ANNUAL REPORT 2007
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, 5 March 2008

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 2007 is submitted by the Board of Directors to the Board of Governors.

The Annual Report includes the approved and audited financial statements required to be submitted under Article 27 of the Agreement and Section 13 of the By-Laws. It also contains a separate statement on the Special Funds resources, in accordance with Article 10 of the Agreement Establishing the Bank, and covers the environmental impact of the Bank's operations, as required under Article 35 of the Agreement.

President
Jean Lemierre

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Mark Sullivan	–
Jan Willem van den Wall Bake	Hans Sprokkreeff

Contents

The EBRD's Annual Report 2007 comprises two separate companion volumes: the Review and the Financial Statements (including the financial results commentary). The CD-ROM accompanying this publication contains the complete Review (in a fully searchable format), the Financial Statements 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:
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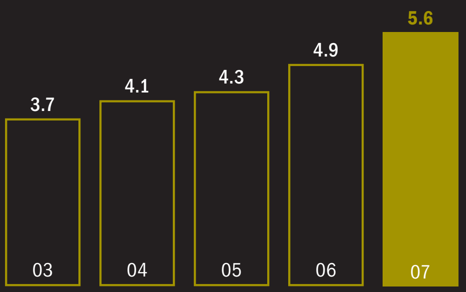
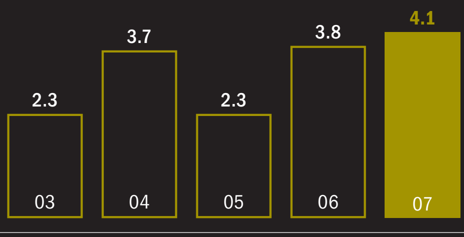
2007 IN NUMBERS

EBRD commitments 2003-07 [1]
€ billion

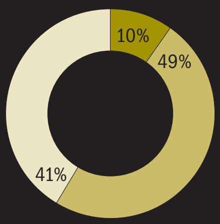


[1] Commitments signify EBRD financing committed under signed agreements.

Gross annual disbursements 2003-07
€ billion



EBRD commitments by stage of transition in 2007



	% change since 2006
Advanced [1]	-22
Early intermediate [2]	+16
Russia	+23

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

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

Annual commitments 2003-07

	2007	2006	2005	2004	2003	Cumulative 1991-2007
Number of projects [1]	**353**	301	276	265	222	2,596
consisting of:						
– standalone projects	***187***	*167*	*156*	*141*	*129*	*1,575*
– investments under frameworks	***166***	*134*	*120*	*124*	*93*	*1,021*
EBRD commitments (€ million) [2]	**5,583**	4,936	4,277	4,133	3,721	36,938
Resources mobilised (€ million) [2]	**8,617**	7,645	5,846	8,835	5,456	80,506
Total project value (€ million) [2]	**13,809**	12,014	9,784	12,968	8,946	116,919

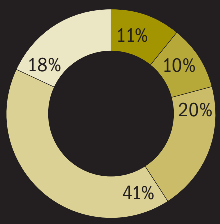
[1] An operation that is not linked to a framework and involves only one client is referred to as a standalone project. Operations extended to a number of clients (for example, credit lines to banks) have a framework, which represents the overall amount approved by the Board. Investments under frameworks represent the commitment to individual clients.

[2] The calculation of "Resources mobilised" and "Total project value" has been refined to exclude amounts relating to facilities where the original commitment was made in a previous year to ensure the finance is counted only once; "EBRD commitments" include incremental EBRD finance on existing operations.

Financial results 2003-07

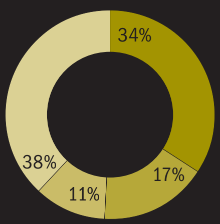
(€ million)	**2007**	2006	2005	2004	2003
Operating income	**1,934**	2,667	1,544	659	538
Expenses, depreciation and amortisation	**(251)**	(225)	(219)	(190)	(198)
Operating profit before provisions	**1,683**	2,442	1,325	469	340
Provisions for impairment of loan investments	**201**	(53)	197	(76)	(7)
Net profit for the year	**1,884**	2,389	1,522	393	333
Reserves and retained earnings	**8,676**	6,974	4,684	1,718	952
Provisions for impairment of loan investments (cumulative)	**124**	341	323	508	465
Total reserves and provisions	**8,800**	7,315	5,007	2,226	1,417

EBRD commitments by region in 2007



	% change since 2006
Central Asia	+115
Central Europe and the Baltic states	-22
Western CIS and the Caucasus	-1
Russia	+23
South-eastern Europe	-5

EBRD commitments by sector in 2007



	% change since 2006
Corporate sector [1]	+28
Infrastructure [2]	+11
Energy [3]	+53
Financial sector [4]	-4

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

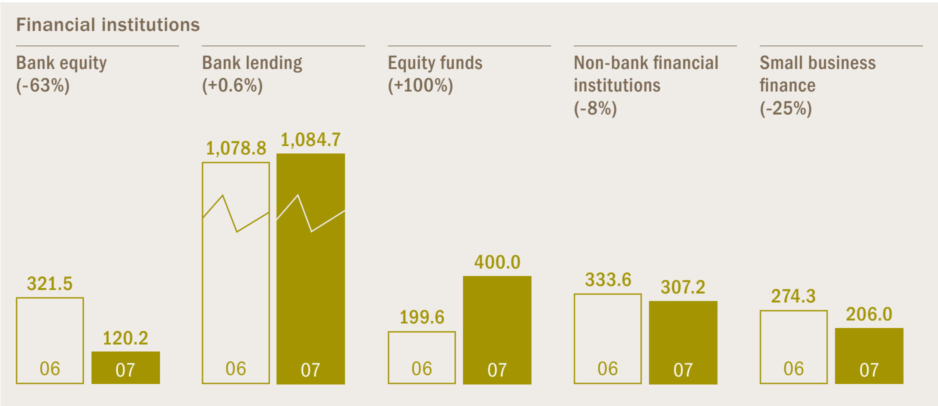
[2] Infrastructure comprises municipal infrastructure and transport.

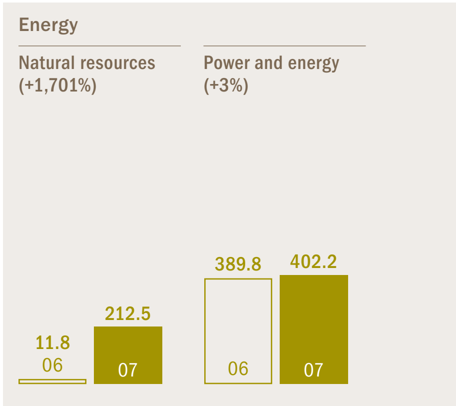
[3] Energy comprises natural resources and the power sector.

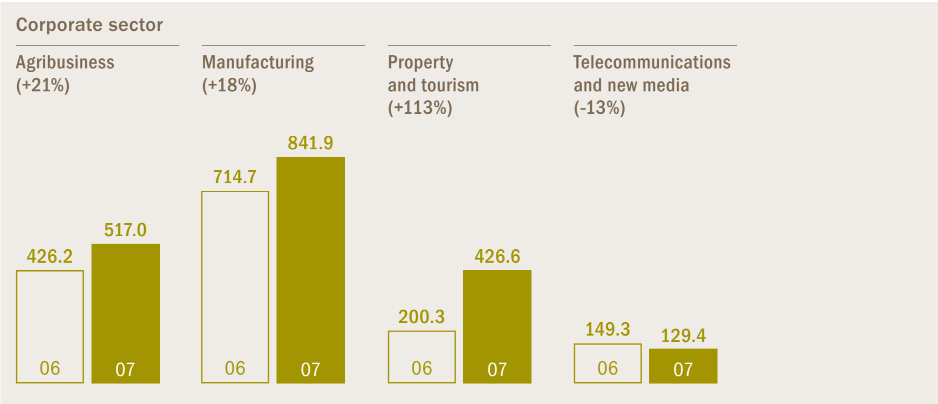
[4] Financial sector includes investments in micro, small and medium-sized enterprises via financial intermediaries.

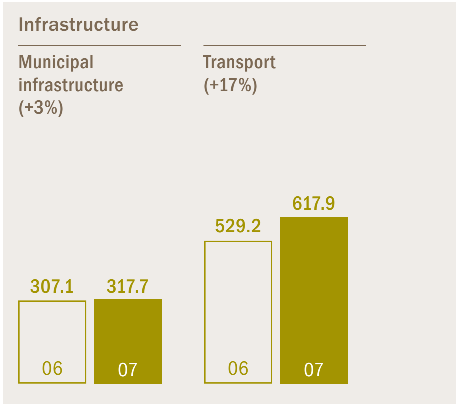
EBRD commitments by sector 2006-07

€ million (% change)









EBRD COMMITMENTS 2007

Central Europe and the Baltic states

	€ million	
Croatia	152.6	▼
Czech Republic	39.8	▼
Estonia	11.0	▲
Hungary	38.7	▼
Latvia	18.1	▲
Lithuania	37.5	▲
Poland	160.5	▼
Slovak Republic	74.3	▲
Slovenia	13.0	▲

South-eastern Europe

	€ million	
Albania	45.1	▼
Bosnia and Herzegovina	156.4	▲
Bulgaria	203.0	▲
FYR Macedonia	26.2	▼
Montenegro	17.5	▲
Romania	336.4	▲
Serbia	215.6	▼

Western CIS and the Caucasus

	€ million	
Armenia	77.8	▲
Azerbaijan	122.0	▼
Belarus	45.8	▲
Georgia	192.0	▲
Moldova	35.6	▲
Ukraine	646.8	▼

Note: Financing for regional projects has been allocated to the relevant countries. ▲ or ▼ signifies change up or down since 2006.

Russia

	€ billion
Russia	2.3 ▲

Central Asia

	€ million
Kazakhstan	531.6 ▲
Kyrgyz Republic	11.7 ▼
Mongolia	33.6 ▲
Tajikistan	26.2 ▲
Turkmenistan	2.6 ▲
Uzbekistan	14.7 ▲

Number of projects

353

EBRD commitments

€5,583 million

Resources mobilised

€8,617 million

Total project value

€13,809 million

PRESIDENT'S MESSAGE

The EBRD has a great, and much appreciated, future as a strong, efficient and successful institution.

The year 2007 is in many ways a metaphor for the EBRD as an institution. This was a year of excellence of projects, innovative approaches and strong results – and a year that finished by demonstrating all too graphically why the Bank is needed.

In keeping with the Bank's five-year strategy for use of resources, investment in central Europe was limited and there was increased emphasis on south-eastern Europe, the Caucasus, Central Asia, and on Russia where some 40 per cent of the annual business volume was invested, particularly in the Russian regions.

The Czech Republic became the first to graduate as a country of operations of the EBRD. That ended its relationship as an investee country, but the Czech Republic remains firmly committed to a future with the Bank as both a donor and an investor, as Czech companies seek to invest alongside the Bank in countries further east. Seven other central European countries will follow suit over the next few years, releasing resources for the EBRD to devote to the 21 countries where access to capital markets remains difficult and the Bank's experience brings much value.

In 2007, the notable added value was in investments that reflected a shift back towards manufacturing and support for the real economy. There were more investments in the form of equity, where the Bank accepts proportionately higher risks but contributes more as a shareholder.

There was growing activity through the array of programmes for smaller businesses, especially in the Western Balkans and the poorer countries across the region. In partnership with the European Investment Bank, we put new impetus into addressing the massive infrastructure needs of the region. And new forms of investment in environmental upgrades and industrial health and safety will add to the Bank's already strong reputation in supporting sustainable development.

Higher volume, profits, and more projects that fostered more transition than ever before in the history of the EBRD belie the less measurable value of the Bank. Much of the Bank's contribution lies in its deep knowledge of the region where we invest, of the people and the companies, of the policies and the legal structures, the investment environment and the culture. My colleagues and I devote a great deal of energy to talking to political and business leaders about everything from banking supervision to municipal planning.

That kind of dialogue has spurred an accelerating uptake of investments in energy efficiency, which only a few years ago was a virtually neglected opportunity for savings as well as contribution to energy security and limiting climate change. Energy efficiency investments are now thriving, as more and more companies understand the enormous bottom-line benefits of saving energy and protecting the environment.

Jean Lemierre
President

Through long and careful discussions with counterparts in Russia, Ukraine, Romania and other countries, the Bank has helped to develop capital markets by establishing transparent benchmarks for lending and opening longer-term financing for the real economy.

Much of my dialogue with leaders reflects what the EBRD has learned by conducting surveys of the people of the region to try to understand their perceptions of how transition has helped them or failed them. Aspirations and frustrations of average people can help the EBRD to understand the environment where we work, and help policy-makers and entrepreneurs to plan their future.

Across the region, people share the wish for better health and education, less corruption and greater prosperity. Transition for most countries means developing a middle class. It means economies well-endowed with a sound and increasingly sophisticated banking system, diversified industries that draw on the traditional engineering and scientific strength of the region, and products and services that serve consumers well.

For 17 years, the EBRD has helped countries to realise those aspirations. For the past eight years, I have had the honour of leading the Bank as it emerged from the setbacks of the 1998 financial crisis and delivered support and projects to a region that was devastated by financial turmoil just as fledgling market economies and democracies were taking hold.

The EBRD remained committed to its clients and its countries through those difficult years and has gone on to deliver exponential increases in transition impact, volume and profits ever since. As 2007 closed, new trouble was looming in the global financial system. This will no doubt present new challenges for the region in 2008, and serve as an unsettling reminder of just how much the EBRD is needed. Once again, the expert and dedicated staff of the Bank will have to find new ways to adapt to new needs.

I have no doubt they will do it. Supported by a Board with deep understanding of the importance of the Bank, the EBRD has a great, and much appreciated, future as a strong, efficient and successful institution dedicated to investing in the future of the people from central Europe to central Asia.

I leave the EBRD with confidence and heartfelt best wishes for the EBRD, its staff and its future leadership. And with great affection and hopes for a region that is defining and achieving transition for the world.

01
OVERVIEW

EBRD investments rose in 2007 and, in line with the Bank's strategy of moving operations further south and east, activities were focused on countries at the early and intermediate stages of transition. A new Environmental Policy is being proposed to reflect the Bank's increased focus on the social aspects of its projects, particularly health and safety. Sustainable development across all EBRD projects continues to be fundamental.




Countries in the transition region **continued to prosper in 2007**, recording an average growth rate of 7 per cent – the fastest since the transition process began. This is being driven by strong domestic consumption as people become more prosperous on the back of falling unemployment and poverty levels. Foreign direct investment also reached its highest level since transition began at €52 billion, compared with €34 billion in 2006. Oil and gas prices remained high and so export growth in the resource-rich countries remained strong.

At the same time, economies in the transition region showed signs of overheating by way of rising inflation and external imbalances. Inflationary pressures increased significantly towards the end of 2007 under the influence of rising food and energy prices, and tighter budgetary controls have so far been unable to ease these pressures. In addition, the global financial turmoil that began in August 2007 may lead to higher funding costs, credit constraints and greater risk aversion on the side of international investors and could affect financial sectors throughout the transition region. By the end of 2007, the impact on the region had been limited, although some banks were feeling the effects of tighter liquidity positions. However, prospects for growth in 2008 have dimmed somewhat relative to the previous year as a result of the deterioration in the global economic environment.

Progress in economic reform in 2007 was generally steady, albeit slower than at the beginning of the decade as some countries show signs of reform fatigue. South-eastern Europe made the most headway, although there was limited progress elsewhere. A more detailed assessment of economic reform can be found on page 22.

Coupled with steady reform was an increase in EBRD commitments. In 2007 the Bank invested €5.6 billion in projects in the countries in which it operates – from central Europe to central Asia. This is the Bank's **highest level of investment** and is a €0.7 billion increase on 2006. EBRD financing was spread across 353 projects, a significant rise on the 301 that were signed in 2006. Over half of these were projects in the "very small" range of €5 million or less, which is a 32 per cent increase on 2006. This reflects the Bank's increasing focus on countries further south and east where transition towards a market economy is less advanced and projects tend to be smaller.

The share of new projects rated as "Good" or "Excellent" in terms of their potential impact on the transition process totalled almost 90 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.

Equity investments increased in 2007 by a substantial 42 per cent from 64 in 2006 to 91 in 2007, while equity volume went up by 68 per cent from €1 billion in 2006 to €1.7 billion in 2007. Reflecting a higher average size of individual investment, the equity share of the Bank's annual business volume increased from 20 per cent in 2006 to 30 per cent in 2007. By taking equity in a company, the EBRD can use its position on the board of directors to encourage improvements in corporate governance and sound business standards.

A significant contribution to the 2007 business volume was from the Trade Facilitation Programme, which promotes foreign trade between the countries in which the Bank operates (see page 33). Trade finance issued in 2007 totalled €777 million, a 10 per cent increase on the 2006 amount of €707 million.

The private sector share of annual business volume increased to 86 per cent in 2007 from 80 per cent in 2006. EBRD financing was spread across various sectors. Most of it was directed towards the financial sector (38 per cent) to support institutions within and outside the banking sector, as well as local enterprises, including small businesses. The corporate sector attracted 34 per cent of commitments to support projects in agribusiness, manufacturing, property and tourism, and telecoms and new media. The remainder of EBRD financing went to infrastructure (17 per cent) and the energy sector (11 per cent). Driven by active portfolio management and the composition of the annual business volume, disbursements of funding to reach EBRD clients totalled €4.1 billion in 2007, an increase of 9 per cent on the 2006 level of €3.8 billion. Disbursements took place across all the countries in which the Bank invests.

Realised profit after provisions fell slightly to €1.1 billion in 2007 from the €1.6 billion reported in 2006. Realised equity gains were €0.6 billion, compared with €1.3 billion in 2006. Net profit, including unrealised equity gains, dropped to €1.9 billion from €2.4 billion in 2006 as equity markets in the Bank's region soften, following the trend of the United States and western Europe.

In terms of geographical spread, most of the EBRD's financing went to the early and intermediate transition countries. Investment in south-eastern Europe, the Caucasus, Central Asia and countries on the western fringe of the former Soviet Union reached €2.7 billion in 2007, which represents 49 per cent of the Bank's annual business volume. The Bank focused particularly on the countries in Central Asia, doubling its commitments there in 2007 to €0.6 billion. In the advanced transition countries of central Europe, EBRD commitments fell to €0.5 billion from €0.7 billion in 2006.

In 2007, the Bank invested €5.6 billion in projects in the countries in which it operates, from central Europe to central Asia.

Case study
Building partnerships in the water sector

When people are faced with daily interruptions to their water supply they tend to fill baths, buckets and basins as quickly as they can to get enough for drinking, cleaning, cooking and bathing for the next 24 hours. This behaviour, of course, only exacerbates the problem and strains the system even further.

In many countries in which the EBRD operates, the old infrastructure has been left in place too long and desperately needs updating to meet the needs of the increasingly wealthy population. Therefore the EBRD has invested up to €105 million for a 10 per cent stake in Veolia Voda, with the aim of boosting the role of the private sector in the provision of water and waste-water services, with particular emphasis on Russia and Ukraine.

The funds will be used by Veolia Voda to continue its expansion in the Bank's countries of operations. Veolia Voda is the holding company for French company Veolia Water's central and eastern European activities and it has already made successful entries into the markets of the Czech Republic, Hungary, Poland and the Slovak Republic.

Veolia Voda has been very successful in nurturing local talent and it has around 10,000 employees in Hungary, Poland, the Slovak Republic, with the bulk of its workforce (6,000) in the Czech Republic. With the exception of two French citizens, all these employees are local. Veolia Voda has been able to develop and groom local expertise to become group leaders in areas of waste-water treatment such as "sludge valorisation." As well as supporting better quality water and waste-water services, Veolia brings, of course, a commitment to transparency and good corporate governance.

The development of a sustainable infrastructure is crucial for the successful transformation of economies in the EBRD region. Improving the supply of water and reducing the danger of pollution and sickness by raising the quality of waste-water treatment makes a real difference to the quality of people's lives.

Also key to the way Veolia works is the conservation and protection of the quality of water as a natural resource. Water is conserved by addressing water leakages and other techniques that aim to minimise the stress on the water intake. More effective waste-water treatment protects groundwater and surrounding bodies of water from pollution.

Antoine Frérot, Chief Executive Officer of Veolia Water said: "This partnership underlines Veolia's commitment to working in close cooperation with authorities in central and eastern Europe, and our development in this region will be further enhanced through the EBRD's support. Our long-standing expertise will contribute not only to providing communities with efficient water and waste-water services, but also to the protection of natural water resources which is of major importance to this region."

Case study
Russia's automotive industry moves ahead

Kaluga was not always booming. As recently as the 1990s the town was struggling as the region's heavy industry failed to adjust to the market economy. Thousands of residents moved the 160 kilometres to Moscow, but now they are likely to return.

One of the reasons is Kaluga's new Volkswagen factory. The foundation stone was laid in October 2006 and the first cars rolled off the assembly line in November 2007. The factory is mostly financed by an EBRD initiative that, with 11 other banks, raised the rouble equivalent of €750 million, the Bank's biggest rouble investment in the automotive sector to date.

It is Kaluga where Volkswagen's foray into the Russian auto market is to begin and where the company will produce up to 150,000 cars a year by 2009.

"Volkswagen is a magnet," says Deputy Mayor Vadim Vitkov. "Once they're here, many more will come." That was the message he repeatedly drove home to anyone wary of the investment.

Other carmakers, such as PSA-Group, Volvo and Renault Truck, are also preparing operations in Kaluga. During the first phase of production at Kaluga, Volkswagen cars will be assembled on site, thereby avoiding the heavy duties on importing completed vehicles; starting in 2009, cars will also be manufactured at the factory.

Volkswagen was established in 1937 and has built up an international reputation for reliability and eco-friendliness. It now has 47 production plants in 12 countries worldwide, and is the largest car manufacturer in Europe. In 2006 the company sold 5.7 million cars worldwide, and it is working hard to become Russia's car of choice. The first of Volkswagen's Škoda Octavias and VW Passats are already rolling out of the factory. Soon, the Jetta, the Škoda Fabia and a new model designed for future markets will enter production.

The new factory is creating massive job opportunities in all sectors around Kaluga, but the language barrier is a challenge. "We don't have enough people who speak English and German," says Vitkov. So the city is planning to build an education centre. Furthermore, city leaders are concerned that the area's gastronomy isn't up to European standards so the local government is encouraging new restaurants to open that serve European cuisine. Kaluga has also started a residential building programme to tackle the housing shortage.

"We have to become a bigger player in this huge market," remarks Dietmar Korzekwa, Volkswagen Group's representative for Russia. He foresees dramatic growth in the Russian automobile market in coming years. "The population is under-motorised," he observes. While Germany has 500 cars for every 1,000 people, Russia has only 190. In Russia today there are 2.33 million vehicles sold annually. By 2010, that number will be 3 million. "Conservatively speaking," says Korzekwa.

Volkswagen sees greatest growth for its vehicles in the €7,000 to €18,000 price range, particularly with vehicles for the domestic market that will compete directly with the Lada, Russia's best-known passenger car brand, Korzekwa explains.

The Volkswagen project represents the third EBRD investment in a greenfield car production plant in Russia over the past six years. The two earlier projects were GM-AvtoVaz in Togliatti and Toyota in St Petersburg.

The Memorandum of Understanding (MoU) signed in 2006 by the EBRD, European Commission and European Investment Bank has bolstered the strong relationship between these three organisations. The MoU facilitates the joint financing of projects in Russia, eastern Europe, the southern Caucasus and Central Asia and has led to the development of projects such as the upgrading of Moldovan roads (see page 51) and a pipeline of projects covering energy, transport and environmental infrastructure. In addition, to further reinforce their cooperation in the energy sector, the EBRD and European Commission signed another MoU in 2007, focusing on energy security, energy efficiency and nuclear decommissioning.

Investments in Russia increased in 2007 to reach €2.3 billion. This covers 83 projects and amounts to 42 per cent of the Bank's annual commitments (compared with 38 per cent in 2006). The new investments bring the Bank's total portfolio in Russia to €5.7 billion.

The Bank focused on providing finance outside the major cities, devoting more than 90 per cent of its new business to the Russian regions, a commitment underlined by the Bank's 2007 Annual Meeting being held in Kazan. To promote economic diversity, activities were spread across the corporate sector (33 per cent), infrastructure and energy (28 per cent), financial institutions (19 per cent), micro, small and medium-sized enterprises (10 per cent) and the Trade Facilitation Programme (10 per cent).

The share of equity investments in Russia reached 37 per cent. Important equity investments included Transcontainer, a subsidiary of the Russian railways, as part of the privatisation of the rail sector, and TGK-9, a regional electrical power producer (see page 43). The Bank also made its largest rouble loan in the automotive sector to Volkswagen in Kaluga, together with international banks.

As part of the EBRD's strategy to promote energy efficiency across all sectors, a landmark project was €150 million, long-term energy efficiency loan to Severstal, a steel producer in the north-west of Russia (see page 44). A further €150 million was syndicated to private banks. It is the largest energy efficiency project undertaken in Russia and will help the country's leading steelmaker to reduce its annual primary energy consumption by 5-10 per cent.

It was also a good year for EBRD investments in the **Western Balkans**. The Bank committed €461 million and signed 38 projects. Disbursements were high, exceeding €330 million, and the high business volume was achieved through a large number of investments in very small projects (those of €5 million and less), an increase in equity investments and a greater involvement with local enterprises.

After one year of operations, the multi-donor Western Balkans Fund is well-established as a significant instrument for funding projects in the Western Balkans (see page 61). Donor funding is an integral part of EBRD investment as it brings additional finance, prepares the way for EBRD projects and allows clients to benefit from expert advice. Pledges have reached more than €20 million, of which about €4.5 million has been approved for more than 25 projects in Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia (including Kosovo). Funding is focused on infrastructure development, access to finance for small businesses, institutional reform and cross-border cooperation.

Crucial support to the EBRD initiatives in the Western Balkans comes from the European Union through the European Agency for Reconstruction (EAR). This support has been provided mainly in the form of TC funds.

Donor-funded activities also include the Italian-sponsored Western Balkans Local Enterprise Facility, which provides equity, risk-sharing and financing to local enterprises. Through this Facility the EBRD signed seven projects in 2007, bringing the total number signed to 10. The Facility now has €65 million for equity investments in the region, €25 million of which has already been invested.

Significant projects in the region in 2007 included the Belgrade Highway and Bypass project, supported by EBRD and donor funding to improve the traffic flow in the Serbian capital, and a €15 million loan to the Montenegrin national rail infrastructure company to improve the safety and efficiency of the country's rail system.

The EBRD held its 2007 Annual Meeting in Kazan, Russia, underlining its commitment to developing the Russian regions.

Investments in railway infrastructure and rolling stock were made across the region in 2007.

The increasing momentum under the **Early Transition Countries (ETC) Initiative** reflects the Bank's commitment to supporting some of the poorest countries where it operates. As a result of the initiative, in 2007 the Bank more than quintupled the number of projects signed annually in the ETCs, compared to levels achieved before the launch of the initiative in 2004. As part of the initiative the Bank was also able to kick-start its activities in its newest country of operations, Mongolia, in 2007, signing six new projects. The ETCs include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia (since November 2006), Tajikistan and Uzbekistan.

The EBRD signed 105 projects in the ETCs in 2007. This compares with 80 (excluding oil and gas deals) in 2006, 61 in 2005, 32 in 2004 and 18 in 2003 (before the launch of the initiative). The value of new signings also rose substantially in 2007: €416 million in 2007 compared to €290 million in 2006, €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, achieving end-of-year commitments in 2007 of another €93 million.

To be successful, the ETC Initiative depends on three elements: the Bank's readiness to take on a higher level of risk in ETC projects while respecting sound banking principles; support from the donor community; and dedicating more resources to the initiative through staff at Headquarters and in the Bank's local offices. For example, in 2007 the EBRD completed the transformation of the Tbilisi resident office into a regional hub for activities in the Caucasus and Moldova, decentralising activities and allowing the Bank to place more sector specialists in the field.

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 the Medium-sized Co-financing Facility with local banks, which provides loans directly to medium-sized enterprises. In 2007 these products accounted for a third of all signed operations in the ETCs, of which half were in the agribusiness sector. Substantial effort has also gone into expanding work with financial institutions, including lending to micro businesses.

As part of this effort, the new €24 million Tajik Agricultural Finance Facility, the first of its kind in the EBRD region, is a good example of how the ETC Initiative is extending the Bank's reach by providing innovative forms of financing and showing its readiness to take on risk. This facility aims to support the restructuring and diversification of the Tajik agricultural sector, including the cotton sector, by funding loans to small, family and individual private farms, reaching borrowers who would not normally have access to finance. There was also considerable activity in the energy, municipal and transport sectors in 2007.

The Bank is also dedicating a greater effort to institution building and policy dialogue. In this respect the Bank began rolling out a new initiative to support discussions between local enterprises and national authorities through investment councils in the ETCs.

An increase in EBRD signings in 2007 was accompanied by substantial donor-funded commitments, which totalled around €24.9 million. About 51 per cent 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 addition, in 2007 the first grant co-financing funded under a Dutch contribution to the ETC Fund was signed for a Tajik road maintenance project.

At its three Assemblies in 2007 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. By the end of 2007, the Fund had approved funding for almost 114 grant-funded projects totalling around €39.3 million.

The **graduation of the Czech Republic** from new operations was a notable development in 2007 that recognised the country's progress in achieving transition to a full market economy and democracy. This means that, as of the end of 2007, the Bank no longer makes investments in the Czech Republic, which becomes the first of eight new EU members to graduate, consistent with the strategic direction of the Bank. The Bank will continue to monitor its portfolio of projects in the Czech Republic and work closely with Czech enterprises investing in countries further east. In view of the reduction in business volume in central Europe, the EBRD has consolidated its offices in the Baltic States. Business from the Riga and Tallinn offices has been transferred to the hub office in Vilnius.

Elsewhere, the EBRD opened new offices. In June 2007 the EBRD established its presence in Montenegro by opening an office in Podgorica. Montenegro became an independent country on 3 June 2006 and was subsequently accepted as a country of operations and a shareholder of the Bank. Looking to 2008 the EBRD plans to open two offices in Russia: in Krasnoyarsk and Rostov-on-Don. This will help the Bank to increase its investment outside the major cities in Russia.

To increase the resources available to clients, the EBRD often turns to the private sector, mostly commercial banks, to support its own financing. The opportunities for the EBRD to **syndicate loans** to these banks continued to be plentiful in 2007. In the first half of the year this was driven mainly by high liquidity in the bank lending market. However, the second half of the year brought a much tougher environment as market liquidity tightened dramatically in the wake of the US sub-prime mortgage crisis.

The EBRD established its presence in Montenegro by opening an office in Podgorica.

Case study
Empowering Tajik farmers

In the village of Makram in the Kanibadam District of Sughd Province, Tajikistan, 28 women from the "Dousty" collective farm have just taken their first steps towards economic independence. They have applied for land ownership certificates as part of a new land reform process aimed at greater autonomy for farmers and increased crop diversity.

With financial assistance and farm business management skills provided through a ground-breaking EBRD project, the women will be able to make informed decisions that affect their lives. Sanavbar, one of the 28 women applying for the land certificates, says that when she has her own farm, she will grow more than just cotton and apricots. She plans to expand and include potatoes and tomatoes. "I will be independent and choose what harvest I want and I can pass the land on to my children," she said.

The EBRD project – the Tajik Agricultural Finance Framework – is a new initiative set up in 2007 to support the restructuring and diversification of Tajikistan's agricultural industry, including the cotton sector, by funding loans to small, family and individual private farms. The EBRD is providing €24 million in new loans to Tajik banks, which will be used to support agriculture with wide-reaching training schemes and small loans for farming basics like seeds and fertilisers. The broad aims are to boost crop diversification and ecologically friendly farming and to limit the use of child labour.

The cotton harvest, which supports 75 per cent of the Tajik population, that is 7.1 million people, has fallen from 1 million tonnes a year before the break-up of the Soviet Union to only 450,000 tonnes in 2006. The EBRD scheme will provide alternative access to finance for farmers previously tied to cotton, thereby supporting the "freedom to farm" concept.

Although the economy is highly dependent on cotton and demand for other crops is mostly limited to local consumption, there is, for example, a large new tomato paste plant in central Tajikistan that needs at least 33,000 tonnes of tomatoes a year. In addition, export opportunities for dried onions have inspired many farmers to grow onions as part of their crop rotation.

Many of the farmers receiving loans under the facility will never have received a loan before and many of them, like Sanavbar, will be women. These will be the first syndicated loans in Tajikistan. Murodali Alimardon, Governor of the National Bank of Tajikistan, said "this is a very significant moment for Tajikistan, because not only are these the first syndicated loans in the country but the technical assistance provided alongside this finance will help our commercial banks to provide a real alternative to Tajik farmers and will support our government's new freedom to farm policy".

Agroinvestbank, TSOB and Bank Eskhata, the three partners under the new facility, have already worked closely with the EBRD under the Tajik Micro and Small Enterprise Finance Framework launched in late 2003, and to date have dispersed over €80 million in small loans.

Despite this, the Bank continued to successfully syndicate loans, demonstrating the value the market attaches to EBRD-financed projects. In 2007 the EBRD raised €3.2 billion in co-financing from the private sector, predominantly commercial banks, for projects in 14 of the Bank's countries of operations. This represents a 27 per cent increase in volume on 2006, and is in part explained by the Bank's own increased level of commitments in 2007.

The larger countries in the region continued to attract the largest volumes of syndicated loans: Russian borrowers attracted €1.4 billion and Ukraine attracted €416 million. In all of its syndicated lending activities, the Bank continued to raise co-financing across a range of manufacturing and service sectors, thus helping to strengthen the economy beyond oil and gas and other commodities.

Lending in local currency is part of the Bank's mandate to stimulate the development of capital markets, and mobilising long-term Russian rouble finance was a particular focus in 2007. Significant projects included a 4.3 billion rouble (approximately €115 million) loan to Guardian Russia, a glass manufacturer, that was syndicated to five banks, and a 26 billion rouble (€750 million) loan to Volkswagen Rus that was syndicated to 11 banks to finance the construction of a car plant (see page 12), making Volkswagen one of the largest foreign direct investors outside Russia's oil and gas sector. This transaction is the largest rouble syndicated loan closed in the market by any institution to date.

The Bank actively sought to attract lenders to municipal projects and in 2007 syndicated for the first time loans for an infrastructure project in the city of Kiev (see page 50).

In 2007 the EBRD also successfully mobilised longer-term debt to financial institutions. In Russia, syndicated loans were provided to Absolut Bank, MDM Bank, NBD Bank, Promsvyazbank, URSA Bank and VTB 24. In Ukraine, syndicated loans were provided to Forum Bank and Kreditprombank. To assist the poorer countries of operations, the EBRD also mobilised co-financing for banks in Armenia, Azerbaijan, Georgia and Tajikistan.

By the end of 2007 the Bank was ahead of schedule in achieving its objectives under the **Sustainable Energy Initiative** (SEI). Since its launch in May 2006, the Bank has invested €1.7 billion in sustainable energy, exceeding the original three-year target of €1.5 billion in less than two years. In 2007 alone, the EBRD provided €934 million for sustainable energy investments across 51 projects, with a total value of €3.4 billion.

The scaling up of sustainable energy investments was based on activity across all SEI areas. About one-third of SEI financing in 2007 was for industrial energy efficiency, involving 15 projects. The number of financing facilities supporting sustainable energy projects increased to 13, with EBRD financing of over €130 million. The Bank also invested €276 million across seven energy-saving projects in power generation, while four renewable energy projects were financed for €66 million. EBRD financing for municipal infrastructure projects, such as district heating, reached €143 million and involved 12 projects.

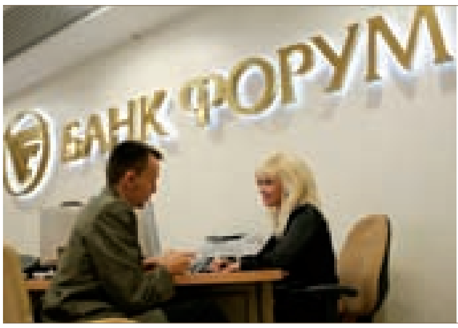
The SEI has received strong donor support. There are now 15 bilateral contributors and four multilateral donors who have so far contributed €38 million in technical assistance funding and €58 million for investment grants, with most of the latter coming from the European Union. Donor funding is used to raise awareness of the positive returns on investment from energy efficiency measures and to assist in the preparation and implementation of complex projects.

The pace of donor-funded commitments accelerated sharply in 2007, with commitments for technical cooperation (TC), such as consultants to help prepare projects, reaching €26.3 million in 97 assignments compared to €7 million in 33 assignments in 2006.

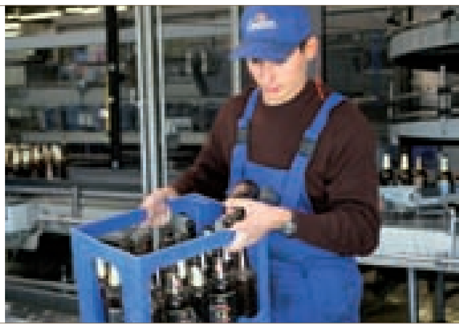
Building on the development of policy dialogue and operational activity during 2007, the EBRD will continue to expand the range of its sustainable energy activities, supporting an increasing contribution to energy efficiency and carbon emission reduction in its region of operations.

Within the EBRD's founding agreement is a commitment to integrate sound and sustainable development in all its operations. For all its projects, 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 designed to improve environmental, health, safety, social and labour conditions in the countries where the EBRD invests.

The EBRD undertakes an environmental appraisal before investing in any project so that it can determine what action the client needs to take to comply with the Bank's Environmental Policy. These requirements become binding when the project is signed. In 2007 the EBRD provided financing of €329 million to cover environmental requirements for projects in the manufacturing, heavy industry and agribusiness sectors alone.



Syndicated loans amounting to nearly €100 million were provided to Ukraine's Forum Bank for mortgage and SME lending.



The Bank assesses the environmental, health, safety, social and labour impacts of all its investments.

In 2007, EBRD projects with a strong environmental component included a €30.5 million loan to Clean Globe International for oil spill protection, an €8 million project to provide potable water from Lake Skadar to the municipalities along the Montenegrin coast and a €25 million investment in a fund dedicated to investing in renewable energy and energy efficiency projects in central and south-eastern Europe. In total, the Bank invested just over €1 billion in municipal infrastructure, energy efficiency and clean-up operations in 2007.

The EBRD also pays particular attention to greenhouse gas emissions and all projects likely to involve significant energy use and greenhouse gases are evaluated. When assessing the emissions impact of projects signed by the Bank in 2007, the EBRD found that its increased focus on energy efficiency, as required by the recently revised Energy Policy and implemented through the SEI, has resulted in significant energy savings.

The assessment found that if the current production level from these projects were maintained after EBRD investment, overall energy savings would approach 100,000 terajoules (TJ) – which is roughly equivalent to the energy supply of Albania – and carbon dioxide (CO_2) emissions would fall by more than 6 million tonnes (annual CO_2 emissions from fuel combustion in Albania are almost 5 million tonnes).

Many projects signed in 2007 supported the refurbishment and replacement of production facilities. This has increased production capacity and energy efficiency, which means output will rise. For one Russian power generation project, production will increase but the facility will use only one-fifth of the current rate of fuel per unit of electricity. Energy efficiency investments at a Russian steel complex will reduce carbon emissions by over 1 million tonnes of CO_2.

Over the EBRD's project portfolio as a whole, this increased production is not expected to lead to higher CO_2 emissions overall and will in fact introduce energy savings of around 14,000 TJ. A large part of this output will go towards meeting the increased demand for goods and services in the EBRD region as standards of living rise. However, some will inevitably displace less efficient production elsewhere, leading to closures and additional savings in energy and CO_2 emissions.

By reducing CO_2 emissions, projects can generate carbon credits, which can then be sold to governments and companies to help them achieve their greenhouse gas emission reduction targets under the Kyoto Protocol. The Multilateral Carbon Credit Fund, set up by the EBRD and the European Investment Bank (EIB) in 2006, is a key instrument in this and supplies carbon credits to countries from central Europe to central Asia (see page 45).

Sustainable Energy Initiative

€1.7 billion in two years

Early transition country projects

105 signed in 2007

Western Balkans

€461 million committed

Continued investment in energy efficiency measures is helping to reduce wastage in the EBRD's countries of operations.

Case study
Focusing on health and safety

Health and safety has always been a feature of the EBRD's environmental policy, and because of the number and severity of accidents that still blight industry in many of the countries where the EBRD is active, the issue continues to have high priority. In mining in particular, accident and fatality rates remain unacceptably high.

The crucial need for EBRD investment in this area was most recently highlighted by the tragedy at ArcelorMittal's Abaiskaya mine in Kazakhstan in January 2008. Thirty miners were killed when an explosion struck the mine, which is one of several attached to the company's Temirtau steel plant. It is the third such accident at the mine complex in four years.

In July 2007 the EBRD and ArcelorMittal signed a €68 million loan aimed at improving health and safety practices in the numerous coal mines it operates around the city of Karaganda, which supply the company's steel plant in nearby Temirtau. The plant was among the former Soviet Union's largest steel mills and is now the central Asian country's only steel producer.

The EBRD funds are part of a €340 million spending programme to support the company's plans to modernise its mines and bring them in line with international best practice in terms of health and safety standards. ArcelorMittal Temirtau will modernise gas monitoring and management systems, upgrade electrical and degassing and ventilation equipment, and enhance the prevention of coal face collapses. Staff training will be another key feature of the project.

The first phase of the EBRD investment programme is near completion and has resulted, among other things, in the replacement of electrical starters, transformers and switches in two mines to reduce the risk of sparks triggering methane explosions.

Lakshmi Mittal, the founder and chief executive of ArcelorMittal said: "The safety of our workers is our number one priority and there has been significant capital expenditure, a change in operating practices and a change in management to improve health and safety at our mines in Kazakhstan."

The project with ArcelorMittal was the first in a wider EBRD initiative to support improvements to environmental, health and safety practices in mines in the Bank's countries of operations. The Bank has also developed a technical cooperation project to work with the mining authorities in Kazakhstan on safety, which is being supported by the Japanese government, and will be undertaken in 2008.

The Bank takes the issue of health and safety extremely seriously. Fatal accidents in industry in many of the countries where the Bank operates are not uncommon, particularly in mining. Kazakhstan, Russia and Ukraine have all suffered serious accidents, which highlights the need for increased investment in health and safety, and the EBRD is working hard to improve the standards in this area across all its projects in all sectors. For example, in May 2007 the EBRD and the Mongolian government launched a training programme for Mongolia's mining industry, with a particular emphasis on worker health and safety.

The EBRD continued to focus on addressing the social impacts of projects in 2007. This included monitoring resettlement and labour-related issues on the Baku-Tbilisi-Ceyan pipeline, which is partly-financed by the EBRD and transports oil produced in the Caspian region to the Mediterranean. In Azerbaijan the Bank worked with the State Oil Company (SOCAR) to improve the living conditions of internally displaced people who had been resettled as a result of the EBRD-funded Shah Deniz project. In Serbia the EBRD and the EIB are funding projects to upgrade the Belgrade highway and Gazela bridge. The Bank has been working with the EIB and the city of Belgrade to help resettle a community of over 1,000 Roma currently living under the bridge to an alternative site with much better conditions.

The EBRD continued to work closely with other international bodies, such as the Global Environment Facility (GEF), to tackle global environmental issues, such as water pollution, climate change and biodiversity. The EBRD and GEF co-funded an environmental credit facility in Slovenia that aims to reduce pollution entering the Danube River Basin. All of the €30 million the Bank committed has been disbursed to the four local participating banks for on-lending to local businesses and small municipalities that invest in pollution-reduction projects.

To assist the development of new GEF projects, the EBRD started work in 2007 with a consultant on a long-term basis. A number of ways of tackling climate change have been formulated, one of which was submitted to the GEF Secretariat as a project proposal. The Bank is also exploring other areas in which to develop projects, either alone or in partnership with other GEF agencies.

The Project Preparation Committee (PPC) identified and channelled donor funding for environmental investment projects, such as waste-water treatment, energy efficiency and biodiversity. Funds from the European Union led to the signing of a €14.6 million project in Armenia to improve waste-water treatment around Lake Sevan, an important environmental and cultural resource. In addition, project financing workshops to help municipalities develop viable environmental projects were delivered in Armenia, FYR Macedonia and Ukraine. At the Environment for Europe Ministerial Conference in October 2007 the ministers endorsed the Bank's decision to incorporate the PPC as a unit within the EBRD to identify environmentally-oriented projects that the Bank could potentially finance.

Another donor-funded initiative hosted by the EBRD is the Northern Dimension Environmental Partnership (NDEP), which fosters stronger environmental cooperation in the Northern Dimension Area, to the north-west of Russia in particular. It brings together the expertise and resources of the European Union, 11 donor governments, including Russia, and international financial institutions such as the EBRD, the EIB, the Nordic Investment Bank and the World Bank, in order to implement its pipeline of projects.

At the end of 2007, funds pledged and contributed to the NDEP Fund totalled €243 million, of which almost €150 million is earmarked for nuclear safety projects (see page 65). Over €90 million of the remaining funds are committed for environmental investments, notably in St Petersburg and Kaliningrad, that aim to reduce the direct discharges of untreated waste water into the Baltic Sea.

The Bank takes the issue of health and safety very seriously. In mining, in particular, accident and fatality rates remain unacceptably high.


"СИРЕЦЬ"

02 REFORM

Promoting democratic, economic, legal, environmental and social reform is an integral part of the EBRD's activities. Through policy dialogue at all levels the Bank focuses on encouraging democratic practices, improving the investment climate, fighting corruption and ensuring the positive environmental and social impacts of all its projects.

Democratic reform

Fostering 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 countries where the EBRD operates continue to be fully committed to and applying the principles of democracy, pluralism and market economics. The results of the EBRD/World Bank *Life in Transition Survey*, carried out across the Bank's countries of operations in September 2006, supports this (see also page 23). People in the region overwhelmingly prefer a democratic system of governance to all others and although there has been a high degree of political volatility in much of the region, people's belief in democracy remains.

For some countries, particularly those in south-eastern Europe, the objective of further integration with the European Union continues to serve as a driving force for democratic reform. In the past year, Bosnia and Herzegovina, Montenegro and Serbia have signed or initialled a Stabilisation and Association Agreement with the European Union, which will anchor further democratic and market reform. Other agreements promoting democratic reform are being implemented under the EU's European Neighbourhood Policy (ENP), which covers Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. All of these countries (with the exception of Belarus) have agreed ENP Action Plans with democratic reform components. Reform efforts in Russia are conducted through a parallel process, the EU-Russia Strategic Partnership, and its supporting Partnership and Cooperation Agreement.

More generally, the steady development of civil society and progress in conducting free and fair elections has strengthened political accountability in many countries across the transition region, including Armenia, Georgia and Ukraine.

However, the persistent lack of progress in building a multi-party democracy in a number of countries continued to cause concern in 2007. The EBRD has expressed concern about the slow pace of democratic and economic reform in its most recent strategies for Belarus, Turkmenistan and Uzbekistan. Both Belarus and Turkmenistan continue to operate under scenario-based strategies that identify certain benchmarks for progress in political and economic reform. The most recent strategy for Uzbekistan also contains political and economic benchmarks. The latest assessments by the Bank for these three countries note little evidence of improvement in the authorities' commitment to the principles of Article 1.

In the case of Belarus, despite some welcome gestures from the authorities, there has been little evidence of the substantial progress in the sought-after democratic reforms. In the case of Turkmenistan, following the death of President Niyazov in December 2006, the new leadership embarked on measures to reverse some of the social and economic policies of the previous regime and has undertaken steps towards ending the country's international isolation. However, it is not clear how far-reaching the initiated reforms are. Similarly, the Bank continues to have concerns bout the continuing lack of progress in Uzbekistan towards reaching the political and economic benchmarks set out in the strategy.

Consequently, the EBRD will continue to exclude any funding of public sector projects in these countries, focusing 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 in all three countries on ways of improving the investment climate for private entrepreneurs, with the hope of encouraging stronger political and economic reform. If sufficient progress in political and economic reform is achieved, the EBRD would review a broader range of activities in Belarus, Turkmenistan and Uzbekistan.

Economic reform

Each country's commitment to economic reform is crucial for the EBRD's ability to advance the transition process and promote private sector development. During 2007, the Bank's Office of the Chief Economist (OCE) continued to monitor progress in all of the countries where the EBRD operates.

The pace of economic reform varied significantly across the region during 2007. South-eastern Europe recorded the most progress, with two countries – Bulgaria and Romania – joining the European Union on 1 January 2007 and Croatia progressing in its negotiations with the European Union on the *acquis communautaire*, the body of European law that all members must adopt. As previously noted, Bosnia and Herzegovina, Montenegro and Serbia also progressed within the EU's Stabilisation and Association process.

The objective of further integration with the EU is a significant driving force for democratic reform.

The EBRD/World Bank *Life in Transition Survey* showed that people are committed to democracy going forward.

Elsewhere, there were advances in private sector development in countries with strong pro-market support, most notably in Mongolia. In several CIS countries, including Ukraine, market developments and external economic factors triggered a number of reforms in the financial sector. However, more limited reform was recorded in countries that benefited from high oil and gas prices. This was also the case in central eastern Europe and the Baltic states where transition has gone furthest. A detailed assessment of each country's progress, across a wide range of areas, was published in the Bank's *Transition Report 2007*.

This year's report also includes an analysis of the EBRD/World Bank *Life in Transition Survey*. The analysis explores how transition has affected living standards and measures of life satisfaction across and within countries, identifying the groups that have benefited or suffered most from the process. The report looks at people's attitudes to democracy and the market economy and how these attitudes have been shaped by individual experiences in the labour market. It also examines the state of public services and the potential for greater involvement of the private sector.

The Bank's analysis shows that, although people are now generally committed to democracy and the market economy, many are dissatisfied with life and believe that economic conditions were better before transition began than now. There is still some opposition to reform and, therefore, policy-makers throughout the region face a major task not only in advancing reforms to achieve the standards of market economies but also in convincing people of the benefits of transition.

Underlying all of the Bank's work is a commitment to increasing the impact of its projects on transition. 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 each project's 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. Out of 185 projects individually rated by OCE and signed in 2007, 165 (89 per cent) were rated by the OCE as having "Good" or "Excellent" transition impact potential.

The nature of the Bank's involvement can be enhanced when there is client commitment to reforms. In 2007 the Bank took an active role in designing incentives for private sector companies involved in municipal projects in Russia and helped to resolve regulatory disputes involving public utilities that have received EBRD financing in a number of countries, including Bulgaria, Moldova, Romania and the Slovak Republic. The Bank also worked on implementing the Sustainable Energy Initiative in Kazakhstan, where the government intends to combine ambitious reforms with EBRD investment to improve energy efficiency and develop renewable energy projects.

Legal reform

The EBRD's Legal Transition Programme (LTP) aims to improve the business environment in transition countries by enhancing their legislative framework and legal institutions. The LTP has traditionally been funded principally by donors but in 2007 certain LTP activities were integrated into the Bank's overall budget, ensuring sustainable financing.

Mortgage law was a significant area of activity in 2007. A report produced in 2007, *Mortgages in transition economies: the legal framework for mortgages and mortgage securities*, aims to identify what reform is needed to achieve an efficient legal framework for mortgages. In preparation for this publication the EBRD conducted a survey of mortgage laws in 17 transition countries that already have an active mortgage finance market or that are actively developing such a market. The report advocates a legal framework for an efficient mortgage market that benefits both borrowers and lenders. The report is expected to play an important role in enhancing mortgage legislation in the region.

The EBRD also embarked on a project to issue standards for corporate governance in banks in eastern Europe, the Caucasus and Central Asia. This initiative is being developed in collaboration with the Organisation for Economic Co-operation and Development (OECD). A working group comprising representatives from the relevant countries began drafting the standards in 2007 and the final version of the principles is expected in mid-2008.

As part of its ongoing assessment of legal transition, the Bank published in its 2007 *Transition Report* the results of a survey measuring the effectiveness of securities markets legislation. The survey concluded that the quality of legislation had improved significantly in recent years but it confirmed the need to strengthen enforcement mechanisms, particularly in CIS countries.

Building on the success in 2006 of training courses held for judges in the Kyrgyz Republic, four more seminars took place in 2007 covering various aspects of commercial law. Moreover, junior Kyrgyz judges took part in an internship in the commercial courts of Kazakhstan and a new commercial law library was opened in Bishkek.

Another focus of LTP activity was the area of insolvency. For example, the Bank provided technical support to Serbia's Bankruptcy Supervisory Agency for the regulation of bankruptcy administrators (see page 24). In Russia, the LTP has initiated a project to assist the Ministry of Economic Development and Trade in the regulation of insolvency administrators.

Although people are now generally committed to democracy and the market economy, many are dissatisfied with life and believe that economic conditions were better before transition began.

Case study
A transparent bankruptcy system for Serbia

Before the implementation of Serbia's relatively new insolvency legislation it was not uncommon for insolvency to be misused: a business would be run into the ground intentionally, stripped it of its assets and the creditors left with nothing. Often the remaining assets of a bankrupt business ended up slipping through everyone's fingers because of inefficient insolvency procedures and poorly-trained amateurs at the administrative helm.

Now Serbia has the enormous advantage of having a bankruptcy law that has been in development since 2000 and that incorporates many of the best bits of other insolvency systems around the world. However, making good use of that legislation is still a work in progress.

It is clearly an important part of any transition to a fully-fledged market economy that good insolvency laws are in place and are properly adhered to and supported by sound regulations. Any potential investor will look to the strength and efficiency of the insolvency and restructuring environment of a country before taking the decision to invest money.

After adopting the new law in 2005, the Serbian government created the Serbian Bankruptcy Supervisory Agency (BSA) to oversee the country's insolvency system. In the same year the EBRD undertook a project providing technical assistance entitled "Insolvency Regulator Capacity-Building in Serbia and South Eastern Europe". The Swiss State Secretariat for Economic Affairs (SECO) donated just over €300,000 to the project, although it was not involved in the implementation.

The project began with a two-fold objective – to improve the skills of the BSA and to develop EBRD Principles of Insolvency Office Holders based on international best practice. These administrators are appointed from the private sector to administer any insolvency – he or she will collect and take possession of the debtor's assets, consider the claims of the creditors and admit or reject those claims, administer the possible disposal of the assets and payment of creditors or recover the debts owed to the insolvent business.

As part of this process, the EBRD helped organise a roundtable discussion on the supervision of insolvency administrators.

The EBRD shared its views on best ways to improve the Serbian insolvency regime and to implement the new law, as well as best international practice on supervision, licensing and training of insolvency administrators. The roundtable was attended by representatives from the Supreme Court of Serbia, the High Commercial Court, commercial courts, the BSA, insolvency administrators and representatives of international institutions involved in bankruptcy regime improvement initiatives.

"The roundtable contributed to a better understanding of the ways in which our current bankruptcy system can be enhanced and made more efficient," says Vesna Gaćeša, Director of BSA, and former bankruptcy administrator.

Serbia remains an excellent example of collaboration between international institutions such as the EBRD, the World Bank, the United States Agency for International Development (US AID) and Gesellschaft für Technische Zusammernarbeit (GTZ), each of which is actively focusing efforts on developing the existing insolvency system in the country.

Telecoms was another area of attention and the Bank worked extensively in implementing regulation and helping to increase the skills of the telecoms regulators in Kazakhstan, the Kyrgyz Republic, Mongolia and Montenegro, where the Bank began implementing its first legal reform project. In addition, the Bank's recommendations for telecoms sector reform in Kosovo were approved for implementation in June 2007.

In addition to its LTP activities, the EBRD seeks to improve the legal and regulatory environment directly affecting the Bank's capital market operations in the countries where it invests. This objective is closely connected with the Bank's own local currency funding and lending operations in the region. In 2007 the focus of these endeavours was on Kazakhstan, Russia and Ukraine.

In June 2007 the Bank organised, in cooperation with the International Swaps and Derivatives Association (ISDA), a conference in Moscow on the development of the derivatives market in Russia. Market participants, regulators and lawyers discussed ways to advance the local regulatory regime and practice. The Bank also observed and, where appropriate, commented on a number of legislative initiatives, such as addressing weaknesses in the current framework for securitisation transactions in the Russian market.

In Kazakhstan and Ukraine the EBRD worked closely with the National Bank of Kazakhstan and the National Bank of Ukraine, as well as with commercial banks, to create the new money market indices "KazPrime" and "KievPrime". In addition, the Bank is supporting the development of such indices in Bulgaria and Romania. The EBRD expects that these indices will become important building blocks for the development of the financial markets in these countries by increasing market liquidity and by paving the way for the issuance of floating rate bonds and loans in local currency. Robust money market indices are also a precondition for the development of various derivative instruments in local currency.

Environmental and social reform

Since the establishment of the EBRD's Environmental Policy in 2003, environmental and social issues in the countries where the Bank operates have changed. Attention is focusing increasingly on energy efficiency and renewable energy. As the EBRD's activities move further south and east, including to some of the poorer countries of the Bank's operations, social issues, such as labour standards, the effect of EBRD projects on indigenous people, resettlement and gender equality are increasingly important and a key component of sustainable development.

In 2007, good progress was made in revising the Bank's Environmental Policy, which is proposed to be renamed the Environmental and Social Policy to reflect the social impact of the Bank's activities. The proposed draft policy outlines the Bank's overall requirements and commitments and is supported by 10 performance requirements that aim to provide a greater degree of clarity for clients and the Bank. Guidance notes explaining the policy and performance requirements will be developed once the new policy is approved.

Consultation began in 2006 with expert working groups meeting to discuss changes in requirements of international financial institutions (IFIs), labour issues, public health and the impact of EBRD projects on indigenous people. This work continued in 2007 with the publication on the Bank's web site of an issues paper in English and Russian. This issues paper gave an outline of the key topics to be considered in the new policy, such as defining project boundaries and clarifying responsibility for disclosure and public consultation.

Key topics were also discussed at the NGO programme at the Bank's annual meeting in Kazan (Russia) in May 2007. The Bank was encouraged to engage with all affected groups and to consider the impact of EBRD projects on local communities. In addition, the Bank held meetings with indigenous people in Murmansk, north-west Russia, Petropavlovsk and Kamchatskiy in Russia's Far East and it is planning a third meeting in Irkutsk, Siberia, for 2008. The EBRD also consulted on the policy review with banks and IFIs, the World Health Organization, the International Labour Organization, the EBRD's Environmental Advisory Council and the European Union. A survey was also carried out to seek input from EBRD clients.

Following the release of a draft policy on the EBRD web site in English and Russian, a series of public consultation workshops will take place to discuss the new policy. Consultations are currently planned for six locations: Bishkek, Belgrade, Budapest, London, Moscow and Tbilisi. Once the new policy has been approved, it will be posted on the EBRD web site in English and Russian later in 2008.

Gender equality is a key element of sustainable development, and in 2007 the Bank looked at how to gain a better understanding of where issues relating to gender equality occurred in the Bank's countries of operations. Following the recommendations of an independent study in 2006 that was funded by the UK Department for International Development and the Canadian International Development Agency, the Bank set up an inter-departmental working group to identify investment projects that would contribute to gender equality. The group is also looking at introducing other initiatives to promote good practice among clients, such as a guidance note on family-friendly working practices, which will be finalised in 2008.

Integrity

The EBRD is committed to transparency and accountability in all its operations. One of the key ways of achieving this is through the EBRD's Chief Compliance Office (CCO). The CCO advises on the suitability of prospective clients, investigates allegations of fraud, corruption and misconduct and handles complaints from groups adversely affected by EBRD projects. Such procedures not only protect the Bank's investment but they also require prospective clients, through legally enforceable covenants, to adhere to acceptable business and governance standards. The EBRD considers that effective integrity due diligence and the fight against fraud and corruption is an essential feature of successful transition within each country of operations.

In 2007 the CCO provided advice on approximately 240 projects, a significant increase on the 160 projects in 2005 and 2006. This increase reflects the fact that as the Bank shifts its operations south and east the business environment is becoming more difficult and integrity concerns are more frequent.

The EBRD ensured that the definitions of fraudulent and corrupt practices agreed by the IFI Anti Corruption Task Force were incorporated in contracts signed by the Bank in 2007. The EBRD is now considering introducing sanctions, such as being placed on a list of ineligible entities, for fraudulent and corrupt practices at any stage of the project cycle.

The CCO amended the Bank's integrity due diligence guidelines in 2007 to require enhanced due diligence and project monitoring for projects involving certain categories of people such as politically exposed persons, and for projects that require the government to issue licences and permits, for example projects in the oil sector.

The EBRD hosted five anti-money laundering training programmes in 2007, with the help of funding from Switzerland and the European Union. Since 2005 over 600 individuals from 350 financial institutions in 16 of the Bank's countries of operations have benefited from the programme.

In June 2007, the EBRD hosted the Fourth Conference of Principals of Independent Accountability Mechanisms in IFIs and Related Institutions. This explored, among other things, how to manage expectations of accountability mechanisms and what they can deliver.

To bolster the Bank's support for standard-setters, such as the Financial Action Task Force on Money Laundering, and to underscore the importance of anti-corruption reforms in the Bank's countries of operations, the CCO continued its participation in Transparency International's Steering Group on Business Principles for Countering Bribery, and to maintain close relations with the OECD and Council of Europe.

Following the adoption of the new Code of Conduct for EBRD staff in 2006, the CCO continued to provide advice on the Code's application, and it investigated three incidents of suspected misconduct. During 2007, the CCO provided integrity training to 361 staff members under its *Integrity Matters!* programme. It also delivered courses to 28 bankers about their obligations and duties as nominee directors on the supervisory boards of companies that have received equity investments from the Bank. It has also provided training to 135 staff about anti-money laundering, countering the financing of terrorism and integrity due diligence.

In early 2008, the EBRD will issue its second Anti-Corruption Report. It also intends to adopt an Anti-Corruption Policy, which will bring together the various measures the Bank uses to make sure its funds are not illegitimately diverted from their intended purpose.

Good governance and transparency

The EBRD strives to instil good governance and sound business practices in all areas of its work. A cornerstone of this endeavour is the Bank's Public Information Policy (PIP), which promotes disclosure and transparency as a fundamental business principle in the companies in which it invests. The Bank continues to be guided by the underlying presumption that, whenever possible, information concerning the Bank's activities will be made available to the public unless there is a compelling reason otherwise. Openness helps to promote the Bank's impact on transition in the countries in which it invests and helps to improve the stability and efficiency of markets.

In 2007 the EBRD began a review of the PIP. This is normally done every three years, with the next review due in 2009. However, it was brought forward to coincide with the revision of the 2003 Environmental Policy, which is being modified to reflect the Bank's increased focus on the social impact of its projects (see page 25). These two policies are closely related as the PIP cross-refers to the (current) 2003 Environmental Policy regarding requirements related to disclosure of environmental and social information. However, the Bank is now looking to revise the PIP so it covers the Bank's disclosure requirements and includes more clarity on confidentiality.

The EBRD's *Transition Report* is published annually and charts economic progress across 29 countries.

The Bank maintains a good level of dialogue with interested NGOs, including a full programme of discussions at the Annual Meeting.

Running parallel with these two exercises, in 2007 the Bank initiated a review of its Procurement Policies and Rules (PP&R), a set of standards that must be adhered to by anyone providing the EBRD with goods or services. Although periodically modified since their adoption in 1992, the PP&R have not been subject to a comprehensive review, and as the needs of the Bank and its clients and suppliers evolve these changes need to be reflected in the PP&R.

Invitations for the public to comment on all three reviews were posted on the Bank's web site in 2007. For the PIP and the Environmental and Social Policy, these invitations to comment formed the basis for a detailed programme of public consultation aimed at giving those investing in the Bank the best opportunities to participate in the policy development process. It is anticipated that all three policies will be approved in 2008.

As well as providing information to the public, the Bank also seeks feedback on its projects. Through the Independent Recourse Mechanism (IRM), local groups that may be adversely affected by a Bank project can raise complaints or grievances with the Bank.

In 2007 the EBRD received four new IRM complaints and continued to process a complaint that had been received the previous year. Two of the new complaints were deemed "manifestly ineligible" for registration under the IRM. The other two were found to comply with the IRM and were duly registered for further process. The IRM will be reviewed in 2008.

Anti-money laundering programmes

600 people trained

A sound legal system is the basis of a functioning economy.

03
FINANCIAL SECTOR

The EBRD plays a vital role in building a competitive, diversified and sustainable financial sector, which is a key part of transition to a market economy. The Bank provides a wide range of financial products designed to support all types of financial services businesses across the countries in which it operates.

Activity in the financial sector continued to be strong in 2007, generating an 11 per cent growth rate in the portfolio, which reached €6.7 billion. With 181 new project signings of over €2 billion by the end of 2007 the financial sector represented 34 per cent of the Bank's total business portfolio.

The EBRD offers a range of financial instruments that are tailor-made to support each project's objectives. By providing equity investment to banks, funds or non-bank financial institutions such as insurance and pension companies, the Bank is injecting capital for restructuring and privatisations, promoting institution building and helping to develop the equity industry. Equity investments accounted for nearly one-third of the Bank's investment in the financial sector in 2007, with equity funds in particular having a strong year.

The Bank provides a variety of debt products – for example straight senior loans, loans in local currency, syndicated loans and long-term mortgage financing. By providing credit lines for on-lending to banks, the EBRD can target specific areas such as small and medium-sized enterprises (SMEs), local municipalities and energy efficiency. The Bank also assists import and export trade in the transition region by providing trade guarantees and short-term loans via the Trade Facilitation Programme (see page 33). Through debt financing to local banks, the EBRD increases lending to private enterprises and strengthens local institutions. In 2007 new business reached over €1 billion.

Debt products are also available to non-bank financial institutions such as leasing and consumer finance companies. The Bank has recently been involved with securitisation transactions involving the sale of pools of financial assets such as mortgages, and this is helping to stimulate the local capital markets. New business to non-bank financial institutions was over €300 million in 2007. Chart 1 shows new business for the EBRD in the financial sector in 2007, by product.

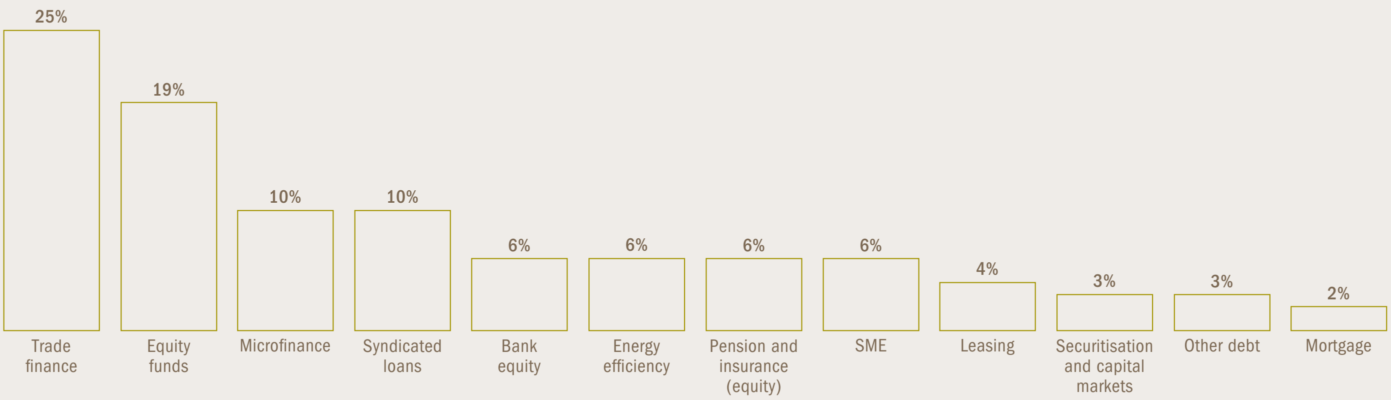
In line with the EBRD's overall strategy, new business in financial services is increasingly being undertaken in countries in the south and east of the region. Nearly half of new business volume was achieved outside central Europe and Russia, with particular growth in Kazakhstan and Ukraine. Over 45 per cent of projects signed were in Central Asia, western CIS and the Caucasus. Russia remained a significant area for new projects, accounting for 42 per cent of new business volume and 21 per cent of projects. Although new business shifted away from central European countries such as the Czech Republic, Hungary and Poland, this region continues to be an important element in the financial sector portfolio, constituting 28 per cent of the portfolio, €1.9 billion.

In 2007 the Bank signed 57 new projects for a total of €140 million in the countries at the earliest stages of transition to a market economy. By providing finance through local financial intermediaries, the EBRD gives micro, small and medium-sized enterprises (MSMEs) access to much-needed finance that will nurture the private sector. These projects are often supported by technical assistance that, through training and consultancy services, enhances the skills of those working in the financial sector. The Trade Facilitation Programme is also very active in this region (see page 33).

As the geographic spread of the Bank's portfolio evolves, so does the client base and range of financial products offered. The EBRD provides products to its clients that are designed to meet their needs as well as addressing the constantly changing challenges of the transition process. For example, many of the Bank's clients have indicated a strong financing need for funding that does not lead to substantial foreign exchange risk. In response, the EBRD invested over €48 million in The Currency Exchange Fund in 2007. Through the fund the Bank offers synthetic local currency loans to borrowers in the smaller and less developed financial markets, such as in the ETCs and Western Balkans (these loans are "synthetic" as they contain a mechanism that hedges against foreign exchange risk but settle in hard currency, as opposed to being loans that are deliverable in local currency). Reducing the foreign exchange risk mismatch between assets and liabilities can improve the credit risk of those clients. In addition, the Bank is supporting the development of money market indices in several transition countries, which will help to build vibrant financial markets by increasing liquidity and paving the way for the issuance of floating-rate bonds and loans in local currency.

The Bank is also engaged in policy dialogue with governments and regulators on a wide range of issues, including supporting the development of efficient remittance channels, through which workers living abroad can send money home, and involvement in the implementation of Basel II. By supporting key legislation (such as insurance legislation and regulation and local securitisation legislation), the Bank is able to enhance the financial sector infrastructure and broaden the products available to the market.

Chart 1
New business in the financial sector, by product (2007)



As part of the transition process the EBRD plays a key role in promoting institution building, integrity and good corporate governance in the countries in which it operates. This is important across all industries but for a healthy financial sector to flourish, the trust and confidence of market participants is crucial, and therefore essential for transition.

Banking sector

In 2007 the EBRD committed €95 million to six new equity investments in Armenia, Kazakhstan and Russia. The EBRD also provided ongoing financial support to existing clients by participating in the capital increases of 11 other banks across the region. Most of these investments were made to local banks that do not have a strategic investor.

The EBRD currently has investments of over €980 million in 49 banks covering 22 countries. By participating in the supervisory boards of these institutions, the EBRD has the opportunity to improve corporate governance, promote transparency and accountability, assist institutional development and help management and shareholders realise the potential of these banks.

Lending to banks continued to be a key business area for the EBRD in 2007. The Bank signed 66 projects totalling €566 million, which were spread across 15 countries. As a reflection of the geographic shift of business, 33 of these were in countries on the fringes of the former Soviet Union, such as Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

The development of new programmes focusing on high priority areas, such as sustainable energy, has also improved the diversification of the EBRD's portfolio and broadened the availability of finance to the local economy.

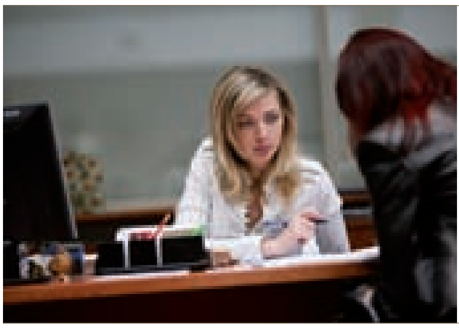
The Bank is placing particular importance on the promotion of sustainable energy across its countries of operations. There are now EBRD financing frameworks tackling these issues covering Bulgaria, Georgia, Romania, Slovak Republic and Ukraine. These frameworks enable the EBRD to provide credit lines to participating banks which then on-lend to industrial and/or residential customers for sustainable energy investments. These facilities are usually supported by grants from donors for technical assistance and, in some cases, incentives. In 2007 the EBRD signed 13 energy efficiency-related projects totalling €136 million. Similar projects will be developed in 2008 in Armenia, Kazakhstan and Russia.

The EBRD has improved the ability of local banks to work with medium-sized and larger companies by expanding the Medium-sized Loan Co-financing Facility (MCFF). Under this facility, the EBRD participates in sub-loans to larger companies, thereby overcoming the constraints faced by banks in lending large sums to a single borrower because of risk and exposure limits. In 2007 the EBRD signed four projects under the MCFF in Armenia and Azerbaijan.

As financial markets broaden and deepen, a wider range of financial instruments is being offered in many countries. For example, mortgage lending has become an important growth area in many transition countries. In 2007 the Bank signed nine mortgage projects totalling €47 million with banks in Georgia, Kazakhstan, the Kyrgyz Republic, Russia, Serbia and Ukraine. These projects provide the foundations for the client banks to use their growing mortgage portfolios as support for subsequent securities issues. In this way, additional funds for mortgage lending can be raised to allow people to own their own homes and a new asset class becomes available in the capital markets. The Bank is also committed to helping countries develop efficient mortgage systems (see page 23).

The Bank has also promoted syndicated lending transactions for banks in the countries where it operates. In 2007, nine EBRD projects in support of the banking sector involved the syndication of part of the loans to commercial banks. These projects combined €237 million of EBRD financing with a total of €530 million of syndicated financing. The banks benefiting from these loans were in Armenia, Azerbaijan, Kazakhstan, Russia and Ukraine. Through these operations, the EBRD has been able to extend loan maturities and introduce new banks to the syndicated loans market, such as Armeconombank in Armenia. By syndicating transactions, the EBRD can not only increase resources available to clients in difficult investment climates, but financial institutions are also able to attract internationally reputable banks as co-lenders that might provide further support in the future.

Specially designed frameworks have been developed to target countries at the early stages of transition, such as the Kyrgyz Financial Sector Framework. These provide ready-made finance packages that are also backed up by technical cooperation funds. The frameworks allow the Bank to respond quickly and flexibly to client needs.



Loans to local and regional banks such as UkrEximBank allow the EBRD to reach small and medium-sized businesses across its region.

The TFP stimulates import and export trade by guaranteeing trade transactions.

Case study
Backing a commercial bank

Iskenderov Shahin is an Azerbaijani businessman who casts his net wide. He produces pomegranate juice, runs a poultry farm, makes flour and owns a chain of fuel stations. He is also one of many Azeris who have made use of the small and medium-sized loans provided by Unibank, Azerbaijan's leading private independent commercial bank. He borrowed €102,000 to install freezers at the poultry plant and to import Russian bottles for the juice business.

Unibank has been able to help local businesses this way thanks to support from the EBRD. This support continued in 2007 by way of a €24 million loan to promote further competition in the country's banking sector, where state-owned banks once virtually monopolised the market.

The EBRD loan, which was increased to €24 million from €20 million to meet market demand, will send a strong positive signal to the Azeri banking sector (which grew by 75 per cent in 2006) and help to attract more foreign investment and new local customers by enabling Unibank to offer a diverse product range, regional representation and, perhaps most importantly, a strong service culture.

Unibank intends to expand its branches from five – three in Baku and one each in Ganja in the west and Sumgait in the north-east – to 21 by 2009. It will continue to make small and medium-sized loans to local businesses and individuals and to widen its cooperation with international financial institutions (IFIs). It will also continue to lead the market with its range of products, including credit and debit cards and electronic banking.

At present, Unibank is the only Azeri bank to be a member of the American Chamber of Commerce and, with the help of EBRD technical assistance, the Board of Directors has adopted regulations to bring the bank into line with international standards.

The EBRD has a long history with Unibank and has helped build the bank's reputation as an innovator in the local banking sector, bringing it up from being the sixth largest Azeri bank in 2003 to one of the largest today. This was done with equity and debt funding as well as technical assistance programmes. The EBRD is a 15 per cent shareholder in Unibank.

"The asset and credit portfolio of the bank has doubled this year, while customer deposits have more than trebled and net profits have grown 2.4 times," says Faig Huseynov, Chairman of the Executive Board. "This impressive growth resulted in Unibank's becoming one of the top three biggest commercial banks in Azerbaijan."

"Having been the first Azeri private bank to attract a syndicated loan from an IFI in April 2005," he went on, "Unibank is delighted to continue its development by signing already its third loan agreement with the EBRD. This signifies the solid trust of the international banking community in Unibank."

Trade finance

The EBRD's Trade Facilitation Programme (TFP) stimulates import and export trade by guaranteeing trade transactions. It also provides short-term loans to selected banks and factoring companies for on-lending to local exporters, importers and distributors.

In 2007 the EBRD financed 1,056 trade transactions totalling €777 million under the TFP. Most of these transactions supported small business, with about 40 per cent of all deals under €100,000.

By encouraging an increase in trade, the TFP helps to not only 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.

There has been steady growth in the number of transactions in the EBRD region since the programme began in 1999. In 2007 the TFP financed 259 intra-regional transactions. These included the export of grain and food products from Hungary, Kazakhstan, Romania, Russia and Ukraine to Armenia, Georgia, FYR Macedonia, Moldova and Tajikistan or the export of machinery and equipment from Estonia, the Slovak Republic and Poland to Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Russia and Uzbekistan. Other transactions included the export of pharmaceuticals from Croatia and Russia to Tajikistan and the export of cosmetics from Bulgaria to FYR Macedonia.

With the issuance of a €105,000 letter of credit by Tojiksodirotbank of Tajikistan to Fortis Bank, the TFP has passed a milestone by financing its 6,000th transaction. The letter of credit covered the import of juices and nectars made in Russia to Tajikistan.

The programme currently has 115 issuing banks in the EBRD's region and over 640 confirming banks all over the world. New TFP facilities were signed in 2007 with 15 financial institutions in nine of the Bank's countries of operations, including the first facilities for the development of factoring services in Romania and Russia.

The TFP plays a particularly important role in the early transition countries, stimulating market activity by using a streamlined approach to financing a large number of small projects. In 2007, the EBRD financed 436 foreign trade transactions in these countries.

Equity funds

By investing in equity funds the EBRD is helping not only to develop a strong private equity industry, but also to raise corporate governance standards in the companies receiving investment and to promote an entrepreneurial culture. The Bank primarily supports private equity funds managed by professional fund managers and backed by institutional investors.

High liquidity in the market in 2007 gave the EBRD increased opportunities to support start-up funds. The Bank was able to develop a balanced portfolio of new transactions that involved existing relationships and emerging managers as well as incorporating a shift in direction towards new regions and new sectors.

The EBRD committed nearly €400 million to 12 new private equity funds. These funds are providing in total over €2.6 billion in new investment into the equity markets of the countries in which the Bank operates. There has been a move away from pan-European funds to funds focused on specific regions such as the Balkans and Central Asia. There was also greater focus on venture capital funds, for example the New Europe Venture Equity Fund, which will invest in new technology companies in software and IT services in south-eastern Europe, and the Venture Capital Fund (VTB) which aims to increase the global competitiveness of Russia's high-tech sector.

The Bank continued to run a strong equity fund portfolio in 2007, illustrated by successful exits from investee companies. In 2007, realised gains totalled over €183 million. This has sent the commercial market a clear signal of the benefits of equity investment. The recent successes are solid evidence that the Bank's determination to remain a provider of risk capital during a time when the financial climate was difficult has paid off in financial terms as well as in advancing the transition process.

The EBRD continues to be the largest investor in private equity funds in the transition region. The shortage of disciplined risk capital and the Bank's experience and success in this area have resulted in the EBRD playing a key role in the development of a sustainable private equity industry in the countries in which it operates.

Other financial services

In 2007 the EBRD continued its support to financial institutions outside the banking sector with new commitments amounting to €307 million. This area of finance has increased significantly in recent years. The portfolio now stands at over €1.1 billion and involves 20 countries. It has been at the forefront of product innovation and continues to develop under-served markets, such as leasing and insurance, that often require changes in legislation to open up and expand these activities in the Bank's countries of operations.

The provision of new debt financing was made to 13 leasing, mortgage and consumer finance companies in 2007. In addition, as part of the Bank's ongoing work to develop local capital markets, it signed two securitisation projects in Russia and a credit line to support pre-initial public offerings and bond issues in Kazakhstan, Russia and Ukraine.

Six new equity investments were made in Azerbaijan, Bosnia and Herzegovina, Russia and Slovenia, which cover the insurance, pension and leasing industries. Continued financial support was provided to another six financial institutions outside the banking sector in the form of capital increases.

The leasing sector was particularly active in 2007, with the EBRD signing 13 projects for a total of €76 million. The leasing industry is 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 countries where the Bank operates.

04
FINANCING FOR SMALL BUSINESS

For a market economy to flourish, small businesses are essential. They generate income, create new employment opportunities and contribute to local economic growth and transition. The EBRD provides support for the development of small businesses in all countries where it invests.

Russia Small Business Fund

421,000 loans disbursed

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 18 countries. EBRD financing is provided through 103 local banks and specialised microfinance organisations that disburse loans to micro and small enterprises (MSEs) through almost 2,000 branches.

The portfolio is close to €578 million and provides partner lending institutions with different financial products and tailored technical assistance. The total number of loans disbursed by EBRD partner institutions reached nearly 3.1 million with a total value of over €14.8 billion, an increase of 45 per cent year-on-year. Repayment of these loans remained consistently above 99 per cent.

In 2007 the programme continued to expand, committing €209 million through 69 projects. The EBRD worked with 63 institutions, 32 of which were new. Three guarantees and a €34 million framework for Mongolia, the Bank's newest country of operations, were also established.

In the early transition countries, the EBRD financed 29 new projects supporting MSEs. In Tajikistan, the Bank approved the Tajikistan Agricultural Finance Facility (TAFF), an innovative lending programme designed to support the restructuring of the country's agricultural sector (see page 15).

In Armenia the Bank helped to establish ProCredit Bank Armenia by investing 965 million dram (€2.1 million) of equity. Micro and small businesses have very limited access to finance in Armenia and this new bank will provide an effective medium through which they can gain access, as well as demonstrate the viability of MSE lending to other local banks.

To meet the demand for local currency financing in the countries where the EBRD operates, the Bank invested over €48 million in The Currency Exchange Fund (see page 30). The Bank expects to use the Fund for its first microfinance project in early 2008.

In Belarus, the EBRD led efforts to bring together private and public sector investors to set up the Belarusian Bank for Small Business (BBSB), a greenfield microfinance bank. A total of €7 million of equity investment will be provided. BBSB's presence will complement local commercial banks in providing MSE finance, particularly in the regions outside the capital. It expects to open its doors in 2008. A key component of the project is the €3 million technical assistance provided by the governments of Austria, Japan, Luxembourg, the Netherlands, Norway and Sweden, the European Union, IFC and other donors.

The EBRD devises innovative ways of providing financing to small businesses, such as the Tajik Agricultural Financing Facility.

Over €200 million was committed through the Micro and Small Business Programme in 2007.

To leverage its resources and increase its impact, the EBRD works closely with commercial banks, increasing the financial support to small businesses through syndication. Through this effort, the Bank mobilised additional financing for its clients, often providing the longer tenors that regular commercial bank syndications could not. These projects included two loans in Armenia, one in Georgia, one in Romania and one in Russia.

The EBRD's microfinance programme has been supported by a number of donors. One of the most successful initiatives includes the US/EBRD SME Finance Facility, which assists lending schemes in 15 countries. The EBRD and United States established the 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 non-bank financial institutions as well as to reduce legal and regulatory obstacles to small business finance. The Facility also provided crucial support for the transformation of non-bank financial institutions into full commercial microfinance banks in Kosovo and FYR Macedonia. By the end of September 2007, the partners supported by the Facility had provided over 1.6 million loans totalling €8 billion.

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 fund of just over €350 million dedicated to supporting Russian MSEs and strengthening the ability of Russian banks to provide MSEs with finance.

The RSBF provides financing and technical support to participating banks that disburse loans of up to €120,000 to MSEs, with an average outstanding portfolio loan size of €10,000 as of the end of December 2007. These banks offer a diverse range of products, including express micro loans (typically disbursed within 24 to 48 hours) and loans to rural communities. As of December 2007, over 421,000 loans totalling €3.5 billion had been disbursed. A total of 17 Russian banks, including six new partner banks, are taking part in the programme, which reaches 161 cities across Russia.

In 2007, the RSBF also began providing enhanced MSE credit advisory services, such as tailored MSE lending and MSE credit scoring methodologies, as well as advising on rural MSE lending, securitisation and general banking topics. The initiative covers some of the country's most depressed regions, such as Russia's Far East, where a new partner bank, Vostochny Express Bank, now provides financing to entrepreneurs. In 2007 the EBRD signed 13 projects in Russia, including a €10 million equity investment in KMB Bank.

Support for small and medium-sized enterprises

The EBRD uses a range of financial instruments to provide finance to small and medium-sized enterprises (SMEs). This finance is provided in various ways, such as credit lines to local banks for on-lending to small business, trade guarantees, equity investments in banks and equity funds (see page 33), 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. The Bank can also provide individual enterprises with industry-specific assistance from the TurnAround Management/Business Advisory Services Programme, ranging from complete restructuring of businesses through to short, highly specific projects with rapid payback (see page 63).

The EBRD has directed over €2.9 billion towards small business projects via SME-focused debt facilities and currently has projects in 25 countries. The Bank's portfolio involves over 150 financial intermediaries and over 99,000 loans/leases have been made to local small businesses.

The Bank supports small business mainly through providing credit lines to local banks. In 2007, the EBRD signed 30 new projects with local banks totalling €131 million. Half of these projects also provided a micro-sized enterprise (MSE) facility to the banks. The EBRD also signed nine SME-related leasing projects amounting to over €54 million. In addition, the Bank signed a convertible loan for on-lending to micro, small and medium-sized enterprises in Uzbekistan, an SME syndicated loan in Ukraine, seven equity transactions with banks whose business is primarily SME-focused and two equity funds with investment strategies that will target SMEs in central Europe.

The EBRD's BAS Programme trains and uses local consultants to provide know-how to small businesses.

Case study
Lending to small businesses

Gultoraev Makhmudzhon lives in the city of Kurgan-Tyube in south-west Tajikistan. He worked as a taxi driver until after the civil war when he decided to learn how to produce "sunduks," traditional Tajik chests in which gifts for married couples are kept. After a two-year apprenticeship under his brother-in-law, he decided to start his own business.

However, with each passing year, competition in the city increased and he struggled to keep up with production. He needed money to purchase equipment and raw materials at wholesale prices. At around this time, loan officers from Agroinvestbank were informing businessmen in the local markets about the possibility of receiving loans to develop their businesses.

At first Makhmudzhon was hesitant as he had never worked with a bank before and was fearful of bureaucracy. But in May 2006 he decided to take a chance and approached Agroinvestbank, which is supported by the Tajikistan Micro and Small Enterprise Finance Facility. After an appraisal of his business, Agroinvestbank lent him €1,360.

Makhmudzhon was astonished by how quickly the money arrived and the effect it had on his business – his production doubled.

"Thanks to the money from Agroinvestbank my business just keeps growing," says Makhmudzhon.

He now employs about 15 people who can earn up to €205 over the busy wedding season that runs from summer to autumn. People from all over the oblast go to him to buy their sunduks.

After repaying his first loan he applied for another to buy new equipment and was quickly approved for a further €4,220.

Makhmudzhon enthuses: "I really enjoy the good relationship I have with Agroinvestbank. They are great to work with. I hope this cooperation goes on forever!"

EU/EBRD SME programme

€1.2 billion

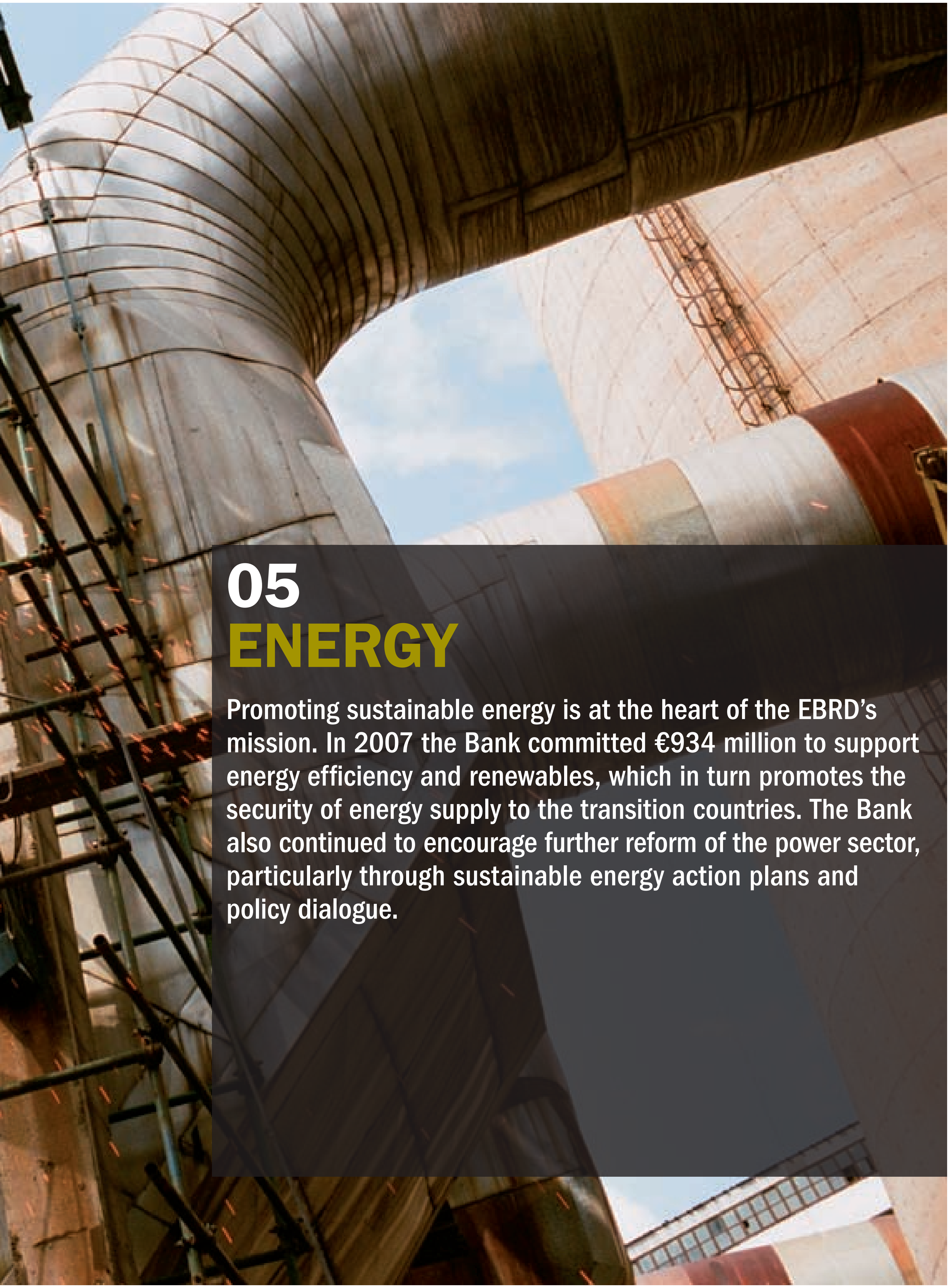
One of the ways the Bank has supported SMEs is through the EU/EBRD SME programme, which was established in 1999. It is the Bank's main instrument for financing small businesses in the new EU member states and EU candidate countries. The programme is currently focusing on Bulgaria, Croatia and Romania. EBRD funding available through this facility is €1.4 billion, including at least €80 million that has been earmarked for farmers and small businesses in rural areas where access to financing is very limited.

The programme is extremely effective in encouraging local intermediaries to lend to small enterprises. By the end of 2007, the EBRD had provided 110 credit lines totalling €1.2 billion to 42 banks and 39 leasing companies in the 11 countries covered by the programme. In total over 90,000 transactions worth more than €1.9 billion have been undertaken with small businesses throughout the region. The average loan size for each business is as low as €22,500 while leases average €19,800. These low levels ensure that even very small businesses are able to benefit from the facility.

In addition to loan financing, four equity funds totalling €32.5 million have been established under the facility to provide much-needed equity support to small enterprises. 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.

Support from the European Union comes as 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.

In total, over 90,000 transactions worth more than €1.9 billion have been undertaken with small businesses.



05 ENERGY

Promoting sustainable energy is at the heart of the EBRD's mission. In 2007 the Bank committed €934 million to support energy efficiency and renewables, which in turn promotes the security of energy supply to the transition countries. The Bank also continued to encourage further reform of the power sector, particularly through sustainable energy action plans and policy dialogue.

Power sector

The EBRD continued to support the power sector in 2007 by providing €402 million for a wide range of projects. The 10 projects signed by the Bank – eight of which were with private companies – will finance operations in Armenia, Azerbaijan, Bulgaria, Bosnia and Herzegovina, Kazakhstan, Romania and Russia, and other parts of central and south-eastern Europe. Together these financings are estimated to result in net annual CO_2 savings of 900,000 tonnes.

Supporting sustainable energy is at the core of the Bank's mission and under its Sustainable Energy Initiative (SEI) the EBRD places particular emphasis on financing such projects. Energy efficiency and renewable energy investments have the potential to improve the security of energy supply while boosting market competitiveness, which was a key business driver in the power sector in 2007.

In Russia, the Bank continued to play a major role in efficiency improvements through the restructuring of the Russian power sector by acquiring a minority stake in the regional generating company TGK-9, alongside a strategic investor (see page 43). This milestone equity transaction enables the Bank to support private investments in the Russian power sector while improving environmental standards.

In Kazakhstan, the EBRD backed the country's Power Sector Development Plan by providing a €20 million loan to the privately-owned generator PavlodarEnergo. The funds will help improve the fuel efficiency of the power plant, which is the second largest in Kazakhstan, and reduce CO_2 emissions. Against the backdrop of Kazakhstan's rapidly growing economy and high energy demand, the government and the EBRD also jointly developed a Sustainable Action Plan that will promote energy conservation and efficiency measures.

Renewable energy forms part of the EBRD's overall sustainable energy drive and the Bank's commitment in this area was underlined in 2007 by investments totalling €60 million. The EBRD closed its first direct investment in a renewable energy project in central and eastern Europe since the countries in this region started adopting specific renewable energy legislation. The €54 million loan (€20 million of which was syndicated to a commercial bank) to Vez Svoghe will finance the construction of nine small hydro power plants along the river Iskar in Bulgaria. The project builds on the Bank's considerable track record of supporting the restructuring and development of the Bulgarian energy sector where the Bank has to date financed projects in excess of €2.5 billion.

Another renewable energy project signed by the EBRD was a commitment of €25 million to the pan-regional EnerCap Power Fund I, which invests primarily in renewable energy, such as wind, across central and eastern Europe. Financing from other institutional investors, along with that of the EBRD, means that contributions totalled €75 million in this first round of funding.

In 2007 the EBRD also continued to promote sustainable energy projects in the poorest countries where it operates. A €63 million loan was signed by the Bank to finance the modernisation of the AzDRES thermal power plant, the largest power plant in Azerbaijan, as well as a €1 million transaction to support the construction and operation of a small hydro power project in Armenia.

Another area on which the EBRD maintained a strong focus in 2007 was equity investments. For example, the Bank committed €60 million for a stake in South Eastern Energy Capital (SENCAP), a joint venture established to invest in energy projects in south-eastern Europe, where inefficient and underdeveloped energy infrastructure is hindering economic growth. The Bank also signed agreements to acquire minority stakes in two Romanian energy holding companies owned by a strategic investor.

In addition to providing finance to individual projects, the Bank seeks to participate in the wider reform of the power sector. For example, the EBRD supports the establishment and implementation of appropriate regulatory frameworks, which can be subject to significant uncertainties throughout the region. Within the scope of renewable energy, the EBRD is preparing technical cooperation (TC) projects on the integration of renewable energy into the grid system and the development of legislation in a number of countries, such as Bosnia and Herzegovina, Bulgaria, Mongolia, Romania and Ukraine. Beyond TCs, the Bank is widely involved in policy dialogue, for example in Kazakhstan where it helped develop renewable energy legislation.

Looking forward, the Bank's power strategy in 2008 and beyond will continue to focus on energy efficiency improvements, regionalisation, privatisation, power market restructuring and renewables.

EBRD funds will help improve fuel efficiency at power plants across the region.

Investment in renewable energy sources is a priority for the EBRD.

Case study
Replacing polluting power stations

Although notoriously bleak with a sub-Arctic climate of long dark winters, and the seemingly endless tundra melting only for July and August, the Russian regions of Perm, Sverdlovsk and the Komi Republic are becoming increasingly attractive places in which to live. The reason: the area is experiencing massive economic growth because it is rich in natural resources. But with this economic boom comes increased demand for electricity.

Together the three adjacent regions account for 6 per cent of Russia's GDP, 5.6 per cent of the population and 5.5 per cent of electricity demand, supplying industries such as metals, mining, manufacturing and the production of oil and gas – which accounts for 8 per cent of Russia's total output.

While people here are not facing regular blackouts, it is the ageing power system that is threatening to put the brakes on economic growth with a grid simply unable to cope with increasing demand. The industry has estimated its country-wide investment needs for 2007-10 at over €88 billion.

TGK-9, a company supplying power to businesses and individuals in these regions and headed since 2006 by 46-year-old Andrei Makarov, is aware of the immediate need to replace the oldest and most polluting power stations with modern units that are more reliable, efficient and environmentally friendly.

TGK-9 is already partially privately owned by Integrated Energy Systems (IES), a Renova Group company holding over 50 per cent of shares. One of the largest private Russian strategic investors in the power sector, subject to IES becoming a controlling shareholder in the company, TGK-9 has been fully privatised through the sale of the government's shares.

The EBRD has signed a share purchase agreement to acquire a 5-12 per cent stake in TGK-9, as part of the privatisation process set in motion under the third and final phase of the country's power reform. The investment of around 5.1 billion roubles (€140 million) will enable the company to finance improvements that will result in a 66 per cent increase in electricity production and a 10 per cent increase in heating provision. Though bills may increase to recover investment, new businesses will open and industry will be able to expand – household bills are to be regulated for the foreseeable future. IES President, Mikhail Slobodin, explained that the agreement between the EBRD and IES will help to raise the quality of management and introduce progressive corporate governance. Importantly, it will also assist in the development of a balanced environmental policy that will underpin the growth of the generating company. An Environmental and Social Action Plan agreed with the company includes specific corporate environmental management requirements as well as investments needed to attain Russian and EU environmental standards.

For the EBRD, which has been involved in the unbundling of the Russian power sector since the start of its restructuring in 2001, this is a milestone equity transaction allowing the Bank to set a standard for private investment in the Russian power sector, said the EBRD's Director of Power Energy Utilities team Nandita Parshad.

Promoting energy efficiency measures

A landmark project in 2007 to support energy efficiency was the €300 million investment in Severstal to back its major drive to cut the energy consumption of its Russian steelmaking operations. The project will have the added environmental benefit of reducing the group's CO_2 emissions by around 900,000 tonnes a year.

The EBRD lent €150 million, and a further €150 million was syndicated to commercial banks, which makes it the largest energy efficiency project undertaken in Russia and will help the country's leading steelmaker to reduce its annual primary energy consumption by around 8 per cent. Severstal is one of Russia's biggest energy consumers.

This is one of the largest energy efficiency investment programmes ever undertaken by an industrial company and the EBRD hopes it will send a clear signal to other Russian energy-intensive companies that this is not only a crucial issue worthy of focus, but also that accelerating energy efficiency measures has a high return and is commercially viable.

Measures to be financed by the EBRD loan include the enhancement of Severstal's own electricity-generating capacity, the modernisation of the group's oxygen plants and the implementation of sophisticated energy management systems.

Sustainable energy

The Bank significantly increased its investments in sustainable energy, committing €934 million in 2007, compared to €748 million in 2006. These investments were made within the context of the Sustainable Energy Initiative (SEI), which was launched in 2006 to increase investments in energy efficiency and renewable energy and ensure that sustainable energy is paramount across all EBRD projects. Of all sustainable energy projects signed by the Bank in 2007, more than 60 per cent were directed towards demand-side energy efficiency.

Bank staff made site visits to 36 manufacturing companies to identify opportunities for energy efficiency investments, including projects in Azerbaijan, Bulgaria, Croatia, Lithuania, Poland, Serbia, Romania, Russia and Ukraine. The companies visited covered a wide range of sectors, including large, heavily energy-intensive industries such as steel making, energy suppliers such as gas distributors and less energy-intensive users such as food processing companies. Energy audits funded from technical cooperation (TC) commitments from donors were conducted in 18 of these companies.

One of the areas with most potential for energy savings is heavy industry. A significant project signed in 2007 was for Russia's largest steelmaker, Severstal, which is also one of the country's biggest energy consumers (see box).

Another landmark project in 2007 was Enemona, a Bulgarian construction and engineering company that became the first dedicated Energy Service Company (ESCO) in the Bank's region for over 10 years. ESCOs specialise in energy efficiency projects and organise the financing, install and maintain energy efficient equipment and monitor the project's energy savings. The EBRD lent €7 million to the Bulgarian Fund for Energy and Energy Savings to encourage private sector investors to develop ESCO contracts in the industrial and public sectors, including schools, hospitals and other municipal buildings. These ESCO contracts will be implemented by Enemona.

The EBRD also promotes sustainable energy through targeted credit lines to local banks. In 2007 the EBRD invested €60 million in the Slovak Energy Efficiency Financing Framework. Loans of €15 million each were made to four local banks to on-lend to local enterprises and housing associations that wish to carry out energy-saving measures, such as the insulation of apartment blocks. The project also benefited from a €15 million grant from the Bohunice International Decommissioning Support Fund for technical assistance, energy audits, financial incentives to sub-borrowers and administration fees to participating banks.

The EBRD worked with LUKOIL to implement a long-term environmental programme.

More than €130 million supported the expansion and modernisation of OKKO petrol stations in Ukraine.

As well as financing individual projects, the Bank pursues a broader approach to sustainable energy, including policy dialogue, investment and institution building. In 2007 sustainable energy plans and policies were discussed and developed with governments in Bulgaria, Hungary, Kazakhstan, Lithuania, Romania and the Slovak Republic.

The Bank made good progress in 2007 developing the carbon finance market in the countries where it invests. Governments and private enterprises can buy credits generated by energy-saving projects to meet their own emission-reduction targets under the Kyoto Protocol. It also creates additional finance for those generating the credits to invest in other sustainable energy projects.

To help develop emissions trading, the EBRD and European Investment Bank (EIB) set up the Multilateral Carbon Credit Fund (MCCF), which closed its first year of operation in 2007 with a fund size of €190 million. The three carbon managers, appointed from the private sector, signed carbon mandate letters with companies from a pipeline of EBRD-financed projects that covers renewable energy (especially hydro) and energy efficiency in industry and power generation. These letters will be converted into emission purchase agreements in 2008.

Natural resources

Support for the environment, energy efficiency and sustainability were the focus of the EBRD's investments in natural resources in 2007.

The most significant project was a €102 million loan to LUKOIL to help finance its long-term strategic environmental programme to reduce pollution and save energy throughout its activities in the countries where the EBRD invests. A further €102 million was syndicated among commercial banks. The programme will cover pipeline replacement, gas flaring reduction, health and safety improvements and energy efficiency, and is viewed as a model for other companies to follow. The EBRD and syndicated loans had tenors of 10 and seven years respectively, making this one of the longest unsecured facilities ever arranged in corporate Russia.

The EBRD also provided debt and equity to Clean Globe International, a Finnish company engaged in oil spill prevention and clean-up operations. Clean Globe International is seeking to establish oil spill response centres in a number of countries where the EBRD operates. The centres will provide significant local resources and be supported by training on oil spill prevention and waste management. They will be especially beneficial in remote, climatically difficult or developing areas.

In the EBRD's newest country of operations – Mongolia – the Bank provided a €13.6 million loan to Mongolyn Alt Corporation (MAK), a medium-sized Mongolian coal mining company. The financing will enable MAK to restructure its balance sheet, introduce better management information systems and increase production of cleaner, higher-quality coal. Not only will this investment support the development of the private sector in Mongolia, it will set new standards in terms of transparency, good business practice and environmental conduct.

In Romania, the EBRD assisted the national gas transmission operator, Transgaz, in reducing carbon emissions. The project was financed by an initial public offering, in which the Bank participated as long-term investor. The project will be one of the single largest carbon emission projects in Romania to date. Over 10 years, the project may help to reduce over 3.5 million tonnes of CO_2 emissions – equivalent to the annual emissions from households in major cities such as Glasgow or Düsseldorf.

In Ukraine, the EBRD invested in two natural resources projects in 2007. First, the EBRD provided, jointly with the International Finance Corporation, a €136 million syndicated loan to Galnaftogaz to further support the modernisation and expansion of its petrol station network in Ukraine, which will increase private sector development and competition. Secondly, a phased €11 million equity investment was made in Cadogan Petroleum. The funds will be used to further explore and develop existing oil and gas fields in Ukraine and promote improvements to technology and know-how by introducing new exploration and production technologies.

Looking ahead, the EBRD will continue to invest in projects that enhance energy efficiency and sustainability and promote the security of energy supply, while continuing to ensure that the highest standards of corporate governance, health and safety and environmental practice are applied. The Bank will also be looking to invest further in the more recently established oil, gas and mining companies. By engaging with younger companies, the EBRD can incorporate its environmental standards into projects at a much earlier stage of development.

The Bank significantly increased its investments in sustainable energy, committing €934 million in 2007.

06 INFRASTRUCTURE

EBRD investment in infrastructure has helped to develop clean water supplies, efficient district heating and reliable transport networks. In 2007 the Bank continued to support the decentralisation of services to the local level and private sector involvement through public-private partnerships. Russia and the poorer countries further south and east remained a key focus.

Municipal and environmental infrastructure

In 2007 the EBRD provided €318 million to finance projects in municipal and environmental infrastructure (MEI), with an additional €173 million provided through co-financing. This helped to improve water supply, waste management, district heating, natural gas distribution and urban public transport in the Bank's countries of operations.

The EBRD continued to follow its policy of supporting decentralisation, commercialisation and environmental improvement, ensuring that the vast majority of financing was provided without the need for state guarantees. Over 90 per cent (€294 million) of the Bank's financing was in the private sector or on a non-sovereign basis in the public sector. Approximately 45 per cent of finance in 2007 (€143 million) contributed to reducing greenhouse gas emissions.

Activities in 2007 focused increasingly on private sector companies in south-eastern Europe, Russia and Ukraine. In addition, the EBRD signed its first municipal infrastructure projects in Armenia, Bosnia and Herzegovina and Montenegro.

As part of its Sustainable Energy Initiative (SEI), the Bank extended its involvement in energy efficiency projects in the municipal sector. In Russia the EBRD signed its first municipal housing project – a 700 million rouble (€19.5 million) loan to finance the construction of new municipal housing in Surgut, western Siberia, that will be safer, warmer and 30 per cent more energy efficient than the current, dilapidated apartment blocks built in the 1960s and 1970s. The project has three aims: to create energy efficient housing; involve the private sector in construction and housing maintenance; and encourage residents to get involved in the management of the buildings in which they live. The EBRD hopes that the project's structure and techniques can be replicated in other parts of the country in a way that will attract private sector involvement in the massive task of refurbishing Russia's housing stock and creating a new and economically sustainable base for its upkeep.

The Bank also signed its first two equity investments in private district heating companies operating in Russia and Ukraine. The investment of almost €4 million in Taganrog District Heating Company, southern Russia, is the Bank's first in a dedicated heating network in Russia and will increase private sector participation in the district heating market. A similar investment of €5 million was made in Lithuanian company E-Energija to help it expand its operations in Ukraine and support energy efficiency improvements in Latvia and Lithuania. In both investments the EBRD will use its position on the board of directors to encourage improvements in corporate governance and sound business standards.

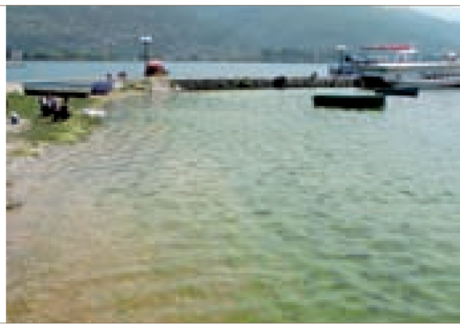
In the water sector, the EBRD invested up to €105 million in Veolia Voda, with the aim of boosting the role of the private sector in water and waste-water services, particularly in Russia and Ukraine (see page 11).

In Bosnia and Herzegovina the EBRD provided €7 million to the water authorities in Bijeljina, in the Republika Srpska, to help reduce water pollution. A major loan for Montenegro was signed that will provide reliable clean water from Lake Skadar to the coastal cities to support the country's growing tourism industry. Armenia's Lake Sevan will be protected through investments in waste-water collection and treatment facilities under an EBRD loan of €7 million.

The EBRD continued its municipal operations in Bulgaria through the signing of two major regional projects. The loans were made available to water companies in Stara Zagora (€9 million) and Plovdiv (€11 million) to finance water supply and waste-water infrastructure improvements. In Croatia the Bank supported the recently formed Zagreb Holding, financing investments in the water and waste-water sector.

In urban transport, the EBRD financed two major projects in Kiev, Ukraine, to finance new metro trains, trams and buses. Forty per cent of each loan is syndicated to commercial banks (see page 50).

The Bank will strengthen its work with private sector operators in 2008, particularly in Russia. The energy efficiency gains achieved through social housing projects and district heating modernisations will be further developed in line with the SEI. The Bank will also continue to work with commercial banks and mobilise donor support.



Investments in water treatment facilities can help encourage tourism, for example at Lake Sevan in Armenia.

Transport

In 2007 the EBRD invested €623 million in transport infrastructure in the countries where it operates. Financing was provided in all the main transport sub-sectors, including rail, aviation, roads, ports and shipping.

While the EBRD's transport projects were widely distributed across the transition region, Russia continued to receive a significant share of the financing. At the same time the poorest countries in which the Bank invests, such as Moldova and Tajikistan, remained a key focus for the EBRD in this sector.

The Bank signed its first equity project in the Russian rail sector, participating in the private placement of shares in Transcontainer, the container business of the state-owned Russian Railways. Financing was also provided to Inpromleasing, an independent railcar leasing company in Russia, to increase the participation of the private sector in the renewal of the railway rolling stock, one of the key aims of the reforms. The EBRD also provided one of a series of small loans to address emergency rail infrastructure upgrading in Montenegro.

In aviation, Russian companies also benefited from significant EBRD financing. Strong demand for regional aircraft, reinforced by the need to renew the fleet of domestic regional airlines, led to EBRD support for the manufacturing and sale of a newly developed regional passenger jet to be commercialised under the "Superjet 100" brand. The EBRD also provided further support to Russia's first low cost airline, Sky Express.

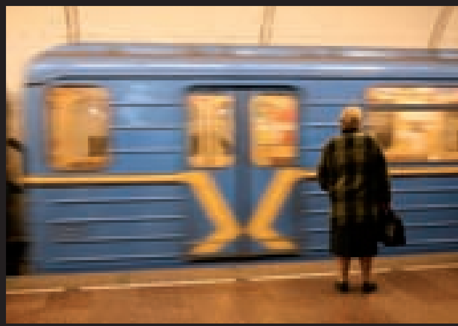
A good road network to facilitate regional integration is essential for economic development and competition, and the Trans-European Network (TEN), which the Bank has been involved in extending and upgrading, is a key part of this; for example, in 2007 road projects to extend or upgrade TENs corridors in Albania and Serbia benefited from EBRD investment.

MEI projects

€318 million

A good road network is essential for trade – the EBRD has invested in the Trans-European Network during 2007.

Public transport infrastructure is important for large cities such as Kiev.



Case study
Putting public transport on track

The green sign with the big yellow "M" and the bright blue trains have characterised Kiev's metro network for nearly 60 years. The system now carries 600 million passengers a year to 45 stations, servicing the city's burgeoning population of 2.7 million.

A metro journey will cost you 0.50 Hryvnia (€0.08 – unchanged since 2001) and, although a new electronic ticketing system is being implemented, the beloved bright plastic tokens are still in use.

Ukrainians are no less fond of their capital's tram system, which carries, along with buses and trolleybuses, 800 million people a year. Kiev's electric tram system became the first in eastern Europe when two electric trams in the American style arrived from Moscow in 1892 to run alongside the steam and horse-drawn cars. They used so little power and were so slow that it was possible to get on and off while the trams were in motion.

Although the transport system, which is wholly owned by the city, is subsidised by both city and state, it is in fact subsidised less than many transport systems in Europe and the United States. But in common with many of the older networks, it is overcrowded and out of date, plagued by delays because the buses, trolleybuses and trams need frequent repairs.

Some passengers have been opting for unregulated minibuses, notorious for accidents and a cause of traffic jams and environmental pollution. But the metro system, which is reliable and largely free from delays, now bears the load of ground transport passengers choosing fast, if crowded, travel.

So there is clearly a need for Kiev to improve its public transport network and to help it do so, the EBRD is providing €100 million to Kiev Metropolitan (metro) and Kiev PasTrans (buses and trolleybuses) in its first long-term financing for municipal transport in Ukraine.

The €40 million loan to Kiev Metropolitan will finance up to 15 new trains for the Syretsko-Pecherska, or "green", Line, and a €60 million loan to Kiev PasTrans will buy 225 new trolley-buses and up to 125 diesel buses along with facilities for repair and maintenance.

The idea is to encourage people out of their cars by making public transport services more energy efficient and environmentally friendly. This should improve Kiev's air quality while providing an efficient and reliable service to commuters.

The new electronic ticketing system will allow fares to be tailored to the journey more accurately. It should be in place by 2009 and will cost €27 million.

Technical cooperation funds from the governments of Canada, Finland, France, Italy and the Netherlands have helped the companies to prepare technical feasibility studies, develop long-term business plans, conduct financial audits and develop pilot public service contracts between the city and the companies.

Leonid Chernovetsky, Mayor of Kiev, said the city's strong economy is a result of good local businesses and growing foreign investment, and to boost this further the city needs to improve local transport infrastructure. "The EBRD has a good reputation for working with local municipalities in central and eastern Europe, and we want to build on that to achieve our objectives," he added.

Elsewhere, in Tajikistan, a project for new road maintenance equipment was supported by a grant from the Early Transition Countries (ETC) Fund, through which the EBRD uses donor funding to invest in the poorest of the Bank's countries of operations. It was the EBRD's first loan to the road sector in Tajikistan and it allowed the Bank to initiate a dialogue with the government on sector reform.

Moldova is becoming increasingly important as a border state between the European Union and the countries further east and so a good road network is vital. Therefore, in 2007 the EBRD, along with the EIB and the World Bank, provided financing that will be used to not only upgrade the roads themselves, but also to reform road sector financing and improve the state administrator's capacity to manage the road network and execute works transparently and efficiently. This was the second transport project prepared under a Memorandum of Understanding signed by the European Commission, the EBRD and the EIB in 2006 that facilitates the joint financing of projects in Russia, eastern Europe, southern Caucasus and Central Asia.

The EBRD provided its first loans for a project to modernise infrastructure at the Port of Durres in Albania (co-financed by the European Investment Bank and the European Union) and the Port of Illichivsk in Ukraine (with TC support from the European Union). The Bank also invested in the Port of Ploče in Croatia and in Russia's Rosmorport to help them operate on a more commercial basis. Some of the EBRD's key objectives in this sector are to improve business planning, increase the participation of the private sector and, in some instances, address weaknesses in business conduct. In the shipping sector, EBRD financing was provided to upgrade shipping fleets in Ukraine.

The EBRD has particularly encouraged greater involvement of the private sector through public-private partnerships (PPPs) in Bulgaria, central Europe, Romania, Russia and the Western Balkans. Furthermore, as governments' capacity to finance large transport projects decreases, the EBRD will continue to invest without recourse to sovereign guarantees – particularly in Russia – and will support poorer countries such as those in the Western Balkans and other countries further east.

The EBRD has particularly encouraged greater involvement of the private sector through PPPs in Bulgaria, central Europe, Romania, Russia and the Western Balkans.

07
CORPORATE SECTOR

By investing in the corporate sector the EBRD is encouraging countries to rely less on oil and gas and to develop sectors such as agribusiness, manufacturing, property and tourism, and telecommunications. EBRD equity investments and loans to enterprises, especially small businesses, help to create jobs, promote good corporate governance and improve environmental standards.

Agribusiness

In 2007 the EBRD signed 40 projects in the agribusiness sector, totalling €517 million. Around three-quarters of these projects involved locally owned- or small enterprises, demonstrating the Bank's commitment to businesses of all sizes. New projects were spread across 16 countries of operations, with a continued focus on countries at the early or intermediate stages of transition to a market economy. A total of 19 projects for €39 million were devoted to the Bank's early transition countries in 2007.

Of these 19 projects, two were in Mongolia, the newest country to benefit from EBRD investment. A €1.5 million loan – the first in the corporate sector – to non-alcoholic beverage producer Nomun will help the company to expand and introduce new technology, as well as achieve best practice in corporate governance. The EBRD also invested in equity in Monkhangai Group, which owns Minii Delguur, the country's largest supermarket chain. This first investment in Mongolia's retail sector will support the group's expansion with the construction of two new hypermarkets in Ulaanbaatar, providing consumers with a greater variety of competitive and affordable products in a hygienic environment.

Another local company to benefit from EBRD financing in 2007 was the Victoria Group, Serbia's largest private agribusiness company, which obtained a €45 million loan to purchase agricultural commodities and improve energy efficiency at its production facilities. This is the Bank's first project within the agribusiness sector in Serbia to contain a specific energy efficiency component, as well as being the largest loan so far given to a private company in Serbia.

The loan is being offered to two subsidiaries of Victoria Group: Victoria Oil and Sojaprotein. Victoria Oil produces edible oil and it opened the first bio-diesel production facility in Serbia in July 2007. Sojaprotein is Serbia's largest soy processing company and works with over 400 cooperatives and 40,000 farmers. The project is an important part of the Bank's strategy to promote the wider use of commodity-based lending, which uses agricultural products as collateral.

In light of global rises in food prices, in 2007 the EBRD focused on initiatives supporting sectors in or closely linked to primary agriculture. For example, the EBRD provided a €10 million loan to a Ukrainian primary agricultural producer Agroinvest, part of MK Group, one of the main agribusiness operators in Europe (see page 55).

Also in Ukraine, the EBRD acquired a stake in one of the country's largest cheese producers, Shostka City Milk Factory, which is owned by one of the world's leading branded cheese manufacturers, the French group Bel. The investment programme includes factory modernisation and production capacity expansion. At the same time technical assistance for a consulting project looked at reducing milk production seasonality and improving quality by encouraging farmers to share milking facilities.

Work with other international financial institutions continued in 2007, including through the regional agribusiness funding network EastAgri, together with the Food and Agriculture Organization of the United Nations (FAO) and the World Bank. Marked increases in worldwide food prices during the year provided the impetus for the EBRD to widen its policy dialogue initiatives during 2007, including setting up discussions between senior government officials and leaders of industry. In addition, the Bank mobilised technical cooperation (TC) funds to embark on analyses of various agribusiness sub-sectors, such as looking at ways to increase output and improve the quality of sunflower seeds produced in Kazakhstan.

Policy dialogue has been a priority for the EBRD in light of these price rises and the Bank promotes investment to enhance agricultural yield rather than introducing controls and tariffs, which risk reversing many transition reforms.

The EBRD will continue to work with international, regional and locally owned agribusiness companies to meet the needs of its clients and respond to market changes. The Bank will continue to support agribusiness projects in all countries where it invests but will pay particular attention to Kazakhstan, Russia, Ukraine and the early transition countries.

Manufacturing

In 2007 the EBRD increased its activity in the manufacturing sector. It broadened the range of industries in which it signed projects, including steel and metal production, textiles, wood, electrical equipment, motor vehicles and pharmaceuticals. Both the number of operations and the volume invested increased by almost 20 per cent, to 42 projects for €842 million in 2007, compared to 36 operations and €715 million in 2006.

The vast majority of this investment went to projects in Russia (€526 million), Kazakhstan (€110 million) and Ukraine (€88 million), accounting for 63 per cent, 13 per cent and 10 per cent respectively. The remaining 14 per cent was invested in nine countries, including Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Georgia, Hungary, Poland and Uzbekistan.

Approximately half of all EBRD investments in manufacturing went to the steel and metal production sector. In Russia, the Bank lent €40 million to the country's biggest pipe producer ChTPZ to finance the construction of a new mini-mill at Pervouralsk. The mill will have a capacity of 950,000 tonnes per year and use energy efficient, low emissions technologies.

As part of the EBRD's commitment to financing projects with a strong environmental impact, the Bank provided the equivalent of €40 million in long-term financing to support the growth and restructuring of Kagazy Recycling, which uses waste paper to produce paper products for sale in Kazakhstan. Kazakhstan has limited forest resources and imports most paper products. The funds will be used to install new equipment to more than double paper production from 40,000 tonnes a year to 85,000 tonnes by 2012.

Case study
Maximising investments in agribusiness

Ukraine, once the bread basket of the Soviet Union, has over 36 million hectares of fertile soil and the best quality land in Europe. That's why Agroinvest, an offshoot of the Serbian company MK Group, is increasing its investment there.

Land and grain have enormous cultural resonance in Ukraine. Bread itself is an object of reverence and the Ukrainian word for grain – "zbizhzhia" – is translated as the "totality of divinity". Agroinvest, which currently farms 45,500 hectares of leased land in Ukraine, has had to tread carefully: foreign companies are not yet allowed to buy land here, though this is expected to change in 2008.

The company was founded by current Chairman Miodrag Kostić in 1989 with only five employees. It now produces 210,000 tonnes of sugar a year and is expanding fast. Not least because of EBRD financing.

The Bank is providing a €10 million loan to Agroinvest to develop a modern grain storage facility with a capacity of more than 100,000 tonnes to be built in Jagotin outside Kiev by Polish engineering company ARAJ. This is the biggest foreign investment outside the Ukrainian capital to date and will make use of know-how and a proven track record from Serbia to create an energy-efficient enterprise on Ukrainian soil.

Essentially, it will mean that Agroinvest will be able to store, dry and handle its own grain, and that of third parties, enabling the company to provide the quality of grain required by the market – for example sugar beet for Nordzucker, a German company already in partnership with MK Group in Serbia, and sunflower seeds for domestic and international edible oil companies, as well as corn and wheat.

At the moment only 10 per cent of existing silos in Ukraine are in an acceptable condition and so, to farm efficiently, Agroinvest needs its own. With the new facilities Agroinvest plans to increase to 200,000 hectares over the next few years.

"The EBRD is the only financial investor in Agroinvest's first storage facility in Ukraine, which has the potential to become one of the largest and most modern ones in Ukraine. This investment is of immense local importance in terms of the jobs it will help create, the incentives it will provide to workers and the social environment that it will help to improve. The loan will also help us compete better with other leading agribusiness companies in Ukraine and help the further development of primary agriculture," said Zeljko Erceg, CEO of Agroinvest.

Revitalising the brick sector

A typical example of the manufacturing projects the EBRD is supporting is the reconstruction and modernisation of a brick plant in Bulgaria. In 2007 the Bank extended a €6.8 million loan to the company Wienerberger Bulgaria which will use the proceeds to reconstruct and modernise its brick plant at Lukovit, 120 kilometres north-east of Sofia.

Wienerberger will target the Bulgarian brick market with locally produced bricks where demand is high and production so far is insufficient. The company will offer high-quality products, and plans to gradually increase output and market share in the coming years.

The plant will have an annual production capacity of more than 150 million standard brick units and will primarily produce high insulating Porotherm hollow bricks. The majority of the production volume is expected to go into residential construction.

The project will bring modern technology to the Bulgarian brick sector and increase efficiency, quality and reliability. It will also enhance competition and transfer skills and know-how to a local company, thus benefiting the whole sector.

Wienerberger Bulgaria is a wholly-owned subsidiary of Wienerberger AG, one of the world's largest producers of bricks.

The production of building materials also attracted significant investment in 2007. A loan of €40 million was extended to Cersanit, the largest Polish manufacturer and distributor of bathroom fittings and ceramic tiles. The loan will be used to finance the establishment of greenfield production facilities of sanitary ware and ceramic tiles in Novograd Volinskiy, in Zhytomyr region of Ukraine. The transfer of skills and know-how to the local building materials sector should have a strong demonstration effect in central Ukraine, which is suffering from unemployment and a lack of investment.

Another project with a strong demonstration effect in 2007 is the construction of a greenfield Volkswagen factory in Kaluga, western Russia (see page 12), whereby a reputable foreign strategic investor will have a positive influence on the restructuring and modernisation of the Russian automotive industry.

Equity investments are a good way for the Bank to encourage good corporate governance and sound business practices through its position on supervisory boards. In Bulgaria, for example, the EBRD made an equity investment of €8 million in pulp producer Svilosa, and in Russia the Bank invested almost €3.5 million in VYSO, a provider of corrosion protection services for metal and concrete structures near Yekaterinburg. The funds, which are part of a larger investment programme of up to €8 million, will help the company to expand and develop new corrosion protection materials, such as fireproofing for oil and gas platforms.

Property and tourism

The EBRD more than doubled its investments in property and tourism projects, committing €427 million to new projects. Most of the funding in 2007 (68 per cent) was in the form of equity in property funds. The geographical focus of these investments continued to shift from central Europe to the south and east. The Bank signed projects in Georgia, the Kyrgyz Republic, Romania, Russia, Serbia and Ukraine.

The majority of projects in 2007 spanned more than one country as most of the financing was committed to property funds and joint ventures that plan to invest across the new markets of the Caucasus, Central Asia, the Russian regions and Ukraine. In these types of projects, the Bank assumes an important role as anchor investor, helping the sponsor to attract third-party investment. Other partners are investing for the first time in a particular region and gain comfort from the Bank's involvement as a co-investor.

Wienerberger's highly insulating Porotherm bricks will help improve energy efficiency in Bulgarian homes.

Romania's first automated postal sorting centre will be built with help from the EBRD.

The EBRD's participation also helps to promote international standards of quality in all the main areas of property. 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.

One of the most significant projects signed by the EBRD in 2007 was a commitment of €52.6 million to GS Hotels and Resorts (GSHR), a leading Croatian hospitality group. The International Finance Corporation (IFC) also provided €39.5 million. The financing will be used to develop and expand hotels owned and managed by GSHR. The investment will also provide GSHR, which has been a pioneer in helping Croatia recover from conflict and transform into a premier tourist destination, with sufficient financial depth to export its experience to neighbouring countries, such as Bosnia and Herzegovina, FYR Macedonia and Montenegro.

One of the largest regional projects signed by the EBRD in 2007 was an investment of €60 million in EPG East Euro Asia Property Fund, which has a solid track record of property development in the Czech Republic. The Fund will invest up to €300 million in institutional property developments in Russia, its neighbouring countries and south-eastern Europe, focusing purely on property development rather than acquisitions. The Fund will help to introduce new investors to these markets and meet the need for new property developments.

The EBRD made its first property sector investment in Georgia, providing €39 million to support the Georgian Reconstruction and Development Company (GRDC) in its programme to bring international standards to commercial property projects in Tbilisi.

Further investment in the south and east, and an increase in equity investments are expected to continue in 2008 and beyond. Regional funds and co-investment programmes will continue to play an important role in the development of the sector, so long as strong market appetite remains.

Telecommunications and new media

In 2007 the EBRD invested €156 million in telecommunications and new media projects, of which €27 million went to equity funds. A further €72 million came from syndicated funding. The EBRD's projects helped to advance the transition to a market economy by promoting the regional expansion of telecommunication networks, the development of independent media and the establishment of funds to accelerate growth in technology.

The EBRD undertook its first postal project by providing a €50 million loan to Posta Romana, the national postal operator in Romania. As part of a comprehensive modernisation programme, the country's first automated sorting centre will be built in Bucharest, with the refurbishment of another centre in Cluj.

In its drive to support emerging technology, the EBRD provided Russian company Enforta with an €8 million financing package to roll out new WiMAX technology to enterprises and consumers in a number of new cities in the Russian regions.

Cable television operators also attracted EBRD investment in 2007. In Moldova, the Bank provided SUN Communications, a key local cable TV and internet operator, with a €5 million financing package to support its ongoing modernisation and expansion programme. In Ukraine, the EBRD invested €15 million in Oisiw Limited to support the build-out of cable networks in regional Ukraine and strengthen the company to become the key competitor to the state-owned fixed telecoms operator.

Mobile operators also benefited from EBRD finance. A €10 million equity investment in Bite Lietuva, a leading mobile telephony company in Lithuania and Latvia, will help the company to expand its regional operations and launch a service in Estonia. The EBRD also extended a €24 million loan to KaR-Tel in Kazakhstan to meet demand for its 3G services in the country's regions, thus promoting the development of regional commerce.

In the media sector, Central European Media Enterprises (CME), the leading television broadcasting group in central and eastern Europe, received a €50 million loan from the EBRD to upgrade and extend its studios in Romania and Ukraine, which will support local TV production companies, as well as acquire additional operating licences. The EBRD also provided over €400,000 to Shant, an independent TV channel in Armenia, to invest in more advanced technology to strengthen its position in the sector.

To stimulate growth in technology, the Bank invested in various equity funds devoted to technology innovation. For example it invested €10 million in NEVEQ, a fund focusing on investments in the software and IT services sector in Bulgaria and Romania. The Bank also made a €17.5 million equity investment in VTB Venture Capital Fund, a closed-end mutual fund in Russia, to invest in companies developing innovative technologies.

At the policy level, the EBRD continued to work closely with telecoms regulators and policy-makers, using grant funding to support policy development, legal reform, regulatory implementation and the privatisation process in Kazakhstan, the Kyrgyz Republic, Mongolia, Serbia (including Kosovo) and Tajikistan. Through workshops with communications ministries in the early transition countries, progress was made in developing long-term information and communication technologies (ICT) policies and regional cooperative projects.

Looking forward, the Bank will continue to shift its focus towards investing in media projects, including digital media and content delivery systems, information technology and ICT services.

08
DONOR-FUNDED ACTIVITIES AND OFFICIAL CO-FINANCING

Grants provided by donor governments and co-financing with other international finance institutions help to prepare the way for EBRD projects and allow clients to benefit from expert advice. Donor support for high priority initiatives such as the Sustainable Energy Initiative, the Western Balkans Fund and the Early Transition Countries Initiative enabled the Bank to increase activities in 2007, focusing on sustainable energy, infrastructure and lending to small businesses.

Grant agreements with donors

€89.9 million

Activities in 2007

Donor-funded activities increased in 2007. Several donor funds dedicated to the Sustainable Energy Initiative (SEI) were established and a new technical cooperation (TC) fund provided by the Czech Republic was created. Hungary joined the EBRD donor community in 2007, bringing the number of active donor countries to 26. Official co-financing with the European Investment Bank (EIB) and other international financial institutions continued to enhance the EBRD's successful investments in its countries of operations.

As in previous years, most funding provided by donors was used by the EBRD for 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 micro and small business development, sustainable energy and energy efficiency, infrastructure services and improving the institutional framework.

In 2007 the EBRD signed grant agreements with donors totalling €89.9 million for TC and official co-financing activities, mostly in the form of new agreements (€52.2 million) but also through the replenishment of existing funds (€36.7 million). In line with previous years, the largest contribution was provided by the European Union (€33 million) while an increasing proportion was channelled through multi-donor funds (€26 million). Additional grants were mobilised for specific investment projects.

Total funding committed for new TC projects amounted to €98.2 million in 2007. This represents an increase of almost a third on the level of commitments in 2006, reflecting the Bank's increased activities, especially in the less advanced countries – the early transition countries (ETCs) – and the Western Balkans. These regions received €25 million and €20 million respectively in funding commitments for TC projects. At the same time, TC commitments for Ukraine reached €7.8 million in 2007 (compared with €6.6 million in 2006).

TC assistance to the new EU member states amounted to €17 million and focused on providing finance to micro, small and medium-sized enterprises (MSMEs) as well as supporting sustainable energy projects. In Russia, €18 million supported the development of small businesses and the strengthening of infrastructure and environmental projects, particularly through the Northern Dimension Environmental Partnership (NDEP). In Belarus, Kazakhstan, Turkmenistan and Ukraine, €13 million of TC funds were dedicated to providing assistance to small and

Hungary joined the EBRD donor community in 2007, bringing the number of active donor countries to 26.

The multi-donor ETC Fund continued to help the poorest countries where the Bank operates.

medium-sized enterprises (SMEs), microfinance projects and several critical infrastructure and sustainable energy projects. The EBRD pays particular attention to sustainable energy and by the end of 2007 investments in this area reached €1.7 billion. This means the original three-year target set out by the SEI of €1.5 billion has been achieved within two years. The Bank will continue to scale up sustainable energy investment in the coming years.

The support the SEI receives from donors is crucial as it enables the EBRD to promote and develop sustainable energy projects in its countries of operations. In particular, the EBRD signed agreements with donors totalling €33 million for TC activities in 2007. So far 15 countries (Austria, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, Taipei China and the United Kingdom), the European Union and two multilateral funds have committed funds to SEI-related projects.

One of the Bank's most significant donor funds, the Early Transition Countries (ETC) Fund, continued to coordinate donor assistance to the Bank's poorest countries of operations – Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan. Contributing countries to the Fund are Canada, Finland, Ireland, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, Taipei China and the United Kingdom. Pledges for technical assistance more than tripled from €14.7 million in 2004 to reach €44.3 million by the end of 2007, complemented by additional grant co-financing of €5 million from the Netherlands.

After one year of operations, the multilateral Western Balkans Fund is well-established as a significant instrument for funding technical assistance and investment co-financing assignments across the Western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia). In 2007, Hungary joined the Fund as the 15th contributing donor and the Czech Republic, Norway and Sweden provided replenishments. Total pledges have reached more than €20 million (including a €2 million contribution for investment co-financing grants). About €4.5 million of that has been approved as grant support for more than 25 projects across a wide range of sectors in all countries in the Western Balkans.

Most of the funding in 2007 went towards lending to micro and small enterprises, infrastructure and support for small businesses. The Western Balkans Fund will continue to support critical domestic and regional infrastructure projects as well as further develop the financial sector, improve advisory services to SMEs and enhance municipal services.

The Western Balkans Local Enterprise Facility (LEF) was established in 2006 as a €32 million investment channel, to which Italy initially contributed €12 million. The aim has been to provide mainly loan and equity financing to promising SMEs in the region. In October 2007 Italy replenished the facility with a further contribution of €7 million (including co-investment financing and TC funding) and the overall amount of the LEF now stands at €65 million.

Crucial support for EBRD initiatives in the Western Balkans also comes from the European Union through the European Agency for Reconstruction, mostly in the form of TC funds.

Another initiative strongly supported by donor funding is the Northern Dimension Environmental Partnership (NDEP), which addresses environmental problems in the Northern Dimension Area, north-west of Russia in particular (see page 65). The most pressing issues relate to water, waste-water, solid waste, energy efficiency and nuclear waste. The NDEP receives funding from Belgium, Canada, Denmark, the European Union, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the United Kingdom. At the end of 2007, donor funding stood close to €243 million. An NDEP grant of €10 million was signed in 2007 between the EBRD and the Russian water utility in Kaliningrad. The grant will help to finance the construction of a waste-water treatment plant, modernise sewage collection and upgrade pumping stations.

In addition to TC funding provided by donor governments, public sector institutions work alongside the EBRD to provide official co-financing for investment projects. This amounted to just under €1 billion in 2007, and is mainly in the form of loans, with smaller amounts in the form of grants and other types of participation (€377 million came from the EIB in the form of loans and guarantees). Official co-financing has been provided for SME support and development, for municipal and environmental infrastructure projects and for the development of modern transportation networks.

Of this amount, €61.3 million was provided in grants mainly for projects in central Europe. A total of €12.6 million was provided for investment grants, covering three infrastructure projects in Albania, Georgia and Serbia. These grants were provided by the European Union and the US Millennium Challenge Corporation. Grant support (from the European Union and two decommissioning support funds, to which the European Union is also a major donor) totalling €48.7 million was also provided for energy efficiency finance facilities in central Europe. These facilities provide loans to enterprises and individuals to help them reduce energy usage in their businesses and homes.

The NDEP addresses environmental issues, especially those related to waste-water treatment.

Case study
Promoting potato production in Kosovo

If you are eating crisps in Kosovo they could well be Vipa crisps, made at Mr Bedri Kosumi's Pestova potato processing plant. One of Kosovo's few exporters, he was hit hard by the conflict in 1999, but resumed production in 2000 and has now expanded with the help of a €1.9 million investment from the EBRD in return for a 33 per cent stake in the company.

Pestova's products already include frozen, half-fried vacuum-packed potatoes, whole fresh potatoes and its famous Vipa crisps, but the new funds will mean Pestova can expand the business and increase exports. It will have a new frozen potato processing line, including machinery for making French fries, more room for potato crops, increased production of potato seeds, a new warehouse and machinery for packaging.

All this was made possible by the EBRD's TurnAround Management (TAM) and Business Advisory Services (BAS) Programme. Already a TAM/BAS beneficiary, Pestova officially signed the new agreement with the EBRD in October last year, marking the Bank's first equity transaction in Kosovo since the establishment of the UN mandate in 1999.

Over the preceding two years Pestova had received technical assistance from the TAM Programme. An adviser worked with local consultants to put together a comprehensive business plan to work out what the company needed in terms of investment and to start the negotiations with the EBRD-Italy Western Balkans Local Enterprise Facility that resulted in October's groundbreaking deal.

The TAM team advised Pestova to specialise in manufacturing crisps and recommended exporting to FYR Macedonia – the first deliveries were made to Skopje in May 2007. They suggested buying financial and management accounting software to produce a balance sheet complying with international accounting standards. They also strongly recommended recruiting a permanent accountant.

Another key team proposal was to create Kosovo's first ventilated potato storage centre and, with the help of the Dutch company Agrico and the approval of the Kosovo Ministry of Agriculture, the first certified potato seed production process in the country. With a benchmark business model and an intensive training programme (joined by 45 farmers who provide potatoes for Pestova) the TAM team helped to put potato crisp production into action so that Vipa crisps now represent 17 per cent of the domestic market and are equal in quality to any imported brands.

Bernard Jouglard, the TAM team senior adviser, describes the company's evolution as "spectacular". Before TAM involvement, Jouglard says, the Pestova operation was purely agricultural. "It has quickly become a fully industrial company," he said.

Now contracts for early potatoes have been signed with Albanian farmers and thanks to the 600-tonne ventilated storage facilities and the contracts for early crops, the processing workshop is guaranteed supplies all year round.

Claudio Viezzoli, EBRD Director for the Western Balkans, said the project demonstrates that even small but profitable and well-managed companies with a strong commitment to corporate governance and a good business plan can benefit from EBRD financing. As no other investors offer equity financing for local SMEs in Kosovo, this transaction is expected to encourage other dynamic local companies to seek innovative financing, which will contribute to the growth of the underdeveloped local economy.

Building stronger businesses

To help local private enterprises adapt to the demands of a market economy, the Bank makes use of two donor-funded programmes: TurnAround Management (TAM) and Business Advisory Services (BAS). While TAM focuses on broader managerial and structural changes within small and medium-sized enterprises (SMEs), bringing in Western executives to help management teams learn new business skills, BAS uses local consultants to help micro and small businesses improve performance. The TAM/BAS Programme is now fully integrated into the EBRD's mainstream activities, making it a key element of EBRD support for small businesses and initiatives supporting the early transition countries and the Western Balkans.

In 2007 the TAM/BAS Programme mobilised over €15 million in donor funding and, for the first time, an additional €4.7 million in funding from the EBRD to be used for BAS programmes in 13 countries. Since its inception in 1993, the TAM/BAS Programme has mobilised over €162 million from donors in over 20 countries, the European Union (which is the largest single donor), and various multilateral funds and initiatives.

In 2007, TAM started over 120 projects, mainly in the Western Balkans, Central Asia and the Caucasus. BAS started nearly 950 projects, most of which were in the early transition countries. Recently, BAS also initiated a new programme in Tajikistan and opened an additional office in Karakol in the Kyrgyz Republic. Approximately 650 consultants were engaged in all projects that were started in 2007. The BAS programme was assessed by the EBRD's Evaluation Department and was rated as "Successful."

There are strong parallels between the work of the TAM/BAS Programme and the investment priorities of the EBRD. TAM and BAS experts and consultants are able to provide advice prior to EBRD financing and over 100 enterprises have been referred by TAM/BAS to EBRD banking teams and various EBRD-supported equity firms. In addition, TAM/BAS consultants have been recommended for industrial due diligence or other investment-related consulting services.

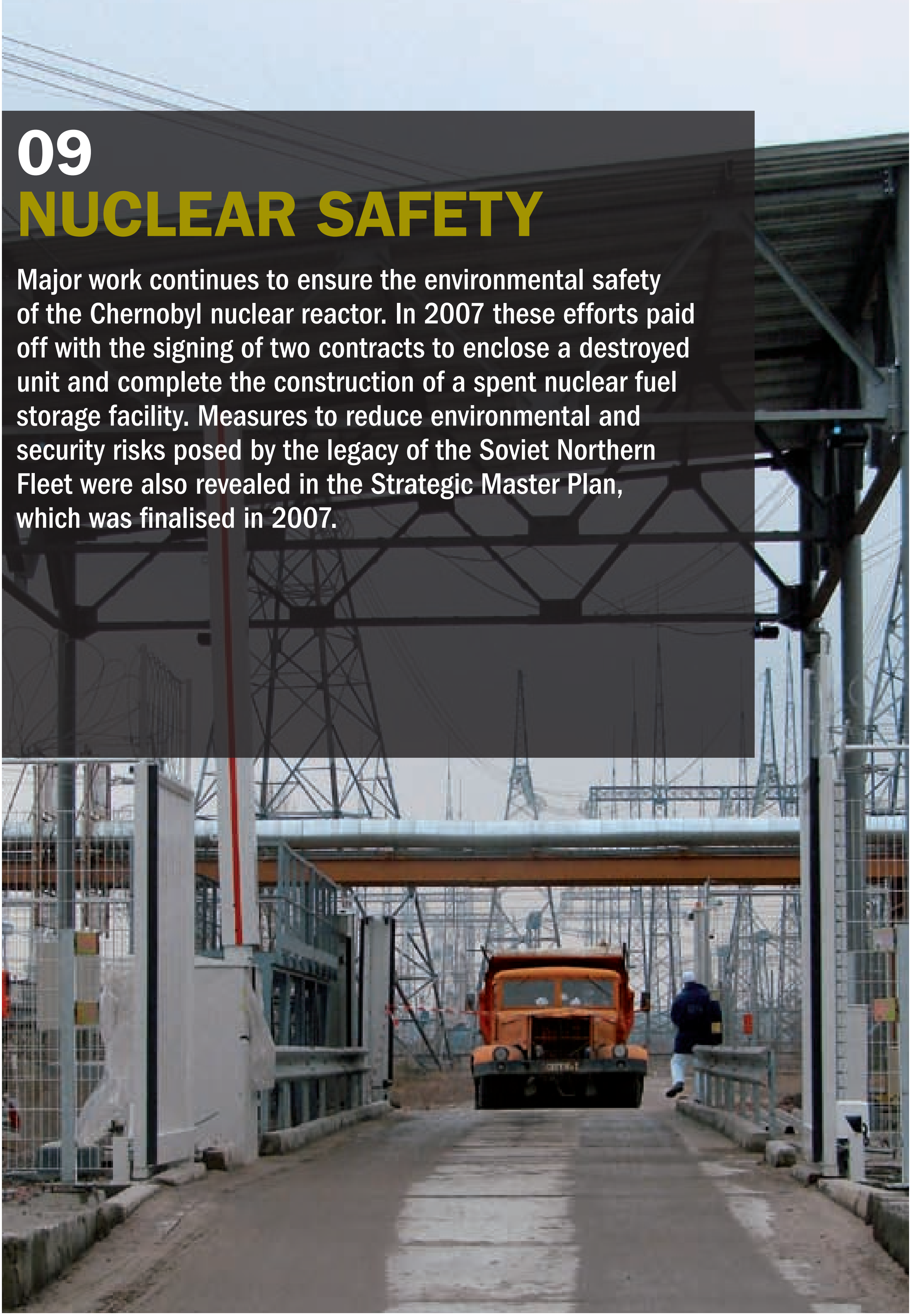
The TAM/BAS Programme is at the forefront of business development in the EBRD region. In October 2007 a new strategy for 2008-10 was approved. It envisages the Programme extending into regions where intensive support is needed for micro, small and medium-sized enterprises (MSMEs) – in particular in rural areas of Russia and Ukraine. The Bank is looking to deepen the Programme by improving its accounting of transition impact, which is the key principle governing the Bank's project activities. Market development activities, such as training for MSMEs and consultancies, and the sustainability of advisory services through institutional strengthening will be of particular focus. TAM and BAS will also further its support to relevant local institutions and contribute to policy dialogue between the EBRD and governments.

In addition, TAM and BAS will further expand its activities along pressing issues such as energy efficiency, environmental protection, gender equality, rural development and fostering young entrepreneurship.

The TAM/BAS Programme is now fully integrated into the EBRD's mainstream activities, making it a key element of EBRD support for small businesses.

09
NUCLEAR SAFETY

Major work continues to ensure the environmental safety of the Chernobyl nuclear reactor. In 2007 these efforts paid off with the signing of two contracts to enclose a destroyed unit and complete the construction of a spent nuclear fuel storage facility. Measures to reduce environmental and security risks posed by the legacy of the Soviet Northern Fleet were also revealed in the Strategic Master Plan, which was finalised in 2007.



Two major contracts were signed in 2007: one for the design and construction of a new confinement – a large arch-shaped construction – that will safely enclose the destroyed unit 4 of the Chernobyl Nuclear Power Plant; and a second contract for the completion of a spent fuel storage facility.

The signing of the first contract for the new safe confinement concluded a thorough process that involved numerous Ukrainian and international experts and independent advisers assisting EBRD and the donor community. The contract, which is worth over €450 million, is the single largest under the Shelter Implementation Plan (SIP), which is estimated to cost around €1 billion. Implementation of the SIP is financed by the Chernobyl Shelter Fund, a donor-supported fund administered by the EBRD on behalf of 29 governments and the European Union.

Once completed, the new safe confinement will keep water out and prevent contaminated dust from escaping. It will also act as a safe working environment for future dismantling and waste management activities. The structure will be designed to last at least 100 years.

The other contract, which is financed by the donor-funded Nuclear Safety Account (NSA), is for an interim dry storage facility for spent fuel from units 1, 2 and 3, currently stored in conditions that are inadequate for the long term and that prevent these facilities from being decommissioned. The Holtec consortium, which was awarded the contract, will use existing buildings and concrete storage units that were built under a previous contract to process and then store spent fuel for 100 years. Donors to the NSA approved funding of the design phase for this project, which in total could cost over €150 million.

International decommissioning support

Work in the International Decommissioning Support Funds (IDSFs) continued in 2007 in line with the programmes approved by donors. The IDSFs assist Bulgaria, Lithuania and the Slovak Republic with the decommissioning and early closure of their Chernobyl-type or other first generation, Soviet-designed nuclear power plants.

Projects supporting the decommissioning of the designated power plants – Bohunice V1, Ignalina and Kozloduy 1-4 – such as facilities and equipment for the management of radioactive waste and spent fuel, are well developed and being implemented.

Good progress was also made with projects supporting the energy sector as compensation for the loss of generating capacity from the decommissioned nuclear plants. Credit lines to support energy efficiency measures and sources of renewable energy, first introduced in Bulgaria with the help of the Kozloduy IDSF, are being replicated in many of the Bank’s other countries of operations. For example, in 2007 such a facility was created in the Slovak Republic where it received grant support from the Bohunice IDSF.

In Lithuania the procurement process for a new 400 MW combined cycle, gas-fired plant at Elektrine was launched. Donors to the Ignalina IDSF have approved for 2007-10 a €260 million contribution towards completion of the new facility, as well as the upgrade of existing units.

In 2008 the second reactor of Bohunice V1 in the Slovak Republic will be shut down, leaving Ignalina 2 in Lithuania as the remaining first generation, Soviet-designed plant in the European Union. It will close in 2009.

Since their establishment in 2001, the three IDSFs have so far received in excess of €1.2 billion from the European Union and 16 donor governments. The European Union is overall the single largest contributor.

Northern Dimension Environmental Partnership

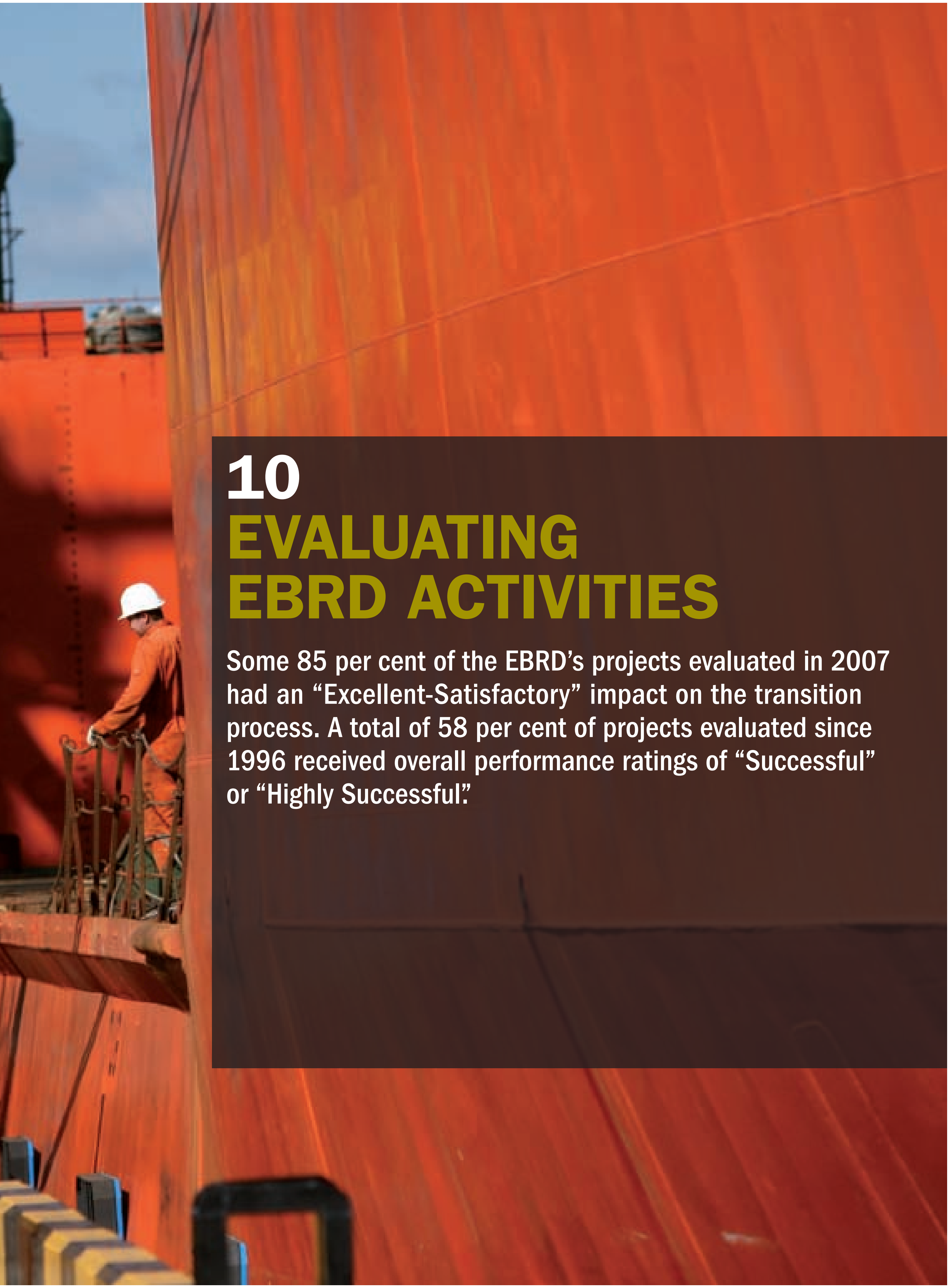
The donor-funded Northern Dimension Environmental Partnership (NDEP), which is administered by the EBRD, reached a crucial milestone in 2007 with the completion of the Strategic Master Plan. The Plan provides a comprehensive overview of how to deal with the nuclear, radiological and environmental risks posed by the legacy of the Soviet Northern Fleet in north-west Russia. Donors to the NDEP, including Russia, have praised the Plan as an invaluable tool to coordinate ongoing programmes and to decide on further assistance.

Two projects covered by the Plan involve the decommissioning of the heavily contaminated, abandoned spent fuel store at Andreeva Bay, and the defuelling and decommissioning of the former service ship Lepse, which contains damaged spent fuel and radioactive waste and is moored in Murmansk. The costs of these operations are likely to exceed €60 million.

Contracts were signed for a new safe confinement and spent fuel storage at Chernobyl in 2007.

Decommissioning of spent fuel at Andreeva bay in Russia.


ERSK
ЭС 4



10 EVALUATING EBRD ACTIVITIES

Some 85 per cent of the EBRD's projects evaluated in 2007 had an "Excellent-Satisfactory" impact on the transition process. A total of 58 per cent of projects evaluated since 1996 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

EvD 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.

Since 1996, EvD has assessed 574 projects. Of these, 55 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 2007.

In 2007, 15 per cent of evaluated projects were given a transition impact rating of "Marginal-Negative". This is in line with the outcomes seen since 2003, and compares with the period 1997-2002, which saw higher numbers of projects rated "Marginal-Negative". Over this same period there has been a steady improvement in the number of projects rated "Excellent", which has continued in 2007.

This may be partly due to the diminishing impact of the Russian financial crisis of 1998. Projects evaluated at the turn of this 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 2007 was 85 per cent. Chart 2 shows cumulative results for transition impact of projects evaluated since 1996. It reveals that the positive scores for transition impact are stable at a relatively high level of between 75 and 80 per cent.

Chart 1
Transition impact ratings of EBRD projects 1996-2007

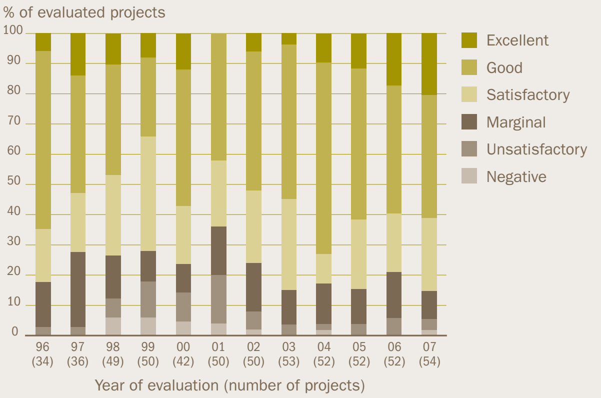
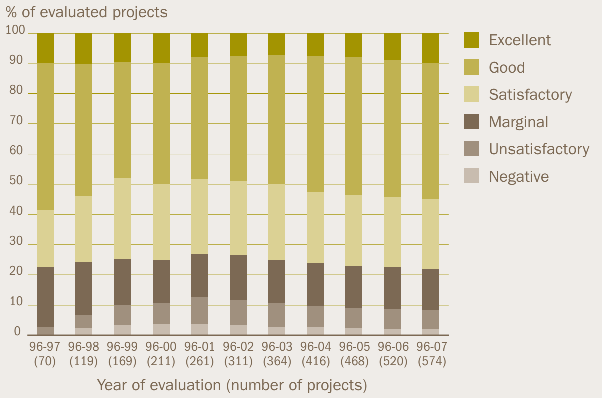


Chart 2
Cumulative transition impact ratings of EBRD projects 1996-2007



Special study
Early Transition Countries Fund

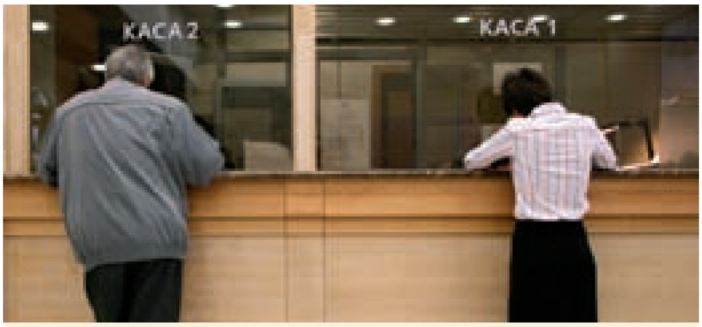
The Evaluation Department undertook a special study to assess the performance so far of the Early Transition Countries (ETC) Fund since its inception in November 2004. The ETC Fund forms part of the Bank's wider ETC Initiative, which aims to promote the transition to market-oriented economies and alleviate poverty in the poorest countries in which it operates. The Fund uses commitments from donors for technical assistance in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan.

The evaluation focuses on two levels: first, overall governance and management arrangements, and secondly specific activities to identify achievements to date and emerging lessons that can be incorporated in the future.

At this early stage of the Fund's existence it has been rated "Successful". It has had a promising start in terms of aggregate use of resources and the specific activities it has supported. The governance and management arrangements are well established and executed. Selection and implementation of individual projects is sound. The overall rating is neutral with regards to "impact" (in terms of progress with transition and poverty reduction) and "sustainability", due to the early stage of the activities supported by the Fund.

The assessment concludes that the ETC Fund is a vital and effective instrument for implementing the ETC Initiative and for taking forward the EBRD's country strategies in the ETCs. The Initiative depends on continuous access to grants both to support investment projects and for complementary capacity building. Several cases confirmed that EBRD finance can help clients to benefit from advice funded by technical cooperation (TC), while the Bank's introduction of new instruments under the Initiative, for example in medium-sized enterprise finance, is dependent on TC grants because of the relatively high project costs and risks involved.

The study found that the ETC Fund has comparative advantages over bilateral TC funding, such as access to available and "untied" resources. It also found that the use of the ETC Fund has been greatest in countries that have made the most transition progress and so have provided the best opportunities for improved EBRD engagement. However, greater clarity is needed between donors and the EBRD about the treatment of social and poverty aspects, and how these relate to the transition impact objectives of the ETC Fund.



Special study
Financial sector

The Evaluation Department undertook a special study in 2007 to evaluate the EBRD's financial sector policy (last updated in 1999) and assess the Bank's performance in this sector. The study evaluated past performance on 101 projects signed between late 1999 and 2006 (representing one-third of projects signed in the seven-year period). These projects covered bank equity, bank debt, insurance, leasing and finance to small and medium-sized enterprises in 27 of the Bank's countries of operations (excluding regional projects).

The study evaluated the extent to which the projects met the objectives set out in the policy of 1999 and assessed the relevance, efficacy, efficiency and overall impact of these projects. It concluded that the Bank's overall activities in the financial sector have been "Successful".

However, the study found that the Bank should make more effort to promote project objectives that reinforce the market-supporting institutions and policies that are essential to building and maintaining confidence in the financial sector. Looking ahead, the Bank will need to challenge the lack of political will that persists in a number of countries to drive through the reforms needed to underpin a sustainable financial sector.

The study concludes with a number of recommendations aimed at further enhancing the effectiveness of the Bank's financial sector policy. In particular, the policy would benefit from refocusing its priorities to target remaining transition challenges, such as effective regulation and supervision in countries where this is inadequate, and from stronger linkages between policy priorities and investment climate initiatives, including policy dialogue.

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).

Since 1996, 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. In 2007 fewer projects were rated "Highly Successful" than in the previous year, but more rated "Successful", giving a similar number of positive results overall.

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 (85 per cent in 2007). 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 2007, five projects scored an overall rating of "Highly Successful". Based on cumulative evaluation findings since 1996, EvD concludes that the EBRD has been relatively successful in operating according to its mandate, especially in view of the difficult operating environment. As highlighted above, the overall performance ratings have improved generally since 2001.

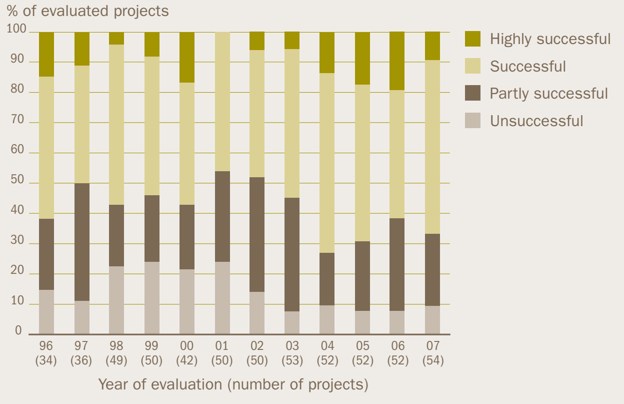
Applying lessons to new projects

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 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 2,600 lessons.

Examples of lessons learned generated in 2007 are presented in the boxes with some examples of projects with a successful outcome and with a less successful outcome.

Chart 3
Overall performance ratings of evaluated EBRD projects 1996-2007



Successful project
Expanding a mobile phone network in Central Asia

The EBRD provided a loan of over €34 million for the network expansion of a mobile telephone company in Central Asia. A total of 50 per cent of the loan was syndicated to commercial banks.

The aim of this project was to support competition, market expansion and the transfer of skills. The company had existed for some time but had not been able to roll out the infrastructure as fast as expected because of disputes among the previous owners. The new sponsor who had taken control of the company is a leading telecoms operator and was committed to competing with the local market leader by improving its product and acquiring new customers at a much faster rate than its competitor. The new sponsor was able to contribute to better branding and provide systematic training and skills transfers from other countries where it operates.

The project was rated "Successful" due to the expansion of network coverage and substantial increase in the company's client base. This also led to marked improvements in financial performance. The impact on the market was positive. However, tariff reductions are occurring gradually because there are only two dominant GSM (Global System for Mobile Communications) operators active in the country and liberalisation of the overall telephone system is taking longer than anticipated.

The main lesson learned from this project was that a high degree of liberalisation of the sector and the emergence of a strong regulator are important pre-requisites for success. While a GSM operation can have some impact on the market and competition, this is unlikely to be significant unless technical assistance provided by the Bank contributes to the framework discussion with the government, as experienced in this project.

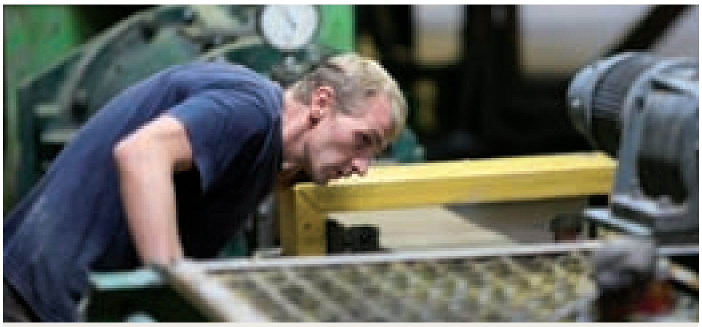
Successful project
Restructuring and privatising a major commercial bank

The EBRD purchased, along with another international financial institution, a blocking minority stake in a major bank as a precursor to privatisation. Control of the bank was initially retained by the government.

The project was designed to initiate a review and upgrade of the bank's operational policies and capacity as well as corporate governance. The agreements between the parties contained strong conditions to ensure a smooth privatisation process, as the exercise was being undertaken in a climate of economic uncertainty and unfavourable market conditions.

As part of the privatisation process, changes were made to the bank's charter and procedures. In addition, major improvements were made to the bank's strategic focus, business and control functions. A team of the bank's employees was responsible for monitoring progress towards achieving the targets and reporting to the EBRD.

A fully transparent competitive tender was held, as a result of which a number of binding offers were received to purchase a majority stake and control of the bank. The project was rated "Highly Successful". By supporting the privatisation of a major bank, the project enhanced the credibility of the bank privatisation process and contributed to restoring confidence in the banking sector in the relevant country. The project also showed that a well-designed and implemented institution-building programme can add to the economic value of the recipient.



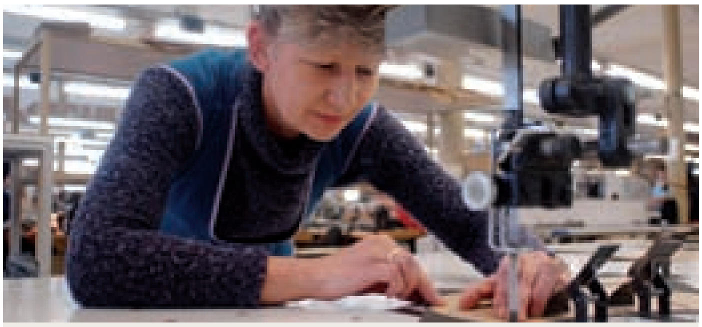
Less successful project
Joint venture in manufacturing

The Bank provided a loan to a joint venture comprising two integrated heavy industry manufacturing firms, one of which was local and provided raw materials and the other a foreign company that supplied advanced technology and access to the key clients in the global target market. The joint venture built a new plant to manufacture a high-quality product for a technically demanding industrial market that was expected to be established in the country.

Project success required the local partner to upgrade the quality of materials that it supplied to the new plant. Proof of the quality would come from the company taking a share of the target market.

The project was rated only “Partly Successful”. While the plant went into operation, albeit after a delay and with costs that overran, the expected demand for the final product failed to materialise. Nevertheless, a market for the product did remain, although in a less demanding niche. The foreign partner exited the joint venture.

Furthermore, the joint venture was designed as a ring-fenced operation, distinct from either of its two sponsors, which was paid a fixed fee by one of the partners for processing the raw material into the high-quality finished product. This structure obscured the financial and economic performance of the joint venture because the fee was not adjusted when the market value of the finished product increased, which in turn hampered the demonstration effect of the project. Therefore, a similar structure should be avoided in future, even if it might reduce banking risk in some cases where sponsor strength is in question.



Less successful project
Privatising a textile manufacturer

In 1999 the EBRD purchased a minority interest in a manufacturer of wool worsted fabrics, as well as lending the company up to €5 million. EBRD participation was co-financed by resources from an Investment Special Fund. The International Finance Corporation also participated in the share purchase and loan facilities.

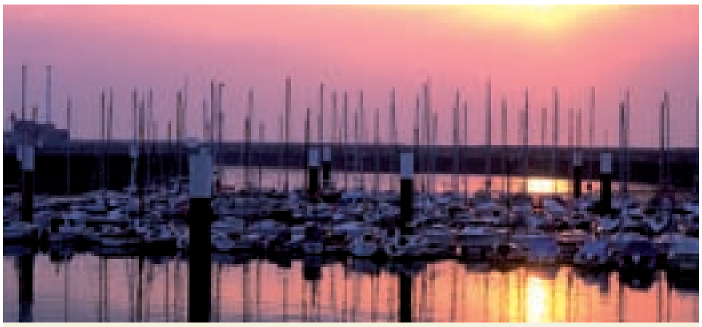
The aim of the project was to privatise the government’s majority stake (the remainder stayed with management and employees) and to restructure and modernise the company’s facilities in order to enhance its penetration of international – mainly Western – textile markets. Agreements were concluded in March 2000, the business privatised and the restructuring plan initiated.

The company had proved effective at repositioning its business from traditional markets in the CIS to more demanding Western European and other international markets. However, without the support of a strategic investor, the company struggled to deal with the tightening market, which was being squeezed on one side by consumer trends away from the company’s core products and on the other by low cost producers in the Far East. This changing environment exposed the restructuring plan as failing to address thoroughly its uncompetitive cost structure and out-of-date business model. The EBRD and other shareholders subsequently divested the equity and debt participation to local industrial investors who have since continued to operate the company.

In view of the failure to modernise and achieve its financial objectives, overall transition impact of this project was rated as “Unsatisfactory” and overall performance as “Unsuccessful”. The project highlights how important it is, in any investment in a brownfield or restructuring situation, to target international standards of competitiveness from the start, which may prove difficult without the support of a strategic investor.

Evaluating technical cooperation activities

The EvD has evaluated around 550 consultant assignments funded through the EBRD's technical cooperation (TC) programme. These assignments have been supported by over €150 million of funding from over 30 donors. When combined with TC assignments evaluated during the EvD's special studies, this figure rises to over 1,500 assignments involving more than €450 million of funding.



Successful project
Institution building through technical cooperation

To meet the management challenges of ongoing tourism, the EBRD provided a port authority with technical cooperation (TC) aimed at "institution building". This involved developing a business plan, marketing strategy, IFRS accounting and reporting and an organisational structure. Initially €198,000 was allocated, followed by an extension for €150,000.

The TC was executed during 2004 and 2005. It was in line with the Bank's relevant country and industry strategies, provided additionality (complemented rather than replaced private sources of finance) and met its objectives, albeit only with the extension of funds. The TC, overall, was rated "Successful".

The main lesson learned is that the Bank should carry out more thorough due diligence before embarking on an institution-building TC project, particularly if the institution is relatively immature and the beneficiary has no prior experience with international requirements. The effectiveness of the initial TC was very limited since basic material and lectures were provided that left the beneficiary unclear of how to apply this knowledge. It was only the hands-on approach employed under the TC extension that brought to fruition the full array of benefits.

Under these circumstances a two-phase approach is worth considering: first, a relatively short reconnaissance study by the Bank, possibly with the help of an industry expert and, if necessary, followed by a more in-depth scoping study; and secondly, a fully-fledged institution-building TC, which should provide for sufficient time so that benefits can be realised.

Less successful project
Tendering and procurement for urban transport

In 2003 the Bank approved TC funds for consultants to assist in the tender of several bus lines within a municipality, and in the procurement of a new ticketing system. The TC was only partly implemented and was rated overall as "Partly Successful".

The TC related to the new ticketing system was "Successful" overall, though it encountered serious delays. The technical performance of the consultants was good, but unsatisfactory internal communication among the members of the consultancy and short-term staffing problems led to delays in implementing the project, exacerbated by the city's slow decision-making and delays in the approval of the tender documents. Nevertheless, a full international tender was finally undertaken, the contract for the supply and installation of the ticketing system was signed in December 2006 and installation and testing are expected to be completed by June 2008. The consultants ensured that an appropriate ticketing system was selected and procurement, once undertaken, proceeded smoothly.

The TC relating to the bus service tender has been "Unsuccessful". The consultant produced draft prequalification documents and public service contracts to regulate the relationship between the city and existing and future private bus operators. These were presented to the city in 2004 for approval, but following local elections the political will to proceed has seemed lacking. There has been further piecemeal privatisation of bus services to local operators, and public service contracts based on those drafted by the consultants have recently been signed by private bus operators. Elections in 2007 raised hopes that the project might be revived, though this has not yet happened.

The project underlined the importance of selecting a consultant not only with technical expertise but also with a proven track record of delivering concrete results in the sometimes complex political environment in countries where the Bank operates.

11 PROCUREMENT

The EBRD offers a range of procurement opportunities for suppliers, contractors and consultants. In 2007 the Bank financed 138 public sector contracts, valued at €2,232 million.

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 2007

In 2007 the EBRD embarked on the review of its Procurement Policies and Rules. Public consultation was launched on key issues that may result in revisions to Bank policy. The function and organisation of the Procurement Department is also being reviewed. As part of further transparency, the EBRD has also published on its web site its Annual Procurement Review, which reviews public sector procurement contracts financed or partly financed by the Bank in 2006.

The EBRD continued to work with other multilateral development banks (MDBs) to harmonise procurement documentation for public sector projects. In October 2007, the EBRD met MDBs and the Confederation of International Contractors Association (CICA) to discuss proposed revisions to the harmonised version of the works contract, currently available on the web site of the International Federation of Consulting Engineers (FIDIC). The EBRD also participated in the Heads of Procurement meeting in Tunis where the use of country procurement systems and the harmonised standard tender documents were discussed.

The EBRD continued to provide procurement support services throughout 2007. This included running a training programme entitled "Project Delivery Strategy" for procurement executives from three Russian oil and gas enterprises and presenting its project delivery strategy and business opportunities to Italian construction companies. The Bank also ran seminars with local suppliers, contractors and consultants in Prague and Bratislava to encourage their participation in procurement processes resulting from EBRD-financed projects.

In 2007, EBRD-financed projects led to 138 public sector contracts, valued at €2,232 million, of which €1,418 million was financed by the EBRD (representing approximately 63 per cent of the total contract value). This compares with 98 contracts valued at €1,361 million in 2006, indicating a 64 per cent increase in total contract value for 2007. The total value of contracts resulting from “open” tendering procedures in 2007 was €2,155 million, or 96.5 per cent of total contract value. Contracts for transport and municipal and environmental infrastructure projects accounted for €1,636 million, representing 100 out of 138 contracts, or 72.5 per cent of all contracts signed by number and 73 per cent by value respectively of all public sector contracts awarded in 2007.

The number of public sector contracts associated with EBRD-financed projects has increased compared with 2006 and the value of the contracts is considerably higher. Additionally, this year has seen a decrease in the number of “concerns” and formal complaints received by the Bank regarding procurement practices. In 2007 the EBRD received 5 concerns and 11 formal complaints compared with 12 and 15, respectively, in 2006.

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.

In 2006 the EBRD received a complaint concerning the procurement of the new safe confinement contract to be funded by the EBRD-administered Chernobyl Shelter Fund. The EBRD carried out a comprehensive review and concluded that the complaint could not be upheld. Subsequently, the EBRD, together with a panel of experts and observers, ensured that the pre-contract discussions with the leading consortium addressed the remaining open issues consistent with the applicable tender documents, the agreed procedural framework and the Bank’s Procurement Policies and Rules. These discussions eventually led to the conclusion of the contract in July 2007.

Procurement opportunities

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

12 ORGANISATION AND STAFFING

The EBRD puts its staff at the heart of achieving the Bank's mission. In 2007 recruitment from outside the Bank reached its highest level for five years. The Bank's efforts to increase its presence in the countries in which it operates continued with a revised policy that enhanced guidelines for geographic mobility, and the delivery of local training programmes and distance learning tools for staff in Resident Offices.

Human resources

The EBRD supports the efforts and achievements of its employees through a dedicated human resources strategy. Its fundamental principles are positive engagement with staff, responsiveness to the needs of departments throughout the Bank, innovation, professionalism and transparency. As an important component of the Bank's overall business model, the human resources strategy ensures that quality, performance and satisfaction of staff are constantly aligned with business needs.

Diversity among employees is a key part of achieving the Bank's mission. At the end of 2007 the Bank employed 1,349 people across 32 offices in 26 countries. A total of 57 nationalities are represented, with staff coming from different backgrounds and fields of expertise but sharing the same commitment for challenging work, professional growth and the goals of the organisation.

Staffing

At the end of December 2007, the EBRD had 1,052 employees based in London compared with 1,018 in 2006. Resident Office staff totalled 297, compared with 261 the previous year. The ratio of male/female professional staff in the EBRD is approximately 1.58:1.

Recruitment

A total of 202 external candidates were recruited in 2007 – the highest number in the last five years. Recruitment was driven not only by turnover (amounting to 11 per cent in December 2007), but also an increase in headcount. In line with the requirements of the business model, new staff were recruited in London and the countries of operations (two-thirds and one-third, respectively), focusing on high-quality, skilled individuals with an entrepreneurial spirit. As in previous years, the Bank recruited mostly from the private sector, but also from other international financial institutions, the academic world and other industries. This ensured a diversity of skills, experiences and perspectives within the organisation.

Mobility

More than 60 employees took up an assignment in a different location in 2007, moving either from the Bank's London Headquarters to one of the local offices or vice-versa. This mobility was supported by a revised policy providing a clear, complete and consistent regulation of all aspects associated with geographic assignments.

Geographic mobility of staff is crucial for the Bank's business. It supports the strategic goal to increase the number of professional staff deployed in Resident Offices, which at the end of 2007 totalled approximately half of banking professional staff. In addition, mobility provides employees with the opportunity to achieve their professional goals and personal fulfilment by working in another country.

Compensation

The Bank's compensation and benefits package reflects the individual characteristics of the various EBRD locations. With buoyant job markets in London and most of the countries where the Bank operates, the Bank ensured that salaries remained competitive in London and across the region. In addition, the Bank continued to strengthen a performance culture, rewarding individuals according to their level of performance and contribution. This commitment was confirmed by the significant differentiation in the distribution of bonuses for professional staff in 2007.

Learning and development

As part of its commitment to staff development, the EBRD offers a comprehensive range of learning opportunities. In 2007 there was a marked increase in the number of training courses delivered, reflecting the rise in the number of people recruited by the Bank. In total, more than 3,400 training days were undertaken in 2007, which represents an increase of 15 per cent compared to the previous year.

With a significant number of EBRD staff now located in the Resident Offices, it has become critical to deliver training locally. In addition to running more training courses in Resident Offices, the EBRD is expanding its eLearning and distance learning tools. In 2007 the Open Learning Centre was greatly enhanced with free web-based language training resources and an intranet-based toolkit for managers. For new staff, new eLearning modules were under development that will accelerate the induction of new staff in the Resident Offices and at Headquarters. These modules will be rolled out in 2008.

Working environment

Renovation of the London office was completed in November 2007. The project involved carrying out essential engineering and refurbishment works over 24 months. The project needed to take into account compliance with current health and safety regulations and best practice, staff needs and concerns, energy savings and higher environmental standards. The building has now been brought up to the latest standards, including better lighting, ventilation and security, resulting in an improved and healthier working environment for staff and visitors.

EBRD Management

4 April 2008

President	Jean Lemierre

Banking

First Vice President	Varel Freeman

Front Office

Strategic and Operational Planning *(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	Terry McCallion

Energy and Natural Resources

Business Group Director	Riccardo Puliti
Natural Resources	Kevin Bortz
Power and Energy Utilities	Nandita Parshad

Financial Institutions

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Bank Equity	Anne Fossemalle
Bank Relationships	Jean-Marc Peterschmitt
Equity Funds	Kanako Sekine
Non-bank Financial Institutions	Vacant

Infrastructure

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Municipal and Environmental Infrastructure	Jean-Patrick Marquet
Transport	Sue Barrett

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
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)	(Acting) Marina Petrov
Russia, Infrastructure and Energy (Moscow office)	Natasha Khanjenkova
Agribusiness	Gilles Mettetal
Property and Tourism	Sylvia Gansser-Potts

South-eastern Europe, Central Asia and the Caucasus

Business Group Director	Olivier Descamps
Ukraine (Kiev office)	Kamen Zahariev
Romania (Bucharest office)	Claudia Pendred
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

Business Group Director	Gavin Anderson

Finance

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Deputy Treasurer and Head of Funding	Isabelle Laurent

Loan Syndications

Director	Lorenz Jorgensen

Budget and Financial Policy

Corporate Director	Chris Holyoak

Strategic and Operational Planning

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

Financial Control and Operations

Director	Nigel Kerby

Information Technology

Director	Tim Goldstone

Risk Management, Human Resources and Nuclear Safety

Vice President	Horst Reichenbach

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Credit/Transaction Analysis	David Klingensmith
Treasury Credit Risk	Bryan Brinkley
Credit Portfolio Review	Mike Hesketh
Portfolio Risk Management Group	Vacant
Risk Management System Project	Irena Postlova
Corporate Recovery *(joint report to Banking)*	Will Newton
Operational Risk	Julie Williams

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Deputy Director, Compensation and Benefits	Ingrid de Wee
Deputy Director, Global Staffing	Matthew Hubbard

Nuclear Safety

Director	Vince Novak

Cooperation Initiatives and Programmes

Director	Alexander Auboeck

Official Co-financing

Director	Gary Bond

Administration and Environment

Vice President	Brigita Schmögnerová

Administration, Procurement and Consultancy Service

Director of Administration	Jaroslaw Wojtylak
Health, Safety and Security	Alan Drew
Director, Procurement and Purchasing	(Acting) Dilek Macit
Director of Consultancy Service	Dilek Macit

Environment and Sustainability

Corporate Director	Alistair Clark

Office of the Secretary General

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 for Project Design and Appraisal	Hans Peter Lankes
Director, Strategy and Analysis	Alan Rousso
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

Director	Vacant

Records Management and Archives

Head of Unit	Anne Crétal

Office of the Chief Compliance Officer

Chief Compliance Officer	Enery Quinones

Internal Audit

Head of Internal Audit	Ray Portelli

Communications

Director	Brigid Janssen

President's Office

Adviser to the President	Alexandre Draznieks

EBRD Governors and Alternate Governors

31 December 2007

Member	Governor	Alternate
Albania	Genc Ruli	Sherefedin Shehu
Armenia	Vardan Khachatryan	Tigran Sargsyan
Australia	Peter Costello	Greg Hunt
Austria	Wilhelm Molterer	Kurt Bayer
Azerbaijan	Heydar Babayev	Samir Sharifov
Belarus	Vladimir Semashko	Nikolai Zaichenko
Belgium	Didier Reynders	Jean-Pierre Arnoldi
Bosnia and Herzegovina	Sven Alkalaj	Aleksandar Dzombić
Bulgaria	Plamen Oresharski	Dimitar Kostov
Canada	James M. Flaherty	Leonard J. Edwards
Croatia	Ivan Šuker	Zdravko Marić
Cyprus	Michael Sarris	Christos Patsalides
Czech Republic	Miroslav Kalousek	Zdeněk Tůma
Denmark	Bendt Bendtsen	Michael Dithmer
Egypt	Fayza Abouelnaga	Rachid Mohamed Rachid
Estonia	Ivari Padar	Tea Varrak
Finland	Jyrki Katainen	Pekka Huhtaniemi
FYR Macedonia	Trajko Slaveski	Zoran Stavreski
France	Christine Lagarde	Xavier Musca
Georgia	Nika Gilauri	Roman Gotsiridze
Germany	Peer Steinbrück	Thomas Mirow
Greece	George Alogoskoufis	Ioannis Sidiropoulos
Hungary	János Veres	Géza Egyed
Iceland	Björgvin G Sigurðsson	Kjartan Gunnarsson
Ireland	Brian Cowen	David Doyle
Israel	Stanley Fischer	Yarom Ariav
Italy	Tommaso Padoa-Schioppa	Ignazio Angeloni
Japan	Fukushiro Nukaga	Toshihiko Fukui
Kazakhstan	Bakhyt Sultanov	Anvar Saidenov
Korea, Republic of	O-kyu Kwon	Seongtae Lee
Kyrgyz Republic	Aziz Aaliev	Marat Alapaev
Latvia	Atis Slakteris	Kaspars Gerhards
Liechtenstein	Klaus Tschütscher	Roland Marxer
Lithuania	Rimantas Šadžius	Ramunė Vilija Zabulienė
Luxembourg	Jean-Claude Juncker	Jean Guill
Malta	Tonio Fenech	Michael Bonello
Mexico	Agustín Carstens	Alejandro Werner
Moldova	Igor Dodon	Marin Moloșag
Mongolia	Ulaan Chultem	Alag Batsukh
Montenegro	Igor Lukšić	Milorad Katnić
Morocco	Salaheddine Mezouar	Abdeltif Loudyi
Netherlands	Wouter Bos	Maxime Verhagen
New Zealand	Winston Peters	Jonathan Hunt
Norway	Kristin Halvorsen	Rikke Lind
Poland	Slawomir Skrzypek	Arkadiusz Huzarek
Portugal	Fernando Teixeira dos Santos	Carlos Costa Pina
Romania	Varujan Vosganian	Mugur Isărescu
Russian Federation	German Gref	Sergey Storchak
Serbia	Vacant	Vacant
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	Alistair Darling	Douglas Alexander
United States	Henry M. Paulson Jr	Reuben Jeffery III
Uzbekistan	Rustam Sadykovich Azimov	Odil Husnutdinovich Juraev
European Community	Joaquín Almunia	Klaus Regling
European Investment Bank	Dario Scannapieco	Marta Gajecka

Chairman of the Board of Governors
Governor for Italy (Tommaso Padoa-Schioppa)

Vice Chairmen of the Board of Governors
Governor for Canada (James M. Flaherty)
Governor for Montenegro (Igor Lukšić)

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 2007

Director	Alternate Director	Constituency
László Andor	Pavel Štěpánek	Hungary/Czech Republic/Slovak Republic/Croatia
Terence Brown	Walter Cernoia	European Investment Bank
Alain de Cointet	Francis Mougenez	France
Anne Counihan	Ib Katznelson	Ireland/Denmark/Lithuania/FYR Macedonia
João Cravinho	Stefanos Vavalidis	Portugal/Greece
Sven Hegelund	Baldur Pétursson	Sweden/Iceland/Estonia
Ole Hovland	Jari Gustafsson	Norway/Finland/Latvia
André Juneau	Judith St George	Canada/Morocco
Tae Hwan Kim	Peter Reith	Korea/Australia/New Zealand/Egypt
Elena Kotova	–	Russian Federation/Belarus/Tajikistan
Vassili Lelakis	Carole Garnier	European Community
Kazimierz Marcinkiewicz	Kalin Mitrev	Poland/Bulgaria/Albania
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
Jan Willem van den Wall Bake	Hans Sprokkreeff	Netherlands/Mongolia

Composition of Board of Directors' committees

31 December 2007

Audit Committee

Simon Ray (Chairman)
Terence Brown (Vice Chairman)
Alain de Cointet
Kazimierz Marcinkiewicz
Igor Podoliev
Enzo Quattrociocche
Mark Sullivan

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

László Andor (Chairman)
Jean-Louis Six (Vice Chairman)
João Cravinho
Sven Hegelund
Elena Kotova
Vassili Lelakis
Gonzalo Ramos
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

Joachim Schwarzer (Chairman)
Ole Hovland (Vice Chairman)
Anne Counihan
André Juneau
Tae Hwan Kim
Kazuya Murakami
Michael Neumayr
Manuel Sager

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

André Juneau (Chairman)
Anne Counihan (Vice Chairman)
László Andor
Terence Brown
Ole Hovland
Simon Ray
Joachim Schwarzer
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 2007

The EBRD invested €5.6 billion in 353 projects in 2007, up from €4.9 billion in 301 projects the previous year. Investments were undertaken in 28 of the Bank's countries of operations. One-third 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 2007. 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 Framework 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

B(MPF) – Multi Project Facility

C – no environmental impact assessment or environmental analysis

0 – no environmental audit

1 – an environmental audit

FI – financial intermediary

IEE – initial environmental examination

This list of projects does not include:

- trade facilitation guarantees issued and expired in 2007
- 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.

EBRD commitment amounts include both new facilities and follow on (facilities) to original operations.

Resources mobilised and total project value reflect operations signed for the first time in 2007 so that facilities with external finance signed in previous years are not counted twice.

Albania

Project	Description	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Durres port	Loan to finance a ferry terminal and related infrastructure at the port of Durres. Transport • State • B/1	40.0	14.0	0	**14.0**
Levan-Vlore road	Loan to upgrade the road from Levan to Vlore. Transport • State • A/0	60.2	22.0	0	**22.0**
Western Balkans Local Enterprise Facility *Agrotal*	Establishment of an olive oil production plant. Agribusiness • Private • C/0	1.0	0	0.5	**0.5**
BI-Invest	Establishment of a greenfield concrete production plant in Lushnje, Albania. Manufacturing • Private • B/0	1.0	0	0.7	**0.7**

Armenia

Project	Description	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Armenia Multi-bank Framework II *SME credit line*	Credit line to Agricultural Cooperative Bank of Armenia, Anelik Bank and Armeconombank for on-lending to small and medium-sized enterprises. Small business finance • Private • FI	32.0	19.0	0	**19.0**
SME credit line	Credit line to Armeconombank and Inecobank for on-lending to small and medium-sized enterprises. Bank lending • Private • FI	14.0	7.0	0	**7.0**
Armenia Multi Bank Framework *Araratbank*	Credit line for on-lending to MSMEs. Small business finance • Private • FI	3.4	3.4	0	**3.4**
Byblos Bank Armenia	Equity investment in BBA (formerly International Trade Bank). Bank equity • Private • FI	5.0	0	3.0	**3.0**
Direct Investment Facility *Alpha Pharma*	Equity stake enabling a leading pharmaceutical wholesaler to expand its network. Manufacturing • Private	4.4	0	3.2	**3.2**
Cascade Insurance and Reinsurance Company	Equity investment in an Armenian insurer, CIRCO. Non-bank financial institutions • Private	0.2	0	0.2	**0.2**
Hytex Plastic	Loan to plastics manufacturer for expansion. Manufacturing • Private	0.3	0.3	0	**0.3**
Direct Lending Facility *Hydro Corporation*	Investment to buy, install and operate a small hydro power plant. Power and energy • Private	1.2	1.2	0	**1.2**
Shen Concern	Expanding the production of paints and lacquers, and beginning production of new materials such as gypsum and masonry products. Manufacturing • Private	3.4	3.4	0	**3.4**
Lake Sevan	Upgrade of two waste-water treatment plants and construction of a further three. Municipal infrastructure • State • B/1	12.0	7.0	0	**7.0**
Medium-sized Loan Co-financing Facility *Credit line*	Loan to Armeconombank and Anelik Bank to expand their lending activities. Bank lending • Private	2.0	2.0	0	**2.0**
Agricultural Cooperative Bank of Armenia	Loan to MavaTerm for design, installation and service of heating and ventilation systems. Manufacturing • Private	0.1	0.1	0	**0.1**
Armeconombank	Renovation and construction of a second wing at the Nairi Medical Centre. Manufacturing • Private	0.4	0.4	0	**0.4**
Armeconombank	Loan to Shant, an Armenian TV and radio broadcaster. Telecommunications • Private	0.4	0.4	0	**0.4**
ProCredit Bank Armenia	Establishment of a dedicated microfinance bank in Armenia. Small business finance • Private • FI	2.1	0	2.1	**2.1**
Regional Trade Facilitation Programme	Support for foreign trade through Agricultural Cooperative Bank of Armenia, Armeconombank and Inecobank. Bank lending • Private • FI	2.0	2.0	0	**2.0**

Azerbaijan

Project	Description	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Azerbaijan Multi Bank Framework *Credit line*	Credit line to Azerigazbank, Bank of Baku, Bank Respublika, Mugan Bank and Nikoil Bank for on-lending to micro, small and medium-sized businesses. Small business finance • Private • FI	14.0	11.6	0	**11.6**
Azerdemiryol Bank	Equity investment in private joint-stock bank. Bank equity • Private • FI	1.1	0	1.0	**1.0**
AzDRES	Modernisation of power plant supplying the majority of energy consumed in Azerbaijan. Power and energy • State • B/1	63.0	63.0	0	**63.0**
Bank Respublika	Loan to help the bank's expansion and development programme. Bank lending • Private • FI	16.3	4.1	0	**4.1**
ETC Non-bank Microfinance Institution Framework *Shore Overseas*	Credit line to increase financing available to the smallest enterprises through on-lending. Small business finance • Private • FI	1.4	1.4	0	**1.4**
ETC Non-bank Microfinance Institution Framework II *Credagro*	Credit line to increase financing available to the smallest enterprises through on-lending. Small business finance • Private • FI	2.0	1.8	0	**1.8**

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Medium-sized Loan Co-financing Facility				
Credit line	1.5	1.5	0	**1.5**
Loan to Azerdemiryolbank and Bank of Baku to expand their lending activities to medium-sized companies. Bank lending • Private				
Azerdemiryolbank	0.7	0.4	0	**0.4**
Loan to SABA, an Azeri ice cream producer, to help construct new premises and purchase new refrigerated delivery vehicles. Agribusiness • Private				
Bank of Baku	2.7	1.4	0	**1.4**
Loan to Baku Electronics for construction of a warehouse, showroom and administrative building. Manufacturing • Private				
Bank of Baku	0.7	0.3	0	**0.3**
Loan to Avrora to help with the acquisition of new equipment for the production of biscuits. Agribusiness • Private				
Unibank	1.2	0.4	0	**0.4**
Loan to Caspian supplies to finance construction of a production hall and warehouse, as well as working capital financing. Manufacturing • Private				
Milk-Pro	0.3	0	0.3	**0.3**
Construction of new dairy processing plant in Baku and modernisation of plant in Goychay. Agribusiness • Private • B/1				
Unibank	2.6	0	2.6	**2.6**
Equity investment in Unibank. Bank equity • Private • FI				
Unibank III	23.8	5.9	0	**5.9**
Third syndicated loan to Unibank. Bank lending • Private • FI				
Unileasing (Equity)	0.5	0	0.5	**0.5**
Equity investment in an Azeri leasing company. Non-bank financial institutions • Private • FI				
Unileasing	2.0	2.0	0	**2.0**
Loan to Unileasing, an Azeri leasing company. Non-bank financial institutions • Private • FI				
Regional Trade Facilitation Programme	24.0	24.0	0	**24.0**
Support for foreign trade through Azerdermiyrol Bank, Azerigazbank, Bank of Baku, Bank Respublika, Mugan Bank and UniBank. Bank lending • Private • FI				

Belarus

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Belarusian Bank for Small Business	5.5	0	1.8	**1.8**
Equity investment in Belarusian Bank for Small Business. Small business finance • Private • FI				
Belarus MSE Financing Facility				
Credit line	12.2	12.2	0	**12.2**
Credit lines to Belgazprombank, MinskTransit Bank and Reconversion and Development Bank for on-lending to micro and small businesses. Bank lending • Private • FI				
SME credit line	5.4	5.4	0	**5.4**
Credit lines to Belrosbank and MinskTransit Bank for on-lending to micro and small businesses. Small business finance • Private • FI				
Priorbank Funding Facility	48.0	10.2	0	**10.2**
Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI				
Regional Trade Facilitation Programme	16.0	16.0	0	**16.0**
Support for foreign trade through Priorbank and Minsk Transit Bank. Bank lending • Private • FI				

Bosnia and Herzegovina

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Bijeljina waste-water collection system	7.0	7.0	0	**7.0**
Construction of waste-water collection network to prevent pollution of the aquifer. Municipal infrastructure • State • B/1				
ISO and TRANSCO	20.0	15.9	0	**15.9**
Supply and installation of electricity transmission system that will facilitiate power trade in the region. Power and energy • State • C/0				
Primary road network upgrade	75.0	75.0	0	**75.0**
Upgrade and reconstruction of sections of the primary road network. Transport • State • B/1				
Raiffeisen Bank	10.0	10.0	0	**10.0**
Loan for on-lending to the SME and retail sectors. Bank lending • Private • FI				
Uniqa Osiguranje	1.6	0	1.6	**1.6**
Acquisition of a 20 per cent equity stake in Uniqa Osiguranje Bosnia. Non-bank financial institutions • Private • FI				
UPI Banka	0.9	0.9	0	**0.9**
Equity investment to support an increase in commercial lending activities, expansion of branches and IT system development. Bank equity • Private • FI				
Western Balkans Local Enterprise Facility				
Suica Terni	1.1	1.1	0	**1.1**
Construction of a greenfield plant for the production of wood pellets. Manufacturing • Private • C/0				
VF Komerc	4.0	4.0	0	**4.0**
Long-term loan to finance real estate operations. Agribusiness • Private • IEE				
Western Balkans SME Framework				
Raiffeisen Leasing	5.0	5.0	0	**5.0**
Credit line for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI				
Western Balkans MSME Framework	20.9	17.0	0	**17.0**
Credit line to Mi-Bospo, Prizma, Partner and Sunrise for on-lending to micro and small businesses. Small business finance • Private • FI				
Regional Trade Facilitation Programme	3.0	3.0	0	**3.0**
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)
Bulgarian ESCO Fund (BEF)	7.0	7.0	0	**7.0**
Loan to facilitate energy efficiency improvements. Manufacturing • Private • C/0				
Energy Efficiency and Renewable Energy Credit Line *Piraeus Bank*	5.0	5.0	0	**5.0**
Credit line for residential energy efficiency improvements. Bank lending • Private • FI				
Unionbank	5.0	5.0	0	**5.0**
Credit line to Unionbank for on-lending to improve energy efficiency. Bank lending • Private • FI				
EU/EBRD SME Finance Facility *Piraeus Bank*	15.0	5.0	0	**5.0**
Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI				
SME credit line	10.0	10.0	0	**10.0**
Credit line to Piraeus Leasing Bulgaria and Raiffeisen Leasing for on-lending to small and medium-sized businesses. Non-bank financial institutions • Private • FI				
EU/EBRD Rural Finance Facility *Raiffeisen Bank*	10.0	5.0	0	**5.0**
Credit line for on-lending to rural customers. Bank lending • Private • FI				
EU/EBRD Municipal Finance Facility *Piraeus Bank*	5.0	2.5	0	**2.5**
Credit line under the municipal finance facility. Bank lending • Private • FI				
EU Energy Efficiency Framework *Unicredit Bulbank*	15.0	15.0	0	**15.0**
Loan for on-lending to improve energy efficiency. Bank lending • Private • FI				
United Bulgarian Bank	5.0	5.0	0	**5.0**
Loan for on-lending to improve energy efficiency. Bank lending • Private • FI				
Plovdiv water	11.4	11.4	0	**11.4**
Investment to improve water and waste-water facilities in Plovdiv. Municipal infrastructure • State • B/1				
Project Toronto	8.1	0	8.1	**8.1**
Equity investment in Svilosa pulp mill. Manufacturing • Private • C/1				
Stara Zagora Water	10.9	9.0	0	**9.0**
Investment to upgrade water supply infrastructure. Municipal infrastructure • State • B/1				
Telelink	0.1	0	0.1	**0.1**
Financing geographic expansion of an information technology and telecommunications service. Telecommunications • Private • C/1				
Unionbank	0.8	0	0.8	**0.8**
Acquisition of a 15 per cent equity stake in Unionbank. Bank equity • Private • FI				
US/EBRD SME Finance Facility *ProCredit Bank Bulgaria*	1.0	0	1.0	**1.0**
Equity investment in ProCredit Bank Bulgaria and financing for micro and small enterprises. Small business finance • Private • FI				
Vez Svoghe	80.8	34.0	0	**34.0**
Financing the construction of nine small hydro power plants. Power and energy • Private • A/0				
Wienerberger Bulgaria	9.0	6.8	0	**6.8**
Expansion and modernisation of a brick-making plant. Manufacturing • Private • A/0				

Croatia

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
EU/EBRD SME Finance Facility *Erste 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				
Raiffeisen Bank	10.0	10.0	0	**10.0**
Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • B/0				
Getro	28.8	28.8	0	**28.8**
Syndicated loan to finance Getro's expansion in Croatia. Agribusiness • Private • B/1				
Ploče port	78.2	11.2	0	**11.2**
Finance for civil works and supply of heavy lift cranes for work to Ploče port's new bulk terminal. Transport • State • A/1				
Zagreb water	60.0	30.0	0	**30.0**
Upgrade and expansion of water and waste-water infrastructure. Municipal infrastructure • State • B/1				

FYR Macedonia

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Western Balkans Local Enterprise Facility *Vitaminka Prilep*	4.0	3.2	0	**3.2**
Loan to finance the purchase of packaging and production lines. Agribusiness • Private • C/0				
Vitalia	1.0	0	0.7	**0.7**
Loan to help Vitalia further expand on the Macedonian as well as new, regional markets, develop new branded products and strengthen its direct distribution network. Agribusiness • Private • IEE				
Western Balkans MSME Framework *Moznosti*	3.0	3.0	0	**3.0**
Local currency guarantee facility. Small business finance • Private • FI				
Regional Trade Facilitation Programme	3.5	3.5	0	**3.5**
Support for foreign trade through Komercijalna Banka and Tutunska Bank. Bank lending • Private • FI				

Georgia

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Bank Republic (Equity) Equity investment to support growth in the sixth largest Georgian bank. Bank equity • Private • FI	0.7	0	0.7	**0.7**
Bank Republic (Mortgage) Loan for on-lending to individuals as mortgage finance. Bank lending • Private • FI	2.7	2.7	0	**2.7**
Caucasus Energy Efficiency Programme Credit line to Cartu Bank and TBC Bank for on-lending to energy efficiency projects. Bank lending • Private • FI	6.8	6.8	0	**6.8**
Direct Investment Facility *Alfapet* Investment in a plastics producer. Manufacturing • Private	0.1	0	0.1	**0.1**
Georgian Financial Sector Framework *Basis Bank* Loan for on-lending to micro, small and medium-sized enterprises. Bank lending • Private • FI	4.0	2.0	0	**2.0**
Bank Republic Loan for on-lending to micro and small enterprises. Small business finance • Private • FI	8.1	8.1	0	**8.1**
Cartu Bank Loan for on-lending to small and medium-sized enterprises. Bank lending • Private • FI	5.0	2.0	0	**2.0**
TBC Bank Loan for on-lending to small and medium-sized enterprises. Bank lending • Private • FI	8.0	4.0	0	**4.0**
Georgian Property Debt Framework *Green Building* Conversion of an historic building in Tbilisi for office use. Property and tourism • Private • B/1	3.8	2.3	0	**2.3**
Tbilisi Central Train Station Loan to finance the refurbishment of Tbilisi's central train station. Property and tourism • Private • B/1	5.8	5.8	0	**5.8**
Georgian Property Fund Equity investment in Georgian real estate investment vehicle. Property and tourism • Private • FI	98.6	0	10.8	**10.8**
Medium-sized Loan Co-financing Facility *Bank Republic* Loans for on-lending to Begi flour mill. Agribusiness • Private	4.6	4.6	0	**4.6**
Bank Republic Construction of a new private hospital for MediClub Georgia. Property and tourism • Private	1.7	1.7	0	**1.7**
TBC Bank Loans for on-lending to Tsiskvilkombinati flour mill. Agribusiness • Private	5.1	5.1	0	**5.1**
TBC Bank Loan to Embawood to set up a furniture manufacturing facility. Manufacturing • Private	0.7	0.7	0	**0.7**
TBC Bank Finance for new can filling line and working capital expansion at a Coca Cola plant. Agribusiness • Private	4.1	4.1	0	**4.1**
TBC Bank Loan to Wissol to expand its network of petrol stations. Natural resources • Private	4.0	4.0	0	**4.0**
TBC Bank Loan to assist in the expansion of Goodwill hypermarket network. Agribusiness • Private	5.0	5.0	0	**5.0**
ProCredit Bank Georgia Syndicated loan to ProCredit Georgia for on-lending to micro and small-sized enterprises. Small business finance • Private • FI	10.2	5.4	0	**5.4**
Regional Trade Facilitation Programme Support for foreign trade through Bank of Georgia, Cartu Bank and TBC Bank. Bank lending • Private • FI	50.0	50.0	0	**50.0**

Hungary

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
EU/EBRD Rural Finance Facility *SG Equipment Finance Hungary* Funding for leases to farms and small enterprises for up to €250,000 in rural areas of Hungary. Non-bank financial institutions • Private • FI	5.0	5.0	0	**5.0**
HospInvest Capital increase in Hungary's first hospital management company. Manufacturing • Private • C/1	4.0	0	4.0	**4.0**
Winterthur Multi-project Facility *Biztosito* Fourth capital increase in Winterthur's Hungarian insurance company. Non-bank financial institutions • Private • FI	3.4	0	3.4	**3.4**
Penztarszolgaltato Third capital increase for life insurance company. Non-bank financial institutions • Private • FI	0.8	0	0.8	**0.8**

Kazakhstan

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Accumulation Pension Fund (GNPF) Acquistion of a 20 per cent equity state in pension fund before privatisation. Non-bank financial institutions • State • FI	1.4	0	1.4	**1.4**
Bank Caspian Loan for on-lending to micro, small and medium-sized enterprises. Bank lending • Private • FI	40.1	40.1	0	**40.1**
Bank Center Credit Credit line for on-lending as residential mortgages. Bank lending • Private • FI	2.7	2.7	0	**2.7**
Bautino Atash Marine and Supply Base Loan and equity investment to assist in construction of a supply base catering for offshore oilfield operators. Natural resources • Private • A/0	9.5	2.7	6.8	**9.5**
Derbes Brewery Loan to improve production, marketing and distribution activities. Agribusiness • Private • C/1	45.0	17.6	0	**17.6**
Efes Kazakhstan Local currency loan to finance expansion. Agribusiness • Private • B/1	29.3	29.3	0	**29.3**

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Karcement	14.9	14.9	0	**14.9**
Expansion and modernisation of Karaganda cement plant. Manufacturing • Private • B/1				
KazInvestBank	15.0	0	15.0	**15.0**
Support for regional expansion and development of retail and SME lending activities. Bank equity • Private • FI				
Kazakhstan Kagazy	47.0	26.8	0	**26.8**
Loans to complete the restructuring and expansion of a paper business. Manufacturing • Private • B/1				
Kazkommertsbank	203.9	70.0	0	**70.0**
Syndicated loan to diversify lending activities into mortgage financing. Bank lending • Private • FI				
Kazakhstan Small Business Programme II *KazMicroFinance*	2.0	1.0	0	**1.0**
Local currency loan for on-lending to small businesses. Small business finance • Private • FI				
K Mobile	10.2	10.2	0	**10.2**
Loan to finance network expansion. Telecommunications • Private • C/1				
Mittal Steel Temirtau	68.0	68.0	0	**68.0**
Loan for improvements to health and safety. Manufacturing • Private • B/1				
Pavlodar Energo	20.4	20.4	0	**20.4**
Loan to finance refurbishment of energy production facilities in northern Kazakhstan. Power and energy • Private • B/1				
Soufflet Multi-project Facility *Kazakhstan ACL 2007*	5.5	5.5	0	**5.5**
Financing of barley for malt production. Agribusiness • Private • C/0				
Regional Trade Facilitation Programme	123.0	123.0	0	**123.0**
Support for foreign trade through Alliance Bank, Bank Caspian, Bank Center Credit, KazInvestBank and Kazkommertsbank. Bank lending • Private • FI				

Kyrgyz Republic

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Direct Lending Facility *Orion Hotels*	1.4	1.4	0	**1.4**
Financing construction of an office complex in central Bishkek. Property and tourism • Private				
ETC Non-Bank Microfinance Institution Framework II *Bai Tushum*	1.4	1.4	0	**1.4**
Guarantee facility. Small business finance • Private • FI				
Frontiers	0.7	0.7	0	**0.7**
Loan to support micro enterprises in Kyrgyz Republic. Small business finance • Private • FI				
Kompanion	0.7	0.7	0	**0.7**
Credit line for on-lending to micro, small and medium-sized businesses. Small business finance • Private • FI				
Kyrgyz Financial Sector Framework *Kyrgyz Investment and Credit Bank*	1.4	1.4	0	**1.4**
Loan to KICB for on-lending to residential mortgage customers. Bank lending • Private • FI				
Kyrgyz Investment and Credit Bank	2.0	2.0	0	**2.0**
Loan to KICB to encourage tourism opportunities for small businesses. Bank lending • Private • FI				
Kyrgyz Investment and Credit Bank	0.2	0	0.2	**0.2**
Loan to KICB for on-lending to small businesses. Bank equity • Private • FI				
Kyrgyz MSE Financing Facility II *Kazkommertsbank*	3.0	1.4	0	**1.4**
Loan for on-lending to micro, small and medium-sized enterprises. Small business finance • Private • FI				
Medium-sized Loan Co-financing Facility *Kyrgyz Investment and Credit Bank*	1.4	0.7	0	**0.7**
Financing the expansion of the Silk Road lodge hotel. Property and tourism • Private				
Regional Trade Facilitation Programme	1.3	1.3	0	**1.3**
Support for foreign trade through Ineximbank and Kyrgyz Investment and Credit Bank. Bank lending • Private • FI				

Latvia

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Riga Water Company	0.4	0.4	0	**0.4**
Loan to Riga water company for a leakage reduction programme. Municipal infrastructure • State • B/0				

Lithuania

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
E-Energia	15.0	7.5	0	**7.5**
Expansion of district heating activities in Lithuania. Municipal infrastructure • Private • B/0				
Siauliu Bankas	4.3	0	4.3	**4.3**
Equity investment in SME-focused local bank. Bank equity • Private • FI				

Moldova

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Banca Sociala	5.0	5.0	0	**5.0**
Second credit line for on-lending to SMEs. Bank lending • Private • FI				
ETC Non-Bank Microfinance Institution Framework II *Microinvest*	0.7	0.7	0	**0.7**
Credit line for on-lending to micro and small businesses. Small business finance • Private • FI				
Moldova Microlending Framework *Banca Sociala*	2.0	2.0	0	**2.0**
Credit line for on-lending to micro and small businesses. Small business finance • Private • FI				
Mobiasbanca	0.7	0.7	0	**0.7**
Credit line for on-lending to micro and small businesses. Small business finance • Private • FI				

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Moldova road upgrading Loan to finance improvements to the road network and institutional strengthening. Transport • State • B/1	90.0	12.5	0	**12.5**
SUN Communications Equity investment and loan to support expansion. Telecommunications • Private • C/0	10.6	3.6	1.9	**5.5**
Regional Trade Facilitation Programme Support for foreign trade through Banca Sociala and Mobiasbanca. Bank lending • Private • FI	6.7	6.7	0	**6.7**

Mongolia

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Direct Investment Facility *Australian Independent Diamond Drilling* Financing the purchase of two new drilling rigs. Natural resources • Private	4.0	0	4.0	**4.0**
Minii Delgur Development of leading retailer in Ulaanbaatar through expansion of shop network. Agribusiness • Private	6.0	0	6.0	**6.0**
Direct Loan Facility *Vitafit* Financing for a new production line for a juice producer. Agribusiness • Private	1.5	1.5	0	**1.5**
Mongolian Financial Sector Framework *Xac Bank* Equity investment to encourage lending to small and medium-sized enterprises. Small business finance • Private • FI	1.6	0	1.6	**1.6**
Khan Bank Credit line for on-lending to micro, small and medium-sized businesses. Small business finance • Private • FI	6.8	6.8	0	**6.8**
MAK Loan to mining company. Natural resources • Private • B/1	14.0	14.0	0	**14.0**

Montenegro

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Montenegro rail infrastructure Support for the upgrading of railway infrastructure. Transport • State • B/1	30.0	6.0	0	**6.0**
Montenegro regional water supply Construction of a regional water supply network. Municipal infrastructure • State • B/1	22.0	8.0	0	**8.0**
NLB Montenegrobanka Capital increase to support further growth. Bank equity • Private • FI	0.4	0.4	0	**0.4**
Western Balkans MSME Framework *Alter Modus III* Further loan to Alter Modus for on-lending to micro, small and medium-sized enterprises. Small business finance • Private • FI	1.5	1.5	0	**1.5**

Poland

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Avallon Investment in a private equity firm. Equity funds • Private • FI	12.0	0	12.0	**12.0**
Celsa Huta Ostrowiec II Loan for expansion and modernisation of a steel mill. Manufacturing • Private • B/1	157.9	78.0	0	**78.0**
Hotel Atrium Standby facility for Polish hotel. Property and tourism • Private • B/0	10.0	10.0	0	**10.0**

Romania

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Banca Transilvania Equity investment in Romanian bank. Bank equity • Private • FI	6.0	0	6.0	**6.0**
E.ON Energie Romania Equity participation in a power distribution project. Power and energy • Private • C/1	11.0	0	11.0	**11.0**
E.ON Gaz Romania Holding Equity participation in a gas and electricity distribution companies. Power and energy • Private • C/1	33.0	0	33.0	**33.0**
EU/EBRD Rural Finance Facility *Banca Transilvania* Funds for long-term lending to rural customers. Bank lending • Private • B/1	10.0	3.0	0	**3.0**
Casa de Economii si Consemnatiuni Funds for on-lending to rural small businesses. Bank lending • Private • FI	10.0	10.0	0	**10.0**
Bank Leumi Romania Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI	10.0	3.0	0	**3.0**
Global Trade Centre (Regional retail centres) Loan for the acquisition, development and management of commercial centres. Property and tourism • Private • B/1	96.0	16.3	0	**16.3**
Iasi Public Transport Finance for the renovation of tram and other public transport infrastructure in Iasi. Municipal infrastructure • State • B/1	20.0	10.0	0	**10.0**
Kaufland Romania Financing for Kaufland's expansion programme in Romania. Agribusiness • Private • B/1	306.0	100.0	0	**100.0**
Oradea water and waste water Renovation of water and waste-water facilities. Municipal infrastructure • State • B/0	48.8	4.0	0	**4.0**
Posta Romana Finance for modernisation of postal facilities including a new automated sorting centre. Telecommunications • State • B/1	60.0	30.0	0	**30.0**
Romania Micro Credit Framework *Banca Transilvania* Funds for on-lending to micro and small businesses. Small business finance • Private • FI	15.0	4.0	0	**4.0**

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Express Finance Loan for on-lending to small and medium-sized enterprises. Small business finance • Private • FI	1.9	0.8	0	**0.8**
Opportunity Microcredit Romania Credit line for on-lending to small and medium-sized businesses. Small business finance • Private • FI	1.0	1.0	0	**1.0**
RZB leasing Credit to improve leasing facilities for SMEs. Non-bank financial institutions • Private • FI	15.0	8.0	0	**8.0**
Soufflet Multi-project Facility *Malt Romania* Funds for construction of a malt house. Agribusiness • Private • C/0	58.7	20.0	0	**20.0**
Timisoara Aquatim Financing for renovation of water and waste-water infrastructure. Municipal infrastructure • State • B/0	50.6	6.5	0	**6.5**
Transgaz Carbon Credit Finance for an energy efficiency and environmental management project. Natural resources • State • C/1	0.8	0	0.8	**0.8**
Regional Trade Facilitation Programme Support for foreign trade through Compania de Factoring. Bank lending • Private • FI	4.6	4.6	0	**4.6**

Russia

Project	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
AHML Residential Investment in the first public issue of residential mortgage-backed securities in Russia. Non-bank financial institutions • Private • FI	7.3	7.3	0	**7.3**
AR Carton Modernisation of carton packaging firm. Manufacturing • Private • B/1	18.0	9.0	0.0	**9.0**
Bank Kazansky Loan for on-lending to small and medium-sized enterprises. Bank lending • Private • FI	7.0	3.6	0	**3.6**
Bank Kedr Loan for on-lending to small and medium-sized enterprises. Bank lending • Private • FI	11.0	5.6	0	**5.6**
ChTPZ Group Modernisation Loan to refinance existing loans and to fund the construction of a finishing centre at Pervoural. Manufacturing • Private • B/1	135.0	40.0	0	**40.0**
ChTPZ Steel Loan to construct a steel plant to produce components for pipes. Manufacturing • Private • A/1	450.5	76.9	0	**76.9**
Center Invest Bank Credit line to finance mortgages, energy efficiency loans and small and medium-sized business loans. Bank lending • Private • FI	27.8	13.9	0	**13.9**
Daido Metal Russia Loan to help finance the purchase of an existing auto parts manufacturer in Nizhny Novgorod. Manufacturing • Private • B/1	13.8	3.6	0	**3.6**
DeltaCredit Bank Securitisation of residential mortgages. Non-bank financial institutions • Private • FI	6.8	6.8	0	**6.8**
Element Leasing Loan to help develop leasing to small and medium-sized enterprises. Non-bank financial institutions • Private • FI	6.8	6.8	0	**6.8**
Enforta Loan and equity investment to enable provision of broadband services to Russian regions. Telecommunications • Private • C/1	7.4	3.4	4.4	**7.4**
Guardian Russia Loan to finance greenfield construction of a glass production plant in Ryazan. Manufacturing • Private • B/1	172.3	59.7	0	**59.7**
ING Life Insurance Russia Equity investment in ING life insurance Russia. Non-bank financial institutions • Private • FI	3.0	0	0.8	**0.8**
Inpromleasing Leasing of rolling stock to private rail operators. Transport • Private • FI	106.8	38.5	0	**38.5**
Independent Leasing Long-term loan to help develop the Russian leasing sector. Non-bank financial institutions • Private • FI	17.3	17.3	0	**17.3**
KMB Bank Investment to allow the bank to meet continuously high demand from small and medium-sized enterprises. Small business finance • Private • FI	9.0	9.0	0	**9.0**
Kazan water and waste water Loan to Kazan city for upgrading of water and waste-water facilities. Municipal infrastructure • State • B/1	12.9	9.7	0	**9.7**
Lenta Hypermarkets III Equity investment to promote further expansion of the hypermarket chain. Agribusiness • Private • C/1	93.0	0	93.0	**93.0**
MDM Bank Loan to help expand retail activities, extend longer-term funding and increase small business lending. Bank lending • Private • FI	203.8	70.0	0	**70.0**
NBD Bank Credit line for on-lending to small and medium-sized businesses. Bank lending • Private • FI	13.6	3.4	0	**3.4**
Norum Russia III Fund Equity fund investing in private companies operating in Russia and the CIS. Equity funds • Private • FI	56.0	0	50.0	**50.0**
OAO Autocrane Loan to enable company to improve corporate governance and business practices. Manufacturing • Private • B/1	27.1	13.6	0	**13.6**
OAO Severstal Loan for energy efficiency improvements. Manufacturing • Private • B/1	300.0	150.0	0	**150.0**
Orgresbank Equity investment to help regional expansion and development of small and medium-sized enterprise lending. Bank equity • Private • FI	32.8	0	32.8	**32.8**

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Primsotsbank	8.4	0	4.2	**4.2**
Support for a bank based in Russia's Far East, enabling it to expand and develop its small business lending programme. Bank equity • Private • FI				
Private Equity Fund Co-Investment Facility *Hansastroi*	45.2	0	5.0	**5.0**
Equity investment in a real estate company in St Petersburg. Manufacturing • Private • C/1				
Project Rust/Vyso	8.0	0	3.4	**3.4**
Equity investment to support the launch of new corrosion protection services for oil and gas platforms. Manufacturing • Private • B/1				
Project Volga	10.0	10.0	0	**10.0**
Support for construction of a manufacturing facility to make the influenza vaccine. Manufacturing • Private • B/0				
Promsvyazbank	204.0	57.8	0	**57.8**
Syndicated loan to help one of Russia's largest private banks to expand its retail activities, extend longer-term funding and increase small business lending. Bank lending • Private • FI				
Regional Venture Funds	1.4	0	1.4	**1.4**
Equity investments in medium-sized enterprises in north-west and west Russia. Equity funds • Private • FI				
Renaissance Insurance	3.3	0	3.3	**3.3**
Equity participation to help develop Russia's financial markets and broaden the range of services available to the public. Non-bank financial institutions • Private • FI				
RESO Insurance	111.7	0	111.7	**111.7**
Equity investment to support the group's expansion of its core insurance activities and to help with the continued growth of its operations across Russia. Non-bank financial institutions • Private • FI				
Rosmorport	65.0	54.3	0	**54.3**
Finance for upgrading of the auxiliary fleet and to enable the port to adjust to new fee structures. Transport • State • C/1				
Russian Regional Jet	1,348.0	100.0	0	**100.0**
Finance for the purchase of equipment and to support the upgrade of production facilities, as well as the production and sale of aircraft. Transport • Private • B/1				
Russia Small Business Fund	83.0	47.0	0	**47.0**
Credit line to Absolut Bank, Center-Invest Bank, Chelindbank, Locko Bank, NBD Bank, Probusiness Bank, RosevroBank, Spurt Bank, Transcapital Bank, Uraltransbank and Vostochny Express Bank for on-lending to small and medium-sized businesses. Small business finance • Private • FI				
SKB Bank	16.7	16.7	0	**16.7**
Loan to finance development and expansion. Bank lending • Private • FI				
SKB Bank (Equity)	25.9	0	25.9	**25.9**
Equity investment to support the expansion of operations with private sector small and medium-sized enterprises and retail customers in the Urals region. Bank equity • Private • FI				
Saratov shopping centre	54.2	17.7	0	**17.7**
Finance for the development, construction and start-up costs of Saratov Shopping Centre. Property and tourism • Private • B/1				
Sky Express	5.4	5.4	0	**5.4**
Investment in new low-cost airline. Transport • Private • C/1				
Soufflet Multi-project Facility *Agro Rus ACL 2007*	5.5	5.5	0	**5.5**
Local currency working capital financing of barley for malt production. Agribusiness • Private • C/0				
Spurt Bank	14.1	0.0	14.1	**14.1**
Equity investment to help strengthen Spurt Bank's capital, bolster its position in its home market as well as finance its strategy of regional expansion. Bank equity • Private • FI				
SREI Leasing	11.0	5.0	1.4	**6.4**
Financing to help the company to increase its leasing portfolio and reach more local small and medium-sized companies in Russia. Non-bank financial institutions • Private • FI				
Stora Enso Multi-project Facility	23.1	5.8	0	**5.8**
Greenfield construction of packaging plant in Balbanovo. Manufacturing • Private • B/(MPF)				
Subordinated Loan Framework for Russian Mid-sized Banks *Locko Bank*	13.6	13.6	0	**13.6**
Loan to finance development and expansion. Bank lending • Private • FI				
Sumitomo Leasing	0.1	0.1	0	**0.1**
Finance for leasing of bulldozers to ZAO Chernigovets. Manufacturing • Private • FI				
Surgut housing	37.3	19.5	0	**19.5**
Loan to fund urban renewal and lay the foundations for major transformation of the housing stock in Siberian city of Surgut. Municipal infrastructure • State • B/1				
TGK-9	139.1	0	139.1	**139.1**
Support for the enhancement of energy efficiency in generation, upgrade of infrastructure and industrial growth. Power and energy • Private • C/1				
Taganrog Teploenergo	3.7	0	3.7	**3.7**
Equity participation to support the upgrade of district heating infrastructure and increase energy efficiency. Municipal infrastructure • Private • B/1				
TransContainer	134.0	0	134.0	**134.0**
Equity stake in Russia's largest rail container operator. Transport • State • C/1				
Ufa glass packaging plant	10.0	10.0	0	**10.0**
Loan to finance construction of a bottling plant near Ufa. Agribusiness • Private • B/1				
Ufa waste water	18.5	13.9	0	**13.9**
Loan to finance priority capital investments to improve the water and waste-water infrastructure and services, thus decreasing the level of pollution reaching the Volga River and the Caspian Sea. Municipal infrastructure • State • B/1				

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Viatra II Support for restructuring and consolidation of the outdoor advertising sector and expansion of the overall advertising industry in Russia. Telecommunications • Private • C/1	5.1	0	5.1	**5.1**
Vostochny Express Credit line for mortgage lending in Russia's Far East. Bank lending • Private • FI	11.0	5.6	0	**5.6**
Volkswagen Rus Loan to Volkswagen Rus for construction of an auto production plant near Kaluga. Manufacturing • Private • B/1	727.6	145.5	0	**145.5**
VTB Venture Capital fund Equity investment to stimulate the commercial development of advanced and innovative technologies. Equity funds • Private • FI	17.0	0	17.0	**17.0**
Wienerberger Russia II Financing the construction of a brick manufacturing plant near Kazan. Manufacturing • Private • FI	4.0	4.0	0	**4.0**
Regional Trade Facilitation Programme Support for foreign trade through Absolut Bank, Bank Kazansky, Center-Invest Bank, Chelindbank, Credit Bank of Moscow, Locko Bank, MDM Bank, NBD Bank, Probusiness Bank, Promsvyazbank, Rosbank, Transcapital Bank, URSA Bank and Uraltransbank. Bank lending • Private • FI	227.0	227.0	0	**227.0**

Serbia

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Belgrade Highway and Bypass Project Loan to upgrade infrastructure and reduce traffic flow problems. Transport • State • A/1	285.6	80.0	0	**80.0**
Global Trade Centre (Office) Development of office buildings for local and international tenants. Property and tourism • Private • B/1	30.7	10.7	0	**10.7**
HVB Group Debt Facility Framework *BACA – UniCredit Bank Serbia Mortgage Loan III* Support for mortgage lending in Serbia. Bank lending • Private • FI	5.0	5.0	0	**5.0**
Nectar Support for the expansion of the company's distribution network. Agribusiness • Private • C/1	10.0	10.0	0	**10.0**
Project Cable Europa Equity investment in telecommunications firm. Telecommunications • Private • C/1	9.6	0	9.6	**9.6**
Privredna Banka Beograd Loan to support mortgage lending in Serbia. Bank lending • Private • FI	10.0	5.0	0	**5.0**
ProCredit Bank Serbia Credit line for on-lending to small and medium-sized businesses. Small business finance • Private • FI	1.8	0	1.8	**1.8**
Srpske Kablovske Mreze (SBB) Equity funding for telecoms operator to enable expansion of its network and introduction of new services such as broadband. Telecommunications • Private • C/1	3.5	3.5	0	**3.5**
Victoria Group (Sojaprotein) Loan for the purchase of agricultural commodities and energy efficiency improvements. Agribusiness • Private • C/1	45.0	45.0	0	**45.0**
Western Balkans SME Framework *Metals Banka* Loan for on-lending to small and medium-sized enterprises. Bank lending • Private • FI	3.5	3.5	0	**3.5**
Raiffeisen Leasing Loan to increase leasing opportunities for small and medium-sized companies. Non-bank financial institutions • Private • FI	5.0	5.0	0	**5.0**
Western Balkans Local Enterprise Facility *Pestova* Equity stake to support expansion of a potato producer and processor. Agribusiness • Private • C/0	1.9	0	1.3	**1.3**
Western Balkans MSME Framework *Kosovo Enterprise Programme* Loans for on-lending to micro, small and medium-sized enterprises. Small business finance • Private • FI	3.0	3.0	0	**3.0**
Regional Trade Facilitation Programme Support for foreign trade through Cacanska Banka, Metals Banka, Privredna Banka and Raiffeisen Bank. Bank lending • Private • FI	0.9	0.9	0	**0.9**

Slovak Republic

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Slovak Energy Efficiency Financing Framework Credit line to Dexia Banka, Slovenska Sporitelna, Tatra Bank and Vseobecna Uverova Banka for on-lending for energy efficiency and renewable energy investments. Bank lending • Private • FI	60.0	60.0	0	**60.0**

Slovenia

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Nova Ljubljanska Banka Investment as part of the bank's privatisation, enabling it to expand its regional coverage. Bank equity • Private • FI	5.0	5.0	0	**5.0**
Prva Group Funds for the establishment and expansion of Prva's pension fund and asset management subsidiaries in south-eastern Europe and later in the CIS. Non-bank financial institutions • Private • FI	8.0	0	8.0	**8.0**

Tajikistan

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Direct Lending Facility *Geha Tomato Paste Factory* Working capital loan to allow purchase of tomatoes from local farmers. Agribusiness • Private • C/0	8.0	0.7	0	**0.7**
LAL Financing for the upgrading and expansion of container glass production. Agribusiness • Private • IEE	1.4	1.4	0	**1.4**
Komron-Agro-Holding II Finance for the purchase of ice cream making equipment. Agribusiness • Private • A/0	2.0	0.8	0	**0.8**
Road Maintenance Development Finance for essential maintenance work on the Tajik road network. Transport • State • C/1	4.4	2.7	0	**2.7**
Tajik Agricultural Financing Facility Credit line to Agroinvestbank, Eskhata Bank and Tojiksodirot Bank (TSOB) for on-lending to local farmers as seasonal finance. Small business finance • Private • FI	7.3	5.3	0	**5.3**
Tajik MSE Financing Facility II Credit line to Agroinvestbank and First Microfinance Bank Tajikistan for on-lending to micro and small businesses. Small business finance • Private • FI	10.0	6.1	0	**6.1**
Regional Trade Facilitation Programme Support for foreign trade through Agroinvestbank, Eskhata Bank, Tajik Sodirot Bank and Tajprombank. Bank lending • Private • FI	8.7	8.7	0	**8.7**

Ukraine

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Agroinvest Loan for the construction of production facilities. Agribusiness • Private • C/1	10.0	10.0	0	**10.0**
Bosch Facility II Loan for the expansion of auto service workshops across Ukraine. Manufacturing • Private • C/0	6.0	5.0	0	**5.0**
Cadogan Petroleum Equity investment to support the exploration and development of deep gas fields. Natural resources • Private • B/1	15.0	0	11.0	**11.0**
Cantik Finance for the development and construction of six retail centres across the country. Property and tourism • Private • B/1	56.3	0	11.3	**11.3**
Cersanit Cypr Loan to finance construction of new sanitary ware and ceramic tile production facilities. Manufacturing • Private • B/1	41.6	13.9	0	**13.9**
Cersanit Invest Loan to finance construction of new sanitary ware and ceramic tile production facilities. Manufacturing • Private • B/0	99.0	40.4	0	**40.4**
Direct Investment Facility *Ukram Industries* Loan for production and pre-production stage. Manufacturing • Private	2.1	2.1	0	**2.1**
Euroventures Ukraine Provision of equity capital to assist in the expansion of local businesses. Equity funds • Private • FI	0.6	0	0.6	**0.6**
Forum Bank (Mortgage) Loan to support mortgage lending in Ukraine. Bank lending • Private • FI	14.0	6.8	0	**6.8**
Forum Bank (SME) Syndicated loan for on-lending to small and medium-sized enterprises. Bank lending • Private • FI	82.2	8.2	0	**8.2**
Galnaftogaz Finance for the expansion of the company's network of OKKO petrol stations. Natural resources • Private • B/1	135.9	34.0	0	**34.0**
IKEA Ukraine Support for construction of retail units to introduce a new retail structure to the company. Property and tourism • Private • C/1	177.0	10.1	0	**10.1**
ISTIL Loan for working capital and energy efficiency improvements. Manufacturing • Private • B/1	84.9	23.8	0	**23.8**
Illichivsk Commercial Sea Port Finance for the modernisation of the port including berth reconstruction and purchase of new equipment. Transport • State • B/1	39.0	26.0	0	**26.0**
International Mortgage Bank of Ukraine Loan to support the development of mortgage lending in Ukraine. Non-bank financial institutions • Private • FI	13.6	13.6	0	**13.6**
Kreditprom Syndicated Facility II Loan for working capital and energy efficiency improvements. Bank lending • Private • FI	68.0	19.0	0	**19.0**
Kyiv City Transport (Metro) Finance for new rolling stock and spare parts for Kiev Metro system. Municipal infrastructure • State • B/1	44.0	24.0	0	**24.0**
Kyiv City Transport (PasTrans) Loan to the company responsible for bus, tram and trolleybus services in Kiev. Municipal infrastructure • State • B/1	66.0	36.0	0	**36.0**
MegaBank Loan for on-lending to micro, small and medium-sized enterprises. Bank lending • Private • FI	13.6	13.6	0	**13.6**
OISIW Cable Investment in improvements to telecoms and media infrastructure in Ukraine. Telecommunications • Private • C/1	203.2	0	22.1	**22.1**
Rodovid Bank Loan for on-lending to micro, small and medium-sized enterprises. Bank lending • Private • FI	6.8	6.8	0	**6.8**
Prosto Finance Ukraine Loan to enable the company to expand its consumer finance lending. Non-bank financial institutions • Private • FI	20.4	20.4	0	**20.4**

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Renaissance Life Ukraine Equity investment to support a life insurance company. Non-bank financial institutions • Private • FI	1.5	0	1.5	**1.5**
Shostka/Bel Loan for modernisation of production facilities and increasing capacity at a processed cheese manufacturer. Agribusiness • Private • B/1	22.0	0	8.7	**8.7**
Slobozhanska Budivelna Keramika Loan for the construction of new brick production facilities and renovation of old ones. Manufacturing • Private • B/1	35.0	2.9	0	**2.9**
Slavutich Expansion II Investment to increase production capacity at brewery. Agribusiness • Private • C/1	66.0	30.8	0	**30.8**
Soufflet Multi-project Facility *Slavuta ACL 2007* Support for the acquisition and restructuring of Slavuta in order to expand its operations to Ukraine and support local barley farmers. Agribusiness • Private • C/0	11.5	11.5	0	**11.5**
Ukraine ACL 2007 Loan for malt production. Agribusiness • Private • C/0	4.9	4.9	0	**4.9**
Ukraine Energy Efficiency Programme *UkrExim Bank* Credit line for on-lending for energy efficiency and renewable energy investments. Bank lending • Private • FI	17.0	17.0	0	**17.0**
Ukraine Micro-lending Programme II *Kredobank* Credit line for on-lending to small and medium-sized businesses. Small business finance • Private • FI	7.0	3.4	0	**3.4**
Ukrzaliznytsia (Ukraine Railways) Loan to assist in introducing fast train services country wide, acquiring track maintenance equipment and rebuilding Beskyd Tunnel, a major trans-European bottleneck. Transport • State • B/0	27.1	27.1	0	**27.1**
Yugreftransflot (YTF) Finance for the company's fleet expansion programme. Transport • Private • C/1	38.7	8.8	0	**8.8**
Regional Trade Facilitation Programme Support for foreign trade through Aval Bank, UkrExim Bank, Forum Bank, OTP Bank, Kreditprombank and Kredobank. Bank lending • Private • FI	47.0	47.0	0	**47.0**

Uzbekistan

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Bursel Loan to cotton garment manufacturer. Manufacturing • Private • B/1	1.5	1.5	0	**1.5**
Direct Lending Facility *Imkon Plus* Loan to leading ice cream producer for expansion. Agribusiness • Private	2.6	1.8	0	**1.8**
Green World Loan to expand production of fruit and vegetable concentrates and purees. Agribusiness • Private	6.0	1.5	0	**1.5**
Malika Hotel Khiva Loan for the expansion of hotel facilities via a bed-and-breakfast type hotel in Nukus. Property and tourism • Private	0.1	0.1	0	**0.1**
Mekhnat Pivo II Funds for the purchase of a beer bottling line. Agribusiness • Private	2.0	2.0	0	**2.0**
Hamkor Bank Loan for on-lending to micro, small and medium-sized enterprises. Bank equity • Private • FI	3.4	3.4	0	**3.4**
Japan-Uzbekistan Small Business Programme *Hamkor Bank* Credit line for on-lending to micro and small businesses. Small business finance • Private • FI	2.0	2.0	0	**2.0**
UzDaewoo Bank Equity investment in commercial and investment bank. Bank equity • Private • FI	0.6	0.6	0	**0.6**
Regional Trade Facilitation Programme Support for foreign trade through Hamkor Bank and UzDaewoo Bank. Bank lending • Private • FI	1.0	1.0	0	**1.0**

Regional

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
AIG New Europe Fund II Private equity fund investing in central and eastern Europe. Equity funds • Private • FI	10.5	0	10.5	**10.5**
Accession Mezzanine Capital II Private equity fund investing in central European and Balkan countries, possibly moving into Russia and Ukraine. Equity funds • Private • FI	200.0	0	40.0	**40.0**
Baltcap Private Equity Fund Private equity fund investing primarily in Estonia, Latvia, and Lithuania. Equity funds • Private • FI	20.0	0	20.0	**20.0**
Baring Vostok Private Equity Fund IV Private equity fund investing in middle-market enterprises primarily in Russia, Kazakhstan and Ukraine as well as other CIS and Baltic countries and Mongolia. Equity funds • Private • FI	714.5	0	20.4	**20.4**

	Project value (€ million)	EBRD loan (€ million)	EBRD equity (€ million)	Total EBRD financing (€ million)
Baring Vostok Private Equity Supplemental Fund	306.4	0	34.0	**34.0**
Private equity fund investing in Russia, Kazakhstan and Ukraine. Equity funds • Private • FI				
Brasseries International Holdings	0.7	0	0.7	**0.7**
Reconstruction and development of breweries across the Caucasus. Agribusiness • Private • C/1				
Capital Media	50.0	25.0	0	**25.0**
Development and restructuring of TV broadcasting group with TV stations in Romania and Ukraine. Telecommunications • Private • C/1				
Centras Private Equity Fund	10.2	0	10.2	**10.2**
Private equity fund investing in companies operating in or exporting products or services from Kazakhstan, Russia and Central Asia. Equity funds • Private • FI				
Clean Globe International	107.5	30.5	3.0	**33.5**
Establishment of crude oil spill response centres in key locations in the Bank's countries of operations and provision of regional training, prevention and remedial services. Natural resources • Private • B/0				
E-Energija	5.0	0	5.0	**5.0**
Equity investment in E-Energija, which provides heat and hot water services to both residential and industrial customers in Lithuania and Latvia and is considering expanding its operations into Ukraine. Municipal infrastructure • Private • B/0				
EPG East Euro Asia Property Fund	300.0	0	60.0	**60.0**
Equity fund which makes real estate investments in Russia, the CIS countries, and south-eastern Europe. Property and tourism • Private • FI				
EnerCap	100.0	0	25.0	**25.0**
Private equity fund dedicated to investing in renewable energy and energy efficiency projects in central and south-eastern Europe. Power and energy • Private • FI				
Europolis III	52.5	31.5	21.0	**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. Property and tourism • Private • C/1				
Furshet	61.2	40.8	0	**40.8**
Loan to help Furshet Group open new stores across Ukraine and expand its operations in Moldova. Agribusiness • Private • C/1				
GS Hotels and Resort	208.0	27.5	25.1	**52.6**
Loan and equity investment in leading local hospitality group, based in Dubrovnik. Property and tourism • Private • B/1				
Global Finance SEE Fund	48.0	0	48.0	**48.0**
Regional private equity fund investing in south-eastern Europe. Equity funds • Private • FI				
Heitman Russia and Ukraine Property Partners	101.9	0	30.6	**30.6**
Equity investment to develop, reconstruct, acquire, own and manage real estate property in Russia and Ukraine. Property and tourism • Private • FI				
LUKOIL	203.9	101.9	0	**101.9**
Programme to improve the environmental, health and safety performance of various facilities operated by LUKOIL. Natural resources • Private • C/1				
Marbleton Property Fund	0.7	0	0.7	**0.7**
Equity funding for office, residential, retail and industrial property development, primarily in Russia and Ukraine. Property and tourism • Private • FI				
Meinl Caucasus and Central Asia	375.0	0	131.3	**131.3**
Finance for the development of high-quality, international standard retail and mixed-use properties in Caucasus and Central Asia with a particular focus on Georgia, Armenia, and Kazakhstan. Property and tourism • Private • FI				
New Europe Venture Equity Fund (NEVEQ)	10.0	0	10.0	**10.0**
Private equity fund investing in small and medium-sized technology enterprises primarily located in Bulgaria and Romania. Equity funds • Private • FI				
Private Equity Fund Co-investment Facility	487.0	0	10.0	**10.0**
Sub-project "Project Bella" under the private equity co-investment facility. Telecommunications • Private • C/1				
Royalton Partners II	50.0	0	50.0	**50.0**
Equity financing for local service providers. Equity funds • Private • FI				
Russia Partners III	51.0	0	51.0	**51.0**
Fund investing in CIS enterprises with significant growth potential. Equity funds • Private • FI				
South-eastern Europe Joint Power Venture	600.0	0	60.0	**60.0**
Investment in the acquisition or development of energy assets in the South-eastern European Energy Market, covering Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Montenegro, Romania and Serbia. Power and energy • Private • C/0				
Syntaxis Mezzanine Fund	26.0	0	25.0	**25.0**
Fund with a portfolio of Central European investments, in various sectors. Equity funds • Private • FI				
Troika Dialogue	136.0	51.0	0	**51.0**
Loan to encourage development of financial intermediation in Russia and the CIS and foster competition on the local capital markets. Non-bank financial institutions • Private • FI				
Véolia Voda	105.0	0	105.0	**105.0**
Equity investment in Véolia Voda enabling it to expand in central and eastern Europe, Russia and Ukraine. Municipal infrastructure • Private • C/1				

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 2007. (Approximate euro exchange rates: £0.73, US$ 1.47, ¥ 164.87.)

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 2008 is to be held in Kiev, Ukraine on 18-19 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
EAR	European Agency for Reconstruction
EIA	Environmental impact assessment
EIB	European Investment Bank
ETCs	Early transition countries
EU	European Union
EvD	Evaluation Department
FAO	Food and Agriculture Organization of the United Nations
FYR Macedonia	Former Yugoslav Republic of Macedonia
GDP	Gross domestic product
GEF	Global Environment Facility
IFI	International financial institution
IDSF	International Decommissioning Support Fund
IPO	Initial public offering
IRM	Independent Recourse Mechanism
ISDA	International Swaps and Derivatives Association
LEF	Western Balkans Local Enterprise Facility
LiTS	Life in Transition Survey
LTP	Legal Transition Programme
MCCF	Multilateral Carbon Credit Fund
MDBs	Multilateral development banks
MEI	Municipal and environmental infrastructure
MSEs	Micro and small enterprises
MSMEs	Micro, small and medium-sized enterprises
MOU	Memorandum of Understanding
NDEP	Northern Dimension Environmental Partnership
NIB	Nordic Investment Bank
NGO	Non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
OCE	Office of the Chief Economist
PIP	Public Information Policy
PPC	Project Preparation Committee
PPP	Public-private partnership
PP&R	Procurement Policies and Rules
RSBF	Russia Small Business Fund
SEI	Sustainable Energy Initiative
SECO	Swiss State Secretariat for Economic Affairs
SMEs	Small and medium-sized enterprises
TAM	TurnAround Management
TC	Technical cooperation
TFP	Trade Facilitation Programme
TJ	Terajoules

Photography

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David Cooper	15 (left)
Bogdan Cristel	56 (left)
Simon Crofts	17
Arnhel de Serra	8 (top right), 9 (top left, top right, bottom left), 28, 34, 37, 40, 42 (left), 56 (right), 58, 71 (right)
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Mike Ellis	22 (right), 72 (right)
Galnaftogaz	44 (right)
Jack Hill	Cover, 8 (top left, bottom left, bottom right), 9 (bottom right), 16 (both), 20, 31 (both), 46, 49 (both), 50 (both), 52, 66, 69 (right), 72 (left), 73 (right)
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