**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR POLAND

2010 - 2013

As approved by the Board of Directors at its meeting on 6 July 2010

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ABBREVIATIONS

AAUs	Assigned Amount Units
BCP	Banco Comercial Português
BSA	Business Software Alliance
CEB	Central Eastern Europe and the Baltic states
CRR4	EBRD Capital Resource Review 4
EC	European Commission
EIB	European Investment Bank
EMU	European Monetary Union
ESCO	Energy Saving Company
EU	European Union
EUR	Euro - official currency of the European Union
FDI	Foreign Direct Investment
FI	Financial Institutions
GDP	Gross Domestic Product
GI	General Industries
GIS	Greening Investment Scheme
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offering
JASPERS	Joint Assistance to Support Projects in European Regions
LIS	Legal Indicator Survey
LLU	Local Loop Unbundling
MCCF	Multilateral Carbon Credit Fund
MEI	Municipal and Environmental Infrastructure
MSME	Micro, Small and Medium Enterprises
MVNOs	Mobile Virtual Network Operators
MW	Megawatt
NBFI	Non Bank Financial Institution
NBP	National Bank of Poland
OECD	Organization for Economic Co-operation and Development
OTC	Over-the-Counter
PLN	Polish zloty
PPP	Public Private Partnership
SEI	Sustainable Energy Initiative
SME	Small and Medium Enterprises
TC	Technical Cooperation
UKE	Urząd Komunikacji Elektronicznej (The Office for Electronic Communication)
WB	World Bank
WSE	Warsaw Stock Exchange
WWII	World War II

EXECUTIVE SUMMARY

Poland continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Poland has made substantial progress since the start of transition in the late-1980s. With about 75 per cent of economic activity generated by the private sector, significant price liberalisation, an open foreign trade regime and no major constraints to foreign investment, the country is one of the most advanced transition economies. In terms of per capita income level, however, Poland remains the third least developed country in the EU.

Since the last Country Strategy was approved in 2006 the Polish economy has grown rapidly, with an average annual growth of 6 per cent between 2006 and 2008. In late 2008, Poland and other countries in Central and Eastern Europe were increasingly affected by the global financial crisis, leading to rapid capital outflows, a significant depreciation of the Polish zloty, problems in the inter-bank market and a rapid slowdown in credit growth. Combined with falling external demand, economic growth came to a standstill at the end of 2008 and remained weak in 2009, with growth reaching 1.8 per cent for the year as a whole. This compares well with Poland's neighbours and mainly relates to the fact that Poland entered the crisis with much smaller domestic and external imbalances while being less dependent on exports. In particular, financial excesses and leverage have been limited, with domestic credit to the private sector and the loan-to-deposit ratio in the banking sector remaining relatively low. Also external debt has remained among the lowest in the new EU member states, although rising to 59 per cent of GDP in 2009, while public debt remains high in a regional context, standing at 51 per cent of GDP in 2009.

Economic activity in Poland is expected to remain below potential as financing remains scarce and unemployment is rising. A more robust turnaround will require improving conditions in the world economy and in financial markets. Although the direct effects of the global financial crisis have been less severe in Poland, and while Poland remains well positioned to benefit from a possible recovery in world demand, the risks for prolonged adverse effects of the crisis remain high. In particular, heightened risk aversion and deteriorating credit quality is leading to financing constraints, in particular for smaller and medium sized companies. Moreover, the high fiscal deficit will require substantive corrective action which will have a negative impact on domestic demand while the retraction of global support measures is likely to have a similar effect on external demand. This underlines substantive challenges to transition and a renewed role for EBRD, also in sectors in which the EBRD has not been needed in recent years. It will also be important to encourage local savings and capital markets in order to reduce the dependence on foreign financing.

A key challenge will be to preserve financial stability in a period of slow economic activity and deteriorating credit quality, while also counteracting the adverse effects on the real economy stemming from financing constraints. Credit growth has weakened rapidly since October 2008 and financing conditions remain fragile in the corporate sector and for small and medium sized companies. As Poland will have major investment needs, particularly in energy, energy efficiency and infrastructure, in the coming years, it will be important to mobilise resources in an efficient manner. Under the present financing conditions, the scarcity and price of long-term financing poses a significant challenge to these investment needs, while also negatively affecting the absorption capacity of EU funds. Another challenge will be fiscal sustainability. Already, the fiscal deficit has increased significantly, to 3.9 per cent of GDP in 2008 and to 7.1 per cent in 2009. Ensuring fiscal sustainability by implementing structural measures will be crucial, also in view of the credibility of future euro adoption plans.

There remains a backlog of structural reforms in the labour market, business environment and privatisation, affecting competition, labour productivity and innovation negatively. Moreover, targeted efforts will be needed to mitigate regional disparities which are set to grow from an already high level.

In the current environment the main objectives of the government should be to push on with the structural reform agenda while ensuring macroeconomic and financial stability. The key transition challenges for Poland in the coming years include:

- **Strengthening the stability of the financial sector** while supporting the sector's contribution to economic restructuring and maintaining a steady flow of financing, especially to SMEs, during the period that commercial financing is limited. Strengthening banks' capital bases, supporting the restructuring of debt and supporting a high take-up of EU structural funds remain crucial.
- **Further deepening of local and regional capital markets**, in which Poland could play a key role, is needed in the medium-term also in order to reduce vulnerability stemming from foreign financing. The development of the non-banking financial sector, particularly through the introduction of innovative financial products, and diversification of investment portfolios of insurance companies and pension funds is important for the deepening and development of local capital markets.
- **Privatisation and restructuring of enterprises** remaining under state control, particularly in the heavy industry, energy and insurance sectors, is necessary to ensure long-term competitiveness and efficiency. Poland has a sizeable transition gap as regards large-scale privatisation, and the current crisis has renewed the urgency for progress. Commercialisation is also needed in sectors such as transport and municipalities, where appropriate via public-private partnerships.
- **Investment in energy efficiency and renewable energy** is needed to reduce energy intensity and carbon emissions, and thereby to meet environmental targets set by the EU. Further measures to promote energy diversification and the replacement of obsolete generation capacity are also needed for which commercial financing remains limited.

Since the last Country Strategy was approved, the Bank's business volume in Poland gradually declined as a result of progress in transition and reflecting the emergence of a competitive banking sector largely dominated by foreign banks. In 2006-2008 the Bank signed 31 projects for an amount of EUR 535.2 million (including cross-border transactions). As a result of Bank's response to the financial crisis, the situation in 2009 changed substantially. At year end the Bank had signed 21 projects for EUR 441.1 million (including cross-border transactions).

The Bank's operational objectives in Poland as defined in this strategy are consistent with its Graduation Policy and its strategic orientation towards the transition countries that became EU member states in May 2004. As in other countries in this group, the Bank's business in Poland was decreasing as transition progressed and the Bank's finance gradually became less additional. However, the global financial crisis has threatened to set back the transition process, has revealed the fragility of some past achievements and sharply increased demand for EBRD finance in the form of crisis response. This has delayed the process of graduation but has not changed the Bank's Policy and strategic orientation. When global market conditions improve, financial flows return, thereby reducing the Bank's additionality, and the region recovers in a sustainable way with the threat to transition receding, Poland would be expected to graduate before the end of the

CRR4 period (i.e. 2015), taking into consideration its specific circumstances and remaining transition challenges.

The Bank will work closely with other IFIs to continue its crisis response efforts and to support the recovery process by supporting the Polish financial system, and to mobilise financing for nationally important projects in infrastructure and energy sectors to diversify energy supply, improve energy security and to strengthen investment in sustainable energy production and use. Moreover, the Bank will help improve competitiveness in the corporate sector through its involvement in privatisations, energy efficiency measures as well as to facilitate lending to the MSMEs sector and finance cross-border transactions in the region. Based on the Bank's mandate and resources, the Bank draws on its particular comparative advantages (in the areas of private sector involvement and project risk management) in complementing the efforts of other IFIs, while also remaining additional in relation to the private sector.

In light of the crisis and the external environment outlined above, and depending on the availability of adequate commercial funding, the Bank's activities in Poland will be based on the following operational objectives:

- **Foster commercial banks' and leasing companies' continued lending** to the **corporate sector**, particularly to SMEs and micro enterprises. In the current market circumstances the focus will be also to improve banks' capital adequacy by providing long term capital and funding, the availability of which remains limited. The Bank will contribute to the deepening of the **local and regional capital markets** and lending in local currency.
- The Bank will aim to participate in **privatisations of state-owned companies**, for which the current crisis has lent both urgency and opportunities. The Bank will also selectively provide **higher-risk products** for local corporations to fund their investments, particularly those with a strong energy efficiency focus, leading to higher competitiveness and a better business climate. The Bank will also support the regional expansion of Polish companies through **cross-border investments**.
- In line with the identified remaining Transition Gaps for Poland, promote investments in further diversification of **energy** and fuel supplies to contribute to energy security, and in the sustainable development of the energy sector by prioritising **renewable energy production and efficient use of energy.** The Bank will in particular address the demand side by **reducing energy waste, thereby reducing greenhouse emissions** and delivering an important contribution to combat climate change.
- Support the involvement of the private sector participation in public services in cooperation with the EIB as well as EU Structural and Cohesion Funds, in particular **privatisations** and **private-public partnerships in transport and municipal and environmental infrastructure** projects to stimulate the development of revenue-backed financing and minimise reliance on sovereign guarantees while increasing supply of **long term finance.**

During the Strategy period, the Bank will concentrate its policy dialogue efforts in the areas of supporting local currency capital markets and the sustainable development of the energy sector.

In working to achieve the above, the Bank will continue to closely co-ordinate with other IFIs also in mobilising co-financing for priority investments, in particular with European Investment Bank. 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 and

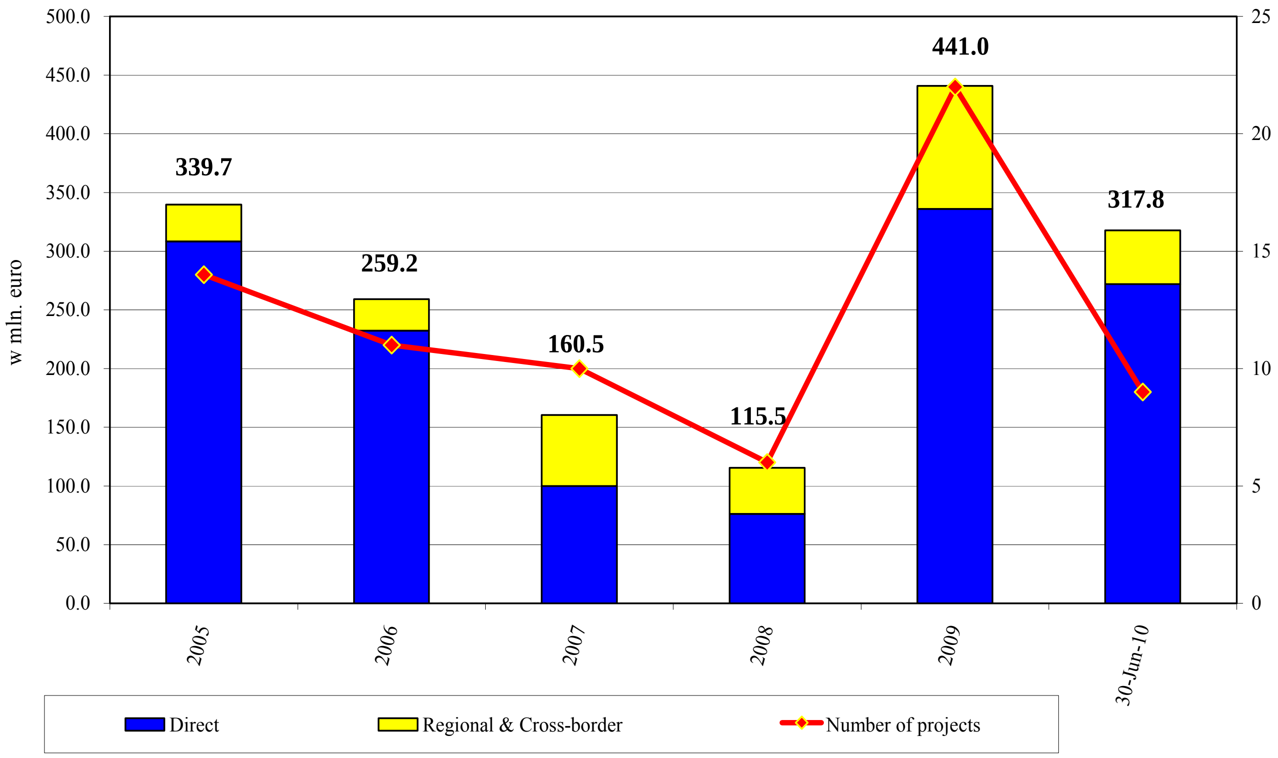
Social Policy and incorporate, where appropriate, Environmental and Social Action Plans. The Bank will also proactively review and manage the Bank's portfolio in Poland to maintain its high quality.

1. THE BANK'S PORTFOLIO

1.1 Overview of activities to date

The Bank has been supporting Poland's transition to a market economy by financing mainly private sector projects across a broad spectrum of economic sectors. Poland is the Bank's fourth largest exposure, representing 8.52 per cent of the Bank's total commitments. As of the end of June 2010 , net cumulative business volume totalled approximately EUR 4,329 million (of which EUR 450.0 million was financed through regional projects). Business volume is well diversified with the Corporate sector representing 36 per cent of the portfolio, Financial Institutions representing 37 per cent, Infrastructure 18 per cent and Energy representing 9 per cent. Of the Bank's operating portfolio approximately EUR 1.4 billion is in equity representing 34 per cent of the portfolio. Please see Annex 2 for a detailed breakdown by sectors.

The chart below illustrates the activity of the EBRD in terms of number of projects and annual commitments from 2005 until the end of 2009 (see Annex 1). Since 2005, the activity of the Bank was steadily declining reflecting progress in transition. The 2008 volume level was partially affected by the financial turmoil, where projects planned to be co-financed in the final quarter of the year were delayed or abandoned. The year 2009 highlights the Bank's crisis response activity with a total of EUR 441.0 million signed (including cross-border projects). Two third of the volume was in the FI sector as part of the Bank's crisis response package. In 2010 the Bank continued its support in post crisis environment providing (for the end of June) over EUR 300 million (including in cross-boarder transactions).



1.2 Implementation of the previous country strategy

The previous Country Strategy for Poland, approved in April 2006, outlined the following strategic priorities for the Bank in Poland:

- 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 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.
- Continue to work with local financial intermediaries and non-bank financial institutions to provide finance to MSMEs, particularly in rural areas, in conjunction with the EU or other donor support.
- Contribute to the broadening of the local capital market through the promotion and development of new financial structures such as asset-backed securities, securitisation of assets portfolios, convertible instruments, mortgage bonds and revenue bonds.

During the last Strategy Period (until the end of 2009) the Bank signed 52 new projects with an aggregate value of EUR 976 million (including regional and cross-border transactions). Responding to key transition challenges the Bank has implemented the following examples of projects:

- The Bank's participation in the first privatisation stage of the energy group ENEA via its IPO on the Warsaw Stock Exchange was a landmark project with the environmental action plan, corporate governance targets and performance standards set as the key transition benchmarks. The Bank's investment was an important contribution at a time when the financial crisis already severely affected the financial markets.

- The Bank continued to support Poland's power sector modernisation and introduction of higher environmental standards to meet EU emission requirements. Its involvement in the financing of an 800 MW new blok at Bełchatów proved essential to secure the participation of commercial lenders. The Bank's EUR 120 million contributed to the total commercial financing of EUR 1.15 billion and IFIs' financing of EUR 350 million. The Bank helped through TC funds to prepare Bełchatów power plant to become a market player on the liberalised wholesale electricity market. In 2009 the Bank signed its first renewable energy project – Tychowo Wind Farm, a landmark project finance transaction co-financed with BCP, which was followed by a biomass project for Mondi Group.

- MSME support continued to be an important part of the Bank's activity. Over last three years the Bank concluded six transactions under the EU/EBRD SME Finance Facility with leasing companies and banks expanding availability to finance MSME's.

- The Bank continued to support private equity funds, assisted their regional expansion and provided funds for specialised funds developments (AIG New Europe Fund, Syntaxis Mezzanine Fund, Accession Mezzanine Capital, Advent Central & Eastern Europe, and ARX Private Equity Fund). The Bank also supported specialised property funds listed on the Warsaw Stock Exchange attracting Polish pension funds to invest.

- The Bank continued its support for revenue backed municipal and environmental projects and co-financing with EU Structural and Cohesion Funds. Krakow District Heating Company was the first district heating project in the EU to benefit from the EU Structural Funds. The Bank continued to provide revenue bonds (in Bydgoszcz) and also supported private investors in municipal infrastructure via regional equity investments (Dalkia, Veolia and Aquilia).

- The Bank contributed to the stimulation of cross-border trade and investment in supporting Polish investors expanding to Ukraine and Western Balkans. Five cross border transactions were signed to date, among others with Cersanit, Barlinek and Asseco Group.

1.3 2009 Financial Crisis and new developments in Energy Efficiency

In 2009 the Bank focused primarily on the crisis response in the financial sector by providing medium-term funding to MSMEs, the most underserved segment in the crisis environment in Poland. 67% of the Bank's 2009 investment was the financing for FI projects. In addition, the Bank continued lending to the renewable energy sector and to the municipal sector, where the availability of long term commercial funding was very limited.

1.3.1 Developments in Energy Efficiency

Poland has one of the highest CO_2 intensities amongst all EU member countries estimated at 0.76 tonnes CO_2 emissions per $1,000 GDP (in PPP terms) while in vast majority EU countries it remains below 0.5 tonnes. At the same time Polish energy intensity is considerably above those of the EU 15 countries. Although energy intensity in Poland decreased following the fall of communism, since 2003 it has increased. The Ministry of Economy report "Energy Policy for Poland until 2030" acknowledges the importance of improving energy intensity and reducing the environmental impact of the energy sector. The goal is to decrease energy consumption by 9% by 2016 and by 20% by 2020. It is estimated that one of the most important changes in the mix of policy tools would be the introduction of the new Energy Efficiency Law and the establishment of a "white certificate" trading scheme, which is an important addition to the existing system of green certificates.

Poland has accounted for about 7% of the total volume of the Bank's Sustainable Energy Investment Program ("SEI") I in the years 2006 to 2009. Poland is also the first country in which the Bank supported a Green Investment Scheme ("GIS"). In November 2009 the Bank, on behalf of the Government of Spain, signed a €25 million emissions trading contract with the Government of Poland ("AAUs Trading Agreement"), the first transaction of this kind for Poland under the Kyoto Protocol. With its significant amount of AAU surplus (equivalent to 500 million tonnes of CO2 for the period of 2008-2012), it is expected that Poland will pursue similar transactions within the framework of the Kyoto Protocol, which will generate additional greenhouse gas emissions reductions through the associated greening programme (see Annex 5).

1.4 Transition Impact and Lessons Learned

1.4.1 Financial Sector

Banking. The Bank's equity investment in Bank Pekao, the largest universal private bank, had excellent achievements and contributed to the further consolidation of the banking sector. A key factor in the success of this operation was the timeliness of EBRD's involvement, coming in the midst of the first stage privatisation. After a long and intense policy dialogue, the agricultural bank Bank Gospodarki Żywnościowej SA (BGZ) was privatised in 2004 and successfully participated in the rural window of the EU/EBRD SME Facility. BZWBK and BPH are other successful privatisation cases in which the bank participated. A ***lesson learned*** from the Bank's substantial TC activities in support to BGZ is that complex TC programmes require co-ordinated monitoring by EBRD which was in the present case ensured by the use of a Steering Committee and Task Force (PE04-292T).

SME & MSME. During the last ten years, MSME related activities were channelled through the EU/EBRD SME Facility including the provision of credit lines for on-lending and technical cooperation to BZ WBK Bank, Fortis Polska, ING Slaski, Raiffeisenbank and PKO BP and others. Whilst good results were achieved in these individual operations, remaining transition challenges are rated higher than in other sectors in the country. The Bank's further involvement would thus, be important with particular regard to the regions and rural areas.

Private equity funds. Poland is the primary target country for a number of private equity funds in the region, and the Bank has been instrumental in attracting foreign and domestic institutional investors to some of its funds. The 2007 evaluation of the Polish Enterprise Funds concluded that a strong transition impact was achieved and the potential for remaining transition impact was still strong. Equity funds still remain not very sophisticated in terms of structures and instruments. The Bank has started to work with mezzanine funds (Mezzanine fund, Syntaxis) and is carefully monitoring the performance of the funds in the region, focusing on the quality of management. A ***lesson learned*** from this project is that the Bank would need to apply a coherent definition of micro, small and medium-sized enterprises[1] to enable impacts to be recorded and reported on in a consistent manner (PE07-379).

NBFI. The Bank invested in one of the domestic pension funds and joined foreign sponsors in supporting the insurance sector by providing equity, which ultimately led to increased competition. In 2000, the Bank participated in a syndicated loan to the leasing institution Europejski Fundusz Leasingowy (EFL). A number of other leasing institutions have been supported under the EU framework including SG Equipment Leasing, BFL (part of the PKOBP Group), Raiffeisen and BZW WBK Leasing. In addition, the Bank introduced mortgage bonds (for BRE bank), a new product on the market. A ***lesson learned*** from the *highly successful* project with EFL is to team leasing activities with vendors, such as motor vehicle and construction equipment dealers in order to spur backward linkages and increase transition impact (PE04-267).

[1] The relevance of this lesson has just recently been confirmed by EvDs Small Business Finance Study (PE08-430S) and the EU/EBRD SME Facility TC OPER (PE09-451T)

1.4.2 Enterprise Sector

General Industry. During this strategy period and the previous one, the Bank aimed to assist with sector restructuring and increased competition. In the project with SK Eurochem, the Bank's mobilisation role was essential to arrange the co-financing amongst foreign sponsors and banks. In 2004, the Bank successfully supported the post-liquidation restructuring of Celsa Huta Ostrowiec (CHO*)*. With the help of EBRD and the foreign investor, the company succeeded to implement important improvements across technical and environmental areas as well new business standards, In addition, the Bank is working with Polish sponsors on regional projects, i.e. with Polish companies going to the East and thus developing cross-border business (examples Cersanit and Barlinek). In the Fagor FDI project, the Bank is working alongside a Spanish investor.

Agribusiness. EBRD was active in the restructuring of food processors and the development of food wholesale. A number of projects demonstrated the benefits of radical restructuring and improved business conduct. In addition, quality improvements i.e. introduction of EU standards and ISO 9000 have led to increasing direct sales to international hypermarkets such as Tesco, Metro and Carefour. In 2003 and 2005 respectively the Bank supported the expansion of the retail industry by providing financing alongside local commercial banks to Kaufland and Intermarché franchisees. A ***lesson learned*** from the Bank's project with Kaufland is that the sponsor's commitment to a region, its expertise and demonstrated success in project implementation are huge mitigation factors for risks to transition impact (PEX08-341).

Property and Tourism. The Bank continued to exploit investment opportunities in the fast growing Polish property market, both, through direct investments in the country and local investments by the regional property funds. Projects were covering a wide array of sub-sectors, including hotel, residential, office and retail spaces, warehousing and light industrial spaces. The 2000 investment in the Atrium Hotel in Warsaw however, saw mixed results, mostly due to an economic recession and other international operators substantially increasing hotel room capacity. In 2007/2008 the Bank innovated in property funds by inviting pension funds to participate via the WSE. In addition, the Bank introduced new financing through mezzanine loans. A ***lesson learned*** from this operation is that projections by industry consultants are only one input to the project and should not replace the need for conservative structuring of transactions (PE06-352).

Telecommunications. The Bank became involved in the privatisation of the state-owned provider of the fixed line telephone segment TPSA relatively late and had only a marginal influence on the transaction. Moreover, EBRD's guarantee function of two loans extended by the EIB in favour of TPSA proved to be contentious (see lesson below). The Bank invested in Netia, a company offering a broad base of telecoms services, with the aim to increase competition in the sector. In 2001, a syndicated loan was provided to Polska Telefonia Cyfrowa SP (PTC) resulting in enhanced competition and radiating demonstration effects. A ***lesson learned*** from the projects with TPSA is that the Bank's position behind an IFI as guarantor of its facilities is unorthodox and, as a matter of principle, should not be solicited or accepted again (PEX04-223).

1.4.3 Infrastructure Sector

Power and energy efficiency. Apart from early activities targeting power sector modernisation, the Bank concentrated on Energy Efficiency measures through the ESCO (Energy Saving Company) concept. Bank projects found it hard, however, to establish themselves in the difficult

Polish environment, where regulation provides disincentives for energy conservation. Demonstration effects have therefore been smaller than envisaged, and no significant market for energy services has yet developed. The Bank also supported new energy production capacity, addressing energy security challenges, such as the power generation Projects Zespół Elektrowni Pątnów-Adamów-Konin (PAK) (400mw) and Bełchatów (800MW), and helped the government in its first attempt to privatise energy network company ENEA (via an IPO). More recently, the Bank launched renewable energy financing in Poland, and closed its first wind power and first biomass projects, but a great deal remains to be done to support the country in meeting its renewable energy targets. Further interventions in the field of energy efficiency are urgently required not only to meet Polish EU environmental targets, but also to ensure continued security of supply, as electricity demand is expected to outstrip available supplies as early as 2011 or 2012.

Transport. The 2000 restructuring and privatisation project initiated the institutional reforms and commercialisation of PKP and financed labour redundancies. The process was consolidated with the second PKP privatisation and restructuring project. The private sector's role in railways is however, still limited, only 20 per cent market share is reached for instance in the cargo segment. In the road sector, the Bank concentrated its assistance on advice to PPP related legislation and the development of a pilot PPP. These activities proved not successful, as no broadly recognised initiative has followed. With the new PPP act adopted in December 2008 some more significant results are expected in the future. A ***lesson learned*** from the Private Road Network Management project is to deal with institutions first rather than committing large additional amounts of funding to technical components for a project that may never come to light. This is especially important in complex TCs with large institutional contents where major issues are pending (PE05-319T).

MEI. The Bank applied new financing instruments such as revenue bonds in the water sector in the city of Bydgoszcz and equity in district heating in Poznań and Łódź. EBRD has also developed innovative approaches for co-financing EU Cohesion and Structural Funds. Significant progress has been achieved in meeting commercialising water and public transport services and introducing long-term public service contracts. However, investments in infrastructure are hampered by problems with public procurement and the current procedures for environmental impact assessment that still have to be brought into compliance with the relevant EU directive. However, the Bank has agreed on procurement rules with Polish authorities and EBRD co-financing for municipal projects should be now smoother. A ***lesson learned*** from the Bydgoszcz Water project is the importance of grant-based finance for environmental infrastructure. While the project was able to ensure cost recovery in respect of operations and maintenance, the client could not have afforded the entire capital investment without the grant component (PE06-359).

1.5 Financial performance of the existing portfolio

The current operating portfolio is 84.2 percent private and 43.1 per cent equity. The portfolio risk rating stands at 5.8, which is comparable to 5.72 rating of the whole portfolio of Central eastern Europe and the Baltic states. The portfolio has performed well so far with impaired assets amounting to only 5.9 per cent of the current portfolio value.

1.6 Mobilisation of co-financing

Overall mobilisation ratio (total project cost/EBRD financing) is 3.92. During the strategy period most of the debt projects were co-financed e.g. Bełchatów power plant, Celsa Huta Ostrowiec II, Krakow District Heating, Krakow Płaszów II and Gdańsk Water. In 2009, in the crisis environment, commercial co-financing was very limited, although all non-FI debt projects attracted commercial co-financing - Tychowo and Mondi renewable energy projects (syndicated with commercial banks) and for the Bygdoszcz revenue bonds, Polish pension funds participated in the subscription of the first tranche.

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

Poland has made significant progress in the transition to a modern market economy. The structural reforms initiated in the 1990s have been successful and their implementation far-reaching. The reform agenda in recent years focused on the adoption of the EU *acquis communautaire* and entry to the EU in May 2004. As a result, Poland is at the top of the EBRD's transition indicators for small-scale privatisation, enterprise restructuring, price liberalisation and trade and foreign exchange liberalisation. For all of these categories, except enterprise restructuring, Poland has already achieved the standards of a well-functioning market economy. However, there is still room for improvement in the areas of large-scale privatisation, competition policy, banking, non-bank financial institutions and infrastructure reform. Poland remains the third poorest EU country with a GDP per capita level of 56 per cent of the EU average in 2008.

Despite efforts to improve the business environment and reduce red tape and bureaucracy, Poland's ranking on the World Bank's "ease of doing business" rating remains low according to the *Doing Business 2010* report. In this report, Poland ranked in 72nd place out of 183 countries, the lowest among the new EU member states. The largest problem areas according to the survey are in dealing with construction permits, starting a business and paying taxes; in addition, closing a business, registering property and the rigidity of hours worked are all below OECD and regional averages. On access to credit and trading across borders Poland compares well with OECD and regional averages. These concerns regarding the business environment are shared by the Polish Business Confederation, which has enumerated bureaucratic obstacles to the development of private enterprises. Tackling corruption remains a challenge as Poland's ranking on Transparency International's Corruption Perception Index, at 58th globally, is below most other new EU member states.

Implementation of key reforms has been slower than expected in recent years. In particular, the privatisation agenda has been less successful than initially hoped due to the financial turbulence in 2008, although the government has presented an updated list of companies to be sold over the coming year and has embarked on the fast-track sale of selected enterprises, energy companies and the chemical sector.

Poland retains a large agriculturally oriented segment of the economy, and the knowledge-based component of the economy is less developed than in most advanced transition countries. ICT infrastructure remains underdeveloped, with broadband penetration of only 13 per cent in 2009, compared with 24 per cent for the EU as a whole. Research and development funding is also low by Central and Eastern European standards, and the linkages between higher educational research institutions and the private sector are weak in regional comparisons.

2.1.1 Political environment

Poland has a consolidated democratic political system with a President elected directly by popular vote and a government headed by a Prime Minister nominated by the President and approved by parliament. The National Assembly is bicameral, with the lower house (the *Sejm)* composed of 460 members and a 100-seat upper house, the Senate. The most recent parliamentary elections in October 2007 resulted in the victory of the then-opposition and a resulting change of government from the conservative Law and Justice (PiS)-led coalition to a two party coalition led by the liberal, centre-right Civic Platform (PO) in partnership with the agrarian- and rural-oriented Polish Peasants' Party (PSL). The PO-PSL coalition currently controls a majority of 240 seats, giving it a relatively comfortable margin of 10 seats, which has been augmented at times by the 53 seats controlled by the opposition Democratic Left Alliance (SLD).

Despite ideological differences between the two parties, the PO-PSL coalition has proven to be resilient and cohesive, even in the face of the political pressures engendered by the global financial and economic crisis. While the PO leadership's willingness to accommodate many of the demands of its junior coalition partner have undermined some of its more ambitious reform objectives, this accommodating stance has also ensured that PSL remains within the coalition, a commitment that has been strengthened by the good working relationship between the PO Prime Minister Donald Tusk and the PSL's Deputy Prime Minister Waldemar Pawlak.

The Polish political system was rocked in April 2010 when President Lech Kaczyński and 87 other senior members of the Polish political and intellectual elite were tragically killed in a plane crash in Smolensk, Russia, en route to attend the 70th anniversary commemoration of the Katyń Massacre. The smooth transfer of political and administrative powers following the tragedy – including the temporary transfer of presidential power to the Speaker of the Sejm, Bronisław Komorowski, and the handover of senior positions in the Government, Senate, National Bank and armed forces – was done in a manner that was fully consistent with the Polish Constitution, reflecting the strong degree of consolidation of Poland's democratic institutions even under conditions of extreme stress.

The presidential election that had been scheduled for October 2010 was subsequently brought forward to 20 June 2010. Acting President Bronisław Komorowski had been selected as PO's candidate, in Poland's first primary-style candidate selection process, prior to the Smolensk disaster. Former Prime Minister, PiS chairman and Lech Kaczyński's twin brother, Jarosław Kaczyński, stood as the PiS candidate with the stated aim of perpetuating his brother's political legacy. After a close first round in which no candidate succeeded in taking an overall majority, Komorowski secured a majority of 53.01% of the popular vote in the second round run-off to win the presidency.

For the two-and-a-half years between the parliamentary elections of 2007 and the presidential election of 2010, little progress was made on the structural reform programme. This was a result of several factors: political stalemate between the PO-led government and the Kaczyński presidency; Poland's relatively good economic performance through the crisis period; and a relentless election cycle which foreshortened the political elite's policy time horizon. Komorowski's victory in the presidential election should remove many of these obstacles and provide a much-needed boost to the reform agenda. However, sustained political commitment will be necessary for the PO-dominated political leadership to implement the most politically sensitive 'third phase' transition reforms, particularly in the area of large-scale industrial privatisation, and to tackle the fiscal deficit through much-needed reforms in the areas of pensions and healthcare.

2.1.2 Social and labour issues

Poland has the largest and one of the youngest populations in Central and Eastern Europe and the Baltics. Although the population is falling slowly, the 'baby boom' generation born in the early-1980s is beginning to enter the workforce, with 2009-2010 the peak years for new entrants. This demographic bulge, the resulting glut of new entrants to the labour force over the next several years and the subsequent trend of a rapidly ageing and shrinking workforce have highlighted the pressing need for further reform to the pensions and healthcare systems. Reforms introduced by the PO-led government in 2008-2009 were vetoed by President Kaczyński and further reform measures are currently under consideration.

2.1.3 Environmental Issues

Although Poland joined the European Union on 1 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 pollution abatement equipment in the district heating sector may be required due to the possible change of the interpretation of the EU's Large Combustion Plant Directive 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 non compliance issues have been noted. For instance, the poor 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 2005-8. As a result of EU and NGO action, the EIA and Natura 2000 legislation has been amended on a number of occasions with last major amendment at the end of 2008 and the non compliance partially addressed, although further institutional strengthening and legislative changes are 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 and Integrated Pollution Prevention and Control 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, as some of the derogations will be until 2016-17. The current financial crisis could delay some of the planned investment as required by the EU Accession treaty, notably in the power and heavy industry sectors. A background section on environmental issues in Poland and examples of recent projects is found in Annex 3. Comments on the environmental implications of the Bank's strategy are included as section 3.3.

2.1.4 Legal Reform

The general consensus on the legal system is that Poland continues to make reasonably good progress towards developing a legal system comparable to international standards. The alignment of Polish law with that of the EU, while not complete, has been accomplished in many areas including capital movements, company law, competition law, free movement of goods and free movement of workers, while jurisprudence is developing around these legal changes, so there is still room for development. Notable recent advances have been reforms to concession laws and a related specific law dealing with public-private partnerships ("PPPs").

Overall, commercial legislation is perceived to be relatively advanced and clear for a country still in transition. On the negative side, the Polish judicial system is still considered to be inefficient and non-transparent, with particular problems due to the delays caused to the registration of property and mortgages by the courts. This bureaucracy and lack of transparency leaves room for the possibility of corruption, the amount of which is always difficult to gauge. Aside from bureaucracy and the need for further development of the legal system, one particular issue which may still be impeding development is the lack of closure in relation to claims of pre-WWII owners of real estate.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic conditions relevant for Bank operations

Economic growth in Poland slowed down considerably at the end of 2008 as the financial crisis deepened and affected the Central and Eastern European region. Real GDP slowed to an average of 4.9 per cent in 2008, following two years of growth above 6 per cent. In 2009, economic activity was weak with growth reaching 1.8 per cent. The outlook remains fragile with growth expected to be below potential for some time, depending on the recovery of global demand and the return to normal functioning in financial markets. The reasons for Poland's relatively good performance compared with regional peers are found in its comparatively small domestic and external imbalances prior to the crisis. With a large domestic sector, a relatively un-leveraged banking system and less buoyant credit and housing bubbles in recent years, Poland's resilience has been broadly based on domestic consumption, supported by both fiscal and monetary stimulus. However, investment and trade has declined, affected by capital constraints, excess capacity and the fall in external demand. With the slowdown in economic activity, the unemployment rate has risen by around 3 percentage points to nearly 10 per cent in April 2010 (according to Eurostat data).

Inflation was on a downward trend since mid-2008 as the effects of higher food and energy prices in 2008 reversed. Annual inflation fell back to 2.8 per cent in January 2009, but rose again in early 2009 in response to higher food and administered prices. Since then, inflation has gradually decelerated, and stood at 2.4 per cent in April 2010. With the weakening in the labour market, wage increases have slowed to 3.1 per cent in April 2010, compared with over 10 per cent in 2008, providing aid to the central bank's goal of achieving the inflation target of 2.5 per cent. In response, the Monetary Policy Council of the central bank decreased the policy rate six times since mid-2008 to 3.5 per cent in August 2009.

The weaker economic growth is having a substantial impact on public finances. As the improvements in the general government deficit in recent years has largely reflected cyclical effects rather than progress with balancing the structural deficit, the deficit rose rapidly to 3.9 per cent of GDP in 2008, from 1.9 per cent in 2007. In 2009, the deficit has widened further, to 7.1 per cent of GDP, and additional expenditure reform or revenue increases will be required in the coming years to stabilise the deficit at a lower level. Public debt, which is already among the highest in the CEB region, rose to 51 per cent of GDP in 2009 and is expected to grow further in 2010.

The current account deficit widened slightly to 5.1 per cent of GDP in 2008 but narrowed significantly to 1.6 per cent of GDP in 2009 as import growth was slowing faster than exports growth, partly due to the sizeable weakening of the currency. Inflows of foreign direct investment (FDI) moderated to USD 11.7 billion in 2008 and to 8.6 billion in 2009, compared with a record of USD 18 billion in 2007.

In the financial sector, the weakening in growth and the rise in unemployment is expected to further affect credit quality and non-performing loans. While profitability has been sound in the Polish banking sector, several banks need to strengthen their capital bases to ensure further growth. Results in the first half of 2009 deteriorated due to higher funding costs, competition for deposits and higher provisioning. This affected lending, in particular to smaller and medium sized companies. The presence of foreign banks has overall been a positive factor, although there has also been pressure from parent banks to restrict lending and limit the balance sheet – not necessarily due to developments in Poland. The entry of the foreign banks also led to the necessary restructuring and recapitalisation of the system, the introduction of a wider array of products and services and improved corporate governance and transparency. Nevertheless, as both supply and demand of credit have decreased, credit growth has decelerated significantly, in particular in the corporate sector, where the volume of loans declined by 8 per cent in April 2010. This will further weigh on real economic activity in 2010. A popular feature of mortgage lending in past years has been loans in foreign exchange, especially in Swiss francs and euros. Banks that witnessed large volatility in foreign exchange rates and liquidity problems during the peak of financial unrest in late-2008 and early-2009 have now restricted this lending practice significantly.

While Poland has benefited from its progress with macroeconomic stabilisation in the credit crisis, Poland is not immune to the global slowdown. With growth expected to remain below potential, unemployment and credit quality is expected to continue to deteriorate in 2010. Moreover, credit growth has weakened significantly and financing conditions remain frail, in particular for small and medium sized companies. The key challenges in an environment of weak growth will be fiscal and financial stability. In addition, a large reform agenda aimed at improving the long-term prospects of the Polish economy is outstanding. Poland has important investment needs in the coming years, e.g. in the energy sector and in environmental investments, and it will be crucial to mobilise all resources in an efficient manner. The absorption of EU funds in particular will crucially hinge on the availability of financing with longer maturity from the private sector, something which is severely challenging under current conditions. The short-term recovery is largely dependent on the return of confidence in financial markets and of external demand. The long term outlook is dependent on progress with fiscal expenditure reform, privatisation, measures to improve the business environment and increase work incentives and the exceptionally low labour participation rate, as well as efforts to raise labour productivity, innovation and human capital building. Moreover, targeted efforts will be needed to mitigate regional disparities which are set to grow from an already high level. A credible euro adoption plan will be helpful in anchoring expectations and provide a medium term goal for fiscal consolidation.

2.2.2 Transition Success and Transition Challenges

A number of transition challenges remain in Poland. The following analysis highlights several priority areas identified in the 2009 Assessment of Transition Challenges. Please refer to Annex 4 for the assessment of the additional sectors.

Financial Institutions

Banking: *The financial sector is well developed, but part of the sector's assets remains under state control and the depth of financial intermediation is below regional standards.*

The basic EU regulatory framework is in place in the Polish banking sector with an independent financial sector regulator, the Polish Financial Supervisory Authority (KNF), reporting directly to the government. The banking system remains sound with major banks well capitalised, an average loan-to-deposit ratio of around 120 per cent and a relatively low ratio of foreign currency denominated debt in relation to GDP despite high growth in recent years. Supervision and risk management have proven efficient in containing excessive risk taking. The number of banks has increased in recent years and the vast majority are foreign-owned (75 per cent of assets in 2007). Following the privatisation of BGZ in 2004, nine of the 10 largest banks in Poland are majority foreign-owned. The country's second largest bank, PKO BP, remains state controlled following a partial privatisation through an initial public offer in November 2004. Credit to the private sector, both driven by households and corporates, grew steadily from early 2006 up until mid-2008 when it was growing by close to 50 per cent in annual terms, contributing to the deepening of financial markets. Nevertheless, the ratio of credit to private sector to GDP remains low by regional standards at 55 per cent of GDP and severely lags EU-15 levels (e.g. mortgage lending constitutes only 15 per cent of GDP, one of the lowest levels in Europe).

In response to the financial crisis, the authorities have mainly focused on measures to increase inter-bank and foreign currency liquidity, in order to keep interest rates down. The central bank concluded a temporary EUR/CHF swap arrangement with the Swiss National Bank in order to bridge funding requirements for the Swiss franc in the banking system, as retail loans were predominantly extended in the Swiss currency. The central bank has cut interest rates on six occasions since November 2008 by a total of 250 basis points to 3.50 per cent. A fiscal package in 2009 extended a number of benefits and tax cuts, although it does not provide a large stimulus to demand. In late January 2009, the government announced 1.3 per cent of GDP in expenditure cuts to make up for revenue losses expected in 2009, as it sought to avoid a significant breach of the Maastricht deficit limit in light of its objective to join EMU As a precautionary measure, Poland also secured a USD 20.6 billion credit line from the IMF in May 2009. A one-year extension was approved in early July 2010. Markets have been generally supportive of these measures and the currency has recovered from the lows reached in mid-February 2009.

Micro, Small and Medium Enterprises (MSME): *Suffering from high risk aversion in the banking system. Need to develop better tailored financial instruments and support young enterprises.*

MSMEs 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, MSMEs have the most difficult access to external finance, even in times of no financial crisis. 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.

The vast majority of the MSME funding in the capital and in rural areas is provided by banks (local commercial banks, state controlled banks, and co-operative banks) and leasing companies. A (private) credit registry is in place and covers 50 per cent of the population. Financing of start-ups through the banking system remains practically unavailable and access to external equity is non-existent. Venture capital funds investing in enterprises at an early stage of development, including seed-capital and start-up funds, would facilitate MSMEs' access to finance.

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

Insurance legislation and regulation are close to compliance with IAIS standards. Insurance penetration is still moderate by OECD standards but is the second highest among EBRD countries of operations. As a result, 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. At the same time, PZU, a large incumbent insurer, remains state-controlled although it went public through very successful IPO in mid 2010 as a result of an agreement between the State Treasury and Eureko, the Dutch insurer.

In addition to their insurance sector involvement, Commercial Union and Nationale Nederlanden have also taken large shares in the new market for pension fund management, as has PZU. Privately managed pension funds operate both mandatory and voluntary pension schemes, and the legal and supervisory framework in the sector is deemed largely adequate. A number of subsidiaries of large international firms offer pension and life insurance products. Leasing and non-bank consumer finance markets have been developed. However, 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 third quarter of 2009, government bonds accounted for over 65 per cent of pension fund portfolios, and the funds controlled about 14 percent of the free float at the stock exchange.

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

Poland is among the most developed private equity markets, owing partly to a relatively large market which offers large investment pools and partly to active equity markets which offer good exit opportunities. Following the adoption of the EU *acquis communautaire*, securities market legislation complies with best practice international standards. A single supervisor was established covering banking, insurance and pension funds. However, most of the capital invested in private equity comes from abroad and the spectrum of financial structures and instruments used is still relatively narrow as compared to developed market economies. The financial crisis has raised some fundraising difficulties, in particular for venture capital funds focussing on high risk start ups and technology intensive companies. The domestic public equity market is among the largest and most liquid in the region, providing a viable funding source to large enterprises in conducive market conditions. The corporate bond market in Poland is very small, with a capitalisation of approximately 2 per cent of GDP, as credit to private borrowers is dominated by the banking system.

Energy and Infrastructure

Municipal and Environmental Infrastructure: *The availability of long-term financing constitutes a significant challenge to municipalities' investment plans and their possibilities to utilise EU funding. Smaller municipalities need to complete reforms and commercialisation of municipal enterprises.*

Local infrastructure services have been fully decentralised and are controlled and serviced by municipal joint stock companies or private operators. In the water and district heating sectors, tariffs are set by municipal authorities and energy regulatory office ("URE") respectively, at cost recovery level based on a cost-plus principle. Cross-subsidies are no longer common, and there are several private sector companies participating in the provision of district heating. Urban transport markets have been partially liberalised in several cities. Commercial financing of municipal infrastructure has been widespread, although the current credit crisis has reduced the number of banks providing long-term financing to only a few, and municipal utility revenue bonds are still being launched despite difficult conditions in the financial markets. Municipalities' operational and financial performance has been good, with adequate billing procedures and high collection rates, but the current crisis is stretching budgets significantly.

Remaining challenges in the municipal sector are linked to further market liberalisation in the urban transport sector, some further improvements of public service contracts and their full deployment in smaller utilities, further development of PPP structures for municipal services and development of a multi-year incentive-based tariff methodology for the utility companies and their managers. Progress with these challenges is increasingly necessary as the central government is struggling with a significant fiscal challenge and will have limited resources in coming years. Moreover, under the present financing conditions, the scarcity and price of long-term financing poses a significant challenge to Poland's sizeable investment needs, as well as to the absorption capacity of the EU funds.

Transport: *Road construction is gaining momentum despite continuing problems with financing, tendering and implementation. Completion of railway reform is a key priority despite some progress with increasing competition.*

In railways, operating and policy setting functions have been separated and core railway businesses (infrastructure, passenger, freight, etc.) have been unbundled and ancillary services have been divested. The privatisation of core railways (such as freight operations, intercity passenger operations, etc.) has been significantly delayed. Nonetheless, competition in the market intensified with the entry of private operators in the Polish railway market (the market share of freight of the PKP group declined to some 50 per cent). An independent regulator was established and infrastructure access is granted on a non- discriminatory basis. The sale of state shares in the commercialised railways should materialise once market conditions recover.

In roads, road maintenance of public roads has been contracted out to the private sector. Foreign companies are also involved in the construction of roads. There have been a number of PPP projects (A2 and A4) which have encountered major difficulties not only in relation to open and transparent tendering but also during implementation (such as land acquisition, cost overruns, lower than expected traffic, and lack of interest from private investors). PPPs have stalled for a long time. To create new momentum, two tenders were launched for new sections of the A1 and A2 motorways, however under current difficult market conditions, both tenders have been unsuccessful.

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

In May 2007 the government reversed sector unbundling by consolidating some state-owned coal mines and electricity generation/distribution and supply companies into four vertically integrated energy groups. The restructuring and privatisation of the mining sector remains a key challenge. In May 2009, there was a successful IPO of Bogdanka coal mine. In August 2009, the government announced plans to sell 10 per cent of KGHM, a copper producer (as well as part of the shares of Lotos). The State Treasury still hold shares in multiple natural resources companies (PGNiG, Lotos, OLPP, PKN Orlen, PERN). In theory the Polish gas market is now open and all customers can choose their supplier. In practice PGNiG dominates the upstream oil and gas segment, is the main importer and controls gas storage and distribution. There is residual state ownership of downstream assets through PKN Orlen and Lotos, but this segment is the most competitive in the region and IOC involvement is extensive. Although the regulatory and concessions regimes are deemed fair, transparency and accountability in the sector are low. State subsidies to the mining industry remain an issue of concern.

Power: *Restructuring of large power companies and privatisation, as well as development of private energy efficiency and renewable energy projects, are key challenges.*

The power sector in Poland will require massive investment in the coming years: on the demand side, new investment will be needed to reduce the currently rapidly increasing demand and help meet EU environmental targets, while on the supply side a substantial part of the country's existing, obsolete energy generation capacity will need to be refurbished, or decommissioned and replaced.

The market structure of the Polish power sector has significantly changed in recent years. In 2006 the Polish Government supported the reconsolidation of the sector, which had previously been fully unbundled (generation, transmission and distribution). As a result, state-owned generation and distribution companies were vertically reintegrated to form four state-owned energy groups. In 2008, the partial privatisation through a public offering of one of those groups (ENEA) was successfully concluded. The government started the privatisation processes of ENEA, Energa and ZE PAK, while stakes in PGE and Tauron were sold on the Warsaw Stock Exchange in 2009 and 2010 respectively.

Since July 2007 the electricity market has been fully liberalised and all customers are free to choose their electricity supplier, in accordance with EU regulations. The quality of institutions has also been improved: a fully independent regulator is in place and tariffs are cost-reflective, with retail electricity prices still subject to regulatory approval. Moreover, the regulatory framework for renewables has become one of the most advanced among the EBRD countries of operation, following the introduction of a green certificates scheme in October 2005.

Sustainable Energy: *framework generally in place but grid access remains a problem and overall targets will be difficult to achieve.*

An adequate legal and institutional framework for sustainable energy is in place. Energy pricing encourages energy efficiency investments. Support systems for renewable energy are in line with EU practices, although independent renewable power producers face difficulties with access to the grid controlled by the four vertically integrated regional energy monopolies. Energy intensity and renewables' penetration are still lagging behind the EU average indicating the need to scale up the investment in these sectors. To support renewables, Poland has introduced quota obligations on distribution companies, which must be filed with tradable certificates of origin. Certificate prices provide substantial additional cash flow to renewable project owners, on top of the obligation to purchase energy at the wholesale price. Various subsidy schemes for capital investments in energy efficiency and renewable energy projects have had a relatively long and established track record. More recently, subsidised lending schemes for small RES have been deployed by the National Environmental Fund. A Climate policy is in place but, recently, the country signalled that it might not be able to achieve EU 20/20/20 targets. Attempts have been made to sell AAUs, but so far legal and institutional impediments have prevented the successful finalisation of these transactions. Remaining challenges include the removal of barriers to grid access for RES projects and development of capacity in EIA of RES investments in line with EU standards, as well as increasing the capacity of energy efficiency providers to deliver, and raising the awareness of the markets. Some specific distortionary EE and RES subsidies need to be reduced to encourage faster implementation of commercially viable investments. Enabling credible green investment schemes is also a key remaining challenge. In November 2009 the Polish Government approved a new strategy for the energy sector setting up ambitious goals aiming at maintaining zero-energy economic growth and consistent decrease in energy consumption in the Polish economy to the EU-15 level.

2.3 Access to Finance

Since the autumn of 2008, credit growth to households and firms has decelerated rapidly. Lending to the corporate sector has been significantly reduced, contracting by an annual rate of 8 per cent in April 2010. In particular, small and medium sized enterprises (SME) are affected by the tighter financing conditions related to much more conservative lending policies by the banks in fear of deterioration of asset quality. This, in turn, has made it harder to implement their investment and business plans. Some sectors which were particularly affected by the crisis, such as transport and real estate, have been particularly affected by the tightening credit conditions. In addition, the increased cost of funding based on retail deposits and the lack of medium term inter-bank lending prevent the banks from growing their assets. A number of recent surveys (e.g. by the National Bank of Poland and Polish Confederation of Private Employers) point to unsatisfied demand for credit.

The efficiency of financial intermediation also remains 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.

The Warsaw Stock Exchange (WSE) has been developing rapidly and is the largest stock exchange of the transition economies. In January 2010, 379 stocks were traded on the Warsaw Stock Exchange (WSE), up from only nine in 1991. Stock market capitalisation rose to over 40 per cent of GDP in 2007 as new companies were listed and equity prices increased, but has fallen back to just above 30 per cent of GDP in 2009. In 2009, only 13 new issues were listed on the WSE. However, despite the increase in the number of new listings up until 2008, 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 but is expected to be privatised in 2010.

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, although the WSE has recently established a harmonised trading floor in order to increase volumes. 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.

3. STRATEGIC ORIENTATIONS

The Bank's operational objectives in Poland as defined in this strategy are consistent with its Graduation Policy and its strategic orientation towards the transition countries that became EU member states in May 2004. As in other countries in this group, the Bank's business in Poland was decreasing as transition progressed and the Bank's finance gradually became less additional. However, the global financial crisis has threatened to set back the transition process, has revealed the fragility of some past achievements and sharply increased demand for EBRD finance in the form of crisis response. This has delayed the process of graduation but has not changed the Bank's Policy and strategic orientation. When global market conditions improve, financial flows return thereby reducing the Bank's additionality, and the region recovers in a sustainable way with the threat to transition receding, Poland would be expected to graduate before the end of the CRR4 period (i.e. 2015), taking into consideration its specific circumstances and remaining transition challenges.

Until then the Bank will work closely with other IFIs to continue crisis response efforts and support the recovery process by supporting the Polish financial system and to mobilise financing for nationally important projects in infrastructure and in the energy sector to diversify energy supply and to improve energy efficiency. Moreover the Bank will contribute to improving competitiveness in the corporate sector through its involvement in privatisation and restructuring as well as facilitate lending to SMEs and the provision of finance to support cross-border trade and investment.

Although the direct effects of the global financial crisis have been less severe in Poland, and while Poland remains well positioned to benefit from a possible recovery in world market demand, the risks for prolonged adverse effects of the crisis remain high. In particular, although the banking system currently remains sound, high risk aversion and deteriorating credit quality is leading to substantial financing constraints, in particular for smaller and medium sized companies. The high fiscal deficit will require substantive corrective action which will have a negative impact on domestic demand while the retraction of global support measures is likely to have a similar effect on external demand. This underlines substantive challenges to transition and a renewed role for EBRD, also in sectors in which the need for EBRD financing has not been very significant in recent years. It will also be important to encourage local savings and capital markets in order to reduce the dependence on foreign financing.

3.1 Bank's Priorities for the Strategy Period

In light of the crisis and the external environment outlined above, the Bank's activities in Poland will be based on the following operational objectives:

- **Foster commercial banks' and leasing companies' continued lending** to the **corporate sector**, particularly to MSMEs. In the current market circumstances the focus will be to improve banks' capital adequacy by providing long term capital and funding, whose availability remains limited. The Bank will also look to contribute to the broadening of the **local currency capital markets** and lending in local currency.
- In line with the identified remaining Transition Gaps for Poland promote investments in further diversification of **energy** and fuel supplies to contribute to energy security, and in the sustainable development of the energy sector by prioritising **renewable energy production and efficient use of energy.** The Bank will in particular address the demand side by **reducing waste of energy, thereby reducing greenhouse emissions** and delivering an important contribution to combat climate change.
- The Bank will continue to participate in **privatisations of state- owned companies** for which the current crisis has lent both urgency and opportunities. The Bank will selectively provide **higher-risk products** for local corporations to fund their investments, particularly with strong energy efficiency focus leading to higher competitiveness and a better business climate. The Bank will also support the regional expansion of Polish companies through **cross-border investments**.
- Support the involvement of the private sector participation in public services in cooperation with EIB as well as EU Structural and Cohesion Funds, in particular **privatisations** and **private-public partnerships in transport and municipal and environmental infrastructure** projects to stimulate the development of revenue-backed financing to minimise reliance on sovereign guarantees and increase supply of **long term finance.**

While the Bank is open to policy dialogue in all its fields of operation, the areas of supporting local currency capital markets development and the sustainable development of the energy sector could be areas where policy dialogue will be particularly important.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Financial Sector

Crisis Response/Transition Goals
Financial intermediation in Poland still remains relatively low, particularly to the MSME sector, although transition gaps are mostly small. In the current environment access to sufficient liquidity as well as long term capital remains restricted. There is a need to continue strengthening banks balance sheets (by providing both long term funding and predominantly Tier1/Tier 2 capital). In addition banks' appetite for corporate risk substantially decreased often reflecting foreign shareholders constraints. Therefore, strengthening the financial sector and ensuring the continued availability of credit to MSMEs and to the corporate sector is a key challenge. The development of the Polish capital market is an essential element for effective and sustainable local currency savings and investment. There may be a need for co-investments to strengthen this process.

Operational Priorities

- Provide long-term capital and funding (including Tier 1/2 capital to improve banks' capital adequacy ratios) to selected banks and leasing companies to facilitate their lending to SMEs and MSMEs (with a strong focus on rural areas and the smallest agglomerations). These efforts will be performed in co-operation with other IFIs having in mind their complementary roles.
- Selectively commit capital to new and follow-on equity, mezzanine or venture capital funds with particular focus on regional expansion. The private equity industry remains a key financier of SMEs and medium size corporates in the region.
- Support the development of the Polish local currency capital market and local currency lending to the economy.

The Bank will also continue the policy dialogue with the Polish financial sector, regulator and the Central Bank on local currency lending and enhancing development of the Polish capital market with the focus on its expansion and potential regional role.

3.2.2 Energy and Energy Efficiency

Crisis Response/Transition Goals
In the area of energy, privatisation of the energy companies is being delayed as a result of lengthy process of sector consolidation and now as a result of the difficult market environment and limited access to financing. At the same time Poland is facing growing investment needs necessary to upgrade obsolete energy generation assets (including requirements for achieving BAT standards, implementation of CCS-ready solutions, and diversification for a broader generation mix etc.) and to meet EU environmental and energy efficiency targets. When long term commercial funding remains limited, financing these investments will be a challenge. Energy security and diversification require particular attention. Renewable energy and energy efficiency investments are critical to allow Poland to meet EU 20/20/20 targets, since Poland remains amongst the most energy intensive economies in the region. It will therefore be important to strengthen environmental compliance, diversify the fuel mix (with more emphasis on renewable energy) and reduce emissions in light of EU and global targets to mitigate climate change. Energy efficiency investments will also contribute to improve competitiveness reduce fuel poverty and enable long term sustainable energy growth. In the natural resource sector this will be support for gas distribution and gas storage development, with the focus on greater competition in this area.

Operational Priorities

- Participate in the financing of nationally important projects in the energy sector (contributing to energy security, replacement of obsolete energy production capacities, achieving BAT standards, reduction of energy intensity and diversification) together with other IFIs and, if available, with commercial banks.
- Continued support for renewable energy and emissions reduction towards meeting EU emission and environmental objectives, also through co-financing alongside commercial banks and other IFIs.
- Support privatisation in the energy and oil and coal sectors and promote gas market development, commercial gas storage and gas distribution development with a particular focus on growing competition in these areas.

Selected Demand Side Energy Efficiency Measures:

- The Bank will seek to enhance broader energy efficiency financing, particularly to the MSME sector through a number of financial intermediaries.
- Energy efficiency will become an integral part of the business of each sectors of Bank activity in Poland. The Bank will systematically address the demand side of energy use by reducing energy waste and greenhouse gas emissions in all sectors, to support corporate competitiveness and combat climate change.

The Bank will focus its policy dialogue at all levels to strengthen the investment framework for sustainable energy in Poland which includes several layers and sectors (e.g. introduction of a modal shift in public transport into the Polish Greening Investment Scheme).

3.2.3 Infrastructure and Municipal Environment

Crisis response/Transition Goals

There is limited private sector participation in municipal sectors, particularly water, sewage, waste water and urban transport, as well as railway operations and regional airports. There are significant operating costs due to heat losses from municipal-owned heating networks and buildings and privatised industrial enterprises putting Poland behind EU energy efficiency average. In addition absorption of the EU Structural and Cohesion Funds is a growing challenge. Due to the financial crisis the availability of long term commercial funding has substantially decreased and at the same time there is a continued growing pressure on national and regional budgets which limit the absorption of available EU funds. Innovative structures are necessary to provide project finance based funding outside limited municipal and regional budgets. Acceleration of the development of the motorway network needs to take place by active support of road PPP initiatives.

Operational Priorities

- Provide long term financing supporting municipal and transport investments, outside regional and municipal budgets, with the focus on private public partnerships, public service contracts and private sector involvement. This will be closely co-ordinated with other IFIs, particularly EIB (as presented in the section 4.2.2.). Projects will be selected according to their transition impact potential and EBRD involvement is expected to last as long as the Bank remains additional to available commercial funding. Focus will also be on potential for energy savings and emission reduction in transport and municipal infrastructure including potential for CO2 trading.
- Support privatisation and private sector involvement in municipal, railway and regional airport sectors.

3.2.4 Corporate Sector

Crisis response/ Transition Goals

Selective restructuring and further privatisation of state owned enterprises, particularly in the chemical, energy and natural resource sectors and expansion of private enterprises remain important, as investors' appetite and FDI continue to decline. The success of such restructuring will be critical to the recovery process, it will improve corporate governance, competitiveness, economic performance, and will introduce environmental and energy efficiency standards. This will also include cross-border transactions, where Polish investors need to continue their investments and maintain their competitive position in important markets while the availability of commercial funding is limited.

Operational Priorities

- Continue to actively support privatisation and restructuring of remaining state owned enterprises, especially when the access to funds and capital markets remains limited.
- Selectively provide long term capital in the form of structured debt or equity to companies that require restructuring or corporate governance support, to allow them preparing to more challenging market conditions, in case where commercial financing is limited. The focus will be made on energy efficiency improvements, transfer of modern technologies and innovation (including ICT and support for knowledge based economy) and improved competitiveness (gender aspects being a part of it).
- Support foreign direct investments and Polish companies investing in the region through cross border transactions, with the particular focus on energy efficiency improvements, competitiveness, transfer of modern technologies and innovation, which contribute to transition and regional development.

3.3 Portfolio Management Challenges

The Bank will structure its portfolio management in such a way that it is able to maintain the current high quality of the portfolio. Particular focus will be on monitoring clients and sectors that were affected or may still be affected by the financial crisis. Given the increased additionality of IFIs following the crisis, there is an increased need for policy dialogue between IFIs in order to strengthen complementarities and overall combined impact.

4. CO-OPERATION WITH OTHER IFIs AND THE EUROPEAN UNION

4.1 European Union (EU)

The EU has committed EUR 67.3 billion to Poland under the European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund (CF) over the period 2007-2013. According to data from the National Information System, since the start of programmes until May 2010, 133,500 applications were submitted for the global amount of co-financing (both Community and national funds) of PLN 304.2 billion. (EUR 76 billion). During the same period, 37,050 contracts for co-financing were signed with beneficiaries, for the amount of PLN153 billion (EUR 38.25 billion) with an amount of co-funding on the part of the EU of PLN 107.8 billion (EUR 26.95 billion), which constitutes 39.5 percent of allocation for the 2007-2013 period.

EUR 27.9 billion is designated under the Infrastructure and Environment Operational Program while own contribution equals to EUR 9.7 billion. Other priority areas are: Human Capital, Innovative Economy, Eastern Poland Development, European Territorial Co-operation and Technical Cooperation.

Cooperation between the European Commission (EC) and the Bank has resulted in co-financing of seven municipal projects in Poland since EU accession. In addition, the EC and the EBRD continued implementation of two programmes: the SME Finance Facility (last tranche of this Facility has been signed in June 2009) and the EU/Small Municipal Finance Facility.

Another area of co-operation is JASPERS, a joint initiative of the EC, the EBRD and the EIB that is assisting in enhancing the necessary administrative capacities in preparing EU funded projects. The programme is supported by experts from the EC, the EIB and the EBRD, who help prepare projects ranging from transport infrastructure to municipal environment and energy efficiency/renewable energy. The EBRD's regional presence is facilitating 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 and energy security thus capitalising on the expertise accumulated in those areas. Considering the large outstanding needs for EU grant money co-financing combined with little availability of long term commercial funding and regional/municipal limitations in providing own funds and budgets, the role of the EBRD co-financing and mobilisation of commercial co-financing remains important.

4.2 The European Investment Bank (EIB)

4.2.1 Background

Since 1990 the EIB's operations in Poland has covered 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, energy to education and promotion of a knowledge-based economy. Since 1990, the EIB's lending in Poland reached EUR 23.2 billion and within the recent years the EIB lending has a strong increasing tendency: out of this amount, signed loan contacts in Poland, since the EU accession in 2004, reached EUR 15.7 billion.

EIB, being the European Union's long-term financing institution, is to contribute to the integration, balanced development and economic and social cohesion of the Member States by financing sound investments. 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 per cent in recent years.

In 2009 EIB signed EUR 4.8 billion worth loans in Poland, in the priority areas: implementation of the Innovation 2010 Initiative, TENs, Environment, SMEs lending and municipal infrastructure. Approximately half of the funds were provided to the transport sector (a section of the A2 motorway, the National Road Fund and the construction of two sections of the Warsaw motorway ring-road). EUR 675 million was lent to co-finance public scientific and university based research and six credit lines totalling EUR 430 million were lent to support (via commercial banks) MSMEs in Poland. Approximately EUR 200 million was spent on municipal infrastructure.

4.2.2 Cooperation and Future Perspectives

The co-operation between EBRD and EIB has successively developed over time. Both institutions have different, although complementary mandates in Poland and have focused on their comparative advantages, often related to project risk profiles and transaction structures (e.g. municipal revenue bonds or direct equity investments provided by the EBRD). Therefore historically joint activity of EBRD and EIB was rather small (joint co-financing was provided for Belchatow power plant (2006) with the total project size of nearly EUR 1 billion).

In 2009 the EBRD, the EIB Group, and the World Bank Group have jointly pledged to provide up to EUR 24.5 billion to support the banking sectors in the region and to fund lending to businesses hit by the global economic crisis. This initiative complements national crisis responses and deploys rapid, large-scale and coordinated financial assistance from the International Financial Institutions to support lending to the real economy through private banking groups, in particular to small and medium-sized enterprises.

In 2009 and 2010, as a response to the financial crisis affecting the Polish banking sector, the Bank has strengthened its co-operation with EIB. It resulted in an extensive co-operation in several areas:

- In the financial sector the Bank provided funding to the banking sector and leasing companies to support SMEs and MSMEs access to credit (BZWBK Leasing, EFL and Millenium Bank). In this co-operation the two institutions preserve their complementary roles.
- In MEI, joint EBRD-EIB financing is being developed for Krakow and Warsaw urban transport companies and shall continue further since the availability of long term funding for municipal infrastructure remains limited and EIB engagement in a project leaves usually a funding gap to be covered.
- In Energy – joint co-financing is being developed (often driven by projects' size) to upgrade and extend the energy distribution network, to connect new clients, and to facilitate connection of new wind farms to the distribution grid. Joint financing has been provided for Energa S.A.

The co-operation with EIB is expected to continue in the coming years as long as the availability of commercial long term funding remains limited and the two instructions will continue their complementary activities. It has to be noted however that EBRD, in its record 2009 year, provided only 9% of the funds allocated to Poland by EIB in the same year. The average size of an EBRD transaction (40% of it being equity) is also substantially smaller than the average EIB ticket, therefore both institutions will remain focusing on their competitive edges, where the major focus of EIB remains in the area of large sovereign (and regional) infrastructure projects.

The co-operation with EIF is also strong, particularly in the light of the ongoing difficulties related to fund raising by private equity sector in the region. The Bank has closed over last few years several joint private equity funds operating in Poland with EIF participation (e.g. ARX Private Equity Fund, Emerging Europe Convergence Fund II, Argus Capital Partners II, Synthaxis II).

4.3 The International Monetary Fund (IMF)

Poland has been a member of the IMF since 1986, its quota is SDR 1.369 billion (about USD 2.02 billion). 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 country's latest use of Fund resources was under a Stand-By Arrangement that expired on March 4, 1996. The IMF also provided extensive technical assistance in a range of areas, including fiscal and monetary policy. In May 2009, IMF provided Poland with a one-year SDR 13.69 billion (about USD 20.58 billion) arrangement under the Flexible Credit Line (FCL). Such precautionary arrangement under the Flexible Credit Line (FCL) for Poland played an important role in supporting the authorities' policy response, boosting market confidence, and placing Poland in a better position to manage adverse developments. The Polish authorities intended to treat the arrangement as precautionary, thus did not draw on the facility. On 15 June, 2010 Poland requested an extension of the FCL. It is Poland's continued intention to consider FCL as a precautionary facility. The last Article IV consultation was concluded by the Executive Board of IMF in March 2010. Poland remains committed to pursuing strong policies based on strong institutions, with timely and appropriate responses to shocks as necessary.

The IMF maintains a regional office in Warsaw with the objective to support the new member states in conducting sound macroeconomic policy.

4.4 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 6.2 billion for over 44 operations.

The ongoing projects are mainly focused on upgrading 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.

In December 2008 the World Bank approved a Public Finance Management, Employment, and Private Sector Development Programmatic Policy Loan (DPL) to the Republic of Poland in the amount of EUR 975 million that will support the government's plans to enhance the quality and efficiency of public finances, increase the supply of relevant and skilled labour, and strengthen the business environment. The Second Development Policy Loan (DPL2) for EUR 1 billion was approved by the World Bank in June 2009 and has the following objectives: (i) to support structural reforms that will ensure fiscal consolidation over the medium term; (ii) to protect priority investment programs and the up-front fiscal costs of structural reforms critical to meeting Poland's goals of convergence with the rest of the European Union (EU); and (iii) to mitigate the social cost of the economic crisis. DPL2 continues to support reforms initiated with the first loan and expands the focus to include structural improvements in, and the maintenance of, critical programs in the social sectors.

The World Bank has approved the Third Development Policy Loan (DPL3) for EUR 1 billion and is looking at possible sub-national projects (on the regional and municipal level) in the area of public transport and infrastructure. The current World Bank's Country Partnership Strategy concentrates on four priority areas: (a) social and spatial inclusion; (b) public sector reform (c) growth and competitiveness and (d) regional and global public goods. Key policy areas identified within these broader terms would include social reform, regional development, public finance and financial management reform, transport infrastructure development, deregulation of the enabling environment for doing business, climate change (notably focused on the energy sector) and financial sector stability.

4.5 The International Finance Corporation (IFC)

Since Poland joined IFC in 1987, IFC has invested USD 287 million from its own account and syndicated USD 67 million from other banks. IFC has provided financing for 33 projects in a wide range of sectors. In addition, IFC has provided USD 144 million to finance interregional projects that covered several countries in Eastern Europe including Poland. IFC has also provided advisory services in Poland on restructuring and privatization issues, legislation on leasing, housing finance and pension funds, and on improving the investment climate.

IFC’s role in Poland is changing in light of the country’s accession to the European Union and the growing availability of private financing. IFC will focus on the regions, sectors, and projects where IFC’s developmental role is crucial and for which private financing remains limited, emphasizing socially and environmentally sensitive sectors. In August 2009 IFC made a decision to invest USD 5 million in Poland’s first microfinance bank FM Bank to support the microfinance sector and improve access to finance for micro and small businesses. As a full-fledged bank, FM Bank will be able to mobilize deposit funding, allowing it to widen the range of products offered to micro and small businesses. It also will be able to decrease its cost of funding, making microfinance loans more affordable. IFC’s investment will give it a 10 percent equity share in the FM Bank.

ANNEX 1: COMMITTED PROJECTS PER YEAR

as of 31 December 2009

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance in Poland	Debt	Equity	Operation Stage
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	Repaying
2005	Krakow Public Transport Commercialisation& Financing Project	Direct	59.0	19.6	19.6	0.0	Repaying
2005	Kaufland Polska Markety Sp.Z.o.o. Sp.K.	Direct	160.0	80.0	80.0	0.0	Repaying
2005	BPH Property Fund	Direct	12.4	12.4	0.0	12.4	Repaying
2005	BGZ convertible bonds	Direct	94.0	23.2	23.2	0.0	Signed
2005	Patnow II	Direct	550.0	62.8	62.8	0.0	Repaying
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	Repaying
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	Repaying
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	Repaying
2005	Gliwice Environmental Programme - Loan transfer to PWiK	Direct	70.1	15.0	15.0	0.0	Repaying
2005	Dalkia Lodz additional financing	Direct	7.6	7.6	0.0	7.6	Disbursing
2005	EU/EBRD Ext. 5 Rural - BZ WBK Leasing	Direct	5.0	5.0	5.0	0.0	Repaying
2005	SG AM Eastern Europe L.P.	Regional	3.3	3.3	0.0	3.3	Repaying
	2005		**1,308.5**	**339.6**	**288.4**	**51.2**	
2006	EU/EBRD Ext. 5 Rural - BGZ (Bank Gospodarki Zywnosciowej)	Direct	15.0	15.0	15.0	0.0	Repaying
2006	Krakow District Heating Project	Direct	76.3	6.3	6.3	0.0	Signed
2006	Belchatow II	Direct	1,719.6	126.1	126.1	0.0	Disbursing
2006	EI/EBRD Ext. 4 - BZ WBK Leasing S.A.	Direct	20.0	5.0	5.0	0.0	Completed
2006	EI/EBRD Ext. 3 - SG Equipment Leasing Polska	Direct	13.5	6.5	6.5	0.0	Repaying
2006	UNIQUA TU na Zycie Equity - 4th Capital Increase	Direct	5.5	0.6	0.0	0.6	Disbursing
2006	Gdansk Water Infrastructure Company	Direct	107.4	12.3	12.3	0.0	Cancelled
2006	EU/EBRD Ext. 5 Rural - BZ WBK Finanse and Leasing	Direct	7.0	7.0	7.0	0.0	Repaying
2006	Krakow Plaszow II Loan Restructuring	Direct	96.1	11.1	11.1	0.0	Repaying
2006	Nova Polonia Natexis II	Direct	25.0	25.0	0.0	25.0	Disbursing
2006	AIG New Europe Fund II	Regional	50.0	11.9	0.0	11.9	Signed
2006	Alpha CEE II L.P.	Regional	50.0	15.0	0.0	15.0	Repaying
2006	Fagor Wrozamet Restructuring	Direct	68.8	17.5	17.5	0.0	Disbursing
	2006		**2,254.2**	**259.3**	**206.8**	**52.5**	
2007	AVALLON	Direct	12.0	12.0	0.0	12.0	Disbursing
2007	Hotel Atrium	Direct	10.0	10.0	10.0	0.0	Disbursing
2007	Celsa Huta Ostrowiec II	Direct	158.0	78.0	78.0	0.0	Repaying
2007	Veolia Voda Equity Investment	Regional	174.9	29.4	0.0	29.4	Disbursing
2007	Royalton Partners II	Regional	50.0	7.5	0.0	7.5	Signed
2007	Baltcap Private Equity Fund	Regional	20.0	2.0	0.0	2.0	Repaying
2007	AIG New Europe Fund II	Regional	50.0	3.1	0.0	3.1	Signed
2007	Syntaxis Mezzanine Fund	Regional	25.0	10.0	0.0	10.0	Repaying
2007	Accession mezzanine Capital II	Regional	200.0	6.0	0.0	6.0	Repaying
2007	EnerCap renewable energy financing vehicle	Regional	100.0	2.5	0.0	2.5	Signed

Year	Op Name	Regional /Direct	Total Project Value	EBRD Finance in Poland	Debt	Equity	Operation Stage
	2007		**799.9**	**160.5**	**88.0**	**72.5**	
2008	EU/EBRD PA - Meritum Bank ICB	Direct	7.9	7.9	7.9	0.0	Disbursing
2008	ENEA Privatisation	Direct	514.6	48.6	0.0	48.6	Disbursing
2008	Winterthur MPF/CS L&P Zycie	Direct	18.6	17.8	0.0	17.8	Disbursing
2008	Arka Property Fund II	Regional	20.4	18.1	0.0	18.1	Signed
2008	Advent Central & Eastern Europe IV	Regional	50.0	10.0	0.0	10.0	Signed
2008	ViaOne	Regional	17.0	1.0	0.0	1.0	Signed
2008	ARX Private Equity Fund	Regional	30.0	4.2	0.0	4.2	Disbursing
2008	Barlinek	Cross-border	61.8	5.85	5.70	0.15	Repaying
2008	Cersanit Invest	Cross-border	86.2	0.15	0.00	0.15	Repaying
2008	Uniqua Zycie Capital Increase	Direct	1.8	1.8	0.0	1.8	Cancelled
	2008		**808.3**	**115.5**	**13.7**	**101.8**	
2009	Polish Leasing WBK L	Direct	25.0	25.0	25.0	0.0	Signed
2009	Polish Leasing WBK F&L	Direct	25.0	25.0	25.0	0.0	Signed
2009	Bydgoszcz Water Revenue Bond Extension	Direct	135.7	29.2	29.2	0.0	Disbursing
2009	Bank DNB NOrd Polska	Direct	29.2	15.8	15.8	0.0	Signed
2009	EU/EBRD MSME Preparatory Action - Inicjatywa Micro	Regional	2.8	0.9	0.9	0.0	Disbursing
2009	Aqualia Investment Venture	Regional	163.2	12.0	0.0	12.0	Signed
2009	Tychowo Wind Farem	Direct	76.7	30.4	30.4	0.0	Disbursing
2009	Europejski Fundusz Leasingowy, EFL	Direct	70.6	70.6	70.6	0.0	Signed
2009	Heitman Eastern European Property Fund	Regional	455.0	3.8	0.0	3.8	Signed
2009	SPS Investment N.V. (Corporate Recovery)	Regional	0.1	0.1	0.0	0.1	Disbursing
2009	ARX Private Equity Fund	Regional	30.0	1.8	0.0	1.8	Disbursing
2009	Asseco SEE	Poland	30.0	11.0	3.5	7.5	Signed
2009	Mondi Biomass	Poland	105.8	30.0	30.0	0.0	Disbursing
2009	Resources Easter Europe Equity Partners	Regional	84.0	15.0	0.0	15.0	Signed
2009	Syntaxis Mezzanine Fund II	Regional	250.0	10.5	0.0	10.5	Signed
2009	SK Eurochem Crisis Response Working Capital Line	Poland	3.0	3.0	3.0	0.0	Signed
2009	Millennium Bank S.A.	Poland	100.0	100.0	100.0	0.0	Signed
2009	Cersanit Invest - Mid-Sized Corp. Support Facility	Poland	20.0	20.0	20.0	0.0	Signed
2009	Can-Pack	Poland /Russian Federation	81.4	26.9	26.9	0.0	Disbursing
2009	CRG Capital CEE Special Situations Fund	Regional	20.0	4.0	0.0	4.0	Signed
2009	Project Thaler - Getin Noble Cross Currency Basis Swaps	Poland	30.0	6.0	6.0	0.0	Signed
	31-Dec-09		**1,737.4**	**441.0**	**386.3**	**54.7**	

ANNEX 2: NET CUMMULATIVE BUSINESS VOLUME BY INDUSTRY

as of 31 December 2009	EBRD Finance	Debt	Equity	Private	State	Portfolio Ratio	% Share of Commitments	Total Project Value
Corporate								
Agribusiness	252	184	68	242	10	96%	6%	945
General Industry	679	571	108	679	0	100%	17%	2,798
Property and Tourism	247	108	139	247	0	100%	6%	839
Telecoms Informatics & Media	328	239	89	328	0	100%	8%	2,168
Sub-total Corporate	**1,506**	**1,102**	**404**	**1,495**	**10**	**99%**	**37%**	**6,750**
Energy								
Power and Energy	279	222	57	210	69	75%	7%	3,243
Sub-total Energy	**279**	**222**	**57**	**210**	**69**	**75%**	**7%**	**3,243**
Financial Institutions								
Bank Equity	304	75	229	304	0	100%	7%	667
Bank Lending	384	384	0	383	1	100%	9%	453
Equity Funds	455	0	455	455	0	100%	11%	1,261
Non Bank Financial Institutions	400	301	99	400	0	100%	10%	572
Small Business Finance	1	1	0	1	0	100%	0%	3
Sub-total Financial Institutions	**1,543**	**761**	**783**	**1,542**	**1**	**100%**	**38%**	**2,954**
Infrastructure								
Municipal & Env Inf	396	265	131	155	241	39%	10%	2,013
Transport	336	336	0	0	336	0%	8%	943
Sub-total Infrastructure	**731**	**601**	**131**	**155**	**577**	**21%**	**18%**	**2,956**
POLAND TOTAL	**4,060**	**2,685**	**1,375**	**3,402**	**657**	**84%**	**100%**	**15,903**

	EBRD Finance	% Portfolio share
Direct	3,612	89.0%
Regional	448	11.0%
Non-Sovereign	3,714	91.5%
Sovereign	345	8.5%
PRIVATE	3,402	83.8%
STATE	657	16.2%
DEBT	2,634	64.9%
EQUITY	1,375	33.9%
GUARANTEE	51	1.3%

ANNEX 3: SELECTED ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009 Estimate	2010 Projection
Output and expenditure			(Percentage change in real terms)				
GDP	5.3	3.6	6.2	6.8	5.1	1.8	2.6
Private consumption	4.7	2.1	5.0	4.9	5.9	2.3	na
Public consumption	3.1	5.2	6.1	3.7	7.5	1.2	na
Gross fixed capital formation	6.4	6.5	14.9	17.6	8.2	-0.3	na
Exports of goods and services	14.0	8.0	14.6	9.1	7.1	-9.1	na
Imports of goods and services	15.8	4.7	17.3	13.7	8.0	-14.3	na
Industrial gross output	9.1	4.4	11.6	11.1	7.5	na	na
Agricultural gross output	7.0	-1.0	-2.3	-3.5	-1.4	na	na
Employment			(Percentage change)				
Labour force (end-year)	0.9	0.8	-1.7	0.0	1.0	na	na
Employment (end-year)	2.5	2.4	3.6	4.2	3.0	na	na
			(In per cent of labour force)				
Unemployment (end-year)[1]	19.0	17.8	13.9	9.6	7.1	8.2	na
Prices and wages			(Percentage change)				
Consumer prices (annual average)	3.5	2.2	1.2	2.4	4.3	3.8	2.5
Consumer prices (end-year)	4.4	0.7	1.4	4.0	3.3	3.6	2.8
Producer prices (annual average)	7.1	0.7	2.2	2.2	2.6	3.4	na
Producer prices (end-year)	5.4	0.2	2.4	2.3	2.6	2.1	na
Gross average monthly earnings in economy (annual average)	4.0	9.8	5.0	9.4	10.0	na	na
Government sector			(In per cent of GDP)				
General government balance	-5.7	-4.1	-3.6	-1.9	-3.6	-7.1	na
General government expenditure	42.6	43.4	43.9	42.2	43.2	44.4	na
General government debt	45.7	47.1	47.7	45.0	47.1	50.9	na
Monetary sector			(Percentage change)				
Broad money (M2, end-year)	7.5	12.6	15.9	14.2	20.2	8.3	na
Domestic credit (end-year) [2]	4.2	13.8	23.0	27.0	32.5	8.6	na
			(In per cent of GDP)				
Broad money (M2, end-year)	39.9	42.2	45.4	46.7	51.8	53.2	na
Interest and exchange rates			(In per cent per annum, end-year)				
Rate on 7-day open market operations[3]	6.5	4.5	4.0	5.0	5.0	3.5	na
3-months WIBOR	6.7	4.6	4.2	5.7	6.4	4.2	na
Deposit rate[4]	2.9	3.4	3.1	3.8	6.0	4.5	na
Lending rate[4]	10.3	7.6	7.2	8.3	9.6	8.4	na
			(Zlotys per US dollar)				
Exchange rate (end-year)	3.0	3.3	2.9	2.4	3.0	2.9	na
Exchange rate (annual average)	3.7	3.2	3.1	2.8	2.4	3.1	na
External sector							
			(In millions of US dollars)				
Current account	-10,067.0	-3,716.0	-9,394.0	-20,253.0	-26,909.0	-7,207.0	na
Trade balance	-5,622.0	-2,766.0	-7,006.0	-17,057.0	-25,972.0	-4,476.0	na
Merchandise exports	81,862.0	96,395.0	117,468.0	145,337.0	178,427.0	139,956.0	na
Merchandise imports	87,484.0	99,161.0	124,474.0	162,394.0	204,399.0	144,432.0	na
Foreign direct investment, net	11,761.0	6,951.0	10,727.0	17,987.0	11,747.0	8,622.0	na
Gross reserves, excluding gold (end-year)	35,335.0	40,875.0	46,381.0	62,978.0	59,318.0	75,938.0	na
External debt stock	129,990.0	132,927.0	169,636.0	234,052.0	243,477.0	280,264.0	na
			(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	4.2	4.3	3.9	4.1	3.0	5.4	na
			(In per cent of exports of goods and services)				
Debt service	na	13.0	15.0	10.0	10.4	11.4	na
Memorandum items			(Denominations as indicated)				
Population (end-year, million)	38.2	38.2	38.1	38.1	38.1	38.1	na
GDP (in billions of zlotys)	924.5	983.3	1,060.0	1,176.7	1,275.4	1,344.0	1,413.5
GDP per capita (in US dollars)	6,624.9	7,967.1	8,956.1	11,152.2	13,894.9	11,316.6	na
Share of industry in GDP (in per cent)	30.8	30.7	31.3	33.7	35.9	na	na
Share of agriculture in GDP (in per cent)	5.1	4.5	4.3	4.6	4.2	na	na
Current account/GDP (in per cent)	-4.0	-1.2	-2.8	-4.8	-5.1	-1.7	na
External debt - reserves (in US$ million)	94,655.0	92,052.0	123,255.0	171,074.0	184,159.0	204,326.0	na
External debt/GDP (in per cent)	42.0	44.1	46.6	48.4	56.5	59.4	na
External debt/exports of goods and services (in per cent)	136.4	118.0	122.9	134.3	113.8	165.9	na

1 According to Eurostat.

2 Includes domestic credit to non-financial sector and general government.

3 In 2003 and 2004 the rate refers to 14-day open market operations.

4 Weighted average, as reported by the National Bank of Poland. Calculation of the new rates has been conceptually adjusted to harmonised ECB requirements. The data since 2004 are adjusted to the new methodology.

ANNEX 4: RATINGS FROM THE 2009 ASSESMENT OF TRANSITION CHALLENGES

The table below provides an overall Assessment of Transition Challenges rating for 2009. Scores range from negligible, small, medium and large. “Negligible” means that the remaining challenges are minor and that the sector is well advanced in moving towards a well-functioning market economy. “Large” means that the remaining challenges are major and that this dimension of the sector is at an early stage of reform. The overall rating in 2009 is based on individual ratings for market structure and market-supporting institutions and policies (see methodology annex circulated separately). The 2005 overall rating is based on individual ratings for market structure, market-supporting institutions and market behaviour. Due to changes in the methodology, made necessary by the evolving meaning of transition and the lessons of the financial crisis, comparison between the two overall scores should be made with caution.

Poland	**Market Structure**	**Market Institutions**	**Overall 2009**
Corporate			
Agribusiness	Small	Small	Small
General Industry	Small	Small	Small
Property and Tourism	Small	Small	Small
Telecom	Small	Small	Small
Infrastructure			
MEI	Small	Negligible	Small
Natural Resources	Medium	Medium	Medium
Power	Medium	Negligible	Small
Sustainable Energy	Medium	Small	Small
Transport	Small	Small	Small
Financial Institutions			
Banking	Medium	Small	Small
Insurance and financial services	Small	Small	Small
MSMEs	Medium	Small	Medium
Private equity and capital markets	Small	Small	Small

<u>Corporate</u>

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

The degree of privatisation, restructuring and competition in the Polish corporate sector is less advanced than in other CEB countries, due mainly to continued state ownership and interference in sensitive sectors such as chemicals or pharmaceuticals. Privatisation of these enterprises remain a key challenge. Strengthening public administration and the judiciary, including speeding up administrative procedures and cutting the number of licenses and permits, still needs further improvements. Among the measures that the government plans to implement, but has yet to introduce, are a reduction in the minimum capital requirement for new enterprises, an acceleration in the approval of building permits and an expansion of online tax payments. These areas have been highlighted by the Polish Business Confederation, amongst others, which has compiled lengthy lists of bureaucratic obstacles to the development of private enterprises.

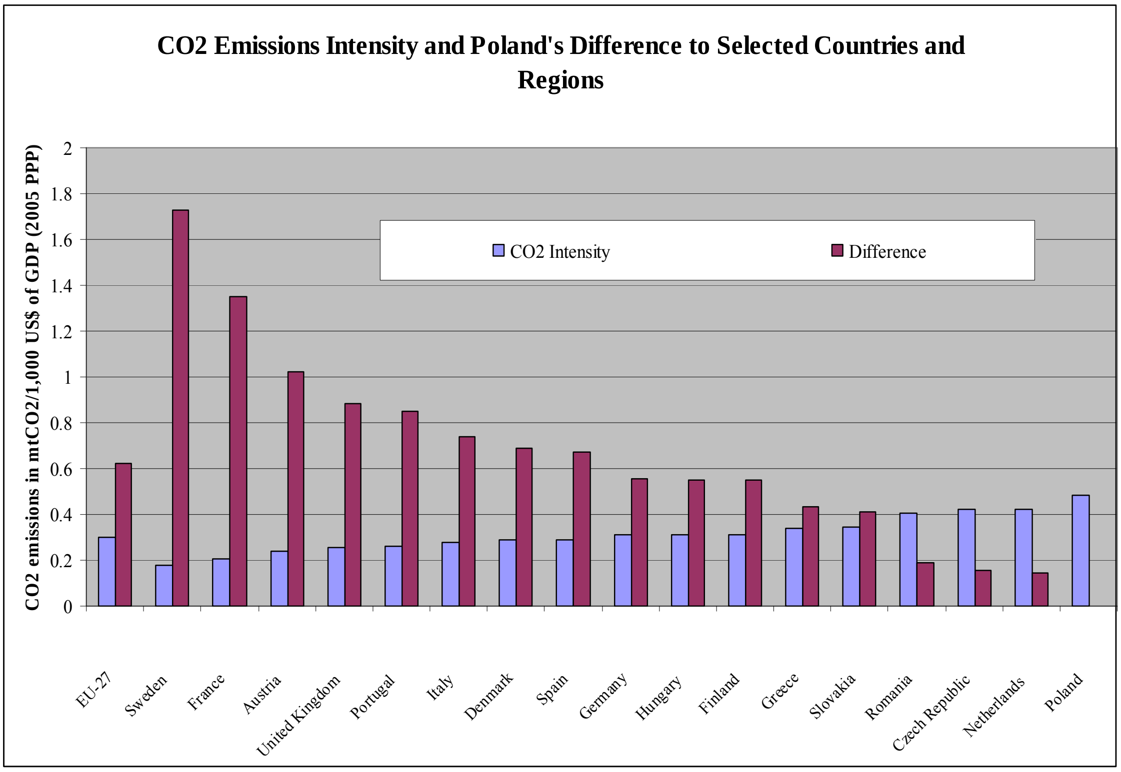
ANNEX 5: EBRD SUSTAINABLE ENEGY INVESTMENT IN POLAND

Background

Energy efficiency is among the most acute issues facing the European Union, as well as many EBRD countries of operations and has important linkages to energy security and climate change mitigation. The Annex outlines how the expertise of the Bank gained in energy efficiency operations and renewable energy during Phase 1 of the Sustainable Energy Initiative may be applied in Poland to overcome the existing barriers to the implementation of energy efficiency solutions..

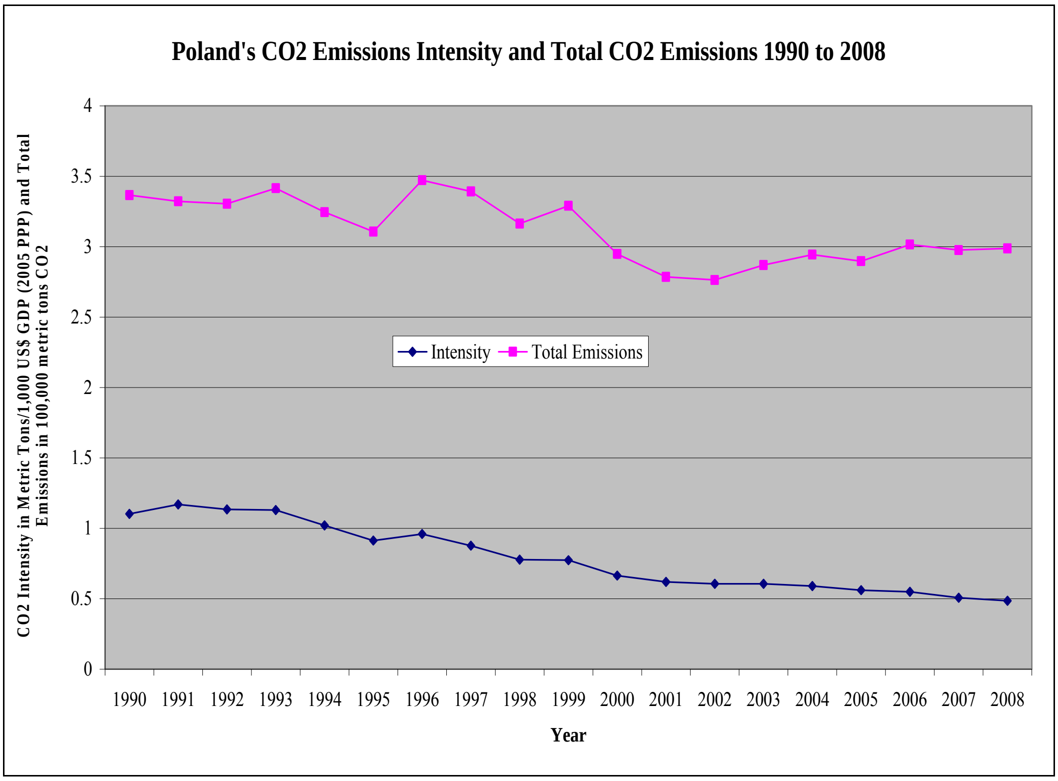
Poland is an important country in European energy terms. It possesses significant energy resources in the form of coal, and it is the sixth-largest CO2 emitter in the EU, and the first amongst the new member states. Polish energy intensity is considerably above those of the large EU-15 countries, such as the UK, Spain, Germany, or France, and Polish CO2 intensity is the highest of any EU-27 member country, and 62% above the EU-27 average, due to the high level of coal-use for electricity generation.

Chart 1 – EU27 CO2 Intensity in 2008



Source: EIA International Energy Statistics

Chart 2 – Polish CO2 Intensity and Emissions, 1990 - 2008



Source: EIA International Energy Statistics

McKinsey & Company in their Assessment of GHG emission Abatement Potential shows that there is potential in Poland to achieve deep cuts in GHG emissions by 2030 (up to 31%), whereby even 1/3 of the entire emission reduction can come form energy efficiency. Achieving the long-term goals would require however closely co-ordinated and well-targeted actions by the Polish government, energy producers, and energy-users.

Some of the key benefits of increasing energy efficiency in Poland can be summed up as follows:

- Timely investments into energy efficiency will soften the adverse impact of future energy tariff increases and will help sustain the competitiveness of the Polish economy.

- Rapid economic growth observed in Poland before 2008 (when growth dynamics became affected by the global financial crisis) accompanied by the needs to decommission large obsolete generation capacities in Poland to meet the EU environmental targets has led to concerns about energy supply security, which may constrain future economic growth. Energy efficiency can potentially offset a significant part of the need for costly new infrastructure which would be required to meet growing demand.

- Energy efficiency improves welfare by lowering energy expenses of municipalities and energy bills of households, and by creating more comfortable living conditions and in addition contributes to higher competitiveness of the Polish economy.

This overview establishes the context for the EBRD's future operations, whereby sustainable energy becomes a key priority building on the set of competencies established by the Bank to support Poland in its drive to address the challenge of supporting transition by enhancing and promoting energy efficiency. The Bank's expertise as well as the plans for strengthening activities in this priority area in the next strategy period are outlined below.

The Bank's prioritisation of sustainable energy fits well with the recently strategy of the Polish government. On 10th November 2009 the Polish Council of Ministers adopted the *Energy Policy of Poland until 2030*. The document prepared includes a long-term strategy for the energy sector, forecasts for fuel and energy demand and a program of implementation activities until 2012. It therefore addresses the most important challenges that the Polish energy sector and is aiming at six strategic directions, three of which are of particular relevance to SEI investment by the Bank. These are:

- Improving energy efficiency - energy efficiency is given a clear priority in the Policy and progress in this field will be of key importance for the realisation of all its assumptions, where the main objectives in this respect are: (i) aiming at maintaining zero-energy economic growth and (ii) consistent decrease in energy consumption in the Polish economy to the EU-15 level.

- Increased security of fuel and energy supplies - Poland's energy security will be based on domestic resources, especially of hard coal and lignite. This will ensure that electricity and to a great extent also heat production will not be dependent on imported raw materials.

- Development of the use of renewable energy sources (RES) - the Policy sets out as a goal that a 15% share of renewable energy supply in the final energy consumption should be achieved in 2020. It also specifies a 10% share of biofuels in the transport fuel market in 2020.

One of the most important changes in the mix of policy tools is the planned introduction of the Energy Efficiency Law and the "white certificate" scheme, which will be an important addition to the existing system of green certificates. The new framework shall enhance obligations to conduct energy savings and allows for financial incentive for companies which outperform the requirements in achieving the energy savings. In addition energy efficiency is encouraged by the EC Operating Programmes for years 2007-2013 (especially the "Infrastructure and Environment" Operating Programme).

SEI Track Record in Poland 2006-2009

Poland has accounted only for about 7% of the total SEI volume 2006 to 2009, with the most significant share going to the power sector. Poland is also the first country in which the Bank is involved in greening a Green Investment Scheme, whereby, in November 2009, with the Bank's assistance and through the EBRD/EIB MCCF the Polish Government has signed an AAUs sale agreement with the Government of Spain. Tables 1 and 2 below show the SEI investments in Poland up to 2009.

Table 1 – Cumulative SEI Results in Poland 2006 to 2009, by SEI Area

	SIGNED (EUR MILLION)	NUMBER OF PROJECTS	SHARE %	Total Project Value (EUR MILLION)
SEI 1 - Industry	28	1	10%	158.0
SEI 2 – Credit Lines	0	0	0%	0
SEI 3 - Power	175	2	64%	2,306.7
SEI 4 - Renewables	60	2	22%	185.8
SEI 5 - Municipal	12	3	4%	283.5
Total	275	8	100%	2,934.0

Table 2 – Cumulative SEI Results in Poland 2006 to 2009, by Banking Team

	SIGNED (EUR MILLION)	NUMBER OF PROJECTS	SHARE %	Total Project Value (EUR MILLION)
Power and Energy	235	4	86%	2,493
General Industry	28	1	10%	158
MEI	12	3	4%	283
Total	275	8	100%	2,934

Barriers to Sustainable Energy

The ability of the Bank to put sustainable energy finance more strongly on the agenda in Poland will be influenced by the economic crisis and, as with other activities, will depend on the availability of sufficient donor-funds, and overcoming specific barriers. The issues outlined below represent existing barriers to the improvement of energy efficiency in Poland in the short term, and will have to be addressed by a mix of policy reforms, including the introduction of innovative finance mechanisms, and public awareness campaigns.

Information and awareness. The long history of cheap energy prices results in wasteful energy utilisation practices and low awareness and appreciation of energy efficiency issues at both private individual and company level. Insufficient energy management cultures at the corporate level (often reflected in the lack of prioritisation of energy saving measures, or the lack of departments and programs focused on energy saving) leads to profitable energy saving measures and investments being overlooked or not implemented. There is still low appreciation and utilisation of best practices and best-available energy efficient equipment and technologies by end-users, as well as at the level of primary engineering and design of industrial plants, residential and public buildings, etc.

Funding. Polish companies (especially in the SME sector) often lack access to long-term funding to match the paybacks of energy efficiency projects (which, even at current tariff levels, can be as short as 1 year but can also go beyond 5 years). The current bank market situation exacerbates credit constraints for SMEs and extends the difficulties in access to finance to larger companies as well.

Environmental and climate change agenda. On both the citizen and corporate level there is still low awareness of the issues of climate change and environmental footprints, which commonly serve as major drivers for enhanced energy efficiency. There is not yet sufficient formal system in place to price the negative footprint of energy use or to reward reducing usage. At the same time, the share of economic actors who voluntarily rationalise energy consumption in order to reduce their environmental footprint is still low in Poland.

Key Target Areas for SEI Investment in Poland

Within the Bank's Strategic Orientations, as specified in the Section 3.2, the Bank will combine its experience from SEI Phase 1, sectoral expertise and client relationship management activities to influence to the fullest extent possible the linking of EBRD financing in Poland to sustainable energy, while scaling up the development of dedicated support mechanisms for sustainable energy investments to address the barriers for sustainable energy investments described above.

Sustainable Energy Financing Facilities (SEFF). Development of dedicated financing and implementation vehicles is important for the promotion of energy efficiency in Poland. Through its Sustainable Energy Financing Facilities (SEFFs) the Bank aims to extend its support for improving energy efficiency SMEs and MSMEs, and at the same time provide long term funding for the Polish banking sector allowing matching long term investment pay back periods.

Municipal Infrastructure. The Bank has developed a track record of lending operations in Poland focused on the refurbishment of municipal infrastructure contributing to improvement of efficiency and lead to substantial energy savings. Over the course of the strategy, the Bank will continue to prioritise and support energy efficiency projects in district heating, water, urban transport and other areas (such as waste to energy opportunities). The Bank has already started a policy dialogue with the Polish authorities on possible inclusion of transport modal shift into the Polish Greening Investment Scheme, where, at the moment, there is very low recognition and application of CO2 trading mechanisms in the Polish municipal infrastructure. The scaling-up of operations will be subject to some of the existing constraints being alleviated, such as still limited availability of long term financing in the current economic environment.

Industrial and Corporate Sector Energy Efficiency. In the context of SEI, energy efficiency is becoming an integral part of the business of each sector of the Bank's activities. The bank will address the demand side of energy use by reducing waste of energy and greenhouse emissions, which at the same time will contribute to corporate competitiveness and combat climate change. The Bank would also seek to assess and promote the implementation of Best Available Techniques (BAT) leading to a more optimal energy utilisation in the corporate sector (including within greenfield projects) and will increasingly utilise Energy Efficiency Action Plans (EEAP) as a means to influence or develop a systematic and long-term approach to sustainable energy and carbon footprinting on a corporate level. The Bank will further deepen the reach of the successful SEFF model (as presented above) in the industrial sector, and begin to implement a new, technology-driven approach to industrial energy efficiency with a view to increasing market penetration of materials and equipment with appropriate energy performance characteristics, which will also meet the particular need of SMEs in financing their energy efficiency investments.

Energy sector and Clean Energy Production. Poland with its dependence on coal generation remains a carbon intense economy. To meet the EU energy targets, Poland will face several challenges such as: (i) the need to upgrade and replace obsolete generation assets (including BAT and CCS ready solutions), (ii) substantially increase renewable energy share in generation, (iii) strategic decision on future fuel mix, (iv) energy security and (v) the need to improve energy efficiency in energy distribution. Among several solutions, a particular focus will be on the distribution companies, with the intent to make these companies market-leaders in terms of efficiency and competitiveness. The Bank will also work with power companies on the introduction of BAT and EEAPs (with an emphasis on carbon footprint mitigation) at the corporate level and to promote Demand-Side Management (DSM) and least-cost planning programmes to utilise end-use energy efficiency to tackle capacity shortages and ensure cost-effective investment.

ANNEX 6: COMPARATIVE STRUCTURAL CHANGE INDICATORS

	2003	2004	2005	2006	2007	2008	2009
Enterprises							
Privatisation revenues (cumulative, in per cent of GDP)	12.4	13.5	13.9	14.0	14.2	na	na
Private sector share in GDP (in per cent)	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Private sector share in employment (in per cent)	68.5	70.3	70.5	71.0	73.3	74.4	na
Budgetary subsidies and current transfers (in per cent of GDP)	1.5	1.9	2.7	3.1	3.1	3.1	2.7
Share of industry in total employment (in per cent)	28.4	28.3	28.7	29.3	30.1	31.5	na
Change in labour productivity in industry (in per cent)	7.1	7.0	0.6	5.3	3.8	-0.1	na
Investment/GDP (in per cent)	18.7	20.0	19.2	21.0	24.4	23.7	20.1
EBRD index of small-scale privatisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of large-scale privatisation	3.3	3.3	3.3	3.3	3.3	3.3	3.3
EBRD index of enterprise reform	3.3	3.3	3.7	3.7	3.7	3.7	3.7
Markets and trade							
Share of administered prices in CPI (in per cent)	1.0	1.0	1.2	1.0	1.0	1.0	na
Number of goods with administered prices in EBRD-15 basket	2.0	2.0	2.0	2.0	2.0	2.0	na
Share of trade with non-transition countries (in per cent)	79.7	78.5	76.8	75.3	75.3	74.3	na
Share of trade in GDP (in per cent)	58.9	66.9	64.3	70.8	72.4	72.3	66.0
Tariff revenues (in per cent of imports)	1.7	0.9	0.4	0.4	0.4	0.4	na
EBRD index of price liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of forex and trade liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of competition policy	3.0	3.0	3.3	3.3	3.3	3.3	3.3
Financial sector							
Number of banks (foreign-owned)	58 (46)	57 (44)	61 (50)	63 (52)	64 (54)	70 (60)	na
Asset share of state-owned banks (in per cent)	25.8	21.7	21.5	21.1	19.5	18.3	na
Asset share of foreign-owned banks (in per cent)	71.5	71.3	74.3	74.2	75.5	76.5	na
Non-performing loans (in per cent of total loans)	25.1	17.4	11.6	7.7	5.4	4.7	na
Domestic credit to private sector (in per cent of GDP)	32.7	31.0	33.4	38.5	44.6	54.9	55.2
Domestic credit to households (in per cent of GDP)	10.3	10.6	12.4	15.6	20.0	27.0	na
Of which mortgage lending (in per cent of GDP)	3.4	3.8	5.0	7.2	9.9	15.0	na
Stock market capitalisation (in per cent of GDP)	16.5	23.0	31.1	40.9	43.6	21.0	na
Stock trading volume (in per cent of market capitalisation)	26.6	33.1	36.3	45.3	47.5	45.7	na
Eurobond issuance (in per cent of GDP)	0.7	1.7	4.0	1.4	1.0	0.4	na
EBRD index of banking sector reform	3.3	3.3	3.7	3.7	3.7	3.7	3.7
EBRD index of reform of non-bank financial institutions	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Infrastructure							
Fixed-line (mobile) penetration rate (per 100 inhabitants)	32.1 (45.5)	32.8 (60.4)	31.0 (76.4)	30.1 (96.3)	27.1 (108.5)	27.1 (108.5)	na
Internet users (per 100 inhabitants)	24.9	29.2	35.3	40.4	43.9	43.9	na
Railway labour productivity (1989=100)	101.3	103.3	98.8	102.4	102.6	97.9	na
Residential electricity tariffs (USc kWh)	7.7	8.5	9.9	10.8	12.3	20.0	na
Average collection rate, electricity (in per cent)	na	na	na	na	na	na	na
GDP per unit of energy use (PPP in US dollars per kgoe)	4.9	5.3	5.6	na	na	na	na
EBRD index of infrastructure reform	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Electric power	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Railways	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Roads	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Telecommunications	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Water and waste water	3.3	3.3	3.3	3.3	3.3	3.3	3.3

[1] Poland has no specific concession law but partly conforms with internationally accepted principles on concession law.

[2] Estimate based on the poorest 20 per cent of households (lowest income quintile).

ANNEX 7: POLITICAL AND SOCIAL ASSESSMENT

Poland continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank.

Political Context

The Republic of Poland has a consolidated democratic regime underpinned by a diverse and vibrant civil society and an independent media. The mixed parliamentary-presidential political system is characterised by effective constitutional checks and balances on the exercise of power across the three branches of government. The Polish President, who is elected directly by popular vote, has limited executive powers, although the President formally nominates the Prime Minister and the members of the Cabinet, who are then subject to approval by the lower house of parliament (the *Sejm*). The legislative branch, the National Assembly, is bicameral, with the lower house composed of 460 members elected by proportional representation in multimember constituencies. The upper house, the Senate, has 100 constituency-based members elected on the basis of multiple member pluralities in constituencies of two to four members.

Since the end of one-party Communist rule in 1989, political power has broadly alternated between centre-right and conservative parties, on the one hand, and centre-left and Communist successor parties, on the other. This has resulted in prolonged periods of 'cohabitation' between a President and a Government of different political stripes, particularly during the latter half of the ten-year presidency of President Aleksander Kwasniewski, who served from 1995-2005. This pattern was interrupted in the October 2005 parliamentary and presidential elections, in which the conservative Law and Justice Party (PiS), led by Jaroslaw Kaczynski, won a plurality in the Sejm and formed a government with two small conservative/nationalist parties, while Jaroslaw Kaczyński's twin brother, Lech Kaczyński, subsequently won the presidency, leading to PiS domination of the political scene. However, the PiS-led government soon fell out with its two smaller coalition parties, resulting in the collapse of the government and the holding of early parliamentary elections.

The parliamentary elections of October 2007 resulted in a significant shift in voter alignment from the Law and Justice-led coalition to the liberal centre-right Civic Platform (PO), led by Donald Tusk, which increased its representation from the 139 seats won in 2005 to a plurality of 209 seats. PO subsequently formed a coalition government with the smaller Polish Peasants' Party, a left-leaning agrarian party, to establish a comfortable majority of 240 seats. In the face of ongoing opposition from President Kaczynski and PiS, the PO-PSL coalition as at times been supported by the 53 seats controlled by the opposition Democratic Left Alliance (SLD).

The PO-PSL coalition has proven to be less reformist and – partly as a result – more resilient and cohesive than might have been expected given the political impact of the global financial and economic crisis elsewhere in the region. While the PO leadership's willingness to accommodate many of the demands of its junior partner have weakened some of its more ambitious reform objectives, this accommodating stance has also ensured that PSL remains within the coalition, a commitment that has been strengthened by the good working relationship between the PO Prime Minister Donald Tusk and the PSL's leader, Deputy Prime Minister Waldemar Pawlak.

The strength of Poland's democratic institutions was clearly demonstrated in April 2010 when President Lech Kaczyński and 87 other senior members of the Polish political and intellectual elite were tragically killed in a plane crash in Smolensk, Russia, en route to attend the 70th anniversary commemoration of the Katyń Massacre. The smooth transfer of political and administrative powers following the tragedy – including the temporary transfer of presidential power to the Speaker of the Sejm, Bronisław Komorowski, as well as the handover of senior positions in the Government, Senate, National Bank and armed forces – was undertaken in a manner that was fully consistent with the Polish Constitution, reflecting the strong degree of consolidation of Poland's democratic institutions even under conditions of extreme stress.

The presidential election that had been scheduled for October 2010 was subsequently brought forward to 20 June 2010. Acting President Bronisław Komorowski had been selected as PO's candidate, in Poland's first primary-style candidate selection process, prior to the Smolensk disaster. Former Prime Minister, PiS chairman and Lech Kaczyński's twin brother, Jarosław Kaczyński, stood as the PiS candidate with the stated aim of perpetuating his brother's political legacy. After a close first round in which no candidate succeeded in taking an overall majority, Komorowski secured a majority of 53.01% of the popular vote in the second round run-off to win the presidency.

For the two-and-a-half years between the parliamentary elections of 2007 and the presidential election of 2010, little progress was made on the structural reform programme. This was a result of several factors: political stalemate between the PO-led government and the Kaczyński presidency; Poland's relatively good economic performance through the crisis period; and a relentless election cycle which foreshortened the political elite's policy time horizon. Komorowski's victory in the presidential election should remove many of these obstacles and provide a much-needed boost to the reform agenda. However, sustained political commitment will be necessary for the PO-dominated political leadership to implement the most politically sensitive 'third phase' transition reforms, particularly in the area of large-scale industrial privatisation, and to tackle the fiscal deficit through much-needed reforms in the areas of pensions and healthcare.

Integrity Issues

Despite significant and sustained government- and EU-supported programmes to combat corruption and improve the quality of public governance, both remain moderate challenges in Poland. Some important improvement has been noted in recent years. According to Transparency International's Corruption Perceptions Index (CPI) – an 'index of corruption indices' – in 2009 Poland scored 5.0 out of 10 (with 10 representing the lowest level of corruption). This score represented the continuation of an improving trend from 2006, when Poland scored on the 56th percentile in global terms, to reach the 73rd percentile in 2009. For the first time in many years Poland leapfrogged over regional neighbours Lithuania, ranked 52nd, and Latvia and Slovakia, jointly ranked 56th in the world, to achieve the status of fourth ranked transition country after Estonia, Slovenia and Hungary.

The most recent Business Environment and Enterprise Performance Survey (BEEPS), carried out jointly by the EBRD and World Bank in 1999, 2002, 2005 and 2008, paints a more detailed picture of the Polish business environment. Although firm managers have reported a consistent reduction in the obstacles to the operation and growth of their firms across most aspects of the business environment, and the reported frequency of 'unofficial payments to get things done' has fallen since 2005, business inspections, licensing and permits, and corruption continue to be cited as significant remaining obstacles. These findings on corruption are echoed by the World Bank's Worldwide Governance Indicators for 2009, on which Poland has the lowest score on the 'Rule of Law' indicator, while the country score fifth highest on the 'Control of Corruption' indicator among the eight countries of the CEB region. The 2008 BEEPS also found that political instability and crime, theft and disorder were also perceived by firms to be challenges to their operation and growth.

Social Conditions

Population

Poland has the largest and one of the youngest populations in Central and Eastern Europe and the Baltics. According to Poland's Central Statistical Office, Poland's population was 38.14 million at the beginning of 2009, which represents a negligible decline of 0.4 per cent from Poland's post-war population peak of 38.29 million recorded in early 1997. Although the population is falling slowly, the 'baby boom' generation born in the early-1980s is beginning to enter the workforce, with 2009-2010 the peak years for new entrants. This demographic 'bulge' has led to large number of younger Poles migrating abroad for work, particularly to Western Europe, in recent years, although anecdotal evidence indicates that a significant proportion of these migrant labourers returned to Poland during the economic recession of 2009. The return of several hundred thousand migrant labourers combined with the age-related glut of new entrants to the labour force over the next several years, followed by the anticipated longer-term trend of a rapidly ageing and shrinking workforce, have highlighted the pressing need for further reform to the pensions and healthcare systems.

Minorities

Poland is one of the most ethnically homogeneous countries in the transition region, with almost 97 per cent of the population being ethnically Polish. The large non-Polish minorities are Silesians, Germans, Belarusians and Ukrainians.

The legal framework for the protection of minority rights is well developed. Important amendments to key laws, including the Penal Code, the Civil Code, the Labour Code and the Law on Education, were undertaken in the 1990s and first half of the 2000s to ensure compliance with relevant EU standards and norms as well as the UN Convention on Elimination of All Forms of Racial Discrimination.

Poverty

Poverty remains a very real challenge in Poland, particularly in rural areas. Despite gradual convergence, as of end-2008 Poland remained the third poorest EU country with a GDP per capita level of 56 per cent of the EU average. According to the Central Statistical Office and Eurostat's EU-SILC, Poland has among the highest levels of material deprivation in the EU-27. Although the 'at-risk-of-poverty' rate of 18 per cent is only slightly higher than the EU-27 average, the vast majority of extreme poverty, including age-related poverty, is to be found in rural and agricultural areas.

Labour issues

Unemployment and under-employment were chronic problems in Poland for most of the transition period: registered unemployment reached its post-independence peak of more than 20 per cent of the workforce in the economic downturn of 2000-2002. However, unemployment subsequently fell dramatically as demand for labour, fuelled by strong domestic economic growth, combined with waves of emigration (primarily to EU countries) to drive up wages, bringing registered unemployment down to below 10 per cent of the eligible workforce. The global economic crisis has not had as significant an impact on employment figures in Poland as elsewhere in the region although it is likely that unemployment will rise appreciably in the first half of 2010.

In the longer term perspective, the structure of the labour force is rapidly converging to European norms, with the share of labour in the service sector gradually rising to reach almost 60 per cent in 2008, while the proportion working in agriculture and forestry has fallen to below 10 per cent, while the industrial sector has remained constant at around 30 per cent of the workforce. Trade unions in Poland remain powerful and vocal, and their privileged position within the political system (part of the legacy of Poland's unions-led transition from Communist rule) continue to ensure that the rights of unionised labour are protected by a well-enforced and comprehensive collective bargaining regime.

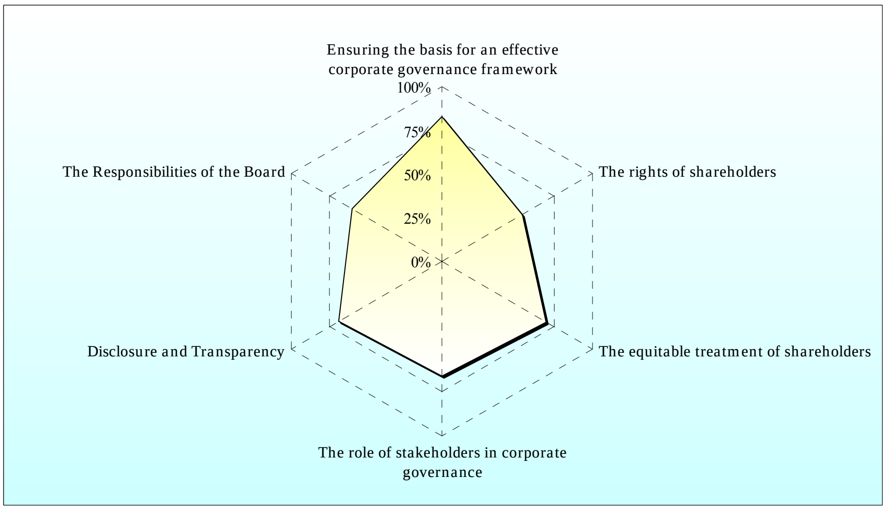
ANNEX 8: ASSESSMENT OF POLAND'S COMMERCIAL LAWS

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.

Company Law and Corporate Governance

Corporate governance legislation in Poland is essentially entrusted in the Commercial Companies Code, enacted in September 2000, as amended. The Warsaw Stock Exchange adopted a voluntary corporate governance code for listed companies (Best Practices in Public Companies 2007)[2], which are required to issue an annual declaration stating whether or not they comply with the code and explaining the reasons for any non-compliance.

Quality of corporate governance legislation – Poland (2007)



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, 2007 assessment

According to the results of the EBRD's 2007 Corporate Governance Sector Assessment[3] under which the quality of corporate governance legislation in force in November 2007 was assessed, Poland resulted to be in "medium compliance" with the OECD Principles of Corporate Governance, showing some shortcomings especially in the legislation detailing the rights of shareholders and the responsibilities of the board (see chart above). The recent amendment to the Commercial Company Code, transposing the EU Directive on the Exercise of Certain Rights of Shareholders in Listed Companies, has addressed some of these issues and the framework has improved.

When considering the effectiveness of corporate governance legislation, the 2005 EBRD's Legal Indicator Survey[4] 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 better in listed companies, although procedures are complex and enforceability is often an issue.

[2] The Best Practices 2007 are available on the EBRD website at http://www.ebrd.com/country/sector/law/corpgov/codes/poland.pdf

[3] Read more about the initiative at: http://www.ebrd.com/country/sector/law/corpgov/assess/index.htm

[4] Read more about the initiative at http://www.ebrd.com/country/sector/law/corpgov/lis/index.htm

The time needed to obtain disclosure is usually limited, but can be easily delayed by the other party. Also when considering redress, procedures are complex and lengthy as it might take four years to obtain an executable judgement.

Concessions

Within the past year Poland has undertaken considerable steps in upgrading its legal and institutional environment for PPP. To a large extent this may have been driven by the forthcoming European Football Cup 2012 and the necessity to attract private finance into infrastructure as soon as possible. The 2005 PPP Act was criticised as being overly complicated and not workable due to the lack of implementing regulations.

In order to streamline the PPP granting and implementation process and simplify rules, a new Public Private Partnership Act (the "PPP Act") and the Act on Concession on Construction Works and Services (the "Concessions Act") came into force at the beginning of 2009. In addition, a PPP Centrum was set up in 2008 to promote PPP and perform the role of a government agency in the development and dissemination of the PPP best standards.

The PPP Act aims to provide for clear and fairly simple rules, removes the unnecessary formalities of the former regime and gives parties flexibility in structuring their arrangements based either on the rules of the new Polish laws or on the existing legislation governing contracts and commercial relations.

A PPP is described as a joint activity by a public entity and a private partner based on the sharing of obligations and risks between them. The definition of an 'activity' includes construction or renovation, provision of works or services. Remarkably, an 'activity' should always involve the element of maintenance and management of an asset that is used for or related to a PPP project. As a result, the application of the PPP Act is quite wide.

Following the EU rules, the new Polish laws stipulate that in the event the remuneration of the private party consists solely or mainly in the right to exploit the work/service or construction or renovation of the subject of the agreement then the arrangements are deemed concessions and the rules of the Concessions Law are applicable. The Concession Law provides for a two-stage procedure, starting with a public announcement. During the first stage bidders are invited to submit applications attaching relevant declaration. Those investors short-listed for the second stage then submit their proposals. For all other PPP arrangements the 'competitive dialogue' procedures per the Public Procurement Law apply.

In regulating project agreements the new Polish laws set out the key issues required to be reflected in an agreement between the parties, ensuring that the main risks are properly allocated between them. The Concessions Act sets out the maximum duration of service agreements usually to 15 years and of a construction agreement to 30 years.

It is yet to be tested how the new Polish laws will work in practice, however, on the books at least they look more attractive compared to the rules of the former regime.

Insolvency

Bankruptcy and insolvency in Poland are governed by the Law on Bankruptcy and Redress (the "Insolvency Law") issued in 2003 and amended a number of times, the most recent in May 2009. At the end of 2007, a Law on Trustee Licensing was adopted aimed at improving insolvency practitioners' professional qualifications. The Insolvency Law is sound especially on involving creditors in the bankruptcy process and on simplified 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.

The most recent amendments to the Insolvency Law in 2009 remove some of the previously existing shortcomings, (e.g., by clarifying the commencement criteria for insolvency proceedings and by allowing the debtor to seek protection through rehabilitation procedure in the event of potential bankruptcy) but room for improvement still remain: the effects of the commencement of proceedings on enforcement proceedings and on the further disposal of assets are vaguely phrased, heightening creditors' risks; the rules on set-off are not entirely clear; there are no provisions to allow for ongoing financing during a reorganisation (this is a common weakness throughout the region) and creditors do not have a decisive say on the approval of the reorganisation plan. Finally, the provisions requiring relevant parties to deliver assets and records of the debtor company to the court or the court's functionary are insufficient.

The adoption of the 2007 Law on Trustee Licensing should promote the development of insolvency practitioners as a profession, ensuring the efficiency of the insolvency proceedings. Further reform in this area is needed to provide clearer rules for selection, review of appointment, resignation and replacement of insolvency practitioners in a case. The profession would benefit from adopting standards of professional and ethical conduct. There is also a need for a supervisory mechanism to investigate complaints against insolvency practitioners and apply appropriate disciplinary measures.

Secured Transactions

Poland is generally considered an advanced transition country; yet, its legal system does not always adequately support commercial activities. In 2006, the National Bank of Poland (NBP) and the EBRD collaborated to put forward a number of recommendations for reform. A number of reforms have been adopted since. On 11 January 2009, the Law on Amending the Act on Registered Pledge and the Pledge Register of 6 December 1996 removed a number of restrictions on the registered pledge system, such as the requirement to file the registration within a month of contract execution, or the obligation for the pledgeholder willing to take over the collateral in payment for the secured debt to have specified its value in the pledge agreement (it is now possible to specify the method of determining its value). But these changes merely scratch the surface and bolder reforms will be needed to make a real difference.
In particular the following recommendations remain valid:

- *"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".* 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 and provide real time access by the public to all registered information via the internet and a user-friendly search engine.
- "*The processes for registration of mortgages and for accessing information in the mortgage registers should be made simple, fast and inexpensive".* Superfluous requirements and formality should be removed. The public should be given easy and immediate access to all registered information concerning mortgage.
- *"The mortgage law should be reviewed to remove unnecessary or out-of-date restrictions and constraints, and to make mortgage an attractive and flexible instrument of security which gives maximum economic benefit to borrower and lender".* 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

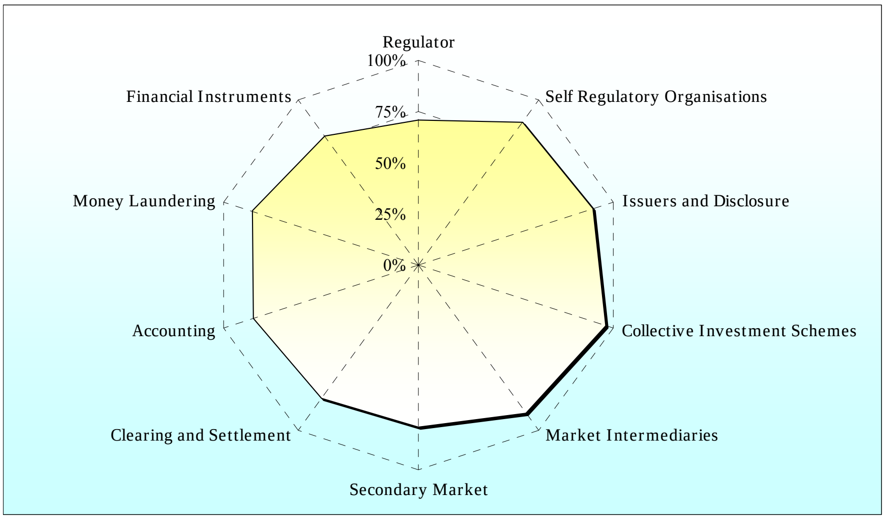
maximum scope for the parties to tailor the detail of their agreement to fit the actual needs of their transaction.

- *"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".* Alternative methods introduced by the pledge law have so far failed to serve the needs of the users, for a variety of reasons. On 4 April 2009, an Ordinance of the Minister of Justice regulating procedures for the sale of registered pledge subject by way of a public tender offer, now makes it possible for objects subject to a registered pledge to be sold by public tender carried out by a Notary Public or a bailiff appointed by the pledgeholder. It remains to be seen how successfully the Ordinance will work.
- *"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."* 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. 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.
- *"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.

Securities Markets

In Poland the main legislation on the securities market is entrusted in the "Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies" (APO); the "Act on Trading in Financial Instruments" (ATFI); the "Act on Capital Market Supervision" (ACMS), all enacted in July 2005; the Act on Financial Market Supervision (AFMS), enacted in July 2006 and the Commercial Companies Code, enacted in September 2000. The APO details the requirement for public offering of financial instruments, the ATFI provides regulation on trading in financial instruments and on brokers activities, the ACMS and the AFMS detail the frameworks of the supervision over the capital and the financial markets and the Commercial Companies Code regulates the creation, life and dissolution of commercial companies.

Quality of securities markets legislation – Poland (2007)



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

Source: EBRD Securities Market Legislation Assessment 2007

The securities markets regulator is the Polish Financial Supervision Authority introduced by ACMS on 4 September 2006. It replaced the Polish Securities and Exchange Commission and the Insurance and Pension Funds Supervisory Commission and is in charge for pensions, insurance, capital markets and electronic money institutions. Since 1 January 2008, the Authority is also in charge of the supervision over the banking sector, taking over the functions of the Banking Supervisory Commission.

The 2007 EBRD Securities Markets Legislation Assessment (see chart above), found Poland in "high compliance" with the Objectives and Principles of Securities Regulation published by the International Organization of Securities Commissions (IOSCO) and only minor shortcomings are noted.[5] In order to understand how securities markets legislation works in practice, the EBRD recently concluded the 2007 Legal Indicator Survey ("the LIS"). Practitioners in the region were asked to comment on a hypothetical case study, advising an investor who lost his savings after buying shares in a national company's Initial Public Offering (IPO), misled by erroneous information in the prospectus. In particular, the Survey concentrated on effectiveness of prospectus disclosure requirements, private and public enforcement mechanisms and authority of the market regulator. The LIS revealed that IPOs in Poland are a viable source of funding for corporations and disclosure practice follows good standards. The prospectus is considered reliable and financial reporting practices are sound: EC Regulation 809/2004 directly applies detailed disclosure requirements and is well implemented. The role and capacity of the regulator in assessing the prospectus and supervising the IPO procedure is adequate and the information contained in the prospectus considered reliable. Courts and the regulator are developing good expertise in investigating complex securities cases. The regulator is in charge of protecting investors and this practice appears well implemented and effective.[6]

Telecommunications

The electronic communications sector in Poland is currently regulated by the Office for Electronic Communications (*Urzędu Komunikacji Elektronicznej* - UKE) and is governed by the Telecommunications Act of 2004, as amended. Responsibility for policy development resides with the Ministry of Infrastructure.

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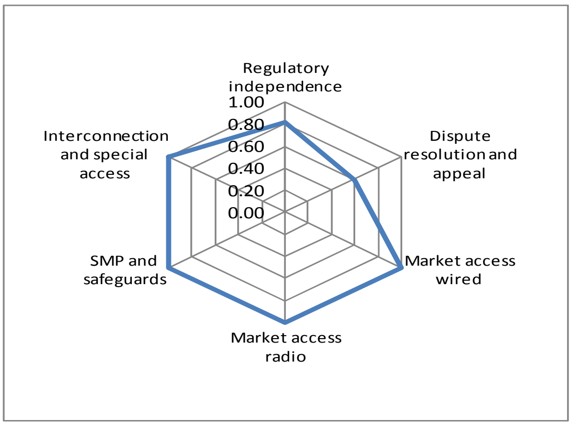
5 Read more about the initiative at http://www.ebrd.com/country/sector/law/capital/assess/index.htm

6 Read more about the initiative at http://www.ebrd.com/country/sector/law/capital/survey/index.htm

While the President of UKE is charged with most of the responsibilities of regulatory implementation under the regulatory framework, the Ministry for Infrastructure is responsible for market definition for the purposes of market analysis, and for legal acts, including a number of ordinances. This split authority has resulted in strained relations in recent times, though a forthcoming amendment to the law should resolve issues in this area. In December 2006 the European Commission (EC) started legal action against Poland as the national rules relating to state personnel gave the Polish Prime Minister unlimited discretion to dismiss the head of UKE, so undermining the independence of the regulator (especially since the Polish government is a shareholder in the sector). An April 2009 amendment of the law reinstated a five-year term of office for the President of UKE and provided a list of conditions for dismissal, better ensuring independence of the regulator (as required by European rules). Following adoption of the amendment EC duly withdrew proceedings.

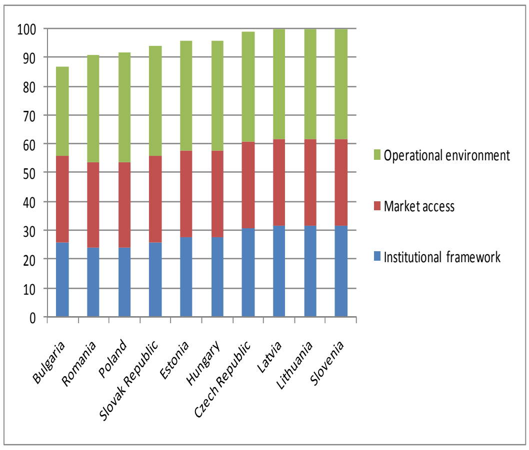
In the fixed market, dominant incumbent operator TPSA remained market leader in revenue terms. Despite this dominance, however, there was an increase in the share of alternative operators in 2008, up to approx. 27 per cent, with the incumbent share dropping to approx. 73 per cent. Nonetheless, in an effort to hasten competition in the fixed market further, UKE announced (in December 2008) that it will start legal procedures for functional (vertical) separation of TPSA. Although UKE subsequently announced the suspension of the process to allow TPSA time to implement a voluntary equal access-type scheme, the threat of legal action appears to have yielded positive results. It is understood UKE will look again at the matter in 2010 and decide whether to proceed as originally planned. In the mobile sub-sector, in 2008 there were over 43 million users of the mobile telephony services, equating to a penetration level of approx 115 per cent (excluding inactive users, 98 per cent). Competition in mobile continues to increase with 2008 seeing the entry or seven new Mobile Virtual Network Operators (MVNOs). In the broadband internet market, though penetration continues grow, Poland’s figures remain amongst the lowest in the EU-27 countries, significantly below the EU average, with the access speeds provided also being amongst the slowest.

Key indicators for the Poland from the EBRD Assessment (2008)



Regulatory spider diagram

This spider diagram includes six main group indicators. For each indicator, the diagram presents the scores as percentages of the maximum achievable score. The scores begin at zero at the centre of the chart and reach 1.00 at the outside, so that in the overall chart, the wider the web, the better the score in the assessment.



Comparative regulatory assessment of EBRD countries of operation which are EU member states

As shown in the charts above, in the 2008 assessment of the communications sector of EBRD Countries of Operations,[7] the sector regulatory regime in Poland was deemed to have “Full Compliance” when measured against international best practice.[8]

[7] Read more about the initiative at http://ebrd.com/country/sector/law/telecoms/assess/index.htm

Implementation of key elements of the EU framework continues to challenge the authorities, with slow progress evident in wholesale line rental, bit-stream access and local-loop unbundling (hindering uptake of broadband internet, amongst other things). The fragmentation of the competitive fixed market has not helped the development of effective competition, though UKE's functional separation initiatives and TPSA's response should significantly advance improved infrastructure access for alternative operators, if implemented correctly. Similarly, the benefits of increased competition in the mobile market brought by MVNOs should soon start to show.

[8] Note, however, that the category of "Full compliance" includes assessment scores between 90 and 100. Therefore, it is possible to have "Full compliance" even if a country is marked down on some of the indicators.)