DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR POLAND

As approved by the Board of Directors at its meeting on 27 April 2004.

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EXECUTIVE SUMMARY

Poland continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Poland has made great progress in the transition process with a large degree of market and trade liberalisation, no significant constraints to foreign investment and over 70 per cent of GDP generated by the private sector. On the threshold of accession to the European Union, Poland can be praised for its past leadership in undertaking important structural reforms which resulted in strong macroeconomic performance, including a low current account deficit, low inflation and positive growth outlook. However, little further progress has been achieved during the past three years to improve the investment climate, the competitiveness of the economy and the level of administrative capacity. Important differences remain between Poland and advanced market economies, including the existing European Union member countries.

The future of Poland will be closely linked to its capacity to attract investment and create jobs – only this will enable Poland to achieve its real growth potential and tackle what may be the greatest challenge, reduction of high unemployment. In order to effectively compete within the region for investment, Poland must accelerate reforms which have stalled and temper the propensity to run large fiscal deficits. As a result of an expansionary fiscal policy, public debt levels have increased and have adversely affected growth and financing of the real economy; consequently, there has been both a sharp contraction in fixed investment as well as falls in foreign direct investment inflows. Sustained economic growth at a high level will only be achieved through private sector investment and not through expansionary fiscal policies; critical to maximising growth potentials will be foreign investment as the pace of domestic wealth creation may remain insufficient for some time to come. To exceed the prevailing modest growth rates, Poland must create an investment climate conducive to business creation and investment, focus on effective utilisation of European Union regional funds, restructuring of under-invested sectors such as agriculture and steel and development of small- and medium-sized enterprises. The latter will not be achieved without a significant improvement in financial intermediation, which remains low relative to the region and European Union averages. Taking advantage of the recovery in economic growth during 2003 and to ensure Poland is in a position to exploit the opportunities of accession, the following key challenges should be addressed:

- In order to ensure sustainable public debt levels and reduce the crowding out effect of Government borrowing in the local economy as well as to ensure capacity to co-finance the Cohesion and Structural funds, fiscal reforms must be undertaken to reduce expansionary spending policies. Continuing high budget deficits and high public debt levels may undermine the confidence of the investor community; weakening of the Polish zloty is indicative of this diminishing confidence in fiscal management and fiscal predictability. Important structural reform is required in public administration, health, education and the various social protection systems with a particular emphasis on their financing.

- The business environment must be improved to attract larger inflows of foreign direct investment, which have slowed during the past two years, but are critically necessary to finance the country's continued economic growth. Key elements include: further labour market reforms; improving efficiency of judiciary; reducing national and local administrative barriers; ensuring a predictable and sound tax environment and eliminating corruption.

- Prolonged under-investment in the nation's infrastructure has taken an important environmental and economic toll as evidenced by loss of foreign direct investment, reduced efficiency, and poor safety standards. While post-accession European Union funds will provide an important opportunity to speed development and modernisation of national and local infrastructure, the challenges of absorption, including building institutional capacity necessary to maximise effectiveness of utilisation, must be overcome.

- Small- and medium-sized enterprises, which have been a driving force of past dynamic economic growth, but are substantially weaker in terms of capital and technology relative to enterprises in advanced market economies, will require substantial investment in order to compete in an open market. Access to finance as well as an improved business environment will be critical to their success and growth.

- Privatisation of remaining large, state-owned companies, which has stalled in recent years, must be continued and completed, particularly for those companies in need of restructuring but that have been sustained by continuous support of the State. This will not only reduce fiscal support but importantly provide a source of budget finance and improve the long-term competitiveness of these companies. Additionally, it could support the meeting of other European Union obligations including but not limited to environment or liberalisation of power and gas sectors.

- Accession will pose a special challenge to Polish agribusiness / agriculture due to the large role that relatively backward agribusiness / agriculture plays in employment relative to its contribution to gross domestic product. The challenge will be to maximise the potential of commercial agricultural operations through focused investments aimed at improving competitiveness, quality and sanitary standards of domestically-produced food products and increasing exports. The Polish rural economy must undergo significant adjustment and will require investment which encourages movement of labour into non-farm employment.

As of 31 December 2003, the Bank made cumulative commitments of €2,840.0 million to 128.5 projects and helped to mobilise a further €7,056 million from sponsors and co-financiers.

Given the above and provided additionality is demonstrated, the Bank will focus its activities during the next two years around the following operational objectives:

- **Enterprise Sector**

The Bank will maintain a strong focus on attracting foreign direct investment, in particular from European and non-European medium-sized companies, and enterprise restructuring and modernisation in conjunction with privatisation, in order to promote economic growth and competitiveness, particularly in more challenging sectors or those critical to the economy (e.g., steel, power, gas and chemical). It will be important to increase the capital base of those medium Polish corporates which seek to expand regionally or develop their export capacity, particularly in the agribusiness sector by providing the necessary risk capital and/or access to trade finance. Important to the Bank's support to the enterprise sector will be the provision of financial products (either more highly structured or riskier) which are not readily available in the local market place on a stand-alone basis or in partnership with local financial intermediaries.

- **Financial Sector**

The Bank will seek to further: increase availability of finance to small- and medium-sized enterprises and micro-enterprises including expansion of existing initiatives (EU/EBRD SME Facility) and development of new initiatives (e.g., dedicated energy efficiency credit lines directed to small- and medium-sized enterprises, dedicated line for rural businesses) as well as continued dialogue with Polish government on small- and medium-sized enterprise finance post accession (e.g., pre-financing or co-financing of investments which qualify for post-accession grant funding). During this period it will be important to promote new product development (e.g., risk sharing facilities, higher risk financing schemes); and contribute to the broadening of the local capital market through promotion and development of new financial structures that are readily available in advanced market economies but that do not exist or are not yet readily available locally. Lastly, should it move ahead, the Bank will be prepared to assist with the privatisation of the remaining state-owned banks (BGŻ S.A., PKO BP S.A.) and non-bank financial institutions (PZU S.A.) as well as the Warsaw Stock Exchange, which must become a more effective financing tool for the economy, as well as selective consolidation in the banking sector, pension funds and insurance sectors.

- **Infrastructure and Environment**

The Bank will continue to promote the introduction of schemes that minimise reliance on sovereign guarantees and increase the supply of long-term capital to the sector, while working with the national and local authorities to prepare, co-finance and implement projects and programmes intended to make effective and innovative use of European Union Cohesion and Structural Funds. The Bank will further support railways restructuring and modernisation. It will mobilise its existing experience in Poland and abroad to further the scope for financing projects through public-private partnerships, mainly in the municipal sector and perhaps in the transport sector, including projects aimed at achieving energy efficiency. It will also selectively support transition-oriented business in new sectors as they become creditworthy, in particular housing and urban revitalisation, and healthcare provided they meet the requirements of the Agreement Establishing the Bank. Channelling finance to small municipalities through local financial institutions with the support of the European Commission with particular attention to projects promoting the development of less advanced regions will be a priority.

The Bank will ensure that all EBRD operations in Poland are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans in line with the Bank’s mandate to actively support sound and sustainable development through its investment projects. The Bank will also ensure that all of its projects adhere to best-practice international procurement rules.

LIST OF ABBREVIATIONS

BAS	Business Advisory Service
CHP	Combined Heat and Power Plant
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EU	European Union
EIB	European Investment Bank
EMU	European Monetary Union
ESCO	Energy Service Company
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IFI	International Finance Institution
IMF	International Monetary Fund
NGO	Non-governmental Organisation
PLN / Zloty	Currency of the Republic of Poland
PPP	Private Public Partnership
SME	Small and Medium Enterprises
SMM	Small and Medium Municipalities
TAM	TurnAround Management
TC	Technical Cooperation
WB	World Bank
WSE	Warsaw Stock Exchange

1 THE BANK'S PORTFOLIO

1.1 OVERVIEW OF BANK ACTIVITIES TO DATE

As of 31 December 2003, Poland was the Bank's second largest exposure after Russia representing 13 per cent of the Bank's current portfolio. Net cumulative business volume totaled €2,840.0 million with equity representing 31 per cent of the volume, private sector operations representing 82 per cent of the portfolio stock and non-sovereign operations representing 88 per cent of current portfolio stock. Business volume is well diversified with Financial Institutions representing 35 per cent of volume, General and Specialised Industries representing 45 per cent and Infrastructure representing 21 per cent.

Table 1: Net Cumulative Business Volume by Industry (as of 31 December 2003)

Sector	No of Projects*	EBRD finance (€ mln)	Portfolio Share (%)	Total project cost (€ mln)
General Industries	**28.2**	**598.0**	**21%**	**2,444.0**
Specialised Industries	**40.8**	**669.0**	**24%**	**3,685.0**
Agribusiness	20.3	206.0		774.0
Property, Tourism and Shipping	13.0	173.0		556.0
Telecom Informatics & Media	7.5	290.0		2,355.0
Financial Institutions	**41.2**	**983.0**	**35%**	**1,841.0**
Bank Equity	10.0	224.0		292.0
Bank Lending	8.2	290.0		328.0
Non-Banking Financial Institutions	8.8	214.0		327.0
Equity Funds	14.2	255.0		894.0
Infrastructure	**18.3**	**590.0**	**21%**	**1,926.0**
Transport	4.0	324.0		930.0
Municipal & Environmental Infrastructure	11.7	177.0		692.0
Energy Efficiency	1.3	58.0		188.0
Power & Energy	1.3	31.0		116.0
TOTAL	**128.5**	**2,840.0**	**100%**	**9,896.0**
of which debt	77.4	1,842.0	65%	6,082.0
of which equity	47.5	880.0	31%	3,258.0
of which guarantee	3.6	117.0	4%	557.0
of which private	111.6	2,329.0	82%	8,231.0
of which state	16.9	511.0	18%	1,666.0
of which direct	117.8	2,618.0	92%	9,230.0
of which regional	10.7	222.0	8%	666.0
of which non-sovereign	120.6	2,491.0	88%	8,830.0
of which sovereign	7.9	350.0	12%	1,077.0

*The Bank allocates a count of one to stand alone operations in which all facilities are signed and active, and a count of one to framework operations and their associated sub-operations. Partially signed or partially cancelled stand-alone operations are allocated a fractional count, depending on the proportion of signed active facilities within the operation

1.2 IMPLEMENTATION OF THE PREVIOUS COUNTRY STRATEGY

The March 2002 Poland Country Strategy outlined the following strategic priorities for the Bank in the Poland:

- Contribute to the modernisation of local and national infrastructure including environmental investments, minimising reliance on sovereign guarantees and working in close cooperation with European Union (Phare and ISPA programmes) where appropriate. Priority given to support to restructuring, commercialisation, privatisation and private sector participation.
- Increase the low level of financial intermediation with support to SMEs, support to expansion of non-bank financial sector, completion of modernisation of banking sector, and promote wider development of more sophisticated financial products and services.
- Contribute to further modernisation and restructuring of enterprise sector supporting completion of privatisation, green-field investment, and improvement in corporate governance with equity as an important financial instrument.
- Financial support to the agricultural sector (including agribusinesses) aimed at improving competitiveness, quality and sanitary standards of products and to achieve necessary consolidation, in close cooperation with SAPARD Programme, other IFIs and donors as appropriate.

Full implementation of each operational priority under the previous strategy was hindered by several factors including but not limited to: the economic downturn in Poland as characterised by a sharp contraction in fixed investment; deterioration in enterprise profitability and marked slow-down in inward investment; deterioration in the situation of public finances; failure of the government to progress reforms; frequent changes in governmental posts including the key ministries of finance and state treasury; and, disappointing pace of industrial restructuring and privatisation. Despite this difficult internal environment, important progress was achieved in implementing the operational priorities of the strategy during the strategy period as detailed in Section 1.3 below and intense policy dialogue continued throughout the strategy period marked by several important technical assistance initiatives; these initiatives are also detailed in Section 1.3 as well as in Annex 7.

1.3 TRANSITION IMPACT OF THE BANK'S PORTFOLIO AND LESSONS LEARNED

The Bank has continued to be an active participant in the transition process as it has continued to innovate to suit the emerging transition needs and continued to play a visible role in policy dialogue. Importantly, the Bank has learned that transition is not a linear process and that despite progress, opportunities to support transition remain significant for the Bank, particularly in financing infrastructure and investment, in modernising of large enterprises, and in increasing the availability and variety of financial products, especially to SMEs. The following summarises the transition impact of the Bank's portfolio during the previous strategy period only[1]. Although the financial markets in Poland have developed rapidly during the last years, access to credit for all but the most creditworthy companies actually worsened and financial intermediation remained low; this was exacerbated by a crowding out effect of government funding of large fiscal deficits. The general situation in the marketplace, coupled with the Bank's focus on non-sovereign lending to the municipal infrastructure sector and the emphasis on more innovative or

[1] A more comprehensive summary of the Bank's activities in Poland, including excerpts from the "*Transition Impact Retrospective*" may be found in Section 1.2 and Annex IV of the March 2002 *Poland Country Strategy*.

higher risk financial instruments to the private sector allowed the Bank to maintain its additionality.

1.3.1 Infrastructure and Environment

***Municipal and Environmental Infrastructure**:* The Bank has implemented several innovative projects in urban transport, water, and district heating, through a range of products including non-sovereign municipal lending, revenue-backed lending to water utilities and equity in a heating company. Municipal creditworthiness enhancement programmes have promoted new financial management tools at the municipal level, utility corporate development programmes have strengthened municipal utility corporate governance, introduced performance incentives, and started to promote outsourcing and assistance with project preparation of ISPA projects has strengthened institutional capacity. After intensive discussions with the Ministry of Infrastructure, the Bank initiated a programme of support for PPPs at central government level, which has contributed to an initiative to prepare a new PPP law and establish a PPP Task Force. The EU/EBRD Small and Medium Municipalities Facility (the EU/EBRD SMM Facility) will give a tool to reach smaller municipalities; agreements with the initial partner banks to the programme are expected to be concluded shortly and will include risk sharing to encourage lending.

Transport: (1) *Railways:* Following earlier railway infrastructure investment, the Bank has actively supported the reorganisation of the railway sector by providing the first labour restructuring loan for the Polish State Railways (PKP) redundancy programme and subsequently assisting in financial restructuring of the newly created PKP Holding Company. Through its active involvement with PKP, EBRD has been able to participate and support the restructuring and reorganisation of the largest railway industry of the pre-accession countries. (2) *Roads:* The Bank's work on the PPP structure for the A1 motorway and its involvement in the development of the Road 19 PPP have highlighted various issues relating to institutional and legal impediments that need to be addressed to allow the successful use of private investment to provide public infrastructure. The Bank, cooperating with the World Bank and EIB, has participated extensively in policy dialogue aimed at road sector reform and moving forward motorway development and financing.

Energy Sector: In the energy sector, the Bank has actively promoted modernisation, liberalisation, privatisation and energy efficiency. While the Bank has continued to engage in policy dialogue with the Polish authorities on financing investments aimed at modernisation and privatisation of the energy sector, given the complexity of liberalisation of energy markets, investments have been slow to materialise. However, the Bank has continued efforts to finance modernisation and environmental upgrades at ZE Pątnów-Adamów-Konin S.A. (PAK), an important lignite-fired power plant which produces some 13 per cent of Polish electrical energy and through projects which may involve equity investments in privatised power generation assets (i.e., Elektrownia im. Tadeusza Kościuszki S.A. in Połaniec, a coal-fired power generation company in southern Poland owned by Electrabel S.A). Competition in home markets and the downturn in the global power sector have discouraged broad interest by foreign investors that have also been wary of an inconstant approach to sector structuring and regulation. Accordingly, the Bank continues to work with joint stock companies, as yet unprivatised (e.g. Elektrownia Bełchatów S.A. or Bełchatów) with the aim of developing competitive assets in a liberalising environment; it is expected that investments such as these will contribute to the Bank's ability to engage the independent regulator and other sector players in refining regulation and market rules toward a competitive electricity market. The Bank has provided technical assistance to PSE S.A., the State power grid, with respect to termination of long-term power purchase agreements and related securitisation of receivables; the termination of these contracts is critical to liberalisation of the sector consistent with EU requirements. Work, under a technical assistance programme, has also continued on the preparation of the Bełchatów power plant to remain competitive on the liberalised electricity market in Poland; the programme involves modernisation of Poland's largest power plant ensuring best practice in structuring and adherence to international procurement and environmental standards. During this period, the Bank supported the growth of energy efficiency services through its financing to Dalkia Poland principally for the privatisation of the Poznań district heating company and the Poznań CHP plant.

1.3.2 Financial Sector

In the banking sector, the Bank has played a very significant role in the transition of the financial sector responding early on to the sector challenges of privatisation and involvement of strategic investors. Through its shareholding in Bank Pekao S.A., the largest private universal bank, the Bank has continued its contributions to corporate governance and strategic development of the bank including introduction of products directed at SMEs. It is expected that through the provision of Tier II capital in the form of a subordinated, convertible loan to Bank Inicjatyw Społeczno-Ekonomicznych S.A. (BISE), a medium-sized Polish bank with a unique specialisation in servicing small municipalities, SMEs and the energy sector, the Bank will similarly be in a position to contribute to its strategic development and the expansion of its activities.

Intensive policy dialogue has continued aimed at influencing the modernisation and privatisation of the remaining influential state-owned banks, Bank Gospodarki Żywnościowej S.A. (BGŻ or the agricultural bank) and PKO BP S.A., the savings bank. While the outcome of the policy dialogue has been hindered by frequent ministerial changes, recent indications would suggest the long-awaited privatisations may progress this year - especially in the case of BGŻ - a bank which has the potential to play an important role in financing regional development. Given the importance of BGŻ, work under the Bank's technical assistance programme aimed at restructuring of BGŻ continued through the strategy period.

The Bank has been instrumental in promoting the provision of financing to SMEs through banks and leasing companies under the EU/EBRD SME Facility, as well as through the private equity funds. These efforts have had important demonstration effects and should contribute to the target of achieving sustainable financing as banks have enjoyed positive results from the EU/EBRD SME Facility (e.g., good portfolio quality) and undertaken internal improvements which should encourage continuation of such lending (e.g., training of bank staff, introduction of improved credit scoring systems, simplified collateral procedures). During the strategy period, the number of banks included in the EU/EBRD SME Facility increased to six and the number of leasing companies to four; importantly, PKO BP S.A. joined the programme as the bank with the largest retail reach. As of October 2003, approximately 9,500 loans have been provided under these facilities with an average loan size of €23,900 in case of bank loans and €12,400 in case of lease contracts for a total amount in excess of €219 million; some 1,531 bank employees were trained in lending to SMEs and non-performing loans under the program were ca. two per cent or less in some instances compared to a national average in the sector of over 20 per cent. However, given the low level of financial intermediation in Poland relative to peers in the region and Western Europe, the scale of the Bank's programs has not been sufficient relative to the need and must be expanded. Based on the success of the EU/EBRD SME Facility, the Bank initiated policy dialogue with the Ministry of Economy and Labour, in close cooperation with the EU Commission and the EIB, aimed at seeking ways in which IFIs can further assist the government in the effective utilisation of post-accession funds for the development of SMEs and micro-enterprises; it is expected that a pilot initiative with one of the banks most active in the rural community may emerge from these initiatives.

During the strategy period, the Bank continued to strongly support the growth of the private equity industry supporting both general and sector-specific funds with the aim of increasing its prospects for sustainability (e.g., Polish Enterprise Fund V, Polonia Property Fund). Given the diminished supply of institutional funds for the region combined with the low level of private equity investments in the region relative to GDP (notably the region substantially lags the Western European average), the Bank's continued support to private equity has been critical to its continued development. Development of a private equity industry is not only vital to the long-term development of capital markets but the industry also is a catalyst of transition. Private equity has vitally contributed to institution-building in the local economy from the perspective of corporate governance awareness, management skills, introduction of technology, appreciation of environmental responsibility, introduction of foreign strategic investors and development of quality product for the local capital markets.

The Bank has continued to support innovative financial instruments in Poland including risk participation facilities (e.g., Intermarche–Pekao Framework Financing), mezzanine finance, and mortgage bonds (e.g. Rheinhyp-BRE Bank Hipoteczny SA (Rheinhyp-BRE)) with the aim of increasing financial intermediation and expanding the variety of financial instruments available in the local marketplace. Under the Rheinhyp-BRE Mortgage Bond Purchase Framework, the Bank, acting as an anchor investor, financed its first mortgage bank through the purchase of mortgage bonds issued by Rheinhyp-BRE, thereby bringing legitimacy to this important new debt instrument and contributing to the long term goal of establishment of a stable and cost-effective national mortgage industry; importantly, pension funds have subsequently invested in these instruments.

1.3.3 Enterprise Sector

In an environment of stalled privatisation and slow-down in investment, the Bank supported two important investments by foreign strategic investors which partnered with local companies. The Bank provided senior debt finance and portage equity to SK Eurochem Sp. z o.o., a joint venture company established between SK Chemicals Co. Ltd., SK Global Co. Ltd., both part of the SK Group of Korea, and Anwil S.A., a subsidiary of PKN Orlen, for the development of a new PET resin manufacturing facility. Not only is this project expected to have a significant impact on the chemical sector in Poland, which so far has seen little new investment and is in need of substantial foreign direct investment and modern technology to make it internationally competitive but also represents the first significant new investment in Poland by a Korean group for many years. The Bank also provided finance as a key lender to Basell Orlen Polyolefins Sp. z o.o., a joint venture chemical company, owned 50/50 by PKN Orlen, Poland's largest petroleum refiner and retailer, and Basell Europe Holdings B.V., an affiliate of Basell N.V., a leading petrochemical producer. The project is expected to have a strong demonstration effect on the Polish petrochemical industry; in particular, it is expected to show the advantages of promoting sector modernisation through attracting foreign direct investment and state-of-the-art technologies. In addition, the Bank started work on support for the future privatisation of the fuel storage sector.

The general reform context during the strategy period limited the Bank's scope of engagement in the agricultural / agribusiness sector. Policy dialogue with the government focused on two areas: developing a programme for co-financing of investments under the SAPARD Programme and the development of warehouse receipts financing; neither of these have resulted in a Bank financing project. However, the Bank launched an innovative scheme for supplier financing with Limagrain, a leading French seed producing company and Raiffeisen Bank Polska; efforts now are underway to implement the project. And, through support to the development of Intermarche Group (Intermarche–Pekao Financing Framework), the Bank is supporting the dissemination of modern retail methods particularly in smaller cities and rural areas, where the penetration of modern retail methods has been weak so far as have been opportunities to develop backward linkages provided by retail chains in the development of the whole food chain.

In the property sector, the Bank continued to encourage institutional development supporting the launch of a property fund (Polonia Property Fund) which will focus to an important extent on investment in regional cities and sponsor developments and/or redevelopments resulting in international-standard buildings that are attractive to institutional users and investors. The Bank also supported the growth of residential real estate through the provision of the first mezzanine finance to a local residential real estate developer (DOM Development S.A.). This is one of the Bank's first initiatives in the residential property sector; it is expected to increase the availability of quality residential real estate development, which is considerably lagging behind other property sub-sectors. Financing for residential developments has to date been derived primarily from shareholder equity, buyer deposits and asset backed bridge facilities. Providing DOM Development S.A. with mezzanine finance makes a new financial product available to the constrained debt market currently available to developers and minimises the risk to buyers of residential properties under development. The financing of the Europa Distribution Center Sp. z o.o., is expected to contribute to the improvement of supply-chain efficiency in Poland through the development of international standard warehousing and logistical systems, therefore lowering the cost of logistics and increasing competition in the finished goods sector.

In the telecommunications sector, after earlier having contributed to the successful IPO of the former monopoly telecommunications provider, Telekomunikacja Polska S.A. (TPSA), the Bank continued policy dialogue during the strategy period targeted at further liberalisation of the sector. Financing efforts were directed at the strengthening of competition in the sector. A senior convertible loan to Tel-Energo S.A., a leading player in the Polish telecommunications market operating the country's second-largest backbone and access network, is expected to contribute to the ongoing development of competition in the Polish telecoms market as well as to the company's privatisation (the company is 95% owned by Polskie Sieci Elektroenergetyczne S.A., the Polish power grid or PSE).

1.4 FINANCIAL PERFORMANCE OF THE EXISTING PORTFOLIO, MOBILISATION OF CO-FINANCING AND PORTFOLIO RATIO

With a net cumulative business volume in Poland of €2,840.0 million, and operating assets of €1,285.0 million, the Bank's performing assets represents 92 per cent of operating assets. Portfolio quality is good with an overall portfolio risk rating of 5.20 (versus a Bank average of 5.47); this continues to reflect the generally higher country rating offset by the significant percentage of equity in the portfolio that is normally associated with higher facility risk, as well as the small number of impaired assets remaining in the portfolio. However, portfolio growth slowed considerably during 2003 relative to prior years reflecting the slow-down in both foreign direct investment and privatisation and the lack of progress in infrastructure investments at both the national and local level. Repayments and divestitures during 2003, including sale of the Bank's equity stake in Lafarge Cement Polska S.A. and sale of 50 per cent of the Bank's stake in

Bank Pekao S.A., as well as the January 2004 sale of the Bank's stake in FIAT/FSM, have had a major impact on the net operating asset base.

As at 31 December 2003, the Bank had signed 128.5 projects with a total cost of €9,896 million, including EBRD financing of €2,840 million, or 28.7 per cent from the Bank resulting in an overall mobilisation ratio (external finance/EBRD financing) of 3.9. The Bank has played a catalytic role in the mobilisation of co-financing in Poland.

During the strategy period there has been an increase in public sector projects (from 14 per cent to 18 per cent) reflecting the on-going support to the restructuring of the Polish State Railways as well as the strong emphasis on municipal and environmental projects

2 OPERATIONAL ENVIRONMENT

2.1 THE GENERAL REFORM ENVIRONMENT

Poland continues to meet the criteria specified in Article 1 of the Agreement Establishing the Bank. It is a pluralist, multiparty democracy. Its human rights record is broadly comparable with that of established Western democracies.

Poland was a regional leader in early transition reforms, including price and trade liberalisation and privatisation. Economic liberalisation facilitated a rapid expansion of small and medium enterprises, deep restructuring of privatised companies, and redirection of foreign trade from former communist countries to developed market economies. As a result, Poland experienced a long period of strong macroeconomic performance throughout the nineties. Following an initial output decline in 1990-1, Poland returned to positive GDP growth in 1992 as the first transition country. The level of Polish GDP exceeded its pre-transition level already in 1996. Nominal output per capita increased from US$ 1,631 in 1990 to US$ 4,241 in 2000 as the average GDP growth reached 5.2 per cent per year in 1993-2000. At the same time inflation declined from over 500 per cent at the end of 1990 to 8.5 per cent at the end of 2000. The economy also withstood well the impact of the Russian crisis in August 1998, owing to the flexibility of local enterprises and successful macroeconomic policy management. The share of the population in poverty declined to less than 2 per cent by 1998 and the social safety net is broadly similar to that of developed market economies in terms of composition, albeit public expenditures on social policy comprise a larger percentage of Polish GDP relative to the OECD average.

By the end of 2000, the impact of early transition reforms had weakened. The lack of further progress in economic liberalisation and a stalled privatisation process resulted in low growth performance and an increase in the unemployment rate; this was compounded by the weak global economic situation at the time and importantly, the situation in Germany, Poland's major trade partner. In 2001-2002, GDP grew by only 1-1.4 per cent per year. Registered unemployment increased from its lowest transition level of 9.5 per cent in August 1998 to a new peak of 20.7 per cent in February 2003; it currently hovers around 20 per cent. Development of the private sector was held back by persistent deficiencies in the business environment, including an unpredictable tax environment, inadequate bankruptcy legislation, a rigid labour market, slow and inefficient judiciary, and cumbersome administrative procedures. Enterprises were also adversely affected by the combination of expansionary fiscal policy and tight monetary policy, which restricted companies' access to external finance. In addition, Poland was less successful than other Central European countries in attracting foreign direct investment inflows.

Over the past 18 months the authorities have made legislative changes addressing some of the remaining investment climate deficiencies. Labour markets have benefited from the support for first time job seekers and changes in the labour code allowing lower overtime pay and permitting employers to suspend some labour code regulations when threatened by bankruptcy. However, some labour market rigidities persist, such as a relatively high minimum wage compared to an average wage, high payroll taxes and low labour mobility. New bankruptcy legislation was enacted in October 2003, improving the protection of creditors. However, it is to be seen whether commercial courts have sufficient administrative capacity to ensure effective implementation of the legislation. The government is also planning to streamline a number of regulations affecting enterprises, including those related to registration and licensing. The framework for state support for foreign investments is being restructured and may become more effective. Corruption, however, remains a serious issue as several cases of alleged corruption occurred recently, in some instances resulting in resignations of senior officials.

The forthcoming accession to the European Union has driven the legislative process in the past few years as the authorities focused on the adoption of the *acquis communautaire*. Poland successfully concluded the EU accession negotiations at the end of 2002 and will become a member of the European Union on 1 May 2004. The European Commission in its *November 2003 Monitoring Report* highlighted several areas in which the Polish authorities need to make further changes prior to joining the EU. Poland is expected to benefit from the net transfer of gradually increasing EU funds estimated on average at 1.7 per cent of GDP per year in 2004-6 (assuming net transfers from EU budget but excluding assumed contributions to the EU budget and co-financing). However, the absorption capacity, that is the ability to select and efficiently implement the best projects and find required local co-financing, is of a serious concern. EU accession will also result in lifting remaining trade restrictions between Poland and member states of the enlarged EU, including the abolishment of custom controls on the borders and the removal of existing tariffs. The adoption of the EU's external customs tariff by Poland will lead to a substantial overall reduction in customs duties and may lead to an expansion of trade with non-EU countries. However, Polish trade with non-EU countries has also become constrained by stricter border control, including imposition of visas for neighbouring CIS countries in October 2003.

Following the EU accession on 1 May 2004, the authorities will still need to address important obstacles to private sector development related to the transition from central planning to an economy based on free market principles. Dynamic growth of private enterprise continues to be suppressed by the continuing discrepancies between new regulations, which in themselves represent the sound law on the books, and everyday inefficient practices of the administration and judiciary. The completion of the EU accession process is likely to release some legislative capacity for a renewed effort in tackling remaining transition challenges, provided there is sufficient public support and political will to implement required changes. However improvements in public administration and effective implementation of new legislation will be critical to success of these reforms.

2.2 PROGRESS IN TRANSITION AND THE ECONOMY’S RESPONSE

2.2.1 Macroeconomic Conditions Relevant for Bank Operations

Macroeconomic performance improved in 2003. GDP growth is estimated to have increased from 1.4 per cent in 2002 to 3.7 per cent in 2003 as a result of strong export performance, resilient household spending and a smaller decline of fixed capital formation. GDP growth is expected to be around 4-5 per cent during the next two years, driven by the positive impact of the EU accession, namely the removal of the remaining trade barriers and the transfer of EU funds. CPI inflation has been subdued below 2 per cent year-on-year in the past 2 years although an increase in consumer prices is expected in the next two years due to tax changes and convergence to the EU levels. Real interest rates declined from double digits in the first half of 2001 to less than 5 per cent in the second half of 2003. The current account deficit declined to 1.9 per cent of GDP in 2003 as exports continued to grow strongly, leading to Poland increasing its market share in the EU, the destination of more than two thirds of Polish exports, while imports were subdued. The current account was in a monthly surplus in both September and October 2003. However, an increase in the current account deficit is expected as the economy recovers.

The greatest macroeconomic challenges for the near future are i) stabilisation of public finances, ii) successful exchange rate management prior to the adoption of the Euro, and iii) lowering of unemployment. The general government deficit increased from 3.5 per cent of GDP in 2000 to an estimated 6.9 per cent in 2003, according to the IMF. Fiscal deficits are expected to remain above 5 per cent of GDP in the short- to medium-term and to be financed mostly by increased issuance of treasury securities. Deficits of this order will result in an increase in the ratio of public debt to GDP, from the current level of approximately 50 per cent of GDP (the first benchmark defined by the Public Finance Act to trigger mandatory fiscal tightening) towards the constitutional limit of 60 per cent of GDP. The government is aware of the need to lower fiscal deficits but the proposed measures to stabilise public finances are yet to be approved by the parliament. Expansionary fiscal policy has contributed to significant weakening of the Zloty against the Euro, by over 15 per cent between December 2002 and December 2003. Significant fluctuations of the exchange rate are likely in the near future, driven mostly by market reactions to naturally difficult implementation of fiscal reform and other political events. However, the exchange rate will also be influenced by convergence-related speculative capital flows and other significant movements on the capital account. The registered unemployment rate peaked at 20.7 per cent in February 2003 and has remained around 20 per cent since then. Job creation in the private sector is thus a major challenge for the current as well as future governments.

2.2.2 Transition Success and Transition Challenges

Financial Sector

Most banks are now privately owned by strong foreign strategic investors. Asset share of the state owned banks declined from over 50 per cent in 1997 to 26.6 per cent at the end of 2002. However, two large banks, PKO BP S.A. (PKO BP) and BGŻ S.A. (BGŻ), are still state-owned and in need of restructuring. PKO BP has a substantial market share in the savings market. BGŻ has a strong market position in rural areas and in provision of financial services to farmers and agricultural companies. Polish legislation allows for an existence of specialised mortgage banks; the market share of mortgage banks is small as the majority of mortgages, and in particular retail mortgages, are provided by universal banks. Mortgage bank development has been hampered by inefficient mortgage registration by the courts, which has slowed ability to issue bonds, as well as by the inability of those universal banks owning mortgage banks to develop appropriate strategies for the newly established mortgage banking subsidiaries. There are also about 600 small co-operative banks which are required to increase their base capital to Euro 1 million by 2007 and their consolidation is thus likely. The dominant insurance company, PZU S.A. (PZU), is majority-owned by the state. Eureko, a large European insurance company, which has a minority stake in PZU, initiated international arbitration against the Polish government for its failure to fulfil its commitments arising from the original privatisation agreement, specifically to allow Eureko to increase its stake to a majority. Pension funds managing mandatory savings are expanding rapidly but a consolidation amongst the pension fund management companies is needed to increase efficiency and effectiveness of the sector. At the end of 2003 private pension funds held more than 20 per cent of the equity listed on the Warsaw Stock Exchange, up from 10 per cent at the end of 2001. The strong growth in pension fund assets under management combined with restrictive regulations governing pension funds has strongly bolstered prices on the Warsaw Stock Exchange; in many instances, above those found on Western exchanges. Importantly, the third tier or voluntary pension funds sector is underdeveloped, partly due to the lack of tax incentives.

The annual growth in credit to the private sector declined from double digit growth rates prior to the end of 2001 to less than 10 per cent in 2002 and 2003 and the total credit to the private sector is still below 20 per cent of GDP. However, there were large differences in the development of different segments of credit market. Credit to the enterprise sector has been subdued as a result of the weak financial performance of enterprises, particularly in the construction sector compounded by the crowding out effect of government borrowing and stringent banking regulations. Lending to households and non-banking financial services, including consumer credit, leasing, and mortgage lending, has been growing rapidly due to the gradual lowering of interest rates and favourable legislative changes in recent years, such as those related to accounting and tax treatment of leasing. Importantly, despite the growth in credit, Poland lacks a functioning public bond market.

The share of non-performing loans gradually increased to 24.6 per cent by the end of 2002 from 20.1 per cent at the end of 2001 and 11.5 per cent at the end of 1997. However, no bank was declared bankrupt or required state assistance in recent years. Unfavourable developments of indicators describing non-performing loans were partly due to the impact of weak performance of Polish economy and partly due to stricter loan classification criteria and provisioning requirements in Poland. By ordinance of the Ministry of Finance, as of December 2003, banking regulations have been loosened to be in line with the practice in most of the enlarged EU member states. The changes *inter alia* include i) changing classification categories (increasing the threshold for substandard loans from the current 30 days in arrears to 90 days in arrears), ii) introduction of collateral at the level of provisioning, taking into account liquidity of the collateral, iii) simplification of classification of housing loans (there will be a single criteria for residential housing loans – service history), iv) analysis of SME lending will be done only once a year compared to current quarterly frequency, v) all exposures to one client will be classified in the same way, but vi) valuation of collateral will be stricter.

Enterprise sector

Privatisation and restructuring of large state-owned industrial companies continues to be a key transition challenge in Poland. Privatisation progress has been limited in the last two years. In 2002, privatisation revenues, generated by 158 deals, amounted to Zloty 2.9 billion, equivalent to €725 million, just 44 per cent of the original target. Furthermore, almost half of these proceeds were accounted for by one major privatisation deal in the energy sector completed just prior to year end. Privatisation proceeds in 2003 amounted to Zloty 4.1 billion, equivalent to €890 million, but notably included privatisation of the largest steel holding company, Polskie Huty Stali S.A. (PHS). The government's target for the year as a whole was Zloty 9.1 billion, or more than €2 billion. The government intends to reinvigorate the privatisation process in the next two years but the implementation of the privatisation programme is uncertain at present.

The government reached an agreement on the privatisation of PHS, a steel company that accounts for 70 per cent of Polish steel production, to international steel group LNM Holding N.V. in October 2003. PHS was formed in January 2003 by a merger of four large state-owned largely loss-making steelmakers, following an approval of a new steel restructuring strategy by the Council of Ministers; both the new steel restructuring strategy and the privatisation were driven by the results of negotiations on EU accession and its implications for state aid to the steel sector as well as by requirements to reduce production capacity.

Restructuring is far from complete in a number of other traditional sectors, including the chemical industry, mining, shipbuilding and agriculture. The chemical sector is fragmented and most of the companies are state-owned, except for the largest refinery and its subsidiaries. In July 2003, the government cancelled the privatisation tender to sell the state share in the second largest oil refinery, Lotos Group S.A. (formerly, Rafineria Gdańska S.A., with a market share of 23 per cent). Although privatisation of the company was launched in 1998, the government has been unable to find an acceptable strategic investor. The government's strategy for Lotos Group

S.A., announced in July 2003, aimed to merge the company with three smaller refineries in southern Poland. Restructuring, with a view to an eventual sale through an initial public offering on the Warsaw Stock Exchange, was to commence following this merger; however, recent statements by the new treasury minister suggest that Lotos Group S.A. may be merged with PKN Orlen S.A. The government approved a new coal sector restructuring plan in November 2002 and amended it further in November 2003. In February 2003, Kompania Węglowa S.A. was established, which took over responsibility for Zloty 3.8 billion of assets in 23 state-owned coal mines, their combined labour force of 85,000 miners and Zloty 4 billion of debts (approximately equivalent to €1 billion). The government is currently negotiating a €200 million loan from World Bank to help finance the costs of restructuring in the mining sector. It is expected that the loan will be conditional on closing seven mines, out of the total 37 operating mines, and reducing employment in the sector by about 35,000 (out of a total of over 200,000) by the end of 2006. The sector normally produces a surplus of coal for export each year, but the cost of producing one tonne of coal – some Zloty 140 – is well in excess of the export price of about Zloty 80 per tonne. The government has also used transfers of state shares in listed companies, e.g., shares in major fixed lines operator TPSA at the end of 2003, to provide financial support for the struggling mining sector. Privatised shipyards encountered financial difficulty due to the strong Zloty and need for further restructuring and required state support. The agricultural sector has changed little since the beginning of transition, contributing some 3 per cent to GDP while accounting for a 17.4 per cent of the labour force. Farmers continue to benefit from sizeable state support, including subsidised loans and a favourable pension system (KRUS) which requires pension contributions at 10 per cent of the level of regular pension system contributors. There are still about 2 million small, mostly non-viable farms, with an average size of 8 hectares but many of these do not produce for the market.

Infrastructure

Large investments in road infrastructure and railway assets are necessary. The transport sector, including roads, railways, and urban transport systems, is underdeveloped and requires investment to facilitate both domestic transport and trade with neighbouring countries. The national road building programme has lacked a sustainable financing structure and management at the national level appears to be inefficient, unable to utilise fully even the limited existing funds. An ambitious programme of new road investments involving private sector participation and EU financing is in the pipeline. Utilities also require sizeable investments, including the water and wastewater sub-sectors, to increase environmental standards and service quality. Deterioration of some urban areas is a problem because of the lack of funds for comprehensive urban renewal. Municipalities have benefited greatly from regional reform in recent years and some local authorities have succeeded in commercialisation and privatisation of traditional municipal services. Municipalities regularly borrow from commercial banks and have already issued over 200 general obligation bonds, though so far mainly short term. More innovative financial instruments, such as private equity and revenue bonds, are however not used because of the inexperience of local administrations combined with financial sector novelty and high costs. Innovative financial structures are necessary to overcome fiscal constraints for local co-financing of forthcoming EU funds.

Restructuring and privatisation in the energy sector has been slow. Restructuring of the power sector continues to be adversely affected by the close links between the power generation and local coal mining and the prevalence of long-term power purchase agreements at fixed price and fixed amounts covering over 60 per cent of the power market. Long-term power purchasing agreements also delay liberalisation of the power market as required by the European Union rules but their cancellation depends on legislation which ensures adequate compensation in accordance with EU rules on state aid. The government has pursued privatisation in the energy sector with mixed success. Several power generating and distributing companies were already successfully privatised. In December 2002, German RWE acquired STOEN S.A., a power distribution company covering Warsaw and surrounding region. However, the government abandoned its plans to privatise Kozienice and Ostrołęka power plants in 2002 and suspended the privatisation tender for G8 group of power distributing companies with a 17 per cent market share in 2003. In January 2003, as a first important restructuring measure, gas monopoly company PGNiG S.A. (PGNiG), separated its gas distribution activities into six wholly-owned regional gas companies. The holding company, PGNiG, will focus on storage, transmission and servicing of long-term contracts. There are also plans to spin-off the research and exploration activities and float an approximate 30 per cent stake in the company on the local stock exchange. EU rules require that at least 20 per cent of the gas sector should be opened up to competition once Poland joins the EU. However, PGNiG's management announced that the company would need a transition period because of the ongoing restructuring of the sector.

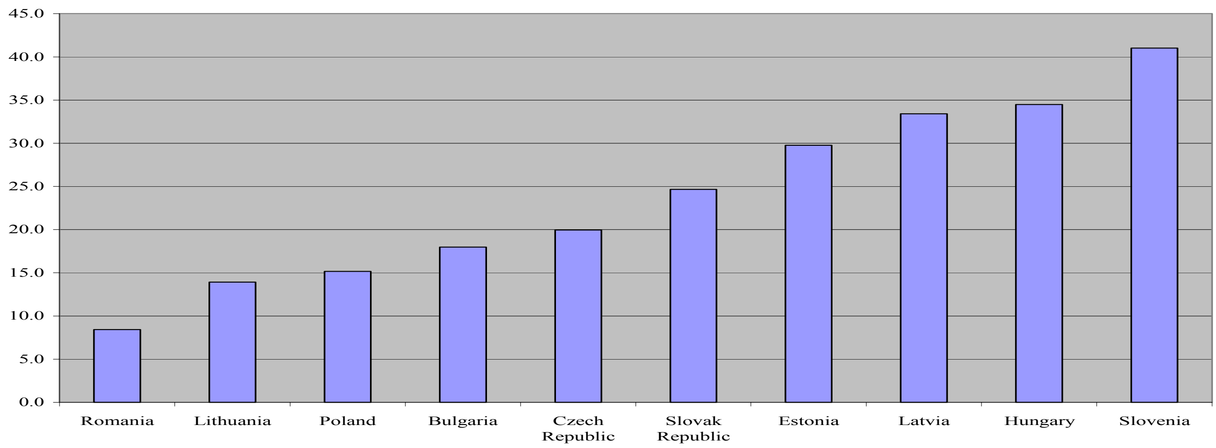
2.3 LEGAL ENVIRONMENT

Poland has made considerable progress towards conforming its legal framework to European Union standards although some difficult areas remain to be incorporated into Polish law. There is also a perceived lag between changes to the legislation and implementation of those changes by the government offices, the courts and the legal profession. This lag is in fact understandable given the scope and number of new laws and regulations. Areas of real progress include the new insolvency law which brings Poland in line with other major jurisdictions for the protection of creditors and possible rehabilitation of debtors. Also notable is the new legislation on securities and capital markets which is scheduled to be adopted in 2004. Efforts have also been made to improve the Polish court system with training and the introduction of a new level of courts although it will take longer to show real improvement in this area.

2.4 ACCESS TO CAPITAL

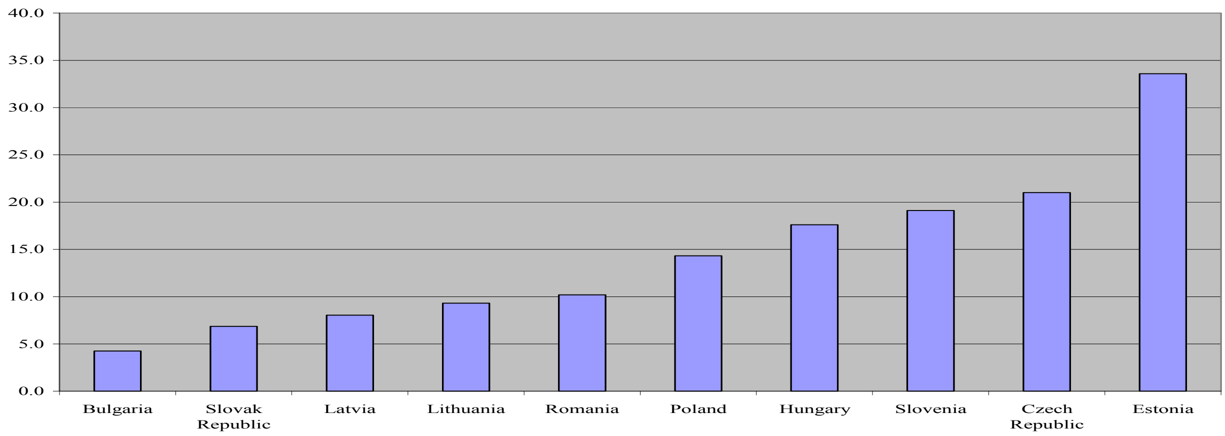
Although the development of the financial markets has continued, access to debt finance has worsened for the enterprise sector in the last two years and domestic credit to private sector remains below 20 per cent of GDP. This is partly the result of weak economic performance. Increased share of non-performing loans has led to worse financial performance of banks and their hesitancy to extend credit, particularly in the worst performing sectors. Stringent Polish banking regulations were also complemented in recent years by stricter credit allocation criteria enforced in banks acquired by foreign strategic investors. Debt financing of large fiscal deficits has also crowded out lending to enterprises and issuance of non-sovereign bonds. Access to bank lending has been particularly difficult for small- and medium-sized enterprises, for start-ups and for companies operating in contracting sectors, such as construction. Lending to some enterprises is also restricted by their low standards of corporate governance and poor transparency, including the use of complex structures to minimise tax payments. Average nominal interest rates declined to below 10 per cent by 2003 from over 20 per cent in 2000 but real interest rates remain high as inflation declined to below 2 per cent in 2003 from over 10 per cent in 2000.

Domestic credit to private sector (in % of GDP as of end 2002)



Local enterprises have limited opportunities to increase their equity. Stock market capitalisation is around 15 per cent of GDP. Private equity investment as a share of GDP is just above 0.05 per cent of GDP compared 0.2 per cent in Western Europe on average. Funds raised for the private equity sector in Poland have been falling during the past three years. Some private equity firms have had difficulties to raise capital despite their relatively good track record. Private pension funds manage an increasingly large amount of capital. Total amount of funds under pension fund management was Zloty 40 billion, about €8.6 billion, equivalent to 5 per cent of GDP at the end of June 2003. Pension funds are expected to increase their funds under management by approximately Zloty 10 billion, equivalent to over €2.2 billion at end-2003 exchange rate, per year. However, Polish pension funds have failed to finance the real economy given the attractiveness of investments in government securities coupled with restrictions on the level of assets which may be invested in investments other than those listed on the Warsaw Stock Exchange.

Stock market capitalisation (% of GDP as of end 2002)



Foreign direct investment halved between 2000 and 2003, declining from over US$ 8 billion to US$ 3.7 billion in 2003 as privatisation revenues fell and other Central European markets were seen as more competitive by investors. Although Poland has recorded the largest total stock of foreign direct investment in the region (US$ 42.3 billion at the end of 2003 or over 20 per cent of total stock of FDI in the region), this translates into just US$ 1,095 per capita, the lowest per capita stock in Central Europe and the Baltics. An increase in FDI is expected after EU accession, provided that the authorities increase the competitiveness of Polish economy by addressing the main macroeconomic issues described above and pursuing reform of the business environment, including improved support for large- and medium-sized foreign investors.

Credit ratings were largely driven by the EU accession process so far. Foreign currency sovereign rating of Poland is BBB+ (Standard and Poor's, affirmed in November 2003), A2 (Moody's, affirmed in September 2003), and BBB+ (Fitch, affirmed with a positive outlook in November 2003). However, in November 2003 Standard and Poor's lowered Poland's long-term local currency sovereign credit and senior unsecured debt ratings to A- from A, and short-term local currency sovereign credit and commercial paper ratings to A-2 from A-1. The downgrade was justified by concerns about the country's projected widening fiscal deficit and increasing level of public debt.

2.5 STRATEGIC ORIENTATIONS

2.5.1 Bank's Priorities for the Strategy Period

Given the challenges outlined above and provided that additionality is demonstrated on a case-by-case basis, the main operational priorities for the Bank will consist of the following:

- Actively support the completion of the modernisation and privatisation of Polish enterprises, especially in the more difficult sectors and in those sectors requiring liberalisation. Support foreign direct investment which contributes to transition and regional development. Support the domestic private sector, in particular SMEs, by expanding the availability of finance and working with the Polish authorities to continue SME finance programs with local financial intermediaries post-accession.
- Contribute to the further development of the financial sector by supporting consolidation of banking, insurance, and pension funds; supporting the expansion of the capital markets through promotion of new financial products; continue to supply capital to the private equity industry to support its long-term viability and contribute to the privatisation and development of the remaining important financial intermediaries (BGŻ, PKO BP, PZU and WSE).
- Support continued investment in infrastructure and environment, especially at the local level, minimising reliance on sovereign guarantees while maximising effective absorption of EU Structural and Cohesion Funds and the building of institutional capacity. The Bank will continue to support the Government's effort to develop the PPP concept in Poland in infrastructure (especially motorway and road rehabilitation), environmental and municipal sectors, through policy dialogue, developing structures which blend private finance with EU grants, encouraging involvement of foreign PPP sponsors, as well as by taking a leading role in pilot projects.

Critical to the success of the Bank in these priority areas will be continued policy dialogue with the Polish authorities at the national and regional levels; continued cooperation with the European Commission and coordination with other donors and IFIs to ensure additionality and to ensure that the Bank's funds complement those available from sources such as the EIB and other important IFIs which support Poland. The Bank has a long and positive experience in policy dialogue with the Polish authorities; this year as a result of the Bank's support a legislative framework is expected to be enacted which will facilitate increased private participation in the public sector. The intensity of the dialogue will continue during the next strategy period with emphasis on: (i) the selection and preparation of projects for the effective absorption of post-accession grant funds covering both infrastructure and enterprise sector (e.g., SMEs); (ii) modernisation and liberalisation of the energy sector and (iii) modernisation and privatisation of the remaining large state-owned companies, in particular those which have not been sufficiently restructured to date.

The Bank will ensure that all EBRD operations in Poland are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans into legal documentation in order to address issues raised during due diligence, in line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects. The Bank will also ensure that all of its projects adhere to best-practice international procurement rules.

2.5.2 Sectoral Challenges and Bank Objectives

2.5.2.1 Enterprise Sector

The Bank recognizes that modernisation of the enterprise sector is far from complete particularly in several important traditional sectors which lag severely in competitiveness. Additionally, the gap between the locally- and foreign-owned corporates remains significant in terms of quality of management, corporate governance as well as access to finance and technology. And the gap in terms of international competitiveness between Polish industry and EU industry is very significant. In order to achieve the faster economic growth than is currently prevailing as well as net new job creation, Poland must seek to complete the modernisation of industry, ensure market liberalisation, and critically attract foreign investment, particularly medium-sized investments. In response to these challenges, the Bank will focus on operational priorities identified below.

The Bank will support foreign direct investment, focusing on projects in regions of higher unemployment or less affected by transition so far and/or projects requiring extensive due diligence and structuring or involving risks with which the local banking sector would be unfamiliar or unwilling to take; this will ensure maximum impact and additionality. The Bank will support the privatisation of the remaining state-owned assets, particularly in more difficult or heavy sectors including steel and chemical. Provided additionality is confirmed, the Bank will also actively support the restructuring, consolidation and regional expansion, especially into neighbouring CIS markets, of the local private sector to improve competitiveness in the Single Market and compliance with EU regulations.

As the ***property sector*** in Poland has experienced strong development in many segments, to ensure additionality, the Bank will focus on providing higher-risk financing instruments in the form of mezzanine and equity finance to complement available bank financing to developers as access to such funding is not readily available. This will also include wholesale instruments aimed at reaching SMEs ranging from senior and mezzanine debt to debt risk sharing facilities. Additionally, the Bank will continue to support regional projects with a variety of financing structures depending on available funding in the marketplace which improve the attractiveness of the regions for FDI as well as residential housing as the demand for quality, affordable residential housing continues to be unmet. And as a mechanism to reduce operating costs of a variety of Polish corporates and increase competitiveness, the Bank will promote leasing solutions, including sale and leaseback of real property. While such transactions have started to appear; they have been limited to prime corporates.

To support the transformation of Polish ***agriculture/agribusiness sector*** and given the Bank's questionable additionality with the stock of largely foreign-owned agribusiness companies, the Bank will seek to support Polish companies, especially the medium and larger companies regionally located, which seek to increase their export potential, establish production in neighbouring markets or make investments targeting improved hygiene and food safety standards. This will also provide an important opportunity for the Bank to contribute to corporate governance and improved operating standards. Using the positive experience of the EU/EBRD SME Facility, the Bank will launch in Poland as a priority implementation country, the EU Rural Finance Facility which will seek to deepen the interest of financial intermediaries in financing farms and other rural enterprises; this should contribute to the transformation of the rural economy and result in job opportunities in rural areas.

In the ***telecommunications sector***, the Bank will provide financing for new technologies, seek to increase the growth of alternative telecoms operators and new service providers in order to further develop competition and support e-Government initiatives (including local government), increase affordable access to internet services, e-learning and other applications necessary for the expansion of the Information Society in Poland. The Bank will support the further liberalisation and opening up of the media and telecoms sectors and provide financing for the modernisation of postal services. Policy dialogue will be aimed at increasing regulatory effectiveness in the telecommunications sector.

2.5.2.2 Financial Sector

Progress in privatising and restructuring of the banking sector and achieving fairly rapid expansion of the financial services sector in general, including non-bank financial institutions, is amongst the major transition accomplishments in Poland. While the profitability of the financial services sector has deteriorated during the economic slow-down, the sector remains relatively well-capitalised, generally profitable and is strongly influenced by foreign ownership. Despite these accomplishments, levels of financial intermediation in Poland are amongst the lowest in the region and severely lag Western European levels, efficiency of financial intermediation also remains largely below the Western peers and there remains a need to both broaden the access to financial services as well increase the diversity and sophistication of financial products available.

Continued efforts of the Bank aimed at increasing the availability of *financing for SMEs and micro-enterprises* through financial intermediaries, will remain among the Bank's core objectives. Priority will be given to further expansion of the EU/EBRD SME Facility to new partner leasing companies and new banks and introduction of a new program currently being developed, the EU/EBRD Rural Finance Facility, tailored to address the needs of SMEs in rural areas. Backing the most successful fund managers, the Bank will seek to ensure the continued availability of capital for the private equity industry, which remains not only an important source of capital for the growing SME sector but also strongly influences governance standards. The Bank will be open to venture capital initiatives that facilitate access to capital for Polish companies seeking to make investments in high-technology research, development or transfer. Consistent with objectives in the Lisbon Strategy, the Bank will seek to develop effective mechanisms for blending private finance with EU grants and programmes to promote and finance technological innovation in Poland. The Bank will continue policy dialogue with the Polish Government to seek ways in which the Bank could further assist in the development of the SME and micro-enterprises sector post-accession including programs which will facilitate financing of SME investments qualifying for post-accession grant funding and provide SMEs with increased access to technical assistance.

To strengthen and diversify the response of the financial sector to private sector demand for products and services, the Bank will seek to initiate or support new product development, which may include various risk sharing facilities, mezzanine financing as well as publicly traded bonds, local issues with longer maturities and international issues or new instruments for the equity markets. The Bank will also contribute to the broadening of the local capital market and in particular to the availability of products for local institutional investors (especially pension funds) through promotion and development of the new financial structures that are readily available in advanced market economies but that do not exist or are not yet readily available locally. Through support to new initiatives to create on-shore investment vehicles, the Bank will be in a position to encourage the increased role of local institutional investors; this in turn will contribute to the sustainable growth and stability of the asset class. During the past strategy period, the Bank acted as anchor investor in mortgage bonds issued by one of the specialised mortgage banks; this not only helped to launch a new asset class for institutional investors but also contributed to the development of the specialised mortgage banking industry. The Bank will seek to further support growth of the mortgage market by providing long-term financing to mortgage finance providers, strengthening the capital base via subordinated loans or equity in specialised mortgage banks and extending risk participation facilities for eligible mortgage loan pools. By strengthening the capabilities of financial institutions, the Bank will help to satisfy an increasing demand for mortgage financing and ultimately facilitate private ownership of housing as well as housing stock improvement.

To address the sectoral challenge of improving the efficiency (and reducing the costs) of financial intermediation in Poland to levels comparable in Western Europe, it is important that privatisation, modernisation and consolidation of the important sub-sectors of banking, pension funds, and insurance occur. Given the significance of the remaining state-owned banks (BGŻ, PKO BP) and non-bank financial institutions (PZU, WSE), selective support to the completion of privatisation will be a priority. The Bank will act as a catalyst to attract quality investors and continue its engagement in active policy dialogue with authorities in the context of the individual projects. Additionally, the Bank will be prepared to support with risk capital new initiatives which emerge in these sectors as regulations develop (e.g., private health insurance).

Through its trade facilitation program, the Bank will continue to work with local financial intermediaries to help Poland sustain and develop its trading relations with non-EU partners and especially the CIS countries.

2.5.2.3 Infrastructure and environment

Upgrading of Poland's infrastructure is one of the country's remaining major transition challenges with large investment outlays required in transport infrastructure as well as municipal and environmental infrastructure. Restructuring and privatisation in the energy sector have been slow and the challenges of liberalisation remain. The inadequate pace of infrastructure investment to date has contributed to Poland's deteriorating competitiveness within the region, (particularly with respect to large FDI), has contributed to increased costs to the economy, and is perceived as a barrier to reaching economic development potential. While accession is expected to stimulate infrastructure investment by making available large pools of necessary finance, the challenges of administrative capacity, project selection and preparation will remain as will the necessity to arrange appropriate co-financing in light of fiscal constraints. With its strong local presence, the Bank will be well-placed to support the challenges as detailed below. While implementing its strategy, the Bank will pay particular attention to ensure that environmental and social aspects of each project are addressed appropriately and seek to prioritise those projects which promote the development of less advanced regions in an effort to address the problems of regional disparity which exist in Poland.

Municipal and Environmental Infrastructure: Given the Bank's accumulated experience in developing non-sovereign guaranteed municipal projects and projects under the ISPA program coupled with its strong local presence through the Resident Office, the Bank is well positioned among IFIs to lead in the further provision of financing schemes that do not rely on a sovereign guarantee and increase the supply of long-term capital to the sector. Examples include application of revenue bonds, extension of utility-financing to urban transport companies backed by sound public service contracts, as well as implementation of the newly developed EU/EBRD SMM Facility. This facility is designed to encourage Polish commercial banks to provide longer term financing to small- and medium-sized municipalities, which have less access to long-term capital than larger municipalities. The Bank will also continue to explore pooled credit mechanisms for lending to groups of smaller municipalities. The Bank will continue working closely with the national and local authorities to prepare, co-finance and implement projects and programmes intended to make effective and innovative use of Cohesion and Structural Funds. Examples of current projects under development which will benefit from post-accession grants include a revenue bond financing in the water sector, a co-financing in the water sector where the water operator is private, a group of small municipal projects in Lower Silesia to be funded via a regional financing vehicle and an urban revitalisation project in a major city in Eastern Poland which aims to stimulate SME development in the city as well as improve the infrastructure and buildings for tourism and housing. Using a commercially driven approach, the Bank will seek to develop opportunities in housing, urban revitalisation and health as the regulatory and credit environment for these sectors improves. Given the difficult financial situation in the healthcare sector and its impact on public finances, significant restructuring will have to take place during the next strategy period; it is anticipated that this restructuring will stimulate activity in private healthcare which to date is limited and for which financing is generally unavailable as well as public private initiatives.

It is important to note that the Bank will maintain a "bottom up" approach working with municipalities and local utility companies on individual projects, as well as with regions or groups of municipalities, and take project risk and municipality / utility risk without bank or sovereign guarantees for rated and unrated entities. The Bank will also finance smaller projects (down to Euro 5 million Bank share) and is involved extensively in project concept development and preparation. This contrasts to the World Bank (which takes a more programmatic approach) and EIB (which has to date focused on larger projects, sovereign guaranteed projects or rated projects and operates extensively through global loan programmes). The Bank is also working with commercial banks through loan syndication on stand-alone projects and through the SMM Facility – in the latter case, the Bank differs from other IFIs through targeting the grant co-financing in specific areas where transition is needed (e.g., extending loan maturities) and providing targeted technical assistance to the banks and municipal borrowers.

Transport Sector: In respect of the *rail sub-sector*, given its national importance and extremely difficult financial situation, the Bank will seek to provide continued support to implementation of restructuring, modernisation, commercialisation and privatisation in the rail sector through targeted investment projects and technical co-operation. The Bank will continue to encourage privatisation of PKP Cargo and will seek to make available necessary long-term investment finance to creditworthy PKP Group subsidiaries on a commercial basis, thereby encouraging lending by commercial banks which to date have been reluctant to provide investment finance given the risks of policy change. In respect of the *road sub-sector*, since new road construction is expected to be financed largely from the EU Cohesion Funds with matching funding from the EIB or the state budget, the Bank will focus primarily on supporting and developing opportunities for private sector involvement in the road sector, for example private operation and maintenance of motorways by direct involvement of private sector operators which are interested in concession opportunities and are expected to be present in the road sector in the near future. It would also seek to participate in the financing of PPPs for new road construction should these be developed alongside the traditional construction programme. Policy dialogue will remain an important component of the Bank's engagement in the transport sector.

With respect to PPPs, the Bank will target its support to projects where a PPP structure is likely to deliver efficiency gains (e.g., through whole life costing approach), where there is a strong political will to develop and sustain a PPP approach and when there is a clear expectation that the Bank will be additional in its financing.

Energy and Energy Efficiency: As the *electricity sub-sector* remains largely state-owned, the Bank will actively support privatisation efforts primarily through co-investments with involvement of strategic investors in trade sales or public offerings. The priority will be to finance investments which aim to modernise generation, distribution (especially reinforcement of local power grid) and transmission assets and which contribute to improvement in environmental standards of Polish power assets in particular to meet European Union standards. The Bank will also continue its efforts to support the development and implementation of a competitive market in electrical energy generation (including foreseen termination of the long term contracts), focusing on transparency of grid access and creation of best market practice in terms of market structure and market mechanism and regulation (accompanied by new, merchant financing structures). Additionally, to promote regional integration, the Bank is prepared to support development of greater interconnection of Polish grid with Western European, Baltic, Southern European and CIS countries through mobilisation of TC funding, direct investment and lending.

The Bank will continue its support to *energy efficiency* efforts in both the private and public sector. The Bank's energy efficiency activity will primarily focus on industry (through enhancing the energy efficiency content of client investment programmes, or the outsourcing of energy assets and management to specialised energy service companies) and public sector buildings (preferably on an ESCO basis as with the City of Łódź). To this end, and also to better reach out to SMEs, the Bank will explore the potential for dedicated energy efficiency credit lines which would have the additional advantage of developing sustainable local mechanisms for the financing of energy efficiency investments, especially in the building sector.

In the *oil and gas sub-sector*, the Bank will actively support privatisation efforts primarily by co-investing alongside strategic investors, (including pre-privatisation financing increasing the value and the likelihood of privatisation) or via public offering with the emphasis on transactions aimed at increasing the competitiveness of Polish oil and gas assets (e.g., PGNiG S.A.). The Bank will support further restructuring and opening of the oil and gas and market in Poland and its regional restructuring (e.g. support PKN Orlen acquisition plans in other Bank countries of operation). Lastly, the Bank will focus on the development of projects aimed at improving environmental standards of Polish oil and gas assets in particular with a view to adoption of EU environmental directives.

2.6 CO-OPERATION WITH THE EUROPEAN UNION AND OTHER IFI'S

- **The European Commission** – The European Commission provides assistance to Poland through three pre-accession instruments, the Phare programme, ISPA which provides financing for transport and environmental projects and SAPARD which finances agricultural and rural development. Phare programme resulted in commitments of €2.5 billion in 1992-1999 and €1.3 billion in 2000-2002, including financing for institution building, construction and renovation of A4 Motorway, and SMEs. SAPARD programme was approved in October 2000 and the total allocation for 2001-2 was €352 million, focusing on marketing and processing of agricultural products. ISPA programme commitments in 2000-2002 reached €1.1 billion, including water and wastewater treatment projects, solid waste projects, and several road and railway modernisation projects.

- EBRD established with *Phare* the following finance facilities: (i) SME Finance Facility; (ii) the Dairy Facility addressing upgrade of selected farms and dairies to EU standards and the SMM Facility dedicated to small municipality finance. Funds provided by *Phare* have been a critical component of the Bank's more complex framework-based developmental initiatives. The Bank has co-operated closely with ISPA and the national authorities in the preparation of projects co-financed with ISPA, and has signed loans for the co-financing of water supply/sewerage projects in Bydgoszcz, Krakow and Wroclaw, and a solid waste project in Wroclaw.

- After the accession to the European Union existing programmes will be gradually replaced by standard Structural, Cohesion and Common Agricultural Policy funds with total allocation for Poland in 2004-2006 exceeding €15 billion; the sectoral operational programmes (SOP) through which these funds will be allocated will include: SOP Improvement of competitiveness of the economy, SOP Human resources development, SOP Restructuring and modernisation of the food sector and rural development, SOP Fisheries and fish processing, SOP Transport – Maritime economy as well as the Integrated Regional Operation Programme and the Operational Programme Technical Assistance. Over 2004-2006, the pre-accession funds will still be disbursed and it is estimated that more than €800 million will be disbursed in 2004, €660 million in 2005 and €650 million in 2006.

- Post accession, coordination of projects utilising Structural or Cohesion funds will increasingly be handled within Poland by the authorities at the national or regional level; consequently the Bank is deepening its on-going cooperation with the relevant ministries and regional authorities. The Bank will, however, continue to maintain close cooperation with the European Commission concerning co-financing of projects especially with regard to sharing experience in implementation, discussing experience of past projects in sectors or initiatives which are relatively new to Poland and discussing specific co-financing issues (such as blending of grant and private funding).

- **The European Investment Bank (EIB)** – Poland received €4.23 billion in the last five years from the EIB, including €315 million in the first three quarters of 2003. The loan portfolio of the EIB includes €75 million for extension of A2 motorway, €200 million for Warsaw airport, €13 million for Poznań Urban Renewal and Housing, and global loans for Bank Pekao, Raiffeisen, Kredyt Bank, BRE and BOS. It is expected that as in the past, where the Bank and EIB have coordinated closely in large projects which provided for EIB / EBRD financing (e.g., A1 Motorway, Belchatow Power, SME Finance Facility) that such coordination is expected to continue to avoid overlap and ensure value-added of each institution is appropriately utilised.

- **The World Bank –** Poland is a member of the World Bank since 1986 and has received loans since 1990. As of the end of April 2003 the total of outstanding loans and commitments is US$ 2.5 billion. The World Bank is currently implementing 11 projects with expected future disbursements of a total of US$ 360 million and administering three projects financed by grants from the Global Environmental Facility with a total value of over US$ 33 million of which US$ 8.5 million is yet to be disbursed. Recent projects include Second Hard Coal Sector Adjustment Loan (US$ 100 million), Kraków Energy Efficiency Project (US$ 15 million co-financed by Global Environmental Facility), Railway Restructuring Loan (US$ 101 million), Rural Development Project (US$ 120 million), and Szczecin-Świnoujście Seaway and Port Modernisation Project (US$ 38.5 million). The World Bank plans to provide a further US$ 1.4 billion in 2003-2005, including further loans in areas of road infrastructure, coal sector restructuring, rural development, health care reform and educational sector reform. The World Bank has also prepared a series of economic and sector policy reports, including most recently *Public Expenditure and Institutional Review* in January 2003. The EBRD and World Bank have cooperated closely in the financing of PKP Railways and policy dialogue related to development of transport sector policy; there is continued scope for further cooperation and coordination of resources in areas such as healthcare should restructuring commence given the World Bank's experience in Poland and the EBRD's ability to finance direct investments on a smaller scale.

- **The International Monetary Fund (IMF)** – Poland has been a member of the IMF since 1986. There are no outstanding or projected obligations to the IMF. In the past the IMF provided a SDR 1.2 billion Extended Fund Facility, approved in April 1991 and expired in March 1993, of which Poland had drawn SDR 77 million, and two Stand-By programmes, the first totalling SDR 476 million of which SDR 357 million was drawn (approved in August 1993 and expired in August 1994), the second totalling SDR 333.3 million of which SDR 283.3 million was drawn (approved in May 1994 and expired in April 1996). The IMF also provides extensive technical assistance in a range of areas, including fiscal and monetary policy. The last Article IV consultation was concluded in June 2003.

ANNEX 1 – POLITICAL ASSESSMENT

Political developments

Poland is a multiparty democracy in which executive power is shared by the Prime Minister, the Council of Ministers and - to a lesser extent - the President. Aleksander Kwaśniewski was elected President for a second term in free and fair elections held in October 2000. The Parliament is bicameral (Senate and the Sejm). Following free and fair parliamentary elections held in September 2000, there was a change of government: the social-democratic (post-Communist) Democratic Left Alliance (SLD) formed, under its leader Leszek Miller as Prime Minister, a coalition with the Union of Labour (UP) and the Polish Peasant Party (PSL). In March 2003, the coalition was dissolved and the SLD and the UP formed a minority government, still under Miller as Prime Minister. The government respects the constitutional provisions for an independent judiciary, but the judiciary is inefficient and the public prosecutor is not free from political influence. The country's free and vigorous media play an important role as the unofficial public watchdog over politics and business.

The left-of-centre government of Prime Minister Leszek Miller, in office since October 2001, has lurched from crisis to crisis amid unprecedented unpopularity. Since the beginning of 2003, a number of Ministers have been replaced. The embattled Prime Minister got a boost from the positive outcome of the EU accession referendum on 7-8 June 2003 and won the no-confidence vote in parliament on 13 June 2003 with 236 votes to 213 relying on the support of some small splinter parties. At the end of June 2003, he was re-elected leader of the ruling Democratic Left Alliance (SLD) for another four-year terms; however, on 6 March 2004, he resigned as party leader and was replaced by Krzysztof Janik, who had been head of the party's parliamentary group. Shortly thereafter, following a formal split in his party, Miller announced that he would be stepping down as Prime Minister on 2 May. Marek Belka, former Finance Minister, was asked by President Aleksander Kwasniewski to form a new government provided he can obtain the necessary support in parliament. The next parliamentary elections are due in 2005 but elections for the European Parliament are due in June of this year. Meanwhile, the mainstream opposition parties, the right-of-centre Civic Platform (PO) and the Law and Justice Party (PiS), are rising in the opinion polls while the populist party, Samoobrona, continues to have high public opinion poll results (i.e., in April 2004 polls, Samoobrona achieved a 29 per cent rating compared with 26 per cent for the Civic Platform).

The current political debate in Poland has focussed on three main subjects. One is the future of the plan for the stabilisation of public debt and fiscal reform. Its author, Jerzy Hausner, Deputy Prime Minister and Minister of the Economy and Labour, took over the responsibility for the government's economic policy following the resignation of Grzegorz Kołodko as Finance Minister in June 2003. Another key issue is Poland's relationship with the European Union in the context of the proposed European Constitution. Finally there is the question of Poland's support for the war against Iraq.

There is a broad popular consensus that Hausner deserves to succeed in pushing his plan through despite the unpopularity of his proposed spending cuts and widespread opposition to them, not least in his own party, the SLD. As many as 58 per cent of Poles believe that what he is proposing is necessary but only the tiny minority believe that the programme will be fully implemented. The other main topic of public discourse, the draft European Constitution, has focussed on the proposed revision of the 2000 Nice Treaty provisions that gave Poland the same number of votes in the European Council as Spain and only two fewer than the much bigger

Germany. The Polish government, backed by public opinion, has strongly opposed the alternative to Nice in the draft Constitution. It is the so-called 'dual majority', by which a majority both of member states of population would be necessary for the passage of legislation by the Council of Ministers. Some political forces, such as the PiS, are calling for a referendum to approve the draft EU Constitution. A poll by the Polish CBOS agency in July 2003 showed 55 per cent of the population opposed to the participation of Polish troops in Iraq and only 36 per cent in favour. However, the government and most of the opposition parties remain strongly committed to maintaining the Polish presence in Iraq. This is largely because the country's prominent role in Iraq is seen as helping to establish Poland as an important international player.

EU accession

Poland concluded its accession negotiations with the EU on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. In a referendum held on 7-8 June 2003, a convincing 77 per cent majority of voters expressed support for EU membership. Poland, which joins the EU on 1 May 2004, received in November 2003 a strong warning from the European Commission over the recent slowing down of the pace of preparation for EU membership. One of the Commission's conclusions was that Poland had maintained a stable macroeconomic situation and was experiencing a gradual recovery, mainly driven by external demand, but that the reform path had nearly come to a halt since the previous report in November 2002. Poland was also encouraged in the report to improve the capacity of its administrative system and was warned that a deep restructuring and reduction of public expenditure were crucially important in order to further improve the policy mix, to reverse the rapid rise in public debt and to prepare Poland's finances for accession. Many detailed suggestions in the report concerned improvements urgently needed in various sectors of agriculture.

Integrity issues

The issue of corruption is perceived to be increasing from an already high level in Poland and is considered to affect all spheres of public life, according to the European Commission's comprehensive monitoring report on Poland's preparations for EU membership published in November 2003. The report notes that there has been very little progress in combating corruption. This is a perception borne out in various recent high-profile corruption cases. The issue had featured prominently in the 2001 election campaign and had contributed to the fall of the previous Solidarity government. Corruption cases abound under the government of Leszek Miller, which took office in 2001. Major cases of corruption have occurred in the health sector but also in others leading to the resignation of senior officials as well as some Ministers. Bribery allegations in a report published in December 2002 by the best-selling daily newspaper Gazeta Wyborcza rocked the political establishment. According to the report, a well-known film producer, Lew Rywin, asked for a US$ 17.5 million bribe on behalf of the ruling SLD from the Agora publishing company, which owns the paper. In return, changes favourable to the firm would be made in the government's draft media law. The paper backed its report by publishing the transcript of a conversation in which the offer was reportedly made to Adam Michnik, the paper's Editor-in-Chief. The report was denied by the SLD and Prime Minister Miller, but the Polish parliament set up a special committee of investigation and held a number of high-profile hearings. With Rywin on trial in Warsaw, the so-called Rywingate affair is still unfolding and has already played a major part in undermining public support for the Miller government. In early December 2003, more than forty people were arrested across the country in connection with a multi-million Euro scam to defraud the European Union of funds intended to help modernise Polish railways (PKP). The investigation is focused on the reconstruction of the Rzepin to Warsaw line, and PKP directors have been named as among those arrested. Poland is ranked 64th (with Mexico) in Transparency International's 2003 Corruptions Perceptions Index of 133 countries. In 2002, Poland was in the 45th place out of 102 countries. Poland is behind (in this order) Slovenia, Estonia, Hungary, Lithuania, Belarus, Bulgaria, Czech Republic, Latvia, Croatia and Slovakia.

Social conditions

Poland's population was estimated at 38.2 million in the May 2000 census. Made up almost entirely of ethnic Poles, it is classified as 38 per cent rural and 62 per cent as urban. The cities in the west closer to Germany and stretching from Gdańsk in the north to Kraków in the south are the most prosperous and attract most foreign investment as does the greater Warsaw area which is by far the richest and has been to date attracted the most investment. Areas in the east, which depend more on agriculture, were neglected under Communism and, with poor communications and infrastructure, continue under transition to have lower incomes, higher unemployment and lower investment. The 14 special economic zones, offering inward investors long tax holidays and other incentives, were determined to be against EU rules; after intensive negotiations with the EU, tax treatment was subsequently aligned in accordance with EU legislation.

The crude birth rate fell sharply from 14.3 per 1,000 people in 1990 to 9.3 in 2002. In 1990, the fertility rate stood at 2,039 (average number of births among women aged 15-49) but fell to 1,288 in 2001. The death rate fell more slowly - from 10.2 per 1,000 people in 1990 to 9.4 per 1,000 in 2002. Official demographic projections suggest the population will grow slowly until 2015, with the pace of decline accelerating after 2020. A sharp rise of 1.4 million is forecast in the number of people of working age between 2000 and 2010 as the baby boom generation born in the early 1980s enters the labour market, making job creation an urgent political priority for the government. Over the medium-term, Poland will enjoy one of the youngest working populations in Europe. The population is expected to age rapidly over the longer term, but the reform of the pensions system initiated in 1999 will help ease the situation.

The funding and management of the health service were overhauled (together with pensions, schools and local government), in 1999, with an emphasis on decentralisation. However, the health system continues to suffer from serious financial problems and still requires fundamental restructuring involving a shift of resources away from hospitals towards primary care. Health problems caused by high levels of smoking and alcoholism are prevalent. Life expectancy at birth in 2001 was 70.2 years for males and 78.4 years for females, compared with the EU average of 75.3 years for males and 81.4 for females.

At the beginning of transition, the education sector, geared to the needs of a centrally planned economy (especially heavy industry) was at first unable to cope with training in finance and information technology, important to an emerging market economy, but it is catching up. In higher education, the participation rate has increased from 10% in the Communist era to 33 per cent in the 2001/02 academic year, not far from West European standards. The state sector's activities have been complemented by the robust private sector, as both expanded to meet a rapid rise in demand. Of the 1.7 million student places in 2000/01, more than 500,000 were in private institutions, many of them business schools. The Constitution guarantees free higher education but in practice most students pay some fees. A system of cheap loans for student support was introduced in 1998.

The Constitution bans discrimination in political, social or economic life and the government tries to insure that those provisions are met. For example, the educational rights of the country's 50,000 Lithuanians are met to a satisfactory degree. However, according to the 2003 US Department of State Country Report on Poland, the country's 30,000-strong Roma community, officially classified as a national minority since 1998, face disproportionately high unemployment and was hit harder than ethnic Poles by economic changes. Both central and local authorities have embarked on programmes to assist the poorest Roma and, in particular, to increase the number of Roma completing secondary education, to help fight unemployment and improve health care and safety for Roma. Polish law prohibits trafficking in persons, but according to the same US report, the country is a source, transit point and destination for trafficked persons - primarily women and girls and, to a lesser extent, boys. According to the NGO, La Strada, 60 per cent of foreign women who work as prostitutes in the country are victims of trafficking.

Labour issues

The number of officially registered national-level trade unions is about 360. About 14 per cent of the total labour force is reported to be unionised. As a rule, newly established small and medium-sized firms are non-union, while union activity in most cases carried over into privatised (former state-owned) enterprises. Solidarity has a verified regular membership of nearly 1 million. The other principal national unions are those affiliated with OPZZ, the formerly Communist-aligned confederation established in 1984 as the sole legal alternative to the then-outlawed Solidarity. The OPZZ reports a membership of approximately 1.3 million. Trade unions continue to have significant support in the parliament and a high impact in state-owned companies; in many instances contributing to the slow pace of restructuring and privatisation of certain sectors including but not limited to the coal, railroad and chemicals.

ANNEX 2 – DETAILED ECONOMIC DEVELOPMENTS

Output and Employment

The economy grew 3.7 per cent in 2003, up from 1.4 per cent in 2002 and 1 per cent in 2001. GDP growth was driven by exports and private consumption. Gross fixed capital formation declined again, already for the third year in a row, but investments actually started growing in the second half of 2003. Retail trade, industrial production and exports were strengthening throughout 2003 and the construction sector has shown improvement from its earlier deep recession. The economy is expected to grow by approximately 4-5 per cent in 2004-5 provided that export growth remains strong and domestic demand improves on strengthening recovery in fixed capital formation. The economy may also get a short term boost by the abolishment of the remaining trade barriers in the enlarged EU, an inflow of EU funds focused mostly on infrastructure projects, expected at over €3 billion per year and equivalent to about 1.7 per cent of GDP, and an increase in foreign direct investment inflows. GDP growth will also be affected by the fiscal reform, although implementation of the bulk of necessary expenditure cuts is planned for 2005 at the earliest.

The registered unemployment rate has remained high and reached 20.6 per cent in January 2004. There is also large hidden unemployment in rural areas. The statistical office made significant ex post revisions to the unemployment rate in 2003, leading to an increase of approximately two percentage points due to a smaller labour force in the agricultural sector than originally estimated. Employment growth has been negative since 1998 and the labour force participation rate fell from 58 per cent at the beginning of 1998 to 55 per cent at the beginning of 2003 despite a large increase in new labour market entrants. In 2003 alone, employment in enterprises with 10 or more workers declined some 3.4 per cent. The implementation of legislative changes related to the labour market in 2002 was expected to lower the unemployment rate but there is little empirical evidence so far that this has happened. Substantial job creation is necessary to accommodate a large cohort of new labour market entrants and provide employment opportunities for workers released by restructured enterprises and agricultural sector.

Fiscal Policy and Public Debt

The general government deficit increased from about 6.7 per cent of GDP in 2002 to 6.9 per cent of GDP in 2003, according to the IMF. This increase was a result of slow economic growth and fiscal policy slippages. The latter reflects weak budget planning, an inefficient social security system and significant government support for struggling sectors of the economy (agriculture, mining, steel, shipbuilding, railways). Fiscal risks have been further increased by the government's continuing use of state guarantees. These are estimated at 3 per cent of GDP in 2003, compared with the stock of outstanding guarantees which already amounted to 4.2 per cent of GDP as of the end of 2002. The fiscal deficit is expected to increase further in 2004, on the basis of the approved budget, unless significant fiscal tightening is implemented. As a result, the public debt is likely to increase from a forecasted 51 per cent of GDP in 2003 to about 55 per cent of GDP in 2004. Current fiscal problems already resulted in an increase in yields on local government securities since the last quarter of 2003. In early 2004, the government started submitting to parliament the legislative proposals critical for implementation of the so called Hausner plan on stabilisation of public finances, a combination of expenditure cuts and revenue increases.

Fiscal developments pose a problem not only because the fiscal policy is not sustainable in the longer term but also because the Public Finance Act and the Constitution require the government to tighten the fiscal policy quickly if the thresholds of public debt to GDP (set at 50, 55 and 60 per cent) are exceeded. The Public Finance Act however uses a different definition of public debt than the EU methodology (ESA95). The difference between the Polish methodology (as defined in the Public Finance Act) and ESA95 results from the inclusion of State guarantees into the computation of public debt according to the Polish methodology. The public debt computed according to the Polish methodology is higher than following ESA 95. Fiscal data according to ESA 95 are also on accrual basis contrary to the cash basis used by the Polish authorities and the IMF. There is also uncertainty concerning the classification of the Polish open pension funds (OFE). So far, the Polish authorities include OFEs in the general government sector, which result in lower financing needs of the general government because the OFEs have a surplus representing approx. 1.6% of GDP. If Eurostat decides to exclude the OFEs from the general government sector, the deficit of 4.1% reported for 2003 in ESA 95 terms will have to be revised upward to 5.7%. The open pension funds detain Treasury securities amounting to 3.3% of GDP in 2003. The public debt ratio to GDP will have to be adequately increased by this amount if the open pension funds were to be excluded from the general government sector. The final Eurostat decision is expected to be taken before the fiscal reporting due by 1 September 2004.

Monetary and Exchange Rate Policy

Between November 2002 and September 2003 inflation has remained below 1 per cent on a year-on-year basis. However, in October 2003 consumer inflation increased to 1.3 per cent year on year and end-year inflation was 1.7 per cent and further increases are expected as a result of significant currency weakening, tax changes related to the EU accession, economic recovery and in the longer term convergence to the EU levels. The Monetary Policy Committee has cut interest rates by a quarter of a percentage point every month between January 2003 and June 2003 but since then headline interest rates stayed at 5.25 per cent. All members of the Monetary Policy Council, except the governor of the Central Bank, Leszek Balcerowicz, and one member appointed in mid-2003, were replaced in January and February 2004. Relations between the Central Bank and the government improved as the interest rates declined and the exchange rate weakened. However, in 2003 the government expressed its intention to use revaluation reserves, an accounting item arising from different exchange rate at which foreign exchange reserves of the Central Bank were acquired and the current exchange rate, to finance the fiscal deficit in 2004. This was criticised by both the Central Bank and EU authorities.

The Zloty depreciated steadily against the Euro in nominal terms by more than 25% between January 2002 and December 2003. While the Zloty has been freely floating since April 2000, the Zloty / Euro exchange rate has increased in importance given the eventual adoption of the Euro. However, the former basket of Euro and US$ is still followed by the financial markets and the impact of a significant Euro strengthening against the US$ has been partly reflected in the Zloty rate against the Euro. Zloty weakening has been also supported by increasing concern about the political will to implement fiscal reforms, lowering of the interest rate differential and the lack of significant foreign direct investment inflows. The government and the Central Bank are cooperating on identifying the strategy for adoption of the Euro, focusing on the achievement of fiscal stability prior to the EMU accession.

Balance of payments

The current account deficit on a cash basis declined to 1.9 per cent of GDP throughout 2003 from 3.6 per cent in 2002 and 7.5 per cent in 1999 as a result of strong export growth and restrained imports. Current account was in surplus in September and October 2003, partly due to the large surplus on the cross border trade prior to the introduction of visas for the citizens of neighbouring CIS countries. Cross border trade was worth over US$ 4 billion, equivalent to more than 2 per cent of GDP, in 2002, and increased further to almost US$ 7 billion in 2003. Significant Zloty depreciation over the last 24 months has improved competitiveness of Polish exporters who were able to increase their market share in the EU despite weak performance of the main EU countries. Import growth continues to be constrained by the weak domestic demand but is likely to increase in line with economic recovery. Trade with the countries of the enlarged European Union is expected to increase following the removal of customs barriers and tariffs. However, trade across Russian, Ukrainian and Belarusian borders will continue to be negatively affected by stricter border control and the recently introduced visa requirement.

Inflows of foreign direct investment declined sharply from US$ 6.9 billion in 2001 to US$ 3.7 billion in 2002 and further down to less than US$ 3.7 billion partly due to the stalled privatisation process and low competitiveness of the economy. Inflows of portfolio investments increased substantially, with government bonds attracting US$ 3.4 billion in 2002 compared to US$ 1.4 billion inflows a year earlier. In 2003, government bonds attracted a further US$ 4.6 billion. Increasing reliance of the zloty government bond market on foreign sources of finance has thus a potential to become a significant threat for macroeconomic stability.

External debt and foreign exchange reserves

The external debt has fluctuated around 40 per cent of GDP in the last four years as a result of volatility in the Euro / US$ exchange rate. Partly as a result of Euro strengthening the total external debt increased to 46 per cent of GDP in 2003. The share of public sector debt has been below fifty per cent of the total and the share of short term debt has been around a sixth of the total. The government was engaged in active debt management, refinancing existing foreign currency denominated debt while taking advantage of lower interest rates and longer maturities available on the local debt market. The share of foreign denominated public debt fell from over 25 per cent of the total public debt in 1999 to 16 per cent in 2003; (the share of foreign denominated debt of the State Treasury alone in the total debt of the State Treasury was approximately 34 per cent in 2003). Spreads on Polish sovereign issues remained low while spreads on local currency public debt increased substantially. As a result the government plans to increase the share of foreign currency financing in public sector borrowing. The government will also continue to increase its use of long term financing from the EU on favourable terms so it is expected that public external debt will start increasing from its current low level. External borrowing by the private sector will depend on the financial terms offered by foreign and local financing providers, with some local subsidiaries of multinational companies probably finding it advantageous to get loans abroad either from parent companies or from house banks of the parent companies while others benefit from high liquidity of the Polish banking sector agreeing good lending terms with local financial institutions. Foreign exchange reserves (excluding gold and reserve position at the IMF) remain high at US$ 32 billion at the end of 2003, equivalent to 6.5 months of imports of goods.

ANNEX 3 – SELECTED ECONOMIC INDICATORS

Poland

	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Estimate	*Projection*
Output and expenditure			*(Percentage change in real terms)*						
GDP	6.0	6.8	4.8	4.1	4.0	1.0	1.4	3.7	4.5
Private consumption	8.7	6.9	4.8	5.2	2.7	2.0	3.3	3.1	na
Public consumption	2.0	3.1	1.4	1.0	1.1	2.0	4.0	3.5	na
Gross fixed capital formation	19.7	21.7	14.2	6.8	2.7	-9.8	-5.8	-0.9	na
Exports of goods and services	12.5	9.9	11.0	1.0	17.5	8.0	5.0	6.0	na
Imports of goods and services	28.0	16.7	14.0	6.0	12.0	7.0	3.0	4.0	na
Industrial gross output	8.3	11.5	4.8	4.4	7.1	-0.5	2.0	8.7	na
Agricultural gross output	0.7	-0.2	5.9	-5.2	-5.6	5.8	-1.9	-1.4	na
Employment			*(Percentage change)*						
Labour force (end-year)	1.4	-2.7	1.4	1.9	-0.3	-0.4	-0.1	-3.4	na
Employment (end-year)	3.5	1.3	0.6	-1.2	-2.6	-3.1	-1.0	-4.5	na
			(In per cent of labour force)						
Unemployment (end-year)	13.2	10.3	10.4	13.1	15.1	17.4	18.1	20.0	na
Prices and wages			*(Percentage change)*						
Consumer prices (annual average)	19.9	14.9	11.8	7.3	10.1	5.5	1.7	0.7	2.2
Consumer prices (end-year)	18.5	13.2	8.6	9.8	8.5	3.6	0.8	1.7	2.4
Producer prices (annual average)	12.4	12.2	7.3	5.7	7.9	5.5	1.0	2.6	na
Producer prices (end-year)	11.2	11.5	4.9	8.1	5.7	5.0	2.2	3.7	na
Gross average monthly earnings in economy (annual average) [1]	26.5	21.5	16.7	10.6	11.4	8.0	3.5	2.9	na
Government sector [2]			*(In per cent of GDP)*						
General government balance	-3.3	-3.1	-3.2	-3.3	-3.5	-5.5	-6.7	-6.9	-7.6
General government expenditure	46.4	45.8	42.7	42.8	41.7	43.6	44.1	44.8	na
General government debt	51.2	49.8	42.9	44.2	41.2	43.7	46.0	50.6	na
Monetary sector			*(Percentage change)*						
Broad money (M2, end-year)	34.3	28.1	24.7	20.1	11.8	9.2	-2.6	5.6	na
Domestic credit (end-year)	50.6	34.7	27.4	27.2	13.6	9.2	5.3	8.9	na
			(In per cent of GDP)						
Broad money (M2, end-year)	38.6	40.3	40.4	43.7	42.2	43.8	41.6	42.0	na
Interest and exchange rates			*(In per cent per annum, end-year)*						
Rate on 28-day open market operations [3]	26.0	28.0	15.5	16.5	19.0	11.5	6.8	5.3	na
3-months WIBOR [4]	21.7	25.4	15.2	17.9	19.5	12.3	6.7	5.6	na
Deposit rate [5]	17.0	18.0	12.8	12.9	14.3	7.9	4.2	2.9	na
Lending rate	20.5	22.5	20.4	20.3	21.5	16.2	12.8	10.6	na
			(Zlotys per US dollar)						
Exchange rate (end-year)	2.9	3.5	3.5	4.2	4.3	4.0	3.9	3.8	na
Exchange rate (annual average)	2.7	3.3	3.5	4.0	4.3	4.1	4.1	3.9	na
External sector			*(In millions of US dollars)*						
Current account	-1,371	-4,312	-6,858	-11,569	-9,946	-7,166	-6,700	-3,972	-6,000
Trade balance	-8,179	-11,320	-13,720	-14,380	-13,168	-11,675	-10,352	-9,661	-12,000
Merchandise exports	24,453	27,229	30,122	26,347	28,256	30,275	32,945	42,916	45,000
Merchandise imports	32,632	38,549	43,842	40,727	41,424	41,950	43,297	52,577	57,000
Foreign direct investment, net	2,741	3,041	4,966	6,348	8,171	6,928	3,789	3,675	5,000
Gross reserves, excluding gold (end-year)	18,033	20,298	27,325	26,354	26,564	25,649	28,660	31,725	na
External debt stock	47,541	49,647	59,135	65,365	69,465	71,900	84,305	95,000	na
			(In months of imports of goods and services)						
Gross reserves, excluding gold (end-year)	6.0	5.8	6.8	6.9	6.8	6.6	7.1	6.5	na
			(In per cent of current account revenues, excluding transfers)						
Debt service	7.5	7.4	6.9	9.5	8.8	8.1	8.5	7.0	na
Memorandum items			*(Denominations as indicated)*						
Population (end-year, million)	38.6	38.7	38.7	38.7	38.6	38.6	38.3	38.3	na
GDP (in millions of zlotys)	362,800	445,100	553,560	615,115	712,322	749,311	769,426	804,700	859,155
GDP per capita (in US dollars)	3,483	3,511	4,096	4,011	4,241	4,739	4,924	5,402	na
Share of industry in GDP (in per cent)	27.1	28.1	28.1	28.2	29.0	28.6	28.8	30.1	na
Share of agriculture in GDP (in per cent)	4.0	3.7	3.8	3.4	3.1	3.2	3.1	3.0	na
Current account/GDP (in per cent)	-1.0	-3.2	-4.3	-7.5	-6.1	-3.9	-3.6	-1.9	-2.8
External debt - reserves (in US$ million)	29,508	29,349	31,810	39,011	42,901	46,251	55,645	63,275	na
External debt/GDP (in per cent)	35.3	36.6	37.3	42.2	42.4	39.3	44.7	45.9	na
External debt/exports of goods and services (in per cent)	170.8	160.4	175.0	220.4	218.6	209.8	228.2	198.6	na

[1] Gross wages are gross of income taxes.
[2] General government includes the state, municipalities and extra-budgetary funds. General government balance excludes privatisation receipts.
[3] Refinancing rate until 1997.
[4] The lowest rate offered on six-month time deposits.
[5] The lowest rate charged by commercial banks to prime borrowers.

ANNEX 4 - ENVIRONMENTAL ASSESSMENT

Poland has progressed in the implementation of the Second National Environmental Policy, strengthening policy instruments for environmental management, and co-operation on environmental issues of international concern. The Policy has been complemented by an executive programme for specific environmental sectors such as air and water quality, waste management, nature protection. This effort has also been strongly supported by the "Long-term strategy of permanent and sustainable development of Poland to 2025".

Poland's environmental management is founded on solid environmental institutions and competences. In recent years the country has moved towards decentralisation and shifting of responsibilities for environmental policy implementation and environmental management to territorial authorities. Poland's national Inspectorate for Environmental Protection is carrying out inspection and enforcement duties. Expenditure on pollution abatement and control has largely been financed by high pollution charges and fines (e.g. for air pollution) redistributed through the National Fund for Environmental Protection and Water Management and a number of other environment funds operating at regional and local levels. Poland expanded its use of economic instruments significantly to implement environmental policy and to recover the operational costs of environmental services (e.g. drinking water supply, waste water treatment).

The EC's *Regular Report on Poland's Progress Towards Accession 2002* states that Poland has achieved considerable alignment with the EC environmental *acquis*, although it still needs to adopt a large number of ministerial regulations in order to complete transposition of EU Directives into national legislation in practically all areas. This is particularly the case for air quality directives, water-related directives, chemicals, Integrated Pollution Prevention and Control, some waste directives (packaging waste, landfills). *2003 OECD Environmental Performance Review* for Poland underlines that priority environmental issues for the country include pollution prevention, waste water treatment, waste management, biodiversity and landscape conservation, and climate protection. To meet these challenges, Poland will need to: i) expand its environmental infrastructure (e.g. for waste and waste water treatment) and continue implementing its environmental policies; ii) further integrate environmental concerns into economic and social decisions; and iii) reinforce its international co-operation on environmental issues.

Poland has strengthened its international commitments in a global context. During the "Environment for Europe" Ministerial Conference in May 2003 Poland has signed two protocols – Protocol on Strategic Environmental Assessment and Protocol on Pollutant Release and Transfer Registers. The country has updated its legal framework for transfrontier shipments of hazardous waste to be consistent with the Basel convention, as well as strengthened and expanded its enforcement capacity. Poland has also completed the ratification process of the United Nations Framework Convention on Climate Change and its Kyoto Protocol in 2002. The country presents a very good potential for implementation of Kyoto flexible mechanisms and for developing new projects in the field of energy efficiency. In line with the Aarhus Convention, legal bases have been established for access to environmental information and to the courts.

Poland made considerable progress lately by introducing new regulations in waste management and nature protection areas. The country has continued to carry out some capacity building and training actions to develop its administrative capacity in the field of the environment on the national and regional levels. Poland continues to make significant investments in the field of the environment, however, it still needs to apply more efforts to establish comprehensive investment strategies which would improve investment efficiency by focusing the available resources on implementing the requirements of the EU environmental *acquis*.

The Bank's environmental approach for Poland reflects the country's advanced stage of economic development and the Bank's extensive project portfolio as well as addresses Poland's key environmental concerns. It focuses on further improving specific environmental management areas through EBRD's projects in line with the EU *acquis* process. The Bank continues to be strongly involved in municipal environmental issues through municipal environmental infrastructure and energy efficiency projects as well as identifying environmental opportunities in projects in the industrial, financial, transport and property sectors through environmental action plans and/or technical co-operation activities. The Bank will continue to promote urban regeneration by incorporating appropriate use of brown-field sites, the use of sustainable building materials, energy efficiency, waste management and recycling. Improving water quality in municipal environmental infrastructure sector will continue to be a priority. In the area of energy and power Poland has great opportunities to further enhance its energy efficiency both in public and private spheres, which could result in significant environmental benefits including the reduction of greenhouse gas emissions.

In the financial sector, EBRD conducts environmental due diligence training for Polish financial intermediaries (FIs) under the EU/EBRD SME Facility. In the past, some 14 financial intermediaries have been trained by the EBRD in the implementation of the environmental procedures, including recently the Raiffeisen Bank Polska. The training ensures that the Bank's FIs are capable of implementing environmental due diligence procedures which are incorporated into the FI's credit/investment appraisal process. The Bank will continue to provide such training to the EBRD's new partner financial institutions.

EBRD efforts are complemented by those of other IFIs and international organisations including strong links with the European Commission, the European Investment Bank (EIB), the World Bank and Global Environmental Facility (GEF). The Bank will continue to co-operate with other institutions and donor countries to enhance environmental improvements in Poland. The EC has been providing pre-accession ISPA funds, which supported transport and environment projects, wastewater treatment and waste management projects. The World Bank is addressing issues of solid waste management, energy efficiency and renewable energy, as well as rural water supply and sanitation. Energy efficiency and railway restructuring issues have been addressed under the GEF.

ANNEX 5 – LEGAL TRANSITION

Operational environment

Legal Environment

Poland is a parliamentary democracy where separation of powers and independence of the judiciary are recognised. Although the judiciary is legally independent, major deficiencies exist regarding training, poor administration and resources for the courts as well as the length of proceedings and successful enforcement of judgements. In the criminal courts, delays in the administration of justice and long periods of detention pending trial are common grounds for complaint to the European Court of Human Rights in Strasbourg. Otherwise, as regards personal freedoms and human rights, Poland is viewed as one of the best performing transition countries, which positively affects the economic and legal reforms in the country.

The alignment of Polish law with that of the EU prior to Poland's accession to the European Union appears to be progressing well in many areas. The Comprehensive Monitoring Report from the European Commission on Poland's Preparation for Membership, published in November 2003, confirms that Poland has reached a high level of alignment to the acquis communautaire and identifies those areas in which significant progress has been made. Notably, progress has been made in the insolvency area of law with a new insolvency law that updates the bankruptcy and liquidation framework to the requirements of a modern market economy. Also, Poland has enacted new laws on data protection and two Acts of Parliament on state aid.

In general Poland is expected to be in position to fully implement the acquis in many areas, including, e.g. most areas relating to free movement of goods; free movement of workers and co-ordination of social security systems; capital movements and payments; company law and accounting; and anti-competition. Ironically, the rapid adoption of numerous laws to accommodate accession requirements has led to complaints of "law inflation"; i.e., the enactment of so many new laws that there is confusion among the legal profession and the public. There have even been calls for a new public body to help implement the laws and reduce possible overlap and contradiction.

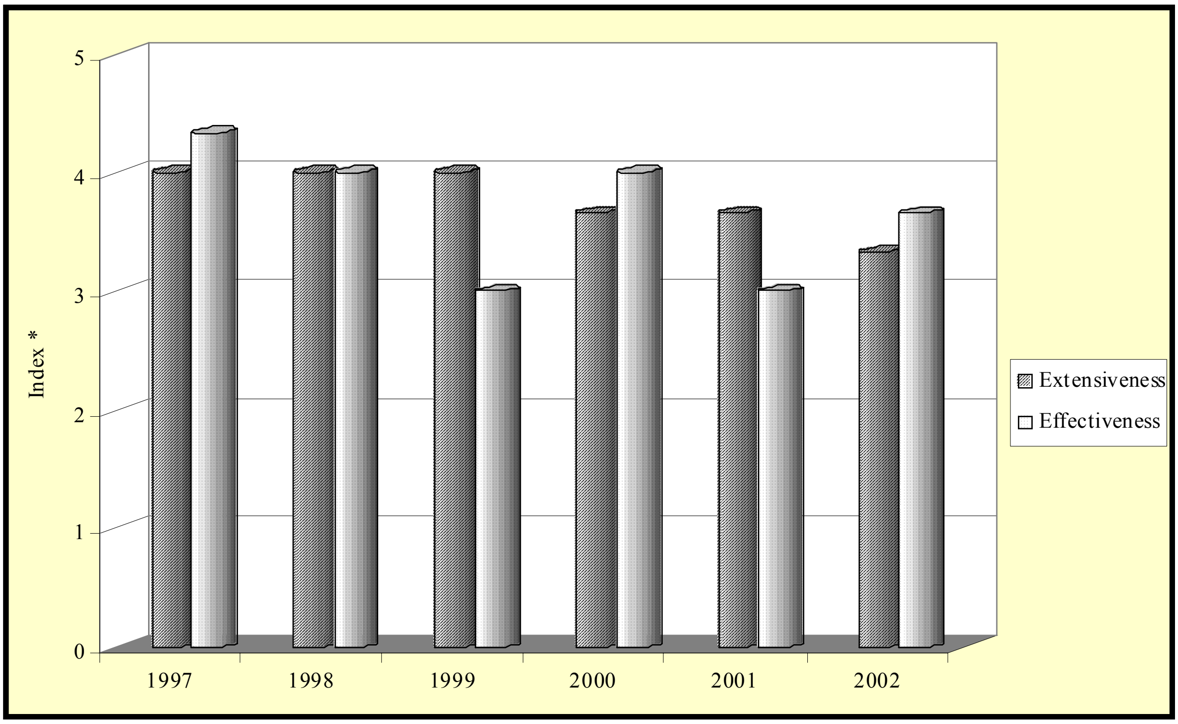
Despite the number of new laws, the report also indicates those areas in which preparations have only partially met the commitments and requirements (some areas of free movement of goods; public procurement; and non-financial services) as well as those in which immediate action is required or which are the subject of serious concern. It refers, for example, to free movement of people and in particular recognition of qualifications in certain medical professions. It also refers to agriculture and specifically to the establishment of paying agents with regard to the IACS system, veterinary and phytosanitary control and issues concerning fisheries.

An overall assessment of the commercial law reveals that Poland has developed a legal system comparable, to a limited extent, to international standards. Little has been done to defeat corruption, which attracts public and media attention and has become one of the obstacles to the development of the economy. Efforts also have to be made to improve the efficiency and transparency of the judiciary, with particular attention to organizing a system of legal aid as well as improving the operation of the land registry system.

COMPARATIVE ASSESSMENT OF POLANDS'S COMMERCIAL LAW

Assessment Over Time

Extensiveness and Effectiveness of Poland's Commercial Law[2]



Source: OGC Legal Indicator Surveys; 1997 - 2002
**Note:* Indicators along the y axis range from 1 (little progress) to 5 (substantial progress)

According to the annual EBRD Legal Indicator Surveys conducted since 1997, Polish commercial laws have been perceived by local lawyers as relatively sound. The slight decrease in perceived effectiveness over the last three years might be attributable to higher expectations among the legal community as to the level of sophistication of modern laws in an EU accession candidate country.

Situation in Other Transition Countries

Based on the 2002 EBRD Legal Indicator Survey, which measured the perceptions of lawyers and other legal practitioners familiar with Polish law, the commercial and financial laws of Poland can only be characterised as being on par with those of Latvia, the Slovak Republic and Slovenia.

[2] 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). The survey is based purely on local lawyers' perception of their own country legislation and does not represent EBRD's own view on these legal systems. In addition, it must be noted that each respondent is asked to answer the questionnaire for his/her country only, and not on a comparative basis.

Legal Sector Assessment

Bankruptcy

A new Bankruptcy Law (the "Bankruptcy Law") entered into force in October 2003, replacing an old law that dated back to 1934 and was largely inadequate and detrimental to the rights of creditors. It is expected that the new Bankruptcy Law will have a noteworthy impact on different areas of business in Poland.

Under the Bankruptcy Law, a debtor may be declared bankrupt as soon as he becomes insolvent. The Bankruptcy Law, however, excludes from immediate bankruptcy action a debtor whose failure to perform his obligations has existed for less than three months or whose defaulted obligations do not represent more than 10% of the book value of the debtor's assets. As an additional threshold test, proceedings under the Bankruptcy Law can be commenced only if creditors file petitions to the court for payment. If these tests are met, a bankruptcy action may be brought against any entity that manages an "enterprise". This is interpreted to cover individuals and legal entities. However, under the Bankruptcy Law, the State Treasury, local government units, independent health care institutions, certain entities created by a legal act, universities and farmers cannot be declared bankrupt.

The new Bankruptcy Law contains state-of-the-art provisions relating to the bankrupt debtor's obligations concerning the delivery up and safeguarding of assets, as well as the provision of information and the avoidance of pre-bankruptcy transactions. In that sense, the new Bankruptcy Law represents huge progress over the antiquated 1934 law. There remain however some specific issues which will require further attention under the new legal regime. These include: (i) absence of any provisions for ongoing financing in a reorganisation; (ii) absence of clear provision regarding the effect of a liquidation on claims of creditors; (iii) absence of sanctions for the breach/disregard of the requirements of the law; (iv) absence of clear statements regarding the effects of the opening of a proceeding on secured creditors.

The Bank has assisted the Polish Ministry of Justice in organising training of judges and insolvency practitioners on the new Bankruptcy Law during the year 2003 (see Section "Legal Reform Projects" at the end of this Annex).

Capital Markets

The primary legislation governing the Polish securities market include the Law on the Public Trading of Securities of 1997 ("LPTS", last amended in 2002), the Act on Investment Funds of 1997 (last amended in 2000) and the Act on Bonds of 1995 (last amended in 2001). Additional legislation is under preparation which will further adjust Polish capital markets legislation to Western practice. The Polish Securities and Exchange Commission ("PSEC") has been operational since 1991. The Chairman of the PSEC is appointed by the Prime Minister upon the joint request of the Minister of Finance and the President of the National Bank of Poland, with due consideration to be given to opinions expressed by appropriate Parliamentary committees. The regulatory responsibilities of the PSEC include: supervising the observance of fair trading and competition rules in public trading; ensuring that universal access to accurate information on the securities market is available; protecting investors' interests; and drafting acts concerning the securities market for legislative approval. The LPTS has extended the competence of the PSEC to supervise the commodity exchanges. The LPTS also includes extensive provisions regarding acquisition of large shareholdings in public companies. It regulates disclosure obligations, consent requirements, and requirements regarding the announcement of tenders. In this regard, it is worthy of noting that the LPTS provides for a concept of parties acting in concert, who are subject to all the relevant obligations concerning information disclosure and tender offers.

The Warsaw Stock Exchange ("WSE") was opened in April 1991 and the OTC market – Centralna Tabela Ofert ("CETO") was established in 1996. In order to be traded on the WSE, securities need to be admitted for public trading by PSEC and then approved for listing by the board of the WSE. All securities admitted to public trading are registered as book-entries in the National Depository of Securities ("NDS"), which is an independent joint-stock company and whose shares are held by the Ministry of the State Treasury, the National Bank of Poland, brokerage houses, investment funds, and banks. The NDS also runs the Mandatory Guarantee Fund, which was established for the purpose of protecting investors from financial losses in the event of bankruptcy of a brokerage house.

Regarding the Polish insurance sector, the relevant legal framework is provided by the Insurance Act of 1990, which was substantially amended in 1995. Insurance and reinsurance services may be provided only after the approval of the Minister of Finance, who has the power to issue and revoke an insurance licence. Insurance companies are obliged to distinguish between life insurance and other types of insurance. The only permitted legal forms for conducting insurance activity are the joint-stock company and the mutual insurance company. The insurance sector in Poland is supervised by the Insurance and Pension Funds Supervisory Office, which was created on 1 April 2002.

Company Law and Corporate Governance

A key legislation regulating corporate governance issues in Poland is the Commercial Companies Code of 2000 (the "Companies Code"), which replaced a similar code promulgated in 1934. The limited liability company (Sp. z o.o.) and the joint-stock company (S.A.) are the two main corporate forms. There are two major differences between these two types of companies. One is that the share capital in joint-stock companies ("JSC"s) may be raised by public subscription whereas limited liability companies may not engage in public offering of shares. Secondly, shares in JSCs are issued in the form of share certificates, while limited liability companies are prohibited from doing so.

According to the Companies Code, the minimum capital amount required to establish a JSC is PLN 500,000, which was increased from PLN 100,000 under the old Code. For existing JSCs, they have been given until 31 December 2005 to increase their respective capital. For a newly established company, a registration must be made with the National Court Register ("NRC") in order to complete its formation and obtain its legal personality. The NCR is a central nation-wide electronic database created under new National Court Registry Act, which came into force on 1 January 2001. For a JSC, the company is managed by a management board and by shareholders through resolutions adopted at shareholders' meetings. In addition, a JSC must have a supervisory board, the members of which are elected by the shareholders and whose main function is to oversee the management of the company.

Under the Companies Code, a JSC is prohibited from providing financial assistance in connection with transactions to acquire shares issued by the company itself. The purpose of such a restriction is to prevent investors from taking control over a company using the company's own resources. On the other hand, pursuant to the Companies Code, companies having met certain financial conditions are permitted to make advance payments of dividend if the company charter so authorises and if the company's supervisory board so approves. In addition, the concept of the compulsory buy-out, under certain conditions, of shares held by minority shareholders holding less than 5% of the share capital in a company is introduced. This, however, does not apply to companies whose shares are traded on stock exchanges. There are also certain restrictions as to squeezing out employee shareholders and the State Treasury in companies created in the process of privatisation of state-owned enterprises, under the Privatisation Law.

According to the 2002 results of the EBRD's Corporate Governance Sector Assessment Project, Poland is a country where its current corporate governance related laws (i.e., "law on the books", not how the relevant legislation is being implemented) when compared to the OECD Principles of Corporate Governance were assessed as relatively sound in the region where the Bank operates. However, despite the good "law on the books", continuing efforts still need to be made by the country to ensure that good legal institutions are transformed into good practices in Polish companies.

Concessions

Concession rules in Poland are set forth in several acts. Current laws that could be used to attract private sector participation to public infrastructure projects include the Act on Public Procurement, the Act on Public Finance, and the Act on Motorway Construction and Operation.

In addition, the Law on Commercial Activities enacted in 2000 sets forth procedural rules for obtaining permits. This law also introduces requirements for concessions for eight types of commercial activities: geology and mining; manufacturing and trading in arms, ammunitions, explosives, and technology and goods for the police or military; power and petrol industry; bodyguard and property protection services; air transport and other air services; building and exploitation of toll highways; management of railways and railway transport; television and radio broadcasting. Most of the activities that were previously subject to a concession are now only under the requirement of obtaining a permit.

Under Polish law if the number of parties/candidates interested in obtaining a concession is greater than the number of concessions that can be issued, the licensing body must commence an administrative trial. This trial can be more advantageous to entrepreneurs than a tender, because, for example, the candidates have an opportunity to demonstrate before the administrative body why they are the best candidates.

The government has long ago recognised the need for a new piece of primary legislation to support private sector participation. For example, a Law on State Licensing and Concessions was drafted and approved by the Parliament, but vetoed by the President on the basis that it would have retroactively applied new obligations on existing contracts. In addition, the Government has approved the drafting of a new Act on Public-Private Partnership. Recent developments confirm that the Polish government has affirmed its intention to develop Public-Private Partnership ("PPP") schemes.

As an indication of the increased interest by the Polish authorities in the potential for PPP (particularly in transport infrastructure projects), the Polish Government established an inter-ministerial Task Group in March 2003. This Group is led by Deputy Prime Minister and Minister of the Economy and consists of representatives from the Ministry of the Economy, the Ministry of Infrastructure, the Ministry of Finance, the Office for Public Procurement and the Head of the Government Office for EU Integration. In addition, the Ministry of the Infrastructure has established an internal PPP section to examine PPP issues.

Secured Transactions

The legal regime for security over movable assets has not changed during the last two years. There is some (increasing) evidence that the system is not working as well as it should be, and that there is a great scope for improvement.

Two types of pledge over movable property are possible under Polish law: the "classical" pledge which requires the debtor to release possession of the collateral (governed solely by the Civil Code), and the registered pledge (governed by the Pledge Law of 1996 and the Civil Code) which is registered and in most cases will enable the debtor to carry on using the collateral while the creditor has a publicised right over the assets. Although at the time of its introduction, the Pledge Law substantially improved the legal framework for security over movable property, some serious shortcomings have appeared over the years.

One major shortcoming is that complications and significant delays occur in the registration process. Commercial Courts, which are in charge of the registration of security rights, are notoriously slow in processing applications. The judge will check whether the application is properly compiled prior to filing the application. In practice, applications are often rejected for formalistic or technical reasons, and there is no consistent practice among courts. The recent statistics provided by the Ministry of Justice show that, even though some progress has been recorded over the last years, the process can take several weeks. It is reported that in practice, a transaction can be put on hold for long period of time waiting for the creditor's right to be perfected. Parties sometimes opt to transfer to the creditor the ownership of the collateral assets by way of security, and then redeem such title. This technique is costly and its validity is legally uncertain.

Another major shortcoming relates to enforcement of the security. In a survey conducted by the Bank in summer 2003, Poland was considered as the least efficient of all countries in Central Europe and the Baltic States in terms of the return that the creditor could expect, the time involved and the simplicity of the process. The main reason for such a poor performance was again the lack of competent commercial courts to handle the case swiftly. Judicial enforcement is the general practice for the enforcement of registered pledges although the pledge law provided for some cases of self-help and out-of-court enforcement.

Despite the Bank's attempts to discuss with the Ministry of Justice how the secured transactions regime could be improved, no interest has been shown by the Ministry of Justice, or indeed by the Polish Government as a whole.

Telecommunications

The telecommunications sector in Poland is currently regulated by the Post and Telecommunications Regulations Office ("URTiP") and the Ministry of Post and Telecommunications ("MPT"), and is governed by the Telecommunications Act of 2000, as amended. URTiP replaced the Telecommunications Regulatory Office in March 2002 and assumed responsibility for implementation of the regulatory framework in line with European Union ("EU") accession requirements. The agency's responsibilities include allocation of frequencies and supervision of electromagnetic compatibility compliance. MPT retains responsibility for strategic policymaking within the sector.

The Polish telecommunications market was fully liberalised at the beginning of 2003. Prior to this, a gradual liberalisation process had been attempted, but meaningful competition against the incumbent, TPSA, was quite difficult. Full liberalisation has made it more feasible to offer competitive services and a number of new providers have launched services since then. However, only full implementation of all the necessary regulatory provisions on a timely manner will enable meaningful competition within the Polish telecommunications sector.

Sector legislation in Poland has been amended in an effort to bring it in line with the original telecommunications EU acquis. However, many instruments necessary to implement the contents of the framework legislation still await adoption. In addition, work is also needed on transposition of the more recent 2003 EU telecommunications regulatory package. Particular areas requiring attention are universal service and interconnection. Further, a workable regime for local loop unbundling (competitor access to its "last mile" infrastructure) requires implementation. Other key liberalising measures, such as carrier selection/pre-selection, cost-oriented tariffs and re-balancing require speedy implementation. Network modernisation, to facilitate digitisation necessary to host carrier selection/pre-selection, should also continue apace.

Poland's expected accession to the EU in May 2004 will necessitate full harmonisation of its telecommunications laws with EU acquis by that time. Implementing measures should be completed as a matter of urgency, with particular attention being paid to implementation of a modern workable interconnection regime. Further, while administrative and institutional structures necessary for implementing the envisaged regime are in place, capacity and resources thereof require further strengthening.

Legal Reform Projects

Bankruptcy Legal Reform

The EBRD, at the request of the Ministry of Justice, has designed a legal technical assistance to facilitate understanding of the new Bankruptcy Law coming into effect on 1 October 2003 through training and education programmes. Seven training seminars were held during the year 2003 in various cities of Poland. They were attended by judges and insolvency practitioners, who had a chance to become familiar with the new law, its philosophy, and to participate in practical case studies developed by the organisers. The project also included the preparation of a commentary on the new law.

ANNEX 6 – BILLATERAL ASSISTANCE: TC FUNDS AND TAM PROGRAMME

TECHNICAL COOPERATION FUNDS PROGRAMME
(in EUR million as at 31 December 2003)

Commitment Number	Commitment Name	Stage	Sector	Euro Committed	Euro Disbursed	Linked to Inv.	TC OPID	Approved Date
DEN-1993-05-03	Polish Power Grid Company - finalisation of feasibility study of Bielsko-Biała coal-fired power station	Closed	Energy	184,094	184,094	Y	634	18/05/93
DEN-1994-08-02	Bielsko-Biała project implementation unit	Closed	Energy	154,728	154,728	Y	1782	15/08/94
EC-1992-04-06	Warsaw public transport study	Closed	Transport, Storage	235,359	235,359	Y	902	10/04/92
EC-1992-06-18	Housing sector reform (public institutions)	Closed	Construction	378,614	378,614	Y	629	20/06/92
EC-1992-09-38	Łódź waste water treatment plant	Closed	Energy	171,821	171,821	Y	625	15/09/92
EC-1993-08-36	Polish Power Grid Company - development of information system for commercial management	Closed	Energy	441,802	441,802	Y	905	20/08/93
ECP98-99-03-55	Polish dairy facility - advisor	Closed	Finance, Business	181,196	181,196	Y	6293	16/03/99
ECP99-2001-10-97	Polish dairy facility - advisor	Closed	Finance, Business	63,169	63,169	Y	6293	31/10/01
FIN-1995-04-02	Mass Privatisation Programme equity facility - Grajewo	Closed	Finance, Business	39,524	39,524	Y	2316	19/04/95
FIN-1995-12-06	Mass Privatisation Programme equity facility - Grajewo	Closed	Manufacturi ng	36,174	36,174	Y	2427	30/11/95
FIN-1999-03-04	Wrocław MPEC - EBRD company and project assessment	Closed	Energy	48,513	48,513	Y	5891	29/03/99
FRA-1991-05-01	Privatisation - mutual fund	Closed	Finance, Business	31,746	31,746	N	5337	26/08/91
FRA-1991-11-03	Polish Social Protection	Closed	Community/ Social Services	53,357	53,357	N	562	28/11/91
GER-1993-11-10	Strategy for privatisation of Bielsko-Biała CHP Station	Closed	Energy	104,102	104,102	Y	624	08/11/93
GER-1994-06-06	Financial and Business Advisory Services to Fabryk Mebli Giętych	Closed	Manufacturi ng	29,636	29,636	Y	1344	07/06/94
HOL-1992-07-06	Wrocław wastewater treatment plant - update feasibility study	Closed	Energy	23,463	23,463	N	730	01/07/92
HOL-1996-01-01	Mass Privatisation Programme equity facility enterprise due diligence - Krotoszyn	Closed	Finance, Business	72,567	72,567	Y	2316	09/01/96
ITA-1995-05-04	Mass Privatisation Programme equity facility - Stilon	Closed	Manufacturi ng	6,635	6,635	Y	2424	03/05/95
ITA-1995-07-05	Mass Privatisation Programme equity facility enterprise due diligence - Wrozamet S.A.	Closed	Finance, Business	45,891	45,891	Y	2316	27/06/95
JAP-1994-02-05	BOT legal restructuring - Łódź environmental project	Closed	Community/ Social Services	38,054	38,054	Y	901	08/02/94
NOR-1995-01-01	National investment funds - environmental training	Closed	Finance, Business	58,016	58,016	Y	1787	01/01/95
SWE-1994-11-05	Bielsko-Biała co-generation plant - commercial accounting system	Closed	Energy	159,652	159,652	Y	2067	25/10/94
TAI-1992-02-19	Deposit insurance system	Closed	Finance, Business	159,897	159,897	N	632	01/02/92
UKC-1995-01-01	National investment funds - legal due diligence	Closed	Finance, Business	64,633	64,633	Y	2271	03/11/95
UKC-1995-04-11	Mass Privatisation Programme equity facility - Fabryka Mebli Giętych	Closed	Manufacturi ng	33,337	33,337	Y	2420	24/05/95
UKC-1995-04-12	Mass Privatisation Programme equity facility - Stilon	Closed	Finance, Business	7,924	7,924	Y	2316	01/04/95

Commitment Number	Commitment Name	Stage	Sector	Euro Committed	Euro Disbursed	Linked to Inv.	TC OPID	Approved Date
UKC-1995-05-16	Mass Privatisation Programme equity facility - environmental due diligence - Wrozamet, Grajewo, FMG	Closed	Agriculture, Forestry, Fishing	30,044	30,044	Y	2426	24/05/95
UKC-1995-09-21	Mass Privatisation Programme equity facility - Srubena due diligence and environmental audit	Closed	Finance, Business	50,829	50,829	Y	2316	30/08/95
UKC-1996-02-04	Mass Privatisation Programme equity facility environmental audit and appraisal - Krotoszyn	Closed	Community/ Social Services	10,417	10,417	Y	5312	21/02/96
UKC-1996-03-06	Mass Privatisation Programme equity facility - Grajewo - due diligence	Closed	Finance, Business	3,242	3,242	Y	2316	11/03/96
UKC-1996-03-07	Mass Privatisation Programme equity facility - Zaklady Plyt Wiorowych 'Grajewo' - environmental due diligence	Closed	Community/ Social Services	1,342	1,342	Y	5313	13/03/96
UKC-1996-04-10	Mass Privatisation Programme equity facility - Srubena S.A. equity investment - due diligence	Closed	Finance, Business	2,806	2,806	Y	2316	01/04/96
UKC-1996-04-11	Mass Privatisation Programme equity facility - Krotoszyn S.A. equity investment - due diligence	Closed	Community/ Social Services	4,144	4,144	Y	5315	01/04/96
UKC-1996-04-12	Mass Privatisation Programme equity facility - Srubena due diligence and environmental audit (extension)	Closed	Community/ Social Services	23,358	23,358	Y	5316	01/04/96
UKC-1998-08-04	Polish Dairy Facility	Closed	Manufacturi ng	43,544	43,544	Y	4526	28/08/98
UKE-2001-01-05	Poland: Securitisation of Impaired ZUS receivables - Feasibility Study	Closed	Community/ Social Services	196,350	196,350	Y	16221	19/01/01
AUS-1999-12-03	Power Supply Curves for the Period 1999-2020	Closed	Energy	47,690	47,690	Y	5814	21/12/99
CAN-1992-10-02	Black Triangle gas conversion project	Closed	Energy	27,569	27,569	Y	1443	29/09/92
GERK-1999-07-03	Consultation Services for Privatisation of Bogdanka Mine	Closed	Energy	48,526	48,526	Y	5814	13/07/99
JAP-1993-08-32	Polish power grid company - bulk power purchase contracting in a competitive market	Closed	Energy	180,249	180,249	Y	1358	01/08/93
SPA-2002-10-02	PSE Securitisation	Disbursin g	Energy	180,000	180,000	Y	29127	03/10/02
UKC-1995-04-07	Energy efficiency project development	Closed	Energy	139,227	139,227	N	2351	10/04/95
USA-1999-03-01	Energy efficiency transaction development in Poland	Closed	Energy	62,084	62,084	Y	5891	30/03/99
EC-1993-05-16	Polish Special Restructuring Programme - legal, tax framework and financial controls development	Closed	Finance, Business	376,000	376,000	Y	1493	20/05/93
EC-1993-07-22	Polish Special Restructuring Programme - co-ordination	Closed	Finance, Business	92,319	92,319	Y	5706	20/07/93
EC-1993-07-23	Polish Special Restructuring Programme - co-ordination	Closed	Finance, Business	41,700	41,700	Y	5706	20/07/93
ECP-1995-08-21	Polish Special Restructuring Programme - interim management extension (Balfour)	Closed	Finance, Business	49,500	49,500	Y	2642	01/08/95
ECP-1995-08-22	Polish Special Restructuring Programme - interim management extension (Schwarz)	Closed	Finance, Business	49,724	49,724	Y	2642	01/08/95
ECP97-98-04-61	BGŻ pre-privatisation Technical Commitment part A - financial due diligence	Closed	Finance, Business	460,033	460,033	Y	5044	07/04/98
ECP98-98-08-18	BGŻ Pre-Privatisation	Closed	Finance, Business	2,917,524	2,917,524	Y	5044	26/08/98
ECP99-2001-12-105	BGŻ Pre-Privatisation	Closed	Finance, Business	188,050	188,050	Y	5044	18/12/01

Commitment Number	Commitment Name	Stage	Sector	Euro Committed	Euro Disbursed	Linked to Inv.	TC OPID	Approved Date
ECP99-2001-12-106	BGŻ Pre-Privatisation	Closed	Finance, Business	595,043	595,043	Y	5044	18/12/01
EUPSR-97-04-01	Polish Special Restructuring Programme - legal advisory services	Closed	Finance, Business	49,600	49,600	Y	5418	01/04/97
EUPSR-97-09-02	Framework contract (A)	Closed	Finance, Business	180,266	180,266	Y	5417	24/09/97
EUPSR-98-04-01	Polish Special Restructuring Programme - framework contract (B) - legal services	Closed	Finance, Business	127,243	127,243	Y	5640	21/04/98
EUPSR-98-04-03	Polish Special Restructuring Programme - framework contract (B) - legal advice	Closed	Finance, Business	37,768	37,768	Y	5419	21/04/98
EUPSR-98-08-04	Polish Special Restructuring Programme - legal advice	Closed	Finance, Business	33,768	33,768	Y	5419	27/08/98
EUPSR-98-10-05	Commercial services	Closed	Finance, Business	48,400	48,400	Y	5420	07/10/98
EUPSR-98-10-06	Polish Special Restructuring Programme - environmental analysis	Closed	Finance, Business	30,813	30,813	Y	5420	12/10/98
EUPSR-98-10-07	Polish Special Restructuring Programme - financial analysis	Closed	Finance, Business	39,597	39,597	Y	5420	12/10/98
EUPSR-99-05-01	Polish Special Restructuring Programme - initial review	Closed	Finance, Business	3,557	3,557	Y	5420	21/05/99
EUSM-2003-12-18F	EU/EBRD SME Finance Fac. Special Fund - Leasing Expansion (EU2002)	Committed	Finance, Business	840,000	0	N	28113	31/12/03
GER-1995-03-02	Polish Special Restructuring Programme - initial implementation phase	Closed	Finance, Business	45,505	45,505	Y	2305	20/03/95
TAI-1992-07-45	Enterprise restructuring and rehabilitation	Closed	Finance, Business	204,755	204,755	Y	1493	01/07/92
UKC-1995-03-05	Polish Special Restructuring Programme - initial implementation phase	Closed	Finance, Business	42,131	42,131	Y	2305	08/02/95
UKC-1999-06-06	PZU Limited actuarial due diligence	Closed	Finance, Business	32,195	32,195	Y	6439	04/06/99
CAN-2001-09-01	Łódź Municipal ESCO - Project Preparation	Disbursing	Energy	116,000	90,752	Y	19342	24/09/01
DEN-1997-08-01F	Municipal infrastructure flood damage repair	Closed	Energy	406,595	406,595	Y	4552	01/08/97
DEN-2001-07-08	Sopot Traffic Management Improvement Project - detailed feasibility and project preparation	Closed	Construction	154,414	154,414	Y	11685	18/07/01
DEN-2002-09-02	City of Gliwice Multi-Sector Municipal Investment Programme	Committed	Energy	155,000	61,539	Y	20158	27/09/02
EC-1992-12-50	Motorway development programme	Closed	Transport, Storage	999,848	999,848	Y	1620	20/12/92
EC-1992-12-51	Gdynia environmental project - wastewater and collection study	Closed	Energy	99,720	99,720	Y	722	20/12/92
EC-1992-12-52	Gdańsk environmental project - industrial wastewater inventory	Closed	Energy	59,290	59,290	Y	728	20/12/92
ECP2000-2001-12-17	Preparation for Privatisation of SKM and WKD	Committed	Transport, Storage	448,171	3,538	Y	8839	05/12/01
ECP2000-2002-02-19	Bydgoszcz Corporate Development Programme	Committed	Energy	488,695	279,360	Y	15797	22/02/02
ECP2000-2002-06-01	Preparation of a Private Sector Road Network Mgmt Project	Disbursing	Construction	993,330	610,541	Y	9903	14/06/02
ECP2000-2002-06-02	Polish SMMEIF- Project Structure Development Support	Disbursing	Energy	588,000	215,329	Y	21023	20/06/02
ECP2000-2002-06-03	Polish SMMEIF-Structure & Implementation Support	Disbursing	Energy	455,000	271,833	Y	21023	27/06/02
ECP2000-2002-06-05	Gdańsk Urban Transport - Restructuring & Project Implementation	Disbursing	Transport, Storage	971,983	329,028	Y	24413	28/06/02

Commitment Number	Commitment Name	Stage	Sector	Euro Committed	Euro Disbursed	Linked to Inv.	TC OPID	Approved Date
ECP2000-2002-06-06	Gdańsk Urban Transport - Creditworthiness Enhancement Programme	Committed	Transport, Storage	576,270	204,910	Y	24573	28/06/02
ECP2000-2002-12-02	Development of Public Passenger Rail Services in the Lower Silesia Province (Dolny Slask Voivodship)	Committed	Transport, Storage	597,083	106,920	Y	28269	12/12/02
ECP2000-2002-12-06	Warsaw Metro & Public Private Partnership Task Force Support	Disbursing	CEALs,CoFinancing Lines & RVF's	1,486,196	258,648	Y	26228	18/12/02
ECP2000-2002-12-11	Krakow Efficiency Enhancement Programme	Disbursing	Finance, Business	495,434	83,836	Y	18638	19/12/02
ECP96-96-11-28	Municipal private-public partnership - Phase I	Closed	Energy	521,640	521,640	Y	3792	27/11/96
ECP96-97-09-66	Krakow urban transport project - feasibility studies and municipal finance analysis	Closed	Manufacturing	715,765	715,765	Y	4420	01/09/97
ECP97-98-09-67	Poznan Water System concession	Closed	Energy	308,332	308,332	Y	5840	21/09/98
ECP98-2000-06-67	Sopot Traffic Management Improvement Project	Closed	Construction	176,013	176,013	Y	11685	13/06/00
ECP98-2000-06-68	GDDP: Preparation of a Private Sector Road Management Project	Closed	Construction	256,442	256,442	Y	9903	12/06/00
ECP98-2000-07-70	Polish Railways - Pre-Privatisation Assistance	Closed	Transport, Storage	396,013	396,013	Y	10204	26/07/00
ECP98-98-08-17	Krakow urban transport project	Closed	Transport, Storage	729,915	729,915	Y	5893	26/08/98
ECP98-98-11-44	Krakow Transport Policy, Traffic Control & Parking Management	Closed	Transport, Storage	847,217	847,217	Y	6036	02/11/98
ECP99-2000-05-38	Polish Railways - PKP Implementation Assistance and Network Management Project	Closed	Transport, Storage	789,299	789,299	Y	8471	10/05/00
ECP99-2000-06-44	Municipal Creditworthiness Analysis Cities of Gdańsk and Sopot	Closed	Transport, Storage	398,868	398,868	Y	7855	29/06/00
ECP99-2001-09-94	Polish Railways - PKP Pre-Privatisation Assistance	Closed	Transport, Storage	190,000	190,000	Y	10204	26/09/01
ECP99-2001-12-98	Preparation for Privatisation of SKM Tri-City Suburban Rail and WKD Warsaw Commuter Rail	Closed	Transport, Storage	995,536	995,536	N	8839	04/12/01
ECP99-99-09-17	Detailed Feasibility & Project Preparation for Gdańsk Urban Transport	Closed	Transport, Storage	469,298	469,298	Y	7854	07/09/99
FIN-2001-09-10	Łódź Municipal ESCO - Project Preparation	Disbursing	Energy	70,000	58,814	Y	19342	24/09/01
FRA-1992-08-06	Motorways development project	Closed	Construction	106,623	106,623	Y	751	20/08/92
GERK-2001-09-09	Gdańsk Urban Transport	Committed	Transport, Storage	48,000	44,142	Y	21882	06/09/01
GERK-97-08-03F	Preparation and implementation Wrocław Municipal infrastructure flood damage repair	Closed	Energy	102,271	102,271	Y	5373	28/08/97
HOL-2001-07-08	City of Gliwice Creditworthiness Assessment	Closed	Energy	43,028	43,028	Y	20158	18/07/01
JAP-1997-10-30	Wrocław municipal infrastructure flood damage repair	Closed	Energy	59,970	59,970	Y	5275	14/10/97
JAP-1997-10-35	Municipal infrastructure flood damage repair - analysis of financial management/utility analysis	Closed	Energy	46,013	46,013	Y	4552	09/10/97
JAP-1998-05-16	Wrocław flood damage municipal infrastructure project - assessment of municipal credit-worthiness	Closed	Energy	40,864	40,864	Y	4552	26/05/98
JAP-1998-08-27	Creditworthiness enhancement programme (Wrocław flood	Closed	Energy	253,484	253,484	Y	4552	20/08/98

Commitment Number	Commitment Name	Stage	Sector	Euro Committed	Euro Disbursed	Linked to Inv.	TC OPID	Approved Date
	damage)							
SWE-1992-01-03	Elblag-Kaliningrad motorway feasibility study	Closed	Construction	346,252	346,252	Y	754	28/01/92
TAI-1992-08-46	Gdańsk environmental project - legal advice	Closed	Energy	6,775	6,775	Y	728	01/08/92
TCS-2001-09-01	Łódź Municipal ESCO - Project Preparation	Committed	Energy	11,000	7,040	Y	19342	26/09/01
UKC-1999-07-07	Due Diligence Assistance in Privatisation of LOT	Closed	Transport, Storage	50,000	50,000	Y	6825	13/07/99
UKC-1999-08-09	Poland Water Sector Benchmarking Study	Closed	Transport, Storage	133,174	133,174	Y	6412	02/08/99
UKE-2002-11-10	Poland: Private Sector Road Management Technical Support	Committed	Transport, Storage	45,874	24,610	Y	30964	18/11/02
USTD-1999-06-03	Warsaw urban transport	Closed	Transport, Storage	6,028	6,028	Y	5741	17/06/99
USTD-2001-08-02	Polish Small and Medium Municipalities Environmental Investment Facility - Start-up Coordinator	Closed	Energy	46,098	46,098	Y	21023	22/08/01
EC-1993-12-68	Environmental standards for soil and groundwater contamination	Closed	Manufacturing	181,150	181,150	N	708	17/12/93
ECP96-97-06-56	Telecommunications regulatory development programme	Closed	Telecommunications	217,274	217,274	N	4188	19/06/97
TAI-2001-11-09	Poland: Implementing Insolvency Legal Reform	Committed	Community/ Social Services	199,000	132,038	N	20759	29/11/01
UKE-1999-11-09	Technical assistance to SMEs in the preparation of projects to promote cleaner production	Closed	Community/ Social Services	167,615	167,615	N	6384	11/11/99
UKE-2002-02-01	Technical Assistance to SMEs in the Preparation of Project to Promote Cleaner Production - Expansion of Project	Closed	Community/ Social Services	17,375	17,375	N	6384	20/02/02
EUPSR-97-09-03	Framework contract (B)	Closed	Finance, Business	429,067	429,067	Y	5417	24/09/97
TAI-1991-09-02	Textile industry restructuring	Closed	Manufacturing	1,179	1,179	N	5340	01/09/91
FRA-1992-09-08	Gdańsk environment project - establishment of municipal and financial companies	Closed	Energy	128,057	128,057	Y	592	14/10/92
TAI-1991-11-07	Gdańsk waste water treatment	Closed	Energy	68,886	68,886	Y	592	01/11/91
FRA-1992-10-09	Warsaw Wholesale market	Closed	Manufacturing	185,226	185,226	Y	734	06/10/92
FRA-93-01-01PS	Warsaw wholesale market Technical Co-operation project	Closed	Manufacturing	189,469	189,469	Y	734	06/10/92
NORG-1993-10-05	Financial advisory services	Closed	Telecommunications	45,000	45,000	Y	741	01/10/93
UKC-1999-05-03	FAO Framework Agreement - Poland wholesale markets	Closed	Manufacturing	26,452	26,452	Y	4526	21/05/99
UKE-2001-01-01	Polish Warehouse Receipts Programme	Committed	Manufacturing	24,448	0	N	4526	04/01/01
UKE-2001-04-16	FAO Framework Agreement - Review of the Rapeseed Oil Sector	Closed	Manufacturing	29,328	29,328	N	4526	27/04/01
UKE-2002-02-02	FAO Framework Agreement - Review of the Rapeseed Sector	Committed	Manufacturing	25,726	24,365	N	4526	25/02/02
UKE-2002-11-09	Assessment of the Polish Seed Market and Legal Structures	Committed	Manufacturing	22,844	0	Y	4526	06/11/02
AUS-2001-01-01	TurnAround Management Programme (TAM) - "Poltops" Fabryka Wyrobów Wełnianych S.A.	Closed	Manufacturing	48,178	48,178	N	12795	30/01/01
DEN-2000-07-02	TurnAround Management Programme (TAM) - Sniezka	Closed	Manufacturing	10,468	10,468	N	12795	28/07/00

Commitment Number	Commitment Name	Stage	Sector	Euro Committed	Euro Disbursed	Linked to Inv.	TC OPID	Approved Date
SWI-2000-07-06	TurnAround Management Programme in Central, Eastern & Southern Europe - Sniezka	Closed	Manufacturing	48,240	48,240	N	12795	13/07/00
	Country Total Euro Amount:			**29,726,620**	**23,875,808**			
	No of Commitments:			**133**				

TURNAROUND MANAGEMENT PROGRAMME IN POLAND

The TAM Programme brings industry specific management expertise to enterprises. Providing the advisory services of experienced former CEOs and directors of large companies from economically developed countries, TAM assists enterprises to operate successfully and develop new business skills at the senior management level. To date, Donors have committed €66 million (US$ 70 million)*, allowing TAM to undertake over 1000 projects.*

The TAM Programme was developed in the early nineties by the EBRD and the United Nations Development Programme, with the support of the European Union Phare Programme. TAM works directly with individual enterprises, providing industry-specific advice, developing management skills, and assisting them to operate successfully in a market economy

The TAM Programme maintains a pipeline of eligible projects so that funds provided by the donors can be utilised swiftly.

Objectives
The TAM Programme supports economic reform by transferring management and technical know-how, conveying the principles of responsible corporate governance and sharing commercial experience directly with potentially viable enterprises.

In addition to improving business performance, TAM may, if the enterprises request it, assist enterprises to communicate with potential investors, including the EBRD and EBRD-related financial intermediaries. However, transformation of the management of the enterprise is the primary TAM objective.

By developing strong management at the SME level, the TAM Programme acts as a catalyst for economic and social transition, contributing to donor objectives for alleviating poverty, improving standards of living and increasing social cohesion.

Overview of Activities
As at March 2004 TAM had undertaken 98 projects in Poland with 90 enterprises utilising €5.88 million of Donor funding. 98% of the funding for TAM in Poland has been provided by the EU Phare Programme, with additional support coming from individual donor countries, namely Austria, Sweden and Denmark. The "success rate" of TAM projects in Poland is 77%,

Crystal Manufacturer – Funded by the EU Phare Programme

Partner Enterprise: In the four years preceding the TAM project, operating losses had eaten up half of this crystal manufacturer's share capital. The TAM Team immediately identified outdated production methods and poor sales and marketing as the primary causes of the enterprise's decline.

TAM support: With non-lead crystal becoming increasingly popular for household items, it was recommended that the enterprise diversify into this area. The necessary furnace for production of such crystal has now been built with the help of a TAM team specialist.

The hand press stations that the enterprise used were slow and unpopular with the workforce. These were automated, resulting in a significant increase in production.
Breakdowns, often leading to costly delays in production, are normal in all factories. However, by helping the enterprise to implement a planned maintenance programme, the TAM team was able to greatly reduce the occurrences of such breakdowns.

On the recommendation of the TAM team, a dedicated Sales Director was employed to take sole responsibility for sales and marketing. TAM also assisted the enterprise to prepare its first ever catalogue and to rationalise its product range. The enterprise now introduces 150 new products each year, compared with over 800 before the TAM project, resulting in considerably higher profit margins on each item.

Outcome: In addition to making practical recommendations in regard to production and marketing, the TAM team was able to effect real changes in the management culture of the enterprise. As a result, the management is now capable of making, and willing to make, the necessary changes to adapt and prosper in a market economy. An independent evaluation rated this TAM Project as "Highly Successful" and the enterprise's management team declared the project "an unqualified success".

TAM Programme Industry Sector Statistics as at March 2004