

ANNUAL REPORT

OF THE EURASEC
ANTI-CRISIS FUND
RESOURCES MANAGER

2010

ADDRESS OF THE CHAIRMAN OF THE MANAGING BOARD OF THE EURASIAN DEVELOPMENT BANK — EURASEC ANTI-CRISIS FUND RESOURCES MANAGER

Dear friends!

In 2010, a new mechanism of monetary and financial cooperation in Eurasia became fully operational — the EurAsEC Anti-Crisis Fund. The Fund was established by six member countries aiming to overcome the consequences of the global financial crisis, to ensure the stability of their economies, and to deepen integration processes in the region.

Member countries nominated the Eurasian Development Bank as the Manager, which became an expression of confidence in the Bank and the recognition of its role in the socio-economic development of member countries of the Community.

In the first year of operations, ACF Council has extended the first loan from the Fund, and approved basic regulatory documents needed to ensure transparent and efficient use of the Fund's resources. At the same time, the Manager started preparing a number of projects requested by member countries, and launched an active dialogue with international and national development institutions on the issues of anti-crisis management and on specific aspects of stabilization programs in ACF's member countries.

The commencement of the Fund's operations has not gone unnoticed in the international financial community, not only in the EurAsEC countries, but also far beyond them. This is evidenced by large number of project applications received by the Fund, and by proposals for cooperation from leading international and national development institutions.

In the upcoming months the Manager will multiply its efforts to boost growth, strengthen market mechanisms and improve the competitiveness of economies of member countries and will take further steps to enhance transparency, accountability and efficiency of operations of the Fund. Achieving these goals will be accomplished by increasing the Fund's portfolio, enhancing cooperation with international institutions, and completing the preparation of regulatory framework of the Fund.

We thank the founders for their full support during the important formation stage of the Fund, and hope for further effective cooperation for the benefit of economic prosperity of its member countries.



Chairman of the Managing Board
Igor Finogenov

1. BRIEF INFORMATION ABOUT THE EURASEC ANTI-CRISIS FUND

The Anti-Crisis Fund of the Eurasian Economic Community (hereinafter — the Fund) was established in June 9, 2009 by the Interstate Council of EurAsEC (at the level of Heads of States) on the basis of the Treaty on the Establishment of the Fund. The main objective of the Fund is to overcome the negative effects of global financial and economic crisis on national economies, to ensure their economic and financial stability, and to further deepen the integration among the Fund's member countries. The Founders of the Fund are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, Russian Federation, and the Republic of Tajikistan. The Fund is open for accession to other CIS states.

The total amount of initial contributions of the founders to the Fund is US\$ 8.513 billion. The contribution of each founding state to the Fund (defined by the Treaty on the Establishment of the Fund) is as follows:

Republic of Armenia	the equivalent of US\$ 1 million;
Republic of Belarus	the equivalent of US\$ 10 million;
Republic of Kazakhstan	the equivalent of US\$ 1 billion;
Kyrgyz Republic	the equivalent of US\$ 1 million;
Russian Federation	the equivalent of US\$ 7.5 billion;
Republic of Tajikistan	the equivalent of US\$ 1 million.

In accordance with the Agreement on the Management of Resources of the Anti-Crisis Fund of the Eurasian Economic Community, management of the Fund resources is entrusted to the Eurasian Development Bank (hereinafter — the Manager).

2. THE FUND'S LENDING OPERATIONS

2.1 FINANCIAL CREDITS

The Manager's activities in providing financial credits included the preparation of Evaluation Reports on loan applications submitted by state members, discussion of Stabilization programs formulated by the borrowers' Governments, which are to be supported with ACF credits, preparation and negotiation of Credit Agreements, as well as monitoring the fulfillment of obligations and the disbursement of loan resources.

In August 2010, the Manager provided, upon the decision of the Fund Council, the Fund's first financial (stabilization) credit equivalent to US\$ 70 million to the Republic of Tajikistan. The main purpose of the credit was to maintain budgetary financing of social sectors (education, health, social protection), at no lower than pre-crisis levels. This financial credit also supported reforms in public finance management and civil service included in the Anti-Crisis Program of the Government of Tajikistan. As of January 1, 2011, US\$ 61.5 million of credit resources were disbursed. Timely provision of financing from the Fund allowed to maintain the budget deficit at a comfortable level of -0.4% of GDP (excluding foreign credits under the Public Investment Program), despite adverse external environment.

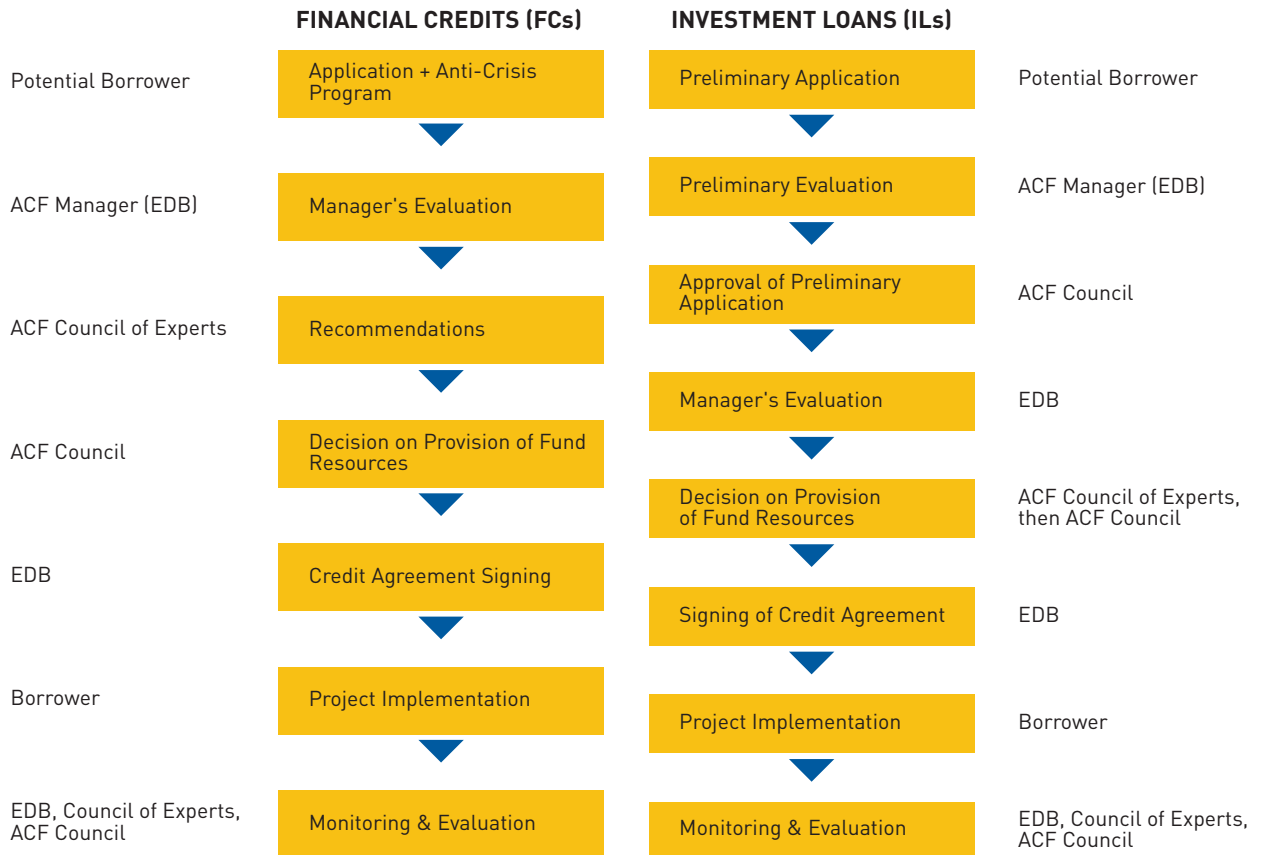
In August 2010, the Fund received an updated request from the Kyrgyz Republic for a financial credit to support the budget and to overcome the effects of political and ethnic crises of 2010. In November 2010 the application was amended by a letter from the Ministry of Finance of the Kyrgyz Republic with regards to the disbursement schedule of the requested credit. While working on this application, the Manager's staff held numerous meetings with the representatives of interested ministries and departments of the Republic, and drafted the Manager's Evaluation Report. The consideration of this Evaluation Report was postponed to 2011 until the date when domestic procedures for the accession of Kyrgyzstan to EDB are completed and the Republic's debt arrears owed to the Republic of Belarus and the Russian Federation are settled.

ACF Governance Structure and Decision Making Process on ACF Credits

(a) ACF Governance Structure



(b) Decision Making Process on ACF Credits



In October 2010 the Ministry of Finance of the Republic of Belarus submitted an application to the Fund for a financial credit to support the balance of payments. The Manager prepared the Evaluation Report on this application in close collaboration with the Government and the National Bank of Belarus, as well as with key international financial institutions.

2.2 INVESTMENT LOANS

In the first half of 2010, the Fund received numerous inquiries aimed at understanding the ACF's procedures. These inquiries were not prepared in accordance with the requirements of the Fund and thus were not deemed as formal applications. In response to these inquiries advice was issued clarifying the rules of the Fund.

In September 2010, the Fund received two preliminary applications from the Republic of Belarus for investment loans from the Fund's resources:

- An application in the amount of US\$ 433.7 million was submitted to finance the project "Reconstruction of the M-5 Minsk-Gomel Highway (Bobruisk-Zhlobin segment) and of the M-8 highway (Gomel-Novaya Guta segment)";
- An application in the amount of 68 million Euros was submitted to finance the project "Modernization of the Main Production of the Orsha Flax Factory".

The Manager held negotiations with the representatives of interested government agencies and enterprises of the Republic of Belarus, and prepared Evaluation Reports on these applications.

The Manager also undertook preliminary assessments of several investment applications from the Republic of Armenia. A dialogue with the Government of Kazakhstan on the possibility of attracting resources of the Fund to finance investment projects was developed.

3. COORDINATION OF ACF ACTIVITIES WITH OTHER DEVELOPMENT INSTITUTIONS

In 2010 the Manager actively developed a dialogue with other international development institutions, especially with the IMF and World Bank, with regards to the coordination of policy advice provided to the borrower countries on their Stabilization Programs supported by the Fund's financial credits, as well as with regards to investment financing.

The draft Framework Agreement on cooperation between the World Bank and the Manager was agreed upon and approved by the Fund Council. The Agreement envisages a wide range of options for cooperation between the two development banks in accordance with the objectives set in the Treaty on the Establishment of the Fund and the Statute of the Fund.

Preparation of all Evaluation Reports of the Manager was conducted in close coordination with other key development

institutions. Thus, during the preparation of the financial credit to the Republic of Tajikistan, the Manager reviewed topical aspects of the Government's Anti-Crisis Program with the Asian Development Bank, World Bank, EBRD, the European Community, UNDP, the UK Department for International Development and with other donors.

In March 2010, the ACF Managing Director delivered a report on the prospects of ACF's investment activities in the Republic of Kazakhstan at the Roundtable with Kazakhstani businessmen. The Roundtable was chaired by Deputy Prime Minister of Kazakhstan Aset Isekeshev.

On July 27, 2010 staff of the ACF Department of the Eurasian Development Bank attended the High-Level Donors' Meeting devoted to emergency donor assistance to the Kyrgyz Republic. The meeting was chaired by First Deputy Prime Minister of the Kyrgyz Republic Amangeldy Muraliev, and attended by the Kyrgyz President Rosa Otunbayeva and other senior officials of the Republic, as well as delegations from 26 states and 20 international organizations. At the meeting, a Joint Report was presented by the World Bank, the IMF and Asian Development Bank, prepared with active participation of experts of the Manager. The Report provides an assessment of financing needs for the reconstruction of affected regions, and of economic growth prospects in the Kyrgyz Republic.

In October 2010, the Chairman of EDB's Managing Board presented the activities of ACF at the Annual Meeting of the World Bank and the IMF. This was done at a specially convened Roundtable for senior managers of the World Bank's Europe and Central Asia Region. Philippe Le Houérou, World Bank Vice-President for the above-mentioned group of countries, co-chaired the Roundtable. Participants discussed key options for cooperation between the two development banks, which were later endorsed by the Framework Agreement between the EDB and the World Bank. During the Annual Meetings of the World Bank and the IMF the Manager's delegation discusses coordination issues with a number of international development institutions operating in ACF's member countries.

4. DEVELOPMENT OF REGULATORY DOCUMENTS THAT ENSURE THE TRANSPARENCY AND ACCOUNTABILITY OF THE FUND'S OPERATIONS

In 2010, the Fund Council considered and adopted the following documents, determining the procedure of using Fund's resources:

- Regulation on the Use of ACF Funds for Providing Financial Credits
- Regulation on the Use of ACF Funds for Providing Investment Loans
- ACF country access limits
- Regulation on Investing ACF's Temporarily Idle Resources
- Standard form of simple non-negotiable bill of exchange for the payment of contributions to ACF

- Criteria for the selection of correspondent banks for operations with the ACF funds

Drafts of all these documents were prepared with active participation of the Manager.

By the time when six founding states concluded the Agreement on the Management of ACF Resources with EDB, the Bank had developed its own internal procedures for project preparation and implementation. Due to this, a need to connect regulatory documents adopted by the ACF Council with corporate practices of the Manager appeared. For this purpose, the Statute of the Eurasian Development Bank on the Preparation and Provision of Financial Credits from the Anti-Crisis Fund of the Eurasian Economic Community was adopted by EDB's Managing Board.

Specific risks present in sovereign financial credits of the ACF required changes to the Internal Rules for the Classification of Loans and the Formation of Provisions. The amended rules were approved by the decision of EDB's Managing Board and took effect in December 2010.

Also in 2010, the Manager began developing several other internal regulatory documents and policies, in particular — EDB's Statute on the Preparation and Provision of Investment Loans from ACF Resources, the Fund's procurement and financial management policies, and environmental and social safeguards.

5. MANAGEMENT OF TEMPORARILY IDLE RESOURCES OF THE FUND

The management of temporarily idle resources of the Fund is carried out on the basis of the Regulation on Investing Temporarily Idle Resources of the ACF adopted by the Fund Council on 25 February 2010. In fact, this Regulation represents an investment declaration and was developed in accordance with international management practices of sovereign funds, defining the objectives, principles and limits for the management of temporarily idle resources on financial markets.

The main objectives of investing temporarily idle resources of the Fund is the preservation of their value and liquidity management to ensure uninterrupted disbursement of the ACF loans, as well as financing of ongoing expenses of the Fund to support its activities including the preparation of projects and financial credits.

Due to the necessity to separate the resources and operations of the Fund from EDB's own operations, steps were taken to create a separate infrastructure for the management of temporarily idle resources of the Fund. In particular, special correspondent accounts were opened in the largest settlement banks of the world for conducting transactions under ACF's operations, and separate sub-accounts were opened in Euroclear to separate accounting of securities held by the Fund. To control and limit credit risks, the Fund Council approved restrictions on issuers and counterparties for the Fund's operations. Consequently, the

authorized bodies of EDB as the Fund Resources Manager, have set quantitative limits on appropriate operations in the context of managing temporarily idle resources of the Fund.

At the same time, a complete internal infrastructure was built in 2010 for the management of the Fund's resources, seamlessly integrated into internal business processes of the Manager.

6. KEY FINANCIAL RESULTS OF THE FUND

The Fund's Financial Statements for 2010 were compiled by the Manager in accordance with International Financial Reporting Standards. The statements' validity was confirmed by independent auditors LLP "Deloitte" on February 22, 2011.

Paid contributions of member states to the Fund amounted to US\$ 351.3 million on December 31, 2010. Unpaid contributions amounted to US\$ 8 161.7 million.

As of the same date, temporarily idle resources of the Fund amounted to US\$ 280.948 million. These funds were allocated by the Manager according to the Regulation on the Investment of Temporarily Idle Resources of the Anti-Crisis Fund of the Eurasian Economic Community, and internal regulatory documents of the Manager.

In 2010, net income from the Fund's operations amounted to US\$ 609 thousand, of which US\$ 259 thousand was accounted by interest accrued on the financial credit to the Republic of Tajikistan, and US\$ 350 thousand – by income from investing temporarily idle resources of the Fund.

In 2010, a loan loss reserve has been created in the amount of US\$ 1.050 million on the financial credit granted to the Republic of Tajikistan.

The Fund's annual financial statements for the year ended on December 31, 2010 are presented in supplementary [file](#).

List of issues considered by the ACF Council in 2010

Issue	Date
Regulation on the Use of ACF Funds for Providing Financial Credits	21 January 2010
Standard form of simple non-negotiable bill of exchange for the payment of contributions to ACF	21 January 2010
Regulation on the Use of ACF Funds for Providing Investment Loans	25 February 2010
Regulation on Investing Temporarily Idle Resources of ACF	25 February 2010
ACF country access limits for 2010	25 February 2010
Criteria for the selection of correspondent banks for operations with the ACF funds	25 February 2010
Fund's operational budget for 2010	25 February 2010
Proposals on options for cooperation of ACF with the World Bank	25 February 2010
Financial credit to the Republic of Tajikistan in the amount of US\$70 million	18 June 2010
Armenia's Preliminary application for a loan to finance the construction of the "North-South Railway"	18 June 2010

ABBREVIATIONS

ACF	EurAsEC Anti-Crisis Fund
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EDB	Eurasian Development Bank
EurAsEC	Eurasian Economic Community
FC	Financial credit
GDP	Gross Domestic Product
IMF	International Monetary Fund
IL	Investment loan
LLP	Limited liability partnership
UNDP	United Nations Development Programme

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