Annual report 2006

# Annual review

European Bank
for Reconstruction and Development

**The EBRD, owned by 61 countries and two intergovernmental institutions, aims to foster the transition from centrally planned to market economies in 29 countries from central Europe to central Asia.**

**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 national and local authorities to develop the rule of law and democracy.**

## Transmittal letter to Governors

**London, 6 March 2007**

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 2006 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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**President**
Jean Lemierre

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| Jan Willem van den Wall Bake | Hans Sprokkreeff |

## Contents



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The EBRD's Annual Report 2006 comprises two separate companion volumes: the Annual Review and the Financial Report, which includes the financial statements and the financial results commentary. The CD-ROM accompanying this publication contains the complete Annual Review (in a fully searchable format), the Financial Report and a complete list of all projects signed by the Bank since 1991.

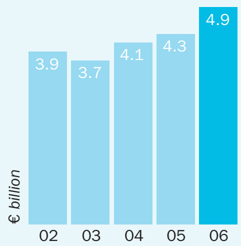
Both volumes are published in English, French, German and Russian.

Copies are available free of charge from the EBRD's Publications Desk:
One Exchange Square, London EC2A 2JN
Tel: +44 20 7338 7553 Fax: +44 20 7338 6102 Email: pubsdesk@ebrd.com

# 2006 in numbers

**€4.9 billion**
committed to 301 projects, the EBRD's highest level of investment

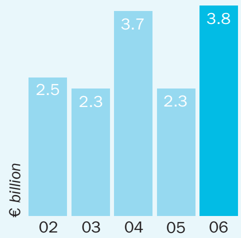
**EBRD commitments 2002-06***




* Commitments signify the EBRD's annual business volume committed under signed agreements.

**€3.8 billion**
disbursed in 2006

**Gross annual disbursements 2002-06***




* Disbursements signify EBRD financing disbursed to clients following project signing.

## Geographic distribution:

**€2.4 billion** committed to early and intermediate transition countries[1]

**€1.9 billion** to Russia

**€0.7 billion** to advanced transition countries[2]

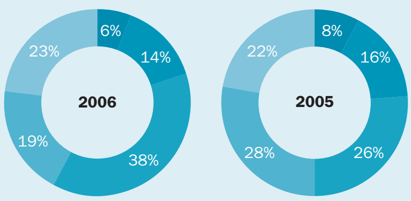
## Sectoral focus:

**Nearly half** of EBRD financing devoted to financial institutions to support local enterprises

**Nearly one-fifth** of financing supported infrastructure developments, including municipal and transport projects

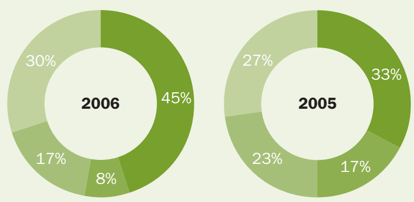
## EBRD commitments by region

- Central Asia
- Central Europe and the Baltic states
- Russia
- South-eastern Europe
- Western CIS and the Caucasus



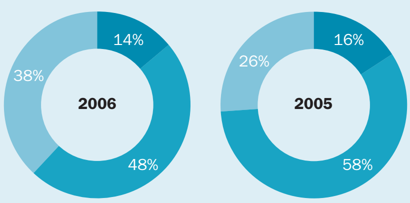

## EBRD commitments by sector

- Financial sector[1]
- Energy[2]
- Infrastructure[3]
- Corporate sector[4]




## EBRD commitments by stage of transition

- Advanced countries
- Early/intermediate countries
- Russia




[1] Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

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

[1] Financial sector includes commitments to micro, small and medium-sized enterprises via financial intermediaries.

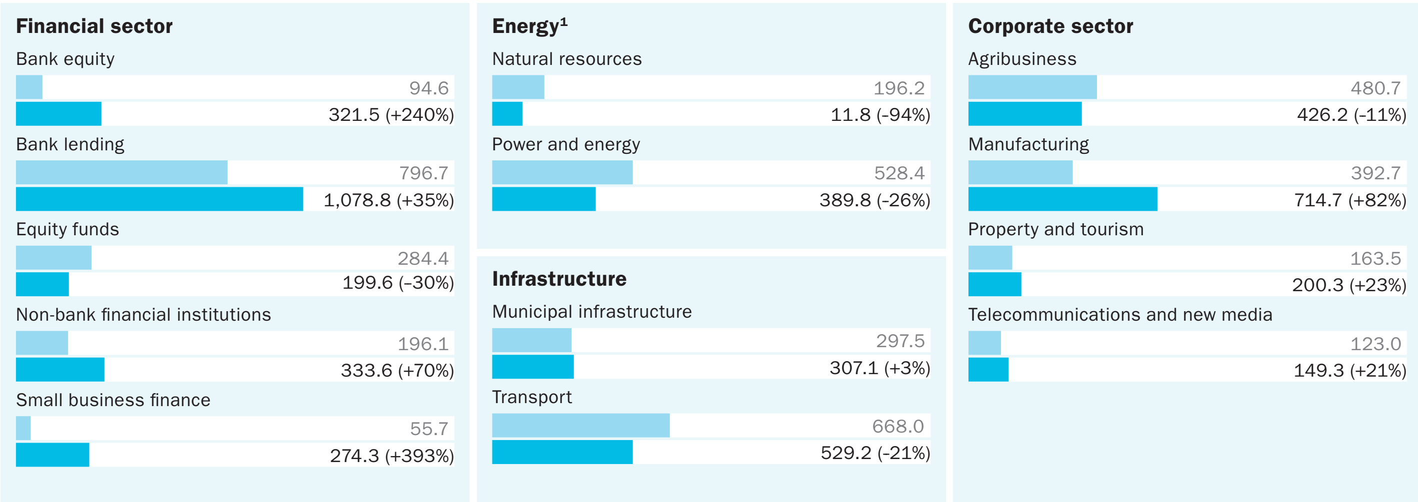
[2] Energy comprises natural resources and the power sector.

[3] Infrastructure comprises municipal infrastructure and transport.

[4] Corporate sector comprises agribusiness, manufacturing, property and tourism, telecommunications and new media.

## EBRD commitments by sector

(€ million)




Note: The figure in brackets shows the percentage increase/decrease since 2005.

[1] The energy efficiency components within all EBRD projects signed in 2006 amounted to €670 million, compared with €205 million in 2005.

2005 2006

**€33.3 billion** of cumulative commitments, mobilising **€69.6 billion** from other sources, for a total project value of **€102.9 billion**

## Annual commitments 2002–06

| | **2006** | 2005 | 2004 | 2003 | 2002 | Cumulative 1991-2006 |
|---|---|---|---|---|---|---|
| Number of projects[1] | **301** | 276 | 265 | 222 | 178 | 2,268 |
| *consisting of:* | | | | | | |
| *– standalone projects* | ***167*** | *156* | *141* | *129* | *105* | *1,392* |
| *– investments under frameworks* | ***134*** | *120* | *124* | *93* | *73* | *876* |
| EBRD commitments (€ million) | **4,936** | 4,277 | 4,133 | 3,721 | 3,899 | 33,348 |
| Resources mobilised (€ million) | **8,915** | 6,222 | 8,799 | 5,307 | 4,862 | 69,571 |
| Total project value (€ million) | **13,851** | 10,499 | 12,932 | 9,028 | 8,761 | 102,919 |

[1] The calculation of the number of projects signed by the EBRD has been simplified to reflect the actual number of operations to which the Bank made commitments during the year. Previously, the measure was weighted, assigning proportional values to partially signed operations and individual investments under frameworks. An operation that is not linked to a framework and involves only one client is referred to as a standalone project. Operations extended to a number of clients (for example, credit lines to banks) have a framework, which represents the overall amount approved by the Board. Investments under frameworks represent the commitment to individual clients.

## Financial results 2002–06

| (€ million) | **2006** | 2005[1] | 2004[1] | 2003[1] | 2002[1] |
|---|---|---|---|---|---|
| Operating income | **2,667** | 1,544 | 659 | 538 | 331 |
| Expenses, depreciation and amortisation | **(225)** | (219) | (190) | (198) | (219) |
| Operating profit before provisions | **2,442** | 1,325 | 469 | 340 | 112 |
| Provisions for impairment of loan investments | **(53)** | 197 | (76) | (7) | (26) |
| Net profit for the year | **2,389** | 1,522 | 393 | 333 | 86 |
| | | | | | |
| Reserves and retained earnings | **6,974** | 4,684 | 1,718 | 952 | 655 |
| Provisions for impairment of loan investments (cumulative) | **341** | 323 | 508 | 465 | 535 |
| Total reserves and provisions | **7,315** | 5,007 | 2,226 | 1,417 | 1,190 |

[1] Amendments to International Financial Reporting Standards in 2006 have resulted in a change to the Bank's accounting policy in relation to financial guarantees, as explained in the "Accounting policies" section of the Financial Report. The figures from previous years have been restated to conform to the new accounting policy.

# EBRD commitments

## Central Europe and the Baltic states

*Figures in € million*

| Country | 2005 | 2006 | Cumulative |
|---|---|---|---|
| Croatia | 50.0 | 302.7 (+505%) | ▲ 1,576.4 |
| Czech Republic | 51.7 | 47.0 (-9%) | ▲ 1,107.5 |
| Estonia | 7.7 | 0.2 (-97%) | ▲ 470.5 |
| Hungary | 101.3 | 50.5 (-50%) | ▲ 1,850.5 |
| Latvia | 27.2 | 0.0 (-100%) | ▲ 322.0 |
| Lithuania | 24.0 | 20.5 (-15%) | ▲ 460.9 |
| Poland | 339.6 | 259.2 (-24%) | ▲ 3,659.9 |
| Slovak Republic | 59.0 | 19.0 (-68%) | ▲ 1,069.4 |
| Slovenia | 38.3 | 2.0 (-95%) | ▲ 658.1 |

Note: The figure in brackets shows the percentage increase/decrease since 2005.

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

2005 2006 ▲ Cumulative

## South-eastern Europe

*Figures in € million*

| Country | 2005 | 2006 | Cumulative |
|---|---|---|---|
| Albania | 62.1 | 48.2 (-22%) | ▲ 335.7 |
| Bosnia and Herzegovina | 108.1 | 133.0 (+23%) | ▲ 584.2 |
| Bulgaria | 285.1 | 155.0 (-46%) | ▲ 1,369.4 |
| FYR Macedonia | 32.6 | 35.1 (+8%) | ▲ 430.2 |
| Montenegro | 16.2 | 0.1 (-99%) | ▲ 38.5 |
| Romania | 500.2 | 254.7 (-49%) | ▲ 3,330.2 |
| Serbia | 179.4 | 327.3 (+82%) | ▲ 1,107.7 |

**Central Europe and the Baltic states**

1 Croatia
2 Czech Republic
3 Estonia
4 Hungary
5 Latvia
6 Lithuania
7 Poland
8 Slovak Republic
9 Slovenia

**South-eastern Europe**

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

**Western CIS and the Caucasus**

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

**Russia**

23 Russia

**Central Asia**

24 Kazakhstan
25 Kyrgyz Republic
26 Mongolia
27 Tajikistan
28 Turkmenistan
29 Uzbekistan

## Western CIS and the Caucasus

*Figures in € million*

| | | |
|---|---|---|
| **Armenia** | | ▲ 144.5 |
| | | 17.6 |
| | | 40.4 (+130%) |
| **Azerbaijan** | | ▲ 737.7 |
| | | 245.1 |
| | | 134.4 (–45%) |
| **Belarus** | | ▲ 203.3 |
| | | 32.1 |
| | | 23.7 (–26%) |
| **Georgia** | | ▲ 398.8 |
| | | 87.2 |
| | | 114.0 (+31%) |
| **Moldova** | | ▲ 196.4 |
| | | 20.7 |
| | | 19.8 (–4%) |
| **Ukraine** | | ▲ 2,862.6 |
| | | 528.8 |
| | | 797.0 (+51%) |

## Russia

*Figures in € million*

| | |
|---|---|
| **2005** | ▲ 8,206.7 |
| | 1,114.9 |
| **2006** | |
| | 1,863.7 (+73%) |

## Central Asia

*Figures in € million*

| | | |
|---|---|---|
| **Kazakhstan** | | ▲ 1,379.9 |
| | | 279.6 |
| | | 242.0 (–13%) |
| **Kyrgyz Republic** | | ▲ 172.0 |
| | | 15.1 |
| | | 18.8 (+23%) |
| **Mongolia** | | ▲ 9.9 |
| | | 0.0 |
| | | 3.8 (+100%) |
| **Tajikistan** | | ▲ 56.2 |
| | | 17.6 |
| | | 19.0 (+8%) |
| **Turkmenistan** | | ▲ 116.7 |
| | | 0.8 |
| | | 0.0 (–100%) |
| **Uzbekistan** | | ▲ 492.1 |
| | | 35.4 |
| | | 5.3 (–85%) |

Fifteen years after it was established to promote transition to democratic market economies, the EBRD undertook a transition of its own, fixing new priorities, adjusting its geographical reach and taking stock of the past decade and a half to project the future of the EBRD region and the Bank.

Perhaps the most remarkable development in the life of the EBRD in 2006 was the adoption of a strategy to reinforce work in countries where the Bank is most needed and gradually withdraw from countries where transition is nearing completion. The eight EBRD countries that joined the European Union in 2004 will graduate from the EBRD and by 2010 all the Bank's investments will be redirected to south-eastern Europe and Ukraine, the Caucasus, Central Asia, and across Russia, especially outside the main cities.

The unusual decision for an international organisation to declare part of its work complete was just one outcome of a healthy debate by the Bank's shareholders in the context of approving a medium-term strategy in the Bank's third Capital Resources Review. The design of the strategy to 2010 opened a deep and searching discussion about how the Bank should evolve to fulfil its mission in the future. Apart from the unanimous agreement of the shareholders on the new strategic directions, the dialogue and the process of reconciling sometimes contrasting views served to strengthen the institution.

The Bank's force is in its knowledge of the region where it operates, its understanding of how countries are evolving and its ability to innovate and adapt. This has underpinned the Bank's success in 2006 with investment of €4.9 billion that reflects the ability to pick projects that the market may be missing or avoiding. And the significant profits realised on past transactions offer the ability to take more risk in the future.

The risks will be higher. The challenges are different from those 15 years ago when the Bank was a pioneer in helping to open markets behind the fallen Berlin Wall. Today, the sense of mission is just as strong and probably even more challenging. In the countries east of the EU the projects are often smaller and more labour-intensive, there is less history of a market culture, and the mission of transition is not driven by the prospect of EU membership in most of these countries.

The challenge of focusing work in the countries that were part of the Soviet Union and the Balkans is already well under way.

The EBRD undertook 301 projects that promote transition in virtually every sector in 2006, creating jobs in many industries and helping economies to grow and diversify. There was an important multiplier effect on the EBRD's own financing, with co-financing from commercial banks that rose by over 30 per cent.

Some 45 per cent of the Bank's business was in the financial sector, with one-third of it going to support local banks offering loans for smaller businesses that form the roots of economies and democracies. The Bank also works to develop new financial instruments to meet the growing prosperity and appetites of each country. Mortgage lending, for example, is a reflection of a burgeoning middle class and the Bank is working with local banks to provide loans and securitise their loan portfolios.

Part of the strategy in the Bank's new environment is to engage ever more closely in the projects we finance by becoming active shareholders rather than just providing loans. Twenty per cent of business volume is now in the form of equity stakes, reflecting riskier environments that require more intensive engagement in order to foster transition and to manage the Bank's own risk.

The EBRD has helped to develop capital markets and increasingly, the Bank is able to meet the growing demand for lending in local currencies. Municipalities, for example, are anxious to avoid currency risk and local currency lending means the

# President's message

Bank is more able to support municipal projects that will improve the lives of people, such as upgrading transportation, district heating and treating water.

At the municipal level or in industry, investments in energy efficiency are a priority for the EBRD. In a region where there is still enormous waste of resources, there is a compelling case for saving energy whether it is to make enterprises more competitive, boost economic growth or improve national security of energy supply and environmental protection.

The EBRD has led the way in investing in projects that are designed primarily to save energy as well as adding an energy efficiency component to industrial projects, often with added support from donors. The Sustainable Energy Initiative sets targets for efficiency and renewable energy investments and is the focal point for the Bank's efforts to point the private sector to the clear returns from such investments, in business terms as well as environmental rewards.

The initiative to foster sustainable energy reflects the Bank's longstanding approach of working closely to the needs and context of the EBRD region. The EBRD's particular knowledge of the region is well recognised by other international bodies, allowing for fruitful partnerships. Anti-corruption measures are closely coordinated with the other international financial institutions. And an important new agreement with the European Commission and the European Investment Bank provides for mutual financing and management of EIB projects undertaken in Russia, Ukraine, Moldova, the Caucasus and Central Asia.

Knowledge and expertise come from being close to clients and active dialogue with business, governments and civil society in each of the 29 countries where we operate. More and more of our staff are based in the field, and we are opening new offices in remote regions of Russia and Ukraine. There has been strong dialogue with Mongolia, which became a new country of operations in 2006, along with Montenegro after its independence from Serbia.

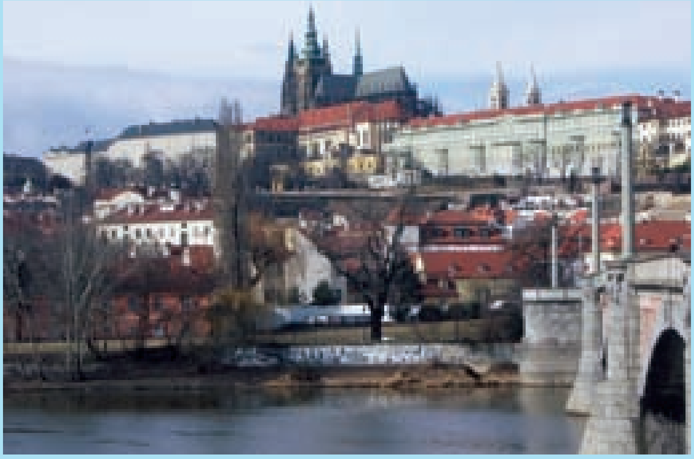
Our understanding of the region has been enhanced in this year of the EBRD's 15th anniversary by some special efforts to look backward and forward. At an anniversary conference we invited the people from our countries to talk about their impressions of transition – through the eyes of economists, business people, a demographer, investors, and ordinary people who are living lives shaped by the system of planned economies and the momentous changes through the early 1990s.

Through a survey of households across the region we aimed to gain more understanding of how socio-economic status fits with the attitudes that people have to their lives, work and society. The results show support for democracy and market economies, even if a majority do not feel that their lives have yet improved. They do anticipate that things will get better, and young people are the most positive about the future. Corruption is what disturbs people the most and trust in institutions is still not very strong. Follow-on survey work will further build the picture of how people see their future.

After 15 years, and adoption of a strategy for the next five years, it is important to probe the longer-term future. A year-long scenario planning exercise will help the Bank to consider the global trends and regional factors that may have an impact on the way the region evolves. The scenario planning will no doubt highlight factors to feed into the strategic planning of the future.

In its 15th year, the EBRD could be satisfied with the quality and quantity of its investments in 2006 and, rightly looked back with pride on its achievements over a decade and a half. But the main message of an anniversary is the future, looking ahead in a region that is still building and a Bank that still has much work ahead.

**Jean Lemierre**
*President*





# 1

# Overview

A gradual shift in EBRD investments towards the south and east was set out in a new business strategy, which sets a course for the Bank up to 2010. At the core of the new strategy is a commitment to support the transition to market economies by taking a greater risk than private financial institutions are usually prepared to do. The strategy also commits the EBRD to tackling climate change, especially through energy efficiency, and to promoting regional and international cooperation.

In 2006, eastern Europe continued to be one of the world's **fastest growing regions**, recording growth of around 6.2 per cent, several points higher than in western Europe. This is being driven increasingly by domestic consumption as countries become more prosperous and people seek a better standard of living. In some countries, growth is also being driven by strong investment and export growth. Countries rich in natural resources continued to benefit from high energy prices during the year.

Foreign direct investment remained high, with inflows of around US$ 50 billion. Most of this was attracted by the EU members of central Europe and the two newest members of the EU – Bulgaria and Romania – which crossed the EU threshold in January 2007.

Strong economic growth and foreign investment were accompanied by good progress in economic reforms. Much headway was made in south-eastern Europe – not only in Bulgaria and Romania but also in the Former Yugoslav Republic of Macedonia (an EU candidate country) and Serbia, from which Montenegro ceded in 2006 following a referendum on independence. Another strong reformer was Croatia, which continued its membership negotiations with the EU.

In some of the countries of central Europe, public support has weakened for further restructuring and tight budgetary controls. As a result, several countries have delayed their timetable for adopting the euro. The exception is Slovenia, which joined the Economic and Monetary Union (EMU) in June 2006 and adopted the euro as the country's official currency in January 2007.

Further east, economic reforms were mainly undertaken in the wealthier countries (Russia, Ukraine and Kazakhstan) while market reforms in other countries have largely been put on hold. Across the region as a whole, progress on reforms was strongest in telecommunications and the financial sector, where lending continues to grow, particularly in the mortgage market.

Left Since 1991 the EBRD has invested €10.9 billion in the financial sector in the Bank's 29 countries of operations to support local enterprises.

Centre St Petersburg's historic waterfront will soon be protected by a new flood barrier, which is being constructed with support from the EBRD.

Right EBRD investment in the retail sector helps to boost economic growth in the countries where the Bank operates.

In Russia the business climate benefited from strong growth and political stability. However, concerns surfaced about increasing state intervention in various sectors and the security of energy supplies following recent disputes between Russia and some of its neighbours. Both domestic and foreign investment continued to grow dynamically in Russia.

Against this backdrop of strong growth, the EBRD committed €4.9 billion in 2006 to projects across its countries of operations from central Europe to central Asia. This represents the Bank's **highest level of investment** and a €0.6 billion increase on 2005. EBRD financing was spread across 301 projects, exceeding the previous year's total of 276. In particular, the Bank increased the number of projects in the very small range of €5 million and less. Over one-third of the Bank's signings were within this category, demonstrating the EBRD's commitment to businesses of all sizes.

The largest share of new financing was devoted to the countries at the early and intermediate stages of the transition to market economies. These countries in south-eastern Europe, the Caucasus, Central Asia and the western extremity of the former Soviet Union received €2.4 billion, or 48 per cent of the EBRD's total financing.

Russian enterprises received €1.9 billion, representing 38 per cent of the Bank's total business volume and a significant increase on its 26 per cent share in 2005. In the advanced transition countries of central Europe, EBRD commitments reached €701 million, or 14 per cent of total funding, a slight decline on 2005.

The marked increase in financing committed to Russia is in line with the EBRD's strategy of moving further south and east and reflects a concerted effort to develop new business opportunities through dialogue with senior business executives and with national and local authorities.

The share of new projects rated as "Good" or "Excellent" in terms of their potential impact on the transition process totalled 81 per cent. For every euro invested by the EBRD, a further 1.7 were raised from other sources to co-finance the Bank's projects.

The number and volume of equity investments increased significantly in 2006. The number of investments rose to 64, from 61 in 2005, while equity volume increased by 76 per cent to €1.0 billion, up from €572 million in 2005. Reflecting a higher average size of individual investment, the equity share of the Bank's annual business volume was 20 per cent in 2006 compared with 13 per cent in 2005. Through these investments, the EBRD is able to use its position on the boards of companies to encourage improvements in corporate governance and sound business standards.

## The private sector share of the EBRD's new commitments increased to 80 per cent in 2006.

A significant contribution to the EBRD's business volume was made by the Trade Facilitation Programme, which promotes import and export trade in the Bank's countries of operations (see page 34). Trade finance issued in 2006 totalled €707 million, an increase of 29 per cent on 2005.

Loans provided in local currencies totalled €443 million in 2006. Of this, €254 million was in Russian roubles and €157 million in Polish zloty. Other loan currencies included the Bulgarian lev, Kazakh tenge and Romanian leu. The EBRD also continued to support Russian capital markets through its groundbreaking issues of rouble bonds. In 2006 the EBRD issued two rouble bonds totalling 12.5 billion roubles (€360 million) to meet the strong demand in Russia for the Bank's local currency loans.

The private sector share of the EBRD's new commitments increased to 80 per cent in 2006 from 76 per cent the previous year. EBRD financing was spread across a variety of sectors. A large proportion of financing – 45 per cent – was devoted to the financial sector to support local enterprises, including small business. Infrastructure projects attracted 17 per cent of financing while 8 per cent was dedicated to the energy sector. The Bank's remaining commitments – 30 per cent – were directed towards the corporate sector, comprising agribusiness, manufacturing, property and tourism, telecommunications and new media.

The EBRD's projects helped to advance the **transition to market economies** in a number of ways. In particular, the Bank provided innovative forms of financing in countries where it is most needed, such as in south-eastern Europe and Russia. This included a €10 million loan to Soko Štark, Serbia's leading confectionery producer, whose biggest shareholder is a Slovenian company. The project demonstrates the benefits of cross-border cooperation in a region that was torn apart by conflict less than a decade ago (see page 57).

### Creating a buzz in Russia's Silicon Valley

One company that knows there is far more to the Russian economy than natural resources wealth is JSC Concern Sitronics, in which the EBRD acquired a 3.67 per cent stake in September 2006.

Sitronics, whose production facilities are in the city of Zelenograd near Moscow – the area known as Russia's Silicon Valley – is a conglomerate of high-tech companies making everything from microchips to phone equipment and software.

So successful has Sitronics been at building up a coherent business in a fragmented global market that it notched up €725 million of consolidated sales in 2005 and announced plans to go public in 2007 with the first initial public offering (IPO) by a Russian high-tech company.

The EBRD's €63 million investment in new Sitronics shares, provided in advance of the IPO, is helping to upgrade technology standards in Sitronics' microelectronics branch, In Russia one of the EBRD's most significant projects was an investment in Russia's "Silicon Valley", a collection of high-tech companies in Zelenograd near Moscow. An EBRD investment of €63 million is helping Sitronics to take its technological standards up a notch as it prepares to go public, breaking new ground for a Russian high-tech company. Further east, the EBRD signed its first project in Mongolia, the Bank's newest country of operations as of October 2006. Investment in XacBank will help this microfinance institution provide an even more effective service to its thousands of customers, many of whom live in remote rural areas (see page 16).

Disbursements of funding to EBRD clients reached €3.8 billion in 2006, an increase of more than 60 per cent on the previous year. Disbursements took place in all 29 of the Bank's countries of operations, exceeding €200 million in seven countries: Croatia, Kazakhstan, Poland, Romania, Russia, Serbia and Ukraine. Repayments to the EBRD increased to €1.5 billion, up 10 per cent on 2005.

Driven by exceptionally strong capital gains and a benign credit environment, realised profit after provisions exceeded €1.6 billion. Realised equity gains reached €1.3 billion compared with €0.6 billion in 2005. Including unrealised equity gains, net profit was €2.4 billion.

The EBRD's initiative to support some of the poorest countries where we operate took another step forward in 2006. Since its launch three years ago, the **Early Transition Countries (ETC) Initiative** has led to a quadrupling of the number of projects signed each year in the ETCs (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan). In 2006 this group was expanded to include Mongolia, the Bank's newest country of operations.

In 2006 the EBRD signed 80 new projects (excluding oil and gas deals) in the ETCs compared with 61 in 2005, 32 in 2004 and 18 in 2003. The value of new signings is also on the rise, totalling €290 million in 2006 versus €250 million in 2005, €92 million in 2004 and €53 million in 2003. In addition, the Bank has increasingly supported import and export trade with these countries through its Trade Facilitation Programme, completing 478 transactions with a turnover of €112 million in 2006.

The success of the ETC Initiative rests on three pillars: the Bank's readiness to take on a higher level of risk in ETC projects as long as sound banking principles are respected; an increase in resources dedicated to the initiative through staff at Headquarters and in the Bank's local offices; and increased support from the donor community. In the past three years the EBRD has increased by 60 per cent the level of staff resources devoted to the ETCs and has further strengthened its network of local offices in these countries.

Under the initiative, the EBRD makes use of a full range of products to support local businesses. This includes a Direct Investment Facility to fund equity investments in medium-sized enterprises, a Direct Lending Facility and a Co-financing Facility with local banks,

which already boasts the most advanced mass production facilities in Russia for microchips and integrated circuits.

The Bank's investment will help to show that Russian knowledge-based and high-tech companies have the potential to become competitive and are committed to improving their business practices.

Sitronics is part of the Sistema group, the largest Russian financial-industrial group outside the natural resources sector. Sistema is a blue-chip company whose shares are publicly traded on Moscow and London stock exchanges.

Sitronics was rebranded at the beginning of 2006. Before that it was known as JSC Kontsern Nauchny Tsentre. The group employs 10,000 professionals and incorporates companies in the Czech Republic, Greece, Romania, Russia and Ukraine.

Sitronics sees the rebranding and the IPO as steps towards becoming the largest high-tech company in central and eastern Europe. It aims to rebalance its businesses, becoming less dependent on telecommunications, upgrading technology, making judicious acquisitions, and enhancing an already good record in corporate governance. It benefits not only from high-class products but also from the region's highly skilled but inexpensive labour force and its extensive market knowledge and customer base.

Sistema has injected about €152 million of new equity into Sitronics to finance development and is committed to enhancing the quality of corporate governance in its businesses. The revival of Zelenograd as a scientific and industrial centre after the economic crisis of the early 1990s is largely due to Sistema.

"We value the EBRD as a shareholder. Its presence highlights our positioning as a European and not just a regional company," said Sitronics President Evgeny Utkin. "It underlines our successful performance as a business and the fact that our treatment of minority shareholders meets international standards."

## The EBRD raised €2.6 billion in co-financing from private sector sources.

which provides loans directly to medium-sized enterprises. The EBRD has also considerably expanded its lending to micro and small enterprises through local financial institutions, particularly to small farming enterprises that find it difficult to obtain loans elsewhere. Considerable activity has also been undertaken in the energy, municipal and transport sectors.

An increase in EBRD commitments in 2006 was accompanied by substantial donor-funded commitments, which totalled €18 million. About two-thirds of this has been provided through the ETC Multi-Donor Fund launched in November 2004, which offers grant financing in support of EBRD projects. In 2006 the Fund approved its first grants for Mongolia (for an urban transport project) and for Tajikistan (for a regional road project).

At its three Assemblies in 2006 the ETC Fund approved a wide variety of grant-funded projects aimed at encouraging the development of the private sector across the ETCs. These included support for microfinance programmes, the development of small municipal projects and the financing of environmental initiatives. It also approved funding for energy efficiency and renewable energy projects.

Other areas to receive assistance from the Fund were a study into the impact of remittances from workers living abroad, which provide much-needed support to many poor countries, and the work of investment councils, which unite the private and public sectors in finding ways to improve the investment climate. By the end of 2006, the Fund had approved funding for 80 grant-funded projects totalling around €28 million.

To extend the reach of the EBRD's own financing, the Bank raised €2.6 billion in **co-financing** from private sector sources, predominantly commercial banks, for projects in 13 of the Bank's countries of operations. This 33 per cent increase on 2005 can partly be explained by the Bank's own increase in business volume in 2006.

### Reducing carbon emissions in Ukraine

Atmospheric pollution has traditionally been a by-product of Ukraine's vast steel industry, which ranks as the seventh-largest in the world.

But a €76 million funding package will help to clear the skies at Alchevsk Iron and Steel Works of 6 million tonnes of carbon dioxide over three years – the amount emitted annually by households in the city of Manchester.

The Industrial Union of Donbass (Ukraine's second-largest steel producer), its subsidiary, the Alchevsk Iron and Steel Works, and the adjacent Alchevsk Coke Works are spending €276 million on building Ekoenergia. This new unit will use waste blast furnace and converter gases and coke oven gas, which would otherwise have to be burned off by flaring, to generate electricity for the Steel and Coke Works.

"This will improve energy efficiency, sharply reduce the emission of waste gases and help to bring atmospheric pollution levels down to those of developed economies," said Sergei Taruta, Chairman of the Industrial Union of Donbass.

The new 294 MW Ekoenergia power plant will be built inside the existing steel works. It will use state-of-the-art generating equipment that can operate solely with waste gases from the Steel and Coke Works and will meet EU and Ukrainian environmental standards. This means it will save on increasingly expensive supplies of natural gas and reduce the use of some of Ukraine's oldest and most polluting power stations.

The EBRD's involvement in the project has attracted finance from other lenders, including the Japan Bank for International Cooperation (JBIC), which will provide a loan of €91 million, and private international banks, to which €74 million of the total project costs will be syndicated.

The largest countries where the EBRD operates continued to attract the largest levels of co-financing. For example, Russian borrowers attracted €1.6 billion and Ukraine attracted €132 million. The Bank demonstrated its ability to raise co-financing across a range of sectors, helping countries to strengthen their economies beyond oil and gas. However, the two sectors that attracted most co-financing in 2006 were financial institutions and power and energy.

The value of syndicated loans in the financial sector was higher in 2006 than in any previous year. The EBRD raised a total of €380 million for financial sector projects in Azerbaijan, Georgia, Russia and Ukraine. The Bank was particularly successful in mobilising longer-term loans, especially for Russian banks and other financial institutions.

In Russia alone, the EBRD arranged syndicated loans for Absolut Bank, Center-Invest Bank, Rosbank and Sibacadembank and for two leasing companies, DeltaLeasing and Europlan. Syndicated transactions in the financial sector not only allow the EBRD to provide much-needed financing in difficult investment climates, they also enable financial institutions to attract internationally reputable banks as co-lenders that might provide further support in the future.

In the power sector, the EBRD arranged the market's first long-term syndicated loans denominated in Russian roubles. The two loans – a 7.2 billion rouble (€208 million) loan to Mosenergo and a 2.3 billion rouble (€66 million) loan to Hydro OGK (see page 43) – are the first syndicated loans to use the MosPrime floating interest rate. These important syndications set new benchmarks in Russia and can act as models for other Russian borrowers.

Looking forward, the EBRD launched a **new business strategy** in May 2006 that further shifts the focus of the Bank's investments to Russia, south-eastern Europe, the Caucasus and Central Asia. Resources will be re-allocated from central Europe, where the successful transition to a full market economy is nearing completion.

The new five-year strategy, which was endorsed at the EBRD's Annual Meeting, recognises the historic achievements of the countries of central Europe. It takes the strategic view that the eight countries that joined the EU in 2004 will graduate during 2006-10 as multi-party democracies and open market-oriented economies. The role of the EBRD is not to maintain a given level of business in these countries but to manage the completion of the transition process and of the Bank's activities and presence. After graduation, the Bank will stop doing new business in those countries while ensuring that existing projects are carried out in conformity with Board decisions.

The resources released by reduced investment and by consolidating and closing offices in these countries will

This is part of a bigger programme by the Industrial Union of Donbass to modernise and expand both the Alchevsk Iron and Steel Works and the other main component of the Ukrainian steel business, the Dniprovsky Iron and Steel Works.

The €0.9 billion Ukrainian programme, under way since the beginning of 2005, aims to transform these two steel giants into world-standard suppliers of semi-finished steel and rolled products. It will finance the replacement of obsolete steelmaking processes at Alchevsk, improve energy and environmental efficiency and enhance product quality.

Ukraine is one of the most energy-intensive economies in the world. It is expected that this project will show other heavy industrial users of energy how to improve energy efficiency and become more competitive in global terms.

## The EBRD's budget will focus resources on the countries in the east and south-east.

be devoted to promoting the transition process in countries to the east and south, including Russia. Particular attention will be paid to assisting some of Russia's more remote regions.

In addition to shifting resources, the strategy foresees annual business volumes for the region to range from €3.7 billion to €3.9 billion per year in the coming five years. Moreover, anticipating that the Bank will continue to build up reserves based on the accumulation of annual profits, unrestricted reserves are foreseen to increase from €1.7 billion in 2005 to €4.2 billion in 2010. Substantial net profits in 2005 and 2006 make it possible for the EBRD to accept higher risk and to increase its participation in equity investments.

Apart from the geographical shift, the EBRD strategy outlines a new business model based on innovation and developing investment strategies that meet the particular needs of each of the Bank's countries of operations.

More effort will be made to develop capital markets, including developing mortgage lending and local currency financing.

The strategy was unanimously approved by the Bank's Board of Governors in the context of the Capital Resources Review, which determined that the Bank has adequate capital to operate for the next five years.

To meet the challenges over this period, the EBRD's budget will focus resources on the countries in the east and south-east. The Bank will reallocate resources at Headquarters, strengthen existing Resident Offices and open new Resident Offices to respond to the needs of these countries.

In October 2006 the EBRD opened a new Resident Office in Ulaanbaatar (Mongolia). In 2007 the Bank plans to open other new offices in Podgorica (Montenegro), Dnipropetrovsk (Ukraine), Krasnoyarsk (Siberia), Rostov-on-Don (south-western Russia) and Samara (southern Russia).

### Small finance brings big rewards

Mongolia, whose 2.5 million people inhabit a vast, landlocked land between Russia and China, urgently needs microfinance services to help its economy grow and alleviate poverty.

In keeping with its business plan to move further south and east, the EBRD accepted Mongolia as its newest country of operations in October 2006 and promptly signed its first commercial deal there – a €3.8 million loan to XacBank, a micro credit institution.

XacBank has more than 50,000 clients and makes 85 per cent of its loans to small businesses, many of them microfinance customers in rural areas. The bank is unconventional in accepting all kinds of collateral – including the "gers" or tents in which many Mongolian nomads still live – as pledges for loans.

This will be accompanied by a consolidation of the Resident Office network in central Europe, including the creation of regional hubs and the closure of some offices. The EBRD's offices in Prague (Czech Republic), Riga (Latvia) and Tallinn (Estonia) are due to close in 2007.

Donor-funded assistance will have a growing role in the delivery of the Bank's objectives, preparing the way for future EBRD projects and helping to improve the investment climate (see page 62). To make the most effective use of donor funding where it is most needed, the Bank decided in July 2006 that EBRD funding would be used to contribute to the costs of certain activities, such as the TurnAround Management Programme (see page 66) and legal reform (see page 25), that have previously been entirely funded by donors.

A comprehensive re-evaluation of the EBRD's approach to the energy sector was completed in 2006, resulting in the adoption of a **new Energy Policy**. This was developed with the help of extensive consultations with non-governmental organisations, research institutes, governments, industry and energy experts. The review process confirmed that energy efficiency is of vital importance in reducing energy investment needs, addressing environmental concerns and promoting economic competitiveness.

Energy efficiency is particularly important in the Bank's region of operations, where highly inefficient use of energy threatens energy security and economic development and contributes disproportionately to the emission of greenhouse gases linked with global warming. For these reasons, the EBRD has made energy efficiency the cornerstone of its new policy.

To support this approach, the policy sets a formal target for EBRD investments in energy efficiency and renewable energy between 2006 and 2010. In addition, the policy highlights the need to bring tariffs to cost-recovery levels while finding ways of protecting those who are most vulnerable to price increases. It also commits the Bank to promoting renewable energy and carbon trading, unlocking the region's energy potential and supporting the sound management of natural resources. This requires governments and private companies to be transparent about revenue generation and to support, where applicable, the Extractive Industries Transparency Initiative, which promotes accountable revenue management in resource-rich countries.

Under the new policy, the EBRD will encourage competition to diversify supply channels and will address nuclear safety in the region's remaining nuclear plants (see page 68). Promoting environmentally sustainable development will be fundamental to all the Bank's investments.

It is estimated that the EBRD's region of operations uses up to seven times more energy per unit of GDP than western

Sersenjav Elbegzaya was an early beneficiary of XacBank financing. In 2003 she moved to Mongolia's capital Ulaanbaatar. Recently widowed, Sersenjav decided to set up a business to help her family survive and to see her daughter through university. XacBank gave a €152 loan against her ger and home appliances. Two other loans followed as her business selling scarves and bags in the city's open-air market expanded – each time double the previous amount, each loan increasing her profit. Her business continues to go from strength to strength.

"We started with a social mission, to provide credit to micro and small businesses," explains XacBank's President, Magvan Bold. "And we have become their most trusted partner."

XacBank started in 1998 as a United Nations Development Programme "MicroStart" project, with an initial €0.8 million to lend to poor people with business ideas. XacBank's capital has grown to €7.6 million with total assets of €58 million in 2006. It attributes this to its focus on the poor, who have proved to be reliable payers. Less than 1 per cent of XacBank's loans are overdue for 30 days or more.

The EBRD's €3.8 million loan will particularly benefit rural customers. A further €0.8 million that the Bank is providing in support of trade finance will cushion clients financing imports and exports. EBRD financing is expected to strengthen Mongolia's financial sector – which will, in turn, benefit consumers, generate employment and improve living standards.

Although the EBRD only accepted Mongolia as a country of operations in October 2006, the Bank had been working with the country for some years through donor-funded projects. The Mongolian Cooperation Fund was set up in March 2001 with more than €10 million of donor funding.

## The EBRD is committed to doubling investments in sustainable energy to €1.5 billion over three years.

Europe. Over the past couple of years, awareness of the need to tackle this issue has been growing. The G8 countries, at their summits in Gleneagles in 2005 and in St Petersburg in 2006, and the EU's Energy Green Paper have stressed the importance of sustainable energy and called on the international financial institutions to establish a way of addressing climate change.

In response, the EBRD launched its **Sustainable Energy Initiative** (SEI) in May 2006. The SEI commits the EBRD to doubling investments in sustainable energy (energy efficiency and renewable energy projects) to €1.5 billion over three years. It also commits the Bank to ensuring that sustainable energy is paramount across all EBRD projects, to strengthening discussions with governments on this issue and to working with donors to support SEI activities.

Under the initiative, the EBRD will encourage large industrial companies to accelerate the pace of investment in energy efficiency. The Bank will expand financing to small businesses for energy efficiency projects and will support the development of cleaner energy supplies in the energy sector. The EBRD will also increase investment in renewable energy projects, support greater energy efficiency in district heating and urban transport and support the development of carbon trading.

In 2006 the EBRD signed sustainable energy projects totalling €750 million. This has been supplemented by €19 million in grants from donors to support SEI investments. Following the Bank's first Sustainable Energy Forum held in November, a further €61 million of donor funds were pledged, with the European Union providing the largest proportion of this. This will allow the Bank to focus even more strongly in 2007 on investing in this area.

A key component of the SEI is the Multilateral Carbon Credit Fund (MCCF), which was launched by the EBRD and

### Does transition make you happy?

More than 15 years since the collapse of communism in eastern Europe, it is clear that the transition from state control to market economies is delivering benefits. But it is equally clear that, for some people, transition is not working.

To understand better how the transition process has affected the lives of people in the countries where the EBRD operates, the Bank carried out a survey of people's attitudes to their new way of life. Undertaken in conjunction with the World Bank, the survey involved interviews with approximately 29,000 households across 28 of the EBRD's countries of operations plus Turkey.

The aim was to provide a comprehensive assessment of major issues, such as satisfaction with everyday life, living standards, poverty and inequality, trust in state institutions, and satisfaction with public services. It also aimed to assess attitudes to market economies and democracy throughout the region. The survey was undertaken in September 2006 with funding from Canada, Taipei China and the United Kingdom.

Based on a preliminary analysis of the results, a summary of the main findings was presented at the EBRD's 15th Anniversary Conference (organised jointly with Chatham House) in November. The results show that only a minority of people (approximately 30 per cent) believe that life is better today than it was in 1989. Nevertheless, more people are satisfied with life than dissatisfied, and a majority believes the future will be better for their children.

The survey generally shows strong support for democracy and market economies, especially among the better-off, although there is significant variation across countries. Support is particularly strong in central Europe but much more varied further south and east. One in ten still supports a combination of centrally planned economy and authoritarian government.

the European Investment Bank (EIB) in December. Under the MCCF, governments and private enterprises can buy carbon credits from emission-reduction projects financed by the EBRD or the EIB. The purchase of these credits helps countries and companies to meet emission-reduction targets under the Kyoto Protocol and creates additional finance for those generating the credits to invest in other sustainable energy projects.

By the end of 2006, €165 million had been committed by six countries and six companies. Typical projects under the MCCF include industrial energy efficiency, power plant and district heating renovation, renewable energy (for example, biomass, wind and hydro) and landfill gas extraction across the Bank's countries of operations. The region currently contributes around 13 per cent of global carbon emissions yet it generates just 3 per cent of global carbon credits. Over the coming years, the MCCF will help to raise this to a much higher percentage.

The EBRD's founding agreement emphasises that the Bank is committed to financing environmentally sound and **sustainable development**. For all projects under consideration, the Bank assesses the environmental, health, safety, social and labour impact of these investments. The Bank includes rigorous requirements in all EBRD investments and finances many projects that are specifically designed to improve environmental, social and labour conditions in our countries of operations. The EBRD also provides free energy audits to clients.

Before investing in any project, the EBRD undertakes an environmental appraisal so that it can determine the action that the client must take to comply with the Bank's Environmental Policy. These requirements become binding when the project is signed. In 2006 the EBRD provided financing of €105 million to help companies comply with environmental requirements for EBRD investments in manufacturing, heavy industry and agribusiness.

EBRD projects with a specific environmental focus – in municipal infrastructure, energy efficiency and renewables – totalled €872 million in 2006. These included a €5 million renewable energy programme in Armenia, a €6 million project to improve district heating in Krakow (Poland) and a €3 million investment to improve water supply in Georgia.

The EBRD pays particular attention to the emission of greenhouse gases. Recent analysis of the Bank's portfolio shows that the greatest potential for emissions savings lies in power generation, heavy industry and district heating. In 2006, 11 EBRD projects specifically focused on modernisation processes within these sectors and improving energy efficiency. These projects will generate significant reductions in greenhouse gas emissions – in two cases, savings will be in excess of 2 million tonnes of $CO_2$ per annum.

Younger people tended to be more positive than the older generation, with those aged 65 or over showing the greatest levels of dissatisfaction with their new way of life. Most people feel that corruption remains a problem, particularly in public services, such as the courts and the health system.

The EBRD and the World Bank will continue to analyse the results during 2007 and will publish further findings from the survey throughout the year. A detailed analysis will be published in the EBRD's 2007 *Transition Report*.

## The EBRD increasingly focused on addressing the social impact of its projects in 2006.

The EBRD increasingly focused on addressing the social impact of its projects in 2006. For example, while the Bank investigated the possibility of investing in a major oil and gas project on Sakhalin Island in the Russian Far East (see page 47), it supported the development of the Sakhalin Indigenous Minorities Development plan. This was formally launched in May 2006 with the aim of mitigating any adverse impact that the project might have on the island's inhabitants and of supporting the development of the local population. The plan brings together all the relevant parties – the indigenous people, local government on the island and the private sector.

The annual meeting of social specialists in international financial institutions was hosted by the EBRD in 2006. This provided a valuable opportunity to share and discuss past experience on approaching the social aspects of investment projects.

The EBRD continued to work closely with other international bodies, such as the Global Environment Facility (GEF), to tackle global environmental issues – for example, water pollution, climate change and biodiversity. As one of the seven executing agencies of the GEF, the Bank signed a Memorandum of Understanding permitting direct access to its funds. EBRD staff are actively participating in discussions on the future role of the Facility, particularly in the Bank's region of operations.

Currently, the EBRD and the GEF are co-funding an environmental credit facility in Slovenia that aims to reduce pollution entering the Danube River Basin. The EBRD has disbursed €35 million to four local banks for on-lending to local businesses and small municipalities that invest in pollution-reduction projects.

Left Pollution levels in the Danube River Basin are being reduced thanks to an initiative co-funded by the EBRD and the Global Environment Facility.

Centre The St Petersburg waste-water treatment plant, partly funded by the EBRD, has helped to reduce pollution levels in the Baltic Sea.

Right The Northern Dimension Environmental Partnership has provided funding to deal with unsafe storage facilities for radioactive waste in Gremikha Bay, north-west Russia.

The EBRD continued to host the secretariat of the Project Preparation Committee (PPC), which channels donor funding towards the development of environmental projects, including water and sanitation, solid waste management, energy efficiency and biodiversity. The PPC also helps the Bank's countries of operations to prepare the way for EBRD-financed environmental projects by organising project financing workshops in a number of countries.

Another donor-supported initiative managed by the EBRD is the Northern Dimension Environmental Partnership (NDEP). Stemming from the European Union's Northern Dimension Initiative, NDEP aims to foster environmental cooperation in north-west Russia. The partnership brings together the expertise and resources of the European Union, the Russian government, the EBRD, the European Investment Bank, the Nordic Investment Bank (NIB) and the World Bank in designing and implementing its pipeline of projects.

At the end of 2006, the total funding pledged to the NDEP Fund amounted to €241 million, with the largest amount of funding being provided by the European Union. Close to €150 million of the total funding has been earmarked for nuclear safety projects (see page 69) while €91 million will be devoted to environmental projects. So far €56 million of this has been committed to environmental investments.

In St Petersburg, contracts were issued in 2006 for the creation of a major sludge incinerator, which will help to reduce pollution levels in the Baltic Sea. The project will also protect the city's underground drinking water reservoirs. Financing for the project, which should be completed in 2007, has been provided by NDEP, the EBRD and the NIB. A feasibility study to prepare for comprehensive waste-water treatment in St Petersburg was also completed. Construction work is due to commence in 2007.

To facilitate closer **international cooperation** with the major donors and financial institutions that work in the Bank's region of operations, the EBRD signed a Memorandum of Understanding (MoU) in December 2006 with the European Commission and the EIB.

The MoU commits the two banks to sharing their expertise and to maximising their comparative advantages in the joint financing of projects in Russia, Ukraine, Moldova, the Caucasus and Central Asia, supported by the European Union. The MoU may later apply to Belarus as well. The EIB and the EBRD will work together to identify, finance and manage projects of significant interest to the EU in energy, transport, telecommunications and environmental infrastructure.

# 2

# Reform

Encouraging democratic, economic, legal and environmental reform is a fundamental aspect of the EBRD's activities. The Bank pays particular attention to promoting democratic practices, improving the investment climate, combating corruption and setting high standards of corporate governance and transparency.

Left Voting gets under way at a polling station in Bas-Bulak village in the Kyrgyz Republic, 700 km south of the capital Bishkek.

Below A voter casts her ballot during parliamentary elections in the Former Yugoslav Republic of Macedonia in July 2006.

## Democratic reform

Promoting transition to open market economies within a democratic framework is at the heart of the EBRD's mandate and is enshrined in Article 1 of the Agreement Establishing the Bank. Most of the countries where the EBRD operates continue to be fully committed to the principles of democracy, pluralism and market economies. Elections took place in a number of these countries during the year and, in most cases, were carried out in a free and fair manner. However, the persistent lack of progress in this area in a number of countries continued to cause concern in 2006.

In its new strategies for Belarus and Turkmenistan, the EBRD expressed concern about the slow pace of democratic and economic reform. In both countries, the EBRD noted little evidence of improvement in the authorities' commitment to the principles of Article 1. Neither country has made sufficient progress regarding benchmarks outlined in previous strategies to allow the Bank to operate as it does in other countries.

Consequently, the EBRD excludes any funding of public sector projects and focuses exclusively on financing private sector projects provided that it can be demonstrated that the proposed investments are not effectively controlled by the state or state entities and that government officials will not personally benefit financially from such investments. The EBRD does, however, aim to maintain a dialogue with government and non-governmental organisations on ways of improving the investment climate for private entrepreneurs, with the hope of encouraging stronger political and economic reform.

As in previous strategies, the EBRD has identified clear benchmarks to gauge political and economic progress. If sufficient progress is made, the EBRD would undertake a broader range of activities in Belarus and Turkmenistan.

Similarly, the Bank continues to have concern about the continuing lack of progress in Uzbekistan in respect of Article 1. While restricting its investments to the private sector, the EBRD aims to maintain a discussion with the Uzbek government about human rights issues and the future course of political and economic reform.

In most countries, elections were carried out in a free and fair manner.


The EBRD's *Transition Report* charts economic progress across the Bank's 29 countries of operations.

## Economic reform

The EBRD's ability to advance the transition process and to promote the development of the private sector depends on each country's commitment to economic reforms. The Bank's Office of the Chief Economist (OCE) monitors progress in all of the countries where the EBRD operates. A detailed assessment of each country's progress, across a wide range of areas, is published in the Bank's annual *Transition Report*. These assessments highlight the areas where there is most room for improvement and form an important part of the EBRD's dialogue with national authorities.

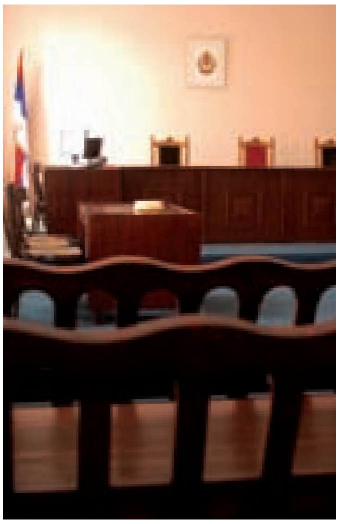
In addition, the EBRD works to strengthen the impact of its projects on the transition process. This involves assessing prior to Board approval the potential impact of these projects and their risk of failure as well as monitoring progress in achieving transition objectives against a set of concrete benchmarks once the project is under way. Lessons learned during monitoring are taken into account when structuring future projects.

The nature of OCE involvement varies depending on the type of project and the degree to which conditions are included in the project structure as part of its transition objectives. For example, OCE is involved in establishing corporate governance requirements, agreeing objectives for tariff reform and providing advice on tackling regulatory issues. In certain cases, staff conduct site visits to provide specific expertise and to discuss issues with the relevant authorities. An example of this is the preparatory work that the Bank undertook in 2006 ahead of planned electricity projects in Kosovo.

During 2006 the EBRD continued to base its policy discussions with governments not only on its direct experience of financing projects in the region but also on the results of relevant surveys. For example, the EBRD continued to highlight the results of a survey – undertaken jointly with the World Bank in 2005 – of over 9,000 companies in 26 of the Bank's countries of operations. Funded by Japan, the Business Environment and Enterprise Performance Survey has been carefully analysed by the EBRD to determine to what extent issues such as business regulation, the institutional framework and corruption act as major obstacles to doing business. By discussing the findings with governments, the EBRD is able to pinpoint the areas where reform is most needed.

As a follow-up to the business survey, the EBRD undertook an analysis of the banking sector. The results of the Banking Environment and Performance Survey, which involved a random sample of 220 banks in 20 of the EBRD's countries of operations, were analysed in the 2006 *Transition Report*. The EBRD assessed to what extent the performance of banks is affected by issues such as the regulatory framework, banking supervision and the rights of creditors. The survey reveals that institutional reforms have allowed banks to provide a better service to their customers but that further reforms are needed.

A new survey undertaken by the EBRD in 2006 looked at how the transition process has affected people's lives (see page 18). The Bank was also active in organising and participating in a wide range of conferences and events. In October the EBRD held a seminar at EBRD headquarters for decision-makers in Russia's trade policy. Held in partnership with the World Bank and Moscow's Centre for Strategic Research, the seminar aimed to tackle the most important questions regarding trade strategy for the Russian government once membership of the World Trade Organization is achieved.



The EBRD's Legal Transition Programme seeks to improve the legal environment in the countries where the Bank operates.

## Legal reform

Recognising that an investor-friendly legal environment is of vital importance in all of the countries where the EBRD operates, the Bank has established a specialist programme of advice and assistance. The Legal Transition Programme, which is partly donor-funded, sets standards of best practice, assesses progress in legal reform across the region and helps governments and legal institutions to implement change.

In 2006 the EBRD extended the programme into a number of new areas. For example, the Bank began a thorough examination of mortgage legislation, with a view to issuing later in 2007 a set of standards for enacting effective legislation in the countries where the Bank operates. This new area of activity was kick-started with a project in Moldova, which is helping the country improve its legislation in this field.

Another focus of attention was the area of insolvency. Over the past year the Bank has worked extensively on establishing principles for the licensing and supervision of insolvency administrators. This started with a review of practices in the Western Balkans and led to a donor-funded project in Serbia. As part of this initiative, the Bank organised a roundtable discussion in Belgrade in autumn 2006 so that judges, regulators and international aid providers could exchange views and propose ways of developing stronger insolvency institutions.

Within the scope of the EBRD's Early Transition Countries (ETC) Initiative, which aims to assist the Bank's poorest countries of operations (see page 13), the Legal Transition Programme launched two projects in Mongolia. The first involved providing legal assistance to the Mongolian government to help it address the privatisation and regulation of telecommunications. A training programme was completed with the telecoms regulator in December 2006.

The second project focused on reform of the legal regime for securing loans with movable property pledged as collateral. A paper prepared by the EBRD was presented in Ulaanbaatar in November 2006 and will form the basis for reforms to be implemented over the next few years. In another of the early transition countries, the Kyrgyz Republic, the Bank began a training programme for judges who deal with commercial issues (see page 26).

Another issue assessed by the EBRD in 2006 was the effectiveness of concessions law, which forms the foundation for many types of public-private partnerships (PPPs). The EBRD assessed how the legal framework for concessions functions in the Bank's countries of operations and how successful the law is in encouraging PPPs in infrastructure projects.
The assessment revealed that local government is in urgent need of training on how to manage PPPs within a sound legal framework and on how to boost private sector investment. Reform projects on concessions law were launched by the EBRD in Hungary and Ukraine.

As part of its effort to reach out to as wide an audience as possible and to encourage debate about legal issues, the EBRD organised an international conference on "collateral reform and access to credit" in June 2006 in the Bank's headquarters. The event was co-organised by the World Bank and brought together lawyers, economists, bankers, academics and policy-makers to explore the latest trends in promoting access to credit. The conference focused on the extent to which legal reforms have an economic impact, particularly on financial institutions.

# Raising the bar in the Kyrgyz legal system

The growth of market economies has brought courts in former Soviet countries a heavy new workload in finance-related cases, which were practically unknown until a decade and a half ago. Now Kyrgyz judges are benefiting from a new EBRD programme that is helping them to strengthen their expertise in administering modern commercial law.

The first course for judges, organised under the EBRD's Legal Transition Programme, took place in June 2006. It brought 90 judges and lawyers from the National Bank to spend three days training in insolvency law by Lake Issyk-Kul, 200 km east of Bishkek.

"This is the first time that we have undertaken a judicial training programme of such proportions in the Kyrgyz Republic," said Dilfusa Boronbaeva, the then director of the Kyrgyz Republic's Judicial Training Centre. "More importantly, this is the first time that commercial law training has been considered in a systematic way. And our judges desperately need training."

More courses are scheduled throughout 2007, gradually covering all key sectors of commercial law. The EBRD programme will also generate various new tools for Kyrgyz judges, including a law library, and will send some junior judges to Kazakhstan and Russia for internships.

The existence of reliable courts is of key importance for investors such as the EBRD. International and domestic bankers and business people need court decisions to be predictable and based on understandable laws and precedents. This training initiative signals that the international community is determined to address the problem.

The trainers for the insolvency module of the course were two local stars of insolvency practice – Supreme Court Deputy Chairman Aibek Davletov, who has published books on insolvency, and Judge Antonina Rybalkina. Both completed a Training of Trainers course in May 2006, which stressed interactive teaching techniques, including role-plays and working with a facilitator.

The project is funded with €700,000 from the Bank's Early Transition Countries Fund, €700,000 from Japan and €160,000 from Switzerland. The International Development Law Organisation (IDLO) is acting as project implementer and the EBRD's partner in the programme.

Phase One of the programme, carried out in 2005, consisted of a survey of judges to identify training needs. Phase Two is expected to ensure a more reliable application of the law by individual judges and to provide a template for similar initiatives in other countries.

Home improvements in Bulgaria are being financed by energy efficiency loans provided by the EBRD through local banks.

## Environmental and social reform

By including stringent environmental requirements in its projects, the EBRD is helping to raise environmental awareness in the countries where the Bank operates. The EBRD's efforts to tackle climate change – through initiatives such as the Sustainable Energy Initiative (see page 18) – act as a further example of how industry and governments need to address the environmental implications of everything that they do.

In May 2006 the EBRD signed the European Principles for the Environment (EPE), a major initiative uniting the EBRD and four other leading investment institutions – the Council of Europe Development Bank, the European Investment Bank, the Nordic Environment Finance Corporation and the Nordic Investment Bank.

The main objective of the EPE initiative is to achieve greater harmonisation of environmental principles, practices and standards in the financing of projects. All five institutions share a commitment to safeguarding the environment and to promoting sustainable development across all their activities (see page 19). The EPE is based on the EU approach to environmental sustainability, and commits the signatories to applying appropriate EU principles, practices and standards to all projects that they finance.

Work got under way in 2006 on revising the EBRD's Environmental Policy. Two expert working groups met to discuss labour issues and the impact of EBRD projects on indigenous people. Other aspects of the policy will be discussed during 2007. The Bank is reviewing its own past experience and best international practice. It is actively involved in seeking the views of all relevant parties, including non-governmental organisations and local communities, and is consulting with partner institutions in the international finance sector. A formal consultation process will take place once a revised policy has been drafted. It is envisaged that the new Environmental Policy will be adopted by the end of 2007.

All projects of the EBRD must be in compliance with national and international environmental law as well as labour law. The Bank examines adherence to labour law within the general context of due diligence carried out before a project is approved by the Board of Directors. The Bank also uses independent experts to check and monitor compliance with labour law and carries out its own enquiries on site, if necessary.

To examine how gender equality affects EBRD activities, particularly in the early transition countries, the EBRD commissioned a new study in 2006. This was carried out by an independent gender expert, with funding from the UK Department for International Development and the Canadian International Development Agency. The study found that the Bank lacks a systematic approach to addressing gender equality in its country strategies and in individual projects. It has recommended a number of ways to mainstream gender issues in order to maximise the potential benefit of EBRD projects and their impact on the transition process.

The EBRD is considering including gender issues in new EBRD policies and strategies, including all country strategies. The Bank may build a business case for gender equality by financing projects that could act as a model for others in areas such as micro and small business lending, municipal infrastructure, oil, gas and mining projects and associated community development programmes. The EBRD is also considering appropriate staff training and access to specialist gender expertise to support the Bank's strategy and project work.

Left In June 2006 the EBRD hosted the 7th International Investigators Conference, which looked at ways of combating corruption.

Above Allegations of fraud and corruption are investigated by the EBRD's Chief Compliance Office.

## Integrity

The EBRD is very careful to ensure that the financing provided to clients is used properly. The Bank monitors projects throughout their lifetime and works with its countries of operations to combat corruption, such as money laundering and the financing of terrorism.

The EBRD's Chief Compliance Office (CCO) helps to safeguard the integrity and reputation of the Bank. It plays a key role in meeting the Bank's commitment to transparency and accountability. The CCO's tasks include advising on the suitability of prospective clients, investigating allegations of fraud, corruption and misconduct, handling complaints from groups adversely affected by Bank-financed projects and protecting the institution from criminal acts.

The creation in February 2006 of the IFI Anti-corruption Task Force has led to greater harmonisation among the international financial institutions (IFIs) in combating corruption. In particular, it has encouraged the IFIs to standardise their definitions of fraudulent and corrupt practices so that potential wrong-doing in financing projects can be investigated and sanctioned in a consistent way. The Task Force has also enhanced information sharing between the IFIs and has agreed on guiding principles for analysing integrity issues relating to lending and investment decisions. It has also explored ways that IFIs could assist governments in their efforts to improve the detection, investigation and prosecution of fraud and corruption.

In June 2006 the EBRD hosted the 7th International Investigators Conference, a high-profile gathering of senior investigative officers of the world's international organisations, including IFIs, the United Nations, Interpol and the European Anti-fraud Office. The conference focused on anti-corruption and fraud initiatives, such as the establishment of inter-agency investigative task forces and whistleblowing.

Other measures undertaken in 2006 include an update of the Bank's integrity due diligence guidelines, which provide criteria for assessing potential risks, thereby ensuring greater consistency in decision-making. The EBRD also revised its Anti-money Laundering (AML) Red Flag Checklist, which is used by banking teams to assess the AML and counter-terrorism policies of prospective clients. In addition, the Bank launched a staff training programme on combating money laundering and the financing of terrorism.

The EBRD's first Anti-corruption Report was published in 2006. This sets out the Bank's mechanisms for tackling corruption, fraud, money laundering, terrorist financing and other criminal acts. The report spells out in particular how the Bank complies with its obligation to ensure that its funds are used solely for their intended purposes.

The EBRD published its first Anti-corruption Report in 2006.

The Baku-Tbilisi-Ceyhan pipeline, partly funded by the EBRD, was the subject of a complaint registered under the EBRD's Independent Recourse Mechanism in 2006.

## Good governance and transparency

The EBRD views the promotion of sound standards of business conduct as a core dimension of its work. This includes promoting the existence of a transparent shareholding structure, respect for the rights of minority shareholders and a well-functioning board of directors.

Through its equity investments, the EBRD aims to transform companies from within, using its presence on the board to encourage the highest standards of corporate governance. The Bank also seeks to lead by example.

In 2006 the EBRD conducted a wide-ranging review of its Public Information Policy (PIP), which embodies the Bank's commitment to transparency and good governance. The review involved an extensive consultation process, including benchmarking of the EBRD's policy with those of other IFIs, seeking comments on the draft policy through our web site and meeting non-governmental organisations to discuss their concerns.

The PIP review resulted in significant changes to the EBRD's existing policy. Under the new policy, the EBRD has increased the scope of information that it makes available to the public. For example, minutes of the Bank's Board of Directors meetings are now regularly published on the EBRD web site.

The new policy commits the Bank to seeking greater public participation in the development of EBRD strategies for each of its countries of operations. As a result, draft strategies are posted on the Bank's web site and the public are invited to comment before the strategy is finalised. In a further effort to reach out more effectively, the EBRD has committed itself to make information about forthcoming projects available not only in English but also in the national language of the relevant country.

Another change to the EBRD's Public Information Policy is the creation of a formal procedure for handling requests for information about the Bank. Under this new procedure, the EBRD will respond to all requests for information within an agreed timeframe. If the EBRD is unable to provide the requested information, the reasons for this will be given. An appeal can be made to the Bank's Secretary General. Since the EBRD has a duty to protect the confidentiality of commercially sensitive information, the Bank has clearly spelled out the areas where, for reasons of confidentiality, information may not be provided.

As well as providing information, the EBRD actively seeks feedback on its projects. Through the Independent Recourse Mechanism, the Bank gives local groups that may be adversely affected by an EBRD project the opportunity to raise complaints or grievances with the Bank. The second Annual Report of the Bank's IRM was published in 2006.

During the year, one registrable complaint was received. This was submitted on behalf of residents of Akhali Samgori village in the Garabani district of Georgia. The residents state that they have been denied compensation or have been insufficiently compensated for the damage inflicted on their land as a consequence of the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which was partly financed by the EBRD. The complaint subsequently became the subject of an Eligibility Assessment to determine whether a Compliance Review or a Problem-solving Initiative is warranted.

An earlier complaint, registered during 2005, regarding possible damage vibration caused by the BTC pipeline project was processed in accordance with the procedures laid down under the IRM. The Chief Compliance Officer recommended to the President that a Problem-solving Initiative should not be initiated as it was unlikely to establish an effective dialogue between the client and the affected group. The President accepted the CCO's recommendation and the complaint was not processed any further.

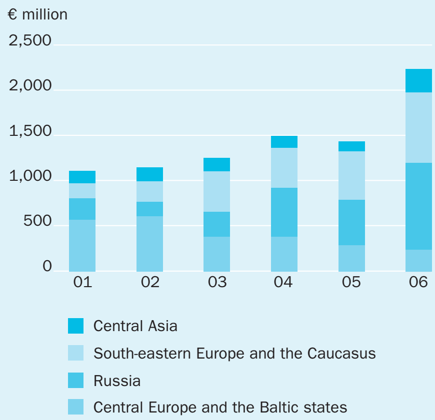
# 3

# Financial sector

Key to establishing a market economy is a sustainable, competitive and diversified financial sector that strengthens business at all levels. To achieve this goal, the EBRD is active in all 29 of its countries of operations with a strong portfolio across a wide range of financial institutions.


Center-Invest Bank in Russia received €24 million from the EBRD in 2006 to finance expansion plans and to increase lending to small businesses.

**EBRD commitments in the financial sector**




The financial sector continued to be an area of intense activity for the EBRD in 2006. New project signings reached a record level of €2.2 billion, an increase of 55 per cent on 2005. The Bank's portfolio grew by 13 per cent to reach, for the first time, over €6 billion.

The distribution of financial sector projects signed in 2006 reflects the changing direction of the EBRD's business, with only 11 per cent devoted to central Europe while business in countries further south and east is increasing. Particularly strong growth was achieved in Russia, which accounted for 42 per cent of the Bank's investment in the financial sector during the year.

Bank debt (loans and guarantees) was the largest area of activity, representing 49 per cent of EBRD business in the financial sector in 2006. Equity investments accounted for about one-quarter of EBRD activity while support for specialist financial services, such as leasing companies, continues to grow at a rapid pace. Since 2000, this area of finance has increased more than sevenfold and now represents over €1 billion of the EBRD's financial sector portfolio.

In 2006 the EBRD increased its activity in the Bank's poorest countries of operations – the early transition countries (ETCs) – signing projects in all eight countries, making a total investment of €143 million. Since it is important to develop the private sector in these countries and to provide access to much-needed finance, the majority of support was devoted to helping micro, small and medium-sized businesses. The Trade Facilitation Programme (TFP) also made a significant contribution to these countries, encouraging trade within the Bank's region of operations and beyond (see page 34).

The high levels of business activity were reinforced by innovative forms of finance that are designed to meet the needs of the EBRD's clients and to address the ever-changing challenges of the transition process.

By developing innovative products and promoting the highest standards of corporate governance, the EBRD is meeting the requirements of its partners and advancing the transition to market economies. Through its investments and dialogue with governments and regulators, the Bank supports the introduction of key legislation (such as pension reforms) and helps to enhance the infrastructure of local capital markets.

In 2006 the financial sector made a substantial contribution towards the EBRD's profits through equity exits and the solid performance of its loan portfolio. The Bank's projects in this sector have had a significant impact on the transition process and have encouraged others to participate in the region's financial markets.

The EBRD provided €2.2 billion in 2006 to support the development of competitive financial systems in the Bank's countries of operations.

## Banking sector

Equity investments in banks allow the EBRD to play a strategic role in the development of these institutions. Through its investments, the Bank contributes to the development of competitive and sustainable financial systems that are able to provide the financial services that the economy requires.

In 2006 the EBRD committed €140 million to six equity investments in the Former Yugoslav Republic of Macedonia, Georgia, Russia and Serbia. Some of these transactions were accompanied by debt financing. For example, Bank Republic in Georgia also received loans to support its mortgage lending and its loans to micro and small businesses. This combination of financing deepens the level of cooperation with the EBRD at the same time as strengthening the bank's capital base and promoting institutional development.

The EBRD provided ongoing financial support to existing clients in the form of capital increases to nine other banks across the region. The EBRD currently holds a portfolio of over €900 million in 49 banks covering 23 countries. By participating in the supervisory boards of these institutions, the EBRD has the opportunity to enhance corporate governance, to promote transparency and accountability, to assist institutional development and to help management and shareholders realise the banks' maximum potential.

Lending to banks continued to be a key area of business for the EBRD. In 2006, the EBRD signed new projects totalling €568 million, which were spread across 18 countries. Through loans to local banks, the EBRD helps to increase lending to private enterprises and to strengthen local institutions.

Although lending to small and medium-sized enterprises remains an important area of activity, with nearly 30 per cent of new business, more sophisticated financial instruments are being offered in many countries as financial markets broaden and deepen. Mortgage lending and syndicated loans have been recent growth areas. The development of new programmes focusing on specialist areas, such as energy efficiency, has also improved the diversification of the EBRD's portfolio and broadened the availability of finance to the local economy.

As banking systems have evolved, the ability of local banks to implement specialist lending programmes – such as those for energy efficiency, renewable energy and environmental investments – has improved. In 2006 the EBRD signed seven transactions in Bulgaria relating to energy efficiency totalling €64 million and signed its first energy efficiency transaction in Ukraine. This programme will be expanded in 2007, with similar projects being developed in Georgia and the Slovak Republic.

The EBRD has improved the ability of local banks to work with medium-sized and larger companies by expanding the Medium-sized Co-financing Facility (MCFF). Under the facility, the EBRD participates in sub-loans to these enterprises, thereby overcoming the constraints faced by banks in lending large sums to a single borrower. In 2006 the EBRD signed three projects under the MCFF in Armenia and Azerbaijan. This facility also supports institutional development by promoting best lending practices and good standards of corporate governance.

Mortgage lending has increasingly become a significant part of EBRD activity. In 2006 the EBRD signed nine mortgage projects with banks totalling €68 million. These were undertaken in Armenia, Georgia, Kazakhstan, Russia and Serbia. These transactions allow client banks to use their growing mortgage portfolios to subsequently arrange issues of mortgage bonds and securities. In this way, additional funds for mortgage lending are generated and new assets are developed for the capital markets.

## Strengthening commercial practices in Komercijalna Banka

The EBRD is showing its growing confidence in Serbia's economic development by helping the country's largest majority state-owned bank, Komercijalna Banka, develop into a modern, efficient institution that is able to build on its strong market position and take full advantage of Serbia's biggest branch network.

The EBRD bought a 25 per cent stake in Komercijalna Banka in March 2006. The immediate impact of this investment is to help the bank develop its business now. Longer term, it will also help to prepare Komercijalna Banka for full privatisation through a planned initial public offering (IPO) in three to five years' time.

With this goal in mind, the EBRD has put special emphasis on the implementation of a comprehensive institution-building plan developed in cooperation with Komercijalna Banka's management. This programme, financially supported with donor funds from Canada, aims to raise corporate governance to international levels, strengthen credit and risk management procedures, upgrade customer service standards and introduce new IT systems.

Through this project, the EBRD will serve as a catalyst for the restructuring of Komercijalna Banka. The EBRD will work with the Serbian government, the other minority shareholders and the management of the bank towards full privatisation. The EBRD's investment signals growing confidence in Serbia's economic development, and is expected to encourage further investment.

Komercijalna Banka is Serbia's fourth-largest bank and the largest with majority state ownership. While other state-owned banks have been sold to strategic investors, Komercijalna Banka's aim is to achieve a successful listing on the Belgrade Stock Exchange.

"We aim to become a strong publicly listed alternative to the foreign-owned banks in our country," said Ivica Smolic, President of Komercijalna Banka's Executive Board. "We are grateful to the EBRD for acting as a forceful independent partner helping us to realise this vision."

In Serbia, a fast-growing economy is prompting swift developments in the financial sector so that banks can keep up with the wealth being generated by Serbian business success, offering products that are sophisticated and flexible enough to satisfy the domestic market and reaching out to global markets too.

The EBRD paid €70 million for its stake in Komercijalna Banka, evidence of the Bank's continuing strong commitment to the development of the Serbian financial sector. The investment should also facilitate Komercijalna Banka's access to long-term funding in the international commercial markets.

The EBRD's Trade Facilitation Programme financed over 1,000 trade transactions in 2006 to stimulate import and export trade.

## Trade finance

The EBRD's Trade Facilitation Programme (TFP) guarantees trade transactions to stimulate import and export trade. It also provides short-term loans to selected banks for on-lending to local exporters and importers.

In 2006 the EBRD financed 1,134 trade transactions totalling €707 million under this programme. The majority of these transactions supported small business, with more than 40 per cent of all deals under €100,000. Many of these transactions would not have occurred without the programme.

By encouraging an increase in trade, the TFP helps not only to create jobs but also to improve cooperation and understanding between countries. Since a growing number of transactions supported by the TFP involve trade deals between the EBRD's countries of operations, the programme is also supporting the restoration of traditional trade links that may have remained dormant for some time.

Since the start of the programme in 1999, the number of transactions taking place within the Bank's region of operations has been growing constantly. In 2006 the TFP financed 234 intra-regional transactions. These included the export of grain and food products from Kazakhstan and Russia to the Kyrgyz Republic and Tajikistan, the export of agricultural machinery from Russia to Kazakhstan and the import of tyres to Armenia from Russia. Other transactions included the export of gas and petrol from Russia and Azerbaijan to Georgia and the export of pharmaceuticals from Hungary and Croatia to Kazakhstan, Russia and Tajikistan.

The TFP achieved the milestone of its 5,000th transaction in 2006. A letter of credit from Tajikistan's Tojiksodirotbank to Fortis Bank in the Netherlands will guarantee the import of refrigerators and washing machines from Russia to Tajikistan. This transaction serves as a good example of how the initiative supports the transition process as Western confirming banks are increasingly supporting trade among the EBRD's countries of operations under EBRD guarantees. The household appliances were produced in a factory owned by Italy's Indesit in Lipetsk, Russia, and were imported by a small distributor of household appliances in Dushanbe, Tajikistan.

The programme currently has 105 issuing banks in the EBRD's region of operations and over 630 confirming banks all over the world. New TFP facilities were signed in 2006 with 19 banks in eight of the Bank's countries of operations, including six new facilities with banks in four of the EBRD's poorest countries, the early transition countries (ETCs).

The TFP plays a particularly important role in the ETCs, stimulating market activity by using a streamlined approach to financing a large number of small projects. In 2006, the EBRD financed 478 foreign trade transactions in these countries.

## Equity funds

The EBRD is helping to develop a strong private equity industry through its investment programme in equity funds. The Bank primarily supports private equity funds managed by professional fund managers and backed by institutional investors. As these funds are managed by experienced third parties, the Bank is able to raise corporate governance standards in the companies receiving investment and to promote an entrepreneurial culture.

Equity funds had another successful year, highlighting the improved investment climate for equity transactions and optimism in the EBRD's countries of operations. In 2006 the EBRD provided nearly

Left The EBRD has extended almost €600 million to 29 financial institutions in 11 countries to give local residents the opportunity to buy, build or renovate their homes.

Below The EBRD signed 18 projects in the leasing sector in 2006 so that entrepreneurs would have the means to lease machinery that they cannot afford to buy outright.

€200 million to seven new private equity funds. Two of these are successor funds to earlier private equity funds while one – the GED Eastern Fund II – is a successor to an earlier donor-supported fund, the Romanian Post Privatisation Fund. All of these funds will be the source of vital equity finance for companies in a wide range of countries.

The success of the EBRD's equity fund portfolio is illustrated by a continuing trend of robust exits from investment companies. In 2006, capital repayments totalled €155 million as well as a profit contribution of over €100 million. The proven success of private equity funds has clearly demonstrated to the commercial market the benefits of this form of investment. The recent successes are solid evidence that the Bank's determination to remain in the equity market during a time when the financial climate was difficult has paid off in financial terms as well as in advancing the transition process.

The next generation of private equity funds will play a leading role in introducing additional liquidity into the capital markets. Their presence will help the EBRD to develop a sustainable private equity industry in the region.

## Other financial services

In 2006 the EBRD increased its support to financial institutions outside the banking sector, providing a record level of finance.

New commitments amounted to €334 million, involving leasing, insurance, pension and mortgage companies and three securitisation projects (see below). Nine projects involved equity investments, mainly in the insurance industry, and two projects provided local currency in roubles to support consumer financing.

The leasing sector was particularly active, with the EBRD signing 18 projects. Thirteen of these came under EU-sponsored programmes that focus on supporting small and medium-sized enterprises and assisting rural areas in central Europe. The leasing industry is particularly important as it provides alternative sources of financing for companies that find it difficult to access loans for major equipment purchases. It also extends the depth and breadth of the financial sector in the Bank's countries of operations.

The EBRD has increased the resources devoted to the development of asset-backed security transactions in areas such as consumer loans, small business loans and mortgages.

These securitisation projects enable companies to raise funds through the sale of pools of financial assets to investors via special-purpose legal entities. There is considerable scope for growth in this sector to meet the financing requirements of clients and to expand the local capital markets in the region.

In 2006 the EBRD supported one of the region's first securitisation projects, purchasing part of a portfolio of consumer loans developed by Russian Standard Bank. The funds raised from a range of investors who bought into these asset-backed securities will enable Russian Standard Bank to expand its sales of consumer finance loans through regional networks of leading retail chains with which it has established a partnership.

The EBRD is looking to develop other innovative products, such as structured financing instruments that cover specific risks, and to provide liquidity facilities. To advance these projects, the Bank is actively supporting the development of local legislation that will facilitate local capital market growth.

# 4

# Financing for small business

Small businesses are the pillars of a vibrant market economy. Not only do they create jobs, they also provide the framework for a country's long-term growth. The EBRD provides support for the development of small businesses throughout the Bank's countries of operations.


Left ProCredit Bank Serbia is a long-standing recipient of EBRD financing for on-lending to small businesses.

Above Small businesses such as this Uzbek silk workshop have benefited from loans provided through the EBRD's Micro and Small Business Programme.

## Micro and small business financing

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 76 local banks and specialist microfinance organisations that disburse loans to micro and small enterprises through more than 2,000 branches.

In 2006 the programme had a record year of expansion. The EBRD started to work with 24 new partner institutions and expanded its activities into Mongolia, the Bank's newest country of operations. In 2006 some 945,000 loans totalling €4.9 billion were disbursed to small businesses. By the end of 2006, the total number of loans disbursed had reached nearly 2.5 million with a total value of over €12.7 billion. Repayment of these loans is typically above 99 per cent.

In particular, the EBRD extended its activities in the Western Balkans and in the poorest countries where the Bank operates, the so-called early transition countries (see page 13). In the Western Balkans the EBRD extended the reach of its micro and small enterprise programme through five new partner institutions in Bosnia and Herzegovina, Serbia (including Kosovo) and Montenegro.

In the early transition countries, the EBRD financed a total of 23 new projects supporting micro and small enterprises. In Georgia, the EBRD helped in the process of introducing new microfinance law and in strengthening the regulatory framework for micro and small enterprise lending. As a result, the Bank was able to provide its first loan to Constanta Foundation, a local microfinance institution. Constanta targets the lower end of the microfinance market, with an average loan size of less than €380, creating opportunities for some of the smallest borrowers in Georgia's rural areas.

New developments in 2006 included EBRD investment in a microfinance debt fund, the European Fund for Southeast Europe. Through this investment, the EBRD aims to mobilise private sector capital and to increase the level of finance available to micro enterprises. In the Kyrgyz Republic, an innovative guarantee facility launched by the EBRD has allowed Bai Tushum, a microfinance institution, to receive local currency loans from Kyrgyz banks for on-lending to local micro and small enterprises.

A new microfinance facility launched in Romania is a good example of how the Bank makes use of donor and commercial funding to extend the impact of its own financing. Funding of €40 million from the EBRD has been supplemented by a joint contribution of €18 million from the EU and the Romanian government and up to €30 million from commercial banks. Through this new facility, many new micro businesses will be established, helping to create jobs and to support economic growth in Romania. The new financing will meet the needs of the thousands of entrepreneurs who have little access to finance other than from sources that charge very high interest rates.


Russia's KMB Bank received nearly €10 million from the EBRD in 2006 to boost its lending to small businesses.

Building commercially viable financial intermediaries is vital for reaching the smallest businesses in a sustainable way. In 2006 the EBRD developed a credit scoring system as a means of enhancing the efficiency of lending operations. Using donor funding, training in credit scoring techniques was provided to three partner banks in Kazakhstan. The EBRD also looked into the feasibility of extending this into Armenia, Georgia and the Kyrgyz Republic. The use of credit scoring allows institutions to target their lending more effectively.

Extending finance into rural areas continued to be a priority for the EBRD in 2006. In addition to firmly established rural lending programmes in the Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Moldova, Montenegro, Russia, Serbia and Ukraine, the Bank identified new partners that specialise in agricultural and rural financing and introduced existing partners to new lending products, such as seasonal agricultural loans.

The United States is the largest supporter of the EBRD's microfinance programmes. To date, it has provided €53 million to assist lending schemes in 16 countries. 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 in countries at the earlier stages of the transition process, such as Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan and Ukraine.

A large proportion of the US funding is used to train staff in local banks and to reduce legal and regulatory obstacles to small business finance. By the end of September 2006, the Facility had provided over 1.3 million loans totalling €6.6 billion. The Facility is also supported by a number of other donors.

The EBRD's micro and small business lending programme in Russia is supported by the Russia Small Business Fund (RSBF). Established in 1994 by the EBRD, G7 countries and Switzerland with additional support from the European Union, the RSBF is a €300 million fund dedicated to supporting Russian micro and small enterprises (MSEs) and to strengthening the ability of Russian banks to provide finance to MSEs on an ongoing basis.

The RSBF provides financing and technical support to participating banks that disburse loans of up to €150,000 to MSEs. These banks offer a diverse range of products, including express micro loans (typically disbursed within 24-48 hours) and loans to rural communities.

To date, over 364,000 loans totalling €2.9 billion have been disbursed. A total of 11 Russian banks are taking part in the programme, which reaches 163 cities across Russia's 11 time zones. This includes some of the country's most depressed regions.

In 2006 the EBRD started a partnership with VTB-24, a specialist subsidiary of VTB, the second-largest state-owned bank in Russia. Supported with EU funding, the partnership is expected to increase the reach of the EBRD's small business lending programme to 39 new regions in southern Russia that are not currently covered by other RSBF partner banks.

## Expanding the family business in Montenegro

Renowned as the centre of traditional Montenegrin cuisine, Cetinje is famous for its smoked ham (known locally as "prsuto") and its cheeses. Visitors come from far and wide to try the local produce and to appreciate the attractions of this historical city, which lies at the foot of Mount Lovćen, the Black Mountain, from which Montenegro gets its name. As the old capital of Montenegro, the city grew rapidly but its expansion was halted by the Balkan wars and the First World War. Today, it has a population of 15,000 and relies on tourism to generate much of its income.

Cetinje is on the verge of a revival but many of the city's entrepreneurs struggle to get the financing that they need to build their businesses. One such entrepreneur is Nikola Martinović. Following in his father's footsteps, Nikola had taken over the running of the family business but needed finance to expand his company's production of prsuto and quality cheeses. So he turned to Alter Modus for assistance.

Alter Modus is a specialist microfinance institution that was originally set up to help refugees and internally displaced people. Back in the 1990s, these represented up to 20 per cent of Montenegro's population. Nowadays they account for just over 4 per cent. From its humble beginnings, Alter Modus has quickly grown into a saviour for businesses in desperate need of financing. Operating as a non-governmental organisation, Alter Modus provides small loans (averaging €1,600) to people from all walks of life. In 2004 it became the first NGO to receive a loan from the EBRD. A sum of €1 million was provided under the US/EBRD SME Finance Facility.

The aim of Alter Modus is to help people with potential who have good business proposals. When assistance was sought by Nikola Martinović, it provided him with a loan of €1,500. Nikola used this to renovate his premises for drying ham and to purchase more meat. Another loan, of €3,000, was used to buy a 500-litre container for processing milk. This allowed Nikola to enter into an arrangement with a local dairy, from which he buys his milk on a daily basis.

A third loan, of €2,000, was used to further improve his facilities in response to the growing demand for his produce. Nikola says that the loans acted as a lifeline for him, allowing him to more than quadruple his cheese production within a very short period of time – he currently produces over 50 kilos of cheese a day. The loans enabled him to expand his business much faster than if he had relied on using profits from his normal business operations. His story is typical of many who have benefited from financing from Alter Modus, whose credit portfolio now stands at over €5 million.

B&G bakery in Rostov-on-Don used EBRD funding provided through Russia's Center-Invest Bank to improve its production processes.

## Support for small and medium-sized enterprises

The EBRD provides finance to small and medium-sized enterprises (SMEs) through a wide range of financial institutions. The Bank provides this financing in a variety of ways, including credit lines to local banks for on-lending to small business, trade guarantees (see page 34), equity investments in banks and equity funds, and loans to leasing companies. The EBRD also provides equity directly to small companies through the Direct Investment Facility (DIF).

To enhance the impact of this financing, the EBRD makes use of donor funding to provide training to financial institutions on how to assist small businesses in the most effective way.

So far, the EBRD has directed over €4 billion towards small business projects and currently has projects in 28 countries. The Bank's portfolio involves over 200 financial intermediaries. In 2006 over 20,000 loans and leases were provided to local small businesses via EBRD credit lines.

Providing credit lines to local banks is the main way that the EBRD supports small business. In 2006 the Bank signed 23 new projects with local banks totalling €163 million. Banks in the early transition countries and south-eastern Europe received significant funding through specially designed programmes, such as the Western Balkans SME Finance Facility. The EBRD also signed 15 leasing projects for SMEs totalling over €100 million, seven equity transactions with banks that focus on SMEs and one equity fund that primarily invests in SMEs in Poland.

A key contributor to the Bank's SME initiative has been the EU/EBRD SME programme, which was established in 1999. It is the Bank's main instrument for financing small businesses in the new EU members and EU candidate countries. The programme is currently focusing in particular on Bulgaria, Romania and Croatia.

In 2006 the EBRD increased the funding available through this facility to €1.35 billion and diversified the nature of its partners to include saving and credit cooperatives. The programme was recently extended to include a sum of at least €50 million that has been earmarked for farmers and small businesses in rural areas where financing is in short supply.

The programme has proved to be extremely effective in encouraging local intermediaries to lend to small enterprises. In addition to loan financing, four equity funds totalling €33 million have been established under the facility to provide much-needed equity support to small enterprises.

By the end of 2006, the EBRD had provided 100 credit lines totalling €1.1 billion to 39 banks and 37 leasing companies in the 11 countries covered by the programme. In total, over 72,000 transactions worth more than €1.5 billion have been undertaken with small businesses throughout the region. The average loan size for each business is as low as €22,800 while leases average €18,500. These low levels ensure that even very small businesses are able to benefit from the facility.

The European Union supports the programme by providing grant funding in the form of performance fees and technical assistance. While the performance fee is a way of encouraging banks and leasing companies to make small loans or leases, the technical assistance provides training to local staff to improve credit analysis and the quality of service provided to SMEs. The European Union's contribution to the facility totals €181 million.

Many of the banks and leasing companies supported by the programme have indicated that they will continue to make small business a significant part of their portfolio once the facility comes to a close.

Center-Invest Bank is the leading local bank in the Rostov region of southern Russia. Since becoming a shareholder in 2004, the EBRD has provided various forms of finance to allow the bank to increase its lending to small businesses and to expand other activities, such as supporting energy-saving initiatives and developing the region's infrastructure.

# 5

## Energy

Under the EBRD's Sustainable Energy Initiative, the Bank places particular emphasis on financing energy efficiency projects and renewables, such as hydro and wind power. In 2006 the EBRD's investment in sustainable energy totalled €750 million. The Bank also continued to support restructuring of the power sector, particularly in Russia.

Up to 45 per cent of Georgia's energy needs will be provided by the Enguri dam and power station once its modernisation has been completed with the support of an EBRD loan provided in 2006.

## Power sector

In 2006 the EBRD provided financing of €390 million for projects in the power and energy sector and attracted a further €900 million of syndicated funding in support of these projects. The countries to benefit included Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Poland and Russia. Financing was provided in the form of private sector loans, equity investments, local currency financing (provided in roubles), state-guaranteed loans, and loans without state guarantees.

The EBRD continued its major role in financing the restructuring of Russia's electricity sector with three major transactions: Mosenergo, Hydro OGK, and OGK-5 (see page 45). The urgent need for investments to raise efficiency, to replace ageing infrastructure and to cut power losses was highlighted during the exceptionally cold spell in January and February 2006 when the power system came under considerable strain.

Early in the year, the Bank successfully syndicated to a group of commercial banks a large proportion (€124 million) of the EBRD's €190 million loan to the Moscow power utility, Mosenergo. Provided to finance the cost of refurbishing 17 power stations in the capital and the surrounding region, the loan will help to meet the fast-growing demand for power and heat in Moscow and beyond.

The syndication was a milestone in the Russian rouble loan market in that it involved six leading international banks and the longest-ever tenor for a rouble transaction syndicated on the market. It was also the first time that the EBRD's syndicated loan structure (with the EBRD remaining lender of record for the full amount) had been extended to the local currency lending market.

Later in the year, the EBRD extended a 2.3 billion rouble (€66 million) loan to Hydro OGK, a subsidiary of Russia's main power utility RAO UES, for the modernisation of hydro power plants in the Volga-Kama cascade, one of the country's largest sources of hydro power. Nine commercial banks participated in a syndicate to provide a total of 4 billion roubles (€120 million). This transaction, with a tenor of 10 years, overtook Mosenergo as the longest-ever local currency loan to be syndicated. The modernisation programme will extend by at least a quarter of a century the life of nine power stations in the cascade. Once the reorganisation of Hydro OGK has been completed – in about five years' time – it will become the world's second-biggest hydro generating company.

Hydro generation is the main source of renewable energy in Russia, providing 20 per cent of all the power produced. It acts as the backbone of the power industry, stabilising supplies and maintaining the reliability of the country's entire system as well as generating economically efficient electricity. The government has now put Hydro OGK in charge of developing all renewable energy resources in Russia, including wind farms, tidal and small hydro projects. The EBRD has secured grant financing from the Spanish government to assist Hydro OGK in the development of a regulatory framework for wind farms.

The EBRD's third project in Russia's electricity sector was a €27 million equity investment in OGK-5. This was provided through the first public offering of one of Russia's wholesale generating companies.

EBRD investment in the restructuring of Russia's electricity sector is helping to improve the reliability of power supply to cities throughout the country.

The EBRD significantly increased its investment in energy efficiency projects in 2006.

The EBRD's increasing focus on renewable energy was further demonstrated by an EBRD loan of €8 million to complete the modernisation of the Enguri dam and power station in Georgia. Enguri currently generates about 35 per cent of Georgia's power consumption, which should increase to 40-45 per cent when the modernisation is completed.

Another renewable energy project signed by the EBRD in 2006 was a loan of up to €5 million to Cascade Credit, a credit organisation based in Armenia, for investments in mini-hydro and other renewable projects. This project is important for Armenia, one of the Bank's poorest countries of operations, as it should reduce the country's dependence on imported fuel for power generation and will increase the security of energy supplies.

In 2007 and beyond the EBRD will continue to focus on energy efficiency, renewables, the regional integration of power markets (particularly in south-eastern Europe), power market restructuring (for example, in Russia) and privatisation.

## Energy efficiency

The EBRD significantly increased its investments in energy efficiency in 2006. A total of €670 million of EBRD financing was devoted to achieving lower energy use per unit of GDP in the Bank's countries of operations.

Excluding supply-side projects, such as power generation and transmission, the Bank's investment more than doubled, to €415 million. This increase in business volume reflects the EBRD's growing emphasis on energy efficiency, as outlined in the Bank's new Energy Policy (see page 17) and in the launch of the Sustainable Energy Initiative (SEI).

Under the SEI, the EBRD aims to tackle climate change by addressing the wasteful and polluting use of energy. EBRD investments in energy efficiency, renewables and clean energy projects will be combined with donor-funded initiatives to address the barriers to investment in sustainable energy (see pages 18 and 64).

Another reason for the higher volume of investment in 2006 is the reorganisation of the EBRD's energy efficiency team and greater understanding in the Bank's region of operations of how improvements in energy efficiency can help companies achieve greater competitiveness and reduce wastage at a time when the supply of energy cannot be guaranteed.

## Charging up Russia's power sector

One of the most ambitious elements in Russia's project to dismantle old state controls of its economy is the reform of a once-centralised state electricity business, splitting it into separate generation, transmission and distribution companies and turning yesterday's unwieldy monolith into tomorrow's multi-player market.

As the Russian economy grows, and electricity consumption rises by more than 5 per cent a year (making it ever more important to rebuild the nation's outdated energy infrastructure), RAO UES, Russia's largest power utility, is being split into separate generation, transmission and distribution companies.

The EBRD's pivotal role in this giant reform is confirmed as the first shares in one of the new generation companies are sold to private investors. In November 2006 the EBRD threw its weight behind a landmark first initial public offering by one of Russia's six wholesale generating thermal companies by acquiring a minority stake in OGK-5.

This investment is part of the strategy of OGK-5's controlling shareholder, RAO UES, to raise private funding on the open capital market for the investment programme. The Bank's decision to take about 7.5 per cent of the equity publicly reaffirms the EBRD's support for the latest phase of Russia's power sector reform.

The Bank has been involved in the multiple-stage reform since 2001, when Russia's electricity supremo, Anatoly Chubais, the Chief Executive Officer of RAO UES, asked the EBRD for help in dismantling Russia's electricity monopoly.

Now the programme has reached its third stage, in which the state prepares to bow out and investors step in to take strategic stakes in newly separated electrical entities unbundled from RAO UES.

The strategy of the Russian government and RAO UES is to attract investors to participate in capital increases that will finance urgent refurbishment and new capacity needs. OGK-5, with two of its four plants in the fast-growing central Russian Ural region, has high investment needs. Proceeds from the November public offering of 5.1 billion shares will be ploughed back into modernisation and developing new capacity.

The equity sale brought RAO UES's stake in OGK-5 down from 87 per cent to about 75 per cent. A second equity sale to a strategic investor, this time of 25 per cent plus one share, is planned for 2007.

The EBRD's Strategy for Russia, approved in 2006, commits the Bank to pursuing equity investments in generating companies. "The interest of private investors in the sector will, from now on, be one of the determining factors of the overall success of the reforms," said the CEO of OGK-5, Anatoly Bushin. "The Bank's involvement sends supportive signals that private capital can successfully be attracted in the Russian power sector."

The EBRD participation in OGK-5 was conditional on the company agreeing to improve environmental performance and corporate governance. A Memorandum of Understanding was signed incorporating these requirements.

An EBRD investment of €152 million in a Mittal Steel plant in Ukraine signed in 2006 includes €46 million to finance energy efficiency improvements.

The EBRD was particularly active in pursuing energy efficiency opportunities in the manufacturing sector where projects totalling €188 million were signed, an increase of 80 per cent. This high level of investment was due to the Bank's unique combination of energy efficiency expertise, systematic screening of energy efficiency issues in all EBRD projects, the practice of providing free energy audits to clients and increasing interest from the public and private sector in purchasing carbon credits generated by these projects (see page 18).

One of the most important projects signed in 2006 was a €152 million investment in Mittal Steel in Ukraine, which included a €46 million component to finance energy efficiency improvements in the company's steel mills. This is a particularly significant investment as Ukraine remains one of the most energy-intensive countries in the industrialised world and its steel sector needs substantial financing to comply with modern requirements of energy efficiency and to adjust to fast-rising energy costs. Elsewhere in Ukraine, the EBRD provided a €76 million loan to Alchevsk, an iron and steel works, to reduce greenhouse gas emissions (see page 14). Both these projects involved the purchase of carbon credits.

Another way that the EBRD promotes energy efficiency is to provide targeted credit lines to local banks for on-lending to households and companies that wish to undertake energy efficiency projects. In 2006 this accounted for €81 million of the EBRD's energy efficiency investments, an increase of 40 per cent on 2005. New loans were provided to banks in Bulgaria and a new credit line framework was approved for Ukraine. The first loan under this new framework was provided to Kreditprombank.

The EBRD aims to roll out similar schemes in Croatia, Georgia, Hungary, Poland, Romania, Russia and the Slovak Republic. The EU has approved funding of €24 million to support credit lines in Bulgaria, Croatia and Romania. Discussions with other donors are also under way regarding the grant component of these schemes.

The EBRD also significantly improved energy efficiency in the municipal sector through an investment of €88 million in water supply and waste-water projects (for example, more efficient pumps), district heating transactions (reducing network losses) and urban transport projects. For example, an investment in the transport network in Pula, a popular tourist destination on the Croatian peninsula of Istria, will promote increased use of public transport and significantly reduce air pollution and greenhouse gas emissions.

Finally, the power sector attracted €55 million of investments in energy efficiency in 2006, or €310 million if supply-side investments in generation and transmission are included. One of the highlights of 2006 was the Azdres project in Azerbaijan, which will dramatically reduce the carbon emissions of the country's largest plant thanks to a combination of energy efficiency improvements and a switch of fuel from heavy oil to gas.

Left Since 1991 the EBRD has invested €1.9 billion in natural resource projects.

Above With the assistance of an EBRD loan, the Bautino Atash supply base is to be developed on the shore of the Caspian Sea to serve the needs of offshore oilfield operators.

## Natural resources

In 2006 the EBRD's most significant project in the natural resources sector was a €9 million investment in Caspian Services to support the development of a supply base in the North Caspian Sea.

The base will serve the needs of a wide range of offshore oilfield operators, providing fuel and water supplies, vessel repair services and crew change facilities. It will be constructed on the eastern coast of Bautino Bay, north of Port Aktau in Kazakhstan. By providing support for a private sector operator in a government-dominated market, the project will promote competition and is expected to lead to further market expansion of supply and support services in the oil industry.

One of the EBRD's earlier projects was carefully reviewed in 2006 to ensure that it remains in keeping with the Bank's strict requirements regarding governance and business standards. When Russia's two largest aluminium producers, SUAL and RUSAL, formed a 50:50 partnership regarding a mining project in Komi near the Arctic Circle, the EBRD worked closely with RUSAL to develop a comprehensive corporate governance programme, including corporate ownership disclosure, the publication of financial information and the appointment of independent directors. As a result, the EBRD is fully committed to disbursing its loan to SUAL, which was originally agreed in 2004.

Throughout 2006 the EBRD continued to monitor construction of Sakhalin II, which will produce offshore oil and gas from Russia's far eastern coast. Since 2001, when the EBRD was originally asked to partially finance the project, the Bank has worked with Sakhalin Energy to ensure that the project could meet the expectations – especially the environmental standards – of EBRD financing.

In 2006 the EBRD continued to encourage the highest standards of environmental protection in the design and construction phases of the project. The Bank worked with Sakhalin Energy on many enhancements and conducted an extensive consultation process in Russia, Japan and London. Following a significant change in the ownership of Sakhalin Energy, the EBRD announced in January 2007 that it would no longer consider the current financing package. While the Bank is open to discussion with the new shareholders, any future relationship would have to be based on a new proposal from Sakhalin Energy that the Bank would review to determine if criteria for eligibility are met.

A new scheme, begun in 2006, involves encouraging natural resource companies to undertake systematic financing of environmental projects. This initiative is likely to see its first results later in 2007, when a Russian oil company is expected to sign its first "environmental" loan. The Bank expects this first project to act as a model for other companies to follow.

# 6

# Infrastructure

Clean water, efficient heating and a reliable transport system are just some of the benefits that have resulted from EBRD investment in infrastructure. The Bank supports the decentralisation of services from central to local level and aims to promote public-private partnerships as a way of further improving services in the Bank's countries of operations.

An EBRD loan of €10 million is financing the upgrading of roads and improvements to public transport in the city of Sibiu in Romania.

## Municipal and environmental infrastructure

The EBRD provided €307 million in support of municipal and environmental infrastructure projects in 2006. An additional €145 million was raised through syndication and co-financing.

The EBRD focused on providing lending without state guarantees in line with the Bank's policy of supporting decentralisation, commercialisation and environmental improvement without burdening the state. As a result, over 95 per cent (€295 million) of our investment was provided without state guarantees and over 28 per cent (€90 million) was targeted at reducing greenhouse gas emissions.

Providing finance without state guarantees, or non-sovereign lending, involves greater risk for the EBRD but means that public funding is made available for other pressing purposes. The fact that local authorities can attract long-term funding on commercial terms also signals to the market that these countries have made significant advances.

The main focus of activity (82 per cent) was in the south and east of the Bank's region of operations, with a strong commitment to Russia and Romania and increased investment in the Western Balkans. Projects ranged from district heating, urban transport and water supply to waste-water treatment and solid waste management.

In Russia, EBRD loans to Yakutsk (eastern Siberia), Surgutsky Rayon (western Siberia) and Ufa (western Urals) were provided to upgrade district heating services and to improve cost-effectiveness. In Yakutsk, winter temperatures can drop to as low as -60˚C so an efficient heating system is of vital importance to local residents.

Investments in district heating can have an immediate impact on the reliability of service, significantly improving energy efficiency by reducing heat losses and carbon emissions into the environment. The wide geographical coverage of the Bank's projects confirms our commitment to supporting the more remote parts of Russia outside the major cities.

Over 95 per cent of EBRD investment was provided without state guarantees.

A €11 million loan from the EBRD is helping to upgrade the tram system in Krasnodar in southern Russia.

District heating was also a focus of the EBRD's investment in Romania. An EBRD loan to the city of Timisoara (western Romania) to modernise the district heating network was supplemented with a €5 million grant from the Netherlands Carbon Fund. EBRD funding was used to finance the installation of new gas and steam turbines which will improve service levels for Timisoara's 300,000 inhabitants.

Elsewhere in Romania, the EBRD provided a €10 million loan to fund the construction of a waste-water treatment plant in Bucharest. Grant co-financing was provided by the European Union and an additional loan was provided by the European Investment Bank (EIB). This is the first joint EBRD/EIB project for an EU grant-funded environmental project. It will act as a model for other projects as the plant will be operated and managed by the private sector, providing an example of a public-private partnership.

The EBRD's first municipal project in Albania was undertaken in 2006. EBRD finance is supporting the construction of two key sections of the road network in Tirana. The project will significantly improve the traffic flow and reduce congestion on one of the main streets in the city.

EBRD financing is being complemented by the development of a Sustainable Transport Strategy for Tirana, which aims to identify ways to improve the city's transport services and infrastructure over the next five years alongside a programme to improve Tirana's creditworthiness. This is being pursued ahead of legal changes that will permit borrowing at municipal level, a key step in the implementation of Albania's decentralisation strategy.

In the water sector, the EBRD provided €6 million to support key improvements in water and waste-water facilities for the cities of Kutaisi and Poti in Georgia. Together with grant financing from the EU's Water Initiative and from other institutions, the loans will finance significant investments in both cities to create 24-hour water supplies.

Over the coming years, the EBRD aims to respond to the growing investment needs and the improving credit profile of many local authorities across the region by increasing its activities in this sector. In so doing, the Bank will continue to work with commercial banks and will mobilise donor support. EBRD investment will continue to be guided by the Bank's Sustainable Energy Initiative (see page 18).

The EBRD provided investment to support key improvements in water and waste-water facilities.

## Breaking the ice in Russia's Far East

In the remote Arctic region of Sakha (Yakutia), where most of Russia's fabulous diamond wealth lies buried under permafrost, getting expensive heat to the far-flung homes of the region's 1 million residents has always been a problem.

The costs for municipal services in Sakha are the highest in Russia. Fuel and transportation account for about 75 per cent of municipalities' operational costs. Equipment is often inefficient and in poor repair, especially in the heating sector. The potential for cost savings is enormous.

A long-term loan of 1 billion roubles (€29 million) from the EBRD could be about to change all that. The financing will help local authorities in Russia's largest region cut costs by using coal – locally available and cheap – instead of expensive oil imports to fuel district heating, particularly in remote northern settlements, where the heating season averages 10 months of the year. Winter temperatures in Sakha routinely fall below –50˚C for extended periods of time. They have even been known to dip below –60˚C.

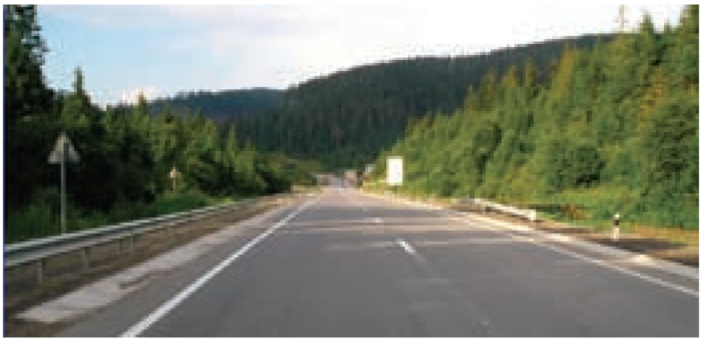
The 14-year loan is to Sakha's housing entity, GUP ZhKH, which provides most municipal water and heating services. It will finance modernisation of the systems providing heat and hot water to settlements that have no year-round road links. At present, these only survive thanks to fuel deliveries during the brief summer's ice-free weeks (known as the Northern Delivery System).

The first long-term municipal infrastructure loan to be implemented in the Russian Far East will make a number of improvements, including replacing old boilers with more energy-efficient modern ones, installing heating substations in municipal housing blocks and public buildings, and modernising distribution networks.

The loan highlights the EBRD's commitment to helping Russia modernise its infrastructure and opens the possibility of repeating this kind of deal in other parts of the country. Financial support from Japan will also be used to reorganise GUP ZhKH into a modern, market-oriented utility company, providing efficient municipal services to local people and businesses.

"This programme of investments will allow us to improve our system of heating and electricity, making it operate more efficiently in a new and market-friendly way," said Vassily Grabtsevich, Deputy Chairman of the Government of the Republic of Sakha.

The loan to GUP ZhKH, prepared with funds from the European Union and being implemented with the assistance of funding from Japan, is guaranteed by the Republic of Sakha. At present, the entity provides about 95 per cent of the heating, water and waste-water services in the region.



An EBRD loan of €200 million is financing the upgrading of the M06 road that links Kiev and Ukraine's western border with central Europe.

## Transport

In 2006 the EBRD continued to respond to the significant need for investment in transport infrastructure, signing projects totalling €529 million. EBRD financing supported aviation, ports, roads, rail and shipping projects.

In the aviation sector, significant EBRD financing was provided for airport projects in two of the Bank's poorest countries of operations. In Armenia the Bank provided a €15 million loan to finance the completion of a new passenger terminal in Yerevan. The loan will help the airport to deal with the increasing number of passengers passing through the capital. In Georgia the EBRD provided €21 million to upgrade two international airports. Both projects are examples of successful public-private partnerships (PPPs).

Other aviation projects signed in 2006 included a 20 per cent equity stake in Sky Express, Russia's first budget airline, which aims to revolutionise the country's domestic market by offering low-priced internal flights on modern Western aircraft.

In the ports sector, the EBRD provided a loan to improve navigational safety in the Baltic Sea, the Barents Sea and the Black Sea while in the roads sector, EBRD financing was provided to improve the road network in Croatia, Hungary and Ukraine and to encourage greater private sector involvement, particularly through PPPs. In the rail sector, the Bank provided loans to modernise rolling stock in Serbia and Russia while in the shipping sector, EBRD finance was provided to upgrade shipping fleets in Russia and Ukraine.

The EBRD's projects were widely distributed across the countries where the Bank operates. The Bank particularly increased its investments in Russia. Most of these projects were in the private sector, reflecting the Bank's strong support for private sector participation in providing Russia's transport services.

The early transition countries (ETCs) continued to be a key focus of the EBRD's operations in the transport sector. The airport projects in Armenia and Georgia reflect the Bank's recognition of the importance of commercialising transport infrastructure and of attracting private sector investors to airport projects.

The EBRD's biggest project in the transport sector in 2006 was a loan of €200 million to upgrade the road that links Kiev and Ukraine's western border with Hungary, Poland and the Slovak Republic. The project was developed in cooperation with the European Investment Bank (EIB) – as part of the EU programme for the extension of Trans-European Networks – and is one of the first projects prepared under the Memorandum of Understanding signed by the European Commission, the EBRD and the EIB in 2006 (see page 21). The project is also supporting the development of PPPs in the road sector, using EU funding.

The EBRD has particularly sought to involve the private sector in developing PPPs in Bulgaria, the Former Yugoslav Republic of Macedonia, Romania, Russia, Serbia and Ukraine. The Bank has also continued to support the restructuring of state-owned transport services to improve efficiency and to commercialise operations.

With the diminishing capacity of governments to provide sovereign guarantees for the development of transport infrastructure, the EBRD will continue to expand its investments without guarantees – particularly in Russia – and will support poorer countries, such as Moldova, Mongolia and Tajikistan, while building on its support for the Western Balkans and countries further east.


Nine out of ten people in Krasnodar in southern Russia regularly use trams to travel around the city. To improve the level of service provided, the EBRD is financing the purchase of 50 new trams. These will use 30 per cent less electricity than the current fleet and will provide much higher levels of comfort and reliability for the city's 800,000 inhabitants.

# 7

# Corporate sector

EBRD investment in the corporate sector helps countries to diversify their economies beyond oil and gas. It also promotes job creation, encourages regional cooperation, raises environmental standards, strengthens business practices and improves basic services across a range of sectors, including agribusiness, manufacturing, property and tourism, and telecommunications.

An EBRD loan of €71 million is financing the modernisation of production processes at Yug Rusi, the leading producer of edible oil in Russia.

In 2006 the EBRD increasingly focused on helping local entrepreneurs.

## Agribusiness

New EBRD projects in the agribusiness sector totalled €426 million in 2006. About one-third of this total consisted of direct equity investments. New projects were spread across 16 countries, with a growing emphasis on countries at the early or intermediate stages of transition. A total of €38 million involving 19 projects was devoted to the Bank's early transition countries (see page 13), an increase of 60 per cent on 2005.

In 2006 the EBRD increasingly focused on helping local entrepreneurs. For example, Agrokor (the largest privately owned company in Croatia) opened its capital to a financial investor for the first time. The Bank acquired an 8.3 per cent equity stake, which will help the company to develop its business and to restructure ahead of the sale of its shares to public investors.

Agrokor is the region's leading domestic producer and retailer of food products – including mineral water, ice cream, edible oil, margarine and mayonnaise. The EBRD's latest investment builds on the long-standing cooperation between the Bank and Agrokor, dating back to 2000, when the EBRD provided the company with a €170 million syndicated loan for restructuring and regional expansion. In 2004 the Bank financed Agrokor's ice cream subsidiary Frikom in Serbia with a €13 million loan.

Another local entrepreneur to benefit from EBRD financing in 2006 was Sergei Kislov, founder of Yug Rusi (the leading producer of edible oil in Russia). Over the past 13 years the company has grown into a major concern employing some 10,000 employees. Every day the company processes over 6,000 tonnes of sunflower seeds and soya beans, which are supplied by 200 local farms. This makes economic sense for the company but is also a huge boost to local industry.

An EBRD loan of €71 million is helping Yug Rusi to modernise its plant and to improve the efficiency of its packaging

EBRD investment in agribusiness ranges from support for local growers to the development of an efficient processing and distribution system.

facilities. The loan will help the company to become even more competitive – both domestically and internationally – and will give a further boost to the local economy by expanding its support for local farmers. Part of the EBRD loan will be used by Yug Rusi to identify new local sources of raw materials, including sunflowers grown organically.

Two other projects signed by the EBRD in 2006 have the objective of supporting regional cooperation. The EBRD has lent €10 million to Soko Štark, Serbia's leading confectionery maker, which is majority-owned by a Slovenian company (see page 57). It has also provided the same amount to Somboled, a Serbian dairy producer, which is majority-owned by a Croatian company. Both projects will assist the re-integration of south-eastern Europe and increased trade cooperation between the countries of former Yugoslavia.

The EBRD has continued to support EastAgri, a network of agribusiness institutions working in central and eastern Europe that are committed to improving their agribusiness portfolio through information-sharing. The network is coordinated by the Food and Agricultural Organization of the United Nations. EastAgri has helped to introduce innovative approaches for agribusiness investments by international financial institutions and private banks operating in the region. The Bank has also maintained regular dialogue with governments on topical issues, such as the difficulties facing the wine industry in Georgia and new business opportunities in Mongolia.

In the coming years the EBRD will continue to work with international, regional and locally owned agribusiness companies to meet the specific needs of its clients and to respond to market changes. While countries such as Russia, Ukraine and Kazakhstan will receive particular attention along with the early transition countries, the Bank will continue to support agribusiness projects across its countries of operations.

EBRD projects are assisting the re-integration of south-eastern Europe and increased trade cooperation.

## Savouring the sweet smell of success

It has been making the chocolates and biscuits for dipping into coffee – so loved in south-eastern Europe's steamy cafés – since 1922. Soko Štark, Serbia's leading confectionery producer, has a long tradition of making sugary snacks and salty nibbles. Now this well-established company is modernising, with a €10 million loan from the EBRD.

The loan will help Soko Štark upgrade and renew its machinery and support its brand and market development. This will enhance a process that has been under way since Soko Štark's privatisation, finally completed in 2005, and will reverse a lack of investment that had been affecting performance and sales.

The EBRD loan is just one element in a bigger picture. Improvements to this company with its long history in the region are part of a broader transformation of the economies of south-eastern Europe after the conflicts of the early 1990s. The most successful companies are now working together, forming region-wide trading ties – an outcome that was set as a priority for the area during the Bank's Annual Meeting in Belgrade in 2005.

Soko Štark's transformation was accelerated when a majority stake was bought in 2005 by Grand Kafa, a local company majority-owned by the largest food and beverage company in neighbouring Slovenia, the Droga Kolinska Group.

Droga Kolinska's aim is to become the largest food group in the region. Already selling brands such as Argeta, Grand Kafa and Soko Štark worldwide, it has also been acquiring and investing in companies in Serbia and Bosnia and Herzegovina.

"It is important to build business with neighbouring countries if we are to become the biggest food group in the region," said Robert Ferko, Droga Kolinska's chairman. "Droga Kolinska already generates over 75 per cent of its income in foreign markets. We believe that building our position through investment and modernisation is of mutual interest for all parties involved: Droga Kolinska, Soko Štark and the local and regional economy."

Since Droga Kolinska became a majority stakeholder, Soko Štark has been restructuring and modernising across the board and making significant additional investments. It currently employs over 1,400 staff in Belgrade and looks set to meet its latest sales and net profit targets.

This EBRD investment is important as it supports the restructuring and the immediate modernisation of the leading Serbian confectionery producer following its privatisation process. The loan reflects the EBRD's strategy of supporting projects that have a regional dimension and that demonstrate the benefits of cross-border investment.

Visitors to Serbia, meanwhile, can simply enjoy the biscuits and chocolates that café-goers here have always liked to dip in their coffee.

Left Volkswagen Rus received €30 million of EBRD financing in 2006 to fund the construction of a car assembly plant in Kaluga, south west of Moscow.

Above The EBRD invested in several cement-making facilities in 2006, including a €70 million investment in Lafarge in Russia.

## Manufacturing

In 2006 the EBRD provided a total of €715 million to support projects in the manufacturing sector, almost doubling total investment in 2005.

Most of this was directed towards projects in Ukraine (€319 million) and Russia (€311 million), which received 45 per cent and 44 per cent of financing respectively. The remaining 11 per cent was invested across 10 countries, including Bosnia and Herzegovina, Kazakhstan, Romania and Serbia. The EBRD signed projects in a variety of sectors, including textiles, wood, electrical equipment, motor vehicles, pharmaceuticals and steel production.

Several projects in 2006 were designed to modernise industrial facilities, which are in extensive need of refurbishment in many countries, and to harmonise safety and environmental standards with those of the European Union.

The sector attracting the most financing was steel and metal production. A total of €238 million was invested in this area, including €152 million to increase productivity and energy efficiency at the Kryviy Rih steelworks in Ukraine. This will significantly improve environmental and safety performance at the steel plant, with a view to complying with EU standards in the long term.

A loan of €10 million was provided to the Tenaris steel plant in south-east Romania to finance technology upgrades that will allow the company to almost double its annual production by 2009. The project will restructure a formerly state-owned company into a viable entity. The transaction is expected to act as a model for other similar projects in Romania, where several industrial companies remain to be privatised. EBRD investment will have a significant economic impact in terms of developing skills, creating jobs and increasing potential income.

Wood production facilities attracted significant investment in 2006. A loan of €35 million was extended to Kronospan UA to refurbish an existing factory building and to install two production lines for manufacturing wood-based particleboard in western Ukraine. EBRD investment will increase competition in this sector, leading to higher-quality products and better value for money for customers. The entry of a strong sponsor will also raise environmental standards, which are expected to extend throughout the supply chain. This will have a positive impact on forestry practices across Ukraine.

In Russia the EBRD made an equity investment of €70 million in Lafarge to acquire, improve and operate manufacturing facilities in the cement, lime and ready-mix concrete sectors. The project aims to support the development of Lafarge's investment programme, which involves participating in the privatisation and/or development of local companies, enhancing performance and improving environmental standards. This project will help to set standards for the modernisation and restructuring process of this industry, develop technological know-how and improve environmental management.

Elsewhere in Russia the EBRD provided financing of €30 million to Volkswagen Rus to support the construction of an assembly plant in Kaluga, south west of Moscow. The project will help to set higher standards in the Russian car industry and will boost trade opportunities for local part suppliers. Construction of the plant is due to be completed by 2009.

Left The lake resort of Issyk-Kul in the Kyrgyz Republic received further EBRD investment in 2006 to develop cottages and apartments in the resort's Karven Village complex.

Below EBRD investment in the property and tourism sector increased by 23 per cent in 2006.

## Property and tourism

The EBRD invested a total of €200 million in property and tourism projects in 2006 compared with €164 million in 2005, an increase of 23 per cent. The property sector in the EBRD's countries of operations was particularly buoyant in 2006, attracting significant financing from private investors, especially the Moscow property market.

EBRD investment was provided in the form of loans (38 per cent) and equity (62 per cent). The geographical focus of EBRD investment continued to shift from central Europe to south-eastern Europe and further east. The Bank signed projects in Russia, Ukraine, Serbia, Georgia and the Kyrgyz Republic.

However, most projects spanned more than one country. This reflects the fact that the majority of finance provided in 2006 was committed to real estate funds and joint ventures which plan to invest across several countries. In these types of projects, the Bank assumes an important role as anchor investor, helping the sponsor to attract third-party investment. Many of these third-party investors are investing for the first time in a particular region and gain comfort from the Bank's involvement as a co-investor.

The EBRD's participation helps to promote international standards of quality in all of the main areas of property (retail, office, industrial, hotels and residential). In addition, the Bank's involvement supports the development of secondary markets, which helps to increase liquidity and encourage equity investors and developers to expand their participation in the knowledge that they have a reliable exit route. When investing in new companies, the Bank provides hands-on support for the restructuring and development of corporate governance in the respective company.

An important project signed by the EBRD in 2006 was an €8 million equity investment in GTC Ukraine alongside Globe Trade Centre (GTC), a leading property developer in central Europe, to support GTC's expansion into the Ukrainian property market. Up to €76 million will be invested in the development and operation of office, retail and residential property projects in Kiev and other major Ukrainian cities. The project will introduce international standards for property development in these cities, which are still dominated in many cases by outdated buildings, street markets and small retail facilities.

The countries covered by the real estate funds and joint ventures signed by the EBRD in 2006 are Bosnia and Herzegovina, Bulgaria, the Former Yugoslav Republic of Macedonia, Georgia, Moldova, Montenegro, Romania, Russia, Serbia and Ukraine. This confirms the shift of EBRD investment east- and southwards as well as an increase in equity participation versus traditional lending activities. These trends are expected to continue in 2007 and beyond.

One of the biggest regional projects signed by the EBRD in 2006 was an investment of €30 million in Marbleton Property Fund, which is jointly sponsored by JER, a leading international property firm, and Alfa Capital Partners, a Russian private equity and property group. The Fund invests in institutional property developments and income-generating property assets in Russia, Ukraine and other countries in eastern Europe. The Fund will help to introduce new investors to these markets and to meet the need for new property developments in Russia and Ukraine in particular.


Left EBRD investment in Gallery Group has strengthened its position as the second-largest outdoor advertiser in the Russian regions, controlling over 10,000 advertising panels.

Above Internet cafés in Rostov have received EBRD finance via Center-Invest Bank, enabling Russians to have greater access to the internet.

## Telecommunications and new media

In 2006 the EBRD invested €149 million in telecommunications and new media projects. A further €50 million of syndicated funding was provided. The EBRD's projects helped to advance the transition to fully fledged market economies by promoting the regional expansion of mobile telecommunications and the development of independent media.

The EBRD's most significant project in 2006 was a €85 million loan to Mobile TeleSystems, the largest mobile phone operator in Russia, to help the company expand its network across the regions of Russia and into some of its neighbouring countries.

The loan will allow Mobile TeleSystems to provide high-quality services to a growing number of customers and to improve the efficiency of its business. The company has licences to operate in 86 of the 88 regions into which Russia is sub-divided, covering 142 million people or 98 per cent of the country's population. The expansion of the mobile phone network will help to promote commercial activity in the less developed areas of Russia.

Another significant deal in the telecoms sector was the EBRD's investment in Telelink, Bulgaria's leading provider of fixed and wireless telecommunications services. The company also provides IT and communications solutions to government and the private sector. The EBRD provided Telelink with €10 million jointly with the Accession Mezzanine Capital Fund to finance its expansion. Through this transaction, the Bank is supporting the growth of a key local player in a rapidly expanding industry.

In the media sector the EBRD provided €11 million to the Gallery Group, one of the leading advertising media operators in Russia. The project will help to develop an efficient infrastructure for outdoor advertising. By supporting an operator that provides services in the Russian regions, the project is promoting the development of regional commerce. As the company does not have a foreign sponsor, it had previously relied on internally generated cash to meet its financing needs. The EBRD's financing will allow the Gallery Group to expand further and to strengthen its regional presence.

The EBRD's other major project in the media sector was a €50 million loan to Capital Media, the leading television broadcasting group in eastern Europe. EBRD financing will allow the company to extend its operations and to improve its efficiency. The project will support the development of competitive TV broadcasting markets in Croatia, Romania and Ukraine and will finance the corporate restructuring of the company's businesses in the Czech Republic and the Slovak Republic. It is also expected to have a positive impact on the development of local TV production companies in the region.

At the policy level, the EBRD continued to work closely with telecommunications regulators and policy-makers in the Bank's countries of operations. The EBRD made use of grant funding to support policy development, legal reform, regulatory implementation and the privatisation process in Kazakhstan, the Kyrgyz Republic, Mongolia and Serbia. The Bank supported efforts in the early transition countries to develop information and communication technologies and participated in a number of workshops.

In the coming years the EBRD will continue to work in Russia, central and south-eastern Europe and Kazakhstan and will try to increase its activity in the other countries of Central Asia and in the Caucasus. The Bank also aims to increase its investments in media projects, information technology and new areas of business, such as wireless broadband communication.

Bonduelle is one of Europe’s leading fruit and vegetable processors. In 2003 it received a €15 million loan from the EBRD to finance the construction of a vegetable canning plant in Krasnodar in southern Russia. Once the second stage of construction is completed, it is expected to produce 60,000 tonnes of fresh packaged vegetables a year, mostly sweet corn and peas.

# 8

# Donor-funded activities and official co-financing

With the help of donor funding and co-financing from official agencies, the EBRD undertook a range of high-priority initiatives in 2006. These included the Sustainable Energy Initiative, a new multi-donor fund for the Western Balkans and expansion of the Early Transition Countries Fund to increase assistance to the poorest countries where the Bank operates.

Construction of a flood protection barrier for St Petersburg is nearing completion thanks to funding from the Northern Dimension Environmental Partnership, which is supported by nine donors.

In 2006 the EBRD signed grant agreements with donors totalling €113 million.

## Activities in 2006

In 2006 a number of new donor governments joined the EBRD's donor community, new funding was mobilised for key infrastructure projects and Mongolia was embraced within the Early Transition Countries Fund. Official co-financing partnerships were also strengthened. This included new working arrangements with the European Investment Bank (EIB) and participation in a cooperation initiative between the European Union and international financial institutions.

The impact of donor funding was enhanced in 2006 through a contribution of the EBRD's own funds towards the costs of delivering donor-funded projects and programmes, such as the TurnAround Management Programme (see page 66).

As in previous years, a large proportion of donor funding was used by the EBRD for technical cooperation (TC) activities that prepare the way for future EBRD-financed projects and improve the investment climate in the Bank's countries of operations. Donor grants allow the Bank to hire experts who help to develop the know-how of EBRD clients. Priority sectors for the Bank include small and micro-business development, infrastructure services and improving the institutional framework.

In 2006 the EBRD signed grant agreements with donors totalling €113 million for TC and official co-financing activities, mostly in the form of new agreements (€74 million) but also through replenishment of existing funds (€39 million). In line with previous years, the largest contribution was provided by the European Union (€36 million) while an increasing proportion was channelled through multi-donor funds (€26 million). Additional grants were mobilised for specific investment projects (see below).

Total funding committed for new TC projects amounted to €74 million in 2006. Much of this was targeted at the Western Balkans and the early transition countries (ETCs). Together, these two regions accounted for €37 million (50 per cent) of the overall total.

TC assistance to the new EU member states amounted to €13 million and focused on providing finance to micro, small and medium-sized enterprises.

Funding for the lakeside resort of Issyk-Kul in the Kyrgyz Republic was initially provided through the Kyrgyz Investment Credit Bank, which was established with the help of technical assistance from Japan.

In Russia, €10 million supported the development of small business and the strengthening of infrastructure and environmental projects. In Belarus, Kazakhstan, Turkmenistan and Ukraine, €11 million of TC funds was dedicated to expanding private enterprise and creating environmentally sound infrastructure and energy sectors.

The Sustainable Energy Initiative (SEI) is an example of how donor funding and EBRD finance work hand in hand. Aimed at improving the efficiency of energy production and usage in the Bank's countries of operations, the SEI is being strongly supported by donor agencies.

Under the SEI, the EBRD will invest up to €1.5 billion in energy efficiency, renewable and clean energy projects over three years (see page 18). The initiative aims to mobilise a further €100 million from donor governments to address the barriers to investment in sustainable energy, to raise awareness of the positive returns on investment from energy efficiency measures and to help the Bank make the business case for cleaner energy technologies. Almost €50 million has already been pledged.

At the inaugural Sustainable Energy Forum held in November 2006, the EBRD discussed with the donor community how the initiative will work in practice. Initial pledges were received from Austria, Canada, the European Union, France, Italy, Luxembourg, the Netherlands, Sweden and the United Kingdom. Follow-up discussions will take place with other donors later in 2007.

Another important initiative launched in 2006 was the creation of a new multi-donor fund for the Western Balkans (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia). The Western Balkans Fund has been established to mobilise additional funding for these countries and to strengthen the coordination of EBRD-donor assistance.

The founding contributors to the Fund are Austria, Canada, the Czech Republic, Finland, Ireland, Luxembourg, the Netherlands, Norway, Poland, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom. The inclusion of the Czech Republic, Poland, the Slovak Republic and Slovenia is particularly significant as it is the first time that these countries have become part of the EBRD's donor community.

The inaugural meeting of the Western Balkans Fund was held in November 2006, with initial pledges amounting to €13 million. A priority for the Fund will be to coordinate its activities with other major donors in the region, including Italy and the European Union.

One of the EBRD's most significant donor funds completed its second year of activity in 2006. The Early Transition Countries (ETC) Fund coordinates donor assistance to the Bank's poorest countries of operations – Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia (which joined in 2006), Tajikistan and Uzbekistan. The Fund is supported by Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. By the end of 2006, pledges to the ETC Fund totalled €46 million (see page 14).

Another initiative strongly supported by donor funding is the Northern Dimension Environmental Partnership (NDEP), which provides support for environmental projects in north-west Russia (see page 21). NDEP receives funding from Canada, Denmark, the European Union, Finland, Germany, Norway, Russia, Sweden and the United Kingdom. At the end of 2006, donor funding to NDEP totalled €241 million, with nearly €150 million designated for nuclear safety activities in north-west Russia. A full account of how the EBRD uses donor funding to support nuclear safety is provided on page 68.

In addition to TC funding provided by donor governments, public sector institutions work alongside the EBRD



Left Donor funding provided through the Early Transition Countries Fund is helping to bring vast improvements to bus services in Georgia's capital, Tbilisi.

Above A €1 million grant provided by the European Union is assisting Kyrgyz banks in developing micro lending skills.

to provide official co-financing for investment projects. This amounted to €1.45 billion in 2006, a considerable increase on 2005 (€770 million). Most official co-financing is in the form of loans, with smaller amounts in the form of grants and other types of participation (see below). Around 70 per cent of the official co-financing provided in 2006 was targeted at developing environmental and infrastructure projects in the new EU members and Croatia.

By far the largest official loan co-financing partner has been the EIB with a contribution of €822 million in 2006. Over the years the EIB has co-financed some 70 projects with the EBRD. Key areas of EBRD-EIB co-financing have included NDEP and cooperation in the Western Balkans.

Other important official loan co-financing in 2006 was made by the Nordic Investment Bank (€188 million) and by Japanese and Canadian agencies, which contributed an additional €68 million in co-financing. Projects in the energy, municipal infrastructure and transport sectors accounted for 80 per cent of the co-financing provided to EBRD investments.

An essential element of official co-financing is the provision of grant-funded support to EBRD projects. As in previous years, the European Union was by far the largest grant provider in 2006, with support amounting to €177 million for a number of projects, including water and waste treatment plants in Bulgaria and Romania. In December 2006 the European Union and the EBRD agreed further financing for two water projects in Georgia and a power plant in Armenia.

Sweden's International Development Cooperation Agency also provided grant co-financing to two water projects in Georgia. Switzerland's State Secretariat for Economic Affairs provided grant support for a water project in Georgia and for the district heating system in Romania.

The Italian government and the EBRD signed an agreement in 2006 for the establishment of a new instrument – the Italy-EBRD Western Balkans Local Enterprise Facility – to provide equity, risk-sharing and debt financing to local enterprises. The Bank is contributing €20 million to the new facility while the Italian government is providing €12 million (€10 million in co-financing and €2 million in technical cooperation).

In addition, the EBRD signed a Memorandum of Understanding with the US Millennium Challenge Agency to jointly finance projects in Georgia in the municipal infrastructure, energy and roads sectors.

The ETC Fund was expanded in 2006 to include Mongolia, the Bank's newest country of operations.

The Business Advisory Services programme uses the skills of local consultants to help small businesses in 17 countries improve their business practices.

## Building stronger businesses

To build stronger businesses in the EBRD's countries of operations, the Bank makes use of two donor-funded programmes: the TurnAround Management (TAM) programme and the Business Advisory Services (BAS) programme.

Both TAM and BAS work directly with individual enterprises, responding to their particular needs. TAM brings in experienced Western executives to help local management teams learn new business skills while BAS uses local consultants to help micro and small enterprises change the way they operate. This not only helps enterprises to grow but also gives a boost to local consultants.

In 2006 a further €19 million was provided by donors for TAM/BAS activities, bringing the total donor funding for the two programmes to €146 million. This funding has allowed the EBRD to implement 1,400 TAM projects and 6,000 BAS projects.

The success of the TAM/BAS programme can be simply measured by charting the progress of the enterprises that it has helped. On average, each enterprise has increased its productivity by about 30 per cent. This has helped these businesses not only to expand their local markets but also to develop their export potential. In particular, TAM/BAS has assisted business growth in under-developed rural areas. In 2006 around 75 per cent of new TAM projects and 60 per cent of new BAS projects were outside major cities.

The EBRD has fully integrated the TAM/BAS programme into the Bank's mainstream activities, making it a key component of EBRD support for small businesses, the early transition countries (see page 13) and the Western Balkans Initiative (see page 64).

Companies receiving TAM/BAS support have subsequently received financing of €653 million directly from the EBRD or indirectly through EBRD-supported financial institutions. A further €897 million has been provided in co-financing, leading to a total project value of €1.6 billion.

In 2006, TAM started 115 new projects, a 15 per cent increase on 2005. The majority of projects were concentrated in the Western Balkans and the early transition countries in line with the Bank's strategy of moving south and east. TAM also continued its successful programmes in Kazakhstan, Mongolia, Russia and Ukraine and in the under-developed regions of the two newest members of the EU, Bulgaria and Romania.

BAS started 1,050 projects in 17 countries in 2006, an increase of 7 per cent on the previous year. Five new BAS offices were opened in Tirana (Albania), Aktobe (Kazakhstan), Osh (Kyrgyz Republic), Bucharest (Romania) and Belgrade (Serbia).

TAM/BAS initiatives in 2006 included promoting gender equality through 30 tailor-made consultancy projects and 20 workshops and seminars aimed at developing the businesses of women entrepreneurs. Topics covered by the initiative included issues affecting new businesses, marketing techniques and gaining access to finance.

Other TAM/BAS schemes focused on increasing energy efficiency in small businesses and tackling pollution. TAM programmes in Central Asia, the Russian Far East and the Western Balkans are helping companies to improve their environmental practices without incurring a heavy financial burden. An environmental programme supported by BAS in the Former Yugoslav Republic of Macedonia has helped 40 companies comply with EU directives on pollution without a loss of competitiveness.

## Bringing a sparkle to shopping in Armenia

For anyone whose retail experience of Armenia is limited to makeshift premises selling basic groceries, Turkish sweets, brandy and cigarettes, Star supermarkets – gleaming stores full of global products – come as a glorious surprise.

The brainchild of entrepreneur Henrik Zakharyants (founder of the 12-year-old Valletta food-importing business), Star stores are managed by Vahan Kerobyan. A former HSBC banker in his thirties, he was recruited in 2005 as the head of Valletta's project to set up Armenia's leading supermarket chain.

The project has gone from a twinkle in Zakharyants' eye to realisation and profit with help from the EBRD's TurnAround Management (TAM) programme. TAM pairs fledgling companies in the EBRD's countries of operations with retired Western executives from the same line of business, who can share expertise and experience.

In Star's case, the consultant was Peter Flach, a Toronto-based former senior executive with the food retailer 7/11. When he first visited Yerevan in summer 2005, the Star project was "at Ground Zero", he laughs. Since then, the number of stores has gone from two to six, and sales have risen from €759,000 a year to well over €759,000 a month.

Peter Flach has made six visits to Yerevan. Vahan Kerobyan has been once to Canada, where Peter Flach used his industry contacts to show the young ex-banker how supermarket and wholesale distribution businesses actually work in the West.

"Most of the things Vahan saw here he has either implemented already or is in the process of implementing," he says.

Today Star has not only been separated organisationally from Valletta, but also its internal structure has been divided into two businesses. One consists of the supermarkets. The other is a distribution centre – a stand-alone profit centre, supplying stores without sitting on "dead" inventory. In-store merchandising is done with an inventory management scheme which lets Star stock "only what sells, in the right quantities".

On the staffing front, managers have been recruited for operations, finance and marketing. Star provides training in customer care and has introduced performance-based incentives to help staff perceive work as a career, not a job. Its development plan for the next five to ten years focuses on developing its presence in Yerevan, where one-third of Armenians live.

The TAM project, funded with 130,000 Canadian dollars by Ottawa, has since helped Star attract the EBRD as a commercial investor with funding of €3 million through the Direct Investment Facility.

"Hats off," Peter Flach says, "they've accomplished a lot in a short time. The reason they were so successful was partly that you had a market that was ready. Partly it was the EBRD's flexibility. And partly it was the people, who have been incredibly energetic and committed to making it work."

9

# Nuclear safety

Over 20 years have passed since the explosion at Chernobyl's nuclear reactor. During this time, major work has been undertaken on making the site safe. Much of this has been funded by the Chernobyl Shelter Fund, one of six nuclear safety funds managed by the EBRD on behalf of 29 donor countries and the European Union, which have contributed over €2 billion.

## Chernobyl

In December 2006, work was completed on stabilising the structure – the so called "shelter" – built around Unit 4 of Chernobyl Nuclear Power Plant following the accident in 1986. The programme, comprising a number of measures both inside and outside the shelter, is the largest international project to be completed at the site so far. It has also been the most challenging, in view of the technical difficulties and the high radiation levels that are still present.

The programme was financed by the Chernobyl Shelter Fund (CSF), which is administered by the EBRD on behalf of 29 donor governments and the European Union. By keeping the cost to roughly €50 million, the Bank ensured that the programme remained within the original cost estimate.

A major element of the project was to erect large metal structures to stabilise the shelter's western wall and to absorb part of the roof's load. Due to the high radiation in some workplaces and in line with strict radiation protection requirements, more than 2,500 workers were employed during the project which lasted for 18 months. These stabilisation measures will help to reduce the risk of collapse for the existing structure for at least 15 years.

This will allow sufficient time for the destroyed unit to be enclosed by a new "safe confinement" – a large arch-shaped construction that will enclose the shelter and its radioactive contents – to be financed by the CSF. The procurement process for the design and construction of this new confinement is almost complete. The project is likely to cost around €430 million and a contract is expected to be awarded in 2007.

Two projects related to the safe decommissioning of Chernobyl are being financed by the donor-funded Nuclear Safety Account (NSA), which is also administered by the EBRD. In 2006 the NSA Assembly approved the proposed way forward for completing the interim spent fuel storage facility at the site. It also approved the strategy for making the liquid waste storage facility operational.

## International Decommissioning Support

In Bulgaria, Lithuania and the Slovak Republic, the International Decommissioning Support Funds (IDSFs) managed by the EBRD are assisting with decommissioning and energy sector projects related to the early closure of Chernobyl-type reactors and first-generation, Soviet-designed nuclear power units. Projects are being implemented in line with the work programmes approved by donors to these three Funds.

In Bulgaria the IDSF has co-financed energy efficiency projects, which are serving as a model for similar schemes elsewhere. In the Slovak Republic, grant funding has been requested from the IDSF for credit lines to support energy efficiency measures in public and residential buildings. In Lithuania the major energy sector project to be co-financed by the IDSF concerns the environmental upgrade of the largest conventional power plant in the country.

Assistance with developing the energy sector was one of the prerequisites for the closure of Units 3 and 4 at Kozloduy Nuclear Power Plant in Bulgaria and Bohunice 1 (V1) in the Slovak Republic at the end of 2006 in line with EU accession agreements and respective Framework Agreements with the EBRD. This leaves only Bohunice 2 (V1) and Ignalina 2 in Lithuania, which are due to be closed in 2008 and 2009 respectively. The three Funds have so far received contributions in excess of €1 billion, the vast majority of which have been provided by the European Union.

## Northern Dimension Environmental Partnership

Donors to the Northern Dimension Environmental Partnership (NDEP) Fund, which is also administered by the EBRD, approved funding of two large nuclear projects in 2006. These involve the decommissioning of a derelict and heavily contaminated former storage facility for spent nuclear fuel at the coastal base of Andreeva Bay and the decommissioning of the service ship *Lepse*, which contains spent nuclear fuel from nuclear submarines and other ships. The costs of these operations are likely to exceed €60 million.

The two projects will reduce serious security and environmental hazards and the levels of highly radioactive waste in north-west Russia. Both projects were identified as top priorities in the Strategic Master Plan for the region, which is now being finalised by Russian specialist institutes with the support of Western experts.

Once completed, the Master Plan will provide a comprehensive overview of the measures that need to be undertaken by Russia to reduce nuclear, radiological and environmental risks posed by the legacy of the Soviet Northern Fleet. Substantial assistance will continue to be provided by the international community through bilateral programmes and NDEP.

# 10

# Evaluating EBRD activities

Some 80 per cent of the EBRD's projects evaluated in 2006 had an "Excellent-Satisfactory" impact on the transition process. A total of 58 per cent of projects evaluated over the last ten years received overall performance ratings of "Successful" or "Highly Successful".

## Independent evaluation

The EBRD's activities are evaluated to establish how well they meet their objectives and the extent to which they comply with the Bank's mandate. The EBRD 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.

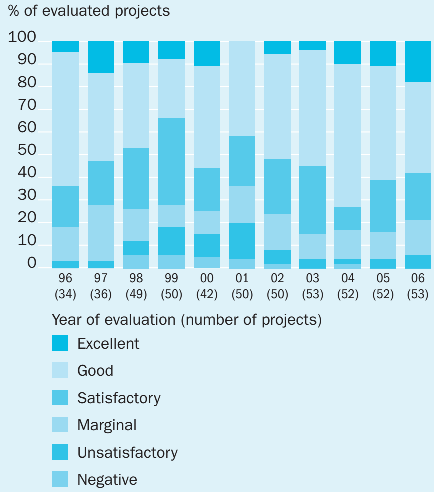
The impact of EBRD projects on the transition process is assessed by the Bank's Evaluation Department (EvD), which is independent of the EBRD's banking operations. The Chief Evaluator, who heads the Department, reports exclusively to the Bank's Board of Directors.

## Impact on the transition process

The Evaluation Department reviews the impact of EBRD projects on a particular sector and on the economy as a whole. The criteria for determining a project's impact on the transition process are the same as those applied during the 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 considerations include whether 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.

Over the past ten years, EvD has assessed 521 projects. Of these, 54 per cent achieved a transition impact rating of "Good" or "Excellent" and a further 23 per cent were assessed as "Satisfactory". Chart 1 shows the annual evaluation results from 1996 to 2006.

**Chart 1** **Transition impact ratings of EBRD projects 1996–2006**




### Special study: Telecommunications and new media

The Evaluation Department (EvD) undertook a special study in 2006 of the EBRD's activities in telecommunications and new media. EvD reviewed the EBRD's policy for this sector (last updated in 1999), assessed the Bank's overall performance, drew lessons from past experience and identified challenges and opportunities for the future. The study considered all EBRD projects and donor-funded "technical cooperation" activities in telecommunications and new media signed between 1991 and 2005.

EvD rated the EBRD's overall response to the transition challenges in the telecommunications and new media sector as "Successful". This evaluation is based on an analysis of individual projects and on an assessment of the Bank's overall performance in this sector.

When the evaluation is viewed in the context of a broader analysis of indicators, such as relevance, efficacy, efficiency and impact, EvD found that the strong results for efficacy and efficiency ("Good" and "Excellent") were somewhat tempered by "Satisfactory/Good" ratings for relevance and impact. This is partly because successful impact on the transition process relies not only on market expansion and increased competition (for example, through an increase in mobile telephone companies) but also on adequate privatisation, regulation, development of skills, network modernisation and corporate governance. While the EBRD has put great emphasis on efficacy and efficiency, the relevance and impact of its activities in this sector have received less attention.

The study recommended that the EBRD prepare a new sector policy to address changing needs, particularly in the countries at the early or intermediate stages of the transition process. A strengthening of the sector strategies in country strategy documents was also suggested to provide more specific operational guidance. The study also recommended that the Bank intensify its dialogue with countries of operations that still have large challenges remaining in this sector. This could be accompanied by an intensification of technical cooperation funding to provide guidance on reform in each country. The complete study is available on the Bank's web site (www.ebrd.com/projects/eval).

In 2006, 20 per cent of evaluated projects were given a transition impact rating of "Marginal-Negative", which is lower than in previous years. The gradual improvement in ratings since 2001 has been maintained, with an increasing number of projects receiving an "Excellent" rating for transition impact.

This may be partly due to the diminishing impact of the Russian financial crisis of 1998. Projects evaluated at the turn of the century may have been affected by the fall-out from the Russian crisis, which damaged the sustainability of some private sector projects and prevented them from realising their full potential.

Projects evaluated in the last couple of years, particularly in the private sector, were mainly approved after those events and may not have faced the same difficulties. It is noticeable that ratings improved strongly between 2001 and 2004 and have levelled off a little since then.

The share of projects with an "Excellent-Satisfactory" transition impact rating in 2006 was 80 per cent. Chart 2 shows cumulative results for transition impact for the past ten years. It reveals that the positive scores for transition impact are stable at a relatively high level of between 75 and 80 per cent.

## Overall performance of EBRD activities

When determining the overall success of EBRD activities, EvD 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).

Over the past ten years, 58 per cent of evaluated projects achieved a rating of "Successful" or "Highly Successful" (see Chart 3). This percentage can fluctuate substantially on an annual basis (for example, 73 per cent in 2004 but only 46 per cent in 2001) but the percentage has improved generally since 2001. Although the proportion of projects rated "Successful" or "Highly Successful" has fallen a little since 2004, the number of "Highly Successful" projects continues to rise.

**Chart 2 Cumulative transition impact ratings of EBRD projects 1996–2006**

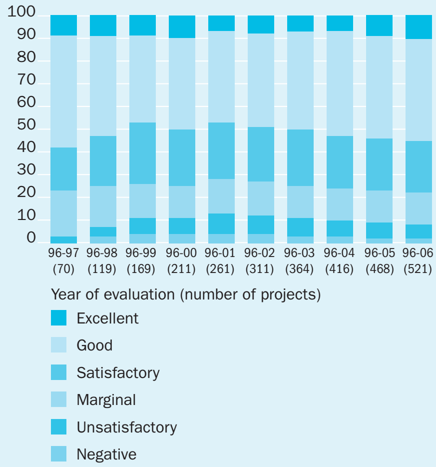
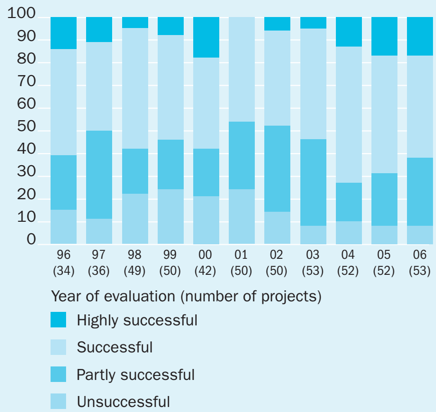



**Chart 3 Overall performance ratings of evaluated EBRD projects 1996–2006**




## Special study: Property sector

The Evaluation Department undertook a special study of the property sector in 2006 to evaluate the EBRD's overall policy (last updated in 2001), including the Bank's efforts to assist its countries of operations with sectoral reform. The study assessed past performance in over 50 projects signed between 1992 and 2004. These included finance for city centre hotels, office buildings, shopping centres, property investment funds as well as donor-funded technical cooperation activities.

The study evaluated to what extent the projects fulfilled the objectives of the Bank's property sector policy and assessed the efficacy, efficiency and overall impact of these projects. It concluded that the EBRD's activities in this sector were "Partly Successful". It found that the method of providing finance was largely successful where it could be applied but the EBRD's impact in the property sector was limited to about half of the Bank's countries of operations.

The EBRD's property sector activities were most successful in countries that had undertaken sufficient market and institutional reforms for a critical mass of projects to succeed. Lack of adequate reform was an obstacle to the Bank's method of providing finance in several countries where significant challenges still remain for the transition process. This was particularly evident in countries where market-supporting institutions, such as frameworks for property rights, and the privatisation of property are not at an advanced stage.

The study provided eight recommendations for the EBRD to consider when preparing a future policy for the property sector. These included the need to provide finance in countries that are carrying out adequate reforms and to strengthen dialogue about sector reform with countries facing large challenges in the property sector. This will help to prepare the way for future projects. The study also recommended exploiting complementarities between the municipal infrastructure sector and the property sector – for example, assisting municipalities with the privatisation of urban land and providing finance for its commercial development. The special study is published in full on the EBRD's web site.

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 (80 per cent in 2006). This difference is partly due to lower ratings for financial performance reducing the overall performance score. These lower ratings are triggered by the high-risk investment climate in the countries where the EBRD operates, particularly in the countries at the early or intermediate stages of the transition process.

Furthermore, the limited progress in institutional reforms and the slow implementation of privatisation programmes have added to the investment risks. However, during 2006, nine projects scored an overall rating of "Highly Successful". Based on these findings, EvD concludes that the EBRD has been relatively successful in operating according to its mandate, especially in view of the difficult operating environment.

The number of projects rated as "Highly Successful" continues to rise.

## Successful project: Local cement producer

The EBRD provided two loans totalling €40 million to a local cement producer. The aim was to support the conversion from gas to coal as the principal source of fuel for the company's kiln and to finance the acquisition of other cement plants and associated companies.

EvD has rated the project's overall performance as "Successful" based on the achievement of the major objectives of the project. The company's environmental performance is rated "Satisfactory" but it is expected that this performance rating could become "Good" if the company continues to make progress in this respect. The extent of environmental change is "Substantial". The most striking achievement at the cement plant was the reduction of the total quantity of dust emitted from all stationary sources from 657 tons per year in 2001 to only 106 tons per year in 2004.

The company is one of the leading cement producers in the country and has been able to maintain about a one-third share of the cement market. The company has successfully pursued the strategy of expanding its cement factory to cater for the growing demand for cement and has increased its competitiveness through realising economies of scale. The company has also succeeded in diversifying through the acquisition and modernisation of companies that produce clay products, such as roof tiles and bricks, and in expanding into neighbouring countries. The company has introduced new standards for business conduct and has improved the reporting systems of its subsidiaries.

EvD found that supporting a domestic producer without a strategic industry partner requires substantial financial, organisational and management resources, with the EBRD playing an active support role. Another lesson was that the EBRD's standard Environmental Action Plan format should be modified to include a cost estimate for each action proposed under the investment plan. If funds are specifically allocated for environmental investment, it is more likely that they will be implemented.

## Less successful project: Refinancing and restructuring an agribusiness company

The EBRD provided a loan, part of which was syndicated, to an agribusiness company that had previously received assistance from the Bank. The loan was broadly a refinancing of existing corporate indebtedness to create a viable financial structure that would permit the sponsor's investment programme with the client to proceed.

The client benefited from the restructuring of its debts and reduced borrowing costs. However, the design of the operation did not permit the close cooperation and continuous dialogue with the client and the sponsor that is needed to forge constructive long-term alliances. Some ambiguity in the formulation of the Bank's project documentation led to third-party misunderstanding of the nature of the Bank's role.

When outside parties expressed concern about the environmental implications of some of the client's other activities, the EBRD intervened to encourage the sponsor and client to engage in open dialogue. The sponsor made some strategic and operational changes in response to the concerns. The changes added to the project's impact on the transition process, resulting in a wider range of producers being involved in the supply chain while maintaining high standards of supply.

Despite satisfactory performance in some areas, including its impact on the transition process, the project can only be rated as "Partly Successful". The client's financial performance has been below expectations. Lower than expected profits and cashflow necessitated a further refinancing through another source. The structure of the project precluded the EBRD from including conditionalities in the loan agreement and diminished the role that the EBRD could play in assisting the company.

The main lesson learned from the project relates to environmental issues. At the project appraisal stage, the EBRD should assess the environmental performance and liabilities of the client and sponsor as a whole, especially where other aspects of their operations (beyond those directly financed by the EBRD) are environmentally sensitive. Another lesson was that in such cases, the Bank should commission independent expert environmental consultants to carry out an environmental audit and analysis.

## Applying lessons to new projects

Through its analysis of EBRD projects, EvD draws lessons about important aspects of Bank projects that can help to improve the quality of future operations. The Chief Evaluator provides an overview of lessons learned in the Annual Evaluation Overview Report, which is published on the Bank's web site.

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 EvD on the lessons learned from project evaluation. Regular feedback is offered at every stage of the project approval process to ensure operational staff are aware of relevant past experience.

Case-based workshops are held and tailored to the specific needs of banking teams. EvD also makes presentations to management and the Board of Directors on the evaluation of individual projects. To enhance the lessons-learned process in the Bank, EvD maintains a lessons-learned database that contains more than 2,400 lessons.

Examples of lessons learned during 2006 are presented in the case studies provided in this chapter, which include projects with a successful outcome and those with a less successful outcome.

### Successful project: Tyre manufacturer

In 2001 the EBRD took an equity stake of 49 per cent in a tyre manufacturing company to be established in one of the Bank's countries of operations. The remaining 51 per cent was taken by a Western sponsor. The project consisted of the acquisition of an old factory and its renovation to create a new tyre manufacturing plant.

The aim of the project was to demonstrate the impact of a Western investor entering the sector, to strengthen competition, especially in the premium segment of the market, and to encourage a gradual shift from the importing of raw material to procurement from local producers.

Just over two years since the start of production, the company is already sourcing over half of its raw materials domestically. Although the company has been faced with high levels of inspections and bureaucratic intervention, the objectives of the project are expected to be met and exceeded.

The project has achieved its aim of demonstrating good practice and of encouraging competition as other international companies have moved into the market. The environmental performance is rated as "Good" and the extent of environmental change as "Excellent" in view of the state of the factory before acquisition. The project was structured with a "put" option to mitigate the EBRD's risk, and the Bank's relationship with the company is excellent. The project was rated as "Successful" overall.

One of the lessons learned involved the cash flow forecast, which should have included contingency costs for possible delays. Another lesson concerned company expansion and related health and safety issues, which should always be referred to the Bank's environment department for advice and an assessment of risk.

### Less successful project: Solid waste project, Central Asia

In 1998 the EBRD provided a sovereign-guaranteed loan totalling €16 million to a capital city in Central Asia for improvements to the municipal solid waste management system. This was a joint project with the World Bank.

The project aimed to address serious deficiencies in the city's waste management. According to the paper presented to the EBRD's Board of Directors, "the solid waste collection and disposal system had deteriorated to a point where waste management services have become totally inadequate". Waste handling equipment was old and obsolete, and illegal dumping had become a major problem. Although municipal services had been partly corporatised, the client was a loss-making company under the direct control of the municipality.

The EBRD's major focus was on sector reform, achieving tariff increases of 50 per cent and promoting privatisation by contracting out at least 50 per cent of the waste collection services. The project was only rated "Partly Successful" for a number of reasons. While local privatisation was under way, the EBRD switched its focus to international privatisation – an unrealistic objective that was not met. The project structure under-estimated the time required for implementation, leading to costly and unnecessary delays as project agreements were updated annually. While the project has resulted in significant environmental improvements, the objective of raising environmental performance to EU levels was unrealistic.

One lesson learned from this project was that in a difficult investment environment, local privatisation may be a good first step. The success of a local company will provide a good "demonstration effect" and such a company may become a take-over target once the investment climate improves. The project also showed that restructuring public utilities will usually involve tough tariff decisions so the EBRD needs to ensure that the government is committed to making the necessary tariff adjustments.

## Evaluating technical cooperation activities

EvD has evaluated over 500 consultant assignments funded through the EBRD's technical cooperation (TC) programme. These assignments have been supported by almost €150 million of funding from over 30 donors. When combined with TC assignments evaluated during EvD's special studies, this figure rises to over 1,300 assignments involving more than €330 million of funding.

A key evaluation role is to ensure that past experience is applied to new projects.

### Successful project: Finance for micro and small business in the Caucasus

Two large technical cooperation projects lasting five years financed the development of skills in a new microfinance bank in the Caucasus established by international financial institutions. Consultants assisted the bank in training loan officers, setting up sound lending procedures and practices, expanding outreach to remote areas, and establishing an information technology system. As a result, the bank performed exceptionally well despite an uncertain investment climate.

The project was rated as "Successful". In particular, the project helped the bank to provide a new service to the microfinance sector, which had not been well served in this country. The bank's shareholder structure – consisting of international financial institutions with no local partner – safeguarded the newly established bank against undue local pressure and external corruption. The bank drew a swift lesson from improper transactions made by its own staff, introducing tighter procedures and resuming its strong performance.

The EBRD learned that well-trained staff can help to foster new business and contribute to a project's success. Grant funds can be particularly effective at reducing risk and building a corruption-free banking culture. It was also learned that donor funding can be especially useful in advancing the transition process through new operations. However, the timeframe for technical cooperation funding needs to be defined at the outset.

### Less successful project: Metro project, central Europe

In 2002 a capital city in central Europe approached the EBRD for technical cooperation (TC) assistance in expanding its underground system under a public-private partnership (PPP). It sought to pursue this endeavour under a recent national PPP initiative, for which the government had independently sought the Bank's TC assistance. Both TC projects were subsequently combined.

When the metro feasibility study did not confirm the financial viability of the full-scale expansion plans, the city decided in 2003 that alternative transport solutions should be considered, resulting in the premature termination of one of the TC projects. The other TC project continued and even expanded. These changes coincided with national elections in 2003 that brought into power a new government that was non-sympathetic towards PPP financing.

Overall the project was only rated as "Partly Successful". The fulfilment of objectives for the two TC operations was rated as "Marginal". The PPP law, which was developed with the support of TC funding, entered into force in 2005. However, this has not led to an EBRD investment nor has any other PPP project materialised in this country.

EBRD handling of the project was rated as "Good", particularly in view of the banking team's laudable efforts to protect the TC operation in the wake of political changes. The environmental performance was rated as "Satisfactory" and the extent of environmental change as "None".

The project's impact on the transition process is rated as "Satisfactory" mainly owing to its demonstration potential for neighbouring countries and the expectation that investment projects may come to fruition once the government takes a more sympathetic stance towards PPP financing.

The EBRD learned that projects can sometimes have elements that cut across different areas of expertise within the Bank – for example, banking and legal transition or environment. In such cases, the project should be assigned to a multi-disciplinary team and adequate time and budget should be allocated.

# 11

# Procurement

The EBRD offers a range of procurement opportunities for suppliers, contractors and consultants. In 2006 EBRD-financed projects led to 98 public sector contracts, valued at €1.36 billion.

## Procurement policies

The EBRD applies principles of non-discrimination, fairness and transparency to all contracts for works, goods and services. These principles, enshrined within the Bank's *Procurement Policies and Rules*, are designed to promote good practice and efficiency and to minimise risk in implementing 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.

Private sector clients can apply their own procurement practices, provided that the EBRD is satisfied that these practices are commercially sound and that fair market prices are obtained. The client must also ensure that conflicts of interest are avoided and that the best interests of all parties involved in the process are preserved. More precise rules apply to procurement in public sector operations where the EBRD requires 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 2006

In 2006 the EBRD continued to work actively with other multilateral development banks (MDBs) to harmonise procurement documentation for public sector projects. In November the EBRD hosted a meeting for MDBs' Heads of Procurement. This concentrated on the harmonising of documents and the sharing of procurement information and practices between institutions. It also discussed the harmonised definitions of fraud and corruption as proposed by the IFI Anti-Corruption Task Force.

The EBRD continued to provide procurement support services throughout 2006. This included running procurement seminars and workshops for EBRD clients and their agencies in the Bank's countries of operations. The EBRD also ran workshops for businesses wishing to participate in procurement contracts resulting from EBRD-financed projects. Government representatives also participated in these workshops.

In 2006, EBRD-financed projects led to 98 public sector contracts valued at €1.36 billion – a record year by value – of which €776 million was financed by the EBRD. This compares with 122 contracts valued at €616 million in 2005. The value of contracts resulting from open tendering procedures in 2006 was €1.27 billion, or 93 per cent of all contracts by value. Contracts for transport and municipal and environmental infrastructure projects accounted for 37 and 51 per cent respectively (by value) of all public sector contracts awarded in 2006.

Although the number of public sector contracts associated with EBRD-financed projects has declined, the value of these contracts is higher than ever before. The increasing value of this business has also resulted in an increase in the number of “concerns” and formal complaints received by the Bank regarding procurement practices. In 2006 the EBRD received 12 concerns and 15 formal complaints compared with 12 and one respectively in 2005.

A “concern” is any issue that is brought to the attention of the EBRD by a tenderer regarding the procurement process or contract award. The concern is referred to the contracting authority, which is expected to address and resolve the issue with the relevant party.

If the two parties cannot come to an understanding or an agreement, the concern is raised to the status of a complaint. At that point, the EBRD freezes the procurement process and an investigation is undertaken.

## Procurement opportunities

To improve the awareness of procurement opportunities concerning EBRD-financed projects, the Bank regularly publishes information about forthcoming contracts on the procurement section of the EBRD web site: www.ebrd.com/oppor/procure.

# 12

# Organisation and staffing

In 2006 the EBRD developed its human resources strategy to address the changing focus of the Bank's activities over the next five years. The strategy puts EBRD staff at the heart of achieving the Bank's mission.

Mongolia became the EBRD's newest country of operations in October 2006. To establish a local presence, the EBRD opened a Resident Office in Ulaanbaatar in the same month.

## Human resources

The fundamental principles of the EBRD's human resources strategy are positive engagement with all Bank employees, responsiveness to the needs of departments throughout the Bank, innovation in meeting those needs, professionalism and transparency.

The strategy has four specific goals. First, the EBRD aims to attract high-quality and skilled staff with entrepreneurial spirit and a keenness to work in an innovative environment. International diversity among employees remains a key component of achieving the Bank's mission. A total of 59 nationalities are currently represented among EBRD staff.

Secondly, the EBRD encourages staff to develop their work skills through a combination of training and new job opportunities within the Bank's network of 33 offices in 29 countries. Mobility of staff between Headquarters and the Bank's local offices is particularly important in the context of the Bank's new business plan. The planned opening of new local offices (in Dnipropetrovsk in Ukraine, Podgorica in Montenegro and Krasnoyarsk, Rostov-on-Don and Samara in Russia) will create new employment opportunities for staff based in HQ and other local offices. The EBRD ensures that relocations are combined with career development wherever possible.

Thirdly, the EBRD puts a strong emphasis on performance, rewarding staff according to their level of achievement. Compensation and benefits are calculated on the basis of location and ensuring that salaries remain competitive within an increasingly buoyant job market.

Finally, the EBRD takes all necessary steps to safeguard the health and safety of staff (see page 81). The Bank's work-life balance programme, which allows staff to balance the needs of their job with their own personal needs, is continually monitored and improved where necessary. Communication between staff and management and consultation with employees are given a high priority. The Bank's Staff Council and the Ombudsman play an important role in ensuring a constructive dialogue.

A total of 59 nationalities are currently represented among EBRD staff.

Some 2,969 days of training were undertaken by EBRD staff in 2006.

In 2006 the EBRD conducted its third Staff Survey. This was completed online for the first time, with nearly two-thirds of staff (796 people) in Headquarters and in the Bank's local offices participating. The survey was conducted by an external, private consultancy specialising in staff attitude surveys for major corporations and public institutions around the world.

The survey measured staff attitude across a number of important dimensions, such as motivation, job satisfaction and organisational performance. Results show that staff members feel a deep commitment to the mission and core purpose of the Bank. There are a few areas where some staff members feel that the way the Bank makes decisions and recognises merit should be improved. Full survey results were posted on the Bank's intranet and are the subject of follow-up discussions.

## Staffing

At the end of December 2006, the EBRD had 1,018 employees based in London compared with 969 in 2005. Resident Office staff totalled 261, compared with 234 the previous year. A total of 174 external candidates were recruited in 2006 to fill vacant positions and 76 new positions were created to meet the needs of the Bank's new business plan. The ratio of male/female professional staff in the EBRD is approximately 1.57:1.

## Learning and development

The EBRD is committed to the continuous development of staff skills to meet business needs. In 2006, staff development was supported by a training curriculum of 50 courses, which were complemented by additional customised courses for particular departments.

The Bank continued to provide a range of management development courses for all levels of management and launched a new people management course. Over two-thirds of senior management have undertaken the course since its introduction and a full roll-out of the course is planned for 2007. In total, some 2,969 days of training were undertaken in 2006.

## Codes of conduct

In March 2006 the EBRD's Board of Governors adopted two new codes of conduct that regulate the behaviour of the Board of Directors and EBRD staff, including its senior management. The codes clearly express the obligations and ethical standards that the Bank expects of its Board and staff.

The codes align the EBRD with the practices of other international financial institutions. In particular, they provide guidance on avoiding and handling conflicts of interest and establish a transparent mechanism for examining requests for exemptions. The codes regulate how private financial affairs can be conducted and the level of disclosure required. They also provide for a robust procedure for dealing with alleged breaches of the codes.

## Changes in senior management

Varel Freeman joined the EBRD as First Vice President in June 2006. Prior to joining the Bank, Mr Freeman was a managing partner at Baring Private Equity Partners.

Manfred Schepers, formerly Executive Vice President and Senior Managing Director of the Bond Market Association (BMA) and Head of BMA International, took up the post of Vice President, Finance, in October 2006.

Erik Berglof became the Bank's new Chief Economist in January 2006. Before joining the Bank, Mr Berglof was Director of the Stockholm Institute of Transition Economics and Professor at the Stockholm School of Economics.

Fabrizio Saccomanni, Vice President, Risk Management, resigned from his post in October 2006 in order to become Director General of the Bank of Italy.

## Health and safety

In 2006 a major review of the EBRD's health and safety management system was conducted by independent consultants. The review examined the policies, procedures and operating practices related to health and safety within the Bank's Headquarters and within a representative local office in one of the Bank's countries of operations.

As part of the review, a number of staff were interviewed, including members of the Bank's Board of Directors, senior management and all those connected with providing health and safety services. The EBRD is developing an action plan to implement the recommendations from this review.

A new medical room has been constructed in the Bank's Headquarters to provide a better facility for conducting routine preventative medicals and vaccinations. It will encourage staff who travel regularly on business to ensure that they are well prepared for their trips and will provide easy access to medical advice.

Other initiatives in 2006 included the incorporation of health and safety procedures into the EBRD's new system for booking business travel and the establishment of a system for creating a single point of contact to deal with staff relatives following an accident to a member of staff.

## Working environment

During 2006, work continued on the refurbishment of the Bank's London Headquarters building. The focus of the work is on improving the building's facilities, such as ventilation, lighting and security, to ensure that the building meets current UK standards and to create a more effective working environment.

The work covers both offices and general areas, including the auditorium, meeting rooms and restaurant facilities. The refurbishment will result in a more energy efficient building, meaning lower operating costs for the Bank. The project is scheduled for completion before the end of 2007.

Refurbishment of the Bank's Headquarters will result in a more energy efficient building.

# EBRD management

11 April 2007

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| **President** | Jean Lemierre |

## Banking

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|---|---|
| First Vice President | Varel Freeman |

### Front Office

| | |
|---|---|
| Strategic and Corporate Planning and Budgeting *(joint report to Finance)* | Josué Tanaka |
| Operations Committee Secretariat | Frédéric Lucenet |
| Business Development | Lesia Haliv |
| Corporate Recovery *(joint report to Risk Management)* | Will Newton |
| Corporate Equity | Lindsay Forbes |

### Energy efficiency and climate change

| | |
|---|---|
| Corporate Director | Josué Tanaka |
| Director | Jacquelin Ligot |

### Energy and Natural Resources

| | |
|---|---|
| Business Group Director | (Acting) Peter Reiniger |
| Natural Resources | Kevin Bortz |
| Power and Energy Utilities | Nandita Parshad |

### Financial Institutions

| | |
|---|---|
| Business Group Director | Kurt Geiger |
| Bank Equity | Antero Baldaia |
| Bank Relationships | Jean-Marc Peterschmitt |
| Corporate Finance | Victor Pastor Fernandez |
| Equity Funds | Kanako Sekine |
| Non-bank Financial Institutions | Jonathan Woollett |

### Infrastructure

| | |
|---|---|
| Business Group Director | Alexander Auboeck |
| Strategy and Policy Development | José Carbajo |
| Municipal and Environmental Infrastructure | Thomas Maier |
| Transport | Riccardo Puliti |

### Central Europe, Western Balkans and Telecommunications, Informatics and Media

| | |
|---|---|
| Business Group Director | Peter Reiniger |
| Croatia (Zagreb office) | Charlotte Ruhe |
| Czech Republic, Hungary, Slovak Republic and Slovenia (Bratislava office) | François Lecavalier |
| Poland and the Baltic states (Warsaw office) | Dragica Pilipovic-Chaffey |
| Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Kosovo | Claudio Viezzoli |
| Serbia (Belgrade office) | Hildegard Gacek *(from 1 June 2007)* |
| Telecommunications, Informatics and Media | Michelle Senecal de Fonseca |

### Russia, Agribusiness and Property and Tourism

| | |
|---|---|
| Business Group Director | Alain Pilloux |
| Russia, Corporate Sector (Moscow office) | Eric Rasmussen |
| Russia, Government Relations (Moscow office) | Alexander Orlov |
| Russia, Financial Institutions (Moscow office) | Vacant |
| Russia, Infrastructure and Energy (Moscow office) | Natasha Khanjenkova |
| Agribusiness | Gilles Mettetal |
| Property and Tourism | Patrick O'Neill |

### South-eastern Europe, Central Asia and the Caucasus

| | |
|---|---|
| Business Group Director | Olivier Descamps |
| Ukraine (Kiev office) | Kamen Zahariev |
| Romania (Bucharest office) | Vacant |
| Bulgaria (Sofia office) | James Hyslop |
| Armenia, Azerbaijan, Belarus, Georgia and Moldova (Tbilisi office) | Michael Davey |
| Central Asia | Masaru Honma |
| Kazakhstan (Almaty office) | André Küüsvek |
| Mongolia (Ulaanbaatar office) | John Chomel-Doe |
| Early Transition Countries (ETC) Initiative | George Krivicky |
| Group for Small Business | Chikako Kuno |
| TurnAround Management and Business Advisory Services Programme | Charlotte Salford |

### Monitoring

| | |
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| Business Group Director | Gavin Anderson |

## Finance

| | |
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| Vice President | Manfred Schepers |

### Treasury

| | |
|---|---|
| Treasurer | Axel van Nederveen |
| Deputy Treasurer and Head of Funding | Isabelle Laurent |

### Strategic and Corporate Planning and Budgeting

| | |
|---|---|
| Corporate Director *(joint report to Banking)* | Josué Tanaka |

### Loan Syndications

| | |
|---|---|
| Director | Lorenz Jorgensen |

### Controller's Department

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| Controller | Nigel Kerby |

### Information Technology

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| Director | Tim Goldstone |

## Risk Management, Human Resources and Nuclear Safety

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| Vice President | Horst Reichenbach |

### Risk Management

| | |
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| Director | Michael Williams |
| Credit/Transaction Analysis | David Klingensmith |
| Treasury Risk Management | Jean-André Sorasio |
| Credit Portfolio Review | Irena Postlova |
| Corporate Recovery *(joint report to Banking)* | Will Newton |
| Operational Risk | Julie Williams |

### Human Resources

| | |
|---|---|
| Director | Paolo Gallo |
| Deputy Director, Compensation and Benefits | Ingrid de Wee |
| Deputy Director, Global Staffing | Fons Marcelis |
| Head of Health and Safety | Alan Drew |

### Nuclear Safety

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| Director | Vince Novak |

### Official Co-financing

| | |
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| Director | Gary Bond |

## Administration and Environment

| | |
|---|---|
| Vice President | Brigita Schmögnerová |

### Administration, Procurement and Consultancy Service

| | |
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| Corporate Director | Chris Holyoak |
| Director of Administration | Jaroslaw Wojtylak |
| Director of Procurement | Maurice Lepage |
| Director of Consultancy Service | Dilek Macit |

### Environment and Sustainability

| | |
|---|---|
| Director | Alistair Clark |

## Office of the Secretary General

| | |
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| Secretary General | (Acting) Horst Reichenbach |
| Deputy Secretary General | Nigel Carter |
| Assistant Secretary General | Colm Lincoln |

## Evaluation Department

| | |
|---|---|
| Chief Evaluator *(reports to Board of Directors)* | Fredrik Korfker |

## Office of the Chief Economist

| | |
|---|---|
| Chief Economist | Erik Berglof |
| Deputy Chief Economist and Director, Project Design and Appraisal | Hans Peter Lankes |
| Deputy Chief Economist and Director, Strategy and Analysis | Sam Fankhauser |
| Director, Policy Studies and Sector Strategy | Fabrizio Coricelli |

## 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

| | |
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| Director | Lieve Reckers |

### Records Management and Archives

| | |
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| Head of Unit | Anne Crétal |

## Office of the Chief Compliance Officer

| | |
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| Chief Compliance Officer | Enery Quinones |

## Internal Audit

| | |
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| Head of Internal Audit | Ray Portelli |

## Communications

| | |
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| Director | Brigid Janssen |

## President's Office

| | |
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| Adviser to the President | Alexandre Draznieks |

# Governors and alternate governors

31 December 2006

| Member | Governor | Alternate |
|---|---|---|
| Albania | Genc Ruli | Sherefedin Shehu |
| Armenia | Vardan Khachatryan | Tigran Sargsyan |
| Australia | Peter Costello | Teresa Gambaro |
| Austria | Karl-Heinz Grasser | Kurt Bayer |
| Azerbaijan | Heydar Babayev | Samir Sharifov |
| Belarus | Vladimir Semashko | Nikolai Zaichenko |
| Belgium | Didier Reynders | Jean-Pierre Arnoldi |
| Bosnia and Herzegovina | Mladen Ivanić | Jusuf Kumalić |
| Bulgaria | Plamen Oresharski | Dimitar Kostov |
| Canada | James M. Flaherty | Peter Harder |
| Croatia | Ivan Šuker | Ana Hrastović |
| Cyprus | Michael Sarris | Christos Patsalides |
| Czech Republic | Vlastimil Tlustý | Zdeněk Tůma |
| Denmark | Bendt Bendtsen | Michael Dithmer |
| Egypt | Fayza Abouelnaga | Rachid Mohamed Rachid |
| Estonia | Aivar Sõerd | Tea Varrak |
| Finland | Eero Heinäluoma | Pekka Huhtaniemi |
| FYR Macedonia | Trajko Slaveski | Zoran Stavreski |
| France | Thierry Breton | Xavier Musca |
| Georgia | Aleksi Aleksishvili | Roman Gotsiridze |
| Germany | Peer Steinbrück | Thomas Mirow |
| Greece | George Alogoskoufis | George Mergos |
| Hungary | János Veres | Géza Egyed |
| Iceland | Jón Sigurðsson | Kristján Skarphéðinsson |
| Ireland | Brian Cowen | David Doyle |
| Israel | Stanley Fischer | Jossi Bachar |
| Italy | Tommaso Padoa-Schioppa | Ignazio Angeloni |
| Japan | Koji Omi | Toshihiko Fukui |
| Kazakhstan | Karim Kazhimkanovich Massimov | Anvar Saidenov |
| Korea, Republic of | O-kyu Kwon | Seongtae Lee |
| Kyrgyz Republic | Medetbek Kerimkulov | Marat Alapaev |
| Latvia | Oskars Spurdziņš | Jurijs Strods |
| Liechtenstein | Klaus Tschütscher | Roland Marxer |
| Lithuania | Zigmantas Balčytis | Ramunė Vilija Zabulienė |
| Luxembourg | Jean-Claude Juncker | Jean Guill |
| Malta | Tonio Fenech | Michael Bonello |
| Mexico | Agustín Carstens | Alejandro Werner |
| Moldova | Igor Dodon | Marin Moloşag |
| Mongolia | Nadmidyn Bayartsaikhan | Ochirbatyn Chuluunbat |
| Montenegro | Igor Lukšić | Milorad Katnić |
| Morocco | Fathallah Oualalou | Abdeltif Loudyi |
| Netherlands | Gerrit Zalm | Bernard Bot |
| New Zealand | Winston Peters | Jonathan Hunt |
| Norway | Kristin Halvorsen | Frode Berge |
| Poland | Leszek Balcerowicz | Marta Gajecka |
| Portugal | Fernando Teixeira dos Santos | Carlos Costa Pina |
| Romania | Sebastian Teodor Gheorghe Vlădescu | Mugur Isărescu |
| Russian Federation | German Gref | Sergey Storchak |
| Serbia | Milan Parivodić | – |
| Slovak Republic | Ján Počiatek | Ivan Šramko |
| Slovenia | Andrej Bajuk | Andrej Kavčič |
| Spain | Pedro Solbes Mira | David Vegara Figueras |
| Sweden | Anders Borg | Per Jansson |
| Switzerland | Doris Leuthard | Jörg Reding |
| Tajikistan | Murodali Mukhamadievich Alimardonov | Mirali Sabdalievich Naimov |
| Turkey | Ibrahim Çanakci | Cavit Dağidaş |
| Turkmenistan | Amanmyrat Toylyev | Guvanchmurad Geoklenov |
| Ukraine | Mykola Azarov | Volodymyr Stelmakh |
| United Kingdom | Gordon Brown | Hilary Benn |
| United States | Henry M. Paulson Jr | Josette Sheeran |
| Uzbekistan | Rustam Sadykovich Azimov | Odil Husnutdinovich Juraev |
| European Community | Joaquín Almunia | Klaus Regling |
| European Investment Bank | Gerlando Genuardi | Ivan Pilip |

**Chairman of the Board of Governors**

Governor for Finland
(Eero Heinäluoma)

**Vice Chairmen of the Board of Governors**

Governor for Mongolia
(Nadmidyn Bayartsaikhan)

Governor for Turkey
(Ibrahim Çanakci)

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 2006

| Director | Alternate Director | Constituency |
|---|---|---|
| László Andor | Igor Očka | Hungary/Czech Republic/Slovak Republic/Croatia |
| Terence Brown | Walter Cernoia | European Investment Bank |
| Alain de Cointet | – | France |
| Sven Hegelund | Baldur Pétursson | Sweden/Iceland/Estonia |
| Ole Hovland | Kaarina Rautala | Norway/Finland/Latvia |
| André Juneau | Judith St George | Canada/Morocco |
| Ib Katznelson | – | Denmark/Ireland/Lithuania/FYR Macedonia |
| Byung-Il Kim | Peter Reith | Korea/Australia/New Zealand/Egypt |
| Elena Kotova | – | Russian Federation/Belarus/Tajikistan |
| Vassili Lelakis | Carole Garnier | European Community |
| Kazuya Murakami | Hiroyuki Kubota | Japan |
| Michael Neumayr | Hedva Ber | Austria/Israel/Cyprus/Malta/Kazakhstan/Bosnia and Herzegovina |
| Igor Podoliev | Virginia Gheorghiu | Ukraine/Romania/Moldova/Georgia/Armenia |
| Enzo Quattrociocche | Ugo Astuto | Italy |
| Gonzalo Ramos | David Martínez Hornillos | Spain/Mexico |
| Simon Ray | Jonathan Ockenden | United Kingdom |
| Manuel Sager | Turan Öz | Switzerland/Turkey/Liechtenstein/Uzbekistan/Kyrgyz Republic/Azerbaijan/Turkmenistan/Serbia/Montenegro |
| Joachim Schwarzer | Rainald Roesch | Germany |
| Jean-Louis Six | Irena Sodin | Belgium/Luxembourg/Slovenia |
| Mark Sullivan | – | United States of America |
| Tadeusz Syryjczyk | Kalin Mitrev | Poland/Bulgaria/Albania |
| Jan Willem van den Wall Bake | Hans Sprokkreeff | Netherlands/Mongolia |
| Stefanos Vavalidis | José Veiga de Macedo | Greece/Portugal |

## Composition of Board of Directors' committees

31 December 2006

### Audit Committee

Simon Ray (Chairman)
Terence Brown (Vice Chairman)
Alain de Cointet
Byung-Il Kim
Enzo Quattrociocche
Manuel Sager
Mark Sullivan
Stefanos Vavalidis

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.

### Financial and Operations Policies Committee

Gonzalo Ramos (Chairman)
Ole Hovland (Vice Chairman)
Sven Hegelund
Elena Kotova
Kazuya Murakami
Michael Neumayr
Tadeusz Syryjczyk
Jan Willem van den Wall Bake

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

László Andor (Chairman)
Jean-Louis Six (Vice Chairman)
André Juneau
Ib Katznelson
Vassili Lelakis
Igor Podoliev
Joachim Schwarzer

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.

### Board Steering Group

Enzo Quattrociocche (Chairman)
Michael Neumayr (Vice Chairman)
László Andor
Terence Brown
Gonzalo Ramos
Simon Ray
Jean-Louis Six

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.

# 13

## Projects signed in 2006

The EBRD invested €4.9 billion in 301 projects in 2006, up from €4.3 billion in 276 projects the previous year. Investments were undertaken in 27 of the Bank's countries of operations. Nearly half of EBRD financing was channelled into financial institutions to support local enterprises. Infrastructure projects also received significant support.

## Guide

Loans are calculated at exchange rates current at 31 December 2006. 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 on pages 4 and 5 as regional projects (covering more than one country) are listed separately at the end of this section.

Projects financed under framework agreements are shown in *italics*.

After each project description, the following information is listed:
Sector • State/private • Environmental screening category.

Direct Investment Facility, Direct Lending Facility and Medium-sized Loan Co-financing Facility projects do not have an environmental screening category as they do not follow the Bank's standard project cycle. However, they are still subject to environmental requirements.

## 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 2006
- multiple investments to pre-export finance facilities under the Trade Facilitation Programme
- selldowns of EBRD commitments
- investments under private equity funds, which are sponsored by private institutions and fund managers.

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

## Albania

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Euromax** | 15.0 | 8.0 | 1.5 | **9.5** |
| Construction and operation of five supermarkets.<br>Agribusiness • Private • C/1 | | | | |
| **Power transmission substations upgrade** | 40.4 | 16.0 | 0 | **16.0** |
| Upgrading of six transmission substations crucial to Albania's energy transmission system.<br>Power and energy • State • C/1 | | | | |
| **Tirana municipal transport** | 14.6 | 14.6 | 0 | **14.6** |
| Comprehensive upgrade of roads in Tirana.<br>Municipal infrastructure • State • B/1 | | | | |
| **Western Balkans SME Finance Facility** | 5.0 | 5.0 | 0 | **5.0** |
| Credit line to Banka Popullore for on-lending to small and medium-sized businesses.<br>Bank lending • Private • FI | | | | |

## Armenia

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Armenia International Airport** | 47.8 | 15.2 | 0 | **15.2** |
| Construction of a new passenger terminal and purchase of new terminal equipment.<br>Transport • Private • B/1 | | | | |
| **Armenia Multi-bank Framework II** | | | | |
| *Anelik Bank SME credit line III* | 1.9 | 1.9 | 0 | **1.9** |
| Credit line for on-lending to small and medium-sized businesses.<br>Bank lending • Private • FI | | | | |
| *Armeconombank mortgage facility* | 1.5 | 1.5 | 0 | **1.5** |
| Credit facility for on-lending as long-term loans.<br>Bank lending • Private • FI | | | | |
| *Inecobank* | 3.8 | 3.8 | 0 | **3.8** |
| Credit line for on-lending to micro and small businesses.<br>Small business finance • Private • FI | | | | |
| **Armenian Renewable Energy Programme** | 11.4 | 5.3 | 0 | **5.3** |
| Long-term loan to Cascade Credit to promote competitive and viable renewable energy projects.<br>Power and energy • Private • FI | | | | |
| **Direct Investment Facility** | | | | |
| *Cascade Insurance and Reinsurance Company* | 0.2 | 0 | 0.2 | **0.2** |
| Equity investment.<br>Non-bank financial institutions • Private | | | | |
| *Star Group* | 3.1 | 0 | 3.1 | **3.1** |
| Investment in a supermarket chain, for acquisition and development of four additional stores.<br>Agribusiness • Private | | | | |
| *Tamara Fruit* | 1.1 | 0.7 | 0.4 | **1.1** |
| Equity investment in a local fruit company.<br>Agribusiness • Private | | | | |
| **Medium-sized Loan Co-financing Facility** | | | | |
| *Agricultural Cooperative Bank Armenia* | 0.6 | 0.2 | 0 | **0.2** |
| Credit line for on-lending to medium-sized businesses.<br>Bank lending • Private | | | | |
| *Armeconombank* | 0.8 | 0.5 | 0 | **0.5** |
| Credit line for on-lending to medium-sized businesses.<br>Bank lending • Private | | | | |
| **Regional Trade Facilitation Programme** | 0.7 | 0.7 | 0 | **0.7** |
| Support for foreign trade through Anelik Bank, Armeconombank and Inecobank.<br>Bank lending • Private • FI | | | | |

## Azerbaijan

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Azdres power plant upgrade** | 97.3 | 87.3 | 0 | **87.3** |
| Modernisation of power plant supplying the majority of energy consumed in Azerbaijan.<br>Power and energy • State • B/1 | | | | |
| **Azerbaijan Multi-bank Framework** | 15.6 | 14.8 | 0 | **14.8** |
| Credit line to Azerdemiryol Bank, Azerigazbank, Bank of Baku, Bank Respublika, Mugan Bank, Rabitabank and Unibank for on-lending to small and medium-sized businesses.<br>Small business finance • Private • FI | | | | |
| **Direct Lending Facility** | 3.4 | 3.4 | 0 | **3.4** |
| Finance provided to locally owned mineral water producer, Aqua Vita.<br>Agribusiness • Private | | | | |
| **ETC Non-bank Microfinance Institution Framework II** | 3.1 | 2.5 | 0 | **2.5** |
| Credit line provided to CredAgro and FINCA (Azerbaijan) to increase financing available to the smallest enterprises through on-lending.<br>Small business finance • Private • FI | | | | |
| **Garadagh Cement** | 10.4 | 0 | 7.6 | **7.6** |
| Equity investment.<br>Manufacturing • Private • C/1 | | | | |
| **Medium-sized Loan Co-financing Facility** | | | | |
| *Bank of Baku* | 1.9 | 1.9 | 0 | **1.9** |
| Credit line for on-lending to medium-sized businesses.<br>Bank lending • Private | | | | |
| *Bank Respublika* | 1.1 | 1.1 | 0 | **1.1** |
| Credit line for on-lending to medium-sized businesses.<br>Bank lending • Private | | | | |
| **Microfinance Bank Azerbaijan** | 0.9 | 0 | 0.8 | **0.8** |
| Equity investment in the largest provider of financial services to micro and small businesses in Azerbaijan.<br>Small business finance • Private • FI | | | | |
| **Milk Pro** | 2.1 | 0.7 | 0.1 | **0.8** |
| Improvement in quality and production capacity of local dairy company.<br>Agribusiness • Private • B/1 | | | | |
| **Unibank Loan II** | 5.7 | 1.9 | 0 | **1.9** |
| Loan to provide Unibank with access to international markets.<br>Bank lending • Private • FI | | | | |

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) | Description |
|---|---|---|---|---|---|
| **Regional Trade Facilitation Programme** | 13.5 | 12.3 | 0 | **12.3** | Support for foreign trade through Azerdemiryol Bank, Azerigazbank, Bank of Baku, Bank Respublika and Unibank. Bank lending • Private • FI |

## Belarus

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) | Description |
|---|---|---|---|---|---|
| **Olivaria** | 10.0 | 0 | 10.0 | **10.0** | Modernisation and expansion of a local brewery. Agribusiness • Private • B/1 |
| **Regional Trade Facilitation Programme** | 13.7 | 13.7 | 0 | **13.7** | Support for foreign trade through Priorbank. Bank lending • Private • FI |

## Bosnia and Herzegovina

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) | Description |
|---|---|---|---|---|---|
| **Bosnia and Herzegovina air traffic management system** | 17.7 | 12.0 | 0 | **12.0** | Supply of equipment and training services to improve safety. Transport • State • B/0 |
| **Natron Hayat** | 11.0 | 11.0 | 0 | **11.0** | Renovation of facilities at paper and pulp mill, including restarting pulp production. Manufacturing • Private • B/1 |
| **Power distribution reconstruction** | 55.0 | 55.0 | 0 | **55.0** | Improvement of efficiency and reliability of electricity supply by modernising three regional electricity providers. Power and energy • State • B/1 |
| **Raiffeisen Bank** | 10.0 | 10.0 | 0 | **10.0** | Loan to allow medium and long-term loans to corporate clients. Bank lending • Private • FI |
| **VF Komerc** | 41.5 | 10.0 | 9.0 | **19.0** | Expansion of operations of local food retailer and upgrade of existing stores. Agribusiness • Private • C/1 |
| **Western Balkans MSME Framework** | 14.0 | 14.0 | 0 | **14.0** | Credit line to EKI and Mikrofin for on-lending to micro, small and medium-sized businesses. Small business finance • Private • FI |
| **Western Balkans SME Finance Facility** | 5.0 | 5.0 | 0 | **5.0** | Credit line to Raiffeisen Leasing for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI |
| **Regional Trade Facilitation Programme** | 3.0 | 2.9 | 0 | **2.9** | Support for foreign trade through Raiffeisen Bank and UPI Banka. Bank lending • Private • FI |

## Bulgaria

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) | Description |
|---|---|---|---|---|---|
| **Boni** | 40.8 | 15.0 | 0 | **15.0** | Improvement in quality of output and efficiency of local meat-processing company. Agribusiness • Private • B/1 |
| **Energy Efficiency and Renewable Energy Framework** | 56.5 | 52.0 | 0 | **52.0** | Credit line to Biochim, Bulgarian Post Bank, Bulbank, Raiffeisen Bank Bulgaria and United Bulgarian Bank for on-lending to small and medium-sized businesses. Bank lending • Private • FI |
| **EU/EBRD SME Finance Facility** | | | | | |
| *Allianz Bulgaria Bank and SG Expressbank* | 15.0 | 15.0 | 0 | **15.0** | Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI |
| *Hebros Leasing II and Raiffeisen Leasing Bulgaria* | 15.0 | 15.0 | 0 | **15.0** | Credit line for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI |
| **Residential energy efficiency credit line** | 12.5 | 12.5 | 0 | **12.5** | Energy efficiency investment in Bulbank and ProCredit Bulgaria. Bank lending • Private • FI |
| **Rousse Water** | 46.8 | 8.0 | 0 | **8.0** | Upgrades to improve financial and operational performance of a regional water company. Municipal infrastructure • State • B/1 |
| **Telelink** | 3.0 | 3.0 | 0 | **3.0** | Financing geographic expansion of an information technology and telecommunications service. Telecommunications • Private • C/1 |

## Croatia

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) | Description |
|---|---|---|---|---|---|
| **Agrokor** | 110.0 | 0 | 110.0 | **110.0** | Investment in the country's leading food retailer, encouraging regional growth. Agribusiness • Private • C/1 |
| **Autocesta Rijeka-Zagreb** | 346.6 | 50.0 | 0 | **50.0** | Upgrading of a road to full motorway status. Transport • State • C/0 |
| **EU/EBRD SME Finance Facility** | | | | | |
| *Hrvatska Postanska Banka* | 10.0 | 10.0 | 0 | **10.0** | Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI |
| *Raiffeisen Leasing Croatia* | 10.0 | 10.0 | 0 | **10.0** | Credit line for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI |
| **Privredna Banka Zagreb** | 53.1 | 0 | 53.1 | **53.1** | Equity investment to promote growth of a successful commercial bank. Bank equity • Private • FI |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Pula urban transport** | 6.6 | 5.0 | 0 | **5.0** |
| Loan to renovate bus fleet.<br>Municipal infrastructure • State • B/1 | | | | |
| **Rijeka bypass** | 114.0 | 40.0 | 0 | **40.0** |
| Completion of a bypass to ease traffic congestion and facilitate movement.<br>Transport • State • A/0 | | | | |
| **UNIQA Osiguranje** | 2.7 | 0 | 0.3 | **0.3** |
| Equity investment in UNIQA Insurance's Croatian subsidiary.<br>Non-bank financial institutions • Private • FI | | | | |
| **Zagreb waste-water treatment plant** | 130.7 | 7.0 | 0 | **7.0** |
| Loan to finance increased capacity and standards.<br>Municipal infrastructure • Private • A/0 | | | | |

## Czech Republic

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **EU/EBRD Mortgage Finance Facility** | 10.0 | 10.0 | 0 | **10.0** |
| Credit facility to Komerční Banka for on-lending as medium to long-term loans.<br>Bank lending • Private • FI | | | | |
| **EU/EBRD SME Finance Facility** | 20.0 | 20.0 | 0 | **20.0** |
| Credit line to IMPULS-Leasing-AUSTRIA, S Morava Leasing Czech and Société Générale Equipment Finance for on-lending to small and medium-sized businesses.<br>Non-bank financial institutions • Private • FI | | | | |

## Estonia

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **LHV Asset Management** | 1.5 | 0 | 0.2 | **0.2** |
| Equity investment in private pension fund management company.<br>Non-bank financial institutions • Private • FI | | | | |

## FYR Macedonia

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **NLB Tutunska Banka** | 55.0 | 19.0 | 0 | **19.0** |
| Second loan for on-lending to local private businesses and individuals.<br>Bank lending • Private • FI | | | | |
| **Teteks Kreditna/Tetovska Banka** | 4.0 | 0 | 4.0 | **4.0** |
| Equity investment to increase capital base of new bank formed by merger of TKB and TEB.<br>Bank equity • Private • FI | | | | |
| **Western Balkans SME Framework** | 2.5 | 2.0 | 0 | **2.0** |
| Credit line to Teteks Kreditna and Tetovska Banka for on-lending to small and medium-sized businesses.<br>Bank lending • Private • FI | | | | |
| **Regional Trade Facilitation Programme** | 7.1 | 6.5 | 0 | **6.5** |
| Support for foreign trade through Komercijalna Banka and Tutunska Banka AD Skopje.<br>Bank lending • Private • FI | | | | |

## Georgia

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Bank Republic** | 6.2 | 0 | 6.2 | **6.2** |
| Equity investment to increase the bank's lending capacity and promote growth.<br>Bank equity • Private • FI | | | | |
| **Bank Republic mortgage loan** | 3.0 | 3.0 | 0 | **3.0** |
| Credit facility for on-lending as long-term loans.<br>Bank lending • Private • FI | | | | |
| **Bank Republic MSE loan** | 2.3 | 2.3 | 0 | **2.3** |
| Credit line for on-lending to local micro and small businesses.<br>Small business finance • Private • FI | | | | |
| **Direct Investment Facility** | | | | |
| *Georgian Hazelnut Production Ltd.* | 2.9 | 0.6 | 0 | **0.6** |
| Investment in new start-up company to finance purchase of raw materials.<br>Agribusiness • Private | | | | |
| *Iberia Refreshments* | 1.7 | 0.3 | 0 | **0.3** |
| Investment in Pepsi franchise.<br>Agribusiness • Private | | | | |
| *Imedi L* | 1.1 | 0 | 1.1 | **1.1** |
| Investment in one of Georgia's largest insurance providers.<br>Non-bank financial institutions • Private | | | | |
| *Mantashev Trade Rows* | 0.6 | 0 | 0.6 | **0.6** |
| Investment in company constructing and renovating buildings for business rental.<br>Property and tourism • Private | | | | |
| **Direct Lending Facility** | | | | |
| *BTM Tekstil* | 3.6 | 1.7 | 0 | **1.7** |
| Finance provided for establishment of garment manufacturing facility.<br>Manufacturing • Private | | | | |
| *Georgian Hazelnut Production Ltd* | 2.5 | 2.5 | 0 | **2.5** |
| Finance provided to a new start-up company for purchase of raw materials.<br>Agribusiness • Private | | | | |
| *Lomisi* | 1.5 | 1.5 | 0 | **1.5** |
| Finance provided to local brewery.<br>Agribusiness • Private | | | | |
| **ETC Non-bank Microfinance Institution Framework II** | 2.7 | 2.3 | 0 | **2.3** |
| Credit line to Constanta to increase financing available to the smallest enterprises through on-lending.<br>Small business finance • Private • FI | | | | |
| **Georgian state electrosystem** | 27.1 | 7.6 | 0 | **7.6** |
| Improvements to hydroelectric dam to increase power generation and promote renewable energy production.<br>Power and energy • State • B/1 | | | | |
| **Kutaisi water supply** | 11.9 | 3.0 | 0 | **3.0** |
| Upgrading of facilities to improve water supply.<br>Municipal infrastructure • State • B/1 | | | | |

| Project | Description | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|---|
| **Medium-sized Loan Co-financing Facility** | | | | | |
| *Bank of Georgia* | Sub-loans to Okami and Lopota small hydropower plants for renewable energy programmes.<br>Power and energy • Private | 0.2 | 0.2 | 0 | **0.2** |
| *Iberia refreshments* | Sub-loan to a Pepsi franchise through Bank of Georgia.<br>Agribusiness • Private | 2.5 | 2.5 | 0 | **2.5** |
| **Poti water supply** | Upgrading of facilities to improve water supply.<br>Municipal infrastructure • State • B/0 | 10.5 | 2.5 | 0 | **2.5** |
| **TBC Bank** | Credit facility for on-lending as long-term mortgage loans.<br>Bank lending • Private • FI | 11.4 | 11.4 | 0 | **11.4** |
| **TBC Leasing** | Equity investment in leading leasing company to support growth of its operations.<br>Non-bank financial institutions • Private • FI | 0.1 | 0 | 0.1 | **0.1** |
| **Tbilisi International Airport** | Construction of new facilities and upgrade of existing equipment to support increasing usage.<br>Transport • Private • B/1 | 58.1 | 20.5 | 0 | **20.5** |
| **United Georgian Bank** | Equity investment to improve competitiveness and promote on-lending to local businesses.<br>Bank equity • Private • FI | 8.4 | 0 | 1.8 | **1.8** |
| **VTB Bank Georgia** | Credit line for on-lending to small and medium-sized businesses.<br>Small business finance • Private • FI | 7.6 | 7.6 | 0 | **7.6** |
| **Regional Trade Facilitation Programme** | Support for foreign trade through Bank of Georgia, Bank Republic, Cartu Bank, TBC Bank and United Georgian Bank.<br>Bank lending • Private • FI | 25.4 | 23.1 | 0 | **23.1** |

## Hungary

| Project | Description | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|---|
| **EU/EBRD Rural Finance Facility** | Credit line to Budapest Leasing for on-lending to small and medium-sized businesses in rural areas.<br>Non-bank financial institutions • Private • FI | 5.0 | 5.0 | 0 | **5.0** |
| **M6 motorway refinancing** | Loan to finance construction of the M6 motorway.<br>Transport • Private • C/0 | 412.2 | 32.0 | 0 | **32.0** |

## Kazakhstan

| Project | Description | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|---|
| **Alliance Bank** | Credit facility for on-lending as long-term mortgage loans.<br>Bank lending • Private • FI | 18.0 | 18.0 | 0 | **18.0** |
| **Alliance Bank SME loan** | Loan provided for on-lending to local small and medium-sized businesses.<br>Bank lending • Private • FI | 7.6 | 7.6 | 0 | **7.6** |
| **Bautino Atash marine and supply base** | Construction of a supply base catering for offshore oilfield operators.<br>Natural resources • Private • A/0 | 28.5 | 9.1 | 0 | **9.1** |
| **Bericap Kazakhstan** | Construction of purpose-built facilities for company producing plastic lids.<br>Manufacturing • Private • B/0 | 1.9 | 1.9 | 0 | **1.9** |
| **Kazakhstan Small Business Programme III** | Credit line to Alliance Bank and Kazakhstan Loan Fund for on-lending to micro and small enterprises, focusing on agribusiness loans.<br>Small business finance • Private • FI | 6.9 | 6.9 | 0 | **6.9** |
| **Kazkommertsbank** | Equity investment to promote growth of Kazakhstan's largest commercial bank.<br>Bank equity • Private • FI | 89.3 | 0 | 89.3 | **89.3** |
| **Savola Kazakhstan** | Finance for increased production facilities at edible oil manufacturer.<br>Agribusiness • State • B/1 | 5.9 | 3.0 | 0 | **3.0** |
| **Steppe Cement** | Expansion and modernisation of the Karaganda cement plant.<br>Manufacturing • Private • B/1 | 16.1 | 0 | 1.9 | **1.9** |
| **Warehouse Receipts Programme** | Short-term lending against warehouse receipts for agribusiness companies, farmers and traders through Alliance Bank.<br>Bank lending • Private • FI | 3.8 | 3.8 | 0 | **3.8** |
| **Regional Trade Facilitation Programme** | Support for foreign trade through Alliance Bank, ATF Bank, Bank Center Credit and Kazkommertsbank.<br>Bank lending • Private • FI | 100.6 | 100.6 | 0 | **100.6** |

## Kyrgyz Republic

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Direct Investment Facility**<br>Investment in Karven Club summer resort to finance construction of residences and leisure facilities.<br>Property and tourism • Private | 0.2 | 0 | 0.2 | **0.2** |
| **Direct Lending Facility** | | | | |
| *Karven Four Seasons*<br>Financing construction of resort, consisting of residences and sports and leisure facilities.<br>Property and tourism • Private | 5.9 | 2.9 | 0 | **2.9** |
| *Karven Village*<br>Finance for development of cottages and apartments at lake resort.<br>Property and tourism • Private | 0.9 | 0.9 | 0 | **0.9** |
| *Orion Hotels*<br>Financing construction of an office complex.<br>Property and tourism • Private | 1.5 | 1.5 | 0 | **1.5** |
| *Sheen-line*<br>Financing working capital needs of an ice-cream and dairy producer.<br>Agribusiness • Private | 2.0 | 2.0 | 0 | **2.0** |
| *Shnos petrol filling station network*<br>Finance for modernisation and expansion of chain of petrol stations.<br>Natural resources • Private | 2.3 | 2.3 | 0 | **2.3** |
| **ETC Non-bank Microfinance Institution Framework II**<br>Credit line provided to Bai Tushum and Finca Micro credit company to increase financing to the smallest enterprises through on-lending.<br>Small business finance • Private • FI | 1.6 | 1.4 | 0 | **1.4** |
| **Kyrgyz Agricultural Finance Corporation**<br>Support for micro, small and medium-sized businesses through on-lending, and prepare KAFC for transformation into a bank.<br>Small business finance • Private • FI | 1.5 | 0 | 1.5 | **1.5** |
| **Kyrgyz MSE Finance Facility II**<br>Credit lines to ECO Bank and Kyrgyz Investment and Credit Bank for on-lending to micro and small businesses.<br>Small business finance • Private • FI | 4.2 | 4.2 | 0 | **4.2** |
| **Regional Trade Facilitation Programme**<br>Support for foreign trade through Demir Kyrgyz International Bank, Ineximbank and Kyrgyz Investment and Credit Bank.<br>Bank lending • Private • FI | 2.0 | 2.0 | 0 | **2.0** |

## Lithuania

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Kaunas trolleybus modernisation**<br>Upgrade of trolleybus infrastructure and provision of new equipment.<br>Municipal infrastructure • State • B/1 | 15.0 | 10.0 | 0 | **10.0** |
| **Kaunas water and environment project – Phase II**<br>Ongoing initiative to promote improvement to water and waste-water services.<br>Municipal infrastructure • State • B/0 | 47.4 | 5.0 | 0 | **5.0** |
| **Siauliu Bankas**<br>Capital increase to promote continued expansion of Siauliu Bankas.<br>Bank equity • Private • FI | 1.5 | 0 | 1.5 | **1.5** |
| **Siauliu Bankas syndicated loan**<br>Loan to finance on-lending to small and medium-sized businesses.<br>Bank lending • Private • FI | 12.0 | 4.0 | 0 | **4.0** |

## Moldova

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Direct Lending Facility**<br>Finance provided for fruit and vegetable production at Orhei Vit cannery.<br>Agribusiness • Private | 4.0 | 4.0 | 0 | **4.0** |
| **Medium-sized Loan Co-financing Facility** | | | | |
| *Basarabia*<br>Sub-loan to a local wine producer through Mobiasbanca.<br>Agribusiness • Private | 0.7 | 0.7 | 0 | **0.7** |
| *Dionysos*<br>Sub-loan to a local winery through Mobiasbanca.<br>Agribusiness • Private | 0.2 | 0.2 | 0 | **0.2** |
| *Sun Communications*<br>Sub-loan to an internet provider through Mobiasbanca.<br>Telecommunications • Private | 0.2 | 0.2 | 0 | **0.2** |
| **Mobiasbanca**<br>Credit line for on-lending to small and medium-sized businesses.<br>Bank lending • Private • FI | 4.6 | 2.3 | 0 | **2.3** |
| **Moldova Microlending Framework**<br>Credit lines to Banka Sociala and Mobiasbanca for on-lending to micro and small businesses.<br>Small business finance • Private • FI | 2.5 | 2.5 | 0 | **2.5** |
| **Regional Trade Facilitation Programme**<br>Support for foreign trade through Banca Sociala, Mobiasbanca and Victoria Bank.<br>Bank lending • Private • FI | 4.2 | 3.8 | 0 | **3.8** |

## Mongolia

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **XacBank**<br>Credit line to promote on-lending to micro and small businesses.<br>Small business finance • Private • FI | 3.8 | 0 | 3.8 | **3.8** |

## Montenegro

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Regional Trade Facilitation Programme**<br>Support for foreign trade through Opportunity Bank (Montenegro).<br>Bank lending • Private • FI | 0.1 | 0.1 | 0 | **0.1** |

## Poland

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Belchatow II** | 1,792.1 | 126.1 | 0 | **126.1** |
| Modernisation of power plant to bring it in line with EU environmental standards. Power and energy • State • A/1 | | | | |
| **EU/EBRD Rural Finance Facility** | | | | |
| *Bank Gospodarki Żywnościowej* | 15.0 | 15.0 | 0 | **15.0** |
| Credit line for on-lending to small and medium-sized businesses in rural areas. Bank lending • Private • FI | | | | |
| *BZ WBK Finance and Leasing* | 7.0 | 7.0 | 0 | **7.0** |
| Credit line for on-lending to small and medium-sized businesses in rural areas. Non-bank financial institutions • Private • FI | | | | |
| **EU/EBRD SME Finance Facility** | 18.7 | 11.5 | 0 | **11.5** |
| Credit line to BZ WBK Leasing and Société Générale Equipment Leasing Polska for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI | | | | |
| **Fagor Wrozamet** | 68.8 | 17.5 | 0 | **17.5** |
| Modernisation of an existing plant and construction of a new facility for a white goods company. Manufacturing • Private • B/1 | | | | |
| **Gdansk Water** | 119.7 | 12.3 | 0 | **12.3** |
| Comprehensive modernisation of water and waste-water facilities in Gdansk. Municipal infrastructure • State • B/0 | | | | |
| **Krakow district heating** | 76.3 | 6.3 | 0 | **6.3** |
| Modernisation of heating infrastructure to increase energy efficiency and reduce pollution. Municipal infrastructure • Private • B/1 | | | | |
| **Krakow Plaszow II** | 87.6 | 11.1 | 0 | **11.1** |
| Modernisation and expansion of a waste-water plant. Municipal infrastructure • Private • B/0 | | | | |
| **Nova Polonia Natexis II** | 25.0 | 0 | 25.0 | **25.0** |
| Equity investment in a private equity fund. Bank equity • Private • FI | | | | |
| **UNIQA TU na Zycie** | 1.9 | 0 | 0.6 | **0.6** |
| Equity investment in subsidiaries of UNIQA Insurance in Poland. Power and energy • Private • FI | | | | |

## Romania

| Project | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Arges County regional solid waste** | 24.1 | 6.1 | 0 | **6.1** |
| Programme to create a new landfill site and improve waste collection facilities. Municipal infrastructure • State • C/0 | | | | |
| **Bacau solid waste management** | 20.0 | 5.0 | 0 | **5.0** |
| Programme to create a new landfill site and improve waste collection facilities. Municipal infrastructure • Private • C/0 | | | | |
| **Banca Romana Pentru Dezvoltare** | 200.0 | 70.0 | 0 | **70.0** |
| Loan to finance bank's continued expansion and introduction of new services. Bank lending • Private • FI | | | | |
| **Banca Romaneasca** | 7.5 | 0 | 7.5 | **7.5** |
| Capital increase to finance further growth. Bank equity • Private • FI | | | | |
| **Banca Transilvania subordinated loan** | 72.0 | 12.0 | 0 | **12.0** |
| Loan to finance continued expansion and introduction of new services. Bank lending • Private • FI | | | | |
| **Banca Transilvania capital increase** | 5.2 | 0 | 5.2 | **5.2** |
| Equity investment to finance continued growth as well as maintain a 15 per cent stake. Bank equity • Private • FI | | | | |
| **Brasov County road** | 15.0 | 10.0 | 0 | **10.0** |
| Funding for the upgrade of county roads. Municipal infrastructure • Private • B/0 | | | | |
| **Bucharest waste-water treatment plant** | 108.3 | 10.0 | 0 | **10.0** |
| Funding for construction of a waste-water treatment plant for Bucharest. Municipal infrastructure • State • B/1 | | | | |
| **EU/EBRD SME Finance Facility** | | | | |
| *Banca Transilvania Leasing II* | 5.0 | 5.0 | 0 | **5.0** |
| Credit line for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI | | | | |
| *OTP Romania (RoBank)* | 10.0 | 10.0 | 0 | **10.0** |
| Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI | | | | |
| *Volksbank Leasing Romania* | 10.0 | 10.0 | 0 | **10.0** |
| Credit line for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI | | | | |
| **ProCredit Bank Romania** | 0.7 | 0 | 0.7 | **0.7** |
| Capital increase for bank providing access to finance for the smallest enterprises. Small business finance • Private • FI | | | | |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Romania Micro Credit Framework** | 0.7 | 0.7 | 0 | **0.7** |
| Increasing funding opportunities for micro and small businesses, focusing on rural regions. Small business finance • State • FI | | | | |
| **Sibiu public transport (city loan)** | 13.0 | 5.0 | 0 | **5.0** |
| Finance to Sibiu city for a road upgrading programme. Municipal infrastructure • State • B/1 | | | | |
| **Sibiu public transport (company loan)** | 5.0 | 5.0 | 0 | **5.0** |
| Finance to municipal public transport company to purchase new buses. Municipal infrastructure • State • B/1 | | | | |
| **SNP Petrom equity privatisation** | 27.7 | 0 | 0.4 | **0.4** |
| Capital increase supporting ongoing privatisation. Natural resources • Private • C/1 | | | | |
| **Tenaris steel plant** | 10.0 | 10.0 | 0 | **10.0** |
| Upgrading technology and increasing production of stainless steel products. Manufacturing • Private • B/1 | | | | |
| **Timisoara district heating** | 15.0 | 10.0 | 0 | **10.0** |
| Increasing efficiency to improve quality and supply of heating. Municipal infrastructure • Private • B/1 | | | | |

## Russia

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Absolut Bank** | 91.1 | 30.4 | 0 | **30.4** |
| Loan to diversify bank's funding base and support growth of individual and business clientele. Bank lending • Private • FI | | | | |
| **Bank Kedr** | 10.6 | 0 | 10.6 | **10.6** |
| Equity investment to support geographical expansion and development of lending to small and medium-sized businesses. Bank equity • Private • FI | | | | |
| **Bank of St Petersburg** | 22.8 | 22.8 | 0 | **22.8** |
| Loan for on-lending to local small and medium-sized businesses. Bank lending • Private • FI | | | | |
| **Banque Société Générale Vostok** | 11.4 | 11.4 | 0 | **11.4** |
| Credit facility for on-lending as long-term mortgage loans. Bank lending • Private • FI | | | | |
| **Center-Invest Bank** | 12.5 | 0 | 12.5 | **12.5** |
| Equity increase to allow continued growth. Bank equity • Private • FI | | | | |
| **Center-Invest Bank syndicated loan** | 34.2 | 11.4 | 0 | **11.4** |
| Loan for on-lending to local small and medium-sized businesses. Bank lending • Private • FI | | | | |
| **Chelyabinsk Tube Rolling Plant** | 28.7 | 9.7 | 0 | **9.7** |
| Loan to pipe producer for equipment modernisation, energy efficiency and environmental objectives. Manufacturing • Private • A/0 | | | | |
| **Chelyabinsk Tube Rolling Plant acquisition finance** | 73.4 | 22.8 | 0 | **22.8** |
| Loan to allow Chelyabinsk to acquire a controlling stake in another pipe producer. Manufacturing • Private • C/1 | | | | |
| **CityMortgage Bank** | 19.0 | 19.0 | 0 | **19.0** |
| Loan to finance growth of CityMortgage Bank's mortgage operations. Non-bank financial institutions • Private • FI | | | | |
| **DeltaLeasing** | 15.9 | 4.6 | 0 | **4.6** |
| Loan to support the growth of the leasing sector in the Russian Far East, Sakhalin and Siberia. Non-bank financial institutions • Private • FI | | | | |
| **Direct Insurance Russia** | 16.5 | 0 | 16.5 | **16.5** |
| Loan to an insurance company for further development of the Russian insurance market. Non-bank financial institutions • Private • FI | | | | |
| **Direct Investment Facility** | 0.6 | 0 | 0.1 | **0.1** |
| Investment in the production of flame retardants by Firestop. Manufacturing • Private | | | | |
| **Gallery II** | 11.4 | 11.4 | 0 | **11.4** |
| Financing for an outdoor advertising company. Telecommunications • Private • C/1 | | | | |
| **Hydro OGK** | 587.9 | 66.3 | 0 | **66.3** |
| Refurbishment of the hydroelectric cascade and development of renewable energy production. Power and energy • State • B/1 | | | | |
| **International Moscow Bank** | 7.7 | 0 | 7.7 | **7.7** |
| Equity increase to allow continued growth. Bank equity • Private • FI | | | | |
| **Ivanovskoye Estate** | 54.7 | 31.9 | 0 | **31.9** |
| Development of up to 300 residential houses in the Moscow region. Property and tourism • Private • B/1 | | | | |
| **JN – Wagon** | 26.1 | 16.0 | 0 | **16.0** |
| Acquisition of new wagons for transport of timber and woodchips. Transport • Private • C/0 | | | | |
| **Khanti Mansi regional municipal services development** | 24.5 | 20.2 | 0 | **20.2** |
| Investment in Surgutsky Rayon municipal district heating, water and waste-water infrastructure. Municipal infrastructure • State • B/1 | | | | |
| **KMB Bank** | 9.7 | 9.7 | 0 | **9.7** |
| Participation in capital increase to raise funding to micro, small and medium-sized businesses. Small business finance • Private • FI | | | | |
| **Koskitukki Russia** | 38.0 | 13.2 | 0 | **13.2** |
| Construction of a new sawmill and veneer and plywood plant. Manufacturing • Private • B/0 | | | | |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Krasnodar urban transport development** | 10.7 | 10.7 | 0 | **10.7** |
| Modernisation of the Krasnodar tram fleet.<br>Municipal infrastructure • State • B/1 | | | | |
| **Lafarge Vostok** | 70.0 | 0 | 70.0 | **70.0** |
| Loan to acquire, modernise and operate facilities producing cement, concrete and lime.<br>Manufacturing • Private • B/1 | | | | |
| **Lenta II** | 66.1 | 38.0 | 0 | **38.0** |
| Geographical expansion of Lenta discount store chain.<br>Agribusiness • Private • C/1 | | | | |
| **LG Russia** | 91.1 | 7.6 | 0 | **7.6** |
| Construction and operation of a production facility for affordable, high-quality digital electronic equipment and white goods.<br>Manufacturing • Private • B/1 | | | | |
| **Louis Dreyfus** | 65.7 | 22.8 | 0 | **22.8** |
| Upgrade of existing assets of silo-operating company, and potential acquisition of new sites.<br>Agribusiness • Private • C/1 | | | | |
| **Maritime navigation safety** | 14.0 | 5.3 | 0 | **5.3** |
| Construction of three radio towers for location and identification of ships.<br>Transport • State • B/0 | | | | |
| **MDM Bank** | 247.4 | 22.6 | 0 | **22.6** |
| Investment to enable easier provision of consumer automobile loans.<br>Non-bank financial institutions • Private • FI | | | | |
| **Mortgage Framework** | 24.3 | 7.8 | 0 | **7.8** |
| Credit facility provided to Chelindbank and Sibacadembank for on-lending as long-term affordable mortgage loans.<br>Bank lending • Private • FI | | | | |
| **OGK-5** | 25.9 | 0 | 25.9 | **25.9** |
| Acquisition of shares in a thermal generating company, providing capital for upgrade work.<br>Power and energy • Private • C/1 | | | | |
| **OOO Kronospan/OOO Kronohim** | 86.0 | 21.0 | 0 | **21.0** |
| Financing to enable production of medium-density fibreboard and resin to be tripled.<br>Manufacturing • Private • B/0 | | | | |
| **Pietro Barbaro River Shipping Company** | 81.8 | 30.0 | 0 | **30.0** |
| Acquisition of tankers and barge ships for the transportation of oil products.<br>Transport • Private • B/0 | | | | |
| **Pilkington Russia II** | 108.0 | 23.0 | 0 | **23.0** |
| Funding to cover cost overruns of original project to construct a glass manufacturing plant.<br>Manufacturing • Private • B/1 | | | | |
| **Pokrov Glass Plant** | 7.8 | 5.4 | 0 | **5.4** |
| Reconstruction of a glass plant, followed by expansion of capacity.<br>Agribusiness • Private • B/1 | | | | |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Project Tundra** | 604.3 | 84.7 | 0 | **84.7** |
| Expansion of a leading mobile telephone operator into under-served regions.<br>Telecommunications • Private • C/1 | | | | |
| **Regional Venture Funds II** | 1.3 | 0 | 1.3 | **1.3** |
| Additional funding to the existing Regional Venture Fund through Kivach/Aquasource, for equity investment in private companies.<br>Equity funds • Private • FI | | | | |
| **Renaissance Life Insurance Limited** | 3.9 | 0 | 1.3 | **1.3** |
| Equity investment to cover regulatory capital requirements and start-up costs of life insurance provider.<br>Non-bank financial institutions • Private • FI | | | | |
| **Rosbank** | 38.0 | 38.0 | 0 | **38.0** |
| Loan to cover bank's development in lending to business and private customers.<br>Bank lending • Private • FI | | | | |
| **RSB auto loan securitisation** | 245.0 | 20.0 | 0 | **20.0** |
| Investment to enable easier provision of consumer automobile loans.<br>Non-bank financial institutions • Private • FI | | | | |
| **RSB rouble loan** | 26.0 | 26.0 | 0 | **26.0** |
| Rouble loan to support consumer lending outside the Moscow region.<br>Non-bank financial institutions • Private • FI | | | | |
| **RSB term securitisation** | 300.0 | 40.0 | 0 | **40.0** |
| Investment to enable easier provision of consumer loans.<br>Non-bank financial institutions • Private • FI | | | | |
| **Rusfinance Bank** | 60.6 | 60.6 | 0 | **60.6** |
| Rouble loan to finance the portfolio of consumer loans.<br>Non-bank financial institutions • Private • FI | | | | |
| **Russia Small Business Fund** | 59.2 | 46.7 | 0 | **46.7** |
| Credit line to Absolut Bank, MDM Bank, NBD-Bank, Probusiness Bank and Uralsib for on-lending to small and medium-sized businesses.<br>Small business finance • Private • FI | | | | |
| **Sakha (Yakutia) Republic** | 28.8 | 28.8 | 0 | **28.8** |
| Upgrading of heating and water systems in the Republic of Sakha.<br>Municipal infrastructure • State • B/1 | | | | |
| **Sibacadembank** | 45.6 | 15.2 | 0 | **15.2** |
| Loan to finance on-lending to small and medium-sized businesses and retail customers in Siberia.<br>Bank lending • Private • FI | | | | |
| **Sitronics** | 219.9 | 0 | 62.7 | **62.7** |
| Investment in a large industrial and consumer electronics company.<br>Manufacturing • Private • C/1 | | | | |
| **Sky Express** | 17.7 | 0 | 1.5 | **1.5** |
| Investment in Russia's first low-cost airline.<br>Transport • Private • C/1 | | | | |
| **St Petersburg waste water** | 46.2 | 41.0 | 0 | **41.0** |
| Construction and operation of a waste-water treatment facility.<br>Municipal infrastructure • State • C/1 | | | | |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Stora Enso Multi-Project Facility**<br>Modernisation and/or construction of new plants (Lukhovitsy, Nebolchi II, Setles II) supplying paper and packaging manufacturer Stora Enso.<br>Manufacturing • Private • C/1 | 93.0 | 36.0 | 0 | **36.0** |
| **Subordinated Loan Framework for Russian Mid-sized Banks**<br>Capital provided to Moscow Credit Bank, Probusiness Bank and Uralvneshtorgbank to support their ongoing growth.<br>Bank lending • Private • FI | 35.0 | 35.0 | 0 | **35.0** |
| **Sumitomo Leasing**<br>Lease financing for Russian companies modernising their construction and mining machinery.<br>Manufacturing • Private • FI | 1.4 | 1.4 | 0 | **1.4** |
| **Transcapitalbank**<br>Equity investment supporting bank's continued growth.<br>Bank equity • Private • FI | 33.8 | 0 | 33.8 | **33.8** |
| **Troika Russia New Growth Fund**<br>Investment in a private equity fund.<br>Equity funds • Private • FI | 26.7 | 0 | 26.7 | **26.7** |
| **Ufa district heating**<br>Modernisation and construction of heating sub-stations in the Republic of Bashkortostan.<br>Municipal infrastructure • State • B/1 | 14.5 | 10.4 | 0 | **10.4** |
| **Ufa Glass Packaging Plant**<br>Purchase of new plant for producer of glass beverage containers.<br>Agribusiness • Private • B/1 | 26.6 | 8.2 | 0 | **8.2** |
| **VIM Airlines**<br>Acquisition of a fleet of used aircraft.<br>Transport • Private • C/1 | 123.0 | 39.1 | 0 | **39.1** |
| **Volkswagen Rus**<br>Construction and operation of a new automobile production plant.<br>Manufacturing • Private • B/0 | 425.0 | 30.0 | 0 | **30.0** |
| **Vologda municipal water services**<br>Comprehensive modernisation of water and waste-water facilities.<br>Municipal infrastructure • State • B/1 | 14.2 | 10.6 | 0 | **10.6** |
| **VTB 24 Bank**<br>Credit line for on-lending to micro and small businesses.<br>Small business finance • Private • FI | 151.9 | 113.9 | 0 | **113.9** |
| **Wienerberger Russia I**<br>Construction of a new brick production plant.<br>Manufacturing • Private • B/0 | 38.0 | 13.3 | 0 | **13.3** |
| **Yug Rusi**<br>Finance for an edible oil producer and agricultural commodities trader.<br>Agribusiness • Private • B/1 | 252.2 | 70.6 | 0 | **70.6** |
| **Regional Trade Facilitation Programme**<br>Support for foreign trade through Absolut Bank, Bank UralSib, Center-Invest Bank, Chelindbank, Credit Bank of Moscow, Locko Bank, NBD Bank, Orgresbank, Promsvyazbank, Rosbank, Russian Standard Bank, Savings Bank of Russia (Sberbank), Sibacadembank, Spurt Bank, TransCapitalBank, Uraltransbank, Uralvneshtorgbank and Vneshtorgbank.<br>Bank lending • Private • FI | 287.1 | 285.1 | 0 | **285.1** |

## Serbia

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Agricultural Commodity Financing Programme**<br>Loan to local edible oil producer Mladost-Sid to increase production.<br>Agribusiness • Private • C/1 | 10.0 | 10.0 | 0 | **10.0** |
| **Čačanska Banka**<br>Equity investment to fund continued growth and as a first step towards full privatisation.<br>Bank equity • Private • FI | 15.0 | 0 | 15.0 | **15.0** |
| **EBRD/Italy Western Balkans Local Enterprise Facility**<br>Investment in local business Euro Fat, a Kosovo-based producer of insulating panels.<br>Manufacturing • Private | 1.3 | 1.1 | 0 | **1.1** |
| **GTC Residential, Belgrade**<br>Construction of around 200 residential units aimed at Serbia's growing middle-class.<br>Property and tourism • Private • B/1 | 22.3 | 8.2 | 0 | **8.2** |
| **HVB Group Debt Facility Framework**<br>Credit lines to BACA-HVB Banka Srbija i Crna Gora for on-lending as long-term mortgage loans.<br>Bank lending • Private • FI | 15.0 | 15.0 | 0 | **15.0** |
| **JKR Resource**<br>Equity investment in the river aggregates and roads maintenance sectors.<br>Manufacturing • Private • B/1 | 30.2 | 0 | 30.2 | **30.2** |
| **Komercijalna Banka Beograd**<br>Equity investment for improving facilities, including IT and staff training, leading to full privatisation.<br>Bank equity • Private • FI | 70.0 | 0 | 70.0 | **70.0** |
| **New Bank of Kosova**<br>Credit line for on-lending to micro and small businesses.<br>Small business finance • Private • FI | 1.0 | 0.7 | 0 | **0.7** |
| **ProCredit Bank Serbia**<br>Equity investment in bank providing finance for micro and small businesses.<br>Small business finance • Private • FI | 2.5 | 0 | 2.5 | **2.5** |
| **Sava river crossing**<br>Construction of a bridge to relieve traffic congestion, noise and traffic-related air pollution.<br>Municipal infrastructure • Private • A/0 | 161.2 | 49.6 | 0 | **49.6** |
| **Serbian Railways**<br>Purchase of freight wagons to increase efficiency.<br>Transport • State • B/0 | 161.6 | 60.0 | 0 | **60.0** |
| **Soko Štark**<br>Loan to a leading confectionery company for modernisation and restructuring.<br>Agribusiness • Private • B/1 | 26.5 | 10.0 | 0 | **10.0** |
| **Somboled**<br>Modernisation and development of a dairy company.<br>Agribusiness • Private • B/1 | 25.6 | 10.0 | 0 | **10.0** |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Western Balkans MSME Finance Facility** | 4.5 | 1.5 | 3.0 | **4.5** |
| Credit line provided to Kosovo Enterprise Project and Opportunity Bank (Serbia) for on-lending to micro, small and medium-sized businesses. Small business finance • Private • FI | | | | |
| **Western Balkans SME Finance Facility** | | | | |
| *Metals Banka, New Bank of Kosova and Raiffeisen Bank Kosovo* | 13.8 | 2.6 | 0 | **2.6** |
| Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI | | | | |
| *Raiffeisen Zentralbank Leasing Belgrade* | 5.0 | 5.0 | 0 | **5.0** |
| Credit line for on-lending to local small and medium-sized businesses. Small business finance • Private • FI | | | | |
| **Regional Trade Facilitation Programme** | 0.2 | 0.2 | 0 | **0.2** |
| Support for foreign trade through Čačanska Banka. Bank lending • Private • FI | | | | |

## Slovak Republic

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **EU/EBRD SME Finance Facility** | 10.0 | 10.0 | 0 | **10.0** |
| Credit line to CAC Leasing II for on-lending to small and medium-sized businesses. Bank lending • Private • FI | | | | |

## Slovenia

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Global Environment Facility** | 2.3 | 2.0 | 0 | **2.0** |
| Loan to Probanka for on-lending to projects reducing water pollution in the Danube River. Bank lending • Private • FI | | | | |

## Tajikistan

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Direct Lending Facility** | | | | |
| *Komron Agro Holding* | 2.1 | 1.1 | 0 | **1.1** |
| Finance provided for manufacturer of cotton-seed oil. Agribusiness • Private | | | | |
| *M&P Tajikistan* | 2.7 | 1.8 | 0 | **1.8** |
| Finance provided for expansion of a supermarket chain. Agribusiness • Private | | | | |
| **ETC Non-bank Microfinance Institution Framework II** | 1.3 | 1.3 | 0 | **1.3** |
| Credit line to IMON and MDTM Microinvest for on-lending to micro and small businesses. Small business finance • Private • FI | | | | |
| **Micro and Small Enterprise Finance Facility** | 4.9 | 4.9 | 0 | **4.9** |
| Credit line to Tajprombank and TSOB Tajikistan for on-lending to micro and small businesses. Small business finance • Private • FI | | | | |
| **Regional Trade Facilitation Programme** | 9.9 | 9.9 | 0 | **9.9** |
| Support for foreign trade through Agroinvestbank Tajikistan, Eskhata Bank, Tajprombank and TSOB Tajikistan. Bank lending • Private • FI | | | | |

## Ukraine

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **AVAL Bank SME II** | 38.0 | 38.0 | 0 | **38.0** |
| Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI | | | | |
| **Barlinek** | 45.0 | 19.5 | 0 | **19.5** |
| Construction of a floorboard production facility in central Ukraine. Manufacturing • Private • B/1 | | | | |
| **Black Sea Shipping Management Company** | 25.8 | 7.6 | 0 | **7.6** |
| Construction and acquisition of five cargo ships. Transport • Private • C/1 | | | | |
| **Bunge-Black Sea Industries** | 28.1 | 13.7 | 0 | **13.7** |
| Building and operating of a new edible oil production facility. Agribusiness • Private • B/0 | | | | |
| **Bunge loan increase** | 7.6 | 3.8 | 0 | **3.8** |
| Increase of the earlier loan to finance construction of edible oil plant. Agribusiness • Private • C/1 | | | | |
| **Chumak II** | 7.3 | 1.5 | 0 | **1.5** |
| Expansion and modernisation of a leading food processor. Agribusiness • Private • B/1 | | | | |
| **Direct Investment Facility** | 1.3 | 1.3 | 0 | **1.3** |
| Loan to Ukram Industries to develop nitrogen conditioning system for refrigerated transport. Manufacturing • Private | | | | |
| **Ekoenergia** | 189.9 | 75.9 | 0 | **75.9** |
| Construction of a cogeneration facility using waste gases to produce electricity. Manufacturing • Private • A/1 | | | | |
| **Farmak** | 32.0 | 22.0 | 0 | **22.0** |
| Upgrade and construction of manufacturing facilities for a pharmaceuticals company. Manufacturing • Private • B/1 | | | | |
| **First Lease** | 12.0 | 12.0 | 0 | **12.0** |
| Loan to expand fleet of vehicles available for leasing to Ukrainian businesses. Non-bank financial institutions • Private • FI | | | | |
| **GTC Ukraine** | 75.9 | 0 | 7.6 | **7.6** |
| Equity investment in company constructing new residential, retail and office developments. Property and tourism • Private • C/1 | | | | |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Kiev-Chop road upgrade** | 486.0 | 200.0 | 0 | **200.0** |
| Completion of the upgrading of M06 Kiev-Chop road to European standards.<br>Transport • State • B/1 | | | | |
| **Kreditprombank** | 31.9 | 9.9 | 0 | **9.9** |
| Credit line for on-lending to micro, small and medium-sized businesses.<br>Bank lending • Private • FI | | | | |
| **Kredo Bank** | 5.6 | 3.3 | 0 | **3.3** |
| Capital increase to finance continued growth and development.<br>Bank equity • Private • FI | | | | |
| **Kronospan Ukraine** | 100.0 | 35.0 | 0 | **35.0** |
| Modernisation of a factory producing wood-based particleboard.<br>Manufacturing • Private • B/1 | | | | |
| **Mittal Steel** | 151.9 | 151.9 | 0 | **151.9** |
| Financing to increase productivity and energy efficiency at Kryviy Rih steel plant.<br>Manufacturing • Private • B/1 | | | | |
| **ProCredit Bank Ukraine** | 22.8 | 6.8 | 2.3 | **9.1** |
| Equity investment and syndicated loan to allow development of lending to micro and small businesses.<br>Small business finance • Private • FI | | | | |
| **Renaissance Life Ukraine** | 3.8 | 0 | 0.9 | **0.9** |
| Capital increase for a private life insurance provider.<br>Non-bank financial institutions • Private • FI | | | | |
| **Slobozhanska Budivelna Keramika (SBK)** | 7.5 | 0 | 7.5 | **7.5** |
| Upgrade of existing and construction of new brick production facilities.<br>Manufacturing • Private • B/1 | | | | |
| **Soufflet Multi-project Facility** | | | | |
| *ACL 2004 Slavuta* | 6.8 | 0.8 | 0 | **0.8** |
| Investment in barley producer.<br>Agribusiness • Private • B/1 | | | | |
| *Ukraine ACL 05* | 5.3 | 0.8 | 0 | **0.8** |
| Acquisition, refurbishment and expansion of malting plant.<br>Agribusiness • Private • B/1 | | | | |
| **Ukraine Energy Efficiency Programme** | 7.6 | 7.6 | 0 | **7.6** |
| Credit line to Kreditprombank for on-lending to local business energy efficiency projects.<br>Bank lending • Private • FI | | | | |

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Uksnab** | 8.7 | 0 | 6.2 | **6.2** |
| Equity investment in a producer of industrial refrigeration equipment.<br>Manufacturing • Private • B/1 | | | | |
| **Vetropack Gostomel** | 44.8 | 22.4 | 0 | **22.4** |
| Investment in efficiency and capacity expansion of producer of glass containers.<br>Agribusiness • Private • B/1 | | | | |
| **Zitomir** | 10.0 | 4.0 | 0 | **4.0** |
| Investment in restructuring and modernisation of a glass producer in Zitomir.<br>Agribusiness • Private • B/1 | | | | |
| **Regional Trade Facilitation Programme** | 49.0 | 49.0 | 0 | **49.0** |
| Support for foreign trade through Aval Bank, Forum Bank, Hypovereinsbank Ukraine, Kreditprombank and Raiffeisen Bank Ukraine.<br>Bank lending • Private • FI | | | | |

## Uzbekistan

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **Bursel** | 1.5 | 1.5 | 0 | **1.5** |
| Loan to a cotton garment manufacturer.<br>Manufacturing • Private • B/1 | | | | |
| **Direct Lending Facility** | 0.4 | 0.4 | 0 | **0.4** |
| Loan to Oltin Taqa to increase production facilities for fruit and vegetable concentrates.<br>Agribusiness • Private | | | | |
| **Japan-Uzbekistan Small Business Programme** | 2.3 | 2.3 | 0 | **2.3** |
| Credit line to Hamkor Bank for on-lending to local micro and small businesses.<br>Small business finance • Private • FI | | | | |
| **Regional Trade Facilitation Programme** | 1.1 | 1.1 | 0 | **1.1** |
| Support for foreign trade through UzDaewoo Bank.<br>Bank lending • Private • FI | | | | |

## Regional

| | Project value (€ million) | EBRD loan (€ million) | EBRD equity (€ million) | Total EBRD financing (€ million) |
|---|---|---|---|---|
| **7L Capital Partners** | 15.0 | 0 | 15.0 | **15.0** |
| Regional private equity fund investing primarily in south-eastern Europe.<br>Equity funds • Private • FI | | | | |
| **AIG New Europe Fund II** | 39.5 | 0 | 39.5 | **39.5** |
| Regional private equity fund investing in equity and equity securities of companies in central and south-eastern Europe, subsidiary of AIG Global Investment Group.<br>Equity funds • Private • FI | | | | |
| **Alpha CEE II** | 50.0 | 0 | 50.0 | **50.0** |
| Diversified regional private equity fund dedicated to central and eastern Europe.<br>Equity funds • Private • FI | | | | |
| **Balkan Accession Fund** | 102.0 | 0 | 22.0 | **22.0** |
| Finance provided to a private equity fund investing in medium-sized businesses, primarily in Bulgaria and Romania.<br>Equity funds • Private • FI | | | | |
| **Bluehouse Equity Fund** | 25.0 | 0 | 25.0 | **25.0** |
| Equity investment in Bluehouse Accession Property, a fund acquiring, developing, renovating, owning and managing property in Bulgaria, Moldova, Montenegro, Romania, Serbia and Ukraine.<br>Property and tourism • Private • FI | | | | |
| **Brasseries Internationales Holdings** | 11.4 | 11.4 | 0 | **11.4** |
| Reconstruction and development of breweries across the Caucasus.<br>Agribusiness • Private • C/1 | | | | |
| **BSR Europe Co-Investment Facility** | 35.0 | 0 | 35.0 | **35.0** |
| Equity investment in a company developing office, retail, residential and industrial real estate in Bulgaria, Croatia, Georgia, Moldova, Montenegro, Romania, Russia, Serbia and Ukraine.<br>Property and tourism • Private • C/1 | | | | |
| **Capital Media** | 100.0 | 50.0 | 0 | **50.0** |
| Long-term financing enabling extension of operations for TV broadcaster operating in Croatia, Czech Republic, Romania, Slovak Republic, Slovenia and Ukraine.<br>Telecommunications • Private • C/1 | | | | |
| **European Fund for Southeast Europe (EFSE)** | 20.0 | 0 | 20.0 | **20.0** |
| Privately managed public/private investment fund which will provide financing for micro, small and medium-sized businesses as well as housing and rural finance in Bosnia and Herzegovina, Montenegro and Serbia.<br>Equity funds • Private • FI | | | | |
| **Europolis III** | 250.0 | 0 | 52.5 | **52.5** |
| Equity investment allowing the creation of a regional portfolio of property assets in Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Montenegro, Russia, Serbia and Ukraine.<br>Property and tourism • Private • C/1 | | | | |
| **GED Eastern Fund II** | 20.0 | 0 | 20.0 | **20.0** |
| Private equity fund investing in small and medium-sized businesses primarily in Bulgaria and Romania.<br>Equity funds • Private • FI | | | | |
| **Global Property Fund** | 43.9 | 0 | 4.5 | **4.5** |
| Equity fund investing in property development primarily in Bulgaria, Montenegro, Romania and Serbia.<br>Property and tourism • Private • FI | | | | |
| **Marbleton Property Fund** | 113.9 | 0 | 29.6 | **29.6** |
| Equity funding for office, residential, retail and industrial property development, primarily in Russia and Ukraine.<br>Property and tourism • Private • FI | | | | |

# Further information

## Web site

The EBRD web site (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.

## Guide for readers

### Exchange rates

Non-euro currencies have been converted, where appropriate, into euro on the basis of the exchange rates current on 31 December 2006. (Approximate euro exchange rates: £0.67, US$ 1.32, ¥ 156.63.)

### 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.

## 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 in 2007 is to be held in Kazan, Russia, on 20-21 May.

## Abbreviations and acronyms

| | |
|---|---|
| **The Bank, EBRD** | The European Bank for Reconstruction and Development |
| **BAS** | Business Advisory Services |
| **CIS** | Commonwealth of Independent States |
| **DIF** | Direct Investment Facility |
| **DLF** | Direct Lending Facility |
| **EIB** | European Investment Bank |
| **ETCs** | Early transition countries |
| **EU** | European Union |
| **EvD** | Evaluation Department |
| **FYR Macedonia** | Former Yugoslav Republic of Macedonia |
| **GDP** | Gross domestic product |
| **IFI** | International financial institution |
| **IPO** | Initial public offering |
| **IRM** | Independent Recourse Mechanism |
| **MCCF** | Multilateral Carbon Credit Fund |
| **MDBs** | Multilateral development banks |
| **MSEs** | Micro and small enterprises |
| **NDEP** | Northern Dimension Environmental Partnership |
| **NIB** | Nordic Investment Bank |
| **NGO** | Non-governmental organisation |
| **PIP** | Public Information Policy |
| **PPP** | Public-private partnership |
| **RSBF** | Russia Small Business Fund |
| **SEI** | Sustainable Energy Initiative |
| **SMEs** | Small and medium-sized enterprises |
| **TAM** | TurnAround Management |
| **TC** | Technical cooperation |
| **TFP** | Trade Facilitation Programme |

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**Anthony Martin**
Editorial manager

**Helen Warren**
Editorial support and
picture research

**Joanne Lancaster**
Picture research

**Jon Page**
**Steven Still**
Design and
print management

**Joanna Daniel**
Design support

**Olga Lioutyi**
Translation coordination

**Photography**

| **Photographer** | **Page** |
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**European Bank for**
**Reconstruction and Development**
One Exchange Square
London EC2A 2JN
United Kingdom

**Switchboard/central contact**
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
SWIFT: EBRDGB2L

**Web site**
www.ebrd.com

**Requests for publications**
Tel: +44 20 7338 7553
Fax: +44 20 7338 6102
Email: pubsdesk@ebrd.com

**Project enquiries**
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
Email: projectenquiries@ebrd.com

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