



# Building on success

Annual report 2004

## Annual review



European Bank  
for Reconstruction and Development

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, 8 March 2005

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 2004 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.

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# Annual review

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The EBRD's Annual Report 2004 comprises two separate companion volumes: the Annual Review and the Financial Report, which includes the financial statements and the financial results commentary.

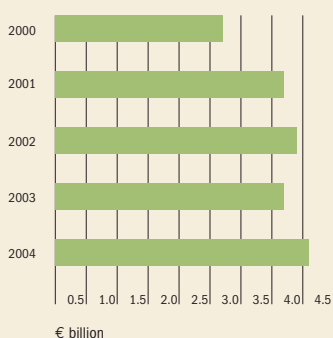
Both volumes are published in English, French, German and Russian. Copies are available free of charge from the EBRD's Publications Desk:  
Tel: +44 20 7338 7553  
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Email: [pubsdesk@ebrd.com](mailto:pubsdesk@ebrd.com)

# 2004 in numbers

**€4.1 billion**

invested in 129 projects,  
a record level of investment

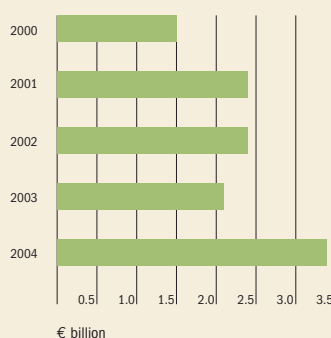
**Annual commitments  
2000-04**



**€3.4 billion**

disbursed in 2004, over  
60 per cent higher than  
the previous year

**Gross annual disbursements  
2000-04**



## Geographic distribution

**€1.93 billion**

invested in early and  
intermediate transition  
countries

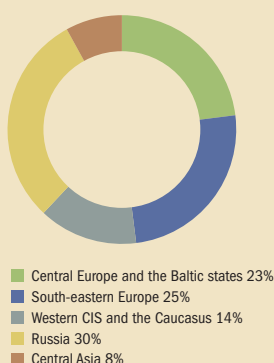
**€1.24 billion**

in Russia

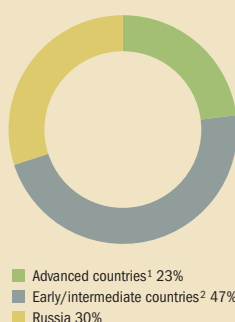
**€0.96 billion**

in advanced transition  
countries

**Commitments by region  
in 2004**



**Commitments by stage  
of transition in 2004**



<sup>1</sup> Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.

<sup>2</sup> 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

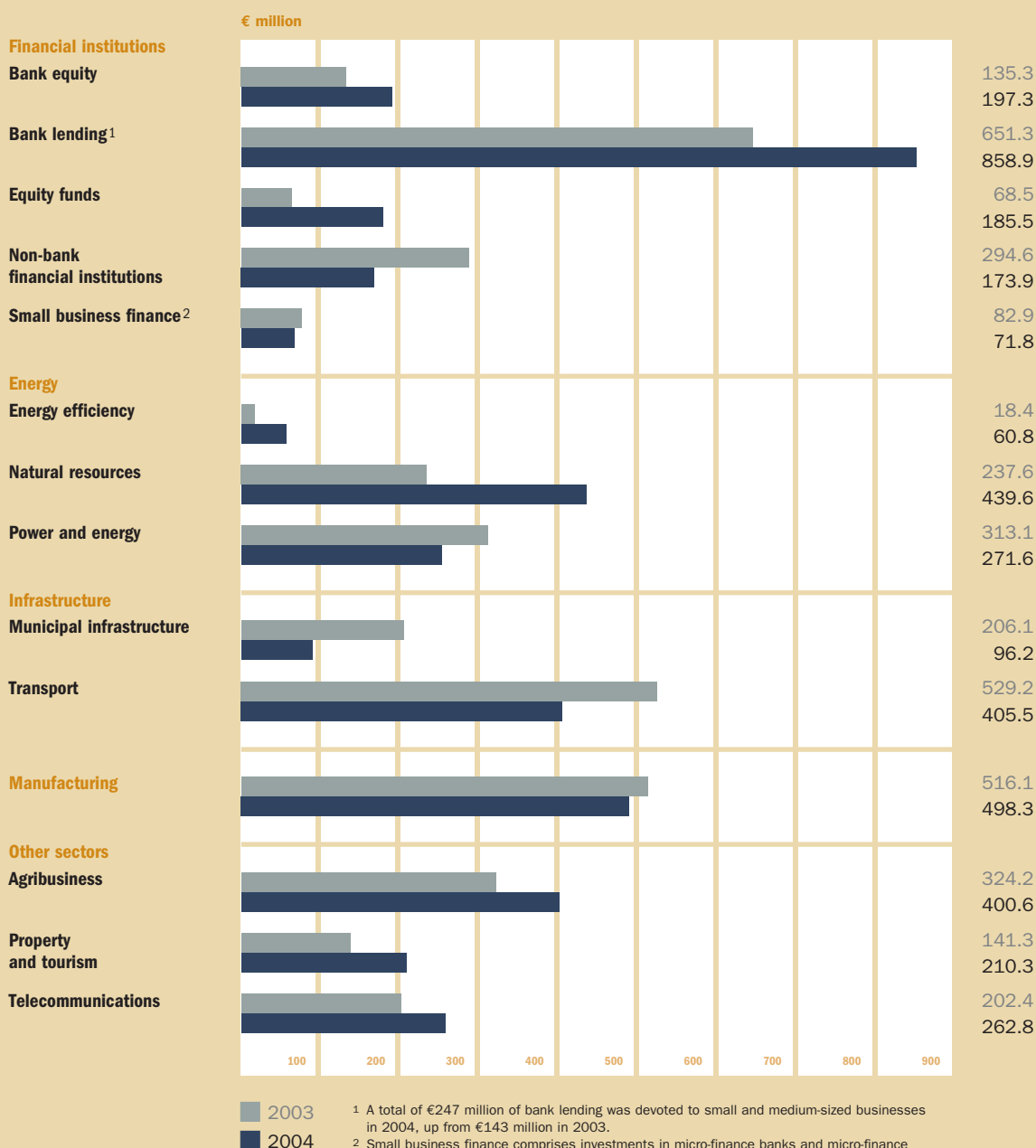
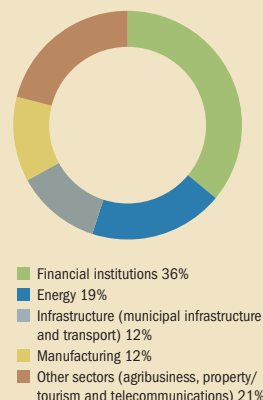
### Over one-third

of investment devoted to financial institutions to support local enterprises

### One-fifth

of investment supported energy projects, particularly natural resources

EBRD financing committed by sector in 2004



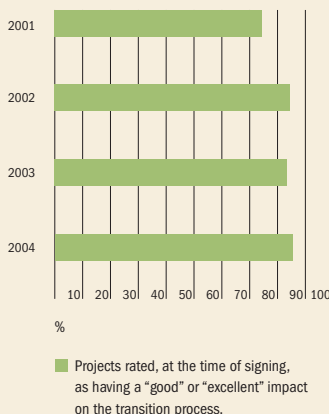
# 85 per cent

of investments in 2004 are expected to have a “good” or “excellent” impact on the transition process in years to come

# 77 per cent

of the projects evaluated in 2000-04 achieved a rating of “satisfactory”, “good” or “excellent”

**Transition impact of signed projects 2001-04**



**Transition impact of projects evaluated in 2000-04**



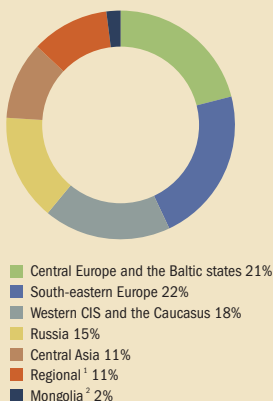
# €82 million

provided by donors to support EBRD projects

# 39 per cent

of grants provided by the EC, with significant contributions from the Netherlands, the United States, Japan and Italy

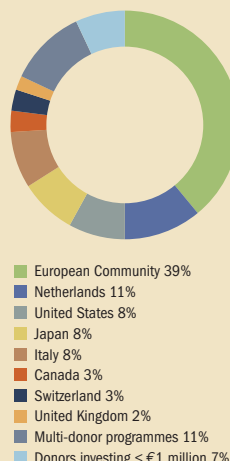
**Donor commitments by region in 2004**



<sup>1</sup> Regional refers to cross-regional investments, for example donor programmes which support both Russia and Central Asian countries.

<sup>2</sup> Mongolia is not an EBRD country of operations, but the Board of Directors has authorised limited activities in Mongolia using donor funds.

**Commitments by donor in 2004**

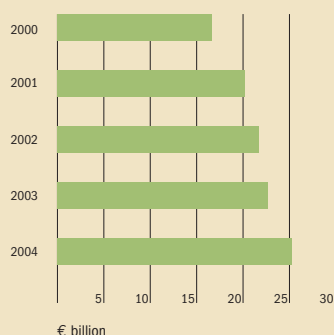




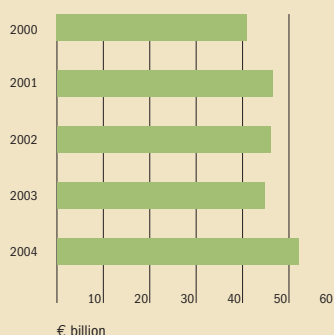
# €25.3 billion

of cumulative investment, mobilising €53.2 billion from other sources, for a total project value of €78.5 billion

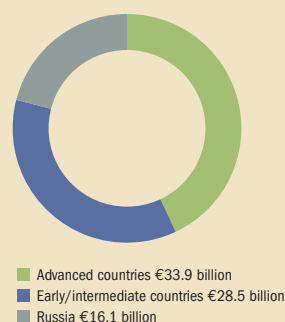
**Cumulative commitments 2000–04**



**Cumulative funds mobilised 2000–04**



**Total project value of EBRD investments 1991–2004**



## Annual commitments 2000–04

	2004	2003	2002	2001	2000	Cumulative 1991–2004
<b>Number of projects</b>	<b>129</b>	119	102	102	95	1,140
<b>EBRD financing (€ million)</b>	<b>4,133</b>	3,721	3,899	3,656	2,673	25,323
<b>Resources mobilised (€ million)</b>	<b>8,799</b>	5,307	4,862	6,212	5,174	53,218
<b>Total project value (€ million)</b>	<b>12,932</b>	9,028	8,761	9,868	7,847	78,542

## Financial results 2000–04

(€ million)	2004	2003	2002	2001	2000
<b>Operating income<sup>1</sup></b>	<b>542.1</b>	557.9	471.8	501.5	519.2
<b>Expenses and depreciation<sup>1</sup></b>	<b>(159.5)</b>	(158.0)	(177.1)	(206.7)	(192.1)
<b>Operating profit before provisions</b>	<b>382.6</b>	399.9	294.7	294.8	327.1
<b>Provisions for impairment</b>	<b>(84.9)</b>	(21.7)	(186.6)	(137.6)	(174.3)
<b>Net profit for the year</b>	<b>297.7</b>	378.2	108.1	157.2	152.8
<b>Reserves and retained earnings</b>	<b>1,786.0</b>	989.6	661.1	488.7	65.9
<b>Provisions for impairment (cumulative)</b>	<b>1,139.7</b>	1,169.6	1,291.0	1,224.2	1,212.1
<b>Total reserves and provisions</b>	<b>2,925.7</b>	2,159.2	1,952.1	1,712.9	1,278.0

<sup>1</sup> In 2000 and 2001, operating income was reported before the deferral of front-end and commitment fees. Expenses and depreciation were reported before the deferral of direct costs relating to loan origination and commitment maintenance.

# President's message



**For an institution that was founded to promote prosperity through political freedom and market economics, 2004 was a bountiful year.**

It began with a peaceful revolution in Georgia that rejected flawed elections and chose instead a government committed to reform and market principles. The year ended with revolution in Ukraine, where popular protest peacefully overturned fraudulent election results to install an opposition that quickly embarked on a programme of reconciliation and economic development driven by a free market. And in May 2004, revolution of a different kind occurred when eight countries of central Europe joined the European Union culminating a process of diligent preparation to establish market economies and refine their democratic institutions.

Beyond those headline-making events, there was much evidence in many parts of the region of the link between politics and economics. To the countries of

south-eastern Europe, the incentive of a closer relationship with the European Union has proven a powerful motivation to align democratic institutions, to open markets and to design and enforce fair regulations. Romania and Bulgaria, which are due to join soon, and EU candidate Croatia are obvious examples of the improvements that are inherent in the EU application process. Russia's process of membership in the World Trade Organization and its ratification of the Kyoto Protocol are part of its strategy to set world-class standards that will make economic expansion sustainable.

In the opening months of 2005, there was more political evolution with the departure of the leadership of the Kyrgyz Republic following March elections. Without revolution in the



streets, Moldova used a spring election to shift from its legacy of planned economy towards a more open economic system and balanced international relations. And it is clear that the countries that have rejected more democratic institutions and real adoption of market principles have made the least economic and social progress.

The challenge of the EBRD is both to foster progress and respond to it. The priorities of the Bank evolve with developments in the 27 countries of the region, as signalled by the market. Simply, the EBRD focuses its investment in countries and sectors where private investors are still reluctant to act alone. Increasingly, that will mean less investment in the new EU member states of central Europe and higher priority for the countries further east that are still at the earlier stages of economic development. It will mean a continuing high proportion of investment in Russia, but new kinds of investment and in more remote areas.

Activity in 2004 foreshadowed what will certainly be the direction for the future. The EBRD invested €4.1 billion in many more and smaller projects than in the past. There were more bankers in the field, working with local clients and domestic as well as international investment partners on projects that supported small and medium-sized business along with major industries. Our special emphasis on the poorest countries, the Early Transition Countries Initiative launched in 2004, is designed to take more risk and streamline processes so that we can do more transactions in places where there is the greatest need to build up the market economy.

The EBRD achieved higher financing than ever before in 2004. And the EBRD's investment was significantly reinforced by a record level of co-financing. Projects in more difficult environments were

possible because of the generous donor contributions that prepare the way for and support EBRD projects.

But the Bank's role is not just to finance projects. Policy dialogue – through my own discussions with leaders from across the region as well as through our Resident Offices and visits by members of the Board of Directors – helps both the EBRD and the countries to fix priorities. For the first time, the EBRD hosted seminars in south-eastern Europe on policy issues such as energy, transportation and municipal questions. The mix of policy-makers, business leaders and other international institutions that we brought together provided a forum to expand networks, thinking and understanding of the international context. Dialogue will form an ever greater part of the Bank's role as we move further into more difficult investment environments.

And the EBRD has an important role in setting standards of best practice. The Bank will launch in 2004 a new companion to this Annual Report – the *EBRD Sustainability Report* – describing how EBRD financing contributes to environmental improvement, to transparency and dialogue, and to promoting sustainable progress in the countries of the EBRD region.

We also set standards through the EBRD's own practices. Following a reorganisation to make a clearer distinction between the Bank's financing and risk assessment functions, a major programme was implemented to provide certification of the Bank's internal financial controls. A Bank-wide system of self-assessment of exposure to operational risk was also put in place, and controls to manage, monitor and mitigate that risk were strengthened. These initiatives are part of the Bank's commitment to best practice in internal governance, through responsibility, accountability and transparency.

In the coming year, there will be an even greater emphasis on monitoring the operations of existing projects and intensive due diligence on new projects. Honest and independent evaluation will be enhanced with a planned change of structure so that the evaluation function reports to the Board of Directors. New strength to the compliance function, integrity training for all staff, and a review of the code of conduct are all part of the ongoing effort to constantly hone governance.

The goal we have set, as we take on new challenges in more difficult environments, is to continue building on successes of the past to contribute to a more prosperous future for the people of the region.



**Jean Lemierre**  
**President**

# 01 **Building on success**

The past year witnessed many forms of transition, from fundamental political changes and economic progress to development of investment and, for the EBRD, changes to meet the evolving needs of the region where the Bank operates. It was a year of building on successful past experience to adapt to the new priorities in the EBRD region.



Certainly the accession of eight central European countries to the European Union on 1 May 2004 was the most evident sign of progress in transition. The EBRD continues to work in these countries in order to assist their transition to fully developed market economies. In south-eastern Europe the prospect of eventual membership in, or forging closer ties with, the EU spurred economic and political development.

Democratic reform took a different course in Ukraine, where the strength of public will eventually prevailed to force a free and fair presidential election. Georgia, too, began the year with a new government elected after

popular rejection of a questionable parliamentary election result. Romania and Serbia and Montenegro held elections that successfully tested democratic institutions. In all these countries new pro-reform governments contrast with lack of progress towards democracy and market-oriented reform in Belarus, Turkmenistan and Uzbekistan.

Economic progress was marked across the region, with solid growth in virtually every country. Russia and the Caucasus expanded their economies with the help of high oil revenues while other parts of the region succeeded in improving the climate for local and foreign investors.

The EBRD's own role in encouraging investment evolved last year. We built on the expertise gained from successful projects in the more advanced transition countries. And we put a particular focus on the poorest countries, where there is the greatest need for our local experience and relationships with potential co-investors.

There were more project signings than ever before because the Bank is doing a greater number of smaller projects as well as large-scale projects that are mostly in the private sector. Some 86 per cent of our annual volume was in the private sector in 2004, up from 79 per cent in 2003. We have evolved



too, by increasing the proportion of our equity investments, which involve a particularly deep engagement with the client over time. The equity share of our annual business increased from 12 per cent in 2003 to 17 per cent in 2004.

Alongside the main work of the EBRD of investing in the region through loans, equity and other instruments, we invested our capital to provide financial stability and we used guarantees to promote more trade. We also offered advice on how to make it easier for local companies to do business. We helped countries to improve their laws, to reduce “red tape” and to work with their neighbours.

Through our investments, we reached out to virtually every part of the economy and society. A large number of the projects signed over the past year will have a positive impact on the daily lives of ordinary people. An investment in Tajikistan, for example, will bring clean running water to Khujand, the country's second-largest city, which has suffered from shortages and polluted supplies for many years. In Lithuania commuters in the city of Kaunas will benefit from an efficient bus service – supported by EBRD finance – that will shuttle them across the city much more quickly and reliably than ever before. In Russia we are financing a new vaccine that will protect Russians from flu as well as potentially more life-threatening diseases in years to come.

Throughout 2004 we invested in each of our 27 countries of operations, from central Europe to central Asia, but there was a special effort to deliver to the neediest countries. The EBRD created a new team to focus purely on investing in the poorer countries and found new ways of providing assistance. We also worked closely with donors to develop ways of sustaining this assistance for years to come. By the end of the year, we had created a strong framework that is already beginning to bring new hope to a long-neglected group of countries.

Throughout our countries of operations the EBRD remains committed to promoting **democracy and market economies** in line with Article 1 of the Bank's Founding Agreement. Each new country strategy approved by the Bank includes an assessment of the country's compliance with Article 1. The lack of progress in a number of countries continued to cause concern in 2004.

In the new strategies for Belarus and Turkmenistan, the Bank expressed serious concern about the continuing lack of progress in democratic and economic reform. As a result, the EBRD will limit its operations in Belarus to the private sector and will confine activities in Turkmenistan to financing small business. In both countries the Bank will support improvements to the investment climate through dialogue at government level.

Many of the projects signed in 2004 will have a positive impact on the daily lives of ordinary people.

[www.ebrd.com/country](http://www.ebrd.com/country)





Following two missions to Uzbekistan to monitor progress in political and economic reform, the EBRD concluded that there was still serious concern regarding Article 1. Furthermore, insufficient progress had been made by the government in the context of the Bank's 2003 strategy, making it impossible for the EBRD to conduct business as usual. The Bank will therefore finance only private sector activities and public sector projects with a cross-border dimension or a clear benefit to the Uzbek people.

Looking ahead, the EBRD's Board of Governors adopted a new resolution aimed at admitting **Mongolia** as a future country of operations. This has to be officially accepted by every shareholder country before Mongolia can become eligible for EBRD investment. By the end of 2004, half of the EBRD shareholders had completed the acceptance process.

## More investment and smaller projects

The EBRD financed projects totalling €4.1 billion in 2004, a record level of investment. Our focus on the poorest countries led us to finance many smaller projects aimed at helping the least well-off. The annual number of EBRD-financed projects rose to 129, up 8 per cent from last year. In all our investments the Bank maintained a high quality, focusing on the real needs of the countries where we operate. More than 80 per cent of our projects received a "good" or "excellent" rating for their potential impact on the transition process.

Along with significant progress in increasing equity investments and extending private sector activities, the geographic distribution of our investment was in line with the Bank's medium-term strategy. Our activity consisted of

23 per cent of volume in the most advanced transition countries, 47 per cent in countries at the earlier stages of transition and 30 per cent in Russia.

With the dollar weakening through the year, the value in euros of those transactions that are dollar-based (in Russia and some early and intermediate countries) was eroded, yet we still managed to increase business volume in euro terms, up from €3.7 billion in 2003. Annual disbursements reached a record level of €3.4 billion, 61 per cent higher than the previous year.

The EBRD's high volume of business was achieved through a careful project selection process that ensures that every transaction reflects the mandate of the Bank and can meet the stringent conditions of sound banking and transition impact. Over 80 per cent

## Investing across the board

EBRD investment has supported people from all walks of life, from entrepreneurs keen to expand their businesses to consumers looking for more choice and reliability from essential services.

The EBRD invested in nearly every sector in 2004. Approximately one-third of business volume was in financial institutions, which support local enterprises in the real economy. Two-thirds of investment was devoted to infrastructure, energy, manufacturing and other sectors, such as agribusiness, property/tourism and telecommunications.

Our annual investment in the energy sector increased from €569 million in 2003 to €772 million in 2004. We also significantly increased our annual business volume in agribusiness to €401 million from €324 million the previous year.





## Developing a sound legal framework

The EBRD paid special attention in 2004 to the need for legal assistance in some of the poorest countries where we operate. Following requests from local governments, the EBRD used donor funding to start projects in Azerbaijan, Georgia, the Kyrgyz Republic, Moldova and Uzbekistan. The assistance has covered not only law-drafting in areas such as telecommunications, insolvency and mortgage legislation but also measures to strengthen these countries' institutional capacity through the development of registries and the training of local officials.

Legal assistance was provided under the umbrella of the EBRD's donor-funded Legal Transition Programme, which operates across the Bank's countries of operations. During 2004 the EBRD helped to make further improvements to commercial laws. The Bank published new comprehensive evaluations of the laws on concessions and securities markets together with an innovative survey on the effectiveness of insolvency legislation. The survey findings have provided local policy makers with valuable information about progress across the region and are expected to prompt a number of countries to undertake reforms.

The EBRD has encouraged investment and entrepreneurship across the region by helping countries to establish institutions that protect the rights of creditors in business transactions. We have worked in particular to produce guidelines for the creation of registries that show security rights over debtors' assets. The *Guiding Principles for the Development of a Charges Registry*, issued in 2004, is based on a survey of practice in six jurisdictions in south-eastern Europe. The project was funded by the governments of Canada and the United Kingdom.

of the EBRD's projects evaluated in 2004 had an "excellent-satisfactory" impact on the transition process.

Driven by annual business volume, the portfolio of the Bank's net outstanding commitments grew from €14.8 billion at the end of 2003 to €15.3 billion at the end of 2004. Strong reflows from a maturing portfolio and the continued strengthening of the euro relative to the dollar restricted portfolio growth to 3 per cent.

Our strong partnerships with commercial banks and other private lenders resulted in a dramatic increase in the total co-financing volume. Including several very large transactions involving oil and gas and infrastructure, the EBRD attracted a record total volume of €5.4 billion. Of this amount, €3.5 billion came from private sector lenders, supporting 85 projects in 18 countries, up 34 per cent from the previous record level reached in 2003. This is proof of the continuing attractiveness of the EBRD region for commercial lenders as well as the Bank's flexibility in structuring the co-financing. For example, in order to respond to the increasing preference of large banks to take a lead role in co-financing operations, we invited certain banks to underwrite the syndicated loans, with the EBRD acting as a "book-runner" or manager of the syndication.



Support from governments and official institutions, such as international financial institutions, enabled the EBRD to extend our reach into more challenging countries and sectors in 2004. Funding from these sources plays an important role in developing the Bank's operations. Official institutions provided €1.8 billion in co-financing in 2004. This included substantial co-financing from the International Finance Corporation, the Japan Bank for International Cooperation and the European Investment Bank. Other large contributions were received from the European Community and the Hungarian Development Bank.

A further €82 million was provided by donor governments and the European Community in the form of "technical cooperation" grants, which prepare the way for EBRD projects and improve the investment climate. The EC (including the European Agency for Reconstruction) was the largest grant provider during the year.

While work with donors continues in all of the countries where the Bank operates, an area of major activity in the year preceding our 2005 Annual Meeting in Belgrade was the Western Balkans. Italy established a new €4 million fund to support private sector development

in this region, the European Community created a new €2.7 million fund to support small business and further support was provided by the Netherlands. Other major donors in 2004 included the United States, Japan and Canada. Donors also focused in 2004 on the early transition countries (ETCs).

### Targeted financing

A grouping of poor countries in Central Asia, the Caucasus and the western extremity of the former Soviet Union became the focus in 2004 of the "Early Transition Countries Initiative". Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan received an important increase in EBRD investment to help them build the basis of a growing market economy. More than half the population in these countries currently lives below the poverty line.

The **ETC Initiative**, launched at the Annual Meeting in April 2004, aims to develop private businesses and identify suitable projects in the public sector. The initiative is designed to finance a large number of projects on a small scale, to attract additional investment from other sources and to encourage ongoing economic reforms. These efforts

will complement other international efforts to address poverty in these countries.

The EBRD is ready to accept a higher level of risk in these ETC projects as long as the principles of sound banking are respected. In 2004 we launched a co-financing facility with local banks and a new direct lending facility for private enterprises, providing loans of up to €4 million. In addition, we increased our lending to micro and small enterprises, invested in a wide range of small municipal and environmental projects, undertook legal transition work to improve the investment climate and expanded the range of advisory services for small businesses. Over a three-year period, the EBRD intends to triple the number of projects receiving EBRD financing in these countries.

The annual volume of EBRD activity in the ETCs increased from €84 million in 2003 to €378 million in 2004 (or to €93 million if the big oil and gas projects are excluded). The number of projects grew from 10 to 18 over the same period. In addition, the EBRD provided trade guarantees through 25 banks under the Bank's Trade Facilitation Programme (see page 19).

## The EBRD created a new team to focus purely on investing in the poorer countries.



The ETC Initiative depends to a considerable degree on support from governments and other institutions willing to provide grant financing in support of EBRD projects. In November the Bank launched a new multi-donor ETC Fund to harness this funding. By the end of the year, pledges amounted to €16 million, including contributions from Finland, Ireland, Japan, the Netherlands, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. Contributions from other donors are expected during 2005. The ETC Fund operates in parallel with other donor-supported initiatives in the region, including by Canada, the European Community and the United States.

At its first assembly in November 2004, the ETC Fund approved a wide variety of projects aimed at encouraging development of the private sector across the ETCs. These include the preparation of a training programme for commercial court judges in the Kyrgyz Republic, regulatory reform to improve municipal utilities in Uzbekistan and an expansion of business advisory services for small businesses. It has also approved funding to help fast-growing local enterprises prepare for EBRD investment and to help companies and governments fund energy efficiency and renewable energy projects.

In the **energy** sector, which received one-fifth of EBRD investment in 2004, one of the Bank's biggest projects was a €92 million loan for the construction of a €2 billion oil pipeline linking Azerbaijan with Turkey. The construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline and the development of the oilfields that will use it as the main export route to European markets represent a major investment in the EBRD region.

With capital expenditure totalling approximately €15 billion, these projects represent the largest single foreign direct investment in Azerbaijan and Georgia and will contribute to the Caspian region becoming one of the major oil-producing areas in the world.

The Bank's participation in the BTC pipeline project has helped to ensure that the views of local people are taken into account through continuing consultation and that the pipeline is being constructed in an environmentally responsible way. The project has set new standards in terms of transparency and the incorporation of social and environmental criteria, including earmarking €22 million for a Community Investment Programme and €7 million for an Environmental Investment Programme.

Part of the energy sector activity in 2004 was support for the modernisation and restructuring of electricity networks throughout our countries of operations. In Russia, for example, the Bank is lending €60 million to the country's electricity operator. This will help to raise the standards of the Russian power system and to encourage cross-border trade. The Bank also signed a range of energy efficiency projects and launched new ways of helping clients to make energy savings and to reduce emissions.

The EBRD signed four energy efficiency projects totalling €61 million in 2004. We also signed eight manufacturing projects with significant energy efficiency components. These included a €73 million loan to the Togliatti Azot ammonia plant in Russia, representing the largest energy efficiency project ever signed by the Bank (see page 21). In Bulgaria, energy efficiency and



renewable energy projects are to be supported by a new €50 million credit line signed with six local banks in 2004.

The EBRD screened all projects signed in 2004 for possible energy efficiency opportunities and provided energy conservation advice to many clients. A total of 14 projects have benefited from on-site surveys by the Bank's own energy efficiency specialists. Seven of these have also included detailed energy audits by consultants contracted by the EBRD. This has been supported by technical cooperation funds from Greece and the Central European Initiative.

In December the EBRD signed the first emissions reduction project under the Netherlands-EBRD Carbon Trading Fund set up to address the worldwide problem of global warming. By using EBRD financing, a Bulgarian paper mill will switch from oil and gas to biomass energy and reduce its greenhouse gas (GHG) emissions by 360,000 tonnes, the equivalent of that released by 60,000 households annually. It will sell the ensuing carbon "credits" using mechanisms in the Kyoto Protocol, an international treaty to reduce GHGs which took effect in February 2005. The EBRD-managed Fund will purchase these credits on behalf of the Dutch government, helping the Netherlands to meet its commitments under the Protocol.

The EBRD has intensified efforts to identify suitable renewable energy projects for investment. In 2005 the EBRD plans to launch a renewable energy fund in Armenia to be financed by the Bank and other investors. The fund will extend long-term loans to projects involving hydro power, wind energy and biomass.



## Power to the people

The people of the Former Yugoslav Republic of Macedonia rely on Elektrostopanstvo na Makedonija (ESM) to power their homes, schools, businesses and hospitals. The service is good but there is always room for improvement. That is why ESM is planning to privatise – to improve the efficiency and reliability of the electricity supply to the country's 2 million citizens. As part of the privatisation of state-owned ESM, the EBRD is investing up to €45 million to support the necessary changes that will eventually make the company an attractive prospect for strategic investors. A well-structured privatisation of the company is the best way for ESM to attract the capital and know-how it needs to modernise some of its generating equipment and upgrade distribution.

The planned modernisation will eventually result in a higher quality of service for ESM's customers nationwide and should mean increased efficiency overall. This means lower price rises for the consumer than might otherwise have been necessary. Industry workers should also find themselves on the receiving end of major improvements in safety measures. The specific targets outlined in the pre-privatisation plan will help to ensure that the future privatisation is fair and transparent and will promote a good relationship between the future investors and the local authorities. The EBRD's involvement should also help to speed up the introduction of EU-aligned environmental standards.

To take account of changing needs, constraints and the evolving nature of the energy sector, the EBRD is preparing a new Energy Policy covering natural resources, the power sector and all other related areas. One of the Bank's main aims is to promote energy savings while also improving the safe supply of energy across the region. There is also a focus on greater regional cooperation, which will promote diversification, improve access to different markets and maximise efficiency.

As part of the drafting of the new Energy Policy, the Bank is undertaking extensive public consultation. In December the EBRD published a discussion paper outlining the broad aims of the new policy and areas for discussion at workshops that took place in early 2005 in London, Moscow and Sofia. The new policy will be published later in 2005.

A new policy for the EBRD's activities in **municipal and environmental infrastructure** was approved by the Board of Directors at the end of 2004. The Bank's core objective is to promote greater efficiency, a higher quality and financial sustainability for all types of services in this sector, from water supply to urban transport. In many of our countries of operations, infrastructure is relatively dilapidated after decades of neglect. Furthermore, years of central planning concentrated many responsibilities at the national level, with decentralisation only taking place from the 1990s onwards. Investment needs for modernisation and to meet EU standards are estimated at €60 billion. The EBRD will focus in particular on helping countries develop better cost-recovery systems, greater private sector participation and cost-effective environmental improvements.

[www.ebrd.com/about/strategy](http://www.ebrd.com/about/strategy)



## Boosting small business in Tajikistan

Zafarhoja Rasulov always knew that selling ice cream was a risky business. In winter, trade was slack and most profits went to the supplier. To make ends meet, he soon began to produce his own supplies and expanded into butter and cheese production, where he was guaranteed a year-round demand. But this was not enough for Zafarhoja. He wanted to expand further and turned to his local bank, Tajiksodirotbank, for his first-ever loan.

Financing of €2,400 – provided through the EBRD's micro-finance programme – put him on a much stronger footing with the local milk producers and allowed him to purchase milk on much more favourable terms. His customers have benefited as well. Zafarhoja is able to guarantee a stable supply of high-quality produce to his clients in both Dushanbe and Almaty, where he has recently expanded. And he is not finished yet. Zafarhoja wants to take his business a step further and is already planning a return visit to his bank for more loans.

## Building strong foundations

Small businesses have long been a core area of EBRD financing. Not only do they create jobs, they also help countries to turn to more democratic and market-based economies. Small business is particularly important in the poorest countries, where it can act as a driving force for economic reform. The EBRD provides support for the development of small business throughout the Bank's countries of operations. EBRD financing is mostly provided through local banks that on-lend to micro and small enterprises. We also invest in private equity funds that support small business and we make direct equity investments in medium-sized companies with up to 250 employees.

One of the Bank's largest lending programmes is its donor-supported **Micro and Small Business Programme**, which currently operates in 19 countries. EBRD financing is provided through 55 local banks that disburse loans through over 900 branches. In 2004 some 329,000 loans totalling €1.4 billion were disbursed to small business. By the end of 2004, the total number of loans disbursed had reached nearly 800,000 with a total value of over €3.5 billion. Repayment is typically above 99 per cent. New partners in

2004 included Mikroplus in Croatia and Opportunity Bank in Serbia and Montenegro.

Over the past year the EBRD has rapidly expanded lending to farming communities, where financing is often in short supply. The Bank has already established rural lending programmes in Moldova and Serbia and Montenegro and is piloting new schemes in FYR Macedonia, Georgia, Kazakhstan, Russia and Ukraine. We have also made our first loan to a non-governmental organisation (NGO). Through Alter Modus in Serbia and Montenegro, the Bank is offering loans to some of the most disadvantaged people in society, such as refugees, who cannot obtain credit from other sources.

The largest micro-finance programme is the Russia Small Business Fund, which disburses over 5,000 loans per month. Established in 1993 with support from the G-7 countries and Switzerland, the programme currently covers 138 cities throughout Russia. The processing of loan requests is usually completed within three to four days, allowing entrepreneurs to gain quick access to much-needed finance. Uralsib Bank in the Urals town of Ufa is one of the newest banks to join the programme. In less than a year it has provided

over 1,000 loans. The recipient of the 1,000th loan was Marina Klementieva, a small shopkeeper trading in household goods, who used the loan to spruce up her shop and expand her business. Her story is typical of the experience of thousands of others who have benefited from similar loans across this vast country.

Donor funding allows the EBRD to ensure that loan funds are distributed efficiently. Specialist advisors provide training to staff in selected banks and introduce fast-stream lending procedures for small business clients. The United States is the largest supporter of the EBRD's micro-finance programmes, providing over €70 million.

Together with the EBRD, the United States established the **US/EBRD SME Finance Facility** in 2000 to promote private sector growth and economic development in south-eastern Europe and the early transition countries. A large proportion of the funding is used to train staff in local banks and to reduce legal and regulatory obstacles to small business finance. By the end of 2004, the facility had provided over 450,000 loans totalling €1.9 billion. The facility is also supported by a number of other donors.

Over 300,000 loans  
were disbursed to small  
businesses in 2004.





### Feeding a hunger for finance

Husband and wife team Krasimir and Lidia Ignatova are the owners and managers of Galant Lavar, a three-star hotel located on the outskirts of Sofia. The 17-room hotel opened in 1998 and soon attracted a steady stream of visitors from both home and abroad. To keep pace with demand, the owners realised they needed to expand and so began work on extending the hotel restaurant. Three years later only half of the work had been completed, and the Ignatovas were struggling to find the necessary finance. So Krasimir applied for a loan through the United Bulgarian Bank (UBB).

Although the Ignatovas had no credit history, their business plan was strong enough for UBB to provide them with a three-year 50,000 leva (€25,500) loan using funding from the EU/EBRD SME Finance Facility. Within six months the work was completed, and the owners were using the new restaurant for corporate hospitality. In no time at all the hotel's income increased by 50 per cent and the Ignatovas are already seeking a second loan to finance expansion of the rest of the hotel.

The EU/EBRD Facility  
has provided over  
€1 billion to small  
businesses.

The **EU/EBRD SME Finance Facility** provides financing to small businesses in the new member countries of the European Union and the EU candidate countries. This is channelled through local banks, leasing companies and equity funds in these countries. The facility also provides training to help local staff improve the standard of service to small business clients. In 2004 the EBRD increased funding available in the form of loans and other mechanisms to €900 million and began a new source of funding aimed specifically at farmers and small businesses in rural areas. The EU's contribution to the facility totals €139 million.

By the end of 2004, the EBRD had provided 73 credit lines totalling €797 million to 32 banks and 24 leasing companies. Nearly 4,000 credit officers are involved in the scheme. In total, over 47,000 loans and lease transactions worth over €1 billion have been extended to small businesses throughout the region. The average loan size is as low as €24,000 while leases average €18,300. These low levels ensure that even very small businesses are able to benefit from the scheme.

To reach slightly larger businesses, the EBRD has developed the **Direct Investment Facility** (DIF). This makes equity investments in 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 2004, DIF had signed 24 projects in 14 countries, and had disbursed more than €27 million. Investments of up to €2 million are provided to entrepreneurs alongside advice on professional management practices, transparency and good corporate governance.

Another important tool in the EBRD's initiative to support the early transition countries is the Bank's **Trade Facilitation Programme** (TFP), which focuses mostly on small transactions. These are especially commonplace in some of the poorest countries where businesses rely on small deals but often lack the necessary financial backing to guarantee payments. The TFP aims to tackle this problem by guaranteeing trade transactions and by providing short-term loans to banks for on-lending to local import and export companies. The programme is particularly important in the poorer countries but operates across the Bank's 27 countries of operations.

In 2004 the programme financed a record number of trade transactions totalling some €500 million. Most of these supported small business, with more than 50 per cent of all deals under €100,000. In November the programme signed its 3,000th transaction – a deal to help a private Kyrgyz company import

plastic window parts from Turkey. The TFP also signed its first facility with a private bank in Turkmenistan, supporting the import of domestic appliances from Austria.

By supporting trade, the TFP helps not only to create jobs but also to improve cooperation and understanding between countries. In particular, the programme has restored many of the traditional trade links between the Bank's countries of operations. In 2004 alone it financed 150 transactions between countries within the region.

The programme operates through 88 local banks and over 520 banks worldwide. In 2004 the programme signed new agreements worth €58 million with 18 banks in ten countries. These included three new facilities for regional banks in Russia and seven new facilities for banks in the early transition countries. In 2004 the programme financed over 300 transactions in the ETC region.

Further support for small business is provided through the Bank's donor-supported **TurnAround Management** (TAM) and **Business Advisory Services** (BAS) programmes. TAM brings in experienced senior business people from around the world to help small businesses in the Bank's countries of operations learn how to adapt to a market economy. The BAS programme uses local consultants to teach new

business practices to micro and small enterprises (MSEs). This not only improves business skills in MSEs but also develops the expertise of local consultancy services.

In 2004 TAM started 94 new projects in 20 countries. These included a large number of EU-funded projects in the Western Balkans, the Caucasus and the new member countries of the European Union. In the early transition countries, new "community" projects were established in the Kyrgyz Republic and Tajikistan aimed at increasing income to the poorest parts of the population. Funded by Luxembourg, these projects are helping collective farms learn about all aspects of enterprise development so that they can increase income and be fully integrated into the market economy. TAM also began a new Japanese-funded programme to assist businesses in addressing specific environmental issues.

BAS started 620 new projects in 12 countries in 2004. A new office was opened in Vladivostok – using funding from Japan – that will help up to 40 enterprises in the region. BAS also concluded a highly successful EU-funded programme in the Caucasus that has led to renewed funding through the Bank's ETC Fund. Since 1993, over 1,100 TAM projects and 3,500 BAS projects have been undertaken in 26 countries, utilising over €100 million of donor funding.

The Bank's trade finance programme has restored trade links between many EBRD countries.



## A turnaround in fortunes

A struggling print company in Uzbekistan turned to the Bank's TurnAround Management Programme in 2002 to help it achieve profitability. Established in 1996 by four young entrepreneurs, the company was failing to meet the needs of its clients in the textile and advertising sectors. TAM appointed a team consisting of two Japanese print industry experts and a Belgian team coordinator. They tackled the company's problems by developing a business plan and by providing marketing and production advice. The project was completed in late 2004, leaving the company on a sound footing for future growth.

In 2004 the Bank's Business Advisory Services Programme helped the company to implement a computerised management information system (MIS). This allowed it to fully automate its accounting, financial management and warehousing systems. The assistance was provided through local consultants partly funded by a BAS grant from the Japanese government. Following the introduction of the MIS, the company is in a better position to attract further investment and to achieve profitability.

Over 1,000  
companies have  
benefited from donor-  
funded expertise.

## Investing responsibly

Many EBRD projects are specifically designed to improve the **environment**. For example, in 2004 the EBRD invested €7 million to improve Tashkent's water supply, €18 million to modernise Poland's district heating network and €10 million to help the city of Togliatti buy a new fleet of buses and begin the restructuring of its public transport system, the Bank's first transaction in Russia's urban transport sector. In total the Bank invested €377 million in municipal infrastructure, energy efficiency and clean-up operations in 2004.

The EBRD also includes environmental conditions in many other projects where the main objective might be to build a new factory or to develop new technology. Before we invest in a project, we undertake an environmental appraisal, which identifies the environmental impact of the project and the action that the client needs to take to comply with the Bank's Environmental Policy. These requirements become binding when the project is signed. To cover this environmental expenditure for projects in manufacturing, heavy industry, agribusiness and many other sectors, the EBRD provided financing of €71 million in 2004.

The Bank's Environmental Policy covers not only ecological issues but also the social aspects of a project, including working conditions (health and safety, child labour, forced labour and unlawful

discrimination) and the impact of the project on local communities. In 2004 the EBRD worked with external experts to improve the assessment of labour issues as part of the Bank's project appraisal process and recruited a social assessment expert who joined the Bank in early 2005.

We published our first annual *Environmental Report* in 2004, highlighting the Bank's environmental investments and our own environmental record. A second report, broader in scope, will be published later in 2005, focusing on how we address our mandate to promote sustainable development in our investment activities and internal operations.

For every project financed by the EBRD, we make an assessment of greenhouse gas emissions – current and future levels. Twenty-seven of the projects signed by the Bank in 2004 were assessed as having significant levels of emissions. These were mainly in the power and energy, natural resources and other industrial sectors. In all projects where the Bank has invested in refurbishing existing facilities, modernisation and energy efficiency improvements are expected to lead to a fall in emissions or, where capacity increases, to a reduction in emissions per unit of output. Projects involving the construction of new facilities are designed, wherever possible, to ensure that greenhouse gas emissions are in line with current best practice.



### Improving energy efficiency and environmental management

Togliatti Azot (ToAz) is the largest ammonia producer of the former Soviet Union, with seven production units at its plant in Togliatti, western Russia. Back in 2001 the EBRD provided a €44 million loan, which was partly used to help ToAz implement an Environmental Action Plan aimed at bringing its production facilities in line with Russian environmental standards. The Bank also provided technical cooperation funding to help ToAz identify major energy efficiency opportunities. These opportunities are now being realised with the help of a €73 million EBRD loan signed in 2004. The financing will allow the company to modernise and increase the capacity of the four oldest ammonia-producing units.

The modernisation will guarantee a 20 per cent energy efficiency improvement, enabling ToAz to meet EU environmental standards and to achieve energy consumption levels close to best practice. The project is the largest energy efficiency investment ever financed by the Bank. In fact, every year the gas savings based on current annual production will be equivalent to the monthly needs of a country as large as Switzerland. As a result of its long-term relationship with the Bank, the company is now committed to complying with good international environmental management standards and the principles of transparency and consultation.

ToAz is the largest energy efficiency project ever financed by the Bank.



## A cleaner environment in north-west Russia

Some of the most pressing environmental needs in north-west Russia are being addressed by the Northern Dimension Environmental Partnership (NDEP), which consists of the Russian government, the donor community and international financial institutions (IFIs), such as the EBRD, the European Investment Bank, the Nordic Investment Bank and the World Bank. NDEP mobilises investment to solve the region's long-standing environmental problems in areas such as water supply, waste-water treatment, solid waste treatment, energy efficiency and nuclear safety.

The NDEP Steering Group identifies priority projects and puts together financial packages consisting of NDEP grants, IFI loans, bilateral funding and local contributions. The NDEP Support Fund is managed by the EBRD under the supervision of an Assembly of Contributors, including the European Community, Belgium, Canada, Denmark, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom. At the end of 2004, contributions to the Fund amounted to €197 million, of which €149 million was earmarked for nuclear safety.

The Assembly of Contributors has approved NDEP co-financing of €44 million for eight environmental projects, with a total project value of over €900 million. This includes a contribution of €471 million from IFIs. The approved projects include improvements to St Petersburg's waste-water treatment plants, district heating renovation in Kaliningrad and Murmansk, an upgrade to water services in Archangelsk and flood protection for St Petersburg. A further five projects have been identified by the NDEP Steering Group with a total project value of €800 million.

A Strategic Master Plan for the decommissioning of the retired Russian nuclear fleet was completed in October 2004. The plan covers waste management and environmental projects in north-west Russia and has identified priority action for 2005. This includes the installation of radiation monitoring equipment and the establishment of an emergency response system in the Murmansk region.



Many of the EBRD's activities in support of the environment are undertaken in cooperation with other international bodies. For example, the **Global Environment Facility** (GEF) provides project development funds and co-financing for projects that address global environmental issues, such as climate change, ozone depletion and biodiversity. The EBRD and GEF are currently co-funding an Environmental Credit Facility in Slovenia that aims to reduce pollution entering the Danube River. In 2004, credit lines totalling €34 million were provided to four banks for on-lending to local businesses and small municipalities that invest in pollution-reducing projects.

**Nuclear safety** is a major area of concern for the EBRD and the donor community in many of the countries where we operate. In total, the Bank manages six nuclear safety grant funds on behalf of donor governments: the Nuclear Safety Account (NSA), the Chernobyl Shelter Fund (CSF), three international decommissioning support funds for Bulgaria (Kozloduy), Lithuania (Ignalina) and the Slovak Republic (Bohunice) and the NDEP Nuclear Fund. At the end of 2004, contributions to the funds were close to €2 billion. Each fund has its own Assembly of Contributors, which oversees management of the funds and selects projects to be

financed. The success of the funds is partly due to their multilateral nature, with contributions from 28 countries and the European Community. The largest contributor by far is the EC, which has provided €578 million to the decommissioning support funds alone.

The funds finance a broad range of projects, including the secure storage of spent nuclear fuel, the decommissioning of high-risk reactors, and energy efficiency measures to compensate for lost generating capacity. A major milestone in 2004 was the closure of Ignalina 1 Nuclear Power Plant in Lithuania. In addition, large contracts were signed for spent fuel storage facilities at Ignalina and Kozloduy, Bulgaria. In 2004 donors approved a further €25 million for energy efficiency programmes in Bulgaria. These include district heating projects, the refurbishment of public buildings and a credit line for private investments in energy efficiency and renewable energy.

In December construction work began on stabilising the shelter around Chernobyl's destroyed reactor. When completed in 2008, the arch-shaped structure will be 260 metres wide and over 100 metres high. By enclosing the existing shelter, it will provide safe conditions for nuclear waste management over many decades.

The first-ever independent review of the safety of one of Russia's first-generation reactors (Kursk 1) was completed in 2004 through cooperation between Russian and Western experts. The findings have been accepted and applied by both the operators and regulators.

## Integrity matters

The EBRD places the highest importance on **ethical behaviour and integrity**. Before approving financing for a project, the Bank has developed standard procedures to review the shareholders, corporate governance and procurement processes of the client company. The Bank also reviews the client's audited financial statements in accordance with best practice. We pay particular attention to identifying the ultimate beneficiaries of any company seeking to receive EBRD finance.

Integrity investigations involve the identification of suspicious or unethical behaviour by the client, its management or shareholders. A legal check involves the evaluation of a client's status, assets and liabilities. Ultimate responsibility for all integrity issues rests with the EBRD's Chief Compliance Office (CCO). In 2004 the Bank reinforced the CCO's resources to make the office effective.

Donor funding managed  
by the EBRD is supporting  
nuclear safety measures  
at Chernobyl.



## Raising concerns about EBRD projects

In July 2004 the EBRD launched the Independent Recourse Mechanism (IRM), which addresses local community concerns about EBRD-financed projects. The IRM aims to strengthen the Bank's accountability and to increase the transparency of our decision-making processes. The mechanism gives local groups that may be adversely affected by a project the opportunity to make a complaint to the Bank.

The IRM processes are designed to be user-friendly, efficient and timely. A compliance review assesses whether the EBRD has complied with the Bank's Environmental Policy and the relevant parts of the Public Information Policy. A problem-solving initiative tries to restore dialogue between the parties and to resolve the underlying issues giving rise to the complaint. Three independent experts have been appointed by the EBRD to assess the eligibility of projects and to undertake compliance reviews. The IRM is administered by the EBRD's Chief Compliance Office, which is independent of banking operations. No eligible complaints were registered in 2004.

The Bank adopted  
a new policy in 2004  
to deal with local  
community concerns.

The EBRD has focused in particular on combating **money laundering and terrorist financing**. Before committing any funds, the Bank verifies that prospective clients are not on the United Nations Security Council lists of those suspected of supporting terrorist activities. The Bank takes full account of UN Security Council Resolution 1373 adopted on 28 September 2001 to combat terrorist financing. The EBRD also monitors the work of the Counter-Terrorism Committee established as a result of this resolution. The Committee consists of all 15 members of the UN Security Council and aims to increase the capability of the international community to fight terrorism.

The EBRD refuses financing to anyone who, according to UN Security Council committees, may be supporting terrorist activities. Furthermore, the Bank does not finance contracts awarded to such people for the supply of goods, works or services on EBRD projects. The Bank also closely follows the work of the Financial Action Task Force, the international body that oversees the fight against money laundering and the financing of terrorists.



In 2004 we increased our cooperation with other international financial institutions (IFIs). On the first anniversary of the signing of the United Nations Convention against **Corruption**, a meeting was held in Washington D.C. in December 2004 between the African Development Bank, the Asian Development Bank, the EBRD, the Inter-American Development Bank and the World Bank. The participants agreed to reaffirm the shared commitment to fight corruption in our respective activities.

The Bank's commitment to the **transparency** of all our operations is underpinned by the EBRD's Public Information Policy. The first implementation report since the adoption of the new policy in 2003 found that the Bank had fulfilled all of its commitments. By the end of 2004, 15 country strategies had been translated into local languages while seven others are in the process of being translated.

When formulating a new country strategy, the EBRD invites the public to submit comments, which are taken

into account during the review process. A summary of the comments, along with the Bank's responses, is posted on our web site following Board approval of the revised strategy. To tackle any concerns about EBRD projects, the Bank adopted a new Independent Recourse Mechanism in 2004 (see box).

The Chief Compliance Office works to preserve the **internal integrity** of the Bank by administering the Bank's Procedures for Reporting and Investigating Suspected Misconduct (PRISM). This ensures that allegations of wrongdoing on the part of staff members are investigated fairly and swiftly. In 2004 the vast majority of EBRD staff undertook training in integrity issues to raise general awareness and to highlight best practice. The Chief Compliance Office began an in-depth review of the Bank's Code of Conduct in 2004 and will present its findings later in 2005.

Training in integrity issues was undertaken by nearly all EBRD staff in 2004.

# 02

## Central Europe and the Baltic states

**Eight central European countries became members of the European Union in 2004 while Croatia achieved EU candidate status. EBRD assistance focused on higher-risk projects and equity investments, which are providing strong foundations for business growth.**

### Investment climate

On 1 May 2004 eight of the nine countries from central Europe and the Baltics (CEB) joined the European Union, marking a milestone in European integration. The exception is Croatia, which attained EU candidate status in June 2004 and expects to begin negotiations with the EU during 2005.

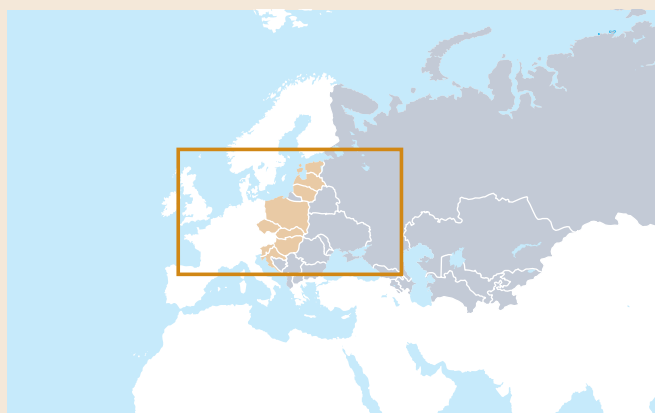
The new EU member countries must now fulfil the budgetary requirements of the EU's Stability and Growth Pact. However, the Czech Republic, Hungary, Poland and the Slovak Republic are expected to take a longer period to adjust their fiscal deficits. To address issues such as macroeconomic imbalances and structural problems, the new member countries have received country-specific economic policy guidelines from the Council of the European Union.

A second milestone in 2004 was the accession of Estonia, Lithuania and Slovenia to the European Exchange Rate Mechanism II (ERM II), a first step towards adoption of the euro. The other new member countries have delayed entry to ERM II as they need more time to reduce budget deficits and, in some cases, inflation. In view of the tight monetary














The EBRD is providing small municipalities in central Europe with financing for infrastructure projects that will help them meet EU standards.



### Economic snapshots for 2004

		Population (millions)	GDP growth %	End-year inflation %	Net foreign direct investment (US\$ millions)	Transition indicator (average of nine EBRD transition scores) <sup>1</sup>
	Croatia	4.4	3.7	2.7	1,100	3.44
	Czech Republic	10.3	4.0	2.8	5,000	3.74
	Estonia	1.4	5.5	5.0	557	3.74
	Hungary	10.0	4.0	5.5	1,891	3.85
	Latvia	2.3	7.5	7.3	365	3.56
	Lithuania	3.5	7.0	2.8	500	3.48
	Poland	38.3	5.4	4.4	4,316	3.66
	Slovak Republic	5.4	5.4	6.0	960	3.56
	Slovenia	2.0	4.5	3.2	-71	3.37

<sup>1</sup> Maximum score of 4.33.



constraints already in place in the Baltic states, ERM II membership is not expected to lead to major changes in economic policy. However, it will restrain the exchange rate policy in Slovenia.

GDP growth in CEB has been stimulated by continuing high domestic demand and an improving international business climate. The Baltic states again outpaced the other countries in the region, with growth of between 5.5 and 7.5 per cent in 2004, similar to the level recorded in 2003. Growth in many other CEB countries also started to accelerate during the year. The Polish economy grew by 5.4 per cent during 2004 compared with 3.8 per cent in 2003. Growth of the Hungarian economy also accelerated due to higher investments and export recovery.

EU membership has led to one-off price increases in many countries as they align themselves with the EU's excise tax on fuel and alcohol. Average inflation across the CEB countries rose from 3.1 per cent in 2003 to 4.4 per cent in 2004. Consumer price rises were higher in 2004 than in 2003 in all CEB countries except Hungary, the Slovak Republic and Slovenia, where disinflation remains an important objective prior to adoption of the euro. Although these increases partly reflect the temporary effects of EU membership, other factors

also played a role. In contrast, end-year inflation in Croatia has remained low at 2.7 per cent, similar to the previous year.

During the first half of 2004, increased price pressures led to interest rate increases by the central banks of the Czech Republic, Latvia and Poland, the first increases for several years in these countries. In the Slovak Republic, however, the central bank has cut its rate several times since January 2004, despite significant inflationary pressures, in order to limit the appreciation of the koruna. Interest rates have also been reduced more recently in the Czech Republic.

The average budget deficit improved only slightly from 3.9 per cent of GDP in 2003 to 3.4 per cent in 2004. Budget deficits in the Czech Republic, Hungary and Poland are forecast to remain substantial, necessitating further fiscal consolidation. The best fiscal performers continued to be the recent ERM II members, which all recorded budget deficits under the EU's limit of 3 per cent of GDP. The average current account deficit remained at under 6 per cent of GDP.

In some countries, high investment and consumption levels, fuelled by a booming credit market, led to further

increases in imports. Due to a substantial fiscal imbalance, and a further appreciation in the real exchange rate, Hungary's current account deficit reached about 8.6 per cent of GDP in 2004. In the Baltic states, current account deficits continued to be higher than the regional average. In recent years the Slovak Republic has curbed its consistently high current account deficit through a strong expansion of exports – mainly of cars.

The traditionally high levels of foreign direct investment in this region and its relatively high profitability have led to sizeable deficits in the income balance of a number of countries. Currently, foreign direct investors appear to reinvest most of their profits. However, there are already signs of some investors shifting their focus to south-eastern Europe (see page 36) as privatisation is almost complete in most CEB countries, with few attractive assets left for sale. However, some privatisations, such as Czech Telecom, could generate substantial capital inflows if they materialise. Over the short to medium term, EU funds will contribute to boosting both domestic and foreign investment throughout the CEB region. In Croatia, EU funding may be available through pre-accession instruments, such as the Instrument for Structural Policies for Pre-accession.

Following EU accession, many countries experienced a slowdown in the pace of reform.

Following years of rapid progress needed to join the EU, many CEB countries experienced a slowdown in the pace of reform in 2004. A notable exception was in the one non-EU member of CEB, Croatia, where significant progress was made in the past year in key areas of governance, banking and infrastructure reform. However, in some new EU members, progress was made in strengthening the financial sector. For example, the Czech Republic improved its capital markets legislation while Estonia and the Slovak Republic expanded domestic credit to the private sector and further strengthened controls over the banking sector.

The new EU members of CEB continued to adjust their laws to EU standards in 2004. Lithuania introduced EU-compatible regulations on company law and banking law. Poland amended its property legislation to bring it in line with

EU requirements. The Slovak Republic introduced changes to its commercial code and other business-friendly reforms. Slovenia too has continued to harmonise its laws with EU standards by adopting amendments to securities markets and banking regulations.

More reform is needed in the areas of governance and enterprise reform, judicial reform, competition policy and other parts of the financial sector. However, institutional reforms that tackle these areas and the problem of corruption are difficult and will take time. As can now be seen with the remaining EU candidates (Bulgaria, Croatia and Romania), the prospect of EU membership and the need to satisfy entry requirements tends to make it easier to introduce difficult reforms. Following EU accession, continued public support for further reforms and fiscal prudence will require an improvement

in living conditions and a steady reduction in unemployment. Otherwise, the restructuring and fiscal tightening needed to eliminate budget deficits and permit entry to the eurozone could be delayed.

The transition challenges of Croatia are akin to those of the other EU accession candidates (Bulgaria and Romania). In particular, the authorities must maintain the recent reform momentum and make sustained efforts to strengthen the judiciary and public administration.

### EBRD investment

In 2004 the EBRD invested €964 million in central Europe and the Baltic states (CEB), bringing our total commitments in the region to over €9.8 billion. The Bank disbursed a record €1,056 million of this total during the course of the year.



## Better heating services lead to lower emissions

The historic Polish city of Lodz is the centre of the country's textile industry. After a troubled recent history under former regimes, the city is starting to thrive again. The textiles are back in full production and Lodz's beautiful Piotrkowska Street, a promenade of elegant 19th century buildings, shops, cafés and bars, has been pedestrianised once more.

With the aim of providing more reliable heating to Lodz's population of 800,000, the EBRD has invested a further €39 million in Dalkia Polska, the Polish subsidiary of Dalkia International, a global leader in energy services. The financing will fund the acquisition of Poland's second-largest combined heat and power facility and district heating network, ZEC Lodz.



Poland was the largest recipient of EBRD funds in 2004, with a strong emphasis on financial institutions, energy efficiency, property and corporate projects. In Hungary two projects to finance the M5 Motorway and to refinance debt from Phase I of the operation received a large volume of EBRD financing. The M5 project was selected by *Project Finance* magazine as the infrastructure deal of the year. In the Slovak Republic the EBRD supported predominantly the development of financial institutions.

The small business sector continued to be a strong focus in 2004, and cooperation with the European Union in this area was further developed. In recognition of the importance of leasing for small and medium-sized enterprises (SMEs), six out of the ten loans extended under the EU/EBRD SME Finance Facility were directed at leasing companies. The technical assistance

funded by the European Union is helping them to better target SMEs and to improve their range of services.

The EBRD is particularly keen to develop partnerships with clients and to share their risks. In CEB there is still a shortage of "risk money", which the EBRD is addressing by increasing the supply of equity finance. Equity projects represent 30 per cent of all investments carried out by the Bank in CEB in 2004. These include investments in equity funds, which play an important role through their flexibility and ability to finance smaller projects.

The EBRD participated in the capital of two general equity funds and three specialist property funds operating across the region. Equity investments also allow the Bank to promote best practice in corporate governance. For example, we invested €19 million

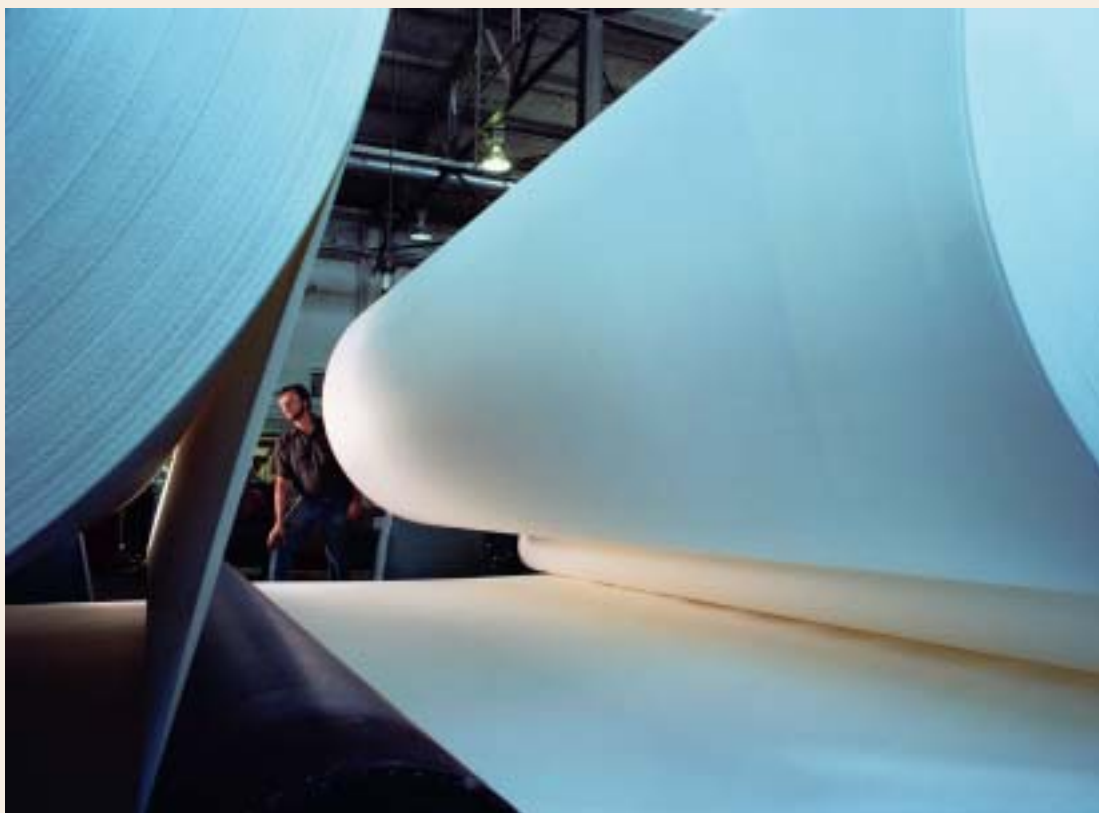
in Estonian Cell, a greenfield pulp mill, in exchange for a 33 per cent stake, giving the Bank a two-strong representation on the board of directors (see page 32).

In Poland the EBRD invested in BGZ, the country's main agricultural bank. The EBRD participated in a capital increase, resulting in a minority stake of 15 per cent in partnership with Rabobank International. In addition, the EBRD and Rabobank purchased subordinated convertible bonds. The strengthening of BGZ's capital base, together with the expertise provided by the EBRD and Rabobank, should benefit not only BGZ but the agricultural sector as a whole. In another major project in the financial sector the EBRD provided a €50 million loan to Croatia's Zagrebacka Banka, which will help to meet the growing demand from local people for long-term loans to buy or refurbish residential properties.

ZEC Lodz, formally owned by the state, provides 70 per cent of Lodz's heating from a coal-fired thermal generator consisting of three plants built from 1958 to 1977. It has recently won highly desirable tenders to supply heat services to the new Gillette plant in Lodz and to the city's newest shopping centre development.

The company's privatisation will ensure good environmental management. Modernisation will mean an enormous 1.33 million tonne reduction of CO<sub>2</sub> emissions between 2005 and 2012 while services are extended to new residential and commercial users. Better use of co-generation capacity should improve energy efficiency, resulting in the need for less coal while heat and electricity production will substantially increase.

The successful privatisation of the company will be a landmark achievement for Poland. Dalkia Polska, which is one-third owned by the EBRD, will have the chance to be one of the first major energy utility stocks listed on the Warsaw Stock Exchange. The company has agreed to seek a listing by April 2009. Dalkia Polska already owns and operates district heating services in the Polish towns of Poznan, Sopot and Zielona Gora.



## New paper mill boosts exports and creates jobs

The ancient Estonian town of Kunda, one of the country's earliest human settlements, is set on the northern shore of Virumaa. Locals have always used their forest's abundant aspen trees for making the traditional haabja boats, each carved out of a single tree. Idyllic though this may be, it has not proved a hugely profitable industry for a workforce left idle when old Soviet industries went bankrupt in the early 1990s.

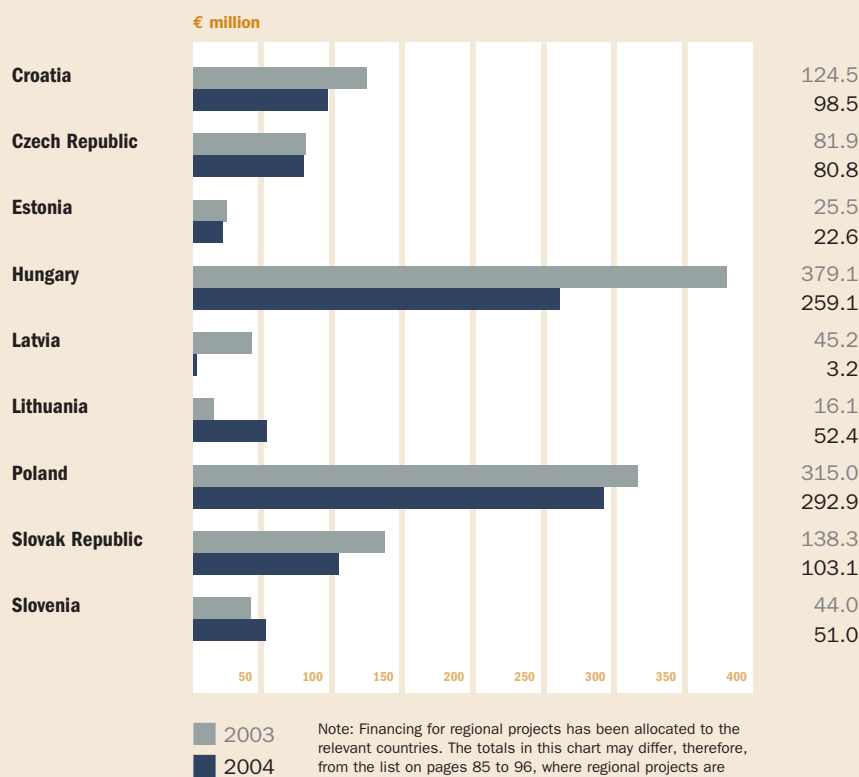
Kunda and its population of 5,000 will soon be home to a state-of-the-art greenfield pulp mill, the first stage in producing high-quality paper for Europe and the rest of the world. The raw material will be the hitherto underused aspen. Along with Austrian and Norwegian investors, the EBRD is part of one of the largest-ever foreign investments in Estonia. An investment of €19 million in Estonian Cell will create an environmentally friendly pulp mill, which will produce up to 500 tonnes of aspen pulp a day for export to the international market.

The project will add a significant 2 per cent to the country's total exports, much of which are already related to the forestry sector. It will also raise the value of aspen, which has been used mostly as a domestic fuel until now.

The EBRD will be a 33 per cent shareholder in the plant, which will have a big impact on the country's forestry sector. Not only will it lead to the creation of 370 jobs, it will also promote the effective management of forests containing aspen trees.

The project will create a sustainable domestic demand for aspen wood, with almost half of all requirements supplied by private forests. Roar Paulsrud, President of the Norwegian investor Larvik Cell, says that the use of Estonian raw materials to produce a high-quality product is one of the most important features of this project, contributing directly to the development of the Estonian economy.

### EBRD commitments 2003–04



### Cumulative EBRD commitments, as of end of 2004

	€ million
Croatia	1,310.0
Czech Republic	996.5
Estonia	467.6
Hungary	1,739.8
Latvia	284.8
Lithuania	434.3
Poland	3,063.6
Slovak Republic	999.8
Slovenia	552.3

Note: Financing for regional projects has been allocated to the relevant countries.

The EBRD strongly supported innovative projects in 2004, such as the refurbishment and management of three railway stations in the Czech Republic. Grandi Stazioni, an Italian company, won a long-term concession agreement, with the EBRD investing €4 million in the equity capital of the concessionaire.

In Poland the EBRD extended a €15 million senior loan to PKP Energetyka, an offspring of the national railways, to help it achieve cost savings in operating costs and maintenance expenditure. The Bank has been a strong supporter of Poland's railway reform programme, and the railway sector has already benefited from two EBRD loans to assist labour restructuring and financial restructuring.

The EBRD invested in a number of higher-risk projects in 2004, such as the restructuring of Huta Ostrowiec, a bankrupt steel mill in south-east Poland. The Bank provided a €20 million long-

term loan to help the new owners, a Spanish steel group, embark on a modernisation programme and transform the company into a viable concern. Moreover, we raised a further €30 million from a syndicate of Polish banks in support of this project.

The EBRD also supported the emergence of local champions, such as UAB VP Market, a retail company that has become the largest company in Lithuania in terms of domestic sales. The company received a €35 million loan to complete the expansion and development of its retail network. We also supported the extension of Getro, a leading retail chain in Croatia.

In the municipal infrastructure sector, the EBRD supported the restructuring of public transport systems in Gdansk (Poland) and Kaunas (see page 34). In Croatia an important infrastructure project involved EBRD support for the

city of Dubrovnik. The private sector project will help the city to improve its bus network and to enhance its status as a tourist destination.

Two loans under the EU/EBRD Municipal Finance Facility were extended to local banks in Poland and the Slovak Republic. This facility provides 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 the energy sector the EBRD provided Slovenske Elektrarne, the Slovak electricity supplier, with a seven-year loan of up to €30 million to support the planned privatisation of the company. In Poland the Bank participated in the two largest privatisations of co-generation plants, supporting their acquisition by Dalkia, the leading energy company (see page 30).



Old



New

## New bus fleet brings improved service to Lithuanian commuters

Waiting for a bus on a busy main road in Kaunas, Lithuania, can be a frustrating experience. With only just over half of the state company's Ikarus buses running at any one time, the only guarantee is that once it finally arrives, it will be cheap. Fares have not risen for nine years and a monthly pass costs less than €9. Thousands of private minibuses offer an alternative means of transport but they are smaller, more crowded and definitely more expensive.

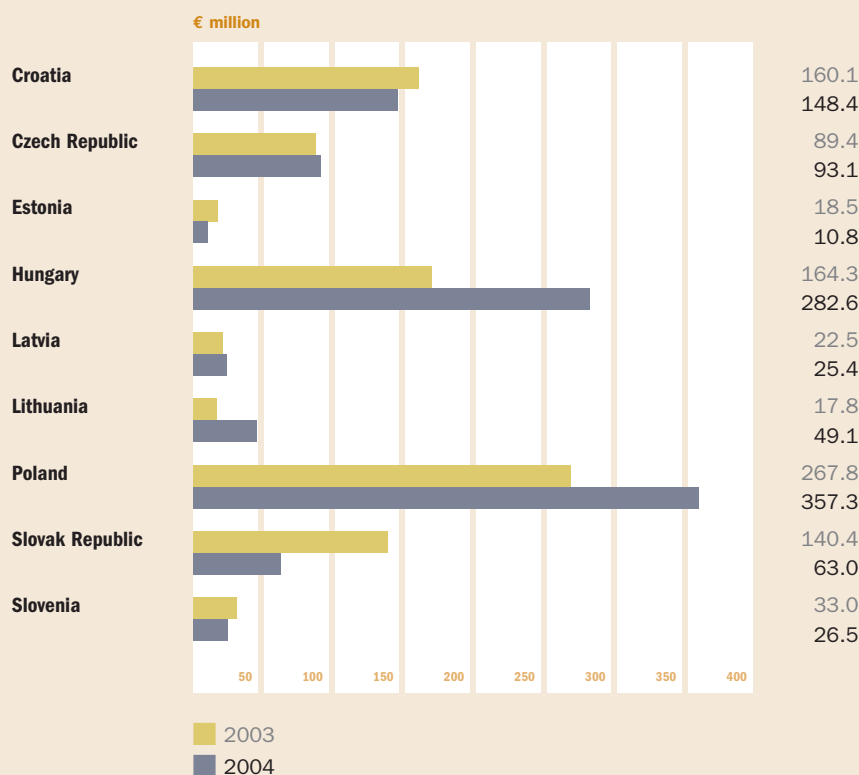
Kaunas is one of the largest cities in the Baltic states and Lithuania's main industrial centre. With a population of 380,000 only 8 per cent are unemployed. In a city this big and this busy, public transport is of prime importance. That is why the EBRD is providing a €10 million loan to the state-owned Kaunas Bus Company to buy and maintain 50 new buses for the people of a city that accounts for 19 per cent of Lithuanian GDP.

The new service will be more expensive but most people feel it will be worth it for the improved comfort and reliability. The new buses will also produce far fewer

emissions, making the city much cleaner than those where public transport has not been upgraded. Driver Gediminas Vilutis, one of the first to take the wheel of the new Solaris bus, says passengers are constantly asking him when the new bus is going to come onto their route. He insists that the Solaris (manufactured in Poland) is the best that he has ever driven. "These new buses have really changed the face of the city, not only because they look much better but because more people are waiting at our bus stops," says Paulius Keras, head of the city's transport department.

The Kaunas bus company was established in 1934. In 2002 it carried a staggering 16.5 million passengers on 35 city bus routes and four minibuses routes. It still has a substantial market share. Its current fleet consists of 210 ageing buses but it is only able to operate 130 of them a day. The new buses, which are already coming into service, should be available 100 per cent of the time, and maintenance costs should plummet.

### EBRD disbursements 2003–04



### Cumulative EBRD disbursements, as of end of 2004

	€ million
Croatia	1,084.3
Czech Republic	881.2
Estonia	431.8
Hungary	1,408.9
Latvia	258.4
Lithuania	346.5
Poland	2,431.3
Slovak Republic	910.7
Slovenia	489.4

Towards the end of 2004 the EBRD launched a series of regional seminars aimed at improving cooperation and business opportunities ahead of our 2005 Annual Meeting in Belgrade, Serbia and Montenegro. The first seminar in Zagreb, Croatia, focused on the development of municipalities across the region and was attended by ministers, mayors, representatives of the international community, business leaders and experts.

#### Looking ahead

In 2004 the EBRD approved new country strategies for Estonia, Lithuania, Poland, the Slovak Republic and Slovenia. The Bank will continue to focus on the development of SMEs and the fostering of a strong banking sector. We will also assist in supporting direct investment by foreign medium-sized companies and in developing local enterprises, particularly through cross-border investments.

Other areas of assistance will include support for industrial restructuring alongside strategic investors and for the privatisation of remaining state-owned companies. The EBRD also aims to promote the restructuring of utilities, with an emphasis on better service and increased energy efficiency. The Bank will maintain strong investment in the municipal sector, investing without state guarantees and implementing the EU/EBRD Municipal Finance Facility. We will participate in road infrastructure projects where public/private partnerships can be established.

In Croatia the EBRD will work closely with the authorities to support the country's preparation for EU entry. The Bank will continue to support local companies and to help them expand their cross-border activities. We will work with local municipalities to develop infrastructure for prospective EC

financing and will continue to support national infrastructure projects in close coordination with other institutions, particularly the European Investment Bank and the European Union. Specific attention will be devoted to promoting tourism.

To help the CEB countries with the modernisation and restructuring of sectors where reforms are not yet complete, the EBRD is ready to take more risks. We will strive to increase our equity investments, to create innovative products and to provide higher-risk products, particularly through financial and non-bank intermediaries, such as equity funds.



# 03 South-eastern Europe

**Prospects of EU membership prompted further reforms in Bulgaria, Romania and the Western Balkans. EBRD investment helped to strengthen economic links in the region and to fund critical infrastructure projects.**

## **Investment climate**

The economic outlook in south-eastern Europe (SEE) continues to be boosted by the prospect of EU membership for Bulgaria and Romania in 2007. Average GDP growth rose to 6.4 per cent in 2004 compared with 4.4 per cent in 2003. Growth in Albania, Bulgaria and Romania continued strongly while growth in Serbia and Montenegro rose to 7.1 per cent (from 3 per cent in 2003) following substantial improvements in agriculture and manufacturing.

Average end-year inflation fell slightly to 6.3 per cent in 2004 from 6.7 per cent in 2003. This mainly stems from a decrease in Romania from 14.2 to 9.3 per cent. Throughout the region rapid GDP growth was accompanied by an expansion in bank lending, leading to higher levels of domestic consumption. This has prompted the introduction of tighter regulations on bank lending in many countries.

Fiscal deficits averaged below 2 per cent of GDP in 2004. Albania and Serbia and Montenegro were the only countries with a fiscal deficit above this level. In contrast, the Former Yugoslav Republic of Macedonia reduced its deficit to around 0.1 per cent of GDP. Bulgaria ran a fiscal surplus in response to high external imbalances.











The EBRD provided innovative support in 2004 for small businesses in Bulgaria's agricultural sector, which plays an important part in the country's economy.



## Economic snapshots for 2004

	Population (millions)	GDP growth %	End-year inflation %	Net foreign direct investment (US\$ millions)	Transition indicator (average of nine EBRD transition scores) <sup>1</sup>
 <b>Albania</b>	3.2	6.0	2.2	350	2.81
 <b>Bosnia and Herzegovina</b>	3.8	5.0	NA	420	2.52
 <b>Bulgaria</b>	7.8	5.5	3.9	1,837	3.37
 <b>FYR Macedonia</b>	2.0	2.0	3.3	150	2.96
 <b>Romania</b>	21.7	7.0	9.3	5,020	3.18
 <b>Serbia and Montenegro</b>	8.3	7.1	13.0	950	2.48

<sup>1</sup> Maximum score of 4.33.

Current account deficits remained large throughout the region, averaging 9.8 per cent of GDP and at double-digit levels in Bosnia and Herzegovina and Serbia and Montenegro. In Bulgaria the deficit stayed above 7 per cent of GDP due to the credit-fuelled consumption boom. However, net foreign direct investment (FDI) remained at historically high levels for the second year in a row, at around US\$ 8.6 billion. This has mainly been generated by large privatisation deals and by European investors relocating business activities from central Europe to SEE, where labour costs and taxation levels are lower.

Grants and loans from international financial institutions and other countries remain important (though declining) sources of funding for several countries in the region, along with remittances from workers living abroad. Families and small businesses in Albania, Bosnia and Herzegovina, FYR Macedonia, and Serbia and Montenegro benefit considerably from the latter source of finance.

SEE made good progress in structural reforms in 2004. Romania, for example, completed several important large-scale privatisations (especially in the energy sector) and made significant advances in banking and infrastructure reform. It also continued to improve laws in the area of corporate governance by introducing new

mandatory voting requirements for publicly held companies. By the end of the year, Romania had “closed” the 31 chapters of the *acquis communautaire*, the main body of EU laws. Nevertheless, much more is needed from the new government (formed at the start of 2005) in the next two years in the difficult areas of institutional reform (including perseverance with structural reforms in key sectors) and competition policy.

Bulgaria also made progress in large-scale privatisation and in the reform of banking and infrastructure in 2004. The government adopted several legislative reforms, including a new concessions law for infrastructure and new public procurement regulations. It has also closed all 31 chapters of the *acquis*. The Bulgarian and Romanian governments expect to sign the EU accession treaty in April 2005 and to join the EU in January 2007. However, questions remain regarding both countries’ administrative capacity and judicial system. Progress in implementing the reform commitments of Bulgaria and Romania will be monitored closely by the European Commission, which could defer EU entry by one year.

Elsewhere in SEE, the EU’s commitment to the Stabilisation and Association Process, which prepares SEE countries

Foreign direct investment remained at historically high levels.

for possible EU membership, continues to spur reform in Albania, Bosnia and Herzegovina, FYR Macedonia, and Serbia and Montenegro. FYR Macedonia has applied for EU membership while Albania is negotiating a Stabilisation and Association Agreement (SAA), similar to those already in place with Croatia and FYR Macedonia. The European Commission is currently assessing whether it will be feasible to begin negotiations on an SAA with Bosnia and Herzegovina and with Serbia and Montenegro.

Bosnia and Herzegovina and Serbia and Montenegro are making progress in privatisation and banking sector reform. The pace of reform in Serbia and Montenegro slowed down in early 2004 due to political uncertainties but financial sector reform gained momentum in the second half of the year. The election of a pro-reform

candidate as President of Serbia in June 2004 has eased fears that the country could return to the damaging nationalist politics of its recent past. A new bankruptcy law became effective in August in Serbia and Montenegro (applicable to Serbia only). The law regulates reorganisation and liquidation procedures and represents a significant improvement over the previous legislation. Nevertheless, several key issues remain unresolved, including the final status of Kosovo and the possibility of Serbia and Montenegro becoming separate states.

Corruption remains a serious problem for all the SEE countries, although most are taking visible steps to combat it. Both the accession process (for Bulgaria and Romania) and the Stabilisation and Association Process provide incentives to improve governance and limit

corruption but for some countries the problem has proved particularly difficult to address.

## EBRD investment

EBRD investments in south-eastern Europe totalled €1.0 billion in 2004, up 6 per cent on 2003, with large increases in Albania and Bosnia and Herzegovina. The private sector accounted for 81 per cent of this investment compared with 76 per cent in 2003. The largest recipients of EBRD finance were Romania, Bulgaria, and Serbia and Montenegro.

The Bank's commitment to attracting co-financing was reflected in an increase in syndicated loans, which totalled €321 million in 2004 compared with €106 million the previous year.



## Privatised company expands telecom services in Bulgaria

Requesting a phone line in Bulgaria usually means having to join a waiting list for installation. But not for much longer. Following the privatisation of Bulgarian Telecom in June 2004, the company is changing fast.

The sale of a controlling stake in Bulgarian Telecom to the US-led investment consortium Advent International was a landmark achievement for the Bulgarian government and an important milestone in the country's progress towards EU entry, scheduled for 2007. The EBRD played a major role in the privatisation process by co-arranging a €76.5 million loan to support the acquisition and by participating in the consortium of equity investors.

Currently there are 38 land lines per 100 people in Bulgaria, with local demand exceeding available supply, particularly in the rapidly growing internet services market. As part of the privatisation, the company has also been



Cumulative EBRD investments of €5.1 billion have directly generated an additional €10.6 billion of investment.

Major EBRD projects in 2004 included the privatisation of Bulgarian Telecom, with the Bank providing both equity and loan financing and arranging a commercial syndication for this landmark transaction (see below). In Romania an equity participation in Petrom concluded the EBRD's key role in ensuring the successful transition of Romania's largest company from a state-owned enterprise to a strong private company. In FYR Macedonia the ground-breaking ESM electricity pre-privatisation project was the result of over two years of preparation (see page 15).

The EBRD continued to promote regulatory reform and regional integration. A €18 million loan was provided to Transelectrica, Romania's state-owned

power transmission company, to further integrate the south-eastern and western European electricity markets. The project was the Bank's first in the power sector to be provided without a state guarantee.

Another project to be funded without the need for state backing was the Port of Constanta (see page 42). In Serbia and Montenegro we successfully shifted our focus away from state-guaranteed projects in the energy and infrastructure sectors and towards private sector activities.

In the financial sector the EBRD assisted small and medium-sized enterprises (SMEs) via credit lines to local banks and leasing companies and through trade facilitation programmes and mortgage lines. We also provided bank equity and corporate loans. An innovation was a €10 million SME facility for the agricultural sector

in Bulgaria, launched under the EU/EBRD SME Finance Facility. We also signed our first leasing facility in this country under the same facility.

In FYR Macedonia, EBRD support for Tutunska Banka through a ten-party syndication was a landmark deal. In Serbia and Montenegro, EBRD commitments to financial institutions increased to €54 million, including loans and equity investments in Cacanska Banka, Eksimbanka, Euromarket Banka, ProCredit Bank and Volksbank. Société Générale, HVB Bank and Raiffeisen Bank received EBRD loans that enhanced their capacity to provide residential mortgages.

Other sectors to benefit from EBRD financing included retail, manufacturing and telecommunications. The EBRD provided both equity and a syndicated loan to the Piccadilly supermarket chain

awarded a GSM licence and will launch its mobile phone service later this year to satisfy the growing demand for this service.

As is common with formerly state-owned enterprises, the company will now transform itself to focus more on customer service while overhauling its organisational structure, staffing and working practices. This will be accomplished by a new senior management team, which was appointed at the beginning of 2004.

Since as long ago as 1994, Bulgarian Telecom has been upgrading its analogue switches to digital. With digital lines still representing only 33 per cent of the total, the company is keen to accelerate the digitalisation process to improve the quality of service in large cities and remote areas of Bulgaria.

At the time of privatisation, the company employed around 25,000 people, with many of these working to maintain the outdated analogue system. The plan is to gradually reduce the number of staff with redeployment, early retirement and redundancy. Improvements to the organisation of the company should significantly reduce operating costs and allow Bulgarian Telecom to offer new and price-competitive services.



## Port expansion streamlines Black Sea trade route

There is a beating heart at the centre of the trade route that connects western Europe with the former communist bloc countries and Turkey. That heart is the bustling Romanian port of Constanta. Nestled on the west coast of the majestic Black Sea, 165 miles from Bucharest, Constanta has direct access to the Danube and is perfectly positioned for business with all its Black Sea neighbours and the countries connected to it by river – Austria, Germany, Hungary, and Serbia and Montenegro.

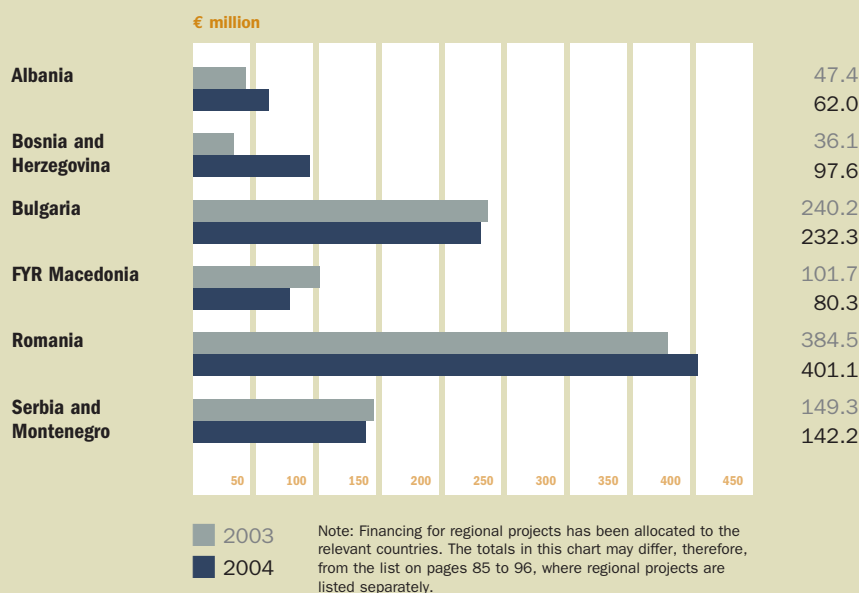
In its heyday in the mid-1980s, Constanta Port hosted 200 import and export barges every single day, with over 60 million tonnes of goods passing through each year. It was the Rotterdam of eastern Europe. In decline since the end of the Soviet era, the largest port in the Black Sea is today positioned to reclaim its rightful place on the world stage.

The EBRD is implementing a €16 million loan to build a new barge terminal handling general cargo in bulk, such as coal, metals, cement, cereals and scrap. Water is the obvious alternative to the congested roads of Austria and

Germany, and the Danube-Black Sea route is for many the perfect solution. At the moment the port suffers from a lack of dock space for barges, meaning that the port area is often blocked by traffic bottlenecks. With the new loan, the state-owned port will build a 2,200 metre quay wall with berths for barges. A small basin will hold the pushers and tugboats that would otherwise remain stranded in the port.

The terminal will streamline port activities, making transport along the river-maritime route more efficient and much safer. It will also mean that the whole port is better managed and better able to finance itself, which should contribute to bigger profits. Constantin Harzan, the General Manager of Navrom Galati, the Romanian River Shipping Company and the largest user of the port's barge basin, relies heavily on efficient off-loading for the survival of his business. "One of the key successes to our business is for our barges to arrive, dock, drop off goods and leave. If the system is better organised, it is better for all parties involved, including us, the port and the canals leading into the port," he says. Grant funding for the development of this project was provided by the Dutch government.

### EBRD commitments 2003-04



### Cumulative EBRD commitments, as of end of 2004

	€ million
Albania	223.3
Bosnia and Herzegovina	348.6
Bulgaria	1,001.4
FYR Macedonia	376.1
Romania	2,531.4
Serbia and Montenegro	662.6

Note: Financing for regional projects has been allocated to the relevant countries.

in Varna, Bulgaria, to fund regional expansion along the Black Sea coast. In Albania the EBRD participated in a high-profile foreign investment in Fushe Kruje Cement. Notable investments in Serbia and Montenegro included Ball Packaging (see page 44), Hemofarm (a pharmaceutical company), SBB (a leading cable network operator) and Frikom (a producer of ice cream and frozen food). In Romania the EBRD continued to invest in the on-going development of property and agribusiness industries.

In the environmental sphere the EBRD provided a loan to reduce sulphur dioxide emissions from Bulgaria's largest thermal power plant at Maritza East II. In our first ever "carbon trade", the EBRD signed a deal to buy, on behalf of the Dutch government, carbon credits from a Bulgarian paper mill, Paper Factory Stambolijski (PFS).

The Netherlands-EBRD Emissions Reduction Fund will help PFS cut its carbon dioxide and methane emissions by switching its main energy source from non-renewable oil and gas to renewable biomass.

Another innovative project was the launch of a €32 million energy efficiency credit line for private sector energy efficiency/renewable energy projects in Bulgaria, with grant co-financing from the Kozloduy International Decommissioning Support Fund. This will be followed by an energy efficiency credit line for the residential sector

The EBRD continued to closely coordinate its activities in the Western Balkans with other international financial institutions and the initiatives of the Stability Pact. Key Stability Pact projects launched with EBRD assistance are promoting trade, both within the region

and externally, boosting institutional development and promoting good corporate governance, especially in local banks.

In Serbia and Montenegro the EBRD is cooperating with the European Investment Bank and the European Union to identify infrastructure projects that will assist the transition process. In particular, the cooperative effort is seeking to determine opportunities for corporate restructuring in the oil, gas, electricity and rail sectors.

Towards the end of 2004 the EBRD launched a series of regional seminars aimed at improving cooperation and business opportunities in south-eastern Europe ahead of our 2005 Annual Meeting in Belgrade, Serbia and Montenegro. A seminar on transport was held in Sarajevo, Bosnia and Herzegovina, in December. A further



## Packaging plant boosts local production and creates jobs

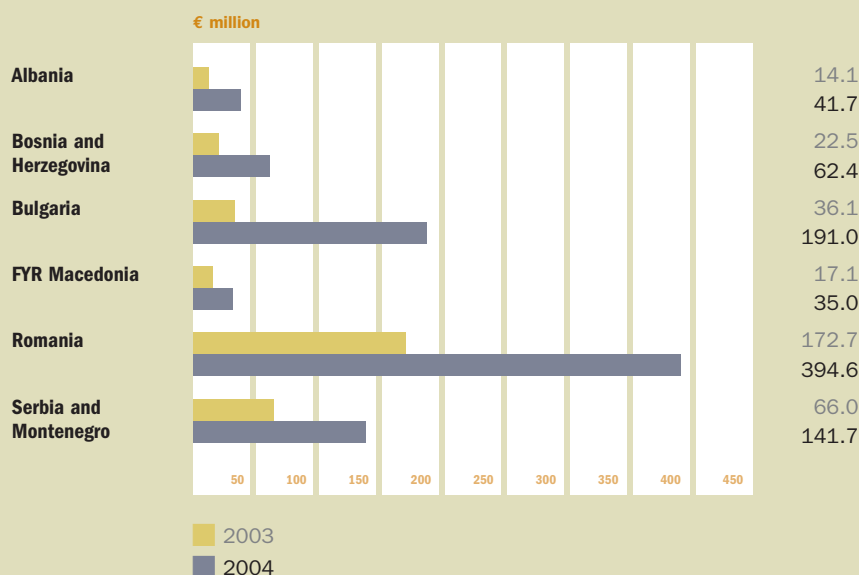
Last year Serbia and Montenegro got through one and a half billion aluminium cans containing soft drinks or beer. All the cans were imported. In ten years' time, this figure is expected to double but from May 2005 the cans will be produced locally at the rate of 1,700 cans per minute in a suburb of Belgrade.

A new state-of-the-art €75 million greenfield aluminium can plant will be funded in part by a €20 million EBRD loan to Ball Packaging. Half a kilometre from the Danube River in the capital city's suburb of Zemun and almost directly opposite the factory of an American soft drinks giant, the plant will be the very first aluminium can producer in the country. It will at first employ around 150 workers, later rising to a possible 300 if business is good. "Each job created at the plant will generate two to three other new jobs outside the plant as a result of these relationships with suppliers," says Jan Driessens, President of Ball Packaging Europe.

The plan is to produce 277 million cans next year alone, increasing to 683 million by 2010. And when the cans are used and empty? They will be recycled, of course. Ball plans a network of waste recycling centres in schools, nurseries, shops and petrol stations, the first of their kind in this country. Aluminium cans traditionally have a very high recycling rate and Ball has set up pilot education programmes in 12 local schools so far. It has also begun can collection campaigns aimed at children to help increase that rate further.

Ball, based in Colorado, was founded in 1880 and is one of the world's biggest suppliers of metal and plastic packaging chummed out by 50 plants around the world. Although the Belgrade plant will boost the country's economy by exporting 70 to 80 per cent of its cans, it is also expected to replace many foreign can imports to Serbia and Montenegro with its cheaper domestically produced cans.

### EBRD disbursements 2003–04



### Cumulative EBRD disbursements, as of end of 2004

	€ million
Albania	109.6
Bosnia and Herzegovina	162.6
Bulgaria	672.7
FYR Macedonia	217.4
Romania	1,813.1
Serbia and Montenegro	260.8

seminar was held in early 2005 in Tirana, Albania, focusing on the development of the energy sector, and a final seminar on private sector financing will be held in Skopje, FYR Macedonia, in March 2005.

#### Looking ahead

The EBRD aims to increase investment in south-eastern Europe by a further 6 to 12 per cent in 2005. The Bank will continue to support projects that have a regional focus and the ability to strengthen economic links in the region – for example, projects involving power, transport, trade facilitation, regional integration of private business, and the regional expansion of financial institutions. We also aim to enhance our cooperation with local authorities, particularly in the area of municipal utilities.

The EBRD will support the implementation of remaining privatisations and work to improve the investment climate in areas such as rule of law, public and corporate governance, and the development of strong institutions. We will also help the SEE countries to attract further foreign direct investment, to encourage further growth of small business and to expand regional trade.

In Bulgaria and Romania we will continue to support projects in areas such as tourism, property and natural resources as the two countries prepare for EU accession in 2007. We will also support key infrastructure improvements in the energy and municipal sectors, particularly water supply and waste-water treatment. The EBRD approved new strategies for Albania, FYR Macedonia, and Serbia and Montenegro in 2004. The Bank aims to help all three countries accelerate private sector development and improve their infrastructure.

The EBRD will support projects that strengthen economic links between countries.



# 04 Western CIS and the Caucasus

**Strong growth was achieved in the neighbouring countries of Belarus, Moldova and Ukraine and in the Caucasus. EBRD investment increased threefold, with a strong focus on oil and gas projects.**

## **Investment climate**

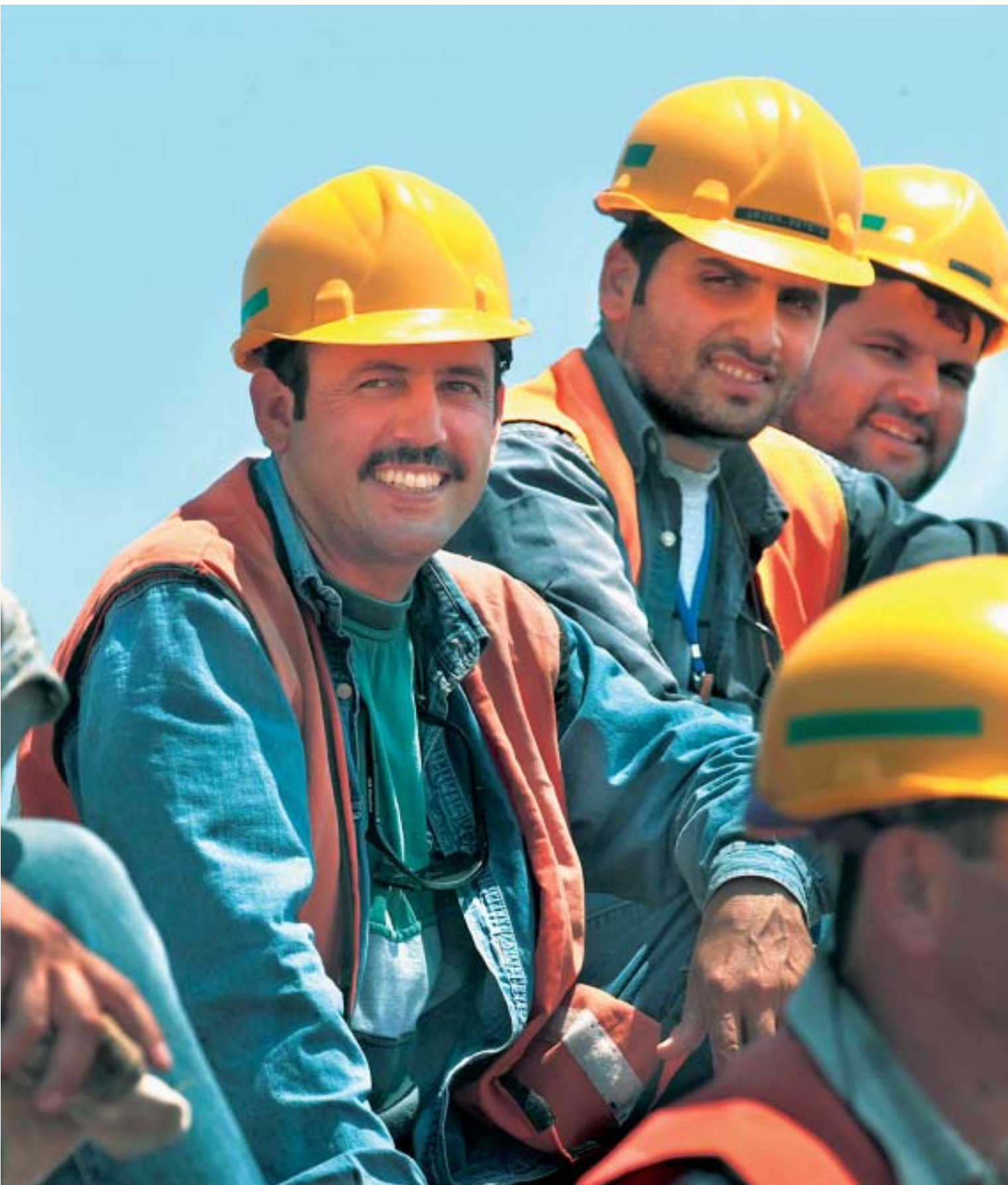
Growth remained strong in 2004 in the western region of the Commonwealth of Independent States (Belarus, Moldova and Ukraine) and in the Caucasus (Armenia, Azerbaijan and Georgia).

In the largest country, Ukraine, GDP growth rose to 12.1 per cent in 2004 compared with 9.4 per cent in 2003, boosted by increases in consumption, exports and investment. The widespread demonstrations at the end of the year following the presidential elections had little direct impact on the real economy but did affect the banking sector.

Exports from Ukraine benefited from strong external demand and high prices for metals and other commodities. Investment in new machinery and equipment increased while industrial production remained buoyant, increasing by over 12 per cent during the year. This was accompanied by a rapid growth in the construction sector and a recovery in agricultural output.

Strong export growth contributed to a current account surplus of an estimated 10.3 per cent of GDP in Ukraine. However, inflation rose steadily and ended the year at over 12 per cent, well in excess of the government's target and the end-2003











The EBRD funded four large oil and gas projects in Azerbaijan and Georgia in 2004, boosting growth in the region.



### Economic snapshots for 2004

		Population (millions)	GDP growth %	End-year inflation %	Net foreign direct investment (US\$ millions)	Transition indicator (average of nine EBRD transition scores) <sup>1</sup>
	<b>Armenia</b>	3.1	10.1	2.6	178	3.00
	<b>Azerbaijan</b>	8.3	10.0	10.5	2,531	2.63
	<b>Belarus</b>	9.9	11.0	14.5	150	1.81
	<b>Georgia</b>	4.6	8.5	7.5	438	2.96
	<b>Moldova</b>	4.3	7.0	12.5	122	2.74
	<b>Ukraine</b>	48.4	12.1	12.3	1,500	2.78

<sup>1</sup> Maximum score of 4.33.

level of 8.2 per cent. Higher government spending and a decision to raise the minimum payment level for pensions contributed to a higher fiscal deficit than expected. While it was readily funded by income from privatisations and external borrowing, further fiscal consolidation is needed in 2005.

Until the final months of the year, the banking sector in Ukraine continued to expand, with further increases in both deposits and credit, especially to the private sector. However, the rapid growth of credit raised some concerns over potential credit risk. The National Bank of Ukraine (NBU) strengthened its supervisory framework but the International Monetary Fund highlighted the need for greater transparency in bank ownership. The NBU acted promptly to limit the impact of the political crisis in late 2004 on the banking sector. However, these events have emphasised the need to strengthen the capital base of the sector.

The government made progress with the implementation of new anti-money laundering legislation, which contributed to the removal of Ukraine from the list of non-cooperating countries drawn up by the Financial Action Task Force on Money Laundering. The government also established new registers for movable and immovable property in accordance with the new secured transactions legislation and adopted a new law on arbitration tribunals. Nevertheless, many enterprises in Ukraine still perceive serious barriers to doing business, including the cumbersome regulatory

framework, unstable legislation and anti-competitive practices. The new government has signalled its intention to address significant problems in the business environment – including heavy state intervention in the economy – and to attract more foreign investment.

Moldova's growth in GDP was 7 per cent in 2004 compared with 6.3 per cent in 2003 while end-year inflation was 12.5 per cent, below the 15.8 per cent recorded in 2003, but above government and central bank projections. As in previous years, a relatively strong industrial sector (6.4 per cent growth in 2004) and a boom in services were the main reasons for the rapid expansion. However, much of the industrial growth is due to higher capacity utilisation rather than new investment. Growth is predominantly led by domestic consumption and fuelled by a high level of remittances from overseas workers, higher wages and increased bank lending.

The period of strong growth is likely to continue but it needs to be underpinned by structural reforms and firm fiscal management. The government's Economic Growth and Poverty Reduction Strategy provides a blueprint for sustainable growth based on structural reforms but tangible signs of its implementation will be needed to attract investment.

In Belarus, GDP is estimated to have risen by 11 per cent in 2004 compared with 6.7 per cent growth in 2003, driven by strong domestic demand and high export growth (especially to Russia).

The rate of inflation slowed to 14.5 per cent, well down on the 25.5 per cent recorded in 2003. Industrial output strengthened by 15.6 per cent during this period. However, some 25 per cent of all industrial enterprises were reported to be loss-making. A further boost to growth was the government's financial support to certain agricultural enterprises. As these policies are expected to continue in 2005, growth should be maintained. However, sustained growth over the medium term will depend on the authorities' willingness to embark on market-oriented reforms. Little progress was made with structural reform in 2004.

In the Caucasus, growth was strong in all three countries, at 8 per cent or higher, similar to the average in 2003. In Azerbaijan the economy performed remarkably well but it remains highly dependent on the oil and gas sectors (accounting for about 33 per cent of GDP in 2004). Growth in Armenia and Georgia was assisted by high levels of remittances from workers living abroad.

Azerbaijan's government is committed to pursuing the structural reforms outlined in the State Programme for Poverty Reduction and Economic Development. This emphasises the need to improve the investment climate, increase investment in infrastructure, develop a competitive financial sector and expand trade. In 2004 the government amended its civil code regarding legal entities (limited liability companies and joint-stock companies) and completed a long-term strategy for the stable management of oil revenues.

**In Azerbaijan the economy remains highly dependent on oil and gas.**



In Armenia and Georgia, both governments made significant efforts in 2004 to improve the business environment and to attract investment. Armenia adopted important amendments to the joint-stock company law, bankruptcy law and securities markets legislation to improve corporate governance practices and the transparency of the financial markets. The country also took important steps to liberalise its mobile telecommunications market.

Georgia's new government began major legislative reforms of various aspects of commercial law, with the first results expected later in 2005. A major reorganisation of the State Tax Department was accomplished and a new business-friendly tax code presented to parliament. A modernisation of the custom administration is currently under way, supplemented by a significant

reduction in the existing number of tariff bands. Furthermore, an ambitious civil service reform was launched.

Fighting widespread corruption is a major challenge for the countries in the western CIS and the Caucasus. However, the recent political changes in Georgia and Ukraine have helped to move anti-corruption initiatives to the top of the policy agenda. Overall, sustained growth in the Caucasus over the longer term requires the development of stronger private sector activity, especially in agribusiness in Armenia and Georgia, and a gradual reduction in Azerbaijan's reliance on the oil and gas sectors.

## EBRD investment

EBRD investment in the western CIS and the Caucasus increased dramatically from €196 million in 2003 to €599 million in 2004. Much of this increase is due to EBRD funding for four large oil and gas projects in Azerbaijan and Georgia but we also signed a larger number of projects, 19 in 2004 compared with 14 in 2003. Four of the six countries in this region (Armenia, Azerbaijan, Georgia and Moldova) are part of the EBRD's Early Transition Countries (ETC) Initiative, which was adopted by the Bank at the 2004 Annual Meeting.

The aim of the initiative is to address poverty in these countries on a sustainable basis by increasing investment and by encouraging ongoing economic reform (see page 13). A particular effort is being made to improve banking services for micro,



## Gas development unlocks Azerbaijan's vast natural wealth

Far under the bed of the glistening Caspian Sea, 100 kilometres south of the ancient Azerbaijani capital of Baku, lies the Shah Deniz gas and condensate field. It was discovered six years ago and is thought to be one of the world's richest sources of gas.

In 2004 the EBRD signed a loan agreement with SOCAR, the State Oil Company of Azerbaijan, for €125 million so that SOCAR could finance its 10 per cent share in Shah Deniz and the 680 km South Caucasus pipeline. This loan was SOCAR's first experience of long-term commercial financing. Not only did this loan enable SOCAR to participate in the project without having to rely on funding from the state budget or the State Oil Fund of Azerbaijan, it also meant SOCAR could start a long-awaited commercialisation and restructuring programme.



small and medium-sized businesses whose growth is typically inhibited by lack of access to credit. The initiative also aims to identify suitable projects in the public sector.

In the Caucasus, EBRD investment increased almost six-fold, to €296 million in 2004. Oil and gas projects in Azerbaijan and Georgia represented over €238 million of this total. The revenue generated by these projects should help to establish a solid economic base for the future development of both countries.

Azerbaijan continued to attract large amounts of foreign investment in the oil and gas sector. The EBRD played an active role in supporting these investments and in promoting good corporate governance and transparency in companies operating in this sector. The Bank played a lead role in financing

Phase 1 of the Azeri, Chirag and Guneshli (ACG) oil field project and the Baku-Tbilisi-Ceyhan (BTC) oil pipeline (see page 14). In addition, we provided finance to the State Oil Company of Azerbaijan (SOCAR) for its participation in the Shah Deniz gas field project and the South Caucasus gas pipeline (see below).

Other major EBRD projects in Azerbaijan included a €30 million investment in the reconstruction of the Hajigabul-Kyurdamir road, which forms part of the historic Silk Road linking Asia to Europe. Small and medium-sized enterprises (SMEs) received substantial support through the expansion of credit lines and trade facilitation programmes with four local banks.

A €900,000 equity investment in Armeconombank was the cornerstone of the EBRD's activities in Armenia in 2004 (see page 52). This was the

Bank's first equity investment in an Armenian financial institution. We also signed a number of trade and credit lines with two other Armenian banks during the year to support small business.

Georgia underwent substantial political and economic changes during 2004. To address the changing environment, the EBRD adopted a new country strategy, which focuses on the development of infrastructure and support for local enterprises. The EBRD expanded its support for small business and trade, and invested in Teliani Valley, a wine processing, bottling and distribution company. The investment will help the company to expand its production facilities, improve marketing initiatives and increase sales.

In Moldova the Bank invested mainly in the financial services sector in 2004 in support of SMEs. EBRD projects

The Shah Deniz reserve's 400 billion cubic metres of gas will be exported via the new pipeline. This runs in parallel with the BTC crude oil pipeline from Azerbaijan, through Georgia to Turkey, where it will be linked to the Turkish gas distribution network for delivery of gas in 2006. The total development cost for the project partners (which include BP, Statoil, Total, NICO, TPAO, Lukoil and SOCAR) is likely to be over €3 billion.

Funded by grant money from the United States, a team of international consultants has started working with SOCAR to identify key areas of possible improvement for this huge company – a cornerstone of the Azerbaijani economy, employing over 58,000 people. The export of natural gas has enormous potential benefits for both SOCAR, the government and eventually, of course, the Azerbaijani people.

While some countries have run into problems as revenue disappears with no obvious improvement in standard of living, SOCAR and the government of Azerbaijan have signed the Extractive Industry Transparency Initiative to ensure that all revenue from hydrocarbon exports can be effectively and independently monitored. The initiative creates the basis for accountable government and aims to bring benefits from the country's vast natural wealth to all the people of Azerbaijan.



## Armenian bank rolls out innovative customer services

In a country where financial services have traditionally been hard to come by, Armeconombank (or the Armenian Economy Development Bank – AEB) is a known innovator, providing plastic cards, cash points and now even mortgages.

In December 2004 the EBRD acquired a 25 per cent stake in AEB, one of the largest Armenian banks in a sector of 19 privately owned banks. This deal cements a relationship fostered since 2000 between the EBRD, AEB and its majority shareholders, the Sukiasyan family. The Sukiasyans bought the bank in 1997 and made it profitable within three years. When the deal is formally finalised, the EBRD and the Sukiasyans will jointly hold more than 75 per cent of AEB's shares.

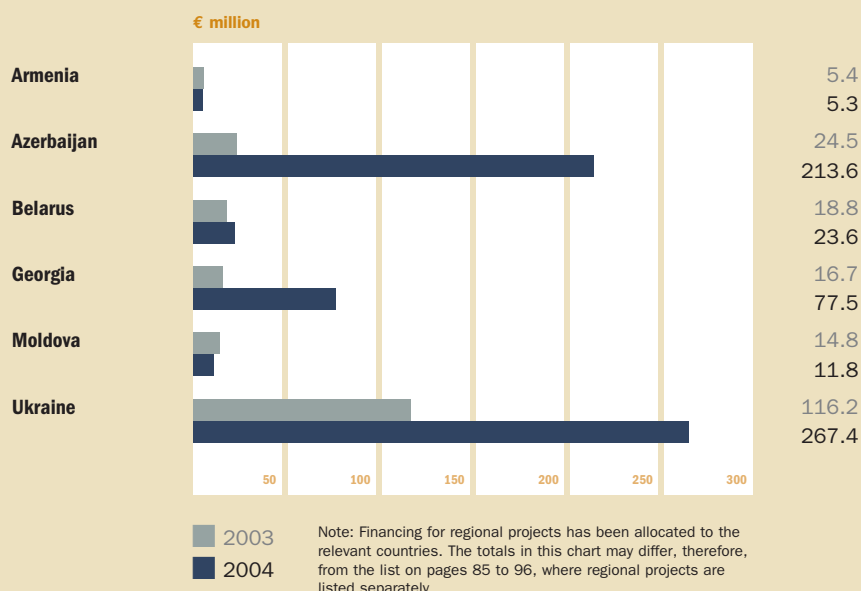
Khachatur, Saribek, Edward and Robert Sukiasyan, the brothers behind Sukiasyan Investment Limited or SIL Group, are famous figures in the market. As well as establishing a large charitable fund, SIL Group is a massive employer with 6,500 staff countrywide involved in 20 private enterprises.

AEB is already known for bringing services to the market first, such as trade finance and the plastic cards that more developed banking sectors take for granted. The bank's chairman, Ashot Osipyan, is now working energetically with the authorities to improve legislation to jumpstart mortgage lending. "The mortgage market is not going to establish itself," he says. "So we are going to do it."

The EBRD's investment of €887,000 will be supported by a €500,000 technical assistance package provided by the European Community for improving training and management in key areas. The EBRD will also gain a seat on AEB's Supervisory Board. These combined benefits should reinforce AEB's position in the market and improve banking services for Armenia's citizens nationwide.

The investment and the technical assistance package will mean that AEB can continue to be an innovator, upgrading its IT systems, opening more cash points and introducing electronic banking and other services. It will also mean that the bank will have additional funding to build its loan portfolio, key in a country where access to finance has historically been quite limited.

### EBRD commitments 2003–04



### Cumulative EBRD commitments, as of end of 2004

	€ million
Armenia	88.1
Azerbaijan	458.6
Belarus	161.2
Georgia	242.6
Moldova	157.4
Ukraine	1,519.2

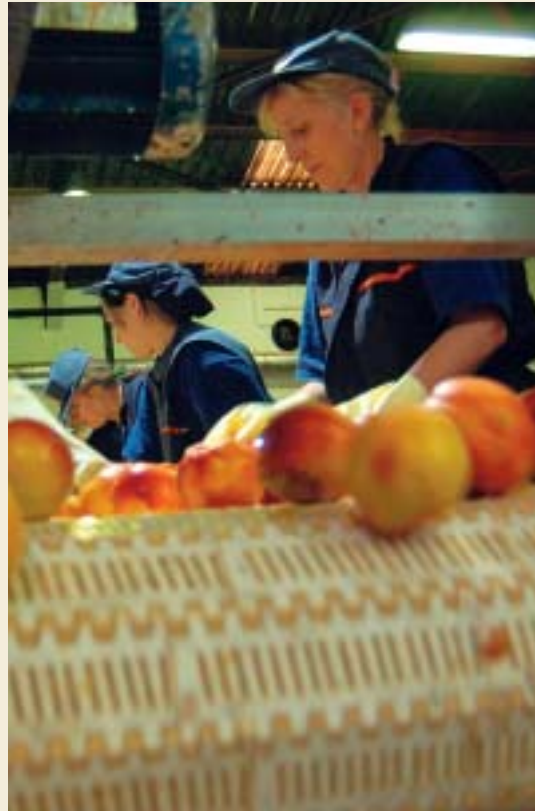
Note: Financing for regional projects has been allocated to the relevant countries.

included the establishment of a SME credit line with Mobias Bank and a medium-sized co-financing facility with Victoriabank (see page 54). This facility, which aims to support fast-growing local enterprises, was the first to be established by the Bank in an early transition country.

The most significant EBRD project in Belarus was the establishment of a €12 million framework facility for SMEs and micro businesses. Under this framework, loans will be extended directly to privately owned and operated local banks that will on-lend the funds to SMEs and micro businesses in the private sector.

EBRD investment in Ukraine totalled €267 million in 2004, the Bank's highest level of investment since 2000. The main areas of activity were transport, agribusiness, banking and manufacturing. For example, we invested in a steel producer in Donetsk to improve production processes and energy efficiency, in Ukraine Railways to introduce fast train services countrywide, and in grain trading enterprises and other agribusiness companies. Financial support for SMEs was strengthened through EBRD credit lines to local Ukrainian banks. We also provided our first mortgage credit line to local bank Aval.

The EBRD stepped up efforts to establish a framework for direct lending to municipalities in Ukraine and finalised the preparation of the Bank's first investment in the municipal sector without a state guarantee. The Bank continued to lead the Energy Task Force forum in cooperation with the Ministry for Fuel and Energy and made progress on the introduction of a warehouse receipts system that will support local farmers.



## Moldovan bank extends new services to business entrepreneurs

The Orhei-Vit SA fruit juice and jam factory in the Moldovan city of Causeni employs 619 people packing jam and purees into cans and churning out over 9,000 bottles of juice an hour. Privatised ten years ago, the company has just been granted a €1.5 million loan to modernise the business from top to bottom, increasing both production and efficiency.

This loan was made possible by Victoriabank, based 77 km away from the factory in the country's historic capital, Chisinau. Victoriabank is the first partner bank to benefit from the EBRD's €60 million co-financing project with leading banks in the early transition countries.

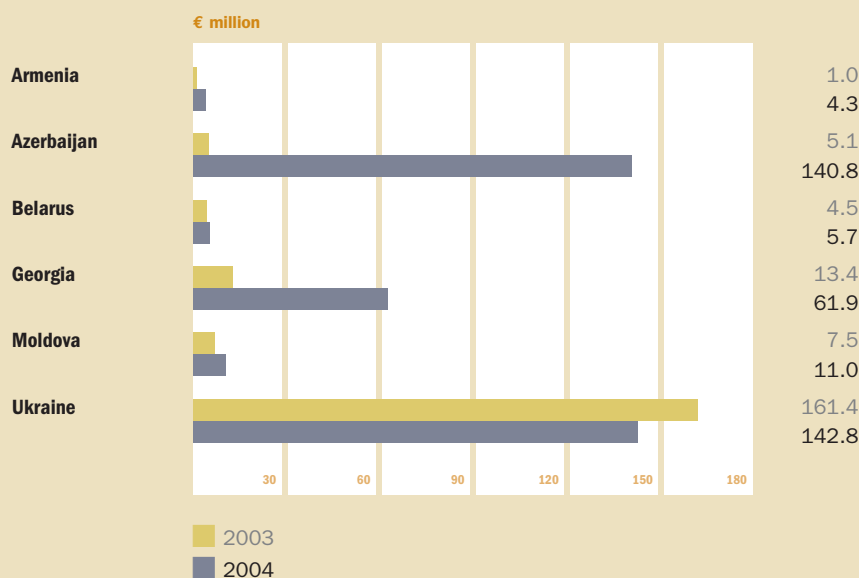
The partner banks will loan the money (to a maximum of US\$ 2 million) on to the small and medium-sized businesses in the manufacturing, service, property and agribusiness sectors that have traditionally found it hard to get the loans they need from a largely unmodernised banking system. With the new investment, bank staff will be trained to deal with a whole range of new services.

Another beneficiary, with a US\$ 2 million loan co-financed by the EBRD and Victoriabank, is the Moldovan subsidiary of the American company Trans Oil Ltd. With the maximum possible loan from the programme, this company has improved its grain and seed facilities, creating new jobs locally and making a substantial contribution to the country's exports.

Victoriabank was the first private bank to be established in Moldova, in 1991, and over the past 13 years it has developed into the second-largest bank in the country in terms of lending. This is in large part due to the efforts of Galina Proidisvet, the bank's First Vice-President, who helped create Victoriabank and who has dedicated all her personal and professional skills to successfully developing it into a sound financial institution, expertly guiding it through difficult times, in both economic and political terms.

Mrs Proidisvet says the co-financing has helped Victoriabank "to implement modern banking practices and educate clients in improving their accounting, management and operational activity by sharing knowledge and skills with the EBRD".

### EBRD disbursements 2003–04



### Cumulative EBRD disbursements, as of end of 2004

	€ million
Armenia	80.6
Azerbaijan	343.0
Belarus	138.7
Georgia	189.0
Moldova	135.8
Ukraine	832.9

#### Looking ahead

In Azerbaijan the EBRD will focus primarily on the non-oil sector and regional economic development in 2005. Priority will be given to projects that support the development of efficient infrastructure and that contribute to the diversification of the economy, into areas such as banking, agribusiness and manufacturing.

In the other countries in the Caucasus and in Moldova the EBRD will follow similar priorities. The EBRD's main emphasis, as confirmed in the Bank's new strategy for Georgia, will be to support private sector investment but we will also participate in regional infrastructure projects.

The EBRD approved a new strategy for Belarus in 2004. In view of the country's lack of progress towards democratic and market reforms (and its consequent lack of compliance with Article 1 of the

Bank's Founding Agreement), the EBRD will continue to strictly limit activities to private sector development. This approach will allow the Bank to stay engaged in Belarus and to support reform through dialogue with the government and direct engagement with the emerging small business sector.

In Ukraine the EBRD is planning to increase investment in infrastructure, transport, energy and manufacturing. The level of our investment will depend on how successfully Ukraine manages to improve its investment climate by creating better conditions for foreign and local investment, such as a consistent tax regime and a truly independent judiciary.

## The EBRD will help economies diversify into new areas.



# 05 Russia

**Russia's robust economic performance was bolstered by market reforms and high oil prices. The EBRD focused on developing the country's private sector and supporting local infrastructure.**

## **Investment climate**

Russia's economy continued to be robust in 2004 although growth declined from 7.3 per cent in 2003 to an estimated 7.1 per cent. A pronounced slowdown in the latter part of the year, following 7.4 per cent growth in the first half, occurred despite a favourable global environment. This slowdown partly reflects increased uncertainties in the business climate as a result of dealings with Yukos, one of Russia's leading oil producers. At the same time, high oil prices contributed to large surpluses in the federal budget (for the fifth consecutive year) and in the balance of payments while Central Bank reserves increased dramatically.

The Stabilisation Fund, set up at the beginning of 2004, had accumulated close to US\$ 19 billion by the end of the year. The current account surplus increased to above 10 per cent of GDP. Russia's international reserves have gone from strength to strength, hitting a record high of US\$ 124.5 billion by early December 2004 and exceeding the country's total sovereign external debt. Inflation gradually declined through the first half of the year but began to increase in the second half, resulting in an end-year level of 11.7 per cent (compared with 12 per cent in 2003), above the official 10 per cent target.






An EBRD loan to Mobile TeleSystems, the largest mobile phone operator in Russia, will allow the company to introduce new services and reduce prices.



## Economic snapshot for 2004

	Population (millions)	GDP growth %	End-year inflation %	Net foreign direct investment (US\$ millions)	Transition indicator (average of nine EBRD transition scores) <sup>1</sup>
 <b>Russia</b>	144.9	7.1	11.7	1,000	2.96

<sup>1</sup> Maximum score of 4.33.

Russia's economy has benefited significantly from a favourable global environment, including high commodity prices, low interest rates, a sharp increase in demand from China, abundant global liquidity and renewed investor interest in emerging markets. In addition, growth has continued to be supported by increased competitiveness stemming from the sharp currency devaluation and the reduction of real wages following the 1998 financial meltdown. It has also been supported by the availability of under-utilised capital and labour. However, the strength of these three factors has been substantially eroded.

Sound policy, particularly in terms of fiscal and debt management, pursued by the authorities and the positive effects of the government's previous market reforms also substantially contributed to the robust economic performance. However, gross inflows of foreign direct investment fell during 2004 to US\$ 6.6 billion from US\$ 7.9 billion in 2003. Substantial uncertainties in the business environment have been created by events surrounding Yukos, alleged tax arrears cases and by concerns regarding the state's attitude towards past privatisations. Liquidity pressures and a weakening of confidence in the banking sector in summer 2004 also contributed to these uncertainties.

In the second half of 2004 these factors triggered substantial volatility in the financial markets and started to influence macroeconomic performance. Both industrial production and investment slowed in the second half of 2004, with industrial output falling from 7.4 per cent growth in the first half of the year to 6.1 per cent growth by year-end, and investment growth dropping from 13 to 10.8 per cent over the same period. In a further sign of weakening confidence, net private capital outflows broke a trend of rapid decline over the previous years by increasing to US\$ 7.8 billion in 2004 from US\$ 1.9 billion the previous year.

Most analysts expect a continuing slowdown for the Russian economy, with GDP growth forecasts ranging between 4 and 5.5 per cent for the next two to three years despite assumptions of a relatively benign global environment. However, even the unlikely scenario of a prolonged substantial downturn in oil prices would not cause Russia serious macroeconomic problems in the short term in view of the cushion provided by the accumulated reserves. Nonetheless, remaining structural weaknesses mean that Russia's economic performance continues to be closely linked to developments in world oil prices, and the country's new policies and institutions have not been tested yet against unfavourable global economic circumstances.

Therefore, Russia urgently needs to revitalise structural and institutional reform. In 2004 reforms continued but at a slower pace than previous years. Tax reforms made progress with the reduction of the unified social tax, the creation of the Stabilisation Fund and a general shift of the tax burden towards the extractive gas industries. However, many businesses face numerous difficulties associated with unclear laws and uneven tax administration, highlighting the need for further reforms and greater predictability in the business environment. Corruption remains

a serious policy challenge. While some steps have been taken to address the problem, much remains to be done.

The restructuring of the power sector proceeded gradually but important parts of the reform programme were postponed. The implementation of railway sector reform continued following the separation of the regulatory and commercial functions of the former Railways Ministry and the introduction of non-discriminatory access to the railway infrastructure. Restructuring of Gazprom and the gas sector remained on hold but plans to liberalise the company's shareholding were revived.

Russia continued to improve its laws in 2004. Reforms included a new law on hard currency regulation and control, the introduction of a deposit insurance law and the easing of restrictions on foreign capital in the insurance sector. A presidential decree in March 2004 completely revised the structure of the federal government and defined the principal functions of the newly created federal authorities.

Social reforms advanced with a package of measures in the housing sector. Some progress was achieved in licensing and deregulation, pensions and land reform, and bankruptcy regulation. Effective implementation of these reforms remains a key challenge.

Russia's economy has benefited significantly from a favourable global environment.



## EBRD investment

In 2004, EBRD investments in Russia totalled €1.2 billion, bringing our total commitments in this country to €5.9 billion. Gross disbursements amounted to €0.9 billion. Following the Russian government's decision to sharply reduce sovereign borrowing, the EBRD only made investments where there was no need for sovereign guarantees. The Bank focused in particular on the development of the Russian private sector and support for local infrastructure. Our projects also attracted significant additional investment from foreign investors.

EBRD projects contributed to the transition process in a number of ways. The Bank's investments helped to support financial sector reform, to assist small business, to promote competition,

to improve municipal infrastructure, to enhance corporate governance and to promote Russia's integration into the world economy. Special emphasis was given to projects that will help the country diversify from natural resources. In particular, the EBRD developed projects with companies that are in a position to compete in the Russian and international markets and to attract foreign investment.

A large proportion of the projects signed by the EBRD in 2004 were in manufacturing. In particular, the Bank provided significant financing to support the restructuring and modernisation of high-quality Russian companies. For example, we invested €73 million in Togliatti Azot to complete the modernisation of the company's ammonia plant (see page 21), €70 million in Chelyabinsk Tube



## Regional banks reach out to local entrepreneurs

Russian regional banks should not be overlooked as a good investment prospect. With the right kind of help, they can even compete with their Moscow-based rivals. And, with their intimate local knowledge, they can be unbeatable at offering small and medium-sized loans to deserving regional businesses that have nowhere else to turn.

Expanding cooperation with such banks has been at the heart of the EBRD's strategy for the Russian banking sector for five years now. Following the 1998 crash, it badly needed revitalising, and reaching out to entrepreneurs in remoter areas is long overdue.

So, the objective is to identify sound banks which occupy leading positions in their local markets and to offer them the help they need. The whole range of the EBRD's products, including direct equity investment, is available to partner banks that meet the necessary criteria. In 2004, for example, the EBRD signed credit line transactions with



Rolling Plant to support restructuring and €9 million in Narzan Mineral Water to improve the company's corporate governance and to increase its competitiveness.

The EBRD continued to develop innovative forms of financing. For example, we used risk-sharing structures involving local leasing companies to support equipment vendors Sumitomo and Wirtgen. The EBRD also supported foreign strategic investors, such as Nokian Tyres, that are expected to play a major role in setting new technological and corporate governance standards. The project will demonstrate to other producers the benefits of choosing Russia as a production base.

Using grant funding, the EBRD helped many clients to identify and finance significant energy efficiency measures in

industrial projects. The Bank's investment in Power Machines, for example, included energy efficiency improvements to three power equipment plants.

In the infrastructure sector, EBRD projects promoted private sector involvement, environmental improvement and energy-saving investments. We also assisted Russia in developing key transport arteries. An EBRD loan of €22 million was provided to the railway operator BTS for the purchase of tank wagons that will help to reduce the bottleneck for oil transportation. An EBRD loan of €9 million to Ark Shipping, an inland rivers operator, will assist with the modernisation of its facilities and will promote competition in the sector.

A major project in the telecommunications sector was a €110 million EBRD loan to Mobile TeleSystems, the largest mobile

phone operator in Russia, which will allow the company to introduce new services and reduce prices.

In the natural resources sector the EBRD provided financing of €33 million for the Middle Timan bauxite mine and €33 million for iron ore mining at Karelsky Okatysh, helping to improve environmental practices and operational efficiency. Another major sector supported by the EBRD in 2004 was agribusiness. Projects included a €27 million loan to the meat processing group Cherkizovsky (see page 62) and €7 million to KubanAgroProd, a processing company.

The EBRD continued to provide support to micro and small enterprises (MSEs) through the Russia Small Business Fund (RSBF), which has now disbursed almost 220,000 loans totalling over €1.8 billion. Funding for the RSBF consists of EBRD

a new partner bank, Yugbank in Krasnodar. Yugbank has the largest regional branch network after Sberbank – 17 regional branches and five offices across the region.

The EBRD also became a shareholder in three other regional banks: Uraltransbank in Ekaterinburg; Sibacadembank in Novosibirsk, the leading regional bank in Siberia with over 70 offices; and Center-Invest Bank (CIB) in Rostov, which was established by a group of former economics professors from Rostov University. CIB operates through 58 outlets and 20 cash-points and has recently expanded into neighbouring Krasnodar. The EBRD acquired an equity stake of over 25 per cent in all three and was the first non-local investor.

The EBRD has been working with Uraltransbank (UTB) for three years. With over 73 banks operating in the area, competition is stiff. It is a region that was once best-known for heavy manufacturing and defence industries so there

was a lot of unemployment when the Soviet era came to an end. This created the potential for a lot of entrepreneurial activity – and that means a lot of micro and small business loans. The credit line extended to UTB by the EBRD in 2002 allowed the bank to make these.

Mr Logutov, for example, set up a business producing playground equipment from a small Ekaterinburg workshop. With his UTB loan, he was able to expand production. Now he sells his equipment nationwide. And then there is Mr Zhalilov and his minibuses. He started with two, took a UTB loan and now he has 40.

Aside from the undeniable commercial considerations, these EBRD partnerships with Russian regional banks will strengthen corporate governance and transparency, which will be good for the growth of the bank and for attracting future strategic investment.



## Meat producer upgrades quality to expand market share

Igor Babaev, 53, has devoted his life to processed meats. If you are in Russia and you find yourself eating ravioli, cooked sausages, frankfurters, salami, hams or paté, it is highly likely that he will have had something to do with it. With an impressive 10 per cent share of the Russian market and producing 300 different types of sausages and hams under eight different brands including the “Empire of Taste” range, his company Cherkizovsky is one of Russia’s highest profile food companies.

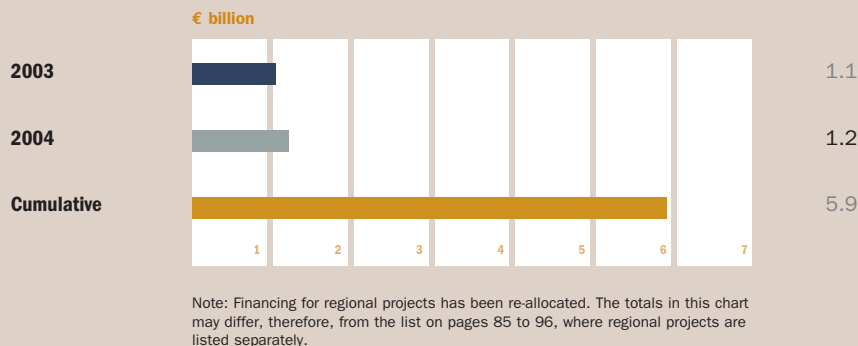
The EBRD and a group of commercial banks are providing a €27 million loan, which will allow Cherkizovsky to keep a closer eye on quality, to speed up delivery and to impress Western-style retailers who want clear and detailed information about the precise origin of their foodstuffs. Already the company is providing frankfurters for a Danish fast food chain in Moscow and some meat products for world-renowned hamburger restaurants. Cherkizovsky was also the first company in Russia to introduce gas and vacuum packaging, which allows products to reach the more remote areas of the country.

Igor Babaev was the Chief Executive of the company that became Cherkizovsky when it was privatised in 1993 and he still owns 90 per cent of the shares. Ten years on and the Babaevs have invested in eight meat processing plants, seven poultry farms and two pig breeding farms. The company operates nine production facilities across Russia, employing a total of 7,000 people. In 2003 its meat sales totalled €230 million.

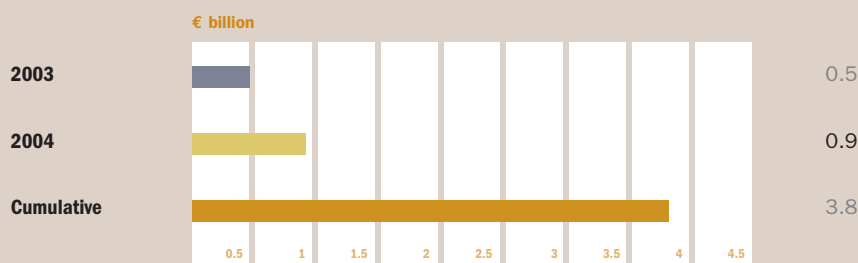
Processed meats in Russia accounted for around 25 per cent of meat eaten in 2003 and, unlike fresh meat, 97 per cent of processed meat is produced locally. When overall efficiency is improved as a direct result of the loan to Cherkizovsky, prices for local products are expected to go down as sales go up, making the company’s popular products all the more accessible.

The collapse of the Soviet planned economy devastated Russia’s agricultural and food processing market, which has spent the past decade steadily reviving itself. Improving business standards will hopefully set a positive example to other agricultural companies and give Russians some high-quality food.

### EBRD commitments



### EBRD disbursements



financing and donor grants from the European Community and a number of governments. With the help of the RSBF, specialist MSE finance departments have been set up in 249 banks in 138 cities across Russia. In 2004 the programme was extended to another 22 cities.

The EBRD provided further support for the banking sector in 2004 by helping Russian banks to expand their products and by supporting foreign-owned banks with subsidiaries in Russia. The EBRD provided loans, credit lines and equity financing, including a €50 million investment in Raiffeisen Bank and a €19 million loan to Banque Société Générale Vostok. The EBRD also supported strong regional banks, investing €8 million in Sibacadembank and €6 million in Uraltransbank (see page 60).

EBRD support for the Russian insurance market was provided alongside reputable Russian investors and through equity funds specifically targeted at the insurance sector. We increased our loans to Russian leasing companies and continued to promote pension reforms.

In north-west Russia the Northern Dimension Environmental Partnership (NDEP) continued to support a wide range of environmental projects. By using donor funding and EBRD finance, NDEP is making improvements in areas such as nuclear safety, waste-water treatment, water supply and energy efficiency. Co-financing of €44 million has been approved by NDEP for eight environmental projects (see page 22).

The Russia Small Business Fund has set up finance departments in 138 cities across Russia.

### *Looking ahead*

At the end of 2004 the EBRD published a new strategy for Russia, which urges the government to speed up institutional reforms and to promote the modernisation, diversification and restructuring of the Russian economy. The EBRD is ready to increase investment in the regions, to provide funding for key Russian industries and large enterprises, to play an active role in reforming the financial sector and to promote the modernisation of Russia's infrastructure.

In 2005 the Bank will start to issue rouble bonds and to use the local currency raised to fund small businesses, domestic-oriented companies and municipalities. We will help more local companies to enter domestic and international capital markets by providing assistance for the initial public offerings (IPOs) of Russian companies. The EBRD will have a strong focus on private sector development, including participation in the next phase of the Russian privatisation process. The Bank will seek to support sectors and transactions traditionally financed directly by the state.

The EBRD will increase equity investments to encourage foreign investors to set up new ventures and to help Russian companies strengthen

their capital bases. A strong focus on improving corporate governance will continue to be a priority for the Bank.

We will promote transparency and efficiency to encourage further foreign investment. To support diversification, the EBRD will continue to address the slow pace of restructuring for large state-owned companies. We will support the consolidation of the Russian banking sector and will promote competition. Key areas will include the restructuring of state banks and support for regional banks. We aim to expand our small business programmes and to broaden their regional scope.

The Bank will promote the commercialisation of infrastructure services and encourage private participation. 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 continue to participate in restructuring regional energy companies and in pipeline developments to improve pricing structures and access policies. To support implementation of the Kyoto Protocol, energy efficiency projects, such as Togliatti Azot, will become candidates for the carbon credits initiative (see page 15).

The EBRD will support the consolidation of the Russian banking sector and will promote competition.



## New vaccine promises better protection from winter ailments

When the branches of the trees hang heavy with snow, and the rivers and lakes freeze solid for skating and ice-fishing, the people of Russia take to the outdoors and ... get flu. Well, 15 per cent of them do, and many of the afflicted choose the traditional cure of soaking rags in vodka and honey to wrap round their throats. Others rub mustard into their chests. In 2003, 16 million Russians opted instead for a flu vaccine made, more often than not, by Petrovax.

Funded by a €15 million EBRD loan, Petrovax will soon be able to churn out 20 million doses of its brand new vaccine every year. The company is building a state-of-the-art greenfield facility on the outskirts of Moscow, where the new generation of flu vaccine will be produced.

The new vaccine, Grippol, uses European technology developed by Solvay Pharmaceuticals in the Netherlands. This technology replaces the traditional chicken eggs on which viruses have been grown for flu vaccines for decades. The new approach means Petrovax can react more quickly to new outbreaks as it will not depend on the supply of millions of chicken eggs. New Grippol is one of the very few Russian-produced vaccines that are able to compete effectively with its imported rivals.

With two major flu pandemics in the past 50 years (Asian flu in 1957 and Hong Kong flu in 1968) and the threat of a new pandemic never far away, the need for good flu vaccines cannot be underestimated. The recent Asian bird flu proved to an anxious world that the current breed of vaccines is not sufficient. The Petrovax secret ingredient, an immune stimulant some 30 years in the making, may become a vital contributor to a pandemic vaccine.

The union of Petrovax's immune stimulant and the new Solvay technology means that the new Moscow facility, which will add a staff of 60 to an existing 150 employees, will be a truly innovative venture. The combination of the stimulant with a vaccine has potential implications for other viral infections, such as SARS, HIV and hepatitis.

This project is a perfect example of the EBRD's determination to help countries diversify into new sectors and schemes that close the technology gap with more developed countries.



# 06 Central Asia

**Economic growth in several Central Asian countries remains dependent on high commodity prices. To boost further growth and to encourage diversification, the EBRD worked with the region's governments on improving the investment climate and increasing regional cooperation.**

## **Investment climate**

Growth in Central Asia in 2004 was strong in most of the region. The countries of Central Asia continued to benefit from high prices for oil and gas (Kazakhstan and Turkmenistan), gold (the Kyrgyz Republic and Uzbekistan), aluminium (Tajikistan) and wheat (Kazakhstan). These high prices also had a positive indirect impact on other sectors, such as services and construction. Remittances from expatriates living abroad continued to be an important source of revenue for several countries.

In Kazakhstan the economy grew by 9.4 per cent in 2004, compared with 9.2 per cent in 2003, helped primarily by high oil and gas prices, which boosted exports. In Tajikistan, growth of 10.6 per cent (10.2 per cent in 2003) was driven by the rapid expansion of mining, chemicals, agriculture and services. Private consumption in Tajikistan is being fuelled by higher incomes and an increase in remittances from overseas workers while domestic consumption is being stimulated by donor-funded programmes.










Three Central Asian countries are benefiting from the EBRD's new focus on the poorest countries where we operate.



### Economic snapshots for 2004

		Population (millions)	GDP growth %	End-year inflation %	Net foreign direct investment (US\$ millions)	Transition indicator (average of nine EBRD transition scores) <sup>1</sup>
	<b>Kazakhstan</b>	15.0	9.4	6.7	3,282	2.89
	<b>Kyrgyz Republic</b>	5.1	7.1	2.8	116	2.93
	<b>Tajikistan</b>	6.5	10.6	5.6	272	2.30
	<b>Turkmenistan</b>	6.5	7.2	13.8	225	1.30
	<b>Uzbekistan</b>	26.0	4.0	12.0	180	2.08

<sup>1</sup> Maximum score of 4.33.

Solid growth of around 7.1 per cent also occurred in the Kyrgyz Republic, compared with 6.7 per cent in 2003. Official figures in Turkmenistan suggest the economy grew in the first half of the year by about 20 per cent but this figure is almost certainly exaggerated. Growth for the year as a whole is estimated independently at 7.2 per cent. Uzbekistan recorded relatively weak growth of 4 per cent, reflecting the country's restrictive monetary and trade policies.

Inflation levels in the region are generally moderate, with only Turkmenistan and Uzbekistan recording double-digit levels in 2004. Monetary policy in Kazakhstan, the Kyrgyz Republic and Tajikistan has increasingly focused on price stability as a goal.

Fiscal policies remained tight in Central Asian countries in 2004. Most countries are at, or close to, fiscal balance and are expected to remain so in the short term. However, the Kyrgyz Republic showed a continuing high deficit (of over 4 per cent of GDP) in 2004, reflecting the donor-financed public investment programme. Turkmenistan's fiscal policy over the past year has loosened somewhat, resulting in monetary expansion and depreciation of the local currency. Two countries – Turkmenistan and Uzbekistan – ran a current account surplus in 2004 on the back of growth in exports.

Progress in structural reforms in 2004 was uneven but in the Kyrgyz Republic significant progress was made.

For example, the Joint Stock Company Law was amended to strengthen minority shareholders' rights and a new anti-corruption law was adopted. The government also adopted the long-awaited concessions law and enacted a new law on international arbitration. In addition, the Kyrgyz Republic effectively privatised its largest enterprise, the Kumtor gold mining company.

Elsewhere, Tajikistan further strengthened its banking sector by restructuring the country's two largest banks. In Kazakhstan infrastructure reform gathered pace with the introduction of a restructuring programme for the national railway company and a new law on telecommunications, which liberalises the telecommunications market and boosts competition. Under the new law, the national company JSC Kazakhtelekom would lose its monopoly over international and intercity communication services.

In Turkmenistan and Uzbekistan, negligible progress was made in structural reforms during the year. Turkmenistan's government streamlined its taxation system and partly allowed private ownership of farmland for the first time but both countries continue to lag behind their neighbours, and the restrictive business environment is a deterrent both to domestic and foreign investors.

Macroeconomic stability and growth in several Central Asian countries remains dependent on high commodity prices.

**Fiscal policies remained tight in Central Asian countries in 2004.**



In the medium term structural diversification is needed but this requires further progress to strengthen the business environment and to improve access to export markets. In all countries, there are a number of fundamental barriers to business, including corruption, excessive red tape, inadequate infrastructure, and trade and import restrictions.

Corruption in Central Asia is perceived to be more severe than in other parts of the transition region. The Kyrgyz Republic has been taking visible steps to combat corruption through a good governance programme and participation in the Extractive Industries Transparency Initiative. However, across the region much more still needs to be done.

## EBRD investment

In 2004 the EBRD invested €316 million in Central Asia compared with €295 million in 2003. Kazakhstan was the largest recipient (€246 million) of EBRD financing followed by Uzbekistan (€34 million) and the Kyrgyz Republic (€30 million). Over the past year the Bank has made substantial contributions to private sector development, a key factor in creating jobs and alleviating poverty.

The EBRD is the largest investor in the non-oil private sector in Central Asia and is the leading international financial institution (IFI) in the region, with the largest number of projects and investment. Our cumulative commitments total €1.8 billion.



## New network brings fresh water supplies to Tajikistan

The clean air, green mountains, fruit trees and vineyards of Tajikistan's fertile Ferghana Valley have given it a reputation as "the pearl of Central Asia". It is here that the country's second city, Khujand, is found, with a population of 165,000. One of the problems faced by the city's residents is the very erratic water supply. Customers of the local water company get as little as three to six hours of water a day, with around one-third receiving no water at all.

The EBRD is lending €1 million to improve water supply to Khujand. The loan is part of a €4 million project that will allow the state-owned water company to install new pumps and other equipment to prevent leaks. Grants to assist the project are being provided by the governments of Switzerland, Norway and Belgium.



Major projects signed by the EBRD in 2004 included a €26 million investment in the Kazakhstan Electricity Grid Operating Company (KEGOC) to finance the construction of a new electricity transmission line. This will help to improve the reliability of electricity supply, reduce transmission losses and contribute to the development of a regional electricity network in Central Asia. The Bank also invested €60 million in the Kenkiyak-Atyrau oil pipeline, which connects the Aktobe region in central Kazakhstan with the city of Atyrau in western Kazakhstan.

The EBRD signed two projects to improve water supply in 2004: a €7 million loan to the city of Tashkent and a €1 million loan to Khujand in Tajikistan (see below). Industrial projects included a €7 million loan to Uz-Artech to build a modern

welding plant in Uzbekistan and a €6 million loan to Interlass, the Bank's first industrial project in the Kyrgyz Republic.

Three countries in Central Asia (the Kyrgyz Republic, Tajikistan and Uzbekistan) are part of the EBRD's Early Transition Countries (ETC) Initiative, which was launched in 2004. The initiative aims to help the poorest countries where the EBRD operates by increasing investment and encouraging economic reforms.

In 2004 under the ETC Initiative, the EBRD signed its first two Direct Lending Facility (DLF) projects in Uzbekistan to provide medium to long-term financing to private companies and its first Medium-sized Co-Financing Facility (MCFF) project in Central Asia, with

the Kyrgyz Investment and Credit Bank (KICB). The MCFF aims to help local banks meet the demand for medium-sized loans from private companies. A multi-donor fund providing "technical cooperation" (TC) funding for the ETCs was established in 2004 (see page 14). The fund approved its first projects in Central Asia at the end of the year.

The EBRD continued to provide credit lines to local banks for on-lending to micro and small enterprises that do not have access to other forms of finance. Donor funding for TC operations alongside these credit lines has helped to improve lending practices in the local banks. In 2004 we provided our first micro credit lines to Eskata Bank and Tojiksodirobank in Tajikistan. Micro credit lines and trade facilities (see page 17) were extended to many other banks throughout the region.

The city currently obtains its water from 86 boreholes on the notoriously polluted Syr Daria River. A Master Plan to make improvements was prepared as long ago as 1986. Since then, a lot of work has gone into getting a new, safe supply from the Khodja Bakirgan river 20km away. This water is now available at public taps and has been connected to the water distribution network using provincial and state budget funds.

The new project will allow the Khujand Water Company, which currently has 43,000 customers, including both households and businesses, to supply at least 15 per cent of the city's population with clean water that will come through a renovated pipe network. The project is concentrating on the parts of the city that can be connected to the new Khodja Bakirgan water supply. The plan is to improve service in this area first, making sure it is cost-efficient

and that payments are being collected. The remaining 85 per cent of the network will be gradually tackled after this, using internal cash flows as well as grants from the state and donors.

The injection of money will also be used to buy workshop and communications equipment, new pipes and fittings, water meters and much-needed waste-water pumps. Prices will initially rise for consumers but it is hoped that better collection processes and improvements in general management will keep the costs down.



## Modern machinery gives new lease of life to Kazakh farmers

Kazakhstan's "grain region" in the north of the country was hit hard by the collapse of the Soviet Union. Nearly all the farming equipment in the area is outdated and needs replacing. The country's fleet of combine harvesters has halved since 1991, obviously having a negative effect on annual grain yield.

By joining forces and sharing risks with Kazakh banks, the EBRD hopes to change all that. So far €4.4 million has been channelled into the agricultural industry via Bank Centre Credit and €7.3 million via ATF Bank. The idea is that the local banks on-lend the money to the farmers and small agricultural businesses that have hitherto been unable to get loans at affordable rates from the banking system, even for the most essential upgrades in equipment.

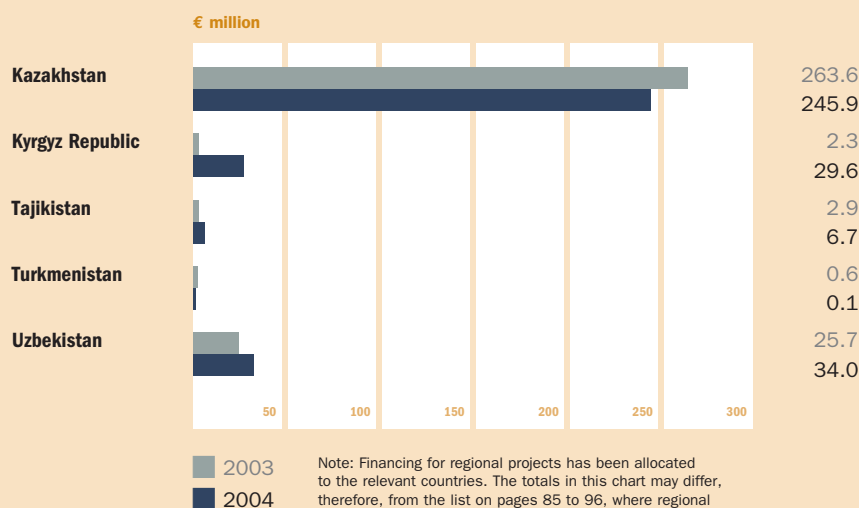
Already Karasu-Nan LLP, a grain production company, has benefited from the programme. It used its loan to buy a Morris pneumatic sowing machine so that it could sow a larger area with seeds. It bought Enissey combine harvesters and MTZ-82 tractors. Not only is the new equipment more efficient, it also needs less maintenance and fewer spare parts. Very often farmers lease the machinery they need

with their small bank loans. That way they can increase productivity, pay back the loans and eventually make the money to buy the machinery. With its financing, Agrarii, a firm selling agricultural produce, leased some combine harvesters which vastly increased grain production.

Kazakhstan's needs are estimated at approximately 3,000 new combine harvesters a year to replace at least 80 per cent of the inefficient models from the Soviet times. The new machines are being bought from Russia and other neighbouring countries, a good sign for inter-regional trade, and will hopefully result in better yields and higher-quality agricultural produce. This should make Kazakhstan a more competitive grain exporter and a stronger player in the world agricultural market.

Finding financing alternatives for Kazakhstan's agribusiness sector has been the focus of the EBRD's work in the country since 2001. This has materialised in the successful Grain Receipts Programme, as good grain produce is essential for the sustainable growth of the country's economy, and has now led to financing for agricultural machinery.

### EBRD commitments 2003–04



### Cumulative EBRD commitments, as of end of 2004

	€ million
Kazakhstan	1,027.8
Kyrgyz Republic	144.7
Tajikistan	29.2
Turkmenistan	117.0
Uzbekistan	509.5

Note: Financing for regional projects has been allocated to the relevant countries.

The EBRD made full use of the Central Asia Risk Sharing Special Fund (where donor grants are combined with EBRD finance), which was established in 2002. The fund aims to support increased activity in the region, mainly through funding small business projects and trade facilitation programmes.

The EBRD continued to work with the region's governments on improving the investment climate and increasing regional cooperation in Central Asia. In Kazakhstan the Bank continued to co-chair the Foreign Investors' Council and to discuss ways of attracting increased private capital. In the Kyrgyz Republic the EBRD actively contributed to the quarterly meetings of the Presidential Consultative Council on Investment, the monthly International Business Council meetings and the annual Investment Summit held in Issyk Kul. We also contributed to the third Ministerial

Conference on Central Asia Economic Cooperation held in Astana and the Bishkek Regional Workshop on Development Results, held in November 2004.

#### Looking ahead

Over the coming years, the EBRD intends to provide increased financing to Central Asia in terms of the number of projects financed and the overall level of investment. We will work to increase private capital flows and to strengthen market economies in tandem with democratic reforms. Fewer trade barriers, a more predictable investment climate and further economic diversification beyond oil and gas are crucial to attracting foreign investment to Central Asia. By improving these areas, the region will be in a better position to secure sustainable growth and to build on its economic achievements.

The EBRD is the largest investor in the non-oil private sector in Central Asia.



## New streams of finance revive rural communities and small businesses

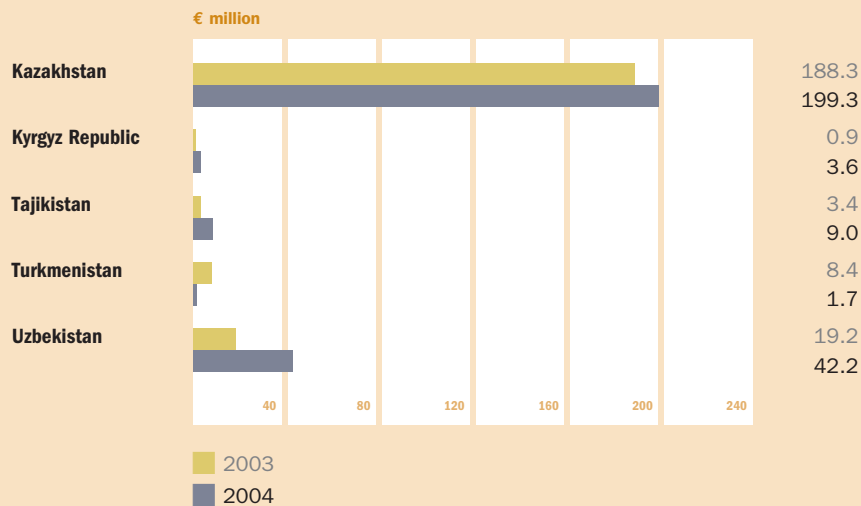
In 1998 Ved Aleksandr opened a small shop in the Kyrgyz capital, Bishkek, selling groceries. He did well and soon opened two more shops in different parts of town. Eventually he added a small outdoor café to his first shop, serving kebabs. The café was so successful that he wanted to turn it into a restaurant. It was at this point that Ved Aleksandr needed a loan. He applied for a €35,000 EBRD-backed loan through a local Bishkek bank and later for a second loan of €70,000. His restaurant opened in May 2004 employing 18 people.

Loans to small businesses are a huge innovation for the Kyrgyz Republic and not available, until now, from local banks. The loans Ved Aleksandr and so many others have received were made available by the EBRD's micro and small enterprise (MSE) credit programme. Since its launch in the Kyrgyz Republic in 2002, the project has financed 11,500 businesses via Kyrgyz partner banks along with help from the European Community, Switzerland, Taipei China, the United States and the International Finance Corporation. A €22 million extension to the existing €11 million facility is now being prepared, with €15 million of this being provided by the EBRD.

Many of the EBRD-backed loans go to people in rural and economically depressed areas via a total of 40 MSE finance departments established in 11 cities so far. Sydykov Azamat is another living example of the success of this project. In 1992 he ran a bakery, renting both space and equipment. A €700 EBRD-backed loan bought him a substantial supply of flour from a local mill and another €1,100 loan paid for new equipment and repairs to his truck and his car, both vital to the business. Now he and his 11 employees bake 2,254 loaves of bread a day supplying 29 shops.

And this project is not just about providing loans to small businesses. It is also about providing the banks that finance these loans with the staff training and technological know-how they need. In December 2004, 263 loan officers and trainees were working in Kyrgyz MSE finance facilities under the management of specialist advisors. In December alone an amazing 1,599 loans were made to small Kyrgyz businesses to a value of over €1.4 million.

### EBRD disbursements 2003–04



### Cumulative EBRD disbursements, as of end of 2004

	€ million
Kazakhstan	702.1
Kyrgyz Republic	111.6
Tajikistan	19.8
Turkmenistan	67.0
Uzbekistan	385.6

In 2004 the EBRD adopted new strategies for Kazakhstan, the Kyrgyz Republic and Turkmenistan. In Kazakhstan and the Kyrgyz Republic, we aim to support critical infrastructure projects and private sector development, with a particular focus on the financial sector, small businesses and increasing foreign direct investment. Continuing dialogue with the two governments will help to improve the investment climate.

In the new strategy for Turkmenistan, the EBRD expressed grave concerns about the country's lack of compliance with Article 1 of the Bank's Founding Agreement regarding democratic and economic reforms. Under current circumstances, the Bank will not be able to move beyond a baseline scenario, which confines our activities to financing small and medium-sized enterprises (SMEs) and maintaining a dialogue

with the government and local groups on ways of improving the investment climate for private entrepreneurs.

Regarding Uzbekistan, the EBRD's strategy update indicated that the Bank will stay engaged in the country but, due to concerns regarding Article 1, will finance only private sector activities and public sector projects with a cross-border dimension or a clear benefit to the Uzbek people. A new strategy for Uzbekistan is scheduled for 2005.



# 07

## Evaluating EBRD projects

Over 80 per cent of the EBRD's projects evaluated in 2004 had an "excellent-satisfactory" impact on transition. More than 50 per cent of projects evaluated during 1996-2004 received overall performance ratings of "successful" or "highly successful". Given the difficult investment climate in which the Bank operates, these results provide much encouragement.

### Project evaluation

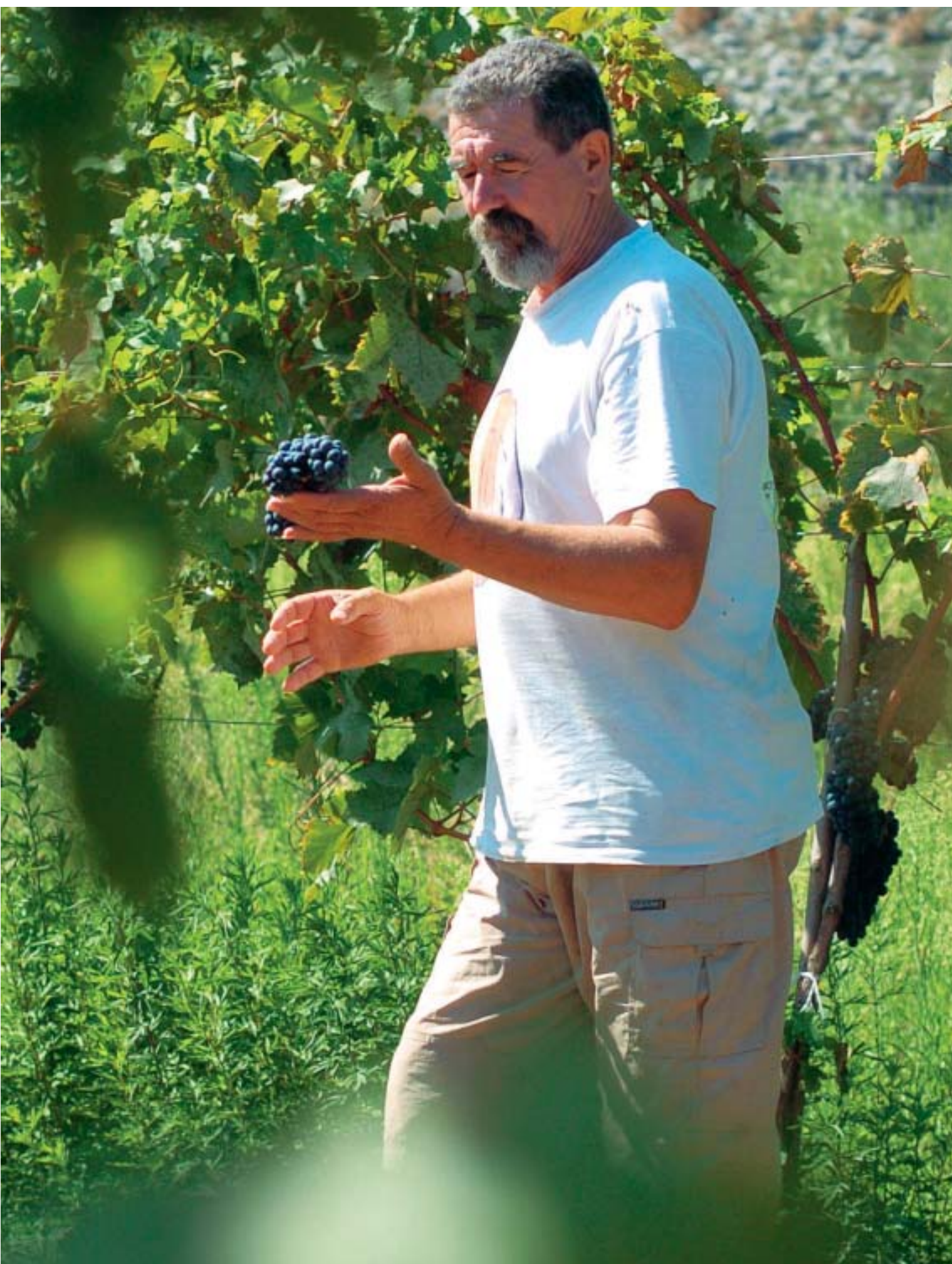
EBRD projects are evaluated to establish how well they meet their objectives and the extent to which they comply with the Bank's mandate. The Bank also draws on the lessons learned to improve the selection and design of future operations. Projects are assessed usually one to two years after full disbursement, once investment has been completed.

### Impact on the transition process

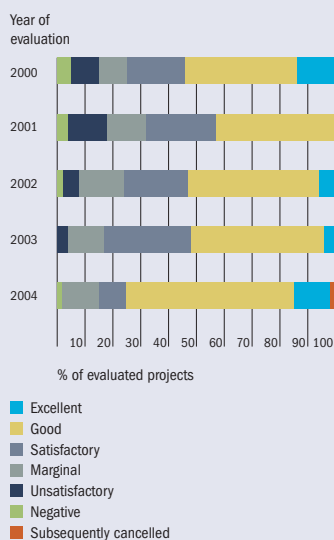
The impact of EBRD projects on the transition process is assessed by the Bank's Project Evaluation Department (PED), which is independent of the EBRD's banking operations. PED reviews the wider impact of EBRD projects on the sector and on the economy as a whole. The criteria for determining transition impact are the same as those applied during the





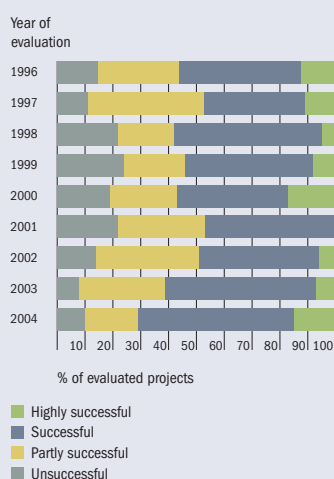


### Transition impact ratings of EBRD projects 2000–04



Note: PED's transition impact ratings were revised in 2000 from a five-point scale to a six-point scale. As a result, data prior to 2000 are not comparable.

### Overall performance ratings of evaluated EBRD projects 1996–2004



project selection and approval stage. Some of the key indicators include the degree to which the project promotes privatisation, develops skills, encourages competition and supports market expansion. Other key aspects include how the project supports institutional reform, improves the functioning of markets, acts as a model for other projects and sets new standards in business conduct and governance.

During 2000–04 PED assessed 240 operations. Of these, 56 per cent achieved a transition impact rating of “good” or “excellent” and a further 22 per cent were assessed as “satisfactory” (see chart left).

In 2004, 17 per cent of evaluated projects were given a transition impact rating of “marginal-negative”, a lower percentage than previous years. While there appears to have been a gradual improvement in transition impact ratings over the past four years, it is still too early to say whether this is a significant trend or merely a series of good results. A possible explanation is that operations evaluated during 2000–01 may have been affected by the Russian financial crisis in 1998, which prevented them from realising their full transition potential. Operations evaluated after this period, however, are unlikely to have faced the same difficulties. The share of projects with an “excellent-satisfactory” transition impact rating in 2004 was 83 per cent.

### Overall performance of EBRD projects

When determining the overall success of EBRD operations, PED assigns each project an overall performance rating. 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 1996–2004, 56 per cent of evaluated projects achieved a rating of “successful” or “highly successful” (see chart left). As this percentage can fluctuate substantially on an annual basis (for example, up to 71 per cent in 2004, but down to 49 per cent in 2002), this improvement in the average score cannot yet be regarded as a reliable trend.

The “successful” or “highly successful” score for overall performance is much lower than the percentage of projects that received “excellent-satisfactory” ratings for transition impact. This difference is partly due to the impact of lower financial performance ratings, caused by the high-risk investment climate, particularly in the countries at the early or intermediate stages of transition. Furthermore, the limited progress in institutional reforms and the slow implementation of privatisation programmes has exacerbated these risks. During 2004 eight 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 the EBRD's mandate, especially in view of the difficult operating environment.



## Learning from past experience

A key evaluation role is to ensure that past experience is applied to new projects. This begins with intensive consultation between the banking teams and PED on the lessons learned from project evaluation. Regular feedback is also offered at every stage of the approval process to ensure operation staff are aware of 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.

## Examples of PED evaluation

### Evaluation special studies

#### *Power and energy sector review*

To assist with the development of the EBRD's new Energy Policy, PED evaluated the Bank's past performance in the power and energy sector. This sector receives a significant amount of EBRD financing and makes a valuable contribution to the transition process. Regional development, industrial growth and job creation all depend on reliable and inexpensive energy supplies. Within the EBRD's countries of operations, state-owned power and energy systems are well established but tend to be out-dated and in need of refurbishment.

The Bank's existing portfolio heavily relies on state sector projects. In many countries the state sector remains the only option for the EBRD to invest in projects. As a result, the Bank has accepted lower returns to implement projects with a positive impact on the transition process and the environment.

To date, the EBRD has mostly focused on early and intermediate countries but the most striking results have been achieved in advanced countries. Looking ahead, it may be necessary to focus more resources on a limited number of countries or a specific region to maximise the impact on transition. High fossil fuel prices should make alternative sources of renewable energy more viable and should encourage the shift towards privatisation.

The study evaluated EBRD projects to gain an overview of the Bank's performance. The Bank's Energy Policy objectives and expected challenges were also reviewed. The EBRD's overall performance was rated "partly successful". It scored "good-satisfactory" for transition impact and "good" for environmental impact, but "satisfactory-marginal" for efficacy (achievement of objectives) and "satisfactory-marginal" for efficiency (sound banking). Of the Bank's projects, 52 per cent (or 48 per cent of volume) were rated "successful" or better. For transition impact, 47 per cent had a "good" or better rating while another 38 per cent rated "satisfactory". In addition, 63 per cent achieved a "good-satisfactory" rating and 10 per cent achieved an "excellent" rating for environmental performance.

To achieve better results, the EBRD must determine the correct policy prior to project implementation. In addition, the Bank needs to work closely with donors to ensure the effective use of technical cooperation funding and with governments in the region to implement critical changes in policy.

## Successful projects

### *Extractive industries review*

Extractive industries (EI) provide a major source of foreign direct investment (FDI), are key foreign exchange earners and are critical to meeting national demand for energy. The Bank's projects in this sector provide jobs but carry significant environmental risks. The EBRD has played a vital role in supporting the effective use of domestic natural resources. The Bank has provided financing and reduced political risk to attract co-financing to EI projects. At the same time, the Bank has promoted international environmental standards and industry best practice.

PED's study rated the EBRD's overall performance in this sector as "successful". The Bank scored well on the efficacy and transition impact of its operations but not as well on efficiency and environmental impact. Of the Bank's EI projects, 48 per cent had a "good" or better transition impact rating while another 39 per cent were rated "satisfactory". In addition, 57 per cent of the Bank's projects achieved a "good" rating and 14 per cent an "excellent" rating on environmental performance.

As FDI in the sector increases, the EBRD's role and market share may diminish. To date, the Bank has played a critical role in supporting increased participation by private investors. Going forward, the Bank's activities should be supported by investments in other sectors, such as municipal and environmental infrastructure, small and medium-sized enterprises, and power and energy. Investing across sectors will help foster regional development. The EBRD should also incorporate sustainable development more prominently into its objectives and help local sponsors address the environmental impact associated with these projects.

### Gas pipeline project

The EBRD signed two loans in 1999 and 2001 supporting the upgrade of a gas pipeline. The project, undertaken by a joint-venture company consisting of the gas supplier and the pipeline operator, included the construction of a compressor station and two new sections of pipeline. The project was expected to attract additional foreign investment and also strengthen the gas sector. The introduction of transparent pricing for the compression and transportation of gas (transit fees) also provided an innovative solution for the repayment of debt.

Completed in 2003, the project is currently operating in line with initial projections. PED has rated the project's overall performance as "highly successful", with the EBRD's support helping to attract other banks in the difficult market environment.

One of the lessons learned from this project was that the creation of the special-purpose, joint-venture company helped to align the interests of all shareholders involved in compression and transportation services. This approach made it easier to resolve difficulties between the various parties, enabled efficient construction of the pipeline and also facilitated access to international financing. It is hoped this approach will be used for further projects in the gas sector.

### Leasing company

In 2000 the EBRD signed a loan of €100 million to a leading leasing firm. The EBRD provided €35 million, while an additional €65 million was syndicated to commercial banks. Due to large-scale bankruptcy in the sector, however, only €20 million was initially contributed.

The EBRD's loan instilled confidence in the firm and the sector during a difficult period of industry consolidation. The Bank's support for the rapid growth of the leasing firm helped attract a major Western bank, which acquired a majority stake in the firm.

The project highlighted that the EBRD has developed methods of financing and an understanding of the leasing market which permits it to make quick and reliable decisions about investments in leasing firms. The shortage of equity in the sector, its rapid growth and the attractiveness of well-run leasing firms to strategic investors offer the EBRD good opportunities to maximise the impact on the transition process.



## Projects with a less successful outcome

### Combined heat and power project

In 1998 the EBRD extended a syndicated loan for the operation of two combined heat and power (CHP) plants and a district heating network. The EBRD undertook the investment with an experienced partner, which acquired a 50 per cent stake in the project company.

In 2001 the project's financing package was restructured following the unsuccessful syndication of the EBRD loan. In 2002 the Bank's investing partner pulled out of the project and transferred its shareholdings back to the project company. Also in 2002, following completion of the project, ownership of the CHP plants and district heating network was transferred to a local investor. As a result of these changes, the financial situation of the project company steadily deteriorated.

The overall performance of the project was rated "Unsuccessful", primarily due to its transition impact ("marginal") and financial performance ("unsatisfactory"). The project company is now close to bankruptcy and any recovery will depend on its ability to increase tariffs to more appropriate levels. Efforts by the EBRD to persuade the local regulator and higher-level political groups, however, have been unsuccessful in raising tariffs.

PED's evaluation showed that the project was too narrowly focused and should have taken a broader, sector-oriented approach. In addition, not enough consideration was given during the appraisal stage to alternative operating methods, such as gradually replacing equipment, separating power and heat generation, and using alternative fuels.

### River terminal project

In 1995 the Bank approved a loan and equity investment aimed at developing a river terminal. The project, sponsored by a group of international and local companies, was structured as a concession agreement and included substantial government support. The Bank's investment was expected to encourage private investment in infrastructure and to contribute to lower transport costs, especially for oil imports.

Due to political changes in the country, however, the government did not fulfil its obligations under the agreement. As a result, the project was terminated in 1999, with construction of the terminal only 60 per cent complete. While the Bank endeavoured to finish the project, it was unable to assure the initial group of sponsors or attract new investors.

The overall performance of the project was rated "unsuccessful" as none of the project objectives were achieved. PED found that innovative, concession-based private sector infrastructure solutions may not always be appropriate in early transition countries. This is particularly true in countries where local governments find it difficult to contribute their part of the concession agreement. Effective laws and efficient conflict resolution mechanisms are also required to support public/private partnerships and to protect the interests of foreign investors.

## Evaluating technical cooperation operations

PED has evaluated nearly 400 consultant assignments funded through technical cooperation (TC). These assignments have involved almost €120 million of funding from over 30 donors under the Bank's Technical Cooperation Funds Programme. When combined with the number of TC assignments evaluated during PED's special studies, this figure rises to over 1,100 assignments involving more than €290 million of funding.

## Successful project

### Glass manufacturing project

To prepare the way for EBRD investment in a glass manufacturing plant, TC operations were launched in 2001 to review the plant's strategy and long-term business plan, to undertake a financial audit in line with international accounting standards and to perform an environmental audit.

All the assignments were carried out satisfactorily, with close cooperation between local and Western consultants and key company staff. The assignments helped to develop skills and also to improve working practices.

The environmental audit identified some issues related to occupational health and safety, in particular the exposure of factory workers to noise and chemical substances, and the limited use of protective equipment. The EBRD extended two loans to the glass manufacturing plant in 2001 and 2003.

PED's evaluation concluded that awareness of, and compliance with, occupational health and safety issues needs to be strengthened. In addition, the Bank's awareness of links between environmental issues and financing structures also needs strengthening. The EBRD should be aware that certain types of investment – for example, convertible loans – can bring with them environmental (including occupational health and safety) liabilities.

## Project with a less successful outcome

### Commercialisation of a port in south-eastern Europe

During the 1990s the government of a country in south-eastern Europe began commercialising one of its ports. A TC operation, aimed at attracting private investors, was approved in 1998 to support these efforts. By 2001, the assignment had not led to any new investments although the EBRD has subsequently invested in the port.

PED rated the TC operation as "partly successful" as the port has not yet reached full financial autonomy. Although a concession agreement was signed between the maritime ports administration (MPA) and the government, not all the sub-concessions from the MPA were granted through tenders. With the sub-concessionaires in the north still controlling part of the port infrastructure, the MPA's involvement is restricted. Therefore, while progress towards profitability has been achieved, this will remain limited as long as the current ownership structure stays in place.

When sector reform becomes part of TC operations, the client's capacity and commitment to reform should be carefully considered when developing the assignment. The government's reform efforts to introduce competition should also be monitored and discussions pursued to achieve the best outcome for all parties.

# 08 Procurement

**The EBRD offers a range of procurement opportunities for suppliers, contractors and consultants. In 2004 the Bank awarded over 150 public sector contracts, valued at €681 million.**

## **Procurement policies for public and private sector projects**

The EBRD applies principles of non-discrimination, fairness and transparency when financing contracts for works, goods and services. These principles, enshrined within the Bank's Procurement Policies and Rules, 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 during the tendering and implementation of a contract.

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 conflicts of interest are avoided and that the best interests of the company are preserved. More precise 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 key stages of the process.

## **Procurement activities in 2004**

During 2004 the EBRD worked actively with other multilateral development banks to harmonise public sector procurement documentation. The Bank also worked with procurement agencies in the new EU member states to ensure our policies and rules are respected while not jeopardising each country's future access to structural and cohesion funds. In addition, the EBRD collaborated with the World Bank in conducting a procurement assessment review in Croatia.

The EBRD continued to provide professional services throughout 2004. This included procurement seminars and workshops for our clients and their

agencies in our countries of operations. A new training module for Bank staff was also developed to highlight the importance of procurement and how it can assist in the successful and speedy delivery of projects.

In 2004 the EBRD was involved in financing 157 public sector contracts, valued at €681 million. Within these contracts, the EBRD financed a total of €559 million. In 2003 the Bank financed 181 contracts valued at €721 million. The total value of contracts signed using open tendering procedures in 2004 was €631 million, or 93 per cent of all contracts signed by value. Contracts in the transport sector accounted for 55 per cent of all public sector contracts awarded in 2004.

## Procurement opportunities

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](http://www.ebrd.com/oppor/procure). These can be accessed at no cost to the business community.

# Projects signed in 2004

At 31 December 2004

## Guide

Loans are calculated at exchange rates current at 31 December 2004. Shares are converted to euros at exchange rates current at the date of disbursement.

Country totals in this list of projects may differ from those shown in Chapters 2 to 6 as regional projects are listed separately at the end.

After each project description, the following information is listed:  
Sector ● Type of financing ● Environmental screening category

## 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.

This list of projects does not include:

- trade facilitation guarantees issued and expired in 2004;
- multiple investments to pre-export finance facilities under the Trade Facilitation Programme;
- sell-downs 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 value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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## Albania

<b>Fushe Kruje cement factory</b>	97.5	22.0	0	<b>22.0</b>
Installation of new cement production line. Manufacturing ● Private ● A/1				
<b>Vlore thermal power plant</b>	98.3	40.0	0	<b>40.0</b>
Construction of oil-fuelled thermal power station. Power and energy ● State ● A/0				

## Armenia

<b>Armeconombank</b>	0.9	0	0.9	<b>0.9</b>
Equity investment to expand lending facilities. Bank equity ● Private ● FI				
<b>Armenian copper programme</b>	3.2	1.1	0	<b>1.1</b>
Improvement of production capacity at copper smelter. Manufacturing ● Private ● C/1				
<b>Direct Investment Facility</b>	1.3	0	1.3	<b>1.3</b>
<i>SHEN concern</i> Expansion of producer of construction materials. Manufacturing ● Private ● FI				
<b>SME credit line</b>	1.1	1.1	0	<b>1.1</b>
Credit line to Anelik Bank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	1.1	1.1	0	<b>1.1</b>
Support for foreign trade through ACBA, Anelik Bank and Armeconombank. Bank lending ● Private ● FI				

## Azerbaijan

<b>ACG Phase 1</b>	89.1	22.2	0	<b>22.2</b>
Development of oil and gas facilities in the Caspian Sea by Amerada Hess, Amoco Caspian Sea Finance Limited, Statoil Apsheron and Unocal Khazar. Natural resources ● Private ● A/1				
<b>Azerbaijan Multi-bank Framework</b>	4.4	4.4	0	<b>4.4</b>
Credit lines to Azerdemiryolbank, Azerigazbank, Bank of Baku and Respublika Bank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Milk-Pro</b>	4.1	4.1	0	<b>4.1</b>
Construction of new dairy processing plant in Baku and modernisation of plant in Goychay. Agribusiness ● Private ● B/1				
<b>Silk Road</b>	34.9	30.0	0	<b>30.0</b>
Reconstruction of 85 km section of Hajigabul-Kyurdamir road. Transport ● State ● B/0				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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<b>SOCAR – Shah Deniz gas condensate field</b>	406.7	80.6	0	<b>80.6</b>
Development of Shah Deniz gas condensate field. Natural resources ● State ● A/1				
<b>Regional Trade Facilitation Programme</b>	0.9	0.9	0	<b>0.9</b>
Support for foreign trade through Azerdemiryolbank, Azerigazbank, Bank of Baku and UniBank. Bank lending ● Private ● FI				

## Belarus

<b>Belarus MSE Framework</b>	4.4	4.4	0	<b>4.4</b>
Credit line to Belgazprombank for on-lending to micro and small businesses. Small business finance ● Private ● FI				
<b>Belarus SME Framework</b>	7.3	7.3	0	<b>7.3</b>
Credit line to Priorbank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	11.8	11.8	0	<b>11.8</b>
Support for foreign trade through Priorbank. Bank lending ● Private ● FI				

## Bosnia and Herzegovina

<b>Direct Investment Facility</b>	1.0	0	1.0	<b>1.0</b>
<i>Primus</i> Purchase of machinery to boost production of wood, laminate and aluminium products. Manufacturing ● Private ● C/0				
<b>Regional road development programme</b>	236.0	70.0	0	<b>70.0</b>
Construction of Sarajevo by-pass and road connecting to Pan-European Corridor X. Transport ● State ● A/0				
<b>UniCredit Zagreback Banka</b>	7.5	7.5	0	<b>7.5</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>UPI Banka</b>	5.0	5.0	0	<b>5.0</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>US/EBRD SME Finance Facility</b>	6.0	5.9	0	<b>5.9</b>
Credit line to ProCredit Bank Bosnia for on-lending to micro, small and medium-sized businesses. Small business finance ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	2.3	2.3	0	<b>2.3</b>
Support for foreign trade through Raiffeisen Bank and UPI Banka. Bank lending ● Private ● FI				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Boliar</b>	14.5	10.5	0	<b>10.5</b>
Expansion of supermarket operations in Varna and Bourgas. Agribusiness ● Private ● B/0				
<b>Bulgarian Telecom Co-investment Facility</b>	281.0	76.5	0	<b>76.5</b>
Facility supporting Advent International's purchase of a 65 per cent stake in Bulgarian Telecom. Telecommunications ● Private ● C/1				
<b>Bulgaria Post Bank – mortgage line</b>	10.0	10.0	0	<b>10.0</b>
Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				
<b>Energy efficiency and renewable energy facility</b>	31.5	31.5	0	<b>31.5</b>
Credit lines to Biochim, BPB, Bulbank, DSK Bank, UBB and Unionbank for on-lending to industrial energy efficiency and small renewable energy projects. Bank lending ● Private ● FI				
<b>EU/EBRD Rural Finance Facility</b>	10.0	10.0	0	<b>10.0</b>
Credit line to UBB for on-lending to small and medium-sized agribusinesses. Bank lending ● Private ● FI				
<b>EU/EBRD SME Finance Facility</b>	31.0	31.0	0	<b>31.0</b>
Credit lines to BACB, DSK Bank and Hebros Bank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>EU/EBRD SME Finance Facility</b>	5.0	5.0	0	<b>5.0</b>
Credit line extended to Hebros Leasing for on-lending to small and medium-sized businesses. Non-bank financial institutions ● Private ● FI				
<b>Maritza East II environmental loan</b>	80.3	22.0	0	<b>22.0</b>
Installation of "scrubbers" in thermal power plant to reduce sulphur dioxide emissions. Power and energy ● State ● B/1				
<b>Paper Factory Stambolijski</b>	6.7	2.0	0	<b>2.0</b>
Reduction of sulphur dioxide emissions. Manufacturing ● Private ● C/0				
<b>US/EBRD SME Finance Facility</b>	13.1	0	11.0	<b>11.0</b>
Equity investment in ProCredit Bank Bulgaria. Small business finance ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	0.1	0.1	0	<b>0.1</b>
Support for foreign trade through Unionbank. Bank lending ● Private ● FI				

## Bulgaria

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Dubrovnik urban transport development project</b>	7.5	7.5	0	<b>7.5</b>
Acquisition of 40 buses. Municipal infrastructure ● Private ● B/1				
<b>Erste Pension Fund</b>	1.3	0	<0.1	<b>&lt;0.1</b>
Investment in pension fund managing mandatory contributions. Non-bank financial institutions ● Private ● FI				
<b>Getro</b>	66.2	20.0	0	<b>20.0</b>
Expansion of supermarket retailer. Agribusiness ● Private ● B/1				
<b>Mortgage Finance Facility</b>	50.0	50.0	0	<b>50.0</b>
<i>Zagrebacka Banka</i> Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				

## Croatia

## Czech Republic

<b>EU/EBRD SME Finance Facility</b>	20.0	20.0	0	<b>20.0</b>
Credit line to Komerční Banka for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Grandi Stazioni Ceska Republika</b>	31.3	0	3.8	<b>3.8</b>
Refurbishment and management of three railway stations. Transport ● Private ● C/1				
<b>Oskar Mobil</b>	325.0	25.0	0	<b>25.0</b>
Financing of mobile operator's GSM expenditure and upgrade of network technology. Telecommunications ● Private ● C/0				

## Estonia

<b>Estonian Cell</b>	153.0	0	19.0	<b>19.0</b>
Construction and operation of pulp mill. Manufacturing ● Private ● A/0				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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## FYR Macedonia

<b>Elektrostopanstvo na Makedonija</b>	45.0	0	45.0	<b>45.0</b>
Purchase of shares in power utility to support its restructuring and privatisation. Power and energy ● Private ● C/1				
<b>SME credit line</b>	5.0	5.0	0	<b>5.0</b>
Credit line to Export and Credit Bank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Tutunska Banka</b>	20.0	7.0	0	<b>7.0</b>
Provision of short and medium-term loans to private sector corporate customers. Bank lending ● Private ● FI				
<b>US/EBRD SME Finance Facility</b>	4.4	0	1.0	<b>1.0</b>
Equity investment in ProCredit Bank Macedonia. Small business finance ● Private ● FI				
<b>Zito Luks</b>	8.0	8.0	0	<b>8.0</b>
Expansion of baked goods producer. Agribusiness ● Private ● C/O				
<b>Regional Trade Facilitation Programme</b>	4.6	4.6	0	<b>4.6</b>
Support for foreign trade through Komercijalna Banka, Stopanska Banka and Tutunska Banka. Bank lending ● Private ● FI				

## Georgia

<b>Direct Investment Facility</b>	2.9	0.9	0	<b>0.9</b>
<i>Iberia Refreshments</i> Set-up of Pepsi franchise, including repair of production facilities. Agribusiness ● Private ● FI				
<b>Direct Investment Facility</b>	1.0	0	1.0	<b>1.0</b>
<i>Teliani Valley</i> Equity investment in wine producer. Agribusiness ● Private ● A/O				
<b>ProCredit Bank Georgia</b>	1.6	0.3	0	<b>0.3</b>
Credit line for on-lending to micro, small and medium-sized businesses. Small business finance ● Private ● FI				
<b>SME credit line</b>	2.2	2.2	0	<b>2.2</b>
Credit line extended to TBC Bank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	12.4	8.9	0	<b>8.9</b>
Support for foreign trade through Bank of Georgia, TBC Bank and United Georgian Bank. Bank lending ● Private ● FI				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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## Hungary

<b>EU/EBRD SME Finance Facility</b>	30.0	30.0	0	<b>30.0</b>
Credit lines to CIB Leasing, FranFinance and HVB Leasing for on-lending to small and medium-sized businesses. Non-bank financial institutions ● Private ● FI				
<b>M5 motorway – Phase II</b>	750.0	130.0	0	<b>130.0</b>
Completion of remaining 47 km of M5 motorway. Transport ● Private ● A/O				
<b>M5 motorway – refinancing</b>	221.3	51.3	0	<b>51.3</b>
Refinancing of existing M5 motorway loan. Transport ● Private ● C/O				
<b>Prometheus IV</b>	15.0	0	3.0	<b>3.0</b>
Additional investment in energy service company. Energy efficiency ● Private ● C/O				
<b>UNIQA Biztosito RT</b>	11.0	0	11.0	<b>11.0</b>
Equity investment in insurer. Non-bank financial institutions ● Private ● FI				

## Kazakhstan

<b>Agricultural Commodity Financing Programme</b>	65.2	22.7	0	<b>22.7</b>
Commodity financing for small and medium-sized agribusinesses, provided through ATF Bank, Bank Caspian, Bank Centre Credit and Bank TuranAlem. Bank lending ● Private ● FI				
<b>Agricultural equipment financing</b>	15.4	11.7	0	<b>11.7</b>
Financing for farmers, agribusiness companies and traders to purchase or lease equipment, provided through ATF Bank and Bank Centre Credit. Agribusiness ● Private ● FI				
<b>Kazakhstan Warehouse Receipts Programme</b>	75.8	29.3	0	<b>29.3</b>
Short-term lending against warehouse receipts for agribusiness companies, provided through Bank TuranAlem and Kazkommertsbank. Bank lending ● Private ● FI				
<b>Kazakhstan Small Business Programme</b>	14.6	14.6	0	<b>14.6</b>
Credit lines to ATF Bank and Bank Centre Credit for on-lending to small and medium-sized businesses. Small business finance ● Private ● FI				
<b>KEGOC: North-south power transmission</b>	59.3	25.6	0	<b>25.6</b>
Construction of 270 km YukGres-Shu section of electricity transmission line. Power and energy ● State ● B/O				
<b>Kenkiyak-Atyrau oil pipeline</b>	167.5	59.8	0	<b>59.8</b>
Refinancing construction of 448 km oil pipeline connecting oilfields to main export routes. Natural resources ● Private ● C/1				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Post Privatisation Fund</b>	1.2	0	0.2	<b>0.2</b>
<i>Eagle Kazakhstan Fund</i> Equity and equity-related investment in medium-sized enterprises. Equity funds ● Private ● FI				
<b>Soufflet Multi-Project Facility</b>	8.9	4.5	0	<b>4.5</b>
<i>Altyn Bidai</i> Investment in barley producer. Agribusiness ● Private ● B/1				
<b>Ulker Kazakhstan</b>	6.2	3.1	0	<b>3.1</b>
Expansion of biscuit manufacturer. Agribusiness ● Private ● B/1				
<b>Regional Trade Facilitation Programme</b>	61.1	61.1	0	<b>61.1</b>
Support for foreign trade through ATF Bank, Bank Caspian, Bank Centre Credit, Bank TuranAlem and Kazkommertsbank. Bank lending ● Private ● FI				

## Kyrgyz Republic

<b>Centerra Gold</b> (formerly Kumtor Gold Company)	20.3	0	20.3	<b>20.3</b>
Equity investment in gold producer. Natural resources ● Private ● B/1				
<b>Interglass</b>	13.8	5.5	0	<b>5.5</b>
Introduction of production lines for silver mirror glass and tempered glass. Manufacturing ● Private ● B/1				
<b>Kyrgyz MSE Financing Facility</b>	5.5	2.0	0	<b>2.0</b>
Credit lines to AKB Kyrgyzstan and Inexim Bank for on-lending to micro, small and medium-sized businesses. Small business finance ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	1.8	1.8	0	<b>1.8</b>
Support for foreign trade through Demir Kyrgyz International Bank, Inexim Bank, JS Commercial Bank Kyrgyzstan and Kyrgyz Investment and Commercial Bank. Bank lending ● Private ● FI				

## Latvia

Two investments under regional agreements were signed in Latvia in 2004, totalling €3.2 million. These were Europolis II and the Polish Enterprise Fund V. For details, please see the regional projects on page 96.

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Kaunas public transport project</b>	10.0	10.0	0	<b>10.0</b>
Purchase of 50 new buses and advice on restructuring the sector. Municipal infrastructure ● State ● B/0				
<b>Nord/LB Lietuva</b>	4.5	3.3	0	<b>3.3</b>
Expansion of banking operations, particularly corporate lending and mortgages. Bank lending ● Private ● FI				
<b>Post Privatisation Fund</b>	1.1	0	0.9	<b>0.9</b>
<i>Baltic</i> Equity and equity-related investment in medium-sized enterprises. Equity funds ● Private ● A/0				
<b>VP market</b>	35.0	35.0	0	<b>35.0</b>
Expansion of logistics and food retail network. Agribusiness ● Private ● C/1				

## Moldova

<b>Moldindconbank credit line</b>	3.7	3.7	0	<b>3.7</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>SME credit line</b>	1.5	1.5	0	<b>1.5</b>
Credit line to Mobias Bank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Victoriabank Co-financing Facility</b>	2.2	2.2	0	<b>2.2</b>
Credit line for on-lending to medium-sized enterprises, including Trans Oil Moldova. Bank lending ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	5.6	4.4	0	<b>4.4</b>
Support for foreign trade through MICB, Mobias Bank and Victoriabank. Bank lending ● Private ● FI				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Arka BZ WBK Property Market Fund</b>	11.1	0	11.1	<b>11.1</b>
Investment in commercial and residential property developments. Property and tourism ● Private ● FI				
<b>Bank Gospodarki Zywnosciowej</b>	146.0	65.2	0	<b>65.2</b>
Equity investment in bank focusing on rural finance. Bank equity ● Private ● FI				
<b>Bank Inicjatyw Społeczno-Ekonomicznych</b>	9.8	9.8	0	<b>9.8</b>
Financing for municipalities and small and medium-sized enterprises. Bank equity ● Private ● FI				
<b>Celsa – Huta Ostrowiec</b>	52.3	20.0	0	<b>20.0</b>
Restructuring of steel mill. Manufacturing ● Private ● B/1				
<b>Dalkia Multi-Project Facility II</b>	220.2	0	39.1	<b>39.1</b>
<i>Lodz Cogeneration Privatisation</i> Acquisition of ZEC Lodz, a district heating and cogeneration utility in Lodz. Energy efficiency ● Private ● C/1				
<b>Dalkia Multi-Project Facility II</b>	61.1	0	15.0	<b>15.0</b>
<i>Poznan Cogeneration Privatisation</i> Privatisation of Zespól Elektrociepłowni Poznań (ZEC), the combined heat and power plant in Poznań. Energy efficiency ● Private ● C/1				
<b>EU/EBRD Municipal Finance Facility</b>	40.6	10.0	0	<b>10.0</b>
Credit line to ING Bank Śląski for on-lending to small and medium-sized municipalities and their utility companies. Municipal infrastructure ● Private ● FI				
<b>Gdańsk urban transport project</b>	7.4	6.6	0	<b>6.6</b>
Purchase of up to 35 new buses and extension of tram tracks. Municipal infrastructure ● State ● B/1				
<b>PKP Energetyka network management project</b>	18.2	15.0	0	<b>15.0</b>
Establishment of two control and metering centres and procurement of railway maintenance vehicles. Transport ● State ● B/0				
<b>Private Equity Fund Co-financing Facility</b>	83.9	0	11.0	<b>11.0</b>
Equity investment in small and medium-sized manufacturers. Manufacturing ● Private ● C/1				
<b>UNIQA TU</b>	9.9	0	9.9	<b>9.9</b>
Equity investment in insurer. Non-bank financial institutions ● Private ● FI				

## Poland

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Banca Post – mortgage loan</b>	20.0	20.0	0	<b>20.0</b>
Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				
<b>Banca Tiriac</b>	6.1	0	<0.1	<b>&lt;0.1</b>
Equity investment in bank. Bank equity ● Private ● FI				
<b>Banca Transilvania</b>	1.3	0	1.3	<b>1.3</b>
Subscription of newly issued shares in Banca Transilvania. Bank equity ● Private ● FI				
<b>Banca Transilvania</b>	22.5	7.5	0	<b>7.5</b>
Expansion of lending operations to small and medium-sized corporate and retail businesses. Bank lending ● Private ● FI				
<b>Constanta Port</b>	23.9	16.0	0	<b>16.0</b>
Construction of new barge terminal. Transport ● State ● B/0				
<b>Cora</b>	50.0	40.0	0	<b>40.0</b>
Expansion of hypermarket operations. Agribusiness ● Private ● B/0				
<b>EBRD/EIF SME Guarantee Facility</b>	11.0	10.0	0	<b>10.0</b>
Credit line to Raiffeisen Bank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>EU/EBRD Municipal Finance Facility</b>	22.0	20.0	0	<b>20.0</b>
Credit line to BCR for on-lending to small and medium-sized municipalities and their utility companies. Municipal infrastructure ● Private ● FI				
<b>EU/EBRD SME Finance Facility</b>	10.0	10.0	0	<b>10.0</b>
Credit line to Volksbank for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>EU/EBRD SME Finance Facility</b>	15.0	15.0	0	<b>15.0</b>
Credit lines to Alpha Leasing and BCR Leasing for on-lending to small and medium-sized businesses. Non-bank financial institutions ● Private ● FI				
<b>HVB Bank Romania</b>	10.0	10.0	0	<b>10.0</b>
Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				
<b>Italian-Romanian Industrial Development Enterprise</b>	19.9	12.3	0	<b>12.3</b>
Development, construction and management of warehouse projects. Property and tourism ● Private ● B/0				
<b>Kronospan</b>	250.0	70.0	0	<b>70.0</b>
Acquisition of medium density fibreboard (MDF) and resin plant and particleboard plant in Sebes. Manufacturing ● Private ● B/1				

## Romania



	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Michelin Romania</b>	13.9	4.0	0	<b>4.0</b>
Modernisation of tyre manufacturer. Manufacturing ● Private ● B/1				
<b>Municipal and Environmental Loan Facility</b>	112.8	18.0	0	<b>18.0</b>
Upgrade of waste-water treatment plants in Bacau, Oradea and Sibiu. Municipal infrastructure ● State ● B/0				
<b>Post Privatisation Fund</b>	6.2	0	1.9	<b>1.9</b>
Investment in medium-sized private and privatised enterprises, supported by EU Phare technical cooperation funding. Equity funds ● Private ● FI				
<b>SNP Petrom</b>	615.6	0	55.1	<b>55.1</b>
Equity investment in oil and gas company. Natural resources ● Private ● C/1				
<b>Soufflet Malt Romania</b>	7.0	3.5	0	<b>3.5</b>
Improvement to barley production and collection techniques. Agribusiness ● Private ● B/1				
<b>Towers</b>	33.9	11.9	0	<b>11.9</b>
Construction, letting and management of retail and office space. Property and tourism ● Private ● B/1				
<b>Transelectrica</b>	33.3	18.2	0	<b>18.2</b>
Construction of overhead transmission line between Romania and Hungary. Power and energy ● State ● A/0				
<b>Ulker Romania</b>	16.0	6.5	0	<b>6.5</b>
Expansion of biscuit manufacturer. Agribusiness ● Private ● B/1				
<b>Wienerberger</b>	8.6	5.6	0	<b>5.6</b>
Expansion of brick producer. Manufacturing ● Private ● B/1				
<b>Regional Trade Facilitation Programme</b>	3.7	3.7	0	<b>3.7</b>
Support for foreign trade through Banca Transilvania. Bank lending ● Private ● FI				

## Russia

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Absolutbank SME credit line</b>	7.3	7.3	0	<b>7.3</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Actex</b>	9.9	8.8	0	<b>8.8</b>
Purchase, transport, storage, sale and export/import of agricultural commodities. Agribusiness ● Private ● C/0				
<b>Agricultural Commodity Programme</b>	26.7	7.3	0	<b>7.3</b>
Commodity financing for small and medium-sized agribusinesses, provided through Vneshtorgbank. Agribusiness ● Private ● FI				
<b>Ark Shipping Ltd</b>	13.6	8.8	0	<b>8.8</b>
Acquisition and upgrade of tug boats and barges. Transport ● Private ● B/1				
<b>Banque Société Générale Vostok</b>	82.5	33.0	0	<b>33.0</b>
Expansion of retail lending, leasing and mortgage finance. Bank lending ● Private ● FI				
<b>BTS</b>	41.8	22.0	0	<b>22.0</b>
Acquisition of railway tank wagons and freight locomotives. Transport ● Private ● C/1				
<b>Center-Invest Bank</b>	9.6	0	9.6	<b>9.6</b>
Equity investment and credit line for on-lending to small and medium-sized enterprises. Bank equity ● Private ● FI				
<b>Chelyabinsk tube rolling plant</b>	190.5	69.6	0	<b>69.6</b>
Acquisition of stake in pipe plant. Manufacturing ● Private ● C/1				
<b>Cherkizovsky</b>	45.4	26.7	0	<b>26.7</b>
Restructuring of processed meats producer. Agribusiness ● Private ● C/1				
<b>Danone Industria III</b>	101.9	0	17.5	<b>17.5</b>
Expansion of milk collection area and introduction of new products. Agribusiness ● Private ● B/1				
<b>Direct Investment Facility</b>	0.9	0	0.6	<b>0.6</b>
<i>Firestop</i> Equity investment in flame retardant manufacturer. Manufacturing ● Private ● FI				
<b>Direct Investment Facility</b>	0.7	0	0.7	<b>0.7</b>
<i>Salco</i> Equity investment in leasing company. Manufacturing ● Private ● FI				
<b>Europlan (formerly DeltaLeasing)</b>	5.5	5.5	0	<b>5.5</b>
Leasing services for small and medium-sized enterprises in the Far East and Siberia. Non-bank financial institutions ● Private ● FI				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>International Moscow Bank Framework Facility</b>	161.2	36.7	0	<b>36.7</b>
Development of medium-term lending activities for corporate customers, small and medium-sized enterprises and the retail sector. Bank lending ● Private ● FI				
<b>Karelsky Okatysh</b>	44.0	33.0	0	<b>33.0</b>
Replacement of equipment at iron pellet mine and restructuring of company's assets. Natural resources ● Private ● B/1				
<b>Komi municipal water services</b>	10.1	9.2	0	<b>9.2</b>
Upgrade of water and waste-water infrastructure in Syktyvkar. Municipal infrastructure ● State ● B/0				
<b>KubanAgroProd</b>	11.0	7.3	0	<b>7.3</b>
Purchase of soya beans for soya meal and oil products. Agribusiness ● Private ● FI				
<b>Lenta</b>	22.0	22.0	0	<b>22.0</b>
Development of four food retail stores in St Petersburg. Agribusiness ● Private ● B/0				
<b>Metafrax</b>	13.2	13.2	0	<b>13.2</b>
Construction of two plants and improvements to energy efficiency. Manufacturing ● Private ● B/1				
<b>Middle Timan bauxite mining and processing project</b>	149.5	33.0	0	<b>33.0</b>
Expansion of bauxite mine and development of refinery and aluminium smelter. Natural resources ● Private ● A/1				
<b>Mobile TeleSystems</b>	109.9	109.9	0	<b>109.9</b>
Development of local network and acquisition of regional operators. Telecommunications ● Private ● C/1				
<b>Narzan</b>	9.0	9.0	0	<b>9.0</b>
Expansion of mineral water producer's bottling capacity and development of new products. Agribusiness ● Private ● C/1				
<b>News Outdoor Russia</b>	57.9	23.4	0	<b>23.4</b>
Expansion of advertising operations and development of product range. Media ● Private ● C/1				
<b>Nokian Tyres</b>	97.4	25.0	0	<b>25.0</b>
Construction of tyre plant. Manufacturing ● Private ● B/0				
<b>NPO Petrovax Pharm</b>	15.0	15.0	0	<b>15.0</b>
Construction of facility manufacturing flu vaccine. Manufacturing ● Private ● B/0				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Pokrov Glass</b>	17.6	10.6	0	<b>10.6</b>
Restructuring and expansion of glass bottling plant. Agribusiness ● Private ● B/1				
<b>Power Machines</b>	22.5	19.4	0	<b>19.4</b>
Modernisation and energy efficiency improvements at three power equipment plants. Manufacturing ● Private ● B/1				
<b>Probusinessbank</b>	4.4	4.4	0	<b>4.4</b>
Commodity financing for small and medium-sized agribusinesses. Agribusiness ● Private ● FI				
<b>Quadriga Capital Russia Fund</b>	4.9	0	4.8	<b>4.8</b>
Equity fund supporting medium-sized companies. Equity funds ● Private ● FI				
<b>Regional Venture Funds</b>	7.6	0	6.9	<b>6.9</b>
Equity investments in medium-sized enterprises in the lower Volga, north-west Russia and west Siberia. Equity funds ● Private ● FI				
<b>Renaissance Life Insurance Limited</b>	4.0	0	2.1	<b>2.1</b>
Equity investment in life insurance company. Non-bank financial institutions ● Private ● FI				
<b>Rising Star Media</b>	37.8	12.8	0	<b>12.8</b>
Establishment of five multiplex cinemas in Moscow and St Petersburg. Media ● Private ● C/0				
<b>Rosbank SME credit line</b>	14.7	14.7	0	<b>14.7</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Russia Small Business Fund</b>	16.6	16.6	0	<b>16.6</b>
Credit line to Chelindbank, NBD, Sibacadembank and Uraltransbank for on-lending to small and medium-sized businesses. Small business finance ● Private ● FI				
<b>Russia Small Business Fund</b>	4.5	0	1.7	<b>1.7</b>
Equity investment in KMB Bank. Small business finance ● Private ● FI				
<b>Russia Partners 2</b>	36.8	0	36.8	<b>36.8</b>
Equity fund investing in companies operating in Russia and the CIS. Equity funds ● Private ● FI				
<b>Russian Standard Bank</b>	65.9	22.0	0	<b>22.0</b>
Syndicated loan for expansion of bank. Non-bank financial institutions ● Private ● FI				
<b>RZB Leasing Russia</b>	109.0	36.6	0	<b>36.6</b>
Syndicated loan providing lease financing to privately owned companies. Non-bank financial institutions ● Private ● FI				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Sibacadembank</b>	7.7	0	7.7	<b>7.7</b>
Equity investment in bank. Bank equity ● Private ● FI				
<b>Soufflet Multi-Project Facility</b>	12.3	6.2	0	<b>6.2</b>
<i>Zerno</i> Investment in barley producer. Agribusiness ● Private ● B/1				
<b>Sumitomo Leasing</b>	0.4	0.4	0	<b>0.4</b>
Lease financing for Russian companies modernising their construction and mining machinery. Manufacturing ● Private ● FI				
<b>System Operator SCADA</b>	120.0	60.0	0	<b>60.0</b>
Implementation of control and energy management system. Power and energy ● State ● C/1				
<b>Togliatti Azot</b>	117.2	73.3	0	<b>73.3</b>
Modernisation of four ammonia production units. Manufacturing ● Private ● B/1				
<b>Togliatti Urban Transport Project</b>	9.8	9.8	0	<b>9.8</b>
Purchase of buses and upgrade of maintenance facilities. Municipal infrastructure ● Private ● B/1				
<b>Uralkaly</b>	47.6	47.6	0	<b>47.6</b>
Modernisation of potassium salt producer and construction of power plant. Manufacturing ● Private ● C/1				
<b>Uralsib SME credit line</b>	22.0	22.0	0	<b>22.0</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Uraltransbank</b>	6.0	0	<0.1	<b>&lt;0.1</b>
Equity investment in bank focusing on financing for small and medium-sized enterprises. Bank equity ● Private ● FI				
<b>Uraltransbank SME credit line</b>	2.2	2.2	0	<b>2.2</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Wirtgen</b>	1.1	1.1	0	<b>1.1</b>
<i>Centrodorstroy</i> Leasing facility for Russian companies modernising their road-building machinery. Manufacturing ● Private ● FI				
<b>Yugbank SME credit line</b>	7.3	7.3	0	<b>7.3</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	160.1	160.1	0	<b>160.1</b>
Support for foreign trade through Absolut Bank, Bank UralSib, Center-Invest Bank, Chelindbank, NBD, Probusinessbank, Promsvyazbank, Sberbank, Sibacadembank, TransCapitalBank, Uraltransbank, Vneshtorgbank and Yugbank. Bank lending ● Private ● FI				

## Serbia and Montenegro

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>Ball Packaging Belgrade</b>	55.5	20.0	0	<b>20.0</b>
Construction of aluminium can production facility. Manufacturing ● Private ● B/0				
<b>Banque Société Générale Yugoslav – mortgage loan</b>	10.0	10.0	0	<b>10.0</b>
Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				
<b>Euromarket Banka</b>	2.0	2.0	0	<b>2.0</b>
Credit line for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Fresh&amp;Co</b>	23.0	0	2.5	<b>2.5</b>
Expansion of fruit juice producer. Agribusiness ● Private ● B/1				
<b>Frikom</b>	47.6	10.1	0	<b>10.1</b>
Modernisation of production facilities and expansion of ice cream and frozen food producer. Agribusiness ● Private ● C/1				
<b>Hemofarm</b>	24.9	17.0	0	<b>17.0</b>
Construction of pharmaceutical packaging and production facility. Manufacturing ● Private ● B/0				
<b>HVB Bank Yugoslavia – mortgage loan</b>	10.0	10.0	0	<b>10.0</b>
Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				
<b>ProCredit Bank Serbia</b>	6.3	0	1.0	<b>1.0</b>
Equity investment in bank. Small business finance ● Private ● FI				
<b>Raiffeisen Bank</b>	4.2	2.5	0	<b>2.5</b>
Strengthening of bank's capital base. Bank lending ● Private ● FI				
<b>Raiffeisen Bank – mortgage loan</b>	10.0	10.0	0	<b>10.0</b>
Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				
<b>SBB</b>	17.3	11.2	0	<b>11.2</b>
Expansion of cable network and introduction of new services, including broadband. Telecommunications ● Private ● C/1				
<b>SFIR</b>	16.0	<1.0	0	<b>&lt;1.0</b>
Commodity lending to sugar processors to allow for purchase of raw materials. Agribusiness ● Private ● FI				
<b>Subotica municipal infrastructure reconstruction programme</b>	14.0	9.0	0	<b>9.0</b>
Modernisation of waste-water treatment plant. Municipal infrastructure ● State ● B/0				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
<b>US/EBRD SME Finance Facility</b>	1.0	0.9	0	<b>0.9</b>
Credit line to Alter Modus for on-lending to micro, small and medium-sized businesses. Small business finance ● Private ● FI				
<b>Volksbank Serbia</b>	6.7	0	0.5	<b>0.5</b>
Acquisition of Trust Banka. Bank equity ● Private ● FI				
<b>Western Balkans SME Finance Facility</b>	5.0	5.0	0	<b>5.0</b>
Credit line to Cacanska Banka for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	4.3	3.7	0	<b>3.7</b>
Support for foreign trade through Eksimbanka, Euromarket Banka and Raiffeisen Bank. Bank lending ● Private ● FI				

## Slovak Republic

<b>EU/EBRD Municipal Finance Facility</b>	32.5	8.0	0	<b>8.0</b>
Credit line to Dexia Slovensko for on-lending to small and medium-sized municipalities and their utility companies. Municipal infrastructure ● Private ● FI				
<b>EU/EBRD SME Finance Facility</b>	25.0	25.0	0	<b>25.0</b>
Credit lines to Ludova Banka, OTP Banka Slovakia and Unibanka for on-lending to small and medium-sized businesses. Bank lending ● Private ● FI				
<b>EU/EBRD SME Finance Facility</b>	20.0	20.0	0	<b>20.0</b>
Credit lines to CAC Leasing and VB Leasing for on-lending to small and medium-sized businesses. Non-bank financial institutions ● Private ● FI				
<b>Post Privatisation Fund</b>	2.2	0	0.5	<b>0.5</b>
Equity fund supporting financial and operational restructuring of medium-sized enterprises. Equity funds ● Private ● FI				
<b>Slovenske Elektrarne restructuring loan</b>	350.0	30.0	0	<b>30.0</b>
Refinancing of electricity generator's existing debt. Power and energy ● Private ● C/1				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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## Slovenia

<b>EU/EBRD SME Finance Facility</b>	10.0	10.0	0	<b>10.0</b>
Credit line to SKB Leasing for on-lending to small and medium-sized businesses. Non-bank financial institutions ● Private ● FI				
<b>Global Environmental Facility</b>	26.3	26.0	0	<b>26.0</b>
Credit lines to Bank Austria Creditanstalt Slovenia, NLB, Probanka and Volksbank for on-lending to projects reducing water pollution in the Danube river. Bank lending ● Private ● FI				

## Tajikistan

<b>Khujand water supply improvement project</b>	3.8	0.9	0	<b>0.9</b>
Improvement of water wells, upgrade of distribution network and installation of new equipment. Municipal infrastructure ● State ● B/1				
<b>Micro and Small Enterprise Finance Facility</b>	4.5	3.7	0	<b>3.7</b>
Credit line to Eskata Bank, Tajprombank and Tojiksodirotbank for on-lending to micro, small and medium-sized businesses. Small business finance ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	2.2	2.2	0	<b>2.2</b>
Support for foreign trade through Tajprombank and Tojiksodirotbank. Bank lending ● Private ● FI				

## Turkmenistan

<b>Regional Trade Facilitation Programme</b>	0.1	0.1	0	<b>0.1</b>
Support for foreign trade through Senagat Bank. Bank lending ● Private ● FI				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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## Ukraine

<b>Aval Bank – mortgage loan</b>	7.3	7.3	0	<b>7.3</b>
Credit line providing long-term mortgage loans. Bank lending ● Private ● FI				
<b>Chumak</b>	14.6	11.0	0	<b>11.0</b>
Purchase of equipment for expansion of edible oil business. Agribusiness ● Private ● B/1				
<b>Energy Alliance</b>	7.3	3.7	0	<b>3.7</b>
Establishment of new private sector energy service company. Energy efficiency ● Private ● C/O				
<b>Evrotek</b>	14.7	7.3	0	<b>7.3</b>
Purchase and storage of grain and sunflower seeds. Agribusiness ● Private ● FI				
<b>Gostomel</b>	12.5	4.0	0	<b>4.0</b>
Construction of new glass furnace at bottle manufacturing plant. Agribusiness ● Private ● B/1				
<b>Istil</b>	25.6	18.3	0	<b>18.3</b>
Improvements to production and energy efficiency at mini steel mill. Manufacturing ● Private ● B/1				
<b>K2R4 safety and modernisation programme</b>	91.6	30.8	0	<b>30.8</b>
Modernisation and improvement of safety at two nuclear reactors at Khmelnytsky (K2) and Rivne (R4). Power and energy ● State ● B/1				
<b>Malteurop</b>	6.2	4.0	0	<b>4.0</b>
Renovation and expansion of malting plant. Agribusiness ● Private ● B/1				
<b>Obolon Brewery</b>	7.3	7.3	0	<b>7.3</b>
Storage of barley in grain warehouses for subsequent processing into malt. Agribusiness ● Private ● C/O				
<b>Post Privatisation Fund</b>	2.5	0	2.5	<b>2.5</b>
<i>Euroventures Ukraine</i> Equity and equity-related investment in medium-sized enterprises. Equity funds ● Private ● FI				
<b>Soufflet Slavuta</b>	43.5	12.8	0	<b>12.8</b>
Improvement of barley production and collection. Agribusiness ● Private ● B/1				
<b>Toepfer</b>	71.4	29.3	0	<b>29.3</b>
Purchase, storage and sale of agricultural commodities. Agribusiness ● Private ● C/O				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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<b>Ukraine Railways</b>	105.9	58.6	0	<b>58.6</b>
Introduction of fast train services countrywide, maintenance work and reconstruction of Beskyd tunnel. Transport ● State ● B/O				
<b>US/EBRD SME Finance Facility</b>	6.0	0	2.9	<b>2.9</b>
Equity investment in ProCredit Bank Ukraine. Small business finance ● Private ● FI				
<b>Warehouse Receipts Programme</b>	22.0	5.1	0	<b>5.1</b>
Short-term lending against warehouse receipts for agribusiness companies, provided through Aval Bank. Bank lending ● Private ● FI				
<b>Regional Trade Facilitation Programme</b>	40.5	40.3	0	<b>40.3</b>
Support for foreign trade through Aval Bank, First Ukrainian International Bank, Forum Bank, Hypovereinsbank Ukraine, Kreditprombank, Kredyt Bank Ukraina, Nadra Bank, Raiffeisen Bank and UkrSotsBank. Bank lending ● Private ● FI				

## Uzbekistan

<b>Direct Lending Facility</b>	0.5	0.5	0	<b>0.5</b>
<i>Berad-Agro</i> Financing for dried fruit and vegetable producer. Agribusiness ● Private ● C/O				
<b>Direct Lending Facility</b>	3.2	0.9	0	<b>0.9</b>
<i>Gisad O'zbek</i> Financing for textile company. Manufacturing ● Private ● FI				
<b>Japan-Uzbekistan Small Business Programme</b>	5.9	5.9	0	<b>5.9</b>
Credit lines to Hamkor Bank and Uzjilsberbank for on-lending to small and medium-sized businesses. Small business finance ● Private ● FI				
<b>Tashkent water supply improvement project</b>	10.3	7.3	0	<b>7.3</b>
Replacement of equipment and construction of reservoir. Municipal infrastructure ● State ● B/O				
<b>Unitel</b>	28.9	0	3.9	<b>3.9</b>
Acquisition of second-largest mobile operator in Uzbekistan. Telecommunications ● Private ● C/O				
<b>Uz-Arctech</b>	19.3	7.0	0	<b>7.0</b>
Establishment of manufacturing plant producing welding equipment. Manufacturing ● Private ● B/1				
<b>Regional Trade Facilitation Programme</b>	16.6	8.7	0	<b>8.7</b>
Support for foreign trade through Asaka Bank, UzDaewoo and Uzjilsberbank. Bank lending ● Private ● FI				



	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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## Regional

<b>Accession Fund</b>	300.0	0	75.0	<b>75.0</b>
Property investments in Czech Republic, Hungary, Poland and Slovenia. Property and tourism ● Private ● FI				

<b>Advent Central and Eastern Europe Successor Fund</b>	68.4	0	36.8	<b>36.8</b>
Private equity fund investing in Bulgaria, Czech Republic, Hungary, Poland, Romania, Serbia and Montenegro and Slovak Republic. Equity funds ● Private ● FI				

<b>Baku-Tbilisi-Ceyhan pipeline</b>	1,860.3	91.6	0	<b>91.6</b>
Construction of oil pipeline from Azerbaijan, through Georgia to Turkey. Natural resources ● Private ● A/0				

<b>Baring Vostok Private Equity Fund III</b>	256.4	0	47.6	<b>47.6</b>
Private equity fund supporting medium-sized companies in Kazakhstan, Russia and Ukraine. Equity funds ● Private ● FI				

<b>Carmeuse Eastern Europe</b>	34.0	0	6.7	<b>6.7</b>
Expansion of lime producer's operations in Romania and Serbia and Montenegro. Manufacturing ● Private ● B/1				

<b>Europolis II</b>	300.0	0	75.0	<b>75.0</b>
Development of commercial property projects in Bulgaria, Croatia, Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Serbia and Montenegro, Slovak Republic and Ukraine. Property and tourism ● Private ● C/0				

<b>Lura Group</b>	23.3	17.0	0	<b>17.0</b>
Expansion of dairy group in Croatia and Serbia and Montenegro. Agribusiness ● Private ● C/1				

<b>Marbo</b>	10.4	3.0	0	<b>3.0</b>
Expansion of snack food producer in Bosnia and Herzegovina and Serbia and Montenegro. Agribusiness ● Private ● B/1				

<b>Migros Foodstores Skopje</b>	6.1	6.1	0	<b>6.1</b>
Expansion of retailer's operations in Bulgaria and FYR Macedonia. Agribusiness ● Private ● B/0				

<b>Polish Enterprise Fund V</b>	46.5	0	46.5	<b>46.5</b>
Private equity fund investing in enterprises in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovak Republic. Equity funds ● Private ● FI				

<b>Raiffeisen International</b>	200.0	0	100.0	<b>100.0</b>
Equity investment supporting growth of Raiffeisen International's business in Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Poland, Romania, Russia, Serbia and Montenegro, Slovak Republic and Ukraine. Bank equity ● Private ● FI				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
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<b>Regional Agricultural Commodity Programme</b>	308.8	5.5	0	<b>5.5</b>
Commodity financing for small and medium-sized agribusinesses in Kazakhstan and Russia. Agribusiness ● Private ● FI				

<b>SOCAR – South Caucasus gas pipeline</b>	89.0	44.0	0	<b>44.0</b>
Financing for 690 km gas pipeline from the Shah Deniz field in Azerbaijan to the Turkish-Georgian border. Natural resources ● State ● A/1				

<b>TriGranit III</b>	113.8	0	25.0	<b>25.0</b>
Development of properties in Czech Republic, Hungary, Poland, Romania and Slovak Republic. Property and tourism ● Private ● C/1				

# 10 Organisation and staffing

## Human resources

### Staffing

At the end of December 2004, the EBRD's London-recruited staff totalled 965, the same level as the previous year. Locally hired staff in the Bank's Resident Offices totalled 237, compared with 229 in 2003. The ratio of male/female professional staff in the EBRD is approximately 1.62:1. Recruitment strategy continues to reflect the diversity and multinational nature of the organisation. A total of 55 nationalities are represented in the Bank's workforce.

The EBRD encourages staff to develop their work skills by pursuing new career opportunities within different departments at Headquarters and in our local offices. This emphasis on mobility allows staff to learn about different aspects of the Bank's work and to expand their skills in new environments.

### Organisational changes

To support the needs of the poorest countries in which the EBRD operates, a dedicated team of nine people (six professional and three support staff) was set up in 2004 to assist the Bank's Early Transition Countries Initiative (see page 13). The team is supporting bankers within these countries and coordinating new initiatives.

In July 2004 the Human Resources Department was completely restructured under the leadership of the new Director of Human Resources. The department recruited new staff and refocused its priorities to fully align its activities with the Bank's business needs while continuing to provide core services and policy development and implementation.

### Changes in senior management

In June 2004 Enery Quinones took up the post of Chief Compliance Officer, overseeing integrity, ethical issues and the Bank's accountability to the public. Ms Quinones joined the Bank after an extensive career with the OECD. During 2004 the Bank appointed three internal candidates to senior management positions: Axel van Norderveen (Treasurer); Samuel Fankhauser

(Director of Policy Studies and Sector Strategy); and Paolo Gallo (Director, Human Resources). Following the announcement of the resignation of Johnny Åkerholm, Secretary General, and Hanna Gronkiewicz-Waltz, Vice President of Human Resources and Administration, the Bank began a search towards the end of 2004 for candidates for these two senior management posts.

### Training

In 2004 the EBRD piloted a new management development programme, which will be launched in 2005. The programme consists of a variety of training courses tailored to the needs of the Bank's different management levels. Courses are offered at basic and advanced levels and range in length from two-hour sessions to three-day courses. The main topics covered by the programme are performance management, communication and motivation. A number of other business-related courses were developed during the year, covering areas such as procurement, corporate recovery and the impact of EBRD activities on the transition process. A total of 3,148 days of training were undertaken in 2004.

### Working safely

EBRD staff are based in the Bank's headquarters in London and in a network of 32 local offices in our 27 countries of operations. In undertaking the business of the Bank, staff travel extensively throughout our operating region and globally. Principle risks include road, rail and air travel and issues related to operating in countries with potential for civil unrest and natural disasters. Much emphasis is therefore placed on robust travel safety procedures, training and emergency preparedness.

In 2004 key programmes included improving telecommunications services in our resident offices to ensure that a secure back-up system is available if one line of communications fails. This is particularly important at times of crisis. New radio sets and satellite telephones were provided to a number of offices to allow for land-line, mobile, VHF radio and satellite communications. The EBRD also introduced an online training course covering basic travel security awareness.

## Governors and Alternate Governors

31 December 2004

Member	Governor	Alternate	Chairman of the Board of Governors
Albania	Anastas Angjeli	Adriana Berberi	Governor for Austria (Karl-Heinz Grasser)
Armenia	Vardan Khachatryan	Tigran Sargsyan	
Australia	Peter Costello	Bruce Billson	
Austria	Karl-Heinz Grasser	Thomas Wieser	<b>Vice Chairmen of the Board of Governors</b>
Azerbaijan	Farhad Aliyev	Avaz Alekperov	Governor for Albania (Anastas Angjeli)
Belarus	Vladimir Semashko	Nikolai P Zaichenko	Governor for Belgium (Didier Reynders)
Belgium	Didier Reynders	Jean-Pierre Arnoldi	
Bosnia and Herzegovina	Mladen Ivanic	Jusuf Kumalic	
Bulgaria	Milen Veltchev	Bojidar Kabaktchiev	
Canada	Ralph Goodale	Peter Harder	
Croatia	Ivan Šuker	Martina Dalić	
Cyprus	Makis Keravnos	Christos Patsalides	
Czech Republic	Bohuslav Sobotka	Zdeněk Tůma	
Denmark	Bendt Bendtsen	Michael Dithmer	
Egypt	Fayza Abouel Naga	Hassan Khedr	
Estonia	Taavi Veskimägi	Aare Järvan	
Finland	Antti Kalliomäki	Pekka Lintu	
Former Yugoslav Republic of Macedonia		Stefco Jakimovski	
France	Hervé Gaymard	Xavier Musca	
Georgia	Zurab Nogaideli	—	
Germany	Hans Eichel	Caio Koch-Weser	
Greece	George Alogoskoufis	George Mergos	
Hungary	Tibor Draskovics	Zoltán Kazatsay	
Iceland	Valgerdur Sverrisdóttir	Benedikt Árnason	
Ireland	Brian Cowen	Tom Considine	
Israel	David Klein	Yossi Bachar	
Italy	Domenico Siniscalco	Lorenzo Bini Smaghi	
Japan	Sadakazu Tanigaki	Toshihiko Fukui	
Kazakhstan	Arman Dunayev	Anvar Saidenov	
Korea, Republic of	Hun-Jai Lee	Seung Park	
Kyrgyz Republic	Djoomart Otorbaev	Ulan Sarbanov	
Latvia	Oskars Spurdzins	Juris Lujans	
Liechtenstein	Hansjörg Frick	Roland Marxer	
Lithuania	Algirdas Butkevičius	Ramunė Vilija Zabulienė	
Luxembourg	Jean-Claude Juncker	Jean Guill	
Malta	Tonio Fenech	Michael C Bonello	
Mexico	Francisco Gil Díaz	Alonso García Tamés	
Moldova	Marian Lupu	Dumitru Ursu	
Mongolia	Chultemiin Ulaan	Ochirbatyn Chuluunbat	
Morocco	Fathallah Oualalou	Abdeltif Loudyi	
Netherlands	Gerrit Zalm	Bernard Bot	
New Zealand	Phil Goff	Russell Marshall	
Norway	Per-Kristian Foss	Tone Skogen	
Poland	Leszek Balcerowicz	Wiesław Szczuka	
Portugal	António José de Castro Bagão Félix	Luís Miguel Morais Leitão	
Romania	Mihai N Tanasescu	Mugur Isarescu	
Russian Federation	German O Gref	—	
Serbia and Montenegro	Mladjen Dinkic	Igor Luksic	
Slovak Republic	Ivan Mikloš	Marián Jusko	
Slovenia	Andrej Bajuk	Sibil Svilan	
Spain	Pedro Solbes Mira	David Vegara Figueras	
Sweden	Pär Nuder	Jens Henriksson	
Switzerland	Joseph Deiss	Oscar Knapp	
Tajikistan	Abdujabor Shirinov	Mirali Sabdalievich Naimov	
Turkey	Ibrahim H Çanakci	Cavit Dağdas	
Turkmenistan	—	Guvanchmurad Geoklenov	
Ukraine	Mykola Azarov	Volodymyr Stelmakh	
United Kingdom	Gordon Brown	Hilary Benn	
United States	John W Snow	Alan P Larson	
Uzbekistan	Rustam Sadykovich Azimov	Abdurafik A Akhadov	
European Community	Joaquin Almunia	Klaus Regling	
European Investment Bank	Philippe Maystadt	Wolfgang Roth	

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 2004

### Director

Konstantin Andreopoulos  
Scott Clark  
Jos de Vries  
Susumu Fujimoto  
Laurent Guye

Sven Hegelund  
Ib Katznelson  
Igor Kovtun  
Jean-Pierre Landau

—  
Kalin Mitrev  
Michael Neumayr  
Igor Očka  
Yuri Poluneev  
Enzo Quattrocioche  
Gonzalo Ramos  
Kaarina Rautala  
Simon Ray  
Peter Reith  
Gerd Saupe  
Jean-Louis Six  
Mark Sullivan  
Stefanos Vavalidis

### Alternate Director

Patrick Walsh  
David Plunkett  
Hans Sprokkreeff  
Osamu Sakashita  
—

Tomas Danestad  
Desmond O'Malley  
—  
Olivier Rousseau  
Vassili Lelakis  
Tadeusz Syryjczyk  
Ohad Bar-Efrat  
Imre Tarafás  
Stefan Presura  
Ugo Astuto  
León Herrera  
Tor Hernæs  
Jonathan Ockenden  
Byung-Il Kim  
Peer Stanchina  
Georges Heinen  
—  
Jose Veiga de Macedo

### Constituency

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

## Composition of Board of Directors' Committees

31 December 2004

### Audit Committee

Sven Hegelund (*Chairman*)  
Gonzalo Ramos (*Vice Chairman*)  
Konstantin Andreopoulos  
Jos de Vries  
Ib Katznelson  
Simon Ray  
Mark Sullivan  
Stefanos Vavalidis

### Financial and Operations Policies Committee

Enzo Quattrocioche (*Chairman*)  
Laurent Guye (*Vice Chairman*)  
Igor Kovtun  
Jean-Pierre Landau  
Vassili Lelakis  
Kalin Mitrev  
Igor Očka  
Peter Reith

The Audit Committee considers the appointment and scope of work of the external auditors. It also reviews financial statements and general accounting principles, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation.

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

### Budget and Administrative Affairs Committee

Gerd Saupe (*Chairman*)  
Kaarina Rautala (*Vice Chairman*)  
Scott Clark  
Susumu Fujimoto  
Michael Neumayr  
Yuri Poluneev  
Jean-Louis Six

### Board Steering Group

Simon Ray (*Chairman*)  
Jean-Louis Six (*Vice Chairman*)  
Sven Hegelund  
Gonzalo Ramos  
Gerd Saupe  
Kaarina Rautala  
Enzo Quattrocioche  
Laurent Guye

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

11 April 2005

<b>President</b>	Jean Lemierre	<b>Finance</b>	
		Vice President	Steven Kaempfer
<b>Banking</b>		<b>Treasury</b>	
First Vice President	Noreen Doyle	Treasurer and Head of Asset and Liability Management	Axel van Nederveen
<b>Front Office</b>		Deputy Treasurer and Head of Funding	Isabelle Laurent
Strategy, Planning and Budgeting (joint report to Finance)	Josué Tanaka	Analytics/ Research	Stefanos Doxas
Operations Committee Secretariat	Frédéric Lucenet	Client Risk Management	Grant Metcalfe-Smith
Business Development Support	Bruno Balvanera	Investments – Credits	Steen Carndorf
Corporate Recovery (joint report to Risk Management)	Mary Ellen Collins	Investments – Rates	Bart Mauldin
<b>Energy and Telecommunications</b>		<b>Strategic and Corporate Planning and Budgeting</b>	
Business Group Director	Peter Reiniger	Corporate Director	Josué Tanaka
Energy Efficiency	Jacquelin Ligot	<b>Commercial Co-financing</b>	
Natural Resources	Kevin Bortz	Director	Lorenz Jorgensen
Power and Energy Utilities	Tony Marsh	<b>Controllers</b>	
Telecommunications, Informatics and Media	Izzet Güney	Controller	Nigel Kerby
<b>Financial Institutions</b>		Financial Reporting and Expense Control	David Bleakney
Business Group Director	Kurt Geiger	Funds Financial Control	Teresa Godwin-Coombs
Bank Equity	Maria-Luisa Cicognani	Treasury Financial Control	Terry Cullen
Bank Lending	Jean-Marc Peterschmitt	Internal Controls and Operational Risk Management	Julie Williams
Equity Funds	Kanako Sekine	Banking Operations	Mark Smith
Non-bank Financial Institutions	Jonathan Woollett	Treasury Operations	Chris Swinchatt
Equity Support	Lindsay Forbes	Independent Middle Office	Eric Kohl
<b>Infrastructure</b>		<b>Information Technology</b>	
Business Group Director	Gavin Anderson	Director	Tim Goldstone
Municipal and Environmental Infrastructure	Thomas Maier		
Transport	Riccardo Puliti		
<b>Central Europe and Specialised Industries</b>		<b>Risk Management</b>	
Business Group Director	Alain Pilloux	Vice President	Fabrizio Saccomanni
Baltic states (Estonia, Latvia, Lithuania)	Salvatore Candido	<b>Risk Management</b>	
Poland (Warsaw office)	Malgorzata Kolakowska	Director	Michael Williams
Czech Republic, Hungary, Slovak Republic and Slovenia (Bratislava office)	Alexander Auboeck	Credit/ Transaction Analysis	Bob Harada
Croatia (Zagreb office)	Charlotte Ruhe	Treasury Risk Management	Jean-André Sorasio
		Credit Portfolio Review	Irena Postlova
Agribusiness	Hans Christian Jacobsen	Corporate Recovery (joint report to Banking)	Mary Ellen Collins
Property and Tourism	Ilaria Benucci	<b>Environment</b>	
<b>Southern and Eastern Europe and the Caucasus</b>		Director	Alistair Clark
Business Group Director	Olivier Descamps	<b>Nuclear Safety</b>	
Ukraine (Kiev office)	Kamen Zahariev	Director	Vince Novak
Serbia and Montenegro (Belgrade office)	Dragica Pilipovic-Chaffey	<b>Official Co-financing</b>	
Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo	Claudio Viezzoli	Director	Gary Bond
Romania (Bucharest office)	Hildegard Gacek	<b>Human Resources and Administration</b>	
Bulgaria (Sofia office)	John Chomel-Doe	Vice President – Human Resources	Paolo Gallo (acting)
Armenia, Azerbaijan, Belarus, Georgia and Moldova	Michael Davey	<b>Human Resources</b>	
Early Transition Countries	George Krivicky	Director	Paolo Gallo
Direct Investment Facility	Urmaz Paavel	<b>Administration, Procurement and Purchasing and Consultancy Services Unit</b>	
TurnAround Management Group	Charlotte Salford	Corporate Director	Chris Holyoak
<b>Russia and Central Asia</b>		Director of Administration	John McNess
Business Group Director	Hubert Pandza	Director of Procurement and Purchasing	Maurice Lepage
Russia (Moscow office)	Victor Pastor	Head of Consultancy Services	Dilek Macit
Central Asia	Masaru Honma		
Kazakhstan, Kyrgyz Republic and Tajikistan (Almaty office)	André Kūusvek		
Group for Small Business	Vacant		



### Office of the Secretary General

Secretary General	Nigel Carter (acting)
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### Project Evaluation

Corporate Director (report to President) <sup>1</sup>	Fredrik Korfker
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### Office of the Chief Economist

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

### Office of the General Counsel

General Counsel	Emmanuel Maurice
Deputy General Counsel	Gerard Sanders
Deputy General Counsel	Norbert Seiler
Assistant General Counsel	Stephen Petri

### Operations Administration Unit

Head of Unit	Lieve Reckers
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### Records Management and Archives

Head of Unit	Anne Cretal
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### Office of the Chief Compliance Officer

Chief Compliance Officer	Enery Quinones
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### Internal Audit

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

### Communications

Director	Brigid Janssen
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### President's Office

Adviser to the President	Alexandre Draznieks
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<sup>1</sup> The President, in conjunction with the Chair of the Audit Committee, announced in February 2005 his intention to propose to the Board of Directors that the Project Evaluation Department be directly responsible to the Board in future.

## Further information

### Web site

The EBRD web site ([www.ebrd.com](http://www.ebrd.com)) contains comprehensive information on every aspect of the Bank's activities. It includes a range of publications, policies, country strategies and full contact details for the Bank's local offices.

### Major EBRD publications



#### *EBRD Investments*

*EBRD Investments* provides a complete list of every project signed by the Bank since 1991. Data are presented on a country-by-country basis, with short descriptions of each project and details of the project's sector, portfolio class (private sector or state), year of signing and total EBRD finance. Published annually.



#### *Transition Report*

The *Transition Report* provides an in-depth analysis of economic progress in the Bank's 27 countries of operations. The Report offers a comprehensive assessment of the transition from central planning to market economies and analyses topical issues affecting the region. The special theme of the 2004 Report is infrastructure. Published biannually: full report (November); update (May).



#### *Donor Report*

Donors and official co-financiers play a central role in the EBRD's transition work. The *Donor Report* reviews the contribution made by grant funding and co-financing to prepare the way for EBRD investment and to support institutional reform and improvements to the investment climate. Published annually.



#### *A Guide to EBRD Financing*

The EBRD serves the needs of clients across a variety of sectors, providing innovative financing solutions and a flexible approach to project structures. This simple guide outlines the various forms of financing available and how this finance is provided.



#### *Building Prosperity: An Introduction to the EBRD*

This easy-to-read booklet explains why the EBRD was created, where the Bank works, the types of projects undertaken by the Bank and how we support economic, legal and democratic reforms in our region of operations.



#### *Sustainability Report*

The EBRD is committed to responsible and sustainable investment. This report outlines how the EBRD invests responsibly, focusing in particular on the work being undertaken by the Bank in the poorest countries of the region and our efforts to address climate change. It outlines how the Bank works in a socially and environmentally responsible way and details the Bank's own internal performance.

## Guide for readers

### Exchange rates

Non-euro currencies have been converted, where appropriate, into euros on the basis of the exchange rates current on 31 December 2004. (Approximate euro exchange rates: £0.71, US\$ 1.36, ¥ 139.76.)

### 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.

### Economic data

Economic data in this Report are based on estimates as of 8 March 2005.

### Annual Meeting

The EBRD's Annual Meeting consists of a gathering of shareholders (represented by governors) and a business forum, 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, on 22-23 May 2005.

## Abbreviations and acronyms

<b>The Bank, EBRD</b>	The European Bank for Reconstruction and Development
<b>BAS</b>	Business Advisory Services
<b>CEB</b>	Central Europe and the Baltic states
<b>CIS</b>	Commonwealth of Independent States
<b>DIF</b>	Direct Investment Facility
<b>EC</b>	European Community
<b>EIB</b>	European Investment Bank
<b>ETC</b>	Early transition countries
<b>EU</b>	European Union
<b>FDI</b>	Foreign direct investment
<b>FYR Macedonia</b>	Former Yugoslav Republic of Macedonia
<b>G-7</b>	Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom and the United States)
<b>GDP</b>	Gross domestic product
<b>IFC</b>	International Finance Corporation
<b>IFI</b>	International financial institution
<b>IMF</b>	International Monetary Fund
<b>MSEs</b>	Micro and small enterprises
<b>NDEP</b>	Northern Dimension Environmental Partnership
<b>NGO</b>	Non-governmental organisation
<b>NSA</b>	Nuclear Safety Account
<b>RSBF</b>	Russia Small Business Fund
<b>SEE</b>	South-eastern Europe
<b>SMEs</b>	Small and medium-sized enterprises
<b>TAM</b>	TurnAround Management Programme
<b>TC</b>	Technical cooperation
<b>TFP</b>	Trade Facilitation Programme

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