REPORT ON OPERATIONS

UNDER

THE EUROPEAN BANK FOR RECONSTRUCTION

AND DEVELOPMENT AGREEMENT ACT

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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 of the EBRD during 1993. Canadian participation in this institution was authorized under the EBRD Agreement Act, promulgated on February 1, 1991.

Headquartered in London, the EBRD is the newest multilateral development bank. The EBRD is designed to further economic development and social progress among the countries of Central and Eastern Europe and the former Soviet Union. 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 those countries committed to the principles of multiparty democracy, pluralism and market economics.

The EBRD is distinct from the other multilateral development banks in that its primary focus is financing for the emerging private sectors in the countries of Central and Eastern Europe and the former Soviet Union. 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 provide financing for specifically designated purposes, e.g. technical assistance (the Bank has no funds of its own for this purpose).

Detailed information on the EBRD can be found in its Annual Report. The 1993 Annual Report is expected to be released, in St Petersburg, at the next Annual Meeting of the Governors of the Bank on April 18-19, 1994.

II. Review of the Regional Developments

(i) Economic Reform in Eastern Europe

Structural Reforms and Privatization of State-Owned Enterprises

By the end of 1993 most countries in Central and Eastern Europe had put in place far-reaching structural reforms aimed at establishing the institutions and environment necessary for a functioning market economy. These reforms included the replacement of the anachronistic tax systems inherited from the former regimes with value-added taxes, the introduction of bankruptcy laws, the liberalization of most prices and interest rates, the abolishment of the system of state orders and purchases for enterprises, and the removal of most non-tariff barriers to trade and reductions in the average tariff level, the elimination of foreign trade monopolies, the unification and devaluation of exchange rates, and the establishment of unemployment insurance.

Progress with privatization has been limited. By 1993, all countries had passed legislation with the intent to privatize the majority of state-owned enterprises. Privatization of small firms, primarily in the retail and services sectors, was rapid and is nearly complete. However, only the Czech Republic has made inroads in privatizing large-scale enterprises. In the Czech Republic the first of two privatization waves was completed in 1993, covering 1300 enterprises. The second privatization wave of 2100 enterprises was also started in 1993, and will be completed early in 1994. This will complete the transfer of 90 per cent of state property. Poland also enacted legislation in 1993 for rapid privatization of 600 enterprises, scheduled for implementation in 1994.

Furthermore, there has been very little progress in restructuring large, money-losing enterprises which remain in the state sector in most of these countries. Most large state enterprises, as well as many newly-privatized enterprises have large unserviced debts with commercial banks and significant debts with each other. Banks are unwilling to force debtor enterprises into bankruptcy because of their uncertain market value, and for fear of initiating a run of bankruptcies of firms accounting for a large share of employment and output.

The large stock "bad loans" in the banking sector and burgeoning inter-firm arrears are among the principal remaining impediments to economic renewal in eastern Europe. Previous attempts to deal with the "bad loan" problem in Poland and the Czech Republic, for example, involved broadly-based plans to swap problem loans for government bonds in order to restructure banks' balance sheets. However, because these plans were not complemented by measures to liquidate insolvent firms, a large stock problem loans and inter-firm debts quickly reemerged in these countries.

As a result, the role of financial sector reforms in the transition to a market economy, particularly those designed to foster a comptetitive banking sector and to address the underling source of problem assets, will likely emerge as a key policy issue over the coming year.

Progress With Macroeconomic Stabilization

Substantial progress has been made in many eastern European countries in reducing inflationary pressures. Annual inflation persists at 23 per cent in Hungary and 40 per cent in Poland, but is not increasing. Although prices increased sharply in early 1993 in the Czech Republic due to the introduction of a value-added tax, underlying inflation was reduced to single digit rates by year-end. Inflation declined substantially in Bulgaria to 60 per cent, but accelerated in Romania to 275 per cent. In the Slovak Republic, inflation increased from 10 to 30 per cent as a result of lax macroeconomic policies.

Chronic inflation is fuelled by large fiscal deficits which are financed primarily by printing money. After early successes in reducing these deficits by ending subsidies to enterprises, they reappeared in 1992 and have persisted in 1993 at between 5 per cent (Hungary and Poland) and 8 per cent (Bulgaria) of GDP. The Czech Republic is an exception, having eliminated its deficit in 1993 with help from privatization revenues. These deficits reflect declining tax revenue, as the traditional tax base (wage, turnover, and profit taxes on state-owned enterprises) shrinks and value-added and personal income taxes are introduced, as well as increases in social expenditures, mainly unemployment insurance and pensions.

After cumulative declines in real Gross Domestic Product (GDP) ranging from 18 to 24 per cent in 1990-92, real GDP increased by 4 per cent in Poland (the fastest growing economy in Eastern Europe), by 1 per cent in the Czech Republic, and output stabilized in Hungary. Real GDP continued to decline in Bulgaria, Romania, and Slovakia in 1993 (at rates of -2, -2.5, and -6 per cent respectively), but the decline was less severe than in 1992. Improved economic performance in eastern Europe is due, in large part, to more stable monetary conditions, and the rapid expansion of the small business sector -- made up mostly of new private firms. Industrial production, especially in the large state-owned or newly privatized sector, remains depressed and shows few signs of recovery, except in Romania.

The unemployment rate increased slightly in all countries in 1993, but is stabilizing at between 9 per cent (Romania) and 17 per cent (Bulgaria). The exception is the Czech Republic, which contain the rate of unemployment at 3 per cent. The Czech Republic benefits from a favourable industrial structure (few heavy industries and an even geographical distribution, and a relative abundance of industries geared for export to Western Europe), rapid employment increases in small industrial firms and in the financial services and state administration sectors, and employment opportunities in neighbouring Austria and Germany. The sharp rise in rate of unemployment in most eastern European countries reflects, in large part, a transitional (but sharp) decline in economic activity in the state sector associated with macroeconomic stabilization measures and structural adjustment (privatization, and a reallocation of productive resources from heavy industrial and military production towards light industry and consumer goods production).

Deficits are also re-appearing on the current account of the balance of payments at about US $2 billion in each country in 1993, compared with near balance in most countries (except Romania) in 1992. Once again, the experience of the Czech Republic is different. Its exports to the European Community grew rapidly in 1993, due to its diversified industry and proximity. As a result, the Czech Republic ran a small surplus on the current account. The current account deficits elsewhere stem from increases in imports associated with the economic upturn, and large reductions in exports to Western Europe. Central and Eastern European exports to the European Community are concentrated in food, iron and steel, chemicals, textiles and clothing, and (for Hungary and Poland), unprocessed agricultural goods. These exports declined in value in 1993 because of the recession in Western Europe and because of safeguards in trade association agreements between Central and Eastern Europe and the European Community against them.

(ii) Economic Reform in the Former Soviet Republics

Progress with Structural Reform and Privatization in Russia

Most of the former Soviet republics (henceforth FSU-states) have freed the prices of key consumer goods and productive inputs, liberalized domestic and external trade, privatized most small enterprises (in the retail and services sector), and initiated the process of privatizing large state enterprises.

The Russian government embarked on its transition to a democratic market economy in early 1992 and has made significant progress in the area of structural reform. Most non-energy prices have been freed, internal and external trade have been liberalized substantially, exchange rates unified, and thousands of medium and large-scale state enterprises have been transferred to the private sector through voucher privatization and direct sales. This has engendered modest growth of private market activity and created a growing base of political support for further economic reform.

However, progress has been slow in restructuring the financial sector (inherited form the Soviet era) to the needs of an emerging market economy. Although hundreds of privately-owned banks have emerged throughout Russia, this reflects the absence of a regulatory framework and prudential supervision characteristic of financial sectors in modern industrial countries.

Progress with Macroeconomic Stabilization

Meaningful macroeconomic reforms have also been put in place. Monetary growth was slowed in 1993 relative to its growth rate in 1992 and the Russian Central Bank's refinance rate has been moved in stages towards market-determined interest rates: by December 1993, the combination of falling inflation and rising nominal interest rates led to positive real interest rates. Furthermore, the demise of the ruble zone in late July 1993 and the subsequent announcement by the Russian authorities that Russia will no longer finance automatically the trade deficits of other FSU-states should enhance the ability of the government to stabilize the economy.

There is strong evidence that these reforms have begun to halt Russia's economic decline. Reports from Russia and the International Monetary Fund (IMF) indicate that industrial output and GDP stabilized by the end of 1993 following declines of 5, 18 and 12 per cent in 1991, 1992 and 1993 respectively. Russian authorities and the IMF also estimate that monthly inflation fell to 10-12 per cent in December 1993, from rates of over 20 per cent in mid-1993. Meanwhile, trade liberalization measures along with growing private sector activity have begun to revive Russia's trade with the West, following sharp declines in both imports and exports since early 1990.

Despite these favourable developments in the second half of 1993, the future course of Russia's economic reforms remain uncertain. Although the government's efforts to stabilize the economy in late 1993 are encouraging, the underlying sources of monetary instability have not yet been addressed. The primary source of hyperinflationary pressures is the government's large budget deficit, which is financed almost entirely by printing money. The large budget deficit is in turn driven by the provision of massive subsidies to state enterprises, farms, and the military-industrial sector, as well as large transfers to many of the other former Soviet republics.

In this regard, the deceleration in inflation in late 1993 reflected temporary factors, rather than sustained progress on the macroeconomic stabilization front. The IMF estimates that underlying inflation is closer to 20-25 per cent per month, and more recent estimates indicate that inflation is accelerating once again. This threatens to undermine the government's entire reform program.

Although President Yeltsin has reassured the West that the reform process will continue despite the weak position of reform-minded parties in the Duma, the course of economic reform in 1994 will depend, in large part, on the resolve of the Yeltsin government to persevere with comprehensive economic reform in the face of a further temporary decline in output and a sharp rise in open unemployment. The costs of stabilization and transition could be eased by the introduction of broadly-based social safety net policies financed, primarily, by reduced transfers to the state enterprise and agricultural sectors. It is noteworthy, however, that even with a broadly-based stabilization program in place, the transition process -- by virtue of its scale and complexity, will likely take decades to complete.

Progress with Economic Stabilization and Reform in Other FSU Republics

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 these two republics, but economic prospects are far more bleak in Ukraine. Ukraine's abundant supplies of natural resources (particularly minerals) and agricultural products sustained initially a higher level of consumption than in many other FSU-states. However, a lack of progress with structural reforms and ongoing attempts by the government to sustain output with highly-expansionary macroeconomic policies has exacerbated the contraction of economic activity associated with the demise of central planning. By mid-1993, chronic high inflation accelerated to hyperinflation. This precipitated a collapse in the value of Ukraine's currency vis-à-vis the US dollar.

Severe economic deterioration and rising political tensions with Russia led, in turn, to the resignation of reform-minded Prime Minister Leonid Kuchma in September and the reintroduction of Soviet-style economic controls in early November. These measures have intensified Ukraine's economic decline. Meanwhile, severe economic difficulties in Belarus led (in January 1994) to the resignation of President Shushkevich and prompted the signing of an accord with Russia which provides for the unification of the two economies.

Of all the FSU-states, the **Baltic countries** have made the most progress in transforming their economies to market-based systems. Each of the Baltic states has introduced its own national currency, and each has managed to maintain relatively tight monetary and fiscal policies. The IMF estimates that regional output remained stable in 1993, following steep declines (of 25-28 per cent) in 1992. Real GDP is expected to grow by 1-3 per cent in the Baltic countries in 1994. Lithuania and Estonia have also made significant progress with privatization.

The **five Central Asian states** lag far behind Russia and the Baltics in the implementation of fundamental structural reforms. Although monetary and fiscal policies have remained tight in some of the Central Asian states throughout 1992, prices and production in many of these republics remain subject to strict controls -- particularly in Turkmenistan and Uzbekistan. Furthermore, with the exception of Kazakhstan and Kyrgystan, no privatization plans have yet been implemented, nor have any institutional reforms been put in place.

Economic prospects are most bleak in the southern **Caucasus republics of Armenia, Azerbaijan, and Georgia.** In addition to adjusting to large negative economic shocks associated with price liberalization and the breakdown of the former-Soviet payments system, each republic has suffered from ongoing regional hostilities. The IMF estimates that regional output declined by at least 35 per cent in 1992, and by a further 20-25 per cent in 1993. In response to monetary developments in Russia, all of these countries have introduced their own national currencies.

III. Bank Operations and Activities

1993 was particularly an active year for the Bank. After growing criticism about the costs of the Bank's Headquarters, Mr. Jacques Attali, the first President of the Bank, announced his intention to resign in July, and Mr. Jacques de Larosière, a prestigious candidate nominated by the French Government, was elected President at the end of August. Since his taking office on September 27, 1993, Mr. de Larosière has initiated several actions to restore and strengthen the Bank's credibility and to improve the Bank's efficiency.

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 and the former Soviet Union. The Bank's mandate gives special emphasis to the promotion of democratic institutions and human rights in its countries of operations.

The Bank offers a full range of funding on market terms including:

- Loans with maturities of up to ten years for commercial enterprises and up to fifteen years for public infrastructure projects;

- Equity investments; and

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

Initially, the Bank had two operations departments: Merchant Banking and Development Banking. In November, Directors approved a re-organization of the Operations Vice Presidencies. Operations are now carried out by a unified Banking Department headed by two Vice Presidents, one responsible for the northern tier countries[1] and the other for the southern tier. The Banking Department is composed of country teams which combine the public and private sector specialists. Each region has teams with expertise in sectoral areas such as agriculture, transport, power and energy utilities, privatization and restructuring. In addition, an operational group, reporting to both Vice Presidencies, support all countries in areas such as telecommunications, natural resources and the environment.

In carrying out its functions, the Bank works in close cooperation with member countries 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 (EC), the European Investment Bank (EIB), and United Nations (UN) and its specialized agencies.

Canada continues to support the EBRD as a catalyst to private sector development in a region dominated for decades by inefficient state-owned enterprises. The transition to open market-oriented economies in Central and Eastern Europe and the former Soviet Union could ultimately result in a stronger, more robust world economy. Global trading opportunities are thus expected to increase with the Bank promoting an environment for greater opportunities for Canadian and other companies to enter these new markets.

Environmental Concerns

The Bank is directed under its Articles of Agreement to promote environmentally sustainable development in the full range of its activities. In line with this, environmental considerations have been fully integrated into the Bank's project preparation and implementation process. In addition, many of the Bank's operations include projects with a specific environmental focus.

[1] The northern tier countries comprise Belarus, Czech Republic, Estonia, Kazakhstan Latvia, Lithuania, Poland, Russian Federation, Slovak Republic and Uzbekistan. The southern tier countries comprise Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Georgia, Hungary, Kyrgyzstan, Moldova, Romania, Slovenia, Tajikistan, Turkmenistan and Ukraine.

The bulk of the infrastructure projects approved in 1993 either had significant environmental benefits (e.g. waste-water treatment), or significant conservation elements. During the year, the EBRD financed 25 technical cooperation operations to support the preparation of environmental projects.

Multiparty Democracy and Pluralism

Article 1 of the Agreement which established the Bank, limits its operations to countries committed to and applying the principles of multiparty democracy and pluralism. This mandate is closely tied into the Bank's financial activities and incorporated into its country strategies. Monitoring is done in close cooperation with the European Community, Conference on Security and Cooperation in Europe (CSCE), Council of Europe and Ministries of Foreign Affairs of various member states.

If a country of operation implements policies inconsistent with the Bank's mandate, the Bank has the power to postpone, restrict or suspend some or all of its operations.

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[2] (approximately C$15 billion), divided into 1 million shares. Nearly all of the authorized capital has been subscribed (see Table A). The authorized capital is comprised of paid-in shares

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[2] The European Currency Unit (ECU) is 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 1993, one ECU had a value of C$1.48217.

and callable capital. The callable capital of ECU 7 billion is subject to call only in the unlikely event that it is required to meet the Bank's financial obligations to borrowers.

Paid-in capital of ECU 3 billion is provided in hard currency by shareholders in equal annual instalments over five years, half in promissory notes and half in cash. At the end of 1993, ECU 1.73 billion had been paid-in with the remaining ECU 1.23 billion due in the next two years.

In 1993, the Bank's assets grew from ECU 4.9 billion to ECU 7.0 billion, its disbursements tripled from ECU 126 million to ECU 453 million, and for the first time since its inception, the Bank showed a profit of ECU 4.1 million (compared to losses of ECU 6.1 and 7.1 million in 1992 and 1991).

(ii) **Borrowings**

The Bank borrowed funds equivalent to ECU 835 million on international capital markets in 1993. Funds were raised in six different countries (including two issues of C$250 million each) and swapped into floating rate instruments, primarily in US dollars, ECU and deutschemarks. Cumulative borrowings by the Bank at year-end 1993 totalled ECU 2.2 billion with an average maturity of 7.1 years at an average cost of funds of LIBOR minus 37 basis points.

Standard & Poor's has assigned AAA long-term and A-1+ short-term ratings to the EBRD debt issues, reflecting the Bank's strong capital-asset ratio. Moody's has also rated the EBRD long-term bonds triple-A.

(iii) **Technical Cooperation Funds**

Cooperation Funds are grants from bilateral donors to finance technical assistance activities which facilitate the preparation, financing and implementation of projects. Unlike bilateral programs, these funds are administered by the EBRD. During the year, the Bank signed 3 additional Cooperation Fund Agreements with bilateral donors and replenished 12 other arrangements, including Canada's C$1 million Technical Cooperation Fund.

As of the end of 1993, the Bank had entered into 29 bilateral agreements with an aggregate amount of ECU 160 million. Of this amount, the Bank had committed to a total of 522 technical cooperation projects with a value of ECU 140 million.

Loans and Equity Investments

During 1993, the Board of Directors approved 91 projects in the Bank's countries of operation, bringing the total number of projects approved since the inception of the Bank to 156. Total commitments in 1993 also rose to ECU 2.3 billion (approximately C$3.4 billion) -- of which 30 projects were equity investments and 61 were direct loans (see Table B). At year-end, commitments were distributed as follows:

TABLE 1
Cumulative Commitments

Borrowing Member	Percentage of Operations
Poland	18.9
Hungary	17.7
Russian Federation	11.6
Romania	11.6
Czech Republic	8.0
Slovak Republic	6.7
Slovenia	4.2
Bulgaria	3.3
Uzbekistan	2.8
Kazakhstan	2.2
Belarus	1.9
Estonia	1.4
Armenia	1.2
Latvia	1.1
Lithuania	1.0
Albania	0.7
Former Yugoslav Republic of Macedonia	0.2
Ukraine	0.0
Regional projects	3.2
	100.0

While bank projects are relatively widely dispersed among member countries, the five most active borrowers continue to account for more than two-thirds of all operations.

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. Each member country is represented by a Governor and an Alternate Governor. Mr. Paul Martin, Minister of Finance, is the Canadian Governor and Mr. Reid Morden, the Under Secretary of State for Foreign 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. Canada, the third largest non-European country, after the U.S.A. and Japan, elects its own Director. In August 1993, Mr. John Coleman succeeded Mr. Don McCutchan as Canadian Director. He also serves as Director for Morocco. Mr. David Horley is the Alternate Director.

Canadian participation in the EBRD is coordinated by the International Trade and Finance Branch of the Department of Finance, in consultation with Foreign Affairs and International Trade (FAIT). These departments conduct analyses of policy papers and lending programs to ensure that EBRD activities and operations are consistent with its mandate and support an effective use of its resources. In addition to this report, Parliament is informed of the activities and operations of the EBRD though appearances by Departmental officials before its various committees.

Highlights in 1993

The key issues at the EBRD in 1993, in chronological order, included: (1) progress on the portfolio ratio; (2) improved assistance to small and medium-sized enterprises; (3) the Report of the Audit Committee on the Bank's expenditures; (4) the resignation of President Attali and the election of President de Larosière; (5) the reorganization of the Operations Vice-Presidencies; and (6) the Report of the Bank's Task Force on Operational Priorities.

The portfolio ratio. The Bank's Articles of Agreement require that a minimum of 60 per cent of the Bank's operations should directly support the private sector. At the end of 1993, the portfolio ratio had reached 57 per cent with the expectation that the 60 percent threshold will be achieved shortly.

Delays in achieving this threshold can be traced to unanticipated disruptions in a number of countries of operations. Foremost among these, was the dissolution of three founding members (i.e. the U.S.S.R., Yugoslavia and Czechoslovakia) which had the effect of significantly expanding the number of countries of operations and increasing the demand for public sector infrastructure projects substantially beyond earlier expectations.

Assistance to Small and Medium-Sized Enterprises (SMEs). The main topic at the Closed Session of the Annual Meeting of the Board of Governors in April was the Bank's assistance to SMEs. Governors underlined that SMEs are central to the development of a market economy, and represented an engine for growth and job creation. There was a general consensus that support for SMEs should be a key element in the Bank's private sector mandate.

Subsequently, the Bank agreed to provide US$150 million toward a G-7 initiative to establish a US$300 million SME Fund for Russia. In July, Directors approved a **US$10 million pilot operation** to test the Fund's operational procedures and the effectiveness of its delivery mechanisms. Of this amount, US$7 million is to provided by G-7 grants and US$3 million by the EBRD. Directors will review the pilot operation in mid-1994, before the full-scale Fund is launched.

Report of the Audit Committee on the Bank's expenditures. In response to growing criticism about the costs of the EBRD's Headquarters, an internal study was undertaken by the Board of Directors' Audit Committee to review the Bank's administrative costs and other issues related to expenditure control. Mr. Coleman will carry on the active role that Canada has played on these issues through the position of Vice Chairman of the Audit Committee, to which he was appointed in September.

The Committee issued a comprehensive report in July which Directors endorsed. An action plan was subsequently approved to make the Bank more efficient and cost effective. Its changes include more transparent guidelines on internal purchasing and a significant strengthening of the budgetary process.

Resignation of President Attali and election of President de Larosière. On June 25th, Mr. Jacques Attali, the EBRD's first President announced his intention to resign as of July 16th. On August 18th, Mr. Jacques de Larosière, a former IMF Managing Director, was elected to a four-year term effective September 27th.

Reorganization of the Operations Vice-Presidencies. As part of the review of the Bank's cost-effectiveness under the new President, Directors agreed in November to a reorganization of the two Operations Vice Presidencies to replace the division between merchant and development banking activities, with a country-specific focus. The country-specific structure has been designed to provide for a more coherent programming in recipient countries, and to help reduce duplication within the Bank.

Recommendations of the Bank's Task Force on Operational Priorities. Shortly after his arrival, President de Larosière set up an internal Task Force on Operational Priorities to review the Bank's operational priorities over the medium term. The Task Force reported in December and the operational priorities identified were endorsed by Directors. The principal findings of the Task Force are the following:

- the need for a sharper focus on private sector development;
- the need to be active in <u>all</u> countries of operations;
- the need to better reach local private enterprises;
- the need to better appreciate the critical role of financial intermediaries; and

- the need for a more active approach toward equity investments.

As a result of Canada's demonstrated interest in improving the functioning of the Board of Directors, Mr. Coleman was appointed Chairman of a temporary committee on Board of Directors procedures.

At their Annual meeting in St Petersburg on April 18-19, 1994, Governors will be asked to endorse actions already taken by Bank management, and of new directions for the future. After the Annual Meeting, Directors will discuss the strategic directions given by Governors and their implications for the Bank's policies and operations.

Funds Subscribed and Committed

Canada has a 3.4 percent share of the EBRD's authorized capital. Canada has subscribed to 34,000 shares valued at ECU 340 million, of which 30 percent is to be paid in over five years starting in 1991, and ECU 238 million remains 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: cash payment of US$11,903,502 (C$14,317,532.21); and a note of US$11,903,502. Following a decision by Directors, in November 1991, regarding the encashment of future notes, only one-third of the last note payment, i.e. US$3,967,834 (C$4,725,690.29), was encashed on June 15, 1992. The **third** instalment of US$23,807,004 was made on May 27, 1993: cash payment of US$11,903,502 (C$15,065,072.13); and a note of US$11,903,502. On June 15, 1993, US$7,935,668 (C$10,169,558.54), i.e one third of the May 27, 1992 note and of the May 27, 1993 note, was encashed.

In addition to its subscription to the Bank's capital, in January 1992, Canada established a C$1 million Canadian Technical Cooperation Fund (CTCF). The main purpose of this Fund is to enable the Bank to hire Canadian consultants to provide technical assistance, training and advisory services. The CFTC is administered by the EBRD in consultation with Bureau of

Assistance to Central and Eastern Europe of the Department of Foreign Affairs and International Trade. The CTCF was replenished by an additional C$1 million in 1993. In addition, Canada has a technical cooperation agreement worth C$1.125 million with the EBRD to cover the contracting of Canadian expatriate management for the Russian Project Finance Bank.

Canada is also a participant in the Nuclear Safety Account (**NSA**) which started operations in early 1993. The NSA was proposed at the Munich Summit in July 1992 to improve safety in nuclear power plants of the countries of Central and Eastern Europe and the former Soviet Union. Canada's contributed C$7.5 million to the operations of the NSA in March 1993.

EBRD Financing Benefitting Canadian Firms

In addition to the objective of assisting in the development of a strong private sector in Central and Eastern Europe and the countries of the former Soviet Union, Canada's participation in the EBRD is expected to stimulate growing interest among Canadian firms in commercial opportunities within the region.

As an example, Directors approved a loan of up to US$80 million to KomiArcticOil, to develop the second phase of an oil field in the Komi Republic of the Russian Federation. Gulf Canada Resources Limited is a 25 per cent partner in this joint venture. This is the third EBRD **merchant banking operation** benefitting a Canadian oil and gas company since the Bank's inception. In contrast, however, the DM 57 million merchant banking loan benefitting Sefri Construction International (Toronto) for the renovation of the Grand Royal Hotel in Budapest -- which was approved last year -- was subsequently cancelled after disagreement on financing conditions.

Tables C.1 and C.2 provide information on suppliers of goods and equipment, and consultancy services for EBRD projects. Canada is shown to have a reasonably good record in winning consultancy contracts, mainly financed from the tied Canadian Technical Cooperation Fund. However, Canadian firms have not yet won international competitive contracts for the provision of goods and equipment with respect to **development banking projects**.

Canadian Personnel

There were 22 Canadians on the staff of the EBRD at the end of 1993, i.e. 4.9 per cent of the 445 professional positions, compared with our shareholding of 3.4 per cent. All of the Canadian nationals but 3 were in the more senior banking and managerial levels. Canadians accounted for about 6.2 per cent of staff in senior positions, and 2.2 per cent in other professional levels in 1993.

V. Conclusion

Three years after the inception of the Bank, developments in the region have clearly demonstrated that the EBRD is playing an important role. The speed at which the Bank has grown since it started operations in April 1991 is impressive. The Bank has approved more than 150 operations and committed more than US$4 billion to the region. In addition, it has approved more than 500 technical cooperation projects which have committed an additional US$150 million. Canada continues to support such technical assistance through its contributions to the Canadian Technical Co-operation Fund.

The objectives, which underlie Canada's membership in the Bank, include the following:

- To support the commitment of the countries of Central and Eastern Europe and the former Soviet Union to multiparty democracy, the rule of law, and respect for human rights;

- To foster the transition toward open, market-oriented economies, and private and entrepreneurial initiative; and

- To integrate these countries more securely into the international economy.

The Bank is meeting these objectives and with the arrival of Mr. de Larosière, as President, is doing so in a cost efficient manner. Following Mr. de Larosière's arrival as President, improvement in the cost-effectiveness of the Bank has become a top priority. Canada has been active in pressing for efficient and responsible management of the Bank and will continue to support the process of review and reform that was initiated by the new President.

Canada remains confident of the Bank's continuing strong commitment to provide effective assistance to the countries of the region in the difficult and challenging process of economic transition.

Table A: Statement of Capital Subscriptions
(ECU millions)

	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 Total	3,919	1,680	5,599
Other Non-Recipient Countries	2,319	916	3,055
Unallocated	81	35	116
Total	7,000	3,000	10,000

[1] Shares initially subscribed by Yugoslavia are reserved for its successor states. At the end of 1993, there were 12,500 unallocated shares potentially available for countries previously forming part of the former Yugoslavia.

TABLE B: PROJECTS APPROVED BY THE BOARD OF DIRECTORS IN 1993

Country	Date approved	Project	Type	Value of operations (ECU million)
Estonia	11 January	**Estline Ferry** To a joint venture of state-owned Estonian Shipping Company and Swedish Nordstromand Thulin AB for partial financing of a ferry between Stockholm and Tallinn	Loan	19.36
Hungary	11 January	**Kner Nyomda Rt.** For a program of modernisation and expansion at printers of packaging materials	Loan and shares	9.37
Russian Federation	11 January	**Oil and Gas Emergency Loan** To Nizhnevartovskneftegas for purchasing and modernising equipment to return 600 shut-in wells to production	Loan	53.78
Poland	11 January	**Polspan Sp. z.o.o** To a Polish manufacturer of chipboard owned by Kronospan GmbH for modernisation and expansion of Polspan and upgrading of a paper mill	Loan	14.46
Russian Federation	8 February	**Polar Lights Company** For the development of an oilfield above the Arctic Circle in the Timan Pechora region	Loan	80.67
Czech Republic	8 February	**Praha Hyatt Regency Hotel** For the renovation, extension and operation of a 5-star hotel and office complex	Loan	17.44
Romania	23 February	**Commercial Bank "Ion Tiriac" SA** For institutional development to aid the financial services sector	Shares	5.32
Romania	23 February	**European Roads Rehabilitation Project** To improve the road network serving regional and inter-regional traffic	Loan	71.71
Romania	8 March	**Capital SA** To establish a financial advisory and investment institution in Bucharest	Shares	1.76
Romania	8 March	**Romanian Capital Fund** For investment in private sector companies, and those in the process of privatisation	Shares	6.72
Romania	23 March	**Bank of Bucharest** Investment in a new commercial bank, to be controlled and managed by Credit Bank SA of Greece	Shares	2.12
Armenia	23 March	**Hrasdan Unit No 5 Power Plan** Completion of Unit 5 at the Hrasdan Power Plant and of transmission line to Yerevan	Loan	51.45
Slovak Republic	23 March	**International Road Corridor Project** To improve the condition of the European road network, serving regional and international traffic	Loan	15.00
Slovak Republic	23 March	**Telecommunications Project** To install a digital overlay backbone network, with modernisation and expansion of telecommunications systems in major cities	Loan	44.00
Romania	23 March	**Virolite Functional Polymers SA** For the construction and operation of a greenfield ion exchange resin plant in the town of Victoria	Loan and shares	12.96

Country	Date approved	Project	Type	Bank funds approved (ECU million)*
Poland	23 March	**Wielkopolski Bank Kredytowy SA** Investment in the first privatisation of a Polish regional commercial bank	Shares	10.41
Romania	20 April	**Bucharest Wholesale Market** To establish a wholesale fruit and vegetable market for private traders and upgrade and interlink 5 retail markets	Loan	22.41
Slovenia	20 April	**Drava River Hydroelectric Power Project** For refurbishment, replacing turbines and network transformers, to improve cost and safety and reduce pollution	Loan	73.67
Czech Republic	20 April	**Telecommunications Project** To install a digital overlay backbone network, with modernisation and expansion of telecommunications systems in major cities	Loan	72.45
Czech Republic	20 April	**Thurn Taxis Dobrovice** To a major sugar-producing company for an expansion and modernisation program	Shares	4.14
Regional	10 May	**Dun and Bradstreet (C&EE) Holding BV** For investment in information service companies in Hungary, Czech Republic and Poland	Shares	2.69
Russian Federation	10 May	**International Moscow Bank (IMB) Co-financing Line** To finance medium-sized private firms, state-owned enterprises in the process of privatisation and joint ventures with Western investors	Loan	6.72
Romania	10 May	**Leventis Romanian Bottlers** To two new Romanian joint-venture companies, for bottling plants, marketing and distribution	Loan	9.86
Poland	24 May	**Carasbac Polska** For risk capital investment in Polish private sector SMEs	Shares	4.29
Russian Federation	24 May	**West Siberia Oil and Gas Fields Rehabilitation** To assist repair of Purneftegas's oil wells and pipelines, and encourage legislative and commercial reforms to aid private investment	Loan	156.23
Regional	14 June	**Renaissance Fund: Poland, Czech Republic, Slovak Republic** Providing capital and management assistance to new and recently established private companies	Shares	8.82
Hungary	14 June	**Zalaegerszegi Hutoipari Kft** For modernisation of the deep-freeze capacity of a frozen fruit, vegetable and bakery products company	Loan	4.66
Bulgaria	28 June	**Bulgarian Capital Fund** For financing private sector companies	Shares	3.14
Bulgaria	28 June	**Bulgarian Investment Bank** To a new private sector banking group for investments and corporate finance advisory services	Shares	3.14
Hungary	12 July	**Budapest Public Transport Rehabilitation Project** For the rehabilitation of the city's public transport	Loan	64.28
Latvia	12 July	**Riga International Airport Rehabilitation Project** To rehabilitate the runway, taxi ways and airfield lighting system	Loan	10.85
Uzbekistan	12 July	**Zarafshan-Newmont Joint Venture** For the operation of the Muruntau gold mine	Loan	47.06

Country	Date approved	Project	Type	Bank funds approved (ECU million)*
Hungary	26 July	**Budapest Bank** Medium- and long-term financing to SMEs in the agricultural sector	Loan	7.17
Hungary	26 July	**Commercial & Credit Bank** Medium- and long-term financing to private SMEs in the agricultural sector	Loan	35.50
Russian Federation	26 July	**Design Bureau Salyut** For the launch of a communications satellite on behalf of Inmarsat (the International Maritime Satellite Organization)	Guarantee	9.23
Hungary	26 July	**Hantarex RT** To finance mechanical laboratory facilities for production of ray tube based monitors	Loan and shares	6.09
Slovenia	26 July	**Horizonte Fund** To provide capital and institutional management assistance to new and recently formed companies	Shares	2.57
Hungary	26 July	**Hungarian Credit Bank** Medium- and long-term financing to private SMEs in the agricultural sector	Loan	26.89
Russian Federation	26 July	**KomiArcticOil** To develop the second phase of an oil field in the Komi Republic	Loan	71.70
Poland	26 July	**Kredyt Bank** For financing of SMEs	Loan and guarantee	8.96
Hungary	26 July	**M1-M15 Toll Motorway** Construction of a 43km motorway from Gyor to the Austrian border and a 15km motorway towards Bratislava, to be operated as toll roads	Loan, shares and guarantees	125.91
Hungary	26 July	**National Savings & Commercial Bank** Modium- and long-term financing to SMEs in the agricultural sector	Loan	22.40
Albania	26 July	**Rogner Hotel** For the construction and operation of a business hotel in Tirana	Loan and shares	13.03
Slovenia	26 July	**Slovenia Railway Project** Support for the restructuring and rehabilitation of Slovenian Railways, including a track renewal program	Loan	44.77
Russian Federation	26 July	**Small Business Fund Project** Pilot project providing framework to implement and promote locally generated enterprises	Loan	2.69
Albania	26 July	**Tirana Hotel** For refurbishment and operation as a business hotel	Loan and shares	10.87
Romania	23 August	**EMCOM SRL** For installation of a plant to manufacture digital telecommunications switching equipment	Shares	6.20
Hungary	23 August	**Inter-Europa Bank Rt** To finance small- and medium-sized enterprises	Loan	25.00
Poland	6 Sept.	**Trebruk/Kostrzyn** Paper mill disposed of to Swedish investors by company in process of reconstruction and modernisation	Loan	28.46
Slovak Republic	6 Sept.	**ZSNP** To complete a modern aluminium smelter, centrepiece of overall restructuring and privatisation	Loan and shares	112.04

Country	Date approved	Project	Type	Bank funds approved (ECU million)*
Albania	20 Sept.	**Busi Albanian Beverages** To construct a soft drinks facility and commence operations	Loan	2.60
Regional	20 Sept.	**Russian and Baltic Forestry Company** To Finnish-owned Thomleaseco AB for the purchase and lease of forestry equipment to private joint ventures in Estonia, Lithuania and Russia	Loan	3.50
Czech Republic	18 October	**Czech Trade Facilitation Project - Komercni Banka** To set up export and pre-export financing facilities for industrial clients and finance a trade facilitation training program	Loan	53.78
Russian Federation	18 October	**Framlington Russian Investment Fund** For the establishment of a venture capital fund investing in private companies	Shares	14.65
Hungary	18 October	**Hungary Telecommunications Company Equity Investment Project** To finance HTC's Physical Investment Program, to improve telecommunications services	Shares	50.84
Poland	18 October	**Motorway Development Project** To complete motorway construction projects, introduce tolls on highways and develop a motorway strategy	Loan	45.00
Romania	18 October	**Romanian Bank for Development** Loan for information technology, credit line for foreign currency loans to private and state-owned commercially managed enterprises	Loan	51.99
Slovak Republic	18 October	**Sloveca Joint Venture** For the construction of an updated ethoxylation plant to produce non-ionic surfactants	Loan	5.17
Slovak Republic	18 October	**Slovak Trade Facilitation Project - Vseobecna Uverova Banka** To set up export and pre-export financing facilities for industrial clients and finance a trade facilitation training program	Loan	53.78
Uzbekistan	18 October	**Uzbekistan National Bank Financial Facility for SME Development** For on-lending to SMEs, strengthening of bank's operations and development of institution-building program	Loan	53.78
Hungary	8 November	**Accor/Pannonia** For the privatisation and development of Pannonia, a leading hotel group	Shares	6.25
Hungary	8 November	**Framochem Kft** Rufurbishment, upgrading and enlargement of an intermediate and fine chemicals plant in Kazinbarcika	Loan	1.52
Romania	8 November	**Serconf** Partial finance for the establishment and equipment of a garment manufacturing facility	Loan	3.41
Slovak Republic	8 November	**Slovenska Pol'Nohospodarska Banka** Continued development of SPB's commercial banking service	Shares	4.60
Slovenia	23 Nov.	**Aquasava d.o.o.** Establishing a modern textile processing operation in Kranj	Loan	4.70

Country	Date approved	Project	Type	Bank funds approved (ECU million)*
Kazakhstan	23 Nov.	**Financial Facilities for the Development of SMEs** To promote activities of SMEs, improve financial infrastructure and help develop entrepreneurial culture	Loan	100.00
Poland	9 December	**Batpress sp z.o.o.** To establish an offset printing press in Chrzanow and to enable affiliated companies to modernise their equipment	Loan	5.40
Hungary	9 December	**Budapest Wholesale Market Expansion Project** To finance a second phase of development and rationalise existing operations	Loan	6.00
Russian Federation	9 December	**Compagnie Européenne du Meuble** Production of furniture for the Russian and Western markets	Shares	6.32
Bulgaria	9 December	**Danone-Serdika SA** To upgrade and modernise the existing yoghurt product range and to finance a new product line	Shares	1.20
Poland	9 December	**Huta Szla Jaroslaw SA** Rehabilitation of the company's capacity to manufacture glass containers	Loan	38.63
Belarus	9 December	**Minsk Wholesale Market** Development of a modern wholesale market complex	Loan	5.85
Belarus	9 December	**Power Plant Modernisation** Construction of a 62MW combined cycle power plant in Orsha	Loan	40.47
Hungary	20 Dec.	**EGIS Gyogyszergyar** To help privatisation and to fund a development program, including environmental mitigation and improved marketing activities	Shares	26.52
Poland	20 Dec.	**Fiat Auto Poland** To increase the capacity to manufacture cars, and to modernise and improve the environmental performance of 7 manufacturing sites	Loan and shares	78.01
Ukraine	20 Dec.	**Kiev (Borispol) Airport Rehabilitation** To improve efficiency of passenger handling operations and modernise facilities	Loan	4.57
Czech Republic	20 Dec.	**Komercni Banka** To help institutional strengthening and further privatisation of Komercni Banka	Shares	68.50
Russian Federation	20 Dec.	**MosMed** To produce surgical instruments	Loan	2.69
FYR Macedonia	20 Dec.	**Power Subsector Project** To construct a transmission line and to support the Energy Conservation Program	Loan	24.02
Slovenia	20 Dec.	**SKB Bank** To finance projects in Slovenia	Loan	25.83
Estonia	20 Dec.	**Tallinn Airport Rehabilitation** To finance runways, taxiways and approach lights	Loan	12.73
Slovak Republic	20 Dec.	**Tatra Bank** To help establish a new corporate and management structure, to fund the growth of portfolio of loans and to fund branch network expansion	Shares	3.35

TABLE C.1

1993 CONTRACTS AWARDED TO SUPPLIERS BY INTERNATIONAL COMPETITIVE BIDDING

Country	Number of Contracts	Value of Contracts (US$)	%
Austria	4	2,406,498	1.2
Australia	-	-	-
Bulgaria	-	-	-
Belgium	1	1,514,727	0.8
Canada	-	-	-
China	1	590,009	0.3
Croatia	1	4,000,000	2.1
Czech Republic	1	810,415	0.4
Denmark	1	830,412	0.4
Finland	3	13,820,911	7.2
France	5	15,884,791	8.2
Germany	20	41,361,068	21.5
Hungary	8	17,200,783	8.9
Ireland	-	-	-
Iceland	-	-	-
Israel	-	-	-
Italy	6	41,855,263	21.8
Japan	1	11,368,461	5.9
Korea	1	3,221,012	1.7
Luxembourg	-	-	-
Netherlands	1	1,240,361	0.6
New Zealand	-	-	-
Norway	-	-	-
Poland	1	517,750	0.3
Romania	1	825,762	0.4
Russia	-	-	-
Slovenia	-	-	-
Spain	-	-	-
Sweden	3	2,877,610	1.5
Switzerland	2	640,879	0.3
United Kingdom	2	17,687,005	9.2
United States	8	13,889,700	7.2
TOTAL	71	192,643,437	100.0

TABLE C.2

TECHNICAL COOPERATION FUND CONTRACTS AWARDED
(Awards in excess of ECU 50,000) *

Country	Number of Contracts	Value of Contracts (US$)	%
Austria	3	1,085,333	2.7
Australia	1	287,655	0.7
Bulgaria	½	56,475	0.1
Belgium	-	-	-
Canada	4	1,337,900	3.3
China	-	-	-
Croatia	-	-	-
Czech Republic	-	-	-
Denmark	9	2,755,207	6.9
Finland	2	250,138	0.6
France	14	4,931,217	12.3
Germany	16	5,953,133	14.8
Hungary	1	89,728	0.2
Iceland	1	213,477	0.5
Ireland	4	1,236,562	3.1
Israel	3	427,709	1.1
Italy	3	578,003	1.4
Japan	-	-	-
Korea	-	-	-
Luxembourg	1	223,995	0.6
Netherlands	9	2,771,717	6.9
New Zealand	1	67,509	0.2
Norway	3	1,480,831	3.7
Poland	-	-	-
Romania	-	-	-
Russia	1	123,074	0.3
Slovenia	1	418,125	1.0
Spain	-	-	-
Sweden	3	821,379	2.0
Switzerland	6	1,324,365	3.3
United Kingdom	31½	11,947,952	29.8
United States	5	1,777,646	4.4
TOTAL	123	40,159,130	100.0

* Contracts awarded from September 1992 to December 31, 1993.