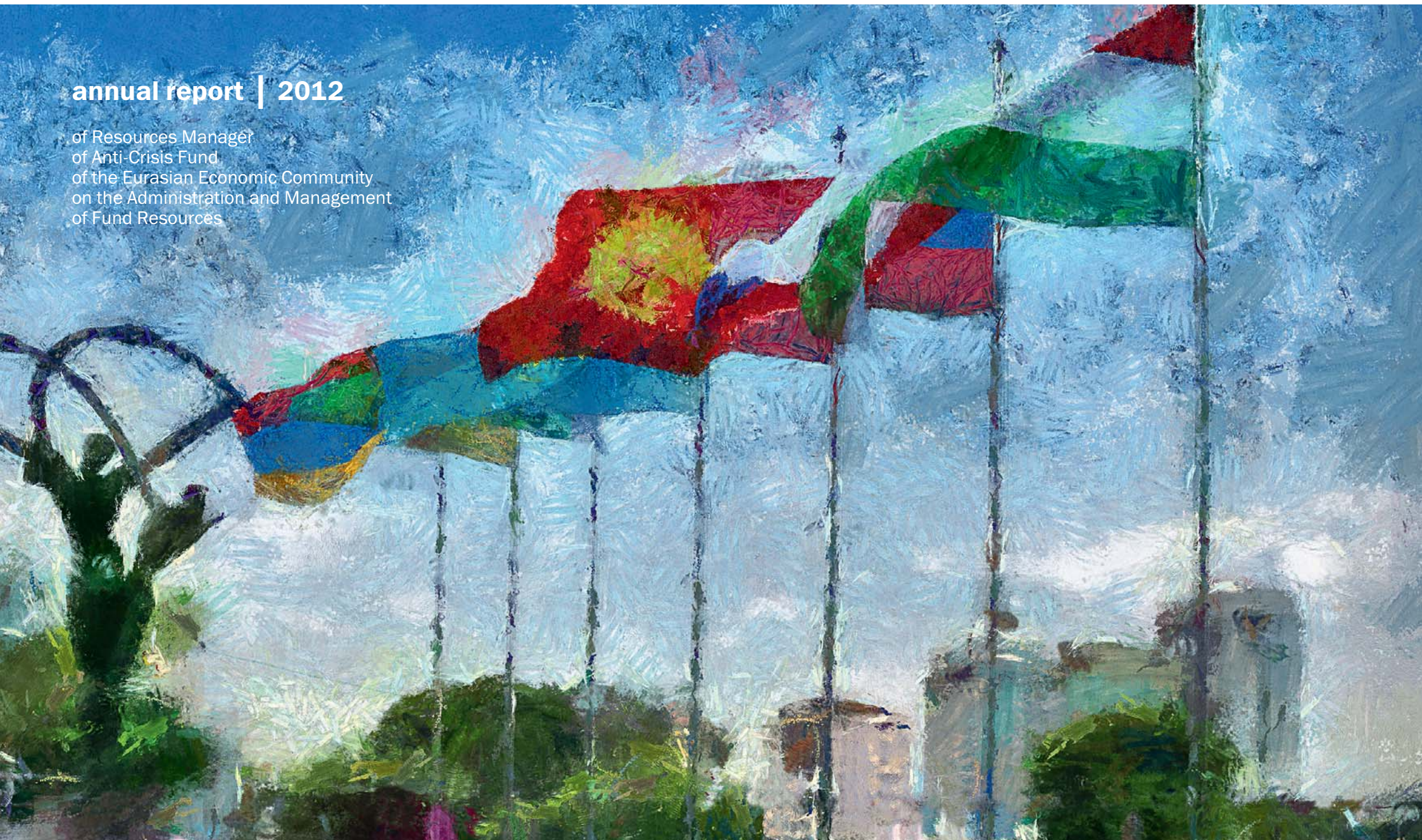


annual report | 2012

of Resources Manager
of Anti-Crisis Fund
of the Eurasian Economic Community
on the Administration and Management
of Fund Resources



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Address of the Chairman of the EDB's Managing Board, EurAsEC Anti-Crisis Fund Resources Manager

Dear friends!

I am delighted to present our report on the administration and management of the EurAsEC Anti-Crisis Fund's Resources. It is noteworthy that 2012 marked continued activities of the Eurasian Development Bank as the Fund's Resources Manager.

In spite of the fact that it is only 4 years old, the Fund has already demonstrated its capacity as an efficient regional financial mechanism. Its regulatory framework has been developed and enacted, valuable experience has been accumulated in supporting anti-crisis (stabilization) programs, and a number of promising agricultural production projects are in the pipeline. As a development institution, we are monitoring the impact of global markets on the resilience of our member countries' economies; and we are preparing new programs and projects that should enhance their competitiveness. We are drawing lessons from our initial lending operations; and in close cooperation with our member states we are shaping a strategy of the Anti-Crisis Fund for the next five years.

Continuous dialog with the governments of member states is key to the success of the Anti-Crisis Fund. This includes member countries where the Fund currently has no active programs. We coordinate activities with our development partners. In the reporting year we actively pursued our partnership dialog with other international and national development institutions, both on issues of economic policies of the Fund's member states, and on developing investment projects and co-financing arrangements. The place of regional development institutions in ensuring global financial stability has become a very important topic for us. We intend to engage actively in discussions on cooperation between global and regional financial institutions that are scheduled for 2013, during the Russian presidency of the Group of 20. We also started participating in donor clubs and their working groups. For example, in October of the reporting year the Eurasian Development Bank signed the Joint Memorandum of Partnership between the Government of Kyrgyz Republic and its Development Partners on implementation of the Medium Term Development Program for 2012-2014.

We feel optimistic about the Fund's future and are determined to consistently pursue its mission of ensuring economic and financial sustainability of its member states and supporting their economic integration.

We are thankful to the Fund's founding states and its partners for the comprehensive support they provide to the Fund's Resources Manager, and are looking forward to productive cooperation in 2013.

Chairman of the Board



I. Finogenov



BACKGROUND

The Anti-Crisis Fund of the Eurasian Economic Community (hereinafter ACF, the Fund) was set up on 9 June, 2009 as a regional financial mechanism on the basis of the Treaty on the Establishment of the Fund pursuant to the decision of the EurAzEC Interstate Council adopted at the heads-of-state level.

The Fund's mission is to support the economies of member states in overcoming the consequences of global financial and economic crisis, in ensuring their economic and financial sustainability, and in promoting integration between the Fund's member states. The Fund was founded by Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, the Russian Federation and Tajikistan. The Fund is open for accession of other states and international organizations.

The initial contributions of the founding states totalled US\$ 8.513 billion. The size of contributions to the Fund from the founding states is established by the Treaty and is as follows:

Armenia	equivalent of US\$ 1 million;
Belarus	equivalent of US\$ 10 million;
Kazakhstan	equivalent of US\$ 1,000 million;
Kyrgyz Republic	equivalent of US\$ 1 million;
Russian Federation	equivalent of US\$ 7,500 million;
Tajikistan	equivalent of US\$ 1 million.

Country access limits for the Fund resources, established by the ACF Council proportionately to the countries' GNI per capita, are as follows:

Armenia	US\$ 1,106.7 million;
Belarus	US\$ 1,787.7 million;
Kazakhstan	US\$ 2,043.1 million;
Kyrgyz Republic	US\$ 255.4 million;
Russian Federation	US\$ 3,149.8 million;
Tajikistan	US\$ 170.3 million.

Pursuant to the Agreement on the Management of Fund Resources signed on 9 June, 2009, the management of Fund resources was assigned to the Eurasian Development Bank (hereinafter ACF Resource Manager, or EDB).

LENDING OPERATIONS

EDB's performance as the ACF Resources Manager is guided by the principle that anti-crisis policies are effective only when they are developed and implemented by a member state whose economy is affected by a crisis. The Fund is to support these efforts with appropriate financial resources. A typical program eligible for ACF support should include measures aimed at achieving macroeconomic stability, improving the budget and balance of payments indicators, enhancing competitiveness and business climate, as well as promoting economic cooperation between the Fund's member states.

Pursuant to the 2012 Program of Operations Funded by the EurAsEC Anti-Crisis Fund, in the reporting year the Manager continued the preparation and implementation of a number of financial credits and investment loans.

As of 31 December, 2012 two Agreements on the provision of financial credits to the Fund member countries were in force, totalling US\$ 3.07 billion, of which US\$ 1.75 billion was disbursed. Eight projects totalling US\$ 751 million were under preparation.

FINANCIAL CREDITS

Financial Credit to Tajikistan

The loan agreement authorizing disbursement of a financial credit in the amount of US\$ 70 million to Tajikistan was signed on 24 July, 2010. The total amount was disbursed over 2010-2011, including US\$ 61.5 million in 2010, and US\$ 8.5 million in 2011. Proper use of the loan proceeds was verified and confirmed by an independent audit.

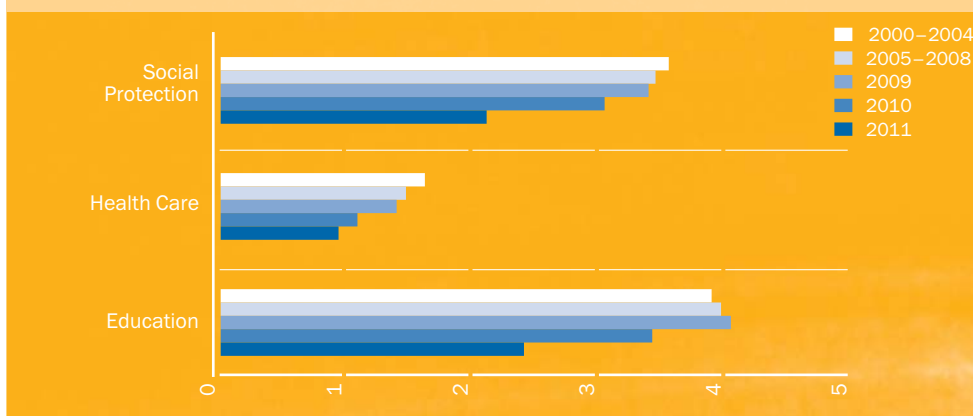
Given the complete drawdown of the ACF financial credit by end-2011 and the completion of the independent audit report on its utilization, the Manager prepared an Implementation Completion Report (approved by the ACF Council on 7 December, 2012). In its report, the Manager gave a positive evaluation of the credit performance overall. The key objective of the credit – to maintain budget expenditures for social sectors at the level not lower than achieved in 2009 – was met

(Fig. 1). During the credit utilization period:

- The share of social sectors in total budget expenditures (excluding the Public Investments Program – PIP) exceeded the level established by the program;
- Social spending as a share of GDP grew from 9% in 2009 to 9.2% in 2011, with a particularly notable increase in health care spending.

Fig. 1. BUDGET SPENDING ON SOCIAL SECTORS (% of GDP, without PIP)

Source: Ministry of Finance of the Republic of Tajikistan



Success of further efforts of the Government of Tajikistan in maintaining and increasing social sector spending will mostly depend on the speed and efficiency of reforms in the public finance system. Special attention should be paid to the effectiveness of the on-going tax reform which aims at increasing budget revenues (Fig. 2); to streamlining the budget structure (Fig. 3) with a view to achieving a more balanced distribution of resources between capital and current expenditures; as well as to efficient reforming of social sectors per se, including the optimization of their internal financial flows.

Fig. 2. STATE BUDGET REVENUES

Source: Ministry of Finance of the Republic of Tajikistan

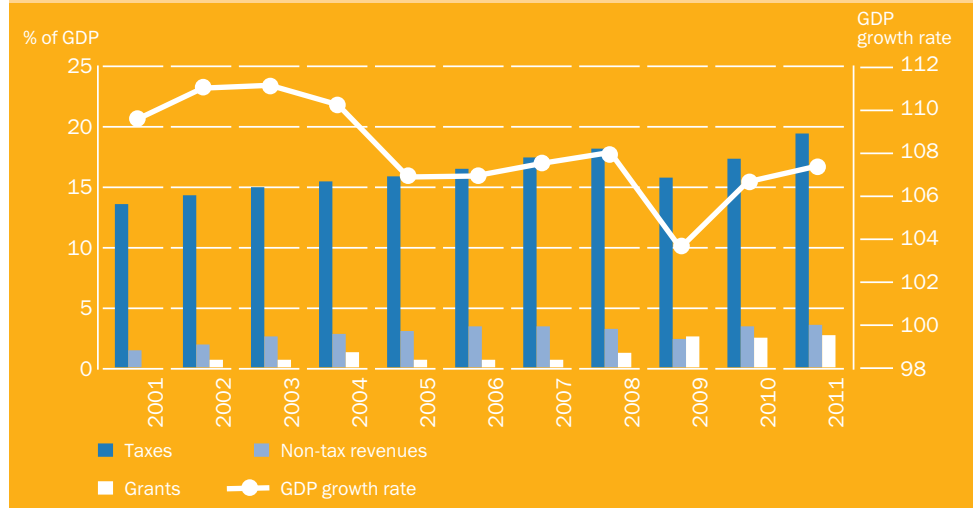
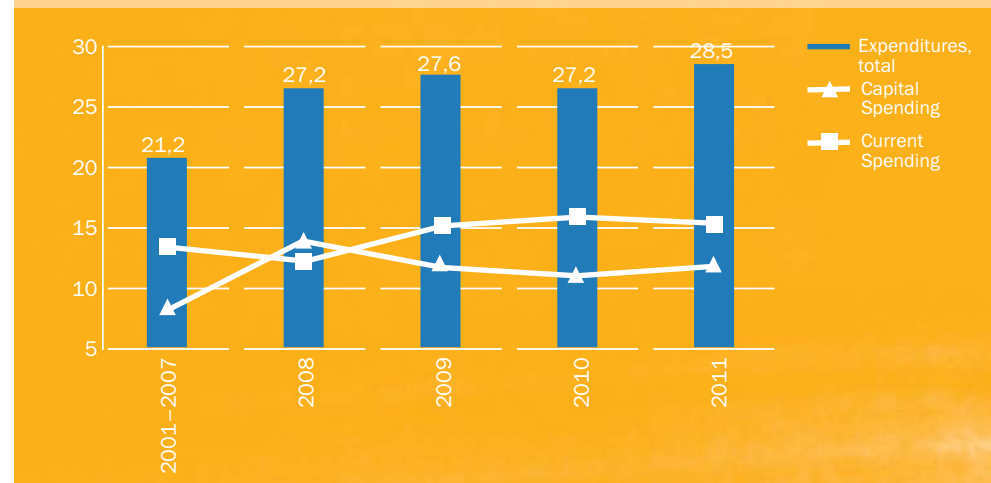


Fig. 3. STATE BUDGET EXPENDITURES (% of GDP)

Source: Ministry of Finance of the Republic of Tajikistan



Financial Credit to the Republic of Belarus

In the reporting year the Manager continued supporting Belarus with resources provided under the ACF financial credit. The agreement authorizing the provision of this credit in the amount of US\$ 3 billion in six tranches was signed on 9 June, 2011. The main objectives of the credit are to support the balance of payments and to replenish international reserves to the level that ensures economic security through conducting conservative monetary and fiscal policies aimed at curtailing domestic demand.

In June 2012, once the measures agreed upon under the stabilization program had been implemented, Belarus drew its third tranche of the above credit. In December 2012 the ACF Council authorized the disbursement of the fourth tranche (both in the amount of US\$ 440 million). Thus, by end-2012 Belarus had received US\$ 1.68 billion under this loan.

In 2012 Belarus made substantial progress in reducing both internal and external imbalances:

- Growth of prices during this period slowed down to 21.8% from 108.7% in 2011 (Fig. 4);
- Current account deficit shrank from 9.8% to 3% of GDP (Fig. 5);
- National budget returned to balance;
- The volume of Government's quasi-fiscal operations to fund lending under government programs was cut down to 1.3% of GDP as compared with 4.3% of GDP in 2011.

Conservative monetary and fiscal policy stance remains the key to the successful completion of the stabilization program and to strengthening the resilience of the Belarus' economy in volatile external environment.

Fig. 4. CPI AND BYR REAL EFFECTIVE EXCHANGE RATE

Source: BelStat, National Bank of Republic of Belarus.

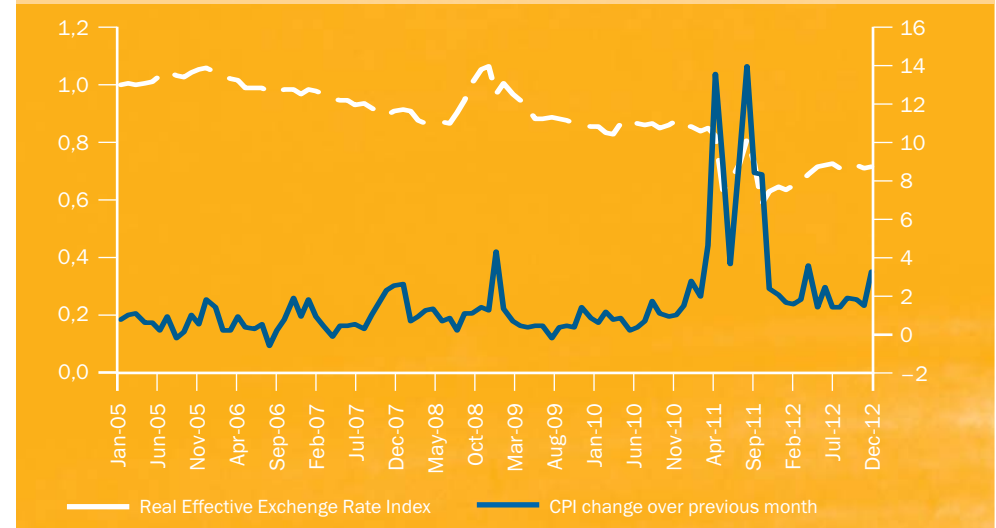
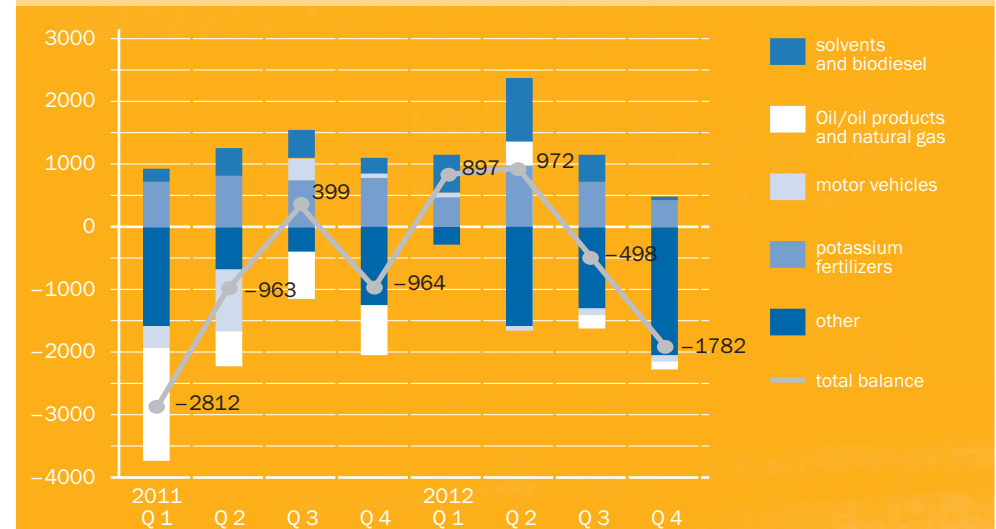


Fig. 5. STRUCTURE OF BELARUS' FOREIGN TRADE BALANCE, US\$ million

Source: Manager's estimates based on BelStat data



Investment Loans

Investment financing is provided by the ACF to its member states and to project companies implementing interstate and national investment projects. The Anti-Crisis Fund provides financial resources to support projects designed to facilitate overcoming crises and to promote economic development of the Fund's member states, as well as projects with high integration potential. Such projects are usually in the sectors of transport infrastructure, power, industry, and agriculture.

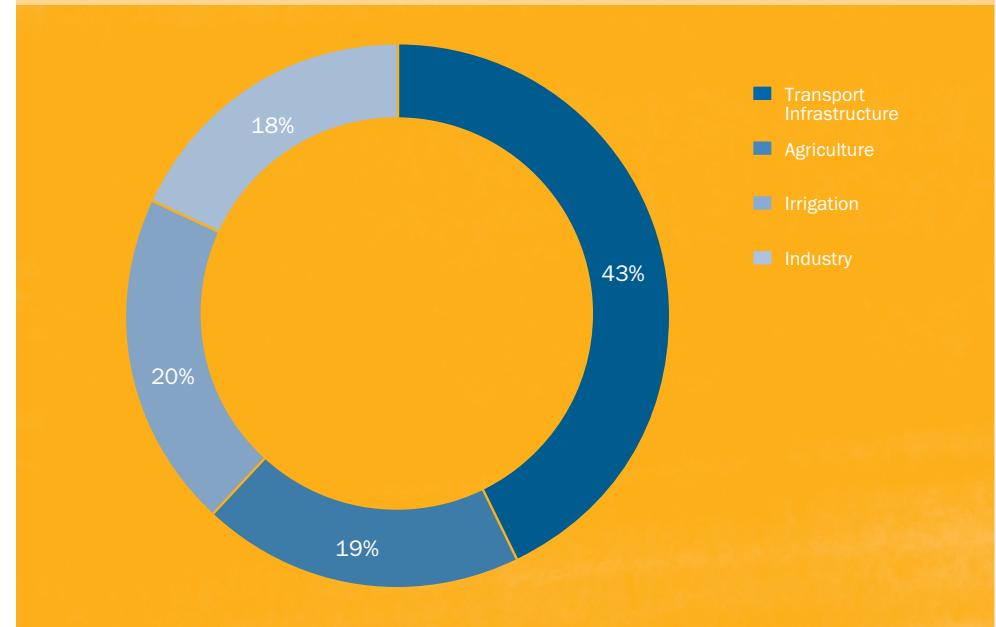
In 2012 the Manager was considering six applications for investment loans from Armenia, Kyrgyz Republic, and Kazakhstan, totalling US\$ 680 million. The proposed projects are expected to create new jobs, contribute to development of small and medium enterprises, increase labour productivity, strengthen transportation and logistical links between regions, improve access to markets for farming and other products.

In December 2012 the Fund Council approved the preliminary application and the Manager's Evaluation Report for an investment loan to support the Bishkek-Osh Road Rehabilitation Project, Phase IV. The expected amount of financing for this project from the ACF resources is US\$ 50 million. According to the Fund Council decision the Manager initiated preparation of the project. Completion of the project preparation and its submission to the Fund Council for final approval is scheduled for the IV quarter of 2013.

By the end of the reporting year appraisals of preliminary loan applications for the projects « Rehabilitation of the North-South Road Corridor» (Armenia) and «Financing the Supplies of Agricultural Machinery to Kyrgyz Republic» were nearing completion.

Fig. 6. STRUCTURE OF ACF INVESTMENT LOAN PIPELINE by sector as of 31 december, 2012

Source: Manager's estimates based on BelStat data



The Manager also held preliminary consultations with the ACF member states and international financial institutions to identify investment opportunities in transport and agriculture. In addition to work on the six above-mentioned applications, consultations were ongoing in the reporting year with the authorities of Armenia and Tajikistan on the ACF's support to the development of irrigation in these countries, with project financing in the amount of US\$ 70 million.

In December of the reporting year an application was submitted for a grant from the ECA Region Capacity Development Trust Fund (ECAPDEV), for an irrigation project in Armenia. The application to this Trust Fund was filed with a letter of support from the Minister of Finance of Armenia. The ECAPDEV Trust Fund was established with resources provided by the Government of the Russian Federation and is managed by the World Bank. This Trust Fund supports project preparation activities and helps to improve the institutional capacity of the applicant countries.

COORDINATION WITH OTHER DEVELOPMENT INSTITUTIONS

In 2012 the Manager actively pursued partnership dialogue with the World Bank Group, the International Monetary Fund, the Asian Development Bank and the European Bank for Reconstruction and Development. Cooperation centered on three main areas:

- Joint formulation of economic policy recommendations for national governments of ACF recipient countries;
- Joint technical missions;
- Exploration of possibilities for co-financing investment projects.

In the context of the «Indicative Plan for the Implementation of the Framework Agreement on Cooperation Between the World Bank and EDB for 2011-2013» in the reporting year several video-conferences were held on issues pertaining to economic policies, and EDB staff conducted study tours to regional offices of the World Bank. The Manager took part as an observer in the activities of the ECA Region Capacity Development Trust Fund.

In 2012 the Manager started preparing the Framework Agreement with the Asian Development Bank on the co-financing of investment projects.

Also in 2012, the Manager continued working with the International Monetary Fund both in coordinating activities of the two institutions in specific countries, and on general issues of coordination between regional financial institutions and the IMF.

Furthermore, the Manager participated on a regular basis in various activities of donor clubs and their working groups in Kyrgyz Republic and Tajikistan. In October 2012 EDB signed a Joint Memorandum of Partnership between the Government of Kyrgyz Republic and its Development Partners on the Implementation of the Medium Term Development Program for 2012-2014. In December the Manager attended the Tajikistan Development Forum.

REGULATORY FRAMEWORK

In the reporting year the following documents were adopted:

- Regulation on the ACF Council's meetings;
- Concept of the Policy for the Procurement of Goods, Services and Works for Projects Financed from the ACF Resources;
- Concept of the Strategy of the Anti-Crisis Fund for 2013–2017.

In 2012 the Fund's Council supported the proposal on the procedure of regular statistical reporting by the ACF member states, and requested the Manager to draft a Regulation on the provision of statistical information.

ADMINISTRATION OF TEMPORARILY IDLE RESOURCES

The administration of temporarily idle resources of the Fund is exercised in accordance with the Regulation on Investing ACF's Temporarily Idle Resources, adopted by the Fund Council on 25 February, 2010. As required by this Regulation, temporarily idle resources may be invested as follows (as per approved ACF limits):

- 1) US dollar- and Euro-denominated bank deposits;
- 2) A number of authorized financial assets.

The investment of temporarily idle resources is guided by the principles of risk minimization and in compliance with the ACF Program of Operations for 2012.

In order to ensure the security of temporary idle resources of the Fund, as from 28 November transactions have been suspended in securities of certain sovereign issuers, international financial organizations and foreign government agencies. At the same time, the list of instruments for investing temporarily idle resources of the Fund was extended to include deposits of leading financial institutions of its member states, i.e. Vneshekonombank, Sberbank of the Russian Federation, and Development Bank of Kazakhstan.

FINANCIAL RESULTS

Making profit does not constitute the Fund's objective. Yet, the reporting year results show net profits in the amount US\$ 55.6 million, with operating income of the Fund standing at US\$ 57.4 million and its operating expenses at US\$ 1.8 million.

The independent audit report prepared by KPMG Audit LLP and dated 26 February 2013 and the audited financial statements of the Fund for 2012 prepared in accordance with the International Financial Reporting Standards are given at Appendix 1.

CALENDAR OF KEY EVENTS OF 2012

January	The Manager started negotiations with Belarus on revising the Letter of Intent in the context of the expected ACF support;	September	The Manager's staff attended as observers the first meeting of the Steering Committee of the ECA Region Capacity Development Trust Fund (ECAPDEV);
March	The Manager attended the IMF seminar on economic growth and structural reforms in Belarus;	October	The Manager signed the Joint Memorandum of Partnership between the Government of Kyrgyz Republic and its Development Partners on the Implementation of the Medium Term Development Program for 2012-2014;
April	The Manager concluded consultations with the Ministry of Finance and the National Bank of the Republic of Belarus on the new Letter of Intent on stabilization measures to be taken before the end of 2013;	November	The Manager completed the preparation of the Implementation Completion Report on Financial credit to Tajikistan from the ACF;
June	The Manager disbursed the third tranche of the ACF credit to the Belarus in the amount of US\$ 440 million;	December	The ACF Council approved the Concept of the ACF Strategy for 2013-2017; the Manager's Implementation Completion Report on Financial credit to Tajikistan from the ACF; disbursement of the fourth tranche of the ACF financial credit to Belarus in the amount of US\$ 440 million; and the concept of the Bishkek-Osh Road Rehabilitation Project, Phase IV.
July	EDB and World Bank staff conducted consultations on forecasting macroeconomic developments in Armenia;		
August	The Manager held consultations with the Government of Armenia on investment cooperation;		

Appendix 1

Abbreviations

BYR	Belarusian Ruble
CPI	Consumer Price Index
ECAPDEV	The Europe and Central Asia Region Capacity Development Trust Fund
EDB, Bank, Fund Resources Manager	Eurasian Development Bank
EurAsEC	Eurasian Economic Community
Fund, ACF	EurAsEC Anti-Crisis Fund
GDP	Gross Domestic Product
GNI	Gross National Income
PIP	Public Investment Program

Appendix 2

List of Decisions adopted by the ACF Council in 2012

Decisions	Date
Approval of the ACF Manager's Evaluation of the report by the Ministry of Finance of Belarus on the compliance with the requirements of the third tranche of the ACF financial credit, and the disbursement of the above tranche to Belarus in the amount of US\$ 440 million. The Meeting also approved the revised draft Letter of Intent of the Government and the National Bank of Belarus with stabilization parameters for 2012 and the Manager's Appraisal of this Letter.	08/06/2012
Acceptance of the ACF Manager's information on the implementation of the ACF's financial (stabilization) credit to Tajikistan.	08/06/2012
Deferral of consideration of preliminary application for ACF's financing for the intergovernmental investment project «Construction of a ferroalloy plant in the Kyrgyz Republic» until the completion of consultations with relevant government authorities of Kazakhstan.	08/06/2012
Acceptance of the information on making initial contributions to the Fund and on encashment of bills of exchange issued by the ACF founding states;	08/06/2012
Acceptance of the ACF Work Program for 2012;	08/06/2012
Acceptance of the audit of the Fund's financial statements for 2011 by KPMG Audit; and of the ACF Manager's Annual Report and of its Administrative Expenses Report for 2011.	08/06/2012
Approval of the Regulation on the procedures for the ACF Council's meetings.	07/12/2012
Approval of the reimbursement of expenses of the ACF Resources' Manager for the audit of ACF's financial statements for 2012.	07/12/2012
Approval of the Manager's proposal on the provision of statistical information by the Fund's member countries. The Manager was instructed to draft a regulation on the provision of statistical information.	07/12/2012
Approval of the Manager's Evaluation of the report of the Belarus' Ministry of Finance on the compliance with the conditions of the fourth tranche of the ACF financial credit; authorized the disbursement of this tranche to Belarus in the amount of US\$ 440 million; and requested the preparation of the new Letter of Intent to set the parameters of the Government's stabilization program for 2013.	07/12/2012

Approval of the Manager's Implementation Completion Report on Financial credit to Tajikistan from the ACF, and took note of the Appraisal of external auditor ZAO "BDO" on the utilization of ACF funds by the Ministry of Finance of Tajikistan.	07/12/2012
Approval of the Concept Note for the Bishkek-Osh Road Rehabilitation Project, Phase IV, presented by the Ministry of Finance of Kyrgyz Republic, and the Manager's Appraisal of the preliminary application for this project. The Manager was instructed to start preparing detailed documentation for the project.	07/12/2012
Approval of the Concept of ACF Strategy for 2013-2017, and instructed the Manager to establish a working group with the participation of experts from ACF member states to prepare the ACF Strategy for 2013-2017.	07/12/2012
Acceptance of the implementation of the ACF's Work Program for 2012.	07/12/2012
Approval of the Fund's Work Program for 2013.	07/12/2012
Acceptance of the information on making initial contributions to the Fund and on the encashment of bills of exchange issued by the ACF member countries.	07/12/2012
Approval of the Concept of the Policy for the Procurement of Goods, Services and Works for Projects Financed from the ACF Resources.	07/12/2012
Instruction to the Manager to prepare proposals on the possible utilization of part of the Fund's net profits to finance grant programs in the social sectors of low-income member countries of the ACF.	07/12/2012
Acceptance of the address of the Minister of Finance of Armenia on the reconstruction of the «Nairit» plant. The Manager was instructed to evaluate a report submitted by the Ministry of Finance on the feasibility of extending a loan to support the reconstruction of the said plant.	07/12/2012

Appendix 3

CONTACTS

Operations Management Department of EurAsEC ACF, EDB Office:

Russian Federation, Moscow, 109240,
Bolshoi Vatin St., 3
Phone: +7 (495) 645 04 45
Fax: +7 (495) 645 04 41
E-mail: ACF@eabr.org
www.acf.eabr.org

Eurasian Development Bank:

Republic of Kazakhstan
050051, Almaty, Dostyk Ave, 220
Phone: +7 (727) 244 40 44
Fax: +7 (727) 244 65 70
E-mail: info@eabr.org
www.eabr.org

EDB Branch:

Russian Federation,
191014, Saint Petersburg, Paradnaya St., 7
Phone: +7 (812) 320 44 41,
320 44 45, 320 44 46
Fax: +7 (812) 329 40 41

EDB Offices:

Republic of Armenia,
0010, Yerevan, V. Sargsyan St., 26/1
Business Center «Erebuni-Plaza»,
8th floor, office 811
Phone: +374 (10) 54 01 02
Fax: +374 (10) 54 13 52

Republic of Belarus,
220030, Minsk, Myasnikova St, 70, office 310
Phone: + 375 (17) 306 54 64
Fax: + 375 (17) 306 54 65

Republic of Kazakhstan,
010000, Astana, Konayeva St., 33
Business Center«Astanalyk», 11th floor
Phone: +7 (7172) 50 20 05

The Kyrgyz Republic
720040, Bishkek, Erkindik blvd., 21
Phone: +996 (312) 66 04 04
Fax: +996 (312) 66 21 46

Republic of Tajikistan,
734012, Dushanbe, Aini St., 24a,
Business Center «C.A.C», 4th floor
Phone: +992 (44) 6 40 04 45
Fax: +992 (44) 6 40 04 46