DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR THE RUSSIAN FEDERATION

As approved by the Board of Directors on 16 November 2004

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LIST OF ABBREVIATIONS

ADR	American Depository Receipt
BBL	Barrels
BPD	Barrels per Day
CAS	Country Assistance Strategy
CBR	Central Bank of Russia
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EIB	European Investment Bank
EU	European Union
EUR	Euro
FCSM	Federal Commission for the Securities Market
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FIG	Financial Industrial Group
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GRP	Gross Regional Product
IBRD	World Bank
ICAO	International Civil Aviation Organisation
IET	International Emission Trading
IFC	International Finance Corporation
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IMO	United Nations International Maritime Organisation
IOSCO	International Organisation of Securities Commissions
IPOs	Initial Public Offerings
JI	Joint Implementation
JSC Law	Law on Joint Stock Companies
JV	Joint Venture
KP	Kyoto Protocol
LNG	Liquid Natural Gas
LPR	Law on the Protection of Rights and Lawful Interests of Investors on the Securities Market
MARPOL	International Convention for the Prevention of Pollution from Ships
MCI	Ministry of Communications and Informatisation
MEI	Municipal and Environmental Infrastructure
MSE	Micro and Small Enterprises
NATO	North Atlantic Treaty Organisation
NDEP	Northern Dimension Environmental Partnership
NGOs	Non-governmental Organisations
NIB	Nordic Investment Bank
OCE	Office of the Chief Economist (EBRD)
ODIHR	Office of Democratic and Human Rights
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
PACE	Parliamentary Assembly of the Council of Europe
PCA	Partnership and Co-operation Agreement

PPPs	Public Private Partnerships
PSP	Private Sector Participation
RSBF	Russia Small Business Fund
RUR	Rouble
RVF	Regional Venture Fund
S&P	Standard and Poor's
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
SML	Law on the Securities Market
SOLAS	International Convention for the Safety of Life at Sea
TC	Technical Co-operation
TFP	Trade Facilitation Programme
TNP	Transnefteprodukt
UES	United Energy Systems
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organisation
UNICTRAL	United Nations Commission on International Trade Law
USD	US Dollar
VTB	Vneshtorgbank
WTO	World Trade Organisation
YOY	Year on Year

EXECUTIVE SUMMARY

The Russian Federation is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank; however, in the past Strategy period, application of these principles has been uneven.

Political stability and consolidation – notably through the confirmation of a reform-minded government, the creation of a strong parliamentary majority and the establishment of a common legal space across the Federation – is an important achievement which can contribute positively to the country's continued structural reform efforts. Following a wave of terrorist attacks in the North Caucasus and in Moscow, the government has taken steps to reinforce public security and re-establish central political control over the regions. Recent political developments suggest a concentration of power in the hands of the executive and a perceptible drift from democratic practice that has raised concerns in the international community. At the same time, a robust system of checks and balances is the most effective way to guard against potential abuse of power and to encourage policy innovation. In this connection, the Bank welcomes the statement made by the President following his re-election, defining the creation of "a free society of free people" in Russia as the foundation for economic growth and political stability.

Russia's economic performance over the past two years has been robust, with strong GDP growth and a sharp acceleration in domestic investment. Management of public finances has been sound, with the federal budget running a large overall surplus for the fifth consecutive year in 2004. Inflation has gradually declined while the exchange rate has remained firm. Foreign investment into Russia has also accelerated, including in the form of FDI inflows. However, the accumulated stock of FDI amounts to about 6.5 per cent of GDP: only a fifth of the average level of the other European transition economies. The current account has recorded large surpluses in recent years and reserves are at record highs. However, following years of substantial declines, net private capital outflows have increased significantly.

Structural and institutional reforms have remained on track over the past two years, with progress on several fronts, including tax and fiscal reforms, trade and currency liberalisation, advances in creating a new pension system, initial stage reform of the banking sector, public administration, restructuring of the power and railway sectors and in improving the regulatory framework for SMEs. Notwithstanding this positive record, the election cycle in 2003-2004 brought a deceleration in the pace of reform in important areas and reform implementation in general remains a major weakness. The investment climate has continued to improve in many respects. However, significant uncertainties and risks have emerged with regard to the protection of property rights, and there have been conflicting signals regarding the role of the state in the economy. Corruption also remains a serious problem. According to Transparency International's Corruption Perceptions Index for 2004, Russia's score of 2.8 out of 10 (where 10 is "clean") suggests that corruption is "rampant". Russia's score is better than most CIS countries, but well below that of the advanced transition economies. Finally, the volatility of the financial markets and capital flows, as well as the recent banking sector turbulence, are important reminders of how vulnerable the economy remains and of the fragility of the confidence-building process.

Although the country's overall macroeconomic and reform performance has been positive, it is not yet based on solid fundamentals. Growth – though helped also by a fundamentally sound macroeconomic policy framework and the beneficial impact of previous reforms – has been to a large extent driven by a combination of favourable external factors, including high commodity prices, abundant global liquidity, low interest rates and strong investor interest in emerging markets. Moreover the influence of two additional 'temporary' factors in Russia's macroeconomic achievements – the boost in competitiveness stemming from a sharp devaluation of the rouble in 1998 and the availability of under-utilised productive capacity – have already begun to taper off as growth drivers.

The challenge ahead is to build the foundations for consistently good long-term macroeconomic performance and steady improvements in living standards, as well as to make the economy less vulnerable to external developments.

Meeting these challenges and making growth sustainable will require advancing a series of wide-ranging structural and institutional reforms to promote:

- modernisation and restructuring of the economy;
- the diversification process;
- reform of public institutions, clarifying the role of the state and the rules of the game for private businesses;
- reform of the social sector, and
- Russia's integration into the world economy.

The Russian Government has considered these as strategic tasks since the adoption of the original long-term socio-economic and development programme for 2000-2010. Their significance is further increased as the traditional growth drivers are being exhausted and should be replaced by steady efficiency and productivity improvements. The insufficient progress in reforming the state institutions and the social sector has become a crucial bottleneck in the transition process. Clearly faster progress is needed in all these dimensions over the next few years.

Through a broad range of investment operations, its catalytic impact on other investors plus its policy dialogue, the Bank is well-placed to work together with Russia in addressing these challenges. In particular the Bank's transactions that help to advance technological modernisation and efficiency improvements in key sectors of the economy can make a significant contribution toward the goal of strengthening the microeconomic foundations of the sustainability of growth and facilitating Russia's integration into the world economy. The Bank can pro-actively contribute to the diversification process across sectors and regions alike, including by further supporting small business finance through the Russia Small Business Fund. By being a reliable strategic partner at a time of increased uncertainties, by taking higher risk and providing comfort to investors the Bank can substantially contribute to building and strengthening confidence among the different market participants as well as between businesses and the state.

The Bank will seek non-sovereign financing solutions including in sectors and types of transactions traditionally financed directly by the state. The Bank plans to issue Rouble Bonds and use its local currency financing instruments on a wider scale for SMEs, domestically oriented companies and municipalities alike.

The Bank will have a strong focus on private sector development including broader participation in privatisation based on the forthcoming new phase of the Russian privatisation process in 2005-2007. The Bank will also provide assistance in IPOs of Russian private and public companies and will encourage more active use of equity participation in its clients' share capital. Improving corporate governance, given the difficult legacy in this regard and its fundamental importance in company valuation, risk management and access to investment finance, remains an overriding consideration for the Bank in the context of the Strategy as well.

The Bank has made expansion of business volume in the Russian regions a top priority in previous Strategies, and the results over the past few years have been encouraging. The Bank now has 250 projects and sub-projects in 41 Russian regions and an increasing proportion of business volume outside the large cities of Moscow and St Petersburg. Currently, 86 per cent of the Bank's project pipeline volume and 84 per cent of the number of projects in the pipeline are being developed in regions outside Moscow and St Petersburg, suggesting that this trend of increasing business (in terms of both the volume and number of projects) in the regions will continue. To sustain and accelerate this trend, the Bank will review resource allocation to the field offices across Russia, with a view towards strengthening the regional presence during the coming Strategy period.

The Bank will ensure that all its operations in the Russian Federation remain subject to its environmental procedures, and will continue to give due consideration to the social impact of its operations.

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

Assisting the modernisation and restructuring process of key Russian industries and large enterprises through:

- Financing the modernisation and efficiency improvement programmes of large Russian standalone companies. Where feasible, the restructuring programme should include energy efficiency and environmental improvement ingredients. In so doing, the Bank will seek to expand its volume of greenhouse gas emission-reduction projects and assist the Russian Federation and project sponsors in utilising carbon trading mechanisms under the Kyoto Protocol. The Bank will also engage its clients to make credible commitments to improve their corporate governance standards and practices. In particular, the Bank will continue to play a pro-active role in the practical implementation of the Russian Corporate Governance Code, through the requirements placed on its corporate clients where appropriate, in the context of individual projects.
- Supporting the entrance and business expansion of reputable foreign strategic investors and facilitating their role in transferring technology and skills, enhancing competition, and in setting quality, productivity, environmental and other standards for entire industries. Attracting FDI in the non-energy/natural resource sectors will remain a major strategic orientation.

Broadening the Bank's activities promoting private entrepreneurship including through more active use of equity instruments:

- Seeking to expand its Russia Small Business Fund programme in terms of intermediaries (supporting banks in developing small business lending operations as an integral part of their business), regional coverage and the range of investment instruments offered.

- Completing the restructuring of the existing Regional Venture Funds and supporting management groups with a good track record with follow on funds. The Bank will also work towards attracting new investment teams and equity funds into Russia.
- Pro-active efforts to participate in privatisation of state or municipal owned production and service companies, infrastructure firms and financial institutions.
- Making equity investments to provide comfort and assistance to foreign investors setting up new ventures.
- Assisting Russian companies and entrepreneurs in building and strengthening their capital base, creating real partnerships through the Bank's investments. This will promote the entrance of more local companies in the domestic and international capital markets with debt or equity instruments.

Assistance in the consolidation and reform process of the financial sector and support to the development of the capital markets by:

- Supporting consolidation of the banking sector, promoting/participating in acquisitions and mergers of banks and assisting in the privatisation process of State (and regional government) owned banks.
- Providing a combination of loans, equity participation and policy dialogue to support the implementation of the authorities' new banking sector strategy (to be finalised), and to help strengthen confidence in the private sector financial institutions.
- Working with "pocket" banks with credible commitment to change operations, improve transparency and governance, diversify ownership and become independent.
- Supporting existing foreign banks and non-banking financial institutions and attracting new foreign strategic investors into the financial sector.
- Promoting institution-building in and competition among pension, insurance, mortgage and leasing companies.
- Utilising the Bank's Rouble funding programme to help the development of the capital markets.

Promote upgrading and reform of Russia's infrastructure through:

- Continued active involvement in the restructuring of the country's natural monopolies with special regard to the power sector and possible investment in the gas sector once the reform process takes off.
- Financing the modernisation and expansion of the pipeline infrastructure on a non-sovereign basis while conducting dialogue on tariff issues. Financing new pipeline infrastructure that enhances the integration with neighbouring countries notably under the EU/Russia Energy Dialogue.
- Promotion of institutional reform and commercialisation of key state-owned transport sector agencies through public-sector non-sovereign transactions.
- Expansion of municipal projects into more regions and broadening the focus of the portfolio from water-related and solid waste transactions to district heating, urban transport as well as housing projects. Continued focus on institution-building at both the municipal and service-provider company levels.
- Proactive efforts to initiate and participate in public private partnerships and other private sector projects.

- Special emphasis on environmental and nuclear safety projects especially under the Northern Dimension Environmental Partnership framework and the Strategic Master Plan for nuclear waste management.
- Use of sovereign support in cases where it will be required for projects of national and/or social priority, for instance where the assets are owned directly by the State, or when they are financed together with the European Investment Bank.

In implementing this Strategy, the Bank will continue to co-operate closely with other international financial institutions and donor organisations, including but not limited to the relevant agencies within the World Bank Group, the Nordic Investment Bank, the IMF, the EU and the European Investment Bank.

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

1.1 Overview of Activities to Date

Since 1991 the Bank has signed 183 projects in Russia achieving a net cumulative business volume of EUR 5.5 billion. This represents a 23 per cent of the Bank's cumulative business volume.

Table 1. Russia: Overview of the Bank's Activities to Date (August 2004)

EUR millions	No. of Projects (weighted)	Total Project Value	EBRD Finance	Debt	Equity	Per % of Cumulative Commitments
Private	160.6	12,911	4,338	3,557	781	78
State	22.0	2,767	1,198	1,198	0	22
Agribusiness	20.5	1,742	576	480	96	10
Bank Equity	7.0	122	80	14	66	1
Bank Lending	17	1,135	721	721	0	13
Energy Efficiency	0.2	3	2	2	0	0
Equity Funds	15.5	711	426	1	424	8
General Industry	43.3	3,073	965	886	78	17
Municipal & Environmental Infrastructure	11.0	1,535	419	419	0	8
Natural Resources	22.0	3,586	766	744	22	14
Non-bank Financial Institutions	9.8	290	90	77	13	2
Power & Energy	5.0	428	242	242	0	4
Property & Tourism	4.9	263	113	109	3	2
Small Business Finance	2.2	290	195	190	5	4
Telecoms Informatics & Media	10.7	838	207	145	62	4
Transport	13.5	1,663	734	724	10	13
TOTALS	182.6	15,678	5,536	4,755	781	100

Over the last two years, the current Portfolio stock has grown steadily from EUR 2.6 billion in December 2001 to EUR 3.4 billion in August 2004 (23 per cent of the Bank). The share of debt in the Russia Portfolio has increased during the period from 70 per cent to 80 per cent. The share of private sector projects has decreased from 81 per cent to 72 per cent.

Table 2. Russia: Portfolio Stock Dynamics

EUR millions	2001	2002	2003	Aug-04
Portfolio	2,648	3,136	3,347	3,360
Debt %	*69.6*	*79.7*	*79.8*	*79.9*
Equity %	*22.7*	*17.6*	*14.9*	*14.0*
Private %	*81.0*	*72.4*	*70.5*	*71.8*
Sovereign %	*15.5*	*24.8*	*25.3*	*25.0*
ABV	804	1,288	1,109	1,100*

*Estimated Annual Business Volume for 2004

The annual business volume in 2002 and 2003 was over EUR 1.1 billion each year, which is the level expected in 2004 as well. The signing of large sovereign projects with a total of EUR 700 million (i.e. St Petersburg Flood Protection Barrier EUR 234 million, Russia Road Sector Reform 1 and 2 with a total of EUR 450 million), shifting the share of sovereign volume in the Portfolio from 15 per cent in 2001 to 25 per cent in August 2004 and contributed substantially to the annual business volume. During this period, Infrastructure absorbed 83 per cent of the country Portfolio growth, thereby increasing its share from 10 per cent to around 26 per cent in the Portfolio.

Current Operating Assets stand at EUR 2 billion, representing 58 per cent of the portfolio. Operating Assets growth was more modest at 10 per cent than the 27 per cent portfolio growth over the same two years. This slower growth is a result of the sizeable share of sovereign and state projects in the portfolio, which by their nature are slow to disburse. The overall quality of the portfolio has considerably improved and the stock of impaired assets decreased by over 65 per cent since 2002, due to a number of successful restructurings.

1.2 Implementation of the previous Country Strategy

The previous country strategy, approved in November 2002, outlined the following strategic priorities for the Bank in the Russian Federation: i) promoting restructuring in infrastructure; ii) encouraging restructuring and attracting strategic investors in the corporate sector; iii) strengthening small business development and expanding regional coverage; and iv) enhancing competition and supporting financial sector reform.

1.2.1 Promoting Restructuring in Infrastructure

The Bank has worked with the Russian Government in a number of sectors to identify sovereign operations involving major sector reform elements and environmental improvements. As envisaged in the last Strategy, the Bank participated in two major projects to help the modernisation of the Russian road sector and was proactively involved in the ongoing overall power sector reform process. The Bank's membership in the restructuring committee of RAO UES and the involvement in this sector's restructuring at the regional level (in Mosenergo and Lenenergo), through its creditor status and as an administrator of TC funds for a tariff methodology study in Mosenergo, contributed to the achievements of the power sector reforms.

In other infrastructure sectors the Bank has selected projects where the promotion of private sector involvement, environmental improvement, energy saving investments, as well as the priorities of the Russian Government, such as development of key transport arteries, are most prominent. Unfortunately, a number of sovereign projects (some of them well ahead in preparation), did not come to fruition because of Russia's decision to sharply curtail sovereign borrowing in 2004.

Very little has been achieved in district heating, as main obstacles to Energy Efficiency investments remained, including most importantly, the artificially low energy prices. The only district heating project signed was with the city of Surgut in 2002. The Energy Efficiency project with the City of Moscow was discontinued by the City in 2003, due to problems posed by the Budget Code (the limitation on borrowing in hard currency). However, a number of non-sovereign, RUR-denominated transactions in the water segment have been concluded with mid-range cities, in addition to new transactions in St Petersburg. The ability to deliver RUR-denominated loans to the Russian municipal market remains essential for such projects, as the Russian Budget Code does not allow municipalities and regions to execute additional borrowings in foreign currency. The Bank's ***veksel*** programme and committed liquidity facility have been an important enabling factor; however their limitations in terms of volume and short-term maturities circumscribe RUB lending.

1.2.2 Encouraging Restructuring and Attracting Strategic Investors in the Corporate Sector

To support the restructuring and modernisation of large companies and industrial sub-sectors, the Bank has provided financing for quality Russian companies (Chelyabinsk Zinc Plant, Kalina Cosmetics Producer, and Narzan Mineral Water producer), and foreign strategic investors (Arcelor-Severstal Steel Production, UPM-Pestovo Saw Mill, Saint-Gobain Isover Insulation Producer, Stora-Enso Paper and Packaging, Kronospan Wood Processing, and IKEA Shopping Centre) that have demonstrated commitment to good business practices. In supporting specialised producers of components and intermediate goods (GM Engine Plant, Michelin and Nokian Tyres, as well as Glaverbel and Pilkington Glass Manufacturing), the Bank continued to promote Russia's attraction as a production base for major producers. Special emphasis has been given to projects that diversify the economy away from natural resource extraction. In this respect the Bank has developed visible projects with these companies that can compete in international markets and can promote Russia as an investment destination.

To promote industrial energy efficiency, the Bank has helped clients to identify (through TC funded energy audits) and finance significant energy efficiency components in industrial projects which have proved to be very successful. Examples were the projects with Danfoss signed in 2002, Uralkaly in 2003 and Power Machines and Karelsky Okatysh in 2004**.** The Bank also continued to support development of corporates in Agribusiness (Vena Brewery, Bonduelle Vegetable Canning, Castel Beverage Manufacturing). In the Telecommunications sector, the Bank provided further financing for a regional operator in the Far East Region and also broadened the scope of its involvement in the media sector, including the development of modern cinema complexes and outdoor advertising. To finance Russian corporates, new products were also introduced to support equipment vendors (Caterpillar, Wirtgen, Sumitomo) with the provision of risk sharing structures involving local leasing companies.

1.2.3 Strengthening Small Business Development and Expanding Regional Coverage

EBRD's key instrument for small business development is the Russia Small Business Fund (RSBF). While the RSBF has had considerable achievements during the last Strategy period, in particular in strengthening the co-operation with new partner banks, the demand for micro and small enterprises (MSEs) finance is still far from being met. RSBF has now disbursed over 214,000 loans to MSEs for a total amount of over USD 1.8 billion. Over 65 per cent of the total number of outstanding loans are for a value under loans under USD 5,000; hence the programme is very much reaching down to the smallest borrowers. Notably, the repayment performance of these MSEs, which are predominantly first time borrowers, remains above 99 per cent.

With the help of the RSBF, specialised MSE finance departments have been set up and are active in 249 participating bank branches in 138 cities in all time zones of the Russian Federation. Since the Russia banking crisis of 1998, the project expanded from 38 cities, with 21 cities added in 2004 alone. RSBF is now working with eight partner banks, out of which six are regional banks, Chelindbank, Far Eastern Bank, NBD Bank, Sibakadembank, Uraltransbank, Ural-Siberian Bank, Sberbank and KMB Small Business Credit Bank.

The Savings Bank of the Russian Federation, Sberbank, sees the RSBF as the catalyst for their overall MSE lending operations and will continue MSE lending including lending to sole entrepreneurs without further assistance from EBRD. Sberbank has adopted main features of the RSBF approach in their lending instructions, which enables them to cater to a wide range of entrepreneurs.

In addition to this it was possible to widen the range of financial intermediaries and their branch networks and to increase competition amongst the partner banks. This serves as a good base for the coming years to rapidly increase the small business loan portfolios, accelerate regional expansion and to broaden the client base including agriculture clients.

1.2.4 Enhancing Competition and Supporting Financial Sector Reform

The Bank has been pro-actively supporting the financial sector reforms which until late 2003 have moved slowly. The EBRD has actively supported the creation of a level playing field between state-owned and private banks. Significant resources have been devoted to the Bank's involvement in the potential privatisation of Vneshtorgbank (VTB).

The Bank has been working with new clients among the private banks for example by supporting the consolidation of the banking sector through provision of acquisition finance (to Probusinessbank), and expanding the range of products available in the Russian financial sector by providing convertible loan funding to Russian Standard Bank, a dedicated consumer finance operation. The Bank has supported foreign-owned banks with subsidiaries in Russia with subordinated debt, credit lines for mortgage and consumer lending. Strong regional banks have also been identified and three equity investments are in the course of preparation. An institution building programme, under a TC Framework, has been developed and will be used to strengthen particular business areas in regional bank partners, and the training and institution building under the RSBF has continued to strengthen the small business lending capacity of the banks' branch networks. There was also an increase in the number of participating banks in the Trade Facilitation Programme (TFP), with particular focus on regional banks.

The Bank has also continued to support non-banking financial institutions such as in the insurance and leasing sectors, as well as pension initiatives by participation in policy dialogue leading to pension reforms in 2003-2004. There was an expansion of the portfolio of loans to Russian leasing companies, and equity investment and loan funding was also provided to Hansa Leasing's start-up cross border leasing company. In addition, opportunities were identified to enter the Russian insurance market alongside reputable Russian investors and equity funds specifically targeting the insurance sector.

During the past Strategy period, the Bank has totally overhauled the Regional Venture Fund (RVF) programme by i) consolidation of funds under better qualified, proven managers; and ii) achieving good progress with the cleaning-up of the assets under the terminated funds. Privatisation of two funds is still hopeful, though the progress is slow due to the difficult fund raising environment. The Bank continued to support the existing successful management groups (like the Barings Private Equity Fund) with which the Bank has longstanding relationships with investment in follow-on funds. The Lower Volga Fund manager has also successfully raised a new fund with the Bank's participation in early 2004.

1.3 Implementation of the Regional Approach

The Bank has recognised the importance of *building a balanced regional investment portfolio* already prior to the previous Strategy period. A series of federal reforms, clarifications in fiscal federalism, and rule of law reforms delivered major improvements and greater predictability in centre-region relations. These changes have made it possible to develop business opportunities in a wider cross-section of regions, rather than focusing on priority regions selected on the basis of *a priori* criteria. While it is impossible for the Bank to maintain a meaningful presence in all of Russia's 89 regions, the creation of a common economic and legal space has enabled the Bank to look at the investment potential of regions across the entire Federation.

During the past few years, the *EBRD has become a well established partner for the Russian authorities, foreign investors and Russian companies throughout the country*. Local presence through its offices in Moscow and in the regions in St Petersburg, Ekaterinburg and Vladivostok have allowed the Bank to accumulate specific expertise and has helped to gain the trust of its partners.

The EBRD's portfolio now comprises of 250 projects and sub-projects in 41 regions and covers a diverse range of industrial sectors, utilising a wide variety of financial products. In addition, the Bank's pipeline contains 137 projects and sub-projects in 32 regions. Thus the Bank is present with some of its different products in 47 out of Russia's 89 regions.

While during the past Strategy period the private sector part of the Annual Business Volume in the cities of Moscow and St Petersburg stayed roughly at the same level as in the previous Strategy period (i.e. 2000-2002), it doubled in the regions outside of these two cities (from EUR 500 million to around EUR 1 billion). The overall number of projects also stayed roughly the same during the last two Strategy periods (88 projects 2000-2002; 86 projects 2003-2004). Of all projects in Russia 43 per cent were located in St Petersburg and Moscow during the period 2000-2002, while the share of projects in these two cities decreased to 24 per cent in the 2003-2004 period.

Building on the model that was first deployed in Kaliningrad in 2001, the Bank has continued to cluster its operations, policy dialogue, and technical assistance in some regions, most recently in Sakhalin, where an EBRD Action Plan was finalised in 2004, based on agreement with local authorities. The Action Plan addresses the Sakhalin region's need for a diversified economy that can build on the natural resource richness of the island. The Action Plan foresees a number of technical co-operation projects especially in environment protection (in areas of oil spill response planning and waste management), significant investment in the region's water treatment facilities and other municipal infrastructure, the financing of small and medium-sized enterprises (SMEs), and the launch of an administrative barriers study to assess the difficulties faced by small business in the region. Naturally this approach can only work in regions where the Bank finds strong and receptive partners to help implement such Plans.

1.4 Transition Impact of the Bank's Portfolio and Lessons Learnt

A major source of the Bank's transition impact has been its contributions to the ongoing institution-building process in a wide range of sectors and reform areas. Such an impact has been tangible both through the Bank's actual investment activities and its policy dialogue with Russian authorities. The Banks' significant involvement in power sector restructuring, promoting the reform of road sector financing, its advice on important rules and legislation including assisting in the development of the Russian corporate governance code and Securities Market Law, the Bank's support for the development of the legal and regulatory framework of the Telecommunication sector as well as the tariff methodology for energy transportation are specific examples of this impact. Institution-building at the level of individual economic entities have been especially strong in the context of the creditworthiness enhancement and institution-strengthening programmes with a number of Russian municipalities.

Providing examples of successful restructuring and setting high corporate governance and business standards have been the key transition impact targets in the Corporate sector. The Bank's investments in this sector typically directly contribute to the technological modernisation and the associated enterprise restructuring process of our clients. In this context special attention is paid to credible improvements in corporate governance standards. The Bank has started to play an active role in the practical implementation of the Russian corporate governance code with Uralkaly and Power Machines being the first clients to make special commitments in this regard. Foreign strategic investors continue to play significant role in advancing the modernisation and restructuring process of the Russian economy through a number of channels including technology and skill transfer, enhancing competition, strengthening the supplier and distribution networks and in general setting high industry, quality, managerial and environmental standards.

The Bank's efforts to promote private entrepreneurship in Russia have focussed on the RSBF programme with a broadening range of intermediaries, geographical coverage and financial instruments. The Bank is also committed to advance entrepreneurship through investments by its regional venture funds, participation in privatisations and promoting private sector involvement in infrastructure though progress has been slower in these respects than under the RSBF programme. The Bank has also assisted in promoting regional entrepreneurship through its technical assistance operations. Firstly through supporting studies led by the Foreign Investment Advisory Service (FIAS) highlighting, and advising on ways to reduce, impediments to small business in Kaliningrad and Perm. Secondly through its Turnaround Management Group that has established business advisory services in several regions including Sakhalin.

With regard to the transition agenda of the financial sector, the Bank's most important contribution during the previous Strategy period has been its comprehensive support to the development of regional banks. Demonstration effects associated with new ways of financing have also been significant including through leasing, mortgage, warehouse receipt, consumer finance and local currency financing transactions.

One of the key lessons the Bank has learned from its own activities is that despite substantial progress in stabilisation, economic performance and reforms the Russian economy remains exposed to a range of factors including external shocks, still strong structural and institutional weaknesses, state interventions and continued major distortions in the incentive structure of many economic agents. This in turn reduces the degree of predictability of both the investment climate in general and the prospects for individual investments. Closely related to that, investor sentiment may have large swings in both directions and become removed from the actual realities. Similarly the perception of different types of investors can substantially differ depending on their particular perspective, length of time horizon, previous experiences and other factors. Hence special attention should be paid to understanding the specific conditions of our transactions, and the motivations and the credibility of commitments of our clients.

Creating and maintaining strong leverage over the Bank's clients also remains an important consideration in project design and structuring. Reforms work only if the authorities and/or our clients take ownership of them. This is key for both policy dialogue and specific investment operations which depend to a large extent – either regarding their commercial viability or their transition impact – on the progress in the implementation of the specific reforms in question. Trying to impose policy conditionality or provide policy advice when there is no genuine will or capacity to implement them is likely to turn out to be unrealistic and is bound to fail.

1.5 Mobilisation and Co-Financing

Up to now, the Bank has mobilised EUR 15.1 billion for projects in Russia. In addition to the EUR 5.5 billion financed directly by the Bank, the cumulative amount of co-financing reached approximately EUR 3.5 billion. This represents the largest volume among the Bank's countries of operation. During 2003 alone, the amount of co-financing was EUR 505 million (EUR 352 million in commercial co-financing). The key sectors attracting commercial co-financing in the past were Financial Institutions, Natural Resources, Agribusiness and General Industry. The Bank continued to demonstrate its commitment to finance a wide industrial base. Out of 25 co-financing operations, only two were in the oil sector. The Bank expects to continue playing a significant role as a catalyst to encourage the involvement of commercial banks as well as other sources of co-financing in Russia.

The pipeline of projects in Russia with potential for co-financing is strong. However the market, especially in Moscow and St Petersburg, is becoming more competitive. Russia's international financial standing further improved with the highlight of receiving an investment grade rating from an international rating agency. Many international investors are re-entering the country and many corporate borrowers are rehabilitated in the eyes of these investors. Tenors are getting longer, covenants are getting looser and pricing is falling, especially for the top oil and gas corporate borrowers. However, international financing activities are not limited to the biggest energy companies. Whilst 99 per cent of all Russian deals in 2002 were in the oil and gas sector, during 2003 oil and gas borrowers represented only 68 per cent. Sectors that, mostly for the first time, tapped the international debt markets were mining, steel and aluminum, manufacturing, retail and property.

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

2.1.1 Political Environment

In the past Strategy period political stability has been sustained and the reform agenda has moved forward on several fronts due to strong political will and the further consolidation of the President's support in the two houses of parliament as well as the public at large. In the December 2003 Duma election, the pro-presidential United Russia party secured an outright majority, while two nationalist/populist parties made unexpected gains and the Communist party suffered significant losses. Two pro-reform parties that had been represented in the previous Duma failed to clear the five per cent barrier. United Russia controls over 300 seats in the 450-seat Duma, enough to change the constitution if desired and enabling the bloc to dominate all leadership positions on the Duma Council and the committee chairs.

The President's landslide re-election in March 2004 was preceded by the appointment of a new Prime Minister and the streamlining of the state bureaucracy. Many of the top reformers in the previous Government were re-appointed, though in some cases to less prominent positions, and a pro-reform member of the Unity Party caucus in the Duma was appointed as the single Deputy Prime Minister.

Even with overall political stability, there are concerns regarding recent political developments. Following the election cycle and Government reshuffle, and in the aftermath of a wave of terrorist attacks in the spring and summer of 2004, power has been concentrated further in the hands of the executive. According to the most recent change, the right to elect regional governors in direct elections will be replaced with a system of appointments by the President of regional executives, who then must be approved by the regional legislature. In many countries, the weakening of checks and balances in the political system has given rise to abuse of power, difficulties in combating corruption and policy rigidity.

The concentration of power in the executive has been accompanied by a perceptible drift from democratic practice. The conduct of the recent elections was criticised by the Organisation for Security and Co-operation in Europe (OSCE) and Council of Europe for failure to meet fully Russia's commitments to hold free and fair democratic elections. The Duma election campaign was characterised as a "regression in the democratisation process in Russia" and the Presidential campaign was seen to be lacking in essential democratic elements like "vibrant political discourse" and "meaningful pluralism". Domestic and international rights groups have raised concerns regarding recent developments in the area of media freedom and human rights conditions in Chechnya.

2.1.2 Governance and Integrity Issues

Efforts have been made in the past two years to improve the business environment and address persistent governance challenges, including widespread administrative corruption. A new Customs Code was signed into law in May 2003 that brings Russia's customs procedures into line with World Trade Organisation (WTO) norms and seeks to make customs administration simpler and more transparent. The new Code also aims to reduce corruption by enabling importers and exporters to choose where their goods may clear customs and in which bonded warehouses they are kept. The number of clearing posts for imported consumer electronics – a segment of the market that had been especially lucrative and criminalised – was drastically reduced.

There was also some progress in administrative and civil service reform. In March 2004, there was a significant downsizing and reorganisation of federal ministries, agencies and services. This was accompanied by budget reform and the introduction of performance targets. The President's administration staff was reduced by 300 people and the number of federal civil servants shrunk from 19,000 to 17,000. A new code of conduct for civil servants was introduced in May 2004, and in August the President signed a new law on "State Civil Service". The new law aims to improve efficiency, eliminate duplication and remove incentives for corruption in the civil service. It sets out basic principles and functions of civil service, as well as recruitment principles. Earlier in 2004, the salaries of 35,000 civil servants working in the federal bureaucracy were raised significantly.

These are important steps, but much remains to be done. The bureaucracy, even after these cuts, still employs 1.25 million civil servants, more than in Soviet times. The more streamlined government structure has resulted in some confusion over roles and responsibilities and has not yet shown improvement in generating urgent reform proposals. State intervention in the economy and bureaucratic red tape remain significant problems affecting the ability of Russian firms to do business. A recent survey on the business environment conducted by the main lobbying organisation representing small business, Opora, found that despite government programmes to assist entrepreneurs administrative barriers remain an essential obstacle to doing business. The same survey found that around 35 per cent of small business managers view corruption among government officials as a serious problem.

The Russian President has made frequent reference to the problem of corruption in his State of the Nation addresses, and an Anti-corruption Council was created by Presidential decree in November 2003 for the purpose of developing state policy on the fight against corruption. However, according to state bodies responsible for leading the fight against corruption, as well as numerous surveys of the business environment, this is still a serious problem. In July 2004, the Head of the Interior Ministry's Investigative Committee reported that bribery of state officials is widespread and extends to the highest levels. Over 25,500 cases were brought against state officials on corruption charges in 2003 according to the Supreme Court. The Prosecutor General's office reported in September 2004 that corruption in the commercial sphere is "rampant". The authorities uncovered 22,000 cases of bribery in the first six months of 2004. Russia ranks 90th out of 146 countries on the Transparency International Corruption Perceptions Index for 2004. Russia's score of 2.8 out of 10 (where 10 is "clean") places it amongst the most corrupt countries in the survey. Russia's score is better than most CIS countries, but well below that of the advanced transition economies.

2.1.3 Social Conditions

Robust economic growth since 1999 has begun to offset some of Russia's negative trends in social welfare and living standards that occurred in the early stages of transition. Real wages have consistently increased after collapsing in 1998-99, and by end-2003 were 27 per cent higher than in 1997. Unemployment has also declined from an ILO-defined peak rate of 12.6 per cent in 1999 to around 8.1 per cent by mid-2004. These factors - together with reductions in the volume of wage arrears - have positively impacted on poverty levels: recent estimates by the World Bank show that the headcount poverty index declined between 1997 and 2002, and that poverty has become less severe at the aggregate level. However, despite these trends inequality has fallen only marginally over the same period

The Organisation for Economic Co-operation and Development (OECD) estimates that poverty in Russia now falls disproportionately on young adults, families with children, and single parents. Contrary to previous thinking, pensioners do not seem to be disproportionately poor. The World Bank reports that regional inequality is broadly comparable with other large low and middle income countries. However, evidence suggests that inter-regional inequality has declined between 1999 and 2002.

Although also showing signs of improvement, public health remains a source of concern. Goskmostat estimates that life expectancy has declined consistently in the post-crisis period, to reach 58.5 years for men and 71.9 years for women in 2002 (the latest year for which data is available). Having peaked in 2000 and 2001 respectively, Goskomstat reports that Tuberculosis and Hepatitis cases declined in 2002, while the United Nations Development Programme (UNDP) estimates the prevalence of Tuberculosis in Russia to be slightly below the average of all middle-income countries. By contrast, however, the UNDP estimates that rates of HIV infection in Russia are significantly above the average rates for the transition economies, and are close to the average for all developing countries. Russia's healthcare expenditure is broadly on a par with the average of middle income countries - but low relative to OECD averages - lending increased significance to the government's renewed emphasis on reform of the healthcare sector to improve efficiency and access.

Together, public health concerns, reduced birth rates and sustained migration have potentially substantial socio-economic repercussions. The UNDP estimates that by 2015 Russia's population will fall to 133.4 million from 144.9 at end-2003 with a concomitant reduction in the labour force. Moreover while the quality of Russia's education system remains high, the government is faced with the challenge of improving the efficiency of, and access, to education and creating opportunities to limit brain-drain. Aside from contributing to aggregate growth, regional development and creating opportunities is also potentially important in terms of limiting regional depopulation.

2.1.4 Legal Environment

Russian laws, at least as they appear on the statutes, have continued to improve in 2003-2004.

The list of legislative reforms that took place in 2003 and the first half of 2004 includes the new Law on Hard Currency Regulation and Control, the introduction of the Deposit Insurance Law, streamlining of registration of legal entities, easing restrictions on foreign capital in the insurance sector and continuation of tax reform (abolishing of sales tax, reduction of the VAT rate and further amments to the tax code). The changes made at the end of August 2004 to the Federal Law "On State Duty" which have reduced such state duties payable for notarisation of mortgages to a nominal amount are expected to boost secured lending in Russia.

Legal and judicial reforms have been among the top priorities of the current administration, and there have been substantial steps made to increase judicial independence in the past two years including the election of a new chairman of the Constitutional Court, introduction of jury trials in criminal cases and the implementation of changes to the Criminal Procedures Code that have strengthened the judiciary relative to the Procuracy.

Notwithstanding legal reforms in several spheres, many grey areas remain, e.g. contradictions between different legislative documents and vague provisions that are subject to diverging interpretations. The limited independence of most parts of the judiciary and the lack of consistency in the application of legal and regulatory rules remain a serious problem and have negative implications for public perception of formal law and compliance.

Weaknesses in the protection of creditors and contractual rights in general represent a deficiency in Russian law, although there have been improvements in this area, including a spring 2003 Constitutional Court ruling, which improves protection of the rights of bona fide purchasers, and the 2002 Federal Law "On Registration of Legal Entities," which, among other provisions, aims to protect the interests of creditors in cases of company reorganisations.

2.1.5 Physical Environment

EBRD's 2003 Environmental Policy, Public Information Policy and Independent Recourse Mechanism clearly require EBRD to address the scope of environmental assistance and bring environmental considerations into perspective in relation to macroeconomic policies and key sectoral plans as well as project development in the Bank's countries of operation such as the Russian Federation.

Russia has made little progress in addressing the environmental challenges from the past, including the pollution of water bodies, water quality deterioration, green house gas emissions, atmospheric air pollution as a result of industrial emissions and transport, increasing amount of waste generation, including hazardous waste, soil contamination, land degradation with reduced productivity of farmlands and grasslands, desertification, flora and fauna degradation, increase in airborne and waterborne diseases. As industrialisation continues, industrial pollution is expected to become more pervasive and more costly to control, especially for small and medium-sized enterprises; and new pollution from vehicle emissions, solid wastes, and municipal wastewater due to accelerating urbanisation are increasingly creating unfavourable living conditions and threatening the health of the urban population.

The World Bank's study on Environmental Management in Russia: Status, Directions and Needs (2004) identified critical issues related to the environmental management systems: i) the deteriorating data on environmental quality; ii) the decline in institutional capacity (staffing, budget); iii) uncertainty about the regional-federal division of responsibilities; and iv) differences in performance in regions; and v) a lack of clear division of responsibilities between different agencies of government. To address these deficiencies, it is necessary to strengthen the legal and regulatory framework, foster intergovernmental co-operation, build effective compliance and enforcement programmes, encourage meaningful public participation (in particular of indigenous peoples), invest in environmental management and control, incorporate technology-based standards for pollution control, strengthen monitoring systems and adopt better environmental indicators, enhance programmes with better scientific and policy analysis.

Russia's environmental regulatory framework is in the state of a flux. A more stable framework could unlock enormous environmental investments potential, thereby improving foreign investment into Russia overall. Deteriorating environmental quality data and weakened institutional capacities call for specific reforms in the Russian environmental management systems, which EBRD will continue to address by bringing international good practices through Bank's environmental due diligence process and engaging in a dialogue with relevant Russian authorities and public to strengthen the environmental management system. Following ratification of the Kyoto Protocol by Russia, the Bank is planning to develop a designated technical assistance programme to aid Russia in meeting its Kyoto obligations.

2.2 Macroeconomic Conditions relevant for Bank Operations

During the last strategy period Russia's robust macroeconomic performance has continued to defy earlier forecasts of an imminent slowdown. Following 7.3 per cent growth in 2003, both real GDP and industrial output expanded by 7.4 per cent in the first half of 2004. Public finances have remained healthy with the federal budget running an overall surplus in 2004 for the fifth consecutive year. The current account has registered surpluses of 8-9 per cent of GDP over the recent years and Russia's international reserves have gone from strength to strength hitting a record high of over USD 105 billion by mid-October 2004 exceeding the country's total sovereign external debt. Inflation, though still above 10 per cent per annum, has gradually declined and the exchange rate remained stable in nominal terms.

The above macroeconomic results have been largely due to one-off or temporary factors including:

- An extraordinary combination of favourable external circumstances such as high commodity prices, low interest rates, sharply increased Chinese demand, abundant global liquidity and renewed investor interest in emerging markets.
- The eroding but still available growth drivers of the post-crisis period such as the boost in competitiveness stemming from the sharp currency devaluation and reduction of real wages in the context of the 1998 financial meltdown and the availability of under-utilised productive capacity of capital and labour.

However, the sound macroeconomic policy framework, especially fiscal and debt management policies, pursued by the authorities and the positive impacts of the previous market reforms have also substantially contributed to the robust economic performance, the ensuing improvements in the investment climate and the country's strengthening creditworthiness. As a result, domestic investment has sharply accelerated growing at a pace of 12-13 per cent since early 2003. Foreign investments have also seen a turnaround during this period though starting form a very low level. The Yukos affair and the related uncertainties in the business and investment environment, despite triggering substantial volatility in the financial markets, have had limited macroeconomic consequences so far. However, net private capital outflows have broken a trend of rapid decline over the previous years by increasing to USD 11 billion in the first three quarters of 2004 against USD 3 billion during the same period last year.

The short term prospects for the Russian economy are encouraging with GDP growth forecasts typically ranging between 5.5 per cent and 6.5 per cent for the next two to three years. These predictions assume a basically benign external environment for Russia with continued high oil prices. Though even in the unlikely case of a major and prolonged downturn in oil prices Russia would not face serious macroeconomic problems in the short term given the cushion provided by the accumulated reserves. At the same time, the Russian economy remains structurally highly vulnerable to developments in world oil prices and the country's post-crisis achievements, policies and institutions have not been tested yet against unfavourable external circumstances.

Over the next few years, the risks the Russian economy will face are primarily associated with the potential adverse implications of a high oil price environment. Firstly, the presence of continued large windfall revenues combined with huge social and infrastructure investment needs makes it politically difficult to stick to the sound macroeconomic management. In fact, the draft 2005 budget already implies a significant degree of fiscal loosening and the spending pressures are set to intensify in the forthcoming rounds of parliamentary discussions. Further relaxation of fiscal policies would have substantial inflationary consequences. Secondly, high oil prices together with strong capital inflows will add to the ongoing trend of real appreciation of the currency. A potential major fiscal loosening could further accelerate the real appreciation of the rouble undermining the competitiveness of a range of export and import-competing sectors. Thirdly, the long period of uninterrupted macroeconomic success with no sign of any approaching major economic problem tends to reduce the sense of urgency of reforms and to cloud risk perception.

The benign external environment and the continued good economic results should not lead to complacency. The volatility of the financial markets and capital flows as well as the recent banking sector turbulence are important reminders of how fragile the post-crisis confidence-building process remains. The favourable macroeconomic backdrop provides a unique opportunity for a broad-based acceleration of structural and institutional reforms.

2.3 Progress in Transition and Key Remaining Challenges

During the previous strategy period Russia continued to advance with the implementation of the Government's long-term development and reform programme adopted in mid-2000. While progress has been made in a wide range of areas the pace of reforms has slowed down in the context of the elections. Since mid-2003, the directions and sequencing of reforms have been influenced also by the evolving relationships between the state and the big business.

Tax reforms have demonstrated the fastest progress with substantial reduction of the general tax burden, streamlining the tax regime for SMEs, phasing out of turnover taxes and a general shift of tax base towards the extractive industries. Trade and currency liberalisation also registered major new advances. The process of restructuring Russia's large natural monopolies has proceeded the furthest in the case of the power sector though a major element of the reform programme has recently been temporarily postponed. Railway sector reform entered into a new phase of its implementation following the separation of the regulatory and commercial functions of the previous Railway Ministry and ensuring non-discriminatory access to the railway infrastructure for all, including private, companies. Restructuring of Gazprom and the gas sector has remained on hold but plans to liberalise the Company's shareholding have recently been revived.

A crucial piece of legislation for the banking sector reforms, the deposit insurance law, was enacted late last year followed by an overhaul of the banking supervisory system. Administrative reforms have moved up the Government's priority list of reforms though remain at their initial stage. Social reforms also took off with the adoption of legislation on monetisation of social benefits and a package of reform measures with regard to the housing sector.

Implementation of previously launched major reforms with substantial implications for the general operational and investment environment such as licensing and deregulation, judicial reform, pension, land, labour, bankruptcy and corporate governance reforms have progressed, though rather unevenly. Uncertainties have emerged, however, over the last year regarding protection of property rights while state control over important segments of the economy has increased.

Despite progress on several fronts Russia has not reached a critical mass in its structural and institutional reforms which could put the Russian economy on the path of a new long-term sustainable growth. As a result the Russian economy remains heavily reliant on the external environment while at the same time several of its temporary growth drivers are gradually being eroded. Building the foundations for long-term sustainable growth requires Russia to address the following broad challenges ahead:

- ***Accelerating modernisation and restructuring of the Russian economy.*** While the high rate of increase in capital investment reflects the ongoing technological renewal and overhaul of certain sectors, in vast segments of the Russian economy this process has barely started. Much of the Russian industry, agriculture and infrastructure remains dominated by unrestructured large Soviet-era enterprises with outdated technologies. Even in those sectors where the modernisation process is at a relatively advanced stage (including many of the natural resource-based industries, consumer goods production, agribusiness, retail trade and telecommunication) there are important sub-sectors and market niches with major investment and reform needs. The overriding objective is to make efficiency and productivity enhancement the main growth driver and the key source of improving competitiveness of the Russian enterprises. This in turn requires fundamental changes in the incentive structure of businesses, above all strengthening competition and more efficient working of the business entry and exit mechanisms. Massive technology and skills transfer is another precondition of the modernisation process as well as comprehensive improvement in the transparency, corporate governance and business standards of the Russian businesses. These efforts can build on the increasing number of Russian companies that are moving from short term focus on controlling ownership to long-term business strategies.

- ***Promoting the diversification process of the economy.*** Despite recent progress towards a broader-based growth and investment process Russia's resource dependence remains excessive with adverse implications for the country's long-term growth prospects. Diversification is a complex task requiring parallel progress in a range of different reform areas. To attract more investment into the manufacturing and service sectors depends to a large extent on consistent improvements of the general investment climate and market mechanisms as higher value added and more sophisticated products and processes rely heavily on interactions with other economic agents. The recent rebalancing of the tax burden between the natural resources and other sectors, promoting SMEs and infrastructure development are other channels to advance the diversification process. New measures are being made in strengthening the financial sector's capacity to provide financial intermediation to the real economy and to efficiently allocate financial resources across sectors. In July 2004, the Government has approved in principle its long-term strategy for the development of the banking sector with priorities focusing on improving bank supervision and regulation, streamlining the bankruptcy procedures, strengthening creditor rights, developing banking sector infrastructure and facilitating sector consolidation through mergers and acquisitions. In September 2004, the Government approved an action plan for developing the financial markets.

- ***Reforming public institutions, clarifying the role of the state and the rules of the game for private businesses***. The pace of improvements in the quality of the state institutions will largely determine progress in the overall reform process. Reforming the state itself is the single most important and at the same time the most difficult challenge during the forthcoming phase of the Russian transition process. Significant progress in this area is vital to increase confidence in the state institutions, to strengthen their policy and reform implementation capacity, to effectively rein in corruption and to raise efficiency and quality of public services. In this respect a crucial new task will be to broaden the scope of administrative reforms to the regional and local levels. Further measures would be necessary to effectively separate the different (i.e. ownership, policy making, regulatory/supervisory and commercial etc) functions of the state institutions and eliminate the associated conflicts of interest. More clarity will be needed on the part of the Government with regard to the role of the state in the economy. Establishing transparent, predictable and fair rules of the game for all market participants is another key challenge. An early, transparent and market-oriented resolution of the Yukos affair would be an important step in this direction.

- ***Enhancing social sector development and reforms.*** Key new priorities of the Government include significantly reducing the poverty level over the medium term, restructuring the health and education systems, comprehensive housing reforms and reforming the inefficient and corrupt social security system inherited from the Soviet period. Improvements in these areas would strengthen the legitimacy of market reforms and substantially increase the flexibility of the labour market thereby enhancing the adjustment capacity of the Russian economy. An efficient social safety net is also a crucial precondition for accelerating the enterprise restructuring process, streamlining of the labour force where necessary and facilitating a more active use of the bankruptcy and liquidation mechanisms in case of unviable firms. At the same time social responsibility is an important challenge for the corporate sector as well.

- ***Promoting integration into the world economy.*** In the context of the ongoing trend of increasing globalisation Russia's integration into the world economy and its institutional structures acquires added importance and urgency. Addressing many international economic, financial, environmental, infrastructure, energy supply and other issues needs Russia's active co-operation. The G8 framework is one of the major fora for that, as well as various specialised initiatives such as the EU/Russia Energy Dialogue or the US/Russia Energy Dialogue. The integration and co-operation processes with other key global and European institutions, however, need fresh momentum. The recent ratification of the Kyoto protocol is an important step in this process. Russia is the only large economy remaining outside the WTO framework though major progress has recently been made in the accession negotiations. Integration between the European Union (EU) and Russia also needs further deepening. WTO membership as well as closer ties with the EU could serve in many respects as an important external anchor for Russia's domestic reforms and improvements of the investment climate. Greater opening up of the Russian economy to the outside world would strengthen both the competitive pressures and the transfer of resources and skills to the modernisation and efficiency enhancement process. Integration into the world economy and its institutions would provide benchmarks also for the regional integration process among the CIS countries.

2.4 Access to Capital and Investment Requirements

The last two years saw a substantial broadening of access to capital by many segments of the Russian businesses. Political stability, strong macroeconomic fundamentals, abundant global and domestic liquidity, low interest rates and, until recently, a rapidly strengthening investor confidence have led to robust growth in both the supply of and demand for investment finance.

Domestic bank financing has expanded fast. The claims of commercial banks on the private sector increased by 82 per cent in real terms between 2000-2003. This trend continued until very recently with a further increase of close to 15 per cent in real terms during the first half of 2004. The highest growth was exhibited by the loans to individuals. Their share in the total amounts of loans grew from a level of 4.7 per cent in 2000 to around 11 per cent at end-2003. By international standards, however, the level of credit remains low and heavily concentrated on a few dozen large mainly resource-based companies. Medium to long-term credits are especially limited reflecting partly the unfavourable maturity structure of the available funds and the continued problems in confidence among the different economic players. Bank financing still accounts for less than 10 per cent of capital investment. The degree of market-oriented financial intermediation is even lower given that much of the credit growth occurred within financial-industrial groups or happened in the form of directed lending to state-controlled companies. SMEs remain particularly disadvantaged in their access to investment finance.

The role of the Russian stock market as an alternative source of finance remains modest. Capitalisation of the stock market amounts only to about USD 200 billion and is dominated by secondary market trading in shares of a few dozen large resource-based companies, utilities and telecommunication companies. Although the market boomed for most of the 2001-2004 period, there have been only a few new public offerings. As a result, less than 10 companies account for more than 80 per cent of total market capitalisation. Many of the large corporates continue to issue ADRs/GDRs on the New York or the European markets. The lack of depth of the domestic stock market translates into high volatility as demonstrated by developments in the first half of 2004.

Since 2002 Russia’s nascent corporate bond market has become an increasingly important alternative to bank financing, with an accumulated total value of domestic bonds of USD 10 billion by mid-2004. Whereas larger companies have access to the international bond or syndicated loan market, smaller companies without credit history could borrow on the – until recently – fast increasing domestic corporate bond market. Leasing is also expanding fast, although it continues to play a limited role in the investment process. Municipal bonds are an important channel of finance for many regions and municipalities within the confines of the regulatory ratios provided by the Budget Code.

International borrowing of the large Russian corporates has reached record levels over the recent years. In 2003, it increased by USD 12 billion followed by a further growth of USD 9.3 billion in the first three quarters of 2004. The sources of finance have become more diversified including apart from bilateral bank loans, syndicated lending and bond issuance.

The improving access and terms of Russian companies to the international markets has been positively influenced by a series of upgrades assigned to Russia by the credit rating agencies. Moody's raised Russia's sovereign risk rating to investment grade in October 2003 while both S&P and Fitch increased their ratings to one notch below the investment grade level. Moody's also recently placed its rating outlook on positive watch.

FDI inflows also accelerated in 2003, surging from an average level of about USD 4 billion during 2000-2002 to USD 6.8 billion. This trend continued in the first three quarters of 2004 as they expanded to USD 8 billion. FDI inflows remain modest, however, in comparison to Russia's peers. The accumulated stock of FDI amounts to about 6.5 per cent of GDP, only a fifth of the average level of the other European transition economies. Moreover foreign direct investment inflows continue to concentrate to a large extent on certain sectors and on a few regions.

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for the Strategy Period

The key orientation for the Bank's Strategy during the 2005-2007 period is substantially defined by the set of key broad challenges for the Russian economy with regard to the sustainability of growth, the diversification and integration processes as well as the reform of its public institutions and the social sector.

Through a broad range of investment operations, its catalytic impact on other investors plus its policy dialogue, the Bank is well-placed to work together with Russia in addressing these challenges.

At a broader level the Bank's transactions that help to advance technological modernisation and efficiency/productivity improvements in key sectors of the economy can make a significant contribution toward the goal of strengthening the microeconomic foundations of the sustainability of growth and facilitating Russia's integration into the world economy. The Bank can proactively contribute to the diversification process in terms of sectors, regions and ownership alike. The Bank will continue to pay close attention to the social impact of its operations in Russia while at the same time also pursuing operations with direct social significance such as potential projects in housing markets, pension or mortgage institutions, and municipal services to name a few. For example, the Bank is currently in the process of hiring a social expert who will be dealing with the social dimensions of the Bank's Environmental Policy. The Bank can also play a positive role in the ongoing reform of public institutions and emerging new rules of the game by offering its impartial feedback to the authorities on policy reform and insisting on high business and governance standards in its own operations. By being a reliable strategic partner at a time of increased uncertainties, by taking higher risk and providing comfort to investors the Bank can substantially contribute to building and strengthening confidence among the different market participants as well as between businesses and the state.

- In the coming Strategy period, the Bank plans to issue Rouble Bonds and to use its local currency financing instruments on a wider scale for SMEs, domestically oriented companies and municipalities alike. The Bank will seek to employ non-sovereign financing solutions including in sectors and transactions traditionally financed directly by the State.
- The Bank will have a stronger focus on private sector development including broader participation in privatisation based on the forthcoming new phase of the Russian privatisation process in 2005-2007. The Bank will also promote the entrance of more local companies in the domestic and international capital markets by providing assistance for IPOs of Russian private and public companies.
- The Bank will encourage a more active use of equity participation in its clients' share capital. Making equity investment to provide comfort and assistance to foreign investors setting up new ventures, as well as assisting Russian companies and entrepreneurs in building and strengthening their capital bases, creating real partnerships through the Bank's investments. Improving corporate governance, given the difficult legacy in this regard and its fundamental importance in company valuation, risk management and access to investment finance, remains an overriding consideration for the Bank in the context of the Strategy as well.

- The Bank will continue to strengthen the regional focus of its operations. The Bank's expanding portfolio in recent years has generated substantial sector experience and also provides a broader scope for creating synergies among the Bank's different operations at the regional/municipal level.

The Bank's specific contributions to promote Russia's transition agenda, reflecting also the Bank's comparative advantages, sectoral expertise and special mandates, are embedded primarily in the following sectoral and regional priorities and orientations.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Corporate Sector

The microeconomic and institutional foundations of the growth process remain weak. Enterprise restructuring, in most industries, has not yet begun on an extensive scale. Weak competition resulting from the relative closeness of the economy, the continued subsidisation, the widespread monopolistic situations and the frequently cosy relationship between the incumbent enterprises with the regional or local authorities, limits the pressure for enterprises to engage in restructuring. Over 40 per cent of the Russian enterprises continue to be loss-making.

In many cases, technology and equipment is obsolete. Some 45 per cent of production capital on the balance sheet of industrial enterprises is over 20 years old, while only 12-13 per cent is under ten years old. Industrial structures and behavioural patters are still heavily influenced by the Soviet past. Supplier networks and distribution networks are underdeveloped (partly as a legacy of the past and traditionally strong vertical integration).

Corporate governance and transparency standards, while gradually improving, remain at a low level at most companies. Some of the most substantial changes in corporate behaviour have occurred in those enterprises that have needed access to capital, particularly on the international markets. As more enterprises need to secure external finance to fund investment programmes, improvements in corporate behaviour are likely to accelerate. Corporate governance of state-owned companies involves special and major challenges.

The Bank will focus on assisting the Russian corporate sector in its modernisation and restructuring process through financing efficiency (including energy efficiency) improvement programmes of large Russian standalone companies. In this context, the Bank will engage its clients to make credible commitments to improve their corporate governance standards and practices. In particular, the Bank will continue to play a pro-active role in the practical implementation of the Russian Corporate Governance Code in respect of the requirements it applies to corporate clients where appropriate, in the context of individual projects. Where feasible, the Bank supported restructuring programmes will include energy efficiency and environmental improvement ingredients. To promote private entrepreneurship, the Bank will assist Russian companies to make IPOs both in Russia or listing on foreign exchanges.

The Bank will continue to support the entrance and business expansion of reputable foreign strategic investors and facilitate their role in transferring technology and skills, enhancing competition, setting quality, productivity, environmental and other standards for entire industries. Attracting FDI in the non-energy/natural resource sectors will remain a major strategic orientation. Therefore priority will be placed on projects which actively promote economic diversification. In this respect the Bank will seek to develop highly visible projects with companies that can compete in international markets and can promote Russia as a major investment destination.

The Bank will continue to work in areas where it has managed to build up through a number of operations significant industry knowledge and expertise. The emphasis in the different sub-sectors working with corporates will, in addition to the overall corporate objectives, depend on the specific transition challenges, constraints and circumstances in the given industry.

- In the **Heavy Machinery sector**, the Bank will co-operate with companies which are in the process of upgrading their technology, efficiency and business and governance standards. The Bank will utilise leasing schemes to finance the production of investment equipments including agricultural machines and tractors. It will also assist state-owned companies in transition to more transparent structures by separating civil and military operations.
- In the **Automotive sector**, the Bank will start to work directly with the stronger local manufactures of vehicles and components who are implementing restructuring plans as well as with these local manufacturers in joint ventures (JVs) with strong foreign entrants. The Bank will assist smaller component producers to set up in Russia by supporting supplier park concepts that are planned to be established alongside major investments.
- In the **Petrochemical Industry and Metallurgy**, the Bank's primary focus will be on the design and implementation of ambitious environmental protection and energy efficiency programmes while at the same time trying to promote competition and corporate development within these sectors
- In the **Forest Products Industry sector,** the Bank will require its clients to adhere to the key principles of sustainable forest management, and ensure environmentally sound and sustainable wood supply. Owners of pulp and paper companies must be committed to good forest management standards and transparent sales arrangements. To ensure better corporate governance, involvement with mills in this sector will necessitate financing alongside reputable sponsors that are capable to exercise the required control.
- In the **Aerospace sector**, the Bank will continue to support the ongoing process of renewal of the increasingly obsolete fleet with modern aeroplanes that meet internationally accepted standards (ICAO norms on emission and noise for aircraft, dual certification by both Russian and Western aviation authorities). With selected aerospace manufacturers, the Bank will promote the implementation of technological modernisation as well as business and corporate development programmes, where possible building on the existing local high level technological base and innovative capacity.
- In the **Agribusiness sector,** an important strategic orientation will be the development of operations with strong linkages with primary agriculture. Such transactions together with the associated policy dialogue process can significantly contribute to the acceleration of agricultural reforms.
- In the **Telecommunications sector,** the Bank will encourage, and participate in, privatisation of Svyazinvest or its subsidiaries, including pre- and post privatisation finance. The Bank will support projects promoting internet development and data communications and finance selected informatics projects, including software

development. It will also promote the development of fixed line and mobile telephony, particularly in the regions. Also the Bank will participate in financing of various advertising-driven media businesses (TV, outdoor and print) as advertising promotes competition and access to information.

- In the **Property Development and Retail sectors**, the continuous effort towards transparency and quality of the developments will be further enhanced in all property related projects while in parallel the Bank will promote the regional expansion in the sector. The Bank will also encourage and participate in the development of two to three star hotels in the main regional cities. Public consultation will also be increasingly important for the sector's operation in Russia and will be encouraged by the Bank.

In all Bank projects within the corporate sectors, the Bank will support investment which can drive improvements in market functioning, competition, corporate governance and transparency standards and provide benchmarks for global best practice in operations and customer orientation. Priority will be given to support transactions involving the commercialisation of Russian technologies and potentially competitive Russian knowledge-based and high-tech companies committed to improving their business practises.

3.2.2 Promoting Private Entrepreneurship

Recognising the importance of private entrepreneurship as an engine of sustainable growth, the Russian authorities have placed a continual emphasis on creating an enabling environment for the development of small and medium-sized enterprises through reducing taxation, simplifying the accounting and regime cutting back red tape. Despite the achievements in the context of the implementation of the deregulation laws over the recent years, however, state involvement in the economy is still excessive. Businesses continue to be constrained by the differential application of laws, uneven playing field, corruption, difficult access to commercial leases and construction permits as well as other administrative obstacles including registration, licensing and inspections. Amendments to the law on licensing aimed at further streamlining of the licensing system, however, have been submitted to the Duma in August 2004. State ownership also remains excessive, but is set to decline as a result of a major new round of privatisations that the authorities have recently announced are intended to take place during 2005-2007.

Access to finance, despite recent improvements, remains a major bottleneck, with slow progress in broadening the network of financial intermediaries servicing micro, small and medium-sized enterprises and the available range of financial instruments. Medium-sized enterprises also remain restricted in their ability to raise external finance through the capital markets, a situation that would be helped by developing good replicable examples in IPOs, listing at home and on foreign exchanges. The industry of private equity funds is largely missing in Russia. No institutional investor for a fund in Russia has emerged yet. Attempts of large industrial holdings to enter the private equity market in partnership with established western sponsors have not yet created a successful model for investment.

The Bank will continue to assist in the development of entrepreneurship in Russia – in addition to its efforts to build a strong, transparent and more effective financial sector – through further development of the Russian Small Business Fund (RSBF), the Small Business Credit Bank (KMB Bank) and Regional Venture Funds (RVFs). It will further broaden the range of financial intermediaries, including regional banks and private equity funds. In promoting micro, small and medium-sized business development, the Bank will:

- Expand the operations of the RSBF by including additional banks, deepen the regional coverage and broaden the range of "bankable" clients by improving the range of loan products and investment instruments offered. Special focus will be given to the provision of local currency financing, express loan products and agriculture loans for MSEs.
- Provide credit lines to eligible partner banks committed to conducting MSE finance on a large scale and making it an integral part of their business, in order to keep pace with the MSE demand.
- Expand the lending operations of KMB Bank, especially in the regions and for the smallest borrowers. KMB Bank will continue to play a leading role in product innovation for micro and small enterprises and continue to focus on servicing new and first time borrowers in the formal financial sector. The imminent capital increase will allow KMB Bank again to focus on its core business, MSE finance, and provide the necessary competition for commercial banks to further improve financial services for MSEs.
- Continue policy dialogue on the regulatory and investment climate for SMEs on a national and regional level with an emphasis on issues affecting loan documentation, loan and security enforcement and registration, provisioning requirements and the new tax and accounting regimes.
- Develop more pro-active synergies between different Bank operations with special focus on providing finance to SMEs around Bank’s investments in large industrial projects.
- Completing the restructuring of the existing RVFs and supporting management groups with a good track record with follow on funds. The Bank will also work towards attracting new investment teams and equity funds into Russia.
- Seek to use opportunities for co-investment with equity funds and for providing debt or quasi equity in conjunction with equity funds in which the Bank has invested as one of the routes to more direct equity investment in locally managed companies.
- Pro-active efforts to participate in privatisation of state or municipal owned production and service companies, infrastructure firms and financial institutions.
- Making equity investment to provide comfort and assistance to foreign investors setting up new ventures.
- Assisting Russian companies and entrepreneurs in building and strengthening their capital base, creating real partnerships through the Bank’s investments. This will promote the entrance of more local companies in the domestic and international capital markets with debt or equity instruments.

3.2.3 Financial Sector

Despite a remarkable growth of the banking sector assets, deposits and capital over the recent years, the banking sector – as the recent turbulence in the sector has once again revealed – continues to exhibit major systemic deficiencies. It remains small and fragmented with over 1300 banks of which around 1000 have capital of less than EUR 5 million. The institutional and legislative environment is not yet conducive to consolidation of the sector in an efficient way. The dominant role of the state-owned banks, especially that of Sberbank and Vneshtorgbank, has further strengthened in the wake of the 2004 summer banking sector turmoil.

A major part of the private banks, including the largest ones, remain closely linked to individual enterprises, local authorities or industrial conglomerates with typically very high level of connected lending and heavy concentration in these banks' funding base. Non-transparent ownership, organisational and incentive structures combined with weaknesses in the disclosure and regulatory standards and practices make risk assessment especially difficult for regulators, lenders and investors alike. The regions continue to be under-banked though Moscow-based banks continue their regional expansion and a growing number of local banks are becoming professional and viable financial institutions. Foreign banks account for less than 10 per cent of the sector capitalisation and assets, although there is increasing interest from foreign strategic investors in entering the market.

The reform process has started in earnest with the adoption of the deposit insurance law in December 2003 and appears to have accelerated in the wake of the summer mini-crisis. The bank bankruptcy legislation has been amended and the new license withdrawals have occurred in an orderly fashion. The screening process for the deposit insurance scheme has accelerated. Comprehensive guidelines for the sector development have been adopted in July 2004, as mentioned earlier, in the Banking sector strategy which together with action plan for the financial market development lay the foundations for a range of further reform steps in the financial sector including introduction of new derivative instruments, syndicated lending, mortgage backed securities, establishment of credit bureaus, the legal basis for real time deposits and overhauling the financial market infrastructure.

The Russian non-bank financial institutions, while expanded rapidly over the last few years, remain at an early stage of their institutional development. However, the take-off of the pension fund industry, the stepped up reform and WTO-related liberalisation of the insurance sector and the fast increasing demand for leasing indicate a new phase of development for the non-bank financial institutions in general.

The many far-reaching institutional changes and reform processes underway during the next strategy period create major opportunities as well as major uncertainties and risks for the Bank's participation. Playing a catalytic role in creating new markets, attracting new participants and applying new instrument is a key task for the Bank. This, together with setting standards for the existing structures and an active policy dialogue with the authorities, offers the Bank the chance to make a substantial contribution to the systemic transformation of the Russian financial sector with special regard to supporting the development of private banks. The main operational priorities will be:

- Supporting the ongoing consolidation process of the banking sector through promoting acquisitions and mergers of banks and participating in the privatisation process of selected State (and regional government) owned banks.
- Proactively seeking to assist the institutional and financial strengthening of private banks, particularly in the regions, with the provision of a full range of products, including SME credit lines, trade facilitation guarantees, mortgage loans, subordinated loans and possible equity finance. An important consideration in such transactions will be to strengthen competition to the large state-owned banks in the regions.
- Providing training and institution building to the RSBF partner banks to establish efficient and commercially viable MSE finance departments throughout the banks' branch networks, implement respective risk analysis and management capacity, strengthen internal audit, control and MIS and build up sufficient in-house training

capacity for banks to accelerate role out into the regions and rural areas and maintain high repayment performance and loan disbursement after the TA is phased out.

- Providing replicable examples for the transformation of "pocket" banks of financial industrial groups or industrial conglomerates into independent universal banks. Credible commitments to change operations, improve transparency and governance, diversify ownership and enter only into arms-length relationships with related parties will be a precondition of such transactions.
- Supporting the regional expansion and product innovation of existing foreign banks and attracting new international banks into the Russian market either via their own subsidiaries or joint ventures or other strategic alliances with domestic banks.
- Substantially increasing the share of equity and quasi-equity investments partly as a way of directly influencing governance, providing comfort for other shareholders and contributing to the confidence-building among clients and other stakeholders.
- Introduction and initial development of new products and project structures is typically an area where the Bank with its higher risk taking capacity could play a proactive and path-breaking role. In addition to operations in the area of agri-commodity lending, consumer finance, mortgage facilities and leasing the Bank can also take advantage of the forthcoming introduction of new financial instruments, for example securitisation and the development of secondary markets for certain types of asset.
- In the non-bank financial institution sectors the Bank's primary aim is to promote broader institution-building and competition within the pension, mortgage-finance, leasing and insurance sectors. Where possible facilitate the entrance of foreign strategic investors.
- An important channel to for the Bank to contribute to the development of the Russian capital markets will be the issuance of its own bonds. The EBRD as a triple A-rated institution through its own instruments should provide important benchmarks for the local markets while at the same time broadening the investment possibilities for the market participants.

3.2.4 Transport Infrastructure

Expansion and modernisation of the country's transport infrastructure has become one of the top priorities for the Russian Government. A long-term Transport Strategy is at an advanced stage of preparation and is expected to be approved in the near future calling, among others, for the continuation of the railway and road sectors reforms; modernisation of aviation, shipping and sea-ports; renovation of both airside and landside assets in airports; and increased private sector participation including through development of concessions and public private partnerships (PPPs).

The Bank, recognising the critical importance of the transport infrastructure in both the creation of a single economic space within the Russian Federation and the country's integration into the world economy, will work together with the Government to promote practical implementation of key objectives of the Transport Strategy predominantly on a commercial basis. The Bank believes that this is one of the areas in which co-operation with EIB would be highly beneficial for all parties. The Bank through its policy dialogue initiatives will contribute to the development of the legal and institutional environment conducive to PPPs, concessions and other forms of private sector involvement in the transport sector. In supporting the implementation of the Road sector reform particular attention will be paid to increased transparency in project selection and allocation of maintenance funding and support of the purely private project initiatives. The railway sector reform, which entered in the second phase of its implementation in autumn 2003 and ensures non-discriminatory access for all market players to the railway infrastructure, offers a widening scope for private sector involvement in the financing and provision of railway services. In the freight sub-sector apart from supporting the growing number of private freight operators the Bank can also promote the development of private railway carriers and thereby promoting direct competition with the state-owned regional railway companies. As the reform process broadens possible new private sector clients can emerge as private rail maintainers, infrastructure companies and rail franchisees.

Opportunities for private sector involvement in other sub-sectors are represented by developing private ports and terminals, land-side airport assets, road haulage companies, leasing of airplanes and other assets.

The Bank will work to encourage institutional reform at the level of key state-owned infrastructure companies, which would create autonomous, revenue-generating entities, acting commercially as borrowers on a public-sector, non-sovereign basis (e.g. RZD, Rosmorport, Air-navigation Corporation, and Airport GUP).

In some cases sovereign support will be required for projects of national and/or social priority and with positive overall economic return, but where cash generation is not sufficient to warrant non-sovereign approach. It may also be required where the assets are owned directly by the State and an autonomous borrower does not exist (e.g. the road sector, airside improvements in airports), as well as in cases where the risk (e.g. traffic risk) is simply too high to proceed without sovereign support. Where possible, the Bank will seek to "graduate" even this type of project from the sovereign to non-sovereign basis over time (e.g. where the reform process will eventually create autonomous borrowers, or where a project has the potential for achieving sustainable cash flows in the future). The Bank and the Government will establish a formal procedure for selecting sovereign loans where the sub-sector or the nature of the project require such support. The Bank does recognise that the availability of sovereign guarantees will be limited and is dependent on the Russian Government policy in relation to the choice between straight budget funding and IFI loans.

3.2.5 Municipal Infrastructure

In the Municipal sector a key background circumstance is the still evolving nature of relationship within the federal structure, including ultimate distribution of locally-collected taxes. Important laws, including laws on local self-governance, on delineation of competencies between the different levels of government and on fiscal federalism, have been recently adopted which will go a long way in creating a stable and transparent set of rules of the game but their implementation will be a time-consuming and complex process. The related challenges are varied and robust. Many municipalities and the majority of the municipality owned utilities and companies lack financial strength as a combined result of the traditional fiscal weaknesses of the local authorities, major limitations on their access to outside finance and the artificially low tariffs of public services. The institution-building process is still at an early stage both at the level of local authorities and the municipal utilities. International private sector investment is limited because of concerns over opaque business practices, the weak legal environment and the poor capacity to generate revenues: the increasing number of Russian private investor-operators, while willing to take risks, have yet to prove their commitment to the sector, as well as their ability to deliver improved services on a sustained basis.

Under these circumstances the Bank will focus through its policy dialogue and investment operations on:

- Continuing use of decentralised financing solutions through local government loans or loans to local public companies with local government guarantees to assist reform-minded local administrations with the establishment of successful borrowing track record and utility commercialisation.
- Introduction of cost recovery and "user pays" concepts within the limits of affordability constraints and promote transparency regarding transfers and payments;
- Support institutional strengthening and financial and operational sustainability (corporatisation) of utility companies, as well as creditworthiness of local authorities including through mobilisation of donor funded technical co-operation.
- Involvement of the private capital and management in the provision of municipal services.

Regarding the different sub-sectors of the municipal infrastructure the Bank has already developed solid track-record in water-related projects. The Bank will now focus on enhancing the portfolio with district heating and urban transport operations, as well as with social housing-related projects, while continuing to respond actively to the water related opportunities. Developments will be largely driven by the demands and reform-mindedness of the potential client municipalities and progress in the underlying fundamentals, most importantly in tariff reforms. Providing long-term local currency financing will be a pre-requisite for developing municipal business in the Russian regions, most of which are legally precluded from borrowing in hard currency.

3.2.6 Power & Energy, Natural Resources

In common with much of the authorities' reform agenda, liberalisation of the power sector has slowed recently. Nonetheless significant progress has been made to date, including establishing Federal Network Company's control of RAO UES's high voltage grid and the launching of a trial wholesale market in November 2003. Measures to create 10 wholesale generation companies (OGKs) are proceeding largely on schedule, although the decision on their privatisation is temporarily on hold. This is expected to resume in 2005 when the wholesale market would have evolved sufficiently to give a market valuation of their worth. Given the complexity of the task, the challenges in the sector are many and varied. Successfully encouraging competition will require progress on a variety of issues including: restructuring of RAO UES's federal assets and its regional energos, a process already initiated with the larger energos such as Lenenergo and Mosenergo; the further development of the trial wholesale market; the development of an appropriate regulatory framework, and undertaking priority investment in the constituent parts of the market.

The Bank will continue to focus on financing priority investments in system operation, transmission, generation and distribution transactions on a non-sovereign or private basis. A key pre-requisite for the success of a liberalised electricity market is part of Bank's efforts to facilitate the development of an efficient power market. Therefore the continued strengthening of the institutional policy dialogue with the regulator, relevant ministries and Government bodies in charge of the sector restructuring remains the priority. The Bank will also maintain policy dialogue on power sector restructuring through its role on the RAO UES Restructuring Committee, which was established under the Bank's RAO UES restructuring loan, signed in 2001. The Committee considers all issues on the RAO UES strategy and sector restructuring before they are submitted to the RAO UES Board, and is comprised of representatives of the State as the majority shareholder, the minority investors, RAO management as well as the Bank.

The period of high oil prices has meant that Russia's oil sector has made substantial contribution to the country's macroeconomic performance. Oil and gas contributes more than 20 per cent of Russia's GDP, and oil output exceeded 9 million barrels per day by mid-2004. At the same time developments surrounding Yukos have been responsible for raising broader questions regarding the security of property rights, the likely future relationship between the state and big business and the future shape of the sector. In the gas sector, reform progress has been made in terms of agreements to increase the domestic gas tariffs. The government has also unveiled plans to merge Rosneft with Gazprom and remove the ring fence on Gazprom shares, although more fundamental reform of Gazprom remains on hold.

The key challenges in the sector revolve around liberalising the gas market, enhancing the transportation network, and improving regulation and transparency. President Putin has called for more rapid pipeline development, including attracting more private financing to develop the transportation network. These investments will play a role in increasing competitive pressures and enhancing export capacity, particularly in the oil sector where capacity is being rapidly exhausted. Given the inter-dependence between Russia as energy supplier and various foreign countries as energy consumers, there is extensive scope for international cooperation to enhance security of supply. Concrete initiatives such as the EU/Russia Energy Dialogue have therefore the potential to accelerate the development of projects of common interest and facilitate the mobilisation of the required funding. However, enhancing domestic competition will also require the parallel development of the regulatory environment in order to encourage transparent mechanisms for allocating third party access and tariffs. Increasing operational transparency at the corporate level will also play a key role in restoring confidence to domestic and foreign companies in the sector. The sector also faces continuing environmental challenges both in terms of improving performance of existing operations and ensuring that future activities conform to high standards.

The Bank will respond to these challenges by focusing its activities in several key areas. Priority will be placed on financing independent producers that have to use Gazprom's pipeline for transportation, while simultaneously developing practical dialogue with the Government on pipeline access. The Bank will also help to develop new pipelines to enhance the domestic and export transportation network. By focusing on supporting rehabilitation projects in the older oil and gas producing regions, the Bank will place a strong emphasis on environmental improvements. Supporting projects which have important inter-regional supply impacts for both the oil and gas sectors, including promotion of LNG projects, notably in relation to the EU/Russia Energy Dialogue, will also be a key element of the Bank's strategy in the sector. Finally the Bank will seek to develop projects beyond crude oil and gas, in mining and downstream activities including refineries and petrochemicals.

Having ratified the Kyoto Protocol (KP), Russia stands to reap substantial environmental and financial gains from the KP's carbon trading mechanisms (Joint Implementation (JI) and International Emission Trading (IET). Russia holds a large amount of surplus credits which it could sell to countries that have a shortfall. In addition Russia's high energy and carbon intensity means that there is a potential for project-based emission reduction projects under the JI mechanism.

The Bank will seek to expand its volume of greenhouse gas emission-reduction projects, mostly through energy efficiency, renewable energy, fuel switch (e.g. coal to gas) and recovery of methane from municipal landfills, coal mines or oil fields. The Bank will also assist project sponsors in monetising the carbon credits resulting from these greenhouse gas emission-reductions by developing its Carbon Finance activity in Russia, in particular through its so-called Carbon Funds.

3.3 Regional Orientation

In the past two Country Strategy documents, the Bank has made expansion in the Russian regions a priority. Thanks in part to these efforts, as well reforms put in place in the past four years, a greater share of the Russia portfolio is made up of deals that originate outside Moscow and St Petersburg. While the two western capitals have been and will continue to be important hubs for the Bank's business, particularly in the financial sector, the increasing trend to move into the Russian regions is already evident. Currently, 86 per cent of pipeline volume and 84 per cent of the number of projects in the pipeline are being developed in regions outside Moscow and St Petersburg.

The regional orientation for the coming Strategy period is to sustain and accelerate this trend by enhancing the Bank's internal resources and methods of working in the Russian regions. The Bank recognises that these efforts will significantly be influenced by the evolving centre-regional relationship within the Russian Federation. The Bank will continue to monitor and assess the different region's investment risks and potential. The assessments will take into account the legislative, political, economic, financial, and integrity risks as well as the factors that influence investment potential: forecasts of consumer demand, the size of the manufacturing base, the financial position, institutional behaviour, infrastructure, natural resources and geographic conditions. The Bank regularly compares its own findings with those of various external experts. Based on its assessments to date, the Bank's regional orientation will include three main components:

- First, the Bank has taken steps to clarify and *strengthen the role of "regional co-ordinators"* who have been assigned responsibility for each of the country's seven federal districts. The co-ordinators have core responsibility for assessment of the regional operating environment, monitoring business developments, providing contacts to bankers and facilitating new business development.
- The second component is *enhancing information flows* within and among banking teams. The Bank has produced a staff paper on doing business in the Russian regions as well as individual profiles of the seven federal districts which can be used by bankers from sector teams who need basic information on regional economic development and business affairs. A Regional website was also created to provide for the collection of information about the seven federal districts and the 89 regions of Russia.
- The third component is *reallocation of resources to the field offices* across Russia. This includes opening new regional offices during the two years of this Strategy period to enhance the Bank's activities especially in the Volga and the Southern Federal Districts, and strengthening the existing regional offices in Ekaterinburg and

in Vladivostok by making them more operational to better facilitate expanded operations in the Urals and the Far East Federal Districts.

The Bank will also consider the possibility of a separate action plan for one or two particular regions where the clustering of operations may help fulfil the Bank's mandate of promoting transition and strengthening the private sector. This approach has been used in Kaliningrad and Sakhalin. In both cases, the Bank's activities in a remote or uniquely positioned region were anchored by a large transaction in either infrastructure or natural resources and other technical assistance and banking projects were built up around them to facilitate development of the small and medium-sized enterprise sector, address specific environmental challenges, and enhance the investment climate.

Business Opportunities in the Regions

By enhancing its resources in the regional offices, the Bank intends over the coming years to expand and diversify its business volume in Russia. With more professional bankers on the ground in a wider range of cities, the Bank will have more local knowledge, better access to information, more marketing potential and greater capacity to manage business relationships in the regions. *Annex 6* provides a detailed description of the investment potential in the seven federal districts. Below are highlights of what the Bank is currently doing in each federal district and what the main opportunities may be for the current Strategy period.

The **Central Federal District** is considered the economic nucleus of the Federation. Although it occupies less than 4 per cent of Russia's landmass, its residents make up more than 25 per cent of the population and generate 29 per cent of GDP. This district has the largest number of regions (18) of the seven districts. Central Russia's comparative strengths, aside from the obvious advantage of being home to the nation's capital and the headquarters of many national industries, include a strong scientific-technological base, the country's most advanced infrastructure, and the financial sector in Moscow. The existing portfolio in Central Russia of EUR 1,100 million is weighted toward financial sector projects (including RVF and RSBF transactions which on-lend or invest equity in a wide variety of sectors), power and energy, and agribusiness. The Bank will continue with these directions and Central Russia will remain a key target for EBRD investment for municipal development and the development of local industry, retail trade, construction materials as well as property development project financing.

The **Southern Federal District** is the third largest in Russia and contains 15 per cent of Russia's population. The district produces about 20 per cent of Russia's agricultural output, 30 per cent of Russian grain, but only 6.5 per cent of the industrial output. Lying across key energy transport routes, and ports on the Caspian and Black Seas, there are potential opportunities in port infrastructure, transport and pipeline construction. However some parts of the District have very high risk and very low investment potential. Therefore in the foreseeable future, the Bank will take an active approach to support investment mostly in the more advanced regions of this district, especially in Rostov, Volgograd and Krasnodar. Most of the small businesses operate in these regions, and with recent progress in agricultural land reform, opportunities in this sector are likely to improve. The Bank's present portfolio in the Southern Federal District is about EUR 280 million, most of the investments are routed through equity funds, RSBF and trade facilities in agriculture.

The **North West Federal District's centre is** St Petersburg. The district enjoys access to the deep sea ports in Murmansk, Leningrad, St Petersburg and Kaliningrad with its geographical uniqueness – i.e. as an exclave on the Baltic Sea, surrounded by EU states following this year's EU enlargement. There are natural opportunities in the transport sector with ports on the Baltic Sea and Arctic Ocean, the oil and gas sector (in the far north), agribusiness, retail, forestry and metallurgy (especially in Vologda), and the financial sector in St Petersburg. The North West district is considered a priority by the neighbouring states in Finland, Norway, and the Baltic countries, with which Russia is co-operating as part of the EU's Northern Dimension initiative. The current portfolio in the North West Federal District of about EUR 1 billion is weighted toward municipal finance and infrastructure, metallurgy, and agribusiness. The Bank has been expanding its activities in Kaliningrad based on the Action Plan adopted in 2001. In the current strategy period, continued attention will be paid to new opportunities in environmental projects, nuclear cleanup and transport (all in the context of the Northern Dimension framework), infrastructure and port projects, and forestry. St Petersburg is also the growing transport hub for increasing EU-Russia-Asia trade. The Bank will continue to pursue opportunities there in transportation infrastructure (seaports, railroads, pipelines), as well as retail trade and small business.

The **Volga Federal District** is known for its heavy concentration of technology-intensive industry such as machine-building and chemicals, automotive, consumer goods, and oil and oil products. The most developed regions of this District are Samara, Nizhny Novgorod, Perm, Tatarstan and Bashkortostan. The Bank's portfolio is around EUR 500 million, and is weighted heavily to general industry – automotive, chemicals, glass, among others. Further investments in these sectors will be proactively pursued in the current strategy period, as well as new business opportunities in small business development and transport.

The **Urals Federal District** is one of the richest of Russia's seven federal districts, rich in natural resources, and has a concentration of the country's metallurgy and military-industrial plants with major enterprises in ferrous and non-ferrous metallurgy, machine-building, chemicals, pharmaceuticals and timber. Tyumen, Khanty-Mansii and Yamal-Nenets together provide the country's main oil (66 per cent) and gas (90 per cent). The economy is concentrated around large FIGs (LukOil, Gazprom, RusAl, SuAl, Evrazholding, Mechel, OMZ, etc). Limited access to opportunities for outside investors explains the relative limited FDI. Most small business operates in Sverdlovsk and Chelyabinsk. The Bank's current portfolio in the Urals is around EUR 400 million and weighted toward natural resources, metals and mining, municipal activity in Surgut, and the financial sector. Most of these regions represent average risk and higher investment potential. The intention is to increasingly pursue new opportunities and to provide higher level of support to the existing portfolio in the Urals from the regional office in Ekaterinburg, making this office more operational through re-allocating more experienced banking resources.

The **Siberian Federal District's** climate, prosperity and population density differs significantly from the other districts. Some of its regions are dominated by natural resource extraction. The areas mired in poverty and economic depressions are mainly in the south of the district (Chita, Altai, Omsk, Buryatia, Khakasia, Evenkisky, Ust-Ordynsk Buryatsk, Tyva). Larger industrial centers are also located in the south (Novosibirsk, Krasnoyarsk, etc). The central and northern parts of the district are largely undeveloped, a few roads and rivers are available for transportation, which are a bottleneck during winter. Preparing for the winter is a key activity during the short summer. Presently the Bank's portfolio is around EUR 100 million in this district, mainly in natural resources and in sovereign guaranteed transport infrastructure. The Bank is unlikely to find many more banking opportunities in these regions until business and living standards are improving. However, the Bank will monitor, and react positively, to financing opportunities that may emerge, i.e.

in the areas of SME or trade facilitation. The Bank will continue to welcome good environmental projects and potentially viable FDI.

The **Far East Federal District** is Russia's outpost in the Asia-Pacific region. Oil and gas, fisheries, timber, gold and diamonds are the district's most abundant resources. Located far from Moscow, regions in this federal district had a reputation for fierce independence and indifference toward central authorities. In recent years, energy shortages, particularly in winter, have created social tensions and considerable concern in Moscow. Currently over 80 per cent of GRP is represented by Sakha, with its wealth of natural resources, Primorski (95 per cent of landed fish) and Khabarovsk which has processing plants. SME, mostly operating in Primorsky Krai, contribute 10 per cent of GRP. Primorski region's proximity to Japan and China provides for strategic trade and investment opportunities. It is expected that modernisation of transportation infrastructure (seaports, railroads, pipelines) will gather momentum in the coming two years. The EBRD's portfolio in the Far East Federal District is over EUR 500 million. It is weighted toward natural resources (in Sakhalin where an Action Plan is being implemented), power and energy, gold mining, and shipping. In the current strategy period the Bank will explore further opportunities in these sectors, in addition to projects in MEI, transport, forestry, food processing and the financial sector. There is a high potential for cross-border transactions involving one or more of Russia's Asia-Pacific neighbours.

4. CO-OPERATION WITH OTHER IFIs AND MULTILATERAL DONORS

European Union (EU)

The EU-Russia relations are based on the Partnership and Cooperation Agreement (PCA) which came into force in December 1997 for an initial period of ten years. It establishes the institutional framework for bilateral relations, sets the principal common objectives, and calls for activities and dialogue in a number of policy areas. A protocol to the PCA was signed by the EU and Russia on 27 April 2004 to extend the agreement to the 10 new Member States as of 1 May 2004.

The EU provides for technical assistance through the TACIS programme and more than EUR 2.6 billion has been allocated to Russia since 1991. The indicative programme for 2004-2006 identifies the following broad priorities: i) support for institutional, legal and administrative reforms, ii) support for the private sector and assistance for economic development, and iii) support for addressing the social consequences of transition.

At the St Petersburg Summit in May 2003, the EU and Russia agreed to reinforce their co-operation by creating in the long term four 'common spaces' in the framework of the Partnership and Co-operation Agreement. It was decided to create a common economic space; a common space of freedom, security and justice; a space of co-operation in the field of external security; as well as a space of research and education, including cultural aspects.

As far as the common economic space is concerned, it was agreed to strengthen the cooperation in the field of economic and trade relations, trade facilitation and customs, infrastructure development (telecommunications, transport), as well as energy and the environment.

A comprehensive road map for the implementation of the common spaces is currently being developed and there are considerable opportunities for the EU and the EBRD to co-operate in the further work.

The major areas of co-operation between the EU and the EBRD include the environment with special regard to the Northern Dimension initiative, development of the European transport infrastructure, projects derived from the EU-Russia energy dialogue, Kaliningrad, cross-border and regional integration issues.

The European Commission is ready to offer Russia support and assistance in implementation of the Kyoto Protocol. The Commission is preparing a EUR 2 million TACIS grant to assist Russia in capacity building. In particular assistance is offered in areas such as monitoring and reporting for greenhouse gas emissions and creating a national registry for emission credits. Resources for co-operation in the energy sector have been earmarked in the 2004-2006 TACIS Indicative Programme. Under the EU-Russia Energy Dialogue, the Commission has established an Energy Technology Centre in Moscow which can assist companies in identifying energy efficiency projects in Russia. Well co-ordinated efforts of all donors and stakeholders could contribute significantly to a successful implementation of the Kyoto Protocol in Russia, to the advantage of all parties.

Northern Dimension Environmental Partnership (NDEP)

During the previous Strategy period, the EBRD has played a key role in the establishment of the Northern Dimension Environmental Partnership (NDEP) and the NDEP Support Fund. The NDEP is playing a key role to strengthen and co-ordinate financing of the environmental projects with cross-border effects in the northwest Russia. Under the NDEP, the Bank has co-operated with the Nordic Investment Bank (NIB), the European Investment Bank (EIB), the World Bank (IBRD), the EU, bilateral donors and the Russian Federation to mobilise finance priority environmental projects in northwest Russia in the areas of water services, wastewater treatment, district heating, solid waste management and nuclear waste.

The NDEP Support Fund is managed by the EBRD. By the end of 2003 contributions to the Fund reached EUR 196 million, of which EUR 148 million was earmarked for nuclear safety related projects. The remaining EUR 48 million was left non-earmarked and available for both environmental and nuclear safety projects. At the end of 2003 seven projects have been approved for co-financing from the NDEP Support Fund. The investment leverage effect of these grants has been considerable: a total of EUR 874 million in investment capital has been mobilised, of which EUR 454 million has been provided by IFIs in loans, while the Fund itself has committed EUR 38.55 million in support of these projects.

The major challenge for NDEP is to secure the replenishment of the NDEP Support Fund to enable further investment to take place for environmental projects in north-west Russia. The NDEP Steering Group has identified further six priority projects with a total cost of more than EUR 800 million. Preparation of these projects has been supported with substantial financing from Nordic bilateral donors and the European Commission. Additionally the NDEP Implementing Agencies are working on several other environmental projects worth of EUR 155 million. In order for the NDEP to realise the potential of over EUR 1.8 billion in investments in north-west Russia, additional donor support is needed.

European Investment Bank (EIB)

In line with its policy to support EU neighbours, the Ecofin Council mandated EIB on 25 November 2003, to expand lending to Russia (and Ukraine, Belarus and Moldova) with EUR 500 million until the end of 2006. However, due to EU procedural reasons, this new mandate has not yet entered into force (but should do so shortly). Russia's inclusion in EIB's future general Regional mandate (2007-2013) is scheduled for a decision in 2006 at the Ecofin Council. Under the current mandate until 2006, the EIB's lending to Russia will support cross-border projects, with priority on improving the Trans-European transport network, energy infrastructure, environment and telecommunications and is conditioned upon additionality and an appropriate work sharing with the EBRD. Under the existing "Northern Dimension mandate" EIB's current portfolio includes the St Petersburg Waste Water and the St Petersburg Flood Barrier projects. Two other transactions, the Kaliningrad Waste Water and the St Petersburg Northern Incinerator projects, await finalisation depending on the availability of a sovereign guarantee or an alternative acceptable guarantee mechanism. The Bank continues to stand ready to co-finance with EIB on projects of mutual interest..

International Monetary Fund (IMF)

The last full-fledged IMF programme for Russia was the July 1998 Stand-by which expired in late 2000. The highest level of IMF credits outstanding was reached at end-1998 with a

SDR 13.7 billion. Since then Russia has been consistently repaying the IMF funds and its outstanding debt has shrunk to SDR 2.8 billion by mid-2004. Over the recent years the IMF's activities have been confined to Article IV consultations, occasional sector assessments and related policy advice for macroeconomic management and general reform issues. The most recent Article IV consultation took place in June 2004. The concluding statement, while recognising Russia's robust economic achievements and sound policies over the recent years, points to a range of emerging macroeconomic tensions most importantly associated with a possible major fiscal loosening from 2005. The statement calls for perseverance with fiscal prudence and acceleration of structural reforms. The EBRD will continue to consult with the IMF on a regular basis to assess Russia's macroeconomic policies and progress in transition. The policy dialogue process conducted by the Bank should also benefit from the co-operation and coordination with the IMF especially in areas with direct macroeconomic or broader policy implications such as financial sector reforms, restructuring the natural monopolies, trade and currency liberalisation or relationship between the federal and the regional and local authorities.

World Bank (IBRD)

The World Bank's financial commitments to Russia were USD 13.5 billion as of March 2004 for 59 adjustment loans and investment projects. Since 1999 Russia stopped borrowing from the World Bank for adjustment programmes. There are currently 25 investment projects under implementation with total commitments amounting to USD 2.9 billion. Disbursement for these operations are envisaged at USD 358 million for 2004 and USD 615 billion for 2005. The Country Assistance Strategy (CAS) for 2003-2005 identifies three broad priority areas: i) improving the business environment and enhancing competition; ii) improving public sector management; and iii) mitigating social and environmental risks. The most recent investment operations are the Health Reform Implementation Project, the Tuberculosis and AIDS Control Project, the Customs Development Project, the St Petersburg Economic Development Project and the e-Learning Support Project. New lending is fundamentally constrained by the limited availability of sovereign guarantees. New project initiatives potentially eligible for sovereign support should target and maximise knowledge transfer in three broad areas: public infrastructure projects of national importance, institutional strengthening of public administration and social infrastructure. The key focus of the World Bank's current activities in Russia, however, lies with a wide-ranging advisory work on important reforms deriving from the strategic priorities of the CAS including civil service and judicial reforms, banking sector restructuring and a series of reform areas associated with regional development and reform issues such as intergovernmental finances reform, housing and communal services reform and strategies to reduce poverty and regional disparity. The advisory work builds on demand driven policy notes, multi-year TCs aimed at capacity building and deeper analytical studies. While the difference in mandates and procedures of the two institutions limits the co-operation in specific investment projects, the co-operation between the World Bank and the EBRD has a broad scope in policy dialogue and project complementarities in the areas of environmental protection, reforming the natural and other infrastructure monopolies, working with Russia's regions and municipalities as well as reforming the financial sector.

International Finance Corporation (IFC)

As of mid-2004 the IFC's cumulative gross investment in Russia amounted to USD 2.3 billion in about 90 projects. New commitments reached USD 500 million in the 2002-2003 financial year and up to USD 600 million investment is estimated for the 2003-2004 year.

The sectoral composition of the portfolio is dominated by the financial sector with more than 30 transactions in the banking and non-bank financial institutions sector. Their combined value accounts for over half of the portfolio. The remainder of the IFC's operations is spread across a wide range of sectors including general industry, natural resources, telecommunication, utilities, transportation and retail trade. Technical assistance operations have been focusing on different aspects of the financial sector (corporate governance in banks, legal advice on securities law, leasing development), information and communication technologies as well as environment and energy efficiency (sustainable development of forestry, private sector involvement in energy efficiency and waste gas utilisation). There have been numerous transactions jointly financed by the IFC and the EBRD. The co-operation between the two institutions with similar mandate is guided by portfolio diversification considerations, possible synergies between the IFC's and the EBRD's activities in terms of sector expertise, the due diligence process, leverage over clients, or complementarities of projects and policy dialogue. Co-operation remains focused on operations in the financial sector with special attention to strengthening the network of regional banks, the introduction of new financial instruments and development of the capital markets but the joint work and in other cases competition will intensify in general industry and the other emerging priority areas such as transport. Co-operation in the context of FIAS studies will also retain its significance.

ANNEX 1: POLITICAL ASSESSSMENT

Compliance with Article 1

The Russian Federation is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank; however, in the past Strategy period, application of these principles has been uneven.

Political Accountability

The 1993 Constitution provides for a strong president with wide powers over the Government, the legislature and the judiciary. The past Strategy period has seen the continuation of a trend to enhance executive powers still further, although within the limits of the Constitution. As a result, the checks and balances in the political system have been weakened and the public's ability to hold its elected leaders accountable could suffer.

The most important political institution that holds policy makers accountable in a democracy is the electoral system. Regularly held free and fair elections provide a potent check on the ability of people in power to abuse their positions. Elections in Russia in the past two years showed signs of a maturing democracy in some respects, but fell short of international standards in others. Elections were held according to the timetable determined by the Constitution, and were generally well-administered. The OSCE Office of Democratic Institutions and Human Rights (ODIHR) gave high marks to the Central Election Commission for overseeing orderly and professionally administered national elections in December 2003 and March 2004. OSCE/ODIHR has praised the legal framework for elections, which promotes openness and transparency both in the organisation and conduct of elections.

However, features of the campaign in both national and regional elections have led to criticisms from international and domestic monitors for failure to meet commitments to hold free and fair democratic elections. With regard to the State Duma election on 7 December 2003, OSCE/ODIHR reported problems related to unfair access to the media, the blurred separation between the State and the pro-presidential United Russia party, and unequal treatment to all political parties. The main area of concern, they concluded, was the excessive advantages of incumbency that were enjoyed by United Russia and the extensive use of State administrative resources which "seriously distorted the process". OSCE/ODIHR also noted the low turnout in the election, with around 55 per cent of eligible voters going to the polls on Election Day, and the relatively high proportion of voters (4.7 per cent) casting ballots "against all". This could be an indication of voter disillusionment with the democratic process and lack of confidence or distrust in the country's representative institutions. Independent public opinion polls add weight to this interpretation.

The election results suggest that United Russia benefited from the advantages described by OSCE/ODIHR: United Russia won 38 per cent of the vote in the party-list voting and prevailed in 120 of the 225 single-mandate district races to emerge with control of 300 of the 450 Duma seats, or a two-thirds majority. That is the exact number of votes needed to amend the Constitution. The Communist Party had its representation in the Duma cut in half, although a left-leaning offshoot of the Communist Party, Motherland, did surprisingly well. Two liberal opposition parties failed to clear the 5 per cent threshold.

With regard to the Presidential election on 14 March 2004, OSCE/ODIHR found that the election process “failed to meet important commitments concerning treatment of candidates by the State-controlled media on a non-discriminatory basis, equal opportunities for all candidates and secrecy of the ballot”. The President enjoyed high public approval ratings throughout his first term, but did not run a conventional campaign and declined participation in debates with the other candidates. As a result, important elements of democratic elections, such as vibrant political discourse and meaningful pluralism, were lacking according to OSCE/ODIHR. Nevertheless, the outcome of the Presidential election, in which the incumbent won by an overwhelming majority, accorded with independent polls of voter preferences before the election.

International observers from the Commonwealth of Independent States (CIS) had a different view of the conduct of national elections. In its final report on the 2003 Duma election, the CIS observer team concluded that “the elections to the State Duma on December 7, 2003 were held in accordance with the norms of federal electoral legislation, and [the observer team] recognise them as free, open and democratic elections”. In its final report on the 2004 Presidential election, the CIS observer team similarly recognised the election as “free, democratic and fair”. In both cases, the CIS observers noted some “irregularities and deficiencies” in the preparation of the election, voting process and pre-election advertising, but this did not interfere with the free expression of voters’ will nor did it affect the results.

Following the wave of terrorist attacks in summer 2004, the authorities adopted measures to enhance public security and reinforce the power of the central Government. Two of those measures have direct consequences for the electoral system and public accountability. The first is the abolition of direct election of regional executives through a popular vote, to be replaced with their appointment by the President. The appointments will then be subject to approval by the regional legislatures. This will strengthen the centre’s control over regional politics, though it could come at the cost of some measure of the legitimacy and accountability of regional leaders to their electorates. Although the elections and political processes in the regions were far from perfect, an alternative to abolishing democratic practices like direct elections could have been to invest in them further.

The second measure changes the electoral system for the State Duma. In the past, half the Duma seats were filled through party-list voting and half through direct elections in single-mandate districts. After the reform, all the seats will be filled through party-list voting. In the long run, this measure could help to strengthen political parties, as it has done in other countries with fully proportional representation systems. However, in the near term it may concentrate power further in the hands of political parties loyal to the Presidential administration and exclude from the Duma the few liberal deputies who have won in single-mandate races.

In addition to regular democratic elections, the accountability of political leaders is ensured through active participation in the political process by individuals and civil society groups. In his May 2004 state of the nation address, the President confirmed that “without a mature civil society, there can be no effective solution to people’s pressing problems.” Non-governmental organisations (NGOs) contribute in important ways to civil society development. They can help the State to meet basic social needs and they monitor (and seek to influence) State policy. The Russian authorities acknowledge the relevance of both roles. The Presidential administration has signalled its intention to shift more responsibility in meeting basic needs to the non-state sector, and has declared its support for the creation of "public chambers" that would provide independent scrutiny of the State and its regulatory bodies.

The NGO sector is developing dynamically, though it remains small for a country the size of Russia and is relatively ineffective on balance. Still, there have been some notable successes. NGOs were actively engaged in the parliamentary debate on human trafficking and contributed positively to new legislation in December 2003 that amended the Criminal Code to make trafficking a crime. The authorities have worked closely with NGOs on creating civilian inspections of prisons. The Union of Committees of Soldiers' Mothers, a voluntary group that has been active in representing the interests of Russian draftees serving in Chechnya since the first conflict began in 1994, was successful in advancing legislative initiatives on the draft and alternative service.

However, in the past Strategy period NGOs and other civil society organisations have complained of a more difficult operating environment, especially for those groups engaged in monitoring State policy or receiving funding from charitable foundations deemed less acceptable by the authorities. The Soldiers' Mothers organisation has noted a less cooperative attitude from some parliamentary and governmental agencies, and instead has been working to create a new political party to advance its agenda. According to Human Rights Watch, an analyst from the Moscow Helsinki Group was kidnapped while preparing a report on human rights conditions in Chechnya and questioned about his work. Other groups have also reported obstacles to monitoring efforts in Chechnya and harassment from officials.

One of the most difficult challenges for NGOs operating in Russia is funding. There are relatively few charitable foundations that provide grants to relief organisations or other NGOs, and foreign sources of funding are drying up. One major domestic foundation, Open Russia, has been subject to investigations by the tax authorities as part of the tax evasion case against the oil company Yukos. Open Russia was established by the chairman of Yukos. Grant recipients from Open Russia have also been subject to investigations. Further, the Duma is considering amendments to the tax code that may make it harder for domestic and foreign donors to assist Russian NGOs. If the bill passes, only grants made by government-approved donor organisations will be tax exempt. All others will have to pay tax at a rate of 24 per cent. This would be a significant financial hurdle for most Russian NGOs.

In sum, the President's strong second-term mandate and firm backing in the Duma will enable effective coordination between the executive and legislative branches of government on important reforms. However, the weakening checks and balances in the system could limit the authorities' ability to devise innovative solutions to longstanding and difficult policy challenges. The parliament is lacking significant representation from the two reform-minded parties that had caucuses in the previous Duma: Yabloko and Union of Right Forces. These parties, together with independent deputies elected in single-mandate districts, had been effective in improving the content of reform-oriented bills in the course of approving legislation. In the absence of strong, politically engaged civil society organisations, and without vibrant political debate in the legislature, policy making will fail to benefit from (and reflect adequately) the diversity of views in the electorate.

The Rule of Law

The rule of law is an essential feature of a pluralistic political system and a market economy. It means that all individuals and groups are equal before the law, and that the law is applied fairly and even-handedly by an independent judiciary. Legal and judicial reform has been among the top priorities of the current administration, and there have been welcome signs of increasing judicial independence in the past Strategy period. At the same time, several commercial and criminal cases have raised questions about the selective application of the law and the impartiality of judges. Corruption in the judiciary is also still a significant problem.

One of the most important legal reforms in the past several years was the introduction of jury trials. By mid-2004, jury trials were being held in almost all 89 regions for some proportion of criminal prosecutions. According the chairman of the Supreme Court, the rate of acquittal in jury trials is 15 per cent, compared to an acquittal rate of 0.6 per cent for comparable cases heard by a single judge or panel of judges. Even though many acquittals were later reversed on appeal, on balance the results of the reform have been encouraging. The same can be said for the implementation of reforms to the Criminal Procedures Code that have strengthened the judiciary relative to the Procuracy, placed limits on pre-trial detention and enhanced prisoners' rights. Judicial independence has also been enhanced by the election of a new chairman of the Constitutional Court who was known for his incorruptibility and impartiality.

Further strengthening of the judiciary is needed to consolidate these positive developments. In the commercial sphere, weaknesses in the application of company law, bankruptcy law and privatisation law have allowed a number of "hostile corporate takeovers" by powerful business groups. These groups use a combination of legal loopholes and, allegedly, bribes to judges to subvert the legal regime and gain control of Russian companies. The current administration's efforts to rein in big business may address this problem, but in doing so could raise another concern: the perception that the law is being applied selectively to those who disagree with the authorities. The merits of the case against the oil company Yukos and its founder for tax-related offences will be decided by the courts. While these charges against Yukos are in conformity with Russian law, critics have noted several instances in which due process and compliance with Russian legal procedures and statutes have been exceeded. Further, the decision to prosecute this business group and not others who are believed to have committed similar offences has given rise to questions of arbitrary use of the judicial system. The chairman of Yukos, the country's richest man, was active politically and was mentioned as a possible Presidential candidate for the 2004 or 2008 election before his arrest and detention in October 2003.

Weaknesses in the criminal justice system also persist. Human rights groups have raised concerns about the fairness and openness of trials against people accused of espionage, an area of special sensitivity. A recent case in which a researcher from a prominent Academy of Sciences institute was found guilty of treason and sentenced to 15 years in prison attracted particular attention. Human Rights Watch detailed several due process violations and, in a press release in June 2004, concluded that "the Russian government appears to be using this case to intimidate academics, journalists and others who do research on sensitive issues".

Although the overall crime rate has come down in recent years, organised crime is still a serious problem and contract killings have reached record levels according to Interior Ministry officials. In most cases, high profile murders – of political figures or journalists –

go unsolved by the police. A recent case involving the murder of a well-known Western investigative journalist working for Forbes magazine drew attention to the problem. This undermines law and order and creates a permissive environment for criminals to use deadly violence as a means of settling disputes.

Finally, a bill proposed by the Federation Council that would give the Presidential administration and upper chamber of the parliament (the Federation Council) joint control over appointments to the Supreme Qualification Collegium, has raised concerns of undermining judicial independence. The Supreme Qualification Collegium appoints judges to the Supreme Court and Supreme Arbitration Court, and is the only body with the authority to fire judges. Currently, the court is comprised of 29 members, 18 of whom are elected by fellow judges, ten appointed by the Federation Council, and one appointed by the President. Under the reform, the collegium would be cut back to 21 members, 10 nominated by the President and approved by the Federation Council, 10 appointed by the Federation Council, and one appointed by the President. The bill's sponsor believes this reform will reduce corruption in the judiciary; however, opponents, including several current and former judges and legal scholars, fear that if adopted it could politicise the judiciary and narrow the separation of powers among the three main branches of government.

Civil and Human Rights

The Russian Constitution guarantees protection of all basic rights and freedoms, and these are largely upheld in practice. As in the previous Country Strategy, the two main issues of concern to rights groups and the international community are media freedom and human rights conditions in Chechnya. Reports from domestic and international rights monitors suggest that progress in these two crucial areas has been insufficient.

There is a wide range of broadcast and print media in Russia and access to the Internet is increasingly available. A significant part of the market is made up of privately-owned, independent news and entertainment providers, though the State at various levels continues to control a large share of television stations and print media outlets. Opposition views are often expressed through independent outlets. However, the primary news source for most Russians where issues of national and international importance are concerned is the national broadcast media. In this sphere, the State has consolidated its control over the three main television stations – ORT, RTR and NTV –as well as the two largest radio stations – Radio Mayak and Radio Rossii. The last remaining independent television station with national coverage, TVS, was taken off the air by the Press Ministry in June 2003 mainly due to financial problems.

According to media monitors, reporting on sensitive political issues on the state-owned stations – including elections, corruption and the conflict in Chechnya – betrays a strong bias in favour of the Presidential administration. This was especially evident in the cases of the Duma election in 2003 and Presidential election in 2004. The OSCE observer mission for the Duma election reported that state-owned television networks actively promoted candidates from the pro-presidential United Russia party and did not provide comparable coverage of candidates from other parties. In the Presidential election, OSCE reported that the state-controlled media "displayed clear bias in favour of the incumbent in news presentation and coverage of the campaign". Independent news organisations have had restricted access to Chechnya, where intense fighting and terrorist activities continues. Reporting in the region by the state-controlled media is not considered to be balanced.

Human rights conditions in Chechnya have not improved, according to reports by domestic and international rights monitors such as Memorial, Moscow Helsinki Group, Amnesty International, Human Rights Watch, and the Council of Europe. This is the result of violations on both sides of the Chechen conflict. Terrorist atrocities committed against civilians in the North Caucasus, Moscow and elsewhere in Russia are the worst form of human rights violations, and the entire international community has come together to condemn these attacks. Chechen fighters, reportedly with the backing of international terrorist groups, continue to kill Russian civilians and fellow Chechens who do not assist them, and use civilians as human shields and as forced labour.

At the same time, various federal and Chechen security forces are alleged to commit various human rights violations during "special operations" including murder, forced disappearance, torture, hostage-taking, rape and arbitrary detention. The Russian human rights group Memorial reported 472 disappearance cases in 2003, 269 of which were never resolved. In the first quarter of 2004 Memorial reports that 78 people were abducted in Chechnya, 41 of whom subsequently "disappeared". In April 2004, the UK-based Medical Foundation for the Care of Victims of Torture provided for the first time reliable evidence of the use of rape in the Chechen conflict. Seventeen cases of rape were documented following medical and psychological examinations, 13 by Russian soldiers.

In a hearing held by the Foreign Affairs Committee of the European Parliament on 22 September, a Presidential advisor and spokesperson on Chechnya acknowledged the problem of violations by federal forces, but insisted that "dozens of soldiers and officers have been sentenced for their actions". Efforts by the Russian authorities to investigate and prosecute human rights abuses have been welcomed by the international community. However, according to a resolution by the Parliamentary Assembly of the Council of Europe (PACE) in September 2004 these efforts still fall far short of what is needed to correct the situation. The resolution concludes that "a climate of impunity is prevailing in the Chechen Republic due to the fact that the Chechen and Federal law enforcement authorities are still either unwilling or unable to hold accountable for their actions the vast majority of perpetrators of serious human rights violations". In September 2004, following the attack in Beslan, the authorities announced new initiatives to enhance the development prospects in Chechnya and the rest of the North Caucasus. This included the creation of a special Federal Commission on the Economic Development of the North Caucasus and the appointment of one of the President's most trusted advisors as the Permanent Representative for Southern Russia.

A final area of concern is trafficking in human beings. According to the US State Department, Russia is a source country and transit country for women trafficked for purposes of sexual exploitation. The State Department's 2004 Trafficking in Persons Report places Russia on a Tier 2 Watch List for lack of progress on protection of victims, but acknowledges that the Russian authorities are making significant efforts to comply with the minimum standards for the elimination of trafficking. In this respect, the amendments made to the Criminal Code in December 2003 outlawing trafficking in persons and forced labour were welcomed and strict enforcement was encouraged.

External Relations

A top priority in Russia's external relations is strengthening ties with the neighbouring CIS countries. This is reflected in recent efforts to advance institutional arrangements that promote CIS co-operation in trade and economic relations, security and intelligence coordination and energy policy. In 2003, Russia signed the Single Economic Space Agreement with Belarus, Kazakhstan and Ukraine. In the same year it created the Collective Security Treaty Organisation together with five other CIS countries, as a counterpart to NATO. In terms of bilateral relations, Russia's relations with Belarus are shaped largely by the Union Treaty but in the past two years there have been frequent disagreements over property rights, the timetable for currency unification, prices for natural gas and the terms for privatisation of the Belarussian gas transit monopoly Beltransgaz. Relations with Georgia have seen periods of tension stemming from the breakaway Georgian territories of South Ossetia and Abkhazia. Russia is a participant in multilateral efforts to resolve so-called "frozen conflicts" in Nagorno-Karabakh and Transnistria, but progress in both cases has been slow.

Russia seeks to maintain friendly ties with Western countries and with Japan, which it promotes through regular bilateral contacts, a Partnership and Co-operation Agreement with the European Union and such bodies as the G8. Russian relations with the United States are anchored by their common effort to combat global terrorism, and ties with Europe and Japan are reinforced by the expanding energy trade and economic interdependence. At the same time, questions have been raised regarding some recent domestic political developments as well as Russia's more assertive stance toward neighbouring countries.

ANNEX 2: LEGAL TRANSITION

ASSESSMENT OF THE RUSSIAN FEDERATION'S COMMERCIAL LAWS

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws "on the books" (also referred to as "extensiveness") and the actual implementation of laws (also referred to as "effectiveness"). All available results of these assessments can be found at www.ebrd.com/law. This annexe presents a summary of the results for the Russian Federation, accompanied by critical comments of the Bank's legal experts who have conducted the assessments.

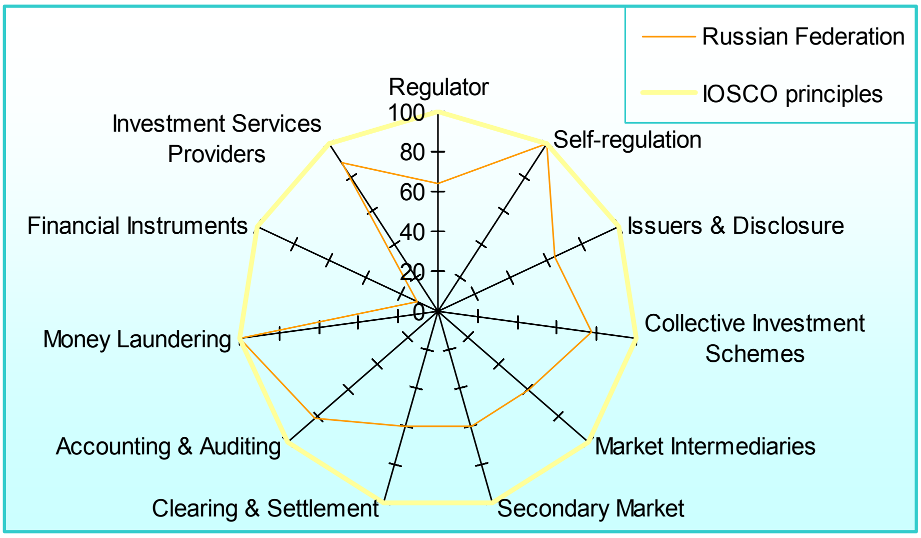
Capital Markets

The primary legislation governing the Russian securities market includes the Civil Code, the Law on the Securities Market ("SML") and the Law on the Protection of Rights and Lawful Interests of Investors on the Securities Market ("LPR"). While the Civil Code was promulgated in December 1994 and the LPR in March 1999, both were amended in December 2003. The SML came into force in April 1996 and has been amended several times, most recently in December 2002. Intended as a comprehensive securities market law, the SML regulates securities, the status of stock exchanges, the transfer and protection of ownership rights, and the activities of all market participants. Along with the enactment of the SML, there were a number of decrees issued by the former regulator, the Federal Commission for the Securities Market (the "FCSM"), regulating certain aspects of the securities market.

By decree effective 12 March 2004, Russian President Putin abolished the FCSM and transferred its control and surveillance powers to the Federal Service for Financial Markets ("FSFM") which operates directly under the jurisdiction of the federal government. The competence of the FSFM appears to differ from that of its predecessor but its functions and authority remain unclear for the moment. Although currently the federal government appears to have assumed the authority to implement securities regulations, no provisions have yet been implemented on the competence and powers of the FSFM. For the time being, there is nothing to ensure the continued enforceability of the relevant legislation adopted before 12 March 2004 relating to the competence and powers of the FCSM. For now, the securities laws of Russian Federation are in flux due to this recent change of regulator. Over time, as further implementing laws and amendments are put into place, the securities law framework in the Russia is expected to become clearer.

According to the findings of the EBRD's Securities Market Legislation Assessment in 2004, the Russian Federation is a country whose existing securities market legislation (i.e. "law on the books", not how the relevant legislation is being implemented) when assessed against relevant international standards was rated among "medium compliance" countries. However, it should be noted that this assessment was conducted during first quarter of 2004, based upon documented and enacted legislation, including the regulations adopted by the former regulator, the FCSM. According to the aforesaid assessment, Russia has extensive law in place regarding accounting, money laundering, and investment service providers. However, as can be seen from the spider graph below, there is still much progress to be made in market supervision, clearance and settlement, availability of different financial instruments, and prudential requirements for exchanges and intermediaries. For example, the regulator should be subject to a code of conduct and its activities made more public, it should have investigatory and rule-making powers, and should cooperate with regulators from other jurisdictions. In other areas, Russia needs to implement listing particular requirements, further minority shareholder protections and impose T+0 trade confirmations and delivery versus payment clearance systems, as well as to centralise the securities depository system. There currently are no "know your customer" rules and no regulatory powers to impose margin calls, reduce exposures to large share positions, or otherwise empower a market authority to take action against systemic risks.

Quality of securities market legislation – Russian Federation (2004)



Note: The extremity of each axis represents an ideal score, i.e. corresponding to the standards set forth in IOSCO's *Objectives and Principles for Securities Regulations*. The fuller the 'web', the closer the relevant securities market legislation of the country approximates these principles.

Source: EBRD Securities Market Legislation Assessment 2004

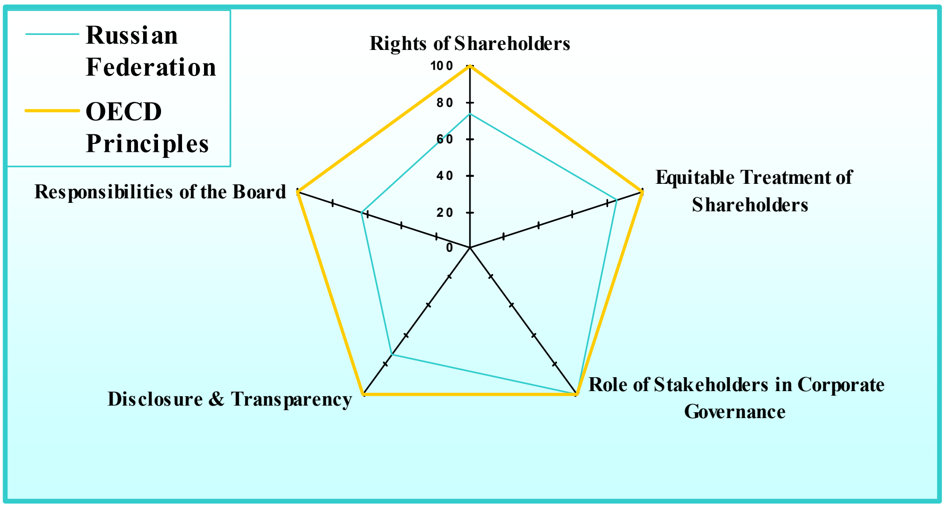
Company Law and Corporate Governance

The Law on Joint Stock Companies (the "JSC Law") came into force in January 1996 with amendments in subsequent years, the most recent being in 2003. The most significant amendments were those made in 2002, which were concerning registration of legal entities and protection of the shares of minority shareholders from dilution. For example, the approval of at least three-quarters of the votes of shareholders represented at a shareholders' meeting is required for carrying out a closed subscription for additional shares or an open subscription for additional shares in excess of 25 per cent of the outstanding stock. In case of a re-organisation of a company by way of its division or spin-off, shareholders who did not participate in voting on the issue of re-organisation or who voted against such re-organisation should receive shares in each of the new companies established as a result of re-organisation pro rata to the shares that belonged to such shareholders in the re-organised company. Further, the relevant amendments also introduce new measures making it difficult to squeeze out minority shareholders by way of an increase in the charter capital and making it almost impossible to squeeze out minority shareholders through the exercise of a preferential right and the consolidation of shares. Lastly, according to the JSC Law, the decision to limit the rights of shareholders owning privileged shares of a certain type may be approved at a shareholders' meeting only if such decision is approved by at least three quarters of the shareholders owning privileged shares of such type and three quarter of shareholders owning common voting shares.

According to the 2003 results of the EBRD's Corporate Governance Sector Assessment, Russia is a country whose existing 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 rated among "high compliance" countries. Basically, the existing corporate governance related laws and codes in such countries are relatively sound in the majority of the areas highlighted by OECD *Principles of Corporate Governance*. In the case of the Russian Federation, there remains however room for improvement.

A general reform priority for Russia is to improve effective implementation and enforcement of existing legislation. The regulator should be given sufficient independence and resources to carry out its mandate; the competence of judiciary system in adjudicating corporate governance related disputes should also be enhanced. As can be seen from the chart attached below, Russia's existing legislation remains weak in two areas highlighted by OECD Principles, i.e. responsibilities of board as well as disclosure and transparency. Accordingly, Russia needs to improve transparency in company management and board/management's accountability to shareholders. In addition, as the corporate governance culture remains weak in Russia generally, the country would benefit from better coordination and advocacy among shareholders and stakeholders and more training programmes on sound corporate governance practices.

Quality of corporate governance legislation – Russian Federation (2003)



Note: The extremity of each axis represents an ideal score, i.e. corresponding to OECD Principles of Corporate Governance. The fuller the 'web', the more closely the corporate governance laws of the country approximate these principles.

Source: EBRD Corporate Governance Sector Assessment project, 2003 assessment

Concessions

Russia does not currently have a general framework concessions law. The country continues to take a sector by-sector approach, differentiated by how much the government is involved in the production and by the significance of the sector. The rights and obligations of concessionaires, as well as the nature of government regulation, vary depending on the sector and the particular situation. It is noteworthy that there is no general *policy* framework for promoting Private Sector Participation (PSP) in Russia either.

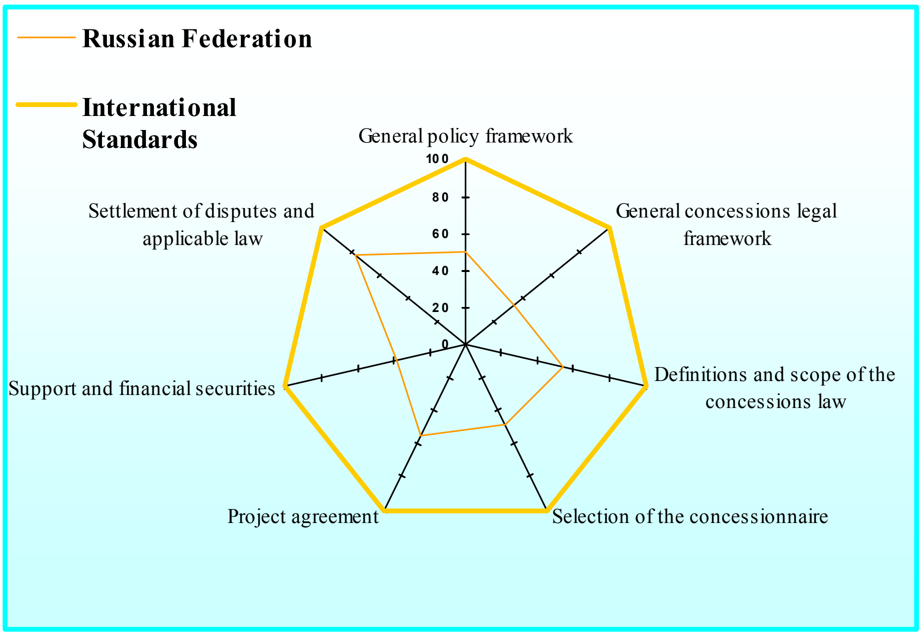
Licensing and production sharing agreements schemes are limited to concession-type arrangements in a number of sectors (in particular mineral resources). The 1995 Law on Mining, amended in 2002, governs the granting of concessions for the right to use natural resources, excluding precious metals and stones which are governed by a separate law. The 1992 Resolution on the order of licensing the use of subsoil, as amended, specifies the procedure for determining where concessions may be given and on what terms. The 1998 Law on Precious Metals and Stones, as amended in 2001, provides the basic procedure for concessions in this field as in other mining sectors, but government control and supervision of these operations are much stricter.

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

Certain articles of the Civil Code and a number of other general and sector-specific laws are also to be taken into account when analysing the legal framework for PSP in Russia (in particular, the Federal Law On Investment Activity in the Russian Federation in the Form of Capital Investments of 1999, the Water Code of 1995, etc). In the water sector, a combined license-contract approach is applicable, with the clear superiority of the license over the contract. The Capital Investments Law and the Foreign Investments Law provide for various security instruments, for government support and for arbitration.

The absence of a general and clear sector-specific legal framework does not contribute to the development of PSP in Russia. According to the recent EBRD Concessions Laws Assessment evaluating concessions governing laws ("laws on the book" only, rather than their implementation in practice) in the 27 countries of EBRD operation, Russian laws have been ranked as providing *unfavourable environment* for PSP when compared with internationally accepted standards (see chart below confirming shortcomings in virtually all dimensions considered in the assessment).

Quality of concession legislation – Russian Federation (2004)



Note: The extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the 'web', the more closely concessions laws of the country approximate these standards.

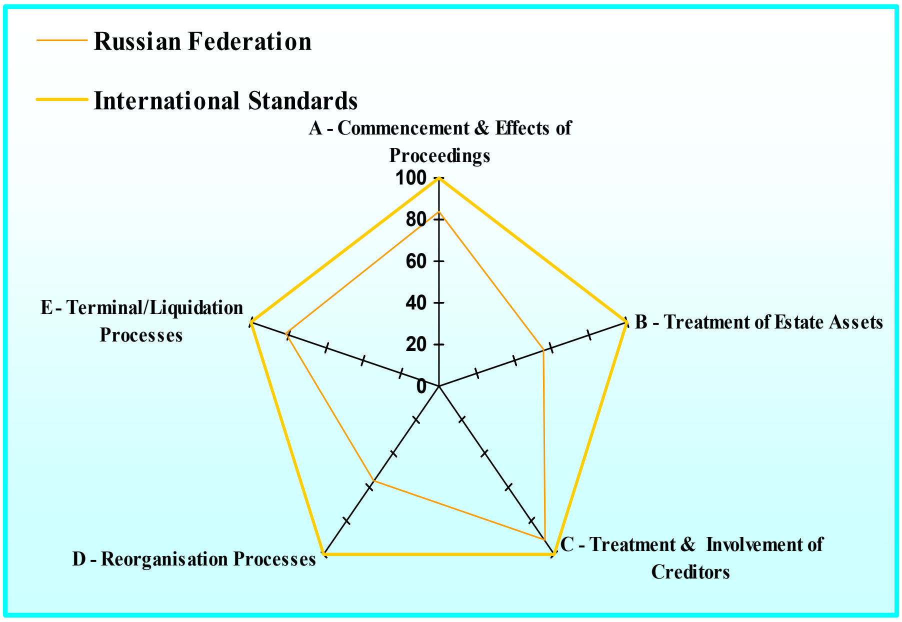
Source: EBRD Concessions Sector Assessment 2004

A draft Law on Concession Contracts with Russian and Foreign Investors (the "Draft Law"). Has been prepared and is expected to be considered by the Russian Parliament in December 2004. The Draft Law represents a good basis for the clarification, simplification and harmonisation with international standards of the general legal framework for PSP in Russia, even though certain provisions could be improved further in order to approximate the commonly accepted standards mentioned above. Particularly, this relates to the clarification of the scope of law application, definition of the concession agreement, clarification of ownership issues, introduction of the possibility of a pre-selection procedure, clarification of the grounds for direct negotiations.

Insolvency

Bankruptcy and Insolvency in Russia are governed by the Law on Insolvency (2002) of the Russian Federation (the "Insolvency Law"). This law contains many relatively new amendments and is a considerable improvement over previous Russian insolvency legislation. Notwithstanding these amendments, the Insolvency Law scored "Medium Compliance" with international standards when assessed as part of the EBRD's 2003 Sector Assessment. The graph below displays the data collected in this project and shows level of compliance of the Insolvency Law with international standards in five core areas, with reorganisation and estate assets treatment being highlighted as particular areas for concern:

Quality of insolvency legislation – Russian Federation (2004)



Note: The extremity of each axis represents an ideal score, i.e. corresponding to the international standards such as the World Bank's Principles and guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on "Legislative Guidelines for Insolvency Law", and others. The fuller the 'web', the more closely insolvency laws of the country approximate these standards.

Source: EBRD Insolvency Sector Assessment 2004

The Insolvency Law applies to both individuals and companies but is restricted in application with respect to state-owned enterprises that are run by Russia's federal treasury. The Insolvency Law also permits both debtors and creditors to initiate proceedings and provides for both bankruptcy/liquidation and reorganisation.

Although the reorganisation provisions provide clear guidance as to who retains management functions during a reorganisation and provides some interim protective measures for debtors that are restructuring, the law does not go far enough in, for example, preventing critical suppliers (such as utilities and telecoms) from refusing to supply additional services until past debts are paid. This is contrary to the spirit of reorganisation and the generally accepted principle that, while no creditor should be forced to advance additional credit once the restructuring has commenced, debtors should not generally be forced to pay one particular creditor's pre-proceedings debt in order to secure continued supply.

Relatively unique to countries in the region, the Insolvency Law does permit priority reorganisation financing, although these provisions are vague and should be brought in line with the recent suggestions for such provisions that were adopted by UNICTRAL.

On the liquidation side, the Insolvency Law does not provide a balance sheet test for insolvency and does not provide for insolvency matters to be dealt with by a specialised bankruptcy court. While the law does provide that all enforcement actions against the creditor are stayed once the insolvency process begins, it does not ensure that matters will be dealt with in a timely manner. In fact, the courts appear to have up to seven months to hear a matter once it has been initiated. In addition, the law gives very limited powers to the insolvency administrator to review suspicious transactions taken on the eve of the company's insolvency. This will limit the ability of the administrator to enlarge the value of the assets available for distribution through reversing fraudulent transactions.

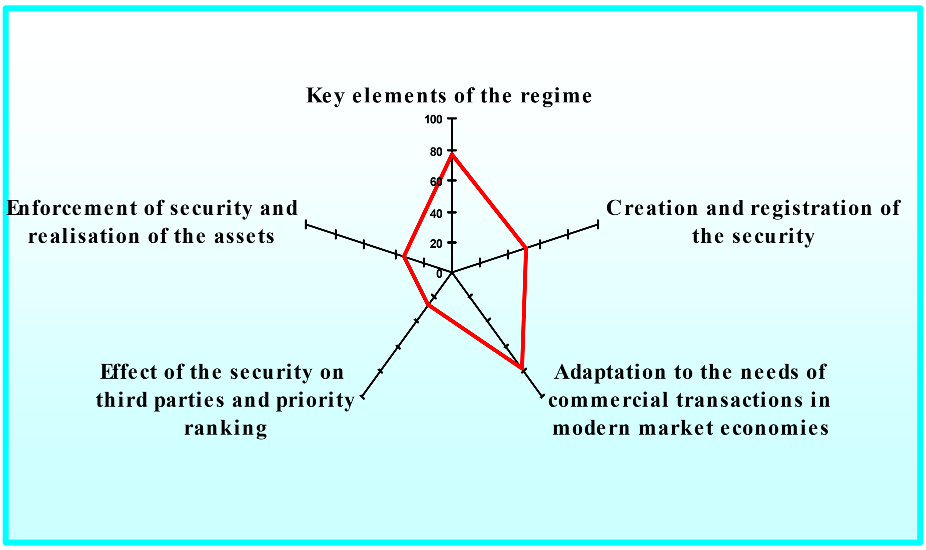
Finally, the law is quite good in its treatment of the insolvency administrator in that it provides clear guidelines for this functionary's duty and appointments that are generally in compliance with international standards.

Secured Transactions

Russia has been in need of secured transactions legal reform for a decade now and it is frustrating that not much progress has been made. The key legal texts governing secured transactions are the 1995 Civil Code, the 1992 Pledge Law and 1998 Mortgage Law.

The problems experienced in practice (as identified in the EBRD Regional Survey on Secured Transactions that assessed the state of Russia's system in relation to the EBRD's 10 Core Principles are as follows (for a graphic summary of these issues, see chart below).

Legal and Practical Regime for Taking Security over Movable and Intangible Property – Russian Federation (2002)



Note: Scoring on a scale from 1 to 100, where 100 represents the most advanced legal and practical regime. The fuller the 'web', the more closely concessions laws of the country approximate these standards.

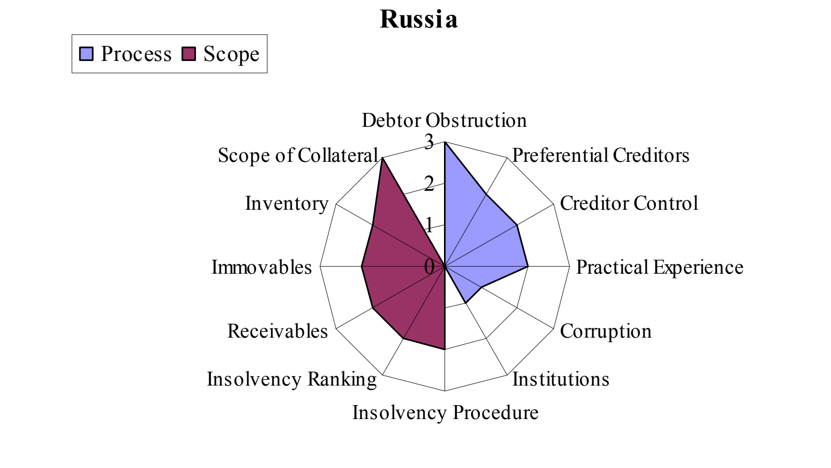
Source: EBRD Regional Survey of Secured Transactions, 2002

- There is no centralised system of registration (perfection) of an existing security over movable assets, so lenders and third parties are unable to assess whether or not the charged assets were previously charged and what their priority ranking will be. According to the 1992 Pledge Law, the main method of publicity of charges over movable property is their entry in a charge record book maintained by the debtor-borrower, but this only applies where the borrower is a company or a natural person registered as an entrepreneur and in practice such entries do not appear to be made.

- The assets that can be offered as collateral are limited: generally described goods such as inventory cannot be charged, unless they qualify as "goods in circulation". The Presidium of the Supreme Arbitration Court of the Russian Federation held since 1996 that 'monetary assets cannot be the object of a pledge' and it is unclear whether a pledge over bank accounts (i.e. the right of the account holder vis-à-vis the account bank) would be held valid and enforceable. A conditional assignment of debts (whereby the borrower would retain the right to demand payments from its sub-borrowers until an event of default occurs) would only create a contractual right and not a security interest under Russian law, and could be challenged in court in the event of the debtor's insolvency.

- Enforcement is not quick and efficient as it should be. In fact, the 2003 EBRD Legal Indicator Survey further assessed the efficiency of enforcement of charges in EBRD countries of operations, rating such with reference to the *amount* a creditor can expect to recover, the *time* needed for enforcement, and the *simplicity* of the enforcement process. Based on a practical case study, the survey's results indicated that while the amount that could be expected to be recovered could be around 75 per cent of the secured debt, which is fairly competitive compared with the region, Russia scored poorly as to simplicity of the enforcement process, the complexity of which also increases the time needed for recovery. The EBRD also considered twelve additional factors which give a fuller picture to the enforcement procedure. As the chart below shows, the major problem in relation to the process of enforcement is the ability of the debtor to obstruct the procedure (he has the right to request the court to delay sale for up to one year). It is also unclear whether private sales are permitted: currently the practice of the Supreme Arbitrazh Court is to allow realisation of charged assets only through a public auction, which is unpractical for assets such rights and claims or those which do not sell well in such procedure. As for the scope of enforcement, the problem mentioned above (on the severe restrictions on the type of collateral that can be offered to lenders) has a negative influence on secured transactions regime, including enforcement.

Obstacles to charge enforcement process – Russian Federation (2003)



Scoring on scale of 3 (problematic area) to 1 (not problematic)

Note: The fuller the "web" of the graph, the more serious the problems are in each of the respective categories "Process" factors measure the impact of specific incidences on the enforcement proceedings. "Scope" factors relate to the ability of the system to deal with specific situations or items.

Source: EBRD Legal Indicator Survey 2003

The EBRD has consistently tried to encourage, in conjunction with other IFIs, reform in this area. Most recently, it launched a technical assistance project with the Russian Ministry of Transport aimed at providing assistance in the signature, ratification and implementation of the Cape Town Convention (so called as it was signed in November 2001 in Cape Town) on security interest over mobile equipment and the accompanying protocol on aircraft equipment. The Convention's overall objective is to contribute to the efficient financing of transportation equipment, which in turn leads to the development of cost-effective modes of transport using modern technologies. The financing of aircraft objects, which the Russian aviation sector is in dire need of, require to be underpinned by a sound legal regime if they are to function efficiently. However, progress so far has been limited.

There may be reason to hope that progress can be made. Firstly, a law reducing the state duties which are payable for notarisation of mortgages to a nominal amount was passed on 20 August 2004. This change in the legal environment is expected to boost the secured lending in Russia. Secondly, there is report that the World Bank is currently involved in a project which would entail a complete overhaul of the secured transactions provisions, including the creation of a centralised filing (registration) system.

Telecommunications

The telecommunications sector in the Russian Federation is currently regulated by the Ministry of Communications and Informatisation (the "MCI") and governed by the Federal Communications Law, 2003 (the "Communications Law"), together with associated sector legislation. The MCI was created in 2000 to administer government responsibilities within the sector. In addition to sector specific legislation, as telecommunications is still considered a "natural monopoly", elements of sector tariff setting remain with the Federal Anti-Monopoly Service and are governed by natural monopolies legislation. Prior to 2003, laws governing the sector were somewhat confused and seen as outdated, failing to cover many important recent developments in the sector. However, much has been done to clarify and enhance the legislative base of the sector resulting in the Communications Law, which took effect on 1 January 2004.

Legal Reform Projects

At the request of the Russian Government, the EBRD developed a legal technical co-operation project to assist the Ministry of Communications and Informatisation implement the reforms contained in the Communications Law in the areas of licensing, interconnection and universal service. While commencement of this project has been delayed by recent administrative changes within government, it is envisaged work on the project will begin towards the end of 2004.

ANNEX 3: MACROECONOMIC CONDITIONS

<u>Output and employment:</u> *robust growth supported by favourable external environment and strong investment demand*

The Russian economy has grown at an average annual rate of 6.7 per cent per annum since the 1998 crisis. After recording 7.3 per cent real GDP growth in 2003, activity expanded by 7.4 per cent in the first half of 2004. Although a slight slowdown on the 7.7 per cent growth recorded in the first half of 2003, the growth process continues to be supported by sound economic policy and a favourable combination of external factors. Commodity prices remain high - with the Urals oil price averaging in excess of USD 30/bbl in first half of 2004 - interest rates are still low, global liquidity is abundant and strong investor interest in emerging markets has continued with Russia's strong fundamentals proving attractive to investors in this asset class.

On the demand side, consumption has been a consistent growth driver. Household expenditure increased by 7.9 per cent in 2003, and has remained robust in 2004 with Goskomstat estimating that retail sales increased 11.3 per cent year-on-year (yoy) in first 7 months of 2004. This has been supported by significant real wage growth such that Goskomstat estimates that real disposable incomes increased by 9.2 per cent yoy in the first 8 months of 2004. Wage increases have outpaced productivity growth on aggregate - the Ministry of Economic Development reports that industrial wage growth exceeded labour productivity gains by 11 per cent in the first half of 2004 - reflecting continued tightness in the labour market. Unemployment fell to 8.1 per cent by July 2004 from 8.5 per cent at end-2003 on ILO basis, and labour mobility remains low although evidence suggests that labour is being reallocated from industry to the expanding service sector. At the same time increasing household consumption has weakened the impact of net exports on the growth process as import absorption has reduced the impact of high commodity prices and burgeoning export trade.

Most notably however, 2003 and 2004 have seen a remarkable turnaround in investment. Gross fixed capital formation increased by 12.9 per cent in 2003 following an anaemic 3 per cent growth in 2002, and this momentum continued in 2004 with growth of around 12 per cent in the first half of the year. Investment has also become more broadly-based. The fuels sector's direct share of total investment activity fell to 19.6 per cent in the first half of 2004, down from 23.5 per cent one year earlier. By contrast over the same period the share of the communications and transport sectors in total investment increased to 6.7 per cent from 3.4 per cent, and to 17.6 per cent from 16.8 per cent, respectively.

Growth has also been quite broadly-based across sectors. In 2004 the construction and retail sectors have performed particularly strongly, with both sectors growing by 11-12 per cent yoy in the first eight months of 2004. Industrial growth has lagged somewhat at 6.9 per cent yoy in the first eight months of 2004. Underlying this however, is a significant expansion in the machine building sector (which grew by 13.7 per cent yoy in the first eight months of 2004), the fuels sector (7.9 per cent), and construction materials (6.2 per cent). Growth in construction and machine building in part reflects spillovers from the natural resources sectors, but also an increasing modernisation and restructuring in some segments of the economy. Conversely the agriculture sector has lagged significantly, while light industry has been in decline since 2002.

As all of the main demand components are likely to remain supportive in the near future, growth is likely to remain robust over medium term. The Bank currently expects that growth will slow from an estimated 6.9 per cent in 2004 to 6.5 per cent in 2005 as the oil price softens and the rouble continues to appreciate in real terms. Continued uncertainty surrounding property rights and the independence of the judiciary would adversely affect this forecast. Sustained growth compatible with the official target of doubling GDP will require an acceleration and broadening of modernisation and restructuring in the enterprise sector to increase productive efficiency throughout the economy.

Inflation, monetary and exchange rate policy: *ongoing real appreciation and persistent inflation illustrate policy tensions*

Monetary policy continues to be guided by the dual target of reducing inflation and limiting real appreciation. With exceptionally large current account surpluses and rapid growth, tension is growing between these two objectives. The Central Bank of Russia (CBR) formally adjusted its rouble policy in early 2003, allowing limited rouble appreciation rather than targeting a nominal depreciation or constant rouble. It has, however, continued to intervene on the forex market to offset appreciative pressures driven largely by the trade balance and increased foreign borrowing by corporates. These interventions have contributed to a substantial increase in the CBR's gold and forex reserves which have expanded rapidly and hit record highs by mid-October 2004 (see below). Even so the trade weighted real exchange rate appreciated by 2.6 per cent in 2003 and by a further 5.4 per cent by end-September 2004 relative to end-2003. As only a small part of this intervention has been sterilised — which in turn reflects the relatively limited options available to the CBR — broad money growth has been rapid, increasing by more than 58 per cent in 2003 and averaging around 40 per cent yoy in 2004. Monetary policy was also eased somewhat in response to the financial sector turbulence that occurred in mid-2004, which led CBR to inject around RUR 150 billion into banking system as it cut reserve requirements from 9 per cent to 3 per cent by end-July.

Despite this expansion of the monetary base, headline CPI inflation fell from 15 per cent at the end of 2002 to 12 per cent — the upper end of government's target range — at the end of 2003. The decline has been assisted by increased rouble demand, as the economy re-monetises, and nominal rouble appreciation. However, lower-than-planned administrative price increases have played a strong role, as illustrated by the persistence on core inflation at around 10-11 per cent since mid-2002. Inflation continued on a downward trend during the first half of 2004, slowing to 10.2 per cent yoy by end-June. Unusually, however, the CPI increased in August and September - when the average price level traditionally declines — to reach 11.5 per cent yoy in September, apparently fuelled by increased expenditure following the mini-crisis in the banking sector in June-July and as a result of regulated tariff increases. Producer prices increased by about 26 per cent in September, reflecting higher prices of regulated inputs and illustrating the potential for increased consumer price inflation if these costs were to be passed onto consumers.

The net result is that the official inflation target of 10 per cent for end-2004 is likely to be missed, while the appreciation of the real effective rouble is more likely to meet the CBR's target of a maximum 7 per cent in real terms. The CBR has acknowledged that the inflation target is likely to be missed marginally, but that it intends to focus on containing inflation in the final quarter of this year. For 2005 the authorities are targeting a maximum real effective rouble appreciation of 8 per cent and end-year inflation of 8.5 per cent. However, once again administrative price changes are likely to play an important role in the final headline inflation result.

Fiscal policy: *substantial relaxation of fiscal stance proposed for 2005, dependence on oil prices likely to increase*

Fiscal policy is one of the major successes of government policy in the post-crisis period, with 2004 set to be the fifth consecutive year of budgetary surplus. The federal budget surplus reached 3.9 per cent of GDP in by October 2004, and the latest official estimate forecasts a surplus of 3.6 per cent for the whole year. Underlying this is a fiscal reform package designed to shift the burden of taxation towards the natural resources sector in an attempt to encourage diversification. From the start of 2004 the authorities created a stabilisation fund into which excess revenues received when the oil price is greater than the USD 20/bbl (Urals) are accrued. The creation of this fund — which had accumulated USD 12 billion by October — has helped the authorities to limit pressures for additional spending and reduced appreciative pressures on the rouble. The authorities expect the stabilisation fund to hold around RUR 575 billion (around USD 19 billion) by the end of 2004, therefore exceeding RUR 500 billion threshold beyond which they are permitted to use draw-down revenues from the fund.

The 2005 budget targets a federal budget surplus of 1.5 per cent of GDP on an assumed oil price of USD 28/bbl (Urals) — thereby implying a significant fiscal relaxation. In a buoyant economic environment this pro-cyclical loosening of fiscal policy could have significant inflationary repercussions. The budget is estimated to break-even at around USD 23.50/bbl. Although this is a notable increase on the USD 20/bbl breakeven point in the 2004 budget, the substantial savings in the stabilisation fund and strong international reserves position (see below) would enable Russia to withstand even a fairly sharp and sustained downturn in the oil price. The budget proposes substantial expenditure increases on defence, security and administration. Meanwhile tax collection is likely to decline as the government intends to continue fiscal reforms — for example, by reducing the Unified Social Tax and covering the pension shortfall through transfer from stabilisation fund - and the oil price is expected to decline. Up to USD 5.6 billion may be used from the stabilisation fund for foreign debt repayments, and USD 2.5 billion for transfers to the pension fund.

As a result of these various reforms the government's fiscal position is likely to become even more reliant on prevailing oil prices. The Ministry of Finance forecasts that the share of natural resources payments in federal revenues will increase to around 16 per cent in 2005 from 12.1 per cent in 2004. The decision to increase the threshold oil price beyond which revenue accrues to the stabilisation fund to USD 21-21.50/bbl (Urals) implies a slower accumulation of reserves in stabilisation fund, therefore reducing sterilisation capacity. However, a recent decision to permit the fund's reserves to be invested in foreign currency and foreign sovereign debt, combined with a plan to use the fund's revenues exclusively to retire external debt, will reduce pressure from capital inflows.

Balance of Payments: *continued strong surpluses, but increasing net capital outflows*

Russia has continually run sizeable current account surpluses since 1999. In 2004 rising oil prices and a substantial volume increase in export trade have contributed to a 30 per cent increase in the trade surplus in the first 9 months relative to the same period of 2003, to reach USD 58.1 billion. Merchandise exports increased by 27 per cent to USD 124.6 billion, around 56 per cent of which were accounted for by oil, oil products and gas. Oil output hit a new high of 9.3mn bpd in July despite the uncertainties and difficulties experienced by Yukos, while oil export volume increased by 20 per cent in the first seven months of 2004 on a year earlier. Export growth was sufficient to offset a 25 per cent increase in merchandise imports which have been fuelled by rising real wages and ongoing real rouble appreciation. The cumulative current account surplus reach reached USD 35.9 billion by the end of Q3 2004 — the same as for the whole of 2003.

Having declined steadily in previous years, net private capital outflows were more volatile over the past year. A net inflow of USD 3.9 billion in the first half of 2003 was reversed to an outflow of USD 2.3 billion by the end of the year. According to preliminary data from the CBR there have been substantial, though declining, net private capital outflows in each of the first three quarters of 2004. As a result net private capital outflows reached USD 10.9 billion by end-September - towards the upper end of the USD 8-12 billion net capital outflow for the whole year forecast by the Ministry of Economic Development and Trade. However, while outflows in H1 were largely attributable to the banking sector, enterprises and households accounted for USD 2.1 billion of the USD 2.9 billion outflow in Q3 2004, most likely partly resulting from the problems experienced in the banking sector in July.

The external sector is likely to remain robust in 2005, although ongoing real rouble appreciation and a softer oil price are likely to reduce the size of the trade surplus. Developments on the capital account will be highly dependent on clarifying the authorities attitude to foreign investment and developments surrounding security of property rights.

External debt and foreign exchange reserves: *private debt increases while public debt declines and reserve coverage improves*

Russia's total external debt increased to USD 192 billion by mid-2004 from USD 185.7 billion by end-2003. Despite this nominal increase the external debt to GDP ratio fell to 35.1 per cent of OCE's forecast for GDP in 2004 from 42.9 per cent at end-2003. Should this trend continue, 2004 will be the fifth consecutive year in which the external debt to GDP ratio declines.

Underlying this is a notable shift from public to private external debt. General government external debt declined to USD 93.5 billion by mid-2004 from USD 97.9 billion at the end of 2003. By contrast private sector external debt increased to USD 98.5 billion by mid-2004 from USD 87.8 billion at end-2003, as international corporate borrowing has increased significantly. The term structure of public debt has also improved significantly, with the short-term portion of public external debt declining to 6.5 per cent in mid-2004 from 12.5 per cent at end-2003.

In 2005 Russia is expected to repay USD 17.7 billion of its foreign debt — USD 11.5 of which is principal. The authorities will continue to use pre-payment of external debt as a sterilisation device, and intend to increase the domestic portion of public debt. The consequent increase in domestic paper would be a welcome assistance to the development of the non-bank financial sector. Recent proposals include offering a debt restructuring proposal to the Paris Club that would include the early pre-payment of its existing Paris Club debt — around USD 45 billion — by swapping it into new Russian sovereign market debt. In part this move is also motivated by a desire to control debt issuance and to avoid potential conflicts from independent issuances such as the Aries bonds issued by Germany in July. By taking more control over its debt in this way, Russia could avoid any conflict with similar issuance by Paris Club members should it choose to issue its own Eurobonds. The authorities have also proposed that the stabilisation fund may be used to repay Russia's SDR 2.8 billion (USD 4 billion) of IMF debt ahead of schedule.

Debt service capacity is extremely strong thanks to declining public debt and the CBR's burgeoning gold and forex reserves. Reserves increased by USD 29.1 billion in 2003 to reach USD 76.9 billion by end-year. Despite a lull in mid-2004 when external debt payments increased substantially and CBR intervention in the forex market slowed, reserves grew by a further USD 23.2 billion between January and mid-October 2004 to hit all time high of USD 105 billion.

ANNEX 4: SELECTED ECONOMIC INDICATORS

Russian Federation

	1998	1999	2000	2001	2002	2003 *Estimate*	2004 *Projection*
Output and expenditure			*(Percentage change in real terms)*				
GDP	-5.3	6.4	10.0	5.1	4.7	7.3	6.9
Private consumption	-3.3	-2.9	7.1	9.9	8.7	7.2	na
Public consumption	1.0	3.1	2.1	-0.8	2.6	2.2	na
Gross fixed capital formation	-12.4	6.3	18.1	10.3	3.0	12.9	na
Exports of goods and services	1.9	11.2	9.5	4.2	9.6	13.7	na
Imports of goods and services	-17.4	-17.0	32.4	18.7	14.6	19.5	na
Industrial gross output	-5.2	11.0	11.9	4.9	3.7	7.0	na
Agricultural gross output	-13.2	4.1	7.7	7.5	1.7	na	na
Employment			*(Percentage change)*				
Labour force (end-year)	-0.3	-0.5	-1.0	-0.7	1.3	0.3	na
Employment (end-year)	-1.6	-0.9	2.2	0.3	1.7	-0.1	na
			(In per cent of labour force)				
Unemployment (end-year)	12.3	12.6	9.8	8.9	8.6	8.5	na
Prices and wages			*(Percentage change)*				
Consumer prices (annual average)	27.6	86.1	20.8	21.6	15.7	13.7	10.7
Consumer prices (end-year)	84.5	36.8	20.1	18.6	15.0	12.0	10.0
Producer prices (annual average)	7.1	58.9	46.6	19.2	14.0	15.6	na
Producer prices (end-year)	23.2	67.3	31.6	10.7	17.1	13.1	na
Gross average monthly earnings in economy (annual average)	10.7	47.7	43.2	45.8	36.2	24.6	na
Government sector[1]			*(In per cent of GDP)*				
General government balance	-8.2	-3.1	3.1	2.7	0.6	1.1	3.1
General government expenditure	42.6	36.7	33.7	34.5	37.0	35.5	na
General government debt	81.9	90.0	62.5	48.2	41.4	32.4	na
Monetary sector			*(Percentage change)*				
Broad money (M2, end-year)	19.8	57.2	62.4	40.9	32.4	50.5	na
Domestic credit (end-year)	71.0	36.1	12.1	27.0	26.5	26.5	na
			(In per cent of GDP)				
Broad money (M2, end-year)	17.0	14.6	15.7	18.0	19.7	24.2	na
Interest and exchange rates			*(In per cent per annum, end-year)*				
Central Bank refinance rate (uncompounded)	60.0	55.0	25.0	25.0	21.0	16.0	na
Treasury bill rate (all maturities)[2]	56.4	25.5	12.8	14.7	12.7	4.5	na
Deposit rate	17.1	13.7	6.5	4.9	5.0	4.5	na
Lending rate	41.8	39.7	24.4	17.9	15.6	13.0	na
			(Roubles per US dollar)				
Exchange rate (end-year)[3]	20.7	26.8	28.2	30.1	31.8	29.5	na
Exchange rate (annual average)[3]	10.0	24.6	28.1	29.2	31.3	30.7	na
External sector			*(In millions of US dollars)*				
Current account	218	24,615	46,839	33,934	29,116	35,845	36,500
Trade balance	16,429	36,014	60,171	48,120	46,335	60,493	70,000
Merchandise exports	74,444	75,551	105,033	101,884	107,301	135,929	163,000
Merchandise imports	58,015	39,537	44,862	53,764	60,966	75,436	93,000
Foreign direct investment, net	1,492	1,102	-463	216	-72	-3,002	1,000
International reserves, excluding gold (end-year)	7,801	8,457	24,264	32,542	44,054	73,175	na
External debt stock	185,700	177,100	158,300	150,400	153,200	182,100	na
			(In months of imports of goods and services)				
International reserves, excluding gold (end-year)	1.3	1.9	4.8	5.3	6.3	8.6	na
			(In per cent of exports of goods and services)				
Public debt service due[4]	15.1	17.5	10.4	15.2	11.8	10.1	na
Public debt service paid[4]	12.6	14.2	10.3	14.4	11.7	10.1	na
Memorandum items			*(Denominations as indicated)*				
Population (end-year, million)	146.4	145.6	145.2	144.4	145.2	144.9	na
GDP (in billions of roubles)	2,630	4,823	7,306	8,944	10,834	13,285	15,716
GDP per capita (in US dollar)	1,802	1,347	1,789	2,123	2,381	2,987	na
Share of industry in GDP (in per cent)	29.9	30.8	31.4	28.1	26.5	na	na
Share of agriculture in GDP (in per cent)	5.7	7.7	6.7	6.8	6.1	5.2	na
Current account/GDP (in per cent)	0.1	12.6	18.0	11.1	8.4	8.3	6.7
External debt - reserves (in US$ million)	177,899	168,643	134,036	117,858	109,146	108,925	na
External debt/GDP (in per cent)	70.4	90.3	61.0	49.1	44.3	42.1	na
External debt/exports of goods and services (in per cent)	213.9	209.3	138.1	132.7	126.7	119.8	na

1 General consolidated government includes the federal, regional and local budgets and extra-budgetary funds, and excludes transfers.

2 The 1998 figure is the yield on obligations of the Central Bank of Russia.

3 Exchange rate data are in new (denominated) roubles per dollar. From 1 January 1998, one new rouble = 1,000 old roubles.

4 Difference between due and paid arises from accumulation of arrears on debt servicing.

ANNEX 5: ENVIRONMENT

All EBRD operations in Russia undergo the Bank's environmental appraisal and are structured to meet Russian and EU environmental standards and/or international best (industry) practice, in accordance with the Bank's Environmental Procedures. Where appropriate, Environmental Action Plans are incorporated into the 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.

Within the framework of its diverse activities in Sakhalin Oblast, the Bank will examine selected environmental issues at the regional level, where there is potential for additionality and transition impact specifically. The Bank has been requested to provide TC assistance for capacity building in the areas of oil spill response planning and waste management to build the region's institutional capacity in these areas in line with applicable international standards.

The Bank will continue to promote adaptation of the best international environmental practices by its clients in all the sectors as it has done in the past. For example, in the Natural Resources sector, in the last two years the Bank has approved two projects in Russia: Lukoil-Perm and Transnefteprodukt (TNP). It is worthwhile to note that, besides the extensive Environmental Action Plan developed as the outcome of the Banks' environmental due diligence, both projects included structural environmental components, such as partial financing of the associated gas utilisation programme that minimised previous flaring and modernisation of the obsolete sections of the oil transportation pipelines that reduces the risk of oil spills. In addition, TNP's project was supplemented with a technical co-operation programme to bring TNP's environmental management, oil spill response and public interaction capabilities in line with applicable international standards. This programme is financed by grant provided through the Bank by the Canadian International Development Agency.

In the Forest products industry sector, the Bank will continue to ensure environmentally sound and sustainable wood supply, particularly where the industry is utilising significant amount of virgin wood. While requiring its clients to adhere to the key principles of sustainable forest management, the Bank will also continue to promotes internationally recognised, voluntary certification systems. The Bank welcomes Russia's amended Forestry Code as an opportunity to support forestry operations in addition to forest processing.

Energy efficiency will continue to play an increasing role in the Bank's large industrial projects as demonstrated by the last two year projects: Karelsky Okatysh - iron ore mine and ore pelletizing plant, Uralkaly - potassium salt mining, PMG - turbine manufacturing, Metafrax - methanol based resin manufacturing.

In the Financial sector, the Bank will continue to provide environmental due diligence guidance and training for its new and existing clients in implementation of the revised in 2003 EBRD's Environmental Policy and Procedures: participating banks of the Russia Small Business Fund, Vneshtorgbank, International Moscow Bank, Rosbank, Uralstransbank, Bank Vostok Societe Generale, Center-Invest Bank, subsidiaries of Raiffeisen Group, Regional Venture Funds, etc. This will ensure that the Bank's financial intermediaries are capable of adopting more stringent environmental due diligence procedures, especially with regard to higher level of environmental disclosure into the public domain.

In the Transport sector, the Bank has been actively involved in financing of roads construction of the "Russian Roads XXI century". Both EBRD financed projects: Russian Roads Reform I and II have undergone the Bank's environmental due diligence, including disclosure of the Environmental Impact Assessments and their Executive Summaries into public domains for 120 days, public consultation meetings and development of Environmental Action Plans. The Bank has used an independent non-commercial environmental organisation- the Russian Regional Environmental Centre - as the environmental consultant on the project. EBRD will aim to actively involve all sectors of the civil society in its operations.

The Bank has financed a range of projects in the agribusiness sector focusing mainly on food processing and facilitating trade in a range of commodities. Within the food processing sector the Bank is involved in, for example, brewing, meat processing, mineral water, and confectionary. Although the Bank has not engaged in the direct financing of primary agriculture, these food processing projects do have a positive upstream effect as the processors are in need of quality inputs to ensure the quality of their products. Many of the processors operate assistance programmes to help farmers improve the way in which they farm and to improve the quality of produce. With regard to grain trading the Bank is providing financing to assist both primary producers and grain traders through the provision of working capital facilities. This is of particular importance to farmers as it gives them the access to capital required to improve their production techniques and efficiency.

In the Property sector, retail development has been pursued in which planning permits, traffic impacts and public consultation issues have been addressed through the due diligence process. Anticipating further development in the retail sector, the integration of urban planning, traffic impact and fire safety issues into project designs as well as of meaningful public consultation will be increasingly important for the sector's operation in Russia.

As demonstrated within EBRD's projects, Russian ports have developed in-house capacity for enforcement of IMO (United Nations International Maritime Organisation) regulations, MARPOL and SOLAS (pollution prevention and worker health and safety). In the future, the Bank will continue to strive for the international level operating standards of its clients.

The Bank has continued to support enhancement of municipal environmental services through a number of projects involving rehabilitation of water, wastewater and/or waste management facilities. Along with material improvements, the Bank will continue to support efficient water companies (utilities) management, which is a pre-requisite for further facility upgrading and for their viable operation.

ANNEX 6: PROFILES OF RUSSIA'S SEVEN FEDERAL DISTRICTS

1. **The Central Federal District** which includes Moscow City, is considered the economic nucleus of the Federation. Although it occupies less than 4 per cent of Russia's landmass, its residents make up more than 25 per cent of the population and generate 29 per cent of GDP. The Central Federal District has the largest number of regions (18) of the seven districts, and it is the only district made up exclusively of predominantly ethnic Russian oblasts. Central Russia's comparative strengths, aside from the obvious advantage of being home to the nation's capital and the headquarters of many national industries, include a strong scientific-technological base, the country's most advanced infrastructure, the financial sector in Moscow.

	Central District	As % of Russian Total/Average
Area ('000 sq.km.)	651	3.8
Population (million) 2003	36	25
Population below poverty line	30%	8
2003 GRP (RUR billion)	3,914	29.4
Net contribution to federal budget (RUR billion)	426	33
Foreign investments 1997-2002 (EUR million)	45,585	55
FDI 1997-2002 (EUR million)	10,359	48
GRP per capita 2003 (RUR)	107,993	116
2003 growth in GRP (% per year)	7%	101
2003 SME % of GRP	10%	109
Industrial concentration	Much below average	
2003 public controlled corporations' sales % of GRP	Below 18%	
Bank portfolio by volume (EUR million)	1,100	
Bank portfolio per capita (EUR)	28	
Bank portfolio as % of GRP	1%	

Twelve of the central district's eighteen regions have investment risks better than the average Russia risk. Moscow commands a "BB+" (stable) from S&P and Moscow Oblast is "B+" (positive). Moscow accounts for about half of the district's investment potential, however, its business environment is somewhat restrictive and opaque. Moscow has half of the best Russian scientists and highly skilled workers in the field of construction and engineering. Substantial part of the lucrative construction and estate development business (45 per cent of Russia) is controlled by the Mayor's office through formal and informal systems. Moscow and adjacent parts of Moscow Oblast are increasingly facing difficulties in providing suitable land for the construction of larger-scale production facilities and asset prices are overheating fuelled by buoyant liquidity, and lending pressure, in Moscow's financial sector. Purchasing property is currently twice the costs of new constructions. The Bank will pursue opportunities in the finance sector (especially in reform-related transactions), property, retail trade, and agribusiness. In addition, given the resilient and growing economy, the Bank will take a proactive approach in to public sector opportunities, namely in areas of transport and municipal waste management.

The peripheral regions in the central district, a part from significant iron ore deposits in Belgorod (40 per cent of Russia), have limited mineral resources. The northern regions are covered with forest while the southern regions have good agricultural land (23 per cent); especially "black earth" agriculture regions such as Kursk, Belgorod and Kaluga.

These regions are perceived well by investors. However, the regions, despite their potentially good locations, lag behind in development for historical reason i.e. these regions failed in soviet times to become priority regions and the young work force left for Moscow and St Petersburg. This development, to a varying degree, took place in for example Tver, Kostomo, Ulyanovsk, Vladimir, Ivanovo, Smolensk, Tambov, Pskov, Vologda, Ryazan. The federal authorities acknowledge the need to address the stark contrast between the relatively wealthy city of Moscow and poor regions, such as Bryansk and Tambov.

2. **The Southern Federal District** is the third largest in Russia and contains 15 per cent of Russia's population. Beyond the natural population growth in most of the district's republics during the 1990s, large numbers of immigrants came from the CIS countries. Consequently, for example, the population in Krasnodar grew 10 per cent in the 1990s. The district contains, apart from five regions, eight republics set aside for non-Russian ethnic groups, which account for 27 per cent of the district's population. Many ethnic conflicts are concentrated in the district, and since the 1990s some of these disputes erupted into either armed battles or longer-term wars, thus fostering numerous terrorist acts and generating hundreds of thousands of refugees. The district, which includes Chechnya, is the most multi-ethnic of the seven federal districts and has the highest inter-ethnic conflict in Russia. This part of Russia is primarily agricultural, a sector of the Russian economy that until recently has been largely unreformed. The ongoing conflicts and the dominance of agriculture have contributed to the district's low level of economic development.

	Southern District	As % of Russian Total/Average
Area ('000 sq.km.)	589	3.5
Population (million) 2003	21	15
Population below poverty line	39%	6
Gross Regional Product (GRP) (RUR billion)	608 (2001) 737 (2002) 884 (2003)	6.8 6.8 6.6
Net contribution to federal budget (RUR billion)	172	13
Foreign investments 1997-2002 (EUR million)	3,266	4
FDI 1997-2002, EUR million (excl. Caspian pipeline)	1,034	5
GRP per capita 2003 (RUR)	41,283	44
2003 growth in GRP (% per year)	8%	
2003 SME % of GRP	14%	3.5
Industrial concentration	Below average	
2003 public controlled corporations' sales % of GRP	Below 20%	
Bank portfolio by volume (EUR million)	280	
Bank portfolio per capita (EUR)	13	
Bank portfolio as % of GRP	1%	

The thirteen regions of the Southern district together produce only 6.6 per cent of GDP; about half of what is expected given the size of the population. The district produces about 20 per cent of Russia's agricultural output, 30 per cent of Russian grain, but only 6.5 per cent of the industrial output. SME contribute about 14 per cent to the Southern district's GRP. Lying across key energy transport routes, and ports on the Caspian and Black Seas, there are potential opportunities in natural resource extraction, port infrastructure, transport and pipeline construction. The district's large seaports account for more than a third of Russia's foreign trade. The climate and natural surroundings are conducive to a lucrative tourist trade, if the problems with instability and integrity could be resolved.

Certain unattractive areas have very high risk and very low investment potential. The war in Chechnya has devastated the region's economy and destabilised the neighbouring Ingushetia and Dagestan. North Ossetia has had its own internal conflicts. These regions are all net recipients of the federal budget; up to 80 per cent of local expenditures are financed from the federal budget. The impoverished Kalmykia poses also very high risks amplified by its autocratic and unpredictable government. Karachaevo-Cherkesia has managed to avoid open hostilities, but corruption has so far hampered development. Moreover, the local clan culture especially in Chechnya and Dagestan require exceptionally talented and experienced leadership for a project to prosper. Unfortunately, many skilled professionals left these regions as a result of inter-ethnic conflicts. It is evident that opportunities in such areas, which can meet sound banking and integrity standards, will be very rare in the current strategy period.

The Bank will therefore take an active approach to support investment in those regions, which are more advanced, namely Rostov, Volgograd and Krasnodar. Over 60 per cent of the small businesses operate in the regions of Krasnodar, Stavropol, Volgograd and Rostov. Moreover, with recent progress in agricultural land reform, opportunities in the current strategy period in this sector are likely to improve, including in financing of agricultural production. The Bank will also explore other potential opportunities. Rostov region has potential opportunities in metallurgy, machine building (harvesters, locomotives, boilers and power equipment) and agribusiness. Volgograd region has potential opportunities in power generation, metallurgy, machine building (including shipbuilding) and chemicals. Krasnodar Krai has potential opportunities in agribusiness, machines and power-generation equipment.

3. **The North West Federal District** which includes St Petersburg and Kaliningrad, there are natural opportunities in the transport sector with ports on the Baltic Sea and Arctic Ocean, the oil and gas sector (in the far north), agribusiness, retail, forestry and metallurgy (especially in Vologda), and the financial sector in St Petersburg. The district enjoys access to the deep sea ports in Murmansk, St Petersburg and Kaliningrad (two latter ones do not freeze in winter). It borders several Eastern European and Scandinavian countries, including EU members. The federal government continue to consider Kaliningrad a priority region for Russia, especially in light of its geographical uniqueness - i.e. as an exclave on the Baltic Sea, surrounded by EU states following this year's EU enlargement. Sustainable development of the Russian north is considered a priority by the neighbouring states in Finland, Norway, and the Baltic countries, with which Russia is co-operating as part of the EU's Northern Dimension initiative.

The district has a favourable business climate. St Petersburg commands a BB (positive) rating from S&P. St Petersburg and Leningrad account for more than a half of the investment potential. The district's economic structure is dominated by St Petersburg, where the quality of labour is very high due to the city's status as Russia's second capital and defense industry center. The new Governor has pledges to push forward with the renovation of the City, which has undergone extensive modernisation in recent years up to last years' 300th anniversary of St Petersburg. According to the United Nations Educational Scientific and Cultural Organisation (UNESCO), St Petersburg is the only Russian city ranked among the world's top 10 cities in tourism appeal. The city attracts more than 3 million foreign tourists annually, and the Bank will explore opportunities in the demand for hotels.

St Petersburg is also the growing transport hub for increasing EU-Russia-Asia trade. The Bank will continue to pursue opportunities in transportation infrastructure (seaports, railroads, pipelines). Retail in St Petersburg is grows steadily and several international retail chains have recently set outlets in the region. Most industrial enterprises are located in St Petersburg and in the southern hinterland regions. The contribution of small business to GRP is about 14 per cent. The per capita output of SME is the highest in Russia, and almost twice Russia's average. More than 76 per cent of small businesses operate in St Petersburg and Leningrad oblast.

	North-West District	**As % of Russian Total/Average**
Area ('000 sq.km.)	1,678	9.8
Population (million) 2003	14	10
Population below poverty line	28%	8
Gross Regional Product (GRP) (RUR billion)	755 (2001) 884 (2002) 1,092 (2003)	5.7 8.2 8.2
Net contribution to federal budget (RUR billion)	242	18.4
Foreign investments 1997-2002 (EUR million)	9,198	11
FDI 1997-2002 (EUR million)	3,100	15
GRP per capita 2003 (RUR)	77,247	83
2003 growth in GRP (% per year)	8%	102
2003 SME % of GRP	18%	16
Industrial concentration	Low	
2003 public controlled corporations' sales % of GRP	Below 18%	
Bank portfolio by volume (EUR million)	980	
Bank portfolio per capita (EUR)	69	
Bank portfolio as % of GRP	3%	

The northern regions in the district have vast mineral resources, especially apatite (72 per cent), titanium (77 per cent), bauxite (45 per cent), diamonds (18 per cent), nickel (18 per cent), timber (11 per cent) and coal (4 per cent). These resources, however, are underdeveloped due to poor infrastructure, rough climatic conditions and limited population.

4. **The Volga Federal District** is the industrial heartland of Russia. Like the Southern District the defining characteristic of the Volga District (which contains 6 republics) is its multi-ethnic population and 6 republics known for its strong governors, who until recently have managed to create pockets of semi-autonomy in their regions. About 75 per cent of the populations are ethnic Russian of orthodox faith, and more than 20 per cent are Muslims. There have been relatively few cases of inter-ethnic conflict, and economic development outpaces most of the rest of Russia. In December 2003 Komi-Permyat and Perm conducted a referendum, which supported unification within two-year transitional period. The current 15 regions in the district account for 23 per cent of Russia's GDP and 25 per cent of Russia's agricultural production. The district has amble mineral resource, i.e. especially potassium salt (96 per cent), phosphor (60 per cent), zinc (19 per cent), copper (16 per cent), cement supplies (15 per

cent), silver (14 per cent), oil (13 per cent). The region also has insignificant supplies of nickel, chrome, lead, titanium, coal, iron ore, and diamonds.

The Volga region is known for its heavy concentration of technology-intensive industry such as machine-building and chemicals, automotive, consumer goods, and oil and oil products. 80 per cent of Russia's machine building enterprises and significant oil and petrochemical plants are located in the district. Big businesses such as OMZ, Yukos, Lukoil and other, have strong interest in the district's regions. Small business are predominantly (about 60 per cent) operating in Bashkortostan, Tatarstan, Samara and Nizhny Novgorod. The contribution of small business to GRP is about 11 per cent.

	Volga District	As % of Russian Total/Average
Area ('000 sq.km.)	1,038	3.8
Population (million) 2003	31	22
Population below poverty line	30%	8
Gross Regional Product (GRP) (RUR billion)	1,405 (2001) 1,595 (2002) 1,919 (2003)	15.7 14.7 14.4
Net contribution to federal budget (RUR billion)	451	34
Foreign investments 1997-2002 (EUR million)	6,377	8
FDI 1997-2002 (EUR million)	1,548	7
GRP per capita 2003 (RUR)	61,050	66
2003 growth in GRP (% per year)	7%	101
2003 SME % of GRP	10.7%	17
Industrial concentration	Average	
2003 public controlled corporations' sales % of GRP	More than 18%	
Bank portfolio by volume (EUR million)	491	
Bank portfolio per capita (EUR)	16	
Bank portfolio as % of GRP	1%	

The most developed regions, i.e. Samara, Nizhny Novgorod, Perm, Tatarstan and Bashkortostan, account for 8 per cent of GDP. Bashkortostan and Samara have S&P ratings of BB- (stable) while Tatarstan is B- (stable). Nizhny Novgorod, Samara, Kazan and Volgograd are among the main educational and scientific centers of Russia with a higher quality of infrastructure and workforce. The Federal District's transport sector is of key importance. 75 per cent of the district's industrial output is transported by rail. In addition, Nizhny Novgorod has Russia's largest river port; a transport hub on the river Volga to Central Russia, the Urals, the Caspian Sea and Europe.

5. **The Urals Federal District** is one of the richest of Russia's seven federal districts, with only Kurgan oblast standing out as an economically depressed region, which is highly dependent on federal subsidies and the defense budget. The Urals are rich in natural resources; especially natural gas (75 per cent of Russia), oil (68 per cent), manganese (27 per cent), iron ore (14 per cent), gold (8 per cent), copper (8 per cent), forest (13 per cent). The district has a concentration of the country's metallurgy and military-industrial plants.

	Urals District	As % of Russian Total/Average
Area ('000 sq.km.)	1,788	10.5
Population (million) 2003	12	9
Population below poverty line	26%	
Gross Regional Product (GRP) (RUR billion)	1,209 (2001) 1,496 (2002) 1,781 (2003)	13 14 18
Net contribution to federal budget (RUR billion)	551	42
Foreign investments 1997-2002 (EUR million)	6,666	8
FDI 1997-2002 (EUR million)	1,322	6
GRP per capita 2003 (RUR)	142,519	153
2003 growth in GRP (% per year)	11%	104
2003 SME % of GRP	5.5%	8.2
Industrial concentration	High	
2003 public controlled corporations' sales % of GRP	More than 18%	
Bank portfolio by volume (EUR million)	399	
Bank portfolio per capita (EUR)	33	
Bank portfolio as % of GRP	1%	

Both Sverdlovsk and Chelyabinsk are heavily industrialised regions with major enterprises in ferrous and non-ferrous metallurgy (notably Nizhny Tagil, MMK and SUAL), machine-building, chemicals, pharmaceuticals and timber. Tyumen, Khanty-Mansii and Yamal-Nenets together provide the country's main oil (66 per cent) and gas (90 per cent). SME contributes about 6 per cent to GRP. Most small business operates in Sverdlovsk and Chelyabinsk.

The district represents 22 per cent of Russia's total capital investments and the economy is concentrated around large FIGs (LukOil, Gazprom, RusAl, SuAl, Evrazholding, Mechel, OMZ, etc). Limited access to opportunities for outside investors explains the relative limited FDI. Sverdlovsk region leads in investment potential, but crime and corruption is a grave concern. More than 30 per cent of the crimes in the district occur in Sverdlovsk region.

6. **The Siberian Federal District's** climate, prosperity and population density differs significantly from north to south. The regions dominated by natural resource extraction are active notably in oil and gas, in nickel in the Taimyr autonomous okrug and in alumina, coal, gold in Kemerovo and Krasnoyarsk. The areas mired in poverty and economic depressions are mainly in south of the district (Chita, Altai, Omsk, Buryatia, Khakasia, Evenkisky, Ust-Ordynsk Buryatsk, Tyva). On average the urbanized population is about 30 per cent similar to Russian average. Larger industrial centers are located in the south (Novosibirsk, Krasnoyarsk, etc). The central and northern parts of the district are largely undeveloped, a few roads and rivers are available for transportation, which are a bottleneck during winter. Preparing for the winter is a key activity during the short summer.

	Siberian District	As % of Russian Total/Average
Area ('000 sq.km.)	5,114	29.9
Population (million) 2003	20	14
Population below poverty line	40%	
Gross Regional Product (GRP) (RUR billion)	883 (2001) 1,000 (2002) 1,208 (2003)	9.8 9.2 9.0
Net contribution to federal budget (RUR billion)	247	19
Foreign investments 1997-2002 (EUR million)	7,106	9
FDI 1997-2002 (EUR million)	966	5
GRP per capita 2003 (RUR)	59,187	64
2003 growth in GRP (% per year)	7%	102
2003 SME % of GRP	10%	10
Industrial concentration	Very high	
2003 public controlled corporations' sales % of GRP	Below 18%	
Bank portfolio by volume (EUR million)	120	
Bank portfolio per capita (EUR)	6	
Bank portfolio as % of GRP	0.3%	

Eastern Siberia is largely dependent on non-ferrous metallurgy. Together Krasnoyarsk, Irkutsk, Kemerovo and Novosibirsk represent 60 per cent of the district's GRP. Krasnoyarsk region is the most developed and accounts for 2.1 per cent of GDP. Small businesses contribute 10 per cent to GRP and more than 62 per cent of small businesses are in Novosibirsk, Kemerovo, Irkutsk and Krasnoyarsk.

The Siberia has a substantial supply of mineral resources, especially platinum (85 per cent of Russia's proven reserves), lead (85 per cent), coal (80 per cent), molybdenum (80 per cent), nickel (71 per cent), copper (69 per cent), zinc (67 per cent), manganese (66 per cent), silver (44 per cent), gold (40 per cent), tungsten (36 per cent), titanium (17 per cent), phosphor (17 per cent), iron ore (10 per cent), timber (40 per cent). But the district's investment potential is only about 12 per cent of Russia's total potential. The investments needed to develop the rich resources are hindered by the rough climate, scarce population, mountainous territory and poor infrastructure. The economic growth in the near future will remain concentrated in the industrial heartland around Krasnoyarsk, Irkutsk, Kemerovo, Novosibirsk, Omsk and Tomsk.

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

Vast territory of the Far East District is timberland and mineral resources, especially diamonds, gold, silver, platinum, copper ore, iron ore, manganese ore, lead-zinc ore, tin ore, mercury, titanium, oil and gas and coal (35 per cent). These resources, however, are mainly in the territories, marked by underdeveloped infrastructure and a harsh climate. In spite of relatively high unemployment level, there is a shortage of labour, particularly for low-paid manual-work jobs in the agriculture and timber sectors. Some regions, however, have few resources and are mired in economic depression like the impoverished Jewish Autonomous Oblast.

	Far East District	**As % of Russian Total/Average**
Area ('000 sq.km.)	6,216	36.4
Population (million) 2003	7	5
Population below poverty line	37%	
Gross Regional Product (GRP) (RUR billion)	393 (2001) 491 (2002) 580 (2003)	4.4 4.5 5.4
Net contribution to federal budget (RUR billion)	115	9
Foreign investments 1997-2002 (EUR million)	3,871	5
FDI 1997-2002 (EUR million)	2,202	10
GRP per capita 2003 (RUR)	82,999	89
2003 growth in GRP (% per year)	5%	97
2003 SME % of GRP	10%	
Industrial concentration	Average	
2003 public controlled corporations' sales % of GRP	More than 18%	
Bank portfolio by volume (EUR million)	545	
Bank portfolio per capita (EUR)	78	
Bank portfolio as % of GRP	3%	

Currently over 80 per cent of GRP is represented by Sakha, with its wealth of natural resources, Primorski (95 per cent of landed fish) and Khabarovsk which has processing plants. SME, mostly operating in Primorsky Krai, contribute 10 per cent of GRP. Primorski region's proximity to Japan and China provides for strategic trade and investment opportunities. China is increasingly importing Russian minerals, energy and timber to fuel the Chinese economic growth. A surge in rail traffic is expected, when the Transsib railroad becomes extended between South-East Asia and the EU. It is expected that modernisation of transportation infrastructure (seaports, railroads, pipelines) will gather momentum in the coming two years.

ANNEX 7: CUMULATIVE BUSINESS BY INDUSTRY

TABLE CS_01: NET CUMULATIVE BUSINESS VOLUME BY INDUSTRY (EUR million)

Report Date: 30 September 2004

Report Level: RUSSIAN FEDERATION

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	Total Project Value	EBRD Finance	Debt	Equity	% Share of Commitments
Energy	Energy Efficiency	0.2	3	2	2	0	0%
	Natural Resources	22.0	3,512	750	728	22	14%
	Power and Energy	5.0	422	239	239	0	4%
Sub-total Energy		**27.2**	**3,937**	**991**	**969**	**22**	**18%**
Financial Institutions	Bank Equity	7.3	124	86	13	72	2%
	Bank Lending	17.6	1,125	714	714	0	13%
	Equity Funds	15.9	711	430	1	429	8%
	Non Bank Financial Institutions	9.8	285	89	76	13	2%
	Small Business Finance	2.2	284	191	186	5	4%
Sub-total Financial Institutions		**52.8**	**2,529**	**1,509**	**990**	**519**	**28%**
General Industry	General Industry	44.3	3,144	988	910	78	18%
Sub-total General Industry		**44.3**	**3,144**	**988**	**910**	**78**	**18%**
Infrastructure	Municipal & Env Inf	11.0	1,511	411	411	0	8%
	Transport	13.5	1,627	716	706	10	13%
Sub-total Infrastructure		**24.5**	**3,138**	**1,127**	**1,117**	**10**	**21%**
Specialised Industries	Agribusiness	21.0	1,611	462	366	96	9%
	Property and Tourism	4.9	258	110	107	3	2%
	Telecoms Informatics & Media	10.7	822	204	142	62	4%
Sub-total Specialised Industries		**36.6**	**2,691**	**777**	**615**	**162**	**14%**
RUSSIAN FEDERATION TOTAL		**185.4**	**15,438**	**5,393**	**4,601**	**791**	**100%**

DEBT	142.8	12,306	4,509	4,509	0
EQUITY	39.8	2,631	791	0	791
GUARANTEE	2.8	501	92	92	0
PRIVATE	163.4	12,724	4,221	3,430	791
STATE	22.0	2,714	1,172	1,172	0
Direct	178.4	15,014	5,246	4,577	668
Regional	7.0	424	147	24	123
Non-Sovereign	170.9	13,360	4,366	3,575	791
Sovereign	14.5	2,079	1,026	1,026	0

***The Bank allocates an operation count of one to each standalone operation. For frameworks, a count of one is shared between the framework operation and its sub-operations.**
This operation count is then divided equally between any active or completed facilities of the operation. Accordingly, even standalone operations may show a fractional count where a report only considers certain of their facilities (e.g. signed, or equity facilities only).

Detail Filter: Month End [YYYYMM] = "200409" and Country Name (RA) = "RUSSIAN FEDERATION" and [Act/Comp] Ops and [Act/Comp/Sign] Facs

Run date: 22/10/04

Report: \\?\UNC\LDN1CGR1\Report Store\All eMOR Reports\apps\CS_01 - Net Cumulative Business Volume by Industry - sum

ANNEX 8: CUMULATIVE BUSINESS BY REGIONS

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
CENTRAL RUSSIA									
Belgorod Oblast	Equity Funds	6373	RVF - Eagle Black Earth Fund - Belgorod Fodder Factory	Completed	Tikhomirov A.	E UITY	2.7	0	18-Mar-99
	General Industry	2482	Oskol Electrometallurgical Plant	Completed	Collins M.	E UITY	6.5	0	02- an-98
						Belgorod Oblast Total	**9.2**	**0**	
aluga Oblast	Equity Funds	4914	RVF - Eagle Smolensk Fund - orall	Completed	Tikhomirov A.	E UITY	0.7	0	07-May-98
		22545	RVF - N & Russia - ESTA Telecom	Disbursing	Vilhelmsen Y.	E UITY	0.5	0.5	01-Aug-01
						aluga Oblast Total	**1.2**	**0.5**	
ursk Oblast	Equity Funds	13765	RVF - Eagle Urals Fund - Polipak	Completed	Tikhomirov A.	E UITY	0.7	0	07-Oct-97
		4980	RVF - Eagle Black Earth Fund - Polipak	Repaying	Tikhomirov A.	E UITY	3.7	0.7	01-Dec-97
						ursk Oblast Total	**4.4**	**0.7**	
Lipetsk Oblast	Equity Funds	8780	RVF - Eagle Black Earth Fund - Lipetskii hladokombinat	Completed	Tikhomirov A.	E UITY	2.1	0	09-Sep-99
		5750	RVF - Eagle Black Earth Fund - Stroydetal	Repaying	Tikhomirov A.	E UITY	2.9	1.2	18-May-98
	General Industry	14152	Merloni Russia (Stinol)	Disbursing	Semenov P.	DEBT	13.6	13.6	27-Feb-02
						Lipetsk Oblast Total	**18.6**	**14.8**	
Moscow City	Natural Resources	6603	LU OIL MEDIUM TERM OR ING CAPITAL FACILIT	Completed	urtynin A.	DEBT	60.4	-0	15-May-00
	Power and Energy	6028	RAO UES Restructuring Loan.	Repaying	Sitdikova A.	DEBT	50.0	8.2	11-Oct-01
	Bank Equity	833	Tokobank Equity Investment	Completed	rangham C.	E UITY	27.4	0	29-Sep-94
		2607	Inkombank Equity and Loan	Completed	Orlov G.	E UITY	6.0	0	04-Nov-97
		3022	Avtobank - Credit Line/Equity Investment	Repaying	itak A.	E UITY	17.3	17.3	10-Dec-96
		4772	Avtobank (equity)	Disbursing	itak A.	E UITY	1.4	1.4	19- an-98
		8431	Russia - IMB Recapitalisation (debt & equity)	Disbursing	Na arov S.	E UITY	5.8	5.8	19-Apr-00
		17869	International Moscow Bank Capital Increase	Disbursing	Na arov S.	E UITY	7.0	4.2	27- ul-01
	Bank Lending	2377	Vneshtorgbank - Standby Facility	Completed	Baylis .	DEBT	68.0	0.0	10- an-96
		2408	Sberbank Credit Line	Completed	Nadtotchi E.	DEBT	40.3	0	26-Feb-96
		2498	IMB Credit Line	Completed	Na arov S.	DEBT	30.6	-0	03-Nov-95
		2853	Stolichny Bank Savings (credit line)	Completed	han enkova N.	DEBT	6.9	-0	19- un-96
		3965	Une imbank - Moscow Credit Line Subpro ect	Completed	han enkova N.	DEBT	16.1	0	16-Apr-97
		18555	SBS rite off	Completed	rangham C.	DEBT	17.2	-0	19- un-96

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Moscow City	Bank Lending	3022	Avtobank - Credit Line/Equity Investment	Repaying	itak A.	DEBT	24.2	-0	10-Dec-96
		8431	Russia - IMB Recapitalisation (debt & equity)	Disbursing	Na arov S.	DEBT	3.2	3.2	29-Sep-00
		11275	Raiffeisen Bank Subordinated Credit Facility	Disbursing	Cotruta M.	DEBT	16.1	16.1	09-Oct-00
		33292	Regional TFP: Probusinessbank (Guarantee & Pre-E port)	Disbursing	Piskulov D.	DEBT	7.8	4.0	15-Aug-03
		18495	Regional TFP: Small Business Credit Bank (MB)	Signed	Sivcova .	DEBT	0	0	22-May-01
		21403	Regional TFP: Asia Invest Bank	Signed	Turdieva A.	DEBT	0	0	04-May-03
		27111	Regional TFP: Petrocommercebank	Signed	Cotruta M.	DEBT	0	0	20-Sep-02
		28982	Regional TFP: Absolut Bank	Signed	Cotruta M.	DEBT	4.6	0	19-Dec-03
	Equity Funds	25038	RVF - Eagle Black Earth Fund - TA F	Completed	Tikhomirov A.	E UITY	0.8	0	03-Oct-01
		25058	RVF - Eagle Urals Fund - TA F	Completed	Tikhomirov A.	E UITY	0.8	0	03-Oct-01
		1275	Sector Capital Fund	Repaying	S c epaniak R.	E UITY	7.7	7.5	06- ul-95
		16787	RVF - N & Russia - Retal	Repaying	Vilhelmsen Y.	E UITY	6.8	0.0	29-Nov-00
		34813	RVF - Russia Partners Lower Volga - RBM Broadcast Med	Repaying	Grigorieva E.	E UITY	3.2	2.9	23-Oct-03
		16505	RVF - Eagle Black Earth Fund - Isoroc	Disbursing	Tikhomirov A.	E UITY	1.4	1.4	13-Apr-01
		22443	RVF - Eagle Black Earth Fund - Tamak	Disbursing	Tikhomirov A.	E UITY	1.4	1.4	02-Aug-01
		24695	RVF - Central Russia - Bridgetown Foods	Disbursing	Crachilov A.	E UITY	5.2	5.2	23-Oct-01
		31123	RVF - Russia Partners Lower Volga - MTV/Banchero	Disbursing	Grigorieva E.	E UITY	4.0	4.0	14-Nov-02
	Non Bank Financial Institutions	39	Russia Life Investments Ltd/Principal AOOT (equity)	Completed	Loren A.	E UITY	1.2	0	04-May-95
		3982	Russia Life Investments - Capital Increase	Completed	Loren A.	E UITY	1.2	0	17- ul-97
		15533	Europlan (debt)	Repaying	Piskulov D.	DEBT	8.1	6.7	28-Feb-02
		20218	Russkiy Standard Bank Term Loan and Equity-Linked Optior	Repaying	Na arov S.	DEBT	8.1	6.4	01-Oct-02
		2206	The National Registry Company (equity)	Disbursing	Tikhomirov A.	E UITY	1.2	1.2	24-Apr-95
		14151	Poh ola Insurance Russia (equity)	Disbursing	Piskulov D.	E UITY	0.8	0.8	01-Sep-00
		15145	DeltaCredit Mortgage Finance	Disbursing	Piskulov D.	DEBT	16.1	16.1	15-May-02
	Small Business Finance	2672	RSBF - SL - Sberbank	Completed	allace E.	DEBT	2.2	0.0	09- un-95
		2694	RSBF - SL - Stolichny Bank of Savings	Completed	allace E.	DEBT	1.8	-0	22-Sep-95
		4139	RSBF - Toribank Combined Small/Micro Loan	Completed	allace E.	DEBT	1.3	0.0	02- un-97
		4141	RSBF - ProBusiness Open oint Stock Company	Completed	allace E.	DEBT	0.6	0.0	04-Feb-98
		3115	RSBF - MC - Stolichny Bank of Savings	Repaying	allace E.	DEBT	1.2	1.2	23-Nov-95
		5074	RSBF - SBS-Agro Combined Micro/Small Loans	Repaying	allace E.	DEBT	6.0	2.7	08- ul-98
		5973	RSBF - MB Bank (Small Business redit Bank)	Repaying	Sivcova .	DEBT	13.4	2.1	25-Nov-98
		660	RSBF - MB Bank (Small Business Credit Bank)	Disbursing	Taylor M.	E UITY	1.6	1.6	26-Nov-92
	General Industry	2567	Perekriostok	Completed	esketh M.	DEBT	18.3	0.0	15-Nov-96
		18554	Une im Credit Line Assignment - Internatsionalny Post Ned	Completed	Fedorov V.	DEBT	1.7	0	19-Mar-01
		26230	SBS assignment - Macrotech	Completed	Fedorov V.	DEBT	0.2	-0	01-Nov-01
		13810	Stolichny Bank Savings - Biryulovsky Meat	Repaying	Fedorov V.	DEBT	4.0	1.0	14- un-00

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Moscow City	General Industry	30664	Caterpillar Leasing F - PIC Development	Repaying	Ter-Avanessov A.	DEBT	0.3	0.1	11-Oct-02
		16952	DIF - Structured Component Industries (SCI)	Disbursing	akopian M.	E UITY	1.2	1.2	03- ul-01
	Municipal & Env Inf	15898	Ostankino Tower Repairs	Disbursing	einstein M.	DEBT	11.3	0.1	20-Dec-02
	Agribusiness	3662	Moscow - Efes	Completed	Leon A.	DEBT	17.9	-0	30- un-97
		3688	PLM Beverage Can Manufacturing AO	Completed	Maisurad e V.	DEBT	10.6	0	15-Dec-97
						E UITY	5.1	0	
		7877	Louis Dreyfus Vostok	Completed	Lannero .	DEBT	17.7	-0	07-Feb-00
		13519	Louis Dreyfus Vostok E tension	Completed	Lannero .	DEBT	10.3	-0	29-Aug-00
		15434	PLM Beverage Can Manufacturing - rite Off	Completed	ackson S.	DEBT	9.5	-0	15-Dec-97
		18553	Commodity Repo Transaction	Completed	Bryde P.	DEBT	0	0	30- ul-01
		16381	Moscow Efes E pansion	Repaying	Leon A.	DEBT	13.7	10.3	14- un-01
		3850	Danone MPF - Bolshevik	Disbursing	Leon A.	E UITY	15.0	6.6	16-Dec-96
		5845	Danone MPF - Danone Industria LLC	Disbursing	Gourdin C.	E UITY	23.2	23.2	28- un-01
		13520	Efes Brewery Equity	Disbursing	Acuner S.	DEBT	6.4	4.5	20-Oct-00
	Property and Tourism	3267	FM Russia	Repaying	Norman T.	DEBT	9.7	4.7	11-Dec-97
		27377	I EA ommunarka Shopping Centre	Repaying	Maillebiau E.	DEBT	80.5	76.3	08-Nov-02
	Telecoms Informatics & Media	137	Moscow GSM	Completed	Riabiouk V.	DEBT	25.0	0.0	18-Aug-95
						E UITY	1.7	0	
		10044	Vimpelcom	Completed	Feldmanis .	E UITY	33.1	0	21- ul-00
		4260	Baring Communications Equity	Repaying	Taubman C.	E UITY	1.2	1.1	05-Dec-97
		18302	Sonic Duo	Repaying	Nadtotchi E.	DEBT	19.3	17.2	30-Nov-01
						E UITY	6.9	6.9	
						Moscow City Total	**850.0**	**274.7**	
Moscow Oblast	Power and Energy	3056	Mosenergo	Repaying	Sitdikova A.	DEBT	24.2	13.6	07-Apr-98
		25338	Mosenergo Restructuring Loan	Repaying	Sitdikova A.	DEBT	44.3	32.9	14-Aug-02
	Equity Funds	4988	IO Fund - arry Russia A/S	Completed	Vilhelmsen Y.	E UITY	1.3	0	22-Dec-97
		5807	IO Fund - arry Russia A/S	Completed	Vilhelmsen Y.	E UITY	0.5	0	31-Mar-98
		13260	RVF - St Petersburg - Multifle	Repaying	Crachilov A.	E UITY	3.6	3.6	09- un-00
		20599	RVF - N & Russia - Vitrina A	Repaying	Vilhelmsen Y.	E UITY	4.0	3.9	01- un-02
		13261	RVF - Central Russia - Multifle	Disbursing	Crachilov A.	E UITY	4.8	4.7	09- un-00
	General Industry	15715	SBS Agro: Pansionat Otdykha Novogorsk	Completed	Fedorov V.	DEBT	2.5	0	10-Oct-00
		18807	SBS Agro : Pansionat rite Off	Completed	Fedorov V.	DEBT	0.4	0	10-Oct-00
		34874	irtgen - Centrodorstroy	Repaying	Ter-Avanessov A.	DEBT	0.7	0.5	11-Nov-03
		35239	irtgen - Centrodorstroy II	Repaying	Ter-Avanessov A.	DEBT	1.1	0.9	23-Apr-04

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Moscow Oblast	General Industry	18364	Michelin Russia	Disbursing	akopian M.	DEBT	16.1	16.1	07-May-02
		19397	DIF - Intelli raft	Disbursing	Ter-Avanessov A.	E UITY	1.1	1.1	10-Aug-01
		23067	DIF - Firestop	Disbursing	Ter-Avanessov A.	DEBT	0.6	0.6	24- un-04
						E UITY	1.3	1.3	
		27154	ronospan Russia	Disbursing	Burton P.	DEBT	63.0	63.0	17-Dec-03
		28181	Pilkington Russia	Disbursing	akopian M.	DEBT	35.0	10.5	15-Dec-03
		28318	Saint-Gobain Isover Russia	Disbursing	akopian M.	DEBT	10.0	10.0	21-Feb-03
	Agribusiness	25760	EFES - EBI	Disbursing	Bryde P.	DEBT	3.1	2.4	15-Apr-02
		28641	uhtamaki S.N.G.	Disbursing	Lapinskas D.	DEBT	12.5	12.1	26-Nov-02
		35284	Danone Industria II	Disbursing	Leon A.	E UITY	17.5	0	30- ul-04
		33266	Castel	Signed	Gourdin C.	DEBT	11.3	0	17-Dec-03
	Telecoms Informatics & Media	168	Macomnet	Completed	Mayr-Dobin C.	DEBT	1.6	0	09-Sep-93
		198	EDN Sovintel	Completed	Riabiouk V.	DEBT	3.7	0	16-Oct-92
						Moscow Oblast Total	**264.2**	**177.2**	
Smolensk Oblast	Equity Funds	641	RVF - Eagle Smolensk Fund - OASIS	Completed	Tikhomirov A.	E UITY	0.6	0	08- ul-94
		4106	RVF - Eagle Smolensk Fund - Faience	Repaying	Tikhomirov A.	E UITY	1.1	0.1	05-Dec-96
		4501	RVF - Eagle Smolensk Fund - Polygran	Repaying	Tikhomirov A.	E UITY	0.9	0.3	22-May-97
		3179	RVF - Eagle Smolensk Fund - SITALL	Disbursing	Tikhomirov A.	E UITY	0.6	0.5	08- ul-94
		4066	RVF - Eagle Smolensk Fund - SITALL II	Disbursing	Tikhomirov A.	E UITY	0.3	0.3	11-Sep-96
						Smolensk Oblast Total	**3.5**	**1.2**	
Tula Oblast	Small Business Finance	1582	RSBF - SL - First Commercial Bank Tula	Completed	allace E.	DEBT	0.4	0.0	07-Feb-94
		1801	RSBF - MC - First Commercial Tula Bank	Completed	allace E.	DEBT	0.0	0	08- ul-94
	General Industry	76	Procter & Gamble / Novomoskovsk Detergent Plant Pro ect(F	Completed	Lo nova L.	DEBT	12.5	0.0	20-Dec-96
						E UITY	1.3	0	
						Tula Oblast Total	**14.3**	**0.0**	
Tver Oblast	Equity Funds	4502	RVF - N & Russia - Polygran	Completed	Vilhelmsen Y.	E UITY	1.5	0	22-May-97
		22544	RVF - N & Russia - ESTA Tversvia inform	Disbursing	Vilhelmsen Y.	E UITY	0.5	0.5	01-Aug-01
						Tver Oblast Total	**2.0**	**0.5**	

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Vladimir Oblast	General Industry	33246	Vestel-Record	Disbursing	Lo nova L.	DEBT	12.1	9.7	23-Dec-03
						Vladimir Oblast Total	**12.1**	**9.7**	
Vorone h Oblast	Equity Funds	26382	RVF - Eagle Urals Fund - reker	Completed	Tikhomirov A.	E UITY	4.0	0	07-Dec-01
		8632	RVF - Eagle Black Earth Fund - odotel	Repaying	Tikhomirov A.	E UITY	2.5	2.5	30-Aug-99
		18129	RVF - Eagle Black Earth Fund - Altes Investments	Repaying	Tikhomirov A.	E UITY	2.2	0.4	17-Feb-01
		18130	RVF - Eagle Smolensk Fund - Altes Investments	Repaying	Tikhomirov A.	E UITY	1.7	0.4	17-Feb-01
		26592	RVF - Eagle Black Earth Fund - Tamak/SAB	Disbursing	Tikhomirov A.	E UITY	0.1	0.1	28-Nov-01
						Vorone h Oblast Total	**10.5**	**3.4**	
Yaroslavl Oblast	Municipal & Env Inf	13383	Yaroslavl Municipal ater Services Development Programm	Signed	Ofrikhter E.	DEBT	13.5	0	15- an-03
						Yaroslavl Oblast Total	**13.5**	**0**	
						CENTRAL RUSSIA Total	**1,203.4**	**482.6**	

FAR EAST

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Chukotka Autonomous Region	Natural Resources	10409	Gold Pre-Production Financing - Chutkotka	Completed	Grassi E.	DEBT	1.4	0	28-Feb-00
		10410	Gold Pre Production Financing Facility - Polyarnaya	Completed	Grassi E.	DEBT	0.4	0	29-Dec-99
						Chukotka Autonomous Region Total	**1.8**	**0**	
amchatskaya Oblast	Power and Energy	2577	Mutnovsky Independent Power Plant	Repaying	ielinski G.	DEBT	80.5	58.5	08- an-98
						amchatskaya Oblast Total	**80.5**	**58.5**	
habarovsk rai	Equity Funds	10431	RVF - Far East & Eastern Siberia - Amur Pivo	Completed	Crachilov A.	E UITY	3.2	0	21-Dec-99
		4964	RVF - Far East & East Siberia - habmakaronservice	Repaying	Crachilov A.	E UITY	1.5	0.1	22-Dec-97
		6146	RVF - Far East and East Siberia - Dakgom	Repaying	Crachilov A.	E UITY	2.1	0.6	10-Dec-98
						habarovsk rai Total	**6.7**	**0.7**	
Magadan Oblast	Natural Resources	1105	ubaka gold pro ect	Repaying	Rachovides M.	DEBT	25.5	1.2	30- un-95

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Magadan Oblast	Natural Resources	3955	ubaka Gold Pro ect Loan Increase	Repaying	Rachovides M.	DEBT	8.7	1.0	20-Nov-96
					Magadan Oblast Total		**34.2**	**2.2**	
Primorskiy rai	Equity Funds	3181	RVF - Far East & East Siberia - Promacfes	Completed	Crachilov A.	E UITY	0.9	0	18-Dec-95
		4959	RVF - Far East & East Siberia - Ussuriisk Milk Factory	Repaying	Crachilov A.	E UITY	0.6	0.1	19-Dec-97
		4963	RVF - Far East & East Siberia - Nakhodka Meat Plant	Repaying	Crachilov A.	E UITY	1.3	0.4	23-Dec-97
		5599	RVF - Far East & East Siberia - OAO "Spring"	Repaying	Crachilov A.	E UITY	1.2	0.9	29-Apr-98
	Small Business Finance	4588	RSBF - Far Eastern Bank	Repaying	allace E.	DEBT	2.9	2.2	28-Apr-98
	Transport	1917	PRISCO	Completed	Rasti L.	DEBT	36.2	0.0	10-Oct-94
		1931	FESCO	Completed	Rasti L.	DEBT	13.2	0.0	11-Nov-94
		4074	Roselau/FESCO II	Repaying	Rasti L.	DEBT	25.1	9.9	12-Dec-97
	Telecoms Informatics & Media	4431	NTC	Repaying	Cooper D.	DEBT	9.7	4.8	02-Mar-99
		32068	NTC II	Signed	Cooper D.	DEBT	4.0	0	30-Dec-03
					Primorskiy rai Total		**95.1**	**18.3**	
Sakhalin Oblast	Natural Resources	12613	Rosneft/Sakhalinmorneftegas	Completed	Lacor ana N.	DEBT	24.2	0.0	29- un-01
		3321	Sakhalin II (Phase 1) Oil Pro ect	Repaying	Ry enko A.	DEBT	93.4	29.9	20-May-98
	Transport	9	Sakhalin Shipping Company	Repaying	Elliott M.	DEBT	18.3	3.2	12- ul-96
					Sakhalin Oblast Total		**135.9**	**33.1**	
				FAR EAST Total			**354.2**	**112.8**	

MULTI-REGIONAL

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
	Bank Equity	34674	Probusinessbank Convertible Subordinated Loan	Disbursing	Tesseyman N.	DEBT	11.3	11.3	22-Dec-03
	Bank Lending	1264	Russian Enterprise Support Loan (ESP)	Completed	Orlov G.	DEBT	15.7	-0	26-Sep-94
		3037	RTFP - Stolichny Bank of Savings	Completed	Baylis .	DEBT	0	0	05-Oct-95
		3159	RTFP - Me hcombank	Completed	Abos .	DEBT	0	0	21-Dec-95
		3629	RTFP - Petrovsky Bank	Completed	Baylis .	DEBT	0	0	18-Dec-96
		3993	RTFP - Toribank	Completed	ilditch D.	DEBT	0.7	0	18-Dec-96
		3994	RTFP - MDM Moscow Business orld Bank	Completed	Baylis .	DEBT	0	0	18-Dec-96
		4385	Une im Credit Line	Completed	han enkova N.	DEBT	39.8	0.0	27-Nov-97
		6176	MBA Loan Pro ect II (guarantee)	Completed	Monteiro C.	DEBT	0	0	07-Dec-98

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	Bank Lending	15043	Une im Credit Line - rite Off	Completed	rangham C.	DEBT	51.4	0	27-Nov-97
		18829	Vneshtorgbank arehouse Receipt Programme	Completed	Gourdin C.	DEBT	8.1	0	26- ul-02
		31416	Russia/Vneshtorgbank/ arehouse Receipt Programme	Completed	Pehr P.	DEBT	12.1	0	04- ul-03
		2148	MBA Loan Pro ect (guarantee)	Repaying	Monteiro C.	DEBT	1.9	0	06-Mar-95
		8733	Regional TFP: Vneshtorgbank (Guarantee & Pre-e port)	Disbursing	Tesseyman N.	DEBT	34.2	32.9	01-Mar-01
		11296	Regional TFP: IMB- gurantees and pre-e port	Disbursing	Na arov S.	DEBT	47.9	47.5	06-Feb-03
		23971	Raiffeisen Bank Russia Senior Loan	Disbursing	Cotruta M.	DEBT	24.2	24.2	16- an-02
		34475	UralSib SME Term Loan	Disbursing	Na arov S.	DEBT	12.1	12.1	16-Dec-03
		34561	Regional TFP: Bank UralSib (Guarantee & Pre-E port)	Disbursing	Na arov S.	DEBT	2.7	2.7	09-Oct-03
		35167	International Moscow Bank - the Syndicated Loan	Disbursing	Na arov S.	DEBT	24.2	24.2	06-May-04
		35243	International Moscow Bank - Subordinated Loan	Disbursing	Na arov S.	DEBT	16.1	16.1	16- ul-04
		35330	Russia/Vneshtorgbank 2004/Agri. Com. Fin. Programme	Disbursing	Pehr P.	DEBT	20.1	20.1	05- ul-04
		10004	Regional TFP: AO estdeutsche Landesbank Vostok	Signed	Put R.	DEBT	0	0	17-May-00
		12045	Regional TFP: Savings Bank of Russia (Sberbank)	Signed	Tesseyman N.	DEBT	66.6	0	20-Mar-02
		34805	Banque Soci t G n rale Vostok - Senior Term Loan	Signed	Fossemalle A.	DEBT	20.9	0	03- un-04
		34806	Banque Soci t G n rale Vostok - Mortgage Loan	Signed	Fossemalle A.	DEBT	8.1	0	03- un-04
		35129	Regional TFP: TransCapitalBank	Signed	Cotruta M.	DEBT	1.6	0	07- un-04
		35302	Regional TFP: NBD	Signed	Cotruta M.	DEBT	1.1	0	19- ul-04
	Equity Funds	639	Framlington Russia Fund	Completed	Semenov P.	E UITY	13.7	0	22-Dec-93
		2727	Sector Capital Development Company (SCDC)	Completed	Pilotto R.	E UITY	0.7	0	06- ul-95
		23	Alliance ScanEast Fund	Repaying	Vilhelmsen Y.	E UITY	2.5	0.3	01-Apr-94
		124	First NIS Regional Fund	Repaying	S c epaniak R.	E UITY	6.2	0	21-Nov-94
		668	New Europe East Investment Fund	Repaying	Monteiro C.	E UITY	9.2	0.0	28-May-93
		3332	AIG Silk Road Fund	Repaying	Grigorieva E.	E UITY	3.4	0.0	25-Sep-97
		4542	Black Sea Fund	Repaying	Staikov D.	E UITY	2.0	1.6	26-Aug-98
		5024	Innova/98 LP	Repaying	S makfefer M.	E UITY	0.4	0.4	10- un-98
		9103	NIS Restructuring Facility	Repaying	S c epaniak R.	E UITY	4.2	1.4	16-Mar-00
		13946	Baring Vostok Private Equity Fund	Repaying	S c epaniak R.	E UITY	52.6	33.2	13-Dec-00
		6352	TPG Co-Investment	Disbursing	Tikhomirov A.	E UITY	18.8	14.9	21- ul-99
		7588	RVF - Eagle Smolensk Fund - TSR	Disbursing	Tikhomirov A.	E UITY	0.0	0.0	23-Dec-97
		7589	RVF - N & Russia - TSR	Disbursing	Vilhelmsen Y.	E UITY	0.0	0.0	23-Dec-97
		24030	Russia Partners 2	Disbursing	Grigorieva E.	E UITY	40.3	2.0	01-Apr-04
	Non Bank Financial Institutions	33913	Russian Standard Bank Term Loan	Repaying	Na arov S.	DEBT	16.1	15.0	17-Oct-03
		34804	Banque Soci t G n rale Vostok Leasing - Leasing Loan	Signed	Fossemalle A.	DEBT	7.3	0	03- un-04
	Small Business Finance	1578	RSBF - SL - Mosbusinessbank	Completed	allace E.	DEBT	0.4	0.0	10-Mar-94
		1799	RSBF - MC - Mosbusiness bank	Completed	allace E.	DEBT	0.2	-0	07- ul-94

All projects including completed and Russia portion of regional projects. Month end reconciled. Report Date: 22/10/04

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
	Small Business Finance	1800	RSBF - MC - Sberbank	Completed	allace E.	DEBT	1.8	0.0	14- ul-94
		2123	RSBF - BL -Mosbusinessbank, Moscow	Completed	allace E.	DEBT	0.6	0	14-Oct-94
		2198	RSBF - BL - u bassotsbank	Completed	allace E.	DEBT	3.1	0.0	09-Dec-94
		2253	RSBF - MC - Orbita Bank	Completed	allace E.	DEBT	0.1	0	08-Dec-94
		2385	RSBF - MC - Mosbusiness Bank Tranche 2	Completed	allace E.	DEBT	0.2	0.0	10-Feb-95
		2655	RSBF - MC - Orbitabank	Completed	allace E.	DEBT	0.2	0.0	15-Sep-95
		2753	RSBF - SL - Inkombank	Completed	allace E.	DEBT	1.5	0	15- an-96
		2754	RSBF - SL - Rosest Bank	Completed	allace E.	DEBT	1.0	0.0	15-Dec-95
		3496	RSBF - u bassotsbank Micro Credit Tranche 4	Completed	Pilipovic-Chaffey D.	DEBT	1.0	0	11- ul-96
		3500	RSBF - Rossiyskyi redit Micro/Small Loan	Completed	allace E.	DEBT	4.8	0.0	30-Aug-96
		3825	RSBF - Stolichny bank Combined Small/Micro Loan	Completed	allace E.	DEBT	8.8	0	11-Dec-96
		4147	RSBF - Sberbank Combined Small/Micro Loan	Completed	allace E.	DEBT	16.1	-0	15-Apr-98
		4182	RSBF - Inkombank Combined Small/Micro Loan	Completed	allace E.	DEBT	4.5	-0	05- un-97
		4707	RSBF - Rosestbank Combined Small/Micro Loan - Tranche I	Completed	allace E.	DEBT	1.5	0.0	15-Sep-97
		31929	RSBF - rite Off Dec 2002 (Inkom, Rossiyskiy, SBS, Mos)	Completed	Taylor M.	DEBT	1.9	0	04-Dec-96
		3828	RSBF - Mosbusinessbank Combined Small/Micro	Repaying	allace E.	DEBT	3.3	0.1	04-Dec-96
		6245	RSBF - MB Bank (Small Business Credit Bank)	Disbursing	Taylor M.	DEBT	0.4	0.4	22-Dec-01
						E UITY	3.5	1.6	
		13886	RSBF - Sberbank Combineld Micro and Small Loans	Disbursing	allace E.	DEBT	24.0	24.0	22-Dec-00
		14581	RSBF - MB Bank (Small Business Credit Bank)	Disbursing	Sivcova .	DEBT	16.4	16.4	24-Aug-00
		23309	RSBF - MB Bank (Small Business Credit Bank)	Disbursing	Sivcova .	DEBT	23.9	23.9	31-Oct-01
		34565	RSBF - Uralsib - MSE lending - Tranche I	Disbursing	Sivcova .	DEBT	6.4	3.2	22-Dec-03
	General Industry	13826	Une im Credit Line Assignment - Interroleasing	Completed	rangham C.	DEBT	0.5	-0	30-Nov-98
		33855	Power Machines	Disbursing	Fedorov V.	DEBT	49.5	28.0	24-Dec-03
	Agribusiness	15292	Rabo Invest arehouse Receipt Program	Completed	Bryde P.	DEBT	0	0	15-Nov-00
		27770	Russian Agricultural Commodity Program	Completed	Bryde P.	DEBT	56.4	0	10-Sep-02
		29471	Nidera (Russia)	Repaying	Leon A.	DEBT	7.2	6.4	18-Feb-03
		5047	Parmalat MPF - Russia I	Disbursing	Bryde P.	E UITY	6.0	6.0	16-Sep-02
		35261	OOO Soufflet erno Rus	Disbursing	Shaulko S.	DEBT	6.8	3.9	18- un-04
	Telecoms Informatics & Media	7814	Golden Telecom	Disbursing	Crnogorac .	E UITY	19.6	19.6	30-Sep-99
		33109	News Outdoor Russia	Disbursing	Riabiouk V.	DEBT	41.9	37.0	04-Dec-03

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
	Telecoms Informatics & Media	34436	Rising Star Media	Disbursing	Nadtotchi E.	DEBT	14.1	3.3	06-Feb-04
						Total	**925.5**	**433.6**	
				MULTI-REGIONAL Total			**925.5**	**433.6**	

NATIONAL

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
	Bank Lending	1323	Financial Institutions Development Pro ect (loan)	Repaying	Orlov G.	DEBT	34.3	9.1	01-Aug-94
	Non Bank Financial Institutions	2973	New Europe Insurance Ventures	Repaying	Macdougall A.	E UITY	2.5	0.4	23-Oct-96
	General Industry	337	Russian Privatisation Loan	Completed	Bachelard-Bakal F.	DEBT	12.4	0	15-Mar-93
		2710	Eutelsat Satellite Launch	Completed	Naumovski L.	DEBT	0	0	12-Apr-96
		3771	Post Privatisation Support Loan	Completed	Bachelard-Bakal F.	DEBT	11.7	-0	13-Apr-97
	Transport	2526	SFAT	Completed	Small M.	DEBT	24.2	-0	25-Apr-96
						E UITY	9.7	0	
		26874	SFAT	Completed	Small M.	DEBT	7.7	-0	25-Apr-96
		369	Russian Railways Modernisation	Repaying	Lukasik A.	DEBT	88.7	40.4	28- un-96
		17559	Russia Road Sector Reform 1	Disbursing	Gordeeva E.	DEBT	184.5	95.9	19-Sep-02
		30336	Russia Road Sector Reform 2	Disbursing	Gordeeva E.	DEBT	233.6	39.3	05- ul-03
						Total	**609.2**	**185.0**	
				NATIONAL Total			**609.2**	**185.0**	

NORT EST RUSSIA

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Arkhangelsk Oblast	Natural Resources	690	Polar Lights Company.	Completed	urtynin A.	DEBT	72.5	0	13-Sep-93
	Equity Funds	3710	RVF - N & Russia - OAO Sawmill No 3	Completed	Vilhelmsen Y.	E UITY	1.5	0	30- ul-96
		4090	RVF - N & Russia - Teplichnoye	Completed	Vilhelmsen Y.	E UITY	1.5	0	03-Dec-96
		6277	RVF - N & Russia - OAO ESTA	Disbursing	Vilhelmsen Y.	E UITY	0.5	0.5	04-Feb-99
		22546	RVF - N & Russia - ESTA Regionalnye abelnye Seti	Disbursing	Vilhelmsen Y.	E UITY	0.5	0.5	01-Aug-01
		35188	RVF - N & Russia II - Teplichnoye - follow on	Disbursing	Vilhelmsen Y.	E UITY	0.0	0.0	26-Mar-04
		35373	RVF - N & Russia - TASCOM	Disbursing	Vilhelmsen Y.	E UITY	1.0	1.0	26-Aug-04
	General Industry	482	apsibinvest	Completed	rangham C.	DEBT	3.8	0	03-Aug-94

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RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Arkhangelsk Oblast	Municipal & Env Inf	20699	Archangelsk Municipal ater Services Development	Signed	S oblom L.	DEBT	9.5	0	09-Dec-03
						Arkhangelsk Oblast Total	**91.0**	**2.0**	
aliningrad Oblast	Equity Funds	20600	RVF - N & Russia - Produkty Pitania (GR European Foo	Disbursing	Vilhelmsen Y.	E UITY	5.2	5.2	08- un-01
	Municipal & Env Inf	3717	aliningrad ater and Environmental Services Pro ect	Repaying	Ber ina O.	DEBT	14.5	0.6	04- ul-99
						aliningrad Oblast Total	**19.7**	**5.9**	
arelia Republic	Natural Resources	28380	arelsky Okatysh (O)	Disbursing	Demetriou C.	DEBT	36.2	22.4	25-Mar-04
	Equity Funds	29000	RVF - N & Russia - arelia DSP	Repaying	Vilhelmsen Y.	E UITY	4.9	4.1	08-Nov-02
	General Industry	30036	Setles (Multi Pro ect Facility Regional STORA-ENSO)	Disbursing	Rasmussen E.	DEBT	3.0	3.0	10-Dec-02
						arelia Republic Total	**44.1**	**29.5**	
omi Republic	Natural Resources	685	omiArctic Oil	Completed	Demetriou C.	DEBT	16.1	0.0	01- ul-95
						E UITY	15.5	0	
		2381	omi Spill Investment Pro ect	Repaying	urtynin A.	DEBT	13.9	5.6	05-May-95
		20318	Middle-Timan Bau ite Mining & Processing Pro ect	Signed	Marquet .	DEBT	36.2	0	04-Aug-04
						omi Republic Total	**81.7**	**5.6**	
Leningrad Oblast	Natural Resources	27801	Transnefteproduct	Disbursing	Voicehovsky Y.	DEBT	24.2	16.9	28-Aug-03
	Equity Funds	4045	RVF - St Petersburg - Moelven Energo	Disbursing	Crachilov A.	E UITY	1.3	0.4	05- ul-96
	General Industry	34900	Nokian Tyres Russia	Signed	Burton P.	DEBT	25.0	0	24-Sep-04
	Transport	6884	Viking River Cruises	Repaying	Rasti L.	DEBT	5.6	4.1	13-Aug-01
		26805	Regional Navigation Safety System in the Gulf of Finland	Disbursing	Rym hanova .	DEBT	3.0	3.0	23- an-03
						Leningrad Oblast Total	**59.1**	**24.4**	
Murmansk Oblast	Equity Funds	4510	IO Fund - Sevryba International Shipping Limited	Completed	Vilhelmsen Y.	E UITY	4.0	0	25- un-97
		4104	RVF - N & Russia - otel Pol arnye ori	Repaying	Vilhelmsen Y.	E UITY	0.4	0.0	16-Dec-96
						Murmansk Oblast Total	**4.4**	**0.0**	
Novgorod Oblast	General Industry	30136	Pestovo Saw Mill	Disbursing	Oetter T.	DEBT	15.0	15.0	23- un-03
		32915	Nebolchi (Multi Pro ect Facility Regional STORA-ENSO)	Disbursing	Rasmussen E.	DEBT	2.0	2.0	28-Apr-03
	Agribusiness	2439	Cadbury AO	Completed	Potishman F.	DEBT	36.2	0.0	28-Nov-96

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Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Novgorod Oblast	Agribusiness	3788	DIROL -- Dansk Tyggegummi Fabrik A/S	Completed	Rasmussen E.	DEBT	30.7	-0	05- an-98
					Novgorod Oblast Total		**83.9**	**17.0**	
Pskov Oblast	Equity Funds	10451	RVF - N & Russia - Olympia	Repaying	Vilhelmsen Y.	E UITY	3.1	0.4	26- un-01
		4958	RVF - N & Russia - Italforma	Disbursing	Vilhelmsen Y.	E UITY	0.5	0.3	15-Dec-97
					Pskov Oblast Total		**3.6**	**0.7**	
St Petersburg City	Energy Efficiency	27003	Danfoss Debt Facility for Industrial Energy Pro ects	Disbursing	Gas S.	DEBT	2.0	0.3	20-Dec-02
	Power and Energy	28160	Lenenergo	Signed	Sitdikova A.	DEBT	40.0	0	19- un-03
	Bank Lending	3023	ICB - Credit Line	Completed	Orlov G.	DEBT	12.9	0.0	17-Dec-96
	Equity Funds	4053	RVF - St Petersburg - New Era	Completed	Crachilov A.	E UITY	1.7	0	01-Nov-96
		4173	RVF - St Petersburg - ood Products	Completed	Crachilov A.	E UITY	1.1	0	10-Dec-96
		358	Russian Technology Fund	Repaying	Moore T.	E UITY	1.3	1.2	29-Aug-95
		2980	SEAF - St Petersburg	Repaying	Tesseyman N.	E UITY	5.5	0.0	16-Sep-96
		4179	RVF - St Petersburg - Morion	Repaying	Crachilov A.	E UITY	1.9	1.1	27-May-97
		5323	RVF - St Petersburg - Stroykomplekt	Repaying	Crachilov A.	E UITY	2.5	1.6	25-Mar-98
		5949	RVF - Central Russia - AO Parnas-M	Repaying	Crachilov A.	E UITY	1.8	1.8	19-May-98
		6005	RVF - N & Russia - A-Pressen EE AS	Repaying	Vilhelmsen Y.	E UITY	1.6	0.3	21-Sep-98
		16928	RVF - N & Russia - Craftrise	Repaying	Vilhelmsen Y.	E UITY	3.9	1.8	14- un-01
		4875	RVF - Russia Partners Lower Volga - Natur Produkt olding	Disbursing	Grigorieva E.	E UITY	2.8	2.8	31-Oct-97
		4876	RVF - St Petersburg - Natur Produkt oldings	Disbursing	Crachilov A.	E UITY	3.0	3.0	31-Oct-97
		5630	RVF - St Petersburg - AO Parnas-M	Disbursing	Crachilov A.	E UITY	2.6	2.6	19-May-98
		6070	RVF - Central Russia - Natur Produkt oldings	Disbursing	Crachilov A.	E UITY	2.1	2.1	19-Oct-98
		9124	RVF - Central Russia - Natur Produkt oldings Add. Loan	Disbursing	Crachilov A.	E UITY	1.6	1.6	29-Sep-99
		12148	RVF - St Petersburg - RO (OAO Fish Processing Plant No 1	Disbursing	Crachilov A.	E UITY	3.0	2.9	11- ul-01
		12167	RVF - N & Russia - RO (OAO Fish processing Plant N	Disbursing	Vilhelmsen Y.	E UITY	2.9	2.8	11- ul-01
		13927	RVF - St Petersburg - Pekar	Disbursing	Crachilov A.	E UITY	3.0	3.0	26- un-00
		13928	RVF - N & Russia - Pekar	Disbursing	Vilhelmsen Y.	E UITY	3.0	3.0	26- un-00
		17522	RVF - N & Russia - Internet Proekty	Disbursing	Vilhelmsen Y.	E UITY	0.5	0.3	17- an-01
		17929	RVF - St Petersburg - AO Disegni	Disbursing	Crachilov A.	E UITY	2.8	2.8	18-Apr-02
		24696	RVF - Central Russia - Torgovy Dom ERA	Disbursing	Crachilov A.	E UITY	3.1	3.1	23-Oct-01
		26360	RVF - est Siberia - Pyaterochka	Disbursing	Grigorieva E.	E UITY	5.6	0.0	24- ul-01
		33183	RVF - Central Russia - Morion (acquisition of VG shares)	Disbursing	Crachilov A.	E UITY	0.4	0.4	05-Mar-03
		33184	RVF - Central Russia - Speech Technology Center (STC)	Disbursing	Crachilov A.	E UITY	0.6	0.6	13- an-03
		35597	uadriga Capital Russia Fund - AO Continental Plast	Disbursing	Crachilov A.	E UITY	4.8	0	14-Sep-04

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RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
St Petersburg City	Non Bank Financial Institutions	29551	ansa Leasing Russia (debt & equity)	Disbursing	erigan N.	DEBT	20.1	20.1	28-Nov-02
						E UITY	6.0	6.0	
	Small Business Finance	2199	RSBF - BL - Bank Petrovsky	Completed	allace E.	DEBT	1.4	0.0	09-Dec-94
		2752	RSBF - SL - ICB St Petersburg	Completed	allace E.	DEBT	1.0	-0	01-Feb-96
		3495	RSBF - Petrovsky Micro Credit Tranche 2	Completed	allace E.	DEBT	0.5	0.0	05- un-96
		3498	RSBF - Petrovsky Bank Combined Small/Micro Loan	Completed	allace E.	DEBT	2.9	-0	29-Oct-96
	General Industry	34675	irtgen - AB -1	Repaying	Ter-Avanessov A.	DEBT	0.6	0.5	15- ul-03
		24313	DIF - Intercos-IV	Disbursing	Sasson R.	E UITY	3.2	3.2	25-Apr-02
	Municipal & Env Inf	4059	St. Petersburg Municipal Support Pro ect	Completed	Sasson R.	DEBT	55.5	0.0	13- un-97
		1913	St Petersburg ater & Environmental Services Improv. Progr	Repaying	S oblom L.	DEBT	8.7	6.0	17- ul-97
		7346	St Petersburg To ic aste Emergency Clean-Up Programme	Disbursing	Rasmussen E.	DEBT	4.4	0.2	13-Apr-01
		18221	St Petersburg Flood Protection Barrier	Disbursing	Goeransson S.	DEBT	197.3	7.6	20-Dec-02
		19105	St Petersburg South- est aste ater Treatment Plant	Disbursing	S oblom L.	DEBT	35.5	13.6	20-Mar-03
		21962	St Petersburg Northern aste ater Treatment Plant Incinera	Signed	S oblom L.	DEBT	23.8	0	05-Dec-03
	Transport	1182	North estern Shipping Company Vessels Acquisition Pro ec	Repaying	Storchak I.	DEBT	11.6	1.7	27- an-95
		4783	St. Petersburg - Air Cargo Terminal Pulkovo - Phase 1	Repaying	Sheloukhin A.	DEBT	3.2	2.7	10-Oct-00
		6296	North estern Shipping Company Follow-on Loan	Repaying	Rasti L.	DEBT	2.7	0.9	11-Nov-99
	Agribusiness	830	Vena St Petersburg - Equity	Completed	Potishman F.	E UITY	7.6	0	20-Dec-95
		5649	VENA ST PETERSBURG P ASE 2	Completed	Potishman F.	E UITY	6.7	0	25- un-98
		21062	Chupa Chups Russia	Completed	elusic V.	DEBT	7.2	-0	15-May-02
		4787	Soufflet MPF - Malting Soufflet St. Petersburg	Repaying	Shaulko S.	DEBT	14.1	3.8	28- ul-98
		6115	SC BALTI A BRE ERY	Repaying	Potishman F.	DEBT	23.3	5.9	15- un-99
		16707	Vena Restructuring and E pansion	Repaying	Potishman F.	DEBT	42.2	36.3	27- un-02
	Property and Tourism	4557	AO otel Corporation	Repaying	Small M.	DEBT	11.7	9.3	09-Dec-98
		108	St Petersburg Property Development Company (Nevsky 25)	Disbursing	Small M.	E UITY	3.4	3.4	17-Mar-94
		1248	Nevsky Prospekt 25 Loan	Disbursing	Small M.	DEBT	5.2	5.2	07-Aug-96
	Telecoms Informatics & Media	2309	North- est GSM/Russia	Completed	Riabiouk V.	DEBT	22.5	0.0	10-Dec-96
						St Petersburg City Total	**640.3**	**165.7**	
Vologda Oblast	Equity Funds	11032	RVF - N & Russia - Pokrovsky Stekolny avod	Repaying	Vilhelmsen Y.	E UITY	7.3	0.0	26- an-00
		11033	RVF - N & Russia - Pokrovsky Stekolny avod	Repaying	Vilhelmsen Y.	E UITY	4.7	4.3	26- an-00
		31348	RVF - N & Russia - Pokrovsky III	Disbursing	Vilhelmsen Y.	E UITY	2.8	2.8	11-Dec-02
	General Industry	7406	SEVERSTAL PEFF	Completed	Moisseev V.	DEBT	28.2	0	23- un-00
		18199	Severstal - Arcelor V	Disbursing	Vindman L.	DEBT	45.7	33.0	11-Feb-03

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RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Vologda Oblast	Agribusiness	35275	Anadolu Cam	Signed	Campbell D.	DEBT	7.2	0	23-Sep-04
						Vologda Oblast Total	**96.0**	**40.1**	
				NORT	**EST RUSSIA Total**		**1,123.8**	**290.8**	

SIBERIA

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Buryatia Republic	Natural Resources	2195	Buryat oloto	Repaying	urtynin A.	DEBT	8.1	0.5	19-Dec-96
						E UITY	6.5	4.9	
		19035	Buryat oloto Power Line	Repaying	urtynin A.	DEBT	6.6	5.7	14-Dec-01
						Buryatia Republic Total	**21.1**	**11.0**	
Irkutsk Oblast	Equity Funds	4195	RVF - Far East & East Siberia - Irkutsmebel	Repaying	Crachilov A.	E UITY	0.8	0.3	18-Apr-97
						Irkutsk Oblast Total	**0.8**	**0.3**	
emerovo Oblast	Small Business Finance	1850	RSBF - MC - u bassotsbank	Completed	allace E.	DEBT	0.8	0.0	16-Aug-94
		3499	RSBF - u bassotsbank Combined Small/Micro Loan	Completed	allace E.	DEBT	0.8	0	05-Sep-96
						emerovo Oblast Total	**1.5**	**0.0**	
Novosibirsk Oblast	Equity Funds	16888	RVF - est Siberia - MS United Limited	Completed	Tikhomirov A.	E UITY	2.2	0	08-Dec-00
		5757	RVF - est Siberia - Fort	Repaying	Tikhomirov A.	E UITY	1.5	0.0	10- un-98
		16687	RVF - est Siberia - Protector-M	Repaying	Grigorieva E.	E UITY	4.2	0.0	24-Nov-00
		6235	RVF - est Siberia - Siberian Company	Disbursing	Grigorieva E.	E UITY	1.2	0.0	26- an-99
		13476	RVF - est Siberia - atren	Disbursing	Grigorieva E.	E UITY	3.3	0.0	29-May-00
	Small Business Finance	30135	RSBF - Sibakadembank	Disbursing	Tesseyman N.	DEBT	1.2	1.2	14-Feb-03
						Novosibirsk Oblast Total	**13.5**	**1.2**	
Omsk Oblast	Equity Funds	33595	RVF - N & Russia - Narda Investments / Inmarko	Disbursing	Vilhelmsen Y.	E UITY	7.0	7.0	18-Dec-02
						Omsk Oblast Total	**7.0**	**7.0**	

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Tomsk Oblast	Natural Resources	678	Vasyugan Services	Completed	Voicehovsky Y.	DEBT	7.2	0	09-Dec-94
						Tomsk Oblast Total	**7.2**	**0**	
				SIBERIA Total			**51.2**	**19.6**	
			SOUT ERN RUSSIA						
rasnodar rai	Bank Equity	1279	Investment Bank of uban (portage equity)	Disbursing	Cotruta M.	DEBT	2.0	0.6	08-Nov-96
	Bank Lending	35390	Regional TFP: Yugbank	Signed	Piskulov D.	DEBT	0	0	01-Sep-04
	Small Business Finance	9185	RSBF - Investment Bank of uban	Completed	Sivcova .	DEBT	0.4	0.0	15-Sep-00
	Transport	2041	Novorossiysk Shipping Co	Completed	Rasti L.	DEBT	48.3	0.0	15-Dec-95
	Agribusiness	27593	Bonduelle uban	Disbursing	Pehr P.	E UITY	15.0	5.3	28- ul-03
						rasnodar rai Total	**65.7**	**5.9**	
Rostov Oblast	Bank Equity	34640	Center-Invest Bank equity investment & SME credit line	Disbursing	Grigorieva E.	E UITY	6.0	6.0	31-Aug-04
	Bank Lending	28943	Regional TFP: Center-Invest Bank, Rostov(Guar & Pre-e poı	Disbursing	Grigorieva E.	DEBT	6.4	6.2	01-Nov-02
		34640	Center-Invest Bank equity investment & SME credit line	Disbursing	Grigorieva E.	DEBT	4.0	2.0	31-Aug-04
	Equity Funds	6145	RVF - Southern Russia - Arnest	Completed	Crachilov A.	E UITY	2.7	0	11-Dec-98
		4447	RVF - Southern Russia - Gloria eans	Repaying	Crachilov A.	DEBT	1.2	0	27- an-97
						E UITY	1.5	0	
						Rostov Oblast Total	**21.9**	**14.1**	
Stavropol rai	Equity Funds	5425	RVF - Southern Russia - Molochny ombinat Stavrolpolsky	Completed	Crachilov A.	E UITY	0.3	0	19-Mar-98
	Agribusiness	34651	Nar an	Disbursing	Lapinskas D.	DEBT	9.8	7.8	11-May-04
						E UITY	0.0	0.0	
						Stavropol rai Total	**10.2**	**7.9**	
Volgograd Oblast	Equity Funds	4178	RVF - Russia Partners Lower Volga - Povol he Brewery	Completed	Tikhomirov A.	E UITY	2.5	0	31- an-97
		4924	RVF - Russia Partners Lower Volga - Fle oPrint	Completed	Tikhomirov A.	E UITY	0.5	0	05-Nov-97
		4989	RVF - Russia Partners Lower Volga - Alpha Cement	Completed	Tikhomirov A.	E UITY	3.1	0	10-Dec-97
		5000	RVF - Russia Partners Lower Volga - TSR	Disbursing	Grigorieva E.	E UITY	0.1	0.0	22-Dec-97

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Volgograd Oblast	Agribusiness	2647	Athina-Volga SC	Completed	Leon A.	DEBT	1.7	0	19-Mar-97
						Volgograd Oblast Total	**7.9**	**0.0**	
	Equity Funds	26174	Black Sea Fund - Capital Increase	Disbursing	Staikov D.	E UITY	0.4	0.2	31-May-02
						Total	**0.4**	**0.2**	
					SOUT ERN RUSSIA Total		**106.1**	**28.1**	

URALS

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Chelyabinsk Oblast	Bank Lending	28185	Regional TFP: Chelindbank	Signed	Na arov S.	DEBT	6.3	0	04-Sep-02
	Equity Funds	3281	RVF - Eagle Urals Fund - Primula	Completed	Tikhomirov A.	E UITY	1.1	0	02-Feb-96
		15251	RVF - Eagle Urals Fund - Metran	Completed	Tikhomirov A.	E UITY	3.1	0	06-Sep-00
		26935	RVF - Eagle Urals Fund - Plast Rifey write off	Completed	Stredder P.	E UITY	2.9	0	27-Aug-97
	Small Business Finance	21322	RSBF - Chelindbank	Disbursing	Sivcova .	DEBT	3.8	3.8	04-Sep-02
	General Industry	3764	MM Structured Pre-E port Financing Facility	Completed	Rasmussen E.	DEBT	16.1	0	30-Oct-97
		2149	Chelyabinsk Electrolytic inc Plant	Repaying	Sitnikov A.	DEBT	12.1	4.5	09-Oct-00
		27908	Chelyabinsk Electrolytic inc Smelter	Repaying	Sitnikov A.	DEBT	9.7	8.5	09-Oct-02
		29473	Chelyabinsk Tube Rolling Plant	Repaying	Fedorov V.	DEBT	20.1	17.4	20-Dec-02
						Chelyabinsk Oblast Total	**75.3**	**34.2**	
hanty-Mansyisk Autonomous Region	Natural Resources	683	Chernogorskoye	Completed	Demetriou C.	DEBT	15.9	-0	03- un-93
		3421	Chernogorneft	Completed	Greene O.	DEBT	16.9	0	17-Mar-97
	Municipal & Env Inf	17523	Surgut Municipal Services Development Programme	Disbursing	Ofrikhter E.	DEBT	37.2	7.3	21- un-02
						hanty-Mansyisk Autonomous Region Total	**70.0**	**7.3**	
Sverdlovsk Oblast	Bank Lending	34579	Uraltransbank for SME	Disbursing	Na arov S.	DEBT	2.4	1.2	16- ul-04
		27512	Regional TFP: Uraltransbank	Signed	Na arov S.	DEBT	3.1	0	19-Nov-02
	Equity Funds	4134	RVF - Eagle Urals Fund - Spetstransavto	Completed	Tikhomirov A.	E UITY	0.3	0	13-Nov-96
		5003	RVF - Eagle Urals Fund - Uniland	Completed	Tikhomirov A.	E UITY	1.4	0	14-Nov-97
		6069	RVF - N & Russia - OGF Ekaterinburg	Completed	Vilhelmsen Y.	E UITY	0.6	0	19-Oct-98
		15959	RVF - Eagle Urals Fund - alina	Completed	Tikhomirov A.	E UITY	5.2	0	11-Oct-00
		26937	RVF - Eagle Urals Fund - Spetstransavto rite Off	Completed	Stredder P.	E UITY	0.5	0	27-Aug-94

All projects including completed and Russia portion of regional projects. Month end reconciled. Report Date: 22/10/04

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Sverdlovsk Oblast	Equity Funds	15957	RVF - Eagle Smolensk Fund - alina	Disbursing	Tikhomirov A.	E UITY	2.3	0.3	11-Oct-00
		15958	RVF - Eagle Black Earth Fund - alina	Disbursing	Tikhomirov A.	E UITY	3.2	0.5	11-Oct-00
	Small Business Finance	3274	RSBF - MC -Uralpromstroibank	Completed	allace E.	DEBT	0.3	-0	07-Feb-96
		29472	RSBF - Uraltransbank	Disbursing	Sivcova .	DEBT	1.2	1.2	19-Nov-02
		35094	RSBF - Uraltransbank - Tranche II	Disbursing	Sivcova .	DEBT	4.0	2.3	12- ul-04
	General Industry	19817	alina	Repaying	Lo nova L.	DEBT	16.1	4.3	19-Dec-02
		6305	Duferco - Vi Stahl	Disbursing	Maisurad e V.	DEBT	4.0	4.0	19-Dec-00
		18447	Duferco - VI Stahl 2	Disbursing	Maisurad e V.	DEBT	11.3	11.3	25-Sep-02
					Sverdlovsk Oblast Total		**56.1**	**25.1**	
Tyumen Oblast	Natural Resources	681	Samotlor	Completed	Rachovides M.	DEBT	8.1	-0	15-Feb-94
		1966	Geoilbent	Repaying	Grassi E.	DEBT	40.3	24.2	21-Nov-96
					Tyumen Oblast Total		**48.3**	**24.2**	
Yamalo-Nenetsk Autonomous Region	Natural Resources	320	estern Siberia Oil & Gas Rehabilitation Pro ect	Repaying	Shapiro P.	DEBT	71.4	22.8	05-Aug-93
		19677	SeverTE	Disbursing	Shapiro P.	DEBT	80.5	80.5	28- un-02
	General Industry	35630	Sumitomo Leasing - OAO Spetsga avtotrans	Signed	Vindman L.	DEBT	0.4	0	28- ul-04
					Yamalo-Nenetsk Autonomous Region Total		**152.3**	**103.4**	
				URALS Total			**402.1**	**194.1**	

VOLGA

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Bashkortostan Republic	Equity Funds	17989	RVF - Eagle Urals Fund - Altes Investments	Completed	Tikhomirov A.	E UITY	6.3	0	17-Feb-01
		29022	RVF - Eagle Urals Fund - Rucom	Repaying	Tikhomirov A.	E UITY	3.0	0.0	07- un-02
	General Industry	1652	Bash- elme	Repaying	Elliott M.	DEBT	8.9	6.9	31-Oct-95
	Agribusiness	32389	Moscow Efes Regional Acquisition	Disbursing	Leon A.	DEBT	10.1	10.1	24- ul-03
					Bashkortostan Republic Total		**28.2**	**17.0**	
omi-Permyatskyi Automomous Region	Equity Funds	4771	RVF - Eagle Urals Fund - Plast-Rifey	Completed	Stredder P.	E UITY	0.2	0	27-Aug-97
					omi-Permyatskyi Automomous Region Total		**0.2**	**0**	

All projects including completed and Russia portion of regional projects. Month end reconciled. Report Date: 22/10/04

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Ni hny-Novgorod Region (Ni hegorodskaya Oblast)	Bank Equity	17849	RSBF - NBD Restructuring of RSBF obligations (equity)	Disbursing	Cotruta M.	E UITY	1.3	1.3	07-Feb-01
	Equity Funds	6397	RVF - N & Russia - OGF Ni hny Novgorod	Completed	Vilhelmsen Y.	E UITY	0.9	0	06-Apr-99
		1827	SEAF - Ni hny Novgorod	Repaying	Tesseyman N.	E UITY	2.9	0.9	23-Dec-94
		6193	RVF - Central Russia - Ni hpharm	Repaying	Crachilov A.	E UITY	4.7	4.6	29-Aug-95
		6194	RVF - St Petersburg - Ni hpharm	Repaying	Crachilov A.	E UITY	2.8	2.7	28-Dec-98
		6195	RVF - Russia Partners Lower Volga - Ni hpharm	Repaying	Grigorieva E.	DEBT	0	0	28-Dec-98
						E UITY	2.6	2.6	
		34922	RVF - Central Russia - Morion (acquisition offman shares)	Repaying	Crachilov A.	E UITY	0.5	0.4	20-Nov-03
		17089	RVF - Central Russia - ICT	Signed	Crachilov A.	E UITY	0.8	0	21-Dec-00
	Small Business Finance	1579	RSBF - SL - Association Commercial Bank	Completed	allace E.	DEBT	0.4	0.0	04-Mar-94
		1580	RSBF - SL - Ni hegorodets Investment Commercial Bank	Completed	allace E.	DEBT	0.2	0.0	08-Feb-94
		1581	RSBF - SL - Ni hegorodskii Bankiirski Dom Bank	Completed	allace E.	DEBT	0.6	0.0	08-Feb-94
		1803	RSBF - MC - Ni hegorodets Investment Commercial Bank	Completed	allace E.	DEBT	0.0	-0	20- ul-94
		3157	RSBF - SL - NBD Bank Tranches 4 and 5	Completed	allace E.	DEBT	0.5	-0	15-Dec-95
		3497	RSBF - NBD Small Loan Tranche 6	Completed	allace E.	DEBT	0.5	-0	12- ul-96
		3829	RSBF - NBD Combined Small/Micro Loan	Completed	allace E.	DEBT	1.2	0.0	22- an-97
		4782	RSBF - NBD - Combined Micro/Small Loan	Completed	allace E.	DEBT	2.3	0	23- an-98
		6563	RSBF - NBD (restructuring of RSBF e posure)	Completed	Sivcova .	DEBT	0.4	0	27- ul-99
		16832	RSBF - NBD Restructuring of RSBF s obligations	Completed	Taylor M.	DEBT	2.7	-0	27-Nov-00
		16545	RSBF - NBD Restructuring of RSBF s obligations	Disbursing	Sivcova .	DEBT	0.8	0.8	27-Nov-00
		21942	RSBF - NBD Bank Combined Micro and Small Loans	Disbursing	Sivcova .	DEBT	0.8	0.8	23- ul-01
		28320	RSBF - NBD Bank Combined Micro and Small Loan	Disbursing	Sivcova .	DEBT	1.5	1.5	23-Aug-02
		31649	RSBF - NBD Bank Combined Micro and Small Loans, Tranc	Disbursing	Sivcova .	DEBT	0.8	0.8	30- an-03
		35201	RSBF - NBD - Combined Micro and Small, Tranche VIII	Disbursing	Sivcova .	DEBT	1.6	0.8	10- un-04
	General Industry	2609	GA Corporate Loan	Completed	Reid F.	DEBT	16.1	0.0	15-Dec-95
		3375	GA -Volga	Completed	han enkova N.	DEBT	52.4	0.0	06- an-97
		4727	FIAT/GA oint Venture	Completed	Ter-Avanessov A.	E UITY	0.0	0	11-Feb-98
		25560	Bor Glass Loan	Repaying	Semenov P.	DEBT	25.0	21.4	04-Feb-03
		4245	Bor Glass Factory	Disbursing	Semenov P.	E UITY	13.2	13.2	01-Dec-97
		29370	StoraEnso MPF - Ar amas Packaging	Disbursing	Rasmussen E.	DEBT	10.0	10.0	07-Oct-03
		35105	SC Commercial Bank "Soyu "	Disbursing	han enkova N.	DEBT	25.4	25.4	06- an-97
					Ni hny-Novgorod Region (Ni hegorodskaya Oblast) Total		**172.7**	**87.3**	
Perm Oblast	Natural Resources	4874	Permte	Completed	Grassi E.	DEBT	28.2	0.0	12-May-99
		29430	Lukoil-Perm	Disbursing	Grassi E.	DEBT	32.2	18.5	07-Apr-03

All projects including completed and Russia portion of regional projects. Month end reconciled. Report Date: 22/10/04

RCA PO 06: PORTFOLIO - RUSSIA REGIONS BY SECTOR (EUR million)

Report Level:

Region Republic	SIC Team	Op ID	Op Name	Operation Stage	Operation Leader	Instrument Type	EBRD Finance	Operating Assets	Signed Date
Perm Oblast	General Industry	28461	OAO "Uralkali"	Repaying	Fedorov V.	DEBT	20.1	2.7	12-Dec-03
					Perm Oblast Total		**80.5**	**21.2**	
Samara Oblast	Equity Funds	4114	RVF - Russia Partners Lower Volga - ROLTI sub-investment	Repaying	Grigorieva E.	E UITY	2.2	0.7	10-Dec-96
		4171	RVF - Russia Partners Lower Volga - Lada hleb	Disbursing	Grigorieva E.	E UITY	3.1	2.8	08-Apr-97
		26422	RVF - Russia Partners Lower Volga - Ais.T	Disbursing	Grigorieva E.	E UITY	3.3	3.3	08- un-01
		35365	RVF - Russia Partners Lower Volga - Ais.T loan	Disbursing	Grigorieva E.	E UITY	0.8	0.8	10- un-04
	Small Business Finance	3162	RSBF - MC - Rosest bank	Completed	allace E.	DEBT	0.3	0.0	15-Dec-95
		4180	RSBF - Rosestbank Combined Small/Micro Loan	Completed	allace E.	DEBT	1.3	-0	21- an-97
	General Industry	6500	Togliatti A ot	Repaying	Burton P.	DEBT	16.1	3.7	06- ul-01
		13404	General Motors - VA V	Disbursing	Senior D.	DEBT	83.0	0	14-Dec-01
						E UITY	44.4	44.4	
					Samara Oblast Total		**154.5**	**55.8**	
Saratov Oblast	Equity Funds	3978	RVF - Russia Partners Lower Volga - Saratov allpaper Mill	Completed	Tikhomirov A.	E UITY	1.1	0	12-May-95
	General Industry	102	Seribo/CEM	Completed	Moisseev V.	E UITY	6.3	0	17-Feb-95
					Saratov Oblast Total		**7.4**	**0**	
Tatarstan Republic	General Industry	1940	ama Stabilisation Refinancing	Completed	Collins M.	DEBT	56.8	-0	01-Nov-95
		18870	ama : rite Off	Completed	Collins M.	DEBT	23.8	0	01-Nov-95
		18868	ama : Restructured Loan and Equity	Repaying	Lo nova L.	DEBT	56.8	43.3	17-Apr-01
						E UITY	0.0	0	
					Tatarstan Republic Total		**137.3**	**43.3**	
Ulyanovsk Oblast	General Industry	25158	Sirocco Aerospace	Signed	Bachelard-Bakal F.	DEBT	36.2	0	17-Dec-03
					Ulyanovsk Oblast Total		**36.2**	**0**	
				VOLGA Total			**617.2**	**224.6**	
					REPORT TOTAL		**5,392.6**	**1,971.2**	

All projects including completed and Russia portion of regional projects. Month end reconciled.

Report Date: 22/10/04

ANNEX 9: TC PROJECTS BY SECTOR

European Bank
For Reconstruction & Development
Technical Co-operation Funds Programme

As at: 30/9/04

Annex 4 - TC Projects by Sector

Sector	Number of Commitments	Euro Committed	Euro Disbursed	Funding Source
OTHER				
Agriculture, Forestry, Fishing	1	35,835	35,835	CAN
	3	181,595	181,595	FIN
	1	53,302	53,302	ICE
	2	5,470	5,470	SWE
	1	10,600	10,600	UK
	1	75,091	75,091	UKD
	1	14,287	14,287	USA
Sector Total:	**10**	**376,179**	**376,179**	
CEALs,CoFinancing Lines & RVF's	2	724,736	377,581	FIN
	1	46,956	0	SWE
	1	32,868	32,868	SWE2
Sector Total:	**4**	**804,560**	**410,449**	
Commerce, Tourism	4	0	0	UK
Sector Total:	**4**	**0**	**0**	
Community/Social Services	1	86,702	86,702	CAN2
	24	9,698,338	9,615,583	ECT
	4	87,436	87,436	ENE
	1	151,400	151,400	FI01
	1	169,499	169,499	FI02
	1	298,800	298,800	FRA
	3	495,479	495,479	FRB
	1	0	0	GER
	1	31,161	31,161	GERK
	4	474,659	413,846	HOL
	10	3,180,943	3,180,943	JAP
	1	44,960	44,960	KOR
	1	150,000	150,000	LUXMOS
	73	1,117,449	1,117,449	RVNO
	1	455,270	261,486	SW03
	1	241,900	241,900	SWE
	1	181,278	181,278	SWE01
	1	170,903	170,903	SWE02
	3	580,503	571,904	SWI

European Bank
For Reconstruction & Development
Technical Co-operation Funds Programme

Annex 4 - TC Projects by Sector

Sector	Number of Commitments	Euro Committed	Euro Disbursed	Funding Source
Community/Social Services	7	717,214	717,214	TAI
	1	44,864	41,796	TAMSW
	8	795,319	795,319	UK
	1	191,512	191,512	UK9302
	1	87,420	0	UKPF
	1	612,163	0	USTDA
Sector Total:	**152**	**20,065,174**	**19,016,571**	
Construction	4	565,113	143,568	CA3F
	1	38,901	38,901	DEN
	1	480,000	480,000	ECT
	1	877,060	476,062	EIPF
	1	47,895	47,895	SWE2
Sector Total:	**8**	**2,008,969**	**1,186,426**	
Energy	2	455,000	202,610	CA3F
	1	469,842	469,842	CAN
	3	193,589	100,571	CAN2
	2	173,600	173,600	DE01
	4	186,300	186,300	DEN
	15	2,798,012	2,529,412	ECT
	2	173,418	62,734	EIPF
	1		0	F103
	6	616,912	616,912	FIN
	2	97,359	97,359	FRB
	1	48,250	0	FTCF
	1	172,073	172,073	GEFF
	1	100,827	100,827	GER
	1	4,568	4,568	HOL
	1	50,000	50,000	ICE
	2	39,419	39,419	ITA
	8	1,689,067	1,689,067	JAP
	2	68,789	68,789	LUX
	2	1,000,000	98,189	NDEP
	1	1,171,534	1,171,534	NE01
	1	572,656	572,656	NE02
	1	907,667	907,667	NOR
	1	68,439	68,439	NZ
	3	103,279	103,279	SWE

European Bank
For Reconstruction & Development
Technical Co-operation Funds Programme

Annex 4 - TC Projects by Sector

Sector	Number of Commitments	Euro Committed	Euro Disbursed	Funding Source
Energy	2	54,652	54,652	TAI
	1	28,950	28,950	TCS
	2	161,475	161,475	UK
	1	265,884	265,884	UK9315
	1	596,504	596,504	UK9316
	4	46,717	46,717	UKD
	1	1,088,949	1,088,949	US02
	2	128,714	0	USA
	1	214,598	214,598	USOLD
	5	1,169,606	778,533	USTDA
Sector Total:	**84**	**14,916,646**	**12,722,106**	
Extractive Industries	2	406,375	406,375	CAN2
	1	665,136	665,136	ECT
	2	114,413	114,413	FRB
	1	35,195	35,195	HOL
	4	1,235,314	1,235,314	JAP
	1	63,954	63,954	KOR
	3	2,884,059	2,884,059	NE02
	4	390,262	390,262	UK
	1	92,952	92,952	UKD
	1	0	0	UKE
Sector Total:	**20**	**5,887,660**	**5,887,660**	
Finance, Business	1	450,735	450,735	CANPS1
	1	0	0	CH02
	1	3,868,000	2,618,110	ECKM
	603	47,184,576	47,184,576	ECT
	5	5,750,978	2,584,503	EIPF
	1	174,112	55,162	FIN
	2	307,077	307,077	FRA
	7	893,735	893,735	FRB
	3	8,881	8,881	GER
	1	98,952	98,952	GERK
	4	1,897,326	1,808,776	HOL
	2	217,479	217,479	ITA
	11	1,750,086	1,750,086	JAP
	1	439,032	439,032	NE02
	1	255,496	255,496	NE11

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Annex 4 - TC Projects by Sector

Sector	Number of Commitments	Euro Committed	Euro Disbursed	Funding Source
Finance, Business	68	67,362,066	63,953,997	RSBF
	80	6,929,885	6,929,885	RVFR
	51	6,709,888	6,709,888	RVIT
	110	17,196,896	16,521,010	RVNO
	1	238,758	238,758	RVNS
	172	14,398,461	13,476,152	RVUS
	3	221,649	221,649	SWE
	6	48,377	47,272	SWI
	2	395,625	395,625	TAI
	9	1,559,407	1,559,407	UK
	1	16,287	16,287	UK9313
	1	17,345	17,345	UK9317
	1	10,273	10,273	UK9318
	1	16,770	16,770	UK9321
	6	598,756	598,756	UKD
	1	1,372,169	1,372,169	US01
Sector Total:	**1157**	**180,389,078**	**170,757,843**	
Manufacturing	4	226,680	106,138	AUS
	1	79,359	79,359	CAT2
	10	758,665	655,824	DEN
	1	0	0	ECP
	34	5,474,177	5,429,177	ECT
	30	706,556	364,138	FIN
	1	0	0	FRB
	1	198,865	198,865	GE01
	4	455,050	451,557	GERK
	2	139,755	130,346	GRE
	6	531,021	531,021	HOL
	5	202,043	148,903	IRL
	6	371,392	353,073	ITA
	39	4,104,006	2,790,849	JAP
	6	335,633	207,995	LUX
	1	0	0	NOR
	11	534,524	426,154	NORG
	7	416,234	402,641	SWE
	7	314,041	292,555	SWI
	6	329,465	315,593	TAI
	1	61,361	61,361	TAMCA

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Annex 4 - TC Projects by Sector

Sector	Number of Commitments	Euro Committed	Euro Disbursed	Funding Source
Manufacturing	19	855,377	853,501	TAMNO
	26	1,109,772	908,769	TAMSW
	30	286,159	237,221	TARU
	29	2,145,142	2,145,142	UK
	17	383,563	362,284	UKD
	24	595,634	595,634	UKGF
	4	47,641	47,641	USA
	1	39,340	39,340	USOLD
	3	1,186,049	1,186,049	USTDA
Sector Total:	**336**	**21,887,504**	**19,321,127**	
Non-classifiable Establishments	1	7,000	7,000	ECT
	2	48,500	48,500	JAP
	1	18,628	17,362	RSBF
Sector Total:	**4**	**74,128**	**72,862**	
Telecommunications	1	312,000	312,000	JAP
	1	257,125	257,125	UK
	1	42,309	42,309	UKD
Sector Total:	**3**	**611,435**	**611,435**	
Transport, Storage	1	160,685	160,685	BEL
	2	47,286	47,286	CA3F
	2	193,933	193,933	CAN
	3	414,107	266,070	CAN2
	1	196,054	196,054	DEN
	11	2,289,601	2,289,601	ECT
	1	20,000	20,000	FLN
	1	183,109	183,109	FRB
	1	189,275	189,275	GER
	4	555,022	338,208	HOL
	1	0	0	ITA
	5	1,276,654	1,276,654	JAP
	2	28,596	28,596	NZ
	1	33,623	33,623	SWE
	1	197,540	197,540	SWE2
	2	22,565	22,565	TAI
	6	248,500	248,500	UK
	1	49,961	48,014	UKD

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Annex 4 - TC Projects by Sector

Sector	Number of Commitments	Euro Committed	Euro Disbursed	Funding Source
Transport, Storage	2	247,700	247,700	USOLD
	2	244,935	244,935	USTDA
Sector Total:	**50**	**6,599,146**	**6,232,347**	
RUSSIAN FEDERATION Total:	**1832**	**253,620,478**	**236,595,004**	