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**Report on**

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**operations under**

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**the european bank**

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**for reconstruction**

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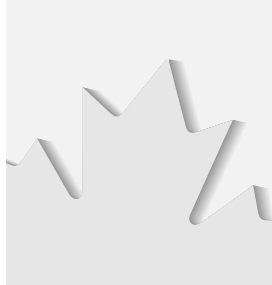
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**1995**

Prepared by:  
International Trade and Finance Branch  
May 1996



Department of Finance  
Canada

Ministère des Finances  
Canada

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## **TABLE OF CONTENTS**

Introduction .....	5
Operational Priorities .....	5
Key Developments in 1995 .....	8
Administrative Efficiency and Cost Effectiveness .....	9
Transitional Impact of the Bank's Operations .....	10
Political Aspects of the Bank's Mandate .....	12
Environmental Aspects of the Bank's Mandate .....	13
Managing Canada's Interests .....	15
Procurement Performance .....	16
Challenges Ahead .....	18
<b>Annexes</b>	
The Bank's Financial Activities .....	19
How to Do Business With the EBRD .....	22

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## **INTRODUCTION**

The European Bank for Reconstruction and Development (EBRD) was established in 1991. Its aim is to foster the transition towards open, market-oriented economies in Central and Eastern Europe as well as in the successor republics to the Soviet Union and to promote private and entrepreneurial initiative in countries which are committed to the fundamental principles of multiparty democracy, pluralism and a market economy.

The Bank seeks to help its 25 countries of operations implement structural and sectoral economic reforms, taking into account the particular needs of countries at different stages in the transition process. In particular, its activities focus on private sector development, including the strengthening of financial institutions and legal systems, and the development of infrastructure needed to support the private sector. The EBRD has 59 members (57 countries and two institutions, the European Commission and the European Investment Bank). Membership and countries of operations are listed in Annex 1.

Canada is the eighth largest shareholder, following the remainder of the G-7 and the Russian Federation. Our formal participation is authorized under the EBRD Agreement Act which was promulgated in February 1991. Under Article 7 of that Act, it is stated that:

“The Minister [of Finance] shall cause to be laid before each House of Parliament by March 31 of each year, or if that House is not then sitting, on any of the 30 days next thereafter that it is sitting, a report of operations for the previous year, containing a general summary of all actions, including their human rights aspects and sustainable development aspects, taken under the authority of this Act.”

This report responds to this requirement and reviews the activities and operations of the Bank for the year 1995.

## **OPERATIONAL PRIORITIES**

Although the Bank shares many characteristics of other multilateral development banks, it has certain unique features. One of these is the explicit link between its financing operations and civil and political rights in the countries of operations. This two-pronged mandate is enshrined in the Bank's founding charter, and differentiates its purpose and character from that of other international financial institutions.

The Bank's main role is to promote economic transformation in its countries of operations, though acting as a catalyst for increased flows of financing to the private sector. By providing an umbrella under which a range of funding for private sector investment can be assembled, the EBRD plays a significant role in mobilizing capital for Central and Eastern Europe.

### **Financial Highlights**

- *In 1995, the Bank achieved a net profit of ECU<sup>1</sup> 7.5 million after provisions, compared with ECU 1 million a year earlier. Operating profits before provisions of ECU 82.9 million were more than three times the 1994 level of ECU 24.9 million.*
- *Provisions against losses totalled ECU 75.4 million in 1995, reflecting the strong growth in commitments and disbursements. Provisions, more than three times the 1994 level, were charged on the basis of the newly established provisioning policy, which applies additional prudential requirements against the increased portfolio risks associated with the higher level of commitments.*
- *After five years of operation, the Bank has approved 368 projects worth ECU 7.9 billion for 24 different countries. The Bank expects the annual level of its approvals to rise steadily from ECU 2.0 billion in 1995 to about ECU 2.5 billion in 1999.*
- *Last year, 71 per cent of signed projects and 85 per cent of approved projects were in the private sector. The first disbursements in four new countries – Azerbaijan, Croatia, Georgia, and Kyrgyzstan – were made.*
- *Equity investments accounted for a quarter of the value of all approved projects, and the Bank used a series of credit lines to local banks and a number of new investment funds to better target small and medium-sized companies.*
- *The significant expansion in the Bank's business which has taken place over the past three years has been achieved without any real, i.e. after inflation, increase in administrative costs. Overheads are down from 30 per cent of operating costs in 1993 to about 24 per cent today.*

Indeed, the projects of the Bank have a dual purpose. They are intended not only to directly support the transition from a command to a market economy in countries of operations, but also to create a demonstration effect to attract foreign and domestic investors. Like the World Bank's International Finance Corporation (IFC), the Bank is required to operate on a strictly commercial basis and therefore must attract companies to less familiar countries through financially viable projects, not through subsidies.

<sup>1</sup> The ECU is the standard unit of account for the EBRD's operations. It represents a weighted basket of 11 European currencies. At the end of 1995, the exchange rate was ECU 1 = C \$1.7489.

Nevertheless, there remain many countries and sectors in the region that continue to receive limited attention from investors. Fully three-fourths of the U.S. \$18 billion of foreign direct investment in EBRD clients in 1991-1994 went to just four countries – the Czech Republic, Hungary, Poland and the Russian Federation. By way of comparison, Albania received a scant U.S. \$130 million in foreign direct investment over this period, compared to U.S. \$6.4 billion invested in Hungary. Part of the EBRD's mission is to help fill these gaps by signalling to investors areas within countries of operations which have good potential for investment.

The Bank almost always acts with partners – such as banks, local and international companies – in financing its project loans, and, in general, puts up no more than a third of the capital required. At the end of 1995, the EBRD had approved investments totalling ECU 7.9 billion (C \$13.8 billion) which in turn supported projects with an overall value of ECU 24.8 billion (C \$43.4 billion). As the scale suggests, the EBRD is now a key financial institution in this part of the world.

The Bank operates under a number of financial and other constraints. First, it lends on commercial (or market) terms at higher rates than, for instance, the European Investment Bank (which is an European Union [EU] institution which borrows on a triple-A basis and finances investments in EU and other European countries). Its adherence to commercial principles means that it operates in a narrower field than most other development banks (which, through their associated concessional development funds, are able to provide financing on softer than commercial terms) and this has led to some charges of excessive caution. However, commercial terms ensure that the Bank does not displace private financing. Second, as part of its mandate for private sector development, the Bank engages in a large number of time-consuming and relatively high-risk deals in its countries of operations. To cover the risks of its portfolio, the Bank is engaged in an active programme of building its provisioning reserves.

To fulfill its mandate, the Bank has undertaken a number of structural reforms. It has streamlined its administrative procedures and expanded partnerships with other institutions in financial and other sectors. Indeed, the Bank has stepped up its merchant banking activities in the financial area, taking equity stakes in and strengthening its relationships with commercial banks, financial institutions and investment firms in many of its countries of operations. Such activities now account for 25 per cent of its business.

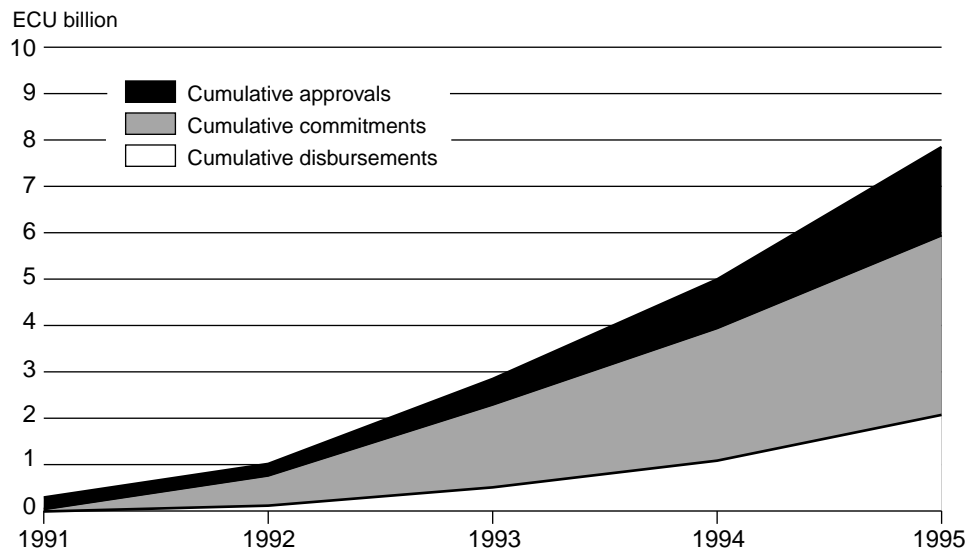
The Bank has also extended this approach to industrial sectors, by building "multi-project facilities" with corporations from Central and Eastern Europe as well as from the more advanced industrial countries. By initiating such "package deals", it spreads its financing more effectively, enabling the support of small projects which might otherwise have been too small to undertake. In addition, the Bank continues to work actively with local and regional banks, providing them with funds and guaranteeing their loans. In turn, this indirectly increases financing for many small- and medium-sized enterprises (SMEs).

The pursuit of a "local presence" in the countries of operations has become a key operational priority of the Bank. The Bank is now paying greater attention to the needs of emerging SMEs in countries of operations. In addition to the financing it provides financial intermediaries in countries of operations for onward lending to SMEs, it is also developing a series of venture capital funds (there are now 21) to help address the critical needs for more venture capital in SMEs.

## KEY DEVELOPMENTS IN 1995

In 1995, the Bank attempted to diversify its projects both commercially and geographically. Commercially, it broadened its private sector activities and sharply increased its loan and equity investment portfolio. It exceeded its target of ECU 1.9 billion (C \$3.3 billion) in new commitments: new commitments reached ECU 2.0 billion (C \$3.5 billion) for 110 new projects. The cumulative total of signed projects at the end of 1995 stood at ECU 5.9 billion (C \$10.3 billion). Net disbursements in 1995 rose to ECU 987 million (C \$1.7 billion), a sharp increase over the year before, and cumulative disbursements reached ECU 2.1 billion (C \$3.7 billion).

### *EBRD Operational Indicators*



Geographically, the Bank continued to diversify its operations, shifting its focus from the reform-minded states of Central Europe towards the more challenging countries in Eastern Europe and the former Soviet Union. Nevertheless, commitments in five countries – Hungary, the Czech Republic, Slovakia, Poland, and Romania – accounted for almost 50 per cent of the EBRD's signed commitments for loans and equity investments in 1995.



At the end of 1995, the Bank had committed projects in 24 of its 25 countries of operations (with only Tajikistan missing from the list), as well as 17 regional projects. First disbursements took place on projects in Azerbaijan, Croatia, Georgia and Kyrgyzstan.

The development of the financial sector is critical to the future development of the private sector in many of the Bank's countries of operation and, as such, is a high priority for Bank activities. The Bank is taking equity stakes in a number of financial institutions in countries of operation with a view to improving the quality of financial services and the degree of competition within financial sectors. In 1995, the Bank signed 43 agreements to finance financial sector activities totalling ECU 546 million (C \$954 million). The Bank also committed a further ECU 987 million (C \$1.7 billion) to the transport, telecommunications and energy sectors.

The Bank is seen as an attractive partner by the international banking community. More than 95 international banks have to date participated in EBRD programs supporting private sector projects. The number of co-financing partners has also continued to increase in 1995. In its 416 investments, the Bank has worked with 283 companies from 47 countries.

The EBRD organized 322 technical cooperation projects in 1995 worth nearly ECU 100 million (C \$175 million), which facilitated investment and lending operations by providing much needed financing for the preparation and implementation of projects. In addition, eight new Co-operation Fund Agreements were signed with bilateral donors.

## **ADMINISTRATIVE EFFICIENCY AND COST EFFECTIVENESS**

The EBRD has also made progress in extending its resident office network. At the end of the year, it had 18 local offices covering 16 countries of operations. The number of employees in resident offices has grown from less than 30 professionals at the end of 1993 to 66 at the end of 1995, with half of the professional staff recruited locally. The resident offices are now moving from representational activities to much more active involvement in extending Bank operations.

At the same time, the Bank has been able to keep its budget under strict control. In 1995, the Bank's administrative spending was frozen in real, i.e. after inflation, terms. In part, this was achieved through cost-saving measures, such as the continued subletting of part of the Bank's Headquarters building which has significantly cut expenditures and raised the Bank's income.

### ***Reducing the Costs of the Board of Directors Budget***

*A source of friction with shareholders has been the Board of Directors' share of the administrative budget. In recent years, the Board has accounted for about 12 per cent of the Bank's administrative spending, i.e. about three times that of other regional banks. At the 1994 Annual Meeting of the Board of Governors, Secretary of State Doug Peters proposed a broad review of the administrative costs of the Board of Directors with a view to achieving substantial budgetary savings.*

*In July 1995, a subcommittee of the Board of Directors chaired by the Canadian Director John Coleman, reached agreement on a 20.8 per cent reduction in Board personnel costs (effective June 1996) and a reduction of one-third in the space occupied by Directors' offices. Overall savings are estimated to be nearly £3 million, corresponding to 20.7 per cent of the 1995 Board of Directors' budget.*

## **TRANSITIONAL IMPACT OF THE BANK'S OPERATIONS**

Each year, the Bank publishes a detailed Transition Report which reviews the process of transition in each of its countries of operations. The Report's key summary statistics are provided in Table 1. The Report notes that many countries have made good progress on the early stages of transition. Nevertheless, it cautions that, without continued adherence to sound macroeconomic policies, the intermediate and later stages of reform could quickly falter.

The Report notes that, over the past year, the most rapid progress in transition has taken place in the countries of the former Soviet Union. Nevertheless, in most FSU countries, the private sector accounts for less than 50 per cent of economic activity. In large part, the more advanced the transition in a given economy, the higher the share of private sector transactions.

Generally, progress on economic transition together with macroeconomic stability and the resumption of growth have created promising conditions for foreign and domestic investment in many parts of the region. Current levels of foreign investment, however, remain low and highly skewed. By way of comparison, the Report notes that the Bank's 25 countries of operations, with a combined population of 400 million, receive roughly the same level of foreign investment as Malaysia, which has a population of 20 million.

Table 1

## Progress in transition in Central and Eastern Europe and the former Soviet Union

Countries	Private sector share of GDP (%)	Enterprises		Markets and Trade		Financial Institutions		Legal Reform Extensiveness & effectiveness of legal rules on investment		
		Large-scale privatization	Small-scale privatization	Enterprise restructuring	Price liberalization	Trade and foreign exchange system	Competition policy		Banking reform & interest rate liberalization	Securities markets & non-bank financial institutions
Albania	60	2	4	2	3	4	1	2	1	2
Armenia	45	2	3	2	3	3	1	2	1	2
Azerbaijan	25	1	1	2	3	2	1	2	1	1
Belarus	15	2	2	2	3	2	2	2	2	2
Bulgaria	45	2	3	2	3	4	2	2	2	3
Croatia	45	3	4+	2	3	4	1	3	2	3
Czech Republic	70	4	4+	3	3	4+	3	3	3	4
Estonia	65	4	4	3	3	4	3	3	2	3
FYR Macedonia	40	2	4	2	3	4	1	3	1	2
Georgia	30	2	3	2	3	2	1	2	1	2
Hungary	60	4	4+	3	3	4+	3	3	3	4
Kazakhstan	25	2	2	1	3	3	2	2	2	2
Kyrgyzstan	40	4	4	2	3	4	2	2	2	2
Latvia	60	2	4	2	3	4	2	3	2	2
Lithuania	55	3	4	2	3	4	2	3	2	2
Moldova	30	3	3	2	3	4	2	2	2	2
Poland	60	3	4+	3	3	4+	3	3	3	4
Romania	40	2	3	2	3	4+	1	3	2	2
Russian Federation	55	3	4	2	3	3	2	2	2	2
Slovak Republic	60	3	4+	3	3	4+	3	3	3	3
Slovenia	45	3	4+	3	3	4+	2	3	3	3
Tajikistan	15	2	2	1	3	2	1	1	1	1
Turkmenistan	15	1	1	1	2	1	1	1	1	1
Ukraine	35	2	2	2	3	3	2	2	2	2
Uzbekistan	30	3	3	2	3	2	2	2	2	2

Source: Transition Report (EBRD, November 1995).

The classification of transition indicators uses a scale from 1 to 4, where "1" implies little or no progress with reform and "4" implies a market economy. Most advanced industrial economies would qualify for the 4+ rating for almost all the transition indicators.

### ***The Private Sector Focus of the Bank***

*The EBRD's Articles of Agreement require that the Bank achieve a 60/40 ratio (the so-called portfolio ratio) in its private/public sector activities, both globally and in individual countries after five years of operations.*

*The global portfolio ratio was satisfied in 1995 with 62 per cent of the Bank's total commitments linked to private sector activities. Progress in reaching the individual country ratios was variable. The target was reached in only eight of the Bank's 25 countries of operation at the end of 1995. Four countries (Armenia, Azerbaijan, Georgia and Tajikistan) have had no private sector commitments to date.*

*In general, the portfolio ratio has been difficult to attain in countries which are in the early or intermediate stages of transition. Not surprisingly, most of these countries have relatively small private sectors. But the target remains a useful goal for transition.*

The Report concludes that the EBRD and other international financial institutions need to continue to select investment projects which clearly advance the transition process. The Bank identifies three key elements that are necessary for a strong "transition impact" – the development of market-based relationships between enterprises; the promotion of market-oriented skills and learning; and the development of a competitive market environment.

## **POLITICAL ASPECTS OF THE BANK'S MANDATE**

The Bank's Articles of Agreement link the successful transition of member countries to market-oriented economies with progress toward democracy and the rule of law. This is a key part of the Bank's mandate.

The Bank takes its political mandate seriously. For each country of operations, the Bank examines the political situation, relying on a team of counsellors who specialize in political analysis. These individuals work very closely with the Council of Europe, the Organization for Security and Cooperation in Europe (OSCE) and the United Nations to reach their political assessments. During their examination of the Bank's "country strategies", the Board of Directors discusses appropriate follow-up activities in light of these evaluations. In certain cases, the Board has viewed progress as inadequate and asked the President to convey their concerns to the national authorities. However, the Bank has not yet faced a situation where the Board has decided to stop, or suspend, operations on political grounds.

## **ENVIRONMENTAL ASPECTS OF THE BANK'S MANDATE**

The Bank is directed by its statutes to “promote in the full range of its activities environmentally sound and sustainable development”. In recent years, the Bank has focussed particular attention on environmental infrastructure and energy-saving projects.

Energy conservation is taken into account by the Bank in its financing of large-scale restructuring programmes. Programmes are always reviewed to ensure that the environmental aspects have been adequately taken into account. Similarly, energy efficiency is an important emphasis, with projects supported to upgrade power plants and distribution networks, or to develop renewable energy sources, for instance in Albania, Moldova and Georgia.

### ***The Mochovce Project***

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*In early 1993, French, German, and Slovak sponsors approached the Bank to participate in financing the completion of two reactors for the Mochovce nuclear power project in the Slovak Republic. This nuclear project, the first to be considered by the Bank, attracted considerable public interest.*

*In July 1993, the Board of Directors was consulted on this project, and established a number of conditions, in line with the Bank's energy policy, as prerequisites for Bank participation. Specifically, the completion of Mochovce had to:*

- *be the “least cost” solution to Slovakia's future electricity requirements;*
- *be financially viable (which required a significant increase in domestic electricity prices);*
- *conform to generally accepted Western nuclear safety standards;*
- *entail environmental risks no greater than those associated with alternative sources of electricity generation; and*
- *result in the closure of the unsafe Bohunice plant no later than the end of the decade.*

*In March 1995, the Slovak Republic asked the EBRD to defer consideration of this project. In October 1995, the Slovak authorities decided that EBRD financing conditions were “unacceptable” and that they would pursue Czech and Russian financing and engineering standards for the project. Recently, Skoda Praha of the Czech Republic won a supply contract for the Mochovce project.*

In 1995, to better pursue potential energy savings, the Bank decided to set up a specialized section, the Energy Efficiency Unit. Its role is to enhance energy efficiency through:

- adjustment of energy prices to better reflect real costs, and development of suitable social safety nets to protect economically vulnerable users;
- direct investment to improve the energy efficiency;
- creation and management of guarantee funds to finance energy saving investments, especially large-scale "retrofitting" projects;
- design and development of other instruments for the financing of small-scale investments; and
- support for local enterprises active in energy conservation.

The Bank recognizes that energy efficiency can dramatically contribute to the reduction of atmospheric pollution in Central and Eastern Europe and in the countries of the former Soviet Union. Since oil and coal are the main polluting sources in many of these countries, progress towards greater energy efficiency can pay big environmental dividends.

Turning to individual projects of high environmental interest, the EBRD and World Bank co-financed a path-breaking operation to contain and clean up a major oil spill in the Komi Republic of Russia. The proposed completion of the Mochovce nuclear power plant in Slovakia generated much controversy. After months of negotiations, the environmental and other conditions which had been set by the EBRD were judged too rigorous by the Slovakian authorities and the project was financed elsewhere (see box).

### ***The EBRD and Nuclear Safety***

*Canada, with other G-7 countries, has been working to improve nuclear safety in Central and Eastern European countries and the former Soviet Union, bearing in mind the risks posed by older generation Soviet reactors such as Chernobyl in the Ukraine. The EBRD, as the multilateral development bank which focuses on the region, has been asked to play a special role in the area of nuclear safety.*

*Canada has contributed to the Nuclear Safety Account (NSA) which the EBRD administers on behalf of the G-7 countries and other contributors. The NSA is used primarily for making essential safety improvements to older generation Soviet-built reactors as part of a comprehensive program for their early decommissioning.*

*Canada also supports the use of the EBRD's own resources to bring partly completed Soviet-designed nuclear power plants up to Western safety standards. The EBRD applies strict conditions to this support. The completion of these plants must be part of a "least cost" solution to the country's future electricity requirements; the completed plants must fully comply with Western nuclear safety standards; and, any resulting increase in nuclear power in upgraded facilities must be fully offset by the closure of other unsafe nuclear plants.*

## MANAGING CANADA'S INTERESTS

The highest authority in the Bank is the Board of Governors. Member countries are represented by a Governor and an Alternate Governor. The Honourable Paul Martin, Minister of Finance, is the Canadian Governor and Mr. Gordon Smith, Deputy Minister of Foreign Affairs, is the Alternate Governor.

The Board of Directors is responsible for the general operations of the Bank. The Board is composed of 23 members, of which four are non-European members. Canada is the third largest non-European shareholder, after the United States and Japan, and by virtue of its share has the right to elect its own Director. Canada's constituency in the Bank also includes Morocco. The Canadian Director is Mr. John Coleman.

Within the Canadian Government, responsibility for oversight of the EBRD's activities resides with the International Finance and Economic Analysis Division of the Department of Finance. In consultation with the Department of Foreign Affairs, the Department of Finance regularly reviews the Bank's policy papers and proposed country programs and provides advice to the Canadian Director.

### ***Canada's Voting Record***

*In June, Minister Martin opposed the following salary increases as inconsistent with the message of restraint which multilateral institutions should be trying to convey in their countries of operations, and as not justifiable by comparison with member country government salaries:*

- *the two successive increases of 2.5 and 4.5 per cent (effective April 1995 and July 1995) for the remuneration of the President; and*
- *automatic adjustments to Directors and Alternate Directors' salaries in April 1996 which were to be based on the average increase in the Bank's senior staff salaries.*

*Canada and other shareholders typically raise concerns and questions about specific Bank operations before they get to the Board. As a result, decisions at the Board are generally taken by consensus without a formal vote. Nevertheless, the Canadian Director formally opposed the following Bank operations:*

- *the MBA Loan Program in January 1995 which ultimately benefited individual students (rather than private enterprises) and was thus inconsistent with the mandate of the Bank; and*
- *the Staff Compensation and Benefits Proposals in November 1995 which were out of line with smaller pay increases in other international institutions such as the International Finance Corporation.*

For much of the past year, the Canadian Director chaired a subcommittee of the Bank's Directors at which a range of policy issues were discussed. During the course of the year, Canada pressed the EBRD to become more active in the Ukraine and other countries in early or intermediate stages of transition. Canada also argued that the Bank should continue to decentralize its activities and substantially increase its involvement in small- and medium-sized enterprises and local banks in the region.

On the financial side, Canada actively promoted reductions in the administrative cost of the Board of Directors and promoted adoption of zero real growth budgets for 1995 and 1996. Canada also played an important role in negotiations to double the size of the Bank's authorized capital.

### ***Promoting Canada's Interests***

*Members of the Canadian office made six visits to Canada during 1995 to meet with business people, conduct seminars, speak at conferences, and consult with government officials. During a cross-Canada marketing tour in late March, the Canadian Executive Directors for all the multilateral development banks visited Nova Scotia, Quebec, Ontario, Alberta, and British Columbia. The Director and Alternate Director also visited several of the Bank's countries of operations (the Czech Republic, Hungary, Kazakstan, Kyrgyzstan and Poland) to further Canadian business interests in the region.*

*In addition, EBRD President de Larosière visited Toronto and Ottawa in early June. During his time in Canada, the President met with the Prime Minister, appeared before a joint session of the House of Commons Committees on Finance, Foreign Affairs and Defense and the Senate Committee on Foreign Affairs, and spoke with a large number of business people and bankers.*

## **PROCUREMENT PERFORMANCE**

The EBRD offers a wide variety of opportunities for Canadian businesses. One of the tasks of the Canadian Office is to make Canadian business people aware of these opportunities, explain how the Bank's contracting works, and ensure that all contracts are awarded in a transparent and fair manner. A growing area of opportunity is the Bank's private sector financing operations, which now account for almost three-quarters of the Bank's business. Last year, Canadian companies successfully bid on a number of major deals in this area.

- The largest was the U.S. \$360 million Kumtor Gold project to develop a large gold deposit in Kyrgyzstan, which was sponsored by Cameco of Saskatoon. Canada's Export Development Corporation also provided U.S. \$50 million in financing and U.S. \$90 million in foreign investment



insurance coverage for the project. In addition, five Canadian banks – Chemical Bank of Canada, ABN AMBRO Bank of Canada, Royal Bank of Canada, Crédit Lyonnais (Canada) and Bank of Nova Scotia – participated in the seven-bank syndicate which contributed U.S. \$155 million. Both EDC and commercial bank involvement were contingent on the participation of the IFC and EBRD, which demonstrates the important role these institutions can play in catalyzing resources.

- The second was a U.S. \$22 million project which established the Kyrgyz Agribusiness Company which will primarily provide distribution and other services to grain-producing farms. This project was sponsored by Cameco, the Saskatchewan Wheat Pool, O&T Agdevco of Saskatchewan and two European corporate partners.

There are a substantial number of other projects involving Canadian companies which are currently making their way through the Bank's pipeline. Most of these are in areas of traditional Canadian strength – i.e. oil and gas, mining, telecommunications, infrastructure development, and investment finance. Canada also has a strong track record in consultancy services. Last year, Canadian consultants won 17 consultancy contracts worth a total of about U.S. \$2 million. This high level of overall activity demonstrates Canada's significant and growing interest in doing business with the EBRD.

Canadians are well represented on the Bank's staff. At the end of 1995, Canadians accounted for 6.3 per cent of the Bank's professional positions, well above Canada's 3.4 per cent share of the Bank's capital. It is noteworthy that Canadians lead the country teams for Hungary and the Baltics/Belarus and head the Bank's resident offices in Bratislava, Kiev, Minsk, Moscow, Sofia and Warsaw.

### ***Contacting the Office of the Director for Canada***

*The Canadian Director's Office at the EBRD may be reached at:*

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One Exchange Square, Room 8.15  
London, EC2A 2EH  
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*Tel: 44-171-338-6457*

*Mr. David Horley, Alternate Director*

*Tel: 44-171-338-6509*

*Mr. Stephen Millar, Director's Assistant*

*Tel: 44-171-338-6458*

*Mrs. Diana Price, Executive Secretary*

*Tel: 44-171-338-6507*

*Fax: 44-171-338-6062*

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## CHALLENGES AHEAD

The reforms introduced by the Bank's President, Mr. Jacques de Larosière, are now yielding tangible results. The Bank is working actively to increase its lending and investment activities in the private sector. It has also made considerable progress in increasing the geographical spread of its operations and focusing an increasing share of its resources on the riskier countries of the region. As it gains experience in the region, the Bank is now beginning to work more directly with local private enterprises and local banks and reducing its reliance on joint ventures with Western investors.

Looking ahead, the EBRD will need to continue to broaden the scope of its operations. It will also need to better adapt to countries at differing stages of transition and to develop instruments and approaches which are specifically suited for the evolving needs of its clients. The demand for financing and direct investment is expected to increase sharply in countries that are now entering the "intermediate" stage of transition. This presents a clear challenge to the EBRD. As private sources of financing become increasingly available for projects in specific sectors in advanced transition countries, the Bank will no longer need to be active in such areas. As alternative sources of funds become available, a test of whether EBRD services are truly needed, or "additional", will need to be increasingly applied. This raises the question of when a country will no longer need the services of the EBRD and can be "graduated". The Bank is now focusing on this issue, and a formal "graduation" policy is to be established by the end of 1996. Managing this graduation process will present new challenges.

In conclusion, the Bank has now emerged as an important force for transition in Central and Eastern Europe and the countries of the former Soviet Union. In the coming years, the demand for its expertise and resources can be expected to continue to increase. In meeting this demand, the EBRD will need to ensure that its operations continue to satisfy the principles of sound banking, additionality and impact on transition.

### ***For More Information on the EBRD***

*The Bank releases considerable information on its various activities. Bank publications include information guides (e.g., **Financing with the EBRD**), special reports (e.g., **The Annual Report, Transition Report**), country strategies and assorted factsheets.*

*Requests for information can be addressed to:*

*Publications Desk  
European Bank for Reconstruction and Development  
One Exchange Square  
London EC2A 2EH  
United Kingdom  
(Fax: 44-171-338-7544)*

## ANNEX 1

### The Bank's Financial Activities

The Bank's financial activities are divided into ordinary and special operations depending on the source of funds applied. Ordinary operations are those financed from the ordinary capital resources of the Bank which comprise subscribed capital, market borrowings and income from loans and investments. Special operations are those financed by "Special Funds" for specially designated purposes which are typically outside the Bank's regular activities. Unlike other regional development banks, however, the EBRD does not operate a concessional or "soft" loan window.

### Ordinary Capital Resources

At the end of 1995, the total authorized capital of the Bank was ECU 10 billion (about C \$17.5 billion). Canada has subscribed to 3.4 per cent – or ECU 340 million (about C \$595 million)– of the Bank's authorized capital<sup>1</sup>. Contributions are made in either ECU, U.S. dollars or Japanese yen. Canada's contribution was made in U.S. dollars, as shown in the table below. Thirty per cent of this amount represents "paid-in" capital which is provided in equal annual instalments over five years, half in cash and half in promissory notes. The remaining 70 per cent of authorized capital is "callable", i.e. subject to call in the unlikely event that it is required to meet the Bank's financial obligations to bondholders. Canada's paid-in capital contribution to the Bank can be thought of as asset.

At the end of 1995, Canada had made the following payments in U.S. dollars:

Year	Notes	Cash	Encashment of notes	Total cash outlay
1991	11,903,502	11,903,502	11,903,502	23,807,004
1992	11,903,502	11,903,502	3,967,834	15,871,336
1993	11,903,502	11,903,502	7,935,668	19,839,170
1994	11,903,502	11,903,502	11,903,502	23,807,004
1995	11,903,502	11,903,502	11,903,502	23,807,004
Total	59,517,510	59,517,510	47,614,008	107,131,518

The final encashment of U.S. \$11,903,502 in outstanding notes for capital is expected in 1997.

<sup>1</sup> This has a value of U.S. \$396,783,400 at the agreed exchange rate of ECU 1 = U.S. \$1.16701.

## Market Borrowings

The Bank borrowed funds equivalent to ECU 910 million from international capital markets in 1995. Funds were raised in eight different currencies and swapped into floating rate instruments, primarily in U.S. dollars, ECU and deutschemarks.

At the end of 1995, cumulative borrowings by the Bank totalled ECU 3.8 billion with an average maturity period of 5.7 years at an average cost of funds of LIBOR<sup>2</sup> minus 36 basis points.

Standard & Poor's has assigned the Bank a AAA long-term and A-1+ short-term credit rating. Moody's has similarly rated the EBRD long-term bonds triple-A.

## Special Operations

The EBRD administers a number of bilateral and multilateral concessional funds. Canada has contributed to the following Special Funds:

**The Canadian Technical Cooperation Fund** – The main purpose of this fund is to provide financing to hire Canadian consultants for EBRD projects. Canada has contributed C \$5.5 million since it was established in 1992.

**Nuclear Safety Account** – This facility was established to help finance the closure of the Chernobyl nuclear power plant and to improve safety conditions at nuclear power plants in countries of operations. The NSA functions in parallel with multilateral efforts to achieve broader energy sector reform in the region. Canada has contributed C \$19.5 million to the total fund of U.S. \$250 million. The NSA was established in 1993.

**Russia Small Business Fund** – The purpose of this fund is to establish a facility for small business finance in Russia. Canada has contributed U.S. \$1.3 million toward the U.S. \$55.5 million pilot phases. The RSBF was established in 1993.

**Russian Project Finance Bank** – This fund is designed to cover the cost of expatriate Canadian management support for the start-up phase of the RPFB. Canada established a technical co-operation agreement worth C \$1.6 million for this purpose in 1992.

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<sup>2</sup> LIBOR is the London Interbank Offered Rate, i.e. the rate of interest banks charge each other for short-term loans on the London market.

## EBRD Membership – As at December 31, 1995

	Share of the Bank's Capital		Share of the Bank's Capital
	(%)		(%)
<b>European Members</b>		<b>Countries of Operations</b>	
Austria	2.28	Albania	0.10
Belgium	2.28	Armenia	0.05
Cyprus	0.10	Azerbaijan	0.10
Denmark	1.20	Belarus	0.20
Finland	1.25	Bulgaria	0.79
France	8.52	Croatia	0.36
Germany	8.52	Czech Republic	0.85
Greece	0.65	Estonia	0.10
Iceland	0.10	FYR of Macedonia	0.07
Ireland	0.30	Georgia	0.10
Israel	0.65	Hungary	0.79
Italy	8.52	Kazakstan	0.23
Liechtenstein	0.02	Kyrgyzstan	0.10
Luxembourg	0.20	Latvia	0.10
Malta	0.01	Lithuania	0.10
Netherlands	2.48	Moldova	0.10
Norway	1.25	Poland	1.28
Portugal	0.42	Romania	0.48
Spain	3.40	Russian Federation	4.00
Sweden	2.28	Slovak Republic	0.43
Switzerland	2.28	Slovenia	0.21
Turkey	1.15	Tajikistan	0.10
United Kingdom	8.52	Turkmenistan	0.01
European Community	3.00	Ukraine	0.80
European Investment Bank	3.00	Uzbekistan	0.21
<b>Non-European Members</b>			
Australia	1.00		
Canada	3.40		
Egypt	0.10		
Japan	8.52		
Korea	0.65		
Mexico	0.30		
Morocco	0.10		
New Zealand	0.10		
United States	10.00		

## ANNEX 2

### How to Do Business With the EBRD

General inquiries about the EBRD should be directed to the Office of the Director for Canada (see box on p. 17) or to the Bank's Communications Department in London (tel: 44-171-338-6096; fax: 44-171-338-6690).

Companies interested in potentially sponsoring a Bank project are requested to direct initial inquiries either to Project Inquiries (tel: 44-171-338-6282 or 44-171-338-6252; fax: 44-171-338-6102) in London or to the Bank's Resident Office in the country of operations.

The EBRD uses the World Bank DACON (Data on Consultants) System to register consultants. Requests for forms and subsequent registration should be forwarded to:

DACON Information Centre  
World Bank  
1818 H Street  
Washington DC 20433

The EBRD has also established a supplementary system for registration of highly qualified consultants. Individuals are invited to submit their curriculum vitae (CV) for review at the Bank's Consultant Contracts Unit (tel: 44-171-338-6909; fax: 44-171-338-6100) in London.

The EBRD provides information on its proposed and approved projects, technical cooperation activities, contracts awarded and procurement notices in a monthly newsletter, Procurement Opportunities, available through fax at an annual subscription of £85 from:

EBRD Subscription Department  
82-84 Peckham Rye  
London SE15 4HB  
United Kingdom  
Tel: 44-171-639-0333  
Fax: 44-171-358-9568

Applications for employment for both permanent positions and summer jobs should be sent to:

Mr. Ernst Mahel  
Senior Recruitment Advisor  
Personnel Department  
European Bank for Reconstruction and Development  
One Exchange Square  
London, EC2A 2EH  
United Kingdom