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Foreword

In its fourth year, this publication features the EBRD’s clients from refugee women turned entrepreneurs in Bosnia and Herzegovina to successful private companies in Moldova.

Our clients’ quest for better lives has inspired the EBRD since it was created in 1991. These stories reflect the fact that there is still much work ahead in the EBRD’s mission to build market economies in former communist countries. Helping our countries of operations to adapt to the 21st century challenges is the Bank’s role, whether through investments in energy efficiency in Bulgaria or improvements to health and safety standards in ageing mines so that lives will be saved and people will be safe.

This year’s edition has a special focus on Ukraine, where the EBRD is holding its 2008 Annual Meeting. From Chernobyl, where the EBRD is working to make the site of the 1986 nuclear disaster environmentally safe, to Kiev where the Bank’s financing is renovating the city’s metro just in time for the Euro 2012 championship, the EBRD is helping Ukraine to transform into a strong, modern market economy.

And there are stories of imagination and entrepreneurial spirit from people right across the EBRD region. I hope you will enjoy reading about People and projects.

Brigid Janssen, Director of Communications
When a bumpy road becomes a smooth passage

By Axel Reisener

In more poetic times it was known as Azerbaijan’s section of the Silk Road. The 501 kilometres of road stretching from the capital Baku to the border with Georgia are part of the wider link that connects Asia with Europe. Explorers, traders, adventurers and, every so often, armies travelled the road whose beginnings can be traced back to China in the second century BC.

Azerbaijan

When a bumpy road becomes a smooth passage

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Marco Polo, the great Italian explorer, wrote of his journeys along the Silk Road: “When a man is riding through this desert by night and for some reason — falling asleep or anything else — he gets separated from his companions and wants to rejion them, he hears spirit voices talking to him as if they were his companions, sometimes even calling him by name. Often these voices lure him away from the path and he never finds it again, and many travellers have got lost and died because of this.”

This was some 800 years ago. In our more sober modern times the road became known as “the intestine of Azerbaijan”: a seemingly endless stretch of asphalt in increasing degrees of decomposition, hastily built, poorly maintained and cracking under the strain of heavy Soviet trucks and extreme weather conditions. Not far outside Baku the road takes a turn to the West and for seemingly endless miles runs straight through a desert. Marco Polo’s words come to mind: “Whatever you do, never stray from the path.”

The refurbishment of the Silk Road in Azerbaijan is one of the country’s strategic projects. It will allow the country to intensify its links to international trade flows between Asia and Europe. One already encounters trucks from Turkey, Germany and Sweden on the route. The new road will also make domestic traffic easier and faster, important since car ownership and traffic levels are increasing rapidly.

Better conditions – and a severe crackdown on speeding – will also make driving much safer and more comfortable. In fact, it has become so good that some are almost disappointed: “It is somewhat boring. In the old days the road was so bad that you used to bang your head permanently. Now you can sleep in the car, everything is so quiet and smooth. All the adventure has gone,” says Vugar Aliyev.

But he has only himself to “blame”: Mr Aliyev works as an engineer with the international consultancy Scott Wilson which has been helping the local construction company Azerinsaat with its part of the 75 kilometre leg between Hajigabul (outside Baku) to Kyurdamir in central Azerbaijan. He may, however, also “blame” the EBRD. The Bank is financing the construction of this section with a US$ 41 million loan. “If it were not for the EBRD, this project would never have happened,” Mr Aliyev believes. “The Bank provided more than the finance. It has also worked closely with local experts and we have all benefited from this open exchange of knowledge. Finally, the EBRD has monitored the project very closely, from the beginning to the very end. Now that’s what I call cooperation.”

The contract was tendered by Azerbaijan’s road authorities. The Italian construction company Todini won the contract for 30 kilometres with the balance of the work undertaken by Azerinsaat. Constructing or refurbishing a road may seem a pretty straightforward job: ground works, insulation, asphalt. In addition, the stretch between Baku and Kyurdamir involves widening the road as well as junctions, roundabouts and four bridges. In reality, however, it is a more complex task.

The EBRD finance for Azerbaijani road project

Elchin Ibrahimov explains: “We have had consultancy meetings with all local people living along the 75 kilometres we constructed. We agreed with their suggestions and requests as much as possible.” Mr Ibrahimov was working as a public relations manager to accompany the construction project. The task was not to impose the new road on the population, but to make people feel part of the project. “This has meant one additional bus stop here, one additional junction there.” It seems to have worked, thinks Mr Ibrahimov: “Now everybody is happy.”

The main reason for this is no doubt the huge travel improvements. The journey time from Baku to Kyurdamir has been cut from two hours to less than one hour and a half. Kyurdamir, though not known as the most enticing place in the country, is an important stopover between the Azerbaijan which winds around the Caspian Sea and the Azerbaijan which is hewed into the Caucasian mountains. Melons and chicken are the two most important agricultural products of the region. Traders used to line the old road, offering up their delicacies, and they are already starting to re-occupy their old places. “We have widened the hard shoulders to improve safety”, says Mr Aliyev. “But this is a market economy and we won’t shut the people away.”

Travellers are well advised to accept the offer. After all, the best chickens in the world come from this region and they are what makes famous chicken tabaka so delicious. For the uninitiated, chicken tabaka is flattened chicken, so flat that it looks like it’s been run over by a truck. But it is absolutely delicious. Now that travellers can save time on a new road they will be able to double their pleasure by spending more time on a special meal.
Facilitating women’s entrepreneurship

By Bojana Todorovska

As Director of BOSPO, a humanitarian organisation that was helping displaced women deal with the emotional wounds of the Bosnian war, Nezira Nalić visited a group of female refugees in Tuzla, northern Bosnia, in 1995. This is where she met Nezira Mustafić, Ajsa Mustafić and Sabina Mujić – three female farmers who had lost their homes in the war and were now receiving basic humanitarian assistance just to help them get on with life. Asked how they survived, Nezira said: “We use some of the aid to support our families and the rest we sell or exchange for other goods.”

Ms Nalić realised that, apart from a survival instinct, these women had an entrepreneurial spirit and a business sense. Humanitarian aid was not enough.

Set up by the Danish Refugee Council in 1995 to provide displaced women in northern Bosnia and Herzegovina with psychological and social services, BOSPO began to focus on the growing number of women who were trying to increase their family income with small investments in trade and different service activities.

“We realised we had to enable them to begin a new life after the war. We started thinking about ways these skilled women could earn money, what they could do to provide for their existence and how we could help,” Ms Nalić says.

In 1996, with the help of a donation of 105,000 German marks from the World Bank, a pilot project – MI-BOSPO – was created and the first microcredits were issued. And now the EBRD is supporting the development and commercialisation of that programme.

“Our vision was to empower women in a sustainable way – by providing loans to allow a large number of low-income women to finance economically viable activities. From the very beginning it was important to establish trust and ensure that the loans would be repaid,” Ms Nalić says.

Loans were offered on a solidarity basis – groups of women who knew each other well would form solidarity groups that allowed them to guarantee the loans on each other’s behalf.

This allowed Nezira, Ajsa and Sabina to borrow 1,000 German marks each, guaranteed by the others. Nezira bought a cow. She would use some of the cow’s milk to feed her family, sell the rest and use the extra money to set up a craft shop with her husband. Ajsa relied on the loan to make clothes and sell them through relatives in Germany. She used the extra money to build a house and to send her daughters to school. Sabina needed her loan to purchase new material for her home-based hair-dressing salon and to offer better services to clients.

Good results and repayment of the loans justified MI-BOSPO’s existence and paved the way for the development of a microcredit programme over the next four years. In 2000, MI-BOSPO was transformed into a non-profit microcredit organisation providing financial services to low-income female entrepreneurs.

MI-BOSPO’s transformation was a reflection of the changes that Bosnian society was undergoing. At the height of the war, 90 per cent of MI-BOSPO’s clients were just like Nezira, Ajsa and Sabina. They borrowed small amounts to meet basic economic needs and repay the loans.

“In 1996, very few people believed that one of the ways of helping low-income displaced women was to provide credit and spark entrepreneurship among women,” Ms Nalić says.

But as memories of the war began to fade, more and more women approached MI-BOSPO for loans intended to start or expand their activities in farming, trade, production and services. “People were developing an understanding for our mission, society around us was changing,” Ms Nalić says.

Today MI-BOSPO is providing loans to 25,000 women who typically borrow between €500 and €15,000. Many are investing in the development and expansion of more sophisticated businesses.

Senada Selimbasic from Tuzla has been a client of MI-BOSPO for more than 10 years. She established a small accounting business in 1997 with the help of her first credit of 1,200 German marks. Ten years later she borrowed €15,000 to expand her accounting practice which now employs four people and serves a number of well-established clients.

These kinds of successes helped Ms Nalić and her colleagues drive the organisation forward as a sustainable, commercially oriented financial institution.

“MI-BOSPO’s vision is to become the financial services provider of choice for female entrepreneurs in Bosnia and Herzegovina,” Ms Nalić explains.

Realising its potential to serve a vibrant and dynamic microcredit sector in Bosnia and Herzegovina, an EBRD priority, the Bank is helping MI-BOSPO with a €3 million loan to build a corporate future as a strong, commercial and sustainable financial institution.

The loan will be complemented by €300,000 of technical assistance to help MI-BOSPO adapt to the changing demands of a market economy. The money will be used to strengthen internal information technologies, to audit and control risk management and processes associated with micro and small enterprise lending.

“The EBRD loan will assist MI-BOSPO in serving even more clients and supporting the underdeveloped market for financing women entrepreneurs. We believe that providing financial services for the needs of micro and small clients will play a significant role in the total reconstruction and transition of Bosnia and Herzegovina”, says Chikako Kuno, Director of the EBRD’s Group for Small Business.

“The microcredit sector in Bosnia and Herzegovina is a unique success story. It demonstrates the importance of private humanitarian initiatives which developed into innovative financial service providers that serve an important and dynamic segment of the economy,” says Giulio Moreno, EBRD’s Director for Bosnia and Herzegovina.

Twelve years after its establishment, MI-BOSPO is seen as a strong and prosperous institution, guided by a mission to ensure sustainable progress for energetic, entrepreneurial women. By supporting successful businesswomen, MI-BOSPO is helping to build a long-term and sustainable future for the whole of Bosnia and Herzegovina.
Bulgaria

Warmer kindergartens, happier children

By Marjola Xhunga

When the 1 June Kindergarten in the town of Karlovo, central Bulgaria, closed for two months in 2006 for energy efficiency improvements, the local community didn’t react well at all. Parents had to find alternative accommodation for over 100 children.

Two months later they knew the inconvenience had all been worthwhile. The once dark and often freezing kindergarten had now become warm and welcoming. Other parents are queuing up to send their children to a kindergarten that has changed beyond recognition. Parents talked of a fairytale transformation.

“We needed to improve the heating system and insulate the roof and exterior walls to bring temperatures in the kindergarten to normal levels,” says school director Diana Georgieva, who has been a member of staff since 1976. “We needed new doors and new window frames. We needed a brand new kindergarten.”

Enemona, a local engineering and construction company specialising in energy efficiency improvements, audited the building and came forward with a plan to totally revamp the school while also cutting its energy bill.

The municipality simply couldn’t afford the improvement costs all at once. Enemona came up with a solution: an Energy Services Company (ESCO) contract which would allow the kindergarten to improve now and pay later.

Under an ESCO contract, a company invests its own funds to design, implement and finance projects that decrease the overall energy consumption of public sector institutions.

“The creative thing about ESCO contracts is that the kindergartens and hospitals are not put under pressure to pay costs all at once,” says Prokopi Prokopiev, Enemona’s Corporate Policy Manager. “Instead, the energy savings achieved in these public institutions pay off the investment costs typically in five to six years.”

Take the 1 June Kindergarten: since the energy efficiency improvements took place, the school has cut its energy costs by 60 per cent.

“An ESCO is the perfect financing vehicle to fund projects that municipalities operating under tight budgets would never be able to fund,” says Peter Hobson, a senior banker in the EBRD’s Energy Efficiency Team.

Enemona has carried out energy efficiency work in 10 kindergartens, eight schools and two hospitals in Bulgaria. Its rapid development stems partly from the Bulgarian government’s decision in 2004 to introduce mandatory energy efficiency audits for municipal buildings.

The Bulgarian government has made energy conservation a priority. After all, the country’s energy consumption for one unit of GDP exceeds that in every other EU member state. Rising energy prices and high consumption of electric power for heating aren’t helping either.

“Turning to energy efficiency to cut the energy consumption is a wise move for any country,” explains Mr Hobson, who points out that energy efficiency is key to the EBRD’s strategy to help put its countries of operations onto a sustainable energy footing.

In order to further assist the spread of ESCO contracts in Bulgaria, the EBRD agreed to provide a €7 million loan to the Bulgarian ESCO Fund. Enemona created the fund to generate much-needed finance for improving energy efficiency in the public sector.

“Although commercial banks in Bulgaria are offering longer maturities to their traditional clients and the public sector, the ESCO market is still not understood by the financial community,” says Mr Hobson. “Companies such as Enemona are not able to attract the longer term financing they need for their projects.”

“The Bulgarian ESCO Fund is unique and was established in response to the new European energy policy. It achieves energy savings that the public sector would find hard to address with its own resources,” Mr Prokopiev explains.

Enemona is now working on a pipeline of 17 ESCO projects and the EBRD finance will make them happen. The finance is translated into warmer kindergartens and hospitals, happier children and patients,” he adds.

With news of slashed energy costs coming from kindergartens in the Bulgarian towns of Montana, Svilengrad and Karlovo, the public and private sector alike are realising that they could do more with less.

“We want to spread innovation and turn Enemona into a catalyst for the development of the energy efficiency market in Bulgaria,” Mr Hobson says.

60% The proportion of energy saved at the 1 June Kindergarten
Simon Naumoski has been with Vitaminka, the largest food manufacturer in the Former Yugoslav Republic (FYR) of Macedonia, since 1974. A former MP, Mr Naumoski, now the company’s General Manager, says he prefers business to politics.

Sitting comfortably in his office in the city of Prilep, in the west of FYR Macedonia, he is convinced that Vitaminka performs better today than back in 1956 when it was established.

Just like the country, Vitaminka has seen tumultuous days and survived. “The company was created to meet the needs of the unified former Yugoslav market. Until the dissolution of former Yugoslavia in 1991, Vitaminka was catering for 24 million people and its sales reached €34 million per year,” explains Mr Naumoski.

With FYR Macedonia gaining independence in 1991, Vitaminka struggled as neighbouring countries abruptly closed their borders, leaving just a domestic market of two million people.

The collapse of the export market for Vitaminka was followed by four years of zero sales growth.

A drive around the city of Prilep allows the visitor to witness dilapidated factories from the old communist days. Once well-established companies, they have now closed their doors and the city’s workers have left to find jobs elsewhere.

But Vitaminka has persevered and survived. In 2007, it received its first loan from the EBRD.

A €4 million loan from the Bank was needed to develop new products and expand the company’s activity in the Western Balkans and other areas of the EBRD’s region.

“The loan is an example of how the EBRD is helping good private domestic companies to grow in FYR Macedonia,” says Ekaterina Gurova, Acting Head of EBRD’s Skopje Resident Office.

Mr Naumoski explains: “The EBRD finance will help Vitaminka to grow and more importantly re-enter into regional markets where it once operated and to explore new opportunities in these markets.”

With sales growing steadily and with clients from Bosnia and Herzegovina to Slovenia, Vitaminka has become the second biggest private business in the city of Prilep. This means a lot to Vitaminka’s 420 employees and to the local farmers who provide the raw materials for Vitaminka’s 300 products. They, at least, haven’t had to move to bigger cities or abroad to find a job.

“Over 50 people were hired to work on a new product, soft chocolate cookies, that Vitaminka is introducing with the help of the EBRD loan,” explains Mr Naumovski.

The loan to Vitaminka comes under the Western Balkans Local Enterprise Facility, an investment instrument established in 2006 by the EBRD with financial contributions and support from the Italian government.

In 2007, the Italian government replenished the facility, which now amounts to €65 million, to benefit businesses in need of finance in the Western Balkans.

“The replenishment demonstrates the Italian government’s commitment to the Western Balkans,” emphasised Enzo Quattrociocche, the EBRD’s Director for Italy. “This Facility is instrumental in engineering new solutions for financing small and micro businesses in the Western Balkans,” he added.

The Western Balkans Local Enterprise Facility provides individual investments up to €8 million and has been instrumental in providing much-needed finance for the Western Balkans through mainly equity and quasi-equity financing to small and medium-sized local enterprises.
When ProCredit Bank Georgia began offering savings accounts with a minimum deposit of just 5 lari (about €2), critics said it wouldn’t be taken seriously. When it sent its bankers onto the streets to talk to people, they said the idea wouldn’t work. And when ProCredit tore down the bars over their windows, “it was a revolution,” says Deputy General Manager Asmus Rotne. “We had to fight with security advisers, police and our insurers to get them to understand why we wanted to open up.”

ProCredit Bank Georgia is part of the ProCredit Holding group, which is active in 21 countries in Latin America, Africa and eastern Europe. EBRD has helped to establish the 10 subsidiaries of the holding company that are active in eastern Europe and the Caucasus, including those in Bulgaria, Bosnia and Herzegovina and Kosovo. ProCredit’s national subsidiaries more or less work to the same formula: they are development-oriented banks focusing on business lending to the micro, small, and medium-sized enterprises (MSME) sector.

ProCredit Bank Georgia was established in 1999 with the support of the EBRD, Germany’s Kreditanstalt für Wiederaufbau, the Netherlands Development Finance Company and the World Bank’s private lending arm, the IFC, as well as of four local banks. The EBRD also provided technical assistance funds from the US to help the initial set up of ProCredit Bank Georgia.

The EBRD formerly held a stake in ProCredit Bank Georgia, which it sold to ProCredit Holding, and has also been a source of credit, providing two loans worth a total of US$ 9 million (Taipei China’s International Cooperation and Development Fund also provided US$ 3 million through the EBRD). Most recently, the EBRD provided a US$ 15 million loan in June 2007, of which US$ 5 million was syndicated to Citibank. This was the first time the Georgian bank had been able to access the international capital markets and marked a significant milestone in its growth.

Development is at the heart of ProCredit’s business ethos. “We are more interested in the loans having an impact on the development of the company, for the economy and for the entrepreneur running that business,” according to Mr Rotne, a Danish graduate of Aarhus and Harvard universities who speaks Russian and Georgian, which he learned on an exchange programme in 1995-96.

ProCredit can have an impact with a large number of smaller loans, Mr Rotne says. Recipients have included Eka Bezhanishvili, a doctor who gave up her profession in the economically difficult period in Georgia in the late 1990s. Her first loan came not from the bank but from a neighbour, who lent her just 7 lari to buy ingredients to make two small cakes. The sale of those two cakes developed into a bakery which ProCredit has supported for the last five years. Ms Bezhanishvili now has 30 employees and a bakery that operates 24 hours a day.

ProCredit has 35 branches in Georgia, 16 of them in the capital. Sixty per cent of its total loans have been made outside Tbilisi. Mr Rotne describes the experience of working with the EBRD as “really positive”. “We know each other well,” he says. The EBRD initially provided loans and took an equity stake, which it sold. It later provided ProCredit’s first access to commercial funding via the June 2007 syndicated loan.

According to Mr Rotne, ProCredit is growing more independent thanks to the build-up of funds held at the bank by customers and to the Citibank component of the June loan. “It is important to establish a credit history with mainstream commercial banks. Our clients need a credit history and so do we,” says Mr Rotne. “If we can do it without the EBRD in the future, that will be the success story.”
Land of the rising SUN

By Claire Vogt

Can you imagine life without a telephone or, even worse, without your mobile? Three out of four Moldovans currently have no fixed telephone line at home, while only a third of the population has a mobile phone subscription. Computer and internet coverage in Moldova is also at an early stage, with surveys showing that out of a population of 3.6 million, only 12 per cent have access to the internet and as few as 6 per cent have a computer at home.

A similar picture emerges in terms of choice between television programmes, as only 1 in 20 Moldovans is connected to cable television services. But change is on the way.

With more than 75,000 customers, SUN Communications is the leading private cable television operator in Moldova and well placed to tap this market potential. It provides up to 70 television channels and is the only local and private telecoms company to have developed networks that can also provide broadband internet access. Last year, SUN became the first privately owned, fixed-line telecommunications company in Moldova to construct its own international network, connecting directly with an international carrier in Romania.

But expanding and developing modern telecommunications technologies requires money. “We could not do this on our own,” says John Maxemchuk, the company’s General Director. “In the last three years, we felt financial constraints as we expanded into new services, such as high-speed internet, and into new territories. We are simply growing faster than our operating cash flow can support. We need a new partner.”

This is where the EBRD stepped in with a combined US$ 4 million equity and US$ 4 million debt financing package. “This investment will allow SUN to grow and compete on a national level with a package of services suitable for the 21st century,” Mr Maxemchuk says. The funds will be channelled towards upgrading the cable television networks and extending the transmission infrastructure to the country’s 10 largest municipalities. SUN also plans to expand its coverage through the acquisition and modernisation of smaller cable providers.

“The Bank’s investment provided an excellent opportunity to support a successful private enterprise,” says Michelle Senechal de Fonseca, the EBRD’s Director of Telecommunications. “It is expected to have a significant impact through increased competition which will offer Moldovan customers greater choice at fair prices.”

Indeed, if the country’s appetite for the newest telecommunication technologies is anything to go by, the potential for growth in the Moldovan telecommunications market must be enormous. The telecoms sector is the most dynamic in the country’s economy, growing by more than 35 per cent annually.

So why have so few Moldovans felt the benefits so far? Leaving aside the low but increasing purchasing power, the other obvious answer is limited competition. State-owned Moldtelecom dominates the fixed telephone and internet services market, making it difficult for private companies to compete. In contrast, the cable television market is extremely fragmented, with more than 180 registered cable television companies.

In the past, SUN has been constrained in its development due to the dominant state-owned operator on one side and a number of cash-based competitors, said to be operating at the edge of the law, on the other. “Our efforts at reforming the market have had marginal success but are starting to accelerate with the increasing involvement of the international community and expansion of the EU onto our western border,” says Mr Maxemchuk.

In order to further support modernisation efforts, the Bank is currently devising a technical assistance programme, which will assist the country in developing and enforcing the necessary telecoms regulation.

“We welcome the support and added emphasis of EBRD’s voice and global reputation in this effort,” says Mr Maxemchuk. “I am certain we will see great improvements in the competitive environment in Moldova in the next few years.”

Dan Stefanescu, who has led this project on behalf of the EBRD, says that expanding a culture of transparent business in the local market has been one of the key aims for the Bank and counted just as much as the actual physical market growth.

“What we appreciate most is the management’s determination to step out of the old business standards and to make a significant effort in turning SUN into a modern enterprise, even if this implies considerable efforts,” Mr Stefanescu stresses. “We are looking forward to helping SUN continue to rise and shine.”
Ufa is a thriving Russian city of just over one million inhabitants in the south-western Urals, with low unemployment, a well-developed oil and petrochemicals industry and income levels 20 per cent higher than the Russian average. But the capital of Bashkortostan also has a problem: outdated and incomplete wastewater treatment facilities. As a result, some 15 per cent of the city’s sewage is discharged without proper disinfection into the Belaya River, whose waters flow into the Kama River, a tributary of the mighty Volga.

Ufa’s waste-water facilities were designed in the late 1960s and intended to be constructed in three stages. The first stage was completed in 1974, but the second only became operational in 1987 and the economic difficulties of the 1990s meant the final stage was not completed at all. Now, however, municipally owned water utility UfaVodocanal is seeking to finish the work while at the same time reducing the environmental impact of the waste-water treatment process.

With this goal in mind, the EBRD has agreed to lend the utility 500 million roubles (around €15 million) over the next 13 years so that it can invest in cleaner and more energy efficient technology. The loan will enable UfaVodocanal to treat sewage with ultraviolet disinfection technology and purchase methane tanks. These tanks will capture gas from the sewage and the gas will be burned off to produce heat for UfaVodocanal’s own use.

“The ultraviolet technology will enable the utility to significantly reduce the levels of untreated sewage discharged into the Belaya River,” says the Director of UfaVodocanal, Vacheslav Semenovich Gordenko.

“This project will give a boost to the economy of the city and is key in improving environmental standards,” said Pavel Rurskovich Kachkaev, the Mayor of Ufa.

“We want UfaVodocanal to operate on commercial terms as much as possible, even if it remains municipally owned,” Ms Selska says. “Financial independence from city subsidies is key in the decision-making process.”

“Although householders will see their tariffs increase as a result of the reforms, issues of affordability for low-income groups are taken into account and the price adjustments will be made gradually,” she adds.

Technical cooperation funds provided by the EU and the governments of Japan and Finland and worth €810,000 in total are going towards various sub-projects that underpin the EBRD loan. These include a feasibility study, project engineering support, an International Financial Reporting Standards audit and the creation of a Corporate Development Support Partner to help the utility improve billing routines and revenue collection.

The city of Ufa is acting as guarantor for the EBRD’s investment, which is the second loan the Bank has made to the municipality. In early 2006, the EBRD agreed to provide 360 million roubles to help improve the city’s district heating system. That loan is currently being dispersed and heating substations are being installed.

Thomas Maier, the EBRD’s Business Group Director for Infrastructure, has been visiting Ufa regularly since 2004 and is pleased with the high levels of professionalism and the commitment of the utilities, the city and the regional authorities.

“We can bring the know-how to far-flung cities in Russia,” explains Mr Maier. “and the EBRD’s municipal and environmental infrastructure programme in Russia is doing exactly that by focusing on local investments, working with local authorities and their utility companies to enhance their creditworthiness by improving budgeting, debt management and investment planning.”
Severstal – the making of a landmark deal

By Mike McDonough

In the latest in a series of projects with Russian steelmaker Severstal, the EBRD is providing a €600 million package to help finance a range of energy efficiency measures at the company’s Cherepovets plant.

With its colossal appetite for power and heat, the steel industry is a prime target for energy-saving initiatives and nowhere is this truer than in Russia and Ukraine, where low energy costs have long fostered wasteful practices on a massive scale. That is why a team of EBRD staff worked for a year and a half with Russian steel giant Severstal on one of the biggest industrial energy efficiency projects ever funded by a development bank.

Severstal is one of four companies that dominate Russia’s steel sector and its energy requirements are astounding. Its main plant at Cherepovets in north-west Russia, which accounts for 16 per cent of Russian steel production, consumes six million megawatt-hours of electricity per annum, which is more than Moldova uses in a year. Yet electricity and gas satisfy only around 40 per cent of the plant’s energy needs: the remaining 60 per cent comes from coal. As coal also constitutes a key ingredient in the chemistry of steel, there is limited scope for reducing the amount used in the steel-making process.

Cherepovets does, however, offer ample opportunities for cutting its electricity and gas consumption.

The EBRD’s team worked with Severstal to develop a programme to cut back its energy use and reduce greenhouse gas emissions while also saving money and improving the reliability of its power supply.

“Until then, Severstal had dealt with energy efficiency projects from a maintenance perspective, for example if a boiler broke down, but not with the specific intention of saving energy,” says Peter Hobson, EBRD’s Senior Banker in the Energy Efficiency Team. “We showed them that an investment could be repaid in as little as one year for some of the projects and that this would be very attractive in the context of rising energy prices.”

Signing the loan, Alexey Mordashov, Severstal CEO, said: “The EBRD loan recognises our efforts in these key areas and provides us with the impetus to reduce our energy consumption.”

The €700 million that Severstal is investing in energy efficiency – of which €600 million is being provided by the EBRD – will fund 11 different projects at Cherepovets over the next two to three years. These include the construction of a new high-efficiency combined cycle gas turbine; a system for collecting waste gases for use in power generation; and the modernisation of boilers and substations. In addition, the company will implement an Energy Management System (EMS) to measure precisely how much energy is used throughout the plant and to continuously set targets for cutting consumption.

“The EMS is one of the smaller projects in terms of capital expenditure,” says Senior Engineer Ioannis Papaioannou from the EBRD’s Energy Efficiency Team. “But it is the most important single project because it is a strategic investment aimed at helping the company to approach international good practice.”

The cumulative effect of these projects will be a 10 per cent reduction in the amount of electricity used in Cherepovets and a 3.5 per cent cut in the amount of natural gas consumed. Furthermore, the plant will generate 75 per cent of its electricity, up from the current level of 50 per cent. Carbon dioxide emissions, meanwhile, are expected to fall by around one million tonnes a year, which is equivalent to the domestic CO2 emissions of a city the size of Manchester.

While the projects funded by the deal featured many technical challenges, financing the loan presented its own hurdles. The EBRD is syndicating €450 million to 18 commercial banks. Calyon, ING and Raiffeisen have partly underwritten the syndicated loan.

“It was a difficult syndication to arrange,” says the EBRD’s Senior Syndications Manager Joerg Zinnecker. “It clashed with the beginning of the credit crisis and even without the credit crunch the tenor and margins were quite aggressive.” After some negotiation, however, the banks were keen to be a part of the project. “It is very attractive for commercial banks to be connected with an energy efficiency loan,” Mr Zinnecker adds.

“It is a very good marketing tool for them.”

As Mr Beauman says: “The objective is to help the Bank replicate this loan, although not necessarily on the same scale, and to get it into the culture of Russia and Ukraine that energy efficiency is a good thing to do.”
Focus on Ukraine

By Axel Reiserer

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Ukraine

This land is your land

History never hands a merciful destiny to countries located on the border of great empires. What then can be expected for a country that seemingly carries its destiny in its name? Traditionally, historians and linguists have interpreted the name "Ukraine" as borderland, although some contemporary scholars disagree. Samuel Huntington even went so far as to see the “Clash of Civilisations” cutting right through Ukraine.

The land on which the modern nation of Ukraine is situated may look back at a history that stretches to the beginnings of the Kievan Rus in the ninth century, but as an independent country it is very young. After centuries of rule over the territory by the Mongols, Russia, Austria, Poland or the Tatars, it was only at the end of 1991 that the country became independent.

From the Carpathian mountains to the Black Sea coast, from the no man’s land around Chernobyl to the coal mines of the east – for the first time in generations Ukrainians had reason to hum Woody Guthrie’s song: “This land was made for you and me”. As it turned out, adapting to a new world order was rather more difficult than many had hoped. A few years later the question in Guthrie’s song was asked publicly: “Is this land still made for you and me?”

For weeks, the Orange Revolution in 2004 captivated the attention of the whole world. Today, much of the enthusiasm that was on display during those days has evaporated. Day-to-day politics is by far less intriguing, but is in many ways much more difficult than the big moments when history is being made.

Many observers see Ukraine as a deeply divided country and they draw the line exactly where Huntington located the fault line between civilisations. The same division is also frequently evoked by rival political forces for obvious purposes: it serves both sides to do so.

In reality, however, the country is more unified today than it has ever been since independence: no serious political force questions the country’s independence anymore; nobody favours its break up; nobody wants a return to central planning and political suppression. Even those who are very critical of Ukraine’s development will concede that there is freedom of expression and a vibrant debate about the country’s destiny and future. For the first time in perhaps generations Ukrainian artists have the opportunity to leave a mark internationally. Despite all its difficulties the country’s economy is growing rapidly and public life is thriving. And, finally, today the battleground is where it ought to be: in the political arena.

Mikolay Ryabchuk, arguably the leading Ukrainian scholar of our time, does not want to see his country reduced to a battleground. In his book The real and the imagined Ukraine he forcefully makes the case for a Ukrainian state and nation which is a junction of its different parts and as a whole is bigger than its constituent elements.

The awarding of the European football championship 2012 to Ukraine and Poland was a welcome boost to the country’s confidence and to its ambitions. Most Ukrainians realise that this challenge represents a huge opportunity for the country in terms of what must be and what can be achieved for successful games. No less important, though, is how the country will present itself to the world.

The EBRD has been Ukraine’s partner since its independence. It is testament to the significance the Bank attaches to this nation of 46 million people, that for the first time in its history the Bank will hold an Annual Meeting for the second time in the same city. The EBRD held its 1998 Annual Meeting in Kiev, and it will return to the capital of Ukraine in May 2008 to take stock of the past 10 years and also to look ahead.

The Bank has a balance sheet in Ukraine of which it can be proud. More than €3 billion in EBRD funds have been invested in some 150 projects. But it is not only the financial commitment which is impressive; perhaps even more striking is the depth and breadth of the Bank’s projects in the country. Since 1991, the Bank has invested in virtually every sector of the economy that is covered by its mandate, from agribusiness to the financial sector, from road construction to shipping, from property development to steel production.

Today, the EBRD’s focus in Ukraine is on infrastructure and energy efficiency. The country uses 3.3 times more energy to produce each unit of GDP than the EU-25 average. A €100 million energy efficiency framework was put in place in October 2006 to encourage small and medium-sized enterprises to invest in energy savings. A loan to ArcelorMittal includes a large component to finance energy efficiency improvements. Elsewhere, the EBRD provided a €76 million loan to the Azovstal iron and steel works to reduce greenhouse gas emissions. Both these projects involve the purchase of carbon credits.

A visitor to Ukraine today will find a country of huge contrasts. The capital Kiev is booming, but the strong inflow of foreign investment has yet to reach remoter parts of the country. The most expensive Western cars (naturally with tinted glass) are speeding down newly upgraded roads only to be held up by ancient ox-carts. Ukraine is home to the famously rich black chernozem soil, yet many agricultural activities barely reach subsistence levels.

The total of EBRD investments in Ukraine

Despite achievements and undeniable progress, therefore, much remains to be done in Ukraine. Development is never a one-way, linear process. As surely as there will be be slow-downs, detours and setbacks, there will also be new impulses for progress. The EBRD understands this as a call to intensify its efforts as a strong and dependable partner in the region and the country.
One for the road

The Ukrainian car market is accelerating faster than Formula 1 star Lewis Hamilton coming out of the pit lane. Almost 40 per cent more cars were sold in 2006 than in 2005, and there is no end in sight to the boom. With annual sales of 371,000 cars in 2006, Ukraine was the 9th largest car market in Europe by sales volume.

In the West, it is not commonly known that Ukraine has a huge car industry. Daewoo of Korea (owned by GM) and AvtoVaz of Russia operate huge plants which produce hundreds of thousands of cars every year, mostly for the domestic market, while GM’s Opel brand and Skoda (owned by Volkswagen of Germany) also operate assembly lines.

On the streets of Kiev today one can see all kinds of cars. Old Soviet vehicles, new and used Western cars, and more and more locally produced cars. High import taxes have helped Daewoo to become the market leader, with AvtoVaz competing strongly for the top spot. If it is true that car ownership reflects social segmentation, the country’s middle class must be growing strongly.

But even the most reliable, brand new car – whether it comes from assembly lines in Zaporozhet, Nagoya or Wolfsburg – regularly needs servicing and sometimes even repairs. With the help of the EBRD, Bosch (the leading German spare parts manufacturer) has established a network of licensed service centres in Ukraine, where private and commercial customers get first-class treatment for their little sweethearts.

Under a framework agreement initially signed in 2001 and extended in 2006, the Bank is providing up to €14 million for on-lending to private entrepreneurs to become Bosch partners. The network is expanding rapidly with nearly 60 licensed service centres located across the country. “The cooperation with the EBRD has brought us much-needed stability, meaning we can operate successfully,” says Viktoria Yermak from Bosch Ukraine.

Viktor Mednikov is the owner of a Bosch Service Station on the outskirts of Kiev. His facilities resemble a doctor’s office more than a car workshop. Everything is neat, clean and very orderly. Huge pipes hang from the wall and remind visitors of giant vacuum cleaners. The seductive smell of oil, rubber and exhaust fumes, so characteristic of a garage, is all but gone. Were it not for the giant truck parked in workshop number two with its driver’s cabin upside down, making it reminiscent of a beached whale, nobody would think that anyone here has to dirty his hands.

The station services and repairs diesel engines. “If you have a problem, Bosch will find a solution,” says Mr Mednikov. His station uses licensed, state-of-the art Bosch spare parts and software. He employs some 20 mechanics who serve 20 to 30 customers a day. They receive extensive training and Bosch is also providing management training to its partners. The German parent company also dispatches inspection teams to guarantee quality standards. This is very important: “Today, quality is all that counts,” says Mr Mednikov.

That is to say that quality is the most important pitch for the franchises. “Repairs can be very expensive,” admits Mr Mednikov. Only guaranteed quality can persuade car owners not to have this work done on the cheap in the shadow economy. Competition is stiff, but it seems that Mr Mednikov is doing quite well. Currently he is pondering plans to expand his service station. Although every car owner in the world dreams of a repair-free vehicle, it is safe to predict that there will not be a shortage of work for Mr Mednikov. Bosch and the EBRD will make sure that it is done to the highest standard.
The housing market in Ukraine’s capital Kiev is booming. On the way to our meeting with Bank Forum we stop outside an estate agent. Prices in central Kiev are eye-watering: a fully refurbished single bedroom apartment in one of those beautiful houses which contribute so much to the city’s charm (of course withconcierge, CCTV and car parking) costs up to US$ 4,000 a month. To rent, that is.

Of course, only a small fraction of people living in Kiev can afford these prices. The vast majority of the city’s three million inhabitants live in the same houses where they used to live in Soviet times, only nowadays these former communal apartments are privately owned. They are very cheap, but standards are often very modest. Outside its stylish city centre, Kiev is shaped by the seemingly endless conglomerations of concrete tower blocks which used to be so characteristic of Soviet cities.

Because the housing market is shaped by these two extremes, there is a huge demand for good, yet affordable housing. Kiev’s skyline is full of cranes. Growing business demands and rising incomes are fuelling today’s construction boom.

Bank Forum, the 13th largest Ukrainian bank in terms of assets, was fast in converting these developments into a business opportunity. In January 2007 it secured a US$ 20 million mortgage loan from the EBRD which is being on-lent to individual customers for purchasing, constructing, renovating, repairing and/or re-mortgaging residential properties.

The bank’s strengths are its tailor-made solutions. “We have developed a very wide range of products and we are confident we can make the right offer to any of our clients,” says Mikola Babenko, Deputy Managing Director at Bank Forum in Kiev. “The demand for housing is considerable and prices are quite steep. But we have a dedicated and professional staff who can deliver.”

Bank Forum and the EBRD have been partners since 2001 when Bank Forum first received a credit line to finance small and medium-sized enterprises. Ever since, the cooperation has gone from strength to strength. The recent mortgage loan was complemented by a US$ 30 million syndicated loan, only the second arranged by the EBRD to date in Ukraine, this for financing private enterprises.

In addition, the EBRD has extended technical assistance to Bank Forum to help bring the Ukrainian bank, which was founded in 1994, up to Western business standards and practices. Francois Laboré from the National Bank of Canada’s Partnership for Private Sector Development programme is full of praise: “We have been working with Bank Forum since 2001, helping with institution building and providing training. The staff has been very receptive and we regard our activities as a big success. It is thanks to banks like Bank Forum that the Ukrainian financial sector is now enjoying the public’s trust which is the most important prerequisite for successful development.”

Peter J. Sugden, Managing Director of Fleet Financial Corporation, is also involved in training programmes for Ukrainian banks: “I have been working in this country since 1992 and I see huge changes. Today the financial sector is run by a whole new generation which has a strong business sense, good education and models itself on its Western peers. This is not to say that there are no more problems, Lack of finance and good governance remain the two most pressing issues. But the progress we are witnessing is impressive.”

The Ukrainian banking sector is currently undergoing massive changes, with Western banks expanding rapidly into the market, mainly through acquisition of Ukrainian banks. This is leading to consolidation in the sector. Competition is growing and market players are constantly under pressure to modernise and update their operations and product range.

Bank Forum found a strong international partner in Germany’s Commerzbank, which acquired a majority stake in September 2007. This, however, will not change the Ukrainian bank’s philosophy: “We are and will remain a strong local bank with a strong local presence. Our local knowledge is our major asset,” says Mr Babenko.

This is exactly what ties the bank so closely to the EBRD: “Apart from the transfer of know-how and its expertise, the most important thing the EBRD has brought is its local presence and unique knowledge of the local market. It makes a very important difference whether your partner is thousands of miles away or a five-minute walk. And we have found our partners at the EBRD always accessible, always listening and always helpful.”

Over the years the EBRD has increased its local presence significantly. Today the Kiev Resident Office has more than 30 staff and on top of that frequently welcomes visitors from the Bank’s London headquarters. In accordance with its increasing activities in the regions, the Bank has also opened an office in Dnipropetrovsk, the main city in eastern Ukraine.
Slobozhanska Budivelnaja Keramika

Bricks that build the world

The building boom in Ukraine’s major cities is also good news in areas which are far away from the country’s growth centres. Romny is a sleepy city in the north-eastern Ukrainian oblast of Sumy and a three (or even four, depending on your driver’s local knowledge) hour drive from Kiev. The journey is a trip into a faraway world. A beautiful, sparsely populated landscape unfolds which has yet to be fully discovered.

With 50,000 inhabitants, Romny can rightly claim to be a regional centre in Sumy, one of the poorest districts of Ukraine. The Russian border is less than 150 kilometres away. The cathedral of the Holy Spirit, founded in 1735 in place of a wooden church, is the city’s most notable building. While the church has been meticulously refurbished, the adjacent square has not witnessed many changes in the last 40 years and exudes the flair of a distant past.

If the town today has a second centre, not architecturally, but symbolically, this is due to the courageous efforts of investors in the late 1990s to save the then state-owned brick producer Slobozhanska Budivelnaja Keramika from bankruptcy. Today the former intensive care patient is alive and well. Under the acronym SBK, the company is not only the biggest employer in Romny and the neighbourhood, but has become the market leader in Ukraine.

There is pride about this remarkable reversal of fortunes at the factory in Romny, but certainly no complacency: “We have been working very hard and we must continue doing just that. The market never sleeps and we are facing strong competition which will only increase in the near future. We know about very large international companies’ plans to enter the Ukrainian market,” says Vassili Mariukha, Director of the SBK plant in Romny.

To prepare for the challenges ahead the company has a two-fold strategy: expansion and modernisation. It is here that the EBRD comes into play. The Bank acquired a 12 per cent stake in the company in April 2007 which it plans to increase to 25 per cent by the end of the year and it has provided a loan of US$ 8.8 million. SBK currently has plants in Romny, Kharkiv and Irpen, on the outskirts of Kiev. The company is planning to nearly double its capacity to more than 250 million brick units by the end of 2009.

At least a third of this output will be produced at the Romny plant, where currently the annual capacity is 60 million bricks and almost 400 people are employed. Under a comprehensive modernisation programme, new production lines will be installed to expand production and save energy. “Already we are able to use heat from the ovens for heating purposes”, says Mr Mariukha. The company has implemented the industry standard ISO 9001 in Romny which guarantees the highest quality for its products.

Increasingly, SBK is exporting its products. “Demand is very strong,” says Mr Mariukha. The company enjoys a strong position in neighbouring Belarus and Russia, as well as in Kazakhstan, and is nowadays looking more and more at east European markets. But, as Mr Mariukha adds, “bricks don’t travel well.” Therefore at SBK, as everywhere else in Ukraine, the European football championship 2012 is regarded as a once-in-a-lifetime opportunity. No fewer than four Ukrainian cities will be hosting games at the group stage and billions will be invested in upgrades and new facilities.

The championship is for the country what a penalty is in football. With companies like SBK, nobody needs to worry that the opportunity will be missed.
Where exactly Ukraine’s place is on the political map of Europe, is a question that will probably be debated for a long time. The European Union has offered the country close cooperation as a neighbour, whereas Ukraine wants to become a full member of the club. While intellectuals debate and politicians prevaricate, on the ground, new realities are already being shaped.

Literally on the ground, as one of the biggest investments in Ukraine in recent years shows. It was as early as 1996 that the government approached the EBRD with a request to finance the rebuilding of the M06 highway. The road is Ukraine’s most important connection with its western neighbours. It links the capital Kiev with Lviv – with nearly one million inhabitants, one of the largest cities in the country and the economic, political and intellectual centre of western Ukraine. From here the road either connects to the border with Poland (Medyka) or Hungary (Chop), and forms part of the Trans-European Corridors III and V.

Rapidly increasing traffic levels and the poor shape of the old M06 made renovation of the road a matter of urgency for the Ukrainian authorities. Huge trucks from Black Sea ports are making their way to western Europe, while on the opposite side of the road, deliveries from Western neighbours are pouring into the country. Traffic levels have been rising dramatically and nowadays 75,000 trucks travel between Lviv and Kiev every year.

A matter of urgency requires swift work and impressive progress has been made. Eleven years on, the EBRD is already disbursing its third loan and the renovation work finished in March 2008. Fevzi Ayrancioglu is project manager of the Turkish construction company Onur, which has won the tender for road works between Liv and Brody, a stretch of more than 100 kilometres. Some 450 people were working day and night to bring the highway to a whole new standard, and all while traffic continued using it.

Who would have thought that road mending was such a massive and complex undertaking? The new road consists of three layers: base, binding and asphalt. Where possible, existing structures are being used.

Onur has not only brought its engineers and more than 80 trucks and other machinery from Turkey. The company has also set up its own plant next to the highway where they are producing their own concrete and asphalt. “We are making a special bitumen which will be particularly resistant to extreme temperatures,” Mr Ayrancioglu explains.

The task Onur has taken on is daunting. “We have built bridges, underpasses and pavements. We have straightened parts of the road and cut through hills to make dangerous sections safer. We have enlarged the road to four lanes wherever it was possible and constructed new rest areas.” Mr Ayrancioglu ticks off a long list of tasks already achieved. Equally impressive are the figures he can recite off the top of his head: “3,600 cubic metres of concrete, 720,000 cubic metres of earth works, 640,000 filling, 106,000 square metres of geo textile, 385,000 tonnes of cold mixture and 481,000 tonnes of hot bituminous mixture.”

On various occasions, Onur has also sub-contracted to Ukrainian companies, thus benefiting the local economy. In addition, “we employ as many local workers as possible,” Mr Ayrancioglu adds.

Ukraine has held more elections than usual in recent years, not exactly to Mr Ayrancioglu’s unreserved delight. “Whenever there is a campaign, politicians come here, deliver a stirring speech and promise a date for the finalisation of the project which is much earlier than we had anticipated.”

The driving time between Kiev and Lviv will be halved while road safety will be improved dramatically. Someone who will not benefit from all those improvements is Mr Ayrancioglu himself. But he is philosophical about it: “That’s our life. Once we have finished a job we have to move on to find a new one.”

Trucks travel between Liv and Kiev every year

75,000
Kiev transport

Mending the gap

Kiev Metro’s central stations are cathedrals for the modern commuter. The architecture and design may not be to everyone’s taste, but never fail to impress. References to the communist past are ubiquitous. The stations are kept impeccably clean, cleaners with huge brooms seem to be chasing passengers. Train intervals at peak times are less than two minutes. A signaling board counts down the seconds and – surprise! – the trains run on time. By the second. A ride costs 50 kopeks. That’s a third of the price of a one kilo loaf of the famously tasty and nutritious Ukrainian bread.

And yet, the citizens of Kiev are far from happy. Here is what Oleksandr Sidorov who works in the city centre has to say: “Public transport in Kiev has become just awful. I live not far from the metro, but when I go to work in the morning, trains are so overcrowded that I cannot even get into a carriage. This causes massive delays. The carriages were built in Soviet times. There are other means of transport, but buses are no alternative because there is no way to get through the early morning traffic congestion. Everything is just clogged.”

As a matter of fact, public transport in Kiev went beyond its capacity long ago. This city of almost three million inhabitants, the seventh largest in Europe, is served by three underground lines, as well as tram, bus and trolleybus routes. The metro alone carries around 600 million passengers annually on its 58.7 kilometre network with 45 stations. It is run by Kyiv-Metropolitan, whereas a second city-owned company, Kyiv PasTrans, is in charge of overground traffic.

Construction of the Kiev underground began in the aftermath of the Second World War, but it took until 1960 for the Ukrainian capital to become the third city in the Soviet Union (after Moscow and St Petersburg) to get an underground service. Geology and military considerations (the tunnels were designed as shelters in case of another war) meant that half of the stations are very deep underground – indeed the escalators seem to take passengers into the very interior of the earth.

A transport masterplan was adopted in 2003, but implementation is difficult. Running, maintaining and improving public transport are complex and expensive tasks. And there is a downside to prices below cost-recovery. It means that the operation is being run at a loss and no revenue is available for investments. Nevertheless, the government has blocked tariff adjustments approved by the Kiev city council, with the result that public transport tariffs in Kiev have not been increased since 2000.

In this complicated situation it is good to have a partner like the EBRD. The Bank is providing loans to Kyiv Metropolitan and Kyiv PasTrans of up to €400 million and €60 million respectively to support service upgrades. The funds will be used for service improvements as well as the acquisition of new underground trains, buses and trolleybuses. An increase in rolling stock should be welcome news to commuters like Mr Sidorov.

In addition, the project will provide assistance for the introduction of a new electronic ticketing system in 2008-09. Currently, passengers on the Kiev underground have to buy plastic tokens at ticket offices. Depending on the mood of the (usually female) vendor behind the window, this used to be a more or – in most cases – less charming experience, but also led to long queues and delays in an already overburdened system.

The modernisation of the public transport system could not be more timely. In 2012, Ukraine – together with Poland – will host the European football championship, and Kiev will be one of the main arenas, hosting games at the group stage and the final in the (yet to be) refurbished Olympic Stadium. UEFA’s unexpected decision has given both countries a boost that cannot be overestimated. From the top echelons of political power to the proverbial man on the street, everybody sees the championship as a unique opportunity.

But the challenges and needs are enormous. Kyiv Metropolitan recently announced ambitious expansion plans to accommodate the expected increase in traffic. Over the next five years, the company is planning to invest US$ 3 billion in the biggest expansion of its network ever: two new underground lines are being planned with four to five stations being built every year. By comparison, the local metro construction company can presently only build one station a year.

The biggest project will be the construction of a fourth underground line connecting Kiev’s main international railway station Voksalna with the borough of Troyeshchina on the city’s right bank. The project includes 12 new stations and construction of a new bridge over the Dnepr River. In addition, two of the three existing lines will be extended, while the planned fifth line is not expected to be in operation until after 2020. The total costs to put Kiev’s infrastructure in order for the Euro 2012 tournament have been estimated by the city administration at nearly US$ 8 billion. Long before the national team of Ukraine will have the opportunity to score its first goal, the people will have won as the beneficiaries of a new and improved infrastructure.

600 million
Passengers use the Kiev Metro every year
ArcelorMittal Kriviy Rih

How the steel was tempered

Probably the best way to approach Kriviy Rih is through cyberspace. Google Earth will take you to the central Ukrainian city at breakneck speed before the image stalls 90 metres above the ground. From this distance you can see how the city is wrapped around the largest hole in the ground in continental Europe. This is the city’s main open-pit mine where iron ore is extracted.

Exploration of the region’s ore started in the 18th century. The name Kriviy Rih means “curve of a horn” and indicates how the buildings followed exploration efforts, grouped around the mines. But it is not until 1880 that the commercial utilisation of the region’s natural resources starts. Within a century the Kriviy Rih basin would become the world’s largest area of iron ore extraction.

In addition to iron ore, Ukraine is self-sufficient in coke, manganese and various other materials. Ukraine was the metallurgical workshop of the former Soviet Union. It used to be second in the world in steel production and fourth in iron casting. In steel production per capita, Ukraine was number one in the world.

The biggest steel plant in Ukraine is the Kriviy Rih steel plant. It is also the second biggest steel plant in Europe and one of the biggest in the world. Despite being profitable even in difficult times, the plant made headlines for all the wrong reasons in 2004, when it was “privatised” in a flawed process which generated not much more revenue than the asking price.

The plant made headlines again after the “Orange Revolution” when the new powers made it a showcase to demonstrate their seriousness about installing a different order. After a court annulled the previous “privatisation” (which had taken the idea a bit too literally), the plant was sold again in a transparent and fair competition in 2005. The winning bidder was Mittal Steel with an offer of US$ 4.88 billion for 93.7 per cent of the shares of Krivovitshstal, as the plant was still known then. This was six times higher than the first “privatisation” one year earlier.

On top of that Mittal Steel – today known as ArcelorMittal, and the biggest steel producer in the world – accepted various obligations and entered into a number of commitments. One priority area from the outset was the modernisation and environmental upgrade of the facility. It is here that the EBRD stepped in.

“Together with our counterparts from Mittal we sat together and very quickly developed an environmental action plan and an energy efficiency improvement plan,” says Holger Muent, the Bank’s operation leader for the project. “A large portion of our loan went into energy efficiency measures.” Within two months Mittal Steel and the EBRD had agreed on a US$ 200 million loan from the Bank, which was approved in March 2006.

Time was of the essence because the investment needs were (and still are) enormous. The energy efficiency improvement plan alone included, among other things, modernisation of the air separation unit, installation of energy efficient burners in ten furnaces and switching fuel from natural gas only to a mixture of coke oven, blast furnace and natural gas. The implementation of the plan resulted in a reduction of electricity and gas use. This is of national significance, because of the size of the plant. The measures have also led to a significant reduction of greenhouse gases.

But this was only the beginning. At the end of 2007, ArcelorMittal announced plans to invest US$ 2 billion in the plant by 2012. The funds will be spent on the modernisation of existing facilities as well as the construction of new installations like a sintering shop, a new converter shop with a continuous casting plant and a hot-strip mill with annual capacity of 5 million tonnes. With all its investments the company plans to expand annual production of steel to 12 million tonnes by 2012 from 7.7 million tonnes in 2007. “The expansion is bigger and faster than anyone could have foreseen,” says Mr Muent.

With more than 55,000 employees the plant is also a major employer in Kriviy Rih, a city of some 700,000 people. More than 90 per cent of the local workforce holds jobs which are linked with mining and metallurgy. This is not going to change: the estimated iron ore reserves in the region amount to 32 billion tonnes. Recent exploration has also discovered other metals like zinc, tungsten and molybdenum.

“With its large reserves and excellent rail and river links, the plant’s potential is very strong,” says Mr Muent. He visits Kriviy Rih about twice a year and is impressed with the progress which has been made. “Everything we had planned and agreed on has been implemented.” A vibrant steel plant also means a vibrant city: “Things are very lively here.”

In 1936 when Nikolai Ostrovski published How the Steel was Tempered, his socialist realist masterpiece, Stalin’s power had already become unassailable and the USSR was in the midst of its second five-year-plan, which gave heavy industry top priority. All the harder was the fall when a new era began.

Today, the chimneys of Kriviy Rih are smoking like never before – thanks to ArcelorMittal and the EBRD they are doing it in a way that is much more environmentally friendly than before.
Chernobyl

The day lasts more than a hundred years

For one of his most beautiful novels, the acclaimed Kyrgyz writer Chingiz Aitmatov has chosen a line from a poem by Boris Pasternak as the title: 

And Longer than a Century Lasts the Day.

A better description of the task to overcome the legacy of the accident at the Chernobyl nuclear power station in 1986 can hardly be found. The disaster happened within seconds, but resolution may well take a century. The day that dawned in Chernobyl on 26 April 1986 at 01:23:40 when reactor 4 exploded has not yet ended.

The EBRD has been involved in the efforts to clean up the site and transform it into an environmentally safe and secure state since 1997. It was then that the G7 countries (Russia was admitted as a member one year later, thus making it the G8) and the government of Ukraine agreed on a joint approach to deal with the unresolved issue of Chernobyl. After the accident a so-called sarcophagus was erected in extremely hazardous conditions and under intense time pressure, but from the outset it was clear that this would only be a temporary solution.

The international community then decided to appoint the EBRD as administrator and manager of the Chernobyl Shelter Fund. Over the ensuing years, 23 countries and the European Community became contributors to the fund, which now has binding pledges worth some €800 million.

These funds are being spent on the transformation of Chernobyl under a comprehensive master plan. The most visible and spectacular project within this framework is the New Safe Confinement which will contain the remnants of the reactor for at least 100 years, during which time a permanent solution for the nuclear waste must be found. On 17 September 2007 the long-standing efforts and commitment of the international community and the EBRD came to fruition when a contract was signed for the construction of this giant, arch-shaped structure which would be big enough to house London’s St Paul’s Cathedral. A contract for the Interim Storage Facility-2 was also signed.

Vince Novak, Director of the EBRD’s Nuclear Safety Department, says: “The signing of these two contracts is of historic significance: we now have solutions and plans for the two most important and difficult tasks. Twenty-one years on, it may seem as though it’s taken us all a long time to reach this point, but you cannot imagine the level of complexity and difficulty involved in the implementation.”

The New Safe Confinement is the pièce de résistance of the Shelter Implementation Plan. But because it is such a spectacular project it is easy to overlook how much has already been achieved over the past ten years: the existing sarcophagus has been stabilised to eliminate the danger of its sudden collapse, new facilities have been constructed, new safety and emergency regulations have been put into place and the site has been prepared in terms of infrastructure, safety and access to enable the assembly of the new structure. In total, more than 85 contracts have been finished in more than five million work hours.

Over two decades after the accident, Chernobyl very much resembles the secret launch site Aitmatov describes so vividly in his novel. More than 335,000 people were evacuated from the area after the explosion of reactor 4. The 30 kilometre exclusion zone around the plant will remain uninhabitable for decades. Working to mitigate the effects of the 1986 accident is a whole new experience for all parties concerned – from the people on the ground to the representatives of the donor governments.

Ten years of preparations, discussions and negotiations have demonstrated that progress and success are possible in the most complicated matters when all parties concerned act together – from the bottom to top and top to bottom. This is not always easy, but it is the only way forward. The EBRD is well aware that a milestone agreement has been signed, but that the job is not finished by far (yet). As Aitmatov’s writes: “Giving up is simply not an option.”

26 April 1986

The day of the nuclear disaster at Chernobyl
Health and safety

Tackling the high rate of industrial accidents

By Anthony Williams

The EBRD has put health and safety firmly on the Bank’s agenda, responding to the often fatal accidents that continue to blight industry in many of the countries where the EBRD is active.

Health and safety has been a feature of the EBRD’s environmental mandate ever since its creation in 1991, but even more intense efforts are now planned to address the challenges of worker safety. “This must now become the norm in our activities, especially in extractive industries, but also in the transport sector,” EBRD President Jean Lemierre said.

In mining in particular, accident and fatality rates remain unacceptably high in many countries of operations – but the problem also extends to heavy industry.

Ukraine has the second worst coal mine death rate in the world after China, with a total of more than 4,000 fatalities since 1991.

And the dangers remain inherent across the whole of the former Soviet Union. In March 2007, over 100 Russian miners lost their lives after a blast at the Ulyanovskaya mine in Siberia, an event described as Russia’s worst mining disaster for a generation.

Recent EBRD projects have already started to raise the profile of health and safety. In June 2007, a US$ 100 million loan to ArcelorMittal in Kazakhstan was aimed specifically at modernising the steel company’s coal mines and bringing health and safety standards in line with international best practice.

Health and safety issues are also central to a training programme for Mongolia’s mining industry that was launched in May 2007 by the EBRD and the Mongolian government.

EBRD’s Natural Resources Director Kevin Bortz says the Bank has a chance to make a real difference in this sphere. “We will offer loans on commercial terms. But there will be explicit conditions as far as safety is concerned.”

Under consideration is a whole series of initiatives that could be supported by EBRD funding: streamlining the management of mine safety and accident prevention systems; adopting regulatory, legal, organisational and methodological requirements for mine safety; and raising the standard of training of workers. In addition, there could be measures to carry out seam degassing programmes.

EBRD officials say it is no longer tolerable to accept industrial accidents simply as an unpleasant but inevitable fact of life. According to Mr Bortz, the EBRD’s drive is not simply a question of the installation of state-of-the-art equipment to raise standards out of Soviet-era dilapidation. “We will be working with regulatory authorities. In some countries legislation has to change,” he says. “But it is also a question of addressing the mind-set.”

Alistair Clark, the EBRD’s Director for Environment, agrees. “There has to be a cultural change. We have to make sure that minimising risk is a core objective of the companies we work with.” This stretches across many sectors such as gold, copper, coal, oil and gas and refining, as well as the construction industry.

Health and safety is also highly relevant to the transport sector. EBRD projects already take into account the safety of the ultimate users of new roads or railway systems, as well as that of workers involved in the construction phase.

The EBRD’s Business Group Director Riccardo Puliti says it is crucial to get all the basics of transport safety right. That includes road design to avoid black spots and excessive changes in gradient and to ensure correct road alignment. Another key factor, Mr Puliti says, is signalling in railways. “A failure of signalling is the worst possible thing that can happen on a rail or underground system.”

But he wants to do more. Up to now the EBRD has concentrated mainly on what he calls the hardware: basic infrastructure and equipment. Now, he says, it is time to discuss funding software. “That’s the people and the education of the people who are affected.”

He points out that road safety education, especially for young people, is important. Better training for police forces to help inculcate a greater sense of the importance of road safety is also crucial.

Training to raise awareness of the dangers of drunk or dangerous driving, a particular hazard in some EBRD countries of operations, could be an additional target for EBRD funding, Mr Puliti adds.
Donor funds

Improving lives at the grassroots

By Marjola Xhunga

This is what the EBRD and its donors aimed to achieve when they established the Early Transition Countries (ETC) Initiative and its multi-donor Fund in 2004.

The Initiative was created to respond to needs of the Bank’s poorest countries of operations: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. Mongolia joined the Initiative in 2006.

“Four years ago we promised donor governments that we would deliver,” said EBRD’s Business Group Director Olivier Descamps.

Over 100 projects in the ETC countries have helped bring clean water, electricity and roads to impoverished areas.

Twelve donor governments have pledged about €50 million in support of the Fund.

“The ETCs continue to lag in their transition to market economies and large parts of their population still live below the poverty line,” explains Hans Peter Lankes, the EBRD’s Deputy Chief Economist. “Growth is the key driver of poverty reduction. The ETCs need the Bank and its donors to make a positive impact on people’s lives by boosting the private sector, by creating jobs and by ensuring that infrastructure and financial services don’t constrain growth,” he added.

For example, €1 of donor funds for the ETCs generates €24 of EBRD investment and €30 of the total cost of a project. These figures are translated into clean water for the citizens of Kutaisi in Georgia, access to finance for women living in far-flung areas in Mongolia or new jobs in Moldova.

Donor funds are also aimed at areas crucial for the ETCs’ development, such as institution building, legal transition, and the strengthening of local businesses and the general investment climate.

The figures so far are impressive: the Early Transition Country Initiative (ETCI) has led to a fivefold increase in the number of investment projects signed in the ETCs by the end of 2007 (to 105) compared to 2003. The annual business volume increased from €53 million in 2003 to €416 million in 2007.

“The Early Transition Countries need the Bank and the donors to go forward,” says Kazuya Murakami, the EBRD’s Director for Japan.

Following the success of the ETC Fund in coordinating assistance to the poor countries, the EBRD and its donors established the Western Balkans Fund in 2006. The region, known as the Western Balkans, has seen it all – communism, war, national disintegration, democracy, market economy and more challenges ahead.

“The EU accession prospects have been good for the region but there is still work to be done to improve the business environment in FYR Macedonia, Montenegro and Serbia, to upgrade infrastructure in Albania and to help with large-scale privatisations in Bosnia and Herzegovina,” says Claudio Viezzoli, the EBRD’s Director for the Western Balkans.

The Bank has invested about €2.7 billion since 1991 in 222 projects in the Western Balkans.

More remains to be done. Thomas Wieser, Director General at the Austrian Federal Ministry of Finance, explains: “If the EBRD and other multilateral organisations can be catalysts for improving infrastructure and making these economies trade with each other and grow together, then we will have helped more than we would have done through bilateral agreements.”

Fifteen donor governments have pulled together over €14 million to fund over 20 projects in the Western Balkans.

Thomas Wieser argues: “The Western Balkans Fund provides the answer to donor coordination and gives a coordinated response to the region’s needs.”

In the next two years, the EBRD will step up its role in improving policy dialogue between countries in the Western Balkans, will increase energy-related investments, will do more to improve municipal services and will improve access to finance to local companies and make them more bankable.

“To do these, we need donor support,” explains Gary Bond, Director of the EBRD’s Official Co-financing Unit, responsible for managing donor funding for the EBRD’s projects. “In particular, the Western Balkans need investment grants to bridge the gap between the funds needed for investments and the local capability to borrow.

The European Union

The largest contributor to the EBRD

“Donor funding for the EBRD’s countries of operations has grown steadily from €66 million in 1991 to €1.3 billion in 2007. The largest contributor has been the European Union (EU), working through the European Commission and the European Agency for Reconstruction (EAR). Other main donors have been Italy (including contributions through the Central European Initiative), Japan and the United States.”