COMMISSION DECISION
OF 2000

Establishing a Phare multi-beneficiary programme for the Bangkok Facility in 2000,

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EEC) No 3906/89 of 18 December 1989 on economic aid to certain countries of Central and Eastern Europe, as last amended by Regulation (EC) No 1266/99 of 21 June 1999, and in particular article 9 thereof,

Whereas Regulation No 3906/89 lays down the rules and conditions for the granting of economic aid to certain countries of Central and Eastern Europe,

Whereas the measures provided for by this Decision are in accordance with the opinion of the Committee on Aid for Economic Restructuring in certain countries of Central and Eastern Europe,

HEREBY DECIDES AS FOLLOWS:

Article 1

The programme described in the Annex to the present decision is hereby adopted.

Article 2

The maximum amount of Community assistance shall be 15 MEUR to be financed through Budget line B7-030 in 2000.

Done in Brussels,

For the Commission
PHARE BANGKOK FACILITY

ANNUAL PROGRAMME 2000

1. Identification

1. Recipient states: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia
2. Title of proposal: Phare / EBRD Bangkok Facility
3. Year: 2000
4. Total cost: €15,000,000
5. EU contribution: €15,000,000
6. Budget line: B7-030
7. Implementation Authority: EBRD
8. Expiry date: 31 December 2002 (contracting)
   31 December 2003 (payments)
9. Sector: AA
10. Group: O
11. Task Manager: John Winter

2. Summary

2.1 The funds authorised under this proposal will be used to finance technical co-operation (TC) activities in the candidate countries to assist the preparation and implementation of EBRD operations. Funding TC enables the candidate countries of Central and Eastern Europe to maximise the benefits of EBRD operations in pursuit of their accession strategies and to harness EBRD expertise in improving the wider investment climate (e.g. helping to meet basic legal and regulatory requirements). A part of the allocation will be used to continue the successful Turn Around Management (TAM) programme providing tailored advice and support to manufacturing industries in the candidate countries. The overall action will be managed by EBRD and subject to ex-post control by the Commission.

2.2 Priority will be given to preparing and implementing investments which correspond to Accession Partnership priorities.

2.3 The Commission has notified the EBRD that in accordance with the intention set out in the Phare guidelines 2000-2002 to continue the reduction in the number of multi-country programmes, this will be the last Phare contribution to the Bangkok Facility (see para 5.5 below).

3. Background
3.1 The October 1991 Principles of Co-operation between the European Bank for Reconstruction and Development and the European Commission set out the modalities for co-operation between the two institutions. Under this "Bangkok Facility" Phare (and, separately, Tacis) provide grant funding to EBRD to support technical assistance components of its operations. The need for such assistance was identified soon after EBRD became operational, in 1991, when it became apparent that its countries of operations were not readily able to absorb the investment capital EBRD had to offer them. By providing due diligence and risk assessment to EBRD’s operations, the Facility was designed to permit a greater up-take of investment by such countries than would have otherwise been possible.

3.2 Since 1991, the implementation modalities of the Bangkok Facility have evolved in order to increase the efficiency of this cooperation arrangement. In 1996, the move from an *ex ante* to an *ex post* control system enabled the EBRD to issue tenders and contracts, thereby ensuring a speedier and simpler approval process. This is done in accordance with commonly agreed procedures. These procedures, in particular for tendering and contracting arrangements, respect the requirements as laid out in the Phare rules and regulations and Commission financial regulations, and are subject to *ex post* auditing by the Commission. Details of commitments and disbursements from 1992-99 appear in annex 2. As a result of an evaluation carried out in 1999 (see 4.2 below) changes have been made to the implementation modalities. In particular, tenders for Bangkok eligible projects will be open to non-EU firms. Naturally, if a non-EU firm wins the tender, a TC fund different from the Bangkok Facility will finance the project.

3.3 The Commission has previously also made commitments from Phare to the TAM programme (€0.6 million from the 1996, and €10 million from the 1997 Bangkok Facility respectively). This programme is largely funded by the Commission, Nordic funds and bilateral donors and is managed by a Department of the EBRD. It provides expert assistance from experienced managers and technical specialists to individual manufacturing enterprises in Central and Eastern Europe and Central Asia through periodic visits over a 12-18 month period. The outputs include business plans, adaptation of processes to EU standards, improved competitive position, sound environmental practices and expanded networks of contacts.

4. Achievements to date

4.1 The Facility has played a crucial role in enabling EBRD and the recipient countries to build up and implement a portfolio of successful investments. In purely financial terms, the leverage obtained by EU contributions to the Bangkok Facility has been high (a ratio between EU commitments and linked investments from the EBRD of about 1:28 and from all sources of the order of 1:95).

4.2 An evaluation of EC/EBRD (co-) financed programmes, including the Phare Bangkok Facility, was published in April 1999 by the Commission’s Evaluation Unit for external programmes. The evaluation considered the overall use made by the EBRD of TC funding from the EU and carried out field level evaluations of 49 projects in which EU funds had been used for technical assistance. It concluded that:

i) TC was essential to most of the projects evaluated, in the sense that it enabled projects to go ahead which would not have happened without it.
ii) the overall implicit TC subsidy rate is low, though this conceals variations between Phare and Tacis countries (implicit subsidy rates of 2.4% and 6.8% respectively) and between sectors. The availability of TC is unlikely to make a difference to the financial viability of an investment, especially in Phare countries. Its value to the EBRD lies in the externalities (or transition impact) to which it gives rise.

iii) EBRD’s own assessment of its activities is that around 75% have high transition impact. The success rate is similar for projects with and without TC, suggesting that the EBRD allocates available TC rationally, and that TC has been associated with high transition impact. The nature of the impact has varied: in general there has been assistance in lowering transaction costs, improving the scope for market competition, raising environmental awareness and developing the commercial orientation of enterprises.

iv) the EBRD addresses the TC needs of its countries of operation equitably; and uses more TC in countries where it is needed most to confer transition impact.

v) however, the EBRD needs to be more explicit about the justification for TC and for the implicit subsidy level, and to consider the scope for more TC operations on a reimbursement basis.

vi) there should be more intensive country and policy dialogue and co-ordination of country strategy between the Commission and the EBRD so as to exploit the complementarity of the two institutions.

vi) the rate of utilisation of the Phare contribution to Bangkok has been lower than that for Tacis, reflecting a lower need for subsidies to enhance the transition impact of an investment project and/or mitigate project risks.

The evaluation also made operational recommendations on tender procedures, fee calculation, annual reporting, the use of commercial confidentiality by the EBRD and visibility which have been taken into account in a joint memorandum governing the future use of the Bangkok Facility and reflected in the implementation modalities at annex 1.

4.3 The TAM programme has provided assistance to 400 enterprises, and a further 250 projects are under way. It has been subject to a separate assessment under the Commission’s Monitoring and Assessment system for Phare. The main conclusions were:

i) both wider and immediate objectives of the programme are being achieved.

ii) enterprises assisted by TAM show on average increased turnover of 38%, and an increase in employment overall of 4% (a significant increase in employment in the category of up to 250 employees being balanced, as might be expected, by a decrease in the category of 250-400 employees).

iii) TAM assistance is helping enterprises to attract investment, including from EBRD sources.

iv) improvements arising from TAM assistance are sustainable.

5. EBRD Policy Priorities and Conditions

5.1 EBRD seeks to finance projects to which it can apply sound banking principles, but for which sufficient financing cannot be found from other sources. It also seeks to ensure that its operations promote the transition to a fully functioning market economy. The key principles
which guide its operations are *sound banking, additionality and transition impact*. The Bank’s medium-term strategy 1999-2002, presented to the Board of Directors in October 1998, recognises that the enlargement of the European Union will have important implications for EBRD operations in accession countries. The strategy also emphasises the common objectives shared by the EU accession process and the EBRD’s transition mandate.

5.2 The operational priorities for the medium term established by the Bank’s management are to

- help create sound financial sectors linked to the needs of enterprises and households
- provide leadership for the development of business start ups and small and medium enterprises
- pursue commercial approaches and a full range of financial structures for infrastructure development
- demonstrate, through carefully selected examples, effective approaches to restructuring viable large enterprises
- take an active approach to equity investment
- promote a sound investment climate and stronger institutions on the basis of its project experience and investor perspective

5.3 In March 1998 the Commission concluded a Memorandum of Understanding with the EBRD and the World Bank (since extended to other IFIs) on co-operation for pre-accession preparation. The MoU provides the framework in which the Commission and the IFIs seek policy co-ordination and joint project financing, following principles of complementarity and additionality and aiming at reinforcement of accession strategies. The MoU envisages “a mix of grants and loans that take due account of the financial sustainability and profitability of the projects concerned so as to achieve the most judicious and economical use of scarce resources as set out in the new Phare guidelines: as a rule, the use of EU grants should be limited to cases where there are clear externalities or market imperfections”.

5.4 Under the MoU, the Commission and the EBRD agreed to co-ordinate their respective financial instruments to better foster the adoption of the acquis under the following project eligibility and selection criteria, and sectoral policy performance benchmarks:

- compliance with the relevant EU sector policies and priorities set out in the Accession Partnerships. All the proposed project summaries in Annex 4 contain accession related justification;

- existence of specific programmes for aligning the legal and regulatory framework in the different sectors, notably on environmental standards;

- financial and economic viability of the projects through transparent cost recovery pricing policies that will take into account social conditions;

- ability of the national authorities to ensure a sustainable development of the different sectors and projects (ie liberalisation and introduction of competition, etc);

- the transition impact of the project.
5.5 In the light of growing areas of co-operation with the EBRD, centred on the Accession Partnership priorities, the Commission reviewed the EU contribution to the Bangkok Facility at the end of 1999. It concluded that progress had been made in focussing the Facility more closely on accession priorities in the candidate countries. Nevertheless, the process of allocating it remained detached from country programming and the setting of national priorities. Given the need for candidate countries to plan the investment pipeline for the acquis in a more integrated way, it would be preferable for national authorities to determine, in the light of other priorities, their project preparation needs and to provide for them if necessary within national Phare programmes. In this way proposals for the use of Phare money to prepare IFI investments would be subject to the same accession-related criteria as any other proposal. Closer co-operation between the EBRD and Commission country teams (another recommendation of the evaluation) is envisaged to put this approach into practice. The allocation for this year therefore covers a transitional period, following which Phare contributions to the Bangkok Facility will be discontinued.

5.6 A country-by-country review of proposed EBRD activity, including how EBRD is helping the accession countries to prepare themselves for membership of the union by addressing the short and medium term priorities identified in the Accession Partnerships and the National Programmes for the Adoption of the Acquis (NPAA), is attached as Annex 3.

6. Objectives

6.1 The overall goal to which this programme is designed to contribute is economic transformation and development in the countries of Central and Eastern Europe.

6.2 The Programme's main specific objective is to increase the quantity and quality of EBRD investments through financing technical cooperation activities which enable them to be better prepared and implemented.

6.3 A secondary objective is to improve the overall investment climate in recipient countries, e.g. through financing activities aimed at promoting the regulatory and legislative framework under which investments are made (including ensuring its compatibility with EC norms), through institution building for potential EBRD partners in financing operations, or through providing specific advice to viable manufacturing enterprises.

7. Programme description

7.1 Under the 2000 programme there is a strong emphasis on TC support for strengthening municipal finances, and finance and planning functions within transport undertakings and public utilities, as a prerequisite for infrastructure investment. Some projects will be developed on a regional basis, covering several or all Phare beneficiary countries. It should be noted however, that the sectoral focus of TC in a particular country is driven by EBRD's investment programme in that country. Where key investments are being made by other IFIs or private sector investors, or where EBRD judges there is no need for TC to enable them to invest, there may be no need for funding under the programme.
7.2 In many cases the investments to which TC activities are linked will help countries to meet EC norms (e.g. the environmental acquis) and, through the development of large scale infrastructure, to develop the ability to withstand the competitive pressure of the single market.

7.3 In 2000 TC operations are anticipated in six countries under this programme, plus regional programmes covering the whole PHARE region. The table below gives an estimate of financing by country, based on specific projects already identified. These estimates are indicative only; actual projects will be financed for each country in accordance with needs up to a global ceiling of €15,000,000 in 2000, minus the management fee.

<table>
<thead>
<tr>
<th>Country / Region</th>
<th>AP 2000 (€million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>1.580</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.500</td>
</tr>
<tr>
<td>Latvia</td>
<td>0.750</td>
</tr>
<tr>
<td>Lithuania</td>
<td>0.750</td>
</tr>
<tr>
<td>Poland</td>
<td>7.150</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0.700</td>
</tr>
<tr>
<td>Regional (inc TAM)</td>
<td>9.360</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21.790</strong></td>
</tr>
<tr>
<td><strong>Available for TC Operations 2000</strong></td>
<td><strong>14.765</strong></td>
</tr>
</tbody>
</table>

Annex 4 gives a description of the proposed operations in each country. The total of the country figures in the table above exceeds the Phare Bangkok Facility allocation available for TC operations. In practice a proportion of planned operations will slip or fail to materialise.

8. Costs

Costs of TC operations €14,765,000
Management fee €235,000
TOTAL €15,000,000

8.1 The total cost of this programme will be €15 million. Included in this figure is a management fee of up to 2% of the actual net amount paid under the FP (other than for TAM) to compensate EBRD for the additional professional and administrative support provided by EBRD to enable it to manage these funds. It will be paid by the Commission half yearly on the basis of documented justification of EBRD payments.

8.2 Within the allocation for operations €3 million will be set aside for TAM. The costs of the TAM unit in EBRD headquarters are estimated at 10% of total TAM expenditure. They are set by means of an annual budget approved by the TAM Supervisory Board on which the Commission is represented. Donors contribute to the budget pro rata to, and as part of, their contribution to the overall programme, and thus meet the full costs of the programme rather
than paying a management fee. The EBRD does not charge an additional management fee for contributions to the TAM programme.

9. Implementation Arrangements

9.1 The whole programme will be implemented by EBRD, in accordance with the Phare Regulation and the Financial Regulation applicable to the EC budget and the Implementation Modalities (see Annex 1), except in respect of the fees payable under the TAM allocation (see above).

9.2 EBRD will undertake to conclude and award all contracts in its own name and to carry all liabilities arising therefrom.

9.3 EBRD will open a separate interest-bearing Euro bank account for the Programme. An initial amount equivalent to 10% of the total cost of the programme will be deposited in that account by the Commission. Each quarter EBRD will submit a financial report to the Commission which gives details of disbursements, interest income, bank charges and remaining balance for the preceding quarter. The report will also include a disbursement forecast for the following quarter. EBRD will request payments on the basis of this forecast in order to ensure the availability of cash funds to meet its payment obligations. On a six-monthly basis the request will include a request for management fees incurred over the previous six months, together with supporting documentation. Interest income earned on the cash balance, net of bank charges, will be reimbursed to the Commission.

9.4 Should unanticipated requirements for TC operations not listed in Annex 4 emerge, EBRD may seek agreement from the Commission to utilise funds available under this programme in accordance with the Implementation Modalities (see Annex 1).

10. Audit and Monitoring

10.1 The accounts and operations of all activities carried out under the Programme may be checked at regular intervals by an outside auditor contracted by the Commission and financed under the present programme, without prejudice to the responsibilities of the Commission and the European Union's Court of Auditors.

10.2 To facilitate this, EBRD will keep financial and accounting documents concerning all activities financed under this programme, and will make available to the competent bodies of the European Commission on request all relevant financial information, including statements of accounts, on operations funded under the programme (whether those operations are executed directly by EBRD or sub-contracted).

10.3 The Commission Services shall monitor the implementation of the programme and carry out any necessary audits and programme closure in accordance with the DIS manual.
LIST OF ANNEXES

Annex 1  Implementation Modalities
Annex 2  Contracting of 1992-1999 Annual Programmes; 1999 programmes by country and sector; related investments
Annex 3  Country-by-Country Review (including how EBRD addresses accession requirements in accession countries)
Annex 4  Annual Programme 2000
ANNEX 1

EC-EBRD TECHNICAL CO-OPERATION
IMPLEMENTATION MODALITIES

1. EBRD ACTING AS AGENT FOR PHARE AND TACIS

EBRD will act as agent for the Commission for the utilisation of certain funds from the Phare / Tacis Programmes.

EBRD will implement the programmes in accordance with these Implementation Modalities which are consistent with the Phare and Tacis Regulations and the Financial Regulation applicable to the general budget of the European Communities (hereinafter "Financial Regulation"). The EBRD will be kept informed by the services of the Commission of any change introduced in these regulations, which may have implications on these Implementation Modalities.

The Commission will compensate EBRD for the additional professional and administrative support incurred by the Bank to enable it to manage the Bangkok funds. This management fee shall be funded from the annual budget for the Bangkok facility established in the relevant Financing Agreement. It is calculated as a percentage (2%) of the actual net amount paid by the EBRD under the relevant Financing Agreement. It will be paid by the Commission half yearly on the basis of an invoice from the EBRD.

2. TYPES OF OPERATION ELIGIBLE FOR FUNDING

The funds provided to the EBRD from the Phare / Tacis programmes may be used to finance the following activities:

* technical co-operation activities for the preparation of investments including necessary preparatory activities in line with the Bangkok Agreement;

* technical co-operation activities to support the implementation of investments;

* the TAM and BAS Programmes;

Participation in the costs of fund management of the post-privatisation and other early equity funds is subject to a specific Agreement between the Commission and the EBRD (11 September 1998). This Agreement establishes a framework of mutual undertakings within which the European Commission (EC) considers the technical assistance (TA) requirements of the Bank’s ESE Funds for inclusion in the list of TA projects eligible for financing under the Annual Programmes of the Tacis Bangkok Facility.

3. ANNUAL PROGRAMME

The Annual Programme (AP) will include a short description of the projects proposed as provided by the EBRD with their estimated financing, sector and country. This description will include a section on the
expected impact on transition of the TC project and the related EBRD investment. To allow for the event that not all projects listed in the adopted APs will in fact materialise or be funded from the Bangkok Facility, the list of projects in the APs can exceed the annual budgetary allocation.

APs for each year will be prepared by the EBRD during the preceding year and submitted to the Commission by 31 October for approval of the list of eligible projects and of the annual budgetary allocation at the beginning of the next budgetary year. Together with the proposal for the next AP, the Bank will provide the Commission with analytical information, per country / per sector, to set this programme in the broader perspective of the progress of transition and the evolution of EBRD operations in the Tacis partner countries.

Should unanticipated requirements for urgent and rapidly progressing projects emerge, EBRD may seek agreement from the Commission to utilise funds available under the AP, in accordance with the Implementation Modalities.

4. IMPLEMENTATION OF THE PROCEDURES

The EBRD will issue contracts for projects included in the AP after the Commission's financing decision on the annual budgetary commitment, to which the list of projects mentioned under # 3 is annexed, and the signature of the related Financing Memorandum has been obtained. The EBRD may start tendering contracts for these projects before the signature of the financing memorandum, provided that the procurement procedures followed are in compliance with the agreed set of documents and procedures for use in connection with the Bangkok Facility (herein referred to as “Bangkok Facility Procedures”), which are consistent with the Phare and Tacis Regulations and the Financial Regulation. The tendering and contracting arrangements will be subject to ex-post auditing by the Commission to ensure this compliance.

5. SHORTLISTING

Contract opportunities will be published, and short-lists will be drawn up in accordance with the Bangkok Facility Procedures. Companies from non EU / Phare / Tacis countries may be invited to tender. In the event that a company from a non EU / Phare / Tacis country would win the tender, the EBRD would seek a different source of funding for the project.

6. REPORTING

The EBRD shall provide six monthly administrative and financial reporting in an agreed standardised format. This reporting includes information on procurement, commitments, a disbursement forecast and the claim for administration fees. For each TC project a brief standardised report will provide information for monitoring purposes. For completed TC projects, Project Completion Reports will provide, inter alia, information on the transition impact of the projects.
An annual country/sector based reporting will set the annual programme proposed by the Bank in the broader perspective of the evolution of EBRD operations and the progress of transition in the Tacis countries.

The EBRD will contribute to the Phare and Tacis Annual Reports with regard to the use of Bangkok funds.

7. VISIBILITY

Visibility of the cooperation between the EBRD and the Commission is a concern for both institutions. It is important to raise awareness in the Tacis partner countries and in the EU, of the joint efforts to support transition through the promotion of investment, both in the private and the public spheres of the economy. Specific measures will be agreed upon to ensure an appropriate visibility of Community funding, at programme level, as well as in the framework of each TC project.

8. TRANSFER OF FUNDS

The transfer of funds will be made in accordance with the disbursement forecast submitted by the EBRD in accordance with the Phare / Tacis format. The guiding principle for the transfer of funds will be to minimise the cash balance of Phare / Tacis funds at EBRD.

9. AUDIT AND SUPERVISION

The EBRD undertakes to disclose to the Commission Financial Control and the European Court of Auditors at their request records relating to the utilisation of Bangkok Facility funds, to enable them to carry out their control and audit functions in respect of the Bangkok Facility.
ANNEX 3

Country Review

BULGARIA

The Bank provided strong signals to the investment community by supporting the largest foreign direct investment in the country (Solvay-Sodi), by taking a stake in the first large bank privatisation (UBB) or by concluding private sector transactions with local sponsors (such as in the agri-business sector - Domain Boyar). Key transactions in 1999 included support for SMEs with the first syndicated loan to a Bulgarian bank (First Investment Bank), support for agriculture production through the conclusion of a grain receipt financing framework (institutional development and loan to SG-Express Bank), participation in the privatisation of an insurance company and support to a private pension company (Bulgarian Investment Group) and stepping up private equity efforts for SMEs (investments through the Bulgarian Post Privatisation Fund).

The Bank has responded to developments in the operational environment with a strong pipeline of projects that should lead to a significant increase in commitments in 2000 (EUR 100 million target).

In accordance with the Strategy for Bulgaria approved in January 1999, the Bank will continue to pursue the following objectives:

• continued support of investment and post-privatisation restructuring in the industrial sector;
• strong emphasis on SME support (including targeted investment climate actions), particularly through the use of the EU-EBRD SME facility.
• support the rapidly growing interest of private investors in the infrastructure sector (mainly electricity generation and distribution, and municipal services such as the Sofia water and wastewater project), as well as selective sovereign-based projects for crucial areas such as district heating (Sofia in particular) and energy transmission grid, thereby supporting the overall reform process in the energy sector;
• respond to the needs of strategic investors in the completion of the privatisation of the remaining state-owned banks (if needed) and continued support to non-bank financial institutions (pension, insurance, leasing). The Bank will also consider targeted measures to promote the still non-existent local capital market.

CZECH REPUBLIC

In the financial sector the EBRD will continue to participate in the privatisation of the remaining major state-owned banks and in the emergence of viable non-bank financial institutions, such as pension funds and insurance companies. The EBRD’s equity investment in Česká Sporitelna has contributed to a successful privatisation of this bank. In addition, our investment in the Československa Obchodní Banka facilitated the privatisation of the wholly state owned bank (both Czech and Slovak Governments) into a private institution. The EBRD will try to improve the framework for corporate governance by these direct participations as well as through technical cooperation, like the assistance to the new Securities and Exchange Commission supported by the Phare Programme.

The EBRD will increase its activities in the municipal and environmental infrastructure sector, which will require a greatly increased level of investment if the Czech Republic is to follow a fast track to accession to the European Union. Priority areas will include water supply and urban services, environmentally related activities as well as energy and energy efficiency operations. The EBRD arranged the financing of the wastewater treatment plant rehabilitation and upgrading in Brno, supported by the Phare LSIF. Discussions with other large municipalities are currently ongoing. The EBRD will work in close concert with the European Commission, the European Investment Bank and other international organisations active in this region.
In the corporate sector the EBRD will promote financial and operational restructuring and improvement in corporate governance of the private enterprise sector through direct and indirect equity investments. The EBRD will focus its investments in the agribusiness sector on projects preparing companies for EU accession, for example where they would result in improvements in hygiene, quality or environmental-friendliness to meet EU standards. In the priority field of small and medium-sized enterprises (SMEs), the EBRD has to date approved seven projects which assist SMEs through various instruments and intermediaries. The joint EU-EBRD SME Financing Facility will be implemented in the Czech Republic.

ESTONIA

Over the past year, the Bank’s project development work has focused increasingly on the objectives of the current Country Strategy approved mid-year. These are: promoting restructuring, commercialisation, and privatisation in infrastructure, particularly in railways and energy where, as outlined above, the government has made significant changes; further intervention in those banking sector areas where the Bank can still have an important transition impact and be additional (credit lines for small SMEs, regional trade facilitation, privatisation of Optiva Pank) as well as leasing and insurance; and direct financing of growing domestic enterprises. The Bank has continued with its cluster approach to SME development, relying on credit lines, leasing, equity funds, and TAM/BAS Fund technical assistance.

In 2000, the Bank intends in particular to support the banking sector through small SME credit lines and regional trade finance, and will target financial participation in the privatisation of railways and the energy sector, as well as direct support to selected domestic enterprises and joint ventures. The Bank will support the efforts of the Estonian authorities to strengthen financial sector supervision and the role of the capital markets. Special attention will be given to projects that can facilitate economic integration with neighbouring countries and regions. The Bank will continue with the TAM and BAS Fund programmes to support the transfer of management skills and know-how.

HUNGARY

EBRD will continue to focus on the private sector, offering a wide variety of financial instruments on a non-recourse basis, increase its equity commitments and continue EBRD’s product development. EBRD will play a major catalytic role in each area where a private-public partnership makes the financing commercially viable. Furthermore, EBRD intends to pursue sovereign lending activities in areas that are critical for the overall development of the economy and where the country specifically needs EBRD’s involvement.

Continued priority will be given to:

(i) physical infrastructure projects (transport, including railways, telecommunications, utilities;
(ii) involvement in the privatisation of these sectors and the financing of concession-type and BOT projects;
(iii) strengthening of the local financial sector,
(iv) participation in the privatisation of the few major enterprises remaining in state ownership
(v) the provision of finance to SMEs through intermediaries and/or program lending, and
(vi) all projects that facilitate Hungary’s accession to the EU, including TENs and environmental infrastructure development.

LATVIA
Over the past year, the Bank’s project work has focused on the main objectives of the current strategy. These are: direct support of growing domestic enterprises; helping local banks further diversify their product ranges and financing structures; and privatisation and involvement of the private sector in infrastructure. At the same time, a combination of a high mortality rate in domestic enterprise projects previous to and after signing, the banking sector problems that followed the Russian crisis, and slow progress on the privatisation of infrastructure, have substantially affected the ability of the Bank to put in motion projects in these areas.

Despite the issues raised above, three important transactions were signed in 1999: the restructuring and recapitalisation of RKB, a large syndicated loan for Unibanka, and the private sector Ventspils Port Multi-Purpose Intermodal Terminal. The regional trade facilitation programme also began to be put in place.

In 2000, the Bank foresees further potential support for the banking sector on a selective basis, including through small SME credit lines and regional trade facilitation, the privatisation of the electricity utility or its components, as well as further interventions at the municipal level (transport sector) and the oil transport sector (Western Pipeline System). The Bank will continue to emphasise a cluster approach to SME development (credit lines, investments by equity funds, leasing and technical assistance). The Bank will continue with the TAM and BAS Fund programmes to support the transfer of management skills and know-how.

**LITHUANIA**

Over the past year, the Bank’s project work focused on the objectives of the country strategy approved in May of last year: a) promoting privatisation, restructuring and sound corporate governance of enterprises, b) support of privatisation and consolidation in the banking sector, c) promoting restructuring and participation by the private sector in the energy sector, d) strengthening the key role of Lithuania in East-West trade, and e) support of municipal projects linked to private sector participation. The Bank has continued with its cluster approach to SME development which relies on credit lines, leasing, equity funds and technical assistance.

In 2000, the Bank will target in particular direct support for industrial sector transactions, further privatisation in the banking sector, as well as smaller enterprises’ financing programmes, a CHP and District Heating project involving a private sector operator for the Kaunas municipality, and a restructuring programme for the railways. The Bank will also focus on supporting the privatisation and/or post-privatisation restructuring of the transport sector (Lithuanian Airlines, LISCO) and Lithuanian Telecom.

Now that Lithuanian authorities have agreed to the closure of Reactor One at the Ignalina Nuclear Power Plant in line with the NSA agreement, the Bank intends to expand its involvement in the development and restructuring of the energy sector, will actively participate in the Donors Conference which the EC is helping organise as a follow-up, and is discussing the establishment at EBRD of a pre-decommissioning grant facility funded by the EC and other donors. The Bank will also suggest ways in which the structure of the privatisation transaction covering the refinery, oil pipelines and Butinge port terminal could be adjusted to make IFI financing possible. The Bank will continue with the TAM and BAS Fund programmes to support the transfer of management skills and know-how.

**POLAND**

**In the corporate sector**, the EBRD is promoting the privatisation, restructuring, and development of dynamic new enterprises. It is following the attempted restructuring of the steel sector and keeps close contact with the European Commission on the subject. In cooperation with Phare, the SME Facility
has been implemented and the Bank is in the final stages of implementation of the Dairy Facility, both addressing priorities expressed in the Accession Partnership.

**In the financial sector,** EBRD will look to support the privatisation of the last State-owned banks. In the second half of 1998, it invested Euro 91 million in the privatisation of the largest Polish banking group, Pekao S.A.. It is encouraging the supply of a broad range of financial structures and products, like mortgages, and promotes the use of local currency finance. It will continue to participate through the Winterthur/EBRD Pension Fund in the pillar II private pension funds, and is considering possible projects to provide services to the pension fund industry.

**In the infrastructure sector,** major ongoing initiatives include the preparation of a loan (approximately Euro 100 million) to support restructuring and privatisation efforts in the railways sector. Through its investment into TPSA, as well as through discussions with the government, the EBRD is trying to foster a competitive environment in the local and long-distance telecommunications market, one of the priorities of the Accession Partnership. EBRD will continue to be involved in financing municipal and environmental infrastructure.

**ROMANIA**

**Operational Response to Developments in Transition**

The difficulties surrounding the transition process in Romania in 1999 have had a strong impact on the Bank’s operations and project pipeline. The Bank focused on the main objectives of the new country strategy, which are: privatisation and restructuring; infrastructure privatisation and public-private partnerships; the SME sector and the banking and non-banking financial sector. The Bank’s outstanding commitments at end-1999 were EUR1,160.17 million, of which EUR 130 million (8 transactions) were signed in 1999. The private/public ratio at end-1999 was 60:40.

The eight private sector projects signed last year included deals in various sectors such as industry, banking and municipal infrastructure. Particularly notable were the Romanian Development Bank privatisation, in which the Bank invested EUR 20.5 million and restructured the existing credit line (EUR 44.9 million), the Banca Transilvania credit line under the EU Phare SME Facility, and the first private municipal loan (Timisoara waste water). Overall the portfolio quality remained better than the country risk. Close monitoring of all transactions has been and will continue to be a priority.

The new Government, appointed in December 1999, is committed to accelerating the transition process further, but certain setbacks may occur due to the elections, scheduled for the autumn of 2000. New transactions designed to attract FDI to Romania will be pursued in 2000. These will include the privatisation of large industrial companies and state-owned banks. The Bank is also working to attract strategic partners for investments in infrastructure transactions, both at national level (oil and energy) and at municipal level (water supply and district heating). The Bank will continue to provide new financing for SMEs, either under EU Phare SME facility or through investment funds. The Bank will work further on non-banking transactions in insurance and pension funds. The Bank will continue to play a very active role in the overall policy dialogue with the Romanian authorities and with other IFIs.

**SLOVAK REPUBLIC**

In the financial sector, the EBRD will advise the Slovak Government on banking sector reform and further consider participating in the privatisation of the state-owned banks. Support for other creative strategies such as the merger of smaller private banks will also be considered. The EBRD will also consider projects in the insurance sector and investments in pension and mutual funds.
In the **corporate and industrial sectors**, the EBRD will promote restructuring and improved corporate governance in the private sector by providing equity investment or long term debt financing. The majority of the industrial projects the EBRD will consider are likely to involve foreign investors, either taking over or entering into joint ventures with existing companies. The EBRD would expect participation in industrial reconstruction to be in partnership with foreign strategic partners who are in a position to upgrade technology, open up new markets and increase productivity to levels where manufacturing can be internationally competitive. In addition, the implementation of the SME facility and the Trade Facilitation Programme in Slovakia will be a priority.

In the **infrastructure and environmental sectors**, the EBRD will support Slovakia’s negotiations with the EU by financing municipal and environmental infrastructure projects that help the country meet EU environmental accession requirements. There is substantial and urgent investment demand in the sector, not only to meet EU accession requirements but also to improve the efficiency and quality of service provision. Sectors provisionally identified as high priority are energy efficiency and railways, as well as municipal water, wastewater, solid waste and district heating projects. Support for infrastructure projects will be co-ordinated with the European Commission, European Investment Bank and the World Bank.

**SLOVENIA**

The EBRD's operations in Slovenia are entering into a new phase, and the Bank will be increasingly involved in public-private partnership financing. The existing strategic priorities of the Bank, as reflected in the present pipeline continue to concentrate on financial sector development, supporting private sector involvement in infrastructure, the restructuring of local industry, and Slovenian foreign direct investment in other eastern European countries. At the end of 1999 the total EBRD portfolio amounted to EUR 328 million, with three private sector projects having been fully repaid (Papirnica Kolicevo, Slovenski Plinovodi, and Mercator).

The following new projects were approved by the Board in 1999: (i) a EUR 28 million facility, with EUR 15 million financing from the Bank, to support a build-operate-transfer (BOT) contract, with the participation of a foreign sponsor, for the construction and operation of a waste water plant in Maribor, the second largest town in Slovenia, (ii) a EUR 15 million subordinated facility to Nova Ljubljanska Banka to support their expansion, and (iii) a EUR 10 million 10-year housing loan facility to SKB Bank. Moreover, the Bank will continue to play a major role in institutional building (especially in the field of concessions) and will facilitate Slovenia's accession to the EU. The local office has taken a leading role in the context of the operational priorities, namely, monitoring private portfolio, supporting business development and assisting in institutional building.
CARRY OVER OF ACTIVITIES FROM 1999 PROGRAMME

Retainer contract with EBRD €460,000