditanstalt für Wiederaufbau and Deutsche Investitions- und Entwicklungsgesellschaft)	46.4
Sweden (Swedish International Development Cooperation Agency Swedfund International AB)	22.4
Switzerland (Secretariat d'Etat à l'Economie)	21.1
Finland (Ministry of the Environment and FinnFund)	14.0
United States (US Treasury, Western NIS Fund and US/EBRD SME Special Fund)	4.0
Denmark (IØ Fund)	1.5
Italy	0.5
	259.7
Multi-donor funds	
Northern Dimension Environmental Partnership[2]	11.8
Balkan Regional Special Fund[3]	9.3
Central Asia Risk Sharing Special Fund[4]	5.6
Russia Small Business Fund[5]	5.2
Financial Intermediary Invest Special Fund[6]	2.2
	34.1
Total	**597.3**

[1] Financing provided by these donors was primarily in the form of grants or equity investments.

[2] Northern Dimension Environmental Partnership – Canada, Denmark, European Community, Finland, France, Germany, Netherlands, Norway, Sweden, Russia, United Kingdom

[3] Balkan Regional Special Fund – Austria, Canada, Germany, Netherlands, Norway, Switzerland

[4] Central Asia Risk Sharing Special Fund – Germany, Switzerland

[5] Russia Small Business Fund – Canada, France, Germany, Italy, Japan, Switzerland, United States

[6] Financial Intermediary Invest Special Fund – Taipei China, United States

Government agencies and programmes

Government agencies and programmes provided €84 million, mostly in grants for projects in south-eastern Europe, Russia and Central Asia. The main areas of support were trade facilitation, infrastructure, micro and small business and equity finance. The participating donors were Finland, Germany, Italy, the Netherlands, Sweden, Switzerland and the United States. Funding was also provided through the Northern Dimension Environmental Partnership (NDEP) and the Russia Small Business Fund (see page 53). By far the largest donor-supported project in 2003 was the St Petersburg south-west waste-water treatment plant. In addition to funding from international and bilateral financial institutions, this project was supported by donor grants from the European Community, Finland, NDEP and the Swedish International Development Cooperation Agency (SIDA).

TurnAround Management Programme

Through the TurnAround Management (TAM) Programme, companies from central Europe to central Asia are benefiting from the expertise of some of the world's most experienced business leaders. Former directors and senior managers of world-class companies have volunteered their expertise to help struggling companies in the region modernise their working practices and improve turnover.

The TAM Programme aims to develop management skills as well as commercial and technical "know-how". Entirely funded by donors, the programme helps to develop local economies and, in so doing, to alleviate poverty and improve social conditions. TAM is managed by the TurnAround Management Group (TMG) on behalf of the EBRD.

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 raises awareness of the environmental impact of business activities, improves energy usage and develops health and safety standards for employees. In addition to improving business performance, the TAM Programme can bring enterprises to the attention of potential trading partners or investors.

TAM has been an effective tool both in the EU enlargement process and in the early transition countries. It will continue to play a vital role in the less developed regions of the EU accession countries. TAM has also expanded its activities

into south-eastern Europe, Central Asia, the Caucasus, Russia and throughout the other countries of the former Soviet Union.

In small enterprises, turnover has increased by over 30 per cent following TAM assistance.

Since the launch of TAM in 1993, grant funding of more than €66 million has been provided by 27 donors, including the European Community. This has enabled TMG to undertake over 1,000 projects with enterprises in 27 countries. These enterprises employ over 800,000 people and have an aggregate turnover of €18 billion.

TAM projects have introduced strong management and financial controls, new approaches to design and marketing, improvements in productivity, and increases in sales and employment levels. In enterprises with less than 250 employees, enterprise turnover has usually increased by about 34 per cent and employment levels by about 15 per cent. In larger companies, productivity and turnover have increased but some "downsizing" is usually required to keep the enterprises viable. More than 80 per cent of all TAM projects have been rated "satisfactory" or "highly satisfactory" by independent evaluators.

Business Advisory Services (BAS) Programme

The Business Advisory Services (BAS) Programme helps small and medium-sized enterprises (SMEs) with workforces of 10 to 500 employees to obtain business advice. BAS helps these businesses (mostly with less than 100 employees) to expand and to increase their competitiveness.

The programme aims to develop the capabilities of local business consultants by providing opportunities to work on commercial assignments and by organising practical training for them. BAS also combines the skills of foreign experts and local advisory firms where necessary and monitors every assignment to ensure the quality of the consultants' work. The programme is managed by the TurnAround Management Group at the EBRD.

BAS supports clearly defined projects, such as market research, management information systems and business planning, with the potential for rapid results. BAS is funded by a variety of donors. So far, funding has amounted to around €32 million and a total of 2,860 projects have been undertaken in 15 countries.

Supermarket chain, Serbia and Montenegro

Client: A retail chain requested assistance with the development of a company strategy to attract external finance.

TAM support: The TAM team helped management to prepare a professional marketing strategy, recommended improvements to the store lay-out and proposed new management reporting structures which have led to greater efficiency in all areas of the organisation. Considerable time was spent with senior management developing a comprehensive business plan.

Outcome: The management team responded well to the proposals put forward by the TAM team. The enterprise has developed a long-term business plan and a sound financial budget. By the end of the project, the turnover of the enterprise had risen from €100 million to €180 million.

Manufacturer of fruit juices, Azerbaijan

Client: A manufacturer of fruit juices had recently expanded its business into the production of jam and vegetable preserves.

TAM support: When the TAM project began, there was no formal organisational structure or effective management procedure in place. The first task was to design a new management structure and to prepare job descriptions for the management and workforce. The TAM team introduced methods to improve productivity, to reduce energy costs and to develop the enterprise's first management information system.

Outcome: Despite a poor fruit harvest in the year following the completion of the TAM project, the enterprise recorded an increase in turnover and profit and expanded its workforce by 25 per cent.

Tourism, Armenia

Client: Sevan Hamaynq municipality

Aim: To develop the tourism industry in the area of Lake Sevan and to increase the number of visitors throughout the year.

Action: In agreement with the local government, the BAS Programme has developed a two-stage approach. The first stage involves developing the institutional structure, rules and regulations for a regional tourism development association to comprise key stakeholders and beneficiaries, including tourism businesses, non-governmental organisations and local government officials. Once established, the new association will oversee the second stage, which consists of a resource assessment, marketing plan and business development study, leading to an agreed tourism development strategy.

The project is expected to provide a significant boost to the local Armenian tourism industry, which has already made rapid progress in recent years, and to attract increasing numbers of foreign tourists seeking specialist holidays in the area.

Alarm systems, Bulgaria

Client: TeleTek, a company specialising in the production, distribution and maintenance of security and alarm systems.

Aim: To expand the customer base by restructuring distribution and repositioning the company as the premier provider of alarm systems.

Action: The BAS Programme restructured the company by designing and developing a new business and operating model. In the course of the restructuring, a new company strategy and marketing plan were developed. New job descriptions were drawn up and a new software system was put into operation. Under the new structure, 12 new employees were recruited. Significant growth was achieved in domestic sales. The company also set up an entirely new management body.

The BAS Programme began in the Baltic states, where it has been operating for over eight years. By the end of 2003, the Baltic Programme had carried out 1,680 projects in more than 1,260 enterprises with a workforce of over 237,000 and aggregate sales of about €8 billion. BAS assistance has been instrumental in allowing these enterprises to raise €43 million in external finance. Initially funded by the Nordic countries, which provided €11.2 million, the Baltic Programme has also attracted €3.7 million from the European Community. The Programme has been highly rated by external evaluators. In particular, smaller enterprises with less than 100 employees have experienced the greatest growth and provided most employment opportunities.

In Russia (Kaliningrad, St Petersburg and Samara) and elsewhere in the CIS (Armenia, Azerbaijan, Georgia, Kazakhstan and Uzbekistan) a total of 551 projects have been undertaken with 536 enterprises with a total workforce of over 51,000 employees. These programmes have been funded by Denmark, EU Tacis, Finland, Germany, Japan, Luxembourg, Norway, Sweden, Switzerland and the United Kingdom with total funding of around €10 million. The BAS Programme is expected to be extended in 2004 to Far East Russia (Khabarovsk, Sakhalin and Vladivostok) with funding from Japan.

In south-eastern Europe the BAS Programme operates in Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Serbia and Montenegro, and Slovenia, with funding from Austria, the Central European Initiative, EU Phare, Germany and the United Kingdom. By the end of November 2003, a total of 629 projects had been undertaken in these countries with total funding of €8.5 million.

Legal Transition Programme

A fair and predictable legal system is a key requirement for attracting foreign investment. Using donor funding, the EBRD helps the region to achieve this goal by providing specialist legal assistance. This is supplied through the Bank's Legal Transition Programme. Three notable achievements in 2003 include helping Lithuania to make its laws more attractive to private investors, monitoring legal progress across the region and organising a series of seminars and conferences to promote international standards of best practice.

New concession law in Lithuania

Concessions allow private sector investors to assist in public sector projects. As well as reducing the burden on state budgets, this helps to introduce modern technologies and private sector efficiency.
In 2003 the EBRD assisted the Lithuanian Government in preparing a new concession law that should attract private investors to the country's public sector. The law took effect in October.

Although Lithuania already had a legal framework for concessions, not a single concession had been granted over the past seven years. In response to a request from the Lithuanian Government, the EBRD reviewed the existing law, identified the obstacles and recommended amendments. As a result, the new law provides for a much more flexible regime for private sector participation.

Under the new law, any domestic or foreign investor may become a concessionaire. The law contains a list of activities and sectors where concessions are anticipated, and regulates the concession-awarding procedures. The law also takes into account internationally accepted standards, such as the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide to Privately Financed Infrastructure Projects, which was developed with the EBRD's participation.

The EBRD hopes that this new law will give investors and local authorities a wider range of instruments to promote private sector involvement in public projects – in particular, infrastructure and municipal projects. Funding for this project was provided by the United Kingdom.

New survey on legal progress

The EBRD launched a New Legal Indicator Survey in 2003 to measure legal progress across the region. The survey uses case studies to measure the effectiveness of the law in particular areas.

For the first case study, the EBRD focused on secured transactions.
The study looked at a creditor's recovery prospects based on the enforcement of his security right over production equipment and machinery. The scenario involved a creditor bank trying to recover money from a local customer under a €100,000 secured credit following a default caused by cash flow problems. One local law firm in each of the Bank's countries of operations processed the findings. The study looked at how much a secured creditor can expect to recover, how quickly and how simply. The survey also took into account the treatment of preferential creditors (for example, tax authorities), the impact of corruption, the scope of collateral and the impact of the debtor's insolvency on the whole enforcement process.

The survey revealed that enforcement of charges remains a serious concern, even in countries where secured transactions have been reformed, such as Albania, the Kyrgyz Republic, Moldova, Poland and Romania. The results of the study are published in the Bank's *Transition Report* 2003. Further analysis will be published in the spring 2004 edition of the Bank's legal journal, *Law in Transition*. Funding for the survey was provided by the United Kingdom and the United States.

Promoting international standards through public events

The EBRD organised two public seminars in autumn 2003 to disseminate the Bank's assessments of corporate governance and insolvency in our countries of operations. The assessments gauge progress on compliance with international legal standards and have also been published on our web site (www.ebrd.com/law).

In October 2003 the EBRD organised a telecommunications regulatory conference in Kazakhstan. The event brought together national authorities for telecommunications and anti-monopoly administration, policymakers, telecoms companies and international experts. The conference addressed the issues currently holding back development of the telecoms sector and restricting investment in Central Asia.

In December 2003 the Bank hosted an international conference on contract enforcement, which was attended by senior judges, experts, practitioners and academics from both western Europe and the EBRD countries of operations. The conference concluded that international initiatives are needed to strengthen judicial effectiveness. These could take the form of direct training, the development of written materials or the secondment of local judges to Western countries. The event was sponsored by the United Kingdom.

Northern Dimension Environmental Partnership

The Northern Dimension Environmental Partnership (NDEP) is tackling some of the most pressing environmental problems in north-west Russia, particularly in the areas of water supply, waste-water treatment, solid waste treatment, energy efficiency and nuclear safety. Its Steering Group brings together the expertise of the Russian Government, the European Commission, the EBRD, the EIB, the NIB and the World Bank. The Group identifies priority projects and puts together financial packages consisting of NDEP grants, IFI loans and bilateral funding. Projects worth €1.3 billion have been identified so far. The EBRD acted as Chair of the Group for the first half of 2003.

NDEP financing has generated investments of over €850 million in north-west Russia.

The NDEP Support Fund is managed by the EBRD under the supervision of an Assembly of Contributors. Following the signing of the Framework Agreement of the MNEPR (Multilateral Nuclear Environmental Programme in the Russian Federation) in May 2003, Canada, France, Germany, the Netherlands and the United Kingdom became contributors to the NDEP Fund, joining the European Community, Denmark, Finland, Norway, Russia and Sweden. As of the end of 2003, contributions to the Fund amounted to €196 million. Of this total, contributions to the nuclear "window" of the Fund amounted to €148 million.

The Assembly has approved NDEP co-financing of €39 million for seven environmental projects, generating investments of over €850 million in north-west Russia. This leaves just under €9 million of uncommitted NDEP funds for non-nuclear purposes.

In December 2003 donors approved funding for two major nuclear safety projects, a Strategic Master Plan and a Strategic Environmental Assessment for north-west Russia. The two studies will provide the framework for the identification and implementation of nuclear projects in this region. The projects will assess the potential danger to communities and the environment caused by the operation and decommissioning of nuclear submarines and other vessels in and around the Barents Sea.

Nuclear safety

The EBRD plays a key role in promoting nuclear safety. This includes managing the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF), the three International Decommissioning Support Funds (IDSFs) for Bulgaria, Lithuania and the Slovak Republic and the "nuclear window" of the Northern Dimension Environmental Partnership (NDEP) Support Fund. Donor countries have pledged more than €1.6 billion to these funds. By far the largest contributor is the European Community, which has made a particularly significant contribution to the IDSFs.

In accordance with the Fund Rules, the EBRD reports to donor countries through each Fund's Assembly 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.

Chernobyl Shelter Fund

The transformation of the Chernobyl "sarcophagus" into an environmentally safe and stable structure made further progress in 2003. The Shelter Implementation Plan (SIP) continued to prepare for the major construction work that will start in 2004. This involves the stabilisation of the shelter enclosing the destroyed reactor and the construction of a new confinement around the original structure.

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 2003) are the European Community, Austria, Belgium, Canada, Denmark, 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. Completion dates for decommissioning the spent nuclear fuel storage facility and the liquid radioactive waste treatment plant in Chernobyl are currently under review.

The first-ever independent review of a safety report for a Russian first-generation reactor (Kursk 1) was started in 2003. Western and Russian experts have finalised the review and a final report is expected in 2004. This will provide an assessment of the quality of the Russian safety report and assist the regulator and the utility in deciding on the future of the plant.

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 2000.

The NSA currently has a mandate up to the end of 2004. As at 31 December 2003, members of the NSA Assembly were the European Community, 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 accession 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.

In 2003, donors approved grant funding for establishing facilities in Bulgaria and Lithuania for the handling and storage of spent nuclear fuel and waste. Contracts totalling close to €200 million are due to be awarded in 2004. In addition, contracts totalling about €70 million for infrastructure projects supporting the closure of Ignalina and Bohunice were awarded in 2003 and early 2004. As part of the closure programme, donors approved grant co-financing of €10 million to support energy efficiency projects for the Bulgarian private sector.

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 Community, Austria, Denmark, France, the Netherlands, Spain, Switzerland and the United Kingdom. Belgium is a member of the Ignalina and the Kozloduy IDSFs. Finland, Germany, Luxembourg, 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.

08 Project evaluation and procurement

By evaluating the success of the EBRD's projects, we are able to learn valuable lessons for the future for everything from initial project selection to procurement practices.

Evaluation of EBRD projects

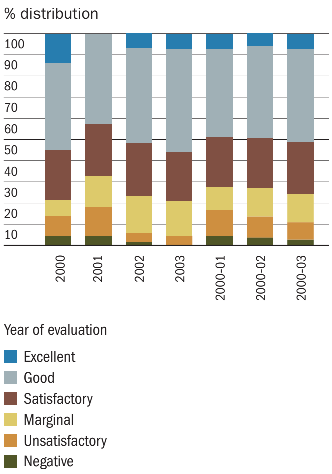
Project evaluation involves the assessment of operations once investment has been completed. This normally occurs one to two years after full disbursement has taken place. The EBRD's Project Evaluation Department (PED) seeks to establish how well the Bank's operations meet their objectives and to what extent the EBRD complies with the Bank's mandate. The lessons learned are used to improve the selection and design of future operations.

Transition impact and the EBRD's overall performance

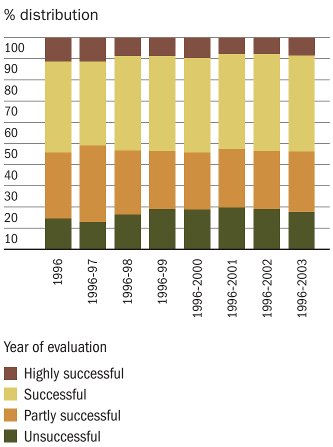
In evaluating the impact of EBRD projects on the transition process, PED looks in particular at their wider impact on the sector and on the economy as a whole. At the time of project evaluation, PED assesses transition impact using the same criteria applied by the EBRD during the selection and approval of projects. Some key indicators are promotion of privatisation, the development of skills, the encouragement of competition and support for market expansion. Other key aspects are institution-building to improve the functioning of markets, positive demonstration effects and the setting of new standards in business conduct and governance.

The chart on page 78 shows the transition impact ratings of operations evaluated in 2000-03. Of the 190 operations evaluated, 52 per cent achieved a transition impact rating of *Good* or *Excellent* and a further 26 per cent were assessed as *Satisfactory*.

Transition impact ratings of EBRD projects 2000-03



Overall performance rating of evaluated EBRD projects 1996-2003



In 2003 a total of 20 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 commercial and financial risks are high. This affects the sustainability of some private sector operations and prevents them from realising their full transition potential. The share of projects with an *Excellent-Satisfactory* transition impact rating in 2003 was 80 per cent.

80 per cent of EBRD projects achieved an *Excellent-Satisfactory* transition impact rating in 2003.

The overall success of the EBRD's operations is illustrated in the chart left, which presents the Bank's overall performance ratings. This rating gives a high weighting to transition impact but also includes other performance ratings, such as the fulfilment of project objectives, financial performance, environmental performance and additionality (the Bank's ability to complement rather than replace private sources of finance). In 1996-2003, 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 *Excellent-Satisfactory* ratings for transition impact.

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 the high-risk investment environment in the Bank's countries of operations, especially in the early and intermediate transition countries. 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 2003 six projects scored an overall rating of *Highly Successful*. Based on these findings, PED concludes that the Bank has been relatively successful in operating according to our mandate, especially in view of the difficult operating environment.

Importance of learning from past experience

A key evaluation role is to ensure that past experience is applied to new projects. This begins with intensive consultation with banking teams within the EBRD on the lessons learned from project evaluation. Regular feedback is also offered at every stage of the approval process to provide bankers with relevant past experience. Case-based workshops are held and tailored to the specific needs of banking teams. PED also makes presentations to management and maintains a lessons-learned database for internal use. A lessons-learned database for external use is being developed.

Examples of evaluated EBRD projects

Successful projects

Agricultural commodity programme

The EBRD committed €110 million to a programme assisting agribusiness companies and traders to obtain inventory financing. Under the programme, a local bank (usually a subsidiary of an international institution) took ownership of the financed commodities and held them in a pre-approved warehouse until the commodities were sold to traders or food processors. The objectives of the programme were to establish secured working capital lending in the agribusiness sector and to facilitate the development of new warehouse receipt legislation.

The EBRD increased investment in the project twice over three years, the type of commodities financed was broadened and the licensing and monitoring elements of the programme were highlighted as positive examples for developing future warehouse receipt legislation. PED observed that although lucrative, the programme has yet to be duplicated by other financial institutions and the anticipated progress in legal transition has not materialised. However, this project has the potential to act as a model for similar transactions in the sector.

Water and waste-water concession project

In 2000 the EBRD invested in its first private concession project for municipal water and waste-water services. The investment will help improve maintenance of the city's pipe system, enhance customer service and promote a more efficient and easy-to-use billing system. The total amount invested, including technical cooperation, is estimated at €134 million for the first 15 years of the 25-year concession and includes a €31 million loan from the EBRD.

The Bank's evaluation noted that key to the success of this project was not including the national government as a partner in the company. The water and waste-water company only involved one shareholder – the municipality. This made the concession process simple and straightforward. Also key is the utility's ability to provide the cheapest combined water and waste-water services in the country, even after recent rate increases. Therefore, there is excellent public acceptance of the project. The concessionaire has successfully downsized, made emergency repairs and upgraded services and service quality.

One of the lessons learned was that early engagement in the project is crucial for long-term success. The use of TC funds to develop the project concept with government agencies was crucial to facilitating the successful privatisation of the utility.

Evaluation special studies

Russia Small Business Fund

PED carried out an evaluation special study of the Russia Small Business Fund (RSBF), focusing on transition impact and sustainability. The Fund commenced operations in 1995, following successful pilot projects in 1994. In 2001 the RSBF was expanded into more regional areas and the life of the programme was extended to 2010. In total the EBRD has committed around €240 million to the programme, with €140 million of additional funding contributed by G-7 countries.

The RSBF was established with two inter-related aims: to provide short and medium-term financing to micro and small enterprises, and to contribute to institution-building within the Russian financial sector by providing training and technical cooperation to lending banks.

At 31 December 2002, cumulative disbursements amounted to €870 million, for almost 116,000 loans in 116 towns and cities. This achievement is noteworthy given that the programme faced potential collapse in the wake of the 1998 financial crisis. Swift action limited losses and enabled the programme to resume growth. Two national and two regional banks remained in the programme and three more regional banks were recruited during the past two years. One consulting firm has been the sole supplier of credit advisory services since late 1998. Technical cooperation funds from RSBF contributors, the EU and other sources have enabled approximately €60 million to be spent on over 70 TC operations up to late 2002.

The special study concluded that, while the programme has achieved growth in loan numbers, volume and quality, there are still insufficient results to indicate the programme's sustainability. The study, therefore, assigned an overall assessment rating of *Partly Successful*, based on performance to date. The programme's sustainability will emerge only when the programme is completed (currently scheduled for 2010). If the programme's institution-building objectives are realised, the RSBF has the potential to achieve a *Successful* to *Highly Successful* performance rating.

The RSBF's transition impact rating was assessed against the programme's ability to make commercial finance available to micro and small enterprises, while at the same time contributing to policy dialogue and creating an environment conducive to small business lending. Uncertain commitment by one of the leading participants resulted in the scaling back of the programme in certain regions. Pending the outcome of discussions with this participant, the special study has assigned a transition impact rating of *Satisfactory* (realised to date).

The programme could potentially achieve a *Good* to *Excellent* transition impact rating, but a number of challenges must be addressed. For a *Good* TI rating, institutional obstacles to the programme will need to be removed, new creditworthy regional banks will need to be identified and recruited, and new programme features and technologies introduced. To achieve an *Excellent* TI rating, in addition to the above, partner banks will need to match funding from the programme with funds from other sources.

Examples of evaluated EBRD projects

Projects with a less successful outcome

Machine parts manufacturing

In 1994 the EBRD provided a €17 million loan to a manufacturer, part of a larger industrial group, to finance the purchase of machinery. The project was the Bank's first operation with a wholly locally owned and managed company. The borrower traded heavily with other companies within the group – most of the machinery was to be supplied by a group firm – and was therefore highly dependent on and exposed to the group's financial situation. While the Bank used contracts to manage the risk, these had no effect when the group became insolvent.

Following delays to equipment installation and loan disbursements, the borrower defaulted on its second instalment payment to the EBRD. As a result, the Bank correctly refused to make further disbursements, thereby limiting losses and preserving some transition impact.

A deficient legal regime hampered the Bank's efforts to restructure the loan. After the collapse of the group and several banks, the state took a leading role in restructuring the loans and eventually sold off the group's remnants to a new private sector owner. The EBRD spent five years trying to recover the loan and finally settled for €9 million, 68 per cent of the amount disbursed.

The Bank's experience in recovering loans within the region confirms that failings in insolvency regimes remain a critical obstacle. In country strategies, the Bank should therefore consider making bankruptcy law reform and judicial capacity a condition for projects without recourse to strong foreign sponsors.

Crude oil pipeline project

In 2000 the EBRD invested €40 million in a cross-border crude oil pipeline, part of a larger overall project involving the upgrade of a refinery. The pipeline was one of the largest foreign direct investments (FDI) in the country and was linked to the local government's attempts to significantly liberalise the petroleum sector. The objective of the overall project was to privatise the company, introduce new technologies to the sector and create greater market efficiencies and transparency through liberalisation. The project was also expected to implement high environmental standards and safety regulations.

The Bank's evaluation positively rated the technical achievements of the pipeline, based on its construction time and budget and the significant environmental benefits derived from this mode of transportation. The evaluation also highlighted, however, the failure of the Bank's policy dialogue to secure local government commitment to the undertaking. In addition, it noted the negative impact the local government's unethical business practices and complacency would have on further potential FDI.

One of the lessons learned was that, when financing only part of a larger project, the Bank cannot escape the reputation risk attached to the unsuccessful outcome of the non-Bank financed portion of the project. This is particularly true when the size of the project, relative to other FDI in a country, makes it highly visible. Another lesson is that the Bank should not over-rate its policy dialogue effectiveness when dealing with integrity issues involving government officials.

Evaluating technical cooperation operations

PED has evaluated almost 350 consultant assignments funded through technical cooperation, involving around €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, this number rises to over 900 assignments involving over €250 million of funding.

Examples of evaluated TC operations

Development of a commercial management system

The EBRD extended a loan to a Central Asian petroleum company to increase the yield of one of its refineries and to improve environmental and safety standards. The associated TC operations were to support project preparation and to strengthen the managerial and commercial capacities of the refinery, ahead of privatisation.

The TC components of the project were well defined technically and contributed substantially to the development and cost efficiency of the project. The outcomes of the TC operations, however, were negatively influenced by the low level capacity utilisation and the sponsor's lack of commitment to the privatisation process.

PED's evaluation found that the narrow design of the TC, which focused on technical and administrative issues, limited the transition impact of the project. The project was also restricted by the slow reform and structural rigidities of the early transition economy. Complementary TC analysis on surrounding markets and privatisation prospects could have assisted with project implementation and institution-building, and may have facilitated privatisation. A more active policy dialogue, in close coordination with other IFIs, is also necessary to reach the critical level of policy leverage to trigger sector reform.

Refinery in Russia

Two TC operations totalling €1.2 million, funded by two donors, were undertaken to support the upgrade of a Russian refinery. The funding was used to prepare technical due diligence for various refinery modernisation projects, which could potentially become future EBRD investments. In addition, the first international audit and the introduction of international accounting standards were executed under these TC operations.

PED's evaluation rated the operations as Partly Successful, despite the excellent work done by the TC consultants and the support provided for the refinery's future upgrade. The main objective of the TC operation, to obtain EBRD investment, was however not achieved. This was attributed to the 1998 Russian crisis and also to the change in ownership: the refinery is now part of a fully integrated oil company. The evaluation also raised some doubts about whether a project finance solution for such a complex refinery upgrade project would have been achievable.

The technical studies performed were of a high quality and contributed substantially to the refinery's planning process. However, it may have been useful to conduct a scoping study first, limiting the use of TC funds prior to the EBRD investing in a project. PED also raised the issue of whether the scope of the TC operation should have been broadened to include one or two further refineries, thereby increasing the chances of a specific Bank operation materialising in this sector.

Procurement

When any EBRD project requires goods, works or services to be procured, the Bank expects non-discrimination, fairness and transparency. Contracts awarded as part of EBRD projects must be based on these fundamental principles, which are enshrined within the Bank's Procurement Policies and Rules. The principles are designed to promote efficiency and to minimise credit risk in the implementation of Bank-financed projects. The EBRD expects all participants in the procurement process to observe the highest standards of ethics and conduct.

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 and that fair market prices are obtained. The client must also ensure that conflicts of interest are avoided and that the best interests of the company are preserved. Prescriptive rules apply to procurement in public sector operations. The EBRD asks clients to use structured, transparent procedures that maximise competition and fair treatment for all participants. The Bank reviews and monitors procurement closely at all key stages of the process.

During 2003 the EBRD continued working closely with other multilateral development banks to harmonise public sector procurement documentation. In particular, the Bank published a draft paper on harmonising documents for the purchase of goods. Significant progress was made in drafting documents for prequalification for civil works and for requests for proposals regarding consultancy services. It is hoped that these will be implemented in 2004. For the civil works document, consultation with the private sector has begun.

During the year the EBRD worked closely with procurement agencies in the EU accession countries to ensure that procurement issues are addressed satisfactorily – in particular, in the case of co-financing with the European Community. Furthermore, in collaboration with the World Bank, the EBRD participated in a review of Tajikistan's procurement procedures.

The EBRD continued to provide professional services throughout 2003. Services included procurement seminars and workshops for our clients and their agencies in our countries of operations in 2003 as well as seminars/workshops for the business community.

The EBRD financed a total of 181 public sector contracts in 2003, with a total value of €721 million. This compares with 174 contracts totalling €505 million in 2002. The total value of contracts signed using open tendering procedures in 2003 amounted to €679 million, or 94 per cent of all contracts signed by value. Contracts in the transport sector accounted for more than 66 per cent of all public sector contracts signed in 2003. 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 EBRD web site: *www.ebrd.com/oppor/procure.* This can be accessed at no cost to the business community.

09 Projects signed in 2003

At 31 December 2003

Guide

Projects are counted as fractional numbers if multiple sub-loans are signed under one agreement. The number of projects attributed to each country in the following list may differ from the totals shown in Chapters 2 to 6. In these chapters, numbers have been rounded and regional projects have been allocated to the relevant countries.

Loans are calculated at exchange rates current at 31 December 2003. 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 2003
- multiple investments to pre-export finance facilities under the Trade Facilitation Programme
- selldowns of EBRD commitments
- investments under private equity funds, 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.

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Albania							
Albania Reconstruction Equity Fund *Kaon* Expansion of small brewery's activities.	Equity funds	Private	FI	0.8	0.0	0.2	0.2
INSIG Pre-privatisation equity investment in leading insurance provider.	Non-bank financial institutions	Private	FI	9.4	4.7	0.0	4.7
Vodafone Albania Expansion of GSM mobile network.	Telecommunications	Private	B/0	85.0	42.5	0.0	42.5
Armenia							
Armenia multi-bank framework *ACBA* Financing for small and medium-sized enterprises.	Bank lending	Private	FI	2.4	2.4	0.0	2.4
Regional Trade Facilitation Programme *Armeconombank* Support for foreign trade.	Bank lending	Private	FI	0.4	0.4	0.0	0.4
Azerbaijan							
Landmark I (Neptun) Refurbishment and acquisition of office development.	Property and tourism	Private	C/1	4.9	4.9	0.0	4.9
Landmark II (Libra) Refurbishment and acquisition of office development.	Property and tourism	Private	C/1	3.2	3.2	0.0	3.2
MFBA Azerbaijan Microfinance Bank (formerly AMB) Equity investment in microfinance institution.	Small business finance	Private	FI	5.3	0.0	4.0	4.0
Regional Trade Facilitation Programme Support for foreign trade.							
International Bank of Azerbaijan	Bank lending	Private	FI	7.9	7.9	0.0	7.9
Azerdemiryolbank	Bank lending	Private	FI	0.1	0.1	0.0	0.1
Unibank	Bank lending	Private	FI	0.8	0.8	0.0	0.8
Unibank Equity investment in Azerbaijan's largest private bank.	Bank equity	Private	FI	0.9	0.0	0.9	0.9
Belarus							
Priorbank syndication Financing for short and medium-term loans to Priorbank's private sector clients.	Bank lending	Private	FI	28.6	9.5	0.0	9.5
Regional Trade Facilitation Programme *Priorbank* Support for foreign trade.	Bank lending	Private	FI	9.3	9.3	0.0	9.3
Bosnia and Herzegovina							
Raiffeisen Bank d.d. Financing for medium and long-term loans to private corporate clients.	Bank lending	Private	FI	45.0	15.0	0.0	15.0

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Regional Trade Facilitation Programme Support for foreign trade.							
Raiffeisen Bank d.d. (formerly Market)	Bank lending	Private	FI	4.5	4.4	0.0	4.4
Universal Banka d.d.	Bank lending	Private	FI	<0.1	<0.1	0.0	<0.1
UPI Banka d.d.	Bank lending	Private	FI	0.2	0.2	0.0	0.2
Volksbank subordinated debt Extension of credit lines to assist small and medium-sized enterprises and local entrepreneurs.	Bank lending	Private	FI	7.5	7.5	0.0	7.5
Volksbank credit line Credit line to assist small and medium-sized enterprises.	Bank lending	Private	FI	2.5	2.5	0.0	2.5
Bulgaria							
Bulgarian Post Bank – Mortgage Line Credit line providing long-term mortgage loans.	Bank lending	Private	FI	5.0	5.0	0.0	5.0
Bulgarian Telecommunications Company Privatisation of Bulgarian fixed line telecommunications operator.	Telecommunications	Private	B/1	138.0	0.0	13.0	13.0
Herfstzon Restructuring of insurance and pension provider.	Non-bank financial institutions	Private	FI	5.5	5.5	0.0	5.5
Maritza East III Upgrade of lignite-fired power plant to improve environmental standards.	Power and energy	Private	A/0	651.3	112.1	0.0	112.1
Opet-Aygaz Bulgaria Expansion of operations through the acquisition of petrol stations and investment in greenfield sites.	Natural resources	Private	C/1	73.3	32.0	0.0	32.0
ProCredit Bank Bulgaria Financing for micro and small enterprises.	Small business finance	Private	FI	5.1	0.0	1.2	1.2
Regional Trade Facilitation Programme *Unionbank* Support for foreign trade.	Bank lending	Private	FI	0.2	0.1	0.0	0.1
TBI AD Restructuring of insurance and pension provider.	Non-bank financial institutions	Private	FI	15.6	0.0	15.6	15.6
TBIF Bulgaria AD Restructuring of insurance and pension provider.	Non-bank financial institutions	Private	FI	0.9	0.0	0.9	0.9
Croatia							
Corridor 10 motorway Upgrade of final section of Trans-European Corridor 10 to a four-lane motorway.	Transport	State	B/0	90.0	45.0	0.0	45.0
HVB Bank Croatia d.d. Credit line providing long-term mortgage loans.	Bank lending	Private	FI	15.0	15.0	0.0	15.0
Nasicecement expansion facility Acquisition of construction material producers and modernisation of production lines.	Manufacturing	Private	B/1	40.0	20.0	0.0	20.0
Rijeka sewerage services improvement programme Design and construction of sewerage sub-system.	MEI	State	B/0	4.4	0.6	0.0	0.6

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
UNIQA – Osiguranje Expansion of leading Austrian insurance company's operations.	Non-bank financial institutions	Private	FI	5.0	0.0	1.0	1.0
Zagrebacka Banka Support for municipalities and infrastructure projects.	Bank lending	Private	FI	20.0	20.0	0.0	20.0
ZGOS Zagreb solid waste programme Refinancing of an existing loan and completion of two landfills.	MEI	State	C/1	33.0	18.8	0.0	18.8

Czech Republic

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
EU/EBRD SME Finance Facility – Phase II – Extension 1 *Raiffeisen Leasing* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	10.0	10.0	0.0	10.0
EU/EBRD SME Finance Facility – Phase II – Extension 2 *Ceska Sporitelna Extension* Financing for small and medium-sized enterprises.	Bank lending	Private	FI	10.0	10.0	0.0	10.0
Franfinance Czech Republic (Leasing) Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	20.0	20.0	0.0	20.0
Genesis Private Equity Fund Private equity fund supporting small and medium-sized enterprises.	Equity funds	Private	FI	16.0	0.0	6.0	6.0
Siemens – SKV Upgrade of a rail car and train manufacturing plant.	Transport	Private	B/1	10.0	10.0	0.0	10.0
Spearhead (Eurofarms) Refinancing of existing loan to allow expansion of food supplier's operations.	Agribusiness	Private	B/1	4.9	4.9	0.0	4.9
TIW Czech N.V Equity investment in Cesky Mobil via TIW Czech.	Telecommunications	Private	C/0	189.5	0.0	2.3	2.3
Volksbank CZ subordinated loan Financing for individuals, small businesses and municipalities.	Bank lending	Private	FI	10.0	10.0	0.0	10.0

Estonia

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
EU/EBRD SME Finance Facility – Phase II – Extension 2 *Hansa Capital*[1] Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	12.0	12.0	0.0	12.0

[1] Hansa Capital is a company registered in Estonia. The volumes that it will use in its subsidiaries in Latvia and Lithuania are indicated in the regional list on page 99.

FYR Macedonia

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Direct Investment Facility *Kimico Gardine* Expansion of textile company's product range.	Manufacturing	Private	FI	2.2	0.0	2.2	2.2
Elektrostopanstvo na Makedonija Construction of transmission line and a new substation, and upgrade of existing substations.	Power and energy	State	A/0	50.5	40.5	0.0	40.5

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
FYR Macedonia regional roads project Upgrade of high priority roads and construction of Skopje bypass (phase 2).	Transport	State	A/0	147.4	40.0	0.0	40.0
Prilep Marble Kombinat Modernisation of marble quarrying and processing company.	Manufacturing	Private	B/1	11.0	8.0	0.0	8.0
ProCredit Bank Establishment of microcredit institution.	Small business finance	Private	FI	28.2	0.0	6.5	6.5
Regional Trade Facilitation Programme Support for foreign trade.							
Komercijalna Banka	Bank lending	Private	FI	4.1	4.1	0.0	4.1
Stopanska Banka	Bank lending	Private	FI	0.1	0.1	0.0	0.1
Tutunska Banka AD Skopje	Bank lending	Private	FI	0.4	0.4	0.0	0.4
Georgia							
Bank of Georgia Credit line to assist small and medium-sized enterprises.	Bank lending	Private	FI	3.2	3.2	0.0	3.2
Direct Investment Facility *Iberia Refreshments* Establishment of Pepsi franchise, including repair of production facilities.	Agribusiness	Private	FI	4.9	0.8	0.0	0.8
Regional Trade Facilitation Programme Support for foreign trade.							
Bank of Georgia	Bank lending	Private	FI	8.7	5.7	0.0	5.7
TBC Bank	Bank lending	Private	FI	0.4	0.4	0.0	0.4
United Georgian Bank	Bank lending	Private	FI	0.3	0.3	0.0	0.3
TBC Bank – SME credit line Credit line to assist small and medium-sized enterprises.	Bank lending	Private	FI	2.4	2.4	0.0	2.4
Tbiluniversalbank Convertible loan to assist micro and small enterprises.	Bank lending	Private	FI	1.2	1.2	0.0	1.2
Hungary							
Cora – Hungary Expansion of hypermarket operations.	Agribusiness	Private	B/0	283.3	55.0	0.0	55.0
Dalkia Prometheus III Provision of energy services to private and municipal clients.	Energy efficiency	Private	C/0	3.0	0.0	0.6	0.6
EU/EBRD SME Finance Facility *Budapest Leasing* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	20.0	20.0	0.0	20.0
Euroventures Hungary III Private equity fund supporting small and medium-sized enterprises.	Equity funds	Private	FI	23.0	0.0	10.0	10.0
Internet Framework *Laserbit* Investment in laser-based transmission company.	Telecommunications	Private	B/0	5.7	0.0	1.7	1.7

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Invitel (formerly Vivendi Telecom Hungary) Consolidation of Invitel's operations.	Telecommunications	Private	B/0	162.0	49.2	0.0	49.2
M5 refinancing Refinancing of existing investment in toll motorway.	Transport	Private	C/0	221.3	51.3	0.0	51.3
MOL environmental loan Environmental improvements to refineries, and improvement of gas transfer and filling stations.	Natural resources	Private	B/1	750.0	150.0	0.0	150.0
MOL-Duna Waste-water Treatment Plant Expansion and upgrade of waste-water treatment facilities at MOL's Duna refinery.	MEI	Private	B/1	38.8	13.4	0.0	13.4
Volksbank Hungary SME II Financing for small and medium-sized enterprises.	Bank lending	Private	FI	5.0	5.0	0.0	5.0
Volksbank Hungary subordinated debt Extension of credit lines to assist small and medium-sized enterprises and local entrepreneurs.	Bank lending	Private	FI	10.0	10.0	0.0	10.0
Winterthur multi-project facility Equity investment in insurance and pension industries.							
CS L&P Biztosito	Non-bank financial institutions	Private	FI	5.0	0.0	1.9	1.9
L&P Penztarszolgaltato	Non-bank financial institutions	Private	FI	2.2	0.0	0.8	0.8

Kazakhstan

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Bank TuranAlem senior syndicated loan Financing for private sector companies.	Bank lending	Private	FI	23.8	7.9	0.0	7.9
BTA Ipoteka mortgage loan Credit line providing long-term mortgage loans.	Non-bank financial institutions	Private	FI	4.0	4.0	0.0	4.0
Kazakhstan Small Business Programme II Financing for micro and small enterprises.							
Bank Center Credit	Small business finance	Private	FI	7.9	7.9	0.0	7.9
Bank TuranAlem	Small business finance	Private	FI	7.9	7.9	0.0	7.9
HSBK	Small business finance	Private	FI	7.9	7.9	0.0	7.9
Kazkommertsbank	Small business finance	Private	FI	7.9	7.9	0.0	7.9
Kazakhtelecom corporate loan Rationalisation of company's financing structure and development of its network.	Telecommunications	State	C/1	87.3	47.6	0.0	47.6
Kazakhstan Warehouse Receipts Programme *Bank Center Credit* Short-term lending against warehouse receipts for agribusiness companies, farmers and traders.	Bank lending	Private	FI	2.4	2.4	0.0	2.4
Kazkommerts Policy Equity investment in local insurance company.	Non-bank financial institutions	Private	FI	1.1	1.1	0.0	1.1
Kazkommertsbank Equity investment in Kazakhstan's largest private bank.	Bank equity	Private	FI	29.0	0.0	29.0	29.0
Post Privatisation Fund: Eagle Kazakhstan Fund *Spectrum* Equity and equity-related investments in medium-sized Kazakh enterprises.	Equity funds	Private	FI	0.7	0.0	0.1	0.1

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Regional Trade Facilitation Programme Support for foreign trade.							
ATFBank	Bank lending	Private	FI	4.0	4.0	0.0	4.0
Bank Center Credit	Bank lending	Private	FI	2.3	2.3	0.0	2.3
Bank TuranAlem	Bank lending	Private	FI	14.8	14.8	0.0	14.8
Halyk Savings Bank	Bank lending	Private	FI	9.7	1.1	0.0	1.1
Kazkommertsbank	Bank lending	Private	FI	23.1	14.9	0.0	14.9
Road sector restructuring Upgrade of 900 km section of road between Atyrau and Aktau.	Transport	State	B/0	198.6	94.6	0.0	94.6
Kyrgyz Republic							
Demirbank Kyrgyzstan Equity investment and credit line in Kyrgyz bank.	Bank equity	Private	FI	1.9	0.1	0.0	0.1
Inexim Bank Equity investment in Inexim Bank with Temir Bank Kazakhstan.	Bank equity	Private	FI	3.1	1.1	0.0	1.1
Kyrgyz MSE Finance Facility *AKB Kyrgyzstan* Financing for micro and small enterprises.	Small business finance	Private	FI	2.4	1.0	0.0	1.0
Regional Trade Facilitation Programme *Inexim Bank (formerly Eridan Bank)* Support for foreign trade.	Bank lending	Private	FI	0.2	<0.1	0.0	<0.1
Kyrgyz Investment and Commercial Bank (KICB) Financing for small and medium-sized enterprises.	Bank lending	Private	FI	0.1	<0.1	0.0	<0.1
Latvia							
EU/EBRD SME Finance Facility – Phase II – Extension 1 *Unilizings* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	15.0	15.0	0.0	15.0
Riga Water Company Improvement of water supply, installation of water meters, and upgrade of treatment plants.	MEI	State	B/0	44.6	9.0	0.0	9.0
Lithuania							
City of Vilnius municipal infrastructure project Upgrade of existing roads and improvements to pedestrian access.	MEI	State	B/0	8.5	7.0	0.0	7.0
Lietuvos Draudimas Equity investment in leading insurance company.	Non-bank financial institutions	Private	FI	1.8	0.0	1.5	1.5
Litesko II Equity investment in energy service company.	Energy efficiency	Private	C/0	3.8	0.0	3.8	3.8

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Moldova							
Warehouse Receipts Programme *WJ Group* Short-term lending against warehouse receipts for agribusiness companies, farmers and traders.	Agribusiness	Private	FI	9.7	4.8	0.0	4.8
Victoria Bank credit line III Credit line to assist small and medium-sized enterprises.	Bank lending	Private	FI	3.2	3.2	0.0	3.2
Regional Trade Facilitation Programme Support for foreign trade.							
Mobias Banca	Bank lending	Private	FI	2.9	2.9	0.0	2.9
MICB	Bank lending	Private	FI	0.9	0.9	0.0	0.9
Moldova-Agroindbank	Bank lending	Private	FI	1.3	1.3	0.0	1.3
Victoria Bank	Bank lending	Private	FI	2.9	1.7	0.0	1.7
Poland							
Aster City Acquisition of Polish cable television and broadband service provider.	Telecommunications	Private	B/0	137.1	20.7	0.0	20.7
Basell Orlen Polyolefins Development of petrochemical complex.	Manufacturing	Private	B/1	350.0	85.0	0.0	85.0
Dalkia Termika II Equity investment in energy service company.	Energy efficiency	Private	C/0	20.0	0.0	7.0	7.0
Dom Development SA Development of new residential property projects in greater Warsaw.	Property and tourism	Private	B/0	30.0	30.0	0.0	30.0
EU/EBRD SME Finance Facility – Phase II – Extension 2 *BZ WBK Leasing SA* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	15.0	15.0	0.0	15.0
EU/EBRD SME Finance Facility – Phase II – Extension 2 *PKO BP* Financing for small and medium-sized enterprises.	Bank lending	Private	FI	20.0	20.0	0.0	20.0
Europa distribution centre Phased development of warehouse and light industrial buildings.	Property and tourism	Private	B/0	15.0	15.0	0.0	15.0
Franfinance Leasing Polska Provision of EU/EBRD loan to expand small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	10.0	10.0	0.0	10.0
Intermarché – Pekao Framework Financing Financing for Intermarché franchisees and development of 50 new outlets.	Agribusiness	Private	FI	71.6	21.2	0.0	21.2
Limagrain Financing for Polish farmers purchasing agricultural goods.	Agribusiness	Private	FI	10.0	9.0	0.0	9.0
Polonia Property Fund Equity investment in regional property fund.	Property and tourism	Private	FI	60.0	0.0	25.0	25.0

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Spearhead (Top Farms) Refinancing of existing loan to allow expansion of food supplier's operations.	Agribusiness	Private	B/1	6.8	6.8	0.0	6.8
UNIQA TU Equity investment in composite insurer.	Non-bank financial institutions	Private	FI	16.3	0.0	16.3	16.3
UNIQA TU na Zycie Equity investment in composite insurer.	Non-bank financial institutions	Private	FI	3.5	0.0	3.1	3.1
Winterthur multi-project facility *CS L&P Zycie* Equity investment in insurance and pension industries.	Non-bank financial institutions	Private	FI	4.9	0.0	4.9	4.9
Wroclaw Water financing project Upgrade of existing water treatment facility.	MEI	State	B/0	54.5	10.0	0.0	10.0

Romania

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Astral Telecom Expansion and modernisation of cable television network.	Telecommunications	Private	C/1	32.4	5.6	0.0	5.6
Banc Post mortgage loan Credit line providing long-term mortgage loans.	Bank lending	Private	FI	20.0	20.0	0.0	20.0
Banca Comerciala Romana mortgage loan Credit line providing long-term mortgage loans.	Bank lending	Private	FI	50.0	50.0	0.0	50.0
Banca Comerciala Romana pre-privatisation Pre-privatisation equity investment, supporting financial sector reform.	Bank equity	Private	FI	176.2	0.0	88.1	88.1
US/EBRD SME Finance Facility *Banca Romaneasca* Financing for small and medium-sized enterprises.	Small business finance	Private	FI	4.0	3.2	0.0	3.2
Banca Tiriac Equity investment in Banca Tiriac.	Bank equity	Private	FI	0.5	0.0	0.5	0.5
Banca Transilvania Credit line to assist small and medium-sized enterprises.	Bank lending	Private	FI	5.0	5.0	0.0	5.0
Banca Transilvania mortgage loan Credit line providing long-term mortgage loans.	Bank lending	Private	FI	10.0	10.0	0.0	10.0
BRD SocGen warehouse receipts Pre-financing and short-term lending against warehouse receipts for agribusiness companies.	Agribusiness	Private	FI	88.9	40.0	0.0	40.0
BT Leasing SME credit line Credit line to assist small and medium-sized enterprises leasing goods.	Non-bank financial institutions	Private	FI	5.0	5.0	0.0	5.0
Bucharest multi-sector project Improvement of transport and district heating services and renovation of infrastructure.	MEI	State	B/0	23.0	16.3	0.0	16.3
Bucharest multi-sector project (Radet) Improvement of transport and district heating services and renovation of infrastructure.	Energy efficiency	State	B/0	26.5	17.8	0.0	17.8

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
CFR city stations enhancement project Refurbishment of five city railway stations, improving passenger amenities.	Transport	State	B/0	27.9	24.0	0.0	24.0
Domenia Credit S.A. Establishment of mortgage company RO-FIN.	Non-bank financial institutions	Private	FI	13.2	5.8	0.0	5.8
EU/EBRD SME Finance Facility – Phase II *Alpha Bank Romania SME Facility II* Financing for small and medium-sized enterprises.	Bank lending	Private	FI	10.0	10.0	0.0	10.0
EU/EBRD SME Finance Facility – Phase II *BRD Sogelease SME credit line* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	11.3	10.0	0.0	10.0
EU/EBRD SME Finance Facility – Phase II – Extension 1 *RZB Leasing Romania* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	5.0	5.0	0.0	5.0
Italian-Romanian Industrial Development Enterprise Development of warehouse, distribution and light industrial facilities.	Property and tourism	Private	B/0	18.9	2.5	0.0	2.5
Michelin Romania Modernisation of tyre manufacturer and upgrade of production processes.	Manufacturing	Private	B/1	19.0	3.2	0.0	3.2
Microfinance Bank Romania (MIRO) Financing for micro and small enterprises.	Small business finance	Private	FI	5.0	4.9	0.0	4.9
	Small business finance	Private	FI	2.1	0.0	0.7	0.7
Municipal and Environmental Loan Facility *Targu Mures* Upgrade of waste-water treatment plant and improvement of water and waste-water services.	MEI	State	B/0	27.9	7.0	0.0	7.0
Municipal and Environmental Loan Facility *Timisoara* Upgrade of waste-water treatment plant and sewage network.	MEI	State	B/0	50.6	6.5	0.0	6.5
Post Privatisation Fund *Continental* Investment in medium-sized private enterprises.	Equity funds	Private	FI	0.7	0.0	0.2	0.2
Post Privatisation Fund *Remayer* Investment in medium-sized private enterprises.	Equity funds	Private	B/0	1.8	0.0	0.3	0.3
Regional Trade Facilitation Programme Support for foreign trade.							
Banc Post	Bank lending	Private	FI	1.4	1.4	0.0	1.4
Banca Transilvania	Bank lending	Private	FI	3.8	3.6	0.0	3.6
Robank	Bank lending	Private	FI	2.9	2.9	0.0	2.9
Romanian Industrial Energy Efficiency Fund Investments in on-site co-generation systems to reduce energy consumption.	Energy efficiency	Private	A/0	7.4	7.0	0.0	7.0

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Terapia SA Equity investment in Romanian pharmaceutical company.	Manufacturing	Private	C/1	19.6	0.0	4.4	4.4
Wienerberger Construction of brick factory.	Manufacturing	Private	B/0	18.0	2.0	0.0	2.0

Russia

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Archangelsk municipal water services development Improvement of municipal water and waste-water services in Archangelsk.	MEI	State	B/0	24.7	9.4	0.0	9.4
Bonduelle Russia Construction of greenfield vegetable canning plant in the Krasnodar region.	Agribusiness	Private	B/0	15.0	0.0	15.0	15.0
Bor Glass Repair and upgrade of production lines.	Manufacturing	Private	C/1	50.0	25.0	0.0	25.0
Direct Investment Facility *Structured Component Industries (SCI)* Investment in structured cabling systems inter-connecting computers.	Manufacturing	Private	FI	0.7	0.0	0.1	0.1
Hansa Leasing Russia Equity investment setting up leasing company in Russia.	Non-bank financial institutions	Private	FI	41.4	0.0	10.5	10.5
Kronospan Russia Construction of fibreboard (MDF) production facility.	Manufacturing	Private	B/0	120.0	63.0	0.0	63.0
Lenenergo Completion of 180MW unit at the TETS-5 CHP power plant in St Petersburg.	Power and energy	Private	B/1	40.0	40.0	0.0	40.0
Lukoil-Perm Investments in environmental projects and development of oil and gas reserves.	Natural resources	Private	B/1	63.5	31.7	0.0	31.7
Moscow Efes Expansion of Moscow Efes Brewery through the acquisition of regional operations.	Agribusiness	Private	B/1	19.8	9.9	0.0	9.9
News Outdoor Russia Expansion of advertising operations and development of the company's product range.	Media	Private	C/0	59.4	15.9	0.0	15.9
Nidera (Russia) Expansion of grain trader's operations.	Agribusiness	Private	C/1	7.9	7.9	0.0	7.9
NTC II Expansion of landline and GSM mobile telephone services.	Telecommunications	Private	C/0	4.0	4.0	0.0	4.0
Pestovo sawmill Construction and start-up of sawmill producing sawn white wood.	Manufacturing	Private	B/0	47.0	15.0	0.0	15.0
Pilkington Russia Construction and operation of float glass plant.	Manufacturing	Private	B/1	190.0	57.5	0.0	57.5

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Power Machines Modernisation and energy efficiency improvements to three power equipment plants.	Manufacturing	Private	B/1	32.3	27.8	0.0	27.8
Probusinessbank convertible subordinated loan Acquisition of medium-sized regional Russian banks.	Bank lending	Private	FI	11.1	11.1	0.0	11.1
Regional navigation safety system Construction of three radio towers on the islands of Gogland, Seskar and Sommers.	Transport	State	B/1	7.4	4.3	0.0	4.3
Regional Trade Facilitation Programme Support for foreign trade.							
Probusinessbank	Bank lending	Private	FI	6.9	6.9	0.0	6.9
Uraltransbank	Bank lending	Private	FI	4.9	4.9	0.0	4.9
Center-Invest Bank, Rostov	Bank lending	Private	FI	4.9	4.5	0.0	4.5
Chelindbank	Bank lending	Private	FI	5.1	3.3	0.0	3.3
IMB	Bank lending	Private	FI	47.6	47.2	0.0	47.2
Savings Bank of Russia	Bank lending	Private	FI	43.1	29.8	0.0	29.8
Vneshtorgbank	Bank lending	Private	FI	102.1	102.1	0.0	102.1
Regional Venture Fund – Central Russia Modernisation and restructuring of enterprises in Central Russia.							
Bridgetown Foods	Equity funds	Private	FI	2.1	0.0	1.7	1.7
Morion (acquisition of Hoffman shares)	Equity funds	Private	FI	0.5	0.0	0.5	0.5
Morion (acquisition of KVG shares)	Equity funds	Private	FI	0.4	0.0	0.4	0.4
Speech Technology Center (STC)	Equity funds	Private	FI	0.6	0.0	0.6	0.6
Regional Venture Fund – North-west and west Russia Modernisation and restructuring of enterprises in north-west and west Russia.							
ESTA Telecom	Equity funds	Private	FI	0.2	0.0	0.1	0.1
ESTA Tversviazinform	Equity funds	Private	A/0	0.2	0.0	0.1	0.1
Pokrovsky III	Equity funds	Private	FI	1.8	0.0	1.8	1.8
ROK (OAO fish processing plant)	Equity funds	Private	FI	0.9	0.0	0.9	0.9
Regional Venture Fund – Russia Partners Lower Volga *RBMH Broadcast Media* Modernisation and restructuring of enterprise.	Equity funds	Private	FI	3.2	0.0	3.2	3.2
Regional Venture Fund – St Petersburg *ROK (OAO Fish Processing Plant No 1)* Modernisation and restructuring of enterprise.	Equity funds	Private	FI	0.9	0.0	0.9	0.9
Regional Venture Fund – West Siberia *Protector-M* Modernisation and restructuring of enterprise.	Equity funds	Private	FI	1.3	0.0	0.3	0.3
Russia Road Sector Reform 2 Construction of the St Petersburg eastern bypass and the Chita-Khabarovsk road.	Transport	State	A/0	327.0	230.2	0.0	230.2

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Russia Small Business Fund Financing for micro and small enterprises.							
Sibakadembank	Small business finance	Private	FI	2.4	1.2	0.0	1.2
NBD	Small business finance	Private	FI	1.6	0.8	0.0	0.8
Uralsib	Small business finance	Private	FI	7.9	6.3	0.0	6.3
Russian Agricultural Commodity Programme Financing for small and medium-sized agribusiness enterprises.	Agribusiness	Private	FI	149.2	31.7	0.0	31.7
Russian Standard Bank Development of consumer finance operations and expansion of regional operations.	Non-bank financial institutions	Private	FI	15.9	15.9	0.0	15.9
Saint-Gobain Isover Russia Construction and operation of insulation materials plant.	Manufacturing	Private	B/1	38.5	10.0	0.0	10.0
Severstal–Arcelor joint venture Construction of hot dip galvanised steel facility.	Manufacturing	Private	B/1	134.9	45.0	0.0	45.0
Sirocco Aerospace Production of Tupolev 204-120 aircraft.	Manufacturing	Private	C/1	127.0	35.7	0.0	35.7
St Petersburg Northern Waste-Water Treatment Plant incinerator Construction of sludge incinerator.	MEI	State	B/1	49.4	23.8	0.0	23.8
St Petersburg South-west Waste-Water Treatment Plant Completion of waste-water treatment plant, reducing pollution in the Gulf of Finland.	MEI	Private	B/0	188.7	35.5	0.0	35.5
Stora Enso Multi Project Facility *Arzamas Packaging* Investment in corrugating packaging plant.	Manufacturing	Private	B/0	38.8	10.0	0.0	10.0
Stora Enso Multi Project Facility *Nebolchi* Investment in saw mill.	Manufacturing	Private	B/0	8.0	2.0	0.0	2.0
Transnefteproduct Upgrade of refined oil pipeline network and supporting infrastructure.	Natural resources	State	B/1	59.5	23.8	0.0	23.8
Uralkaly Modernisation of potassium salt producer, including the construction of a power plant.	Manufacturing	Private	B/1	59.5	29.8	0.0	29.8
UralSib Credit line to assist small and medium-sized enterprises leasing goods.	Bank lending	Private	FI	11.9	11.9	0.0	11.9
Vestel-Record Construction and operation of television production facility.	Manufacturing	Private	B/1	37.7	11.9	0.0	11.9
Wirtgen *ABZ-1* Leasing facility for Russian companies modernising their road building machinery.	Manufacturing	Private	FI	0.6	0.6	0.0	0.6

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Wirtgen *Centrodorstroy* Leasing facility for Russian companies modernising their road building machinery.	Manufacturing	Private	FI	1.0	0.7	0.0	0.7
Yaroslavl municipal water services development programme Upgrade of municipal water system and institutional strengthening of the local water utility.	MEI	State	B/0	17.9	13.3	0.0	13.3
Serbia and Montenegro							
Eksimbanka Equity investment in Eksimbanka.	Bank equity	Private	FI	1.2	0.0	0.7	0.7
Eksimbanka senior debt facility Financing for small and medium-sized agribusiness enterprises.	Bank lending	Private	FI	3.0	3.0	0.0	3.0
EPS Power II Modernisation of lignite mine equipment and upgrade of the power system.	Power and energy	State	A/1	150.5	60.0	0.0	60.0
Fresh & Co Expansion of fruit juice operations and distribution network.	Agribusiness	Private	B/1	17.2	0.0	10.0	10.0
GTC House Belgrade Construction, letting and management of office development.	Property and tourism	Private	B/0	16.9	5.1	0.0	5.1
Kombinat Aluminium Podgorica Loan facilitating the privatisation of integrated aluminium producer.	Manufacturing	State	C/1	3.0	3.0	0.0	3.0
Kosovo Reconstruction Equity Fund *Rezonanca* Equity investment in small and medium-sized enterprises in Kosovo.	Equity funds	Private	FI	0.5	0.0	0.1	0.1
Montenegro Airports Modernisation of two Montenegro airports.	Transport	State	B/1	22.5	11.0	0.0	11.0
Opportunity Bank Financing for micro and small enterprises.	Small business finance	Private	FI	3.0	2.7	0.0	2.7
ProCredit Bank (formerly MFB Serbia) Credit line to assist small and medium-sized enterprises leasing goods.	Small business finance	Private	FI	6.0	5.9	0.0	5.9
Regional Trade Facilitation Programme Support for foreign trade.							
Eksimbanka	Bank lending	Private	FI	2.1	1.5	0.0	1.5
Euromarket Banka	Bank lending	Private	FI	0.2	0.2	0.0	0.2
Raiffeisenbank	Bank lending	Private	FI	0.3	0.3	0.0	0.3
SFIR (Fabrika Secera Te-To Senta A.D) Commodity lending to sugar processor, enabling the purchase of raw materials.	Agribusiness	Private	FI	14.0	9.0	0.0	9.0
SFIR (Star Secer A.D) Commodity lending to sugar processor, enabling the purchase of raw materials.	Agribusiness	Private	FI	7.0	7.0	0.0	7.0

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Société Générale Yugoslav Bank Diversification of bank's capital base.	Bank lending	Private	FI	8.5	8.5	0.0	8.5
Volksbank Serbia Equity investment in Volksbank Serbia.	Bank equity	Private	FI	10.3	0.0	2.6	2.6
Warehouse Receipts Programme *EPH* Short-term lending against warehouse receipts for agribusiness companies, farmers and traders.	Agribusiness	Private	FI	18.0	6.0	0.0	6.0
Slovak Republic							
Allianz-Slovenska Poistovna[2] Equity investment in insurance company.	Non-bank financial institutions	Private	FI	NA	NA	NA	NA
EU/EBRD SME Finance Facility – Phase II – Extension 1 *Tatra Leasing* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	5.0	5.0	0.0	5.0
EU/EBRD SME Finance Facility – Phase II – Extension 1 *VUB* Financing for small and medium-sized enterprises.	Bank lending	Private	FI	30.0	20.0	0.0	20.0
Post Privatisation Fund *SkyEurope Holding* Investment in medium-sized private enterprise.	Equity funds	Private	FI	5.9	0.0	1.9	1.9
ZSE Electricity Distribution privatisation Privatisation of electricity distribution company.	Power and energy	Private	C/1	165.0	60.5	0.0	60.5

[2] This project is subject to a confidentiality agreement.

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Slovenia							
EU/EBRD SME Finance Facility – Phase II – Extension 1 *RZB Leasing Slovenia* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	7.0	7.0	0.0	7.0
Volksbank – GEF (Global Environment Facility) Financing for environmental investment projects related to the Danube.	Bank lending	Private	FI	7.0	7.0	0.0	7.0
Lafarge Slovenia Restructuring, expansion and introduction of environmental programme at cement plant.	Manufacturing	Private	B/1	66.0	0.0	20.0	20.0
Volksbank Slovenia Extension of credit lines to assist small and medium-sized enterprises.	Bank lending	Private	FI	10.0	10.0	0.0	10.0
Tajikistan							
Regional Trade Facilitation Programme *Tajprombank* Support for foreign trade.	Bank lending	Private	FI	0.4	0.4	0.0	0.4

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Turkmenistan							
Direct Investment Facility							
TMS Wool Scouring							
Establishment of wool scouring facility.	Manufacturing	Private	FI	1.7	0.0	0.6	0.6
Ukraine							
Consumers Sklo Zorya Expansion of glass plant's production capacity.	Manufacturing	Private	B/1	17.3	12.1	0.0	12.1
Nidera (Ukraine) Expansion of grain trader's operations.	Agribusiness	Private	C/1	4.0	4.0	0.0	4.0
ProCredit Bank Ukraine (formerly MFB) Financing for micro and small enterprises.	Small business finance	Private	FI	13.7	0.0	4.0	4.0
	Small business finance	Private	FI	4.7	0.0	0.9	0.9
Raiffeisenbank Ukraine II Financing for small and medium-sized enterprises.	Bank lending	Private	FI	4.0	4.0	0.0	4.0
Regional Trade Facilitation Programme Support for foreign trade.							
Aval Bank	Bank lending	Private	FI	9.9	9.9	0.0	9.9
First Ukrainian International Bank (FUIB)	Bank lending	Private	FI	9.4	0.4	0.0	0.4
Forum Bank	Bank lending	Private	FI	2.3	2.3	0.0	2.3
Hypovereinsbank Ukraine	Bank lending	Private	FI	2.5	2.5	0.0	2.5
Kredyt Bank Ukraina (formerly WUCB)	Bank lending	Private	FI	0.8	0.8	0.0	0.8
Nadra Bank	Bank lending	Private	FI	2.2	1.6	0.0	1.6
Raiffeisenbank Ukraine	Bank lending	Private	FI	0.3	0.3	0.0	0.3
UkrSotsBank	Bank lending	Private	FI	5.6	5.6	0.0	5.6
Rubizhansky Cardboard and Packaging Mill Modernisation and expansion of paper and corrugated packaging operations.	Manufacturing	Private	B/1	35.2	11.1	0.0	11.1
Ukraine SME Finance Facility II							
Aval Bank							
Financing for small and medium-sized enterprises.	Bank lending	Private	FI	11.9	11.9	0.0	11.9
Ukrrichflot III Acquisition of four dry cargo building vessels.	Shipping	Private	B/1	27.3	17.1	0.0	17.1
Warehouse Receipts Programme Short-term lending against warehouse receipts for agribusiness companies, farmers and traders.							
Aval Bank	Bank lending	Private	FI	6.3	2.4	0.0	2.4
UkrSotsBank	Bank lending	Private	FI	7.9	7.9	0.0	7.9
Uzbekistan							
Bursel Tashkent Textile JV Establishment of textile plant manufacturing high-quality knitted cotton garments.	Manufacturing	Private	B/1	34.9	10.3	0.0	10.3
Nestlé Uzbekistan-LLC Guarantee facility to support consumer goods producer's access to local-currency financing.	Agribusiness	Private	FI	2.5	2.5	0.0	2.5

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Regional Trade Facilitation Programme Support for foreign trade.							
Asaka Bank	Bank lending	Private	FI	14.4	8.5	0.0	8.5
UzDaewoo	Bank lending	Private	FI	<0.1	<0.1	0.0	<0.1
Tashkent Airport rehabilitation Upgrading of airport passenger terminal and improvements to taxiways.	Transport	State	B/0	21.6	1.8	0.0	1.8

Regional

Project	Sector	Portfolio class	Environmental code	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Askembla Growth Fund Private equity fund supporting medium-sized enterprises.	Equity funds	Private	FI	27.1	0.0	12.9	12.9
Billa Expansion of supermarket chain in Bulgaria, Romania and Ukraine.	Agribusiness	Private	B/0	202.2	45.0	0.0	45.0
Groupe Castel Restructuring and expansion of distributor's beer, water and wine activities.	Agribusiness	Private	C/1	15.9	15.9	0.0	15.9
DBG Osteuropa Holding II Equity investments in private companies in the Czech Republic, Hungary, Poland and the Slovak Republic.	Equity funds	Private	FI	66.0	0.0	20.0	20.0
Efes – EBI Financing for Efes breweries.	Agribusiness	Private	C/0	7.3	0.7	0.0	0.7
EU/EBRD SME Finance Facility – Phase I – Extension 1 *Global Growth Fund* Financing for small and medium-sized enterprises.	Equity funds	Private	FI	17.0	0.0	6.5	6.5
EU/EBRD SME Finance Facility – Phase II – Extension 2 *Hansa Capital* Financing for small and medium-sized enterprises.	Non-bank financial institutions	Private	FI	18.0	18.0	0.0	18.0
Grand Cross-border expansion of coffee producer's operations and product development.	Agribusiness	Private	B/0	7.0	7.0	0.0	7.0
International Water United Utilities Acquisition of three water utility companies.	MEI	Private	C/1	39.3	0.0	17.8	17.8
Marbo Regional expansion of snack food producer's operations.	Agribusiness	Private	B/1	28.3	10.0	0.0	10.0
Orco Aparthotels Expansion of extended-stay hotel chain.	Property and tourism	Private	B/0	136.2	0.0	14.4	14.4
TUI advance payments Upgrade and expansion of hotels in Bulgaria, Croatia, Hungary and Serbia and Montenegro.	Property and tourism	Private	C/1	41.2	41.2	0.0	41.2

Governors and Alternate Governors

31 December 2003

Member	Governor	Alternate Governor
Albania	Arben Malaj	Adriana Berberi
Armenia	Vardan Khachatryan	Tigran Sargsyan
Australia	Peter Costello	Chris Gallus
Austria	Karl-Heinz Grasser	Thomas Wieser
Azerbaijan	Farhad Aliyev	Avaz Alekperov
Belarus	Sergei Sidorsky	Nikolai P Zaichenko
Belgium	Didier Reynders	Jean-Pierre Arnoldi
Bosnia and Herzegovina	Mladen Ivanic	Jusuf Kumalic
Bulgaria	Milen Veltchev	Bojidar Kabaktchiev
Canada	Ralph Goodale	Peter Harder
Croatia	Mato Crkvenac	Josip Kulisic
Cyprus	Markos Kyprianou	Christos Patsalides
Czech Republic	Bohuslav Sobotka	Zdeněk Tüma
Denmark	Bendt Bendtsen	Michael Dithmer
Egypt	Hassan Ali Ali Khedr	Youssef Boutros-Ghali
Estonia	Taavi Veskimägi	Aare Järvan
Finland	Antti Kalliomäki	Pekka Lintu
Former Yugoslav Republic of Macedonia	Nikola Popovski	Stefco Jakimovski
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	Benedikt Árnason
Ireland	Charlie McCreevy	Tom Considine
Israel	David Klein	Yossi Bachar
Italy	Giulio Tremonti	Lorenzo Bini Smaghi
Japan	Sadakazu Tanigaki	Toshihiko Fukui
Kazakhstan	Erbolat Askarbekovich Dosayev	Anvar Saidenov
Korea, Republic of	Jin-Pyo Kim	Seung Park
Kyrgyz Republic	Djoomart Otorbaev	Ulan Sarbanov
Latvia	Valdis Dombrovskis	Aigars Kalvitis
Liechtenstein	Hansjörg Frick	Roland Marxer
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Moldova	Marian Lupu	Dumitru Ursu
Mongolia	Chultemiin Ulaan	Ochirbatyn Chuluunbat
Morocco	Fathallah Oualalou	Abderrazak Lazraq
Netherlands	Gerrit Zalm	Bernard Bot
New Zealand	Phil Goff	Russell Marshall
Norway	Per-Kristian Foss	Helle Hammer
Poland	Leszek Balcerowicz	Ryszard Michalski
Portugal	Manuela Ferreira Leite	Francisco Gusmão Esteves de Carvalho
Romania	Mihai N Tanasescu	Mugur Isarescu
Russian Federation	German O Gref	Sergei I Kolotukhin
Serbia and Montenegro	Bozidar Djelic	Miroslav Ivanisevic
Slovak Republic	Ivan Mikloš	Marián Jusko
Slovenia	Dušan Mramor	Sibil Svilan
Spain	Rodrigo Rato	Francisco Utrera
Sweden	Gunnar Lund	Karin Rudebeck
Switzerland	Joseph Deiss	Oscar Knapp
Tajikistan	Abdujabor Shirinov	Maruf Saifiev
Turkey	Ibrahim H Çanakci	Aydin Karaöz
Turkmenistan	—	Guvanch Geoklenov
Ukraine	Mykola Azarov	Sergyi L Tigipko
United Kingdom	Gordon Brown	Hilary Benn
United States	John W Snow	Alan P Larson
Uzbekistan	Rustam Sadykovich Azimov	Abdurafik A Akhadov
European Community	Pedro Solbes Mira	Klaus Regling
European Investment Bank	Philippe Maystadt	Wolfgang Roth

Chairman of the Board of Governors
Governor for Luxembourg
(Jean-Claude Juncker)

Vice Chairmen of the Board of Governors
Governor for Germany
(Hans Eichel)
Governor for Romania
(Mihai N Tanasescu)

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 2003

Director	Alternate Director	Constituency
Konstantin Andreopoulos	Grammatiki Tsingou-Papadopetrou	European Investment Bank
Scott Clark	David Plunkett	Canada/ Morocco
António de Almeida	Stefanos Vavalidis	Portugal/ Greece
Jos de Vries	Hidde van der Veer	Netherlands/ Mongolia
Susumu Fujimoto	Osamu Sakashita	Japan
Torsten Gersfelt	Desmond O'Malley	Denmark/ Ireland/ Lithuania/ FYR Macedonia
Laurent Guye	Ayşe Dönmezer	Switzerland/ Turkey/ Liechtenstein/ Uzbekistan/ Kyrgyz Republic/ Azerbaijan/ Turkmenistan/ Serbia and Montenegro
Sven Hegelund	Tomas Danestad	Sweden/ Iceland/ Estonia
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
Igor Očka	Imre Tarafás	Czech Republic/ Hungary/ Slovak Republic/ Croatia
Philippe Petit-Laurent	Vassili Lelakis	European Community
Yuri Poluneev	Ionut Costea	Ukraine/ Romania/ Moldova/ Georgia/ Armenia
Enzo Quattrociocche	Francesco Saverio Nisio	Italy
Gonzalo Ramos	León Herrera	Spain/ Mexico
Kaarina Rautala	Tor Hernæs	Finland/ Norway/ Latvia
Simon Ray	Jonathan Ockenden	United Kingdom
Peter Reith	Byung-Hwa Jin	Australia/ Korea/ New Zealand/ Egypt
Gerd Saupe	Clemens Kerres	Germany
Jean-Louis Six	Georges Heinen	Belgium/ Luxembourg/ Slovenia
Mark Sullivan	—	United States of America
Tadeusz Syryjczyk	Kalin Mitrev	Poland/ Bulgaria/ Albania

Composition of Board of Directors' Committees

31 December 2003

Audit Committee
Jos de Vries *(Chairman)*
Mark Sullivan *(Vice Chairman)*
António de Almeida
Scott Clark
Sven Hegelund
Jean-Pierre Landau
Gonzalo Ramos
Simon Ray

Financial and Operations Policies Committee
Enzo Quattrociocche *(Chairman)*
Igor Očka *(Vice Chairman)*
Torsten Gersfelt
Laurent Guye
Igor Kovtun
Philippe Petit-Laurent
Yuri Poluneev
Peter Reith

Budget and Administrative Affairs Committee
Susumu Fujimoto *(Chairman)*
Jean-Louis Six *(Vice Chairman)*
Konstantin Andreopoulos
Michael Neumayr
Kaarina Rautala
Gerd Saupe
Tadeusz Syryjczyk

Board Steering Group
Torsten Gersfelt *(Chairman)*
Laurent Guye *(Vice Chairman)*
Jos de Vries
Susumu Fujimoto
Igor Očka
Enzo Quattrociocche
Jean-Louis Six
Mark Sullivan

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

2 March 2004

President	Jean Lemierre

Banking

First Vice President	Noreen Doyle
Deputy Vice President	David Hexter

Front Office

Strategy, Planning and Budgeting Director *(joint report to Finance)*	Josué Tanaka
Operations Committee Secretariat	Frederic Lucenet
Business Development Support Unit	Bruno Balvanera
Corporate Recovery *(joint report to Risk Management)*	Mary Ellen Collins
Group for Small Business *(report to Banking Deputy Vice President)*	Elizabeth Wallace

Energy and Telecommunications

Business Group Director	Peter Reiniger
Energy Efficiency	Jacquelin Ligot
Natural Resources	Kevin Bortz
Power and Energy Utilities	Tony Marsh
Telecommunications, Informatics and Media	Izzet Güney

Financial Institutions

Business Group Director	Kurt Geiger
Bank Equity	Maria-Luisa Cicognani
Bank Lending	Rogers LeBaron
Equity Funds	Kanako Sekine
Non-bank Financial Institutions	Jonathan Woollett
Equity Support	Lindsay Forbes

Infrastructure

Business Group Director	Gavin Anderson
Municipal and Environmental Infrastructure	Thomas Maier
Transport	Riccardo Puliti

Central Europe and Specialised Industries

Business Group Director	Alain Pilloux
Baltic countries	Salvatore Candido
Poland (Warsaw office)	Irene Grzybowski
Czech Republic and Slovak Republic (Bratislava office)	Alexander Auboeck
Croatia (Zagreb office)	Andrew Krapotkin
Hungary (Budapest office)	Hubert Warsmann
Slovenia (Ljubljana office)	Murat Yildiran
Agribusiness	Hans Christian Jacobsen
Property and Tourism	Edgar Rosenmayr

Southern and Eastern Europe and the Caucasus

Business Group Director	Olivier Descamps
Ukraine (Kiev office)	Kamen Zahariev
Serbia and Montenegro (Belgrade office)	Dragica Pilipovic-Chaffey
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
TurnAround Management Group	Chris Walker

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

Finance

Vice President	Steven Kaempfer

Treasury

Treasurer	Vacant
Deputy Treasurer and Head of Asset and Liability Management	Axel van Nederveen
Analytics/ Research	Andrey Gorbachev
Client Risk Management	Grant Metcalfe-Smith
Funding	Isabelle Laurent
Investments – Credits	Steen Carndorf
Investments – Rates	Bart Mauldin

Strategic and Corporate Planning and Budgeting

Corporate Director	Josué Tanaka

Commercial Co-financing

Director	Lorenz Jorgensen

Accounting, Reporting and Financial Control

Director	Nigel Kerby
Financial Reporting and Expense Control	Julie Williams
Funds Financial Control	Teresa Godwin-Coombs
Treasury Financial Control	Terry Cullen

Operations, Information Technology and Operations Administration Unit

Head of Operations, Information Technology and Operations Administration Unit	Chris Holyoak
Information Technology	Tim Goldstone
Loans and Equity Operations	Mark Smith
Treasury Operations	Chris Swinchatt
Operations Administration Unit	Lieve Reckers

Risk Management

Vice President	Fabrizio Saccomanni

Risk management

Director	Mike Williams
Credit/ Transaction Analysis	Bob Harada
Treasury Risk Management	Jean-André Sorasio
Credit Portfolio Review	Irena Postlava
Corporate Recovery *(joint report to Banking)*	Mary Ellen Collins

Environment

Director	Alistair Clark

Nuclear Safety

Director	Vince Novak

Official Co-financing

Director	Gary Bond

Human Resources and Administration

Vice President	Hanna Gronkiewicz-Waltz

Human Resources

Director	Paolo Gallo (acting)

Administration

Director	John McNess

Procurement and Purchasing and Consultancy Services Unit

Deputy Vice President	Jean-François Maquet
Director of Procurement and Purchasing	Maurice Lepage
Head of Consultancy Services	Dilek Macit

Office of the Secretary General

Secretary General	Johnny Åkerholm
Shareholder and Institutional Affairs	
Deputy Secretary General	Nigel Carter
Communications	
Director	Brigid Janssen
Project Evaluation	
Corporate Director *(report to President)*	Fredrik Korfker

Office of the Chief Economist

Chief Economist	Willem Buiter
Deputy Chief Economist and Director of Policy Studies and Sector Strategy	Steven Fries
Director of Transition Strategy	Steven Fries (acting)
Director of Policy Studies and Sector Strategy	Sam Fankhauser (acting)
Director of Project Design and Appraisal	Jose Carbajo

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 Compliance Officer

Chief Compliance Officer	Chris Holyoak (acting)

Internal Audit

Head of Internal Audit	Tarek Rouchdy
Deputy Head of Internal Audit	Ray Portelli

President's Office

Director	Arnaud Prudhomme

Human resources and management changes

Organisational change

A new organisational structure was implemented in 2003 in line with current best financial practice and the highest standards of corporate governance. The new organisation separates the banking and treasury functions of the EBRD from the risk management of these operations. This involved the creation of a new Risk Management Vice Presidency and changes to the reporting structure of various departments to ensure proper governance and to even the workload across the Bank.

Staffing

The EBRD developed its programme of training initiatives in 2003 and established a new management development structure. Particular emphasis was placed on providing opportunities for staff to move internally and to develop career opportunities both in our headquarters and in our local offices.

The EBRD undertook a staff survey in 2003. This benchmarked progress since the first survey in 2000 and showed improvements in a number of areas. For example, staff supported the EBRD's work-life balance initiative. Although the survey reflected a high degree of job satisfaction at the Bank, a number of areas were shown to be in need of attention, such as collaboration across departments.

At the end of December 2003, the EBRD had a regular staff of 906 at its headquarters compared with 907 in 2002. Locally hired staff in the Bank's Resident Offices totalled 229, compared with 237 in 2002. The ratio of male/female professional staff in the EBRD is approximately 1.82:1. Recruitment strategy continues to reflect the diversity and multinational nature of the organisation.

Changes in senior management

In 2003 Fabrizio Saccomanni was appointed to the EBRD at Vice President level, replacing Joachim Jahnke who retired in December 2002. Mr Saccomanni was formerly the Central Director for International Affairs at Banca d'Italia and has extensive experience in international banking and monetary affairs. Following the reorganisation of the Bank, Mr Saccomanni became Vice President of Risk Management.

Johnny Åkerholm was appointed Secretary General. Mr Åkerholm was previously Under Secretary of State for Economic Affairs in the Finnish Ministry of Finance and is a former president of the Economic and Finance Committee of the EC.

At the end of 2003 the Bank was in the final stages of recruitment for three senior management posts: Chief Compliance Officer, Treasurer and Director of Human Resources.

Further information and guide for readers

Web site

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 Belgrade, Serbia and Montenegro in 2005.

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 2003. (Approximate euro exchange rates: £0.71, US$ 1.26, ¥ 134.70.)

Operation counting

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

Calculation of EBRD commitments

Repeat transactions with the same client for seasonal/short-term facilities, such as commodity financing, are not included in the calculation of EBRD commitments for the year.

Transition classification

The EBRD classifies its countries of operations by their progress in transition towards a market economy (Russia is treated separately):

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

Abbreviations and acronyms

The Bank, EBRD	The European Bank for Reconstruction and Development
BAS	Business Advisory Services
CEB	Central Europe and the Baltic states
CIS	Commonwealth of Independent States
CSF	Chernobyl Shelter Fund
DIF	Direct Investment Facility
EC	European Community
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EU	European Union
FDI	Foreign direct investment
FYR Macedonia	Former Yugoslav Republic of Macedonia
G-7	Group of 7 (Canada, France, Germany, Italy, Japan, UK and USA)
GDP	Gross domestic product
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
ISPA	Instrument for Structural Policies for Pre Accession
MEI	Municipal and environmental infrastructure
MSEs	Micro and small enterprises
NDEP	Northern Dimension Environmental Partnership
NGO	Non-governmental organisation
NIB	Nordic Investment Bank
NSA	Nuclear Safety Account
RSBF	Russia Small Business Fund
RVF	Regional Venture Fund
SEE	South-eastern Europe
SMEs	Small and medium-sized enterprises
Tacis	Technical Assistance for CIS countries (EU)
TAM	TurnAround Management Programme
TC	Technical cooperation
TFP	Trade Facilitation Programme

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Jim Hodson	12, 14, 32, 42, 59 left
Andy Lane	10
Andrzej Luc	5 right, 27, 59 right
Maritza East III	36
Northern Dimension Environmental Partnership	22
Power Machines Group	53
Rubizhansky Cardboard and Packaging Mill	46 left
Jazz Singh	68
Sirocco Aerospace	50
Jon Spaull	6 left, 6 middle
TUI	34
UPM	20, 23
Michael Yamashita	72

Published by the
European Bank for Reconstruction and Development.

Compiled and edited by the Publishing Unit, Communications Department.
French, German and Russian language versions translated by the Translation Unit.
Designed and produced by the Design Unit.

Printed in England by Fulmar Colour Printing, using environmental waste and paper recycling programmes.

Cover and interior printed on environmentally responsible paper.
Printed on Consort Royal Silk using ECF pulp (Elemental Chlorine Free) from farmed forests.

ref: 5968

Cover: Road construction, Russia.
Photographer: Mike Ellis.

The largest EBRD project signed in 2003 was a €230 million loan to support road construction in Russia.

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