DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR POLAND

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ABBREVIATIONS

EC	European Commission
EIB	European Investment Bank
EMU	European Monetary Union
ESCO	Energy Saving Company
EU	European Union
FDI	Foreign Direct Investment
FI	Financial Institutions
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
IFC	International Finance Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
ISPA	Instrument for Structural Policies for Pre-Accession
MEI	Municipal and Environmental Infrastructure
MSME	Micro, Small and Medium Enterprises
NATO	North Atlantic Treaty Organisation
NBFI	Non Bank Financial Institution
NBP	National Bank of Poland
OECD	Organization for Economic Co-operation and Development
PLN	Polish zloty
PPP	Public Private Partnership
SME	Small and Medium Enterprises
TC	Technical Cooperation
UNCITRAL	United Nations Commission on International Trade Law
USD	United States Dollar
WSE	Warsaw Stock Exchange

EXECUTIVE SUMMARY

Poland continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Over the last 15 years Poland has made considerable progress in the transition process. With about 75 per cent of economic activity generated by the private sector, a large degree of price liberalisation, an open foreign trade regime and fairly liberal foreign investment conditions the country is one of the most advanced transition economies.

The accession of Poland to the EU in May 2004 has positively influenced output growth, trade, agricultural incomes and infrastructure investment. Economic growth reached 5.3 per cent in 2004 and 3.2 per cent in 2005. The growth has been mainly driven by a net increase in exports, though investment and consumption demand picked up in the fourth quarter of 2005. General government deficit according to ESA'95 methodology (with open pension funds classified inside the general government sector) fell to an estimated 2.5 per cent of GDP in 2005, after reaching 3.9 per cent of GDP in 2004. Public debt is just above 50 per cent of GDP according to the Polish methodology (or around 42.5% of GDP according to ESA'95 methodology). At the end of 2005 inflation declined below 1 per cent and as a result the Monetary Policy Council reduced the policy rate to 4 per cent, a historical low. Strong export growth and a significant increase in net transfers helped bring the current account deficit down to around 1.5 per cent of GDP in 2005. However, continued fiscal reforms remain essential to maintain macroeconomic stability and allow adoption of the Euro in the medium term. The highest unemployment in the EU of about 18 per cent and strong regional disparities remain possibly Poland's greatest challenges. The five poorest regions of the EU are located in the country. Competitiveness, business climate and job creation should therefore be on top of the political and economic agenda.

With respect to structural and institutional reforms, some progress has been achieved in privatisation and restructuring of state-owned enterprises. In the last two years the most visible transactions were the sales of minority stakes in PKO BP, the largest Polish bank, LOTOS, the oil group and PGNiG, the gas company. Restructuring of the steel industry has been almost completed, after the sector became profitable in 2004 following years of losses and difficulties. A number of large state-owned companies, including PZU and PKN Orlen, have also initiated major restructuring and labour retrenchment plans to adapt to increasingly competitive economic conditions. Numerous new listings on the Warsaw Stock Exchange contributed to some deepening of financial markets. There has been further improvement in the quality of the banks' loan portfolio. Consumer regulation and protection have also gained momentum as the Banking Arbiter became fully operational.

Looking forward, the country still faces a number of challenges:

- Structural measures need to be implemented to reduce fiscal deficit and public expenditures, including in the healthcare and social benefits, whilst maintaining adequate levels of social protection.
- A reduction in administrative barriers, improvements in the legal framework and efficiency of judiciary are needed to increase the country's attractiveness to investors, maintain growth momentum and reduce unemployment.

- Privatisation and restructuring of enterprises remaining under state control, particularly in the heavy industry, mining, shipbuilding, energy, petrochemical industry and insurance sectors, is necessary to ensure competitiveness and labour efficiency.
- Consolidation of enterprises in the farming sector and improved access to finance by small and micro-enterprises, particularly in rural areas, is essential to stimulate entrepreneurship and reduce unemployment in the less developed regions.
- Municipalities, regions and their utility companies continue to face challenges for infrastructure improvement in the environmental, public transport and social sectors, as well as improving governance and creditworthiness, and to structure projects suitable for securing and disbursing EU grant funds.
- Development of the non-banking financial sector, particularly through introduction of innovative financial products, and diversification of investment portfolios of insurance companies and pension funds is important for deepening of the financial markets.
- Completion of the railway reform, strengthening of competition in fixed line telecommunication, and infrastructure improvements with the assistance of EU Structural and Cohesion Funds, strong private sector participation and local co-financing are essential to ensure long-term competitiveness of the economy.
- Private investments in energy efficiency and renewable energy need to be promoted to reduce energy intensity and meet environmental targets.

As of 31 January 2006 the Bank had committed EUR 3,446 million to 147 projects which attracted a further EUR 9,173 million from sponsors and co-financiers. The new business volume in 2005 remained robust and in the upcoming strategy period, the Bank can continue to play an important role by focusing selectively on areas where there is transition impact potential and where the Bank's involvement would be additional.

Given the above, the Bank's activities in Poland will be based on the following operational objectives:

- Stimulate development of revenue backed financing and private sector involvement to minimise reliance on sovereign guarantees and increase the supply of long-term finance for the infrastructure and environment projects. Further the scope for financing projects through public-private partnerships, mainly in the municipal and transport sectors, in close concert with the national/local authorities and EU Cohesion and Structural Funds.
- Support restructuring, modernisation and private sector participation in the road sector, railways and airports.
- Support energy saving projects and renewable energy projects designed in accordance with market principles and encouraging private investment.
- Support enterprise restructuring, modernisation and privatisation, by sharing risk with local or foreign investors, particularly in the more challenging sectors such as chemical, energy, heavy industry or mining.

- Provide necessary risk capital (equity and/or structured debt) to local companies to fund their growth and/or expansion in the region; sometimes alongside private equity funds.
- Continue to work with local financial intermediaries and non-banks to provide finance to micro, small and medium sized enterprises, particularly in the rural areas, in conjunction with EU or other donor support.
- Contribute to the broadening of the local capital market through promotion and development of new financial structures such as asset-backed securities, securitisation of assets portfolios, convertible instruments, mortgage bonds, and revenue bonds.

The Bank will continue to ensure that all EBRD operations in Poland meet sound banking principles, have transition impact, are additional and are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans.

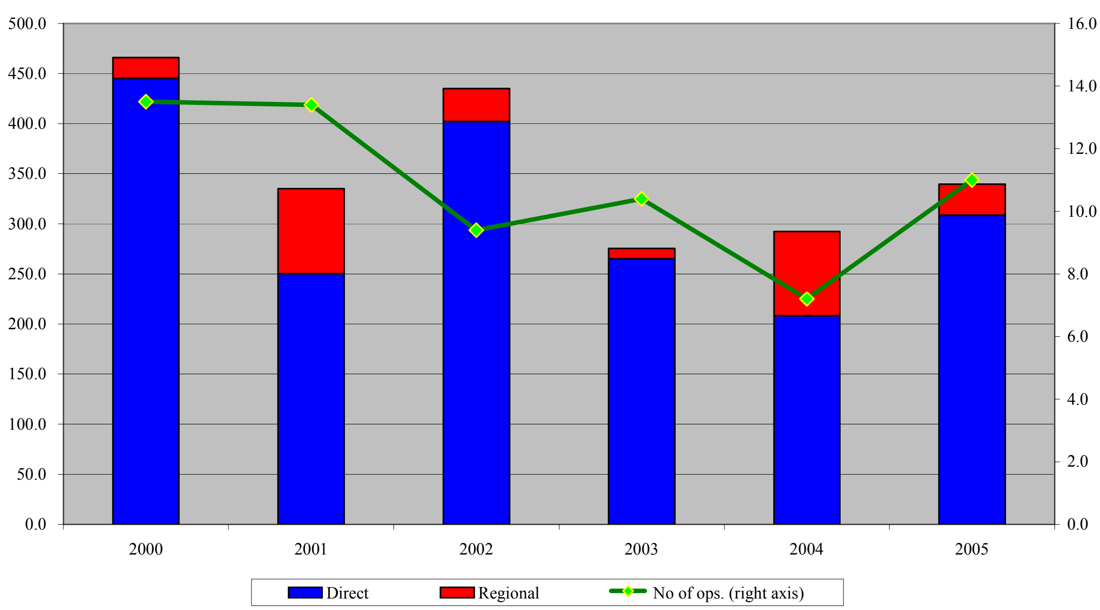
1. THE BANK'S PORTFOLIO

1.1 Overview of activities to date

Poland continues to be the Bank's second largest exposure after Russia representing 11.5% of the Bank's current portfolio. As of 31 January 2006, net cumulative business volume totalled EUR 3,446 million (of which EUR 337 million was through regional projects). Business volume is well diversified with the Corporate Sector (General Industry, Specialised Industries, Natural Resources) representing 41% of the portfolio, followed by Financial Institutions representing 35%, Infrastructure (MEI, Transport) representing 18% and Energy (Power, Energy Efficiency) representing 6%. Please see Annex 1 for detailed breakdown of net cumulative business volume by sector.

As illustrated by the following chart the annual commitments remain at the stable and robust level. Please see Annex 2 for detailed breakdown of the all projects.

Committed projects per year (including regional)



Current Portfolio by Industry (including regional projects)

Current portfolio (EUR million) as of 31 January 2006

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	EBRD Finance	Portfolio share
Energy	Energy Efficiency	1.9	120.2	7.5%
	Power and Energy	1.3	63.8	4.0%
Sub-total Energy		**3.2**	**184.0**	**11.6%**
Financial Institutions	Bank Equity	4.1	144.8	9.1%
	Bank Lending	4.5	202.1	12.7%
	Equity Funds	18.7	137.0	8.6%
	Non Bank Financial Institutions	2.3	195.5	12.3%
Sub-total Financial Institutions		**29.6**	**679.4**	**42.7%**
General Industry	General Industry	6.2	88.3	5.5%
Sub-total General Industry		**6.2**	**88.3**	**5.5%**
Infrastructure	Municipal & Env Inf	14.1	240.0	15.1%
	Transport	3.0	44.2	2.8%
Sub-total Infrastructure		**17.1**	**284.2**	**17.8%**
Specialised Industries	Agribusiness	2.7	141.6	8.9%
	Property and Tourism	8.2	169.0	10.6%
	Telecoms Informatics & Media	1.6	45.8	2.9%
Sub-total Specialised Industries		**12.5**	**356.4**	**22.4%**
POLAND TOTAL		**68.6**	**1,592.3**	**100%**
of which debt			959.0	60%
of which equity			527.8	33%
of which guarantee			105.5	7%
of which private			1,356.4	85%
of which state			235.9	15%
of which direct			1,331.0	84%
of which regional			261.6	16%
of which non-sovereign			1,559.0	98%
of which sovereign			33.3	2%

1.2 Implementation of the previous country strategy

The previous Country Strategy for Poland, approved on 27 April 2004, outlined the following strategic priorities for the Bank in Poland:

- Support the completion of the modernisation and privatisation of Polish enterprises, especially in the more difficult sectors and in those sectors requiring liberalisation. Support foreign direct investment which contributes to transition and regional development.
- Support the domestic private sector, in particular SMEs, by expanding the availability of finance and working with the Polish authorities to continue SME finance programs with local financial intermediaries post-accession.
- Contribute to the further development of the financial sector by supporting consolidation of banking, insurance, and pension funds; supporting the expansion of the capital markets through promotion of new financial products; continue to supply capital to the private equity industry to support its long-term viability and contribute to the privatisation and development of the remaining important financial intermediaries.
- Support continued investment in infrastructure and environment, especially at the local level, minimising reliance on sovereign guarantees while maximising effective absorption of EU Structural and Cohesion Funds and the building of institutional capacity.

During the past two years the Bank signed 18 new projects with an aggregate value of EUR 636 million. Responding to key transition challenges the Bank has implemented the following projects:

- Financing of *Celsa's* investment in *Huta Ostrowiec* and *PKP Energetyka* (the latter without the state guarantee) reflects the Bank's ongoing commitment to the more difficult sectors in Poland. The Bank's financing of *Kaufland,* alongside local commercial banks, for the expansion of retail industry in the medium size cities confirms the Bank's support for transition and regional development.
- SME support continued to be an important part of the Bank's activities within the private sector focus. In that period the Bank concluded several transactions under the *EU/EBRD SME Finance Facility* with leasing companies expanding thereby availability of finance to SMEs. The Bank continued to directly support private equity funds *(Polish Enterprise Fund, Advent, Emerging Europe Convergence Fund)* as well as investing with them *(Opoczno, DGS)*, thus providing capital directly to medium-sized enterprises.
- During 2004, the Bank invested alongside Rabobank International in *BGZ*, Poland's largest agriculture bank, to support restructuring and upgrading of *BGZ* to transform it into a modern and efficient commercial bank focusing on rural finance. The Bank invested as an anchor investor into two on-shore closed–end specialised property funds *(Arka, BPH Property Fund)* traded on the Warsaw Stock Exchange contributing thereby to the development of a new investment instrument for local pension and investment funds as well as supporting the development of the secondary property market in Poland.
- The Bank continued support to the power sector modernisation and its involvement in structuring of a major investment in *PAK power plant* proved essential to secure commercial

lenders participation. By providing capital to *Dalkia Polska*, the Bank aimed to support privatisation of a district heating and co-generation utility in Lodz with a view of improving energy efficiency and environmental standards. The Bank also launched the *EU EBRD Municipal Finance Facility* with the first agreement for a risk sharing with *ING Bank Śląski*. The facility is expected to encourage local financial intermediaries to lend to meet the investment needs of smaller municipalities. The Bank has expanded its revenue-back financing approach to the public sector (e.g. *Gdansk, Krakow)* and applied new financing instruments such as revenue bonds in the water sector *(Bydgoszcz*). The Bank also developed innovative approaches for co-financing EU Cohesion and Structural Funds (e.g. alongside the private water operator in *Gdansk*).

1.3 Transition Impact of the Bank's Portfolio and Lessons Learned

1.3.1 Financial Sector

Banking: The Bank has played an important role in the transition of the financial sector responding early on to the sector challenges. It had early involvement through equity investment in two major banks, which focused on restructuring, improving corporate governance and lending capacity. The equity investment in *Bank Pekao*, the largest universal private bank, contributed to the further consolidation of the banking sector in 2000, while a subordinated loan strengthened *BISE's* provision of credit to small municipalities. After a long and intense policy dialogue, *BGZ,* the agricultural bank, has just been privatised with the support of the Bank and its operations are now being restructured.

Micro, small and medium enterprises: The SME credit lines, extended by the Bank under the *EU EBRD SME Finance Facility* had an important demonstration effect and helped improve institutional capacity of some of the banks to further expand in the SME segment. However, despite these efforts, the availability of finance to micro and small enterprises, particularly in the regions and rural areas, is still fairly limited and the Bank's further involvement continues to be important. SME sector in Poland has been strengthened through the activities of Turnaround Management (TAM) Programme, designed to assist the development and growth of SMEs in the Bank's countries of operations, enabling them to adapt to free market economy. TAM has carried out 101 projects in the country so far.

Private equity funds: Poland is the primary target country for a number of private equity funds in the region, and while the Bank has been instrumental in attracting foreign investors to the country and, more recently, domestic institutional investors to invest in some of its funds, the amounts are still small. As a result of the Bank's continued involvement, Poland has the most developed private equity fund sector in the transition economies. Nevertheless, the equity funds still require public funding. Structures and instruments also remain relatively narrow, and the pool of experienced fund managers is small. The Bank's investments confirmed that a full prior assessment of the quality of the fund management team and a proven track record are critical for the success of the project.

Non-bank financial institutions: The Bank invested in one of the 21 pension funds that were given licenses to manage the mandatory "second pillar" of the pension system. In the life insurance sector, the Bank's investments with foreign sponsors have increased competition and put pressure on the dominant state owned insurer. However, the Bank's long-standing efforts to support restructuring and privatisation of *PZU* had relatively little impact. From the early 2000s, the Bank participated in the first private placement of Polish mortgage bonds, encouraging the establishment of this new instrument in the local capital market, and defining a new instrument open to local institutional investors. A loan was extended to Poland's largest vehicle and equipment leasing company *EFL*, though in a buoyant market that company's market share has since declined. The Bank has also extended finance to other leasing companies under the *EU EBRD SME* framework.

Overall, *significant* transition impact has been achieved in the *Financial* Sector.

1.3.2 Enterprise Sector

General Industry: During the last decade the Bank provided political comfort to promote entry of strategic investors. The Bank's projects relative some of the domestically-owned companies were not successful, partly as a result of state interference causing poor investment decisions. The Bank's hands-on approach, however, helped improve corporate governance. More recently, two Bank projects supported foreign investment in the chemical sector, which is still dominated by un-restructured state owned companies. During the strategy period, the Bank also supported completion of privatisation process and corporate restructuring of *Celsa Huta Ostrowiec, Opoczno*, *DGS*. The Bank's experience has proven that privatisation and post-privatisation cases without strong strategic sponsors need particularly in-depth due diligence. Large enterprises at post-privatisation stages may see owner-coalitions emerge as a crisis response which look to government and other stakeholder demands; the Bank should therefore seek to combine debt, equity and/or quasi-equity financing in such cases to retain effective sanction and resort.

Agribusiness: In the early 2000's the Bank continued to finance the restructuring of food processors and the development of food wholesale. The projects demonstrated the benefits of radical restructuring and improvements in standards of business conduct, although one investment in *Spearhead* proved less successful as the company reported a severe working capital shortfall and liquidity squeeze. Recently, the Bank supported the expansion of the retail industry by providing financing alongside local commercial banks to *Kaufland* and *Intermarche's* franchisees. A lesson learned is that major processing firms with many links to primary agriculture present a high risk. The political and stakeholder influence may prevail over shareholder interests. Therefore, the Bank should avoid structuring of investments as minority equity participation, in particular, joint-venture participation where combined government and farmer influence are dominant.

Property and tourism: Over the years, the Bank contributed to the development of the primary and secondary property market. Within the primary market, the Bank financed the first logistics park – the largest at the time in Eastern Europe and still the largest warehouse development in the country – and followed this up with a second project. The Bank also financed the first A-Class office building, as a joint venture between the developer and the district authority. The demonstration effect and visibility of this project were undoubtedly strong. The project culminated in the sale of the building to an institutional investor. The Bank's *Warsaw Financial Centre* project was the first $100 million property deal in the region. As such, it was important in providing the necessary critical mass to attract institutional investors to the market. Another project emphasised regional development taking equity in property developer *(GTC)* to assist in their institutional development. In the early 2000s, the Bank's projects were covering a wide array of sub-sectors, including hotel, residential, office and retail spaces, warehousing and light industrial spaces. Through these investments the Bank contributed to the development of a secondary market and the transfer of technology and skills to local contractors. The Bank has also demonstrated the effects of introducing new financial products to the market, such as mezzanine financing (*Dom Development*), and the successful listing on the Warsaw Stock Exchange of two on-shore property funds *(Arka, BPH Property Fund)*.

Telecommunications: The Bank became involved in the privatisation of *TP SA* relatively late and hence had only a marginal influence on the transaction as well as on associated legal, regulatory and corporate governance changes. The privatised telecom operator still continues to have a dominant position in most segments of the voice segment of the market. The Bank has sought to increase competition in the sector by investing in *Netia,* a company that has developed a broad base of telecoms services, and in *PTC,* a large mobile company. The Bank also extended a loan to support expansion of an alternative fixed line telecommunication provider. However, the poor performance of the company and the difficult regulatory framework weakened the impact of the project on a wider market. The Bank's projects evidenced that investments in the telecom market and technology require a complex strategy and expansive analysis of multi-generation (2nd and 3rd generation technology, i.e. GSM and UMTS) licensing.

Overall, *moderate* transition impact has been achieved in the *Enterprise* Sector.

1.3.3 Infrastructure and Environment

Power and energy efficiency: The Bank supported the power sector modernisation in structuring of a major investment in the *PAK power plant*, which proved essential to secure commercial lenders participation. Similarly, the Bank's support is firmly desired in another major investment, *Belchatow power plant,* the first power plant to operate on a merchant basis. Regarding energy efficiency, the Bank-supported ESCOs found it hard, though, to establish themselves in the difficult Polish environment. Demonstration effects have therefore been smaller than envisaged, and no significant market for energy services has yet developed. The Bank's policy dialogue may have contributed to regulatory improvements, but not enough to encourage broad entry into the sector.

Transport: The largest transition impact of the Bank in this sector has been in the *railways*. The 2000 restructuring and privatisation project initiated the institutional reforms and commercialisation of *PKP* and also financed labour redundancies. The process was consolidated with the second PKP privatisation and restructuring project. The second *PKP* project demonstrated that the Bank needs to employ more rigorous measures regarding its additionality assessment and, more importantly, privatisation agendas forming the rationale for Bank investments require explicit governmental support and implementation schedules. In the *road sector*, a pilot PPP project was prepared, but may not come to light. A lesson learned from the supporting TC operation is that the Bank should test beforehand the *long term* political willingness of the Government to undertake an investment project carrying innovative and far reaching institutional changes and obtain a formal commitment to seek the required reforms with the support of the TC.

MEI: The Bank applied new financing instruments such as revenue bonds in the water sector *(Bydgoszcz)* and equity in heating *(Poznan, Lodz)* and public transport. The Bank has also developed innovative approaches for co-financing EU Cohesion and Structural Funds. Significant progress has been achieved in meeting EU environmental standards, commercialising water and public transport services, introducing long-term public service contracts. However, private sector participation in water services in Poland is still very limited. While the regulatory framework for PPP has been evolving with the Bank's support, very few projects are being implemented.

Overall, *moderate* transition impact has been achieved in the *Infrastructure* Sector

1.3.4 Overall assessment

The Bank strategies for Poland addressed the evolving needs of the Polish economy. The Bank has been an active participant in the transition progress and continued to innovate to suit the emerging transition needs. The Bank has had the most significant impact in the Financial Sector while its efforts particularly in the Transport and Power Sectors yielded lesser results, primarily as these sectors reformed at a slower pace.

1.4 Financial performance of the existing portfolio

During the last two years the quality of the Polish portfolio remained stable at a very good level. As of 31 January 2006 the overall portfolio risk rating was 4.8, an improvement as compared with 5.2 at the time of the adoption of the previous country strategy. This compares with risk rating of 5.5 for the Bank and 4.9 for Central Europe.

1.5 Mobilisation of co-financing

Overall mobilisation ratio (total project cost/EBRD financing) is 3.66. During the strategy period the following projects were co-financed: *Kaufland Polska, Celsa Huta Ostrowiec, PAK power plant,* two on-shore property funds and private equity funds. The Bank's continued support to the private equity industry focusing on SMEs is essential for raising second generation funds with majority private capital.

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

2.1.1 Political background

Poland is a parliamentary democracy with a President elected by popular vote; a Cabinet headed by a Prime Minister who is nominated by the President but must, like his Ministers, be approved by parliament; and a two-chamber parliament consisting of a 460-seat lower house (Sejm) and a 100-seat upper house (Senate). In the 25 September 2005 parliamentary elections, the conservative Law and Justice Party (PiS) led by Jaroslaw Kaczynski emerged as the largest party, with 27% of the popular vote and 155 seats in the lower house of the Polish Sejm (parliament). The previous ruling party, the Democratic Left Alliance (SLD) ended up fourth, with 55 seats. In October Lech Kaczynski, Jaroslaw's twin brother and a former Minister of Justice and serving Mayor of Warsaw, was elected President, defeating in the second round Donald Tusk, leader of the pro-market reformist Citizens' Platform (PO). Instead of, as had been expected, forming a post-election coalition with the second-placed PO, which had got 23% of votes and 133 seats, PiS opted for a minority government, with the support of two smaller populist parties, the left-wing Samoobrona and the right-wing League of Polish Families (LPR). On 10 November 2005 Kazimierz Marcinkiewicz was confirmed by parliament as Prime Minister. On 24 January 2006 the lower house of parliament approved the 2006 budget. On 2 February 2006 PiS signed a 12-month 'stabilisation pact,' with Samoobrona and LPR. The two smaller parties offered to support PiS's legislative programme in return for jobs and government policies demanded by the two parties' constituencies. Friction between PiS and its two partners led to PiS's attempt on 7 April to get support for early elections, but PiS's motion for early dissolution of the parliament failed to get the required two-thirds majority (307 votes in a 460-seat lower house). Thereupon PiS announced against the background of some controversy within its own ranks that it would seek a coalition with Samoobrona and one of the smaller parties that would give the government a majority in parliament.

The judiciary is independent. The present Constitution was adopted in October 1997 following a national referendum on the issue. The President serves as head of state and supreme commander of the armed forces and is elected for no more than two five-year terms. The President can veto legislation but a three-fifths majority in parliament can overturn the veto. Under the reduced powers granted to the President by the 1997 Constitution, he can dissolve the lower house of the Parliament only if it fails to approve the annual budget within four months of the first reading or the appointment of the Government according to the envisaged procedure would have proven unachievable. The Constitution guarantees free healthcare and education, a minimum wage and other social provisions. It also requires the government to combat unemployment and homelessness. To safeguard macroeconomic stability, the Constitution declares that public debt should not be greater than 60% of the GDP, and that the budget deficit must not exceed the limit set by parliament. Poland joined NATO in 1999 and the European Union in May 2004.

2.1.2 Legal Environment

Poland has made considerable progress towards enacting a framework of laws meeting international and EU standards. The real achievements of the legislation on financial markets and public private partnership should be recognised as valuable contributions to Poland's future economic growth. Other notable developments in the legal environment include the opening up of the legal profession to all qualified applicants (previously opportunities to qualify were limited by professional bodies) and the actions taken by the current government to curb corruption, including in the courts and other enforcement arms. The real deficiencies in the legal framework are in the areas of implementation and enforceability where parties can still encounter serious obstacles despite efforts at judicial training and modernisation.

2.1.3 Environmental Issues

Although Poland joined the European Union on the 1st May 2004, it still continues to face environmental problems concerning air, water and soil pollution. The municipal infrastructure sector (landfills and wastewater treatment plants), will continue to require substantial investment to deal with past legacies as well as developing new solutions to meet future economic growth. EU and domestic funds will account for a high proportion, but not all, of the required financing. The power and energy (including mining) sectors remain one of the principal sources of industrial pollution and again substantial investment will be required to meet future EU environmental standards. The need for additional abatement equipment in the district heating sector may be required due to the possible change of interpretation of combustion plant definition in Poland. Therefore, there is a significant requirement for continued financing of environmental projects.

Poland has been able to transpose and implement most of the EU's environmental law (the '*Aquis Communautaire'*). Although good progress has been made, a number of practical implementation issues have been noted. For instance, the inadequate transposition and implementation of the EU EIA Directive and Natura 2000 requirements. This affected disbursement of EU Cohesion Funds for a number of municipal infrastructure and transport projects in 2005. As a result of EU and NGO action, the EIA and Natura 2000 legislation has been amended and the non compliance partially addressed, although further institutional strengthening and legislative changes may be required. Poland has also obtained substantial derogation periods in terms of implementing some key EU Directives, notably in the power and manufacturing sectors (Large Combustion Plant (LCP) and Integrated Pollution Prevention and Control (IPPC) Directives) as well as for municipal waste and wastewater infrastructure (EU Urban Wastewater and Landfill Directives). Attaining full compliance will require substantial investment and will remain a priority investment focus for the next decade. A background section on environmental issues in Poland and examples of recent projects is found in Annex 8.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic conditions relevant for Bank operations

Real GDP grew in Poland by about 3.2 per cent in 2005, below the 5.3 per cent achieved in 2004. The growth in the fourth quarter of 2005 was 4.2 per cent, backed by increasing consumption and investment spending. In the last three months of 2005, investments by enterprises expanded by 9.8 per cent and private consumption went up by 3.1 per cent. Industrial production expanded by 9.6 per cent year-on-year in December 2005. Annual consumer price inflation declined to 0.7 per cent in December 2005, below the 2.5 per cent target rate of the National Bank of Poland (NBP).

Between March 2005 and February 2006, the Monetary Policy Council (MPC) reduced the policy rate in seven steps to 4 per cent, a historical low.

Although the economy slowed down in 2005, the general government deficit outperformed the target and came at an estimated 2.5 per cent of GDP in 2005 (according to ESA'95 methodology which allows for the exclusion of pension funds from the general budget). Public debt has stabilised at just above 50 per cent of GDP, according to the government's definition (or around 42.5% of GDP according to ESA'95 methodology), and is expected to increase slightly in the short term. Despite some reforms implemented in 2005 the government faces continued pressure for fiscal reforms, as costs of pension reform account for about 2 per cent of GDP per annum above the headline deficit figure. The most pressing tasks include the need to limit coverage of the farmer pension scheme, close social security contribution loopholes and improve targeting of disability programs. The government will also need to find resources to finance its social programmes.

Strong export growth (particularly in services) and stable inflow of net transfers helped keep current account deficit at around 1.5 per cent of GDP in 2005, compared to 4.2 per cent in 2004. On the capital account, portfolio inflows continue to dominate. Foreign direct investments (FDI) have shown a recovery, supported by stronger economic growth and EU membership. FDI reached around 4.7 per cent of GDP in 2004 and 2.1 per cent in 2005. External debt was at 43.3% of GDP at the end of 2005 and international reserves remained above four months of imports of goods and services. Current account deficit is comfortably covered by inflow of FDI, which are complemented by sizeable portfolio inflows.

Unemployment rate in Poland remains at the highest level in the EU. According to the definition of the Polish Central Statistical Office, it rose to 18.0 per cent in January 2006, after falling from 19.4 per cent to 17.6 per cent between January and December 2005. Two Polish regions, Dolnoslaskie and Zachodniopomorskie, were among the top ten EU regions with highest unemployment in 2004 (both above 23 per cent) and five Polish regions (Lubuskie, Dolnoslaskie, Warminsko-Mazurskie, Zachodniopomorskie and Swietokrzyskie) came among the top ten EU regions with highest unemployment among young people.

Notwithstanding the overall economic progress, significant regional disparities persist in Poland. According to a Eurostat report from April 2005, although the GDP per capita in the Warsaw region was at 69.5 per cent of the EU-25 average, Poland also accounted for the five poorest regions of the EU. Average GDP per capita in Lubelskie, Podkarpackie, Warminsko-Mazurskie, Podlaskie and Swietokrzyskie were all below 36 per cent of the EU-25 average.

Please refer to Annex 4 for selected economic indicators.

2.2.2 Transition Success and Transition Challenges

Poland has made remarkable progress in transition since the early 1990s. The transition indicator scores published in the *2005 Transition Report* indicate that in three categories: (i) price liberalisation and trade; (ii) foreign exchange liberalisation; and (iii) small-scale privatisation, Poland has already achieved standards of a well functioning market economy.

Nevertheless, a number of transition challenges remain in Poland. These challenges, identified in the 2005 Assessment of Transition Challenges, are described in the following paragraphs. Please refer to the snapshot table in Annex 5 for individual sector-by-sector ratings.

Enterprise Sector

General industry: *There is a need for efficiency improvements, a more flexible labour market, restructuring of remaining state-owned enterprises and diversification towards services and new technologies.*

Privatisation progress in the last two years has been limited although considerable progress has been made in restructuring of the steel industry. There has also been a renewed momentum in the restructuring of public enterprises. The national gas supplier PGNiG was floated in September 2005. The largest state-owned companies, including PKN Orlen, have initiated major restructuring and labour retrenchment plans to adapt to increasingly competitive economic conditions. However, despite ambitious plans for employment reduction and restructuring, the mining sector also remains in need of reform. State aid to the shipbuilding industry continued in 2005.

Enterprise performance would benefit from strengthening of public administration and judiciary, including speeding up all administrative procedures and reducing the number of necessary licences and permits. Complex and unclear tax laws are seen as an impediment for attracting investments. Restructuring of the enterprise sector is held back by state interference, including subsidisation of ailing companies in sensitive sectors. There is also room for adjustment in the structure of the Polish economy, as agriculture and industry still play much more important role than in the EU-15. This is, to some extent, an indication of the need for further development in new service activities, in particular in the SME sector. There is also room for development in high value-added sectors, including in new technologies.

Poland had only the fourth highest level of productivity of all transition economies that joined the EU on 1 May 2004. When measured by the GDP generated by each employed person in purchasing power parity terms, Poland’s productivity in 2004 was estimated at around 59.6 per cent of the average of the enlarged European Union, compared to only about 43.6 per cent in 1995. The country’s productivity was below those of Slovenia (74.8 per cent of the EU-25 average), Hungary (69.4 per cent of the EU-25 average) and the Czech Republic (64.6 per cent of the EU-25 average).

Agribusiness: *The main challenges include consolidation of farms, strengthening of competition in processing of agricultural products and development of small enterprises.*

The Agricultural Property Agency still controls a large share of agricultural land (only around a third of land has been transferred to private owners while over half has been leased out). As a result land tenure remains very fragmented, the land market continues to function poorly and there is a strong need for farm consolidation. Privatisation of agribusinesses is incomplete and a number of markets are still monopolised (dried fodder, sugar, vegetable oil). The development of competitive distribution/packaging industries and improvements in the traceability of produce remain a challenge. The main provider of credit to the rural sector, BGZ, was privatised in 2004 and restructuring of its operations has been initiated. Following EU accession, Polish farmers increased their profitability, competitiveness and incomes, cementing the country’s transformation from an importer to net exporter of agricultural products. Although Poland is integrating into the EU Common Agricultural Policy (CAP), the country grants additional ad hoc support to the sector (direct subsidies to farmers’ social security system, price supports, input and credit subsidies, tax benefits) estimated by the World Bank up to 3 per cent of GDP.

Natural resources: *Management of natural resources, particularly in the coal sector, requires further restructuring, commercialisation, independence from politics and privatisation of suitable assets.*

Mining, oil and gas companies still remain under state control. State-owned conglomerate Nafta Polska and the State Treasury hold shares in multiple natural resources companies (PGNiG, Lotos, Naftobazy, PKN Orlen, PERN), contributing to inefficiencies in decision making and frequent changes of senior management. Furthermore, with recent announcement of the Government to cease the operation of Nafta Polska (originally set up to privatise the oil and chemical sectors) the privatisation strategy for the sector remains unclear. Strong (de)regulation, commercialisation and privatisation are required. Local mining companies (coal and copper) are still state-owned and un-restructured.

Real estate: *The key challenges include urban renewal and provision of affordable housing on a commercial basis. The remaining public and co-operative companies managing residential housing need to be commercialised.*

The real estate sector is developing fast, including new types of property and financing instruments. There is little state interference in the sector. There are large discrepancies in the development in the capital and other sizeable urban centres and outlying, underdeveloped regions. There is full tradability of land except for foreigners. Urban renewal is in infancy stage. Tourism, especially in rural areas, needs further development and know-how transfer. Further development of affordable houses and diversification of capital market instruments could contribute to a more dynamic development of the sector.

More than three quarters of older apartments have been privatised, but many buildings still remain under management of public companies or housing co-operatives, which are yet to be commercialised. There is potential to complete privatisation of residential real estate and outsource provision of social housing to the private sector. As a large portion of housing stock (particularly apartment blocks) is in need of refurbishment, there is a growing demand for investments in urban renewal. These investments require appropriate commercial structure to ensure affordable and adequate housing for the population.

Foreign investment: *Inflow of FDI has increased following the EU accession and was helped by robust economic growth, competitive labour costs and improving business environment. The new flows are concentrated in manufacturing, followed by financial intermediation.*

After a slowdown in 2002 and 2003, during which the country saw FDI inflow of around USD 4 billion annually, Poland attracted USD 12 billion in FDI in 2004 and an estimated USD 8 billion in 2005. The increasing trend in FDI has been aided by the EU accession in May 2004, robust economic outlook and continued improvement in relative unit labour cost. Rising popularity of the country as a destination for FDI can also be linked to improving communication between the central and local authorities and foreign investors, faster decision making process in relation to new investment projects, and renewed promotion efforts. As a result, Poland has recently won two big multinational green-field investment projects (German track producer MAN and LG Philips). Manufacturing continues to enjoy the highest share of FDI in Poland with about 40 per cent of the total inflows in 2004, with the automotive industry being most popular. Significant amounts of money were also put into financial intermediation, which accounted for about a quarter of FDI inflows in 2004. There is an increasing interest in green-field investments, which accounted for more than half of FDI in 2004, up from around a third in 2002. Privatisation FDI have been gradually decreasing over the last three years and accounted for less than 20 per cent of FDI inflow in 2004. Mergers and acquisition made up for about a quarter of the total.

Infrastructure

Energy sector: *Restructuring of large power companies, including improvements in labour efficiency and privatisation, as well as development of private energy efficiency and renewable energy projects are key challenges in the power sector.*

The Polish power sector is fully unbundled into separate generation, transmission and distribution asset holding companies. To date, only three generation plants, two distribution companies, and a handful of smaller CHP plants have been privatised, and most of the sector remains under state ownership. Competition has been hindered by the lack of resolution of the issue of stranded assets and existing long term contracts. The regulatory framework is one of the most advanced in the transition economies, with the introduction of a power exchange and balancing market. Third Party Access to distribution is legally possible but difficult to enforce. The government initiated privatisation of further power plants in 2005 but the process has been put on hold due to recently announced plans to restructure the sector into few vertically integrated entities, which poses further risks to competition and liberalisation of power trade.

The basic institutions for the energy efficiency sector are in place. However, energy intensity in Poland is approximately 14 per cent higher than the corresponding average figure for all OECD countries. There exists significant potential for energy savings throughout the economy and the development of the energy efficiency sector is an important transition challenge. The country has ratified the Kyoto protocol and it is a participant in the European carbon market. Poland has some promising potential for renewable energy (in particular wind and biomass). The legal and operational framework for the "green certificates" system was introduced in late 2005 and is expected to enhance the investments in the renewable energy sector. Renewable energy accounts for about 2.5 per cent of power generation in Poland and the country committed itself to generate 9 per cent of its electricity output from renewable sources by 2010.

Municipal and environmental infrastructure: *Smaller municipalities need to complete reforms and commercialisation of municipal enterprises. There is a need to encourage further private sector participation in provision of municipal services, particularly outside the waste collection and district heating sectors.*

Larger municipalities have generally commercialised their infrastructure utilities and improved financial planning, but capital expenditure implementation, utility regulation and good governance remain as challenges at all levels. There is a need to encourage further private sector participation in provision of municipal services, particularly outside the waste collection. The regulatory framework for PPP has improved with the passage of the PPP law in 2005, but very few projects have been implemented despite acknowledged need. Service contracting is sound in the water sector but limited and short term in public transport. Utility services are fragmented and there has been limited consolidation to date although there are signs this is starting. Regulations require cost recovery but, except for heating, do not encourage efficiency gains.

Healthcare: *Support for private healthcare sector should be complemented with efforts to rationalise and commercialise operation of healthcare units remaining under public ownership.*

Reform in the healthcare system has been slow, with its debt growing in the recent years. Although most general practitioners and dentists are now working privately, hospitals remain almost exclusively within the public sector. Control of most public hospitals has been decentralised to local authorities. Poor supervision and lack of financial oversight have allowed many of them to operate with a soft budget constraint. Efforts to commercialise and privatise public healthcare units have often been fiercely opposed. A shortage of resources and lack of service improvements have resulted in public dissatisfaction and strikes by medical personnel. Meanwhile, private sector has been taking an increasingly active role in addressing the gap in public health services. More than 0.6 million are estimated to be benefiting from private pre-paid health packages. Although more recently, the need to introduce hard budget constraints to public healthcare units have been increasingly appreciated by the authorities, broader efforts to instil commercial discipline in the system are yet to bring visible effects.

Telecommunication: *Although the market is fully liberalised, there is a need to increase competition in fixed line services and improve regulatory efficiency.*

On the Polish telecom market the privatised fixed line operator TP SA continues to have a dominant position in most segments of the voice market. There is an independent regulator, though implementation of regulatory reforms, particularly related to tariff rebalancing and interconnection has been slow. The regulator has come under criticism due to relatively liberal stance on alleged monopolistic practices of TP SA. In May 2005 the licence for a fourth mobile telecommunications operator was awarded. The process again underlined the weakness of the regulatory system when the regulator failed to commit to the enforcement of roaming agreements with existing operators. In January 2006 a new regulatory body, Office of Electronic Communications (UKE) was created to replace the old regulator and also take on some of the technical responsibilities of the Radio and TV Council (KRRiT).

Transport: *Completion of railway reform and private sector participation in railway services, road maintenance, and management of transport facilities are key priorities.*

In railways, operating and policy setting functions have been separated, core railway businesses (infrastructure, passenger, freight, etc.) unbundled and ancillary services divested. Restructuring of passenger services has stalled, as the compromise between regional authorities and regional passenger service companies to finance deficit train connections proved difficult to reach. Some potentially profitable commuter services have been transferred to regional and municipal owners however it is too early to evaluate their operational success. Private sector participation has been achieved in railway related activities (e.g. provision of wagons and maintenance) and there are a growing number of private freight operators. An independent regulator was established and infrastructure access is granted on a non-discriminatory basis. Third party access is to be in place from 2007.

Maintenance of public roads has been to some extent contracted out to the private sector. Competitive tendering for road construction has opened the market to foreign companies but the overall construction programme has suffered from implementation problems. There have been a number of PPP projects related to maintenance and construction of motorways (A2 and A4) but some have been marred by major difficulties (such as land acquisition, cost overruns, lower then expected traffic, and lack of interest from private investors). The length of the motorway network remains one of the lowest in the region.

There is some private involvement in management of airports (e.g. in Katowice), but airports in Warsaw and a number of main cities, as well as the national airlines LOT, remain under state control. Air traffic is picking up and a number of budget airlines entered the market over last two years. Poland has four sea ports that play an important economic role (Gdańsk, Gdynia, Szczecin and Świnoujście). The ports have attracted substantial private investments, including high profile private projects (e.g. Deepwater Container Terminal in Gdańsk).

Financial Institutions

Banking sector: *Restructuring has continued but significant share of sector's assets remain under state control and depth of financial intermediation is below regional standards.*

Following the privatisation of BGZ in 2004, nine of the 10 largest banks in Poland are majority foreign-owned. The country's largest bank, PKO BP, was partially privatised through an initial public offer (IPO) in November 2004. Credit to households, driven by strong demand for housing and consumer loans, grew in the first half of 2005 at about 15 per cent year-on-year, contributing to the deepening of financial markets. Nevertheless, the ratio of credit to private sector to GDP remains low by regional standards and severely lags EU-15 levels (e.g. mortgage lending constitutes only 5% of the GDP one of the lowest levels in Europe). Efficiency of financial intermediation also remains largely below the EU-15 peers and there is a need to broaden the access to financial services, particularly to smaller businesses or in rural areas, and to increase the diversity of financial products. Additional challenges for further banking sector development may be posed by the implementation of Basel II regulations.

In a setback to the transition process, at the end of February 2006 a new law restricting rates that banks can charge on loans came into effect. Furthermore, some of the recent Government's actions, including the controversial dispute with UniCredit over the merger of Pekao and BPH, the concept of creating a consolidated financial sector regulator reporting directly to the Government and the campaign to weaken the position of the central bank, have raised uncertainty among many foreign investors and large players on the domestic market.

Non-bank financial institutions: *Insurance and pension sectors are growing but their portfolios are tilted toward government bonds. Completion of privatisation of the largest state controlled insurer, PZU, remains a key challenge.*

Leasing and consumer finance markets are well developed, although, despite a rapid growth in consumer lending in the recent years, the total consumer debt stands at 12% of GDP, below the EU penetration levels. The insurance and pension sectors are growing but their portfolios are tilted toward government bonds. Insurance penetration is relatively small compared to the average rate of OECD countries. The insurance sector is dominated by PZU, which was the monopoly provider during the communist era, and still has around 50 per cent market share. PZU's privatisation continues to be controversial, as domestic political pressures have led the Government to suspend an earlier agreement to sell majority control to Eureko. The growth of the life insurance sector appears to be backed by increasing popularity of mortgage finance. Insurance legislation and regulation almost meet IAIS standards.

The Polish insurance market has attracted a number of foreign insurers. Commercial Union, part of Aviva group, and Nationale Nederlanden, part of ING group, are the major foreign players. They have also taken big shares, along with PZU, in the new market for pension fund management. Private pension funds, introduced in 1999 following an overhaul of the country's pension system, show some signs of over-liquidity, as stringent regulatory limits restrict them to investments in government bonds, listed shares and rated debt securities. By the end of the first half of 2005, government bonds accounted for over 60 per cent of pension fund portfolios, and the funds controlled about a third of the free float at the stock exchange.

Private Equity Funds: *Private equity funds are well developed by regional standards but are yet to attract significant local investors and develop innovative financial products.*

Poland has the most developed private equity fund sector in the transition economies although the vast majority of capital invested in private equity comes from abroad. The sophistication of private equity managers operating in Poland increases but the spectrum of financial structures and instruments used still remains relatively narrow as compared to developed market economies. Local private equity managers are active in pursuing new deals and capable of applying "hands-on" management when necessary.

Micro, small and medium enterprises (MSME): *Need to develop better tailored financial instruments and support young enterprises.*

MSME form the backbone of the Polish economy and are crucial providers of employment and services, particularly in the poorer areas of the country. Due to their size and business model, MSME have the most difficult access to external finance. Nevertheless, local banks and leasing companies extend some loans and leases to MSME, often under IFI-supported credit lines. Although no dedicated micro finance banks exist, some micro finance companies operate in the market. Financing of start-ups remains practically unavailable through the banking system and access to external equity is non-existent. Despite growing private equity market, venture capital funds are yet to develop.

Starting a business carries medium costs as it takes 10 different procedures, an average of 31 days to register a company. A credit registry is in place providing information on 32 per cent of the population. Collateral and bankruptcy legislation are not very supportive of SME lending but the cost of registering collateral is lower than in OECD countries.

2.3 Access to Capital

The Warsaw Stock Exchange (WSE) has been rapidly developing and is the largest stock exchange of the transition economies. In January 2006, 254 stocks were traded on the Warsaw Stock Exchange (WSE), up from only five in April 1991. Stock market capitalisation has risen as new companies have been listed and equity prices have increased, and was above 30 per cent of GDP in January 2006. In 2005, 36 new issues have been listed on the WSE, the second highest number in Europe after London. However, despite a sharp pick-up in the number of new listings in 2004 and 2005, the WSE is still not a major source of industrial investment finance. The regulation of the WSE by the Securities Commission has achieved a high level of transparency, and has helped to prevent the trading scandals that have held back some other regional exchanges. The WSE remains one of the few state controlled stock exchanges in the world.

The corporate debt market is dominated by bank lending with increasing share of private placement of bonds. Except for the mortgage bonds, corporate bonds are traded OTC and not on the regulated markets.

Private equity providers are able to find investment opportunities and to successfully exit from them, but their track record is still relatively short which makes it difficult for them to raise private funds. Availability of private equity for micro and small companies is nearly non-existent.

Inflow of foreign direct investments has significantly increased reaching USD 12 billion in 2004 of which almost 60 per cent was earmarked for green-field projects.

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for the Strategy Period

In response to the analysis of Poland's remaining transition challenges outlined in the previous section, the Bank's main focus during the strategy period will be to:

- Stimulate development of revenue backed financing and private sector involvement to minimise reliance on the sovereign guarantees and increase the supply of the long-term finance for the infrastructure and environment projects. Further the scope for financing projects through public-private partnerships, mainly in the municipal and transport sectors, in close concert with the national/local authorities and EU Cohesion and Structural Funds and with a strong focus on project preparation and implementation.
- Support restructuring, modernisation and private sector participation in the road sector, railways and airports.
- Support energy saving projects and renewable energy projects designed in accordance with market principles and encouraging private investment.
- Support enterprise restructuring, modernisation and privatisation and/or by sharing risk with local or foreign investors, particularly in the more challenging sectors such as chemical, energy, heavy industry or mining.
- Provide necessary risk capital (equity or structured debt) to local companies to fund their growth and/or expansion in the region; sometimes alongside private equity funds.
- Continue to work with local financial intermediaries and non-banks to provide finance to micro, small and medium sized enterprises, particularly in the rural areas, in conjunction with EU or other donor support.
- Contribute to the broadening of the local capital market through promotion and development of new financial structures such as asset-backed securities, securitisation of assets portfolios, convertible instruments, mortgage bonds, revenue bonds.

The Bank will continue to ensure that all its existing projects comply with the Bank's environmental requirements and new projects will be structured in accordance with the Environmental Policy. The challenges raised within section 2 have environmental dimensions (such as energy efficiency, power, municipal and transport projects or restructuring of chemical industry) which will be a focus of attention and awareness-rising, not only during environmental due diligence but also during on-going dialogue with the clients.

3.2 Sectoral Challenges and Bank Objectives

In line with the transition challenges identified in the section 2.2.2 above and in Annex 5, the Bank will focus on the following sectoral priorities.

3.2.1 Financial Sector

Transition Goals

- Deeper capital market through introduction of innovative financial products and diversification of investment portfolios by insurance companies and pension funds.
- Broaden accessibility of local corporate sector, particularly medium size companies, to equity, quasi-equity and structured finance.
- Increase financial intermediation in the MSME sector.
- Complete privatisation and restructuring in the banking and insurance sectors, including the country's largest bank, PKO BP, and the country's incumbent insurance company, PZU.

Operational Priorities

- Promote and support development of new financial structures such as asset-backed securities, revenue bonds, convertible instruments, mortgage bonds, securitisation of assets portfolios and securitisation funds.
- Implement the MSME facilities, including Rural Finance Facility, with banks, leasing companies and micro finance institutions.
- Selectively commit capital to new and follow on equity funds and venture capital funds.
- Support the consolidation in the banking sector, particularly among smaller banks, pension and insurance sectors with a view to improving the efficiency and effectiveness of the sectors.
- Support privatisation of the non-bank financial institutions (PZU, WSE), if undertaken.

3.2.2 Enterprise Sector

Transition Goals

- Restructuring and completion of privatisation of enterprises remaining under state control, particularly in the heavy industry, mining, shipbuilding and chemical sectors.
- Development of higher value added activities and visible private investments leading to training and transfer of skills, modern technologies through support of FDIs, cross-border cooperation and local entrepreneurs.
- Improving access to debt and equity finance for small and medium size enterprises.

Operational Priorities

- Continue to actively support privatisation and restructuring of the remaining state-owned companies.
- Support projects in sectors with difficult regulatory environment, particularly natural resources and heavy industries to promote restructuring, private investment and efficient provision of crucial inputs to the economy.
- Support foreign direct investments and local entrepreneurs, focusing on projects in higher unemployment or less developed regions or resulting in transfer of modern technologies and innovation or which contribute to the transition and regional development.
- Provide risk capital (equity or structured debt) to support restructuring, consolidation and cross-boarder expansion of local private sector.
- Selectively support regional property development projects, particularly in areas such as budget hotels, warehousing, new capital market products.

3.2.3 Infrastructure and Environment

Transition Goals

- Restructuring, improvements in labour efficiency, privatisation, and development of private energy efficiency and renewable energy projects in the power sector.
- Commercialisation of the railway sector, including strengthening of private sector and regional authorities participation in railway operations.
- Speeding up the development of motorway network by active support of road PPP initiatives, developing innovative structures to enhance the use of EU funds in road construction and development of innovative financing structures for the road sector.
- Commercialisation of regional airports and private sector involvement, including if appropriate, private sector concessions.
- Further private sector participation in provision of municipal services, particularly outside the waste collection and district heating sectors.
- Introduction of effective competition to the fixed line telecommunication incumbent.

Operational Priorities

- Support renewable energy projects.
- Actively support the restructuring and private sector participation in the power sector with the emphasis on transactions increasing energy efficiency, environmental standards and modernisation.
- Concentrate on the provision of financing schemes that do not rely on public guarantees, including application of revenue bonds, for municipal and environmental projects.

- Implement Municipal Finance Facility through commercial banks to provide longer term finance to small and medium size municipalities.
- Continue to support restructuring and private sector participation in the road sector, railways and airports.
- Co-finance and implement projects intended to optimise the use of EU Cohesion and Structural Funds and contribute towards efficient provision of infrastructure and other public services, where the Bank may bring added value; for example urban transport as it becomes eligible for Cohesion Fund financing.
- Develop opportunities in the health sector, particularly with the private sector involvement.

4. CO-OPERATION WITH OTHER IFI's

European Union (EU)

Poland was allocated in excess EUR 12.8 billion under the structural and cohesion funds for the period 2004-2006. The Community co-financing of EUR 4.2 billion under the cohesion funds is earmarked for financing transport and environmental infrastructure projects. Structural funds of EUR 8.6 billion are allocated to fund the following priority areas: increase of enterprises competitiveness, development of transport infrastructure, human resources development, rural development, fishery development, and development of agriculture.

Cooperation between the European Commission (EC) and the Bank has resulted in co-financing of 10 municipal projects in Poland.

In addition, the EC, the EIB and the EBRD have jointly developed and implemented two programmes: the SME Finance Facility and the Municipal Finance Facility. Discussions are under way to develop a scheme to support energy saving projects.

The next step is to further organise a practical and transition-oriented cooperation with the Cohesion and Structural Funds. JASPERS, a new joint initiative of the EC, the EBRD and the EIB, will assist in enhancing the necessary administrative capacities in order to overcome that challenge. The programme will be supported by experts from the EC, the EIB and the EBRD, who will help prepare projects ranging from transport infrastructure to municipal environment and energy efficiency/renewable energy.

The new initiative will enable to bring together the combined strength and expertise of the European Commission, the new EU member states, the candidate countries, the EIB and the EBRD for the benefit of lesser developed regions in EBRD's countries of operations. It will thus enhance transition, environment, economic growth and job creation. The EBRD's regional presence may facilitate the implementation of the programme.

In accordance with its transition mandate, the EBRD will focus on the preparation of public private partnership projects across sectors, regional and municipal/environmental investments, and energy efficiency/renewable energy, thus capitalising on the expertise accumulated in those areas.

The European Investment Bank (EIB)

After more than 15 years of activity in Poland, the EIB's operations now cover a wide range of economic sectors ranging from basic infrastructure, manufacturing and services, including support for small-and medium-sized companies through local financial institutions, to education and promotion of a knowledge-based economy. Overall, these operations have grown to a total of more than EUR 11bn at the end of 2005. Financing projects contributing to the social and economic cohesion in the EU is the key activity of the EIB. As the finance institution of the EU, EIB loans frequently co-finance projects supported by grants from the EU Structural and Cohesion Funds. As the whole territory of Poland consists of priority regional development areas, the average annual growth rate of activities has reached 25% in recent years.

In 2005, signings amounted to EUR 2.2bn. In the priority areas: implementation of the Innovation 2010 Initiative, TENs, Environment and SMEs, EUR 250m were lent for financing capital investments and R&D activities sponsored by the Ministry of Education and Science, EUR 500m were signed for the A1 motorway project, part of the priority TEN project no. 25, and EUR 662m for several environmental projects, including the modernization of energy production units in Belchatow. EUR 295m of Global Loans (indirect loans through financial intermediaries operating in Poland) were granted to support small and medium-sized enterprises, in particular micro-enterprises. To enhance the support to this sector of the economy, EIB, together with EIF, has recently closed an ABS transaction in the leasing sector. In addition to co-financing projects, the co-operation between the EIB and EBRD covers areas like JASPERS and also EU supported schemes like the SME Finance Facility and the Municipal Finance Facility.

The International Monetary Fund (IMF)

Poland has been a member of the IMF since 1986. There are no outstanding or projected obligations to the IMF. In the past (1991) the IMF provided a SDR 1.2 billion Extended Fund Facility of which Poland had drawn SDR 77 million, and two Stand-By programmes (1993/1994), the first totalling SDR 476 million of which SDR 357 million was drawn and the second totalling SDR 333.3 million of which SDR 283.3 million was drawn. The IMF also provided extensive technical assistance in a range of areas, including fiscal and monetary policy. The last Article IV consultation was concluded in July 2005. The IMF maintains a regional office in Warsaw with the objective to support the new member states of the EU on their way to adopt Euro.

The World Bank

Poland was one of the founding members of the World Bank. After resigning from its membership in the 1950s, it rejoined the World Bank in June 1986. The first loan to the country was provided in 1990. To date, World Bank commitments to the country have totalled USD 6 billion for over 40 operations. Nine ongoing projects are mainly focused on upgrading the infrastructure, supporting energy efficiency and the reform of the coal mining sector, protecting the environment, and promoting rural development. The World Bank has provided significant analytical and advisory assistance to the country, including in selected public finance issues, assessment of the investment climate, knowledge economy and living standards, selected financial sector development issues, a programme to assist Poland in combating corruption, assistance in enhancing the government's capacity to use EU Structural Funds, and advice on promoting corporate social responsibility and improving the education system. The current World Bank's Country Partnership Strategy concentrates on three priority areas: (a) promotion of fiscal adjustment and reversing negative debt dynamics through restructuring of expenditures; (b) promotion of convergence through an improved investment climate and enhanced competitiveness; and (c) reduction of poverty, encouraging of social inclusion and bringing employment closer to the Lisbon targets.

The International Finance Corporation (IFC)

Since Poland joined IFC in 1987, IFC has invested USD 335 million from its own account and syndicated USD 115 million from other banks. IFC has provided financing for 32 projects in a wide range of sectors. In addition, IFC has provided USD 200 million to finance interregional projects that covered several countries in Eastern Europe including Poland. IFC has carried out technical assistance assignments in Poland to advise on restructuring and privatisation issues, legislation on leasing, housing finance and pension funds, and on improving the investment climate.

ANNEX 1: NET CUMMULATIVE BUSINESS VOLUME BY INDUSTRY

(as of 31 January 2006)

Sector		**No. of Projects**	**EBRD Finance**	**Portfolio share**
Energy	Energy Efficiency	2.3	117	3%
	Power and Energy	2.3	94	3%
Sub-total Energy		**4.6**	**210**	**6%**
Financial Institutions	Bank Equity	12.1	332	10%
	Bank Lending	9.0	295	9%
	Equity Funds	15.2	325	9%
	Non Bank Financial Institutions	9.1	253	7%
Sub-total Financial Institutions		**45.4**	**1,205**	**35%**
General Industry	General Industry	29.5	597	17%
Sub-total General Industry		**29.5**	**597**	**17%**
Infrastructure	Municipal & Env Inf	16.1	268	8%
	Transport	5.0	339	10%
Sub-total Infrastructure		**21.1**	**607**	**18%**
Specialised Industries	Agribusiness	20.6	287	8%
	Property and Tourism	18.2	239	7%
	Telecoms Informatics & Media	7.5	301	9%
Sub-total Specialised Industries		**46.4**	**827**	**24%**
POLAND TOTAL		**146.9**	**3,446**	**100%**
Of which debt		89.9	2,234	65%
Of which equity		53.3	1,107	32%
Of which Guarantee		3.7	106	3%
Of which private		126.9	2,879	84%
Of which state		20.0	567	16%
Of which direct		134.4	3,109	90%
Of which regional		12.6	337	10%
Of which non-sovereign		138.9	3,097	90%
Of which sovereign		8.0	349	10%

ANNEX 2: COMMITTED PROJECTS PER YEAR

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
1991	WBK Poznan	Direct	34.3	1.3	1.3	0.0	Completed
	1991		**34.3**	**1.3**	**1.3**	**0.0**	
1992	Polska Telefonica Komorkowa SP. Z.O.O.	Direct	128.7	19.8	19.8	0.0	Completed
1992	IBG - Janofrost Sp Z.o.o	Direct	10.3	1.8	1.8	0.0	Completed
1992	IBG - KRESPOL z.o.o	Direct	1.8	1.8	1.8	0.0	Completed
1992	IBG - Kujawy-Frost SP z.o.o.	Direct	1.8	1.8	1.8	0.0	Completed
1992	Poland Private Equity Fund	Direct	65.8	42.0	0.0	42.0	Repaying
1992	ABB Dolmel Ltd	Direct	15.1	5.2	5.2	0.0	Completed
1992	Ringnes/Pubrex (BCCB)	Direct	17.6	5.6	5.6	0.0	Completed
1992	Poland Housing (Rep of Poland)	Direct	50.8	1.3	1.3	0.0	Completed
	1992		**292.1**	**79.5**	**37.4**	**42.0**	
1993	Pilkington Sandoglass Sp. z.o.o.	Direct	182.8	33.9	26.7	7.1	Completed
1993	Lodom SP. Z.O.O.	Direct	9.6	2.4	2.4	0.0	Completed
1993	Wielkopolski Bank Kredytowy	Direct	10.4	10.4	0.0	10.4	Completed
1993	HUTA L.W. Sp. z.o.o.	Direct	227.2	15.0	15.0	0.0	Completed
1993	New Europe East Investment Fund	Regional	28.5	6.1	0.0	6.1	Repaying
1993	Fabryka Papieru Malta Decor SA	Direct	9.6	4.1	4.1	0.0	Completed
1993	Polspan SP Z.O.O.	Direct	42.3	10.2	10.2	0.0	Completed
1993	Rockwool Polska SP. Z.O.O.	Direct	18.0	5.6	5.6	0.0	Completed
1993	Dun & Bradstreet	Regional	0.4	0.4	0.0	0.4	Completed
1993	Caresbac Polska	Direct	12.1	4.1	0.0	4.1	Disbursing
1993	Agora Gazeta Sp z.o.o. (RZB CEAL)	Direct	9.8	3.3	3.3	0.0	Completed
1993	Renaissance Fund	Regional	16.4	4.3	0.0	4.3	Repaying
1993	American Bank in Poland - SubLoan	Direct	4.1	4.1	4.1	0.0	Completed
1993	KZP - Poland (Trebruk)	Direct	112.9	13.5	13.5	0.0	Completed
1993	Motorway Development Project	Direct	82.6	45.0	45.0	0.0	Repaying
1993	Huta Szkla Jaroslaw	Direct	35.7	4.2	4.2	0.0	Completed
	1993		**802.3**	**166.7**	**134.2**	**32.5**	
1994	Kronospan Szczecinek	Direct	53.8	15.3	15.3	0.0	Completed
1994	FIAT/FSM	Direct	93.6	62.1	62.1	0.0	Completed
1994	Polish Development Bank	Direct	5.1	5.1	5.1	0.0	Completed
1994	PPGC's Financing of Bielsko-Biala Power Station	Direct	114.5	29.6	29.6	0.0	Completed
1994	Atrium Business Centre	Direct	36.9	4.3	4.3	0.0	Completed
1994	Kwidzyn	Direct	240.7	16.0	16.0	0.0	Completed

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
1994	Advent Private Equity Fund - Central Europe LP	Regional	21.7	5.8	0.0	5.8	Repaying
1994	Schooner Capital	Direct	37.8	12.8	0.0	12.8	Completed
1994	Farm Frites Poland	Direct	20.1	7.8	7.8	0.0	Completed
1994	Winterthur SA	Direct	2.7	1.0	0.0	1.0	Completed
1994	Prospect Poland Fund	Direct	28.1	6.3	0.0	6.3	Disbursing
1994	Bank Przemyslowo-Handlowy w Krakowie : Partial Privatisation	Direct	34.2	34.2	0.0	34.2	Completed
1994	Winterthur MPF/CS L&P Zycie (equity)	Direct	2.2	0.8	0.0	0.8	Disbursing
1994			**691.3**	**201.1**	**140.2**	**60.8**	
1995	MBA Loan Project (guarantee)	Regional	3.0	1.8	1.8	0.0	Repaying
1995	Heros (equity)	Direct	2.8	1.4	0.0	1.4	Completed
1995	Warsaw Distribution Center	Direct	20.3	4.3	4.3	0.0	Completed
1995	Metalplast	Direct	26.8	6.2	0.0	6.2	Completed
1995	East European Food Fund	Regional	4.0	0.8	0.0	0.8	Disbursing
1995	NIF - Osmy Narodowy Fundusz Inwestycyjny	Direct	1.3	1.3	1.3	0.0	Completed
1995	NIF - Piaty Norodowy Fundusz Inwestycyjny	Direct	0.2	0.2	0.2	0.0	Completed
1995	NIF - Siodmy Norodowy Fundusz Inwestycyjny	Direct	2.6	2.6	2.6	0.0	Completed
1995	NIF - Zachodni Narodowy Fundusz Inwestycyjny	Direct	1.3	1.3	1.3	0.0	Completed
1995	NIF - Pierwszy Narodowy Fundusz Inwestycyjny	Direct	1.2	1.2	1.2	0.0	Completed
1995	NIF - Dwunasty Narodowy Fundusz Inwestycyjny	Direct	1.3	1.3	1.3	0.0	Completed
1995	NIF - Pietnasty Narodowy Fundusz Inwestycyjny	Direct	2.0	2.0	2.0	0.0	Completed
1995	Orix Polska S.A. (equity)	Direct	1.2	1.2	0.0	1.2	Completed
1995	Faure & Machet	Direct	28.9	7.9	7.9	0.0	Completed
1995			**96.9**	**33.7**	**24.0**	**9.7**	
1996	Waresco Sp. z o.o.	Direct	28.4	7.7	7.7	0.0	Completed
1996	Forte S.A.	Direct	11.1	1.9	0.0	1.9	Completed
1996	KZP - Poland (Trebruk) - Loan II	Direct	43.5	10.3	10.3	0.0	Completed
1996	Netia	Direct	246.5	23.7	15.3	8.4	Completed
1996	Rolimpex S.A. - Equity	Direct	78.9	13.0	0.0	13.0	Completed
1996	Krotoszyn Equity Investment (under MPP Equity Facility)	Direct	3.1	3.1	3.1	0.0	Completed
1996	Kredyt Bank S.A. Equity Participation	Direct	4.0	4.0	0.0	4.0	Completed
1996	Railway Modernisation Project	Direct	486.1	49.1	49.1	0.0	Repaying
1996	Warsaw Financial Center	Direct	97.3	16.0	16.0	0.0	Completed
1996	New Europe Insurance Ventures	Regional	6.6	0.5	0.0	0.5	Repaying

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
1996	Warsaw Wholesale Market	Direct	47.3	12.4	12.4	0.0	Repaying
1996	MPP - Srubena SA Equity Investment	Direct	6.5	3.2	0.0	3.2	Completed
1996	MPF Lafarge: Kujawy and RMC	Direct	110.7	28.1	0.0	28.1	Completed
1996	Polish Enterprise Fund	Direct	140.9	30.5	0.0	30.5	Repaying
	1996		**1,310.8**	**203.6**	**113.9**	**89.7**	
1997	Kredyt Bank S.A. Capital Increase I	Direct	1.8	1.8	0.0	1.8	Completed
1997	Waresco - Extension of Facility	Direct	3.7	1.1	1.1	0.0	Completed
1997	Hortex Holding S. A.	Direct	82.1	13.6	0.0	13.6	Completed
1997	Hortex SA - correction to write off	Direct	0.0	0.0	0.0	0.0	Completed
1997	Cementownia Chelm	Direct	59.3	28.6	26.1	2.5	Completed
1997	DBG Osteuropa Holding GmbH	Regional	7.1	2.6	0.0	2.6	Repaying
1997	MPF Lafarge: Malogoszcz and Wierzbica	Direct	151.3	13.4	0.0	13.4	Completed
1997	Krono-Wood Spolka zoo	Direct	106.1	19.2	19.2	0.0	Completed
1997	Air Liquide - Huta Katowice	Direct	30.5	13.4	13.4	0.0	Repaying
1997	Kruszwica S.A.	Direct	43.4	15.4	15.4	0.0	Completed
1997	Baring Communications Equity	Regional	19.0	3.7	0.0	3.7	Repaying
1997	Kredyt Bank S.A. Capital Increase II	Direct	64.2	6.9	0.0	6.9	Completed
1997	Advent Central & Eastern Europe II - Regional Fund	Regional	16.5	5.8	0.0	5.8	Repaying
1997	Dalkia Termika	Direct	28.9	4.8	2.2	2.6	Disbursing
1997	Danuta Divestment	Direct	4.0	4.0	0.0	4.0	Completed
1997	Danuta S.A.	Direct	36.5	5.2	0.0	5.2	Completed
1997	Environmental Investment Fund	Regional	15.4	3.5	0.0	3.5	Disbursing
1997	Pioneer Polish Real Estate Fund	Direct	0.5	0.5	0.0	0.5	Completed
	1997		**670.4**	**143.5**	**77.3**	**66.3**	
1998	PWN Wydawnictwo Naukowe	Direct	17.3	8.7	0.0	8.7	Completed
1998	Stalexport	Direct	156.9	27.4	0.0	27.4	Disbursing
1998	Honeywell ESCO Poland	Direct	1.2	0.4	0.0	0.4	Repaying
1998	Bank Przemyslovo-Handlowy (BPH) Poland - Conv. Bond Issue	Direct	14.0	14.0	0.0	14.0	Completed
1998	Polish Pre-IPO LP	Direct	8.6	4.5	0.0	4.5	Repaying
1998	Wroclaw Municipal Infrastructure Flood Damage Repair	Direct	35.5	15.5	15.5	0.0	Repaying
1998	Innova/98 LP	Regional	58.9	11.9	0.0	11.9	Repaying
1998	Central Poland Fund	Direct	15.1	2.7	0.0	2.7	Disbursing
1998	PEKAO S.A. (equity)	Direct	88.1	88.1	0.0	88.1	Repaying
1998	Winterthur MPF/CS L&P PTE (equity)	Direct	32.6	9.8	0.0	9.8	Disbursing
1998	Krakow Urban Transport Project	Direct	121.8	35.0	35.0	0.0	Repaying

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
1998	MPF - Slodownia Soufflet - Polska SARL	Direct	30.6	13.7	13.7	0.0	Repaying
1998	Telekomunikacja Polska S.A. ("TPSA")	Direct	771.7	64.9	0.0	64.9	Repaying
1998	MBA Loan Project II (guarantee)	Regional	0.6	0.3	0.3	0.0	Signed
1998	MPF Lafarge: Lafarge Polska Capital Increase	Direct	29.7	6.1	0.0	6.1	Completed
	1998		**1,382.6**	**302.9**	**64.5**	**238.4**	
1999	Kredyt Bank S.A Capital Increase III	Direct	92.8	8.6	0.0	8.6	Completed
1999	IO Fund - HTH Poland	Direct	0.1	0.1	0.0	0.1	Disbursing
1999	Info. and Comm. Tech & Industrial Electronic Fund Ltd.	Regional	14.1	3.2	0.0	3.2	Disbursing
1999	AIG New Europe Fund	Regional	40.6	7.1	0.0	7.1	Repaying
1999	L&G ESCO Poland	Direct	5.9	0.5	0.1	0.4	Completed
1999	Regional/Private Equity Fund Facility - Eastbridge	Direct	132.8	16.5	16.5	0.0	Completed
1999	Danone MPF - LU Polska	Direct	81.6	23.5	0.0	23.5	Disbursing
1999	Alpha Properties	Direct	52.8	9.3	9.3	0.0	Completed
1999	EIB Guarantee Facility for TPSA	Direct	220.0	0.0	0.0	0.0	Completed
1999	EU/EBRD Phase I - Ext. - WBK	Direct	10.0	10.0	10.0	0.0	Completed
1999	Nordea Bank Polska S.A. (credit line)	Direct	22.6	22.6	22.6	0.0	Completed
1999	Central & Eastern Europe Power Fund	Regional	4.9	1.3	0.0	1.3	Repaying
1999	Energy Efficiency and Emissions Reduction Fund	Regional	17.8	5.0	0.0	5.0	Disbursing
1999	Emerging Europe Capital Investors LDC	Regional	32.7	8.8	0.0	8.8	Disbursing
1999	Bydgoszcz Water Supply	Direct	55.8	16.4	16.4	0.0	Completed
	1999		**784.4**	**132.8**	**74.9**	**57.9**	
2000	EU/EBRD Phase I - ING Bank Slaski	Direct	10.0	10.0	10.0	0.0	Completed
2000	EU/EBRD Phase I - Fortis Bank Polska	Direct	10.0	10.0	10.0	0.0	Completed
2000	KZP - Poland (Trebruk) - III	Direct	55.8	24.5	24.5	0.0	Completed
2000	Winterthur MPF/CS L&P Zycie - 1st Capital Increase	Direct	4.7	4.7	0.0	4.7	Disbursing
2000	Globe Trade Centre S.A.	Direct	17.1	17.1	0.0	17.1	Disbursing
2000	Polish Dairy Facility - Bank Slaski	Direct	10.8	2.8	2.8	0.0	Completed
2000	Energo-Asekuracja S.A. (equity)	Direct	27.6	5.2	0.0	5.2	Completed
2000	Cementownia Chelm - Restructuring	Direct	26.1	26.1	26.1	0.0	Repaying
2000	Hortex Debt	Direct	12.7	12.7	12.7	0.0	Completed
2000	Lafarge Polska II.	Direct	112.6	46.7	46.7	0.0	Completed
2000	Empik Centrum Investments - Loan III	Direct	14.7	14.7	14.7	0.0	Completed
2000	Polish Dairy Facility - WBK	Direct	4.4	1.8	1.8	0.0	Repaying
2000	Argus Capital Partners	Regional	47.3	11.4	0.0	11.4	Repaying

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
2000	Heitman Central Europe Property Partners Fund	Regional	39.0	9.6	0.0	9.6	Repaying
2000	Polish Enterprise Fund IV	Direct	183.9	46.4	0.0	46.4	Repaying
2000	Pekao S.A. Derivative (equity II)	Direct	13.2	13.2	0.0	13.2	Completed
2000	Pekao SA Capital Increase and Equity Purchase	Direct	43.0	43.0	0.0	43.0	Repaying
2000	PKP RESTRUCTURING & PRIVATISATION PROJECT	Direct	230.0	100.0	100.0	0.0	Completed
2000	Winterthur MPF/CS L&P PTE - Capital Increase	Direct	31.8	9.7	0.0	9.7	Disbursing
2000	Winterthur MPF/CS L&P Zycie - 2nd Capital Increase	Direct	18.6	6.8	0.0	6.8	Disbursing
2000	Wroclaw Multi-Sector Municipal Infrastructure Project	Direct	55.7	12.2	12.2	0.0	Repaying
2000	Atrium Hotel Warsaw	Direct	81.0	14.5	14.5	0.0	Repaying
2000	KRUSZWICA II	Direct	4.5	1.2	1.2	0.0	Completed
2000	Krakow Plaszow II Project	Direct	80.0	21.7	21.7	0.0	Disbursing
	2000		**1,134.7**	**465.9**	**298.9**	**167.0**	
2001	Nova Polonia Private Equity Fund	Direct	30.0	10.0	0.0	10.0	Repaying
2001	Europejski Fundusz Leasingowy, EFL (debt)	Direct	75.0	35.0	35.0	0.0	Completed
2001	Polska Telefonia Cyfrowa SP z.o.o.	Direct	661.9	86.9	86.9	0.0	Completed
2001	DVI, Inc. (debt)	Regional	8.5	2.3	2.3	0.0	Completed
2001	IKB Co-Financing Risk Participation Agreement	Regional	63.0	63.0	63.0	0.0	Signed
2001	Innova/3	Regional	56.5	6.7	0.0	6.7	Repaying
2001	EU/EBRD Phase II - Bank Zachodni	Direct	10.0	10.0	10.0	0.0	Completed
2001	EU/EBRD Phase I - Ext. - Pekao S.A.	Direct	20.0	20.0	20.0	0.0	Disbursing
2001	Spearhead International	Regional	5.3	5.3	5.3	0.0	Completed
2001	Animex SA	Direct	178.4	20.8	20.8	0.0	Completed
2001	Sokolow S.A.	Direct	73.1	4.9	4.9	0.0	Completed
2001	Raiffeisen EU Enlargement Fund	Regional	14.7	7.6	0.0	7.6	Repaying
2001	Gdansk Urban Transport Project	Direct	26.1	12.0	12.0	0.0	Repaying
2001	Lukas Bank (sub debt)	Direct	22.9	22.9	22.9	0.0	Disbursing
2001	Sopot Urban Transport	Direct	8.2	5.0	5.0	0.0	Repaying
2001	Rybnik Sewerage Network Development Programme	Direct	104.7	11.7	11.7	0.0	Disbursing
2001	CAIB Investment (equity)	Direct	1.2	1.2	0.0	1.2	Completed
2001	EU/EBRD Phase II - Fortis Bank Polska II	Direct	10.0	10.0	10.0	0.0	Repaying
	2001		**1,369.5**	**335.3**	**309.8**	**25.5**	
2002	Accession Mezzanine Capital LP	Regional	41.6	19.6	0.0	19.6	Repaying
2002	EU/EBRD Phase II ext. - BZ WBK	Direct	20.0	20.0	20.0	0.0	Repaying

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
2002	PKP Second Rail Way Restructuring & Privatisation Project	Direct	130.0	130.0	130.0	0.0	Completed
2002	RHEINHYP-BRE - Mortgage Bank Financing	Direct	45.6	45.6	45.6	0.0	Disbursing
2002	EU/EBRD Phase II ext. - ING Bank Slaski II	Direct	20.0	20.0	20.0	0.0	Repaying
2002	EU/EBRD Phase II ext. - Raiffeisenbank Polska	Direct	10.4	3.9	3.9	0.0	Disbursing
2002	Raiffeisen Bank Polska S.A.	Direct	20.0	20.0	20.0	0.0	Disbursing
2002	Dalkia Poznan District Heating Privatisation	Direct	110.1	37.1	37.1	0.0	Disbursing
2002	Black Sea Fund - Capital Increase	Regional	1.6	0.4	0.0	0.4	Disbursing
2002	City of Lodz Road Improvement Project	Direct	19.0	6.6	6.6	0.0	Repaying
2002	EU/EBRD Extension 4 - Raiffeisen Leasing Polska S.A.	Direct	10.0	10.0	10.0	0.0	Disbursing
2002	Askembla Growth Fund	Regional	11.6	4.0	0.0	4.0	Repaying
2002	Heitman Central Europe Property Partners Fund II	Regional	28.7	8.8	0.0	8.8	Repaying
2002	SK EUROCHEM Sp. z o.o.	Direct	63.4	15.7	15.7	0.0	Disbursing
2002	Danfoss Debt Facility for Industrial Energy Projects	Regional	1.0	0.2	0.2	0.0	Completed
2002	EU/EBRD Phase II ext. - Europejski Fundusz Leasingowy	Direct	20.0	20.0	20.0	0.0	Repaying
2002	Exatel S.A.	Direct	107.1	73.2	73.2	0.0	Completed
	2002		**660.1**	**435.0**	**402.3**	**32.8**	
2003	DBG Osteuropa Holding II	Regional	21.8	6.6	0.0	6.6	Disbursing
2003	Dalkia Termika II	Direct	20.0	7.0	0.0	7.0	Disbursing
2003	EU/EBRD Extension 3 - PKO BP	Direct	20.0	20.0	20.0	0.0	Disbursing
2003	ORCO APARTHOTELS	Regional	18.2	2.4	0.5	1.9	Disbursing
2003	Winterthur MPF/CS L&P Zycie - 3rd Capital Increase	Direct	4.9	4.9	0.0	4.9	Disbursing
2003	Dom Development SA	Direct	30.0	30.0	30.0	0.0	Repaying
2003	Aster City	Direct	141.9	25.5	25.5	0.0	Completed
2003	Polonia Property Fund	Direct	125.0	25.0	0.0	25.0	Disbursing
2003	UNIQA TU Equity	Direct	18.0	26.2	0.0	26.2	Disbursing
2003	UNIQA TU na Zycie Equity	Direct	2.5	3.1	0.0	3.1	Disbursing
2003	Spearhead (Top Farms)	Direct	4.8	4.8	4.8	0.0	Completed
2003	EU/EBRD Extension 3 - SG Equipment Leasing Polska	Direct	10.2	10.2	10.2	0.0	Disbursing
2003	Wroclaw Water Financing Project	Direct	61.0	10.0	10.0	0.0	Repaying
2003	International Water United Utilities	Regional	2.8	1.0	0.0	1.0	Disbursing
2003	Europa Distribution Centre	Direct	9.0	9.0	9.0	0.0	Disbursing
2003	Basell Orlen Polyolefins (formerly Monika)	Direct	350.0	46.0	46.0	0.0	Repaying
2003	Intermarche - Pekao Framework Financing	Direct	88.2	26.1	26.1	0.0	Signed

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
2003	EU/EBRD Extension 4 - BZ WBK Leasing SA	Direct	17.6	17.6	17.6	0.0	Disbursing
	2003		**945.8**	**275.4**	**199.7**	**75.8**	
2004	Polish Enterprise Fund V	Regional	27.9	27.9	0.0	27.9	Repaying
2004	Accession Fund	Regional	120.0	30.0	0.0	30.0	Disbursing
2004	BISE subordinated convertible loan	Direct	10.5	10.5	10.5	0.0	Disbursing
2004	PKP Energetyka Network Management Project	Direct	18.2	15.0	15.0	0.0	Disbursing
2004	EU/EBRD MFF (risk share) - ING Bank Slaski S.A.	Direct	40.6	10.0	10.0	0.0	Signed
2004	Regional/Private Equity Fund Facility - Opoczno	Direct	35.8	2.5	0.0	2.5	Disbursing
2004	Dalkia Termika III - Poznan Cogeneration Privatisation	Direct	61.6	15.0	0.0	15.0	Disbursing
2004	TriGranit III	Regional	11.4	2.5	0.0	2.5	Repaying
2004	Arka BZ WBK Property Market Fund	Direct	11.1	11.1	0.0	11.1	Disbursing
2004	Advent Central & Eastern Europe Successor Fund	Regional	99.1	15.0	0.0	15.0	Disbursing
2004	Celsa - Huta Ostrowiec	Direct	54.5	20.0	20.0	0.0	Disbursing
2004	Bank Gospodarki Zywnosciowej (BGZ)	Direct	311.7	70.0	93.0	0.0	Disbursing
2004	Raiffeisen International	Regional	10.0	5.0	0.0	5.0	Repaying
2004	Europolis II	Regional	15.0	3.8	2.8	1.0	Disbursing
2004	Dalkia Lodz Cogeneration Privatisation	Direct	232.5	39.1	0.0	39.1	Disbursing
2004	Project Closure	Direct	53.9	8.0	0.0	8.0	Disbursing
2004	Gdansk Urban Transport Project - Phase II	Direct	8.0	7.1	7.1	0.0	Signed
	2004		**1,121.7**	**292.4**	**158.2**	**157.1**	
2005	JWK	Direct	15.3	10.3	10.3	0.0	Completed
2005	EU/EBRD Extension 5 - Raiffeisen Leasing Polska II	Direct	5.0	5.0	5.0	0.0	Disbursing
2005	Krakow Public Transport Commercialisation& Financing Project	Direct	59.0	19.6	19.6	0.0	Signed
2005	Kaufland Polska Markety Sp.Z.o.o. Sp.K.	Direct	160.0	80.0	80.0	0.0	Disbursing
2005	BPH Property Fund	Direct	12.4	12.4	0.0	12.4	Repaying
2005	BGZ sub-debt	Direct	94.0	23.2	23.2	0.0	Signed
2005	Patnow II	Direct	550.0	62.8	62.8	0.0	Disbursing
2005	Emerging Europe Convergence Fund II	Regional	4.2	4.2	0.0	4.2	Repaying
2005	EU/EBRD Extension 5 - Bankowy Fundusz Leasingowy S.A.	Direct	15.7	15.7	15.7	0.0	Signed
2005	Bydgoszcz Water Revenue Bond	Direct	241.3	41.8	41.8	0.0	Disbursing
2005	EU/EBRD Extension 5 - Deutsche Leasing Polska S.A. Warszawa	Direct	10.0	10.0	10.0	0.0	Signed
2005	Connex Equity Investment	Regional	49.5	17.8	0.0	17.8	Disbursing
2005	Argus Capital Partners II	Regional	6.0	6.0	0.0	6.0	Signed

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
2005	Gliwice Environmental Programme - Loan transfer to PWiK	Direct	70.1	15.0	15.0	0.0	Signed
2005	Dalkia Lodz additional financing	Direct	7.6	7.6	0.0	7.6	Signed
2005	EU/EBRD Ext. 5 Rural - BZ WBK Leasing	Direct	5.0	5.0	5.0	0.0	Signed
2005	SG AM Eastern Europe L.P.	Regional	3.3	3.3	0.0	3.3	Signed
	2005		**1,312.6**	**343.7**	**304.9**	**38.8**	
2006	EU/EBRD Ext. 5 Rural - BGZ (Bank Gospodarki Zywnosciowej)	Direct	15.0	15.0	15.0	0.0	Signed
2006	Krakow District Heating Project	Direct	76.3	6.3	6.3	0.0	Signed
	2006		**91.3**	**21.3**	**21.3**	**0.0**	

ANNEX 3: SELECTED ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006
						Estimate	*Projection*
Output and expenditure			*(Percentage change in real terms)*				
GDP	4.2	1.1	1.4	3.8	5.3	3.2	4.5
Private consumption	3.0	2.2	3.3	1.9	4.0	2.3	na
Public consumption	2.4	2.5	1.5	4.7	3.9	2.7	na
Gross fixed capital formation	2.7	-9.7	-6.3	-0.1	6.3	6.2	na
Exports of goods and services	23.2	3.1	4.8	14.2	14.0	7.1	na
Imports of goods and services	15.5	-5.3	2.7	9.3	15.2	3.4	na
Industrial gross output[1]	7.1	0.0	1.5	8.7	12.3	4.0	na
Agricultural gross output	-4.1	6.6	1.0	2.7	6.0	0.0	na
Employment			*(Percentage change)*				
Labour force (end-year)	-0.3	-0.9	-9.1	-3.4	2.6	-0.2	na
Employment (end-year)	-2.6	-3.7	-11.9	-4.5	3.9	1.5	na
			(In per cent of labour force)				
Unemployment (end-year)[2]	15.1	17.5	20.0	20.0	19.0	17.6	na
Prices and wages[3]			*(Percentage change)*				
Consumer prices (annual average)	10.1	5.5	1.9	0.8	3.5	2.1	0.8
Consumer prices (end-year)	8.5	3.6	0.8	1.7	4.4	0.7	1.5
Producer prices (annual average)	7.7	1.7	1.2	2.7	7.1	0.8	na
Producer prices (end-year)	5.5	-0.3	2.3	3.7	5.4	0.5	na
Gross average monthly earnings in economy (annual average)	12.7	7.2	3.5	3.2	4.0	3.5	na
Government sector[4]			*(In per cent of GDP)*				
General government balance	-2.3	-3.7	-3.2	-4.7	-3.9	-2.5	-3.2
General government expenditure	43.6	43.6	44.2	44.6	42.5	43.3	na
General government debt	36.8	36.7	39.8	43.9	41.9	42.5	na
Monetary sector			*(Percentage change)*				
Broad money (M2, end-year)	11.8	9.2	-2.4	5.5	7.3	11.0	na
Domestic credit (end-year)[5]	8.7	10.6	3.2	8.8	3.3	8.7	na
			(In per cent of GDP)				
Broad money (M2, end-year)	40.3	42.1	39.6	40.1	39.3	41.6	na
Interest and exchange rates			*(In per cent per annum, end-year)*				
Rate on 28-day open market operations[6]	19.0	11.5	6.8	5.3	6.5	4.5	na
3-months WIBOR	19.5	12.3	6.7	5.6	6.7	4.6	na
Deposit rate[7]	14.3	8.0	4.2	2.9	3.7	2.7	na
Lending rate[7]	21.5	16.8	11.6	9.6	10.4	8.6	na
			(Zlotys per US dollar)				
Exchange rate (end-year)	4.3	4.0	3.9	3.8	3.0	3.3	na
Exchange rate (annual average)	4.3	4.1	4.1	3.9	3.7	3.2	na
External sector			*(In millions of US dollars)*				
Current account	-9,981	-5,376	-5,009	-4,599	-10,522	-4,364	-5,700
Trade balance	-12,307	-7,661	-7,249	-5,725	-5,622	-2,694	-4,300
Merchandise exports	35,902	41,663	46,742	61,007	81,862	95,846	107,300
Merchandise imports	48,209	49,324	53,991	66,732	87,484	98,540	111,600
Foreign direct investment, net	9,327	5,804	3,901	4,284	12,079	6,269	8,400
Gross reserves, excluding gold (end-year)	27,466	26,564	29,794	34,168	36,783	42,571	na
External debt stock	69,463	71,971	84,875	106,961	128,266	129,453	na
			(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	5.8	5.5	5.7	5.3	4.4	4.5	na
			(In per cent of exports of goods and services)				
Debt service	13.6	13.0	11.7	8.9	8.3	9.2	na
Memorandum items			*(Denominations as indicated)*				
Population (end-year, million)	38.6	38.6	38.2	38.2	38.2	38.1	na
GDP (in billions of zlotys)	745	779	808	842	922	968	1,026
GDP per capita (in US dollar)	4,433	4,928	5,181	5,670	6,609	7,849	na
Share of industry in GDP (in per cent)	29.5	27.0	26.5	26.6	28.0	28.2	na
Share of agriculture in GDP (in per cent)	3.0	3.2	2.7	2.6	2.5	2.5	na
Current account/GDP (in per cent)	-5.8	-2.8	-2.5	-2.1	-4.2	-1.5	-1.8
External debt - reserves (in US$ million)	41,997	45,407	55,081	72,793	91,483	86,882	na
External debt/GDP (in per cent)	40.5	37.8	42.9	49.4	50.8	43.3	na
External debt/exports of goods and services (in per cent)	150.0	140.0	149.5	148.2	134.6	115.6	na

[1] Industrial production.
[2] As reported by the Central Statistical Office. The methodology was revised in in 2002 resulting in unemployment increase by 2 per cent.
[3] As reported by the Central Statistical Office.
[4] Calculated according to Eurostat methodology (ESA95), including private private pension funds in the general government.
[5] Includes domestic credit to non-financial sector and general goveri
[6] In 2003 and 2004 the rate refers to 14-day open market operations, from January 2005 it refers to 7-day open market operations.
[7] Weighted average, as reported by the National Bank of Poland.

ANNEX 4: RATINGS FROM THE 2005 ASSESMENT OF TRANSITION CHALLENGES

POLAND	Structure	Institutions	Conduct	Comments
Agribusiness	Medium	Medium	Medium	Fragmented land tenure and poorly functioning land market. Privatisation of agribusiness incomplete. A number of markets still monopolised. The main provider of credit to the sector, BGZ, has just been privatised and its operations are only now being restructured.
Banking	Small	Small	Small	Regulatory framework in place. Number of banks is stable and majority foreign owned. However, state-owned banks still hold a significant asset share. Domestic credit to private sector (as % of GDP) is low. There is a need to broaden access to financial services and to increase diversity of products.
Energy Efficiency	Medium	Medium	Medium	The basic institutions for the energy efficiency sector are in place. The ESCO sector is still nascent and energy efficiency incentives for households are being introduced.
General Industry	Small	Small	Medium	Strengthening of public administration and judiciary and reduce labour market rigidities are key challenges. Restructuring of the enterprise sector in is held back by subsidies and state interference, especially in sensitive sectors. Complex and unclear tax laws sometimes seen as impediment for attracting investments.
MEI	Medium	Medium	Small	Local infrastructure services are controlled by the municipalities and there is significant private sector participation only in district heating and waste collection. Significant reform challenges medium and small municipalities. The regulatory framework for PPP is evolving but very few projects have been implemented.
MSMEs	Medium	Medium	Medium	Starting a business carries medium costs. A credit registry is in place. Collateral and bankruptcy legislation do not support MSME lending. The cost of registering collateral is lower than in OECD countries. Financing to start-ups practically not available through the banking system. Limited access to equity for MSMEs.
Natural Resources	Large	Medium	Small	Nafta Polska and State Treasury still hold shares in multiple natural resources companies which maintains inefficient decision making, refineries, transportation and storage. Strong (de)regulation, commercialisation and privatisation are required. Other local mining companies are still state owned and unrestructured.
NBFIs	Small	Small	Small	Securities and insurance markets legislation and regulation almost meet IOSCO /IAIS standards. Capital markets are relatively developed. The largest insurance company PZU is yet to be fully privatised. There are mandatory and voluntary privately managed pension funds; thriving leasing and consumer finance markets.

POLAND	Structure	Institutions	Conduct	Comments
Power	Medium	Small	Small	The sector, though fully unbundled among generation, transmission, and distribution, is still largely state-owned. Competition has been hindered by the lack of resolution of the issue of stranded assets. The regulatory framework is one of the most advanced, with the introduction of a power exchange and balancing market and the implementation of Third Party Access.
Pirvate Equity Funds	Small	Small	Small	Most developed private equity fund sector in the region. Although most of capital invested in private equity comes from abroad, the recent changes in law should attract more local capital. Structures and instruments used still remains relatively narrow, and the pool of experienced fund managers is small.
Property + Tourism	Medium	Small	Small	Full tradability of land except foreigners. The real estate sector is developing fast, including new types property as well as financing instruments. There is little state interference. Challenges still exist in underdeveloped regions. Urban renewal, affordable housing and tourism need to be developed further.
Telecoms	Small	Medium	Small	The privatised telecom operator still continues to have a dominant position in most segments of the voice segment of the market. There is an independent regulator, though implementation of regulatory reforms, particularly related to tariff rebalancing and interconnection, has been slow.
Transport	Small	Medium	Medium	In railways, operating and policy setting functions have been separated and core railway businesses have been unbundled. Some private sector participation and growing number of private freight operators. Independent regulator established and access granted on non-discriminatory basis. Public roads maintenance has been contracted out to private sector. A number of PPP projects, but several major difficulties in implementation.

ANNEX 5: COMPARATIVE STRUCTURAL CHANGE INDICATORS

	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Slovakia	Slovenia
Liberalisation								
Share of administered prices in CPI (in per cent)	10.9	26.9	17°	14.3°	19.8	1.2°	19.9	16.7°
Number of goods with administered prices in EBRD-15 basket	1.0	3.0	2.0	2.0	1.0	0.0	2.0	1.0
Share of trade with non-transition countries (in per cent)	80.6*	72*	84*	65.5	63.6	81.7	66.1	77.7
Share of trade in GDP (in per cent)	125.4	125.8	113.9	82.3	93.7	69.8	138.6	100.2
Tariff revenues (in per cent of imports)	0.2°	0.1*	na	0.4°	0.5	1.5*	0.5*	na
EBRD index of price liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.0
EBRD index of forex and trade liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Privatisation								
Privatisation revenues (cumulative, in per cent of GDP)	21.9	7.5	31.1	5.3	13.4	14.5	35.0	4.7
Private sector share in GDP (in per cent)	80.0	80.0	80.0	70.0	75.0	75.0	80.0	65.0
Private sector share in employment (in per cent)	70*	na	na	76.0	na	72*	na	na
EBRD index of small-scale privatisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of large-scale privatisation	4.0	4.0	4.0	3.7	4.0	3.3	4.0	3.0
Enterprise and markets								
Budgetary subsidies and current transfers (in per cent of GDP)[1]	9.3	1.8	20.2	5.1	0.4	2.5	1.6	1.5*
Share of industry in total employment (in per cent)	29.7	25.2	33.3*	19.7	20.7*	22.3	29.2	36.3*
Change in labour productivity in industry (in per cent)	10.8	3.9*	7.6*	8.2	14.1*	11.9	2.9	8.8*
Investment/GDP (in per cent)	35.7	29.3	22.5	32.6	21.9*	22.0	na	25.3*
EBRD index of enterprise reform	3.3	3.7	3.7	3.0	3.0	3.7	3.7	3.0
EBRD index of competition policy	3.0	2.7	3.0	2.7	3.0	3.0	3.0	2.7
Infrastructure								
Fixed-line (mobile) penetration rate (per 100 inhabitants)	36.0 (96.5)*	33.9 (72.3)*	33.4 (78.3)	28.3 (52.9)*	25.3 (66.6)	31.9 (45.1)*	24.1 (68.4)*	40.7 (87.1)*
Internet penetration rate (per 10,000 inhabitants)	274.4*	498.9*	357.8*	178.8*	203.8*	203.8*	212.2*	214.8*
Railway labour productivity (1989=100)	69.9*	267.3*	133.9*	129.9*	67.8*	106*	60.5*	150.3*
Electricity tariffs, USc kWh (collection rate in per cent)	8.4 (na)*	6.5 (na)*	11.4 (99)*	7.1 (99)*	9.4 (90)*	9.8 (na)*	10.9 (na)*	na
GDP per unit of energy use (PPP in US dollars per kgoe)	3.2**	2.8**	4.7**	4.1**	3.7**	3.9**	3.1**	4.5**
EBRD index of infrastructure reform	3.3	3.3	3.7	3.0	2.7	3.3	3.0	3.0
Electric power	3.3	3.0	4.0	3.3	3.3	3.3	4.0	3.0
Railways	3.0	4.3	3.3	3.3	2.3	4.0	3.0	3.0
Roads	2.3	2.3	3.3	2.3	2.3	3.0	2.3	3.0
Telecommunications	4.3	4.0	4.0	3.0	3.3	4.0	3.3	3.0
Water and waste water	4.0	4.0	4.0	3.3	3.3	3.3	2.7	3.3
Financial sector								
Number of banks (foreign-owned)	35 (26)*	7 (4)*	39 (29)	23 (10)*	13 (7)*	58 (46)*	21 (16)*	22 (6)*
Asset share of state-owned banks (in per cent)	3*	0*	7.4*	4.1*	0*	25.7*	1.5*	12.8*
Non-performing loans (in per cent of total loans)[2]	5*	0.5*	3.8*	1.5*	2.6*	25.1*	9.1*	9.4*
Domestic credit to private sector (in per cent of GDP)	17.7*	33.7*	42.3*	38.8*	19.9*	17.8*	25*	43.2*
Stock market capitalisation (in per cent of GDP)	17.8*	41.5*	18.7*	9.6*	17.2*	17.3*	7.6*	17*
EBRD index of banking sector reform	4.0	4.0	4.0	3.7	3.7	3.7	3.7	3.3
EBRD index of reform of non-bank financial institutions	3.7	3.3	4.0	3.0	3.0	3.7	2.7	2.7

[1] Subsidies to enterprises and financial institutions, including the Czech Consolidation Agency.

EBRD rates as of mid 2005. Remaining data is for 2004, unless otherwise specified.
°Data for 2005
*Data for 2003.
**Data for 2001

ANNEX 6: POLITICAL AND SOCIAL ASSESSMENT

Political assessment

The key to contemporary Polish politics is the fact that the country's Communist regime, imposed in 1944-45 by the Soviet Union, relinquished power peacefully in the wake of the March 1989 tripartite 'roundtable' talks. Those talks, involving the Solidarity trade union led by Lech Walesa, the Communist government led by General Wojciech Jaruzelski, and the Roman Catholic Church as the observer, prepared the way for the Communist regime giving up power. The antagonists fared very differently. Solidarity, having seen off the Communist enemy, until then an important unifying factor, broke up into a number of competing political groups. In contrast, the former ruling Polish United Workers Party (PZPR), which had dissolved itself in 1990, was able to regroup as the Democratic Left Alliance (SLD) and, helped by a backlash against painful post-communist economic reforms, gained power in 1994. In the 1995 presidential election Aleksander Kwasniewski, the SLD's leader and former PZPR Minister, even managed to defeat Lech Walesa. In 1997, a re-grouped Solidarity Election Action (AWS), comprising centre-right elements of the wider Solidarity movement, successfully challenged the post-Communist SLD, wining an impressive victory. However, amid much internal infighting, AWS failed to dislodge Kwasniewski in the 2000 presidential election and went on to lose the October 2001 parliamentary elections to the SLD without winning a single seat.

The SLD formed a government in October 2001 under Leszek Miller as Prime Minister. His government managed Poland's EU accession well, but was harmed by a series of high-profile scandals coupled with economic problems. Miller hung on for a while but in the end resigned on 1 May 2004. His successor, Marek Belka, a respected economist linked to the SLD, clung on to office till September 2005, chiefly because the SLD MPs knew that certain defeat loomed ahead for them. In the 25 September parliamentary elections, the SLD was placed fourth and got 11.3% of the vote and 55 seats in a 460-seat parliament. The conservative Law and Justice Party (PiS) led by Jaroslaw Kaczynski was the winner with 27% of the vote and 155 seats. PiS's position was strengthened by the convincing victory in the second round of the presidential elections in October of Lech Kaczynski, Warsaw's Mayor and Jaroslaw's brother, who defeated Donald Tusk, the PO candidate. One of the main elements of PiS's electoral platform was the fight against crime and corruption, restoring probity to public life and a better social deal for the population. Instead of, as most observers expected, forming a coalition with the second-placed liberal-reformist Civic Platform (PO), which got 23% votes and 133 seats, PiS outmanoeuvred PO by forming a minority government backed by two populist parties – Andrzej Lepper's Samoobrona and Roman Giertych's ultra-Catholic conservative League of Polish Families (LPR). The Prime Minister is Kazimierz Marcinkiewicz.

The lower house of parliament approved on 24 January the 2006 budget. Speculation about an early election ended with the signing on 2 February 2006 of a 12-month 'stabilisation pact'. Samoobroona and LPR promised to support the government's huge legislative programme amounting to 144 bills in return for posts in the administration and local government. Some observers are doubtful that such a deal could last until 2009, as suggested by PiS leadership, and do not rule out early elections. But there is a common denominator binding the groups supporting the present government's plans for a thorough reorganisation of the state in preparation for the creation of a 'Fourth Republic' as part of the country's moral and political renewal. Behind this formula lies a rejection of the 1989-90 deal between Poland's then Communist government and the opposition grouped round Solidarity, which in the view of many of those now in government in Poland prevented a thorough 'de-Communisation' of the country. Antipathy toward the 'Third Republic' founded on a 'historic compromise' of 1989-90 binds the groups opposing the present government. Whether that will be enough to overcome the deep differences that exist among them over many issues remains to be seen. What is already clear is that a high degree of volatility is likely to continue to characterise Polish politics for some time to come. This is not necessarily going to change even if an early election takes place later in 2006 or early in 2007.

International relations

In order to reassure some EU governments worried by PiS's Euro-sceptic orientation and its dependence on the strongly Euro-sceptic Samoobrona and LPR, Stefan Meller, a career diplomat who had served in Paris and Moscow, was appointed Foreign Minister. An attempt has also been made to allay fears of increased public hostility towards Germany known to be entertained by some of the PiS allies. The visit by Angela Merkel, the new German Chancellor in December 2005 and the trip by Lech Kaczynski to Berlin in March 2006 provided an opportunity for stressing postive elements in the two countries' relationship. Prime Minister Kazimierz Marcinkiewicz's success in obtaining a good settlement for Poland in the talks about the 2007-2013 EU budget in December 2005 is expected to encourage the government to continue to take a firm stand within the EU in defence of Polish interests. Conflicts with the EU over the government's resistance to Polish firms being taken over by foreign ones are likely to escalate. In contrast to a cooler relationship to the EU, Poland's relations with the US are likely to become even closer than under the previous government as was shown by the Prime Minister's decision to keep the Polish troops in Iraq till the end of 2006, a year longer than previously planned.

Integrity section

The European Commission has noted a 'general perception that corruption is widespread'. The media had over the past few years uncovered a series of corruption scandals involving SLD figures. Politicians and senior civil servants have been caught taking bribes for awarding public contracts – more at the level of local and regional than national government. There is also the practice for the government-appointed positions (seats on supervisory boards of state-owned firms or other public bodies) to be awarded by any new government to party loyalists. This results in wholesale changes whenever the government or even an individual minister changes. According to a Gallup Institute poll commissioned by Transparency International, Polish citizens consider political parties, parliament, the healthcare system, and the judiciary to be particularly corrupt. Out of a group of 158 countries, Poland is ranked in the 70th place in the Transparency International's 2005 Corruption Perceptions Index (together with Burkina Fasso, Croatia, Egypt, Lesotho, Saudi Arabia and Syria). Poland's score in 2005 was 3.4 on a scale from 0 (highly corrupt) to 10 (highly clean). In 2004 the score was 3.5. Corruption has for several years continued to be the primary focus for the Polish media, with the 'Rywingate' and 'Orlengate' scandals predominating. Both were the focuses of parliamentary investigations as well as criminal investigations by the chief prosecutor's office. 'Rywingate' played an important role in undermining support for the SLD –led government of Leszek Miller (October 2001-April 2004). It centred on accusations that the well-known film producer Lew Rywin, acting as the agent for the then Prime Minister Leszek Miller's SLD, sought a $17.5 million bribe in July 2002 from the publisher of Gazeta Wyborcza, a major daily newspaper. The purpose of the bribe was reportedly to secure changes in a media bill that would have benefited the publisher. In April 2004 Rywin was sentenced to 2 1/2 years in prison for his role in the scheme In December 2004, the sentence was reduced to 2 years when the court found that Rywin was acting as an agent, and not alone. The 'Orlengate' scandal surfaced in October 2004 when notes obtained from the Government's security service indicated that the country's richest businessman had a meeting with a former Russian spy during which he suggested that he had official approval to negotiate the sake of the state-owned Rafineria Gdanska (Lotos Group), the second largest oil refinery. The alleged conversation would have been illegal, since Poland's anti-corruption law bars any officials, with the exception of Treasure Ministry officials, from negotiating business transactions, including asset sales, on the government's behalf. Parliamentary and criminal investigations are continuing. In an attempt to curb corruption the Government has taken active steps to create a new Central Unti-corruption Office which is expected to become operational in 2006.

The weakness of legal structures following the fall of Communism created conditions favourable to organised crime. Much of the organised crime in Poland focuses on smuggling people (particularly to the EU) from the former Soviet Union, Vehicle crime is widespread. There is some evidence of links between organised crime and politicians – particularly those at the local and regional level. Favourite targets are small businesses rather than multinationals. According to the US State Department Human Rights Bureau's report published in February 2005, despite the fact that law prohibits trafficking in persons, there is evidence that the country is both source and transit and destinations for trafficked persons, primarily women and girls but also, to a lesser extent, boys. Individuals were trafficked to and through the country, primarily from Ukraine, Bulgaria, Romania, Belarus and Moldova. Individuals including children were trafficked to Western Europe. An international NGO claimed that 60% of women working as prostitutes were trafficked. Ukraine is the largest single source of foreign women trafficked into the country. The Ministry of the Interior and the Ministry of Justice were primarily responsible for anti-trafficking work, with 11 agencies involved. The Plenipotentiary for Equal Rights for Men and Women who works out of the Prime Minister's office, is also involved in anti-trafficking programmes.

Social background

Population

Poland has the largest population in Central and Eastern Europe. At the end of 2004, the population of Poland was estimated to be 38.2 million; it continues to have a negative annual growth rate growth of -0.2%. However, the number of people of working age is expected to rise until 2010 as the baby –boom generation born in the early 1980s enters the labour market. Over the longer term Poland's population is expected to age rapidly. According to the EIU, this would have put an intolerable strain on he country's pensions system had it not been reformed in 1999. The crude birth rate fell sharply in the 1990s – from 14.4 per 1,000 people in 1990 to 9.3 in 2004. The fertility rate is starting to decline to very low levels. In 1990 it stood at 2.039 (average number of births among women aged 15-49 year). In 1995 it was 1.61 but fell to 1.367 in 2000 and to 1.222 in 2003. In addition to the trend similar to that in Western countries whereby young people postpone having children there is in Poland the serious housing situation which makes family accommodation very difficult for young people. In contrast to the sharp fall in births, there has been a much smaller decline in the death rate which fell from 10.2 per 1,000 people in 1990 to 9.5 in 2004. As a result the natural increase in population is currently negative (-0.2 per 1,000 in 2003 and –0.1 per 1,000 in 2004). Net emigration is also reducing the population. The country's population is made up almost entirely of ethnic Poles but there are other groups. An estimated

50,000 Lithuanians have the right to be taught in their own language. The German minority in the Opole province numbers just over 300,000 people in a total population of 1 million. Members of the Ukrainian community are represented in local governments, particularly in the Warminsko-Mazurskie province. Ukrainian is taught in 136 schools for 2,774 pupils nationally. According to a US State Department report on human rights practices in Poland published in February 2005 the social discrimination against the Roma was common especially – according to Roma leaders – in employment, housing, banking, the justice system, the media and education. Also according to Roma leaders, the Roma face disproportionally high unemployment

Education

Education is universal and mandatory until the age of 18, with public schooling being free of charge. The education system in Poland under socialism was successful in providing a high degree of literacy and numeracy. However, the system was geared to the needs of a centrally planned economy which emphasised heavy industry and, consequently, provided little training in finance and information technology. Education, like other public services, suffered from a drop in pay and status compared with the other sectors of the economy in the 1990s. But there have been measures aimed at improving teachers pay recently. The low quality of education in rural areas is a serious problem, not least because rural schools find it difficult to attract good teachers. Since 1989 the Polish higher education system has been modernised and has had its curriculum broadened. The state sector's activities have been complemented by a flourishing private sector. The participation rate in higher education has risen sharply from around 10% in the Communist era to 35% in the 2003/2004 academic year. There were 274 private university-level schools in 2003/2004. Of the 1,86 million student places in 2003/004 546,000 were in private institutions many of them business schools. The Constitution guarantees free higher education but in practice most students pay some fees since the state universities claim to have enough government funding to provide only a limited number of free places. Competition between the state and private sector institutions seems to be intensifying with the private sector expanding daytime provision at the same time as the state sector expands not evening and weekend study.

Health

Health problems caused by high alcohol consumption and smoking are prevalent in Poland. Life expectancy at birth in 2003 was 70.5 years for males and 78.9 years for females. Poland also has a poor road safety record. In 2002 there were 152 road deaths per million population, the third-highest level in OECD after Portugal and Greece. The number of road deaths is declining falling from 6,900 in 1995 to 6,294 in 2000 and 5,640 in 2003. The financing and management of the health service were overhauled in 1999, but according to the EIU the reforms were the least successful of the four major structural reforms launched by the centre-right coalition government of Jerzy Buzek (the others were pensions, schools and regional de-centralisation). Patients regularly offered doctors additional payment though in theory the service was free at the point of delivery. The doctors came to depend on those payments and also ran private surgeries and clinics. Those factors coupled with a lack of funding for the equipment undermined the quality of service. The 1999 reform, poorly prepared, decentralised the health service and earmarked a proportion of personal income tax to finance it - in place of direct transfers from the budget. Some 16 regional health funds were established to pay providers for the health services legitimately consued by their insured members. The system was difficult to manage and became increasingly indebted. Leszek Miller's administration (2001-2004) abolished the regional funds and replaced them with a single national fund based on a new law. That law was declared unconstitutional and so the government of Marek Belka, Miller's successor as Prime Minister, had to arrange for the passing of a new law in order to regularise the Fund's position. However, the new law has not helped with the Fund's financial difficulties and the whole service requires fundamental restructuring involving a shift away from hospital care to primary care. The law mandates access to buildings for persons with disabilities; however, public buildings and transportation generally are not accessible to persons with disabilities. Implementation falls short of rights proscribed in the legislation, since the law provides only that buildings "should be accessible." There is no legal obligation to adapt existing objects or facilities to the needs of persons with disabilities and efforts to make improvements in this area have been hampered by lack of funding.

Labour issues

Despite a decline from 19.4 per cent in January 2005 to 18.0 in January 2006 (according to the definition of the Polish Central Statistical Office), Poland has the highest unemployment rate in the EU. There is also strong evidence of regional disparities in unemployment. According to Eurostat, in 2004, unemployment varied from 14.6 per cent in the capital region Mazowiecki to 24.9 in the south-western region Dolnoslaskie. Unemployment among women (19.9 per cent in 2004) was slightly higher than the total unemployment in the economy (19 per cent). However, both figures were about double the EU average, where the total unemployment rate in 2004 stood at around 9.1 per cent and the unemployment among women was at about 10.3 per cent. At 39.6 per cent in 2004, youth unemployment appears to be particularly high in Poland when compared to the EU-25 average of 18.5 per cent. Persistently high unemployment is partially due to large share of population living in rural areas or in small towns which were reliant on large state owned enterprises in the communist era. The situation is not helped by low labour mobility, still unreformed benefit system and weak incentives for entrepreneurs to create jobs.

There is no precise information about work force unionisation but, according to press reports, some 14% of the workforce were union members. As a rule, newly-established small and medium-sized firms are non-union, while union activity in most cases carried over into privatised (former state-owned) enterprises. The main unions NSZZ Solidarnosc founded in 1980; OPZZ All-Poland Alliance of Trade Unions, the former official union during the communist era; WZZ-Free Trade Unions; and Budowlani – builders' union.

The law provides for and protects enterprise-level collective bargaining over wages and working conditions. The Tripartite Commission (unions, employers, and the Government) is the main forum that determines national-level wage and benefit increases in sensitive areas, such as the so-called budget sector (health, education, and public employees).

The Ministry of Labour, the unions, and employers' organizations negotiate a revised national minimum wage once a year. The large size of the informal economy and the small number of government labour inspectors make enforcement of the minimum wage very difficult. With unemployment high, workers often agree to inferior working conditions and lower pay to find or keep jobs.

ANNEX 7: ENVIRONMENT

Poland continues to face environmental challenges concerning air, water and soil pollution, which require large investments and the participation of both public and private sector. Serious air pollution from power stations and other industrial plants, especially heavy metals, motor vehicles, and domestic heating need to be further addressed. Although air quality is generally improving, emission of PM_{10} remain a problem in many areas, and for instance in January 2006 due to a combination of cold weather and unfavourable atmospheric conditions, health warnings were given in the Katowice conurbation and people advised to stay in doors due to a few fold exceedance of EU ambient air quality standards. Significant improvements are still needed in the fields of waste management, wastewater treatment plants, improving drinking water quality, reducing groundwater pollution, and implementing and subsequent enforcement of integrated pollution prevention and control at industrial facilities. The National Municipal Wastewater Treatment Programme adopted in late 2003, envisaged the modernization and/or expansion of 1100 municipal wastewater treatment plants in over 1577 agglomerations and construction of 37,000 km of sewerage networks. The programme costs have been estimated as 42.6 billion PLN to attain EU standards.

The newly elected Government is continuing with the Environmental Policy that has been developed since the early 1990’s, and this was reinforced by a recent press conference, where the Ministry summarised its main objectives as:

- Development of National Environmental Security objectives, aimed at ensuring security of National, European and Global biodiversity, improvement of air quality in accordance with climate change conventions as well as improving the quality of waters.
- Sustainable development, with a focus on rural areas, for instance, through new job opportunities and use of biodiversity.

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

The country has ratified and implemented international conventions and is active in developing international policy frameworks. Its legal framework for transboundary shipments of hazardous waste is consistent with the Basel convention. Poland has completed the ratification process of the United Nations Framework Convention on Climate Change and its Kyoto Protocol in 2002. In line with the Aarhus Convention, legal bases have been established for access to environmental information and to the courts, although access to information and public consultation needs to be further reviewed and substantial capacity building is still required.

Poland made considerable progress by introducing new regulations in waste management and nature protection areas, including Natura 2000 sites. The country has continued to carry out some capacity building and training actions to develop its administrative capacity in the field of the environment on the national and regional levels (many through PHARE funded projects). This has included work on introducing EMAS to industry as well as integrated product policies. Poland continues to make significant investments in the field of the environment, however it still needs to apply more efforts to establish comprehensive investment strategies which would improve investment efficiency by focusing the available resources on implementing the requirements of the EU environmental *acquis*.

Harmonisation with EU Environmental Law

As an EU Member State, Poland has now adopted all of the EU's environmental law (the 'Aquis Communautaire'). The *Acquis Communautaire* comprises over 200 legal acts covering different areas such as water and air pollution, waste and chemical management, nature protection, industrial pollution management and noise protection.

Poland has obtained transition periods for 10 Directives including for waste management, urban wastewater treatment as well as Integrated Pollution Prevention and Control Directive (IPPC) and the Large Combustion Plant Directive (LCP). In terms of LCP, waste management and IPPC the derogation is applicable to named installations in the Accession Treaty. Implementing the requirements of the IPPC and LCP Directives will have a major impact on the competitiveness of Polish industry, although may provide opportunities for energy efficiency gains. Problems may arise in Poland with the delimitations of installations under the IPPC permitting system, and therefore how to apply Best Available Techniques, as well as the definition of combustion plant under the LCP Directive and whether the boiler or stack concept should prevail. The latter may result in the need of expensive abatement equipment (more efficient dust arrestment and flue gas desulphurisation) at small and medium sized combined heat and power plants

Full implementation of the environment *acquis* is anticipated to still pose a major challenge, both financial as well as institutional.

Although Poland has fully transposed the *acquis*, there is still need for substantial work, and for instance the Environmental Protection Law from 2001, has already been amended over 20 times and further amendment are planned. One of the more controversial issues has been associated with Environmental Impact Assessment procedures and public consultations. Often the need for approving projects, many EU funded, has conflicted with the requirements for full and open public consultations. The EIA process has therefore sometimes been inadequate and resulted in delays in approving the disbursement under EU Funding. The planned abandonment of the EU environment budget line for 2007-2013 may create further problems in the future.

The Bank will strive to ensure EU complaint definitions and procedures are implemented on Bank projects and will help with institutional capacity building on a project-by-project basis.

Climate Change

Poland has adopted a Climate policy until 2020, a new Energy Policy until 2025 as well as developing a strategy for renewable energy. Energy Policy has been high on the political agenda, although this has focused on security of supply rather than climate change and sustainability.

Poland ratified the Framework Convention on Climate Change and the Kyoto Protocol. Poland is now working on Joint Implementation (JI) projects although implementation of these has been slow and given that Poland is part of the European wide emission trading system opportunities for JI projects have been greatly reduced. Further work is necessary by Poland to develop institutional capacity and the legal framework for assessing greenhouse gas emissions by 2007 in order to take full advantage of JI opportunities.

Poland is part of the EU ETS (European Union Emission Trading Scheme) and an allocation was made for under 900 installations in December 2005, plus a further 212 installation exempt from the first stage of EU ETS. The large number of small installations, namely in the district heating and industrial sectors continue to be a major institutional challenge in terms of verification and monitoring of emissions. The lack of a large pool for new entrants (small reserve) and possible lack of transferring emission rights from closed installations to new more modern installations in the climate of significant economic growth (as well as industrial output), may be a significant future bottleneck. Furthermore this could affect the attractiveness of energy efficiency projects in Poland, as developers will not be able to gain emission rights from investments in new technology that displace less efficient processes if undertaken by a different legal entity.

The Bank will encourage energy efficiency projects and sub-projects and assist with reducing Green House Gas (GHG) emissions on a project-by-project basis.

Protected Areas and Biodiversity

Poland has a well established network of protected sites, and a long history of maintaining a system of protected areas. Poland has ratified the Convention on Biodiversity and has adopted a strategy for maintaining biodiversity. The State Forestry Commission is one of the key players in implementing sustainable development and ensuring biodiversity as it manages 7.5 mln ha of forestry land (out of a total of 9 mln ha, which accounts for around 28% of Poland). Poland adopted a National Reforestation Programme, which envisaged the increase of forested land in Poland to 30% of land mass by 2020.

There is an ongoing dialogue between NGO's and the government authorities in terms of designating Natura 2000 sites, as NGOs have identified many sites that should be designated as protected. Consequently, a so called "shadow list" has been developed by NGOs and reference to this is encouraged during project appraisals. The lack of appropriate procedures or willingness of authorities to assess the impact on Natura 2000 sites has been often cited by NGOs as a major problem in Poland. This has led to for instance extensive discussions and lobbying with respect to the planned "Via Baltica" highway project, which is part of the trans European network.

On a project-by-project basis the Bank will assess the impact of projects on protected areas, such as the official and shadow Natura 2000 lists. The Bank will further support biodiversity projects in Poland.

Public Consultation and Environmental Organisations

Poland ratified the UNECE Convention on Access to Information, Public Participation and Access to Justice in Environmental Matters (Aarhus Convention) in 2000, and the UNECE Convention on Environmental Impact Assessment in a Transboundary Context (Espoo Convention) in 2001. Although Poland has a long tradition of public consultation as part of the Environmental Impact Assessment process, major shortcomings were identified in 2004 and 2005 following EU Accession. Project screening, assessment of cumulative impacts as well as Natura 2000 and public consultations have been deemed deficient in many applications submitted and this has resulted in project delays.

More work needs to be done in order to have meaningful consultation or public participation. A Phare technical assistance project is helping to develop guidance on public consultation in EIA requirements and training.

EBRD Environmental Policy and Procedure will be utilized on Bank projects and appropriate disclosure and consultation undertaken with respect to project categorization.

Brownfield Development

Post industrial land (Brownfield) development policy is taking shape in Poland and efforts are being made to add value to such sites and assist with the regeneration of urban City centres. Nevertheless the so called “blighted land” syndrome due to actual and often perceived risk of contamination has resulted in investors opting for Greenfield Sites. The problem has been exasperated by the introduction of stringent contaminated land remediation standards which in effect drastically increase the cost of developing Brownfield sites in Poland. The need for a practical Brownfield strategy is required for future sustainable development of urban areas in Poland. The Bank encourages Brownfield redevelopment directly and indirectly through involvement in projects and real estate Funds developing Brownfield sites in the region.

EBRD Operations in Poland

All EBRD operations in Poland are subject to the Bank's Environmental Procedures and incorporate, where appropriate, environmental action plans 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.

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

In the financial sector, EBRD conducts environmental due diligence training for Polish financial intermediaries (FIs) and SME Finance Facilities. This has included co-hosting a UNEP FI one day seminar on environmental issues in the financial sector, and a monitoring visit to 5 financial intermediaries to assess how environmental procedures are being implemented and provide guidance to the FI's as and when required. The training and monitoring ensures that the Bank's FIs are capable of implementing environmental due diligence procedures which are incorporated into the FI's credit/investment appraisal process. The Bank will continue to provide such training to the EBRD's new partner financial institutions, notably as may of the FI's are now using Poland as a base for investing in other counties in the region, notably in Romania, Ukraine and the Balkans.

The Bank has committed to the JASPERS initiative together with the EIB and EU, and will provide among others expertise in environmental appraisal and due diligence. The Bank's experience in managing and undertaking Environmental Impact Assessments for infrastructure projects will be used to guide local experts and applicants in developing projects in line with best practice and EU requirements.

Recent Environmental Initiatives on EBRD Projects

To help address the legacy of environmental damage and encourage environmental quality improvements, the Bank incorporates environmental action plans into most projects. The Bank has worked with PAK (Patnow, Adamow and Konin Power Group) and Blechatow Power Plant (part of BOT Group) to structure and develop theses state-of-the-art new power projects in line with EU and National Environmental standards. A specific focus was placed in Belchatow to develop an EIA and public consultation and disclosure plan (PCDP) in line with best practice and EU requirements.

Gdansk Water Project: The Bank assisted the City of Gdansk in developing an EU compliant EIA as part of its Cohesion Fund application. Guidance was provided to the City and local consultants in undertaking the EIA, inclusive of appropriate project screening and public consultations. The project helped local consultants with capacity building and addressed a number of problems associated with undertaking EIAs in Poland and how to assess Natura 2000 sites and cumulative impacts.

Kaufland Poland: The Bank provided funding for the expansion of retail operations in Poland. A number of claims were made by NGOs and the media with respect to labour issues and non compliance with Polish employment law. Similar claims were levied at the same time against a number of retail operators in Poland. As part of the Banks due diligence, this was independently assessed and an action programme implemented to help address identified issues. Subsequently, the operator was encouraged to change it practices and establish closer relationship with the National Labour Inspectorate as well as Trade Unions. The experience gained from the project has now been incorporated into Bank due diligence in other jurisdictions.

Krakow District Heating Project: The Bank provided funding for investments in district heating infrastructure to be implemented by the Krakow municipal heating company (MPEC Kraków). The project is not typical as it one of the few where EU Cohesion Funds have been used to help reduce air pollution and increase energy efficiency. The Bank provided strategic advice to the City and assisted with the project preparation and application for EU funds. Specific attention was placed on the requirements of the EU EIA Directive and how the Directive has been transposed and implemented in Poland. The Bank with assistance of outside legal council assisted the City in ensuring appropriate screening was undertaken in line with EU requirements. The experience of developing the project will serve as a template for other projects which aim to utilize EU Funds to help modernize and improve energy efficiency in existing district heating systems in Poland and the region.

ANNEX 8: OVERVIEW OF THE EBRD TC FUND AND OFFICIAL CO-FINANCING

TC Funds and Donors
Aggregate Commitments (1992-2005): € 29 million

DONOR	EUR Committed
EU	22,337,709.12
UK	1,204,876.37
Denmark	1,043,220.67
Taipei China	818,699.53
France	735,875.25
Sweden	650,585.87
Japan	618,633.78
Germany	374,181.65
Spain	280,000.00
Finland	194,211.61
Canada	143,568.53
Netherlands	139,058.67
Norway	103,015.99
Austria	95,868.75
ECP	63,168.93
Italy	52,526.47
US	114,210.74
Switzerland	48,239.94
Special Fund	11,000.00

Official Co-financing and Donors
Signed projects – Signed years: 1993-2005
€ 934.5 million

DONOR	EUR Amount
IFI	410,582,746
European Commission	241,224,602
Bilateral Financial Institutions	113,800,000
Institutional	60,700,000
Donor Government	50,438,810
Local Goverment Department or Authority	24,728,250
Banks	16,791,201
ECA - Export Credit Agency	16,203,509

Appendix 1 Breakdown of TC Projects

Fund Name	Commitment Name	Euro Committed	Euro Disbursed	Fund Code	Fund Approved Date	Commit. Stage Name	Sector
FRA-1991-05-01	Privatisation - mutual fund	31,746	31,746	FRA	26/08/91	Closed	Community/Social Services
TAI-1991-09-02	Textile industry restructuring	1,179	1,179	TAI	01/09/91	Closed	Manufacturing
TAI-1991-11-07	Gdansk waste water treatment	68,886	68,886	TAI	01/11/91	Closed	Local Authority Services
FRA-1991-11-03	Polish Social Protection	53,357	53,357	FRA	28/11/91	Closed	Community/Social Services
SWE-1992-01-03	Elblag-Kaliningrad motorway feasibility study	346,252	346,252	SWE	28/01/92	Closed	Construction
TAI-1992-02-19	Deposit insurance system	159,897	159,897	TAI	01/02/92	Closed	Finance, Business
EC-1992-04-06	Warsaw public transport study	235,359	235,359	ECP	10/04/92	Closed	Transport, Storage
EC-1992-06-18	Housing sector reform (public institutions)	378,614	378,614	ECP	20/06/92	Closed	Construction
HOL-1992-07-06	Wroclaw wastewater treatment plant - update feasibility study	23,463	23,463	HOL	01/07/92	Closed	Local Authority Services
TAI-1992-07-45	Enterprise restructuring and rehabilitation	204,755	204,755	TAI	01/07/92	Closed	Finance, Business
TAI-1992-08-46	Gdansk environmental project - legal advice	6,775	6,775	TAI	01/08/92	Closed	Local Authority Services
FRA-1992-08-06	Motorways development project	106,623	106,623	FRA	20/08/92	Closed	Construction
EC-1992-09-38	Lodz waste water treatment plant	171,821	171,821	ECP	15/09/92	Closed	Local Authority Services
CAN-1992-10-02	Black Triangle gas conversion project	27,569	27,569	CAN	29/09/92	Closed	Energy
FRA-1992-10-09	Warsaw Wholesale market	185,226	185,226	FRA	06/10/92	Closed	Manufacturing
FRA-93-01-01PS	Warsaw wholesale market Technical Co-operation project	189,469	189,469	FR01	06/10/92	Closed	Manufacturing
FRA-1992-09-08	Gdansk environment project - establishment of municipal and financial companies	128,057	128,057	FRA	14/10/92	Closed	Local Authority Services
EC-1992-12-50	Motorway development programme	999,848	999,848	ECP	20/12/92	Closed	Transport, Storage
EC-1992-12-51	Gdynia environmental project - wastewater and collection study	99,720	99,720	ECP	20/12/92	Closed	Local Authority Services
EC-1992-12-52	Gdansk environmental project - industrial wastewater inventory	59,290	59,290	ECP	20/12/92	Closed	Local Authority Services
DEN-1993-05-03	Polish Power Grid Company - finalisation of feasibility study of Bielsko-Biala coal-fired power station	184,094	184,094	DEN	18/05/93	Closed	Energy
EC-1993-05-16	Polish Special Restructuring Programme - legal, tax framework and financial controls development	376,000	376,000	ECP	20/05/93	Closed	Finance, Business
EC-1993-07-22	Polish Special Restructuring Programme - co-ordination	92,319	92,319	ECP	20/07/93	Closed	Finance, Business
EC-1993-07-23	Polish Special Restructuring Programme - co-ordination	41,700	41,700	ECP	20/07/93	Closed	Finance, Business
JAP-1993-08-32	Polish power grid company - bulk power purchase contracting in a competitive market	180,249	180,249	JAP	01/08/93	Closed	Energy
EC-1993-08-36	Polish Power Grid Company - development of information system for commercial management	441,802	441,802	ECP	20/08/93	Closed	Energy
NORG-1993-10-05	Financial advisory services	45,000	45,000	NORG	01/10/93	Closed	Telecommunications
GER-1993-11-10	Strategy for privatisation of Bielsko-Biala CHP Station	104,102	104,102	GER	08/11/93	Closed	Energy
EC-1993-12-68	Environmental standards for soil and groundwater contamination	181,150	181,150	ECP	17/12/93	Closed	Manufacturing
JAP-1994-02-05	BOT legal restructuring - Lodz environmental project	38,054	38,054	JAP	08/02/94	Closed	Community/Social Services
GER-1994-06-06	Financial and Business Advisory Services to Fabryk Mebli Gietych	29,636	29,636	GER	07/06/94	Closed	Manufacturing
DEN-1994-08-02	Bielsko-Biala project implementation unit	154,728	154,728	DEN	15/08/94	Closed	Energy
SWE-1994-11-05	Bielsko-Biala co-generation plant - commercial accounting system	159,652	159,652	SWE	25/10/94	Closed	Energy

Fund Name	Commitment Name	Euro Committed	Euro Disbursed	Fund Code	Fund Approved Date	Commit. Stage Name	Sector
NOR-1995-01-01	National investment funds - environmental training	58,016	58,016	NOR	01/01/95	Closed	Finance, Business
UKC-1995-03-05	Polish Special Restructuring Programme - initial implementation phase	42,131	42,131	UKC	08/02/95	Closed	Finance, Business
GER-1995-03-02	Polish Special Restructuring Programme - initial implementation phase	45,505	45,505	GER	20/03/95	Closed	Finance, Business
UKC-1995-04-12	Mass Privatisation Programme equity facility - Stilon	7,924	7,924	UKC	01/04/95	Closed	Finance, Business
UKC-1995-04-07	Energy efficiency project development	139,227	139,227	UKC	10/04/95	Closed	Energy
FIN-1995-04-02	Mass Privatisation Programme equity facility - Grajewo	39,524	39,524	FIN	19/04/95	Closed	Finance, Business
ITA-1995-05-04	Mass Privatisation Programme equity facility - Stilon	6,635	6,635	ITA	03/05/95	Closed	Manufacturing
UKC-1995-04-11	Mass Privatisation Programme equity facility - Fabryka Mebli Gietych	33,337	33,337	UKC	24/05/95	Closed	Manufacturing
UKC-1995-05-16	Mass Privatisation Programme equity facility - environmental due diligence - Wrozamet, Grajewo, FMG	30,044	30,044	UKC	24/05/95	Closed	Agriculture, Forestry, Fishing
ITA-1995-07-05	Mass Privatisation Programme equity facility enterprise due diligence - Wrozamet S.A.	45,891	45,891	ITA	27/06/95	Closed	Finance, Business
ECP-1995-08-21	Polish Special Restructuring Programme - interim management extension (Balfour)	49,500	49,500	ECP	01/08/95	Closed	Finance, Business
ECP-1995-08-22	Polish Special Restructuring Programme - interim management extension (Schwarz)	49,724	49,724	ECP	01/08/95	Closed	Finance, Business
UKC-1995-09-21	Mass Privatisation Programme equity facility - Srubena due diligence and environmental audit	50,829	50,829	UKC	30/08/95	Closed	Finance, Business
UKC-1995-01-01	National investment funds - legal due diligence	64,633	64,633	UKC	03/11/95	Closed	Finance, Business
FIN-1995-12-06	Mass Privatisation Programme equity facility - Grajewo	36,174	36,174	FIN	30/11/95	Closed	Manufacturing
HOL-1996-01-01	Mass Privatisation Programme equity facility enterprise due diligence - Krotoszyn	72,567	72,567	HOL	09/01/96	Closed	Finance, Business
UKC-1996-02-04	Mass Privatisation Programme equity facility environmemtal audit and appraisal - Krotoszyn	10,417	10,417	UKC	21/02/96	Closed	Community/Social Services
UKC-1996-03-06	Mass Privatisation Programme equity facility - Grajevo - due diligence	3,242	3,242	UKC	11/03/96	Closed	Finance, Business
UKC-1996-03-07	Mass Privatisation Programme equity facility - Zaklady Plyt Wiorowych 'Grajewo' - environmental due diligence	1,342	1,342	UKC	13/03/96	Closed	Community/Social Services
UKC-1996-04-10	Mass Privatisation Programme equity facility - Srubena S.A. equity investment - due diligence	2,806	2,806	UKC	01/04/96	Closed	Finance, Business
UKC-1996-04-11	Mass Privatisation Programme equity facility - Krotoszyn S.A. equity investment - due diligence	4,144	4,144	UKC	01/04/96	Closed	Community/Social Services
UKC-1996-04-12	Mass Privatisation Programme equity facility - Srubena due diligence and environmental audit (extension)	23,358	23,358	UKC	01/04/96	Closed	Community/Social Services
ECP96-96-11-28	Municipal private-public partnership - Phase I	521,640	521,640	ECP	27/11/96	Closed	Local Authority Services
EUPSR-97-04-01	Polish Special Restructuring Programme - legal advisory services	49,600	49,600	EUPSR	01/04/97	Closed	Finance, Business
ECP96-97-06-56	Telecommunications regulatory development programme	217,274	217,274	ECP	19/06/97	Closed	Telecommunications
DEN-1997-08-01F	Municipal infrastructure flood damage repair	406,595	406,595	DEN	01/08/97	Closed	Local Authority Services
GERK-97-08-03F	Preparation and implementation Wroclaw Municipal infrastructure flood damage repair	102,271	102,271	GERK	28/08/97	Closed	Local Authority Services
ECP96-97-09-66	Krakow urban transport project - feasilbility studies and municipal finance analysis	715,765	715,765	ECP	01/09/97	Closed	Manufacturing
EUPSR-97-09-02	Framework contract (A)	180,266	180,266	EUPSR	24/09/97	Closed	Finance, Business
EUPSR-97-09-03	Framework contract (B)	429,067	429,067	EUPSR	24/09/97	Closed	Finance, Business
JAP-1997-10-35	Municipal infrastructure flood damage repair - analysis of financial management/utility analysis	46,013	46,013	JAP	09/10/97	Closed	Local Authority Services
JAP-1997-10-30	Wroclaw municipal infrastructure flood damage repair	59,970	59,970	JAP	14/10/97	Closed	Local Authority Services

Fund Name	Commitment Name	Euro Committed	Euro Disbursed	Fund Code	Fund Approved Date	Commit. Stage Name	Sector
ECP97-98-04-61	BGZ pre-privatisation Technical Commitment part A - financial due diligence	460,033	460,033	ECP	07/04/98	Closed	Finance, Business
EUPSR-98-04-01	Polish Special Restructuring Programme - framework contract (B) - legal services	127,243	127,243	EUPSR	21/04/98	Closed	Finance, Business
EUPSR-98-04-03	Polish Special Restructuring Programme - framework contract (B) - legal advice	37,768	37,768	EUPSR	21/04/98	Closed	Finance, Business
JAP-1998-05-16	Wroclaw flood damage municipal infrastructure project - assessment of municipal credit-worthiness	40,864	40,864	JAP	26/05/98	Closed	Local Authority Services
JAP-1998-08-27	Creditworthiness enhancement programme (Wroclaw flood damage)	253,484	253,484	JAP	20/08/98	Closed	Local Authority Services
ECP98-98-08-17	Krakow urban transport project	729,915	729,915	ECP	26/08/98	Closed	Transport, Storage
ECP98-98-08-18	BGZ Pre-Privatisation	2,917,524	2,917,524	ECP	26/08/98	Closed	Finance, Business
EUPSR-98-08-04	Polish Special Restructuring Programme - legal advice	33,768	33,768	EUPSR	27/08/98	Closed	Finance, Business
UKC-1998-08-04	Polish Dairy Facility	43,544	43,544	UKC	28/08/98	Closed	Manufacturing
ECP97-98-09-67	Poznan Water System concession	308,332	308,332	ECP	21/09/98	Closed	Local Authority Services
EUPSR-98-10-05	Commercial services	48,400	48,400	EUPSR	07/10/98	Closed	Finance, Business
EUPSR-98-10-06	Polish Special Restructuring Programme - environmental analysis	30,813	30,813	EUPSR	12/10/98	Closed	Finance, Business
EUPSR-98-10-07	Polish Special Restructuring Programme - financial analysis	39,597	39,597	EUPSR	12/10/98	Closed	Finance, Business
ECP98-98-11-44	Krakow Transport Policy, Traffic Control & Parking Management	847,217	847,217	ECP	02/11/98	Closed	Transport, Storage
ECP98-99-03-55	Polish dairy facility - advisor	181,196	181,196	ECP	16/03/99	Closed	Finance, Business
FIN-1999-03-04	Wroclaw MPEC - EBRD company and project assessment	48,513	48,513	FIN	29/03/99	Closed	Energy
USA-1999-03-01	Energy efficiency transaction development in Poland	62,084	62,084	USA	30/03/99	Closed	Energy
EUPSR-99-05-01	Polish Special Restructuring Programme - initial review	3,557	3,557	EUPSR	21/05/99	Closed	Finance, Business
UKC-1999-05-03	FAO Framework Agreement - Poland wholesale markets	26,452	26,452	UKC	21/05/99	Closed	Manufacturing
UKC-1999-06-06	PZU Limited actuarial due diligence	32,195	32,195	UKC	04/06/99	Closed	Finance, Business
USTD-1999-06-03	Warsaw urban transport	6,028	6,028	USTDA	17/06/99	Closed	Transport, Storage
GERK-1999-07-03	Consultation Services for Privatisation of Bogdanka Mine	48,526	48,526	GERK	13/07/99	Closed	Energy
UKC-1999-07-07	Due Diligence Assistance in Privatisation of LOT	50,000	50,000	UKC	13/07/99	Closed	Transport, Storage
UKC-1999-08-09	Poland Water Sector Benchmarking Study	133,174	133,174	UKC	02/08/99	Closed	Transport, Storage
ECP99-99-09-17	Detailed Feasibility & Project Preparation for Gdansk Urban Transport	469,298	469,298	ECP	07/09/99	Closed	Transport, Storage
UKE-1999-11-09	Technical assistance to SMEs in the preparation of projects to promote cleaner production	167,615	167,615	UKE	11/11/99	Closed	Community/Social Services
AUS-1999-12-03	Power Supply Curves for the Period 1999-2020	47,690	47,690	AUS	21/12/99	Closed	Energy
ECP99-2000-05-38	Polish Railways - PKP Implementation Assistance and Network Management Project	789,299	789,299	ECP	10/05/00	Closed	Transport, Storage
ECP98-2000-06-68	GDDP: Preparation of a Private Sector Road Management Project	256,442	256,442	ECP	12/06/00	Closed	Construction
ECP98-2000-06-67	Sopot Traffic Management Improvement Project	176,013	176,013	ECP	13/06/00	Closed	Construction
ECP99-2000-06-44	Municipal Creditworthiness Analysis Cities of Gdansk and Sopot	398,868	398,868	ECP	29/06/00	Closed	Transport, Storage
SWI-2000-07-06	TurnAround Management Programme in Central, Eastern & Southern Europe - Sniezka	48,240	48,240	SWI	13/07/00	Closed	Manufacturing
ECP98-2000-07-70	Polish Railways - Pre- Privatisation Assistance	396,013	396,013	ECP	26/07/00	Closed	Transport, Storage
DEN-2000-07-02	TurnAround Management Programme (TAM) - Sniezka	10,468	10,468	DEN	28/07/00	Closed	Manufacturing
UKE-2001-01-01	Polish Warehouse Receipts Programme	21,228	21,228	UKE	04/01/01	Closed	Manufacturing

Fund Name	Commitment Name	Euro Committed	Euro Disbursed	Fund Code	Fund Approved Date	Commit. Stage Name	Sector
UKE-2001-01-05	Poland: Securitisation of Impaired ZUS receivables - Feasibility Study	196,350	196,350	UKE	19/01/01	Closed	Community/Social Services
AUS-2001-01-01	TurnAround Management Programme (TAM) - "Poltops" Fabryka Wyrobow Welnianych SA	48,178	48,178	AUS	30/01/01	Closed	Manufacturing
UKE-2001-04-16	FAO Framework Agreement - Review of the Rapeseed Oil Sector	29,328	29,328	UKE	27/04/01	Closed	Manufacturing
DEN-2001-07-08	Sopot Traffic Management Improvement Project - detailed feasibility and project preparation	154,414	154,414	DEN	18/07/01	Closed	Construction
HOL-2001-07-08	City of Gliwice Creditworthiness Assessment	43,028	43,028	HOL	18/07/01	Closed	Local Authority Services
USTD-2001-08-02	Polish Small and Medium Municipalities Environmental Investment Facility - Start-up Coordinator	46,098	46,098	USTDA	22/08/01	Closed	Local Authority Services
GERK-2001-09-09	Gdansk Urban Transport	44,142	44,142	GERK	06/09/01	Closed	Transport, Storage
CAN-2001-09-01	Lodz Municipal ESCO - Project Preparation	116,000	90,752	CAN2	24/09/01	Disbursing	Energy
FIN-2001-09-10	Lodz Municipal ESCO - Project Preparation	70,000	58,814	FIN	24/09/01	Disbursing	Energy
ECP99-2001-09-94	Polish Railways - PKP Pre-Privatisation Assistance	190,000	190,000	ECP	26/09/01	Closed	Transport, Storage
TCS-2001-09-01	Lodz Municipal ESCO - Project Preparation	11,000	7,040	TCS	26/09/01	Disbursing	Energy
ECP99-2001-10-97	Polish dairy facility - advisor	63,169	63,169	ECP	31/10/01	Closed	Finance, Business
TAI-2001-11-09	Poland: Implementing Insolvency Legal Reform	198,525	198,525	TAI	29/11/01	Closed	Community/Social Services
ECP99-2001-12-98	Preparation for Privatisation of SKM Tri-City Suburban Rail and WKD Warsaw Commuter Rail	995,536	995,536	ECP	04/12/01	Closed	Transport, Storage
ECP2000-2001-12-17	Preparation for Privatisation of SKM and WKD	401,028	401,028	ECP	05/12/01	Closed	Transport, Storage
ECP99-2001-12-105	BGZ Pre-Privatisation	188,050	188,050	ECP	18/12/01	Closed	Finance, Business
ECP99-2001-12-106	BGZ Pre-Privatisation	595,043	595,043	ECP	18/12/01	Closed	Finance, Business
UKE-2002-02-01	Technical Assistance to SMEs in the Preparation of Project to Promote Cleaner Production - Expansion of Project	17,375	17,375	UKE	20/02/02	Closed	Community/Social Services
ECP2000-2002-02-19	Bydgoszcz Corporate Development Programme	488,675	488,675	ECP	22/02/02	Closed	Local Authority Services
UKE-2002-02-02	FAO Framework Agreement - Review of the Rapeseed Sector	24,743	24,743	UKE	25/02/02	Closed	Manufacturing
ECP2000-2002-06-01	Preparation of a Private Sector Road Network Mgmt Project	979,805	979,805	ECP	14/06/02	Closed	Construction
ECP2000-2002-06-02	Polish SMMEIF- Project Structure Development Support	520,085	520,085	ECP	20/06/02	Closed	Local Authority Services
ECP2000-2002-06-03	Polish SMMEIF-Structure & Implementation Support	454,165	454,165	ECP	27/06/02	Closed	Local Authority Services
ECP2000-2002-06-05	Gdansk Urban Transport - Restructuring & Project Implementation	922,399	922,399	ECP	28/06/02	Closed	Transport, Storage
ECP2000-2002-06-06	Gdansk Urban Transport - Creditworthiness Enhancement Programme	532,777	532,777	ECP	28/06/02	Closed	Transport, Storage
DEN-2002-09-02	City of Gliwice Multi-Sector Municipal Investment Programme	132,922	132,922	DEN	27/09/02	Closed	Local Authority Services
SPA-2002-10-02	PSE Securitisation	180,000	180,000	SPA	03/10/02	Closed	Energy
UKE-2002-11-09	Assessment of the Polish Seed Market and Legal Structures	23,777	15,509	UKE	06/11/02	Disbursing	Manufacturing
UKE-2002-11-10	Poland: Private Sector Road Management Technical Support	25,660	25,660	UKE	18/11/02	Closed	Transport, Storage
ECP2000-2002-12-02	Development of Public Passenger Rail Services in the Lower Silesia Province (Dolny Slask Voivodship)	597,083	597,083	ECP	12/12/02	Closed	Transport, Storage
ECP2000-2002-12-06	Warsaw Metro & Public Private Partnership Task Force Support	1,485,837	1,485,837	ECP	18/12/02	Closed	Local Authority Services
ECP2000-2002-12-11	Krakow Efficiency Enhancement Programme	445,473	445,473	ECP	19/12/02	Closed	Local Authority Services
TAI-2004-06-09	PKP assistance with property plan preparation	51,303	19,344	TAI	14/06/04	Disbursing	Transport, Storage
TAI-2004-06-10	Gliwice Municipal Creditworthiness Enhancement Programme	197,445	93,865	TAI	30/06/04	Disbursing	Local Authority Services

Fund Name	Commitment Name	Euro Committed	Euro Disbursed	Fund Code	Fund Approved Date	Commit. Stage Name	Sector
SWE2-2005-09-04	Wroclaw Water Services Outsourcing Programme	144,682	0	SWE2	12/06/05	Committed	Local Authority Services
SPA-2005-06-03	Gdansk Water Infrastructure Company Project	100,000	0	SPA	16/06/05	Committed	Local Authority Services
FRB-2005-12-03	Belchatow - preparation for the liberalised power market in Poland	126,500	0	FRB	21/12/05	Committed	Energy

Appendix 2 Breakdown of TAM Projects

Funding No	Enterprise	Budget (EUR)	Billed (EUR)	Balance (EUR)	Start Date	Industry
ECP97-97-12-50-02	Fabryka Srub Srubena	60,000	31,088	28,912	09-Apr-98	Fabricated Metal Product
ECP97-97-12-50-10	Wytwornia Sprzetu Mech	60,000	56,490	3,510	17-Jun-98	Motor Vehicles and Components Manufacturing
ECP97-97-12-50-19	Boryszew	60,000	56,088	3,912	03-Aug-98	Chemical Manufacturing
ECP97-97-12-50-22	Centrala Obrotu Drewnem	60,000	59,763	237	18-Aug-98	Wood Product Manufacturing
ECP97-97-12-50-21	Prochnik	60,000	32,944	27,056	19-Aug-98	Textile Mills
ECP97-97-12-50-23	Krakchemia SA	60,000	53,670	6,330	21-Aug-98	Retail Trade
ECP97-97-12-50-30	Frotex	60,000	59,196	804	24-Aug-98	Textile Mills
ECP97-97-12-50-29	Dywilan	60,000	42,854	17,146	27-Aug-98	Textile Mills
ECP97-97-12-50-26	Rzeszowskie Fabryki Mebli	60,000	57,347	2,653	28-Aug-98	Wood Product Manufacturing
ECP97-97-12-50-28	Elstal Labedy	60,000	55,259	4,741	01-Sep-98	Fabricated Metal Product
ECP97-97-12-50-27	Jarocinskie Fabryki Mebli SA "Jarocin"	60,000	54,962	5,038	01-Sep-98	Furniture and Related Products
ECP97-97-12-50-31	Koniecpolskie	60,000	30,361	29,639	09-Sep-98	Wood Product Manufacturing
ECP97-97-12-50-32	Pekaes	60,000	33,143	26,857	15-Sep-98	Support Activities for Transport
ECP97-97-12-50-34	H Cegielski - Poznan S.A.	60,000	30,422	29,578	23-Sep-98	Building, Development and Land
ECP97-97-12-50-37	Polish Scientific Publishers (PWN)	60,000	13,670	46,330	23-Sep-98	Broadcasting and Communications
ECP97-97-12-50-41	Pioma	60,000	59,937	63	30-Sep-98	Industrial Machinery
ECP97-97-12-50-43	Ospel SA	60,000	36,027	23,973	07-Oct-98	Electrical Equipment
ECP97-97-12-50-45	ZNTK SA	60,000	59,980	20	08-Oct-98	Railroad Rolling Stock Equipment
ECP97-97-12-50-49	ATM S.A.	60,000	55,811	4,189	19-Oct-98	Computer and Electronic
ECP97-97-12-50-52	Fugo	60,000	55,157	4,843	23-Oct-98	Plastics and Rubber Products
ECP97-97-12-50-57	Gumowe Gornictwa SA	60,000	59,856	144	26-Oct-98	Plastics and Rubber Products
ECP97-97-12-50-56	Instal Katowice	60,000	53,919	6,081	27-Oct-98	Industrial Machinery
ECP97-97-12-50-58	Bieltex SA	60,000	57,324	2,676	28-Oct-98	Textile Mills
ECP97-97-12-50-59	Elektromontaz	60,000	51,919	8,081	29-Oct-98	Electric Power Distribution

Funding No	Enterprise	Budget (EUR)	Billed (EUR)	Balance (EUR)	Start Date	Industry
ECP97-97-12-50-62	Hoop SA	60,000	57,292	2,708	03-Nov-98	Food Manufacturing
ECP97-97-12-50-68	Tapety Gnaszyn SA	60,000	42,051	17,949	12-Nov-98	Paper Manufacturing
ECP97-97-12-50-72	Gabriel	60,000	55,220	4,780	16-Nov-98	Retail Trade
ECP97-97-12-50-70	Dwikozy	60,000	54,013	5,987	19-Nov-98	Food Manufacturing
ECP97-97-12-50-73	Zielonogorskie Fabriki Mebli (Zefam)	60,000	59,653	347	23-Nov-98	Furniture and Related Products
ECP97-97-12-50-74	Zarowskie Materialow Orgniotrwalych	60,000	41,177	18,823	30-Nov-98	Fabricated Metal Product
ECP97-97-12-50-77	Bielbaw SA	60,000	44,220	15,780	04-Dec-98	Textile Mills
ECP97-97-12-50-86	Instal Rzeszow	60,000	53,704	6,296	16-Dec-98	Industrial Machinery
ECP97-97-12-50-82	Boleslawiec SA	60,000	56,839	3,161	17-Dec-98	Support Activities for Crops (seeds, fertilizer manufacturing, distribution)
ECP97-97-12-50-87	Odlewnia Zeliwa SA	60,000	56,346	3,654	21-Dec-98	Fabricated Metal Product
ECP97-97-12-50-89	Kuznia Jawor	60,000	58,633	1,367	24-Dec-98	Primary Metal Manufacturing
ECP97-97-12-50-91	Metalplast System Ltd.	60,000	53,738	6,262	30-Dec-98	Fabricated Metal Product
ECP97-97-12-50-90	Konsmetal	60,000	50,913	9,087	31-Dec-98	Fabricated Metal Product
ECP97-97-12-50-94	Polish Ocean Lines	60,000	59,583	417	18-Jan-99	Water Transportation
ECP97-97-12-50-98	Huta Buzcek	60,000	38,504	21,496	25-Jan-99	Fabricated Metal Product
ECP97-97-12-50-97	Miflex S.A.	60,000	59,974	26	28-Jan-99	Electrical Equipment
ECP97-97-13-50-04	Wiepofama SA	60,000	25,750	34,250	10-Feb-99	Industrial Machinery
ECP97-97-13-50-09	Bialskie Fabryki Mebli SA	60,000	58,619	1,381	18-Feb-99	Furniture and Related Products
ECP97-97-13-50-10	Fabryka Porcelitu Tulowice	60,000	48,980	11,020	24-Feb-99	Non-metallic Mineral Product
ECP97-97-13-50-11	Gabriel Salony Urody S.A.	60,000	40,484	19,516	03-Mar-99	Health Care and Social
ECP97-97-13-50-12	Huta Ostrowiec SA	60,000	57,322	2,678	03-Mar-99	Fabricated Metal Product
ECP97-97-13-50-15	Radpol SA	60,000	58,002	1,998	23-Mar-99	Electrical Equipment
ECP97-97-13-50-22	Conres S.A.	60,000	41,472	18,528	29-Mar-99	Apparel Manufacturing

Funding No	Enterprise	Budget (EUR)	Billed (EUR)	Balance (EUR)	Start Date	Industry
ECP97-97-13-50-20	Sudety Crystal Works	60,000	57,596	2,404	31-Mar-99	Non-metallic Mineral Product
ECP97-97-13-50-21	Porcelany Elektrotechnicznej (Ciechow)	60,000	54,927	5,073	07-Apr-99	Electrical Equipment
ECP97-97-13-50-29	Bawelniane Dall	60,000	59,511	489	15-Apr-99	Textile Mills
ECP97-97-13-50-25	ZNTK Minsk	60,000	60,000	-	29-Apr-99	Railroad Rolling Stock Equipment
ECP97-97-13-50-33	Silena	60,000	49,864	10,136	12-May-99	Textile Mills
ECP97-97-13-50-39	Ergis SA	60,000	43,770	16,230	18-May-99	Plastics and Rubber Products
ECP97-97-13-50-40	Walbrzych	60,000	54,408	5,592	18-May-99	Non-metallic Mineral Product
ECP97-97-13-50-45	Polmo	60,000	39,686	20,314	19-May-99	Motor Vehicles and Components Manufacturing
ECP97-97-13-50-44	Soki Dr Witt Sp	60,000	22,309	37,691	25-May-99	Food Manufacturing
ECP97-97-13-50-48	Elektrim Kable Polskie S.A.	60,000	42,330	17,670	01-Jun-99	Fabricated Metal Product
ECP97-97-13-50-50	Elektromontaz Rzeszow SA	60,000	57,188	2,812	10-Jun-99	Electrical Equipment
ECP97-97-13-50-55	Mona Classic	60,000	58,630	1,370	21-Jun-99	Wholesale Trade - Durable Goods
ECP98-2000-09-71-02	Pioma II	28,000	28,000	0	27-Jul-00	Industrial Machinery
ECP2000-2001-04-03-02	Pioma II	32,000	32,000	0	27-Jul-00	Industrial Machinery
SWI-2000-07-06	Sniezka SA	48,400	48,240	160	28-Jul-00	Food Manufacturing
DEN-2000-07-02	Sniezka SA	11,600	10,468	1,132	28-Jul-00	Food Manufacturing
ECP98-2000-09-71-01	Kuznia Jawor II	28,000	28,000	0	26-Sep-00	Primary Metal Manufacturing
ECP2000-2001-04-03-01	Kuznia Jawor II	32,000	31,842	158	26-Sep-00	Primary Metal Manufacturing
ECP98-2000-09-71-15	Atext SA	28,000	28,000	-	30-Oct-00	Furniture and Related Products
ECP2000-2001-04-03-12	Atext SA	32,000	21,307	10,693	30-Oct-00	Furniture and Related Products
ECP98-2000-09-71-20	Mona Classic II	28,000	28,000	0	24-Nov-00	Wholesale Trade - Durable Goods
ECP2000-2001-04-03-17	Mona Classic II	32,000	31,894	106	24-Nov-00	Wholesale Trade - Durable Goods
ECP98-2000-09-71-31	Polmo II	28,000	18,341	9,659	06-Dec-00	Motor Vehicles and Components Manufacturing

Funding No	Enterprise	Budget (EUR)	Billed (EUR)	Balance (EUR)	Start Date	Industry
ECP2000-2001-04-03-28	Polmo II	32,000	18,390	13,610	06-Dec-00	Motor Vehicles and Components Manufacturing
ECP98-2000-09-71-39	Fugo II	28,000	28,000	-	07-Dec-00	Plastics and Rubber Products
ECP2000-2001-04-03-36	Fugo II	32,000	31,438	562	07-Dec-00	Plastics and Rubber Products
ECP98-2000-09-71-29	Hoop II	28,000	28,000	0	07-Dec-00	Food Manufacturing
ECP2000-2001-04-03-26	Hoop II	32,000	30,451	1,549	07-Dec-00	Food Manufacturing
ECP98-2000-09-71-42	Profi	28,000	28,000	0	07-Dec-00	Furniture and Related Products
ECP2000-2001-04-03-39	Profi	32,000	31,858	142	07-Dec-00	Furniture and Related Products
ECP98-2000-09-71-32	2si	28,000	22,686	5,314	08-Dec-00	Electrical Equipment
ECP2000-2001-04-03-29	2si	32,000	32,000	0	08-Dec-00	Electrical Equipment
ECP98-2000-09-71-30	Zaklad Przemyslu Odziezowego	28,000	24,794	3,206	08-Dec-00	Apparel Manufacturing
ECP2000-2001-04-03-27	Zaklad Przemyslu Odziezowego	32,000	31,226	774	08-Dec-00	Apparel Manufacturing
ECP98-2000-09-71-35	Kara S.A.	28,000	24,004	3,996	13-Dec-00	Non-metallic Mineral Product
ECP2000-2001-04-03-32	Kara S.A.	32,000	31,005	995	13-Dec-00	Non-metallic Mineral Product
AUS-2001-01-01	Poltops	48,400	48,178	222	30-Jan-01	Textile Mills
DEN-2000-12-05	Poltops	11,600	7,055	4,545	30-Jan-01	Textile Mills
ECP2000-2001-03-01-07	Nowakowski-Piekarnie Sp Z00	60,000	60,000	0	07-Aug-01	Food Manufacturing
ECP2000-2001-03-01-08	Biuro Projektowania SA	60,000	58,760	1,240	13-Aug-01	Information Services and Data Processing
ECP2000-2001-03-01-09	Matras (Holding Centrum SP ZOO)	60,000	59,952	48	15-Oct-01	Retail Trade
ECP2000-2001-03-01-11	Spar Polska	60,000	60,000	- 0	21-Dec-01	Food and Beverage Stores
ECP2000-2001-03-01-12	Symbio Impex Polska SP ZOO	60,000	59,865	135	14-Jan-02	Wholesale Trade - Non-durable Goods (Food: beer and wine)
EPTA2002-05-01-08	Pupil Foods	60,000	59,969	31	21-May-02	Food Manufacturing
EPTA2002-05-01-15	Lynka	60,000	60,000	0	18-Jun-02	Apparel Manufacturing
EPTA2002-05-01-18	Firma Osadowski	60,000	59,703	297	01-Jul-02	Fabricated Metal Product

Funding No	Enterprise	Budget (EUR)	Billed (EUR)	Balance (EUR)	Start Date	Industry
EPTA2002-05-01-19	Inprodus	60,000	59,995	5	01-Jul-02	Support Activities for Transport
EPTA2002-05-01-36	Zielona Budka Zbigniew Grycan	60,000	55,997	4,003	27-Sep-02	Food Manufacturing
EPTA2002-05-01-42	Montochem SA	60,000	39,605	20,395	23-Oct-02	Industrial Machinery
EPTA2002-05-01-43	Polska Grupa Gospodarki Odpadami	60,000	21,213	38,787	23-Oct-02	Solid Waste Management
EPTA2002-05-01-44	Samanta	60,000	58,322	1,678	23-Oct-02	Apparel Manufacturing
EPTA2002-05-01-52	Ceramika Gres S.A.	60,000	59,687	313	18-Nov-02	Building Material and Garden
EPTA2002-05-01-51	Mediplast S.A.	60,000	21,332	38,668	18-Nov-02	Building Material and Garden
EPTA2002-05-01-54	Igloopol Sp z.o.o.	60,000	59,556	444	06-Dec-02	Food Manufacturing
EPTA2002-05-01-58	Artgos	60,000	21,248	38,752	11-Dec-02	Plastics and Rubber Products
ECP2000-2002-11-02-08	Profi II	60,000	58,785	1,215	12-Dec-02	Furniture and Related Products
ECP2000-2002-11-02-10	Jurwald	60,000	59,880	120	06-Jan-03	Food Manufacturing
ECP2000-2002-11-02-12	PKS Grodzisk Mazowieck	60,000	60,000	0	06-Jan-03	Transit and Ground Passenger
EPTA2002-05-01-92	BSC Drukernia Opakowan SA	60,000	58,955	1,045	18-Jun-03	Printing and Related Support
EPTA2002-05-01-93	Star Foods Spolka Akcyjna	60,000	59,473	527	14-Jul-03	Food Manufacturing
EPTA2002-05-01-96	Melex Sp. z o.o.	60,000	48,623	11,377	01-Aug-03	Electrical Equipment
EPTA2002-05-01-97	Tasman Fish	60,000	44,519	15,481	04-Sep-03	Fishing
EPTA2002-05-01-112	Ematech SP	60,000	48,269	11,731	02-Dec-03	Industrial Machinery
EPTA2002-05-01-113	Imperial (Poland)	60,000	57,773	2,227	02-Dec-03	Electrical Equipment
EPTA2002-05-01-111	Hogart Ltd	60,000	58,810	1,190	04-Dec-03	Information Services and Data Processing
EPTA2002-05-01-117	Herbapol Lublin S.A.	60,000	39,055	20,945	07-Dec-03	Pharmaceutical and Medicine
EPTA2002-05-01-116	Olvit	60,000	58,947	1,053	07-Dec-03	Food Manufacturing

Appendix 3 Breakdown of Official Co-financing Projects

Op Name	Signing Year	Organisation Name	Country	Finance Type	EUR Amount
Netia	1996	Nordic Investment Bank	FINLAND	IFI Loan	16,791,201
Energo-Asekuracja S.A. (equity)	2000	IO Fund	DENMARK	Equity	5,300,000
Nova Polonia Private Equity Fund	2001	FMO (The Netherlands Development Finance Company)	NETHERLANDS	Equity	10,000,000
Polska Telefonia Cyfrowa SP z.o.o.	2001	Kreditanstalt für Wiederaufbau (KfW)	GERMANY	Parallel Loan	70,000,000
Basell Orlen Polyolefins (formerly Monika)	2004	Kreditanstalt fur Wiederaufbau (KfW)	GERMANY	Parallel Loan	28,500,000
Warsaw Distribution Center	1995	JAIDO	JAPAN	Parallel Loan	8,378,810
Patnow II	2005	EDC	CANADA	Parallel Loan	41,860,000
Gliwice Environmental Programme - Loan transfer to PWiK	2005	Taipei Representative Office in the UK	UNITED KINGDOM	Grant	200,000
Caresbac Polska	1995	OPIC	UNITED STATES	ECA Direct	1,930,988
Lodom SP. Z.O.O.	1993	OPIC	UNITED STATES	ECA Direct	2,266,812
SK EUROCHEM Sp. z o.o.	2002	Export-Import Bank of Korea	KOREA	ECA Direct	12,005,709
Railway Modernisation Project	1995	European Commission	BELGIUM	Grant	30,000,000
Polish Dairy Facility - Bank Slaski	2000	European Commission	BELGIUM	Grant	8,000,000
Gdansk Urban Transport Project	2001	EU-Phare	ESTONIA	Grant	1,600,000
Krakow Plaszow II Project	2000	European Commission	BELGIUM	Grant	55,300,000
Bydgoszcz Water Supply	1999	European Commission	BELGIUM	Grant	29,384,602
Wroclaw Multi-Sector Municipal Infrastructure Project	2000	European Commission	BELGIUM	Grant	42,400,000
Wroclaw Water Financing Project	2001	EU ISPA	BELGIUM	Grant	36,540,000
EU/EBRD MFF (risk share) - ING Bank Slaski S.A.	2004	EU Phare Programme	BELGIUM	Grant	2,000,000
Gliwice Environmental Programme - Loan transfer to PWiK	2001	European Commission, EC-ISPA	BELGIUM	Grant	36,000,000
HUTA L.W. Sp. z.o.o.	1993	International Finance Corporation	UNITED STATES	IFI Loan	30,000,000
Pilkington Sandoglass Sp. z.o.o.	1993	International Finance Corporation	UNITED STATES	IFI Equity	89,858,145
Railway Modernisation Project	1996	European Investment Bank	LUXEMBOURG	IFI Loan	200,000,000
Central Poland Fund	1998	International Finance Corporation	UNITED STATES	IFI Equity	8,395,601
Krakow Urban Transport Project	1998	European Investment Bank	LUXEMBOURG	IFI Loan	45,000,000
Wroclaw Municipal Infrastructure Flood Damage Repair	1998	World Bank	UNITED STATES	IFI Loan	7,600,000
EIB Guarantee Facility for TPSA	1999	European Investment Fund	LUXEMBOURG	IFI Guarantee	29,729,000

Op Name	Signing Year	Organisation Name	Country	Finance Type	EUR Amount
Patnow II	2005	NFOS - National Foundation for Environment Protection	POLAND	Parallel Loan	48,500,000
Gliwice Environmental Programme - Loan transfer to PWiK	2005	National Fund for Environmental Protection and Water Management	POLAND	Parallel Loan	12,200,000
Krakow Plaszow II Project	2000	MPWiK Krakow	POLAND	Equity	3,000,000
Bydgoszcz Water Supply	1999	Miejskie Wodociagi i Kanalizacja w Bydgoszczy Sp.z.o.o.	POLAND	Equity	10,703,765
Wroclaw Multi-Sector Municipal Infrastructure Project	2003	City of Wroclaw	POLAND	Equity	1,100,000
Sopot Urban Transport	2001	City of Sopot	POLAND	Equity	3,224,485
Gliwice Environmental Programme - Loan transfer to PWiK	2005	Municipality of Gliwice	POLAND	Equity	6,700,000

ANNEX 9: ASSESSMENT OF THE POLAND'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 such laws (also referred to as "effectiveness"). All available results of these assessments can be found at www.ebrd.com/law. This annex presents a summary of the results for Poland, accompanied by critical comments of the Bank's legal experts who have conducted the assessments.

Capital Markets

The legal framework governing securities market in Poland was fundamentally amended in July 2005, with the approval of the new Act on Public Offering Conditions Governing the Introduction of Financial Instruments to Organised Trading ("Act on Public Offering"); the new Act on Trading in Financial Instruments and the new Act on Capital Market Supervision. These three Acts supersede the much amended Law on Public Trading in Securities, which remains in force in the parts not conflicting with new Acts. The new legislation entered into force on 24 October 2005.

The new Act on Public Offering is meant to transpose the relevant EU legislation on prospectuses, moving away from standards on trading in securities in use since the beginning of the 1990s. The Act grants the Polish market regulator (the Polish Securities and Exchange Commission) new tasks including the approval of the prospectus, supervision over carrying out a public offering, admission to trading on a regulated market, conduct of promotional activities and maintaining a register of qualified investors. The new law also requires additional disclosure of shareholdings in a public company. Notification is required when a shareholder has achieved or exceeded 5%, 10%, 20%, 25%, 33%, 50%, 75% of the total vote in a public company. The new Act also introduces "squeeze out" and "sell out" rights: a shareholder owning at least 90% of the total voting rights has the right to demand all minority shareholders to sell their shares ("squeeze out"). On the other hand, minority shareholders can request the shareholder having 90% of the voting rights to buy their shares ("sell out"). Finally, criminal liability resulting from breach of shareholding disclosure responsibilities has been replaced by a regime of administrative liabilities.

The new Act on Trading in Financial Instruments eliminates the "concentration rule" so that trading in securities can now be executed off the stock market and without intermediation of a brokerage house, so ending the monopoly of the Warsaw Stock Exchange. This also applies to depository and settlement systems such as the National Depository for Securities which is no longer the only institution allowed to settle transactions executed in alternative trading systems. Capital requirements for Polish investment firms have also been changed and the initial capital of PLN 4 million is no longer required if the investment activity is of limited scope. In addition, in case the investment firm has civil liability insurance for damages caused in the course of its investment activities with a minimum coverage of 1.5 million EURO, the PLN 4 million initial capital is not required either. The Act also introduces new definitions in line with EU legislation.

Finally, the new Act on Capital Market Supervision retains the central role of the Polish Securities and Exchange Commission. The Act regulates in details the supervision and enforcement of the new Acts, sets out particular types of enforcement proceedings and increases the supervisory and enforcement powers of the Securities and Exchange Commission.

According to the EBRD Securities Markets Legislation Assessment conducted in 2004, the country was found to be in "high compliance" with the Objectives and Principles of Securities Regulation published by the International Organization of Securities Commissions (IOSCO). The assessment was updated in 2005 and the results confirmed the 2004 results, while the new legislation – which came into force after the assessment – further improves the already sound Polish legal framework.

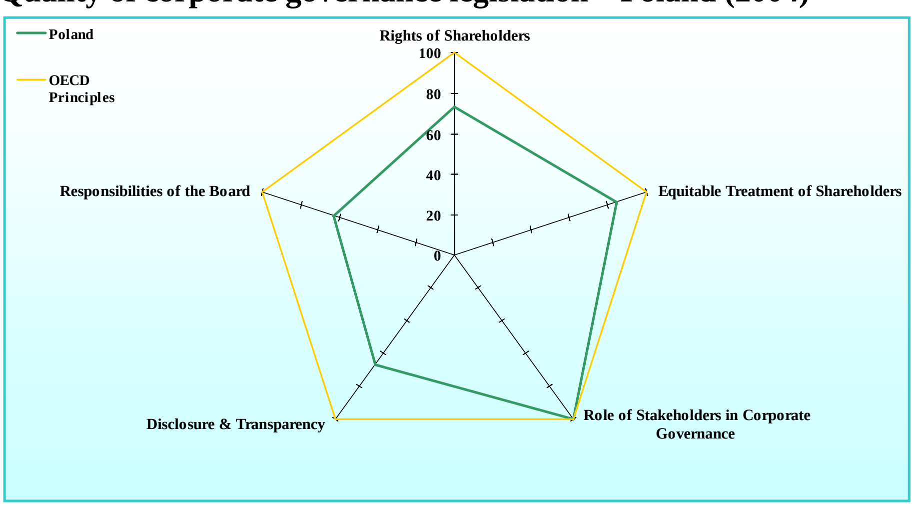
Company Law and Corporate Governance

The main legislation regulating corporate governance issues in Poland is the Commercial Companies Code of 2000 (the "Companies Code"), as last amended in 2004. Two types of corporate form are available under the Companies Code: companies limited by shares (i.e. joint stock companies and limited liability companies), and partnerships (i.e. registered, limited, professional limited and limited joint stock partnerships).

Apart from mandatory legislation, the Warsaw Stock Exchange ("WSE") adopted a voluntary corporate governance code (Best Practices in Public Companies 2005) for companies listed on the WSE. Listed companies are required to issue an annual declaration stating whether or not they comply with the code and explaining the reasons for any non-compliance.

According to the results of the EBRD's 2004 Corporate Governance Sector Assessment Project, Poland's corporate governance related laws (i.e., "law on the books", not how the relevant legislation is being implemented) were assessed as in "high compliance" when compared to the OECD Principles of Corporate Governance and evidenced only minor flaws.

Quality of corporate governance legislation – Poland (2004)



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, 2004 assessment

In 2005, the EBRD launched a survey for testing the effectiveness of corporate governance (how the law works in practice). Two case studies dealing with related-party transactions in a listed and unlisted company were designed. The case studies investigated the position of a minority shareholder seeking to access corporate information in order to understand if a related-party transaction was indeed entered into by the company and how it was possible to obtain compensation in case damage was suffered. Effectiveness of legislation was then measured according to four principal variables: institutional environment, enforceability, complexity and speed. The survey revealed that a minority shareholder wishing to obtain disclosure in unlisted companies might be hindered due to the limited availability of effective actions. The situation is deemed to be better in listed companies, although procedures are considered complex and enforceability might be a problem. The time needed to obtain disclosure is usually limited to a couple of months, but can be easily delayed by the other party. When considering redress, procedures are considered complex and it would take about 3-4 years to obtain an executable judgement. The institutional environment is generally sound: the only reported flaws are the limited experience and competence of lower courts in corporate law cases and, in criminal cases, of the prosecutor.

Concessions

Before the approval of a new Law on Public Private Partnership ("PPP Law") that came into force on 1 October 2005, Poland had a very limited legal framework for the development of the PPP in infrastructure/services with rules set forth in several acts. Similarly, the government had no clear PPP policy established or published. For this reason, the 2004/2005 EBRD Assessment of Concession Laws throughout the 27 countries of EBRD operations, which was carried out prior to the coming into force of the PPP Law, rated the Polish regime as only partly conforming with internationally accepted principles of concessions laws.

The PPP Law directly states that a project can only be developed on a PPP basis if benefits to public interests outweigh those brought by other forms of project undertaking. Thus the PPP Law declares the value for money principle which would inevitably translate into a thorough preparation by the public sector of a potential PPP project. Some detailed steps to be followed by public authorities on this account can be found in the PPP Law along with the list of issues to be covered by a PPP contract.

The PPP Law does not contain any detailed procedures, providing instead a number of references to the procurement law. The PPP Law refers to model PPP contracts to be developed by the Ministry of Economy in connection with its enactment. However, it is not clear whether such model contracts plan to serve as guidance only or could become binding.

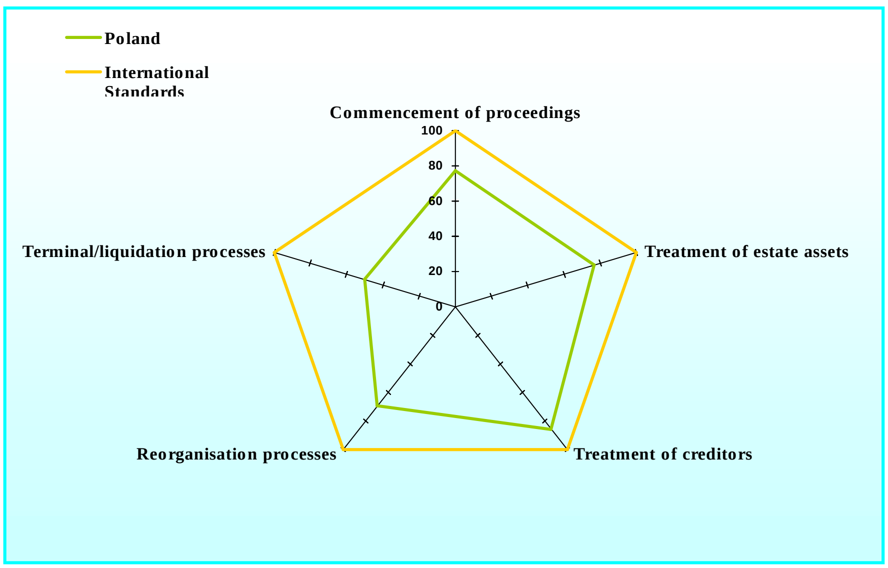
The PPP Law refers to Polish law as applicable to dispute resolution. The possibility of international arbitration is not expressly discussed. Nor are there references to the availability of security instruments over concessionaire's interests in favour of lenders including step-in rights. However, the latter may be possible under the general legal framework.

The PPP Law is not a comprehensive piece of legislation and will require secondary legislation in order for it to work in practice. Authorities are reported to be working on regulations, standard documentation and guidelines aimed at facilitating the application of PPP schemes. It is yet to be seen what implications the PPP Law will have on the inflow of private investment in transport, utilities and elsewhere. However, a number of projects have already been reported as signed or underway in the highway, health, sports and leisure sectors as well as in municipal utilities.

Insolvency

Bankruptcy and insolvency in Poland are governed by the Law on Bankruptcy and Redress (2003) (as amended) (the "Insolvency Law"). This law scored "medium compliance" when compared with international standards in the EBRD's 2003-04 Sector Assessment Survey.
The graph below displays the data collected in this project and shows levels of compliance of the Insolvency Law with international standards in five core areas:

Compliance of the Poland's Insolvency Law with International Standards
Quality of insolvency legislation – Poland (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 Project, 2003/4
As the graph reveals, the Insolvency Law has some strengths in certain areas. Specifically, the law is very strong on notifying and involving creditors in the bankruptcy process and on simplifying the requirements to commence proceedings. The law also has fairly comprehensive provisions (when compared to other countries of operations) dealing with the avoidance of pre-bankruptcy transactions. All of these elements represent significant strengths.

As the above graph also indicates, however, there is much room for improvement in the Insolvency Law. Specifically, the provisions specifying the financial conditions required to constitute insolvency are vague and unclear. In addition, it is unclear what happens to the contractual enforcement rights of secured creditors once an insolvency has commenced. There are no provisions to allow for ongoing financing during a reorganisation (this is a common weakness throughout the region) and the provisions requiring relevant parties to deliver assets and records of the debtor company to the court or the court's functionary are insufficient.

Although the Insolvency Law does contain some positive elements (as described above) there is some doubt as to whether any positive attributes in this law can be properly implemented. The EBRD 2004 Legal Indicator Survey on Insolvency which examined the 'effectiveness' (or how the law works in practice) of insolvency regimes in both creditor-initiated insolvencies and debtor-initiated insolvencies, in particular, the effectiveness of the regime as it relates to the commencement of insolvency proceedings and the granting of an initial insolvency court order (sometimes called the "effective final order"), revealed that the practical application of the Insolvency Law by creditors is likely to run into serious barriers to access and undue formality. In addition, creditors can be easily thwarted by the delay tactics of debtors and have very little confidence in the skill levels of appointed functionaries (i.e. insolvency administrators). This latter point is a consistent problem throughout the region and has prompted EBRD to, among other things, engage in a detailed standard setting exercise to attempt to promote more uniform practices with respect to the governance of insolvency administrators.

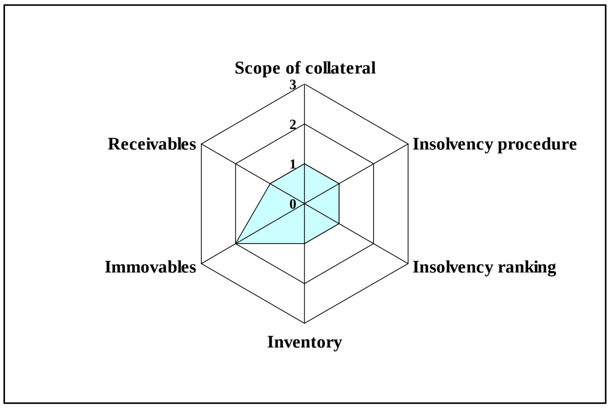
While the results of the survey leave some room for optimism, certain factors in the 'debtor initiated' table above militate against the insolvency regime functioning properly to restructure businesses that are fundamentally viable. Specifically, there is often little practical protection for debtors and the judiciary cannot always be relied upon to deal with these cases in a coherent and predictable fashion. Reform in this area is needed to help create a legal regime that tries to limit the disruption that insolvencies cause by promoting the rescue of fundamentally healthy companies.

Secured Transactions

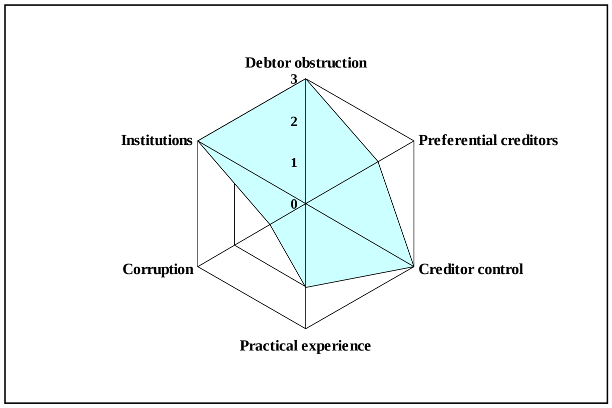
Poland is generally considered an advanced transition country yet its legal system does not always seem to adequately support commercial activities. The EBRD 2002 Regional Survey on Secured Transactions pointed to the overly lengthy perfection of the security (registration in the Collateral Registry, held at the District Courts) and the uncertainty of enforcement. In the EBRD 2003 Legal Indicator Survey which focused on the enforcement of security rights, Poland was assessed as the least efficient of all countries in Central Europe and the Baltic States in terms of the return that the creditor could expect, the time involved and the simplicity of the process (see graph below). The main reason for such a poor performance was again the lack of ability commercial courts have to handle the case swiftly. Similar criticisms have come from other sources, in particular the World Bank *Doing Business in 2004* and *Doing Business in 2005* reports (see http://www.worldbank.org/DoingBusiness) pointing, for example, to the fact that it would take on average 1000 days to enforce a simple contract, and that on a scale of 1 to 10 the legal rights of borrowers and lenders scored just 2. In 2004, the National Bank of Poland (NBP) approached the EBRD Legal Transition Team. Recognising that the current secured transactions regime is inadequate, the NBP sought EBRD's expert assistance to help it better understand precisely where the deficiencies lie and how they can be concretely addressed.

Obstacles to charge enforcement process – Poland (2003)

Scope



Process



Note: The fuller the web, the more serious the problems are in each of the respective categories. "Process" factors measure the impact that specific obstacles would have on the enforcement proceedings. "Scope" factors give an indication of how effective enforcement would be when conducted on various types of collateral and in the case of debtor insolvency.

Source: EBRD Legal Indicator Survey 2003

The report, available at www.ebrd.com/st, was published early 2006 and points to a list of issues. It makes the following recommendations:

1. The system for pledge registration should be changed to a "notice" system which enables immediate registration of information as presented by the parties, and immediate access to all registered information by any member of the public.

   Regardless of whether or not the courts remain in charge of the registration system, such a notice system should:
   - preclude any requirement for judicial review of registration applications or examination of the pledge agreement.
   - give maximum flexibility to the system so that parties can tailor the pledge according to the context of their transaction (including collateral description) as was envisaged in the pledge law.
   - include tax pledges, currently registered separately in the Central Register of Treasury Pledges, in the Pledge Registry so that the public can easily and quickly find all registered pledges in one single place.
   - provide real time access by the public to all registered information via the internet and a user-friendly search engine.

1. The processes for registration of mortgages and for accessing information in the mortgage registers should be made simple, fast and inexpensive.

   Problems with mortgage registration are not all due to the outdated, paper-based land registries, thus they need to be tackled in parallel to the computerisation of the information. Superfluous requirements and formality should be removed, and checking should be limited to necessary issues of substance. Despite the formalism associated with mortgage registration because of the nature of the land registry, the procedures should be adapted to market economy transactions. The public should be given easy and immediate access to all registered information concerning mortgages.

2. The mortgage law should be reviewed to remove unnecessary or out-of-date restrictions and constraints, and to make the mortgage an attractive and flexible instrument of security which gives maximum economic benefit to borrower and lender.

   Unnecessary limitations surrounding the taking of mortgages have made the instrument unattractive to lenders. These limitations should be removed because they have no *raison d'être*. It should be made possible to secure any pecuniary claim by a single mortgage irrespective of its nature or form. The process for creation of a mortgage should be made as simple as possible with maximum scope for the parties to tailor the detail of their agreement to fit the actual needs of their transaction.

3. Simple, fast and inexpensive procedures should be introduced allowing out-of-court sale of pledged and mortgaged assets under the control of the secured creditor, aiming at rapid realisation at market value in a manner which is fair for creditor and debtor alike.

   The severe limitations on the ability to enforce are one of the prime causes of the ineffectiveness of pledge and mortgage in supporting credit markets and they considerably increase the cost of borrowing. Alternative methods introduced by the pledge law have failed to serve the needs of the users, for a variety of reasons. Poland should take a fresh look at what can be offered to the parties, in the context of both pledge and mortgage. Successful examples of out-of-court realisation procedures can be found in all of the reference countries. Typically, the creditor can initiate sale of the collateral without going to court, and he or some other third party designated by the parties can effect the sale either at auction or as a direct sale. Similar procedures should apply for mortgage as for pledge as there is no reason to submit one instrument to different rules than the other.

4. The rules and procedures for court involvement on enforcement of pledges and mortgages should be revised to ensure that the courts will provide practical and timely assistance or protection if needed by either party during out-of-court enforcement so that creditor can rely on the realisation procedure giving him a viable means of recovering the money he is owed, and a debtor can be assured of adequate remedy if the actions of the creditor exceed what he is entitled to do under the terms of the law or the security agreement.

   Ultimately parties will rely on the courts to guarantee that legal effect is given to their agreement for security. Currently, court involvement is seen by users as hampering the process through unjustified delays, chronic debtor obstruction, and lack of market understanding. Creditors have lost confidence in enforcement procedures enabling them to recover their unpaid claims. Whereas general reform of court procedures may be a gradual process, effort is needed now to design balanced rules defining clearly the rights and responsibilities of the parties on enforcement. In the case of dispute, the role of the courts should be only to ensure that those rules operate efficiently and fairly to give effect to the legitimate intentions of the parties.

5. The rules and practices for obtaining possession or control of pledged or mortgaged assets on enforcement should be changed to ensure that the basic right to obtain possession or control of secured assets is upheld and that the procedure for doing so is simple, fast and inexpensive.

   The procedures available to the creditor for obtaining possession or control constitute an essential, complementary part of enforcement procedures. They need to provide a rapid and effective means of protecting the pledged or mortgaged assets during enforcement so that the assets can be delivered to a purchaser under the realisation process. Poland is relying on the work of bailiffs to provide such protection but this is failing the market.

Although the private sector has shown an encouraging degree of agreement with EBRD findings and recommendations, there is an obvious difficulty of translating the words of the report into real change. As yet there does not appear to be a convincing strategy for taking the recommendations forward, EBRD will continue to liaise with the NBP and to give such support and encouragement as it can.

Telecommunications

The telecommunications sector in Poland is currently regulated by Urząd Komunikacji Elektronicznej (UKE) and is governed by the Telecommunications Act of 2004. UKE replaced the Post and Telecommunications Regulations Office (URTiP) on 14 January 2006 by virtue of new legislation adopted by parliament on 29 December 2005. This legislation reorganised the regulatory authorities responsible for electronic communications and broadcasting. Responsibility for policy development resides with the Ministry of Transport and Construction, established in September 2005 to replace the Ministry for Infrastructure.

UKE is an independent full sector regulator whose main responsibilities include the regulation of telecoms activities, management of frequencies and electro-magnetic compatibility issues, as provided for by the Telecoms Act and by secondary legislation; granting licences, handling registrations of telecoms activities and assignment of numbers to public operators in accordance with the national numbering plan; monitoring the operation of the telecoms and telecoms equipment markets; and, intervention in the telecoms market on its own initiative or on application made by other interested parties, including end users and telecoms operators.

Fixed line penetration rates are lower in Poland than in peer countries and currently hover around the 35% mark. The market was formally fully liberalised at the beginning of 2003, with the abolition of the incumbent (TPSA) exclusivity on international telephony. Prior to this, a gradual liberalisation process had been pursued. This slow progress in liberalisation reflected an apparent protective attitude by the then government towards TPSA. While TPSA still dominates the market and will continue to do so in the near term, a significant number of competitive operators have now entered the market and are beginning to make an impact. This competition has seen TPSA's market share declining in almost all segments, falling to below 80% of long-distance market and below 70% in the international market.

The mobile market is divided among PTC (operator of networks Era and Heyah), Polkomtel (Plus, Sami Swoi) and Centertel (Orange). In common with most developed and transition markets this sector has been growing rapidly, though with penetration rates currently just above 65% there is still scope for healthy growth. Despite the level of competition, however, the European Commission voiced an opinion that Polish mobile tariffs were the highest in the EU during 2004. Current Government plans to award another GSM licence during 2006 should have a positive influence in this area, adding a fourth operator to compete within the market.

While significant advances have been made in the Polish telecoms market, particularly in the context of the obligations taken on as part of EU membership, the full practical implementation of individual elements of the regulatory framework has not gone smoothly. Delays in full liberalisation and in implementing market access mechanisms allowed the incumbent operators to entrench their market position, one which is only now being appropriately challenged. Although the current government appears committed to following through with full implementation of relevant frameworks, given the newness of the domestic legal framework and revised institutional structure, extra attention will be required to ensure meaningful competition is sustained in all markets of the sector.