REPORT ON OPERATIONS

UNDER

THE EUROPEAN BANK FOR RECONSTRUCTION

AND DEVELOPMENT AGREEMENT ACT

1992

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TABLE OF CONTENTS

I. INTRODUCTORY NOTE 1

II. REVIEW OF THE REGION OF OPERATIONS 2

Economic Developments 2
Eastern Europe 2
Russia and the Rest of the Former Soviet Union 4

III. THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) 6

Objectives and Benefits 6

Environmental Concerns 7

Multiparty Democracy and Pluralism 7

EBRD Resources 8

(i) Ordinary Capital Resources 8
(ii) Borrowings 8
(iii) Technical Assistance and Cooperation Funds 9

Loans and Equity Investments 9

IV. MANAGING CANADA'S INTEREST IN THE EBRD 10

Canadian Representation on EBRD Executive Boards 10

Highlights in 1992 10

Funds Subscribed and Committed 11

EBRD Financing Benefitting Canadian Firms 12

Canadian Personnel 13

V. CONCLUSION 14

ANNEX

Table 1 : EBRD Capital Subscribed by G-7 members 15

Table 2 : EBRD Loans and Equity Investments Approved in 1992 16

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I. Introductory Note

In conformity with Article 7 of the European Bank for Reconstruction and Development (EBRD) Agreement Act, this report reviews the operations during 1992 of the EBRD. Canadian participation in this institution was authorized under the EBRD Agreement Act, passed by the House of Commons on January 21, 1991.

Headquarted in London, the EBRD is the newest multilateral development bank. The EBRD is designed to further economic development and social progress among the former Communist countries of central and eastern Europe[1]. As stated in its Articles of Agreement, the main purpose of the EBRD is to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.

The EBRD functions as a development bank, much in the same way that the World Bank and other regional development banks serve their respective borrowing regions. However, the EBRD is distinctive in three areas from these banks. The **first** characteristic is the Bank's overriding focus on the private sector. Its Charter stipulates that not less than 60 per cent of its financing will be directed either to: private sector enterprises; or to state-owned enterprises implementing a programme to achieve private ownership and control. **Secondly**, the Bank's mandate gives it a particular concern for the promotion of democratic institutions and human rights in its countries of operations. Finally, a **third** characteristic to the EBRD is its commitment to environmental protection and restoration.

The Bank provides loans, equity investment and debt guarantees. The activities of the EBRD are divided into ordinary and special operations, depending on the source of funding. Ordinary operations are those financed from the ordinary capital resources of the Bank which comprise the Bank's subscribed capital, its borrowings, income from ordinary loans and investments. Special operations are those financed from Special Funds, which are funds accepted by the Bank for inclusion in a Special Fund, e.g. technical assistance. On June 25, 1991, the EBRD Board of Directors approved its first loan. On September 25, 1991, the Bank issued its first bond of ECU 500 million[2].

Detailed information on the EBRD can be found in its 1991 Annual Report. The 1992 Annual Report is expected to be released, in London, at the next Annual Meeting of the Governors of the Bank, April 26-27, 1993.

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[1] References to central and eastern Europe in this Report also include countries of the former USSR.

[2] Figures in this Report are expressed in terms of European Currency Units (ECUs), the unit of account for all EBRD transactions. The ECU is a composite currency, consisting of the fixed amounts of the currencies of the twelve member states of the European Economic Community (EEC). At the end of 1992 the value of the ECU was US$1.2109. During 1992, the value of the ECU varied between US$1.207 and US$1.4557, and averaged US$1.296.

II. Review of the Region of Operations

Economic Developments in Central and Eastern Europe

Eastern Europe

The countries of eastern Europe have made significant progress towards market-based reforms. Most countries implemented stabilization programmes in 1991 with the exception of Poland, which introduced reforms a year earlier. The authorities have, for the most part, adhered to the austerity measures outlined in these programmes. As a result, many of the adverse effects of central planning have been reversed through price and trade liberalization, monetary and fiscal restraint, and structural reforms. Although output fell in all countries in 1992, prospects for Poland, Hungary, and the former Czech and Slovak Federal Republic (**CSFR**) look more promising in 1993 because of growing private sectors. On the other hand, Bulgaria and Romania experienced large output declines in 1991 and 1992 which were more than 10 per cent below initial projections. The process of reform has been longer and more severe than expected, resulting in political turmoil and social unrest. Nevertheless, there is evidence that reform policies are establishing the basis for a market economy throughout eastern Europe although more needs to be done in each country.

Several indicators suggest that the macroeconomic stabilization policies are beginning to take effect in certain countries. Annual inflation for 1992 was 10 per cent in the former CSFR, 20 per cent in Hungary, and 47 per cent in Poland. This compares to 90 and 200 per cent in Bulgaria and Romania. These rates are below 1991 levels, and are expected to fall in 1993 in all countries, except the former CSFR. Although the CSFR was the most successful in stabilizing prices, its recent dissolution may have a destabilizing effect on prices: inflation is expected to increase to 20 per cent by end-1993. The disparities among inflation rates in the east European countries reflect differences in both monetary policy and initial conditions. In Romania, monetary policy was more lax because of the monetization of inter-enterprise arrears. In contrast, Poland and Hungary adhered to monetary targets which has resulted in significant containment of inflationary expectations, especially in Poland where average annual inflation reached 600 per cent in 1990.

The containment of inflation has enabled the countries of eastern Europe to liberalize their external sectors. Poland, Hungary and the former CSFR have made their currencies convertible for current account transactions by steep devaluations. Although the Bulgarian and Romanian currencies are not yet convertible, official exchange rates are determined in a local inter-bank market so that they at least reflect market forces. Recent reports indicate that trade deficits

are narrowing and, in some cases, surpluses have been recorded after the introduction of market prices in 1991. This reflects the competitive effects of devaluation and the reorientation of trade to the West after the collapse of the Council of Mutual Economic Assistance (CMEA) in 1991.

The initial stages of macroeconomic stabilization in most countries were marked by a commitment not only to monetary restraint but also to fiscal restraint. Fiscal consolidation has shown signs of weakening in the past year, reflecting the economic hardships associated with the transition to a market economy and the larger-than-expected contraction of output. Poland and Hungary report fiscal deficits of 8 and 10 per cent of GDP, exceeding deficit targets of 5 per cent.

Despite the difficulties meeting fiscal targets, east European countries introduced structural reforms which have created an environment conducive to private sector growth. (Poland, which as noted above began its reform process a year before the others, reported that industrial production grew 8 per cent in 1992.) The pace and method of privatization have varied from country to country. The former CSFR introduced a voucher scheme of privatization in 1992 which transferred ownership of large enterprises to the general public. In Hungary, privatization was controlled by a government agency which was responsible for selling off large firms to private buyers. Romania has also implemented a new programme to eliminate inter-enterprise arrears which nets out arrears accumulated between enterprises. This should promote the privatization of state enterprises. Legislation on privatization programmes has been postponed in Poland and Bulgaria because of political uncertainty. In Poland, most privatization has occurred haphazardly through the sale of firms that are no longer profitable.

Eastern Europe should be commended on its efforts to pursue macroeconomic stabilization policies, particularly in Poland, Hungary, and the former CSFR. Bulgaria and Romania need to continue further with austerity measures to contain inflation and remove macroeconomic imbalances. The progress made so far does not suggest, however, that the transition to a market-based economy is complete. East European countries must persevere with macro-economic stabilization programmes and with structural reform. In this regard, the daunting task of de-monopolizing large state enterprises has not yet been fully implemented, so that private sector activity consists almost exclusively of small- and medium-sized firms. This will assist financial sector reforms which have thus far been stalled because of the difficulties of removing "bad loans" from bank balance sheets.

Russia and the Rest of the Former Soviet Union

Progress with economic stabilization and reform has been slower in Russia and the other former Soviet republics, despite a good start in early 1992. In January 1992, most prices were freed throughout the former Soviet Union. In Russia, this was followed during the first half of the year by the maintenance of relatively restrictive macroeconomic policies, extensive trade liberalization, and the unification of exchange markets. This led to a period of monetary stability. The monthly inflation rate was reduced to under 10 per cent by mid-summer, the value of the ruble stabilized, and barter and black market activity fell markedly. By August, Russian authorities had signed a first credit tranche agreement with the IMF. Furthermore, the mostly unmeasured growth of private sector activity and the positive supply response associated with price liberalization partially offset the sharp fall in heavy industrial output throughout 1992. Private sector growth was, nevertheless, limited by slow progress with privatization and the hoarding of human resources and material inputs by state enterprises.

The pace of market-based economic reforms stalled, in some cases was reversed, in the second half of 1992, however. A political stalemate between the reformist government of President Yeltsin and conservative deputies in the Russian parliament over the nature of reforms led to serious policy slippages. Under mounting pressures, the Russian government granted concessions to their opponents in the form of massive subsidies to state enterprises. This led to a sharp deterioration of fiscal balances, and sustained the production of money-losing enterprises and the subsequent stockpiling of unwanted goods. Moreover, the change of Chairmanship at the Russian Central Bank (in July of 1992) marked a return to "loose" monetary policy. The new Chairman attempted to stimulate industrial production with rapid monetary growth. The resulting explosion in monetary growth accelerated monthly inflation to near hyperinflationary rates, sent the ruble into free-fall, and led to widespread capital flight. Consequently, the macroeconomic performance targets set out in the IMF agreement were missed by a wide margin. While the Russian authorities endorsed another broad-based stabilization programme in early 1993, the course of economic reform will depend, in large part, on the resolution of the ongoing political deadlock. It is noteworthy, however, that even with a broadly-based stabilization programme in place, the transition process -- by virtue of its scale and complexity, will likely take decades to complete.

Both the Ukraine and Belarus lag far behind Russia in the transition towards a market economy. The process of economic reform and stabilization has barely begun in the Ukraine and Belarus, but economic prospects are far more bleak in Ukraine. The country has experienced more severe economic dislocation and instability than in Russia. Although Ukraine's abundant supplies of natural resources (particularly minerals) and agricultural products sustained a higher level of consumption than in other former-Soviet republics, a lack of progress with structural reforms and lax macroeconomic policies throughout 1992 exacerbated the

contraction of economic activity associated with the demise of central planning. By the end of the third quarter of 1992, monthly inflation had accelerated to hyperinflationary rates and the budget deficit had soared to a staggering 44 per cent of GDP. As a result, the value of the country's interim currency, the karbovenet, plummeted against the ruble, as well as against hard currencies.

The economic outlook is also bleak for Moldova, which has suffered from the recent escalation in hostilities in the Trans-Dniester region and the concomitant severe disruption of domestic economic activity.

Given their paucity of energy resources and the recent move to world prices for their energy imports, the Baltic states have suffered from relatively large adverse movements in their terms of trade -- that is, changes in the prices received on exports relative to prices paid on imports. The IMF estimates that regional output in the Baltics fell by 25-28 per cent in 1992. Progress with macroeconomic stabilization and structural reforms is encouraging, however. Each of the Baltic states have managed to maintain relatively tight monetary and fiscal policies. As a result, all of the Baltic states have introduced their own national currencies. Moreover, the exchange values of the Baltic currencies -- particularly the Estonian kroon, which is pegged to the deutsche mark -- have risen sharply against the ruble since their introduction. Lithuania and Estonia have also made significant progress with privatization.

Economic prospects are bleak in the southern Caucasus republics of Armenia, Azerbaijan, and Georgia. In addition to adjusting to large terms of trade shocks associated with price liberalization and the breakdown of the former-Soviet payments system, each republic has suffered from an escalation of regional hostilities. The IMF estimates that regional output declined by at least 35 per cent in 1992. Macroeconomic policies, which were relatively tight in the first half of 1992, have been eased. In response to monetary developments in Russia and Ukraine, both Georgia and Azerbaijan have made plans to introduce their own national currencies. With the exception of Armenia, which has privatized more than 90 per cent of farmland, the pace of structural reforms in the Caucasus has been far slower than in Russia.

The five Central Asian states also lag far behind Russia in the implementation of fundamental structural reforms. Although monetary and fiscal policies have remained tight in most of the Central Asian states throughout 1992, prices in many of these republics remain controlled. Furthermore, with the exception of Kazakhstan and Kyrghystan, no privatization plans have yet been implemented, nor have any institutional reforms been put in place. Several of the Central Asian republics, by virtue of their relatively large energy supplies, nonetheless experienced a less pronounced fall in their living standards than elsewhere in the former Soviet Union.

III. The European Bank for Reconstruction and Development (EBRD)

Objectives and Benefits

The primary purpose of the EBRD is to foster the transition towards democracy and open market-oriented economies, and to promote private and entrepreneurial initiative in the countries of central and eastern Europe. The Bank's mandate gives it a particular concern for the promotion of democratic institutions and human rights in its countries of operations.

The Bank is a unique combination of merchant bank and development bank. Its Charter stipulates that not less than 60 per cent of its financing will be directed either to private sector enterprises or to state-owned enterprises implementing a programme to achieve private ownership and control. However, there is a grace period of two years, i.e. until April 15, 1993, for the Bank to comply with this 60 per cent limit. The purpose of the grace period is to permit the Bank to support, at the outset, public sector infrastructure projects designed to assist private sector development, recognizing that it would be difficult to identify bankable private sector projects in the first few years.

The Bank offers a full range of funding on a market, rather than on a subsidized or concessionary, basis including:

- Loans with a maximum maturity of ten years for commercial enterprises and of fifteen years for public infrastructure projects;

- Equity; and

- Guarantees and underwriting. (However, the Bank does not issue guarantees for export credits nor undertake insurance activities.)

There are two operations departments at the EBRD: Merchant Banking and Development Banking. The Merchant Banking group is responsible for the financing of private or "privatizable" enterprises in the competitive sector. The Development Banking section focuses on physical and financial public infrastructure projects. Other Bank units support the operations departments. For instance, the political unit keeps abreast of political events in the countries of operations, and works in close collaboration with the operations departments on the implementation of the political aspects of the Bank's mandate.

In carrying out its functions, the Bank works in close cooperation with all of its members and international organizations, such as the International

Monetary Fund (IMF), the World Bank Group, the Organisation for Economic Co-operation and Development (OECD), the European Commission, the European Investment Bank and United Nations (UN) agencies and bodies.

Canada benefits from its participation in the EBRD, a growing actor in private sector development in a region dominated for decades by inefficient state ownership. In addition to participating as a promoter of private sector development, human rights and multiparty democracy in eastern Europe, Canada's participation in the Bank gives it a say in policy decisions affecting the region.

The progressive transition towards open market-oriented economies in eastern Europe will result in a healthier global economy. Global trading opportunities are therefore expected to increase over time, and the Bank is expected to play a useful role in helping Canadian firms penetrate new markets.

Environmental Concerns

The Bank is directed by its Articles of Agreement to promote, in the full range of its activities, environmentally sound and sustainable development. Environmental concerns are integrated into all stages of the Bank's project preparation and approval process. Many of the Bank's activities incorporate projects with a specific environmental focus. The total amount of money involved in all Bank infrastructure investments either approved, or at an advanced stage of preparation, that would result in environmental improvements is more than ECU 1.3 billion, of which the Bank intends to finance about ECU 500 million.

The sum of technical cooperation resources contributed by non-borrowing member countries and managed by the Bank that are devoted to environmental activities is about ECU 20 million. In part, these resources are focused on the preparation of specific environmental projects. These funds also support a major project to address the issues raised by the harmonisation of environmental standards and legislation between western and eastern Europe. This will result in: an investor's guide to the status of emission and products standards; a guide to environmental product standards affecting trade; and strategic analyses of the implications of harmonisation in economic and institutional terms.

Multiparty Democracy and Pluralism

The Bank monitors progress toward multiparty democracy in each of its countries of operation to ensure that they adhere to the Bank's mandate and seek to encourage civil and political rights as well as economic rights. Political rights include, inter alia, the right to life and physical integrity, freedom from

arbitrary arrest and detention, freedom of thought, expression and association, the right to participate in politics and respect for election results. If a country of operation implements policies inconsistent with the Bank's mandate, the Bank may postpone, restrict or suspend some or all of its operations. For instance, due to the conflict in the former Yugoslavia since the independence declarations of the republics of Slovenia and Croatia in June 1991, no financing transactions in the former Yugoslavia had been approved by the EBRD Board of Directors as of December 31, 1992.

EBRD Resources

The activities of the Bank are divided into ordinary operations and special operations, depending on the source of funding:

(i) Ordinary Capital Resources

The authorized capital of the Bank is ECU 10 billion (approximately US$12 billion), divided into 1 million shares. Nearly all of the authorized capital has been subscribed (see Table 1). The authorized capital is comprised of paid-in shares and callable capital in the proportion of three to seven. The callable capital of ECU 7 billion is subject to call only if it is required to meet the Bank's liabilities, which are largely in the form of bonds.

Of the EBRD's authorized capital, ECU 3.0 billion or 30 per cent is to be paid by shareholders in hard currency in equal annual instalments over five years, half in promissory notes and half in cash. At the end of 1992, out of the ECU 9.88 billion subscribed capital of the Bank, ECU 1.2 billion had already been paid-in. The remaining ECU 1.8 billion will be paid within the next three years.

(ii) Borrowings

In March 1992, the Board of Directors approved a borrowing program of ECU 900 million for the year, and the Bank borrowed ECU 865 million equivalent in 13 transactions. Total outstanding borrowings by the Bank at year-end 1992 amounted to ECU 1.365 billion with an average maturity of 6.2 years at an average cost of LIBOR minus 34.2 basis points. Standard & Poor's, an international bond rating agency, has assigned a AAA long-term and A-1+ short-term ratings to the EBRD debt issues, reflecting the Bank's high capital ratio. Moody's rating is also AAA.

(iii) Technical Assistance and Cooperation Funds

Cooperation Funds are grants from bilateral donors provided for technical assistance activities, administered by the Bank, for the preparation, financing and implementation of projects. During the year, the Bank signed 15 additional Cooperation Fund Agreements with bilateral donors, including Canada's contribution of C$1 million to the Bank's Technical Cooperation Fund. Moreover, 5 bilateral funds were replenished in 1992. As of December 31, 1992, the Bank had entered into 26 bilateral agreements for an aggregate amount of approximately ECU 101.9 million.

Loans and Equity Investments

During 1992, the Board of Directors approved 55 projects for investment in the Bank's countries of operation, bringing the total number of projects approved since the inauguration of the Bank to 71. The total amount committed in loans and equity investments was ECU 1.23 billion (approximately US$1.48 billion), i.e. 41 loans amounting to ECU 1,059.0 million, 12 equity investments totalling ECU 126 million, and 2 agency lines amounting to ECU 41.4 million. Some projects were geared towards improving infrastructure such as in the fields of telecommunications and energy. (See Table 2 which details the 1992 financing approvals.)

In 1992, Bank projects were generated from a wide geographical base, including from new members. At the end of the year, commitments were distributed as follows: Poland 32.9%, Hungary 12.3%, CSFR 12.0%, Russian Federation 9.0%, Bulgaria 8.8%, Romania 6.6%, Estonia 3.4%, Lithuania 3.1%, Latvia 2.6%, Belarus 2.6%, Albania 0.7%, Ukraine 0.3%. A further 5.7% are regional projects.

At the end of 1992, out of 71 approved financings, 36 transactions amounting to ECU 1 billion had been signed, and disbursements of ECU 145.5 million had been made on 18 financings.

In addition to the Bank's ordinary resources, throughout 1991 and 1992, 260 technical cooperation projects of ECU 79.3 million were approved, of which ECU 16 million was actually disbursed. These transactions were funded from bilateral cooperation funds for activities in the environment-related operations, financial sector, and the field of privatization.

IV. Managing Canada's Interest in the EBRD

Canadian Representation on EBRD Executive Board

The highest authority in the Bank is the Board of Governors and each member country is represented on it by one Governor and an Alternate Governor. Mr. Donald F. Mazankowski, Deputy Prime Minister and Minister of Finance, is the Canadian Governor and Mr. Reid Morden, the Under Secretary of State for External Affairs, is the Alternate Governor.

The Board of Directors is responsible for the general operations of the Bank and is composed of 23 members. The EBRD Charter requires that non-European countries elect 4 Directors. Therefore, Canada, the third largest non-European country, after the U.S.A. and Japan, elects its own Director. Mr. Don McCutchan is the Canadian Director. He also serves as Director for Morocco. In September 1992, Mr. David Horley was appointed to succeed to Mr. Robert Mackenzie as Alternate Director.

Canadian participation in the discussion of issues at the EBRD is coordinated by the Department of Finance, in consultation with the Department of External Affairs and International Trade Canada. The International Trade and Finance Branch of the Department of Finance conducts analysis of policy papers and lending programs to ensure that the EBRD activities and operations are consistent with its mandate and directed toward the effective use of its resources. In addition to this report to Parliament, reporting to Parliament also occurs though appearances by Departmental officials before Parliamentary committees.

Highlights in 1992

The key issues at the EBRD in 1992 included: (i) the large expansion in membership resulting from the dissolution of two founding members, the USSR and Yugoslavia; (ii) the minimum private sector lending requirement; and (iii) the Special Restructuring Programme.

Membership expansion. During 1992, the Bank welcomed 16 new members, all being countries in which it operates, raising the total number of members to 56. Estonia, Latvia and Lithuania, whose membership in the Bank was approved by the Board of Governors during 1991, completed the procedures to make their membership effective.

Following the dissolution of the former Soviet Union, Governors decided that the shares previously held by the USSR be divided among its twelve

successor states, and that up to 40 per cent of the Bank's resources could be committed to these countries. By the end of 1992, all twelve countries had completed the procedures to make their membership in the Bank effective.

In October, Governors decided that the 12,800 shares previously held by Yugoslavia be divided among its successor states, and admitted Slovenia to membership in the Bank.

At the end of 1992, the Czech and Slovak Federal Republic (CSFR) ceased to exist, and was succeeded by the Czech Republic and the Slovak Republic. Therefore, Directors agreed to recommend to Governors, in 1993, the admission of these two states.

The minimum private sector lending requirement. The Bank's Articles of Agreement require that a minimum of 60 per cent of the Bank's financing be provided to the private sector. However, there is a grace period of two years, i.e. until April 15, 1993, after which Bank commitments, taken as a whole, must comply with the 60 per cent requirement. In spite of the private sector mandate of the Bank, a strong bias has developed towards public-sector loans since the Bank's inception in April 1991. Directors have been monitoring developments in this area. In this respect, they approved in 1992 a methodology for the application of the portfolio ratio on private and public sector activities.

The Special Restructuring Programme (SRP). The EBRD President released, at the First Annual Meeting of the EBRD Board of Governors (held in Budapest on April 13-14, 1992), a proposal for an ECU 1.5 billion Special Restructuring Programme (SRP) to finance and implement major industrial restructuring and military conversion projects in the Bank's borrowing countries. This proposal has been discussed and modified over the course of the year to focus on a 1993 pilot program of private sector development and privatization within the framework of the existing EBRD facilities and programs.

Funds Subscribed and Committed

Canada's share of EBRD capital is 3.44 percent of the subscribed capital. Canada has subscribed to 34,000 shares valued at ECU 340 million (equivalent to US$396,783,400.00 at the agreed exchange rate of ECU 1 to US$1.16701) of which 30 percent of the subscribed capital, i.e. US$119,035,020.00, is to be paid in over a five-year period, starting in 1991, leaving ECU 238 million subject to call.

The first instalment of US$23,807,004 was made in 1991. The second instalment of US$23,807,004 was made on May 27, 1992: half in the form of a cheque in the amount of US$11,903,502.00 (equivalent to C$14,317,532.21); and half in the form of a note in the amount of US$11,903,502. Following the Directors' decision, made on November 25, 1991, regarding the encashment of future notes, only one-third of the last note payment, i.e. US$3,967,834.00 (then equivalent to C$4,725,690.29), was encashed on June 15, 1992.

In addition to its subscription to the Bank's capital, Canada established on January 24, 1992, a C$1 million Canadian Technical Cooperation Fund (CTCF) within the Bank. The main objective of this Fund is to hire Canadian citizens to act as consultants to the Bank for the undertaking of technical assistance, training and advisory services. The administration of the CTCF is done in consultation with Canada's Task Force on Central and Eastern Europe. Two operations amounting to C$460,000 were funded from this Fund during 1992.

EBRD Financing Benefitting Canadian Firms

In addition to our objective to assist in the development of a strong private sector in central and eastern European countries through the implementation of specific merchant and development banking projects, Canada's participation in the EBRD is expected to stimulate interest in the business community to pursue financing opportunities with the Bank. It is also expected that it will stimulate the interaction between the Canadian private sector and those private sectors emerging in the region.

Mr. Ronald Freeman, EBRD First Vice President (Merchant Banking), visited Canada in March 1992 to meet with businesspeople active in eastern and central Europe. He made stops in Calgary, Toronto, Ottawa and Montreal. At the time of his visit, there was only one project in the Bank's pipeline benefitting a Canadian firm. Since his visit, other Canadian projects have been added to the pipeline, and three having been approved during 1992.

The first Canadian application in the EBRD pipeline was a project pursued by Sefri Construction International (Toronto) involving the US$150 million renovation of the existing Grand Royal Hotel in Budapest into a modern hotel/office/retail/parking complex. The Compagnie Générale de Bâtiment et de Construction (CBC) of France is co-sponsor of the project. EBRD financing (approximately US$40 million) was approved on June 9, 1992. The International Finance Corporation (IFC) approved on June 4, 1992 US$59.75 million to co-finance the project.

On November 17th, Directors authorized a loan of up to US$10 million to Samotlor Pan-Canadian Fracmaster Services as part of a US$79 million project to enhance recovery from oil wells in the western Siberian region of the Russian Federation. This was the first project in the oil and gas sector and the second EBRD loan to a Canadian company. On December 16, Directors approved a loan of up to US$20.0 million to Vasyugan Services, a joint venture between Canadian Fracmaster and two oil production associations, to finance the purchase of oil field equipment and supplies to enhance oil recovery from wells in the Tomsk region of Siberia. This was the second Bank project in the oil and gas sector and the third EBRD loan to a Canadian company.

Canadian Personnel

There were 21 Canadian nationals on the staff of the EBRD at the end of 1992, i.e. 5.2 per cent of the 388 professional positions. All of the Canadian nationals but 4 were in the more senior banking and managerial levels. Canadians accounted for about 5.5 per cent of staff in senior positions, and 4.4 per cent in other professional levels in 1992, compared with our shareholding of 3.4 per cent.

V. Conclusion

Western assistance is essential to ensure the success of the overall reform exercise undertaken by eastern and central European countries to move towards market-oriented economies. Private, market-related resource flows are the key to sustainable progress. Almost two years after the inauguration of the Bank, developments occurring in the region have clearly demonstrated the need for this institution. Canada's economic, financial and political relations with the region are complemented and enhanced by association with the EBRD which plays an essential role in assisting these economies during their difficult transition period.

The speed at which the Bank has progressed operationally since the start of its operations in April 1991 is commendable. Less than three months from the opening of the Bank to the first transaction is clearly impressive. Moreover, the Bank has mobilized some ECU 102 million for its technical assistance activities to assist recipient countries in their transition towards market-oriented economies. Canada was particularly pleased to associate itself to this important function in establishing a C$1 million Canadian Technical Co-operation Fund administered by the Bank.

The objectives Canada established regarding its membership in the Bank were as follows:

- To support the commitment of central and eastern European countries to multiparty democracy, the rule of law, respect for human rights and market economics;

- To foster the transition toward open, market-oriented economies and private initiative in central and eastern European countries; and

- To promote the economic progress of these countries and to help them become more internationally competitive.

Results from the first 20 months of operations provide every indication that the Bank is fulfilling expectations and that Canada's objectives are being met.

Table 1: Statement of Capital Subscriptions
(ECU million)

	Callable Capital	Paid-in Capital	Total Capital
Recipient Countries [1]	861	369	1,230
G-7 Countries			
Canada	238	102	340
France	596	256	852
Germany	596	256	852
Italy	596	256	852
Japan	596	256	852
United Kingdom	596	256	852
United States	700	300	1,000
G-7 countries Total	3,919	1,680	5,599
Other Non-Recipient Countries	2,319	916	3,055
Non-allocated shares	81	35	116
Total	7,000	3,000	10,000

[1] Shares initially subscribed by the USSR and Yugoslavia are reserved for successor states of these countries. At the end of 1992, there were 4,400 shares and 12,700 shares potentially available for countries previously forming part of the former USSR and Yugoslavia, respectively.

Table 2: LIST OF PROJECTS APPROVED BY THE BOARD OF DIRECTORS IN 1992

Country	Date approved	Project	Type	Bank funds approved (ECU million)[3]
Poland	27 January	**National Bank of Poland** Loan to help finance the design, development, construction and operation of the NBP Banking centre in central Warsaw	Loan	27.09
Poland	27 January	**National Bank of Poland** Equity to help finance the design, development, construction and operation of the NBP Banking centre in central Warsaw	Shares	2.48
Hungary	14 February	**Raba/General Motors** Partial financing of the installation of an advanced engine manufacturing and car assembly plant	Loan	63.92
CSFR	26 February	**Ceskoslovenske Aerolinie (CSA)** Co-finance the company's fleet replacement and modernisation programme	Shares	20.80
Bulgaria	24 March	**Maritza East II Power Project** Finance the completion of the construction of a unit of the power plant and help finance desulphurisation unit	Loan	40.00
Regional	24 March	**Société Générale/European Bank (CEAL)** For domestic SMEs in specified countries in which Société Générale has branches or affiliates	Line of Credit	20.75
Poland	27 April	**ABB Dolmel** Expansion of a facility producing generators for the power generation equipment industry	Loan	5.53
Hungary	27 April	**Fusion Investment Co Ltd** Development of Burger King restaurants in Hungary and the CSFR in joint ventures with local operators	Shares	2.98
Poland	27 April	**Ringnes/PUBREX (BCCB Ltd)** Joint venture between Norwegian beverage company and Polish construction company to develop retail distribution network	Loan	5.91
Hungary	27 April	**Westel Radiotelefon KTF** Expansion of the national mobile cellular telecommunications system	Loan	8.26
Poland	26 May	**Polish Private Equity Fund** To invest in Polish unquoted companies with growth potential, particularly SME privatisation and restructuring	Shares	39.10
Hungary	9 June	**Grand Hotel Royal** Finance the design, development, construction and operation (through Holiday Inn) of the GHR as a mixed hotel, office and retail property	Loan	29.15

[3] *Loans are calculated at exchange rates current on 31 December 1992. Shares are converted to ECU at exchange rates current at the date of approval.*

Country	Date approved	Project	Type	Bank funds approved (ECU million)
Romania	29 June	**Petroleum Pilot Modernisation** To improve oil production operations, lay basis for restructuring and modernise R&D	Loan	22.71
Hungary	3 July	**European Capital Development (ECD)** To invest in the equity of Hungarian SMEs	Shares	3.30
Hungary	3 July	**European Corporate Finance (ECP)** To aid initial capitalisation of an investment bank which will provide corporate finance advice	Shares	0.83
Hungary	13 July	**Budapest Orbital Motorway** Partial financing of construction of part of the road network, and consultancy services	Loan	21.00
Poland	13 July	**Poland Housing Project** Loan to finance residential construction projects by private and public developers	Loan	55.33
Regional	13 July	**RZB/European Bank (CEAL)**	Line of Credit	20.65
Poland	13 July	**Warsaw Telecommunications** To improve the accessibility, efficiency and quality of telecom services in the city	Loan	140.39
Romania	28 July	**Agribusiness Development Project** Banca Agricola will make subloans to private sector companies with viable investment proposals in agribusiness	Loan	57.81
Belarus	28 July	**Belarus International Telecom** Digital international communications facilities, overlay network for business subscribers in Minsk, and modernisation	Loan	32.03
CSFR	28 July	**Eurotel Bratislava** Partial financing of the construction of a cellular network and public switched packed data network for the Slovak Republic	Loan	6.61
CFSR	28 July	**Eurotel Prague** Partial financing of the construction of a cellular network and public switched packed data network for the Czech Republic	Loan	9.08
Regional	28 July	**Eurovision Network Expansion** Partial financing of earth stations in 15 countries enabling them to be linked to Eurovision network via satellite	Loan	7.43
Bulgaria	28 July	**(A) Eurovision Bulgaria**	Loan	0.83
Romania	28 July	**(B) Eurovision Romania**	Loan	0.83
Ukraine	28 July	**(C) Eurovision Ukraine**	Loan	0.83
Bulgaria	7 September	**Bulgaria Telecommunications** Develop the national network by digitalization, line renewal and expansion, and short term measures	Loan	32.00
Poland	7 September	**Huta Warszawa-Lucchini** To finance the modernisation cost of an existing steel plant, new equipment and working capital	Loan	30.00

Country	Date approved	Project	Type	Bank funds approved (ECU million)
Poland	11 September	**Konspol-BIS** To build and equip a new poultry processing facility with an annual production of 20,000 tonnes	Loan	13.21
Poland	11 September	**Legler Polonia** Joint venture between the Italian Legler Group and Italian and Polish investors. Loan will finance denim and jeanswear production in Lodz	Loan	12.39
Estonia	11 September	**Estonian Investment Bank** Established to provide medium and long term financing for SMEs in Estonia	Shares	1.50
Russia	11 September	**Russian Project Finance Bank** Initial capital investment to establish a project finance bank in Moscow	Shares	2.56
Russia	11 September	**St Petersburg Property Development Bank** Rehabilitation of 3 buildings in the centre of the city to provide office and retail space	Shares	7.43
Hungary	1 October	**Columbian Tiszai Koromgyarto Kft** Construction, commission and operation of a greenfield carbon black facility	Loan	7.43
Russia	12 October	**Macomnet** Partial financing of construction of a fibre-optic network using the Metro tunnels	Loan	3.30
Hungary	26 October	**PCA-Budafok** To enable producer of recycled paperboard to refurbish and upgrade facilities	Loan	5.78
Poland	26 October	**Rockwool Poland Sp** Joint venture company - loan will finance the modernisation of the production lines	Loan	6.14
Regional	17 November	**New Europe East Fund** Fund to invest in large enterprises throughout the region	Shares	20.64
CSFR	17 November	**Skoda Automobilova** To help finance modernisation and expansion of manufacturing capacity, production development and construction of new plant	Loan	102.27
Latvia	17 November	**Energy Emergency Project** Urgent repairs to energy supply facilities, to improve supply and end-use efficiencies	Loan	32.30
Russia	17 November	**Samotlor Pan-Canadian** To purchase oilfield equipment and supplies to enhance recovery from existing wells in western Siberia	Loan	8.26
CSFR	28 November	**CZ-Cagiva** Financing the restructuring of an existing motorcycle, components and engine manufacturing plant in Strakonice	Loan	8.39
Bulgaria	28 November	**Bulgarian Transit Road**	Loan	35.51

Country	Date approved	Project	Type	Bank funds approved (ECU million)
Estonia	28 November	**Energy Sector Emergency Investment** Urgent repairs to power and heating supply and improve energy efficiency	Loan	40.65
Hungary	28 November	**Hungarian Foreign Trade Bank** Funding of medium-term lending in Hungary	Shares	7.67
Albania	11 December	**Albania Telecommunications** Modernisation and expansion of the telecommunications system	Loan	8.26
Lithuania	11 December	**Energy Emergency Project** Urgent repairs to power and heating supply and improve energy efficiency	Loan	38.36
Poland	15 December	**AmerBank** To fund investment and loan projects in Polish SMEs	Loan	16.52
Poland	15 December	**Prime Food Sp z.o.o.** Help finance the construction of a slaughterhouse facility and meat production	Loan	7.85
Poland	15 December	**Huta Sandomierz-Pilkington** A joint venture to privatise Poland's largest sheet glass manufacturer and to construct a float glass plant	Loan	27.40
Poland	15 December	**Huta Sandomierz-Pilkington**	Shares	13.80
Russia	15 December	**Chernogorskoye Joint Venture** Construct oilfield facilities and purchase oilfield equipment and supplies to develop existing oilfield in western Siberia	Loan	33.03
Russia	15 December	**Vasyugan Services Joint Enterprise**	Loan	18.99
Russia	15 December	**Russian Privatisation Loan**	Loan	36.17
Ukraine	15 December	**Ukraine Fund** To invest in venture capital projects - SMEs	Shares	2.89
			Total:	1,226.33