DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR THE RUSSIAN FEDERATION

Approved by the Board of Directors on 21 October 2002

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PRESIDENT'S RECOMMENDATION

The Russian Federation remains committed to the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank. Since the previous Strategy was adopted, Russia's political and economic stabilisation has improved and further progress is expected.

Over the ten years EBRD has been working in the Russian Federation the Bank has become a well established partner for the Russian authorities, foreign investors and Russian companies. The Bank's local presence through its offices in Moscow and in the regions has allowed the Bank to accumulate specific expertise and has helped to gain the trust of its partners. The EBRD's portfolio now covers a diverse range of industrial sectors with projects located in the majority of the Russian regions, utilising a wide variety of financial products. The EBRD will share its unique expertise in Russia with other international institutions to the benefit of the country and according to its mandate.

A key driver of the recent reforms is the political will of the current administration and constructive working relations with a more reform-minded Duma. On the political front, the authorities have pushed through important reforms on strengthening the federal system, restoring rule of law, and consolidating the political party system. The current administration has sought to create a common political, legal, and economic space and to put centre-region relations on a sounder, more predictable basis. This has given way to successive waves of economic and legal reforms, but improved efforts to crack down on corruption and improve corporate and public governance, are still needed to further improve the investment climate. A key to reform success in the future is "deep" democratisation – meaning the consistent and sustained implementation of the principles of pluralism, and open society, including media freedom and human rights.

The country's macroeconomic performance over the past two years has been impressive, with GDP and domestic investment growing consistently. Macroeconomic stability and growth, together with positive changes in debt management policies, have improved Russia's creditworthiness significantly. The pace of output recovery, albeit not evenly across all regions, remained robust despite a deterioration in the external economic environment over the last year, as domestic demand replaced import substitution as the main driver of growth. However, strong real wage increases together with a real appreciation of the rouble are eroding Russia's competitive advantage. Investments have so far been concentrated in the natural resources sectors.

The consolidation of public finances continues to be the single most important stabilisation achievement. The period of high oil prices has been used, prudently, to establish sizeable fiscal reserves. Large current account surpluses, together with a fairly stable exchange rate allowed a dynamic accumulation of international reserves. Although inflation has been on a declining trend, the rate of decline has recently slowed. Reducing inflation further will be a key condition for future macroeconomic stability.

Following the adoption of the government reform programme in mid-2000, structural and institutional reforms have accelerated. This has already led to a major overhaul of the tax regime, a reduced scope for bureaucratic interventions in the economy, the start of pension reform and the reform of the judiciary, the adoption of new labour and land codes and stronger legal defences for investors.

The implementation capacity of the authorities, especially at the regional and local levels, will be seriously tested in the new reform stage. The relationships between the federal, regional and local levels of government are still evolving. Strengthening trust in the new rules of the game and in the state authorities remains a fundamental challenge across regions, sectors and institutions alike.

While Russia has made significant progress, growth has been aided by high international oil prices and a competitive real exchange rate. In the longer term, Russia needs to increase productivity and close the technology gap throughout all industries with OECD countries if it is to harness sustainable growth. Achieving sustainable growth requires progress in a number of areas.

While Russia's natural resource wealth is an asset for the country, closing the income gap with Western and Central Europe will increasingly depend on high growth rates and restructuring efforts and investment in other sectors.

Given the remaining weakness of and continued low level of confidence in the financial sector, financial intermediation remains fundamentally constrained. The development of a sound financial system will be key to the diversification of activity and ownership in the real sector.

Most of Russia's infrastructure is suffering from decades of under-investment, artificially low tariffs and limited private sector participation. Substantial restructuring of the sector is necessary to attract the resources necessary to reverse this decline.

Integration into the world economy, including membership in the WTO as well as further deepening of the relationship with the EU, will provide important external anchors for Russia's future structural and institutional reforms.

The Bank will respond to these challenges by deploying its full range of investment and lending facilities. The Bank will proactively seek to catalyse business development in a wider array of Russian regions, which will result in regional diversification of its portfolio. A series of federal reforms, clarifications in fiscal federalism, and rule of law reforms will enable this process. The Bank will continue its efforts to cluster operations, policy dialogue, and technical assistance in regions where local government is constructive and investment potential and needs are high. Thus, a core regional or municipal infrastructure project (or other major local obligor and investee company) would form the nucleus of a concentration of Bank activities to include stepped-up SME lending (including through regional banks where possible), technical assistance to improve the investment climate, projects to promote sustainable (i.e. environmentally-friendly) development, and regional economic diversification.

The Bank will ensure that all its operations in the Russian Federation are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans. The Bank will give due consideration to the social impact of its operations particularly dealing with basic utilities. The Bank will continue to support the Northern Dimension Environmental Partnership, which is an example of the Bank's and its shareholders' commitment to Russia's environmental protection and regional development, and will continue to draw from the lessons learned from the Bank's experiences in the Russian Federation and its other countries of operation.

The main priorities for the time horizon of the new strategy will be:

- **Promoting restructuring in infrastructure**

  The Bank will focus its efforts on working with the government to restructure the natural monopolies, promoting competition and supporting their investment needs, their commercialisation, and where reasonable their eventual privatisation. In the power sector the Bank will continue its co-operation with the government and the utility companies to develop a framework for the reform and restructuring of the sector and the Bank will continue to support its implementation through its investment activities.

  The Bank will also focus working with the government to identify sovereign operations involving major sector reform elements and environmental improvements, and on identifying municipalities that can enhance their creditworthiness. Once the amendments to the legislative and regulatory environment allow the Bank to raise long-term Rouble resources, a further expansion in this area will be possible.

  Given the demand for investment and the scale of the task, the Bank will select projects, carefully taking into account factors such as the promotion of private sector involvement, environmental improvement, energy saving investments as well as the priorities of the Russian Government.

- **Encouraging restructuring and attracting strategic investors in the corporate sector**

  To support the restructuring and modernisation of large companies and industrial subsectors the Bank will mobilise expertise and adequate resources, and can develop leverage to generate changes. The Bank will provide financing for quality Russian companies and foreign strategic investors that have demonstrated commitment to good business practices. In supporting specialised producers of components and intermediate goods, the Bank can promote Russia's attraction as a production base for major producers. Special emphasis will be given to projects that diversify the economy away from natural resource extraction. In this respect the Bank will seek to develop visible projects with companies that can compete in international markets and can promote Russia as an investment destination.

- **Strengthening small business development and expanding regional coverage**

  The Bank will continue to concentrate its efforts on the Russian Small Business Fund (RSBF), the KMB Micro-Credit Bank and Regional Venture Funds (RVFs), and on broadening the range of financial intermediaries, including regional banks. The Bank will seek to expand the RSBF, especially in the regions and municipalities, where the policy environment and sound banking considerations permit and synergies with other Bank operations can be achieved. The Bank will also focus on greater penetration in regions not yet covered. The Bank will contribute to regional and federal SME support programmes by offering existing know-how, financing and other products.

- **Enhancing competition and supporting financial sector reform**

  The Bank will take a pro-active role in support of financial sector reforms, capitalising on the recent banking sector reforms proposed by the Central Bank and the opportunities provided by developments in the non-bank financial institutions (pension reform, capital market developments). The Bank will look for new clients among the private banks and regional banks, and will support foreign-owned banks with subsidiaries in Russia. In addition the EBRD will actively support any measures the authorities undertake that create a level playing field between state owned and private banks, raise the efficiency and help to de-politicise the state owned banks and eventually prepare them for privatisation. The Bank will continue to support non-banking financial institutions such as in the insurance and leasing sectors as well as pension initiatives.

As a result of the reforms already implemented and the remaining challenges identified in this strategy, the Bank recognises that its role in Russia will continue to grow and expects its new business in the Russian Federation to account for a growing share of its total new business. Over time this will lead to a significant increase of Russian projects in the overall Bank portfolio.

ABBREVIATIONS

BSTDB	Black Sea Trade & Development Bank
CAS	Country Assistance Strategy
CBR	Central Bank of Russia
CC	Civic Code
CEO	Chief Executive Officer
CPI	Corruption Perceptions Index
DFID	Department for International Development
DIF	Direct Investment Facility
EC	European Commission
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
EU	European Union
FATF	Financial Action Task Force
FBL	Federal Law on Insolvency (Bankruptcy)
FCSM	Federal Commission on the Securities Market
FDI	Foreign Direct Investment
FSFO	Federal Service for Financial Rehabilitation
FY	Financial Year
GDP	Gross Domestic Product
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development, World Bank
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
ISO	International Standards Organisation
JSC	Joint Stock Company
JSC Law	Law on Joint Stock Companies
KMB	KMB Micro-Finance Bank, Russia Small Business Credit Bank
MAP	Ministry of Anti-Monopoly Policy
MCI	Ministry of Communications and Informatisation
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
MPS	Ministry of Railways
NATO	North Atlantic Treaty Organisation
NCCT	Non-Cooperative Countries and Territories
NDEP	Northern Dimension Environmental Partnership
NGO	Non-governmental Organisation
NIB	Nordic Investment Bank
NSA	Nuclear Safety Account
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
PACE	Parliamentary Assembly of the Council of Europe
PSA	Partnership and Co-operation Agreement
RAS	Russian Accounting Standards
RSBF	Russia Small Business Fund
RUR	Russian Rouble
RVF	Regional Venture Fund
SAL	Structural Adjustment Loan
SBA	Stand-By Agreement
SCO	Shanghai Co-operation Organisation
SDR	Special Drawing Rights

SIC	Sector Industry Code
SME	Small and Medium Sized Enterprises
SML	Law on the Securities Market
TA	Technical Assistance
TACIS	Technical Assistance for CIS Countries
TC	Technical Co-operation
UES	United Energy Systems
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VTB	Vneshtorgbank
WTO	World Trade Organisation

1. THE BANK'S OPERATIONS TO DATE AND CURRENT PORTFOLIO

1.1 Overview of Bank Activities to Date

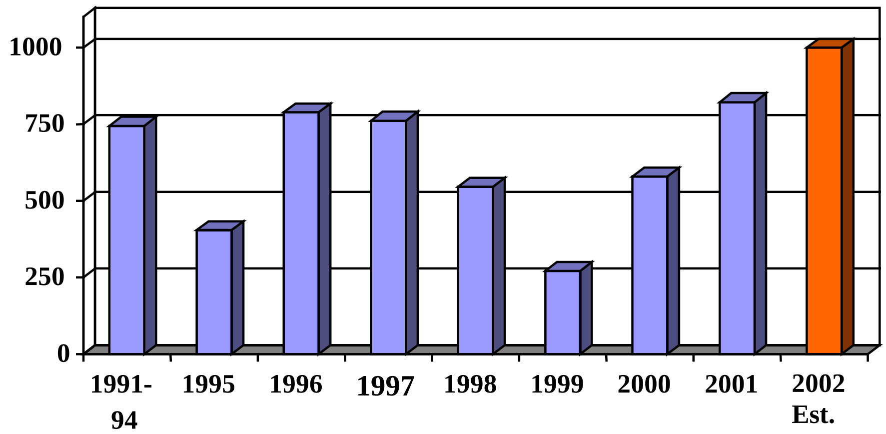
Since the start of operations in Russia in 1991 through June 2002, the Bank's Board of Directors has approved EBRD financing of EUR 4.5 billion for investments, and a total project value of EUR 12.7 billion, approximately 22 per cent of total Board approvals during this period. Russia has the largest share of cumulative commitments signed by the Bank (20.4 per cent), EUR 4.0 billion of which EUR 2.8 billion have been disbursed.

As of 30 June 2002, the Bank's Russia portfolio was EUR 2.5 billion (18.6 per cent share of the Bank's overall portfolio) with operating assets of EUR 1.7 billion. The Bank has also actively mobilised EUR 3.3 billion of co-financing for 118 operations in Russia, in the form of direct participations, equity, parallel loans, grants, guarantees, IFI loans, political risk insurances and bonds working with 101 financial institutions world-wide.

In addition to the investment projects, the Bank mobilised 1458 technical co-operation (TC) commitments, with total funding of EUR 245 million made available by bilateral and multilateral donors, of which EUR 215 million have been disbursed as of June 2002. Support for small and medium-size enterprise facilities account for more than 70 per cent of the utilisation of these TC funds.

As a result of the August 1998 financial crisis, the Bank's new business activities in Russia slowed to EUR 217 million in 1999, but have picked up again in 2000 and 2001 with signed investments totalling EUR 579 million and EUR 822 million respectively (see Chart 1). In 2002, full-year new business commitments are expected to reach EUR 1 billion.

Chart 1: Annual Business Volume in Russia 1991 - 2002 (EUR million)



Syndication markets have also slowly reopened for Russia from 2000. The Bank has witnessed a significant turnaround from just one 'B' loan recorded in 1999 to 30 'B' loans providing more than EUR 479 million in commercial co-financing in 2000 and 2001. In 2002 the Bank expects to syndicate approximately EUR 300 million.

During the period of the previous strategy (2000-2002), EBRD signed 83 new investments. Of these, 38 were for financing SMEs either through the RVFs (32), DIF (3), or the KMB and Sberbank loans for the RSBF. During this period the majority of

EBRD direct transactions were with locally owned companies (52), while the Bank also supported 20 foreign direct investors. Over 60 per cent of the transactions (50 projects) were financed by either equity or quasi equity, some of which also had a loan component. No sovereign guaranteed transactions were signed during this period and only six transactions were with majority state-owned companies.

During the past two years the quality of the Bank's portfolio has improved considerably. This was a result of the Bank taking an active approach to portfolio management, including the restructuring of problem projects and cancellation of transactions that were signed but could not or unlikely to be disbursed.

Table 1: Portfolio data 1995 - 1H2002 (EUR million)

	1995	1996	1997	1998	1999	2000	2001
Stock:							
Portfolio	963	1,655	2,256	2,602	2,296	2,361	2,665
Operating Assets	295	650	1,144	1,486	1,652	1,529	1,788
Non-Accruals	4	4	94	179	383	261	113
Impaired Equity	2	2	32	120	161	131	99

The 1998 financial crisis required the Bank to increase significantly (to more than EUR 450 million) its specific provisions, predominantly against exposure to financial institutions (50 per cent) and general industries (35 per cent). The successful implementation of active restructuring programmes has permitted the Bank to undertake substantial (over EUR 160 million) reversals of specific provisions mostly in exposures to general industries (43 per cent), in natural resources (12 per cent) and in some financial institutions (38 per cent).

1.2 Main Characteristics of the Portfolio

The Russia portfolio has some notable differences from the Bank's overall portfolio. The share of public sector operations is far lower, as is the share of equity. Investments in manufacturing and natural resources, micro-finance and high-risk equity are relatively prominent, while infrastructure to date represents a significantly lower share than is typical for other countries of operations. The portfolio also reflects the Bank's efforts to spread investments across Russia's regions.

The *private / public sector ratio* stood at 81 per cent in June 2002, compared with a Bank average of 68 per cent. Of EUR 629 million in outstanding commitments to public sector projects, EUR 236 million had been disbursed by June 2002, a ratio that conforms broadly with overall Bank experience. The country's tight budgetary situation in the past has limited activity in this field. It is worth noting, however, that even at the height of the 1998 financial crisis, all debt servicing obligations on the Bank's sovereign portfolio were met on time and in full.

The debt/equity/guarantee breakdown of the Russia portfolio is the following: EUR 1.8 billion of the portfolio, or 71 per cent, is debt financed. Equity financing is 21 per cent of which 56 per cent is through equity funds. A substantial portion of the remaining equity financed directly by the Bank is quasi equity, i.e. portage equity with debt characteristics. Guarantees contribute to an 8 per cent share of the portfolio.

Sector composition: As of June 2002, the Bank's portfolio in Russia included 224 projects, of which 150 were in the financial sector (including RVFs and RSBFs), 31 in specialised industries, 22 in general industry, 16 in natural resources and energy sector and 5 in infrastructure.

Following the 1998 banking sector crisis in Russia, the Bank's financial institutions portfolio changed significantly. Small and medium size businesses were targeted both directly and indirectly. This was achieved through the RSBF and equity funds.

Table 2: Sectoral Review of the Bank's Portfolio

As at 31 August 2002 - EUR million

Business Group (SIC)	Sector Team (SIC)	No. Ops.		Portfolio (EUR million)	
Energy	Natural Resources	12	5%	454	18%
	Power and Energy	4	2%	183	7%
Sub-total Energy		**16**	**7%**	**637**	**26%**
Financial Institutions	Bank Equity	6	3%	36	2%
	Bank Lending	18	8%	261	11%
	Equity Funds	102	46%	285	12%
	Non Bank Financial Institutions	5	2%	35	1%
	Small Business Finance	19	8%	87	4%
Sub-total Financial Institutions		**150**	**67%**	**707**	**29%**
General Industry	General Industry	22	10%	468	19%
Sub-total General Industry		**22**	**10%**	**468**	**19%**
Infrastructure	Municipal & Environmental Infrastructure	3	1%	96	4%
	Transport	2	1%	94	4%
Sub-total Infrastructure		**5**	**2%**	**190**	**8%**
Specialised Industries	Agribusiness	15	7%	270	11%
	Property, Tourism and Shipping	10	4%	88	4%
	Telecoms, Informatics and Media	6	3%	115	5%
Sub-total Specialised Industries		**31**	**14%**	**473**	**19%**
RUSSIAN FEDERATION TOTAL		**224**	**100%**	**2,475**	**100%**

The general manufacturing industries and the specialised industrial sectors (agribusiness, telecommunication, property, tourism and shipping) have significantly increased their share in the Bank's Russia portfolio, was close to EUR 1 billion (38 per cent) by the middle of this year.

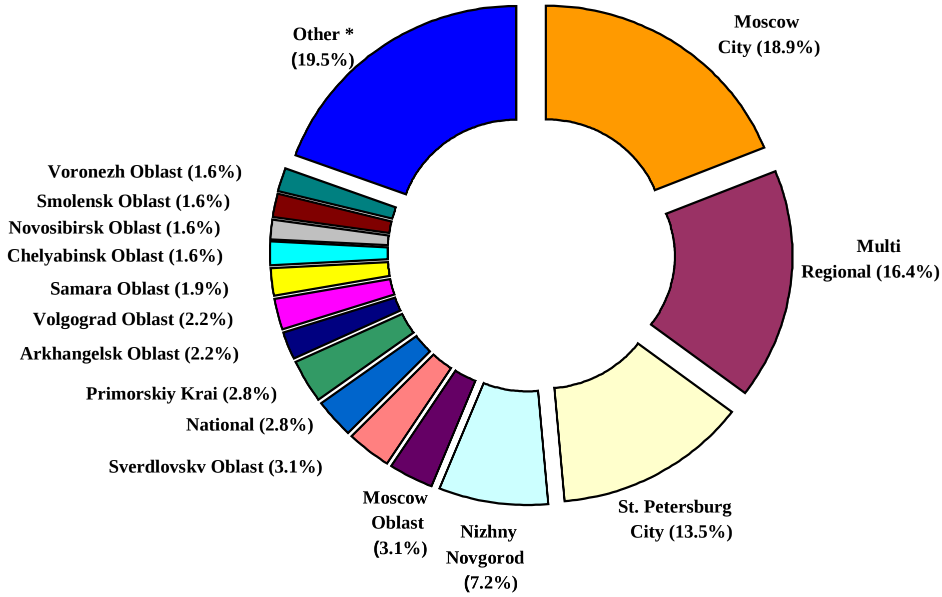
About 26 per cent of the Bank's portfolio (EUR 637 million) is in the energy sectors, mostly contributing to the modernisation of Russia's oil industry and helping in the restructuring of the power sector.

Infrastructure is presently less than 8 per cent of the Bank's portfolio. However, the Bank's infrastructure project pipeline during 2002 has significantly increased, including major investments in road transport, leading to a more significant share of infrastructure of the portfolio in the future.

The *regional composition* of the portfolio has become more diverse over time. The Bank's larger direct investments have been concentrated in less than 20 regions, while its wholesale initiatives like the RVFs, the RSBF and other projects intermediating Bank financing have reached clients in more than half of Russia's 89 regions. As a result the Bank has projects in 45 Regions of the Russian Federation – in addition to multi-regional projects – while Moscow City and St Petersburg together account for almost one-third both in the total number of projects and the volume in the Bank's portfolio of Russia.

A part of the Moscow portfolio is for financing Russian companies with the HQ in Moscow, although actual investments are in different parts of Russia, where these companies operate.

Chart 2: Russia Portfolio by Region as at 30 June 2002 (by number of projects)

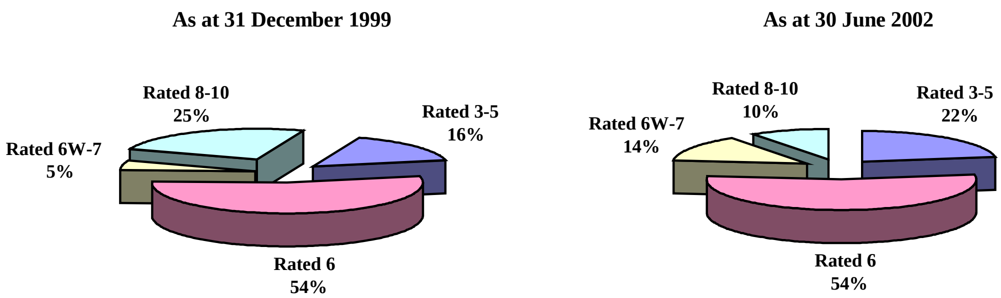


*32 other regions where the Bank has fewer than 4 projects.

1.3 Financial Performance of the Existing Portfolio

The weighted average facility *risk rating* of the Bank's outstanding commitments improved significantly during the last two years to 6.0 by the end of June 2002. The risk rating had deteriorated from 5.8 just before the crisis in 1998, to 6.5 by the end of 1999.

Chart 3: Portfolio Facility Rating by Number of Projects



The share of problem and potentially problem projects (rated 6W-10) in the Russia portfolio contracted by 20 per cent over the last two years to 24 per cent of the outstanding commitments. Following a peak after the Russia crisis, the stock of impaired assets decreased by 61 per cent between 1999 and 2002, of which 47 per cent was written-off and as a result of the Bank's active restructuring efforts, 53 per cent was salvaged. Furthermore, the share of projects in the portfolio rated 6 has remained at 54 per cent, the share of lower risk projects (rated 3-5) increased from 16 per cent to 22 per cent over the same period, indicating significant improvement in the quality of the portfolio.

1.4 Transition Impact of the Bank's Portfolio

During the first decade of Russia's systemic transformation the country's operational and reform environment had been highly volatile. The stabilisation and reform process was characterised by rapid but inconsistent advances followed by major setbacks. The authorities' policy and reform implementation capacity was limited by strong political opposition and the ongoing deep confidence crisis permeating Russia's economy and society. In this context the Bank launched a number of high-profile projects designed to support major reform initiatives, including the privatisation process, institutional support for banking reforms and capital market infrastructure, efforts to develop municipal financing and reform of the railway system, legal reforms and the introduction of a range of new financial instruments.

However, the systemic impact of these programmes was limited by the weaknesses in the overall reform process and the frequent adverse changes in the macroeconomic environment. The same factors also reduced the efficiency of the general policy dialogue process between the Bank and the Russian authorities. Russia's macroeconomic and reform performance over the last two years is gradually translating into improvements in the investment environment. The structured dialogue with the government also contributed to the better prioritisation of their investments in infrastructure.

Setting high standards of transparency and corporate governance in client selection, project design and deal structuring has become the key transition objective for the Bank's operations since the mid-90s. The due diligence on new clients has been stepped up to check the quality, reputation and the incentives of managers and owners combined with integrity checks where concerns arise. Strong business reputation and credible commitment to change in the areas of business and governance standards have become the precondition of any new transaction. Organisational and financial transparency, including audited IAS accounts, disclosure of beneficial ownership of client companies, maintaining an arms length relationship with related parties, and protection of minority shareholders have become a regular part of project covenants.

At the sectoral and individual project levels the picture is on the whole encouraging. The table below summarises the findings of the Transition Impact Retrospective Companion Paper regarding the intensity of the transition impact of the Bank's operations across Russia's main sectors until early 2001.

Table 3: Sectoral Impact of Bank Operations in Russia

SECTOR OF ACTIVITY	TRANSITION IMPACT as at early 2001	CURRENT ASSESSMENT as at October 2002
FINANCIAL INSTITUTIONS		
Banking	Minimal	Has become moderate
Non-Banking financial institutions	Minimal	
SMEs	Very Significant	
CORPORATE		
Agribusiness	Significant	
Natural resources	Moderate	
Property & Tourism	Minimal	
Telecommunications	Moderate	Becoming significant
General Industry	Moderate	Becoming significant
INFRASTRUCTURE		
Energy Efficiency	None	
Municipal & Environmental Infrastructure	Moderate	Becoming significant
Power	Minimal	Has become moderate
Transport	Moderate	
LEGAL SYSTEM	Significant	

The Bank has made a major and highly visible contribution to transition in the area of SME development. This impact involved major achievements in institution-building in terms of financing instruments and other support institutions as well as disseminating SME-related skills and know-how over substantial part of Russia.

The Bank's impact on the Russian banking sector and non-banking financial institutions had been minimal. The Bank's system forming framework transaction, the Financial Institutions Development Project together with a number of equity investments and credit lines with large banks failed mainly in the context of the Russian financial collapse in August 1998 and the subsequent period of bank insolvencies (some of which went unrecognised) and large-scale asset stripping. Since the crisis the Bank's transactions have been limited, until recently, to working with foreign banks and joint venture banks because they could really demonstrate transparent, independent and market-oriented business conduct and promote competition within a system dominated by the state banks and the pocket banks of specific industries or conglomerates.

In general industry, tangible transition impact has been achieved and strengthened recently in a number of specific subsectors, primarily in projects involving foreign strategic investors. Strong sponsors with substantial experience in the region and a long-term horizon have contributed to the consolidation of some industrial subsectors and to setting technological, quality and general business standards. They have also provided a key source of transfer of technology and know how, market-oriented management and other skills. When investing in brownfield operations they have provided examples of successful restructuring. The transition impact of the transactions with standalone Russian companies, the number of which has lately also started to dynamically increase, typically focus on increasing transparency and improving corporate governance standards.

Significant impact was achieved in the agribusiness sector, while the Bank's contribution was rated as moderate to minimal in other major sectors. The key channel for transition impact in agribusiness was the Bank's co-operation with strong foreign strategic investors to demonstrate successful business models, strengthen competition and build market-based backward and forward linkages. A recent series of Bank sponsored projects has significantly contributed to the development of a market-based inventory financing system and has played a pro-active role in the preparation of the legal and institutional framework of the Russian Warehouse Receipt programme.

The Bank's impact on the Russian infrastructure sectors varies across subsectors. Given the easy access to artificially cheap energy, the incentives for energy efficiency projects have been missing. The Bank's influence in the power sector was limited until recently. However, the new commitment by the government to restructure the sector has allowed the Bank to play a very active role in shaping the reform programme and supporting the progress through its investment activities. The Bank has a modest presence in the transport sector, but the operations have been relatively well-designed in terms of transition impact, given the context and the vast needs for reform. The Bank has also contributed through its investment projects and related TC to promoting the initial stages of railway restructuring and the modernisation of Russia's air-navigation systems. In the municipal and environmental infrastructure sector the Bank's flagship operation has been the St Petersburg Municipal Financing Project, which has made a demonstrable contribution to reforming the city's finances. Significant impact is expected in terms of commercialisation and improved operational efficiency and service quality from a range of ongoing new municipal and environment projects in Kaliningrad, Surgut and Yaroslav.

The Bank has achieved significant impact in the area of legal transition primarily through its Legal Transition Programme, involving policy dialogue components, international standard setting, and standalone and project-related TC projects. The Bank has played a tangible role in improving Russian legislation in the area of secured transactions, joint stock companies, bankruptcy and securities markets. A recent key achievement has been the Bank's role in the preparation of the Russian Corporate Governance Code and in the development of the Russian rating institutions. The Bank has also devoted substantial resources to assist in overhauling the legal and regulatory frameworks for specific sectors or financing instruments such as telecoms regulation, electricity sector laws, warehouse receipts, leasing, security issuance by foreign entities and consumer finance.

1.5 Lessons Learned

Russia's transition to a market-based democratic society has been and remains an extraordinary challenge even by the standards of the transition economies. Heavy dependence on volatile commodity markets, sometimes weak state institutions and the limits of understanding of the full complexity of Russia's transformation have made the operational environment inherently volatile and difficult to predict. Thus there is a clear need for flexibility in the Bank's programmes in the country to make the necessary adjustments as circumstances evolve.

Reforms work only if the country takes ownership of them. Trying to impose policy conditionality or provide policy advice when there is no genuine will and/or capacity to implement them is likely to turn out to be unrealistic and is bound to fail. As most of the reforms are now initiated by the Russian Government, the risk of lack of commitment and ownership is low. The Bank welcomed the new structured co-ordination efforts of the Russian Government. In addition, the establishment of the Co-ordination Committee between the Government and the EBRD enables us to identify projects which support the Government initiated reform programme.

The importance of the credibility of commitments equally holds at the level of individual companies, investors and other microeconomic agents as well. Careful attention has to be paid in the project preparation to align the incentives of new investors and existing shareholders, and to ensure that lenders and borrowers have similar long-term objectives. It is important to design and structure the operations in a way which optimises the Bank's leverage over the Bank's clients throughout the project life cycle.

Financial Industrial Groups are, and will likely remain major players in the Russian business environment. The potential weaknesses of such business structures in areas like limited transparency, monopolistic market structures, politicisation of the business activities, connected lending etc, call for special care and strategies in dealing with them. The lesson we learned is that the Bank needs to do more careful, on-site due diligence, to understand client's (shareholders and managers) motives and interests in obtaining financing from EBRD.

Regional authorities play a fundamental role in shaping the local business climate. Russia's failure so far to attract sizeable FDI inflows is largely due to characteristics of the investment environment at the local levels. Positively influencing the business climate in regions and municipalities is a major strategic challenge for the Bank. Reaching a critical mass of operations through a cluster of transactions is an important precondition for increasing the Bank's leverage over the local authorities and for developing an efficient policy dialogue process.

In the financial sector, project covenants need to take into account the deficiencies in Russia's regulatory framework. For instance allowable sub-borrowing allocations to both prior and related party borrowers of a client bank should be clearly specified. Russia's prudential regulations may tolerate levels of concentration that the Bank might consider undesirable in the type of efficient financial intermediary it would normally seek as a business partner.

The Bank should take into account the frequently close relationship between banks and their major clients. Thus integrity checks on major customers are an integral part of the due diligence process.

In the corporate sector, the concentrated ownership structure puts limits on arms length relationships. Hence, at company selection, the Bank needs to analyse the informal and formal relations between companies in the project sub-sector both upstream and downstream. This avoids situations in which the Bank's project could become dependent on companies which the EBRD prefers not to be involved with.

The Bank needs to be aware of its strength and weaknesses primarily as a financial investor. Thus in its selection of companies that undergo restructuring, the presence of a committed partner that has the industry knowledge to see the process through is of utmost importance. Since in many industries the required experience is not yet available inside Russia, seeking foreign investors as partner should remain a crucial part of the Bank's work.

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

2.1.1 Political Developments

The past two years have seen a return to stability in Russian politics, after a prolonged period of uncertainty over the health and political staying power of the previous president, frequent changes in the Government, and a stalemate on key reform issues. The current Government has methodically enacted the overarching reform programme drafted in 2000, making significant strides in federal reforms, judicial reform, and a range of economic reforms.

The political correlates to successful reform that have been put in place include strong political leadership by the president, consolidation of voting power in the two houses of parliament, and widespread popular support for the administration. Combined, these three elements have enabled the current leadership to overcome the barriers to reform progress that at one time proved insurmountable. In the Duma, the rise of the pro-presidential Unity Party and their collaboration with the centrist Fatherland/All Russia Party to create the Unified Russia bloc, has created a strong and reliable parliamentary majority that backs the Government's reform initiatives. President Putin enjoys the support of more than 70 per cent of the Russian population, a political trump card that gives him the upper hand in dealing with traditional pockets of resistance in the bureaucracy, the legislature, the regions, and vested interests.

While the constitutional order has been solidified under President Putin, and the political party system is maturing, the capacity for interest intermediation in the system is still weak and political competition is limited. This represents a potential danger, as the experience of other transition economies suggests that effective checks and balances are necessary to stimulate good reform ideas, build social consensus, and limit abuse of power. Civil society is growing in size but not effectiveness in Russian policy debates, and the freedom and independence of the media needs further strengthening. Without both a free media and active civil society organisations, as President Putin acknowledged in his recent address to the nation, Russian authorities will find it more difficult to root out corruption and enhance public trust.

2.1.2 Centre-Region Relations

A series of federal reforms introduced in the first few months following President Putin's election in March 2000 has begun the process of re-establishing central authority in the Russian regions. The reforms ushered in a major change in the composition of the Federation Council, granted the Russian president the right to dismiss regional governors and disband regional legislatures that violate federal law and/or adopt unconstitutional legislation, and divided Russia into seven federal districts, each of which is overseen by a presidential plenipotentiary. Combined, these three measures are designed to create a more professional Federal Assembly, a common legal and economic space, and better monitoring and enforcement of federal laws.

On top of this, the Russian Government has taken steps to rationalise fiscal federal relations, which further imply a greater measure of central authority over regional affairs. Despite the existence of formal controls limiting sub-national fiscal autonomy, through an informal system regional governors managed to exercise considerable economic control in their territories. According to a recent OECD report, a pattern of non-monetised transactions has allowed regional governors to avoid repatriating tax revenue to the federal budget, while creating incentives for corruption and unfair competition.

The fiscal federal reforms recently introduced aim to increase transparency, reduce money surrogates in tax collection, and establish more effective management over revenues and transfers. The federal budget now claims a larger share of overall revenue but uses more of the money to compensate the regions with increased transfers to meet spending commitments under federal mandates (particularly in the social sector) and to smooth regional disparities in wealth. New tax laws apply a “one tax – one budget” principle which, for example, has shifted all VAT revenues to the federal budget and all personal income tax revenues to the regional level.

With this combination of political and fiscal federal reforms, centre-region relations has been put on a sounder footing. Nevertheless, governance of Russia’s vast territory is still impeded by unclear divisions of authority among the different levels of government and weak state capacity.

The current administration has launched initiatives to deal with the remaining institutional challenges, promising a wave of new legislation on further defining federal powers and fiscal federal relations, re-structuring the federal bureaucracy, and introducing civil service reform throughout the regions. All three are urgently needed to improve the process of drafting reform and, more importantly, implementing the reforms already adopted in an efficient and transparent manner.

2.1.3 Social Conditions

The general trend in social conditions and human welfare over the course of Russia’s transition has been sharply downward, though economic growth in recent years has eased some problems.

Though assessments vary, by most estimates the incidence of poverty has reached troubling levels. A UN report released in 2002 estimates poverty in Russia at the end of 2000 at 29 per cent, a significant improvement over poverty figures for the previous two years, but still posing an urgent policy challenge. Moreover, the reduction in poverty made possible by economic growth was accompanied by a rise in income inequality, which is a continuing cause for concern. The social welfare system has neither the resources nor service capacity to address these problems, which means that the basic needs of the poor are often not met.

Russian public health is in decline, with a sharp rise in the spread of infectious disease and a long-term decline in average life expectancy. Average life expectancy at birth in 2000, the last year for which figures are available, was 59 years for males and 72 years for females. Health experts worry particularly about the mortality rate of working age males, which is driving the general downward trend in life expectancy. According to the United Nations Common Country Assessment for the Russian Federation for 2002 the direct and indirect effects of alcohol consumption - seen in higher incidence of liver disease, cardiovascular disease, accidents, suicides, and violence - have played an important role in the decline of average life expectancy.

Another major health concern is the sharp rise in reported cases of tuberculosis and HIV/AIDS. According to the World Bank, there were 342,000 cases of TB reported in 2001, of which 133,000 were new. Over the past two years there has been a nearly six-fold increase in the incidence of HIV infections. The Russian Centre for AIDS

Prevention and Treatment reports that 200,000 people are currently registered as HIV positive, but estimates that the real number is closer to one million. Studies at the regional level, most recently in Kaliningrad, suggest that the problem is spreading beyond the community of intravenous drug users, where it was and remains most severe, to the general population through sexual transmission.

Along with the declining birth rate, the health situation contributes to a general problem of decreasing population in Russia. According to a Rand Corporation study published in 2002, Russia has lost population every year since 1992. With an estimated 145 million people at the end of 2000, Russia saw a decrease in total population of more than 3 million over eight years. Another noteworthy consequence of the declining birth rate is an ageing population, a problem which could begin to put pressure on social security systems.

2.1.4 Legal Environment

Russian laws, at least as they appear "on the books", have continued to improve over the last few years. The impressive list of legislative reforms that took place during 2001 and the first half of 2002 includes the introduction of amendments to the Joint Stock Company Law; the adoption of the Corporate Governance Code (the main focus of which was to improve protection of minority shareholders); the passage of a number of laws aiming to improve the judicial system of Russia; the adoption of the Land Code, which has created a framework for land ownership in Russia; and passage of the Labour Code.

The EBRD's Legal Indicator Survey shows that legal reforms have advanced in many areas and there has been a corresponding improvement in the effectiveness of implementation of those laws. However, the discrepancy between the extensiveness and effectiveness of the legal framework is still substantial. In addition, there remain important grey areas, contradictions between different legislative documents, and vague provisions subject to diverging interpretations. Public perception of the independence of the judiciary and its ability to adjudicate fairly legal disputes remains low. This is a fundamental shortcoming in the business climate and contributes to weak compliance with the law.

2.1.5 Governance and Integrity Issues

Russia continues to face significant governance challenges. Corruption, organised crime, and low standards of corporate conduct persist in a country where the reform of the state and the bureaucracy have only just begun, the rule of law is still weak, and fundamental changes in the corporate culture and the regulatory framework have been slow to develop. According to Transparency International's Corruption Perceptions Index (CPI) for 2002, Russia ranks 71st out of 102 countries surveyed with a CPI score of 2.7 (where 10 is highly clean and 0 is highly corrupt). That represents an improvement over a CPI score of 2.3 in 2001, but clearly indicates that Russia has a long way to go to improve its national image with regard to corruption.

The authorities appear to recognise the magnitude and complexity of the country's governance challenges, and several steps have been taken to reduce corruption both at the federal and at the regional level. The General Prosecutors Office and the Audit Chamber, for example, have teamed up to conduct high-profile corruption investigations on institutions and individuals where graft and insider dealings have been notorious. This sends a strong signal that the authorities are ready to get tough on corruption. In another positive development, Russia was removed from the list of Non-Co-operative Countries and Territories (NCCT) maintained by the OECD's Financial Action Task Force on Money Laundering (FATF), at its meeting in October 2002. This recognises that following the adoption of a comprehensive anti-money laundering law, which went into effect in February 2002, Russian legislation and the means to implement it adhere to international standards for the prevention, detection, and prosecution of money laundering.

Also, important measures to shrink the size of the grey economy, such as reform of tax and customs administration and a new tax code, have already shown encouraging results. Federal reforms, which will clarify legal jurisdictions and income rights between centre and regions, address one of the primary sources of corruption in a weak federal system: the proliferation of "multiple bribe-takers" at federal, regional, and local levels of authority who prey on business. Legal reform – including a judicial reform package, a new criminal procedures code, civic code, land and labour codes, and an amended joint stock company law – has been energetically pursued, and should help to create the institutional framework for reducing public and private corruption. A package of de-bureaucratisation laws, including the Federal Licensing Act, the Federal Legal Entities Registration Act, and the Federal Legal Entities and Individual Entrepreneurs Audit Rights Protection Act, are designed to sharply reduce the regulatory burden faced by businesses. Deregulation, which will simplify radically the licensing and registration procedures and reduce the number of certifications and inspections required to operate a business, should lower opportunities for bribe-taking by corrupt public officials.

Comprehensive administrative reform has received high level attention. The Presidential Administration has approved a comprehensive conceptual framework of civil service reform aimed at reducing incentives for corruption and increasing professionalism. In his address to the nation in April 2002, President Putin stated openly that "the state apparatus as it is organised presently, unfortunately, promotes corruption." He went on to say that "any administrative measure [introduced by the state] can be overcome with a bribe. The higher the barrier, the larger the bribe and the more highly placed the official taking it." Still, with the exception of a few isolated measures, administrative reform has not yet been launched. In addition to this reform, stricter conflict of interest guidelines for public servants would also help to reduce opportunities for rent seeking.

Whereas Russian authorities have been successful in steering the needed legislation through the parliament, there remain serious concerns about the effectiveness of implementation, especially in the regions. A recent World Bank-sponsored study of implementation of the new laws on deregulation in a sample of 20 regions, for example, found that actual reduction of administrative barriers is well below benchmarks in the legislation and in some cases regulatory burdens have increased. The positive news is that monitoring is being carried out and the results are getting attention at the highest levels of government; the less welcome news is that federal law is not being applied evenly in the Russian regions.

2.1.6 Environmental Dimension

Russia's economic recovery presents an opportunity for the allocation of more resources for *environmental protection* as well as a challenge for addressing emerging environmental impacts such as waste generation and intensified stress on ecological systems. Russia's key environmental challenges remain: (1) pollution of water bodies (in particular, in the Volga river basin, in the Urals region, Kuzbas region, Northern Caucasus); (2) atmospheric air pollution as a result of industrial emissions (in particular, in the cities of Norilsk, Nizhny Tagil, Magnitogorsk, Novokuznetsk, Cherepovets, etc);

(3) increasing amount of waste generation, including hazardous waste (in particular in the oblasts of Moscow, Kemerovo, Tyumen, Yaroslavl, etc); and (4) soil contamination, desertification, flora and fauna degradation.

At this stage, financial resources for addressing environmental issues are still limited at both the federal and regional levels of government. The Long-term Strategy for Social and Economic Development of the Russian Federation (Strategy) defines key aims and objectives of the national environmental policy up to the year 2010 for the phased rectification of environmental situation in the regions of critical or near- critical environmental conditions, as a minimum, in line with the national environmental standards. The Strategy outlines ways for facilitation of Russia's integration into the international markets through broad implementation of environmental management schemes (introduction of international standards of ISO series as a component of the environmental policy, planning actions for introduction of new technologies and implementation of specific environmental activities, as well as development of specific programs for prevention of adverse environmental impacts) and environmental labelling (absence of genetically modified products in agricultural goods, application of resource-efficient technologies, etc.), all of which should improve competitiveness of Russian goods and services, and create more positive environmental image of enterprises, thus facilitating the inflow of investments.

Russia is currently developing a national environmental policy document - the Ecological Doctrine of the Russian Federation – which is to ensure the country's long-term sustainable development by addressing issues such as, *inter alia*, increased utilisation of renewable energy sources; further elaboration of economic mechanisms for eco-efficiency of the industry; broader engagement of Russia in international initiatives through future ratification of a number of conventions such as the Espoo Convention, the Kyoto Protocol, the Aarhus Convention, etc.

Unlike other countries, where the environmental authority is established at the ministerial level, the Russian Federation has a Department of Environmental Protection and Ecological Safety, which is a sub-ministerial committee. With regard to legislative changes, Russia has moved forward in development of its legislation to reflect environmental challenges as well as harmonise it in line with international practices. A new framework Law on Environmental Protection (January 2002) brings in reforms in the sphere of environmental management through such tools as environmental audits, best available technologies, and ecological security. The Law also redefines the roles and relations between the federal and regional authorities with regard to environmental supervision, revises economic incentive mechanisms (abolishment of environmental funds, "polluter pays" principle- based taxes, introduction of mandatory environmental insurance, support of environmentally- oriented businesses; account for environmental damage within the privatisation process, etc.); re-enforces public participation in the environmental review of projects, and sets up sector-specific environmental requirements (e.g. oil & gas, power and energy, chemical).

2.2 Macroeconomic Conditions Relevant for Bank Operations

2.2.1 The Real Sector

Over the duration of the Bank's last strategy, the Russian economy has grown strongly, with an average GDP growth rate of 6.6 per cent in 2000-2001. Growth has, however, slowed through the period, as the immediate increase in competitiveness afforded by the devaluation of the Rouble following the August 1998 crisis have dissipated. A sharp turnaround of net exports after the devaluation drove the economy in 1999, the more competitive exchange rate coupled with high prices for oil allowed the resource based sectors to expand investment rapidly in 2000. In 2001 the main growth driver of the economy has been household consumption that grew strongly on the back of strong real wage growth. Real personal income per capita had surpassed the average level of 1997 in September 2002. The level of employment has actually surpassed that level and the unemployment rate is lower than it has been since the early days of transition. Economic trends over the first half of 2002 are promising, although concerns remain. Growth rates have stabilised and there has been a significant shift in capital flows. There are indications that the shadow economy is shrinking. Barter and non-cash transactions have declined sharply and tax reforms have resulted in a significant increase in the number of legal entities and private persons paying taxes. The private sector is now a net importer of capital and the degree of dollarisation is declining. These are good signs as they show the start of a gradual growth in confidence in the country's economy and currency.

However the structure of growth is still rather uneven both across regions and sectors. The variation in growth rates among the seven federal districts is much smaller than among oblasts, suggesting that growth has actually taken hold on a much broader base than often thought. Nonetheless, even at the federal district level the variation in Industrial production has been significant. For example, industrial production increased by an average of 14 per cent in 2000-2001 in the Southern Federal District while industrial production in the Far East grew by 4 per cent over the same period.

In terms of sectors the recovery has been mainly carried by the export oriented fuel and metal sectors, agro-processing and the service sector. Export-oriented natural resource based sectors benefited from higher margins given a more competitive cost base and higher oil prices. The agro-processing and agricultural sector has not only benefited from its improved cost advantage against imports after the Russian crisis but, contrary to most other sectors, also from substantial inflows of FDI.

The service sector has done relatively well over the years 2000 and 2001 because household income and consumption as a share in GDP grew very quickly over the last two years, as real wages recovered from their sharp fall after the Russian crisis. Compared to these sectors Russia's large machine building sector has fared less well.

Making growth sustainable is therefore the most pressing need for the Russian Federation. As unemployment is close to a post-transition low further, sustainable, growth is dependent on a more efficient use of existing resources and, at the margin, capital accumulation.

2.2.2 Fiscal Policy

Significant, broad-based, progress has been made in the area of fiscal policy. The budgeting process has been improved, the tax system has been completely overhauled and the cash collection rate has been raised substantially. The two areas in the fiscal sphere that continue to need the closest attention are centre-regional fiscal relations and a medium term fiscal framework that provides some protection of the economy and the budget against commodity price cycles.

The achievement is already well documented by the headline figures. A deficit in the consolidated budget of 8.8 per cent of GDP in 1997 has been turned around to fiscal surpluses of 2.8 per cent and 2.9 per cent of GDP in 2000 and 2001. Revenues to the consolidated budget have increased from 22.8 per cent in 1998 to 29.5 per cent in 2001.

This increase in revenues has been partially due to the sharply increased oil prices and will be difficult to maintain once oil prices start falling. However, the authorities have used the time of high oil prices and strong growth wisely and have pushed through an extensive reform of the tax system.

While the automatic effect of the reduction of tax rates are estimated to lower revenues by around 2 per cent of GDP at an oil price of 21US$/brl, better tax compliance, increasing tax bases and fewer loopholes are likely to compensate for these shortfalls. However the reduction in revenues is skewed towards the regional budgets. While some of this shift is compensated for by transfers from the centre to the region, the centre still has gained control about a larger share of total revenues and distributes it more evenly across the regions.

The profit tax was reduced from 35 per cent to 24 per cent and most exemptions were scrapped which lowers the overall negative impact on revenues according to the IMF to 0.5 per cent of GDP. A better degree of compliance might actually make the reform neutral. Similarly the personal income tax has been simplified to a single 13 per cent flat rate with many of the possible tax offsets being scrapped. Again the effect should be almost neutral taking a likely improved compliance into account. A natural resource tax replaces a number of previous taxes. The impact on revenues is likely to be about neutral for oil prices around 20US$/brl, raises revenues for higher oil prices but lowers them for lower oil prices. The main impact on revenues will come from the reforms of the turnover tax, which is rightly considered very distortionary.

Although an easing of the fiscal position is expected over the time of the strategy, the government remains committed to achieve fiscal surpluses at least as long as oil prices do not significantly fall below US$ 20 per barrel. The government’s draft budget for 2003, submitted to the Duma envisages a surplus of 0.6 per cent of GDP for the federal budget. Given the restrictions on foreign currency borrowing by regional administrations, the scope for regional deficits is rather limited.

2.2.3 Monetary Policy, Inflation and the Exchange Rate

Average yearly inflation was steadily reduced to a level of around 20 per cent by the end of 2000. In 2001 and 2002, however, the downward trend of inflation has slowed, with average inflation for the year to August being 17 per cent. The main reason for the slowing decline has been large unsterilised interventions by the Central Bank and continued rapid increases in real wages. High oil prices coupled with a still low level of imports produced large trade balance surpluses that would have caused an appreciation of the Rouble without the interventions. Since an overvaluation of the Rouble was seen as one of the main reasons for the Russian crisis, the Central Bank attempted to slow down any real appreciation of the Rouble. As a result of the interventions the money supply grew by 75 per cent in 2000 and 36 per cent in 2001. The rapid expansion did not fully feed into inflation because the demand for money also grew strongly as confidence in the Rouble and in the Russian economy improved. However, interest rates have fallen to levels that imply negative real rates for both the government and large corporates, supporting an expansion in bank lending.

While the pressure from the trade balance has declined with the strong growth of imports and the fall in some prices of Russia’s exports like metals, new pressure on the Rouble to appreciate has been building up from the capital account. As capital flight is falling and corporate borrowing in international markets is rising, the surplus in Russia’s overall external balance has risen again.

This would force the Rouble to appreciate unless the Central Bank continues to intervene. The need for interventions is also growing because of a declining fiscal surplus. A decrease in the fiscal surplus lowers net external outflows by the government.

The exchange rate has been kept relatively stable since the beginning of 2000, with an implied annual depreciation of around 4 per cent to September 2002. Substantially higher inflation rates have meant that the real exchange rate has appreciated continuously and the trade weighted real exchange rate in July 2002 was around 20 per cent below its level prior to the Russian crisis. As the crisis had led to a 40 per cent fall in the real exchange rate, the Rouble has therefore lost about half of the resultant competitiveness gain. With the Rouble edging up in real terms, imports are growing. However, there have also been substantial productivity gains since the Russian crisis, which have dampened the effect of the rising real exchange rate. Still, these productivity gains are concentrated in some industries like food processing and the energy sector, while much of the manufacturing sector has been passed by. It is these sectors that will be the most exposed to the pressure from the real exchange rate and which will lobby for looser monetary policies.

2.2.4 External Debt and Debt Service

The Russian Federation’s debt burden has steadily decreased over the last two years both through a rescheduling agreement with the London Club and through principle payments, including a Eurobond and repayments to the IMF. Some progress has also been made with respect to the settling of former Soviet Union debt to former Comecon countries. A settlement was found with the Czech Republic, Germany and Bulgaria.

Total external public debt has decreased from US$ 158 billion in 1999 to around US$ 134 billion in 2001. Net debt of the country has fallen further since gross reserves of the country rose from 12.5 billion in 1999 to US$ 45 billion in September 2002. Furthermore, since GDP measured in US$ has grown strongly, the debt to GDP ratio has fallen from 86 per cent of GDP in 1999 to 43 per cent in 2001. Given this progress Russia’s country risk has been continuously upgraded by the rating agencies.

Over the last two years Russia was able to meet its debt service payments without issuing any new debt. Debt service payments will officially peak in 2003 but early repayments are likely to have reduced that burden substantially. The authorities have used the times of high oil prices wisely to accumulate fiscal surpluses that could be used to reduce the foreign debt levels.

While it is unlikely that Russia will continue to reduce its debt at the recent speed and might need to enter financial markets over the period of the strategy, it should have gained enough credibility to be able to borrow at reasonable terms.

2.3 Access to Capital

Following a decade of uninterrupted decline, since 1999 investment in fixed capital has begun to increase. During 1999-2001 it grew by close to 35 per cent. However, this turnaround in the investment process has been largely driven by the windfall incomes stemming from the high commodity prices and has concentrated mainly in the energy and energy-related transport sectors. The pace of the increase has slowed from 17.4 per cent in 2000 to 8.7 per cent in 2001 and below 2 per cent in 1H 2002. Though the sharp deceleration is due partly to one-off factors, the revival of the investment activity is not yet broad-based and remains highly varied across sectors and regions as well. The bulk of the investment has been financed from retained earnings while foreign direct investment is particularly slow to take off. All these factors point at continued weaknesses in the investment environment including major constraints in the access to outside finance.

On the back of its impressive macroeconomic and reform performance, as well as positive changes in its debt management policies, Russia has much improved its creditworthiness especially since early 2001. The rating agencies have repeatedly upgraded Russia which currently stands at BB- or two notches below investment grade. The spreads on the country's sovereign bonds have substantially tightened, to around 300 basis points against about 750 a year ago. Major Russian corporates and banks have regained access to the international bond and syndicated loan markets though on a highly selective basis. Many of the large corporates continue to issue ADRs/GDRs on the New York or the European markets.

However, FDI inflows remain a trickle. Accumulated per capita inflows are around US$ 60-70 compared to an average of about US$ 600 for the region as a whole and US$ 1365 for the Central European countries and the Baltics. Gross inflows even declined from US$ 4.4 billion in 2000 to US$ 4 billion last year followed by a further drop in the first half of 2002. Net inflows were negative in both 2000 and 2001. Though a few major new FDI commitments by high profile multinationals suggest that FDI is about to take off in the near future. According to recent official projections gross FDI inflows are expected to increase to US$ 5 billion this year and to US$ 6-8 billion per year for 2003-2004.

The prospects for financing Russia's huge investment needs will to a large extent be shaped by developments in capital flight. This is a crucial reserve for investment growth. Official estimates suggest that capital flight fell to an annualised US$ 15 billion by mid-2002 from its typical US$ 20-25 billion level during the recent years. This trend is expected to continue, though at a relatively slow pace. Part of the stock of the flight capital is also likely to return but no sharp one-off repatriation wave is expected in the foreseeable future.

Despite significant growth over the last year, credit to non-financial companies currently stands at around 16 per cent of GDP. The level of market-oriented financial intermediation is even lower given that much of the credit growth occurred within financial-industrial groups or happened in the form of directed lending to state-owned companies. Medium to long-term credits are especially limited reflecting partly the unfavourable maturity structure of the available funds and the continued high perceived risks in lending to non-related enterprises. Bank financing still accounts for only 3 to 4 per cent of capital investment.

Capital markets remain highly underdeveloped though there are signs of progress. Despite dynamic growth of the Russian equity prices over the last two years stock market capitalisation still amounts only to about US$ 75 billion and is dominated by secondary market trading in shares of a few dozens of large resource-based companies, utilities and telecommunication companies. Gazprom and three oil companies alone comprise about half of the market. The corporate bond market is developing dynamically and is currently estimated at over US$ 2 billion and is gaining momentum. Leasing is also expanding quickly though it continues to play a limited role in the investment process. Municipal bonds are an important channel of finance for many regions and municipalities within the confines of the regulatory ratios provided by the Budget Code. Substantial new resources are expected to be invested in the Russian capital markets in the context of the ongoing pension reform.

2.4 Progress in Transition and Remaining Challenges

The stabilisation process in Russia has been guided by the Government's 10-year reform programme and the associated short-term action plan adopted in mid-2000. This provided a comprehensive blueprint for reforms which has been backed by strong political will. Since the adoption of the programme, reforms progressed in a wide range of areas with direct implications for the investment climate. This includes an overhaul of the tax regime which has significantly decreased the overall tax burden for individuals and business; deregulation which streamlines licensing, registration and inspections; and the adoption of new land and labour codes which imply the further liberalisation of markets. On top of this, the Government has initiated legal reforms that have important implications for the investment climate, though effective implementation and corresponding changes in the legal culture will take time.

In the social sector, a package of laws providing the legal and regulatory framework for the transition from the current pay-as-you-go pension regime to a funded system has been approved and the new system introduced from the beginning of 2002.

Finally, the process of reforming Russia's large natural monopolies, which the Government deferred during the past decade, has been launched in the past two years. The broad framework for reform of the power and the railway sectors is now in place while new management and strengthened shareholder oversight over Gazprom create the prerequisites for restructuring the gas sector as well.

In the Strategy period 2002-2004, the key remaining items on the reform agenda include:

- Those structural and institutional reforms which underpin enterprise restructuring and development of new businesses;
- Financial sector reforms including both bank restructuring and development of non-financial institutions;
- Efforts to reform the state-institutions. Most importantly, further measures to reform the judiciary, comprehensive reform of the public administration, and a new round of federal reforms that will clarify jurisdiction among the federal, regional and municipal levels of government;
- Physical infrastructure reforms and environmental protection;
- Reforms that will facilitate integration into the institutional frameworks of the world economy. This includes reform of the Customs Code, a law on technical regulation, and liberalisation of currency controls, among others.

Although the Russian economy has almost fully rebounded after the 1998 crisis, the above-mentioned reform measures together with consistent policies to improve the investment climate are needed to render the economic growth and development process sustainable and to restore confidence among investors. With this in mind, the key transition challenges for Russia are to:

- **Reduce resource dependence and diversify the economy**. At present, too much of the Russian economy's momentum is being driven by development of the natural resources sector. Oil and gas account for roughly half of Russia's exports and a fifth of its GDP. If exports of metals and diamonds were included, these ratios would be still higher. Since profits from these industries are currently a major source of investment, continued growth of the Russian economy is highly vulnerable to commodity price cycles, which can only partially be offset through fiscal and exchange rate policies. In the meantime, high world energy prices allow the authorities to use natural resource rents to subsidise inefficient industries and delay necessary reforms. Sustained growth depends on adoption of reforms to diversify the economy and bring about a reduction of dependence on natural resources. Diversification means attracting more investment into the non-energy sector, particularly small and medium size enterprises, through measures to enhance the investment climate, strengthen institutional capacity, and improve financial intermediation.

- **Encourage a less concentrated distribution of ownership**. The national monopolies together with about a dozen privately held financial-industrial groups control over half of the country's GDP. The multi-industry conglomerates already dominate the natural resources sectors and ferrous and non-ferrous metallurgy and they are rapidly expanding into the coal, automotive, forestry and wood, construction and agriculture sectors, among others. The heavy and increasing concentration of ownership and economic power could have significant consequences for Russia's future growth and development. Given their strong economic position and political connections, they are in the best position to become the main beneficiaries of the forthcoming break-up of the country's natural monopolies as well. The persistent and growing disparity in wealth has social and political implications that the Government cannot afford to ignore. A key challenge for the Russian Government will be to encourage an efficient allocation of investment resources through the adoption of financial sector reform, and to promote increased competition.

- **Actively engage in confidence building and developing trust**. Russia's difficult transition, punctuated by bold reforms in the early stages and disappointing policy failures thereafter, has severely undermined confidence in Russian institutions among foreign investors and Russian citizens alike. Continuing to build trust – in public officials, judges, banks, and corporate CEOs – is a core challenge. Several positive steps have already been taken, particularly in restoring political stability, stepping up the pace of reform, and building political consensus. However the trust and confidence currently enjoyed by the Russian president does not translate easily to other Russian institutions. Confidence in the effectiveness of the Duma, the fairness of the courts, honesty of police, and impartiality of regulators, for example, remains extremely low, reducing the quality of the business environment. The shadow economy remains sizeable by most estimates and capital flight though declining remains very large. The still low level of compliance with existing legal and regulatory rules is another indicator of the continuing need to build confidence and improve the investment climate.

- **Raising finance and improving efficiency in infrastructure.** Russia inherited a relatively advanced infrastructure from the Soviet Union compared to its income level. However under-investment into the sector for a decade is increasingly leading to a deterioration of services. Incidences in which parts of the country are cut off from electricity and heating supplies during the winter are becoming more frequent. Furthermore the infrastructure was built with little attention to environmental and energy efficiency considerations and was geared towards supporting the centralised economic system of a planned economy. Infrastructure is arguably more important for economic development in the Russian Federation than in most other countries. Gas and oil are Russia's main export goods and tapping international markets requires specific infrastructure and specific regulation for access pricing. Furthermore

Russia’s large landmass and sparse population puts specific demands on infrastructure for logistical reasons, especially communication and transport, if the country is to function as one economic space. Raising the finance to maintain the current infrastructure and remove existing bottlenecks is a necessity for sustainable growth. It will require substantial restructuring in almost all parts of the sector. Where competition is viable, market forces should be introduced. Where economies of scale and network externalities necessitate monopolistic structures, a sound regulatory framework is essential. Access pricing for the use of networks is an integral part of this. Tapping private capital through equity and loans will require a sound financial basis for the sector now and in the future. This requires tariffs to be set above cost recovery level and a credible framework for future change that allows the private sector to forecast cash flows.

- **Facilitate Russia’s integration into the world economy**. Russia’s foreign trade with the advanced industrialised nations is already substantial – 85 per cent of its exports and 80 per cent of its imports were traded with non-CIS countries in the first five months of 2002. But while Russia’s accession to the World Trade Organisation has been made a clear policy priority, the timing is unclear and domestic pressure to extend the timetable is increasing. The WTO accession process could serve as an important external anchor that stimulates domestic structural reform, including in such areas as customs regulations, tariff and non-tariff barriers to trade, currency controls, liberalisation of domestic gas and electricity markets, among others. Russia’s challenge is to keep the process of WTO accession on track in the face of mounting domestic resistance from powerful business groups and electoral pressures.

3. STRATEGIC ORIENTATIONS

3.1 Bank Priorities for the Strategy Period

Based on the Bank's Medium Term Strategy Update (BDS02-70) the Bank expects that its new business in the Russian Federation will account for around one-third of its annual business volume by 2004. Consequently, over time the Bank recognises that this will lead to a significant increase of Russian projects in the overall Bank portfolio.

The Bank believes that its analysis of the Russian economy and this strategy are largely congruent with the Russian government’s priorities as outlined in the authorities’ ten year Programme for Economic Development and the more detailed medium-term Programme for Social and Economic Development for Sustainable Growth (2002-2004). Many of the measures included in the government agenda allow the Bank to co-operate directly with the authorities. Moreover, the Bank recognises that many of the proposed activities have also been identified by the Russian Federation in its October 2001 "Programme of co-operation with the EBRD"[1]. The government has informed the Bank that it will support investment priorities in transport, social infrastructure and certain areas of manufacturing, through the realisation of the Federal directed investment programme and fully extended sovereign guarantees. On this basis, EBRD will continue to co-operate with the government of the Russian Federation in the areas of transport, communications, energy and municipal infrastructure, maintaining its role in the reform of the private sector, the provision of credit to Russian enterprises, financial sector reform and development of the knowledge-based economy.

Challenges

The Bank believes that the key challenge facing the Russian Federation over the duration of this strategy is achieving sustainable growth and development. Addressing this challenge requires progress in four key areas:

- Diversification of the economy, in terms of both sectors and ownership;
- Measures to enhance trust, build confidence and improve the investment climate;
- Reform of the infrastructure sectors; and
- Integration into the world economy.

Response

The Bank will respond to these challenges by deploying its full range of investment and lending facilities. Specifically, to support the challenge of:

Diversification, the Bank will:
- Promote modernisation and restructuring of enterprises in the manufacturing sector;
- Expand the Bank’s activities to support small business development and broaden its demonstration effects; and
- Strengthen financial intermediation through enhanced lending to the real economy, institution-building and product innovation both in the banking and non-banking financial institutions segments.

[1] This programme, which was adopted by the Russian Government, is the first of its kind in the relationship between EBRD and the Russian Government. It contains the main priorities which the Russian Government is looking for with EBRD.

Enhancing trust, building confidence and contributing to a better investment climate, the Bank will assist the Russian Federation through:

- Fine tuning the Bank's client selection process: including not doing business or discontinuing relationship if the Bank's criteria are not met;
- Ensuring compliance with existing regulations and encouraging change towards best international business practices;
- Insisting on fair and transparent bankruptcy and liquidation mechanisms or debt restructuring deals in case of troubled projects;
- Encouraging the elimination of conflict of interest situations (as combined ownership and regulatory functions in state organisations) in the context of Bank transactions;
- Rewarding good behavioural and governance standards and creating success stories providing examples for others to follow; and

Reform of the infrastructure sectors, the Bank will:

- Assist in the financing of municipal infrastructure in a number of regions/ municipalities;
- Advise on power sector regulation and restructuring issues and provide feedback for the ongoing reform process;
- Take a high-profile role in a few power and gas sector projects with significant implications for wider industry restructuring processes; and,
- Provide project-related policy advice for railway sector restructuring and the regulatory framework of air-navigation.

Integration into the world economy, the Bank will:

- Help to develop major segments of the Russian transport sector;
- Promote productivity enhancements through its projects in order to maintain the competitiveness of Russian industries faced with a rising real exchange rate; and
- Develop visible projects that help to change the widespread international perception of Russia as predominantly a natural resource producer.

Policy dialogue will play an important role in the implementation of the Bank's strategic orientations. The Bank will continue to pursue a combination of high-level dialogue with the executive and legislative authorities, project level reform targets, and technical assistance for institution development and corporate governance. In addition to the initiatives identified in the context of the infrastructure reforms the main policy dialogue priorities will include:

- Continued technical assistance for the implementation of the Bank's supported Corporate Governance Code;
- Using the experience of the Bank's wholesale operations in SME developments for policy advice in the context of the new Russian small business development programme at different levels of government.
- Financing investment climate studies and participation in follow-up policy dialogue with selected regional and local authorities;
- Providing advice and implementation feedback for developing new financing instruments with special regard to local currency financing, warehouse receipts, leasing, consumer finance and mortgages. Advice on the framework for private pension funds;
- Technical co-operation for the development of the telecommunication regulatory framework
- Involvement in institution-building and creditworthiness enhancement programmes with regional/local authorities

The Bank has developed an active communications policy to strengthen its impact and reputation in Russia. By communicating the Bank's concerns and its assessments of the operating environment appropriately, public communications can effectively support the policy dialogue process and the demonstration effects of the Bank's projects.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Corporate Sector

Context and Transition Challenges

The micro-foundations of the growth process continue to be weak. Enterprise restructuring, with the exception of a few specific sectors such as the oil industry or agribusiness, has not yet begun on an extensive scale. In many companies the ownership and control positions are still unsettled. The incentives for restructuring has been largely missing due to weak competitive pressures, the lack of a credible bankruptcy threat and the continued availability of different subsidies and protection. Some adjustments forced by recurring crises have been made in terms of layoffs, divestiture of non-core assets or organisational and managerial changes.

Corporate governance and transparency are major elements and preconditions of the restructuring process. The situation is clearly changing for the better in this regard though from a very low base. Further improvements are expected in the context of the implementation of the amended company law and the corporate governance code. Corporate governance of the state-owned companies involves special and major challenges. The track record of many state-owned companies is disappointing. Conflict of interest situations are widespread. There is a typical lack of transparency in decision-making. Realising the inefficiencies of state-ownership, the Putin administration is stepping up the privatisation process and working out ways of involving the private sector in the management of state-owned companies.

In addition to the general tasks associated with enterprise restructuring, modernisation, industry consolidation, diversification, efficiency enhancement and governance and business standards, there are a number of new industry-specific transition challenges brought up by recent developments in the reform process. One of most important is the recent breakthrough in land reform which implies major new business opportunities in agribusiness, primary agriculture and property development.

Operational Issues and Objectives

The number of Russian companies with a proven track record in and commitment to enterprise reforms is expected to further widen over the next few years. This provides increasing opportunities for the Bank to provide assistance to standalone Russian companies undergoing different phases of their restructuring, modernisation and market-oriented adjustment process.

The Bank will play an active role in the implementation of the Corporate Governance Code both at the macro-institutional level (through targeted TCs and policy dialogue) and the company level (through client selection and governance related project covenants). The Bank will seek transactions providing examples of tangible improvements in corporate governance, transparency and business standards of state-owned companies. In this context special attention will be paid to the elimination of conflict of interest situations resulting from the lack of clear separation of the different ownership, regulatory or managerial functions of the state. Where possible the Bank will promote private sector involvement in the management of state assets. The Bank is also prepared to participate in the accelerating privatisation process.

In dealing with the major vertically integrated conglomerates or financial industrial groups the Bank will avoid strengthening monopolistic positions, and will seek to increase organisational and financial transparency of the client and to ensure arms-length relationship with the regulatory authorities.

Over the time horizon of the strategy the Bank will continue to pro-actively support FDI inflows into the Russian economy. FDI inflows should become a key channel to narrow the technological gap with the West and a key source for the transfer of market-oriented know-how and managerial, marketing and other professional skills. In working together with both existing and prospective foreign strategic investors the Bank will seek to provide examples of successful enterprise restructuring and to set appropriate business, technological, quality and environmental standards for the industry and the regions targeted by the transaction. Bank-supported foreign investors will also play a major role in building strong forward and backward linkages and market interactions with the local economy. The Bank's primary contribution to such partnership will be the explicit or implicit political comfort implied by the Bank's participation in such projects.

In the recent past, Russian companies have started to become very active foreign investors themselves. The Bank will seek to support these activities consistent with its mandate. In particular inside the CIS, better economic co-operation between the different countries will lead to enhanced gains of trade and more regional stability.

In terms of industrial sub-sectors the Bank will continue to work in areas where it has managed to build up through a number of operations significant industry knowledge and expertise such as ferrous and non-ferrous metallurgy, automotive, aerospace, consumer goods, construction materials, agribusiness, forestry, pulp and paper, retail, property and shipping.

In promoting the transition agenda in these sectors, increased emphasis will be on developing (i) higher value added activities thereby enhancing Russia's attraction as a production base for major producers and contributing to the overall diversification process, and (ii) where relevant, supporting the regional expansion of distribution and logistic networks of client companies providing better penetration of the market particularly in the regions. Priority will be placed on projects which actively promote economic diversification away from natural resource extraction. In this respect the Bank will seek to develop highly visible projects with companies that can compete in international markets and can promote Russia as a major investment destination. A separate Bank priority will be to support transactions involving the commercialisation of Russian technologies and potentially competitive Russian knowledge-based and high-tech companies (e.g. in aerospace) committed to improving their business standards. Another major strategic orientation in the industrial sector will be the contribution to the development of specialised producers of parts, components and intermediate goods serving both local and foreign companies (a sector almost non-existent in the Soviet economy and still stunted given the tendencies to vertical integration of large companies).

In agribusiness an important strategic orientation will be the development of operations with strong linkages with primary agriculture. Such transactions including pilot operations using new financing and trade instruments (as the warehouse receipt programme) together with the associated policy dialogue process can significantly contribute to the acceleration of agricultural reforms.

In the telecommunication sector the Bank is prepared to participate in the restructuring of Svyazinvest and the related consolidation of Svyazinvest's over 80 regional subsidiaries into seven supra-regional companies. A new major TC project is currently in preparation to provide assistance in the reform of the sectoral legislative and regulatory framework with a focus on the licensing regime, the introduction of the Universal Service and clarification of the interconnection arrangements.

3.2.2 Small and Medium-Sized Enterprises

Context and Transition Challenges

Growth in Russia still comes primarily from large companies. Though recent surveys suggest that the macroeconomic role of SMEs is bigger than previously thought, the slow development of small businesses continues to represent a major hurdle in the transition process. A wide range of factors combine to hamper the emergence of new businesses, to slow down the development of the existing ones and to prevent those operating in the shadow economy from migrating to the official sector. These include limited access to finance, arbitrary and onerous taxation, poor legal protection, constraints on access to commercial space, cumbersome registration procedures, excessive inspections by state agencies, corruption and bureaucratic harassment by regional and local authorities. Moreover, winning favours from officialdom is frequently a major determinant of success for many businesses, though primarily for the relatively larger firms.

The development of SMEs will largely be shaped by reform in areas directly affecting the legal and regulatory framework of the SME sector and the SME operating environment. A number of reform initiatives are already being implemented. Small business development is moving away from mere rhetoric and has become a major policy and reform priority, at least for the federal Government. New laws on licensing, registration and the scope and regularity of state inspections have entered into force, though according to initial indications significant improvements have yet to be felt. However, significant impact can be expected on the taxation and accounting rules and regulations for SMEs with the introduction of new legislation from early 2003. As to the broader reform agenda, the momentum of banking and public administration reform and enterprise restructuring will influence the pace and depth of SME development. Given the improving operating environment for SMEs and the continuing supply constraints in the financial sector, demand for the Bank's services will continue to grow strongly.

Operational Issues and Objectives

The Bank's operational response to these challenges will focus on the following main areas:

- Ongoing expansion of the Bank's SME financing programmes and instruments
- Increasing efforts to broaden the regional outreach of the RSBF
- Reinforcing policy dialogue in support of the Government's new reform initiatives and strengthening synergies with other Bank operations

Financing SMEs through the Russian Small Business Fund (RSBF), Regional Venture Funds (RVFs), the Direct Investment Facility (DIF) and the Trade Facilitation Programme (TFP) will continue to be at the core of EBRD's strategy to reach small businesses in Russia.

Over the time horizon of the strategy the RSBF is expected to continue to expand dynamically. The annual average number of subloans under the programme is envisaged to grow by around 100 per cent during 2003-2004 from the current level of approximately 45,000, while the annual volume invested is expected to increase from US$ 350 million in 2002 to over US$ 500 million by 2004. The geographical coverage of the programme will also substantially widen from the present 110 towns and cities, spread throughout the Russian Federation.

In terms of intermediaries, the Bank will pursue a dual strategy of continuing to work with Sberbank, particularly on the RSBF and trade facilitation, and the regional bank partners that survived the 1998 crisis (NBD Bank and Far Eastern Bank), alongside further development of the Russia Small Business Credit Bank (KMB-Bank). Efforts will continue to be focused on entrenching the RSBF methodology in Sberbank, with the ultimate aim of replicating the RSBF approach throughout the Sberbank branch network. Lending by KMB will be supported by the diversification and expansion of its funding base. KMB will continue to serve as a showcase micro and small enterprise finance institution committed to complete transparency and strong corporate governance.

In addition to the longstanding partner banks mentioned above, the Bank will seek to introduce new partners into the RSBF, particularly when such banks can make a significant contribution to improving regional outreach. Chelindbank, which has 28 branches in the Chelyabinsk region, has recently started disbursing sub-loans under the RSBF and it is expected to be joined by additional new intermediaries over the coming months.

The Bank will continue to place emphasis on ensuring the long-term sustainability of the RSBF programme, and ensuring stronger co-financing from partner banks, including the raising of rouble funds by KMB. New additions to the RSBF product range will be considered to broaden the range of financing instruments. Innovative risk sharing arrangements will be actively sought. A special focus on micro lending in four former nuclear cities will be preserved. The large-scale pilot project of an agricultural financing scheme to micro-household plots and private farms will be applied on a wider scale, taking advantage of the acceleration of land reforms.

Private equity funds continue to be the main avenue for the Bank’s direct investment activities of the Bank in Russia, particularly in SMEs. By the end of 2001, the Bank’s funds operating in Russia (including RVFs) had invested over US$ 530 million in more than 150 companies. The Bank anticipates that it will invest in one or more new private funds in the strategy period, provided that the current encouraging trend continues.

The RVF Programme has been substantially streamlined to increase its efficiency and prepare the ground for the next step: the well performing funds will consider conversion to funding predominantly by private capital. It is anticipated that the transformation of the RVFs to a private fund format will allow the portfolio companies to access a wider range of financing in the future, including capital markets. This is a natural progression of the original programme and will add a new dimension to the Programme’s contribution to transition impact for the SME sector.

3.2.3 Financial Sector

Banking

Context and Transition Challenges

As a result of the August 1998 crisis a large part of the banking system became technically insolvent. Although the impact of the banking crisis on the real economy was relatively limited, owing to the banking sector's small size and weak links with the enterprise and household sector, it undermined confidence in the system and made it more difficult for financial intermediation to develop in the future.

The structure of the banking sector is such that competition is weak, supervision is difficult and risk management inside the institutions is hampered either by the size of the banks or by their dependency on a small number of very large clients.

The sector is dominated by the state-owned banks, predominantly Sberbank and Vneshtorgbank, which hold about 35 per cent of the banking system's assets, 55 per cent of the deposits and 30 per cent of the capital in the sector. Both of these banks enjoy full deposit insurance at no cost. At the same time they are frequently used by the government and the Central Bank as vehicles for economic or monetary policy. Hence there is no level playing field amongst the banks because of the special position of these two institutions.

Most of the large private Moscow-based banks are associated with one of the financial industrial groups. Their main assets are deposits from associated enterprises, and they typically have very limited branch networks. Finally, there are hundreds of small regional banks, many of which have weak capital bases and unsophisticated approaches to risk management. However, there are some that have strong local positions and reputations, stable financial indicators and impressive regional branch networks and are well-equipped to compete in their regions.

The challenges facing the banking sector are numerous. The main task is to increase the level of financial intermediation in order to allow Russia to allocate its resources more effectively and to address the issues of diversification and concentration of ownership. As the bulk of investment is currently financed through retained earnings, insufficient financial intermediation has meant that investment activity has been concentrated in the natural resources sector, ultimately resulting in a further concentration of ownership.

However, a rapid expansion of domestic credit also bears risks, given the structure of the banking sector. Low capitalisation skews loans towards higher risks and, given the number of banks, supervision of the sector by the Central Bank is a difficult challenge. The state banks are not free from political interference especially in the regions. Such conditions coupled with low interest rates and a fast growing economy have in many countries resulted in banking systems that grew too quickly, leading often to expensive banking crises some years later. Today, the Russian banking sector is still very small. However, getting the framework for the sector right before any large scale imbalances emerge is essential.

The other remaining challenges in the banking sector are as follows:

- Raising the availability of funds without undermining the quality of loan portfolios;
- Strengthening the capital base of the banking system including the reputational capital;
- Increasing trust and transparency through a move from RAS to IAS. The joint CBR and Government programme for the sector calls for the transfer to IAS by January 2004;
- Increasing the profitability of the banking system through the creation of a level playing field;
- Improving the supervisory oversight of the Central Bank through site visits, strengthened bank licensing, increased accountability of shareholders and managers of failing institutions, clarification of the capital adequacy ratios, consolidation of accounts and greater speed and powers to deal with failing institutions.

Addressing these issues requires a concerted effort from the Central Bank and the government. Recent changes at the Central Bank are likely to improve the co-ordination of actions between the two and give additional impetus to reform. However, so far there have often been conflicting signals both about the priority of financial sector reform in the authorities' medium term growth framework and the speed with which reforms should be addressed. The reform programme for the banking sector adopted in December 2000, which calls for the use of a deposit insurance system as a device to separate the solid banks from weak banks, provides a valuable framework for the future. However, implementation will be key to further progress.

Operational Issues and Objectives

While the Bank's role in strengthening the supervisory and regulatory capacity of the Central Bank is limited, the Bank sees a contribution to the other challenges as one of its main priorities for the strategy period.

- The Bank will continue to promote the creation of a level playing field between state and private banks, attempt to contribute to the de-politicisation and efficiency of the state banks, and stands ready to participate in their possible privatisation. This could involve taking equity stakes (e.g. VTB) or providing technical co-operation to prepare these banks for privatisation.
- The Bank will continue to identify strong regional banks and seek to support their growth through the provision of a full range of products, including equity finance. Programmes for institution building will be developed to strengthen the operations, management and banking skills of counterparts and complement their natural strengths, such as the intimate knowledge of their local business environments.
- The Bank will support a consolidation of the banking sector through supporting mergers/acquisitions and is prepared to make equity contributions to appropriate targets. In particular the Bank will try to foster the merger or the building of appropriate holding structures among regional banks to allow these banks to achieve economies of scale. This approach, if successful should also help to strengthen competition, especially in the regions, where Sberbank often has a very dominant position.
- The Bank is ready to support the transformation of banks closely associated to large enterprises into independent universal banks where this is sensible and there is credible commitment from shareholders to do so. There appear to be a number of large enterprises that are willing to divest their banks. Some of these banks have a

branch network, human capital and a name that adds value to the bank, in addition to the deposits of their main shareholders.

- Arguably one effective way to raise both capabilities and reputation of the banking sector is to attract the entry of foreign banks. The Bank will continue to support the existing foreign banks and the entry of new players through equity participations, loans and special products.
- The Bank will continue to make resources available to select institutions for on-lending with a particular emphasis on the small and medium size enterprise sector.
- With a middle class emerging rapidly in parts of Russia, there is increasing demand for mortgage products. The Bank has supported a start-up mortgage institution to service this demand.

Non Banking

Context, Transition Challenges and Operational Response

Capital Markets: The 1998 crisis destroyed the rudimentary capital markets that existed in the country. The interbank market remains small due to the large counterpart risks. This and the absence of an effective repo window at the Central Bank makes liquidity management for the banks very difficult and is probably the main reason for the excessive reserves that commercial banks hold with the Central Bank. The cost of these operations cuts into banking sector profitability and results in higher spreads. The government security market has not fully re-emerged from the crisis, which deprives the market of important benchmarks and normally low risk investment opportunities. Despite the recent surge in Russian equity markets, the stock market remains thin with trading largely restricted to a few large enterprises. More positively, a dynamic corporate bond market has recently begun to emerge (estimated to be around US$ 2 billion in size).

The priority over the strategy period is to achieve more appropriate liquidity management, the development of the securities markets, and a lengthening of maturities to allow both the government and companies a more stable source of finance. Deepening the domestic financial markets must be a key priority also for the success of the enacted pension reform.

The Bank as an investor has a special interest in developing capital markets in Russia. Many of the EBRD’s clients, ranging from municipalities to SMEs, have rouble revenues and for risk reasons would be better served with rouble loans. The Bank’s ability to lend in local currency is greatly restricted, however. The current legal framework is not conducive to EBRD (as a foreign entity) borrowing on Russian markets, while without a reasonably developed interbank market or Repo window it is difficult for the Bank to manage liquidity in a local currency programme. When the obstacles are removed, a local currency borrowing and lending programme will be a priority for the Bank. Participation of the EBRD as a triple A-rated institution in the Russian domestic capital market would also have a positive impact on the markets. The Bank’s bonds could provide an important benchmark for capital markets. Given its credit rating the EBRD should also be well placed to lengthen the maturities available in the Russian market.

Pension Funds*:* The fund management business is still underdeveloped and fragmented. However, given the recent decision to reform the pension system by introducing funded pillars, the industry is poise to grow very quickly. While private managers are excluded from managing pension funds that draw their funds from obligatory contributions until 2004, they will be allowed to enter from then onwards. Deepening the domestic financial markets must be a key priority for the success of the enacted pension reform. Pension funds will need to be able to invest in variety of instruments to manage risk optimally. The pension reform should also open up opportunities for the banks to participate in the establishment of fund managers and set corporate governance standards for the industry.

Insurance: The insurance sector is also fragmented, undercapitalised and small, comprising about 1200 companies. Total insurance premiums in 2000 accounted for only 2 per cent of GDP and, according to some sources, less than fifteen per cent of losses were covered through reimbursements in the same year. Life insurance dominates but is predominantly regarded more as a way to save on taxes on wage payments rather than proper life insurance. However, with the tax reforms, many of the loopholes have been closed.

Foreign participation in the market is small at around 2-3 per cent of total insurance premia. Although the 1999 amendment to the basic insurance law eased the earlier restriction of a limitation to 49 per cent foreign ownership, foreign insurers are prohibited from the life insurance and property insurance segments, their compulsory capital requirements are higher, and the share of foreign companies should not exceed 15 per cent. Four foreign insurers are exempted from the restriction not to sell life insurance, most notably AIG.

During the recovery over the last few years, premiums have been growing in US$ terms by more than 50 per cent and large foreign insurers are actively watching the market. Although improved access for foreign companies is a key element of the negotiation for Russia's WTO entry, the domestic insurance companies are lobbying hard for protection from foreign entry. The position of Western companies that have access due to grandfathering agreements is far from clear.

Given that the insurance sector should develop dynamically over the next two years, as Russia's population is accumulating more property and there is a growing middle class, opportunities for the Bank might arise. While the Bank will pay attention to facilitating foreign entry, this is reliant on the reduction of restrictions on foreign participation.

Leasing: Leasing should play an important role in Russia given companies limited access to finance, and the development of the industry should foster the growth of the small and medium sized enterprise sector. Although the industry is very fragmented with currently more than 3000 companies, it is growing quickly and its size was estimated at US$ 1.2 billion in 2000 or about 3 per cent of gross fixed investment. However there are only a few companies that have more than a regional reach and are not linked to commercial banks. Many of the commercial banks have developed leasing products. Furthermore some of the Western suppliers and Russian industrial groups have created their own leasing arms to facilitate their sales.

The fragmentation of the industry makes it difficult for the companies to manage their risk and in turn limits their access to sources of (mainly bank) finance which restricts the expansion of leasing companies. Leasing rates have tracked bank lending rates and have been around 25 per cent to 35 per cent in local currency in 2001, slightly higher than bank lending rates. Moreover, as frequent legal problems inhibit the ability to seize the leased material, leasing companies in Russia require usually a number of additional guarantees. Strengthening the ability of leasing companies to reclaim assets should reduce the number of additional guarantees and will make leasing a viable option for more companies, especially start-ups.

Leasing fits well into the scope of EBRD activities given that the sector combines the EBRD's expertise in the financial sector with that of SME lending. The Bank has recently signed two projects with leasing companies in Russia and expects to expand this portfolio further. This applies to universal leasing companies and also for leasing companies that are targeting specific sectors such as the agricultural sector.

3.2.4 Transport Sector

Context and Transition Challenges

The physical infrastructure, though in reasonably good condition in the early 90s, has deteriorated over the last decade due to a fall in public investment. Three broad issues add to the challenges ahead. First, the transport infrastructure is centred excessively on Moscow, especially as regards the railway and the road systems; consequently inter-regional transport links are insufficiently developed. Second, integration into the world economy calls for priority attention for both overcoming the existing transportation bottlenecks and reducing the high transport-related transaction costs for businesses. Third, market and regulatory reforms have proceeded haltingly if at all in most of the sub-sectors leaving monopolistic institutional structures and strong and politically connected vested interests mostly in place. Reforms have started only recently and there is now more of a sense of commitment to reform among the Federal authorities. The following summarises the status of reform across the key segments of the sector.

The ***railway system,*** accounting for 80 per cent of the total freight and 43 per cent of the passenger turnover, is still owned and operated by the Ministry of Railways, traditionally one of the most conservative structures in Russia. A three-staged long-term (2002-2010) sector restructuring programme was approved in last May. The plan aims at developing a competitive market environment in the sector with an increasing role for private sector players. The key objective for the current first reform stage is the creation of the legislative basis for the restructuring process and separating the regulatory function of the MPS from the operational activities, organising the latter into a special state-owned joint stock company. Most of the effective reform steps involving separation of the cargo and passenger traffic, tariff re-balancing, spin-offs and privatisation of different segments of the industry will concentrate in the second and third stages of the reform process.

Russia's huge ***road network*** (covering appr. 910,000 kilometres of which about 80 per cent is of poor quality) is increasingly important for economic development and for effective connections both between and within regions. The vehicle fleet and the traffic volume are expanding rapidly and are expected to grow by one third during this decade. However, the road sector administration and the institutional framework have been slow to adjust to the changing environment. Russia spends a relatively high amount on roads, equivalent to around 2 per cent of GDP. Until recently, the sector was financed from enterprise turnover taxes but this is now shifting to funding from road user based charges. A start has already been made on introducing such charges at the Federal level but further steps are necessary to establish cost-based road user charges at the regional level. Another key challenge in the sector is the need to increase efficiency in the use of road sector funds as well as the quality of the road administration both at the federal and the lower levels.

Civil ***aviation and airport infrastructure*** are among those sectors which still have to fully recover from the break-up of their predecessor Soviet-era monopolies and the collapse of the air traffic during the 90s. While substantial parts of these industries have been denationalised and privatised, the institutional and regulatory environment is still evolving, which often complicates capital improvements and maintenance of key airside infrastructure. Airports are in need of major modernisation and much improved financial, safety and commercial management. Cost recovery from airlines for the development of airside infrastructure is also an issue to be addressed. There are continued issues related to international co-operation in the sector including compliance with international noise and environmental standards and air navigation charges.

Water transport and ports have seen similar development problems associated with the devolution of powers and responsibilities to the regions and the local management and regulatory structures. Privatisation and commercialisation has gone a long way especially in the case of shipping and commercial ports though frequently resulting in a difficult coexistence of state and private (typically insider) ownership and control. Corruption and corporate scandals have been strong characteristics of the sector given the combined attractions of large hard currency incomes, direct access to abroad and the vulnerability of commercial entities to the access to transport outlets. The ongoing economic revival and the growing demand for transport services call for substantial modernisation and capacity expansion of the existing facilities (Russia has currently 43 sea ports). Regarding commercial port development, improved infrastructure cost recovery, clear relationships between the state as infrastructure owner, and private operators as well as the establishment of an adequate institutional and regulatory framework for the sector dominate the transition agenda.

Operational Issues and Objectives

Railways: The Bank will continue policy dialogue to support the implementation of the current first phase of the sector restructuring programme. The Bank will assist in developing the legislative and regulatory framework and the early separation of the ownership, regulatory and operating functions. These transition objectives should be promoted through investment operations with the newly incorporated entity, primarily on a non-sovereign basis. In addition, the Bank expects to develop private operations with freight transport companies using the rail network, utilising asset-backed structures.

Road: The Bank's first but, from both strategic and portfolio perspectives, key operation in the sector is the recently approved US$ 250 million sovereign Road Sector Reform I project. This transaction requested by the Ministry of Transport as the initial step of longer term co-operation with the EBRD is providing financing for sections of the St Petersburg Eastern By-Pass and the Chita-Khabarovsk road and a series of both loan and grant-financed Technical Co-operation components. In conjunction with this targeted investment in physical infrastructure, the Bank has been actively engaged in policy dialogue with the Government in order to define the policy for the entire road sector in the country.

The Bank has focused its assistance on two areas:

- On the reform of the road financing system with an emphasis on the introduction of a system of user charges reflecting the costs imposed on the road network by road users. The conditions for loan effectiveness under the Project are based primarily on the recommendations of a Bank-supported TC on international best practice for cost recovery from road users, which has identified a short and medium term programme of reform in this area. Draft short-term proposals for related changes in the Tax Code based on the above TC study have been submitted to the Russian parliament.

- On strengthening commercialisation in the provision of road services. A key aspect in this regard is the introduction of more efficient and transparent procurement methods in line with the international standards for road operations. Other transition impact target areas – in the context of both the investment project and the associated policy dialogue process - are the improvement of management information systems, better road traffic safety and the enhanced management of road network services including road monitoring.

The scope of further co-operation between the Ministry of Transport and the EBRD is the Bank's support for a comprehensive road sector strategy, including assessment and prioritisation of the investment needs, work programming methodologies, further sector financing reforms and institutional arrangements to raise productivity and efficiency levels in the sector. These aspects would be addressed under subsequent investment operations.

Airports: The Bank's strategy in the airport sector will promote the separation of ownership between the federally-owned airside assets and the mostly privately-owned airfield assets, and their respective investment and transition-related needs and priorities.

With regards to the federally-owned assets, the Bank will support improving safety through upgrading key infrastructure (i.e. runways, taxiways, lighting and landing aids). The principal transition objective should be institution-building in terms of transparent, and cost-efficient management and operation of the state-owned airside assets including recovery of infrastructure costs. In addition, where still applicable, separation of airports from airlines will be necessary. The Bank will co-operate with the Ministry of Transport in selecting subject airports to be financed in accordance with the Federal Target Programme for the sector for 2002-2010.

On the airfield side, the Bank will support commercially-viable projects aimed at expansion and renovation of passenger and cargo facilities and auxiliary structures, with a transition objective of encouraging further commercialisation and corporatisation of the service provision and management.

The Bank will also consider safety-related investments in air navigation facilities and would focus on setting air navigation charges at levels which ensure recovery of investment costs in line with internationally adopted standards.

Ports and Other Waterway Infrastructure Facilities: Following a number of failed attempts in the previous decade, the Bank is now closely involved in the preparatory phases of several port projects on the Baltic and the Black Sea coasts. One of the key objectives in all these possible operations is clearly to assist in the modernisation of the physical infrastructure and related services or the development of new specialised or multi-modal ports. In this context special attention is paid to the commercial viability of the proposed investments.

These projects are likely to have substantial demonstration effects associated with the award of concession contracts for port operations and the establishment of a suitable structure for the management and operation of port infrastructure at the state level. These objectives are being pursued through the Baltic Ports Project involving the development of multi purpose terminals at Ust Luga and at Kaliningrad. Progress in developing the legislative and regulatory framework and in establishing a commercial approach to port infrastructure management would facilitate the Bank's future involvement in the sector. One of the practical directions of such involvement could be Bank assistance on a non-sovereign basis for the construction or modernisation of port infrastructure on the one hand and the development of specialised port terminals in co-operation with the private sector on the other hand.

In addition, the Bank may participate in targeting the development of specific segments of the industry such as regional navigation system in the Gulf of Finland, or the reconstruction of the Kochetovsky Lock, a key infrastructure bottleneck in the Volga Don waterway system in Southern Russia.

3.2.5 Municipal Finance and Infrastructure

Context and Transition Challenges

Municipal finances and municipal infrastructure have always been among the laggards of Russia's systemic transformation. Recent changes in tax laws caused redistribution of taxes to the Federal centre away from municipalities, increasing dependence of municipalities on the regional and federal levels. However, the Government started a reform process to strengthen local (municipal) governments with a view to improving quality and efficiency of the provision of municipal services. The Government's new programmes to reform the existing federative legal, fiscal and administrative arrangements and planned increased powers and responsibilities of the local government, promise a period of detailed policy-making and enhanced reform implementation in this area. However, this is a long, time-consuming and complex institution-building agenda.

The challenges ahead are varied and robust. As a result of artificially low tariffs and traditional fiscal weaknesses local and regional authorities and state or municipality owned utilities and companies lack financial strength. Regulatory risks outside their control constraining cash flow generation, limit the municipal utilities' creditworthiness and access to debt financing. However cash collection ratios have significantly improved recently and there is also some progress (with wide regional variations) in increasing tariffs towards cost recovery level and phasing out cross-subsidisation between different types of users.

Though the implementation period of the housing and utilities reforms has formally begun major breakthrough is unlikely in the near future given the forthcoming election period.

Underdeveloped institutional capabilities and still distorted incentive structures at the sub-national and local levels of public administration represent a major continued constraint on the quality and efficiency and the systemic overhaul of providing public services. A complex set of fiscal and other reforms is required to ensure that municipalities and regions have more stable and predictable expenditure responsibilities and revenue sources.

While corporatisation has progressed, though unevenly across regions, the process of follow-up commercialisation is typically at a relatively early stage in most municipal utilities. The legal and regulatory framework for private sector participation as well as public/private partnership in the provision of public services is also among the key investment bottlenecks.

Another investment bottleneck is inability of municipalities/regions to access long term foreign currency instruments with very limited exceptions. Restrictions set in current budget legislation and underdevelopment of local banking sector create severe constraint for the choice of applicable long-term instruments to finance investments in the municipal services sector.

Operational Issues and Objectives

The main focus of the Bank's rapidly advancing operations in the sector during the strategy period will continue to be two-pronged:

(i) assistance in progressive commercialisation of utilities and gradual stepping up of the involvement of the private sector and
(ii) institution-building at the level of the municipal authorities.

Key targeted subsectors are water, waste water disposal, and district heating. Activities in other subsectors, such as solid waste disposal, urban transport and public housing are also growing. Developments will be largely driven by the demands and reform-mindedness of the potential client municipalities, and progress in the underlying fundamentals most importantly tariff reforms and development of effective direct subsidies to low income categories of population in relation to municipal services charges, while paying close attention to the social implications of such developments.

Service quality, reliability and efficiency as well as cost reduction will be important operational objectives. They play an important role also in the justification and social acceptability of the required tariff adjustments. In working with the municipal utilities the Bank's operations typically seek to enhance market-oriented management skills and expertise, introduce advanced accounting and information standards, and to improve tariff-setting and collection methods, as well as enterprise-level procurement, contracting and corporate planning procedures and practices. Where it is not yet effected, corporatisation should also be promoted in the context of the transaction. Special attention will be paid in the context of the Bank's operations to the issues of affordability and social acceptability aiming also at possible improvements of the related public relation activities of the Bank's clients.

At the level of the municipal authorities the Bank's strategic orientations will involve significant contributions to the client cities' efficiency in providing public services, project management, procurement, planning and other development policy making and implementation capabilities. Improvements in the regional/local legal and regulatory framework or the service agreements between the city and its utilities with special regard to private sector participation in supplying municipal projects and operating municipal services will be an important objective. Another key institution-building component will usually be a comprehensive creditworthiness enhancement programme aimed at improved financial management and financial efficiency of the municipality.

In terms of financing municipal infrastructure investments and the related institution-building efforts, the Bank will use a wide range of options with clear preference being given to non-sovereign financing forms where feasible. Recourse to the Sovereign will be an exception, mainly in the context wider national or international issues, as it was the case of Kaliningrad. To widen the range of potential municipal operations the Bank should explore the feasibility and applicability of: (i) partial state guarantees (including importantly regulatory risk or exchange rate guarantees) or guarantees which may be released once a track record is established; (ii) structures based on credit enhancement measures, i.e. securitisation of specific revenue streams at municipal/regional level.

As fiscal reforms are unlikely to improve substantially the municipalities' revenue base in the immediate future and opportunities for utility-level financing remain modest, regional project support and full or partial sovereign guarantee where appropriate will be needed. However where the municipality has a steady flow of strong revenues i.e. from local resource-based companies (as for example Surgut has, or has regional rights as Moscow and St Petersburg), municipal guarantees may be sufficient in certain cases. Where the credit quality of the municipality allows direct financing different approaches may be followed including among others underwriting municipal bonds.

Restrictions on the foreign currency borrowing of municipalities, while potentially somewhat eased in the near future, will continue to be a constraint on the Bank's operations with the regions and municipalities. This adds to the urgency of the full-scale development of local currency financing which currently remains limited both in size and maturities, representing a key obstacle in the implementation of the Bank's otherwise rapidly widening project opportunities.

The Bank will seek to encourage participation of relevant local banks in municipal investments either as a source of local currency liquidity for the Bank or on a risk-sharing basis.

The Bank will also seek to encourage greater private sector involvement in municipal operations and financing. Significant progress will depend on greater private sector investment and risk-taking capacity, which will itself depend on a proven track record of reform implementation at the municipal level and in central/local fiscal relations.

Given the strong policy dialogue and institution-building elements involved in and the potentially wide demonstration effects of the municipal financing and infrastructure projects, selection of new municipal clients is clearly of strategically defining significance. In addition, taking also into account that they may effectively serve as one of the possible core transactions in building up clusters of projects in whole districts, regions, municipalities or other entities, close co-ordination with the regional aspects of the strategy are vital. Especially so if the process of federal reforms will accelerate over the strategy time horizon. The related considerations are explored more in detail in the Regional Orientation section (3.3).

3.2.6 Energy

The continued development of Russia's energy sector is of prime importance for the Russian economy. Russia is an important source of energy particularly for Europe, as it produces 9 per cent of the world's oil and 21 per cent of the world's gas. Consequently, aside from the domestic benefits of energy sector reform, the sector can play a key role in Russia's re-integration into the world economy.

Power

Context and Transition Challenges

The dominant player in the industry is RAO UES, 52 per cent state owned, with the rest is held by foreign and local investors. RAO UES is the sole owner of the transmission network and 22 large thermal power generators. Additionally it owns majority stakes in 50 out of the 70 regional vertically integrated generation and distribution companies (*energos*) and owns 49 per cent in all but three of the remainder.

There are substantial minority shareholders in the *energos*, some with blocking shareholdings which leads to a complicated ownership structure across the sector.

Recognising the need to attract large amounts of external financing and investment, estimated between US$ 15-30 billion over the next ten years, the Russian Government approved a bold reform programme for the power sector on 11 July 2001. The ten year plan which contains certain elements of the European Union Electricity Directive calls for the unbundling of transmission and distribution from generation and supply, the introduction of competition where possible, the creation of a wholesale market, tariff reforms and further privatisation of generation and supply businesses.

However, the implementation of the plan, in particular the consolidation and privatisation and handling of minority shareholders will be a challenge and it is vital that this be done in a transparent and fair manner. Other major challenges include strengthening regulatory independence and development of a competitive market in generation and supply.

Operational Issues and Objectives

In the context of its existing loan to RAO UES, the EBRD has signed a memorandum of understanding with the Russian authorities to work together towards reform of the electricity sector in a way which promotes transparency and competition. The EBRD will continue to proactively promote reform of this sector, particularly through its membership on the restructuring committee.

In addition to the review of legislation mentioned above, the Bank has mobilised technical co-operation funds to develop a business plan for the newly formed Grid Company. This company is likely to require substantial investment in the future to ensure reliability of supply of electricity in the country and also to start the process of synchronisation of the Russian grid with its neighbours.

At the stage when the reform programme in under implementation it is important that the Bank broadens its involvement in sector restructuring at the energo level. The intention is to build up a portfolio of investments with different types of Energos (small, medium and large). This bottom up approach will also allow the Bank to gain information directly on the effect of the sector reform on the Energos.

In particular, the restructuring of the larger energos such as Mosenergo and Lenenergo will be very important in setting the standards of reform at the regional level for other energos and will have a high demonstration effect. In the context of Mosenergo , the Bank is working with the federal regulator of the sector to develop a tariff methodology for power distribution, to support separation of generation and distribution, and to facilitate network access required for a competitive market to grow. Donor funds for this project have been mobilised, and adoption of the new methodology is envisaged for 2003. The approach will be replicable in other regions.

While it is expected that most transactions will be undertaken on a non-sovereign or private basis, uncertainty with regard to the future structure of the industry and the setting of tariffs means that Government involvement and support will still be required. This could be in the form of sovereign guarantees (for example in Kaliningrad), or government undertakings or support letters.

The ten large generating companies which will emerge from the restructuring programme of the capacity currently directly owned by UES, will also require substantial investment.

There are strategic investors who are interested in these companies as well as other potential generating projects, which would compete in the market.

Gas

Context and Transition Challenges

Russia's gas sector is dominated by Gazprom, which not only owns the rights to the majority of Russia's abundant gas reserves but also owns the pipeline system and the distribution assets. The state retains a minority (38 per cent) stake in Gazprom, but has effective control of the Board of Directors. Under new management, which was put in place in 2001, the government is exercising its rights as a shareholder more actively and is reversing many of the former management's decisions. A number of steps have been taken to ensure the return of some assets transferred to companies linked to former Gazprom management (e.g. Itera, Stroytransgas) and taken steps to ensure proper control over some subsidiaries (e.g. Sibur). These steps have been welcomed by minority shareholder representatives and the markets through higher valuations and successful debt issues.

The Russian authorities have not yet formulated their vision of the future of the gas sector. However, like the electricity sector, the sector needs to raise substantial finance to allow the country to reap the benefits from its gas resources. Additional export pipelines would allow Russia to increase its gas exports. Large transmission losses also indicate the necessity of large capital expenditures for the maintenance of the gas pipeline transport network. These losses have been particularly pronounced in the export pipeline system, particularly in some of the former Soviet republics.

The Russian Government has outlined plans to establish a gas exchange by 2004. The scheme is intended to stimulate independent gas production and to send the right signals to investors. As currently planned, Gazprom will be able to send up to five per cent of its output to the exchange, but will be limited to no more than 50 per cent of the total volume sold and will be required to grant third party access to other suppliers.

Domestic gas prices are regulated by the Federal Energy Commission, and according to most observers are currently below the long term costs of production. Price levels that would allow Gazprom to recover long term costs are estimated to be around US$ 30–40 per thousand cm and the government has stated its intention to raise domestic gas prices to US$ 35 per tcm. Given the current tariff structure, Gazprom is prioritising its capital expenditures to the construction of new pipelines to link the development of new gas fields with the existing pipeline network and in ensuring it has good access to new, fast growing export markets. Production is below 1998 levels (although it has increased slightly during H1 2002), although this reflects a reduction in loss-making sales to domestic and CIS customers. This strategy aims at loss minimisation rather than revenue maximisation.

The future of the ownership structure of the gas sector is far from clear. In principle exploration, transport and distribution could be separated but no final blueprint has been developed. However, there is increasing pressure for reform via Russia's WTO membership and from the domestic privately-owned oil companies. The interests of these vertically integrated oil companies are at odds with the interests of current Gazprom shareholders (including minority shareholders).

Operational Issues and Objectives

The Bank's involvement in the gas sector has been relatively limited so far. In the past concerns about a lack of transparency and specifically Gazprom's connection with related parties made it difficult for the Bank to engage directly with the company. Under the new management, there have been improvements in terms of transparency and corporate governance which, should further measures be taken in this direction, could facilitate future co-operation.

At the same time, the Bank has undertaken a number of projects aiming to improve the pipeline network in other parts of Eastern Europe, using Russian gas, through the financing of a compressor station and pipeline construction.

Apart from Gazprom the EBRD is working with small gas producers in Russia, testing the access for these firms to Gazprom's pipeline infrastructure, and on alternative pipelines and LNG projects.

Oil

Context and Transition Challenges

Russia's oil exploration and production and refinery sector is regionally dominated by several large vertically integrated players. Local prices are still behind world market equivalents, which makes the sector sensitive to oil price fluctuations, especially with a high reliance of the State Budget, the companies' investments and compliance has been highly correlated. The sector has been consolidating, expanding, (also beyond the Russian border) and improving its corporate governance practices and transparency. Foreign investments are increasing as a result.

The Russian position on tariffs and pipeline access systems needs further determination to ensure an incentive to optimise the value of the crude and oil products transportation. The fact that there is no "quality bank" or batch transportation of crude within Transneft's pipeline system reduces the accurate distribution of economic value and the attractiveness of the system for the transit of Caspian oil. Tariff and access policies should promote competition and allow for good maintenance of Transneft's and Transnefteproduct's pipeline systems. The increased export capacity for both crude oil and oil products should also fuel the convergence of local and international oil product prices and markets.

Operational Issues and Objectives

The Bank will finance oil and gas projects, where the transition impact and regional benefits are substantial and it is justified to take manageable environmental risks. All the business in the sector will help to promote the continuation and expansion of corporate governance practises/issues. Special attention will be paid to promoting the ongoing integration process of the Russian oil sector into the international economy. The Bank will seek to encourage long term commitments and regulatory improvements to balance the dependency of the economy as a whole on oil price movements. The Bank will also support a proper investment climate to enable local and foreign companies to make long-term, environmentally sound and sustainable investments. The Bank hopes to use its projects as catalysts for other initiatives especially in the SME sector and strategic environmental assessment studies in active regions such as Sakhalin. The oil sector will be key to develop the investments, growth and competition in the gas sector as well.

3.2.7 Energy Efficiency, Environment and Nuclear Safety

In the electricity sector the current tariff regulation does not provide incentives for energy savings, and tariff reform needs to accompany the restructuring of the sector. The price distortions support ongoing high energy intensity in both consumption and production. Russia consumes about three times as much power per one dollar of GDP produced (measured in purchasing power parity) as England and Wales. The average thermal efficiency of electricity production in Russia is about 17.5 per cent compared to nearly 40 per cent in Western Europe and almost 60 per cent for modern combined-cycle gas turbines. Lack of funds for maintenance, and prolonged under-investment has led to reduced operational efficiencies and reliability of the power capacity and delivery systems.

Natural resource projects in the oil and gas sector are typically associated with significant environmental risk and liability issues, particularly resulting from past contamination and abandoned infrastructure. In Russia, the legislation for environmental issues for offshore oil production is not fully developed. In remote areas, the utilisation of associated gas with oil is a concern, as lack of infrastructure may result in significant flaring of gas. Domestic privately-owned oil companies currently flare gas that is not economic to export, and this contributes to greenhouse gas emissions and climate change issues. This clearly has costs both in terms of efficiency but also for the environment.

The history of removing associated water regionally instead of locally often results in high levels of corrosion in the pipelines and significant risk of oil spills. In addition, new pipelines may be associated with the need for resettlement or change in traditional corridors for herding and grazing, and cultural issues must be looked at quite carefully to ensure mitigation measure are adequate, particularly for indigenous people. Related to this is the need for public consultation on environmental impact assessments and for companies to develop and maintain transparent and interactive communication with local communities and NGOs.

In response to these concerns the Bank continues to proactively develop a range of projects to increase energy efficiency, reduce greenhouse gas emissions and promote nuclear safety. The Bank is currently preparing a district heating rehabilitation project in Buryatia as a demonstration project. Further suitable projects are being identified. A small part of the RAO-UES Restructuring Loan has been dedicated to the Energy Carbon Facility, which is developing greenhouse gas reduction projects in the energy sector in Russia focusing on supply side energy efficiency and renewable energy projects.

The EBRD has been actively involved in the establishment of the Northern Dimension Environmental Partnership (NDEP) to strengthen and co-ordinate financing of environmental projects with cross-border effects in the Northwest Russia and the Baltic States. Under the NDEP, the Bank has been co-operating with the Nordic Investment Bank (NIB), the European Investment Bank (EIB), the World Bank (IBRD), the EU, bilateral donors, the Russian Federation and the Baltic states in order to finance important environmental projects in the Baltic Sea and Barents Sea Regions in the areas of district heating, solid waste management, wastewater treatment and the prevention of pollution from hazardous waste. The first NDEP project would be the South West Wastewater Treatment Plant in St. Petersburg.

The EC, Sweden, Denmark, Norway, Finland, the Netherlands and Russia have pledged EUR 110 million of grant financing for the Northern Dimension Environmental Partnership Fund managed by the EBRD. While a large component of the NDEP is also aimed at Russia's nuclear window, the recent G8 global partnership initiative makes it likely that the G7 countries would also contribute. This would create an opportunity to deal effectively with the huge environmental hazards (spent nuclear fuel and waste) along the coast of the Barents Sea left by the operations of the Soviet nuclear fleet. The Fund is likely to become operational before the end of 2002 and has an initial 5-year timeframe.

Russia is likely to remain highly dependent on nuclear-generated electricity, hence Russia wishes to extend the lifetime of first-generation reactors and complete the construction of several unfinished units. Through its limited Nuclear Safety Account (NSA) mandate, EBRD has made a contribution to the improvement of nuclear safety of old reactors and is now focussing on a review (the first of its kind) of the safety analysis of a Soviet RBMK reactor (Kursk 1), to be completed in 2003. Substantial further improvements in nuclear safety – clearly outside the original mandate of the NSA - remain a formidable task. The recent G8 global partnership initiative may prove to be a vehicle for a significant reduction of nuclear safety and proliferation risks.

In addition to these specific projects, all EBRD operations in Russia are subject to the Bank's Environmental Procedures. They also incorporate, where appropriate, Environmental Action Plans into the legal documentation in order to address issues identified during due diligence, in line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects. Through its projects the Bank addresses such issues as energy efficiency, waste reduction and management, cleaner technologies and sustainable natural resource management.

3.3 Regional Orientation

The Bank recognises the importance of building a more balanced regional investment portfolio. Previous efforts in this direction have met with limited success, in part due to the diversity in transition progress in the constituent regions of Russia and the wide variations in investment climate. A combination of unclear divisions of authority among different levels of government, persistent deficiencies in the legal system, and a high degree of arbitrary and discretionary fiscal authority at the regional level made the process of building the Bank's regional portfolio difficult.

As described above (see Sections 2.1.2 and 2.1.4), a series of federal reforms, clarifications in fiscal federalism, and rule of law reforms promise to deliver improvements and greater predictability in centre-region relations. These changes will make it possible to develop business opportunities in a wider cross-section of regions, rather than focusing on priority regions selected on the basis of *a priori* criteria. While it remains impossible for the Bank to maintain a meaningful presence in all or even the majority of Russia's regions, the creation of a common economic and legal space will enable the Bank to look at the investment potential of regions across the entire Federation. The Bank will continue to seek opportunities to cluster its operations, policy dialogue, and technical assistance in regions on an opportunistic basis, building on the model that has been successfully deployed in Kaliningrad.

Among the key transition challenges Russia will face in moving from economic recovery to sustainable growth, as the Strategy notes, are the modernisation of the country's deteriorating infrastructure, the attraction of foreign and domestic investment to productive capacity, and stimulating the growth of the SME sector. In the case of Kaliningrad, the Bank developed an Action Plan that addressed this combination of issues through a significant investment in the region's water treatment facilities, the establishment of a branch of a specialised SME-lending Bank (KMB), and the launch of an administrative barriers study (jointly with the World Bank/IFC) to assess the difficulties faced by small business in the region. An extensive policy dialogue process facilitated this core set of initiatives, and has stimulated further activities by the Bank. A similar Action Plan is under development for Sakhalin.

The Bank sees an opportunity to replicate that experience in other Russian regions, beginning with investments in regional, cross-regional or municipal infrastructure (including roads, air and sea ports, and energy efficiency projects, among others) and building outward to include stepped-up SME lending (including through regional banks where possible), technical assistance to improve the investment climate, projects to promote sustainable (i.e. environmentally-friendly) development, and regional economic diversification. Investments in other sectors, such as natural resources, could also provide an anchor for a cluster of projects in a given region.

Among the key ingredients in the Kaliningrad case that made the Action Plan successful were a clear commitment from the Russian authorities at both the federal and regional level to develop the region and to work with the EBRD, support from the donor community and other IFIs, and effective co-ordination of Bank-wide efforts by the St. Petersburg resident office.

The level of policy dialog and co-operation already established by the Moscow resident office with federal authorities in the key ministries, and the increasing expansion of dialog with regional authorities (including with the presidential representatives to the seven federal districts), suggests that a central prerequisite to replicating this approach is already in place. The enhanced presence in Moscow plus its representative offices in other regions ensure that the efforts of country and sector staff can be efficiently co-ordinated. Another key factor in some cases will be the ability of municipal authorities to finance infrastructure projects, which, given restrictions still in place on foreign currency borrowings by municipalities, will require advances in the development of local currency financing (see Section 3.2.5).

Business Opportunities in the Regions

The approach described above focuses on building a cluster of Bank operations around a few core segments of the economy – mainly infrastructure and SMEs – that would advance sustainable development, economic diversification, and regional integration. There are obvious synergies between this approach and the Bank's continuing effort to expand the regional portfolio through investments in the traditional sectors where regions have areas of comparative strength due to their varying factor endowments.

In the **Northwest**, which includes St. Petersburg and Kaliningrad, there are natural opportunities in the transport sector (with ports on the Baltic Sea and Arctic Ocean), the oil and gas sector (in the far north), agribusiness (including but not limited to fisheries in the border regions), metallurgy (especially in Vologda), and the financial sector (in St. Petersburg). With the upcoming 300th anniversary of St. Petersburg, the city has been undergoing extensive modernisation, which the federal government considers a priority. Kaliningrad is also a priority region for Russia, especially in light of its geographical uniqueness – i.e. as an exclave on the Baltic Sea, soon to be surrounded by EU states following the next wave of enlargement. Sustainable development of the Russian north is considered a priority by the neighbouring states in Finland, Norway, and the Baltics, with which Russia is co-operating as part of the EU's Northern Dimension initiative.

The Bank’s existing portfolio in the Northwest federal district (EUR 321.3 million) is weighted toward municipal finance and infrastructure, metallurgy, and agribusiness, and, as noted above, the Bank has been expanding its activities in Kaliningrad (based on a Special Action Programme). In the current strategy period, continued attention will be paid to new opportunities in environmental projects, nuclear cleanup and transport (all in the context of the Northern Dimension framework), port and navigation projects in the Baltics, and steel production.

Northwest Federal District		
		As % of Russian Total/Average
Population (million)	14.6	10.0
Gross Regional Product (RUR billion)	815.5	9.6
GRP per capita (RUR `000)	55.7	95.7
Bank portfolio by volume (EUR million)	321.2	11.4
Bank portfolio per capita (EUR)	21.9	114.5
Bank portfolio as % of GRP	1.3	119.6

Central Russia, which includes Moscow City, is considered the economic nucleus of the Federation. Although it occupies less than 4 per cent of Russia’s landmass, its residents make up more than one quarter of the population and generate 27 per cent of the country’s GDP. The Central Federal District has the largest number of regions (18) of the seven districts, and it is the only district made up exclusively of predominantly ethnic Russian oblasts.

Central Russia’s comparative strengths, aside from the obvious advantage of being home to the nation’s capital and the headquarters of many national industries, include a strong scientific-technological base, the country’s most advanced infrastructure, the financial centre in Moscow, and “black earth” agriculture in such regions as Kursk and Belgorod. However, federal level authorities acknowledge the need to address the stark contrast between the relatively wealthy city of Moscow and very poor regions, such as Bryansk and Tambov. Natural opportunities exist in transport, the finance sector, retail trade, and agribusiness.

The Bank’s existing portfolio in Central Russia (EUR 661.5 million) is weighted toward financial sector projects (including numerous RVF and RSBF transactions which on-lend or invest equity in a wide variety of sectors), power and energy, and agribusiness. In the current strategy period, the Bank will continue to explore new business opportunities in the financial sector (especially in reform-related transactions), construction materials, and retail trade.

Central Federal District		
		As % of Russian Total/Average
Population (million)	37.4	25.5
Gross Regional Product (RUR billion)	2314.1	27.1
GRP per capita (RUR `000)	61.9	106.4
Bank portfolio by volume (EUR million)	661.5	23.5
Bank portfolio per capita (EUR)	17.7	92.4
Bank portfolio as % of GRP	0.9	86.8

The **Southern** federal district, which includes Chechnya, is the most multi-ethnic of the seven federal districts and has had the highest concentration of inter-ethnic conflict in Russia. This part of Russia is primarily agricultural, a sector of the Russian economy that until recently has been largely unreformed. These two factors combined have contributed to its low level of economic development – the 13 regions of Southern Russia together produce only 10 per cent of Russia's GDP.

Lying across key energy transport routes, and with ports on the Caspian and Black Seas, there are potential opportunities in natural resource extraction, port infrastructure, transport, and pipeline construction. The climate and natural surroundings are conducive to a lucrative tourist trade, if the problems with regional instability and integrity could be resolved.

The Bank's portfolio in the Southern district is currently quite small (EUR 11.9 million) and investments are routed exclusively through participation in various equity funds and the RSBF. These investments are mainly in agriculture. With recent progress in agricultural land reform, opportunities in the current strategy period in this sector are likely to improve, including in financing of agricultural production.

Southern Federal District		
		As % of Russian Total/Average
Population (million)	21.7	14.8
Gross Regional Product (RUR billion)	836.8	9.8
GRP per capita (RUR `000)	38.5	66.1
Bank portfolio by volume (EUR million)	11.9	0.4
Bank portfolio per capita (EUR)	0.5	2.9
Bank portfolio as % of GRP	0.0	4.3

The **Volga** region is the industrial heartland of Russia. Although it is one of the more multi-ethnic federal districts (it contains 6 of Russia's 21 national republics), there have been relatively few cases of interethnic conflict, and economic development outpaces most of the rest of Russia. The 15 regions in the district account for 23 per cent of Russia's GDP and 25 per cent of Russia's agricultural production. This federal district is known for its strong governors, who until recently have managed to create pockets of semi-autonomy in their regions. The Volga region is known also for its heavy concentration of technology-intensive industry such as machine-building and chemicals, automotive, consumer goods, and oil and oil products.

The Bank's portfolio is in the Volga federal district (EUR 365.6 million) is weighted heavily in the area of general industry – automotive, chemicals, glass, among others. Further investments in these sectors will be aggressively pursued in the current strategy period, as well as new business opportunities in aerospace and aviation.

Volga Federal District		
		As % of Russian Total/Average
Population (million)	32.3	22.0
Gross Regional Product (RUR billion)	1981.6	23.2
GRP per capita (RUR `000)	61.4	105.4
Bank portfolio by volume (EUR million)	365.6	13.0
Bank portfolio per capita (EUR)	11.3	59.1
Bank portfolio as % of GRP	0.6	56.0

The **Urals** Federal District is one of the richest of Russia's 7 federal districts, with only Kurgan oblast standing out as an economically depressed region. The Urals are rich in natural mineral wealth and energy deposits, and have a heavy concentration of the country's ferrous and non-ferrous metallurgy, machine-building, and military-industrial plants. Both Sverdlovsk and Chelyabinsk are heavily industrialised regions with rich mineral resources, together boasting of major enterprises in ferrous and non-ferrous metallurgy (notably Nizhny Tagil, MMK and SUAL), machine-building (Uralmash), chemicals, pharmaceuticals, and lumber. Tyumen Oblast, which contains the Khanty Mansii and Yamal-Nenets autonomous okrugs, is extremely rich in raw materials and is the country's main oil and gas supplier: 66 per cent of total oil and 90 per cent of total gas extraction in Russia comes from Tyumen.

The Bank's current portfolio in the Urals (EUR 256.1 million) is weighted toward natural resources, metals and mining, municipal activity (in Surgut), and the financial sector. In the current strategy period the Bank foresees further opportunities in these sectors and in higher value added processing and SMEs.

Urals Federal District		
		As % of Russian Total/Average
Population (million)	14.5	9.9
Gross Regional Product (RUR billion)	1267.9	14.8
GRP per capita (RUR `000)	87.3	150.0
Bank portfolio by volume (EUR million)	256.1	9.1
Bank portfolio per capita (EUR)	17.6	92.0
Bank portfolio as % of GRP	0.6	61.3

Siberia is dominated by natural resource and mineral extraction, notably oil and gas, nickel in the Taimyr autonomous okrug in Krasnoyarsk, alumina, coal, gold and timber. This wealth has not been evenly distributed throughout the region, however, and major parts remain mired in poverty and economic depression, particularly in the southern reaches of the federal district (Chita, Altai, Omsk).

The Bank's portfolio in Siberia (EUR 30.4 million) is heavily weighted toward natural resource investments, along with mining. In the current strategy period, opportunities in power and energy, natural resources and general industry will be pursued, as well as efforts to facilitate further economic diversification, such as modernisation of transport links and regional integration.

Siberian Federal District		
		As % of Russian Total/Average
Population (million)	21.2	14.4
Gross Regional Product (RUR billion)	960.0	11.2
GRP per capita (RUR `000)	45.3	77.8
Bank portfolio by volume (EUR million)	30.4	1.1
Bank portfolio per capita (EUR)	1.4	7.5
Bank portfolio as % of GRP	0.1	9.6

The **Russian Far East** is a vast area making up 36.4 per cent of Russian territory but has a population of 7 million (or 5 per cent of total Russian population). The Far East has high strategic importance, serving as Russia's outpost in the Asia-Pacific region, and is considered an economic priority region given its relative underdevelopment. Oil and gas, fisheries, timber, gold and diamonds are the district's most abundant resources, though extraction has been notoriously inefficient in some sectors. Located far from Moscow, regions in this federal district had a reputation for fierce independence and indifference toward central authorities, as well as for uncontrolled proliferation of crime and corruption, though under President Putin that has eased somewhat. In recent years, energy shortages, particularly in winter, have created social tensions and considerable concern in Moscow, contributing to removal of the regional governor in Primorsk.

The Bank's portfolio in the Far East federal district (EUR 273.8 million) is weighted toward natural resources (in Sakhalin where a Special Action Programme is being prepared to cluster Bank activities), power and energy, gold mining, and shipping. In the current strategy period the Bank will explore further opportunities in these sectors, in addition to projects in MEI, transport, forestry, food processing and the financial sector. There is a high potential for cross-border transactions involving one or more of Russia's Asia-Pacific neighbours. The Bank's activities in these and other projects can serve as a magnet for much-needed foreign investment in the Far East, and can generate demonstrate effects of viable, non-criminal business.

Far Eastern Federal District		
		As % of Russian Total/Average
Population (million)	7.3	5.0
Gross Regional Product (RUR billion)	363.4	4.3
GRP per capita (RUR `000)	49.6	85.1
Bank portfolio by volume (EUR million)	273.8	9.7
Bank portfolio per capita (EUR)	37.3	194.8
Bank portfolio as % of GRP	2.4	228.8

An expanded regional presence, as this section indicates, will presuppose a certain degree of risk (see Annex 4 for a breakdown of regional risk ratings). The Bank will seek to mitigate risk by conducting thorough due diligence on the regions where it invests, including assessments of the business climate, local political climate, and integrity of regional and municipal leaders along with its normal company-level due-diligence. In all of its projects in Russia, the Bank will continue to engage in dialogue with local, national and international nongovernmental organisations with concerns about the environmental and social implications of the Bank's projects.

The World Bank recently signed a regional fiscal reform loan, which will promote greater transparency, budgetary accountability and strengthened fiscal management policies at the regional level will constitute an important part of the regional due diligence process. The World Bank funds will be distributed by the federal government on a competitive basis to those regions that have already undertaken significant fiscal reforms. Such regions will have obvious advantages as recipients of EBRD finance.

4. CO-OPERATION WITH OTHER IFIs AND MULTILATERAL DONORS

Given the Bank's sectoral financing priorities, the EBRD will continue to utilise all available opportunities to actively co-operate with those multilateral and bilateral agencies involved in promoting transition and economic reform in the Russian Federation. The EBRD's programme of co-operation and co-ordination will vary according to the different strategic priorities of these multilateral and bilateral donors.

4.1 European Union (EU)

EU-Russia relations are based on the Partnership and Co-operation Agreement (PCA), the EU's Common Strategy, and the Northern Dimension approach. The PCA is intended to foster the strategic partnership between the EU and Russia through closer trade and economic relations, particularly through bringing the Russian legal framework into line with the EU's single market and the WTO. More recently Russia-EU relations have focussed on EU enlargement, an EU-Russia energy dialogue, and the identification of long term co-operation targets in order to give concrete meaning to the EU-Russia Common European Economic Space.

The EU's 1999 Common Strategy for Russia targeted the following areas of strategic co-operation: consolidation of democracy, the rule of law and public institutions in Russia; integration of Russia into a common European economic and social space; co-operation to strengthen stability and security in Europe and beyond; and addressing common challenges on the European continent, for example, the environment, nuclear safety and the fight against crime.

The Northern Dimension initiative promotes enhanced co-operation and co-ordination between the programmes of EU member states in northern Europe, the Baltic States and the Russian Federation. The Northern Dimension Action Plan 2002-2003, which the Bank helped formulate, places particular emphasis upon co-operation in nuclear safety and environmental issues, combating international crime, Kaliningrad, the information society and public health issues (see section 3.2.7).

TACIS is the EU's primary grant-making body in Russia, which aims to provide technical assistance and knowledge transfer through training, exchanges and institutional development. Since 1991 EUR 2.4 billion has been earmarked for this purpose, with activities focussed on enterprise support, human resources development and social protection, energy, environment, transport and telecommunications, food and agriculture. In addition the TACIS programme has provided support in areas such as nuclear safety (c. EUR 300 million), the Regional Programme, the Cross-Border Co-operation Programme and the Special Action Plan for the Baltic Region (with a focus on Kaliningrad). Other initiatives include the European Initiative for Democracy and Human Rights (EIDHR) which assists in the development of democracy and civil society and has designated Russia a focus country for the period 2002-2004. The EC and EBRD have co-operated on the EC/EBRD Investment Preparation Facility, which has funded around EUR 60 million of technical assistance that has prepared or accompanied around EUR 1 billion of EBRD investment expenditure in Russia. TACIS' Indicative Programme 2002-2003 focuses on the development of the Russian legal and regulatory environment and the requirements for Russia's accession to the WTO. Activities are focused around three main areas: institutional, legal and administrative reform; support to the private sector and assistance for economic development, and support in addressing the social impacts of transition.

EBRD will continue to co-operate closely with the EU in project and TC-related opportunities within the context of the Northern Dimension, and particularly the Environmental Partnership; on the development of the Kaliningrad region; in fostering Russia's integration into the world economy and providing substantive meaning to the 'common European economic and political space,' particularly in terms of the impact of EU/Russian energy policy on EBRD activities to reform the natural resources sector and foster diversification.

4.2 International Monetary Fund (IMF)

As of 31 May 2002 the Russian Federation had received a total of SDR 21.5 billion in IMF assistance, SDR 11.3 billion of which had been drawn-down. The majority of this lending occurred either prior to, or in the immediate aftermath of, the August 1998 crisis. The most recent Stand-By Arrangement began in July 1999, with a structural reform programme that was designed to compliment the IBRD's SAL-III. Implementation of the reform programme under this third SBA was not in accordance with the IMF's targets. Although the Fund and the Russian government engaged in a series of discussions in order to modify the terms of the SBA, an agreement was not reached and the SBA expired in December 2000 having disbursed only SDR 471.4 million of the SDR 3.3 billion agreed facility. Discussions then moved to consideration of a new SBA for 2001, to negotiations over a precautionary SBA which the Russian authorities subsequently chose not to pursue. As a consequence the Fund has not made any disbursements to the Russian Federation since mid-1999. EBRD will continue to consult with the IMF on a regular basis to assess Russia's progress in transition and macroeconomic stability and to inform the Bank's policy dialogue with the relevant Russian authorities.

4.3 International Bank for Reconstruction and Development (IBRD)

Total IBRD commitments in Russia amounted to approximately US$ 12 billion as of 30 April 2002 for 52 projects, while the current portfolio contains 31 projects to the value of US$ 2.7 billion (net of cancellations). The 2002 Country Assistance Strategy (for FY 2003-2005) was approved in June 2002, and focuses on three themes: improving the business environment and enhancing competition; strengthening public sector management; and mitigating social and environmental risks. The CAS also emphasises the World Bank's undertaking detailed analytical work, and the World Bank has started an initiative to unify the economic sector work from its various sectoral operations. This includes analytical work on macroeconomic growth and stability, financial sector and SME development, public investment, management of the public budget, agriculture, education reform and the costs of infectious diseases.

Under the base case in the CAS the Bank would support up to six projects per fiscal year worth up to US$ 600 million in FY 2003-2005. This case is dependent on at least 70 per cent of projects in the portfolio being deemed satisfactory, and evidence of progress in the government's reform agenda. Under this latter trigger, progress will be monitored in three areas: (i) deregulation and financial sector reform; (ii) progress with the authorities' Civil Service Reform Action Plan and a reduction in the number of cases of fiscal mandates being passed to the regions without fiscal support from the federal government, and (iii) implementation of a programme of poverty measurement, monitoring and analysis to mitigate social and environmental risk. Should either or both of these triggers not be met, the Bank will move to a low case scenario. Under this scenario the programme will be reduced to one new project per year (a TB/AIDS project in FY2003 and a social protection/child welfare project in FY2004) to a maximum value of US$ 150 million annually. There is no high case envisaged at present, although the Bank notes that should the external environment — particularly the oil price — deteriorate significantly it would be prepared to increase the pace of disbursement.

Given the IBRD's broad focus, the Bank will continue to seek opportunities for co-operation and project co-ordination in a wide field of activities, including enhancing competition through support for privatisation activities; promoting administrative reforms and public sector management, particularly in relation to municipal finance projects with related TC components; enhancing environmental sustainability by contributing to the upgrading of municipal infrastructure; encouraging and supporting deep-reaching financial sector reforms; and actively promoting SME development.

4.4 International Finance Corporation (IFC)

In December 2001 the IFC's Russia portfolio totalled US$ 247.9 million, US$ 199.3 million of which had been disbursed. Disbursements were in the form of loans and equity and quasi-equity. Recent IFC projects in the Russian Federation include investments in banking services, automotive retail, glass manufacturing, health services, air transport, breweries and mining. New IFC projects for the Russian Federation are in the fields of financial services, manufacturing, communications technology and agribusiness. In addition, the IFC is working closely with predominantly Russian sponsors in order to develop the regional banking network and to introduce new financial instruments including financial leasing, mortgage lending and subordinated debt. Technical assistance activities include an agribusiness project, a forest sector project (which is linked to the IBRD's loan to upgrade the performance of the forestry sector), a leasing sector development programme, and a corporate governance technical assistance programme. Activities on this latter programme will be linked to a series of new initiatives which include supply chain projects in the mining sector, automotive parts and furniture manufacturing. IFC is also planning a TA project to provide pre-and post investment support to medium-sized banks. The EBRD will pursue avenues of co-operation with the IFC in the key fields of reforming financial services, in particular enhancing the regional banking network, and in improving access to finance for the agribusiness sector. So far there are 7 jointly financed projects in the Bank's portfolio.

4.5 Multilateral Investment Guarantee Agency (MIGA)

MIGA has an outstanding portfolio in the Russian Federation of 10 guarantees with a gross exposure of US $263.5 million (US$ 144.2 million net). To date MIGA has facilitated around US$ 1.2 billion of foreign investment in the Russian Federation. Interested investors are considering MIGA coverage for a further US$ 760 million of potential investment, in the agribusiness, financial, mining, oil and gas, services and telecommunications sectors. MIGA, together with the Canadian International Development Agency is currently finalising an initiative to provide online information on privatisation opportunities in the Russian Federation for domestic and foreign investors. As with the IFC's relatively broad focus across a variety of sectors, MIGA's strategic pipeline provides numerous arenas for EBRD co-operation across the agribusiness, financial, natural resources and telecommunications sectors.

4.6 European Investment Bank (EIB)

The EIB has received a mandate to finance environmental projects in Russia, up to EUR 100 million, together with EBRD. Presently, the EIB is working on identifying those projects that would fit this mandate.

4.7 Black Sea Trade & Development Bank (BSTDB)

In line with its mandate, BSTDB continues to support projects and trade in the regions of Southwest Russia. As at June 2002, BSTDB had signed five transactions in the Russian Federation. Four transactions were in the financial sector totalling US$ 29.5 million supporting SMEs through credit lines and regional trade through pre-export facilities. One of the SME credit lines has been made available through KMB Bank. Additionally, as a first joint project, a US$ 15 million loan was made in 2001 to TogliattiAzot, in parallel with the Bank's US$ 40 million loan.

4.8 United Nations Development Programme (UNDP)

UNDP strategy focuses on outreach to the regions of Russia, the development of strategic partnerships and resource mobilisation. Current UNDP activities in the Russian Federation are based around the provision of policy advice and technical assistance, particularly concerning legislative formulation. UNDP's focus on regional outreach overlaps neatly with EBRD's regional strategy and provides ample opportunity, particularly where there is synergy between MDB and UNDP objectives and instruments, for co-operation in this field.

4.9 Bilateral Assistance

Russia has received bilateral assistance from various countries in support of democratisation, development of a market economy and environmental safety. Among others, partners include Canada, Finland, Germany, Japan, Sweden, the UK and the United States.

To date, Canada has committed over CAN$ 130 million to more than 250 technical co-operation projects in Russia. The focus of the Canadian International Development Agency's current Russia Country Programme is divided between institutional and policy-level reform and efforts to strengthen civil society. Additional assistance to Russia is provided through the Canadian Nuclear Safety Initiative and other regional programming.

Finland has provided around EUR 170 million to the Russian Federation, consisting of EUR 165 million in grants and EUR 5 million as guarantees to projects. Assistance has been focused on reducing environmental risks (e.g. environmental pollution and nuclear accidents), the development of forestry, agriculture and energy sectors, and the development of cross-border infrastructure.

Aggregate bilateral assistance provided by Germany to the Russian Federation since 1990, excluding loans and guarantees, amounts to EUR 11.7 billion.

Japan has provided substantial assistance to Russia amounting to US$ 6.6 billion, with a special emphasis on fostering human capital, supporting SMEs and promoting institutional reform through such measures as the corporate governance code. Japan has also extended support in areas such as the environment, trade/investment, nuclear safety and humanitarian aid.

Swedish assistance amounts to about EUR 30 million per year, with a concentration on common security, democracy, economic development and institution building, social security and health, environment, education and research. Technical assistance for improving the environmental situation and promoting of energy efficiency is closely linked to the Northern Dimension Environmental Partnership programme.

The UK's direct assistance to Russia is approximately GBP 24 million per year. The Department for International Development (DFID) priority objectives include: promoting more effective Russian participation in global institutions; enhancing the capacity of state institutions to implement reforms which benefit the poor; improving social protection mechanisms by contributing to the implementation of effective and coherent social policy; improving access of ordinary people to livelihood opportunities; and developing more responsive and transparent political systems, wider access to justice and adherence to human rights.

The USAID programme for 2002-2003 concentrates on providing support for economic policy reform in Russia, support for SMEs, improving environmental management and aiding sustainable development, strengthening the rule of law and local governance, enabling citizens' active participation in civil society and improving health care and child welfare practices. Total bilateral assistance from the United States to Russia in US fiscal year 2002 was US$ 1.07 billion.

ANNEX 1 – POLITICAL ASSESSMENT

Compliance with Article 1

The Russian Federation remains committed to the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank. Since the last Strategy was adopted, Russia's political and economic stabilisation has gained further momentum.

A key driver of the recent reform progress is the political will of President Putin, who has made good use of his considerable popularity and constructive working relations with a more reform-minded Duma to gain passage of an impressive array of political and economic reform measures. As the Bank's experience in the transition countries has shown, however, a key to reform success in the future is "deep" democratisation – reinforcing the commitment to media freedom, pluralism, and open society with more consistent application of these principles. In this aspect of the transition, Russia's record over the past two years has been mixed.

Political Accountability

The 1993 Constitution established a strong president with wide powers to appoint and dismiss the Prime Minister and his Cabinet, dissolve the lower house of parliament under certain prescribed conditions, and issue decrees with the force of law. The bi-cameral legislature consists of the 450-seat lower chamber (the State Duma), in which one half of the members are elected directly in single mandate districts and one half through a proportional representation system, and the 178-seat upper chamber (the Federation Council), which is made up of regional representatives appointed by the executive and legislative branch leadership of each of the 89 federal subjects of the Russian Federation.

The President is elected to a four-year term, and may not serve more than two consecutive terms. Elections to the State Duma are held every four years. Since 1996, regional governors have been elected in direct elections. Both the presidential election in March 2000 and the parliamentary election in December 1999 were judged by international observers to have furthered Russia's transition to a representative democracy, though numerous irregularities and manipulation of the media were noted in both cases. In many regional and municipal elections, local observers have noted the extensive use of "administrative resources", voting irregularities, abuse of campaign finance laws, and heavy manipulation of the local media.

Since his election, President Putin has used the powers of the presidency to re-establish central authority, which had eroded under his predecessor. Among his first acts were the introduction of federal reforms which ushered in a major change in the composition of the Federation Council, granted the Russian president the right to dismiss regional governors and disband regional legislatures that violate federal law and/or adopt unconstitutional legislation, and divided Russia into seven federal districts, each of which is overseen by a presidential plenipotentiary. On top of this, the Russian Government has taken steps to rationalise fiscal federal relations, which further implies a greater measure of central authority over regional affairs, and is poised to introduce a number of laws that will further clarify the division of powers and economic responsibilities among federal, regional and municipal authorities.

While the federal reforms were clearly needed to arrest a process of fragmentation, the efforts to reinforce central authority have been seen by the administration's critics as leading to an over-concentration of executive power. In the view of democratic centre-right and centre-left parties, the President's overwhelming popularity with the Russian people, his dominance over both the Duma and Federation Council, the absence of a broad-based opposition, and the state's influence over the media and other institutions of civil society allows the administration unchecked power to rule in its own interests rather than the interests of the society.

One recent study based on a three-stage panel survey of nearly 2,000 respondents has shown that fewer than 20 per cent of Russian citizens agree with the statement that "the political system that exists in Russia today is a democracy."[2] On the one hand, this demonstrates that Russia has some way to go before it reaches a level of democracy deemed satisfactory to its own people; on the other hand, the study debunks the popular myth that Russians are undemocratic. In terms of their belief in the right to elect their leaders and enjoy fundamental freedoms (speech, press, assembly, movement, religion, etc.), Russians share the same basic values as people in the advanced democracies.

Support for democracy at the grass roots is an important pre-condition for Russia's political transition, however full democratic consolidation would require measures to reinforce the accountability of Russian leaders through more effective elections, stronger political parties, better-functioning state institutions, and a more robust civil society.

Rule of Law

Article 1 of the Russian Constitution describes the country as a "democratic federal rule-of-law state with the republican form of government." Article 10 calls for a separation of powers among the executive, legislative, and judicial branches, each of which shall exercise power independently of the others. Since the Constitution was adopted in 1993, however, these principles have not always been applied in practice and the public's confidence in the courts and judges remains quite low. According to a poll conducted by the independent Public Opinion Foundation in December 2001, 71 per cent of the public did not consider the courts independent, while 40 per cent of respondents in the same poll said that judges' decisions were heavily influenced by monetary incentives – i.e. bribes. Another Russian survey research firm, ROMIR, reported in February 2002 that 60 per cent of Russians did not trust the justice system.

However, perception may lag behind reality, as some measures indicate significant improvements in Russia's legal system in recent years. For example, individuals who take public officials to court are successful 80 per cent of the time, and recent surveys of Russia's arbitrage courts suggest that they operate rather well, especially when adjudicating disputes between private firms. Nevertheless, perceptions may affect the public's trust in state institutions more than personal experience, and a number of high profile cases of apparent political and/or private sector interference in the judicial process has marred Russia's reputation and its investment climate. As a result, when President Putin assumed office in 2000 he promised to reverse the reputation of Russia's judicial system and institute a "dictatorship of law" in Russia which would create a common legal space across the country's 89 subject regions, eliminate arbitrariness, protect property and contract rights, and crack down on crime and

[2] Timothy J. Colton and Michael McFaul, "Are Russians Undemocratic?" Post-Soviet Affairs, Vol. 18, No. 2 (April-June 2002), pp.91-121.

corruption. Many positive steps have been taken to realise this vision, though senior officials acknowledge that the establishment of a legal culture respecting rule of law is expected to take many more years.

Two key elements of the Government's legal reforms include a judicial reform package (an amended Law on the Status of Judges, Law on Judicial Systems, and Law on the Constitutional Court) and a new Criminal Procedures Code. The judicial reform package seeks to strike a finer balance between accountability and independence of judges, both of which were seen to have eroded due to under-funding, poor training, and corruption. To improve accountability, the new law sets a forced retirement age for judges, reduces their immunity, and establishes firmer rules on tenure of office within any specific court. To strengthen independence, the law vastly increases the funding for the court system and salaries for judges, who in the past were partly dependent on regional and local governments as well as private firms to supplement their incomes and provide certain perks like apartments. The Government intends to spend $1.5 billion over the next four years on judicial reform, the bulk of which will go toward increased judges' pay.

The new Criminal Procedures Code reduces the power of prosecutors, increases protection of criminal defendants, and expands the use of jury trials in criminal proceedings for the most serious cases. The new Code addresses many of the concerns of domestic legal advocates and international legal experts on rule of law, as well as the profound concerns raised by President Putin himself in a nation-wide address in 2001, regarding the effectiveness of the courts in handling the most serious crimes, the treatment of people being held for trial, and the meting out of justice. Prosecutors will no longer have the right to issue arrest and search warrants without a court order, and defendants' rights – to a fair and speedy trial, legal representation, and right of non-self incrimination – will gain greater protection. Further, prosecutors will be forced to prove their case in the most serious criminal trials before a ten-member jury. Jury trials are currently held in only 9 of Russia's 89 regions, but under the new Code they will be required in all Federal subject regions.

Civil and Human Rights

The Russian Constitution provides for protection of all basic rights and freedoms of citizens, and these are largely upheld in practice. Two issues have become the focal points of international observer organisations, rights groups, and public opinion: pressure on the independent media and protection of human rights for civilians caught up in the Chechnya conflict.

Russia has a large and varied media made up of both state and independent press organisations where opposition views are often published, and which since the transition began has come a long way toward reaching international standards for press freedom. However, several widely-reported incidents of closure of major TV-networks and newspapers, intimidation of (and in some cases violence against) investigative journalists, exorbitant libel judgements against opposition newspapers, and limitations on reporting in the breakaway region of Chechnya have drawn international attention. Moreover, numerous reports from national and international media watchdog groups such as Russia's National Press Institute, the Vienna-based International Press Institute and Freedom House, point to suppression of press freedom in many of Russia's regions, where local governments operate or control a high percentage of the media and in some cases have a monopoly. Local authorities maintain instruments of control over the media via dominance of local printing presses and distribution networks, as well as the use of other "administrative resources" (such as local tax authorities, regulators, and courts). The federal centre has sought to counter the governors' control over the media in the regions by routing federal subsidies to media companies through the State Press Ministry rather than through the regional administrations.

According to the most authoritative report on the state of the media industry in Russia, produced by the Russian party to the Russian-American Media Dialog, government authorities play a central role in media affairs and the powerful state media segment has grown stronger in recent years. In addition to the government's own media, rewards to loyal, nominally independent media can be channelled through transfer payments from federal and local budgets as well as preferential pricing on utilities, postal service and apartments, soft loans, preferential access to information and newsmakers, mandatory subscription by government agencies, and government-directed placement of advertising. The Press Minister, Mikhail Lesin, recently acknowledged that "the state's position as the main player on the media market" is "an important problem." He pointed to the need for a gradual divestiture of state media assets, and also to the need for new legislation, better training of media professionals, and the organisation of professional associations of journalists.

The state's media dominance was highlighted in two recent cases involving independent national TV stations. Partial ownership of the state gas monopoly Gazprom and the country's largest oil company Lukoil has allowed the state to exercise indirect influence over media companies in which the two energy conglomerates hold large shares. While commercial disputes were at the core of both incidents, there were apparent political overtones as well. In the first case, Gazprom managed a take-over of the NTV television network, which had been an independent channel that was known for its critical reporting. As a creditor to Media-Most, NTV's parent company, Gazprom successfully sued the company on charges of fraud, tax evasion and mismanagement and in end assumed control over NTV and forced the closure of two respected news periodicals, *Segodnya* and *Itogi*.

Shortly thereafter, many of the NTV journalists and editors moved to a rival independent station, TV-6, which was controlled by Boris Berezovsky, a strong critic of the current administration. As a shareholder in the company that owned TV-6, the pension arm of Lukoil made use of an article in the Civil Code to obtain a court order to liquidate the station on grounds that it was operating at a loss and was mismanaged. The court ruled in favour, and in January 2002 the station went off the air and its license was later auctioned off to new owners.

The closure of NTV and other Media-Most media outlets was greeted with concern by the Parliamentary Assembly of the Council of Europe (PACE), which issued a statement in April 2001 declaring that "the attacks on freedom of expression and mass media in Russia, undertaken with the participation of the authorities, run counter to the basic principles of the Council of Europe and constitute a significant violation of Article 10 of the European Convention on Human Rights." Similarly, both the EU and PACE expressed "serious concern" about the media situation in Russia after the closure of TV-6, which they said "could be interpreted as encouraging measures to restrict freedom of the press." A US State Department spokesman said that in the TV-6 case "there was a strong appearance of political pressure in the judicial process against independent media." And the OSCE's Representative on Freedom of the Media, Freimut Duve, stated in his regular report to the OSCE Permanent Council in March 2002 that "several negative developments have worried me and led me to question the true commitment of the Russian authorities, especially in the regions, to free media." Duve was referring to the NTV and TV-6 cases as well as to a libel judgement against the independent newspaper *Novaya Gazeta* in the amount of EUR 1.6 million for purported slander against a judge in Krasnodar and a Moscow-based bank, and to the treason conviction of military journalist Grigory Pasko and the criminal case brought against Olga Kitova, an investigative journalist for *Belgorodskaya Pravda*.

In the case of the conflict in Chechnya, press and rights groups complain that they face obstacles in their reporting on the conflict and that the Russian people have not been given the full story on human rights abuses that take place there. Both Russian and international human rights organisations, as well as many Western capitals and multinational bodies, have charged that the indiscriminate use of force in Chechnya has caused thousands of civilian deaths and the displacement of an estimated 160,000 people who are living in crowded unsanitary conditions in refugee camps in Chechnya and Ingushetia which the Council of Europe described as "terrible" and getting worse. Moreover, there have been credible reports by such organisations as Human Rights Watch and others of serious human rights abuses including rape, torture, arbitrary detention, disappearances and extrajudicial executions during so-called "sweep operations" in Chechen villages. Such reports are confirmed by Chechen police authorities, working under the republic's pro-Russian government.

In April 2001 the UN Commission on Human Rights adopted a resolution condemning the abuses of human rights in Chechnya and calling on all parties to take measures to protect civilians. The UN Commission rightly notes that human rights abuses occur on both sides of the conflict. Chechen fighters, who reportedly receive support from radical Islamic organisations, international terrorist groups, and foreign states, are accused of killing civilians that would not assist them, using civilians as human shields, and using civilians as forced labour. They also are reported to torture, abuse, and execute captured soldiers from federal forces and target civilian officials from the government-backed Chechen administration.

The current administration has taken steps to address human rights problems in Chechnya, including the appointment of a Special Presidential Representative for Human Rights in Chechnya and the creation of an Independent Commission on Human Rights in the Northern Caucasus. Neither body is empowered to investigate or prosecute alleged abuses, but they do receive several thousand complaints that they then pass on to military or civilian prosecutors. In the event, only a few dozen cases have been brought to trial to date and only a small number of those defendants have been found guilty.

In his June 2002 press conference, President Putin acknowledged the inadequacies in the legal framework in Chechnya, commenting that it would take at least a year to lay the legal and security groundwork to "normalise" the situation in the republic. He also called for a stop to the "sweep operations" and came to the defence of Chechen civilians whom he said were "not guilty of anything" but nevertheless had become victims of "Russia's government machine that failed to work properly." This change in tone on the human rights situation in Chechnya and the obligations of the government and the military to address its shortcomings was welcomed by the international community. Further measures to strengthen rule of law and reform the military, both of which have been identified as priorities by the current administration, would improve the outlook for treatment of civilians and protection of human rights.

External Relations

Russia shares long borders with Europe, the Caucasus and Central Asia, China and North Korea, and neighbours the United States and Japan in the Far East. Such an expansive territory requires a multidimensional foreign policy.

Among President Putin's top priorities in external relations has been strengthening bilateral ties with the neighbouring states in the CIS, with which Russia has extensive trade relations, a common language and culture in many cases, and common interests. Russia has signed a Union Treaty with Belarus that calls for the two states to unify their currencies and harmonise their customs, trade and financial legislation; it is party to the Commonwealth of Independent States, a multilateral body that promotes co-operation among the Soviet successor states in trade, economic, security, and cultural, relations; and it is part of the Eurasian Economic Community, an economic entity modelled on the European Union. Russia has friendly relations with nearly all its neighbours, although relations with Georgia have seen periodic strains, most recently due to evidence that Chechen fighters are using border regions in Georgia as a safe haven. At a CIS Summit meeting in Chisinau in October 2002, Russia and Georgia reached an agreement that calls for joint border patrols and the extradition of Chechen fighters arrested by Georgian police in the Pankisi Gorge in August.

Russia's relations with the United States and European Union have improved steadily in the past two years, especially since Russia joined the US-led anti-terrorist coalition formed after the September 11 attacks on the World Trade Center and the Pentagon. Since that time Russia has not only strengthened its bilateral ties to Western states, especially the United States, it has also more closely integrated with Western institutions such as the G8 and NATO. Russia also has a co-operative relationship with the EU, with which it has signed a Partnership and Co-operation Agreement, although the issue of the future visa regime for Kaliningrad following EU enlargement has created strains of late. Both the EU and US have agreed to recognise Russia as a "market economy", a move that has important practical and symbolic implications for Russia's integration with the West.

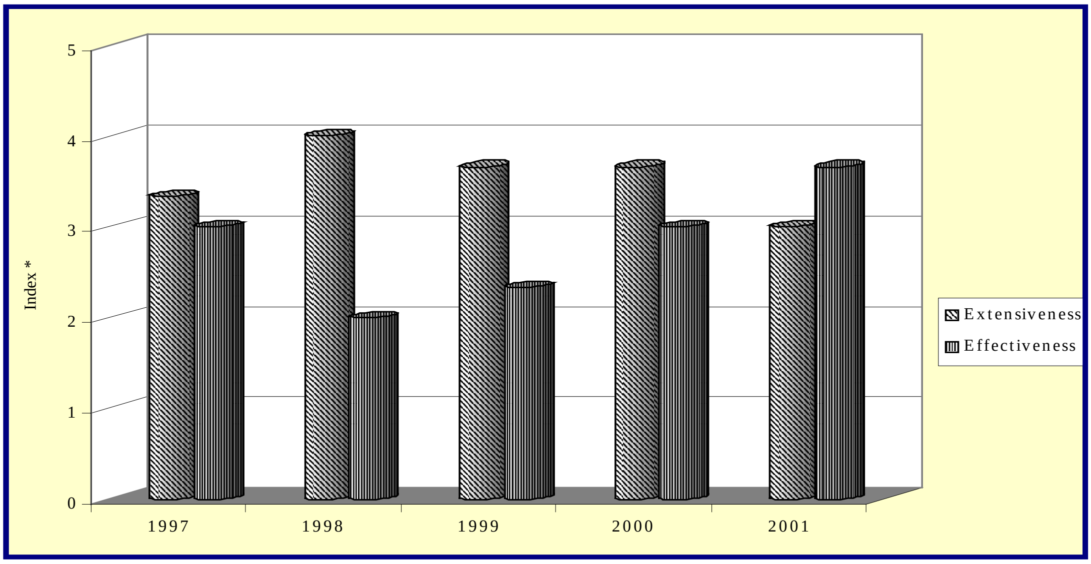
Russia has a stable and friendly relationship with China, its great power neighbour to the East. Enhancing economic exchange is a priority for Moscow, as currently cross-border trade remains at extremely low levels. Russia and China have common economic, political and security interests in Central Asia, which they pursue through the framework of the Shanghai Organisation for Co-operation (or Shanghai 5). Relations between Russia and Japan have significantly expanded in recent years. They share a common interest in promoting peace and stability in Northeast Asia as well as in developing the economic potential of the Russian Far East and Central Asia, particularly in the sphere of energy. However, a territorial dispute remains unresolved between the two countries. Russia has sought to play an "honest broker" role in the Koreas, working alongside South Korea to promote rapprochement with the repressive North Korean regime, and seeking to coax the latter into a less hostile stance to the Western world. Russia has a strong interest in preserving security and stability in the Korean peninsula, as well as fostering economic co-operation with its neighbours in the Far East, particularly on development of Siberia and the Russian Far East.

ANNEX 2 – LEGAL TRANSITION

COMPARATIVE ASSESSMENT OF THE RUSSIAN FEDERATION'S COMMERCIAL LAW

I. Assessment Over Time

Extensiveness and Effectiveness of the Russian Federation's Commercial Laws[3]



Source: OGC Legal Indicator Surveys; 1997 - 2001
**Note:* Indicators along the y axis range from 1 (little progress) to 5 (substantial progress)

While Russia's commercial laws have been gradually improving over the past three years, they still fall short of standards that are generally acceptable internationally. Russia's commercial legal rules that affect commercial transactions, such as secured lending, debt restructuring, and the formation of joint-stock companies, fare reasonably well compared with those of more developed countries.

Although those legal rules are not as clear and accessible or as adequately implemented administratively and judicially as would be the case in more developed countries, the situation did improve in 2001. Annual EBRD Legal Indicator Surveys over the past five years indicate that lawyers familiar with Russia's commercial laws share this view.

II. Comparison with Other Transition Countries

Although Russia's normative laws do not yet approximate international standards and the country lacks adequate institutional support to implement these laws, Russia overall compares reasonably well with many other transition countries. Based on the 2001 EBRD Legal Indicator Survey, which measured the perception of lawyers familiar with Russian law, the commercial and financial laws of Russia can, in corporate terms, be characterised overall as adequate for supporting investment and other commercial activity. However, in absolute terms much legal reform work is needed.

[3] The EBRD conducts a Legal Indicator Survey each year to measure the progress in legal reform in Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States, as viewed by local lawyers and academics. The results of such survey are based on responses to the questionnaire sent out to lawyers practising in any given country. The survey represented their perception of the country's legal system and, in particular, the degree to which key commercial and financial laws have reached internationally acceptable standards (extensiveness) and to which extent these laws are implemented and enforced (effectiveness).

Compared with other CIS countries, Russian law is perceived by lawyers in the field as broadly being on the same level as most countries of the former CIS, although poorer than Kazakhstan and some of the more advanced transition countries of Central Europe (but even those do not have laws that can be characterised as meeting international standards).

Legal Indicator Survey - Commercial Laws	
Reasonably Good: Bulgaria Croatia Estonia FYR Macedonia Hungary Kazakhstan Latvia Lithuania Moldova Romania Slovenia	Adequate: Azerbaijan Belarus Czech Republic FR Yugoslavia Georgia Poland **Russian Federation** Slovak Republic Ukraine Uzbekistan
Inadequate: Albania Armenia Bosnia & Herzegovina Tajikistan Turkmenistan	Detrimental: None

Source: OGC Legal Indicator Survey, 2001
Note: No country received a rating of "very good"
Note: No data received for Kyrgyz Republic in 2001

LEGAL SECTOR ASSESSMENT

Bankruptcy

The Insolvency system in the Russian Federation is based on the Federal Law on Insolvency (Bankruptcy) of 1 March 1998 (hereinafter "FBL"). The FBL deals with bankruptcy of commercial legal entities (with the exception of public enterprises) as well as non-commercial organisations operating in the form of a consumer co-operative, charitable foundation or fund**.** The FBL provides specific regulations for credit institutions, insurance organisations, agricultural organisations, professional participants in the securities market or town forming organisations. The FBL also applies to natural persons, including those carrying on business as entrepreneurs, farmers and other citizens.

A number of serious problems with the implementation of the FBL have been identified in recent times. Firstly, rather than using bankruptcy for rehabilitation or equitable distribution of assets (legitimate bankruptcy policies), the FBL has been used to facilitate hostile take-overs[4]. This predatory use of the bankruptcy mechanism is not limited to private creditors as state bodies, especially regional administrations, have often been accused of abusing the bankruptcy law. At the same time, insolvent enterprises continue to function for years on end and the FBL has not done much to help their creditors. Secondly, it is very easy to initiate bankruptcy proceedings, as creditors are not required to provide the court with any evidence to substantiate their claims concerning the alleged overdue debt and the minimum overdue debt needed to begin bankruptcy proceedings is very small. Thirdly, bankruptcy proceedings are too difficult to stop once launched and fundamentally sound firms facing temporary

[4] The Federal Service for Financial Rehabilitation (FSFO) estimates that around 30% of the 42,000 bankruptcy suits now in the Russian courts are predatory (literally `zakaznye' or `to order')

liquidity problems can thus be caught up in bankruptcy battles that they are unable to end, even when they are able fully to pay off all their creditors. Fourthly, bankruptcy administrators enjoy sweeping powers, lack accountability vis-à-vis owners, creditors or the court and their activities are often non-transparent.

Changes are planned, however, with a recent bill to reform the FBL passing its third reading in the Duma. When implemented, the effectiveness of the FBL will be significantly improved.

Capital Markets

The principal regulator of the Russian capital market is the Federal Commission for the Securities Market (the "FCSM"), established pursuant to Presidential Decree No. 163-rp, in March 1993. The FCSM is composed of representatives of several government agencies (including the Ministry of Finance, the Antimonopoly Committee, the Central Bank of Russia, the Russian State Property Fund, etc.) and was established to assume and consolidate the regulatory powers previously distributed among these governmental agencies.

The Law on the Securities Market (the "SML") first came into force in April 1996 and was intended as a comprehensive securities market law, regulating securities, the status of stock exchanges, the transfer and protection of titles and the activities of all market participants. In addition to the SML, a number of decrees have also been issued by the FCSM, regulating certain aspects of the securities market.

In order to establish a regulatory framework for investment funds and protecting investors' rights, the Russian President issued a Decree on the Development of Investment Fund Activities on 23 February 1998. This Decree led to a significant reorganisation of investment institutions including closed-end voucher investment funds that sprung up during the course of privatisation. The Law on the Protection of Investors' Rights in the Securities Market promulgated in March 1999 provides for an improvement in the legislative framework and establishes a Federal Compensation Fund for investors. This law sets forth information disclosure guidelines and imposes penalties for violations of securities market regulations by professional market participants. In addition, the Russian Government also enacted the Law on Investment Funds in November 2001 establishing a detailed framework regulating joint-stock investments funds and mutual investment funds.

In the insurance sector, a large number of insurance companies were created in the 1990s and were generally under-capitalised and lacked both skills and financial resources. However, from 1 January 2000, new rules require the minimum charter capital for insurance companies to be increased to at least 35,000 times minimum wages (around RUR 3 million) for companies selling both life and other types of assurance, 25,000 times minimum wages for companies not involved in life insurance (RUR 2.1 million) and 50,000 times for re-insurance companies (RUR 4.2 million). These new rules have led to the restructuring of the Russian insurance market.

Company Law

The Law on Joint Stock Companies (the "JSC Law") was amended in August 2001, with majority of the amendments taking effect on 1 January 2002. These amendments provide that a joint stock company ("JSC") with more than 50 shareholders will be required to engage an independent registrar to maintain their register of shareholders.

With respect to the creation of branches, opening of representative offices or their liquidation, the JSC Law permits a JSC to amend its charter simply on the basis of a resolution of the Board of Directors, instead of a decision adopted by the general meeting of shareholders as previously required. In addition, the JSC Law provides that the relevant rules on quorum and voting at the general meeting of shareholders cannot be changed in a JSC's charter.

More importantly, the amendments contain provisions to further protect the shares of minority shareholders from dilution. The amendments also introduce new measures to make it difficult to squeeze out minority shareholders by way of an increase in the charter capital and make it almost impossible to squeeze out minority shareholders through the exercise of a preferential right and the consolidation of shares. In addition, according to the amendments, the decision to limit the rights of shareholders owning privileged shares of a certain type may be approved at a shareholders' meeting only if such decision is approved by at least three quarters of the shareholders owning privileged shares of such type and three quarters of shareholders owning common voting shares. A JSC may provide for a higher voting requirement in its charter.

With respect to corporate governance, Russian companies were criticised sharply in the past for violation of property rights and the interests of minority shareholders. Through an EBRD sponsored legal technical assistance project the FCSM developed a Corporate Governance Code which was officially unveiled in April 2002. Initially the Corporate Governance Code will serve as a guideline only, but is expected to become mandatory at a later date. However, given that the Corporate Governance Code is a relatively new initiative, it remains to be seen how this Code will work in practice in Russia.

Concessions

Russia does not currently have a general framework Concessions Law, although a draft version is under development and will be completed in the near future with assistance from the EBRD. In the meantime, the country continues to take a sector-by-sector approach, differentiated by how much the government is involved in the production and the significance of the sector. The rights and obligations of concessionaires, as well as the nature of government regulation, vary depending on the sector and the particular situation.

The 1995 Law on Mining, amended in 2002, governs the granting of concessions for the mining (the right to use) of natural resources, excluding precious metals and stones which are governed by a separate law. The 1992 Resolution on the order of licensing the use of subsoil as last amended in 2002 specifies the procedure used for determining where concessions may be given and on what terms. The 1998 Law on Precious Metals and Stones, last amended in 2001, provides the basic procedure for concessions in this field as in other mining sectors, but the governmental control and supervision over the operations are much stricter.

The general rights of foreign investors are governed by the Foreign Investment Law of 9 June 1999, last amended on 21 March 2002. Foreign investors are accorded equal treatment with Russian counterparts and their rights are guaranteed. They can be shielded from the effect of new detrimental laws for up to 7 years (longer in high priority sectors). However, these rights can be abridged if that is necessary for the defence of the foundations of the public order, morality, health, the rights of others and national security interests. These terms, especially morality and the foundations of public order are not defined and serve as a large loophole threatening the rights of foreign investors.

Secured Transactions

In the post-communist era the Law on Pledge, No 2872-1, of 29 May 1992, initially governed security over movables in Russia. In 1995, Part One of the Civil Code (CC) of the Russian Federation was enacted, of which arts 334-358 covered pledges, without the Pledge Law being repealed.[5] The Law on Mortgage of 22 July 1998 covers security over immovable assets and security over enterprises, which are *treated* as immovables by Russian law.

Security over movable assets can take the form of a possessory pledge over movables (pawn) by which the debtor transfers possession of the secured asset to the secured creditor. Russian law also allows the debtor to keep possession of the pledged assets and to use them by virtue of a non-possessory pledge (art 338 CC). The problem with such a pledge is that it does not guarantee priority ranking to the creditor in case of default as there is no centralised system of registration, by which the creditor and third parties could assess whether or not the same assets were previously charged. In theory, the main method of publication of non-possessory charges over movable property is their entry in a charge record book maintained by the debtor-borrower, though this only applies where the borrower is a company or a natural person registered as an entrepreneur. In practice such entries do not appear to be made[6]. There exist, however, special asset registries where security given over certain types of assets, for example agricultural vehicles, can be recorded. Charges of shares have to be recorded in the shareholders' register and the granting of security over an enterprise is by way of mortgage, which must be registered in the Single State Register of Rights. A practical difficulty for such security is that the charge agreements require notarisation and the fee amounts to 1.5 per cent of the value of the contract.

The object of the security can also give rise to various issues. Charges cannot be granted over certain high-quality industrial products or over golden shares. The Presidium of the Supreme Arbitration Court of the Russian Federation has held that 'monetary assets cannot be the object of a pledge' (2 July 1996 - Decree No 7965 (95)). Accordingly, it is unclear whether a pledge over bank accounts (i.e. the right of the account holder vis-à-vis the account bank) would be valid and enforceable. Further difficulties with taking security in Russian law lie with the enforcement of such security in the field of creditor ranking and enforcement procedures.

Telecommunications

The telecommunications sector in the Russian Federation is currently regulated by the Ministry of Communications and Informatisation (the 'MCI') and is governed by the Federal Communications Law of 1995 (the '1995 Law'). The MCI was created in February 2000 to replace the State Committee for Telecommunications and is

[5] The provisions of the Civil Code governing charges and the Pledge Law are inconsistent in part, and the extent to which the Civil Code provisions supersede and replace the Pledge Law is unclear. The Civil Code supposedly prevails in case of conflict.

[6] The law also allows for the charged assets to be tagged. There is also some evidence that registries for charges over movables were envisaged on a regional basis. Thus, there is a decree of the Moscow Council No.788 covering the 'creation of a general registration system for pledge contracts at the territory of Moscow' (20 September 1994). However, there is no evidence of these registries operating.

responsible for federal budget resources within the communications industry and for supervising and regulating all types of communication within the territory of the Russian Federation. The President appoints the Minister for Communications and Informatisation and the Minister and his Deputy Ministers are responsible to the President for the performance of the regulatory functions of MCI. The Minister is also Chairman of the board of directors of OAO Svyazinvest, the holding company of the state controlled local public telecommunications network (PTN) operators[7].

The 1995 Law is currently supplemented by a myriad of telecommunications related regulations covering a variety of aspects related to the sector. This framework has been found to be significantly outdated and not to cover important developments in the telecommunications industry in recent years. Consequently, a draft amendment to the 1995 Law has been prepared by MCI for consideration by the State Parliament in later this year. The EBRD is currently providing advice to MCI on the draft amendment to the 1995 Law on Communications and on required revisions to the secondary legislation.

There are two types of telecommunications operator in Russia. Traditional telecommunications operators, meaning those that existed as public telecommunications units before they were partially privatised and new (also called alternative) telecommunications operators, meaning those that were given licence to operate after 1990 and that had not previously provided communications services on the PTN. Traditional operators, i.e. subsidiaries of Svyazinvest, together with some 2,700 new operators, provide local telephony services. Most of the Svyazinvest operators are listed and regulated as natural monopolies and their tariffs are subject to approval by the Ministry of Anti Monopoly Policy and Support for Entrepreneurship (MAP). Rostelecom, a subsidiary of Svyazinvest, holds a monopoly (currently until 2010) on the provision of all long distance and international telephony services. This monopoly only covers PTN services, while dedicated and corporate services are exempted from the monopoly. Rostelecom, therefore, must compete with new operators for the lucrative corporate and dedicated long distance and international data market. Rostelecom currently handles about 70 per cent of all long distance and international traffic. Svyazinvest's holdings are currently being restructured and the future of Rostelecom within the restructured entity is still being considered.

Interconnection is currently governed by the 1995 Law, which states that all service providers have the right to interconnect with the Svyazinvest companies provided that the interconnection agreements comply with the licence conditions of the interconnecting parties. Interconnection, however, has been made difficult by the variety of hardware and software in use, by obsolete equipment and by low network digitisation levels. MCI has also experienced difficulty in ensuring that all operators fulfil their obligations.

[7] The fact that the Minister for Communications and Informatization acts as both the telecommunications sector regulator and chairman of Svyazinvest has given rise to concerns of potential conflicts of interest.

LEGAL TRANSITION ASSISTANCE

Capital Markets

The Bank is currently working with the Federal Commission for the Securities Market on a legal reform project to improve Russia's legal and regulatory framework governing the debt capital markets. The project aims to establish in Russia a clear regulatory regime, under which the supranational organisations of which Russia is a member country (e.g. EBRD) or other foreign corporations with good financial standing will be able to issue rouble-denominated debt securities to raise rouble funds in a cost-efficient way.

Corporate Governance

The EBRD is sponsoring a project to assist the Russian Federal Commission on the Securities Market (FCSM) to develop a Corporate Governance Code, accompanied by an explanatory commentary that will be used as a central reference for issuers of securities. The Code is based on the OECD Principles of Corporate Governance and will provide guidance for improved corporate bylaws and operating procedures. The FSCM will require Russian companies to disclose the degree of compliance with the Code's provisions and to justify any lack of compliance. The Code should serve as an important tool for assessment by investors of Russian companies' compliance with international best practices of corporate governance. The final Code was endorsed by the Russian Government in March 2002.

Telecommunications

At the request of Russian Government, the EBRD has been assisting the Russian Ministry of Communications and Informatisation in creating a modern and comprehensive telecommunications regulatory framework by providing review and comments on a draft amendment to the Federal Communications Law 1995. At the further request of Russian Government, the EBRD will also shortly begin to implement a further telecommunications regulatory reform assistance project aimed at assisting the authorities to develop a modern regulatory framework. In particular, this project will address the priority areas of universal service, licensing and interconnection in the Russian Federation.

ANNEX 3 – ECONOMIC INDICATORS

Russian Federation Updated 09/01

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
									Estimate	**Projection**
Output and expenditure					*(Percentage change in real terms)*					
GDP	-13.0	-13.5	-4.1	-3.4	0.9	-4.9	5.4	9.0	5.0	4.1
Private consumption	1.2	1.2	-2.8	-4.5	5.1	-2.4	-4.2	8.5	8.4	6.8
Public consumption	-6.4	-2.9	1.1	0.8	-2.4	0.6	3.0	1.6	-1.1	4.0
Gross fixed investment	-25.8	-26.0	-7.5	-19.3	-5.7	-9.8	4.7	15.5	11.5	5.5
Exports of goods and services	na	na	7.3	-2.0	4.2	2.7	-4.5	6.0	na	na
Imports of goods and services	na	na	16.6	6.9	10.6	-14.1	-21.7	16.0	na	na
Industrial gross output	-14.1	-20.9	-3.3	-4.0	1.9	-5.2	8.1	9.0	4.9	3.5
Agricultural gross output	-4.4	-12.0	-7.6	-5.1	0.1	-12.3	2.4	4.0	6.8	5.0
Employment					*(Percentage change)*					
Labour force (end-year)	-1.4	-1.4	-5.3	-2.3	-1.8	-1.5	8.9	-1.0	-0.2	na
Employment (end year)	-1.7	-3.4	-6.4	-3.4	-3.1	-2.7	8.0	1.4	1.3	na
					(In per cent of labour force)					
Unemployment (end-year)	6.0	7.8	8.5	9.6	10.8	11.9	12.6	10.5	9.0	na
Prices and wages					*(Percentage change)*					
Consumer prices (annual average)	875.0	311.4	197.7	47.8	14.7	27.6	86.1	20.8	21.6	15.7
Consumer prices (end-year)	840.0	204.4	128.6	21.8	10.9	84.5	36.8	20.1	18.6	15.0
Producer prices (annual average)	941.9	337.4	236.5	50.8	19.7	21.5	56.3	18.4	22.7	na
Producer prices (end-year)	895.0	233.0	175.0	25.6	7.4	21.5	56.3	33.0	14.8	na
Gross average monthly earnings in economy (annual average)	904.7	277.3	119.5	48.4	20.2	15.2	44.4	40.6	47.6	na
Government sector 1/					*(In per cent of GDP)*					
General government balance	-7.3	-10.4	-6.1	-8.9	-8.0	-8.0	-3.3	3.0	2.9	na
General government expenditure	43.6	45.1	40.2	42.4	45.1	41.4	38.4	35.8	35.8	na
General government debt (domestic)	na	68.5	58.9	60.6	58.6	88.0	108.1	74.7	61.4	na
Monetary sector					*(Percentage change)*					
Broad money (M2, end-year)	na	200.0	125.8	30.6	29.8	19.8	57.2	62.4	40.1	na
Domestic credit (end-year)	na	335.6	87.8	48.3	22.2	68.2	34.1	13.8	26.5	na
					(In per cent of GDP)					
Broad money (M2, end-year)	19.0	16.0	14.3	13.4	15.1	16.6	14.8	15.7	17.7	na
Interest and exchange rates					*(In per cent per annum, end-year)*					
Central bank refinance rate (uncompounded)	210.0	180.0	160.0	48.0	28.0	60.0	55.0	25.0	25.0	na
Treasury bill rate (all maturities) 2/	103.2	263.0	104.1	33.6	36.6	48.1	11.8	7.3	23.9	na
Lending rate	na	na	320.0	146.8	32.0	41.7	38.3	18.0	16.5	na
Deposit rate	na	na	102.0	55.1	16.8	17.1	9.4	5.0	5.2	na
					(Roubles per US dollar)					
Exchange rate (end-year) 3/	1.2	3.6	4.6	5.6	6.0	20.7	26.8	28.2	30.2	na
Exchange rate (annual average) 3/	1.0	2.2	4.6	5.1	5.8	10.0	24.6	28.2	29.2	na
External sector					*(In millions of US dollars)*					
Current account 4/	na	8,431	7,487	11,753	2,060	680	24,641	46,337	35,092	27,100
Trade balance 4/	10,346	17,374	20,310	22,471	17,025	16,868	36,129	60,703	49,430	42,000
Merchandise exports 4/	59,646	67,826	82,913	90,563	89,008	74,883	75,666	105,565	103,194	100,000
Merchandise imports 4/	49,300	50,452	62,603	68,092	71,983	58,015	39,537	44,862	53,764	58,000
Foreign direct investment, net	na	na	1,460	1,657	1,679	1,496	1,103	-496	-137	1,000
International reserves (end-year), excluding gold	na	5,300	15,700	12,900	14,800	7,800	9,500	25,000	34,500	50,000
External debt stock 5/	112,700	127,500	128,000	136,100	134,600	158,200	154,600	140,700	134,000	na
					(In months of imports of goods and services)					
International reserves (end-year), excluding gold	na	1.0	2.3	1.8	1.9	1.3	2.2	4.8	5.5	na
					(In per cent of current account revenues, excluding transfers)					
Public debt service due 6/	na	23.5	19.6	16.6	10.9	14.2	20.2	12.1	12.0	na
Public debt service paid 6/	na	4.6	6.5	6.4	5.5	8.5	10.9	9.8	14.1	na
Memorandum items					*(Denominations as indicated)*					
Population (end-year, millions) 7/	148.7	148.4	148.3	148.0	147.5	146.4	145.7	145.4	144.8	na
GDP (in millions of roubles)	610,700	1,540,000	2,146,000	2,479,000	2,696,000	4,767,000	7,302,000	9,041,000	10,620,103	na
GDP per capita (in US dollars)	1,133	1,867	2,276	2,829	2,903	1,848	1,330	1,784	2,137	na
Share of industry in GDP (in per cent)	34.4	32.8	29.5	28.2	26.8	26.7	27.6	28.2	25.6	25.5
Share of agriculture in GDP (in per cent)	8.2	6.5	7.4	7.0	7.0	5.1	7.0	6.4	7.1	7.2
Current account/GDP (in per cent)	na	3.0	2.2	2.8	0.5	0.3	12.7	17.9	11.3	8.0
External Debt - Reserves, in US$ millions	na	132,200	132,300	153,200	149,800	182,100	176,200	146800	131500	na
External Debt/GDP (in per cent)	na	49.6	43.8	39.7	38.4	70.2	95.8	66.2	53.6	na
External Debt/Exports of goods and services (in per cent)	na	180.3	158.3	160.0	159.7	217.6	219.2	149.1	145.5	na

Note: Data for 1993-99 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, Russian Economic Trends, the World Bank, the OECD. Data for 2000-2001 reflect EBRD evaluations, partly based on information from these sources.
1/ General consolidated government includes the federal, regional and local budgets and extrabudgetary funds and excludes transfers.
2/ The 1998 figure is the yield on obligations of the Central Bank of Russia.
3/ Data in new (denominated) roubles per US dollar. From January 1, 1998, one new rouble = 1,000 old roubles.
4/ Data from the consolidated balance of payments, which covers transactions with both CIS and non-CIS countries.
5/ Data includes public debt only. Debt to former COMECON countries is included.
6/ Difference between due and paid arises from accumulation of arrears on debt servicing.
7/ Data as of January 1 of the following year.

ANNEX 4 – REGIONAL INDICATORS

Table 1. Economic Development Score of Russian Regions, 2002
Source: Russian Federation Ministry of the Economy

Rank 2002	Territory	Rank 2000	Per Capita Gross Regional Product (`000 RUR)	Per Capita Investment in Fixed Capital (`000 RUR)	Per Capita External Trade (Imports plus Exports) (US$)	Per Capita Financial Resources in PPP (`000 RUR)	Employment in Small Firms as Proportion of General Employment (%)	Registered Unemployed (% of Economically Active Pop.)	Ratio of Average Income to Poverty Line	Pop. with Income below Poverty Line (%)	Turnover in Retail and Other Services (PPP) Per Capita (`000 RUR)	Coefficient for Proximity to Driveable Road (Engels coefficient)	School Places per 1,000 Children of School Age	Number of Specialists per 10,000 Inhabitants	Doctors and Medical Personnel per 10,000 Inhabitants	Visits to Outpatient Medical Institutions per 10,000 Inhabitants	Overall Score
	Russian Average		**61**	**12.3**	**807**	**26.2**	**10.6**	**1.8**	**2.2**	**32.2**	**31.5**	**11.3**	**672**	**94.4**	**157**	**245**	**0**
1	Moscow City	1	101.8	24.7	3518	39.8	26.3	0.8	5.8	20.8	99.5	52.6	741	204.1	223	424	28.4
2	St. Petersburg	2	55.2	12.2	1321	31.6	27.2	0.9	1.9	26	30.9	58.2	685	168.8	189	335	19
3	Samara	4	89.7	10.7	878	32.2	11.6	2.6	2.7	22.7	46.3	16.2	782	102.2	161	230	12.7
4	Lipetsk	5	77.6	7.7	1458	30.1	6	0.8	2.3	16	30.7	28.9	522	72.5	145	280	9.4
5	Moscow Region	13	64.1	12.8	745	22.5	11	1.8	2.1	25	37.1	28.6	681	58.9	112	250	8.3
6	Astrakhan	10	71.1	20.9	902	28.2	8.5	2.4	2.8	24	28.7	12.8	580	96.1	196	263	7.8
7	Chelyabinsk	8	71.7	10.4	762	23.8	8.4	1.2	2.4	20.5	26.4	16.3	705	91.9	151	275	7.7
8	Sverdlovsk	15	63.8	8.5	914	29.2	7.3	0.4	1.9	25	28	10.6	920	106.3	154	273	7.4
9	Belgorod	14	56.4	9.3	1017	24.5	5.4	0.8	2	24	29.6	31.7	735	93.8	160	199	6.8
10	Tatarstan	3	76.3	15.3	613	38.2	4.9	1.5	1.9	17	22.6	24.7	660	92	164	218	6.2
11	Vologda	22	83.5	10	1757	34.9	10.4	2.2	1.9	22	22.1	27.2	866	78.4	141	258	5.2
12	Kaliningrad	11	43.7	8.1	1327	19.7	14.3	1.8	2	19	32.3	57	555	65.7	133	210	5.1
13	Khanty-Mansii AD	12	228.1	122.3	6110	115.5	6.1	2.7	3.4	25	21.6	2.4	653	30.5	167	230	4.3
14	Bashkortostan	18	78.8	10.9	617	34	4.1	1.7	2.3	24.5	33.1	28.6	608	90.2	157	228	3.8
15	Perm	17	99.5	14	575	36.6	5.5	1.1	2.8	12.8	36	14.2	635	81	141	165	3.8
16	Yamal-Nenets AD	19	291.1	255.2	73	98.4	5.9	2.6	5	15.2	34.3	1.7	923	32.2	173	201	3.6
17	Yaroslavl	6	52.1	9.4	530	19.7	10.3	1.7	1.6	27	19	34.3	865	91.8	171	268	3.4
18	Orenburg	24	64.7	10.7	681	24.8	11.9	0.4	1.7	33	18.6	26.2	713	87.5	177	237	3.3
19	Novgorod	25	50.2	9.4	767	17.7	9.4	1.5	1.8	21	25.5	41.9	796	78.8	135	250	2.7
20	Tyumen	9	68.7	13.6	149	30.3	9.3	0.9	2.5	33	34.9	14.7	650	119.8	161	287	2.4
21	Tula	30	50.9	7.4	623	23.9	9.2	1.2	1.9	21	22.5	21.2	735	81.8	160	222	2.1
22	Krasnoyarsk	16	82.9	13.1	1560	43.7	9.7	3.3	2	20.5	21.7	8.3	540	95.3	173	246	1.8
23	Komi	27	67.9	26.5	704	29.9	5.8	4.2	2	28.5	22	8.1	930	67.7	173	285	-1.3
24	Sakhalin	35	77.1	95.6	1589	22.8	11.9	3.7	1.8	28	21.8	8.1	775	51.8	164	220	-1.3
25	Tomsk	20	59.8	14.8	770	22.2	8.6	2.5	1.9	36.9	24.7	6.4	468	135	168	245	-2.7
26	Nizhny Novgorod	39	48.7	6	426	15.8	9.9	0.9	1.5	19	22.6	25.5	895	91.4	153	225	-2.8
27	Ryazan	38	47.6	6.4	308	25.3	12.2	1.2	1.5	33	22.3	30.3	695	79	171	200	-2.9
28	Leningrad	32	59	20.4	611	21.4	17	2	1.5	47	17	29.5	665	15.2	111	246	-3.2
29	Smolensk	7	33.9	4	500	16.9	6.6	0.7	1.6	25	24.7	38.2	720	80.6	170	232	-4.2
30	Orlov	33	69.1	8.5	233	20.9	5.6	1	1.7	28.5	25.6	27.9	710	99.9	152	211	-4.8
31	Tver	36	45.1	9.4	123	18.5	8.9	0.9	1.5	28	20.5	45.6	828	81.6	157	195	-4.8
32	Karelia	28	47.2	13.7	1170	19.5	9.4	3.5	1.9	25	20.9	16.4	914	78.5	185	206	-4.8
33	Kemerovo	34	46.4	8.7	1087	18.9	7.8	1.9	2.2	25	27.1	10.8	593	89.8	145	280	-5
34	Udmurtia	31	54	8.8	534	19.7	8.7	3.2	1.5	29	18.2	21.9	997	114.8	189	231	-5.8
35	Kaluga	41	45.5	6.1	292	23.1	11.4	1.2	1.6	35	23	28.4	515	68.9	123	240	-6.8
36	Sakha (Yakutia)	37	71.4	24.1	492	23.9	5.4	1.2	1.8	23	18.1	3.2	619	59	169	263	-6.8

Rank 2002	Territory	Rank 2000	Per Capita Gross Regional Product (`000 RUR)	Per Capita Investment in Fixed Capital (`000 RUR)	Per Capita External Trade (Imports plus Exports) (US$)	Per Capita Financial Resources in PPP (`000 RUR)	Employment in Small Firms as Proportion of General Employment (%)	Registered Unemployed (% of Economically Active Pop.)	Ratio of Average Income to Poverty Line	Pop. with Income below Poverty Line (%)	Turnover in Retail and Other Services (PPP) Per Capita (`000 RUR)	Coefficient for Proximity to Driveable Road (Engels coefficient)	School Places per 1,000 Children of School Age	Number of Specialists per 10,000 Inhabitants	Doctors and Medical Personnel per 10,000 Inhabitants	Visits to Outpatient Medical Institutions per 10,000 Inhabitants	Overall Score
37	Voronezh	46	45	5	176	15.7	11.2	1.5	1.8	28.5	26.3	25.8	525	104.8	161	194	-7.2
38	Murmansk	21	49.4	13.3	1969	21.3	6.1	4.9	1.9	24	21.5	6.7	775	48.3	179	218	-7.3
39	North Ossetia-Alania	50	41.7	3.6	241	23.2	5.5	2.7	2.8	27.6	37.5	31	365	100.4	173	276	-7.3
40	Khabarovsk	29	59.4	11.3	740	28.5	11.4	3.5	1.8	45	20.6	4.4	625	116.4	166	238	-8
41	Tambov	52	49.4	3.2	109	21.6	5.6	2.8	2.6	21	35.9	25.2	550	81.6	143	230	-9.7
42	Krasnodar	23	46.8	14.5	171	17.7	9.3	0.8	1.7	35	26.2	18	468	68.4	146	212	-9.8
43	Nenets AD	43	131.5	210.3	0	68.3	8.6	5.7	1.7	16.8	12	1.9	949	44.6	123	183	-11.2
44	Novosibirsk	45	38.1	5.3	357	28.4	10.4	1	1.2	60	29.1	12.3	455	112.1	160	235	-11.3
45	Rostov	26	37	7.7	237	19.4	10	0.8	1.6	33.7	26.9	19.1	600	103.9	124	215	-11.4
46	Irkutsk	40	55.1	6.7	1079	20.4	6.7	2.3	2.1	39	25.8	7.3	535	89.4	130	221	-12.5
47	Magadan	47	40.5	16.5	836	18.5	16.3	4.9	1.4	29	14.6	6.9	760	71.4	133	242	-12.5
48	Stavropol	48	42.2	7.2	153	14	8.7	1	1.7	38	30.1	35.7	487	84.7	132	168	-13
49	Primorye	53	40.7	5.3	882	28.3	11.7	2.5	1.5	37	24.1	11.8	700	84.4	141	196	-14.5
50	Saratov	44	40.5	7	285	19	6.3	1.2	1.4	45	18.7	20.2	753	102	162	221	-14.7
51	Kamchatka	51	35.7	11.3	2277	13.7	10.5	3.2	1.5	41	18.8	5.2	855	71.4	167	249	-15.4
52	Kursk	42	39	5.4	378	15.3	4.8	1.3	1.3	31	17.7	30.6	780	86	157	215	-15.6
53	Kabardino-Balkiria	61	53.6	4.1	29	23.6	5.3	2.5	1.7	27	24.7	29.3	769	81.8	161	189	-15.7
54	Arkhangelsk	55	47	9.4	588	17.1	5.3	3.2	1.6	28	21.9	9.4	885	64.9	162	276	-16.3
55	Pskov	54	34.9	4	235	20	7.9	3	1.4	33.9	20.9	48.2	535	62.2	143	217	-16.3
56	Kostroma	58	36.5	6.8	128	17.2	6.9	2	1.2	58.5	15.2	25.5	950	85	168	215	-17.9
57	Adygeya	63	28.9	4.3	25	12.3	8.5	1.4	1.3	28	16	55.1	461	103.7	153	138	-18.2
58	Volgograd	57	38.4	6.6	406	18.3	8.2	0.9	1.3	51	15.7	17.5	657	93.8	154	252	-18.2
59	Khakhassia	59	42.2	4.9	1264	15.3	14	3.1	1.4	49.7	19.6	12.7	514	72.9	138	287	-19.8
60	Chuvasia	62	29.9	5.6	113	14.1	6.9	2.6	1.1	41	16.5	29	1178	98.8	161	262	-20.1
61	Vladimir	56	41.5	5.3	264	13.3	7.6	3.4	1.2	36	15.2	36.8	775	73.4	159	262	-20.3
62	Omsk	65	29.9	3.1	533	12.4	10.9	1.5	1.1	49	18.7	14.3	577	99.2	174	369	-21.6
63	Kalmykia	66	20.1	25.4	271	25.6	5.8	2.7	1.5	50	6.8	15	480	103.1	185	207	-22.4
64	Kirov	69	40.3	4.3	267	16.1	4.8	3.6	1.3	42	20.5	20.7	852	73.2	178	217	-22.5
65	Ulyanovsk	49	32	4.3	157	12.5	5.8	1.8	1	39	15.5	20.9	673	85	163	236	-24.8
66	Amur	64	29.6	7	104	19.1	6.7	2.2	1	40	15	12	627	94.3	160	232	-26
67	Evenkii AD	71	31.9	3.3	0	28.7	2	4.9	1.6	42	17.6	28.1	756	0	180	391	-26.4
68	Mordovia	68	33.2	4.6	70	14	5.8	2.9	1.1	68.1	13.7	27.5	840	101.3	181	193	-27
69	Bryansk	60	26.5	3.2	268	14	5.6	3	1.2	46	18	28.9	690	84.1	148	210	-27.4
70	Ivanovo	70	19.2	2.7	299	9.5	10	2.6	0.8	63	12.7	20.8	946	100.4	200	201	-27.8
71	Buryatia	73	36.6	6	202	15	6.1	2	1.5	42	19.9	9.9	536	80.8	139	209	-28.4
72	Penza	74	28.9	4.1	39	11.8	11.8	2	1	55	15.4	27.4	610	79	127	199	-28.6
73	Altai Republic	72	27.1	6.3	61	15.3	14	2.5	0.9	49.3	11.3	20.8	306	97	122	295	-29.7
74	Jewish AD	78	28.9	2.4	27	17.7	7.9	1.4	1.3	34	17.9	19.3	493	67.2	135	210	-30.2
75	Chukhotka AD	79	27.5	11	294	19.9	1.8	6.7	0.9	40.3	7.2	6.6	950	29.4	144	74	-30.7
76	Mari-El	75	27	2.9	76	11.4	5.9	2.5	0.9	60.1	11.6	24.6	750	87.7	136	294	-31.3
77	Taimyr AD	81	27.3	20.5	0	-11.6	2.7	4.8	2.4	25	13.5	0.4	574	22.7	150	122	-32.3
78	Altai Territory	67	24.7	4.1	151	9.9	8	2.2	1.1	53	16.2	21.8	565	77.2	147	286	-32.6
79	Karachevo-Cherkessia	77	19.4	2.3	40	10.4	8.3	1.4	0.8	42	12	25.8	350	84.1	142	193	-34.5

Rank 2002	Territory	Rank 2000	Per Capita Gross Regional Product (`000 RUR)	Per Capita Investment in Fixed Capital (`000 RUR)	Per Capita External Trade (Imports plus Exports) (US$)	Per Capita Financial Resources in PPP (`000 RUR)	Employment in Small Firms as Proportion of General Employment (%)	Registered Unemployed (% of Economically Active Pop.)	Ratio of Average Income to Poverty Line	Pop. with Income below Poverty Line (%)	Turnover in Retail and Other Services (PPP) Per Capita (`000 RUR)	Coefficient for Proximity to Driveable Road (Engels coefficient)	School Places per 1,000 Children of School Age	Number of Specialists per 10,000 Inhabitants	Doctors and Medical Personnel per 10,000 Inhabitants	Visits to Outpatient Medical Institutions per 10,000 Inhabitants	Overall Score
80	Kurgan	76	25.9	3.3	360	13.4	5.4	7.4	1.1	51	14.7	23.7	650	74.3	137	193	-35.8
81	Chita	80	26	6.7	172	10.6	8.6	2.3	0.7	70	8.4	12.8	545	65.9	136	211	-37.4
82	Dagestan	82	22	2.4	100	13.4	5.4	6.5	1.2	45.9	15	27.4	192	71	138	134	-40
83	Ust-Ordinskii Buryatia AD	84	41.1	1.5	0	17.1	0.6	2.9	0.6	61	6	33.9	843	14	110	171	-40.3
84	Komi-Permyatsky AD	83	31.2	2.5	0	19.7	4	3.4	0.9	52	8.5	19.5	800	47.3	141	113	-40.8
85	Koryak AD	85	27.5	2.8	45	15.5	5.3	10.2	0.6	84	9	0.6	960	0	207	553	-41.5
86	Tuva	86	14.7	2.3	0	12.5	3.7	3.9	0.9	69.5	7.9	10.9	507	57.9	155	262	-48.2
87	Aga-Buryat AD	88	10.2	1.4	130	5.5	2.6	8.2	0.6	85	5.3	24.5	427	12.7	102	221	-49.8
88	Ingushetia	87	8.8	3.1	64	8.9	2.4	11.5	0.5	74	5.6	20	681	23.3	90	37	-50.6

Table 2. *Ekspert* Ratings of Russian Regions' Investment Potential and Risk

	Rank of investment risk		**Change in Risk Rank**	**Rank of sectoral investment risk in 2000-2001**							**Rank of investment potential**
	2001	2000	2000-2001	Legal	Political	Social	Economic	Financial	Crime	Ecological	2001
Russian Federation											
Central Federal District											
1. Moscow City	2	1	-1	66	14	1	1	1	36	27	1
2. Belgorod Region	3	4	1	20	35	11	6	12	8	39	21
3. Yaroslavl Region	8	14	6	3	17	8	54	17	55	49	34
4. Oryol Region	10	12	2	41	3	7	22	3	37	79	59
5. Tver Region	11	22	11	9	52	10	68	60	28	8	43
6. Lipetsk Region	14	15	1	45	21	4	20	22	14	77	40
7. Moscow Region	15	10	-5	26	77	12	16	25	46	36	3
8. Smolensk Region	19	70	51	37	57	6	57	52	21	50	52
9. Kostroma Region	20	46	26	44	38	19	75	54	16	19	70
10. Kaluga Region	26	26	0	13	54	9	39	32	26	75	45
11. Voronezh Region	33	27	-6	64	33	43	62	40	2	43	26
12. Vladimir Region	36	28	-8	71	74	42	29	36	24	10	36
13. Tambov Region	41	36	-5	57	62	23	66	57	4	56	54
14. Ivanovo Region	50	42	-8	19	64	38	70	69	70	14	62
15. Kursk Region	51	48	-3	79	50	18	59	53	29	46	33
16. Ryazan Region	54	43	-11	76	71	16	69	19	17	73	51
17. Tula Region	70	65	-5	62	58	20	53	35	65	85	31
18. Bryansk Region	75	84	9	47	59	35	80	63	27	87	48
Northwestern Federal District											
1. Novgorod Region	1	2	1	1	19	5	7	11	50	26	65
2. Kaliningrad Region	4	3	-1	2	45	25	24	6	19	35	35
3. St Petersburg	5	11	6	18	80	2	21	2	32	41	2
4. Vologda Region	6	35	29	42	12	3	11	4	10	76	38
5. Leningrad Region	22	30	8	22	68	17	19	16	30	72	28
6. Karelia	27	31	4	11	44	44	27	30	23	70	60
7. Pskov Region	29	33	4	39	46	27	37	59	39	21	67
8. Murmansk Region	39	16	-23	50	9	34	14	27	5	82	30
9. Arkhangelsk Region	43	62	19	32	60	31	43	21	38	74	42
10. of which Nenets Aut Dist	45	9	-36	55	40	49	8	15	78	66	84
11. Komi Republic	67	68	1	28	39	77	42	34	66	81	41
Southern Federal District											
1. Krasnodar Territory	7	6	-1	10	23	29	12	14	6	63	10
2. Astrakhan Region	13	17	4	29	16	47	18	8	40	53	55
3. Rostov Region	16	25	9	74	28	36	5	29	15	32	15
4. Stavropol Territory	17	21	4	8	84	33	13	48	48	24	29
5. Adygeya	24	40	16	34	31	40	60	64	7	30	72
6. North Ossetia-Alania	30	71	41	27	42	39	10	66	75	18	61
7. Volgograd Region	34	29	-5	12	65	32	51	37	62	47	23
8. Kabardino-Balkaria	35	38	3	4	8	60	41	74	60	12	64
9. Kalmykia	56	56	0	14	6	71	82	71	79	11	81
10. Dagestan	83	83	0	63	87	87	55	84	83	20	57
11. Karachayevo-Cherkessia	84	81	-3	85	86	67	64	80	81	23	76

	Rank of investment risk		Change in Risk Rank	Rank of sectoral investment risk in 2000-2001							Rank of investment potential
	2001	2000	2000-2001	Legal	Political	Social	Economic	Financial	Crime	Ecological	2001
Russian Federation											
12. Ingushetia	88	88	0	84	88	89	31	75	82	5	77
13. Chechnya	89	89	0	89	89	84	89	89	89	2	89
Volga Federal District											
1. Tatarstan	9	5	-4	21	1	58	23	9	43	42	7
2. Saratov Region	12	7	-5	16	13	28	44	44	33	31	20
3. Nyzhny Novgorod Region	18	13	-5	48	83	15	49	13	25	34	9
4. Bashkortostan	21	8	-13	36	15	76	3	51	12	55	12
5. Chuvashia	23	18	-5	30	32	64	56	45	18	9	53
6. Kirov Region	28	39	11	53	18	62	61	38	20	22	56
7. Ulyanovsk Region	31	20	-11	25	37	53	48	46	41	28	44
8. Mordovia	37	19	-18	56	5	65	67	49	22	29	63
9. Samara Region	38	23	-15	49	75	21	25	23	44	67	8
10. Perm Region	42	34	-8	51	82	13	35	28	61	61	11
11. Udmurtia	44	24	-20	72	43	74	45	18	11	33	37
12. Penza Region	48	41	-7	70	47	48	81	56	3	37	49
13. Orenburg Region	49	75	26	65	63	46	36	33	47	60	24
14. Mari-El	57	47	-10	7	72	80	72	72	42	7	69
15. of which Komi-Permyatsky Aut Dist	72	67	-5	69	53	72	65	82	73	4	86
Urals Federal District											
1. Tyumen Region	25	32	7	59	51	14	4	5	74	69	32
2. Kurgan Region	47	63	16	31	67	37	76	65	57	16	68
3. of which Khanty-Mansiisk Aut Dist	60	50	-10	78	10	24	2	7	68	83	4
4. Sverdlovsk Region	61	49	-12	67	70	61	30	26	64	71	5
5. Chelyabinsk Region	77	73	-4	68	73	63	33	20	45	88	14
6. of which Yamal-Nenets Aut Dist	85	86	1	88	25	75	9	42	56	86	18
Siberian Federal District											
1. Tomsk Region	32	37	5	52	78	22	17	24	58	58	47
2. Altai Republic	40	52	12	5	81	50	15	78	63	3	82
3. Novosibirsk Region	46	58	12	77	69	26	40	31	54	25	19
4. Omsk Region	53	64	11	46	56	69	78	41	35	51	39
5. Altai Territory	55	45	-10	38	11	66	58	67	49	57	27
6. Kemerovo Region	59	53	-6	24	27	54	26	55	69	80	13
7. Irkutsk Region	62	55	-7	17	66	51	32	39	85	78	16
8. Buryatia	63	57	-6	54	55	59	63	68	67	54	58
9. Chita Region	65	72	7	6	48	57	87	62	77	64	50
10. Khakasia	68	59	-9	81	36	55	34	47	34	62	73
11. Krasnoyarsk Territory	69	74	5	33	49	73	28	10	51	84	6
12. of which Ust-Ordynsky Buryat AD	76	60	-16	61	30	82	47	86	31	1	83
13. Tuva	80	79	-1	15	4	83	83	87	88	15	79
14. of which Aga-Buryat AD	81	77	-4	82	7	86	88	85	1	6	87
15. of which Evenki Aut Dist	82	82	0	60	24	41	86	88	72	40	85
16. of which Taimyr Aut Dist	87	80	-7	86	20	78	71	61	76	89	78
Far Eastern Federal District											
1. Amur Region	52	51	-1	40	61	52	74	70	13	52	46
2. Sakhalin Region	58	69	11	43	79	56	38	43	84	38	66
3. Jewish Aut Region	64	54	-10	73	29	30	85	77	71	13	80

	Rank of investment risk		Change in Risk Rank	Rank of sectoral investment risk in 2000-2001							Rank of investment potential
	2001	2000	2000-2001	Legal	Political	Social	Economic	Financial	Crime	Ecological	2001
Russian Federation											
4. Primorye	66	44	-22	23	85	81	50	58	59	65	22
5. Yakutia	71	66	-5	58	41	85	52	76	52	59	17
6. Khabarovsk Territory	73	61	-12	80	34	68	46	50	86	48	25
7. Magadan Region	74	78	4	35	26	70	77	79	87	44	71
8. of which Koryak Aut Dist	78	85	7	75	22	88	84	81	9	45	88
9. Kamchatka Region	79	76	-3	83	76	45	73	73	53	17	75
10. Chukotka Aut District	86	87	1	87	2	79	79	83	80	68	74

ANNEX 5 - PORTFOLIO BY REGIONS

Report Date: 30/09/02

.CA PO 07: PORTFOLIO RUSSIA REGIONS BY FEDERAL DISTRICT (EUR millior

Report level: listing

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Central Russia	Belgorod Oblast	2482	Oskol Electrometallurgical Plant	Disbursing	Collins M.	EQUITY	6.5	6.5	02 Jan 98
		6373	RVF - Eagle Black Earth Fund - Belgorod Fodder Factory	Disbursing	Tikhomirov A.	EQUITY	2.3	2.3	18 Mar 99
	Belgorod Oblast totals:						**8.8**	**8.8**	
	Kursk Oblast	4980	RVF - Eagle Black Earth Fund - Polipak	Repaying	Tikhomirov A.	EQUITY	4.0	3.3	28 May 99
		13765	RVF - Eagle Urals Fund - Polipak	Disbursing	Tikhomirov A.	EQUITY	0.7	0.7	07 Oct 97
	Kursk Oblast totals:						**4.7**	**4.0**	
	Lipetsk Oblast	5750	RVF - Eagle Black Earth Fund - Stroydetal	Disbursing	Tikhomirov A.	EQUITY	2.9	2.9	18 May 98
		8780	RVF - Eagle Black Earth Fund - Lipetskii Khladokombinat	Disbursing	Tikhomirov A.	EQUITY	2.1	2.1	09 Sep 99
		14152	Merloni Russia	Disbursing	Semenov P.	DEBT	13.6	13.6	27 Feb 02
	Lipetsk Oblast totals:						**18.6**	**18.6**	
	Moscow City	39	Russia Life Investments Ltd/Principal AOOT (equity)	Completed	Lorenz A.	EQUITY	0.0	0.0	04 May 95
		137	Moscow GSM	Completed	Riabiouk V.	DEBT	0.0	0.0	18 Aug 95
						EQUITY	0.0	0.0	
		833	Tokobank Equity Investment	Completed	Wrangham C.	EQUITY	0.0	0.0	29 Sep 94
		2377	Vneshtorgbank - Standby Facility	Completed	Baylis H.	DEBT	-0.0	-0.0	10 Jan 96
		2408	Sberbank Credit Line	Completed	Nadtotchi E.	DEBT	0.0	0.0	26 Feb 96
		2672	RSBF - SL - Sberbank	Completed	Wallace E.	DEBT	0.0	0.0	24 Nov 95
		3688	PLM Beverage Can Manufacturing ZAO	Completed	Maisuradze V.	DEBT	0.0	0.0	15 Dec 97
						EQUITY	0.0	0.0	
		3965	Uneximbank - Moscow Credit Line Subproject	Completed	Khanjenkova N.	DEBT	0.0	0.0	16 Apr 97
		3982	Russia Life Investments - Capital Increase	Completed	Lorenz A.	EQUITY	0.0	0.0	17 Jul 97
		4141	RSBF - ProBusiness Open Joint Stock Company	Completed	Wallace E.	DEBT	0.0	0.0	04 Feb 98
		7877	Louis Dreyfus Vostok	Completed	Lannero H.	DEBT	0.0	0.0	07 Feb 00
		13519	Louis Dreyfus Vostok Extension	Completed	O'Regan T.	DEBT	-0.0	-0.0	29 Aug 00
		15434	PLM Beverage Can Manufacturing - Write Off	Completed	Jackson S.	DEBT	0.0	-0.0	15 Dec 97
		18554	Unexim Credit Line Assignment - Internatsionalny Post Ned	Completed	Fedorov V.	DEBT	0.0	0.0	19 Mar 01
		18555	SBS Write off	Completed	Wrangham C.	DEBT	-0.0	0.0	19 Jun 96
		1275	Sector Capital Fund	Repaying	Tikhomirov A.	EQUITY	7.5	7.5	07 Sep 01

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Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Central Russia	Moscow City	2498	IMB Credit Line	Repaying	Orlov G.	DEBT	1.5	1.5	03 Nov 95
		2567	Perekriostok	Repaying	Hesketh M.	DEBT	18.4	18.4	15 Nov 96
		2694	RSBF - SL - Stolichny Bank of Savings	Repaying	Wallace E.	DEBT	0.1	0.1	22 Sep 95
		2853	Stolichny Bank Savings (credit line)	Repaying	Khanjenkova N.	DEBT	18.0	18.0	19 Jun 96
		3022	Avtobank - Credit Line/Equity Investment	Repaying	Witak A.	DEBT	11.2	11.2	10 Dec 96
						EQUITY	17.3	17.3	
		3115	RSBF - MC - Stolichny Bank of Savings	Repaying	Wallace E.	DEBT	1.9	1.9	23 Nov 95
		3267	FM Russia	Repaying	Norman T.	DEBT	11.0	3.8	11 Dec 97
						EQUITY	4.9	0.0	
		3662	Moscow - Efes	Repaying	Leon A.	DEBT	8.5	8.5	30 Jun 97
		4139	RSBF - Toribank Combined Small/Micro Loan	Repaying	Wallace E.	DEBT	-0.0	0.0	02 Jun 97
		4260	Baring Communications Equity	Repaying	Rozas S.	EQUITY	1.2	1.0	05 Dec 97
		5074	RSBF - SBS-Agro Combined Micro/Small Loans	Repaying	Wallace E.	DEBT	4.4	4.4	08 Jul 98
		5973	RSBF - Russia Small Business Kredit Bank (KMB Bank)	Repaying	Wallace E.	DEBT	16.5	14.2	25 Nov 98
		6028	RAO UES Restructuring Loan.	Repaying	Kolesnikov N.	DEBT	37.3	37.3	11 Oct 01
		13810	Stolichny Bank Savings - Biryulovsky Meat	Repaying	Fedorov V.	DEBT	3.8	3.8	14 Jun 00
		25038	RVF - Eagle Black Earth Fund - TAKF	Repaying	Tikhomirov A.	EQUITY	0.7	0.7	03 Oct 01
		25058	RVF - Eagle Urals Fund - TAKF	Repaying	Tikhomirov A.	EQUITY	0.7	0.7	03 Oct 01
		26230	SBS assignment - Macrotech	Repaying	Fedorov V.	DEBT	0.2	0.2	01 Nov 01
		660	Small Business Credit Bank (KMB Bank)	Disbursing	Taylor M.	EQUITY	1.6	1.6	26 Nov 92
		2607	Inkombank Equity and Loan	Disbursing	Orlov G.	EQUITY	6.0	6.0	04 Nov 97
		3850	Danone MPF - Bolshevik	Disbursing	Herpain V.	EQUITY	15.0	6.9	16 Dec 96
		4772	Avtobank (equity)	Disbursing	Witak A.	EQUITY	1.4	1.4	19 Jan 98
		5845	Danone MPF - Danone Industria LLC	Disbursing	Galic S.	EQUITY	23.2	23.2	28 Jun 01
		6603	LUKOIL MEDIUM TERM WORKING CAPITAL FACILIT	Disbursing	Kurtynin A.	DEBT	76.8	76.8	15 May 00
		8431	Russia - IMB Recapitalisation (debt & equity)	Disbursing	Orlov G.	DEBT	4.1	4.1	29 Sep 00
						EQUITY	6.0	5.8	
		10044	Vimpelcom	Disbursing	Feldmanis J.	EQUITY	33.1	33.1	21 Jul 00
		11275	Raiffeisen Bank Subordinated Credit Facility	Disbursing	Benucci I.	DEBT	20.5	20.5	09 Oct 00
		13520	Efes Brewery Equity	Disbursing	Acuner S.	DEBT	8.7	5.2	20 Oct 00
		14151	Pohjola Insurance Russia (equity)	Disbursing	Nazarov S.	EQUITY	0.8	0.8	01 Sep 00
		15145	DeltaCredit Mortgage Finance	Disbursing	Tesseyman N.	DEBT	20.5	5.1	15 May 02
		15533	DeltaLeasing (debt)	Disbursing	Tesseyman N.	DEBT	10.2	5.1	28 Feb 02

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Central Russia	Moscow City	16381	Moscow Efes Expansion	Disbursing	Leon A.	DEBT	17.4	17.4	14 Jun 01
		16505	RVF - Eagle Black Earth Fund - Isoroc	Disbursing	Tikhomirov A.	EQUITY	1.4	1.4	13 Apr 01
		16952	DIF - Structured Component Industries (SCI)	Disbursing	Hakopian M.	EQUITY	1.1	1.1	03 Jul 01
		17869	International Moscow Bank Capital Increase	Disbursing	Orlov G.	EQUITY	7.5	4.2	27 Jul 01
		18302	Sonic Duo	Disbursing	Choteborsky J.	DEBT	24.6	20.6	30 Nov 01
						EQUITY	6.9	6.9	
		22443	RVF - Eagle Black Earth Fund - Tamak	Disbursing	Tikhomirov A.	EQUITY	1.4	1.4	02 Aug 01
		22545	RVF - NW&W Russia - ESTA Telecom	Disbursing	Vilhelmsen Y.	EQUITY	0.4	0.2	01 Aug 01
		22546	RVF - NW&W Russia - ESTA Regionalnye Kabelnye Seti	Disbursing	Vilhelmsen Y.	EQUITY	0.5	0.3	01 Aug 01
		24695	RVF - Central Russia - Bridgetown Foods	Disbursing	Crachilov A.	EQUITY	3.5	3.5	23 Oct 01
		24696	RVF - Central Russia - Torgovy Dom ERA	Disbursing	Crachilov A.	EQUITY	3.1	3.1	23 Oct 01
		8028	Custom Farm Centers	Signed	Potishman F.	DEBT	8.2	0.0	14 Aug 01
		18426	Danone Milk Procurement	Signed	Gourdin C.	DEBT	7.2	0.0	30 Aug 01
		18495	Regional TFP: Small Business Credit Bank (KMB)	Signed	Tesseyman N.	DEBT	0.0	0.0	22 May 01
	Moscow City totals:						**476.4**	**406.4**	
	Moscow Oblast	168	Macomnet	Completed	Mayr-Dobin C.	DEBT	-0.0	-0.0	09 Sep 93
		198	EDN Sovintel	Completed	Riabiouk V.	DEBT	0.0	-0.0	16 Oct 92
		15715	SBS Agro: Pansionat Otdykha Novogorsk	Completed	Fedorov V.	DEBT	0.0	0.0	10 Oct 00
		18807	SBS Agro : Pansionat Write Off	Completed	Fedorov V.	DEBT	0.0	0.0	10 Oct 00
		3056	Mosenergo	Repaying	Zielinski G.	DEBT	24.2	24.2	07 Apr 98
		13260	RVF - St Petersburg - Multiflex	Disbursing	Crachilov A.	EQUITY	3.6	3.6	09 Jun 00
		13261	RVF - Central Russia - Multiflex	Disbursing	Crachilov A.	EQUITY	4.8	4.8	09 Jun 00
		18364	Michelin Russia	Disbursing	Hakopian M.	DEBT	20.5	1.6	07 May 02
		19397	DIF - IntelliKraft	Disbursing	Ter-Avanessov A.	EQUITY	1.1	1.1	10 Aug 01
		20599	RVF - NW&W Russia RVF - Vitrina A	Disbursing	Vilhelmsen Y.	EQUITY	4.1	3.1	01 Jun 02
		23067	DIF - Firestop	Disbursing	Ter-Avanessov A.	EQUITY	1.3	0.8	18 Sep 02
		25760	EFES - EBI	Disbursing	Bryde P.	DEBT	0.2	0.2	15 Apr 02
		25338	Mosenergo Restructuring Loan	Signed	Bubnov S.	DEBT	71.7	0.0	14 Aug 02
	Moscow Oblast totals:						**131.5**	**39.4**	
	Smolensk Oblast	4106	RVF - Eagle Smolensk Fund - Faience	Repaying	Tikhomirov A.	EQUITY	0.4	0.3	05 Dec 96
		641	RVF - Eagle Smolensk Fund - OASIS	Disbursing	Tikhomirov A.	EQUITY	0.0	0.0	08 Jul 94

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Central Russia	Smolensk Oblast	3179	RVF - Eagle Smolensk Fund - SITALL	Disbursing	Tikhomirov A.	EQUITY	0.6	0.6	08 Jul 94
		4066	RVF - Eagle Smolensk Fund - SITALL II	Disbursing	Tikhomirov A.	EQUITY	0.3	0.3	11 Sep 96
		4501	RVF - Eagle Smolensk Fund - Polygran	Disbursing	Tikhomirov A.	EQUITY	0.9	0.9	22 May 97
	Smolensk Oblast totals:						**2.2**	**2.1**	
	Tula Oblast	1582	RSBF - SL - First Commercial Bank Tula	Completed	Wallace E.	DEBT	-0.0	-0.0	07 Feb 94
		1801	RSBF - MC - First Commercial Tula Bank	Completed	Wallace E.	DEBT	0.0	0.0	08 Jul 94
		76	Procter & Gamble / Novomoskovsk Detergent Plant Project(F	Repaying	Loznova L.	DEBT	8.0	8.0	20 Dec 96
						EQUITY	0.0	0.0	
	Tula Oblast totals:						**8.0**	**8.0**	
	Tver Oblast	4502	RVF - NW&W Russia - Polygran	Repaying	Vilhelmsen Y.	EQUITY	0.6	0.6	22 May 97
		22544	RVF - NW&W Russia - ESTA Tversviazinform	Disbursing	Vilhelmsen Y.	EQUITY	0.4	0.2	01 Aug 01
	Tver Oblast totals:						**1.0**	**0.8**	
	Voronezh Oblast	8632	RVF - Eagle Black Earth Fund - Kodotel	Repaying	Tikhomirov A.	EQUITY	2.5	2.5	30 Aug 99
		18129	RVF - Eagle Black Earth Fund - Altes Investments	Repaying	Tikhomirov A.	EQUITY	2.2	2.2	17 Feb 01
		18130	RVF - Eagle Smolensk Fund - Altes Investments	Repaying	Tikhomirov A.	EQUITY	1.6	1.6	17 Feb 01
		26382	RVF - Eagle Urals Fund - Kreker	Disbursing	Tikhomirov A.	EQUITY	4.0	4.0	07 Dec 01
		26592	RVF - Eagle Black Earth Fund - Tamak/SAB	Disbursing	Tikhomirov A.	EQUITY	0.1	0.1	28 Nov 01
	Voronezh Oblast totals:						**10.4**	**10.4**	
Central Russia Federal District totals:							**661.5**	**498.3**	
Far East	Chukotka Autonomous Region	10409	Gold Pre-Production Financing - Chutkotka	Completed	Grassi E.	DEBT	0.0	0.0	28 Feb 00
		10410	Gold Pre Production Financing Facility - Polyarnaya	Completed	Grassi E.	DEBT	0.0	0.0	29 Dec 99
	Chukotka Autonomous Region totals:						**0.0**	**0.0**	
	Kamchatskaya Oblast	2577	Mutnovsky Independent Power Plant	Repaying	Zielinski G.	DEBT	93.0	72.8	08 Jan 98
	Kamchatskaya Oblast totals:						**93.0**	**72.8**	

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Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Far East	Khabarovsk Krai	4964	RVF - Far East & East Siberia - Khabmakaronservice	Repaying	Crachilov A.	EQUITY	0.1	0.1	22 Dec 97
		6146	RVF - Far East and East Siberia - Dakgomz	Repaying	Crachilov A.	EQUITY	2.3	1.9	10 Dec 98
		10431	RVF - Far East & Eastern Siberia - Amur Pivo	Repaying	Crachilov A.	EQUITY	3.2	3.2	21 Dec 99
	Khabarovsk Krai totals:						**5.5**	**5.1**	
	Magadan Oblast	1105	Kubaka gold project	Repaying	Rachovides M.	DEBT	2.5	2.5	06 Nov 01
		3955	Kubaka Gold Project Loan Increase	Repaying	Rachovides M.	DEBT	2.4	2.4	20 Nov 96
	Magadan Oblast totals:						**4.9**	**4.9**	
	Primorskiy Krai	1917	PRISCO	Completed	Rasti L.	DEBT	0.0	0.0	10 Oct 94
		1931	FESCO	Completed	Rasti L.	DEBT	0.0	0.0	11 Nov 94
		3181	RVF - Far East & East Siberia - Promacfes	Repaying	Crachilov A.	EQUITY	0.7	0.7	18 Dec 95
		4074	Roselau/FESCO II	Repaying	Rasti L.	DEBT	18.1	18.1	12 Dec 97
		4431	NTC	Repaying	Cooper D.	DEBT	10.2	10.2	02 Mar 99
		4588	RSBF - Far East Bank	Repaying	Wallace E.	DEBT	3.7	2.8	28 Apr 98
		4959	RVF - Far East & East Siberia - Ussuriisk Milk Factory	Repaying	Crachilov A.	EQUITY	0.3	0.3	19 Dec 97
		4963	RVF - Far East & East Siberia - Nakhodka Meat Plant	Repaying	Crachilov A.	EQUITY	0.7	0.7	23 Dec 97
		5599	RVF - Far East & East Siberia - OAO "Spring"	Repaying	Crachilov A.	EQUITY	0.9	0.9	29 Apr 98
	Primorskiy Krai totals:						**34.6**	**33.6**	
	Sakhalin Oblast	9	Sakhalin Shipping Company	Repaying	Hesketh M.	DEBT	7.3	7.3	12 Jul 96
		3321	Sakhalin II (Phase 1) Oil Project	Repaying	Ryjenko A.	DEBT	77.2	77.2	20 May 98
		12613	Rosneft/Sakhalinmorneftegas	Disbursing	Tsapova N.	DEBT	51.2	20.5	29 Jun 01
	Sakhalin Oblast totals:						**135.8**	**105.0**	
Far East Federal District totals:							**273.8**	**221.5**	
Multi-Regional		1264	Russian Enterprise Support Loan (ESP)	Completed	Orlov G.	DEBT	0.0	0.0	26 Sep 94
		1578	RSBF - SL - Mosbusinessbank	Completed	Wallace E.	DEBT	0.0	0.0	10 Mar 94
		1799	RSBF - MC - Mosbusiness bank	Completed	Wallace E.	DEBT	0.0	0.0	07 Jul 94
		1800	RSBF - MC - Sberbank	Completed	Wallace E.	DEBT	0.0	0.0	24 Nov 95

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Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Multi-Regional		2123	RSBF - BL -Mosbusinessbank, Moscow	Completed	Wallace E.	DEBT	0.0	0.0	14 Oct 94
		2198	RSBF - BL - Kuzbassotsbank	Completed	Wallace E.	DEBT	0.0	-0.0	19 Oct 95
		2253	RSBF - MC - Orbita Bank	Completed	Wallace E.	DEBT	0.0	0.0	08 Dec 94
		2385	RSBF - MC - Mosbusiness Bank Tranche 2	Completed	Wallace E.	DEBT	0.0	0.0	10 Feb 95
		2655	RSBF - MC - Orbitabank	Completed	Wallace E.	DEBT	0.0	0.0	15 Sep 95
		2727	Sector Capital Development Company (SCDC)	Completed	Pilotto R.	EQUITY	0.0	0.0	06 Jul 95
		2753	RSBF - SL - Inkombank	Completed	Wallace E.	DEBT	0.0	0.0	15 Jan 96
		2754	RSBF - SL - Rosest Bank	Completed	Wallace E.	DEBT	0.0	0.0	15 Dec 95
		3496	RSBF - Kuzbassotsbank Micro Credit Tranche 4	Completed	Pilipovic-Chaffey D.	DEBT	0.0	-0.0	11 Jul 96
		3825	RSBF - Stolichny bank Combined Small/Micro Loan	Completed	Wallace E.	DEBT	-0.0	-0.0	11 Dec 96
		3993	RTFP - Toribank	Completed	Hilditch D.	DEBT	0.0	0.0	18 Dec 96
		4053	RVF - St Petersburg - New Era	Completed	Crachilov A.	EQUITY	0.0	0.0	01 Nov 96
		4707	RSBF - Rosestbank Combined Small/Micro Loan - Tranche I	Completed	Wallace E.	DEBT	0.0	0.0	15 Sep 97
		4914	RVF - Eagle Smolensk Fund - Korall	Completed	Tikhomirov A.	EQUITY	0.0	0.0	07 May 98
		13826	Unexim Credit Line Assignment - Interroleasing	Completed	Wrangham C.	DEBT	-0.0	-0.0	30 Nov 98
		15043	Unexim Credit Line - Write Off	Completed	Wrangham C.	DEBT	0.0	0.0	27 Nov 97
		23	Alliance ScanEast Fund	Repaying	Vilhelmsen Y.	EQUITY	1.6	1.6	30 Nov 95
		124	First NIS Regional Fund	Repaying	Tikhomirov A.	EQUITY	-0.0	-0.0	21 Nov 94
		668	New Europe East Investment Fund	Repaying	Nesterova A.	EQUITY	0.4	0.4	28 May 93
		3500	RSBF - Rossiyskyi Kredit Micro/Small Loan	Repaying	Wallace E.	DEBT	0.4	0.4	30 Aug 96
		3828	RSBF - Mosbusinessbank Combined Small/Micro	Repaying	Wallace E.	DEBT	0.4	0.4	04 Dec 96
		4182	RSBF - Inkombank Combined Small/Micro Loan	Repaying	Wallace E.	DEBT	0.7	0.7	05 Jun 97
		4385	Unexim Credit Line	Repaying	Khanjenkova N.	DEBT	0.0	-0.0	27 Nov 97
		4542	Black Sea Fund	Repaying	Radeva B.	EQUITY	4.1	3.0	26 Aug 98
		4787	Soufflet MPF - Malting Soufflet St. Petersburg	Repaying	Gourdin C.	DEBT	8.9	8.9	28 Jul 98
		6884	Viking River Cruises	Repaying	Rasti L.	DEBT	7.5	6.0	13 Aug 01
		9103	NIS Restructuring Facility	Repaying	Tikhomirov A.	EQUITY	3.8	3.1	16 Mar 00
		13946	Baring Vostok Private Equity Fund	Repaying	Tikhomirov A.	EQUITY	55.9	25.6	13 Dec 00
		639	Framlington Russia Fund	Disbursing	Campbell L.	EQUITY	13.2	13.2	22 Dec 93
		4147	RSBF - Sberbank Combined Small/Micro Loan	Disbursing	Wallace E.	DEBT	20.5	20.5	15 Apr 98
		4988	IO Fund - Harry Russia A/S	Disbursing	Vilhelmsen Y.	EQUITY	1.3	1.3	22 Dec 97
		5024	Innova/98 LP	Disbursing	Nesterova A.	EQUITY	0.4	0.3	10 Jun 98
		5807	IO Fund - Harry Russia A/S	Disbursing	Vilhelmsen Y.	EQUITY	0.5	0.5	31 Mar 98

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Multi-Regional		6245	RSBF - Small Business Credit Bank (KMB Bank)	Disbursing	Taylor M.	DEBT	0.5	0.0	22 Dec 01
						EQUITY	1.6	1.6	
		6352	TPG Co-Investment	Disbursing	Tikhomirov A.	EQUITY	32.0	9.0	21 Jul 99
		7511	Regional TFP : Vneshtorgbank	Disbursing	Orlov G.	DEBT	0.9	0.0	22 Jun 99
		7588	RVF - Eagle Smolensk Fund - TSR	Disbursing	Tikhomirov A.	EQUITY	0.0	0.0	23 Dec 97
		7589	RVF - NW&W Russia - TSR	Disbursing	Vilhelmsen Y.	EQUITY	0.0	0.0	23 Dec 97
		7814	Golden Telecom	Disbursing	Crnogorac H.	EQUITY	19.6	19.6	30 Sep 99
		8733	Regional TFP: Vneshtorgbank Pre-export Facility	Disbursing	Orlov G.	DEBT	44.6	44.6	01 Mar 01
		13886	RSBF - Sberbank, combineld micro/small loan	Disbursing	Wallace E.	DEBT	30.6	30.6	22 Dec 00
		14581	RSBF - Russia Small Business Credit Bank (KMB Bank)	Disbursing	Tesseyman N.	DEBT	20.4	20.4	24 Aug 00
		18829	Vneshtorgbank Warehouse Receipt Programme	Disbursing	Orlov G.	DEBT	10.2	10.2	26 Jul 02
		23309	RSBF - Small Business Credit Bank	Disbursing	Tesseyman N.	DEBT	30.4	15.2	31 Oct 01
		23971	Raiffeisen Bank Russia Senior Loan	Disbursing	Murphy J.	DEBT	30.7	30.7	16 Jan 02
		2148	MBA Loan Project (guarantee)	Signed	Vilhelmsen Y.	DEBT	7.0	0.0	29 Aug 00
		5047	Parmalat MPF - Russia I	Signed	Kharlamova A.	EQUITY	6.0	0.0	16 Sep 02
		6176	MBA Loan Project II (guarantee)	Signed	Vilhelmsen Y.	DEBT	1.3	0.0	07 Dec 98
		10004	Regional TFP: ZAO Westdeutsche Landesbank Vostok	Signed	Campbell L.	DEBT	0.0	0.0	17 May 00
		11296	Regional TFP: International Moscow Bank	Signed	Orlov G.	DEBT	0.2	0.0	01 Apr 02
		12045	Regional TFP: Savings Bank of Russia (Sberbank)	Signed	Tesseyman N.	DEBT	40.4	0.0	20 Mar 00
		27770	Russian Agricultural Commodity Program	Signed	Bryde P.	DEBT	102.4	0.0	10 Sep 02
	totals:						**498.7**	**268.1**	
Multi-Regional Federal District totals:							**498.7**	**268.1**	
National		337	Russian Privatisation Loan	Completed	Bachelard-Bakal F.	DEBT	-0.0	0.0	15 Mar 93
		2526	SFAT	Completed	Small M.	DEBT	-0.0	-0.0	25 Apr 96
						EQUITY	0.0	0.0	
		3771	Post Privatisation Support Loan	Completed	Bachelard-Bakal F.	DEBT	0.0	0.0	13 Apr 97
		320	Western Siberia Oil & Gas Rehabilitation Project	Repaying	Shapiro P.	DEBT	43.5	43.5	05 Aug 93
		369	Russian Railways Modernisation	Repaying	Lukasik A.	DEBT	85.6	66.0	28 Jun 96
		1323	Financial Institutions Development Project (loan)	Repaying	Orlov G.	DEBT	17.3	17.3	01 Aug 94

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
National		2973	New Europe Insurance Ventures	Repaying	Macdougall A.	EQUITY	2.8	0.4	23 Oct 96
		26874	SFAT	Repaying	Small M.	DEBT	7.4	7.4	25 Apr 96
		2206	The National Registry Company (equity)	Disbursing	Tikhomirov A.	EQUITY	1.5	1.2	24 Apr 95
		17559	Russia Road Sector Reform 1	Signed	Enzelberger S.	DEBT	234.6	0.0	19 Sep 02
	totals:						**392.8**	**135.8**	
National Federal District totals:							**392.8**	**135.8**	
North West Russia	Arkhangelsk Oblast	482	Zapsibinvest	Completed	Wrangham C.	DEBT	0.0	0.0	03 Aug 94
		690	Polar Lights Company.	Completed	Kurtynin A.	DEBT	0.0	0.0	13 Sep 93
		3710	RVF - NW&W Russia - OAO Sawmill No 3	Completed	Vilhelmsen Y.	EQUITY	0.0	0.0	30 Jul 96
		4090	RVF - NW&W Russia - Teplichnoye	Completed	Vilhelmsen Y.	EQUITY	0.0	0.0	16 Jul 98
		4104	RVF - NW&W Russia - Hotel Poljarnye Zori	Repaying	Vilhelmsen Y.	EQUITY	0.2	0.2	16 Dec 96
		6277	RVF - NW&W Russia - OAO ESTA	Disbursing	Vilhelmsen Y.	EQUITY	0.5	0.5	04 Feb 99
	Arkhangelsk Oblast totals:						**0.8**	**0.8**	
	Kaliningrad Oblast	3717	Kaliningrad Water and Environmental Services Project	Disbursing	Berzina O.	DEBT	18.4	0.2	04 Jul 99
		20600	RVF - NW&W Russia - Produkty Pitania (GR European Foo	Disbursing	Vilhelmsen Y.	EQUITY	5.2	5.2	08 Jun 01
	Kaliningrad Oblast totals:						**23.7**	**5.4**	
	Komi Republic	685	KomiArctic Oil	Completed	Demetriou C.	DEBT	0.0	0.0	01 Jul 95
						EQUITY	0.0	0.0	
		2381	Komi Spill Investment Project	Repaying	Kurtynin A.	DEBT	9.7	9.7	05 May 95
	Komi Republic totals:						**9.7**	**9.7**	
	Leningrad Oblast	4045	RVF - St Petersburg - Moelven Energo	Disbursing	Crachilov A.	EQUITY	0.7	0.7	05 Jul 96
	Leningrad Oblast totals:						**0.7**	**0.7**	
	Murmansk Oblast	4510	IO Fund - Sevryba International Shipping Limited	Disbursing	Vilhelmsen Y.	EQUITY	4.0	4.0	25 Jun 97
	Murmansk Oblast totals:						**4.0**	**4.0**	

Report level: listing

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
North West Russia	Novgorod Oblast	2439	Cadbury ZAO	Repaying	Potishman F.	DEBT	21.8	21.8	28 Nov 96
		3788	DIROL -- Dansk Tyggegummi Fabrik A/S	Repaying	Rasmussen E.	DEBT	17.9	17.9	05 Jan 98
		10451	RVF - NW&W Russia - Olympia	Repaying	Vilhelmsen Y.	EQUITY	2.3	2.3	17 Dec 99
	Novgorod Oblast totals:						**42.0**	**42.0**	
	Pskov Oblast	4958	RVF - NW&W Russia - Italforma	Disbursing	Vilhelmsen Y.	EQUITY	0.5	0.3	15 Dec 97
	Pskov Oblast totals:						**0.5**	**0.3**	
	St Petersburg City	830	Vena St Petersburg - Equity	Completed	Potishman F.	EQUITY	0.0	0.0	20 Dec 95
		2199	RSBF - BL - Bank Petrovsky	Completed	Wallace E.	DEBT	-0.0	0.0	27 Sep 95
		2752	RSBF - SL - ICB St Petersburg	Completed	Wallace E.	DEBT	-0.0	0.0	01 Feb 96
		3023	ICB - Credit Line	Completed	Orlov G.	DEBT	0.0	0.0	17 Dec 96
		3495	RSBF - Petrovsky Micro Credit Tranche 2	Completed	Wallace E.	DEBT	0.0	0.0	05 Jun 96
		5649	VENA ST PETERSBURG PHASE 2	Completed	Potishman F.	EQUITY	0.0	0.0	25 Jun 98
		6115	JSC BALTIKA BREWERY	Completed	O'Regan T.	DEBT	0.0	0.0	15 Jun 99
		1182	North Western Shipping Company Vessels Acquisition Projec	Repaying	Rasti L.	DEBT	4.9	4.9	27 Jan 95
		1913	St Petersburg Water & Environmental Services Improv. Progr	Repaying	Henttonen J.	DEBT	17.8	4.3	17 Jul 97
		2309	North-West GSM/Russia	Repaying	Riabiouk V.	DEBT	20.9	20.9	10 Dec 96
		2980	SEAF - St Petersburg	Repaying	Tesseyman N.	EQUITY	3.9	0.2	16 Sep 96
		3498	RSBF - Petrovsky Bank Combined Small/Micro Loan	Repaying	Wallace E.	DEBT	1.4	-0.0	29 Oct 96
		4059	St. Petersburg Municipal Support Project	Repaying	Sasson R.	DEBT	21.1	21.1	13 Jun 97
		4173	RVF - St Petersburg - RVF Wood Products	Repaying	Crachilov A.	EQUITY	0.0	0.0	10 Dec 96
		4179	RVF - St Petersburg - Morion	Repaying	Crachilov A.	EQUITY	0.7	0.7	27 May 97
		4557	Nevsky 49	Repaying	Small M.	DEBT	14.6	14.4	09 Dec 98
		4783	St. Petersburg - Air Cargo Terminal Pulkovo - Phase 1	Repaying	Sheloukhin A.	DEBT	4.0	4.0	10 Oct 00
		5323	RVF - St Petersburg - Stroykomplekt	Repaying	Crachilov A.	EQUITY	1.7	1.7	01 Jun 98
		6296	North Western Shipping Company Follow-on Loan	Repaying	Rasti L.	DEBT	2.1	2.1	11 Nov 99
		108	St Petersburg Property Development Company (Nevsky 25)	Disbursing	Vlachochristos A.	EQUITY	3.4	3.4	17 Mar 94
		358	Russian Technology Fund	Disbursing	Moore T.	EQUITY	1.6	1.3	29 Aug 95
		1248	Nevsky Prospekt 25 Loan	Disbursing	Small M.	DEBT	6.6	6.6	07 Aug 96
		4875	RVF - Russia Partners Lower Volga - Natur Produkt Holding:	Disbursing	Tikhomirov A.	EQUITY	2.8	2.8	31 Oct 97
		4876	RVF - St Petersburg - Natur Produkt Holdings	Disbursing	Crachilov A.	EQUITY	3.0	3.0	31 Oct 97
		5630	RVF - St Petersburg - ZAO Parnas-M	Disbursing	Crachilov A.	EQUITY	2.6	2.6	19 May 98

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
North West Russia	St Petersburg City	5949	RVF - Central Russia - ZAO Parnas-M	Disbursing	Crachilov A.	EQUITY	1.8	1.8	19 May 98
		6005	RVF - NW&W Russia - A-Pressen EE AS	Disbursing	Vilhelmsen Y.	EQUITY	1.6	1.6	21 Sep 98
		6070	RVF - Central Russia - Natur Produkt Holdings	Disbursing	Crachilov A.	EQUITY	2.1	2.1	19 Oct 98
		9124	RVF - Central Russia - Natur Produkt Holdings Add. Loan	Disbursing	Crachilov A.	EQUITY	1.6	1.6	29 Sep 99
		12148	RVF - St Petersburg - ROK (OAO Fish Processing Plant No 1	Disbursing	Crachilov A.	EQUITY	2.1	2.1	11 Jul 01
		12167	RVF - NW&W Russia - ROK (OAO Fish processing Plant No	Disbursing	Vilhelmsen Y.	EQUITY	2.0	2.0	17 Mar 00
		13927	RVF - St Petersburg - Pekar	Disbursing	Crachilov A.	EQUITY	3.0	3.0	26 Jun 00
		13928	RVF - NW&W Russia - Pekar	Disbursing	Vilhelmsen Y.	EQUITY	3.0	3.0	26 Jun 00
		16707	Vena Restructuring and Expansion	Disbursing	Potishman F.	DEBT	44.0	44.0	27 Jun 02
		16787	RVF - NW&W Russia - Retal	Disbursing	Vilhelmsen Y.	EQUITY	6.8	6.8	29 Nov 00
		16928	RVF - NW&W Russia - Craftrise	Disbursing	Vilhelmsen Y.	EQUITY	3.9	3.9	14 Jun 01
		17522	RVF - NW&W Russia - Internet Proekty	Disbursing	Vilhelmsen Y.	EQUITY	0.5	0.3	17 Jan 01
		17929	RVF - St Petersburg - ZAO Disegni	Disbursing	Crachilov A.	EQUITY	2.8	2.8	16 Feb 01
		21062	Chupa Chups Russia	Disbursing	Leon A.	DEBT	14.3	9.2	15 May 02
		24313	DIF - Intercos-IV	Disbursing	Sasson R.	EQUITY	3.2	3.2	25 Apr 02
		26360	RVF - West Siberia - Pyaterochka	Disbursing	Tikhomirov A.	EQUITY	5.6	5.6	24 Jul 01
		7346	St Petersburg Toxic Waste Emergency Clean-Up Programme	Signed	Rasmussen E.	DEBT	5.6	0.0	13 Apr 01
		18658	Polygrafoformleniye	Signed	Rasmussen E.	DEBT	11.3	0.0	31 Jul 02
	St Petersburg City totals:						**228.2**	**186.9**	
	Vologda Oblast	7406	SEVERSTAL PEFF	Completed	Ter-Avanessov A.	DEBT	-0.0	-0.0	23 Jun 00
		11033	RVF - NW&W Russia - Pokrovsky Stekolny Zavod	Repaying	Vilhelmsen Y.	EQUITY	4.6	4.6	26 Jan 00
		11032	RVF - NW&W Russia - Pokrovsky Stekolny Zavod	Disbursing	Vilhelmsen Y.	EQUITY	7.2	7.2	26 Jan 00
	Vologda Oblast totals:						**11.8**	**11.8**	
North West Russia Federal District totals:							**321.2**	**261.4**	
Siberia	Buryatia Republic	2195	Buryatzoloto	Repaying	Kurtynin A.	DEBT	4.7	4.7	19 Dec 96
						EQUITY	5.5	5.5	
		19035	Buryatzoloto Power Line	Disbursing	Kurtynin A.	DEBT	8.3	7.8	14 Dec 01

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
	Buryatia Republic totals:						**18.6**	**18.1**	
	Irkutsk Oblast	4195	RVF - Far East & East Siberia - Irkutsmebel	Repaying	Crachilov A.	EQUITY	0.6	0.6	18 Apr 97
	Irkutsk Oblast totals:						**0.6**	**0.6**	
	Kemerovo Oblast	1850	RSBF - MC - Kuzbassotsbank	Completed	Wallace E.	DEBT	0.0	0.0	19 Oct 95
		3499	RSBF - Kuzbassotsbank Combined Small/Micro Loan	Completed	Wallace E.	DEBT	0.0	0.0	05 Sep 96
	Kemerovo Oblast totals:						**0.0**	**0.0**	
	Novosibirsk Oblast	5757	RVF - West Siberia - Fort	Repaying	Tikhomirov A.	EQUITY	1.0	1.0	10 Jun 98
		16888	RVF - West Siberia - MS United Limited	Repaying	Tikhomirov A.	EQUITY	2.1	2.1	08 Dec 00
		6235	RVF - West Siberia - Siberian Company	Disbursing	Tikhomirov A.	EQUITY	1.2	1.2	26 Jan 99
		13476	RVF - West Siberia - Katren	Disbursing	Tikhomirov A.	EQUITY	3.3	3.3	29 May 00
		16687	RVF - West Siberia - Protector-M	Disbursing	Tikhomirov A.	EQUITY	3.6	2.9	24 Nov 00
	Novosibirsk Oblast totals:						**11.2**	**10.5**	
	Tomsk Oblast	678	Vasyugan Services	Completed	Voicehovsky Y.	DEBT	0.0	0.0	09 Dec 94
	Tomsk Oblast totals:						**0.0**	**0.0**	
Siberia Federal District totals:							**30.4**	**29.2**	
Southern Russia	Krasnodar Krai	2041	Novorossiysk Shipping Co	Completed	Rasti L.	DEBT	0.0	-0.0	15 Dec 95
		1279	Investment Bank of Kuban (equity)	Disbursing	Benucci I.	DEBT	2.7	0.8	08 Nov 96
		9185	RSBF - Investment Bank of Kuban	Disbursing	Tesseyman N.	DEBT	0.5	0.5	15 Sep 00
	Krasnodar Krai totals:						**3.2**	**1.3**	
	Rostov Oblast	4447	RVF - Southern Russia - Gloria Jeans	Repaying	Crachilov A.	DEBT	1.5	0.0	27 Jan 97
						EQUITY	-1.4	0.0	
		6145	RVF - Southern Russia - Arnest	Disbursing	Crachilov A.	EQUITY	2.5	2.5	11 Dec 98
	Rostov Oblast totals:						**2.6**	**2.5**	

Report level: listing

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Southern Russia	Stavropol Krai	5425	RVF - Southern Russia - Molochny Kombinat Stavrolpolsky	Disbursing	Crachilov A.	EQUITY	0.0	0.0	19 Mar 98
	Stavropol Krai totals:						**0.0**	**0.0**	
	Volgograd Oblast	2647	Athina-Volga JSC	Completed	Leon A.	DEBT	0.0	-0.0	19 Mar 97
		4989	RVF - Russia Partners Lower Volga - Alpha Cement	Completed	Tikhomirov A.	EQUITY	0.0	0.0	10 Dec 97
		4924	RVF - Russia Partners Lower Volga - FlexoPrint	Repaying	Tikhomirov A.	EQUITY	0.0	0.0	05 Nov 97
		4171	RVF - Russia Partners Lower Volga - Lada Khleb	Disbursing	Tikhomirov A.	EQUITY	3.1	3.1	08 Apr 97
		4178	RVF - Russia Partners Lower Volga - Povolzhe Brewery	Disbursing	Tikhomirov A.	EQUITY	2.5	2.5	31 Jan 97
		5000	RVF - Russia Partners Lower Volga - TSR	Disbursing	Tikhomirov A.	EQUITY	0.0	0.0	22 Dec 97
	Volgograd Oblast totals:						**5.6**	**5.6**	
		26174	Black Sea Fund - Capital Increase	Signed	Radeva B.	EQUITY	0.5	0.0	31 May 02
	totals:						**0.5**	**0.0**	
Southern Russia Federal District totals:							**11.9**	**9.4**	
Urals	Chelyabinsk Oblast	3764	MMK Structured Pre-Export Financing Facility	Completed	Rasmussen E.	DEBT	0.0	0.0	30 Oct 97
		26935	RVF - Eagle Urals Fund - Plast Rifey write off	Completed	Stredder P.	EQUITY	0.0	0.0	27 Aug 97
		2149	Chelyabinsk Electrolytic Zinc Plant	Repaying	Bachelard-Bakal F.	DEBT	13.4	13.4	09 Oct 00
		3281	RVF - Eagle Urals Fund - Primula	Disbursing	Tikhomirov A.	EQUITY	1.1	1.1	02 Feb 96
		15251	RVF - Eagle Urals Fund - Metran	Disbursing	Tikhomirov A.	EQUITY	3.1	3.1	06 Sep 00
		21322	RSBF - Chelindbank	Signed	Tesseyman N.	DEBT	4.9	0.0	04 Sep 02
		28185	Regional TFP: Chelindbank	Signed	Tesseyman N.	DEBT	10.2	0.0	04 Sep 02
	Chelyabinsk Oblast totals:						**32.8**	**17.7**	
	Khanty-Mansyisk Autonomous F	683	Chernogorskoye	Completed	Demetriou C.	DEBT	-0.0	-0.0	03 Jun 93
		3421	Chernogorneft	Completed	Greene O.	DEBT	0.0	-0.0	17 Mar 97
		17523	Surgut Municipal Services Development Programme	Signed	Ofrikhter E.	DEBT	43.6	0.0	21 Jun 02
	Khanty-Mansyisk Autonomous Region totals:						**43.6**	**-0.0**	
	Sverdlovsk Oblast	3274	RSBF - MC -Uralpromstroibank	Completed	Wallace E.	DEBT	-0.0	-0.0	07 Feb 96

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Urals	Sverdlovsk Oblast	26937	RVF - Eagle Urals Fund - Spetstransavto Write Off	Completed	Stredder P.	EQUITY	0.0	0.0	27 Aug 94
		4134	RVF - Eagle Urals Fund - Spetstransavto	Repaying	Tikhomirov A.	EQUITY	0.2	0.2	13 Nov 96
		5003	RVF - Eagle Urals Fund - Uniland	Disbursing	Tikhomirov A.	EQUITY	1.4	1.4	14 Nov 97
		6069	RVF - NW&W Russia - OGF Ekaterinburg	Disbursing	Vilhelmsen Y.	EQUITY	0.5	0.5	19 Oct 98
		6305	Duferco - Viz Stahl	Disbursing	Stanwell I.	EQUITY	5.9	5.9	19 Dec 00
		15957	RVF - Eagle Smolensk Fund - Kalina	Disbursing	Tikhomirov A.	EQUITY	2.3	2.3	11 Oct 00
		15958	RVF - Eagle Black Earth Fund - Kalina	Disbursing	Tikhomirov A.	EQUITY	3.2	3.2	11 Oct 00
		15959	RVF - Eagle Urals Fund - Kalina	Disbursing	Tikhomirov A.	EQUITY	5.2	5.2	11 Oct 00
		15084	Duferco - Viz-Stahl Facility	Signed	Viezzoli C.	DEBT	35.9	0.0	19 Dec 00
	Sverdlovsk Oblast totals:						**54.7**	**18.9**	
	Tyumen Oblast	681	Samotlor	Completed	Rachovides M.	DEBT	0.0	0.0	15 Feb 94
		1966	Geoilbent	Repaying	Grassi E.	DEBT	22.5	22.5	21 Nov 96
	Tyumen Oblast totals:						**22.5**	**22.5**	
	Yamalo-Nenetsk Autonomous R	19677	South Shapkino	Disbursing	Shapiro P.	DEBT	102.4	58.9	28 Jun 02
	Yamalo-Nenetsk Autonomous Region totals:						**102.4**	**58.9**	
Urals Federal District totals:							**256.1**	**118.0**	
Volga	Bashkortostan Republic	1652	Bash-Kelme	Repaying	Rasmussen E.	DEBT	8.8	8.8	31 Oct 95
		17989	RVF - Eagle Urals Fund - Altes Investments	Disbursing	Tikhomirov A.	EQUITY	6.3	6.3	17 Feb 01
		29022	RVF - Eagle Urals Fund - Rucom	Disbursing	Tikhomirov A.	EQUITY	3.0	2.8	07 Jun 02
	Bashkortostan Republic totals:						**18.1**	**18.0**	
	Komi-Permyatskyi Automomous	4771	RVF - Eagle Urals Fund - Plast-Rifey	Completed	Stredder P.	EQUITY	0.0	0.0	27 Aug 97
	Komi-Permyatskyi Automomous Region totals:						**0.0**	**0.0**	
	Nizhny-Novgorod Region (Nizh	1579	RSBF - SL - Association Commercial Bank	Completed	Wallace E.	DEBT	0.0	0.0	04 Mar 94
		1580	RSBF - SL - Nizhegorodets Investment Commercial Bank	Completed	Wallace E.	DEBT	-0.0	-0.0	08 Feb 94
		1581	RSBF - SL - Nizhegorodskii Bankiirski Dom Bank	Completed	Wallace E.	DEBT	0.0	0.0	08 Feb 94

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Volga	Nizhny-Novgorod Region (Nizhe	1803	RSBF - MC - Nizhegorodets Investment Commercial Bank	Completed	Wallace E.	DEBT	-0.0	-0.0	20 Jul 94
		2609	GAZ Corporate Loan	Completed	Reid F.	DEBT	0.0	0.0	15 Dec 95
		3157	RSBF - SL - NBD Bank Tranches 4 and 5	Completed	Wallace E.	DEBT	-0.0	-0.0	15 Dec 95
		3497	RSBF - NBD Small Loan Tranche 6	Completed	Wallace E.	DEBT	0.0	0.0	12 Jul 96
		3829	RSBF - NBD Combined Small/Micro Loan	Completed	Wallace E.	DEBT	0.0	0.0	22 Jan 97
		4727	FIAT/GAZ Joint Venture	Completed	Ter-Avanessov A.	EQUITY	0.0	0.0	11 Feb 98
		4782	RSBF - NBD - Combined Micro/Small Loan	Completed	Wallace E.	DEBT	0.0	0.0	23 Jan 98
		1827	SEAF - Nizhny Novgorod	Repaying	Tesseyman N.	EQUITY	0.9	0.9	23 Dec 94
		3375	GAZ-Volga	Repaying	Khanjenkova N.	DEBT	48.1	48.1	06 Jan 97
		6193	RVF - Central Russia - Nizhpharm	Repaying	Crachilov A.	EQUITY	4.7	4.7	29 Aug 95
		6194	RVF - St Petersburg - Nizhpharm	Repaying	Crachilov A.	EQUITY	2.8	2.8	28 Dec 98
		6195	RVF - Russia Partners Lower Volga - Nizhpharm	Repaying	Tikhomirov A.	DEBT	0.0	0.0	28 Dec 98
						EQUITY	2.6	2.6	
		16832	RSBF - NBD Restructuring of RSBF's obligations	Repaying	Taylor M.	DEBT	0.4	0.4	27 Nov 00
		4245	Bor Glass Factory	Disbursing	Senior D.	EQUITY	13.2	13.2	01 Dec 97
		6397	RVF - NW&W Russia - OGF Nizhny Novgorod	Disbursing	Vilhelmsen Y.	EQUITY	0.9	0.9	06 Apr 99
		6563	RSBF - NBD (restructuring of RSBF exposure)	Disbursing	Taylor M.	DEBT	0.5	0.5	27 Jul 99
		16545	RSBF- NBD Restructuring of RSBF's obligations	Disbursing	Taylor M.	DEBT	1.0	1.0	27 Nov 00
		17849	RSBF - NBD Restructuring of RSBF obligations (equity)	Disbursing	Tesseyman N.	EQUITY	1.3	1.3	07 Feb 01
		21942	RSBF - NBD Bank combined Micro/Small loan	Disbursing	Taylor M.	DEBT	1.0	1.0	23 Jul 01
		28320	RSBF - NBD Bank Combined Micro and Small Loan	Disbursing	Taylor M.	DEBT	1.9	1.5	23 Aug 02
		17089	RVF - Central Russia - ICT	Signed	Crachilov A.	EQUITY	1.0	0.0	21 Dec 00
	Nizhny-Novgorod Region (Nizhegorodskaya Oblast) totals:						**80.3**	**78.8**	
	Perm Oblast	4874	Permtex	Repaying	Grassi E.	DEBT	44.7	34.5	12 May 99
	Perm Oblast totals:						**44.7**	**34.5**	
	Samara Oblast	4180	RSBF - Rosestbank Combined Small/Micro Loan	Completed	Wallace E.	DEBT	-0.0	-0.0	21 Jan 97
		3162	RSBF - MC - Rosest bank	Repaying	Wallace E.	DEBT	0.0	0.0	15 Dec 95
		4114	RVF - Russia Partners Lower Volga - ROLTI sub-investment	Repaying	Tikhomirov A.	EQUITY	0.9	0.9	10 Dec 96
		6500	Togliatti Azot	Repaying	Burton P.	DEBT	17.3	17.3	06 Jul 01
		13404	General Motors - VAZ JV	Disbursing	Senior D.	DEBT	83.0	0.0	14 Dec 01
						EQUITY	44.4	44.4	

Federal District	Region/Republic	Op ID	Op Name	Stage	Operation Leader	Instrument Type	Portfolio	Operating Assets	Signed Date
Volga	Samara Oblast	26422	RVF - Russia Partners Lower Volga - Ais.T	Disbursing	Tikhomirov A.	EQUITY	3.3	3.3	08 Jun 01
	Samara Oblast totals:						**149.0**	**66.0**	
	Saratov Oblast	3978	RVF - Russia Partners Lower Volga - Saratov Wallpaper Mill	Repaying	Tikhomirov A.	EQUITY	-0.0	-0.0	27 Nov 96
		102	Seribo/CEM	Disbursing	Moisseev V.	EQUITY	6.3	6.3	17 Feb 95
	Saratov Oblast totals:						**6.3**	**6.3**	
	Tatarstan Republic	1940	Kamaz Stabilisation Refinancing	Completed	Collins M.	DEBT	0.0	-0.0	01 Nov 95
		18870	Kamaz : Write Off	Completed	Collins M.	DEBT	0.0	0.0	01 Nov 95
		18868	Kamaz : Restructured Loan and Equity	Repaying	Senior D.	DEBT	67.1	67.1	17 Apr 01
						EQUITY	0.0	0.0	
	Tatarstan Republic totals:						**67.1**	**67.1**	
Volga Federal District totals:							**365.6**	**270.6**	
.eport totals:							**2,812.1**	**1,812.3**	

ANNEX 6 - NET CUMULATIVE BUSINESS VOLUME BY INDUSTRY

(As at 30 September 2002 - EUR million)

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	Total Project Value	EBRD Finance	Debt	Equity	% Share of Commitments
Energy	Natural Resources	18.0	4,023	777	755	22	17%
	Power and Energy	4.0	450	252	252	0	6%
Sub-total Energy		**22.0**	**4,473**	**1,029**	**1,007**	**22**	**23%**
Financial Institutions	Bank Equity	6.0	156	70	3	67	2%
	Bank Lending	15.4	1,076	608	608	0	14%
	Equity Funds	15.3	816	372	2	371	8%
	Non Bank Financial Institutions	6.3	84	38	30	8	1%
	Small Business Finance	2.2	310	219	216	3	5%
Sub-total Financial Institutions		**45.1**	**2,443**	**1,307**	**858**	**448**	**29%**
General Industry	General Industry	30.4	2,170	707	622	84	16%
Sub-total General Industry		**30.4**	**2,170**	**707**	**622**	**84**	**16%**
Infrastructure	Municipal & Environmental Infrastructure	4.7	474	153	153	0	3%
	Transport	3.0	568	357	357	0	8%
Sub-total Infrastructure		**7.7**	**1,042**	**510**	**510**	**0**	**11%**
Specialised Industries	Agribusiness	17.2	1,231	447	384	64	10%
	Property, Tourism and Shipping	12.4	1,097	293	275	18	7%
	Telecoms Informatics & Media	7.7	819	165	103	62	4%
Sub-total Specialised Industries		**37.3**	**3,147**	**905**	**761**	**144**	**20%**
RUSSIAN FEDERATION TOTAL		**142.5**	**13,276**	**4,457**	**3,758**	**699**	**100%**

*Number of projects as weighted in DTM

ANNEX 7 - TC PROJECTS

(EUR million as at 30 September 2002)

Sector	Number of Commitments	Commitment Amount	Disbursement Amount	Funding Source
TAM				
Manufacturing	3	210,840	48,379	AUS
	7	451,252	347,196	DEN
	1	0	0	ECP
	26	1,465,715	1,160,076	ECT
	11	181,464	146,618	FIN
	1	16,001	16,001	GERK
	1	70,280	69,475	GRE
	3	155,780	85,771	IRL
	5	305,267	240,335	ITA
	9	859,958	734,253	JAP
	1	65,353	65,353	LUX
	10	368,175	246,154	NORG
	5	151,186	69,264	SWE
	5	310,151	254,484	SWI
	4	298,581	245,847	TAI
	1	62,872	55,654	TAMCA
	18	909,739	805,172	TAMNO
	22	987,973	684,603	TAMSW
	14	213,080	107,722	TARU
	17	1,072,887	1,040,435	UK
	14	215,349	180,357	UKD
	1	759,620	759,620	USTDA
Sector Total:	**179**	**9,131,523**	**7,362,769**	
Group Type Total:	**179**	**9,131,523**	**7,362,769**	
BAS				
Manufacturing	1	40,000	6,052	DEN
	4	68,955	61,606	FIN
	1	60,000	41,951	GERK

	1	10,465	8,589	TAMNO
	1	62,000	31,967	UKD
	16	626,344	219,183	UKGF
Sector Total:	**24**	**867,764**	**369,348**	
Group Type Total:	**24**	**867,764**	**369,348**	
OTHER				
Agriculture, Forestry, Fishing	1	36,670	35,835	CAN
	3	186,910	85,079	FIN
	1	53,302	53,302	ICE
	2	5,470	5,470	SWE
	1	14,778	11,123	UK
	1	75,631	75,091	UKD
	1	14,925	14,287	USA
Sector Total:	**10**	**387,685**	**280,187**	

Sector	Number of Commitments	Commitment Amount	Disbursement Amount	Funding Source
CEALs,CoFinancing Lines & RVF's	1	45,381	30,627	SWE2
Sector Total:	**1**	**45,381**	**30,627**	
Commerce, Tourism	4	0	0	UK
Sector Total:	**4**	**0**	**0**	
Community/Social Services	1	89,256	0	CAN2
	21	9,081,856	8,610,761	ECT
	1	49,950	0	ENE
	1	151,400	151,400	FI01
	1	169,499	169,499	FI02
	1	298,800	298,800	FRA
	3	495,479	495,479	FRB
	1	0	0	GER
	1	31,161	31,161	GERK
	3	413,846	413,846	HOL
	10	3,180,993	3,180,943	JAP
	1	44,960	44,960	KOR
	1	150,000	150,000	LUXMOS
	36	724,649	649,841	RVNO
	1	241,900	241,900	SWE
	1	181,278	181,278	SWE01
	1	170,903	170,903	SWE02
	3	583,427	385,427	SWI
	7	717,214	717,214	TAI
	1	44,864	36,319	TAMSW
	8	795,319	795,319	UK
	1	191,512	191,512	UK9302
Sector Total:	**105**	**17,808,266**	**16,916,562**	
Construction	1	49,403	38,901	DEN
	1	480,000	480,000	ECT
	1	70,280	9,440	LUX
	1	47,895	47,895	SWE2
Sector Total:	**4**	**647,578**	**576,236**	

Energy	2	455,000	0	CA3F
	1	469,842	469,842	CAN
	3	193,589	48,589	CAN2
	2	173,600	173,600	DE01
	4	186,300	186,300	DEN
	12	1,885,012	1,881,509	ECT
	6	617,106	387,106	FIN
	2	97,359	97,359	FRB
	1	202,204	181,984	GEFF
	1	100,827	100,827	GER
	1	4,568	4,568	HOL
	1	50,000	50,000	ICE
	2	39,419	39,419	ITA
	8	1,689,067	1,689,067	JAP

Sector	Number of Commitments	Commitment Amount	Disbursement Amount	Funding Source
Energy	2	69,628	12,540	LUX
	1	1,171,534	1,171,534	NE01
	1	572,656	572,656	NE02
	1	907,667	907,667	NOR
	1	68,439	68,439	NZ
	4	150,235	95,878	SWE
	2	54,652	54,652	TAI
	1	28,950	28,950	TCS
	2	161,475	161,475	UK
	1	265,884	265,884	UK9315
	1	596,504	596,504	UK9316
	2	0	0	UKD
	1	1,088,949	1,088,949	US02
	1	214,598	214,598	USOLD
	2	112,441	112,441	USTDA
Sector Total:	**69**	**11,627,503**	**10,662,335**	
Extractive Industries	2	546,265	406,375	CAN2
	1	665,136	665,136	ECT
	2	114,413	114,413	FRB
	1	35,195	35,195	HOL
	4	1,235,314	988,022	JAP
	1	63,954	63,954	KOR
	3	2,884,059	2,884,059	NE02
	4	390,262	390,262	UK
	2	130,249	130,249	UKD
	1	0	0	UKE
Sector Total:	**21**	**6,064,847**	**5,677,665**	
Finance, Business	1	450,735	450,735	CANPS1
	1	865,922	0	CH02
	593	47,290,437	44,599,907	ECT
	2	307,077	307,077	FRA
	6	902,152	893,735	FRB

	3	8,881	8,881	GER
	1	98,952	98,952	GERK
	3	1,748,288	517,927	HOL
	2	217,479	217,479	ITA
	10	1,737,691	1,586,834	JAP
	1	439,032	439,032	NE02
	1	255,496	255,496	NE11
	62	62,573,943	60,512,949	RSBF
	82	8,587,544	8,428,172	RVFR
	55	7,608,775	7,608,775	RVIT
	95	18,108,710	14,626,493	RVNO
	1	238,758	238,758	RVNS
	159	25,668,999	18,884,908	RVUS
	3	227,599	221,649	SWE

Sector	Number of Commitments	Commitment Amount	Disbursement Amount	Funding Source
Finance, Business	5	44,067	24,267	SWI
	2	418,682	275,000	TAI
	9	1,559,407	1,559,407	UK
	1	16,287	16,287	UK9313
	1	17,345	17,345	UK9317
	1	10,273	10,273	UK9318
	1	16,770	16,770	UK9321
	4	624,285	486,032	UKD
	1	1,372,169	1,372,169	US01
Sector Total:	**1106**	**181,415,757**	**163,675,310**	
Manufacturing	1	195,020	195,020	DEN
	9	4,651,177	4,639,508	ECT
	1	70,280	12,560	FIN
	1	198,865	198,865	GE01
	2	379,049	379,049	GERK
	1	70,280	10,956	GRE
	6	531,021	531,021	HOL
	1	5,063	5,063	IRL
	1	70,280	42,167	ITA
	6	1,424,607	1,424,607	JAP
	1	0	0	NOR
	1	180,000	180,000	NORG
	2	269,107	269,107	SWE
	1	76,702	33,527	TAMCA
	2	30,440	5,164	TARU
	12	1,081,302	1,081,302	UK
	2	136,829	108,028	UKD
	6	2,010,613	63,137	UKGF
	4	47,641	47,641	USA
	1	39,340	39,340	USOLD
	2	426,429	426,429	USTDA
Sector Total:	**63**	**11,894,042**	**9,692,489**	

Non-classifiable Establishments	1	7,000	0	ECT
	2	48,500	9,700	JAP
Sector Total:	**3**	**55,500**	**9,700**	
Telecommunications	1	312,000	312,000	JAP
	1	257,125	257,125	UK
	1	42,309	42,309	UKD
Sector Total:	**3**	**611,435**	**611,435**	
Transport, Storage	1	160,685	0	BEL
	3	425,091	19,292	CA3F
	2	193,933	193,933	CAN
	2	223,712	223,664	CAN2
	9	2,215,262	2,215,262	ECT
	1	20,000	20,000	FLN
	1	183,109	183,109	FRB

Sector	Number of Commitments	Commitment Amount	Disbursement Amount	Funding Source
Transport, Storage	1	189,275	189,275	GER
	3	405,022	255,022	HOL
	1	0	0	ITA
	5	1,276,654	1,276,654	JAP
	2	28,596	28,596	NZ
	1	33,623	33,623	SWE
	2	22,565	22,565	TAI
	6	248,500	248,500	UK
	2	247,700	247,700	USOLD
	2	244,644	244,644	USTDA
Sector Total:	**44**	**6,118,370**	**5,401,838**	
Group Type Total:	**1433**	**236,676,365**	**213,534,383**	
RUSSIAN FEDERATION TOTAL	**1636**	**246,675,653**	**221,266,500**	