

Annual report  
**1994**



**European Bank**  
for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) was established in 1991 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 seeks to help its countries of operations to implement structural and sectoral economic reforms, including demonopolisation, decentralisation and privatisation, taking into account the particular needs of countries at different stages of transition. Its activities include the promotion of private sector activity, the strengthening of financial institutions and legal systems, and the development of the infrastructure needed to support the private sector. The Bank applies sound banking and investment principles in all of its operations.

In fulfilling its role as a catalyst of change, the Bank encourages co-financing and foreign direct investment from the private and public sectors, helps to mobilise domestic capital, and provides technical cooperation in relevant areas. It works in close cooperation with international financial institutions and other international organisations. In all of its activities, the Bank promotes environmentally sound and sustainable development.











## Abbreviations and acronyms

**The Bank, EBRD** The European Bank for Reconstruction and Development  
**BOT** Build-operate-transfer  
**CEAL** Central European Agency Line  
**CIS** Commonwealth of Independent States  
**CMEA** Council of Mutual Economic Assistance  
**ECA** Export credit agency  
**ECU** European Currency Unit  
**EU** European Union  
**GDP** Gross domestic product  
**IBRD** International Bank for Reconstruction and Development  
**IFC** International Finance Corporation  
**IFI** International financial institution  
**IMF** International Monetary Fund  
**JAIDO** Japan International Development Organisation  
**JEXIM** Export Import Bank of Japan  
**Libor** London Interbank Offered Rate  
**NSA** Nuclear Safety Account  
**OECD** Organisation for Economic Cooperation and Development  
**OPIC** Overseas Private Investment Corporation  
**PHARE** Poland and Hungary: Aid for Economic Restructuring (EU)  
**PPF** Post-Privatisation Fund  
**RVF** Regional Venture Fund  
**SMEs** Small and medium-sized enterprises  
**SRP** Special Restructuring Programme  
**TACIS** Technical Assistance for CIS countries (EU)  
**TAM** TurnAround Management Programme  
**TCFP** Technical Cooperation Funds Programme

## Guide to readers

### Operation counting

In September 1994, the EBRD introduced new software which allows it to count operations more correctly. Under the previous tracking system, a project comprising three products, for example, was counted as three distinct operations. Under the new system, it would be listed as one operation, with three facilities. Whereas the 1993 Annual Report showed 91 approved projects, the new system counts these as 80 approved projects.

Operations may also be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement.

Totals in tables may not add up due to rounding.

### Exchange rates

Non-ECU currencies have been converted, where appropriate, into ECU on the basis of the exchange rates current on 31 December 1994. (Approximate ECU exchange rates: DM 1.89, FFr 6.56, ¥122.31, £0.79, US\$ 1.23.)

### The region

References to "the region" include all the EBRD's countries of operations.

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# **Countries of operations**

At 31 December 1994

Albania	Kyrgyzstan
Armenia	Latvia
Azerbaijan	Lithuania
Belarus	Moldova
Bulgaria	Poland
Croatia	Romania
Czech Republic	Russian Federation
Estonia	Slovak Republic
Former Yugoslav Republic of Macedonia	Slovenia
Georgia	Tajikistan
Hungary	Turkmenistan
Kazakhstan	Ukraine
	Uzbekistan



# Highlights

<b>Financial results</b>	<b>1994</b> ECU million	<b>1993</b> ECU million	<b>1992</b> ECU million	<b>1991*</b> ECU million
Operating profit (loss) before provisions	25	44	4	(7)
Provisions for losses	24	40	10	–
Profit (loss) for the period	1	4	(6)	(7)
Paid-in capital	2,965	2,965	2,965	2,956
Capital instalments received (cumulative)	2,273	1,728	1,206	591
Total assets	7,528	7,036	4,929	3,494

\* 9 months operations

<b>Operational results</b>	<b>1994</b> number	<b>1993</b> number	<b>1992</b> number	<b>1991*</b> number	<b>Total</b> number
New projects approved	109	80	47	16	<b>251</b>
New projects signed	91	72	34	2	<b>199</b>
	<b>1994</b>	<b>1993</b>	<b>1992</b>	<b>1991*</b>	<b>Total</b>
EBRD financing for year	ECU million	ECU million	ECU million	ECU million	ECU million
Approved	2,409	2,062	951	350	<b>5,772</b>
Committed	1,878	1,642	826	53	<b>4,399</b>
Disbursed	591	409	127	0	<b>1,127</b>
Total project funds to be mobilised	6,909	5,973	3,318	1,223	<b>17,423</b>

\* 9 months operations



# Letter of transmittal

London, 7 March 1995

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## To Governors

In accordance with Article 35 of the Agreement Establishing the Bank and Section 11 of its By-Laws, the enclosed Annual Report of the Bank for 1994 is submitted by the Board of Directors to the Board of Governors.

The Annual Report includes the approved and audited financial statements required to be submitted under Article 27 of the Agreement and Section 13 of the By-Laws. It also contains a separate statement on the Special Funds resources, in accordance with Article 10 of the Agreement Establishing the Bank, and covers the environmental impact of the Bank's operations, as required under Article 35 of the Agreement.

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## President

Jacques de Larosière

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## Directors

Péter Bod  
John Coleman  
Claes de Neergaard  
Robert Graham-Harrison  
Johan Hilbers  
Brian Hillery  
Plamen Ilchev  
Helge Kringstad  
Roger Lavelle  
Heiner Luschin  
Giuseppe Maresca  
Patrick Mordacq  
Alan Morris  
Oleg Preksin  
Jacques Reverdin  
Oleksander Savchenko  
James Scheuer  
Bernard Snoy  
Kazumoto Suzuki  
José Luis Ugarte  
Antoine Van Goethem  
Stefanos Vavalidis  
Günter Winkelmann

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## Alternate Directors

Tomás Parfzek  
David Horley  
Håkan Emsgård  
David Roe  
Kees Spaans  
Asger Lund-Sørensen  
Jan Bielecki  
Rauli Suikkanen  
Terry Brown  
Amos Rubin  
Maurizio Serra  
Didier Elbaum  
Huhn-Gunn Ro  
Serguei Ovseitchik  
Selçuk Demiralp  
Stanel Ghencea  
Lee Jackson  
Ernest Muhlen  
Takashi Osanai  
Belen Cristino  
Peter Blackie  
Fernando Soares Carneiro  
Siegfried Borggreffe

# Review of the year

The EBRD gained a sharper focus and a new impetus in 1994. The year's achievements culminated in a total value of signed projects (ECU 1.9 billion) in excess of the target, and financial results which were above expectations, showing profits both before and after provisions.

*exceeded  
target for  
projects*

The Bank's operational priorities were successfully implemented, resulting in the development of more projects in more countries, particularly in the private sector. A wider range of banking instruments was used, with a marked increase in equity investments. The portfolio, which grew by 74 per cent, continued to mobilise twice its own value from external sources. At the same time, the portfolio was strengthened to achieve greater impact on economic transition in the region through, for example, demonstration effects and alleviating infrastructure bottlenecks.

The Bank's operational goals were accomplished efficiently with tight management of administrative expenses and firmer control systems, producing significant savings. Decreased overheads allowed additional resources to be made available for operations. This improvement in the overall cost structure is an important contribution towards sustained profitability. In 1994, therefore, the EBRD laid a solid foundation for the further development and expansion of its activities.

## Performance

### Operations

Within the framework of the 1994 operational policies, the EBRD's target for signed projects for the year was achieved: indeed, the target of ECU 1.8 billion was exceeded and commitments to the value of ECU 1.9 billion were signed. This figure compares with the cumulative total of ECU 2.5 billion during the Bank's first three years of operations, that is, to the end of 1993. The cumulative total at the end of 1994 was ECU 4.4 billion. In addition, projects with a value of ECU 1.4 billion were approved but not yet signed, producing a total of ECU 5.8 billion. During the year, therefore, the Bank increased the value of its portfolio by 74 per cent. In 1994 91 projects were signed, nearly as many as in the first three years of the Bank's operations, to produce a cumulative total of 199 projects.

A key measure of the Bank's operational performance is its ability to mobilise external financing for its projects. Combined with other sources of finance, the overall value of approved EBRD-financed projects totalled ECU 17.4 billion – so for every ECU invested by the EBRD, two more from other industrial and institutional investors were mobilised.

*portfolio value  
up 74%*

Disbursement also progressed in 1994, reaching ECU 591 million. This compares with ECU 409 million in 1993 and ECU 127 million in 1992. It represents an increase in cumulative net disbursements of 110 per cent over the year.

Expansion in the EBRD's volume of operations was accompanied by qualitative developments, intended to meet more closely the specific needs of the countries of operations.

In line with the Bank's private sector mandate, 73 per cent of the projects signed during 1994 were in the private sector, bringing the total commitment of the EBRD's resources devoted to this sector to 62 per cent. For the first time the Bank met the portfolio requirement of Article 11.3 of the Agreement Establishing the EBRD, which stipulates that not more than 40 per cent of its total committed loans, guarantees and equity investments shall be provided to the state sector.

Recognising the crucial role played by the financial sector in supporting the transition to a market economy, and in particular in developing small and medium-sized enterprises, the Bank has increased the proportion of its resources allocated to local financial intermediaries to 19 per cent.

Over the past year the Bank pursued a more active approach to the use of equity, thereby addressing the need for capital investment to underpin the transition process. In 1994 equity investments in private enterprises grew from 12 per cent of the Bank's operations to 15 per cent. The Bank also increased its use of guarantees to meet investor demand.

*73% of  
projects  
in private  
sector*

A further qualitative change in the Bank's operations has been an emphasis on geographical diversification, increasing the share of resources devoted to countries where the operational environment is more difficult. The goal of developing projects for all countries of operations was achieved, with signed commitments in all countries except one.



As part of the effort to broaden and strengthen its local impact, the Bank has developed its network of Resident Offices. These have been more closely integrated into the work of the Banking Department and their role in operations has been strengthened substantially. In 1994 the Bank opened a Resident Office in Almaty, bringing the total number to 13, with local representatives in 17 countries. The number of expatriate and locally hired staff almost doubled to over 100, including 26 local professionals. It was decided to open Resident Offices in Croatia, Kyrgyzstan and Slovenia in 1995.

#### Financial results

The results for 1994 were better than expected, given the conditions in the financial markets, with profits of

ECU 24.9 million before provisions and ECU 1.0 million after provisions. These were derived from high investment earnings of liquid assets in volatile financial market conditions and a growing contribution from Banking operations.

As a consequence of cost-saving initiatives and continued budget discipline, general administrative expenses and depreciation were below those of 1993, thus contributing to the result.

Provisions of ECU 23.9 million, including ECU 3.1 million relating to contractual commitments, were made during the year; with the charge for the year, which was ECU 15.8 million lower than in 1993, benefiting from the reversal of certain provisions, made in 1993, which are no longer considered to be necessary. The overall level of cumulative provisions on outstanding loans and equity investments has increased from ECU 44 million to ECU 64 million.

Project disbursements in 1994 were 44 per cent greater than in 1993. At year-end 1994 equity disbursements outstanding reached ECU 365.6 million, loan disbursements ECU 753.1 million and debt securities in countries of operations ECU 7.9 million. This compares with ECU 192.5 million, ECU 357.1 million and ECU 7.8 million respectively at the end of 1993.

Gross income from Banking operations more than doubled during the year. The major element is loan interest, but increased dividend income, profits on sales of share

investments, and higher fee and commission income have all contributed to the growth.

Liquid assets of ECU 4.5 billion increased by ECU 467.4 million or 11.7 per cent during the year, mainly as a result of capital receipts, with 8.7 per cent or ECU 385.6 million being managed by external asset managers.

On a total return basis, the liquid assets portfolio generated an overall gross income of ECU 276.9 million. This is after taking account of the downward adjustment in value, both realised and unrealised, of ECU 13.0 million arising from debt securities as a result of adverse market conditions. The total return is 77 basis points above the relevant benchmark (cost of funds based on short-term interest rates) and is substantially over bond benchmarks.

#### Management of resources

The EBRD improved the management of its resources in 1994, through a programme of increased cost efficiency and stricter budgetary discipline. This tighter control of resources, together with the expanded operational activity, has contributed to a reduction of the ratio of administrative expenses to cumulative commitments from 5.7 per cent at the end of 1993 to 3.7 per cent in 1994.

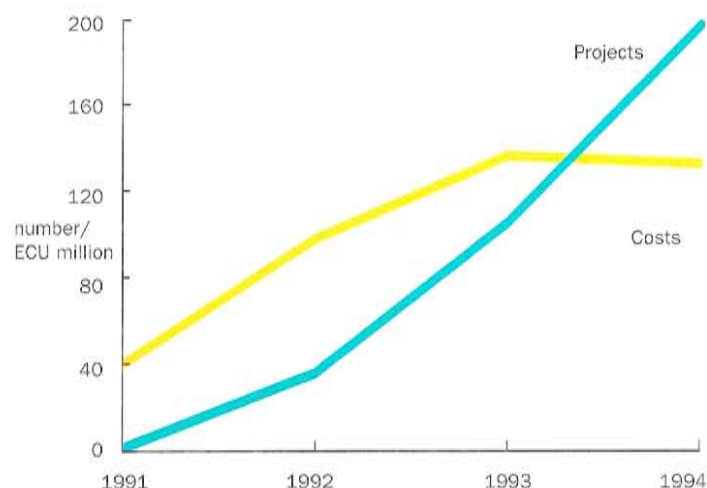
Efficiency has also been increased by organisational changes. Banking was unified into a single department, under the First Vice President. Organised into country and industry teams, it is now better placed to develop both private and public sector projects with minimal duplication. More efficient resource allocation, both from support services to front-line banking activities and within operational departments, has boosted productivity. One floor of the London Headquarters building was sublet and additional space was vacated for subletting.

The budgetary discipline initiated in the second half of 1993 was consolidated in 1994. The budget for 1995 is based on only a 3.5 per cent increase (in sterling terms) in administrative expenses (almost zero growth in real terms), despite the increasing monitoring and implementation requirements of the Bank's growing portfolio.

The EBRD's clear and continued commitment to cost control and budget discipline has brought multiple benefits. Above all it has played a crucial role in the restoration of confidence in the institution, among shareholders and the

*financial  
results above  
expectations*

### Number of projects in implementation and EBRD's gross costs



Bank's clients, and has enhanced the confidence of the markets. It has also released resources which have been directed towards operational activities, thus increasing productivity.

## Policies

### Monitoring of Article 1

Article 1 of the Agreement Establishing the EBRD requires that the countries in which the Bank operates be committed to and applying the principles of multiparty democracy, pluralism and market economies. The monitoring of adherence to these principles is integrated into the Bank's operations and reflected in the Bank's country strategy papers, which include an assessment of a country's commitment to Article 1. The Board of Directors reviews countries' commitment to Article 1 in the context of its periodic review of the Bank's operations and lending strategies as required by the Agreement.

The Bank's operations are also guided by contacts with governments concerning questions arising from the monitoring process. Monitoring is done in close cooperation with the European Union, the Organisation for Security and Cooperation in Europe, the Council of Europe and ministries of foreign affairs of member states.

### Operational policies

At the beginning of 1994 the Board of Directors approved a set of medium-term operational priorities. These guidelines, endorsed by the Board of Governors at the 1994 Annual Meeting held in St Petersburg, are as follows:

- focus on private sector development
- be active in all countries of operations
- reach local private enterprises, especially SMEs
- enhance the use of financial intermediaries
- increase equity investment.

Governors also stressed that the EBRD's operations are guided by the need to promote environmentally sound and sustainable development, emphasising the benefits stemming from increased energy efficiency. These guidelines were implemented in the context of the Bank's continuing promotion of restructuring, privatisation and infrastructure development, which is critical for private sector development and for regional integration and the environment.

While maintaining strict control of resources, the Bank's impact on the transition process was increased by a "wholesale" approach to activities in the financial sector. The Bank worked closely with banks, financial institutions and investment firms in the countries of operations, providing funds for small businesses which could not be funded cost-effectively by the Bank.

The Bank developed the framework for extending the wholesale approach to the industrial and commercial sectors through partnerships with corporations from Western countries as well as those from the countries of operations. By capitalising on the know-how and risk-taking ability of industrial partners with a strategic commitment to the countries of operations, the Bank's capital will be used more productively and spread more widely across the region.

The revival of trade is instrumental to the success of transition, and there is significant demand for action in this crucial area. The Bank is seeking to facilitate international trade by lowering the transaction costs, and has been developing projects to this end.



### Financial policies

The EBRD's financial policies define the parameters within which it can undertake its operational and financial activities and manage the risks inherent in these activities to ensure its financial soundness.

In 1994 a number of financial policies were reviewed and elaborated in the light of further experience. Periodic reviews of financial policies are important, particularly as the Bank pursues well-defined operational priorities in all its countries of operations.

The portfolio risk management and investment policies were further developed, particularly with regard to the Bank's investment products. For example, additional guidance was provided pertaining to financial intermediaries, guarantees, equity investments and special investment products, such as the Special Restructuring Programme, Regional Venture Funds and SME programmes. The Bank's credit monitoring procedures were also revised to incorporate recent developments.

The provisioning policy was reviewed to ensure that provisions reflect the risks inherent in the Bank's portfolio. It was decided that the Bank would refine its internal risk assessment procedures in 1995 as the basis for a further review of its provisioning policy.

A review of the liquidity policy concluded that the Bank should maintain its minimum liquidity ratio at 45 per cent of the next three years' cash requirements. This ratio is viewed as a minimum level, not an operating target, particularly given the importance of building sufficient liquidity in the early years to cover commitments.

Given the projected expansion of the EBRD's portfolio, the Board of Governors concluded at the 1994 Annual Meeting that the question of the Bank's capital base would have to be examined and requested that the Board of Directors examine the underlying operational and financial assumptions in order to start reporting to Governors in 1995.

### New policies

During 1994 several new policies were developed, including a strategy for the property sector. In addition, the Energy Operations Policy was revised; it was decided to incorporate it into an Integrated Energy Policy in 1995.

### Specific programmes and initiatives

The EBRD's use of technical cooperation funds increased in 1994. An important feature of technical cooperation is its ability to facilitate the Bank's investment and lending operations through project preparation and implementation activities. In 1994, 74 per cent of technical cooperation resources were committed for this purpose, supporting investment and loans totalling ECU 1 billion. In 1994 the EBRD committed ECU 87.6 million related to 311 technical cooperation operations, and disbursed ECU 46.4 million. During the year the Bank signed seven new Technical Cooperation Fund Agreements, bringing the total to 35, and continued its cooperation with the European Union and existing donor countries. At the end of the year, Technical Cooperation Funds reached ECU 232.8 million, Special Funds (Baltic and Russia) totalled ECU 13.7 million, and project-specific funds were ECU 16.8 million. Following discussion at the 1994 Annual Meeting, donors agreed to have their funds partially untied with regard to procurement of local consultants from the Bank's countries of operations.

*7 new  
technical  
cooperation  
funds*

The EBRD continued to pursue special programmes and initiatives to support the development of small and medium-sized enterprises. The activities of the Russia Small Business Fund, established by the Bank in 1993 following an initiative by the G-7 countries, were extended in 1994 to provide new instruments for small business financing. It is expected that this type of full-scale programme could be introduced in other countries of operations.

Among other important operational initiatives taken in 1994, with donor support, was the establishment of four Regional Venture Funds in Russia. These form part of the Bank's support for early mass privatisation by taking significant minority stakes in privatised companies and provide management assistance to new private owners. It is intended that Regional Venture Funds will soon be developed in other countries.

The Bank continued to operate the Nuclear Safety Account, which was established in 1993 at the initiative of the G-7 countries to improve safety in nuclear power plants, and is supported by the G-7 countries and Belgium, Denmark, Finland, Netherlands, Norway, Sweden and Switzerland. In

1994 a project for Ignalina Nuclear Power Plant in Lithuania was signed; two projects are planned in Russia in addition to an action programme for the closure of the Chernobyl plant in Ukraine.

### Membership

The EBRD has continued to respond to the challenges of a wide and diverse membership. This was unchanged in 1994, standing at 59 members, with 25 countries of operations.

In September 1994, the Board of Directors decided that the Bank should open discussions with Croatia, the Former Yugoslav Republic of Macedonia and Slovenia to seek an acceptable solution regarding the allocation of the shares of the former Yugoslavia. It was also decided that requests for increases in capital subscriptions of existing members and new membership requests would be considered at a later date.

### Future orientation

The EBRD is now much better placed to fulfil its mandate following the refocusing of activities in 1994. As the operational environment continues to improve, demand for the Bank's services will vary between countries, but generally increase throughout the region. This is already evidenced by a correspondingly rich pipeline of projects. The Bank will respond to this challenge by looking for ways of further increasing its productivity and the impact of its projects. This will include a more "wholesale" approach in the financial sector and the development of industrial and commercial partnerships. In fulfilling its special role as the "leading edge" investor, the Bank will show the way and set the pace for other investors, mobilising substantial additional investments in the region.



# Operational environment

## Introduction

The EBRD's mandate, as set out in its founding Agreement, is "to foster the transition towards open market oriented economies and to promote private and entrepreneurial initiative". Further, the Agreement states that "the Bank shall apply sound banking principles to all its operations". The quest for impact on the transition process as well as assessments of financial risks associated with particular categories of investments are therefore crucial determinants of the EBRD's operational policy. Moreover, in promoting the transition, the Bank only contributes funds to projects that cannot be fully financed by other appropriate sources.

Transition requires institutional change. It is the arrangements for the allocation of goods and resources, together with the ownership, incentive and reward structures, that characterise the differences between a market and a command economy. Among the projects that offer most positive support to transition are those that demonstrate to potential domestic and foreign investors the possibilities offered by the switch to a market environment, that strengthen market-oriented institutions such as banks, help develop markets, facilitate enterprise restructuring or alleviate bottlenecks. The opportunities available to the Bank in these areas are conditioned by the economic environment in the countries of operations.

The EBRD's commitments during 1994 have focused on projects that are expected to have a substantial transition impact.\* Financial sector projects, which include equity acquisitions in banks and provision of credit to SMEs through local intermediaries, have helped strengthen the use of market instruments in the allocation of credit. Many EBRD activities have supported the workings of product markets, a particularly direct example being the provision of finance for the establishment of wholesale fruit and vegetable markets. Other projects have sought to alleviate bottlenecks in the transition process, such as those financing an expansion in the supply of telephone lines and physical transport links.

According to the EBRD's mandate, at least 60 per cent of the Bank's committed loans, guarantees and equity investments must be provided to the private sector. The difficulty of implementing projects in the private sector, and the risk that is associated with such projects, tend to decline as countries progress in structural reform and macroeconomic stabilisation.

Progress in market-oriented reform influences the dynamics, size and economic efficiency of the private sector. Key reform elements are the creation of a competitive environment through price and trade liberalisation, privatisation, establishment of "hard" budget constraints, removal of barriers to new companies entering the market, reduction in bureaucratic obstacles to economic activity, establishment of a stable and transparent regime for taxation and law, and receptiveness to foreign investment.

Macroeconomic stabilisation, as reflected in government pursuit of prudent fiscal and monetary policies, is important because it fosters predictable market and cost conditions – prerequisites for commercial decision making and an entrepreneurial culture.

The sections below describe briefly the operational environment with reference to these considerations and establish the relationship between progress in transition in individual countries and the EBRD's operational emphasis.

## Advancing the transition

All the EBRD's countries of operations have embarked on market-oriented transition (for a full analysis see the Bank's *Transition report*, published in October). However, the degree of advancement varies greatly across areas of reform and groups of countries. Most countries have liberalised foreign trade and domestic prices and privatised small-scale business units. In general, much less has been achieved in banking reform, enterprise restructuring and large-scale privatisation. This is not surprising because fundamental change in institutions, if it is to be rational and effective, takes time. Markets can be created and reformed, and small enterprises privatised, much more quickly.

Nevertheless, the countries in central Europe and the Baltic states have privatised a major share of their large-scale production units, while tightening enterprise access to credits and subsidies. They have also begun to tackle the thorny issue of financial sector reform, including bank recapitalisation. Some CIS countries have implemented comprehensive privatisation schemes, although they tend to be less advanced than the central European countries with respect to banking reform and enterprise restructuring.

\* Consideration of the potential impact of projects on the transition forms part of the work of the Operations Committee and the Office of the Chief Economist (before project approval), and of the Project Evaluation Vice Presidency (at project completion).

## Recent macroeconomic trends

During 1994, the countries of eastern Europe and the Baltic states saw, with very few exceptions, output expanding rapidly and inflation contained at annual rates below 50 per cent.

These favourable developments should be seen against the background of sharp output contractions in the early years of market-oriented transition. External shocks, the initiation of market-oriented transition and tighter fiscal and monetary policies contributed to sharp output declines in the early 1990s throughout the region. The external shocks were associated particularly with the collapse during 1990-91 of the former socialist trading block, the CMEA. Of special importance was the decrease in demand from Russia for east European exports. Companies and governments in eastern Europe were hit at the same time by a sharp increase, towards world market levels, in the price for energy deliveries from Russia.

Only in 1993-94 did clear evidence emerge of a broad resumption of aggregate output growth in the countries of eastern Europe and the Baltic states (although Poland experienced positive growth as early as 1992). Performance in the private sector, which is expanding rapidly and now accounts for more than half of GDP in most of these countries, has become a more important determinant of economic growth than the state sector.

Towards the end of 1994, industrial output stabilised in some CIS countries, although full-year data point to a decline in real GDP for the CIS as a whole of about 17 per cent, following a drop of about 13 per cent in 1993 and 18 per cent in 1992. Inflation generally declined during 1994, but full-year price increases (from December 1993 to December 1994) remained above 100 per cent in all CIS countries except Kyrgyzstan.

Unlike eastern Europe and the Baltic states, most CIS countries remain some distance from the point where progress in reform and macroeconomic stabilisation is reflected in positive output growth. There are several reasons for this. First, the CIS countries embarked on comprehensive market-oriented transition and macroeconomic stabilisation somewhat later and, in some cases, less vigorously than the countries of eastern Europe. A second important factor is the very high level of production specialisation and integration that used to

characterise the Soviet Union and which, following the break-up of the Union, left some newly independent countries with a particularly daunting need for enterprise restructuring. A third factor is the continued effects in some of the most disadvantaged former Soviet republics of the sharp cut-backs during 1991-92 in provisions from Russia of fiscal transfers, credits and cheap energy. However, stable, or possibly growing, output during recent quarters in the larger CIS countries offers hope for the coming year.

## Foreign investment

Foreign direct investment benefits the emerging private sector: it is an important source of capital, a conduit for transferring technologies and skills, and a spur to the development of an entrepreneurial culture in the region. Total flows of foreign direct and portfolio investment into eastern Europe and the former Soviet Union reached about US\$ 6 billion in 1993 and a similar order of magnitude in 1994. Between 1990 and 1994, the Czech Republic, Hungary and the Slovak Republic – seen to offer (relative) comfort in terms of convertibility risk and regulatory policies – attracted two-thirds of all foreign investment into the Bank's countries of operations. The EBRD played an important role: foreign equity in EBRD-sponsored projects during 1993-94 accounted for 6-17 per cent of total foreign investment flows during those years into each of the Czech Republic, Hungary, Poland and the Slovak Republic. These countries were also among the first in the region to see a substantial revival of domestic investment activity.

However, demand for services from the EBRD indicates that interest has also been growing over the past year for investment in other geographical areas, including parts of the CIS, which offer attractive investment opportunities as a result of, *inter alia*, abundant supplies of natural resources and a well-educated labour force. Investors, domestic and foreign, who have in the past been deterred by the uncertainty associated with convertibility, ownership status and other regulatory factors, have been encouraged during 1994 by the progress made in market reform and macroeconomic stabilisation.



### **Influence of the economic environment on the EBRD's operations**

In countries that have reached a comparatively advanced stage of transition and macroeconomic stabilisation, including the Czech Republic, Hungary, Poland, the Slovak Republic, Slovenia and the Baltic states, there has been considerable demand for EBRD financing from the private sector. Over the past year this demand has changed character in some of these countries as the strongest private enterprises have gradually gained access, independently of Bank participation, to funding from private international capital markets. In response, the emphasis of the Bank has tended to switch towards more demanding activities including: long-term commitments in innovative, commercially oriented infrastructure projects; finance for companies in need of restructuring, including in the context of the EBRD's Special Restructuring Programmes; participation in restructuring and privatisation of state-owned banks; funds devoted to the advancement of SMEs; and other activities promoting the development of domestic capital markets.

An intermediate group of countries, including Russia, south-eastern Europe, Kyrgyzstan and Moldova, has advanced substantially in market-oriented transition over the past year. This has stimulated the interest of foreign investors, giving the Bank the opportunity to participate in joint-venture projects and in the establishment of equity funds. In addition, some progress in financial sector reform in these countries has made it possible for the Bank to identify local financial institutions that can act as intermediaries for funding targeted at the local private sector. The EBRD is also increasingly focusing in these countries on projects aimed at alleviating problems associated with trade finance.

In countries that are at an early stage of transition, including many smaller countries of the CIS, opportunities for direct Bank financing of private activity are limited. The size of the private sector in these countries is small. Inflation is high and relative prices fluctuate sharply over time. In some of these countries, it is particularly difficult to analyse enterprise accounts and establish with confidence the extent to which existing laws are enforced. Private sector activities are in some

cases inhibited by explicit legal or ministerially stipulated barriers, for instance in the area of foreign trade. The limited supply of solid private projects has been associated with a greater Bank focus on projects with state involvement, particularly through the development of infrastructure that can support an emerging private sector. Nevertheless, it has remained an aim, notably through sovereign-guaranteed credit lines, to provide financing for the private sector. Technical assistance in projects and in the promotion of a market-friendly environment has been and continues to be particularly important in this group of countries.

# Review of 1994 operations

## Introduction and analysis

In 1994 the EBRD continued to assist its countries of operations in their transition to a market economy by providing entrepreneurs and government agencies with loans, equity and guarantees. The purposes of these investments range from restructuring large complexes to making small loans accessible (via local banks) to companies with only a few employees.

The EBRD seeks to act as a catalyst by attracting and facilitating additional investment in the region. It has established good working relationships with leading commercial banks, other institutions and companies operating there, which has enabled it to bring in additional financial resources to meet the needs of its countries of operations. In 1994 the Bank increased the number of its co-financing partners and, for approved and signed projects, it was working with 232 companies, from 36 countries, in 310 investments.

The Bank's project portfolio continued to grow during 1994, with increases in new approvals, signings and disbursements. The development of the portfolio clearly reflected the EBRD's operational priorities (outlined on page 7). This section examines the portfolio in the light of these priorities.

### Increasing the geographical spread

The EBRD's 25 countries of operations are each at a different stage of the transition process, which determines how the Bank can operate and in some cases leads it to devise innovative ways of providing financing and reducing risk. Following its

*active in all countries of operations*

commitment to increase the geographical spread of its activity, the EBRD had approved investment projects for 24 countries by the end of 1994, compared with 19 countries at the end of 1993. It had also approved 11 regional projects.

Five countries gained their first stand-alone EBRD investment (all loans) in 1994: Azerbaijan, to complete a

hydropower station; Croatia, for air navigation equipment to re-establish normal civilian air traffic control; Georgia, to rehabilitate a hydropower station and a thermal power station; Moldova, for wine production and export promotion; and Turkmenistan, a credit line for the central bank to lend, via local banks, to new local private enterprises. First disbursements took place on projects in the Former Yugoslav Republic of Macedonia, Moldova and Uzbekistan.

### EBRD financing approved by country

	1994		Cumulative to 31 December 1994	
	Number	ECU million	Number	ECU million
Russian Federation	22	604.3	39	1,074.0
Poland	15	350.4	41	900.5
Hungary	5	166.9	31	742.5
Czech Republic	9	202.0	21	482.3
Romania	5	68.3	19	471.0
Slovenia	8	154.5	13	308.9
Slovak Republic	3	89.3	10	273.0
Ukraine	3	153.9	5	161.9
Belarus	2	68.2	5	144.6
Bulgaria	5	15.2	11	130.1
Kazakhstan	1	11.9	2	111.9
Uzbekistan	1	13.0	3	104.8
Estonia	4	33.4	7	104.4
Croatia	3	95.2	3	95.1
Lithuania	3	44.8	4	82.8
FYR Macedonia	3	54.3	4	78.9
Armenia	1	18.6	2	65.4
Latvia	3	19.7	5	59.5
Albania	2	14.6	6	48.7
Azerbaijan	1	43.4	1	43.4
Turkmenistan	2	36.7	2	36.7
Moldova	1	24.5	1	25.3
Kyrgyzstan	2	16.2	2	16.2
Georgia	1	14.8	1	14.8
Regional	4	94.5	11	195.3
<b>Total</b>	<b>109</b>	<b>2,408.8</b>	<b>251</b>	<b>5,772.0</b>



### Targeting key sectors

By a large margin, the financial sector formed the main element of the portfolio at the end of 1994 both by value and number of projects (see table below). In the past year EBRD projects in the financial sector – for banks, investment funds and other intermediaries – increased in value by 132 per cent. Projects that helped create the physical infrastructure needed for private sector growth also remained prominent, particularly transport, energy and power generation, and telecommunications.

### EBRD financing approved by sector

	1994		Cumulative to 31 December 1994	
	Number	ECU million	Number	ECU million
Finance, business	44	927.8	79	1,631.7
Transport	18	491.6	34	1,101.3
Telecommunications	7	202.9	25	796.3
Energy/ power generation	8	233.1	16	564.2
Manufacturing	15	210.9	45	559.5
Extractive industries	1	42.8	10	481.7
CEALs, co-financing lines & RVFs *	5	164.7	12	305.6
Commerce, tourism	4	57.7	13	137.8
Agribusiness	5	63.9	13	118.6
Community/ social services	2	13.3	4	75.3
<b>Total</b>	<b>109</b>	<b>2,408.8</b>	<b>251</b>	<b>5,772.0</b>

\* Central European Agency Lines, Regional Venture Funds

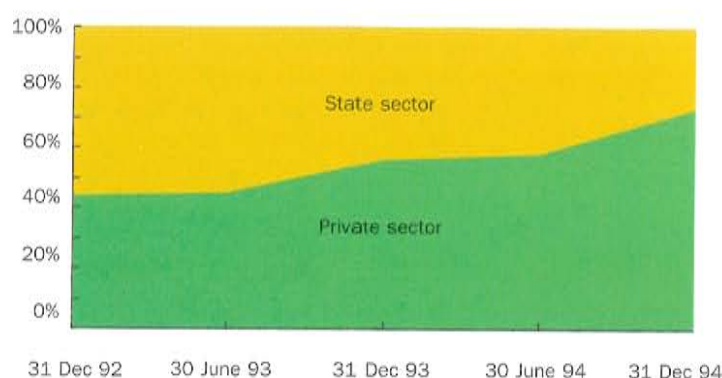
### Increasing private sector orientation

The EBRD's private sector focus was sharpened in the past year. Seventy-three per cent of the projects signed during 1994 were in the private sector, bringing the cumulative total commitment of the Bank's resources to private sector projects to 62 per cent.

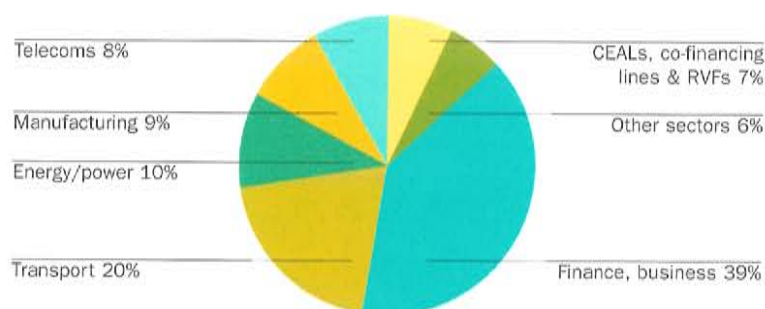
The average project size decreased during 1994, from ECU 23 million to ECU 21 million. This marked the shift in emphasis to private sector operations, particularly in countries where the operating environment is more difficult.

*focusing on  
private sector  
development*

### Growth of the EBRD's private sector activities



### EBRD financing approved by sector 1994



### Tailoring the use of facilities

The EBRD uses a variety of financing mechanisms in order to meet the needs of the region and to encourage investment from third parties by reducing risk. Responding to demand from the private sector in its countries of operations, the EBRD is making increasing use of equity products rather than loans. It increased its equity investments by 104 per cent during 1994, from ECU 459 million to ECU 937 million, and at year-end one in five of its projects involved equity. The Bank is also using more guarantees which, through their ability to isolate and transfer

*increasing  
equity  
investment*

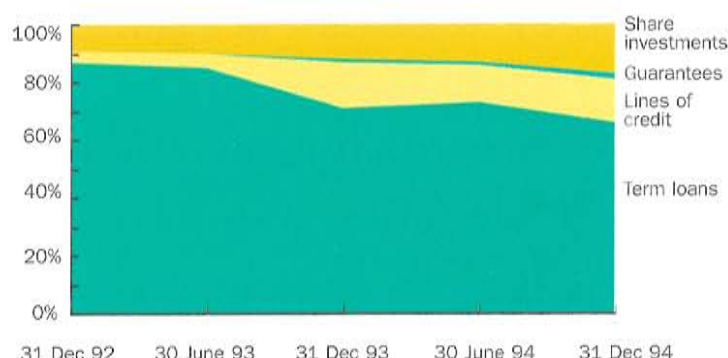
risks, can help encourage investors. From ECU 40 million at the end of 1993, guarantees rose to ECU 136 million at the end of 1994, an increase of 240 per cent.

Loans (including credit lines) also increased during the year, but to a lesser degree: up 64 per cent from ECU 2,862 million to a total of ECU 4,698 million. Of the total loan amount, 18 per cent was for further on-lending.

#### EBRD financing approved by type of facility

	1994		Cumulative to 31 December 1994	
	Number	ECU million	Number	ECU million
Loans	99	1,508	272	3,851
Equity	46	478	93	937
Credit/agency lines	13	328	42	848
Guarantees	3	96	6	136
<b>Total</b>	<b>161</b>	<b>2,409</b>	<b>413</b>	<b>5,772</b>

#### EBRD financing approved - increase in equity and lines of credit



#### Encouraging co-financing

The EBRD gives high priority to encouraging the involvement of co-financiers in its operations: by its mandate it is a co-financing institution. Success in attracting external finance for EBRD-sponsored projects increases the total resources available for the pursuit of its mandate and operational objectives. By catalysing funds from external sources, the

EBRD can support a wider range of projects. Co-financing is an important aspect of EBRD philosophy for the following policy and operational reasons:

- for the countries of operations it furthers access to international capital markets and other sources of funding
- it promotes and facilitates foreign direct investment
- it establishes risk-sharing with the appropriate risk takers
- for the EBRD it can be a portfolio management tool.

The EBRD welcomes approaches from potential investors and has strengthened its efforts to generate new business. It has set up the Business Development Unit to assist potential project sponsors to approach the Bank regarding co-financing possibilities. The Unit works closely with such sponsors at the earliest stage of their project development to explain the EBRD's financing requirements and help them to present initial proposals to the country and sector specialists in its Banking Department. Potential sponsors can contact the Business Development Unit: Tel: +44 171 338 6252; Fax: +44 171 338 6102.

External finance originates from commercial or official sources. The main co-financing partners for the EBRD are commercial banks (directly, as participants in EBRD syndications, or with export credit agency (ECA) or investment insurance guarantees), international financial institutions (IFIs), bilateral financial institutions or government development assistance programmes, and direct lending ECAs.

In 1994, 43 projects were arranged with co-financing. Thirty of these were in the private sector, including 17 syndications; 13 projects were in the public sector. These arrangements mobilised external funds totalling ECU 944.3 million of which ECU 596.9 million was for private sector projects and ECU 347.4 million for projects in the public sector. EBRD funding for private sector and public sector projects was matched more than 100 per cent by co-financiers.

The EBRD has been extremely successful in developing its "B Loan" programme for mobilising commercial bank support for projects in its countries of operations.\* At the end of 1994, the EBRD counted more than 50 international banks in its roster of B lenders. In addition, the EBRD has co-financed several projects with domestic banks in its countries of operations.

\* An A/B structured loan is where the EBRD finances a portion of the loan (the A part) from its own funds and syndicates the remainder (the B portion) to a commercial lender.



During 1994 commercial bank financing was mobilised for the first time for projects in Russia, specifically for operations in the oil and gas, shipping and manufacturing industries. International banks have advanced loans not only to joint venture companies, but also to small and large private Russian companies. Financing for the Kwidzyn Paper Mill in Poland (jointly arranged by the EBRD, the IFC and a major international bank) was selected as the Syndicated Loan of the Year by the *International Financing Review*.

In the area of official co-financing, the EBRD was successful in mobilising resources from international financial institutions such as the World Bank and the EIB as well as from bilateral agencies such as the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund (OECF) of Japan. Other co-financiers included the G-7 countries, Austria, Finland, Switzerland and EU-PHARE.

In 1994, a number of joint venture and other private sector projects were developed which included loans guaranteed by ECAs. A need for a relationship document between the EBRD as principal lender and the ECA as guarantor was identified and draft Framework Cooperation Agreements were prepared.

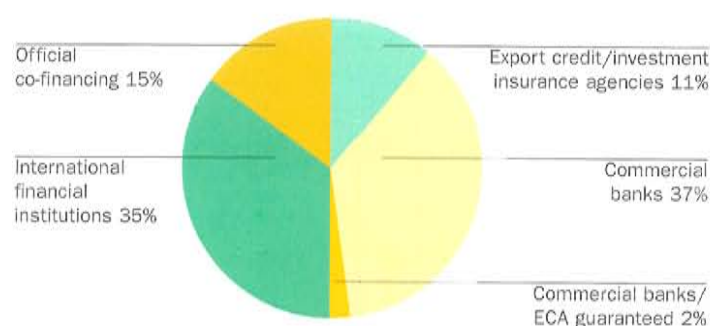
Agreements were signed with 10 ECAs and with the Swiss Government as the authority for export credits. The Agreements facilitate the exchange of project information between the EBRD and the ECAs and provide a cooperative basis for project selection, appraisal, processing and loan management.

#### Sources of co-financing funds 1994

	ECU million
Commercial banks	355.6
International financial institutions	326.5
Official co-financing*	139.8
Export credit / investment insurance agencies	103.6
Commercial banks / ECA guaranteed	18.7
<b>Total</b>	<b>944.2</b>

\* Bilateral financial institutions or government development assistance programmes.

#### Sources of co-financing funds 1994 by value



These sources of co-financing supported both private sector and state sector operations of the Bank, as shown in the table below.

#### Co-financing support for private and state sector operations 1994

	Number	Total project cost ECU million	EBRD finance ECU million	Co-financing ECU million	Co-financing %
Private sector	30	2,650.1	541.3	596.9	63
State sector	13	781.1	319.6	347.4	37
<b>Total</b>	<b>43</b>	<b>3,431.2</b>	<b>860.9</b>	<b>944.3</b>	<b>100.0</b>

# Examples of co-financing arrangements made for projects during 1994

This announcement appears as a matter of record only.

**FIAT**  
Fiat Auto Poland  
LIT 199,000,000,000  
Capital expenditure financing

COFINANCED BY  
LIT 61,000,000,000  
Equity investment

FINANCED BY  
European Bank  
for Reconstruction and Development  
LIT 135,000,000,000  
Term loan

ARRANGED BY  
European Bank  
for Reconstruction and Development

COFINANCERS BY  
European Bank  
for Reconstruction and Development  
Banca Commerciale Italiana  
London Branch  
Credit Lyonnais  
Société Générale  
Creditoital-Bankverein  
ING Bank  
BHF-BANK

June 1994

This announcement appears as a matter of record only.

**PRIMORSK SHIPPING CORPORATION**  
Prisco Maritime Limited  
FINANCED BY  
Primorsk Shipping Company A/O, Russia  
US\$ 75,000,000  
Secured financing for four new product tankers for  
Prisco Maritime Limited and its subsidiaries

COFINANCERS BY  
European Bank  
for Reconstruction and Development  
Hill Samuel Bank Limited

COFINANCERS BY  
European Bank  
for Reconstruction and Development

AND THROUGH PARTICIPATION IN THE LOAN BANK BY  
Hill Samuel Bank Limited - MeesPierson N.V. Nedship Bank

October 1994

This announcement appears as a matter of record only.

**Kabel Net**  
A BROADBAND CABLE COMPANY FORMED BY  
United International Holdings, Inc.  
and  
New Europe East Investment Fund  
FINANCED BY  
European Bank  
for Reconstruction and Development  
DEM 31,680,000  
Medium term loan and guarantee facility  
NON RECOURSE PROJECT FINANCING

ARRANGED BY  
European Bank  
for Reconstruction and Development

COFINANCERS BY  
European Bank  
for Reconstruction and Development  
Creditoital-Bankverein  
ING Bank  
De Nationale Investeringsbank N.V.  
ING Bank Prague  
Creditoital-Bankverein Prague

July 1994

This announcement appears as a matter of record only.

**Barum**  
Barum Continental spol. s r.o.  
A JOINT VENTURE FORMED BY  
Semperit Reifen  
Alteag-Bohaff  
and  
Barum Holding, a.s.  
THE JOINT VENTURE FORMED BY  
Continental  
Alteag-Bohaff

DEM 70,000,000  
Term loan  
LIMITED RECOURSE PROJECT FINANCING

ARRANGED BY  
European Bank  
for Reconstruction and Development

COFINANCERS BY  
European Bank  
for Reconstruction and Development  
Commerzbank Aktiengesellschaft  
NORD/LB  
Creditoital-Bankverein  
Dresdner Bank  
BHF-BANK  
ING Bank

November 1994

This announcement appears as a matter of record only.

**ZAPSIBINVEST**  
A POLISH LIMITED LIABILITY PARTNERSHIP  
Zapsibinvest  
DEM 14,800,000  
Project financing to construct an edge laminated board plant

STRUCTURED AND ARRANGED BY  
European Bank  
for Reconstruction and Development

COFINANCERS BY  
European Bank  
for Reconstruction and Development  
DEG - Deutsche Investitions-  
und Entwicklungsgesellschaft  
GmbH, Cologne  
Bank for Foreign Trade  
of Russia, Moscow  
Russian-American  
Enterprise Fund  
Russische Kommerzbank, Zürich

August 1994

This announcement appears as a matter of record only.

**Huta Szkła "Jarosław" S.A., Poland**  
(Lancaster Glass Works)  
US\$ 43,100,000  
LIMITED RECOURSE PROJECT LOAN  
As part of an acquisition and plant  
modernisation programme

ARRANGED BY  
European Bank  
for Reconstruction and Development

COFINANCERS BY  
European Bank  
for Reconstruction and Development

AND THROUGH PARTICIPATION IN THE LOAN BANK BY  
Société Générale  
Banque Nationale de Paris  
West LB Group  
Rabobank Nederland  
Kredietbank N.V.  
Gibbank N.A.

November 1994



## Privatisation and restructuring

### Early-stage equity instruments

The EBRD's countries of operations have pursued different routes to privatisation and restructuring as part of their progress towards a market economy. A useful distinction can be drawn between early mass privatisation, where the bulk of the restructuring is left to the new private owners, and financial restructuring before selective privatisation, where the aim is to attract strategic investors to companies. The Bank has developed two forms of early-stage equity instruments to support these routes.

In countries where mass privatisation has occurred early in the transition process (such as Czech Republic, Romania, Russia and Slovak Republic) this has often achieved speed of execution but with little restructuring taking place before privatisation. In these countries, the Bank is organising the implementation of Post-Privatisation Funds (PPFs). These take significant minority stakes in privatised companies and provide management assistance to the new private owners during the shift to the competitive market environment. The EBRD is establishing PPFs for certain regions of Russia: the Regional Venture Funds (RVFs). In 1994 the Bank approved four such funds to inject equity into viable medium-sized companies that have already undergone privatisation – in Smolensk, the Urals (both including funding from the EU), St Petersburg (co-financed with Germany), and Far East and Eastern Siberia (co-financed with Japan) – and a further seven are planned.

In countries where governments have initiated the restructuring of companies before launching their privatisation (such as Hungary, Poland and Slovenia), the pace has been slow and qualified investors difficult to attract. In these countries the EBRD is organising the implementation of Special Restructuring Programmes (SRPs), which take majority stakes in state-owned or newly privatised companies in order to lead limited financial and operational restructuring and to prepare the companies for further sale to private sector investors. The EBRD's first such programme was signed with the Polish government in 1994; in 1995 the Bank expects to establish SRPs in two more countries.

### Complementary initiatives

The Bank is assisting a number of large privatised industrial companies with potentially viable operations to define their

mission, reorganise operations and identify foreign joint-venture partners. Some 15 such operations are under development in Russia alone.

In the Baltic states and Belarus, the Bank has initiated a programme to provide advisory assistance both in the privatisation of the more complex state-owned enterprises, and in the search for joint-venture partners for such companies as well as for companies already privatised to management and employees.

In Poland, the Bank has agreed to finance the initial costs of the National Investment Funds of the Mass Privatisation Programme for the first two years of operation. The Bank also participated with Schooner Capital in White Eagle Industries, an industrial holding company venture aimed at privatisation and restructuring in a few target industries.

In Romania, the EBRD took the initiative to establish the Investment Led Privatisation Programme together with the State Ownership Fund in order to assist enterprise privatisation.

Under the TurnAround Management (TAM) programme, the Bank is recruiting senior executives with relevant Western industrial management experience to provide advice, guidance and support, over a 12-month period, to the top management of large and medium-sized companies in central and eastern Europe. By year-end 1994, 80 such enterprises were under contract, mostly in central Europe. About 230 are planned to be developed in 1995 as the programme is expanded into additional countries including the Russian Federation.

Under the ongoing retainer contract with the PHARE programme, the EBRD has continued to provide technical services to the European Commission and several beneficiary countries in respect of privatisation and restructuring. The scope of this activity has been expanded to include advice in the financial sector and on support to SMEs. The Bank recovers the costs of this activity.

### Equity funds

Supporting the creation of equity funds that aid the provision of venture and development capital in the region continued to be a priority for the Bank. The EBRD has invested or

## reaching local private enterprises, especially SMEs

committed to invest in 16 private sector sponsored funds that cover a wide risk and geographical spectrum: from small

country funds supplying seed and early-stage capital to local companies in countries such as Ukraine and Slovenia, to large regional funds that provide equity capital to joint

ventures between local and Western companies.

The EBRD is working increasingly with small and medium-sized enterprises in its countries of operations, recognising that these will be a central driving force in the transition. More locally-based EBRD staff will assist in this. The Bank has also started to form partnerships among groups of industrial companies and financial investors in which equity is provided to develop companies in specific sectors using the management expertise of the Western industrial partners. For example, the Alliance ScanEast Fund makes equity and equity-related investments in joint ventures operating in the countries of the region and in which the industrial partners of the Fund (four leading Finnish companies) also invest and have an active management role.

The EBRD participated in several other equity funds in 1994. In Slovenia, the Bank joined in the first two venture capital funds with foreign participation: the Horizonte Fund (sponsored by Horizonte Venture Management GmbH, an Austrian venture capital group) and the Slovenian Capital Development Fund (in which the IFC and two Slovenian banks are also participating). The EBRD was the lead investor in the First NIS Regional Fund, an ECU 146.8 million (equity and debt) fund that will make equity investments in unlisted and listed companies in the countries of the former Soviet Union. Overseas Private Investment Corporation (OPIC) is a guarantor of the debt portion; Sovlink American Corporation, a privately owned Russian-American merchant bank, and Tokobank, one of the largest Russian commercial banks, will act as advisers to the Fund.

The EBRD is contributing ECU 16.3 million towards the Hungarian Capital Fund, to invest in private companies that need restructuring in order to become profitable. Other founders of the fund include CVC Capital Partners and Bankar, a Hungarian financial advisory company.

In Poland a commitment of ECU 6.1 million was made to Pioneer Poland Fund, a new fund sponsored by the Pioneer Group initially raising US\$ 50 million for investment in private companies or companies undergoing privatisation. Co-investors include international financial institutions and Polish industrial holding companies.

The EuroMerchant Balkan Fund will invest primarily in medium-sized local Bulgarian companies and joint ventures with foreign companies. The EBRD is a lead investor in the ECU 23 million fund, the sponsor is the Athens-based EuroMerchant Bank, and the IFC is also investing. Global Finance will manage the fund.

To capitalise on Russia's strong scientific resources, the Bank approved an ECU 8.2 million investment in the Russian Technology Fund, which will make equity investments primarily in small and medium-sized technology-related companies. The Fund is sponsored and will be managed by Top Technology, a UK company, and Sitra, a Finnish venture capital company.

## Direct investment

Encouraging direct investment into the region remains a crucial objective for the EBRD, and work with industrial partners has continued across the region. The EBRD encourages the formation of joint ventures with partners from both inside and outside its countries of operations.

One of the EBRD's major roles is to assist in restructuring technologically viable enterprises, inject longer-term funds, and help the companies become financially sound, self-sustaining entities. For example, it will make a loan and equity investment to Papirnica Kolicevo, the only producer of cartonboard in Slovenia and one of the largest in central and eastern Europe. The project involves improving Papirnica's environmental standards, upgrading its production capacity and restructuring its liabilities. The company was acquired by Sarrio S.A., a leading European cartonboard producer. Besides the transfer of advanced technology and the upgrading of existing equipment, Sarrio S.A. will integrate the plant's operations within its existing European network. The financial restructuring is intended to provide medium-term working capital, restructure existing supplier debt, and reduce the financial burden of existing short-term liabilities.



In the pulp and paper sector, in one of the largest syndicated transactions seen in the region, the EBRD helped International Paper to raise ECU 272.3 million to modernise its integrated bleached pulp and paper mill in Kwidzyn, Poland. The EBRD played a role as co-arranger in structuring the complex package of facilities and itself provided loan finance of ECU 27.7 million; other contributors were the IFC, OPIC and JP Morgan.

In the automotive sector, a joint-venture project in the Czech Republic will help Karosa, a long-established producer of buses and coaches, to stay competitive. By introducing international technology and expertise in partnership with Renault VL, the modernisation programme will also improve the quality of public transportation vehicles.

In the electronics sector, a loan to a Czech-Japanese-US joint venture will help revitalise this traditionally important part of the Czech economy. Tesla-YS will modernise its plant and introduce new technology; almost half the cost will be met by the EBRD, the rest being financed through equity from Tesla, YS (a Japanese electronics firm), Czech-American Enterprise Fund (CAEF) and Japan International Development Organisation (JAIDO).

In textiles, Asbuka in Uzbekistan is a joint venture to build a cotton spinning mill to make yarn for export. It involves funds from AS-TOP, a Turkish corporation, and AO Legprominvest of Uzbekistan. The EBRD loan is ECU 13.0 million. In Turkmenistan, the Nittur Textile Co. is a joint venture with a major European group to build a dye house and two knitting factories to process cotton fibre into final products. The EBRD loan is ECU 8.2 million, and is met in parallel by substantial in-kind and cash contributions from the European partner and the Turkmen Ministry of Agriculture.

The EBRD arranged financing of ECU 7.3 million to enable Zapsibinvest, a Russian limited liability partnership, to complete the construction of an edge laminated board plant in Archangelsk and increase its export potential. Other participants in the financing are: the Bank for Foreign Trade of Russia, DEG-Deutsche Investitions-und-Entwicklungsgesellschaft mbH, the Russian-American Enterprise Fund, and the Russian Commercial Bank, Zurich.

At the end of 1993, the EBRD purchased equity in a Hungarian pharmaceuticals company, EGIS. The structure of the investment strongly encouraged the state to reduce further its holdings in the company. After a successful international privatisation offer, EGIS was listed in the Budapest Stock

Exchange. This is the EBRD's first listed investment in Hungary.

## Financial sector

The EBRD's primary means of providing urgently needed finance to the local private sector is through financial intermediaries, so reform of financial institutions is one of its highest priorities. 1994 was again a very busy year in the financial sector, with 40 signed agreements, which represented 42.3 per cent of EBRD commitments for the year. At year-end the Bank had signed a cumulative total of ECU 1.3 billion for 70 projects in this sector, accounting for over 29 per cent of all cumulative operations. This continuing focus was in line with the EBRD's operational priorities.

The Bank's operations in the financial sector pursue a number of important objectives:

- privatisation and restructuring of the financial sector
- channelling of loan and equity funds to the emerging private sector
- support of a variety of new financial sector institutions
- development of trade finance and trade-related services.

For this purpose the EBRD has at its disposal a full range of instruments, such as equity investments, bank-to-bank loans, commitments to investment funds and guarantee programmes, as well as sovereign lending.

### EBRD signed facilities to financial institutions \*

Cumulative as at 31 December 1994

	Number	ECU million
Equity funds	19	251.2
Equity investments in banks	16	137.3
Bank-to-bank credit lines	20	765.7
Co-financing with local banks	4	0
Agency lines	3	6.3
Loans	4	109.9
Trade facilitation	1	8.2
Insurance companies	3	3.5
Other	1	2.4
<b>Total</b>	<b>70</b>	<b>1,284.4</b>

\* The categories used in this table are intended to be illustrative of the type of activity the Bank has undertaken.

*strengthening  
financial  
intermediaries*

In 1994 the Bank took the lead in a number of ground-breaking equity operations in the financial sector. It participated in the first bank privatisation in Hungary with its equity investment in the Magyar Kereskedelmi Bank (MKB, also known as the Hungarian Foreign Trade Bank), the fourth-largest credit institution in Hungary. The Bank's investment took the form of the purchase of treasury shares and the subscription of newly issued shares which together represent 17 per cent of MKB's equity. Bayerische Landesbank (BLB), a major German bank, is the strategic investor with 25 per cent of the equity.

In the first major equity investment by an international financial institution in a Russian bank, the EBRD signed and disbursed an ECU 28.9 million agreement with Tokobank, the fourth-largest Russian commercial bank, thus acquiring 14 per cent of Tokobank's common voting stock. Tokobank currently provides corporate banking services in roubles and hard currencies to large and medium-sized enterprises, mainly in the oil and gas sector, to finance spare parts and materials; it is one of Russia's largest hard currency lenders.

In Slovenia the Bank concluded an operation with the country's second largest and major private sector bank, SKB. This was an ECU 26.5 million loan to SKB for on-lending to the local private sector. A second transaction is envisaged, which is an ECU 16.6 million equity investment for a minority stake in SKB in support of a capital increase programme. Both these transactions will contribute to ensuring that SKB will be in a strong position to increase its core lending business, develop new products benefiting Slovenia's emerging private sector companies, and be a significant force in the restructuring of the banking sector.

In the Russian financial sector the EBRD pursued two highly significant programmes in close cooperation with the World Bank. The EBRD and the Russian Federation signed an ECU 81.5 million loan agreement to strengthen and develop a core group of between 30 and 40 Russian commercial banks that are expected to assume prominent roles within the developing Russian commercial banking sector – the Financial Institutions Development Programme. Technical assistance will be provided mainly through contractual twinning arrangements with leading foreign banks.

As an additional component of this programme, the Bank signed an agreement with the Russian Federation for a credit

line of ECU 81.5 million, which represents the continuation of the EBRD's involvement in the Russian government's Post-Privatisation Enterprise Support Project (ESP). The EBRD credit line will go to a group of up to 40 Russian commercial banks which will on-lend the funds to Russian enterprises that are at least 75 per cent privately owned.

The Russia Small Business Fund was further developed in 1994. It is envisaged to be a US\$ 300 million fund for micro and small enterprise development in Russia. Half of the above amount is financed from the Bank's ordinary capital resources, while the balance is to be financed by the G-7 countries and additional donors. US\$ 55.5 million has already been committed by the G-7, Switzerland and the EU for pilot-scale operations started in Tomsk, Tula and Nizhney Novgorod, and extended to further regions in late 1994. The Fund has made loans from US\$ 30 to US\$ 75,000, to enterprises ranging from food retailers to furniture manufacturers and machine tool producers.

The Baltic Investment Special Fund, part of the Baltic Investment Programme established by the Nordic countries, is established at the EBRD to promote private sector development through investment in SMEs in the Baltic states. In 1994, four projects totalling ECU 10.8 million in financing from the Special Fund were committed through financial intermediaries.

The geographical diversity of financial sector operations was widened during the year: in Belarus with an ECU 24.5 million credit line for on-lending through local commercial banks to private SMEs; in Turkmenistan with an ECU 28.5 million export-oriented credit line to the central bank for on-lending to local participating banks (the first loan for investment projects by an IFI to Turkmenistan); in Romania with an ECU 16.3 million credit line to Banca de Credit Cooperatist to finance SMEs, the first loan to a private bank; and in Albania with an ECU 2.0 million equity investment in Banco Italo-Albanese (BIA), the country's first private sector bank, in order to help it become a fully fledged commercial bank and to finance the continued expansion of its nationwide branch network. The financing for BIA, a joint venture between the National Commercial Bank of Albania and the Italian Banca di Roma, is the first by an IFI in the Albanian banking sector.

In Ukraine, the EBRD provided a line of credit of ECU 98.8 million for on-lending to the most promising private banks to support development of SMEs. The operation (the EBRD's second-largest in 1994) provides the first term financing



available to SMEs in Ukraine. In Kyrgyzstan, an ECU 8.6 million credit line to the National Bank will support the development of the country's private sector and banking system. The credit will be on-lent, through Kyrgyz commercial banks, to SMEs. This is the first time that private commercial banks will start term financing to SMEs in the country.

The EBRD was actively involved in the development of insurance markets in its countries of operations, taking part in three equity investments in local insurance companies. In Poland, the Bank took part in two operations with the aim of strengthening the development of the private insurance sector. Azur Ostoja and Azur Zycie, non-life and life insurance companies respectively, provide services to communities in rural areas of Poland and are both subsidiaries of Groupe Azur, a leading French mutual insurance group. In Bulgaria, the EBRD took part in an operation leading to an investment in General Insurance Company (GIC), the largest private sector non-life insurance company. GIC's existing shareholders include a leading local confederation of trade unions, a commercial bank and trading entities. The participation of the EBRD in this project will enable GIC to expand its activities and will assist it to become a model for the entire Bulgarian insurance sector.

Lastly, in the area of trade facilitation, an agreement with Komercijalna Banka of FYR Macedonia was signed for an ECU 8.2 million facility providing for payment guarantees for several Western correspondent banks of Komercijalna Banka. In December, the Bank approved an ECU 81.5 million Russian Trade Facilitation Programme which is expected to be operational in the second quarter of 1995. This will enable a group of selected Russian banks to strengthen and develop their trade-related services and to increase the availability of such services to Russian companies; this in turn would contribute to the expansion of Russia's foreign trade.

To eliminate the foreign exchange risk for those clients in Hungary that mainly generate income in their local currency, the EBRD launched its first forint bond issue in July. This issue was the first tranche of an issuance programme of up to Ft 5 billion designed to provide funds for on-lending to projects in Hungary; the first tranche will finance the M1/M15 motorway. It was the first public bond issue in Hungarian forint by an international borrower and was available to both

Hungarian and foreign investors. This bond issue represents a very important step for the EBRD as it was the first time that the Bank has raised funds in the currency of one of its countries of operations. The Bank hopes to launch further bond issues not only in Hungary but also in other capital markets of its countries of operations.

## Infrastructure

### Telecommunications

With an estimated 23 million people waiting for a telephone line in eastern Europe and the CIS, and the low quality of communications restricting growth and market reforms, the telecommunications sector in the region is coming into an ever sharper focus for both policy makers and investors. As a front-line investor, the EBRD has continued to build its portfolio of telecommunications projects throughout 1994. During the year, approvals in the sector totalled ECU 202.9 million, bringing the Bank's cumulative approved telecommunications sector investments to some ECU 796.3 million, in 16 countries.

In countries such as Czech Republic, Hungary, Poland and Slovak Republic, the regulatory framework is becoming more developed and the most attractive investment opportunities in basic infrastructure (international and long distance) are soon to be exhausted. Furthermore, the comparatively low risk profile of these countries led to the availability of alternative sources of financing. The Bank has therefore concentrated on introducing a "wholesale" approach for dealing cost-effectively with the smaller transaction requirements associated with local networks in these countries, culminating in its approval of the Central Europe Telecommunications Agency Line.

Further east, in Ukraine, existing international telecommunications links were proving inadequate for the needs of the growing base of private businesses. However, UKRTEC (the state telecommunications company) received a major boost through an ECU 43.3 million EBRD loan, part of an international project totalling ECU 161.7 million to provide the country with modern optical fibre digital telecommunications links with Europe, neighbouring Black Sea countries and the rest of the world. The project includes most of the world's major telecommunications operators as co-investors.

The transaction, the Bank's largest investment in Ukraine, was completed within a remarkably short time frame.

Lithuania's national telecommunications operator, Telecomas, will be able to provide direct lines to 14,000 new subscribers and eliminate network congestion with help from an EBRD ECU 28.5 million loan and a loan from Export-Import Bank of Japan. The project will also help Lithuania support the restructuring of Telecomas along commercial lines.

The first EBRD loan to Kyrgyzstan, co-financed by the International Development Association, will enable Kyrgyz Telecom, the national operator, to integrate swiftly into the fast-changing world of commercialised telecommunications. The project will enhance linkages between various regions within the mountainous republic and thus help integrate its national economy. Kyrgyz Telecom is a recently established state-owned enterprise; one of the project's main objectives is to encourage its corporatisation, thus aiding its integration within the country's developing business environment.

Throughout 1994, the Bank continued to support commercially driven projects. It approved an ECU 33.7 million loan and equity investment for Mobile Telesystems, a closed joint-stock company incorporated in the Russian Federation. Co-financed by Siemens and Deutsche Telekom, the project will enable the company to construct and operate a mobile telephone network for Moscow based on modern cellular technology.

The Bank also approved a loan to Eurotel Prague, a limited liability company incorporated in the Czech Republic, to enable it to expand its activities into the field of electronic mail and satellite VSAT services.

In the electronic media field, the EBRD approved a 14.8 per cent equity stake in Kabel Net Holding, a Czech company which is developing and operating a multi-channel cable TV system in Prague. The Bank is also providing a guarantee/loan facility, of which part has been syndicated to Creditanstalt-Bankverein, ING Bank and De Nationale Investeringsbank (NIB). This financing structure allows the company to draw on local currency funding via ING and Creditanstalt, thereby matching its funding to its revenue stream.

The EBRD began important sectoral studies during 1994 on the impact of technological progress on investment choice and desirable regulatory regimes to support optimal exploitation of

modern technology. Other studies dealt with the development of telecommunications law and regulatory institutions, and industry restructuring, liberalisation and privatisation.

### Transport

Client demand for EBRD-supported transport operations was strong throughout 1994. The main challenges continued to be the development of "bankable" infrastructure projects, combining investment with necessary organisational and tariff reforms, and further developing operations without recourse to sovereign borrowing or guarantees. The Bank is therefore working with sponsors on a number of build-operate-transfer (BOT) concession projects for airport and port terminals, and for motorways, and is investigating the application of other possible limited-recourse instruments.

At the end of 1994, cumulative approvals in the transport sector totalled ECU 1,101.3 million. The Bank is now co-financing total transport sector investments of some ECU 4.7 billion, in 16 of the Bank's 25 countries of operations. Transport projects are at an exploratory stage in the remaining nine countries.

Eighteen new projects were approved in 1994, including seven private sector operations (in the shipping and automotive industries). The EBRD approved ECU 491.6 million to the sector in 1994 to co-finance investments of over ECU 3 billion. A further 14 projects were under implementation or were operational during the year.





In its first Russian shipping loans, the EBRD helped demonstrate that financing the Russian shipping sector is commercially viable without state guarantees. Prisco Maritime and Roselau Shipping Company received loans from the EBRD backed by guarantees from their respective Russian parent companies, Primorsk Shipping Company (PRISCO - the largest Russian tanker shipping company in the country's Far East), and Far Eastern Shipping Company (FESCO - the largest Russian dry cargo operator in the country's Far East). The EBRD's loan to Prisco Maritime was for ECU 36.7 million and its loan to Roselau was for ECU 13.3 million.

The Bank's role in aviation was further strengthened by four new infrastructure projects: to upgrade the Yerevan air cargo terminal (Armenia), rehabilitation of the runway and lighting system at Tallinn Airport (Estonia), and air navigation projects in Croatia and FYR Macedonia to provide new radar and navigation to re-establish air traffic control. These operations complement ongoing aviation projects in Latvia and Ukraine.

The extensive technical cooperation with railway organisations started to bear fruit during the year, with approved railway operations in the Czech Republic, Lithuania and Poland. Investments include upgrading of the strategically important Trans-European Railway (TER) routes such as Vienna-Berlin via Prague, Berlin-Warsaw and TER sections in Slovenia. The Bank has approved railway investments with a total project cost of over ECU 1 billion.

In the highway subsector the EBRD's role varies from country to country, depending on local needs and the activities of other international financial institutions. Where road maintenance and rehabilitation are receiving due attention, the Bank works with government agencies and the private sector towards the commercialisation of the developing motorway networks. Seven highway operations are under implementation: in Belarus, Bulgaria, Hungary, Poland, Romania, Slovenia and the Slovak Republic. Five of these operations were approved in 1994, bringing the EBRD's total commitment to the highway subsector to ECU 837.1 million. The Bank continued its efforts regarding the Via Baltica project on a regional basis, together with the Baltic states and Poland.

Implementation of the Bank's single urban transport operation is well advanced, namely the Budapest Public Transport Rehabilitation Project. EBRD-financed buses started entering service in September and, by the end of the year, 90 new articulated buses were operational. These vehicles conform to European environmental standards and feature user-friendly passenger information systems and various safety features.

#### Power and energy utilities

In 1994, EBRD operations in the power sector were focused on several countries, with a strong emphasis on supporting price adjustment, financial discipline (particularly the reduction of payments arrears and the introduction of consumption metering and billing), commercialisation of management through corporatisation, and the introduction of more energy-efficient production and transmission technology. Support to the development of renewable sources of energy was also prominent in Bank-supported operations. Further, the focus has been, and will continue to be, on rehabilitation and completion projects rather than support for new generation capacity. Despite the desire of governments to distance themselves from financing or providing guarantees for power station rehabilitation projects, private sector power operations continue to be slow to develop, due to the absence of regulatory, legal, financial and tax accounting frameworks to attract and enable private investors to participate in the sector. Nevertheless, many Western utilities and developers, as well as an increasing number of local investors, show readiness to make significant investments in a number of countries.

#### Energy efficiency

Most countries of the region continue to use 3-5 times the amount of energy than Western industrialised nations. Increasing awareness of the benefits of energy-saving programmes, particularly for demand-side management, is apparent, but the impact of such schemes to date has been linked to efforts towards heavy industry restructuring. The EBRD has been conscious of the need for demand-side energy savings, and has addressed this through a number of projects. For example, the loan for rehabilitation of two power stations in Georgia includes the purchase of electricity meters. In each of the Baltic countries an energy conservation awareness campaign was initiated to show industry and consumers new ways to save energy, financed from the EBRD/EU-PHARE fund. A power sector project in FYR Macedonia includes a significant component for the establishment and funding of an Energy Efficiency Fund for demand-side efficiency improvement. (See also Environment: the impact of the EBRD's activities, page 29.)

To expand its efforts further to meet the demands for developing and financing demand-side energy efficiency initiatives, as opposed to support for supply-side options, in late 1994 the Bank created an Energy Efficiency Unit to focus activities in this field. A number of Bank-supported investment programmes in this area are planned for 1995.

In the state sector during 1994, the Bank provided an ECU 12.6 million loan to the Albanian Power Corporation for the rehabilitation of the Drin River Cascade hydroelectric scheme, with co-financing provided by the Austrian and Swiss governments and OECF of Japan. The project is focused on rehabilitating and upgrading the country's renewable energy generation capacity. As in many of the EBRD's energy-related operations, the loan was backed with a technical cooperation programme to strengthen the commercial management and investment planning capabilities of the borrower, to support institutional reform, and for project management.

The Bank also made an ECU 43.4 million loan to support the completion of the Yenikend Hydropower Station on the Kura River, Azerbaijan. This will significantly increase the country's hydrogeneration capacity, thereby reducing atmospheric emissions from obsolete oil-fired plants and producing energy savings in oil and gas which will then be available for export. Through these projects the power utilities will be commercialised and power prices increased for improved cost recovery.

In addition, the EBRD provided an ECU 14.8 million loan to rehabilitate the Rioni Hydropower Station and the Gardabani Thermal Power Station in Georgia. By significantly increasing the efficiency of power generation and restoring hydrogeneration capacity, this project will help alleviate major power shortages, which are crippling the Georgian exporting industries, and reduce the fuel import bill. The project includes major tariff adjustments and advisory services for introducing demand-side management programmes and arrangements for "twinning" with Western utilities to improve operational efficiency and commercial management.

The Azerbaijan and Georgia projects were the EBRD's first loans to these countries.

In Poland, the EBRD acted as co-arranger of an ECU 93.8 million financing package from a syndicate of international banks. The package, led by the Austrian bank Creditanstalt-Bankverein, supported an extensive investment programme for the Polish Power Grid Company and broke new ground by providing private international financing for the Polish energy sector without a sovereign guarantee. The EBRD's funds were used to help finance the completion of an energy-efficient and environmentally friendly combined heat and power plant.

In the gas utility sector, the EBRD has continued its support through technical cooperation funding in Russia for

the multi-component study of Gazprom's Unified Gas System, which is scheduled for completion by mid-1995, and in Ukraine for the rehabilitation study of Ukragazprom's long-distance gas transport system. Investment projects focusing on the rehabilitation of the existing pipeline systems, for funding either by the Bank or by other lenders, is one of the key anticipated outputs.

An ECU 44.8 million loan to MOL (Magyar Olaj-és Gázipari Rt.), a Hungarian integrated oil and gas company, will finance the construction of an underground natural gas storage facility at the depleted Zsana natural gas field in Hungary. This facility is an important tool for a balanced energy supply: gas is injected into the storage facility in the summer, then extracted and pumped into the national distribution network during the high-demand winter period. The Bank's financing uses an innovative flexible structure which offers MOL the choice of drawing different types of debt financing instruments over the disbursement period. The total cost of Zsana is ECU 69.3 million; approximately 72 per cent of the capital cost will be financed by the EBRD, and the remainder by the World Bank.

By the end of 1994, the EBRD had approved loans amounting to ECU 473 million for power sector/energy utilities projects, representing projects valued at ECU 744 million. Technical cooperation support for the sector amounted to ECU 30 million, covering 84 separate consultancy assignments.

## Other initiatives

### Natural resources

With the ongoing development of market-oriented economies, the business opportunities open to the natural resource industries of the region have expanded dramatically. The EBRD has recognised the requirements and the potential of these industries and the vital importance of private sector investment. The main focus to date has been on production, transportation and refining in the oil and gas, mining and chemical sectors.

Despite massive reserves, major markets, and access to significant volumes of oil, gas and mining resources, the pace of foreign investment has been slow due to the lack of a stable legal and fiscal framework. However, a number of oil, gas and mining investments financed by the Bank have already been made and new developments are planned.



In the oil and gas sector, the EBRD has been very active in CIS countries, particularly in Russia. By the end of 1994, the Board had approved seven Russian oil and gas investments, of which four were completed that year (Samotlor Services JV, KomiArctic Oil JV, Vasyugan Services JV and JSC Nizhnevartovskneftegas).

Work is also under way on lending to Russian oil and gas companies on a corporate basis within a general framework agreement between the Russian Federation and the EBRD. Other important oil and gas developments are being discussed or are under way in other CIS countries including Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan.

The EBRD's first corporate loan, and also its first project with an industrial company without a Western partner, was made to Slovnaft a.s., a Slovak refiner and petrochemicals company. This loan differs from typical project financing structures involving Western joint-venture partners that have traditionally been employed by the Bank. It represents a new means by which the EBRD can finance stand-alone companies in its countries of operations. The ECU 24.5 million loan proceeds will be used to expand Slovnaft's petrol station network, allowing it to compete with Western petrol-retailing companies entering its market.

The EBRD also invested in the Slovak petrochemicals industry through a loan to Sloveca, a new joint venture between Enichem Augusta, Novacke Chemicke Zavody and Slovnaft, to produce agents used in the manufacture of detergents. Sloveca reflects the Bank's natural resources strategy, which aims at strong joint ventures across the integrated oil and gas and chemicals industries, including areas such as refining and petrochemicals.

During 1994, the mining sector was an area of increasing activity, as mining companies worldwide realised that attractive opportunities exist for the development of mineral deposits. At the same time, many CIS countries recognised the need to attract foreign investment in order to maintain their national production of gold and other minerals. In many cases, this has necessitated the need for changes within the legislative framework of the republic concerned.

The EBRD's strategy in the mining sector has been to focus on joint ventures involving both local sponsors and foreign partners able to contribute financial resources and

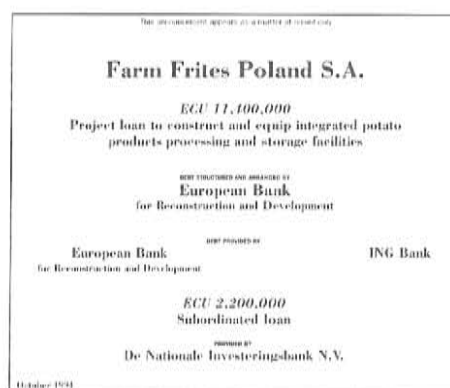
management skills, as well as modern technology and internationally recognised environmental practices. After completing financing of the Zarafshan-Newmont goldmining joint venture in Uzbekistan, the EBRD has established a successful track record in the mining sector, operating alongside major mining companies.

In 1994 the Bank approved an ECU 42.8 million loan to develop deposits at the Kubaka gold mine at Magadan in Siberia. The mine is a joint-stock company formed by Cyprus Amax Minerals and local Russian partners.

#### Agribusiness

The EBRD has devised a range of new project concepts aimed at supporting the development and restructuring of the agriculture sector and the food and beverage industries, while efficiently and economically meeting the needs of the Bank's local and international clients. The first new project concept is an equity framework facility for multinationals, management and investment companies to help local enterprises with both equity finance and management services. The facility is a precursor to the industrial partnership programme being launched by the Bank and targets large corporate clients with investments in many countries of the region. The management and investment company concept is an attempt to provide, more cost-effectively, equity finance and management support to local companies with small-scale projects.

The second new project concept is agricultural services companies designed to improve the delivery of essential inputs to farmers and assist with the marketing of intermediate and



final products. This concept arises from the breakdown in the distribution system for inputs and output and the inefficient activities of state monopolies.

The Bank has also expanded on its number of specialised credit and co-financing lines, intended to finance, on a bank-to-bank and/or co-financing basis, small-scale projects through local financial intermediaries. The most recent is a directed co-financing line for the food industry in the Slovak Republic, in cooperation with SPB Bank.

The wholesale market programme for horticultural produce also figured prominently in 1994 operations. A loan to improve market competition in the biggest wholesale market in eastern Europe, in Budapest, had an innovative financial structure: the Bank's first infrastructure project guaranteed by a municipality and secured by a commercial security package. Similar financial structures could be attractive for other cities in the region seeking to finance local infrastructure independently from the state and to mobilise much-needed private sector finance. Wholesale market projects were also signed for Romania and Ukraine.

The EBRD continues to finance joint-venture operations in the agribusiness, food and drinks sector, either in the form of loans or investments. The EBRD's first loan to Moldova was to help the growth of its wine industry, which has great potential and plays an important strategic role in the country's economy. Vininvest, a specially created limited liability company in Moldova, will channel and manage the loan to 10 selected leading wineries and a glass container company to improve wine quality and packaging, increasing hard currency export sales in Western markets, promoting privatisation in the sector and creating new business opportunities.

In several countries, joint-venture projects will benefit key sectors. A loan to Farm Frites, a new Polish potato processing plant, will finance construction and equip integrated processing and storage facilities, in conjunction with two companies from the Netherlands. An equity investment in an ice-cream production joint venture sponsored by Delta Dairy, a leading Greek food company, will benefit the Bulgarian dairy industry. The EBRD took part in its first joint-venture transaction in the cotton-based textile sector in Turkmenistan.

### Property and tourism

In many cities in the Bank's countries of operations, the lack of modern hotels and commercial facilities is constraining the development of the private sector, making it unnecessarily difficult for local companies to compete internationally and deterring inward investment.

Despite a large unsatisfied demand, developers' attempts to build modern facilities have been hampered by the inability to secure financing. The perceived political and commercial risks in the region have made Western commercial banks reluctant to invest in property or tourism, areas that both require longer-term loans.

The Bank's Strategy for the Property Sector, approved in November 1994, identifies several cities in the region where imbalance between supply and demand of modern commercial facilities has pushed rents to levels higher than anywhere else in Europe. While the Bank will prioritise property developments in these cities, it will also consider projects in other areas where circumstances warrant its involvement.

In tourism, the Bank's emphasis continues to be on the development of hotels to cater for the business community. As in the property sector, projects will be particularly favoured in cities where the inadequate supply of modern hotel rooms is identified as having a negative effect on inward investment. In addition, the Bank will start looking at projects aimed at other segments of the tourism market, such as leisure.

In the tourism sector, the EBRD signed an ECU 11.6 million loan for the refurbishment of the Athénée Palace Hotel in Bucharest, Romania, which will be managed by Hilton





International, and an ECU 9.8 million loan for the refurbishment of the Daugava Hotel in Riga, Latvia, to be managed by Radisson.

In the property sector, the EBRD signed an ECU 7.3 million loan for the Atrium Business Centre, an office development in Warsaw, Poland, and an ECU 6.0 million loan for the development of the Central Business Center in Budapest, Hungary, a project sponsored by the Japan International Development Organisation (JAIDO).

#### **Education and training**

The EBRD's education and training strategy stresses the need to improve "the Bank's capacity for generating and implementing successful projects by developing the capacities of enterprises and financial institutions". In support of this, the Bank focuses on two broad types of activities: building indigenous, self-sustaining institutions and providing consulting support for individual EBRD projects. The former, developing centres of excellence, enables the Bank, with its limited resources, to achieve a significant and broad impact against the enormous need for technical assistance.

During 1994 the Bank continued its support for several banking training institutions. In particular, these include the International Finance and Banking School in Moscow, the Romanian Bankers' Institute in Bucharest and the International Training Centre for Bankers in Budapest. In late 1994 the Regional Bank Training Centre in Tashkent was opened, providing training support for bankers in Kyrgyzstan, Tajikistan and Uzbekistan. In these centres thousands of bankers are being trained in the basic knowledge and skills required to provide up-to-date banking support to businesses and individuals. These institutions also provide in-company training and consulting to local banks.

Other existing institutions include the Centre for Marketing and Management in St Petersburg, which continues to provide high-quality training and consulting services for enterprises and public administration staff in the St Petersburg region.

The Morozov Project is a three-year-old Russian initiative committed to developing a critical mass of entrepreneurs and business leaders while promoting job and business creation. It is the most advanced and best-known effort of its kind,

carrying out its activities through a network of over 30 Morozov Business and Training Centres (BTCs) spanning 55 Russian regions. In late 1992, the EBRD joined the Morozov Partnership, providing operational and financial support, while focusing in parallel on the design and structure of Morozov's activities in direct support of entrepreneurial and business development. The BTCs offer support to entrepreneurs participating in the Bank's lending and investment programmes and in certain regions the Bank's programmes are located with the BTCs. The architecture of the Morozov Project enables multilateral and bilateral agencies to join the initiative without losing their own identity.

The Bank continues its limited but highly focused approach to providing private sector oriented seminars at the Joint Vienna Institute, while maintaining its leadership as a co-founder of the Institute. During 1994 five two-week intensive seminars were offered to managers of enterprises and financial institutions that are partners of the EBRD.

## Environment: the impact of the EBRD's activities

The EBRD is required to promote, in all its activities, environmentally sound and sustainable development. In 1994 it implemented this mandate by developing environmental infrastructure investment projects, by applying environmental due diligence to all its investment pipeline and technical cooperation projects, and by continuing to promote a range of pre-investment, training and other environment-related initiatives.

Two environmentally oriented infrastructure projects were approved by the Bank in 1994. The first was a loan to the Tallinn Water and Sewerage Municipal Enterprise (TWSME) for a waste-water and water supply project in Estonia's capital. The principal objective is to reduce pollution in the Baltic Sea. The project combines the EBRD's commercial funding with substantial grant financing from Finland and the European Community. TWSME is being restructured into a self-managed, self-financing water utility independent of state or municipal subsidies. This is the first project of this kind any IFI has approved; it is also the first based on the Lucerne Initiative and the Baltic Sea Environmental Programme. The second environmental infrastructure project was a loan to finance the rehabilitation and improvement of municipal water services in five Romanian cities: Craiova, Tirgu Mures, Timisoara, Brasov and Iasi. The project will help to establish a decentralised system of local infrastructure investment funding that promotes economic efficiency and financial viability.

In addition, environmental infrastructure projects, chiefly concerned with water supply and waste-water treatment, are being appraised in Azerbaijan, Estonia, Latvia, Lithuania, Romania, Russia, Slovak Republic and Slovenia. During the year the EBRD financed 12 technical cooperation projects to help in the preparation of environmental infrastructure investments.

Following the endorsement of the Environmental Action Programme for central and eastern Europe by 46 environment ministers and the European Union at the Lucerne "Environment for Europe" conference in 1993, a Project Preparation Committee (PPC) was established to help match donor co-financing for environmental projects with the commercial financing available from international financial institutions. The Secretariat of the PPC is located at the

EBRD. The Bank has accepted the invitation from Denmark to chair a working group on environmental financing whose recommendations will be reported to the meeting of European environment ministers in Sofia in October 1995. The Bank has continued its involvement in the Baltic, Danube and Black Sea Environmental Programmes.

One of the Bank's principal environmental contributions is investment in projects that are more energy and resource efficient and less polluting than the facilities they replace. Environmental concerns are addressed at all stages of the Bank's project preparation and approval process. Environmental due diligence requirements vary, depending on the nature of the project, potential environmental liability or risk associated with past, current or future operations, worker health and safety considerations, and other related issues. Investigations are undertaken early to allow time to identify environmental concerns, plan mitigation measures and estimate costs before project approval. Environmental investigations often highlight problems which require management plans to be drawn up and agreed. Appropriate environmental conditions and covenants, relating to mitigation and enhancement measures and monitoring, are incorporated into loan agreements.

Energy production, transport and utilisation present a considerable threat to the environment of the region, resulting in local, regional and global atmospheric environmental problems and local impacts from waste disposal and water discharge. Investment in modern, efficient energy production and transmission is central to the Bank's energy policy, often in association with the closure of old, grossly polluting installations. In Poland, EBRD funds will help complete a fluidised-bed boiler combined heat and power plant which will increase low-cost power generation and improve environmental performance. This advanced technology reduces emissions significantly but is not yet used in Poland's heavily coal-intensive energy generation sector. The Bank also recognises the importance of energy demand management and normally incorporates conservation and efficiency components in its energy projects. In both Azerbaijan and Georgia, for example, hydropower projects which will reduce the countries' contributions to global warming will also include advisory



services for improving energy conservation and operational efficiency. Similarly, the Drin River Cascade project will allow Albania to modernise its hydropower plants, export more electricity and provide sufficient and reliable domestic supply with improved safety standards.

The industrial, manufacturing and natural resource sectors present some of the most complex projects requiring environmental appraisal. Projects are subject to environmental audits and/or assessments to establish the current environmental status of the site and to predict the impacts of the Bank's potential funding. Issues that, typically, have to be addressed include compliance with environmental, health and safety regulations, historical contamination and environmental liabilities, and lack of enforcement. During 1994, environmental conditionality associated with the Bank's loan and equity to Slovalco, a Slovak aluminium complex, began to be implemented. This included closure of one of the two existing very polluting smelters – the other will be closed as soon as the new smelter is operational. Studies of the viability of two existing alumina plants, an energy plant and other facilities are being undertaken. In order to satisfy the Bank's conditionality, these studies will need to demonstrate that, if the existing facilities were to continue to operate, they could be upgraded to meet international environmental standards and still be viable. Remedial studies of past contamination have also been undertaken.

One of the largest cartonboard producers in central and eastern Europe is Papirnica Kolicovo, in Slovenia. An EBRD investment will help upgrade existing equipment to produce competitive quality products and bring the plant's waste-water and effluent treatment up to European Union standards, making it one of the most efficient and environmentally sound mills in Europe. Under a new capital expenditure plan, partially funded by the EBRD, Fiat Auto Poland has developed an action programme which includes over ECU 25 million of environmentally oriented investment to be undertaken over the next 5-6 years. In particular, improvements will be made in maintenance and in occupational health and safety. The Danone-Serdika yoghurt project in Bulgaria underwent an environmental audit and analysis. Recommendations were made on reductions in air and noise emissions, and a

management action plan was developed. A waste minimisation programme was initiated to deal with product packaging.

In the transport sector, environmental assessments were carried out on airports and air navigation systems in Croatia, Estonia and Former Yugoslav Republic of Macedonia, on upgraded roads in Belarus, Croatia, Latvia, Lithuania and Slovenia, and on a railway in the Czech Republic. Appraisals were made of a number of shipping projects in the former Soviet Union. Particularly extensive environmental protection components, related to water quality and wildlife, were incorporated in the Croatian Highway Reconstruction Project. Closed, water-impermeable drainage pipes are being installed along the 21 kilometres of route, together with interceptors, oil separators and lagoons, in order to protect the karst limestone from pollution from the road. To protect brown bears and to reduce the danger of bear-vehicle collisions, a wildlife overpass is being constructed.

In 1994 approximately 35 per cent of the EBRD's financing activities took place through financial intermediaries. The Bank attaches considerable importance to helping its intermediaries, and the Special Restructuring Programmes comply with the environmental requirements placed upon them by the Bank. Financial intermediaries are required to adopt and implement environmental procedures similar to those used by the EBRD. A major technical cooperation initiative has been launched in this respect in conjunction with EU PHARE and TACIS. This provides assistance to individual financial intermediaries in adopting and implementing environmental procedures. In addition, an environmental course is being developed in conjunction with the International Centre for the Training of Bankers in Hungary, which will be supported by training materials and an environmental handbook.

Throughout the year the Bank's environmental specialists developed innovative approaches to environmental due diligence, including the development and implementation of environmental procedures related to industrial partnerships, mass privatisation and restructuring, equity funding and corporate lending. A greater emphasis was placed on the proactive components of environmental appraisal, and sectoral environmental guidelines were prepared for financial intermediaries, shipping, railway modernisation and a number of industrial subsectors.

Following the completion of a major project, in conjunction with the European Union, on the implications of moves towards harmonisation of environmental legislation and standards in eastern and western Europe, the Bank launched projects to prepare investors' guidelines to environmental, health and safety requirements in the countries of the former Soviet Union, soil and groundwater standards in Poland, and the development of an environmental standards database throughout the EBRD's region of operations. To improve professional expertise in the environmental sector, environmental training was conducted by Bank specialists and consultants for those working in financial institutions, for local consultants and other environmental specialists in environmental management, and for government officials in environmental impact assessment.

The EBRD's Environmental Advisory Council, a forum of environmental experts from central and eastern Europe and OECD countries, continued to advise the President and staff on policy and strategy issues related to the Bank's environmental mandate. Two editions of the Bank's bulletin *Environments in transition* were produced during 1994.



# Nuclear Safety Account

## The Nuclear Safety Account (NSA): a multilateral mechanism

At their Munich Summit (6-8 July 1992), the G-7 heads of state and government offered the countries of the region a multilateral programme of action to improve safety in their nuclear power plants. This was to comprise immediate measures in: operational safety improvements; near-term technical safety improvements to plants, based on safety assessments; and enhancement of regulatory regimes. It was also to create the basis for longer-term safety improvements by considering the scope for replacing less safe plants by the development of alternative energy sources and the more efficient use of energy; and by examining the potential for upgrading plants of more recent design.

The G-7 advocated setting up a supplementary multilateral mechanism to address immediate operational and technical safety improvement measures not covered by bilateral programmes, and invited the international community to contribute to the funding. The G-7 also stated that such a mechanism should take account of bilateral funding, be administered by a steering body of donors on the basis of consensus, and be coordinated with and assisted by the G-24 and the Bank.

In February 1993, the G-7 officially proposed that the Bank set up a Nuclear Safety Account, to receive contributions by donor countries to be used for grants for safety projects in the region. The Bank's Board approved this proposal and the Rules of the NSA in March 1993. Under these rules, the Bank prepares projects and submits them for approval to the Assembly of Contributors. More generally, the Bank functions as the secretariat of the NSA, provides technical and other services, and regularly liaises with the European Commission in its capacity as the G-24 secretariat.

As of 31 December 1994, 14 countries and the European Commission have made pledges to the NSA in the amount of ECU 154 million: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and the USA. Additional contributions to the NSA are expected.

Nuclear reactors operating in the region suffer a wide range of safety deficiencies. In general, priority should be given to the promotion of a "safety culture" and to all possible improvements to design and construction. Various types of Soviet-designed reactors have different safety features:

**VVER Reactors:** Pressurised water reactors. The oldest type, VVER 230/440MW (10 in operation), should not be kept in operation in the long term; the more modern types VVER 213/440MW (14 in operation) and VVER 1000MW (18 in operation) may be upgraded for long-term operation.

**RBMK Reactors:** "Channel-type" reactors whose technology and safety features are much less well understood by Western experts than those of VVER reactors. There are different types, one of which caused the 1986 Chernobyl accident. Most nuclear experts think that they cannot be improved to standards acceptable for long-term operation.

## Nuclear Safety Account activities

Priority is given to those reactors presenting a high level of risk that can be significantly reduced by short-term and cost-effective safety improvements, and which are necessary to ensure the continuing national electricity supply in the region. This means that emphasis is put on existing RBMK and VVER 230 reactors and on the purchase of equipment, as opposed to studies, which a number of donors already fund. Agreements are sought with the countries concerned on timetables for the shutdown of the less safe reactors.

### Ongoing projects

As of 31 December 1994, two projects have been approved by the Assembly of Contributors and grant agreements have been signed by the interested governments, the utilities and the EBRD (on behalf of the NSA):

- an ECU 24 million project for Units 1-4 (VVER 230s) at Kozloduy Nuclear Power Plant in Bulgaria, approved and signed in June 1993, which is currently being implemented. It includes in particular: measures for fire protection,

in-service inspection of critical components, control room aids for operators, emergency feedwater system, etc.

Completion of the project is expected by the beginning of 1996. The Bulgarian government is committed to shutting down Units 1-2 and subsequently Units 3-4 when a set of investments in the power subsector have been completed (currently envisaged 1998-2000). These investments include refurbishment of nuclear Units 5-6 at Kozloduy (VVER 1000MW) and of thermal capacity.

- an ECU 33 million project for Ignalina Nuclear Power Plant (two RBMK reactors) in Lithuania, approved by the Assembly of Contributors in December 1993 and signed in February 1994. This project includes the most urgent and feasible upgrades, whereas a few important safety concerns may justify a second-phase project after safety and engineering issues have been further investigated. The scope of the project includes, *inter alia*, new reactor trip signals, fire protection devices, a training simulator and environmental monitoring equipment. Completion is expected by mid-1996. Ignalina NPP generates about 90 per cent of the country's electricity production. The Lithuanian government has agreed that the operation of neither of the units at the plant will be prolonged beyond the time when the reactor channels will have to be changed (i.e. after 15-20 years of operation). In addition, it has agreed to submit the plant to an in-depth safety analysis under the supervision of a panel of international experts. Unit 1 will be shut down by mid-1998 unless it is relicenced by the Lithuanian Safety Authority (VATESI) on the basis of this analysis. The analysis is financed by the NSA in the amount of ECU 7.3 million.

#### Future projects

Two projects have been prepared in parallel in the Russian Federation: one for the Leningrad NPP (four RBMK reactors) with costs estimated at around ECU 30 million; and a joint project for the Novovoronezh and Kola NPPs (four VVER230 reactors) with an estimated grant amount of ECU 45 million. At the end of 1994, negotiations of grant agreements, between the Bank on the one hand and the Russian government, the

utilities and the nuclear power plants on the other hand, were being finalised.

NSA activities started in Ukraine towards the end of the year, as part of the action plan proposed by the G-7 Summit in Naples (8-9 July 1994) to the Ukrainian authorities. The main objective of the action plan is to secure an early shutdown of the Chernobyl plant in the context of a comprehensive energy strategy. The NSA project will address preparation for closure of Units 1, 2 and 3 as well as immediate safety measures at Unit 3 pending closure.



## Technical cooperation

The EBRD's Technical Cooperation Funds Programme (TCFP) was established to support the operational mandate of the Bank. The principal objective of the TCFP is therefore to facilitate access to the Bank's capital resources for the countries of operations. To achieve this the TCFP provides support for project preparation (chiefly through economic, financial, environmental and legal due diligence), project implementation and institutional development. The TCFP also encompasses sector studies and advice on policy and legal reform. Through the TCFP the Bank supports private sector projects, privatisation, restructuring and large-scale public sector investments.

TCFP operational highlights can be summarised as follows:

- in 1994 the Bank committed ECU 87.6 million related to 311 technical cooperation operations, compared with ECU 84.9 million in 1993
- disbursements in 1994 amounted to ECU 46.4 million, compared with ECU 32.1 million in 1993
- for the period 1991-94, commitments were ECU 220.2 million related to 872 technical cooperation operations.

Cumulative disbursements amounted to ECU 94.9 million.

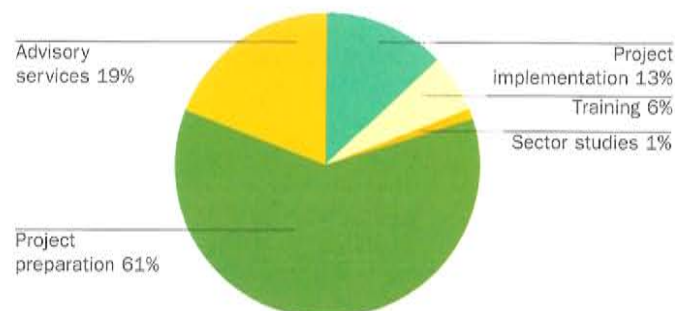
A critical feature of the TCFP is the extent to which it facilitates the EBRD's investment and lending operations through project preparation and implementation activities. In 1994 the Bank signed 39 loans and investments totalling ECU 1.0 billion that were supported through the TCFP. Total project cost associated with these lending operations was ECU 2.1 billion.

For the period 1991-94 the TCFP contributed ECU 61 million to the generation of 74 signed projects for which Bank financing of ECU 2.5 billion was approved by the Board.

The analysis that follows relates to firm commitments of financing by the TCFP.

### Technical cooperation commitments by type of activity

In 1994 by value



### Technical cooperation commitments by sector

	1994			Cumulative 1991-94		
	Number	ECU million*	%	Number	ECU million*	%
Finance	59	33.9	38.7	144	52.4	23.8
Energy	41	8.3	9.5	146	37.6	17.1
Privatisation	25	8.3	9.5	89	34.0	15.5
Transport	33	7.8	8.9	90	22.6	10.3
Environment	21	4.2	4.7	80	16.1	7.3
Agribusiness	25	4.7	5.4	74	15.0	6.8
SMEs	31	9.3	10.6	55	13.4	6.1
Telecommunications	21	3.0	3.5	60	11.9	5.4
Restructuring	30	3.5	4.0	65	9.8	4.4
Legal	5	2.1	2.4	31	3.6	1.6
Industry	10	1.6	1.8	17	2.1	1.0
Tourism	2	0.5	0.5	6	0.8	0.4
Miscellaneous	8	0.4	0.5	15	0.6	0.3
<b>Total</b>	<b>311</b>	<b>87.6</b>	<b>100.0</b>	<b>872</b>	<b>220.2</b>	<b>100.0</b>

\* Figures include six implementation projects, with a value of ECU 3.1 million, for which payments are managed directly by the European Commission.

## Technical cooperation commitments by recipient country

	1994			Cumulative 1991-94		
	Number	ECU million*	%	Number	ECU million*	%
Russian Federation	57	34.2	39.1	190	80.7	36.6
Romania	4	1.3	1.5	38	9.4	4.3
Belarus	13	4.5	5.1	35	8.9	4.0
Slovenia	13	3.4	3.8	39	8.0	3.6
Ukraine	19	2.2	2.5	37	7.8	3.6
Poland	4	0.4	0.5	34	7.0	3.2
Hungary	9	0.7	0.9	40	5.7	2.6
Albania	5	1.0	1.1	42	5.5	2.5
Bulgaria	5	0.8	0.9	15	5.5	2.5
Latvia	16	2.6	2.9	30	5.4	2.5
Estonia	16	3.1	3.5	28	5.4	2.5
Lithuania	14	1.9	2.2	29	5.4	2.4
Kazakhstan	8	2.2	2.5	20	4.9	2.2
Czech Republic	6	1.8	2.0	22	4.3	1.9
Slovak Republic	12	1.3	1.4	28	4.2	1.9
Uzbekistan	4	0.9	1.0	16	4.0	1.8
Kyrgyzstan	20	3.0	3.4	22	3.3	1.5
FYR Macedonia	10	1.6	1.9	15	2.2	1.0
Moldova	8	1.4	1.6	10	1.7	0.8
Turkmenistan	7	1.0	1.2	10	1.4	0.6
Armenia	4	0.4	0.5	9	1.1	0.5
Azerbaijan	4	0.8	0.9	5	1.0	0.5
Georgia	3	0.6	0.7	3	0.6	0.3
Croatia	1	0.2	0.2	4	0.3	0.1
Tajikistan	1	0.2	0.2	1	0.2	0.1
<b>Regional:</b>						
Regional	39	14.4	16.5	96	27.5	12.5
CIS countries	1	0.0	0.0	16	3.7	1.7
Baltic states	6	1.1	1.3	30	3.0	1.4
Central Asian republics	2	0.6	0.7	8	2.1	0.9
<b>Total</b>	<b>311</b>	<b>87.6</b>	<b>100.0</b>	<b>872</b>	<b>220.2</b>	<b>100.0</b>

\* Figures include six implementation projects, with a value of ECU 3.1 million, for which payments are managed directly by the European Commission.

## Technical cooperation funds

The EBRD's resources for technical cooperation originate from regular Technical Cooperation Fund contributions, project-specific technical cooperation agreements and Special Fund contributions. All contributions by donors are made on a voluntary basis.

In 1994, the Bank signed seven new Technical Cooperation Fund Agreements with bilateral donors, bringing the total to 35. In addition, 15 existing Technical Cooperation Funds were replenished and 12 project-specific technical cooperation agreements were signed in 1994. One new Special Fund technical cooperation agreement was signed for the Russia Small Business Fund. Including the already existing Baltic Technical Assistance Special Fund, total grant resources for technical cooperation increased during 1994 by ECU 89.7 million to ECU 263.4 million, an increase of 36 per cent compared with 1993.

At the EBRD's Annual Meeting in St Petersburg donors agreed to have their funds partially untied with regard to procurement of local consultants from the Bank's countries of operations. Some of the Bank's Cooperation Funds are already entirely untied (Japan) or untied to a significant degree (Taipei China). Some donors are showing increased flexibility with untying and the Bank will continue to consult its donors on this issue.

A new feature in the technical cooperation funding is the emergence of technical cooperation agreements in support of Regional Venture Funds, particularly in the former Soviet Union. Similar funds for post-privatisation support are expected to be established in 1995.



**Technical Cooperation Fund Agreements**

At 31 December 1994

Donor	Date of initial agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)		Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
<b>1991</b>					<b>Special Funds</b>				
Norway*					Baltic	14 Apr 1992	ECU	5.00	5.00
(Environment and energy)	16 Apr	NOK	27.60	3.33	Russia	18 Oct 1993	ECU	8.68	8.68
Japan*	5 July	JPY	5,855.71	47.88					
USA*	30 July	USD	1.15	0.94	Project-specific funds		ECU	16.77	16.77
France									
(Foreign Affairs)*	1 Aug	FRF	16.10	2.46					
Sweden*	13 Aug	SEK	40.00	4.37					
Taipei China*	16 Sept	USD	15.00	12.23					
European Union* <sup>1</sup>	15 Oct	ECU	90.07	90.07					
Netherlands*	20 Nov	NLG	16.68	7.84					
United Kingdom* <sup>2</sup>	25 Nov	GBP	2.75	3.50					
Luxembourg*	26 Nov	ECU	0.70	0.70					
Austria	31 Dec	USD	5.00	4.08					
<b>1992</b>									
Finland*	13 Jan	FIM	12.50	2.15					
Canada*	24 Jan	CAD	7.70	4.47					
France (Treasury)	26 Mar	FRF	20.00	3.05					
Switzerland*	31 Mar	CHF	5.50	3.42					
Israel*	14 Apr	ILS	0.73	0.20					
Italy	14 Apr	ITL	5,000.00	2.51					
Central European Initiative (Italy)	14 Apr	ITL	16,000.00	8.03					
Turkey	17 June	TRL	10,000.00	0.21					
Denmark*	1 July	ECU	3.10	3.10					
New Zealand*	10 July	NZD	0.33	0.17					
Spain*	21 July	ESP	156.34	0.97					
Portugal	20 Oct	PTE	30.00	0.15					
Iceland*	3 Dec	ECU	0.20	0.20					
Germany	11 Dec	DEM	10.00	5.29					
<b>1993</b>									
Republic of Korea	25 Apr	USD	0.30	0.24					
Norway (General)	27 Apr	ECU	1.00	1.00					
Ireland*	17 Sept	ECU	0.21	0.21					
<b>1994</b>									
United Kingdom-B <sup>3</sup>	14 Mar	GBP	0.50	0.64					
United Kingdom-C <sup>4</sup>	25 Mar	GBP	0.60	0.76					
USA Evergreen*	3 June	USD	1.16	0.95					
Regional Venture Fund for North West Russia	5 July	USD	0.30	0.24					
Belgium	27 Sept	BEF	30.00	0.77					
Regional Venture Fund for Lower Volga Region	29 Sept	USD	20.00	16.31					
Flanders Government	9 Nov	ECU	0.40	0.40					
<b>Total of Technical Cooperation Funds</b>				<b>232.84</b>					

\* Technical Cooperation Funds replenished since the initial Agreement.

<sup>1</sup> The amount per the Agreement has been amended by the EBRD to reflect the annual revision of the facility by the EU pending confirmation of the final allocation. Included in the Agreement is ECU 3.1 million representing funds assigned to Implementation Projects.<sup>2</sup> The activities of the UK Fund are in the Russian Federation.<sup>3</sup> The activities of the UK-B Fund are in the countries of the former Soviet Union, excluding the Russian Federation.<sup>4</sup> The activities of the UK-C Fund are in Albania, Bulgaria, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic and Slovenia.

# Financial results

## Introduction

The Bank's portfolio of loan and equity investments increased by ECU 1.88 billion, or 74 per cent, in 1994. The results for the year were better than expected, given the conditions in the financial markets, with profits of ECU 24.9 million before provisions and ECU 1.0 million after provisions. These were derived from the continuing high earnings from investment of liquid assets and a growing contribution from Banking operations.

Gross income from Banking operations, which includes loan interest and fee income, more than doubled in 1994. In a very difficult year for the financial markets, the Bank's liquid assets investment management generated favourable results.

As a consequence of cost-saving initiatives and continued budget discipline, general administrative expenses and depreciation were below those of 1993 and below the 1994 approved budget, thus contributing to the better than expected result.

Provisions of ECU 23.9 million were made during the year against general risks and specific expected losses, with the charge for the year benefiting from the reversal of certain specific provisions, made in 1993, which are now considered to be no longer necessary.

## Banking operations

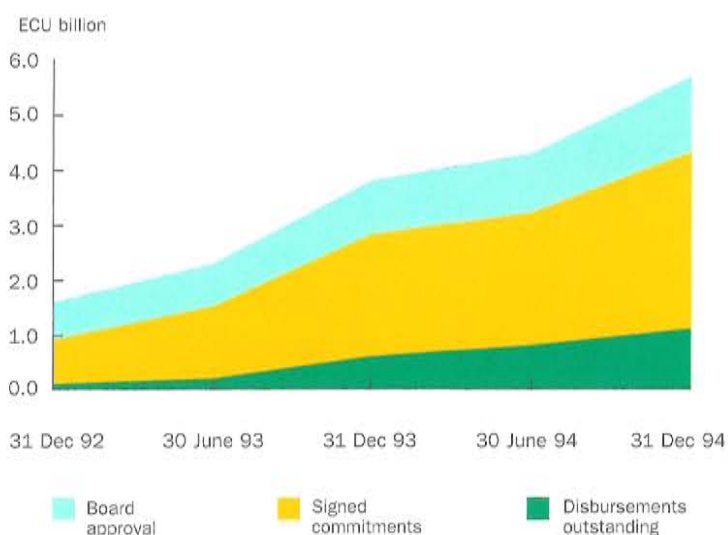
Project disbursements in 1994 were 44 per cent greater than in 1993. At year-end 1994 equity disbursements outstanding reached ECU 365.6 million, loan disbursements ECU 753.1 million and debt securities in countries of operations ECU 7.9 million. This compares with ECU 192.5 million, ECU 357.1 million and ECU 7.8 million respectively at the end of 1993. The 1993 comparatives are stated at 31 December 1993 exchange rates.

A total of ECU 88 million was received during 1994 from loan repayments and equity disposals, indicating the successful completion of planned investments and the Bank's policy of revolving its funds.

The portfolio of equity commitments increased from 11.7 per cent of the total portfolio at year-end 1993 to 15.2 per cent at year-end 1994. Three commitments totalling ECU 58.7 million have been made under the early-stage equity programme relating to investments in the following Regional Venture Funds: Smolensk (ECU 9.8 million), Urals (ECU 24.5 million) and St Petersburg (ECU 24.5 million). Under this programme two Special Restructuring Programmes in Poland and Slovenia were approved but are not yet signed.

To minimise risks to its loan portfolio, the Bank will match, to the extent possible, its assets and liabilities in terms of currency, maturity and interest rate. All loans and equity investments are subject to a thorough appraisal and credit evaluation process, and are continually monitored. In addition, specific guidelines limit risk to the Bank's loan and equity investment portfolio by limiting exposure to any one country, sector, borrower or project.

## Portfolio development



## Liquid assets investment

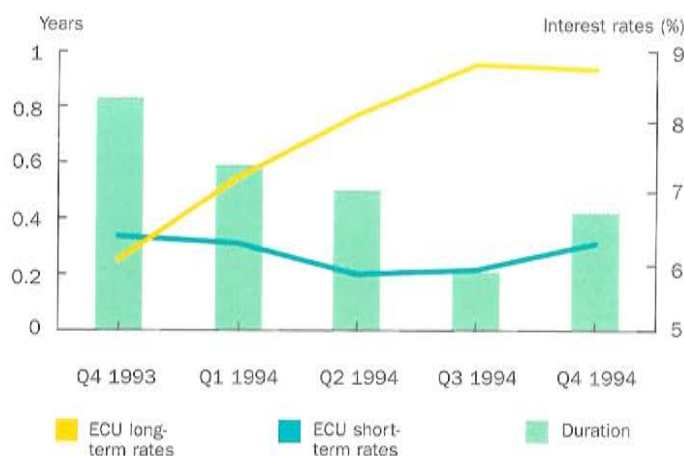
The EBRD's liquid assets are carefully managed within strict guidelines and the risk adjusted positions are closely monitored. In the normal course of its investment activities the Bank uses a wide range of products including off balance sheet instruments, such as currency and interest rate swap agreements, futures and options, and forward exchange contracts. The use of these instruments allows timely adjustments to be made to the portfolios (to anticipate and react to changing market conditions) together with the management and hedging of interest and currency exposures. The Bank applies the same credit criteria to these instruments as it does for all other liquid assets investments. All realised and unrealised gains and losses arising from the marked to market securities portfolio are taken to the profit and loss account as they are made.



Liquid assets of ECU 4.46 billion increased by ECU 467.4 million or 11.7 per cent during the year, mainly as a result of capital receipts. These liquid assets consist of 17.1 per cent of cash and cash-equivalent instruments, 32.7 per cent of debt securities accounted for on an adjusted-cost basis, 45.3 per cent of debt securities on a marked-to-market valuation and 4.9 per cent of other assets.

In response to anticipated unfavourable conditions in the financial markets, the duration of the liquid assets portfolio was decreased from almost one year at the beginning of 1994 to just over three months in the second half of the year (see table below). The slight increase in the last quarter was followed by a reduction of the duration at year-end in response to further reversals in market conditions.

#### Interest rates and liquid assets duration



At year-end, 8.7 per cent, or ECU 385.6 million, of total liquid assets were managed by external asset managers. These funds comprised ECU 209.9 million equivalent of US dollar short-duration AAA mortgage-backed securities and ECU 175.7 million of ECU-denominated instruments. These funds are placed with nine independent managers to diversify investment strategies and provide external performance benchmarks. External asset managers are required to adhere to the same overall risk and investment guidelines applied by the Bank to its internally managed funds.

## Funding

### Capital

Total capital received in cash and promissory notes reached ECU 2.273 billion at 31 December, following the receipt during the year of ECU 545 million including the fourth of the five annual instalments.

The amount of capital payments and promissory note encashments overdue at year-end was ECU 79.6 million – less than 4 per cent of paid-in subscribed capital. Payments in full were received from two members shortly after the year-end.

### Borrowings

During 1994 the Bank issued ECU 910 million equivalent of medium-term and long-term borrowings in eight different currencies, including five currencies in which the Bank had previously not borrowed, with an average maturity of 4.8 years and at an average after-swap cost of Libor minus 38 basis points.

More than 75 per cent of the authorised 1994 borrowing programme of ECU 800 million was carried out in the first four months of the year, in anticipation of a continued deterioration of new issues conditions in the international capital markets. This “front loading” of the programme explains the Bank’s satisfactory cost of funds in 1994.

Noteworthy issues during the year were the ECU 500 million global five-year bond issue and the launching of the five-year Hungarian forint bond issue. This Ft 5 billion (ECU 40 million equivalent) “tap issue” public floating rate bond, of which Ft 1 billion was tapped during the year, was the Bank’s first “local currency” bond issued in one of its countries of operations. Proceeds are to be used for on-lending to projects denominated in the same currency.

Coupled with this borrowing programme the EBRD pursues a programme of repurchase of its own borrowings where the overall cost of funds to the Bank can be reduced. During the year, ECU 208.7 million equivalent of borrowings were redeemed before maturity, generating a net gain of ECU 2.6 million.

At year-end the Bank’s outstanding total medium-term and long-term debt amounted to ECU 2.89 billion equivalent in 15 different currencies with an average life to maturity of 4.8 years and an average after-swap cost of Libor minus 37 basis points.

## Results

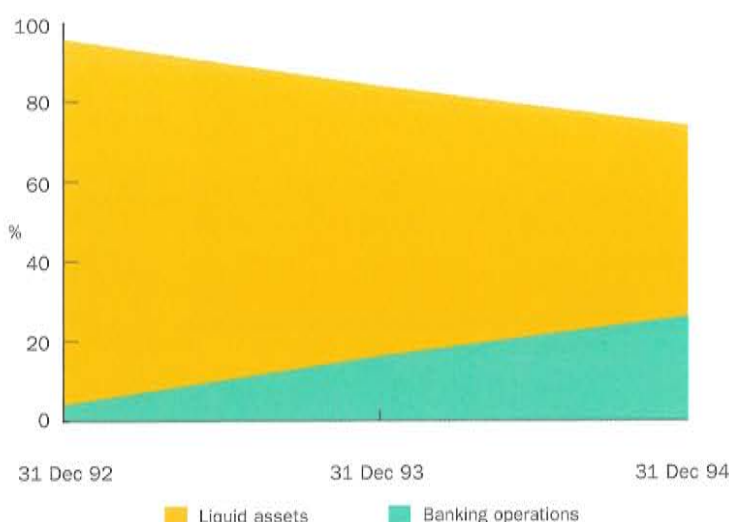
The 1994 operating profit before provisions was ECU 24.9 million. After provisions the profit was ECU 1.0 million.

This profit was achieved by a combination of higher income from Banking operations, favourable results from liquid assets investment management despite volatile financial markets during the year, and savings on administrative expenses from cost-saving initiatives and continuing budget discipline.

### Income

Both the absolute amount of the contribution from Banking operations, and its continuing growth, demonstrate the increasing importance of the Bank's core activities to the financial results.

Relative contribution to gross income



### Banking operations

Gross income from Banking operations more than doubled during the year. The major element is loan interest, but increased dividend income, profits on sales of share investments and higher fee and commission income have all contributed to the growth.

## Income from Banking operations

	1994 ECU 000	1993 ECU 000
Interest from loans	42,043	14,490
Fee and commission income	26,137	19,631
Dividend income from shares	1,486	562
Gain on sale of share investments	339	–
<b>Banking operations income</b>	<b>70,005</b>	<b>34,683</b>
Average loan and equity outstandings (ECU million)	738	268

The yield on the total average outstandings of Banking operations (excluding fee and commission income which relates primarily to signing of projects) rose during the year to 5.9 per cent from 5.6 per cent in 1993, despite the increase of equity investments resulting in reduced regular income.

If fee and commission income is included, the total yield for 1994 is 9.5 per cent.

### Liquid assets

The accounting presentation of the results generated from the liquid assets portfolio differentiates between interest income and both realised and unrealised gains or losses arising from debt securities. On a total return basis, the liquid assets portfolio generated an overall gross income of ECU 276.9 million. This is after taking account of the downward adjustment in value, both realised and unrealised, of ECU 12.9 million arising from debt securities.

## Income from liquid assets

	1994 ECU 000	1993 ECU 000
Interest earned from debt securities and short-term money market instruments	289,797	248,644
Realised/unrealised gains/(losses) arising from debt securities	(12,947)	65,640
<b>Liquid assets income</b>	<b>276,850</b>	<b>314,284</b>
Average liquid assets outstanding (ECU million)	4,559	3,706



The investment of the liquid assets portfolios produced a substantial revenue for the Bank, despite a very difficult year in the financial markets with both overall deterioration and periods of high volatility.

The relative decline in total liquid assets income for the year, when compared with 1993, reflects the lower absolute short-term interest rates prevailing in 1994. The total yield for the year on average liquid assets outstanding was 6.1 per cent. This total return is 77 basis points above cost of funds based on short-term interest rates and is substantially over bond benchmarks. For example, a bond benchmark, based on a composite one- to five-year government bond index hedged into ECU, returned only 0.8 per cent in 1994.

#### Expenses

The EBRD's general administrative expenses, including depreciation, were more than 1 per cent lower than those for 1993 and significantly below the 1994 budget. This was a result of the implementation of major savings initiatives including a reduction in occupancy costs as a result of the subletting of part of the Headquarters building, as well as a large increase in the amount of costs recovered from third parties. The Bank continues to be successful in its ongoing objectives of budget discipline, cost control and efficiency improvements.

#### Provisions

Consistent with its policy, the Bank makes general provisions relating to possible unidentified losses in its portfolios of private sector loans and equity investments. These general provisions are made at the time of disbursement at 5 per cent for private sector loans, 8 per cent for equity investments and 20 per cent for higher risk equity, the so called "early-stage" equity investments. In addition to these general provisions the Bank makes both specific provisions and provision against possible losses on contractual commitments. As stated in the earlier "Financial policies" section of this Report (page 8), the Bank's overall provisioning policy is to be reviewed in 1995.

The total provisioning charge for the year at ECU 23.9 million is ECU 15.8 million lower than in 1993. The reduction is principally a result of the reversal of certain specific provisions, previously made in 1993, which are no longer required. The total of these provisions reversed is ECU 7.6 million. In addition, the general provision against possible losses on contractual commitments is ECU 2.5 million lower than in 1993, which was the first year that this provision

was made, as it is based only on the increment of signed commitments outstanding at year-end. However, the overall level of cumulative provisions on outstanding loans and equity investments increased due to the general provisions on increased disbursements and the need to make two further small specific provisions of ECU 1.8 million.

The reduction of specific provisions represents a welcome and positive comment on the quality of the closely monitored operational portfolio. However, it is still early to draw any conclusions as the portfolio is young and many outstanding loans are still in the grace period, and loan loss experience is minimal.

#### Outlook for 1995

The EBRD's portfolio of loan and equity investments is again expected to continue to grow substantially in 1995. The contribution of income from Banking operations is therefore projected to continue to increase in both absolute and relative terms in 1995. Earnings from the liquid asset portfolio will, however, remain the primary source of income in the coming years.

Continued sound financial management, strict efficiency and budget discipline are targeted to keep the development of administrative expenses under control. The level of general loss provisions will reflect the Bank's accelerating disbursements from operational activity. The outlook for 1995 needs to take into account the uncertainties in the EBRD's operational activities. The Bank is currently not projecting a profit for the year.

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# Status of the EBRD's activities

## Profit and loss account

For the year ended 31 December 1994

	Note	Year to 31 December 1994 ECU 000	Year to 31 December 1993 ECU 000
Interest and similar income			
From loans		42,043	14,490
From fixed-income debt securities		243,908	199,244
Other interest		45,889	49,400
Interest expense and similar charges		(175,353)	(158,647)
<b>Net interest income</b>		<b>156,487</b>	<b>104,487</b>
Dividend income from shares		1,486	562
Net fee and commission income		26,137	19,631
Financial operations	3		
Net profit on sale of share investments		339	—
Debt securities		(12,947)	65,640
Foreign exchange		(806)	932
<b>Operating income</b>		<b>170,696</b>	<b>191,252</b>
General administrative expenses	4	(134,779)	(137,277)
Depreciation		(10,982)	(10,156)
<b>Operating profit before provisions</b>		<b>24,935</b>	<b>43,819</b>
Provision for losses on loans and advances		(13,259)	(15,156)
Provision for losses on share investments		(7,604)	(19,027)
Provision for losses on contractual commitments		(3,059)	(5,516)
<b>Profit for the year</b>		<b>1,013</b>	<b>4,120</b>

## Statement of appropriation of profit/(loss)

For the year ended 31 December 1994

	Note	Year to 31 December 1994 ECU 000	Year to 31 December 1993 ECU 000
<b>Balance brought forward 1 January</b>		<b>(17,144)</b>	<b>(7,114)</b>
Profit/(loss) for the previous year		4,120	(6,093)
Set aside to the special reserve from previous year	15	(13,085)	(3,937)
<b>Balance carried forward 31 December</b>		<b>(26,109)</b>	<b>(17,144)</b>

In accordance with the Agreement, it is intended that an amount of ECU 14.56 million being the qualifying fees and commissions earned in the year to 31 December 1994 will be appropriated in 1995

from the profit for the year to 31 December 1994 and set aside to the special reserve.

# Balance sheet

At 31 December 1994

	Note	ECU 000	31 December 1994 ECU 000	31 December 1993 ECU 000
<b>Assets</b>				
Placements and debt securities				
Placements with and advances to credit institutions		328,652		475,389
Other money market placements and advances		431,072		13,715
Debt securities	5	3,476,120		3,562,020
			4,235,844	4,051,124
Loans and share investments	6			
Loans		753,063		357,100
Share investments		365,605		192,460
Less: Provision for losses		(64,066)		(43,998)
			1,054,602	505,562
Other assets	8		1,217,362	895,033
Property, plant and equipment	9		71,698	74,089
Promissory notes issued by members	13		256,793	273,781
Subscribed capital				
Due but not yet received	12		74,520	49,000
Called but not yet due	12		617,325	1,187,850
<b>Total assets</b>			<b>7,528,144</b>	<b>7,036,439</b>
<b>Liabilities</b>				
Borrowings				
Amounts owed to credit institutions		142,579		508,771
Debts evidenced by certificates	10	3,467,808		2,620,979
			3,610,387	3,129,750
Other liabilities	11		943,944	937,413
Subscribed capital	12	9,883,750		9,883,750
Callable capital		(6,918,625)		(6,918,625)
Paid-in capital			2,965,125	2,965,125
Reserves				
Conversion reserve	14	7,382		7,242
Special reserve	15	17,084		3,999
General reserve	16	9,318		5,934
			33,784	17,175
Loss brought forward			(26,109)	(17,144)
Profit for the year			1,013	4,120
<b>Members' equity</b>			<b>2,973,813</b>	<b>2,969,276</b>
<b>Total liabilities and members' equity</b>			<b>7,528,144</b>	<b>7,036,439</b>
<b>Memorandum items</b>				
Commitments	19		3,183,594	2,268,540

## Statement of cash flows

For the year ended 31 December 1994

	Year to 31 December 1994 ECU 000	Year to 31 December 1993 ECU 000
<b>Cash flows from operating activities</b>		
Operating profit for the year	1,013	4,120
Adjustments for:		
Provision for losses	23,922	39,699
Depreciation	10,982	10,156
Internal taxation	3,384	3,011
Unrealised (gain)/loss on marked to market portfolio	(16,730)	10,236
Realised gains on investment portfolio	(1,407)	(9,947)
Net amortised premiums and discounts	3,567	(12,205)
<b>Operating profit before changes in operating assets</b>	<b>24,731</b>	<b>45,070</b>
Increase in operating assets:		
Interest receivable and prepaid expenses	(30,635)	(167,732)
Net increase in marked to market portfolio	(225,424)	(1,373,047)
Increase in operating liabilities:		
Interest payable and accrued expenses	21,950	66,391
<b>Net cash used in operating activities</b>	<b>(209,378)</b>	<b>(1,429,318)</b>
<b>Cash flows from investing activities</b>		
Proceeds from repayment of loans	68,578	13,257
Proceeds from sale of share investments	7,683	-
Proceeds from sale of investment securities	1,303,401	961,172
Other net placements and advances	-	355,942
Purchases of investment securities	(1,276,619)	(986,492)
Funds advanced for loans and share investments	(649,223)	(436,758)
Purchase of property, plant and equipment	(8,591)	(46,411)
<b>Net cash used in investing activities</b>	<b>(554,771)</b>	<b>(139,290)</b>
<b>Cash flows from financing activities</b>		
Capital subscriptions *	557,919	486,098
Issue of debts evidenced by certificates	1,054,382	1,316,725
Redemption of debts evidenced by certificates	(211,340)	(49,807)
<b>Net cash provided by financing activities</b>	<b>1,400,961</b>	<b>1,753,016</b>
<b>Net increase in cash and cash equivalents</b>	<b>636,812</b>	<b>184,408</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>(19,667)</b>	<b>(204,075)</b>
<b>Cash and cash equivalents at end of year **</b>	<b>617,145</b>	<b>(19,667)</b>
	<b>1994</b>	<b>1993</b>
<i>* Capital subscriptions comprise:</i>	<b>ECU 000</b>	<b>ECU 000</b>
Paid-in capital receivable	545,005	521,945
Promissory notes issued by members	16,988	(46,257)
Conversion reserve	140	14,624
Future capital hedging	(4,214)	(4,214)
<b>Capital subscriptions</b>	<b>557,919</b>	<b>486,098</b>
	<b>1994</b>	<b>1993</b>
<i>** Cash and cash equivalents comprise the following balance sheet amounts:</i>	<b>ECU 000</b>	<b>ECU 000</b>
Placements with and advances to credit institutions	328,652	475,389
Other money market placements and advances	431,072	13,715
Amounts owed to credit institutions	(142,579)	(508,771)
<b>Cash and cash equivalents</b>	<b>617,145</b>	<b>(19,667)</b>



## Notes to the financial statements

### 1 Establishment of the Bank

#### i Agreement Establishing the Bank

The European Bank for Reconstruction and Development ("the Bank"), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 ("the Agreement"). As at 31 December 1994 the Bank's shareholders comprised 57 countries, together with the European Community and the European Investment Bank.

#### ii Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected therewith in the United Kingdom are defined in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank (the "Headquarters Agreement"). The Headquarters Agreement was signed in London upon the commencement of the Bank's operations on 15 April 1991.

### 2 Significant accounting policies

#### i Accounting convention

The financial statements have been prepared under the historical cost convention modified by the inclusion of the revaluation of certain financial instruments and debt securities, in accordance with the Bank's Accounting Policies, which comply with International Accounting Standards and the overall principles of the European Communities Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

#### ii Presentation

In accordance with Article 4 of the Agreement, the Bank uses the European Currency Unit (ECU) as the unit of measure for the capital subscriptions of members and for the presentation of its financial statements.

Where applicable, the following 31 December 1994 ECU exchange rates were used in the preparation of the financial statements:

Australian dollars	1.5793	Italian lire	1992.2500
Austrian schillings	13.3654	Japanese yen	122.3088
Belgian francs	39.0453	Luxembourg francs	39.0454
Canadian dollars	1.7224	Mexican nuevo pesos	5.9782
Danish kroner	7.4742	New Zealand dollars	1.9132
Deutsche marks	1.8894	Norwegian kroner	8.2958
Dutch guilders	2.1264	Portuguese escudos	195.3508
Finnish markkaa	5.8143	South African rands	4.3467
French francs	6.5560	Spanish pesetas	161.7829
Greek drachmas	294.5832	Sterling	0.7853
Hong Kong dollars	9.4823	Swedish kronor	9.1583
Hungarian forints	138.8162	Swiss francs	1.6084
Irish punts	0.7918	United States dollars	1.2264

#### iii Foreign currencies

Assets and liabilities in currencies other than ECU, with the exception of non-monetary items such as disbursed share investments, are translated into ECU at 31 December 1994 exchange rates. Disbursed share investments are expressed in ECU at the exchange rates that applied at the time of disbursement.

Where assets and liabilities in currencies other than ECU are hedged, gains or losses on the hedge are matched against the item being hedged and the differences in translation between the market rates ruling at the year end and the hedged rates are shown in other assets or other liabilities. Transactions in currencies other than ECU are translated into ECU at month-end exchange rates.

Exchange gains or losses arising from the translation of assets and liabilities and transactions during the year are taken to the profit and loss account. It is the Bank's policy not to hold significant positions in currencies other than ECU.

#### iv Capital subscriptions

Under the Agreement, capital subscriptions by members shall be settled either in ECU, United States dollars or Japanese yen in the form of either cash or promissory notes. Capital subscriptions in United States dollars or Japanese yen are settled at fixed rates of exchange as defined in Article 6.3 of the Agreement. The defined fixed rates of exchange to the ECU are 1.16701 United States dollars and 169.95 Japanese yen.

Until January 1993, capital subscribed in United States dollars and Japanese yen was converted into ECU as it was received in cash form or, if formerly held as a promissory note, encashed. Differences between the ECU amounts actually received and the amounts determined by the fixed rates of exchange were taken to the conversion reserve.

In January 1993 the Bank entered into a series of forward foreign exchange contracts to fix the ECU value of future capital subscriptions denominated in United States dollars and Japanese yen. The differences arising on the ECU amounts obtained through these contracts and the ECU amounts determined by the fixed rates of exchange were taken to the conversion reserve. Replacement foreign exchange contracts are required where scheduled receipts or encashment dates have not been met which may also require adjustments to the conversion reserve.

Outstanding promissory notes held in United States dollars and Japanese yen at the balance sheet date are translated into ECU at 31 December 1994 exchange rates in accordance with the Bank policy detailed in iii above. The differences between these ECU values and those determined by the fixed rates of exchange are taken to other assets or other liabilities.

#### v Debt securities

Bonds, notes and other dated marketable securities held for investment are stated at cost, adjusted for the amortisation on a straight line basis, of the premium or discount on acquisition over the period to maturity. All other securities are stated at market value. Realised and unrealised gains and losses are taken to the profit and loss account in the period in which they arise.

#### vi Share investments

Share investments are carried at cost less provision for any permanent diminution in value.

#### **vii Provision for losses**

Specific provisions are made on identified loans and advances representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value. General provisions are made relating to losses which, although not specifically identified, are inherent in any portfolio of loans, advances, share investments and contractual commitments. Provisions made, less any amounts released during the year, are charged to the profit and loss account.

#### **viii Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation of property, plant and equipment is provided on a straight line basis over their estimated useful lives generally as follows:

Improvements on leases of less than 50 years unexpired:	Unexpired periods
Plant and equipment:	3 to 5 years

#### **ix Interest, fees and commissions**

Interest and commitment fees are recorded as income on an accruals basis. The Bank does not recognise income on loans where collectability is in doubt or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received. Loan origination fees are taken to income in the year of the loan disbursement.

Other fees and commissions are taken to income over the period during which the commitment exists or services are provided. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings.

#### **x Staff retirement plan**

The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits for its staff. Actual contributions made to the defined contribution and the defined benefit schemes are charged to the profit and loss account. Contributions made to the defined benefit scheme are based upon advice from qualified external actuaries.

#### **xi Internal taxation**

Under Article 53 of the Agreement and Article 16 of the Headquarters Agreement, salaries and emoluments paid by the Bank are exempt from United Kingdom income tax. In accordance with Article 53 of the Agreement, all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal rate of tax imposed by the Bank on salaries and emoluments paid by the Bank.

#### **xii Taxation**

In accordance with Article 53 of the Agreement, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those taxes or duties that represent charges for public utility services.

#### **xiii Government grants**

Government grants relating to fixed asset expenditure are recognised in the profit and loss account on a straight line basis over the same period as that applied for depreciation purposes.

Grants received or receivable in respect of contributions towards profit and loss account expenditure items are matched against the qualifying expenditure in the period in which it is incurred.

The balance of grants received or receivable that have not been taken to the profit and loss account is carried in the balance sheet as deferred income.

#### **xiv Off balance sheet instruments**

In the normal course of business the Bank is a party to off balance sheet financial instruments including currency and interest rate swap agreements, futures, options and forward exchange rate contracts. These instruments are used to manage the Bank's interest rate and currency exposure on assets and liabilities and to manage the duration of liquid assets. Profits and losses arising from financial instruments entered into for hedging purposes are matched against the item being hedged. Financial instruments held for other purposes are stated at market value with provisions being made for future administrative expenses and credit risk. Realised and unrealised gains and losses are taken to the profit and loss account in the period in which they arise. The Bank applies the same credit criteria in considering off balance sheet commitments as it does for all its debt securities.

<b>3 Financial operations</b>	<b>1994 ECU 000</b>	<b>1993 ECU 000</b>
<b>Debt securities</b>		
Investment portfolio	<b>1,407</b>	9,947
Marked to market portfolio	<b>(14,354)</b>	55,693
<b>Realised and unrealised (losses)/gains</b>	<b>(12,947)</b>	65,640

The realised and unrealised gains and losses are due to movements in the value of quoted debt securities. The net loss does not include the interest earned from these securities of ECU 243.91 million which, when added to this amount, gives total gross earnings from the debt securities portfolios of ECU 230.96 million.

At 31 December 1994 the unrealised net loss resulting from the valuation of the marked to market portfolio was ECU 0.30 million. This has been fully accounted for in the reported net loss arising from debt securities in the year of ECU 12.95 million.

#### Foreign exchange

Foreign exchange includes revaluation of currency positions and a gain on the funding of equity investments in currencies other than ECU, with put options in that matching currency. Also included is an adjustment of ECU 3.12 million relating to a prior year capital hedging transaction. This was due to the profit on this transaction being taken in 1993 that should have been deferred until 1994. This adjustment was offset by a refinement in the original 1993 valuation of certain financial instruments and consequently the 1993 comparatives have not been restated.

<b>4 General administrative expenses</b>		<b>1994 ECU 000</b>	<b>1993 ECU 000</b>
Personnel costs	(i) (ii)	<b>73,454</b>	69,843
Overhead expenses net of government grants	(iii)	<b>61,325</b>	67,434
<b>General administrative expenses</b>		<b>134,779</b>	137,277

(i) The average number of permanent staff included in personnel costs during the year was 668 (1993: 656). In addition there were contract staff of 114, locally hired staff in Resident Offices of 54 and Board of Directors and staff of 89.

(ii) Personnel costs include pension costs of ECU 8.97 million (1993: ECU 8.58 million).

(iii) Government grants of ECU 2.17 million (1993: ECU 2.49 million) have been taken to the profit and loss account in the year to 31 December 1994.

<b>5 Debt securities</b>	<b>1994 Balance sheet ECU 000</b>	<b>1994 Market value ECU 000</b>	<b>1993 Balance sheet ECU 000</b>	<b>1993 Market value ECU 000</b>
<i>Analysis by issuer</i>				
Governments	<b>2,482,543</b>	<b>2,489,826</b>	2,795,031	2,823,984
Public bodies	<b>681,402</b>	<b>682,335</b>	478,217	485,055
Other borrowers	<b>312,175</b>	<b>316,236</b>	288,772	288,614
<b>At 31 December</b>	<b>3,476,120</b>	<b>3,488,397</b>	3,562,020	3,597,653
<i>Analysis by portfolio</i>				
Investment portfolio	<b>1,457,368</b>	<b>1,469,645</b>	1,469,748	1,505,381
Marked to market portfolio				
Internally managed funds	<b>1,688,038</b>	<b>1,688,038</b>	1,705,799	1,705,799
Externally managed funds	<b>330,714</b>	<b>330,714</b>	386,473	386,473
	<b>2,018,752</b>	<b>2,018,752</b>	2,092,272	2,092,272
<b>At 31 December</b>	<b>3,476,120</b>	<b>3,488,397</b>	3,562,020	3,597,653

The debt securities held in the investment portfolio are partially hedged by off balance sheet instruments.

An analysis of the Bank's net currency position is set out in note 17, and of the maturity of the Bank's assets and liabilities in note 18.



<b>6 Loans and share investments</b>	<b>1994</b> <b>ECU 000</b>	<b>1994</b> <b>ECU 000</b>	1993 ECU 000	1993 ECU 000
Loans	<b>753,063</b>		357,100	
Provision for losses	<b>(32,441)</b>		(19,970)	
		<b>720,622</b>		337,130
Share investments	<b>365,605</b>		192,460	
Provision for losses	<b>(31,625)</b>		(24,028)	
		<b>333,980</b>		168,432
<b>At 31 December</b>		<b>1,054,602</b>		505,562

At 31 December 1994 the Bank had ECU 7.46 million (1993: ECU 5.53 million) loans in non-accrual status due to overdue interest and principal repayments.

<b>7 Analysis of operational activity</b>	<b>Outstanding</b> <b>disbursements</b> <b>1994</b> <b>ECU 000</b>	Outstanding disbursements 1993 ECU 000	<b>Committed but</b> <b>not yet</b> <b>disbursed</b> <b>1994</b> <b>ECU 000</b>	Committed but not yet disbursed 1993 ECU 000
<i>Analysis by instrument</i>				
Debt securities	<b>7,939</b>	7,749	–	–
Loans	<b>753,063</b>	357,100	<b>2,814,653</b>	2,147,739
Share investments				
Ordinary equity	<b>365,605</b>	192,460	<b>191,690</b>	120,801
Early stage equity	–	–	<b>58,708</b>	–
Guarantees	–	–	<b>118,543</b>	–
<b>At 31 December</b>	<b>1,126,607</b>	557,309	<b>3,183,594</b>	2,268,540

Early stage equity refers to operations targeted at potentially viable enterprises that are not yet able to attract capital from other sources.

<i>Analysis by sector</i>	<b>Outstanding</b> <b>disbursements</b> <b>1994</b> <b>ECU 000</b>	Outstanding disbursements 1993 ECU 000	<b>Committed but</b> <b>not yet</b> <b>disbursed</b> <b>1994</b> <b>ECU 000</b>	Committed but not yet disbursed 1993 ECU 000
Agribusiness	<b>118,727</b>	86,959	<b>72,479</b>	141,438
Communication	<b>199,593</b>	131,858	<b>375,756</b>	436,323
Construction/property/hotels	<b>3,922</b>	47,657	<b>67,420</b>	397,377
Energy/power generation	<b>51,517</b>	16,092	<b>381,916</b>	381,372
Finance	<b>243,023</b>	43,561	<b>824,916</b>	264,424
Manufacturing	<b>139,405</b>	68,792	<b>216,390</b>	187,305
Multi-sector	<b>1,761</b>	22,324	–	143,746
Natural resources	<b>147,558</b>	96,431	<b>233,706</b>	248,026
Transport	<b>190,687</b>	43,635	<b>607,619</b>	68,529
Services	<b>30,212</b>	–	<b>98,182</b>	–
CEALs, Co-financing lines and Regional Venture Funds	<b>202</b>	–	<b>305,210</b>	–
<b>At 31 December</b>	<b>1,126,607</b>	557,309	<b>3,183,594</b>	2,268,540

**Analysis of operational activity (continued)**

	<b>Outstanding disbursements 1994 ECU 000</b>	<b>Outstanding disbursements 1993 ECU 000</b>	<b>Committed but not yet disbursed 1994 ECU 000</b>	<b>Committed but not yet disbursed 1993 ECU 000</b>
<i>Analysis by country</i>				
Albania	10,395	2,830	37,565	20,496
Armenia	11,752	2,632	53,643	48,817
Azerbaijan	–	–	43,412	–
Belarus	8,120	4,051	135,717	77,936
Bulgaria	24,003	2,005	103,051	114,044
Croatia	–	–	17,939	–
Czech Republic	116,273	66,610	178,567	102,563
Estonia	12,144	22,137	71,736	36,093
Former Yugoslav Republic of Macedonia	246	–	43,975	24,022
Georgia	–	–	14,759	–
Hungary	266,031	178,746	348,419	423,397
Kazakhstan	1,000	–	99,000	100,000
Kyrgyzstan	–	–	7,665	–
Latvia	20,869	1,435	37,815	43,731
Lithuania	7,946	1,964	65,871	36,973
Moldova	750	–	24,521	896
Poland	175,388	79,804	414,013	370,271
Romania	129,619	67,582	293,029	272,621
Russian Federation	146,168	107,008	596,468	245,656
Slovak Republic	81,600	7,733	122,564	63,934
Slovenia	42,033	1,537	192,461	73,028
Turkmenistan	–	–	28,539	–
Ukraine	4,449	201	96,188	8,140
Uzbekistan	46,307	–	45,425	100,836
Regional	21,514	11,034	111,252	105,086
<b>At 31 December</b>	<b>1,126,607</b>	<b>557,309</b>	<b>3,183,594</b>	<b>2,268,540</b>

	<b>1994 ECU 000</b>	<b>1993 ECU 000</b>
<b>8 Other assets</b>		
Interest receivable	156,776	150,880
Treasury-related receivables	885,946	684,449
Other	174,640	59,704
<b>At 31 December</b>	<b>1,217,362</b>	<b>895,033</b>

	Leasehold property ECU 000	Plant and equipment ECU 000	Total ECU 000
<b>9 Property, plant and equipment</b>			
<i>Cost</i>			
At 1 January 1994	71,864	17,390	89,254
Additions	3,131	5,470	8,601
Disposals	–	(134)	(134)
Reanalysis *	(10,286)	10,286	–
<b>At 31 December 1994</b>	<b>64,709</b>	<b>33,012</b>	<b>97,721</b>
<i>Depreciation</i>			
At 1 January 1994	9,044	6,121	15,165
Charge for the year	3,713	7,269	10,982
Disposals	–	(124)	(124)
Reanalysis *	(4,340)	4,340	–
<b>At 31 December 1994</b>	<b>8,417</b>	<b>17,606</b>	<b>26,023</b>
<i>Net book value</i>			
<b>At 31 December 1994</b>	<b>56,292</b>	<b>15,406</b>	<b>71,698</b>
At 31 December 1993	62,820	11,269	74,089

\* The reanalysis is a reclassification of costs and associated depreciation values for the refurbishment of the Bank's Headquarters.

All amounts were initially recorded as "leasehold property" pending completion of the project.

#### 10 Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related swaps at 31 December 1994 are summarised below:

	Principal at nominal value ECU 000	Unamortised premium/ (discount) ECU 000	Adjusted principal value ECU 000	Currency swaps payable/ (receivable) ECU 000	<b>1994 Net currency obligations ECU 000</b>	1993 Net currency obligations ECU 000
Australian dollars	221,617	638	222,255	(222,255)	–	–
Canadian dollars	275,778	41	275,819	(275,819)	–	–
Deutsche marks	26,622	257	26,879	743,140	<b>770,019</b>	484,009
European currency units	1,134,340	(34,270)	1,100,070	(218,889)	<b>881,181</b>	432,400
French francs	129,652	(49,769)	79,883	–	<b>79,883</b>	75,874
Greek drachmas	33,946	363	34,309	(34,309)	–	–
Hong Kong dollars	73,822	145	73,967	(73,967)	–	–
Hungarian forints	7,204	–	7,204	–	<b>7,204</b>	–
Italian lire	248,965	628	249,593	(134,994)	<b>114,599</b>	119,751
Japanese yen	478,003	7,713	485,716	(314,609)	<b>171,107</b>	–
Luxembourg francs	51,222	1,388	52,610	(52,610)	–	–
Portuguese escudos	25,595	–	25,595	(25,595)	–	–
Sterling	24,322	–	24,322	(20,502)	<b>3,820</b>	13,243
Swedish kronor	60,055	219	60,274	(60,274)	–	–
United States dollars	749,200	112	749,312	690,683	<b>1,439,995</b>	1,495,702
<b>At 31 December</b>	<b>3,540,343</b>	<b>(72,535)</b>	<b>3,467,808</b>	<b>–</b>	<b>3,467,808</b>	<b>2,620,979</b>

In addition to public and private placements, included in the above table are 23 borrowings totalling ECU 739.36 million equivalent arranged under the Bank's Euro Medium Term Note Programme and 12 borrowings totalling ECU 337.74 million equivalent arranged under the Bank's Commercial Paper Programme.

During the year the Bank redeemed prior to maturity ECU 208.71 million equivalent of bonds and medium term notes generating a net gain of ECU 2.63 million.



<b>11 Other liabilities</b>	<b>1994 ECU 000</b>	<b>1993 ECU 000</b>
Interest payable	<b>88,742</b>	72,513
Treasury-related payables	<b>605,744</b>	450,146
Other	<b>249,458</b>	414,754
<b>At 31 December</b>	<b>943,944</b>	937,413

<b>12 Capital</b>	<b>1994 Number of shares</b>	<b>1994 Total ECU 000</b>
<b>Authorised share capital</b>	<b>1,000,000</b>	<b>10,000,000</b>
<i>Of which:</i>		
Subscriptions by members	<b>988,375</b>	<b>9,883,750</b>
Non-allocated shares	<b>11,625</b>	<b>116,250</b>
	<b>1,000,000</b>	<b>10,000,000</b>

The Bank's authorised share capital is ECU 10,000 million divided into 1 million shares, having a par value of ECU 10,000 each. The authorised share capital is divided into paid-in shares and callable shares. The initial total aggregate par value of paid-in shares is ECU 3,000 million, equal to 30 per cent of the original authorised share capital of ECU 10,000 million and is payable in five equal annual instalments. Under the Agreement, callable shares can be called only as and when required by the Bank to meet its liabilities.

The amount of non-allocated shares was established in the Agreement as 125 shares. Shares totalling 15,500, which were originally allocated for subscription by the former German Democratic Republic, were added to non-allocated shares. Subsequently, 1,000 shares were allocated to Albania in December 1991 and, during the first quarter of 1992, the Board of Governors approved the admittance to membership of Estonia, Latvia and Lithuania, which have each been allocated 1,000 shares.

By Resolutions Nos. 21, 27 and 37 the 60,000 shares subscribed to by the former USSR were allocated to those countries comprising the former USSR.

At its meeting of 7 and 8 September 1992 the Board of Directors concluded that the Socialist Federal Republic of Yugoslavia had been dissolved and no longer existed and therefore had ceased to be a member of the Bank, and that, in the circumstances, the Board of Governors was competent to reallocate among the countries previously forming part of Yugoslavia the 12,800 shares subscribed to by the former Yugoslavia. The Board recommended that, pending a definitive reallocation of the former Yugoslavia's shareholding in the Bank, each such country admitted to membership be given an initial allocation of 100 shares (the minimum number of shares required for membership) out of the former Yugoslavia's shareholding, on the condition that it would subscribe at a future time to an appropriate number of shares to be determined by the Board of Governors. On 9 October 1992 the Board of Governors adopted Resolution No. 30 approving the above conclusions and recommendations.

At the same time, the Board of Governors adopted Resolution No. 31 approving membership of Slovenia, which became effective on 23 December 1992.

On 15 January 1993 the Board of Governors adopted Resolution No. 34 approving the membership of Croatia, and on 13 February 1993 it adopted Resolution No. 35 approving the membership of the Former Yugoslav Republic of Macedonia. The requirements for effectiveness of the membership of both countries were completed in April 1993. Each of the above three countries previously forming part of Yugoslavia and approved for membership was allocated 100 shares.

A statement of capital subscriptions showing the amount of capital subscribed and paid in by each member, together with the amount of non-allocated shares, overdue subscriptions and restrictions of voting rights, is set out on page 52. Under Article 29 of the Agreement, the voting rights of members which have failed to pay any part of the amounts due in respect of their capital subscription obligations will be reduced accordingly for so long as the obligation remains outstanding.

This table does not reflect promissory notes received from members, the encashment of which is overdue. These are detailed in note 13. The restrictions on voting rights arising from these overdue encashments are, however, included in the restricted votes shown in the table on page 52.

"Unallocated shares reserved for countries previously forming part of Yugoslavia" shown in the table on page 52 refers to the remaining 12,500 shares which are at present potentially available for countries previously forming part of Yugoslavia. Of these, 3,750 are paid-in shares. The first instalment (ECU 7.50 million) on these shares was paid in 1991 by the former Yugoslavia. During its meeting on 20 and 21 September 1994, the Board of Directors agreed to open discussions with Slovenia, Croatia and the Former Yugoslav Republic of Macedonia in order to achieve an expeditious solution regarding the reallocation of the remaining shares.

**Capital (continued)**

Capital (continued)						Paid-in subscribed capital amounts not yet due ECU 000	Paid-in subscribed capital amounts due but not yet received ECU 000	Paid-in subscribed capital amounts received ECU 000
Statement of capital subscriptions At 31 December 1994 Members	Shares (Number)	Voting rights restricted votes	Voting rights resulting votes	Total capital ECU 000	Callable capital ECU 000			
<b>Members of the European Union</b>								
Belgium	22,800	–	22,800	228,000	159,600	13,680	–	54,720
Denmark	12,000	–	12,000	120,000	84,000	7,200	–	28,800
France	85,175	–	85,175	851,750	596,225	51,105	–	204,420
Germany	85,175	–	85,175	851,750	596,225	51,105	–	204,420
Greece	6,500	–	6,500	65,000	45,500	3,900	–	15,600
Ireland	3,000	–	3,000	30,000	21,000	1,800	–	7,200
Italy	85,175	–	85,175	851,750	596,225	51,105	–	204,420
Luxembourg	2,000	–	2,000	20,000	14,000	1,200	–	4,800
Netherlands	24,800	–	24,800	248,000	173,600	14,880	–	59,520
Portugal	4,200	–	4,200	42,000	29,400	2,520	–	10,080
Spain	34,000	–	34,000	340,000	238,000	20,400	–	81,600
United Kingdom	85,175	–	85,175	851,750	596,225	51,105	–	204,420
European Community	30,000	–	30,000	300,000	210,000	18,000	–	72,000
European Investment Bank	30,000	–	30,000	300,000	210,000	18,000	–	72,000
<b>Other European countries</b>								
Austria	22,800	–	22,800	228,000	159,600	13,680	–	54,720
Cyprus	1,000	–	1,000	10,000	7,000	600	–	2,400
Finland	12,500	–	12,500	125,000	87,500	7,500	–	30,000
Iceland	1,000	–	1,000	10,000	7,000	600	–	2,400
Israel	6,500	–	6,500	65,000	45,500	3,900	–	15,600
Liechtenstein	200	–	200	2,000	1,400	120	–	480
Malta	100	–	100	1,000	700	60	–	240
Norway	12,500	–	12,500	125,000	87,500	7,500	–	30,000
Sweden	22,800	–	22,800	228,000	159,600	13,680	–	54,720
Switzerland	22,800	–	22,800	228,000	159,600	13,680	–	54,720
Turkey	11,500	383	11,117	115,000	80,500	6,900	–	27,600
<b>Countries in which the Bank operates</b>								
Albania	1,000	600	400	10,000	7,000	600	1,800	600
Armenia	500	–	500	5,000	3,500	300	–	1,200
Azerbaijan	1,000	467	533	10,000	7,000	600	900	1,500
Belarus	2,000	–	2,000	20,000	14,000	1,200	–	4,800
Bulgaria	7,900	–	7,900	79,000	55,300	4,740	–	18,960
Croatia	100	–	100	1,000	700	60	–	240
Czech Republic	8,533	–	8,533	85,330	59,731	5,119	–	20,480
Estonia	1,000	233	767	10,000	7,000	1,200	300*	1,500
Former Yugoslav Republic of Macedonia	100	–	100	1,000	700	60	–	240
Georgia	1,000	467	533	10,000	7,000	600	1,200	1,200
Hungary	7,900	–	7,900	79,000	55,300	4,740	–	18,960
Kazakhstan	2,300	1,380	920	23,000	16,100	1,380	4,140	1,380
Kyrgyzstan	1,000	500	500	10,000	7,000	600	1,500	900
Latvia	1,000	–	1,000	10,000	7,000	1,200	–	1,800
Lithuania	1,000	–	1,000	10,000	7,000	1,200	–	1,800
Moldova	1,000	–	1,000	10,000	7,000	600	–	2,400
Poland	12,800	–	12,800	128,000	89,600	7,680	–	30,720
Romania	4,800	–	4,800	48,000	33,600	2,880	–	11,520
Russian Federation	40,000	–	40,000	400,000	280,000	24,000	–	96,000
Slovak Republic	4,267	–	4,267	42,670	29,869	2,561	–	10,240
Slovenia	100	–	100	1,000	700	60	–	240
Tajikistan	1,000	600	400	10,000	7,000	600	1,200	1,200
Turkmenistan	100	–	100	1,000	700	60	–	240
Ukraine	8,000	800	7,200	80,000	56,000	4,800	–	19,200
Uzbekistan	2,100	–	2,100	21,000	14,700	1,260	–	5,040
Unallocated shares reserved for countries previously forming part of Yugoslavia	12,500	–	0**	125,000	87,500	30,000	–	7,500
<b>Non-European countries</b>								
Australia	10,000	–	10,000	100,000	70,000	6,000	–	24,000
Canada	34,000	–	34,000	340,000	238,000	20,400	–	81,600
Egypt	1,000	–	1,000	10,000	7,000	600	–	2,400
Japan	85,175	–	85,175	851,750	596,225	51,105	–	204,420
Korea, Republic of	6,500	–	6,500	65,000	45,500	3,900	–	15,600
Mexico	3,000	–	3,000	30,000	21,000	1,800	–	7,200
Morocco	1,000	–	1,000	10,000	7,000	600	–	2,400
New Zealand	1,000	–	1,000	10,000	7,000	600	–	2,400
United States of America	100,000	21,160	78,840	1,000,000	700,000	60,000	63,480	176,520
<b>Capital subscribed by members</b>	<b>988,375</b>	<b>26,590</b>	<b>949,285 ***</b>	<b>9,883,750</b>	<b>6,918,625</b>	<b>617,325</b>	<b>74,520</b>	<b>2,273,280</b>
Non-allocated Shares	11,625			116,250				
<b>Authorised Share Capital</b>	<b>1,000,000</b>			<b>10,000,000</b>				
* Received from Estonia on 5 January 1995. ** The voting rights attached to these shares have been suspended pending their reallocation. ***								

\* Received from Estonia on 5 January 1995.

\*\* The voting rights attached to these shares have been suspended pending their reallocation.

\*\*\* Total votes before restrictions amount to 975,875.

	<b>Total received ECU 000</b>	<b>Exchange gain/(loss) ECU 000</b>	<b>Amount drawn down ECU 000</b>	<b>1994 Amount outstanding ECU 000</b>	<b>1993 Amount outstanding ECU 000</b>
<b>13 Promissory notes issued by member countries</b>					
Currency of issue					
European currency units	<b>507,937</b>	<b>–</b>	<b>(355,719)</b>	<b>152,218</b>	148,597
Japanese yen	<b>102,210</b>	<b>14,636</b>	<b>(81,341)</b>	<b>35,505</b>	34,816
United States dollars	<b>297,648</b>	<b>(11,329)</b>	<b>(217,249)</b>	<b>69,070</b>	90,368
<b>At 31 December</b>	<b>907,795</b>	<b>3,307</b>	<b>(654,309)</b>	<b>256,793</b>	273,781

Under the Agreement, payment of the paid-in capital is to be made in five equal annual instalments. The Agreement permits a member to pay up to 50 per cent of each instalment in non-negotiable, non-interest-bearing promissory notes or other obligations issued by such members and payable to the Bank at par value upon demand.

The promissory notes or other obligations are denominated in ECU, United States dollars or Japanese yen. The Board of Directors has adopted an encashment policy which provides for a fixed schedule of draw down of these promissory notes issued in 1992 and later years in three equal annual instalments.

Promissory notes that are denominated in United States dollars or Japanese yen have been translated into ECU either at the rates of exchange ruling at the dates of draw down, or, if outstanding at the year end, at market rates ruling at 31 December 1994. Realised and unrealised exchange gains or losses, which have arisen between these rates of exchange and the fixed rate of exchange as defined in the Agreement, have been taken directly to the conversion reserve (note 14). Future instalments of paid-in capital due in Japanese yen and United States dollars in both cash and promissory notes have been hedged in order to protect the amount of ECU capital receivable from unfavourable exchange rate movements.

Six members are overdue in the encashment of promissory notes as follows:	1991 Note ECU 000	1992 Note ECU 000	1993 Note ECU 000	1994 Note ECU 000	<b>Total ECU 000</b>
Azerbaijan	96	190	190	–	<b>476</b>
Estonia *	100	200	100	–	<b>400</b>
Georgia	–	190	–	–	<b>190</b>
Tajikistan	–	286	190	95	<b>571</b>
Turkey *	–	–	–	1,150	<b>1,150</b>
Ukraine	–	1,523	–	761	<b>2,284</b>
<b>Total</b>	<b>196</b>	<b>2,389</b>	<b>480</b>	<b>2,006</b>	<b>5,071</b>

In addition there is an outstanding encashment of ECU 3.75 million from the unallocated shares previously held by the former Yugoslavia.

\* The overdue encashment from Turkey was received on 4 January 1995 and those from Estonia on 5 January 1995.

Outstanding promissory note encashments are additional to the ECU 74.52 million capital due, but not yet received, detailed on page 52.

	<b>1994 ECU 000</b>	<b>1993 ECU 000</b>
<b>14 Conversion reserve</b>		
Balance brought forward 1 January	<b>7,242</b>	(7,382)
Movement during year	<b>140</b>	14,624
<b>Balance carried forward 31 December</b>	<b>7,382</b>	7,242

The conversion reserve represents the difference between the value of capital contributions in currencies other than ECU recorded at the fixed rates of exchange as defined in the Agreement and the value of

such capital when actually received and converted into ECU or the hedged value of such capital yet to be received or converted into ECU.



	1994 ECU 000	1993 ECU 000
<b>15 Special reserve</b>		
Balance brought forward 1 January	3,999	62
Set aside from profit and loss account brought forward	13,085	3,937
<b>Balance carried forward 31 December</b>	<b>17,084</b>	<b>3,999</b>

In accordance with the Agreement, a special reserve is maintained for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of front-end fees and commissions received by the Bank which are associated with loans, guarantees and underwriting the sale of securities, until the Board of Directors

determines that the size of the special reserve is adequate. It is intended that an amount of ECU 14.56 million being the qualifying fees and commissions earned in the year to 31 December 1994 will be appropriated in 1995 from the profit for the year to 31 December 1994 and set aside to the special reserve.

	1994 ECU 000	1993 ECU 000
<b>16 General reserve</b>		
Balance brought forward 1 January	5,934	2,923
Internal taxation for the year	3,384	3,011
<b>Balance carried forward 31 December</b>	<b>9,318</b>	<b>5,934</b>

In accordance with Article 53 of the Agreement, all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank. Under the Agreement, the Bank retains the internal tax

deducted for its benefit. Under Article 53 of the Agreement and Article 16 of the Headquarters Agreement, salaries and emoluments paid by the Bank are exempt from United Kingdom income tax.

<b>17 Net currency position</b>	United States dollars	Sterling	Deutsche marks	French francs	Other currencies	ECU	Total
ECU 000							
<b>Assets</b>							
Placements with and advances to credit institutions	124,621	45,224	12,871	326	37,676	107,934	328,652
Other money market placements and advances	125,096	–	105,854	–	61,320	138,802	431,072
Debt securities	913,750	15,022	344,937	295,665	929,301	977,445	3,476,120
Loans and advances	429,935	–	160,427	543	10,595	119,122	720,622
Share investments	94,273	–	1,402	–	264,916	(26,611)	333,980
Other assets	210,794	9,228	53,834	247,709	293,593	402,204	1,217,362
Property, plant and equipment	–	–	–	–	–	71,698	71,698
Promissory notes issued by members	69,070	–	–	–	35,506	152,217	256,793
Future capital subscriptions	272,385	–	–	–	51,105	368,355	691,845
<b>Total assets</b>	<b>2,239,924</b>	<b>69,474</b>	<b>679,325</b>	<b>544,243</b>	<b>1,684,012</b>	<b>2,311,166</b>	<b>7,528,144</b>
<b>Liabilities</b>							
Amounts owed to credit institutions	(1,907)	(179)	(354)	(6,371)	(20,307)	(113,461)	(142,579)
Debts evidenced by certificates	(749,312)	(24,322)	(26,879)	(79,883)	(1,487,342)	(1,100,070)	(3,467,808)
Other liabilities	(156,062)	(39,349)	(67,104)	(246,638)	(219,664)	(215,127)	(943,944)
<b>Total liabilities</b>	<b>(907,281)</b>	<b>(63,850)</b>	<b>(94,337)</b>	<b>(332,892)</b>	<b>(1,727,313)</b>	<b>(1,428,658)</b>	<b>(4,554,331)</b>
	1,332,643	5,624	584,988	211,351	(43,301)	882,508	2,973,813
<b>Off balance sheet instruments</b>							
Cross currency swaps	(1,118,554)	–	(478,294)	(32,197)	456,030	1,173,015	–
Forward exchange contracts	(199,984)	63,883	(127,960)	(210,285)	(187,619)	661,965	–
<b>At 31 December 1994</b>	<b>14,105</b>	<b>69,507</b>	<b>(21,266)</b>	<b>(31,131)</b>	<b>225,110</b>	<b>2,717,488</b>	<b>2,973,813</b>
At 31 December 1993	30,048	(20,071)	(413)	(29,566)	142,358	2,852,436	2,974,792

**Net currency position (continued)**

Currency positions arise primarily as a result of the following:

- Equity investments in shares of companies and investment funds which are denominated in currencies other than those from which they are funded, as their value is ultimately determined by the values of the underlying companies which are denominated in local, non-convertible currencies.
  - Certain equity investments denominated in non-convertible currencies funded from other currencies, as they are hedged by options entitling the Bank to recover, within certain timeframes, its investments in those other currencies.
  - Sterling funds held to meet 1995 budgeted cash expenditures.
  - A position in Deutsche marks resulting primarily from a forward foreign exchange sale of Deutsche marks executed prior to the year end, to hedge a convertible ECU loan into Deutsche marks. The conversion took place in January 1995.
  - The Bank's practice of hedging currency positions which exist on a present value basis, but which do not exist when calculated in accordance with the Bank's accounting policies.
- In addition there are residual currency positions arising from earnings, receivables and payables which are not significant enough to warrant Treasury cover.

**18 Maturities of assets and liabilities**

These are expressed in two forms to demonstrate the following:

- (i) the liquidity of the Bank based on remaining periods to repayment dates
- (ii) the exposure of the Bank's balance sheet in absolute terms to changes in interest rates.

**I Remaining periods to final repayment**

The purpose of this section is to provide an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities which do not have a contractual maturity date are grouped together in the "maturity undefined" category.

ECU 000	Up to 1 month	Over 1 month and up to and including 3 months	Over 3 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Placements and debt securities	779,526	255,089	500,542	1,811,579	889,108	–	4,235,844
Loans and advances	51,346	46,169	82,388	229,965	343,195	–	753,063
Share investments	–	–	–	–	–	365,605	365,605
Promissory notes issued by members	5,071	–	–	247,972	3,750	–	256,793
Subscribed capital:							
Due but not yet received	74,520	–	–	–	–	–	74,520
Called but not yet due	–	–	617,325	–	–	–	617,325
Other assets	885,946	–	–	–	–	339,048	1,224,994
<b>Total assets as at 31 December 1994</b>	<b>1,796,409</b>	<b>301,258</b>	<b>1,200,255</b>	<b>2,289,516</b>	<b>1,236,053</b>	<b>704,653</b>	<b>7,528,144</b>
<b>Liabilities</b>							
Amounts owed to credit institutions	(142,579)	–	–	–	–	–	(142,579)
Debts evidenced by certificates	(53,318)	(132,163)	(395,470)	(1,949,040)	(937,817)	–	(3,467,808)
Other liabilities	(605,724)	–	–	–	–	(338,220)	(943,944)
Members' equity	–	–	–	–	–	(2,973,813)	(2,973,813)
<b>Total liabilities as at 31 December 1994</b>	<b>(801,621)</b>	<b>(132,163)</b>	<b>(395,470)</b>	<b>(1,949,040)</b>	<b>(937,817)</b>	<b>(3,312,033)</b>	<b>(7,528,144)</b>
<b>Net assets at 31 December 1994</b>	<b>994,788</b>	<b>169,095</b>	<b>804,785</b>	<b>340,476</b>	<b>298,236</b>	<b>(2,607,380)</b>	<b>–</b>
Net assets at 31 December 1993	(106,586)	309,800	729,999	2,021,537	261,118	(3,215,868)	–

**Maturities of assets and liabilities (continued)****ii Interest rate exposure**

The interest rate exposure gaps reported in the table arise when assets are funded with liabilities having different repricing intervals, after considering the effect of off balance sheet hedging instruments.

The repricing interval represents the length of time to maturity of the asset or liability where the interest basis is fixed, or to the next interest re-set date where the interest basis is floating. For the purposes of this presentation, securities which comprise the Bank's marked to market portfolio are assumed to reprice within the "up to one year" category.

ECU 000	Repricing interval up to 1 year	Repricing interval over 1 year and up to and including 5 years	Repricing interval over 5 years	Repricing interval non-interest- bearing funds	Repricing interval total
<b>Assets</b>					
Placements with and advances to credit institutions	328,652	–	–	–	328,652
Other money market placements and advances	431,072	–	–	–	431,072
Debt securities	2,761,679	714,441	–	–	3,476,120
Loans and advances	674,789	9,397	68,877	–	753,063
Non-interest-earning assets including subscribed capital called but not yet due	–	–	–	2,539,237	2,539,237
<b>Total assets</b>	<b>4,196,192</b>	<b>723,838</b>	<b>68,877</b>	<b>2,539,237</b>	<b>7,528,144</b>
<b>Liabilities</b>					
Amounts owed to credit institutions	(142,579)	–	–	–	(142,579)
Debts evidenced by certificates	(1,084,466)	(1,659,083)	(724,259)	–	(3,467,808)
Other liabilities	(144,535)	–	–	(799,409)	(943,944)
Non-interest-bearing liabilities and members' equity	–	–	–	(2,973,813)	(2,973,813)
<b>Total liabilities and members' equity</b>	<b>(1,371,580)</b>	<b>(1,659,083)</b>	<b>(724,259)</b>	<b>(3,773,222)</b>	<b>(7,528,144)</b>
Net balance sheet assets and liabilities	2,824,612	(935,245)	(655,382)	(1,233,985)	–
Effect of off balance sheet instruments	(1,581,015)	925,633	655,382	–	–
<b>Interest rate exposure gap at 31 December 1994</b>	<b>1,243,597</b>	<b>(9,612)</b>	<b>–</b>	<b>(1,233,985)</b>	<b>–</b>
Interest rate exposure gap at 31 December 1993	719,413	60,650	–	(986,502)	(206,439)

The liquid assets of the Bank are actively managed and invested within authorised duration guidelines. At 31 December 1994 the overall duration of these assets was 0.42 years with an average during the year of 0.47 years.

Interest rate risks arising on the Bank's other assets and liabilities are monitored and hedged on a daily basis by measuring the change in their value for a one basis point change in interest rates.



**19 Memorandum items - off balance sheet transactions**

The tables below give the nominal principal amounts of off balance sheet transactions. The nominal amounts reflect only the overall contract or notional amounts outstanding at the balance sheet

date of dealings in each type of instrument and are not indicative of the related market exposure

<b>Commitments</b>	<b>1994 ECU 000</b>	<b>1993 ECU 000</b>
Undrawn formal loan commitments	<b>2,814,653</b>	2,147,739
Commitments to purchase shares	<b>250,398</b>	120,801
Guarantees	<b>118,543</b>	–
<b>At 31 December</b>	<b>3,183,594</b>	2,268,540

A more detailed analysis of the above commitments is set out in note 7.

<b>Exchange rate and interest rate contracts</b>	<b>1994 Hedging ECU 000</b>	<b>1994 Other ECU 000</b>	<b>1994 Total ECU 000</b>	<b>1993 Hedging ECU 000</b>	<b>1993 Other ECU 000</b>	<b>1993 Total ECU 000</b>
Exchange rate contracts						
Swaps	<b>3,212,078</b>	–	<b>3,212,078</b>	2,497,228	–	2,497,228
Forwards	<b>1,110,190</b>	–	<b>1,110,190</b>	703,804	–	703,804
Options	<b>285,845</b>	–	<b>285,845</b>	76,658	–	76,658
	<b>4,608,113</b>	–	<b>4,608,113</b>	3,277,690	–	3,277,690
Interest rate contracts						
Swaps	<b>4,026,376</b>	<b>697,557</b>	<b>4,723,933</b>	3,001,066	465,270	3,466,336
Options	<b>610,678</b>	<b>20,440</b>	<b>631,118</b>	148,831	3,390,078	3,538,909
Futures	<b>3,971,529</b>	<b>1,354,102</b>	<b>5,325,631</b>	5,961,728	49,662	6,011,390
FRAs	–	<b>94,721</b>	<b>94,721</b>	31,461	62,922	94,383
	<b>8,608,583</b>	<b>2,166,820</b>	<b>10,775,403</b>	9,143,086	3,967,932	13,111,018
<b>At 31 December</b>	<b>13,216,696</b>	<b>2,166,820</b>	<b>15,383,516</b>	12,420,776	3,967,932	16,388,708

The Bank has a possible exposure of ECU 282.26 million (1993: ECU 306.75 million) in the event of non-performance by its counterparties. These amounts represent the replacement cost at market rates as at 31 December 1994 of all outstanding agreements

in the event of all counterparties defaulting. However, the Bank is highly selective in its choice of counterparties, which are within the approved Liquid Asset Investment Authority and Guidelines, and does not consider non-performance to represent a significant risk.

**20 Other fund agreements**

In addition to the Bank's operations and the Special Funds programme, the Bank administers several bilateral and multilateral grant agreements to provide technical assistance in the countries of operations. These agreements focus primarily on project preparation, project implementation, advisory services and training.

At 31 December 1994 the Bank administered 35 Cooperation Fund Agreements (1993: 29) for an aggregate committed amount from third parties of approximately ECU 233 million (1993: ECU 154 million). This amount includes ECU 90.07 million for

the TACIS and PHARE Programmes which is subject to individual contract approval from the European Commission. Of this committed amount, funds received at 31 December 1994 totalled approximately ECU 148 million. The total uncommitted balance of the Funds at 31 December 1994 was approximately ECU 43 million.

In addition, the Bank administered 39 project-specific cooperation agreements for an aggregate committed amount of approximately ECU 17 million.

**Other fund agreements (continued)**

The Ministry of Finance of Japan has deposited the Japanese yen equivalent of USD 28.60 million with the Bank through a separate fund known as the EBRD - Japan Special Earmarked Fund.

Such amount may, at the discretion of the Ministry of Finance of Japan, be used from time to time to make contributions to the Special Funds created under the Russian Small Business Programme. As at 31 December 1994 USD 5.05 million has been contributed from the EBRD - Japan Special Earmarked Fund to the Russia Small Business Investment Special Fund.

Following a proposal by the G-7 for a multilateral programme of action to improve safety in nuclear power plants in the countries of operations, the Nuclear Safety Account ("the NSA") was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for immediate safety improvement measures. As at 31 December 1994, 15 contributors have made pledges up to a total amount of ECU 154.27 million using the fixed exchange rates defined in the Rules of the NSA.


The resources provided by these fund agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

**Auditors' report to the European Bank for Reconstruction and Development**

We have audited the balance sheet of the European Bank for Reconstruction and Development as of 31 December 1994, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 42 to 58. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 1994, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and the overall principles of the European Communities Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.



**Deloitte Touche Tohmatsu**  
Paris  
7 March 1995

# The Baltic Investment Special Fund

## Profit and loss account

For the year ended 31 December 1994

	Note	Year to 31 December 1994 ECU 000	Year to 31 December 1993 ECU 000
Interest and similar income			
From loans		16	-
Other interest		1,370	1,100
Net fee and commission income		15	-
Foreign exchange revaluation		10	-
Other operating expenses	3	(250)	(250)
<b>Operating profit before provisions</b>		<b>1,161</b>	<b>850</b>
Provision for losses on loans		(58)	-
Provision for losses on share investments		(184)	-
<b>Profit for the year</b>		<b>919</b>	<b>850</b>

## Statement of appropriation of profit

For the year ended 31 December 1994

	Year to 31 December 1994 ECU 000
Balance brought forward 1 January 1994	101
Profit for the previous year	850
<b>Balance carried forward 31 December 1994</b>	<b>951</b>

## Balance sheet

At 31 December 1994

	Note	31 December 1994 ECU 000	31 December 1993 ECU 000
<b>Assets</b>			
Placements with credit institutions	4	27,015	19,485
Loans and share investments	5		
Loans		1,156	-
Share investments		3,801	1,500
Less: Provision for losses		(362)	(120)
		4,595	1,380
Other assets		260	86
Contributions payable not yet due		-	10,000
<b>Total assets</b>		<b>31,870</b>	<b>30,951</b>
<b>Liabilities</b>			
Contributions	6	30,000	30,000
Profit brought forward		951	101
Profit for the year		919	850
<b>Total liabilities and contributions</b>		<b>31,870</b>	<b>30,951</b>
<b>Memorandum items</b>			
Commitments	7	7,343	-



## Statement of cash flows

For the year ended 31 December 1994

	Year to 31 December 1994 ECU 000	Year to 31 December 1993 ECU 000
<b>Cash flows from operating activities</b>		
Operating profit for the year	919	850
Adjustments to operating profit to determine net cash provided by operating activities		
Provision for losses	242	—
Increase in interest receivable	(174)	(60)
<b>Net cash provided by operating activities</b>	<b>987</b>	<b>790</b>
<b>Cash flows from investing activities</b>		
Loans and share investments	(3,457)	—
<b>Net cash used in investing activities</b>	<b>(3,457)</b>	<b>—</b>
<b>Cash flows from financing activities</b>		
Contributions	10,000	10,000
<b>Net cash provided by financing activities</b>	<b>10,000</b>	<b>10,000</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,530</b>	<b>10,790</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>19,485</b>	<b>8,695</b>
<b>Cash and cash equivalents at end of year</b>	<b>27,015</b>	<b>19,485</b>

## Notes to the financial statements

## 1. Creation of the Special Fund

The Baltic Investment Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 14 April 1992 ("the Fund Agreement") between the European Bank for Reconstruction and Development ("the Bank") and the Governments of the Kingdom of Denmark, the Republic of Finland, the Republic of Iceland, the Kingdom of Norway and the Kingdom of Sweden ("the Nordic countries").

The Baltic Investment Special Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. It is an open-ended fund and has as its objective to promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania ("the Baltic States").

## 2. Significant accounting policies

## i Accounting convention

The financial statements have been prepared under the historical cost convention and comply with International Accounting Standards.

## ii Foreign currencies

Assets and liabilities in currencies other than ECU, with the exception of disbursed share investments, are translated into ECU at 31 December 1994 exchange rates. Disbursed share investments are expressed in ECU at the exchange rates that applied at the time of disbursement.

Transactions in currencies other than ECU are translated into ECU at month-end exchange rates.

Exchange gains or losses arising from the translation of assets and liabilities and transactions during the year are taken to the profit and loss account. At 31 December 1994 the following exchange rate was used:

1 ECU = 1.8894 Deutsche marks

## iii Share investments

Share investments are carried at cost less provision for any permanent diminution in value.

**iv Provision for losses**

Specific provisions are made on identified loans representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value. General provisions are made relating to losses which, although not specifically identified, are inherent in any portfolio of loans and share investments. Provisions made, less any amounts released during the year, are charged to the profit and loss account.

**v Interest and commitment fees**

Interest and commitment fees are recorded as income on an accruals basis. No income is recognised on loans where collectability is in doubt or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received.

**vi Off balance sheet instruments**

In the normal course of business the Fund is a party to off balance sheet financial instruments including currency swap agreements. These instruments are used to manage the Fund's currency exposure on assets.

Profits and losses arising from financial instruments entered into for hedging purposes are matched against the items being hedged.

**3 Other operating expenses**

Other operating expenses comprise administrative expenses directly relating to the Fund and include fees payable to the Bank for operating the Fund, calculated at 2.5 per cent of each contribution instalment.

**4 Placements with credit institutions**

All placements with credit institutions are denominated in ECU and are for a period of up to and including one month.

<b>5 Loans and share investments</b>	<b>1994 ECU 000</b>	<b>1994 ECU 000</b>	<b>1993 ECU 000</b>	<b>1993 ECU 000</b>
Loans	<b>1,156</b>		–	
Provision for losses	<b>(58)</b>		–	
		<b>1,098</b>		–
Share investments	<b>3,801</b>		1,500	
Provision for losses	<b>(304)</b>		(120)	
		<b>3,497</b>		1,380
<b>At 31 December</b>		<b>4,595</b>		1,380
<b>Analysis by currency</b>				
		<b>1994 ECU 000</b>		<b>1993 ECU 000</b>
Loans				
Deutsche marks		<b>1,156</b>		–
Share investments				
European currency units		<b>2,400</b>		1,500
Deutsche marks		<b>1,401</b>		–
		<b>3,801</b>		1,500
<b>Maturity analysis of scheduled repayment of loans</b>				
1999		<b>352</b>		–
2000		<b>804</b>		–
		<b>1,156</b>		–
<b>Analysis by country</b>				
Estonia		<b>2,656</b>		1,500
Latvia		<b>1,401</b>		–
Lithuania		<b>900</b>		–
<b>At 31 December</b>		<b>4,957</b>		1,500

## 6 Contributions

At 31 December 1994 contributions per the Fund Agreement from the Nordic countries were fully paid and are set out below:

	Total contributions ECU 000	%
Denmark	6,180	20.6
Finland	6,720	22.4
Iceland	300	1.0
Norway	5,490	18.3
Sweden	11,310	37.7
	30,000	100.0

## 7 Memorandum items - off balance sheet transactions

The nominal principal amounts of off balance sheet transactions are detailed below. The nominal amounts reflect only the overall contract or notional amounts outstanding at the balance sheet date of

dealings in each type of instrument and are not indicative of the related market exposure.

	1994 ECU 000	1993 ECU 000
Undrawn formal loan commitments	7,343	-
Exchange rate swaps	1,146	-

## Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the Baltic Investment Special Fund as of 31 December 1994, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 59 to 62. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 1994, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.



**Deloitte Touche Tohmatsu**  
Paris  
7 March 1995



# The Baltic Technical Assistance Special Fund

## Statement of movements in fund balance

For the year ended 31 December 1994

	Note	Year to 31 December 1994 ECU 000	Year to 31 December 1993 ECU 000
Balance brought forward		3,148	1,641
Contributions received	3	1,667	1,667
Interest and similar income		205	187
		<b>5,020</b>	<b>3,495</b>
Disbursements	4	(1,267)	(264)
Other operating expenses	5	(83)	(83)
<b>Balance of fund available as at 31 December</b>		<b>3,670</b>	<b>3,148</b>

## Balance sheet

At 31 December 1994

	Note	31 December 1994 ECU 000	31 December 1993 ECU 000
<b>Assets</b>			
Placements with credit institutions	6	3,631	3,125
Other assets		39	23
<b>Total assets</b>		<b>3,670</b>	<b>3,148</b>
<b>Liabilities</b>			
Unallocated fund balance		1,399	3,019
Allocated fund balance	4	2,271	129
<b>Total liabilities</b>		<b>3,670</b>	<b>3,148</b>

## Notes to the financial statements

### 1 Creation of the Special Fund

The Baltic Technical Assistance Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 14 April 1992 ("the Fund Agreement") between the European Bank for Reconstruction and Development ("the Bank") and the Governments of the Kingdom of Denmark, the Republic of Finland, the Republic of Iceland, the Kingdom of Norway and the Kingdom of Sweden ("the Nordic countries").

The Baltic Technical Assistance Special Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. It is an open-ended fund and has as its objective the development of a market economic system in Estonia, Latvia and Lithuania ("the Baltic States"). In this respect, the Special Fund focuses on the development of small and medium-sized enterprises in the private sector.

### 2 Significant accounting policies

#### I Accounting convention

The financial statements have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounted for on an accruals basis.

#### II Foreign currencies

Disbursements in currencies other than ECU are translated at the rate of exchange prevailing at the time of the transaction.

#### III Completed projects

A project is defined as completed when all consultants involved have satisfied all contractual obligations and all invoices related to the project have been submitted for payment.

On completion of a project any committed amounts not disbursed are reassigned to the unallocated fund balance.

### 3 Contributions received

Contributions received in each year from the Nordic countries are set out below:

	1994 ECU 000	1993 ECU 000
Denmark	344	343
Finland	373	374
Iceland	17	16
Norway	305	305
Sweden	628	629
	<b>1,667</b>	<b>1,667</b>

### 4 Allocated fund balance and disbursements

The allocated fund balance represents all commitments approved by the Bank under the terms of the Fund Agreement net of cumulative disbursements.

	Commitments approved ECU 000	Disbursements ECU 000	Allocated fund balance ECU 000
<b>Projects in operation</b>			
At 1 January 1994	235	106	129
Movements in the year	3,365	1,223	2,142
At 31 December 1994	3,600	1,329	2,271
<b>Completed projects</b>			
At 1 January 1994	185	185	—
Movements in the year	44	44	—
At 31 December 1994	229	229	—
<b>Total projects</b>			
At 1 January 1994	420	291	129
Movements in the year	3,409	1,267	2,142
<b>At 31 December 1994</b>	<b>3,829</b>	<b>1,558</b>	<b>2,271</b>

### 5 Other operating expenses

Other operating expenses comprise administrative expenses directly related to the Fund and include fees payable to the Bank for operating the Fund, calculated at 5 per cent of each contribution instalment.

### 6 Placements with credit institutions

Placements with credit institutions are call deposits and are denominated in ECU.

#### Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the Baltic Technical Assistance Special Fund as of 31 December 1994, and the related movements in the fund balance for the year then ended, on pages 63 to 64. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 1994, and the movements in the Fund balance for the year then ended, on the basis set out in note 2.

*Deloitte Touche Tohmatsu*

Deloitte Touche Tohmatsu  
Paris  
7 March 1995

# The Russia Small Business Investment Special Fund

## Profit and loss account

For the year ended 31 December 1994

	Note	Year to 31 December 1994 ECU 000	Period to 31 December 1993 ECU 000
Interest and similar income			
From loans		90	–
Other interest		76	2
Foreign exchange revaluation	3	(190)	–
Other operating expenses	4	(316)	–
Operating (loss)/profit before provisions		(340)	2
Provision for losses		(1,001)	–
<b>(Loss)/profit for the period</b>		<b>(1,341)</b>	<b>2</b>

## Statement of appropriation of profit

For the year ended 31 December 1994

	Year to 31 December 1994 ECU 000
Balance brought forward 1 January 1994	–
Profit for the previous period	2
<b>Balance carried forward 31 December 1994</b>	<b>2</b>

## Balance sheet

At 31 December 1994

	Note	31 December 1994 ECU 000	31 December 1993 ECU 000
<b>Assets</b>			
Placements with credit institutions	5	8,423	1,476
Loans	6	1,977	–
Less: Provision for losses		(989)	–
		988	–
Other assets		51	2
Contributions pledged but not yet received	7	6,526	–
<b>Total assets</b>		<b>15,988</b>	<b>1,478</b>
<b>Liabilities</b>			
Other liabilities		252	–
Contributions	7	17,075	1,476
Profit brought forward		2	–
(Loss)/profit for the period		(1,341)	2
<b>Total liabilities and contributions</b>		<b>15,988</b>	<b>1,478</b>
<b>Memorandum items</b>			
Commitments	6	12,700	–

## Statement of cash flows

For the year ended 31 December 1994

	Year to 31 December 1994 ECU 000	Period to 31 December 1993 ECU 000
<b>Cash flows from operating activities</b>		
Operating (loss)/profit for the period	(1,341)	2
Adjustment to operating (loss)/profit to determine net cash used in operating activities:		
Provision for losses	1,001	—
Increase in interest receivable	(49)	(2)
Increase in other liabilities	252	—
Foreign exchange revaluation	(12)	—
<b>Net cash used in operating activities</b>	<b>(149)</b>	<b>—</b>
<b>Cash flows from investing activities</b>		
Loans and share investments	(1,977)	—
<b>Net cash used in investing activities</b>	<b>(1,977)</b>	<b>—</b>
<b>Cash flows from financing activities</b>		
Contributions received	9,073	1,476
<b>Net cash provided by financing activities</b>	<b>9,073</b>	<b>1,476</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,947</b>	<b>1,476</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,476</b>	<b>—</b>
<b>Cash and cash equivalents at end of period</b>	<b>8,423</b>	<b>1,476</b>

## Notes to the financial statements

### 1. Creation of the Special Fund

The creation of the Russia Small Business Investment Special Fund ("the Fund") was approved by the Board of Directors of the European Bank for Reconstruction and Development ("the Board") at its meeting of 18 October 1993 and is administered under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from ECU to United States dollars.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. It is an open-ended Fund and has as its objective to assist the development of small businesses in the private sector in Russia.

The Fund became operational during the year when commitments by donors totalled USD 3 million. The pilot phase of the programme was further extended during the year.

### 2. Significant accounting policies

#### i Accounting convention

The financial statements have been prepared under the historical cost convention and comply with International Accounting Standards.

#### ii Foreign currencies

Assets and liabilities in currencies other than ECU, with the exception of disbursed share investments, are translated into ECU at 31 December 1994 exchange rates. Disbursed share investments are expressed in ECU at the exchange rates that applied at the time of the disbursement. Transactions in currencies other than ECU are translated into ECU at month-end exchange rates.

Exchange gains or losses arising from the translation of assets and liabilities and transactions during the year are taken to the profit and loss account. At 31 December 1994 the following exchange rate was used:

1 ECU = 1.2264 United States dollars

#### iii Share investments

Share investments are carried at cost less provision for any permanent diminution in value.

#### iv Provision for losses

Specific provisions are made on identified loans representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value. General provisions are made relating to losses which, although not specifically identified, are inherent in any portfolio of loans and share investments. Provisions made, less any amounts released during the year, are charged to the profit and loss account.



**Significant accounting policies (continued)****v Interest**

Interest is recorded as income on an accruals basis. No income is recognised on loans where collectability is in doubt or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received.

**3 Foreign exchange revaluation**

The foreign exchange revaluation includes the amount which arises on conversion of contributions following the change in the denomination of the Fund from ECU to USD in July 1994 and the translation of assets and liabilities in currencies other than ECU.

**4 Other operating expenses**

Other operating expenses comprise administrative expenses directly related to the Fund and include fees payable to the Bank for operating the Fund, calculated at 3 per cent of each contribution instalment.

**5 Placements with credit institutions**

All placements with credit institutions are call deposits and are denominated in USD.

	<b>Disbursements 1994 ECU 000</b>	<b>Disbursements 1993 ECU 000</b>	<b>Committed but not yet disbursed 1994 ECU 000</b>	<b>Committed but not yet disbursed 1993 ECU 000</b>
<b>6 Loans and share investments</b>				
Loans	<b>1,977</b>	–	<b>10,661</b>	–
Provision for losses	<b>(989)</b>	–	<b>–</b>	–
	<b>988</b>	–	<b>10,661</b>	–
Share investments	–	–	<b>2,039</b>	–
	–	–	<b>2,039</b>	–
<b>At 31 December</b>	<b>988</b>	–	<b>12,700</b>	–
<b>Maturity analysis of scheduled repayment of loans</b>			<b>1994 ECU 000</b>	<b>1993 ECU 000</b>
1996			<b>1,977</b>	–

All loans and shares investments are for projects in Russia and are committed and disbursed in USD.

## 7 Contributions

Contributions pledged from the donor countries are set out below:

	1994 ECU 000	1993 ECU 000
<b>Contributions received</b>		
Canada	105	—
France	187	—
Germany	2,739	676
Italy	1,930	270
Japan	4,703	530
United States of America	885	—
	<b>10,549</b>	<b>1,476</b>
<b>Contributions pledged but not yet received</b>		
Canada	655	—
France	1,386	—
United States of America	4,485	—
	<b>6,526</b>	<b>—</b>
<b>At 31 December</b>	<b>17,075</b>	<b>1,476</b>

### Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the Russia Small Business Investment Special Fund as of 31 December 1994, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 65 to 68. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 1994, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.



**Deloitte Touche Tohmatsu**  
Paris  
7 March 1995

# The Russia Small Business Technical Cooperation Special Fund

## Statement of movements in fund balance

For the year ended 31 December 1994

	Note	Year to 31 December 1994 ECU 000	Period to 31 December 1993 ECU 000
Balance brought forward		964	—
Contributions received	3	4,726	993
Interest and similar income		159	1
		<b>5,849</b>	<b>994</b>
Disbursements	4	(1,772)	—
Other operating expenses	5	(150)	(30)
Foreign exchange revaluation		(41)	—
<b>Balance of fund available as at 31 December</b>		<b>3,886</b>	<b>964</b>

## Balance sheet

At 31 December 1994

	Note	31 December 1994 ECU 000	31 December 1993 ECU 000
<b>Assets</b>			
Placements with credit institutions	6	3,894	993
Other assets		10	1
<b>Total assets</b>		<b>3,904</b>	<b>994</b>
<b>Liabilities</b>			
Unallocated fund balance	7	(541)	964
Allocated fund balance	4	4,427	—
		<b>3,886</b>	<b>964</b>
Other liabilities		18	30
<b>Total liabilities</b>		<b>3,904</b>	<b>994</b>

## Notes to the financial statements

### 1 Creation of the Special Fund

The creation of the Russia Small Business Technical Cooperation Special Fund ("the Fund") was approved by the Board of Directors of the European Bank for Reconstruction and Development ("the Board") at its meeting of 18 October 1993 and is administered under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from ECU to United States dollars.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. It is an open-ended fund and has as its objective to finance technical cooperation for the design and implementation of the pilot phase operations of the Russia Small Business Investment Special Fund.

### 2 Significant accounting policies

#### i Accounting convention

The financial statements have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounted for on an accruals basis.

#### ii Foreign currencies

Assets and liabilities in currencies other than ECU are translated into ECU at 31 December 1994 exchange rates. Transactions in currencies other than ECU are translated into ECU at month-end exchange rates. Commitments net of disbursements made are translated at the rate of exchange ruling at 31 December 1994. Exchange gains and losses arising from the translation of assets and liabilities and transactions during the year are taken to the statement of movements in fund balance. At 31 December 1994 the following exchange rate was used:

1 ECU = 1.2264 United States dollars

#### iii Completed projects

A project is defined as completed when all consultants involved have satisfied all contractual obligations and all invoices related to the project have been submitted for payment.

On completion of any project any committed amounts not disbursed are reassigned to the unallocated fund balance.

**3 Contributions received**

Contributions received in each year from the donors are set out below:

	1994 ECU 000	1993 ECU 000
Canada	140	—
France	249	—
Germany	—	135
Italy	—	152
Japan	—	706
United Kingdom	3,453	—
United States of America	884	—
	<b>4,726</b>	<b>993</b>

**4 Allocated fund balance and disbursements**

The allocated fund balance represents all commitments approved by the Bank under the terms of the Fund net of cumulative disbursements.

	Commitments approved ECU 000	Disbursements ECU 000	Allocated fund balance ECU 000
<b>Projects in operation</b>			
At 1 January 1994	—	—	—
Movements in the year	6,174	1,747	4,427
At 31 December 1994	6,174	1,747	4,427
<b>Completed projects</b>			
At 1 January 1994	—	—	—
Movements in the year	25	25	—
At 31 December 1994	25	25	—
<b>Total projects</b>			
At 1 January 1994	—	—	—
Movements in the year	6,199	1,772	4,427
<b>At 31 December 1994</b>	<b>6,199</b>	<b>1,772</b>	<b>4,427</b>

**5 Other operating expenses**

Other operating expenses comprise administrative expenses directly related to the Fund and include fees payable to the Bank for operating the Fund, calculated at 3 per cent of each contribution instalment.

**6 Placements with credit institutions**

All placements with credit institutions are call deposits and are denominated in United States dollars.

**7 Unallocated fund balance**

Commitments of ECU 6.19 million have been approved by the Bank under the terms of the Fund. This exceeds the cash contributions received but is within the total amount pledged by the donors. Subsequent to the year end, Switzerland and Canada have contributed ECU 1.24 million and ECU 0.16 million respectively.

**Auditors' report to the European Bank for Reconstruction and Development**

We have audited the balance sheet of the Russia Small Business Technical Cooperation Special Fund as of 31 December 1994, and the related movements in the fund balance for the year then ended, on pages 69 to 70. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 1994, and the movements in the Fund balance for the year then ended, on the basis set out in note 2.



Deloitte Touche Tohmatsu  
Paris  
7 March 1995



# List of 1994 projects

	Country	Sector	ESC*	Type	Date approved	Signed	Bank funds approved ECU million	Total project investment ECU million
<b>Alliance ScanEast Fund</b> Venture capital fund to make equity and equity-related investments in joint ventures	Regional	Finance	C/0	Shares	10 January	1 April	12.3	40.8
<b>Investment Bank of Latvia</b> To fund the bank's loan portfolio, which will mobilise hard currency resources for SMEs	Latvia	Finance	C/0	Shares	10 January	23 February	1.4	8.2
<b>Kabel Net</b> To install, develop and operate a cable television service in Prague	Czech Republic	Media	B/0	Loan, shares and guarantee	10 January	20 May	8.5	31.3
<b>Karosa - Renault Véhicules Industriels Joint Venture</b> To enable Karosa to modernise its bus and coach manufacturing plant	Czech Republic	Automotive	B/1	Loan, shares and guarantee	10 January	10 May	37.0	69.2
<b>Varust</b> To assist this joint-stock company implement the waste lube-oil regeneration project in Armavir, Krasnodar region	Russian Federation	Petroleum	A/1	Loan	10 January	–	9.8	65.7
<b>Barum Continental</b> To assist this company to become a modern tyre producer and retailer	Czech Republic	Rubber	C/1	Loan	25 January	17 November	30.6	182.3
<b>Smolensk Regional Venture Fund</b> To help strengthen privatised companies through equity investments	Russian Federation	Finance	C/0	Shares	25 January	8 July	9.8	9.8
<b>Kwidzyn Paper Mill</b> To modernise an existing pulp and paper production facility in Kwidzyn	Poland	Paper	B/1	Loan	7 February	9 August	27.7	272.3
<b>Edge Laminated Board Plant</b> To Zapsibinvest for the construction and operation of a laminated board plant in Archangelsk	Russian Federation	Lumber and wood production	B/1	Loan	21 February	3 August	7.3	16.6
<b>Estonian Investment Bank</b> To provide SMEs with easier access to credit resources	Estonia	Finance	C/0	Loan	21 February	15 July	4.0	8.0
<b>Komercijalna Banka A.D.</b> Trade facility to guarantee Komercijalna Banka's correspondent banks against non-payment under confirmed letters of credit	FYR Macedonia	Finance	C/0	Guarantee	21 February	19 May	8.2	8.2
<b>Kronospan Szczecinek</b> To install a medium-density fibreboard production line and a resin plant	Poland	Lumber and wood production	B/1	Loan	21 February	18 April	15.9	55.6
<b>SovFinAm Trans Co</b> For the construction and acquisition of rail tank cars to fulfil the company's expansion programme	Russian Federation	Rail transport	B/0	Loan	21 February	–	9.8	24.1
<b>National Road Administration</b> To improve the road system in the main east-west corridor	Slovenia	Transport services	B/0	Loan	7 March	10 June	24.5	73.5

Loans are calculated at exchange rates current on 31 December 1994.

Shares are converted to ECU at exchange rates current at the date of disbursement.

**\* Environmental screening categories:**

A, B and C refers to whether the project requires:

- a full environmental assessment (A)
- a partial environmental analysis (B)
- neither (C)

1 or 0 refers to whether the project:

- needs an environmental audit (1)
- does not need an environmental audit (0)

## List of 1994 projects

	Country	Sector	ESC*	Type	Date approved	Signed	Bank funds approved ECU million	Total project investment ECU million
<b>Company for Motorways of the Republic of Slovenia (DARS)</b> To improve the road system in the main east-west corridor via operation of motorway infrastructure on commercial lines	Slovenia	Transport services	B/O	Loan	7 March	13 May	26.2	52.2
<b>EuroMerchant Balkan Fund</b> To establish a venture capital fund investing primarily in Bulgaria	Bulgaria	Finance	C/O	Shares	24 March	15 December	6.8	23.0
<b>Polish Power Grid Company</b> For completion of the Bielsko-Biala fluidised-bed boiler combined heat and power plant, replacing inefficient boilers	Poland	Energy	A/1	Loan	24 March	8 July	31.5	93.8
<b>Atrium Business Centre</b> To build and operate a 20,000m <sup>2</sup> business centre in Warsaw	Poland	Real estate	B/O	Loan	11 April	14 July	7.3	28.9
<b>Brest-Minsk-Russian Border Highway Improvement</b> To finance repair, upgrading and operation of the M1/E30 highway, which links Moscow, Minsk, Warsaw and Berlin	Belarus	Transport services	B/O	Loan	11 April	16 April	43.8	69.2
<b>Lithuanian Telecommunications</b> For the improvement and restructuring of the telecommunications sector	Lithuania	Telecoms	B/O	Loan	11 April	25 November	28.5	48.5
<b>Azur-Ostoja</b> To provide non-life insurance services to rural communities	Poland	Insurance	C/O	Shares	26 April	26 October	1.5	1.5
<b>Azur-Zycie</b> To provide life insurance services to rural communities	Poland	Insurance	C/O	Shares	26 April	20 December	1.2	1.2
<b>Eurotel Prague/Expansion Finance</b> To help expand activities in electronic mail	Czech Republic	Telecoms	C/O	Loan	26 April	–	3.3	3.3
<b>Athénée Palace, Bucharest</b> To help refurbish a prestigious hotel to international standards	Romania	Hotels	B/O	Loan	24 May	4 November	11.6	47.3
<b>Delta Dairy</b> To help production of ice cream and construction of cold storage facilities	Bulgaria	Food	B/1	Shares	24 May	–	2.8	13.6
<b>Financial Institutions Development Programme</b> Foundation loan to prepare selected banks for credit line and other projects	Russian Federation	Finance	C/O	Loan	24 May	1 August	81.5	307.4
<b>Polish Development Bank</b> To finance private sector companies	Poland	Finance	C/O	Loan	24 May	30 June	24.5	24.5
<b>Transport Project</b> To assist with rehabilitation and improvement of the country's transport infrastructure	Lithuania	Transport	B/O	Loan	24 May	26 September	15.4	37.9
<b>Advent Fund</b> To provide capital and management help to private companies in the Czech Republic, Hungary, Poland and the Slovak Republic	Regional	Finance	C/O	Shares	7 June	17 August	14.3	99.9
<b>ITUR</b> To improve international telecommunications links: financing for subsea and fibre optic cables	Ukraine	Telecoms	B/O	Loan	7 June	30 June	43.3	161.7

	Country	Sector	ESC*	Type	Date approved	Signed	Bank funds approved ECU million	Total project investment ECU million
<b>Kubaka Gold</b> For gold deposit development	Russian Federation	Mining	A/1	Loan	7 June	–	42.8	125.8
<b>Small Business Fund Extended Pilot</b> Testing financial tools for financing small businesses	Russian Federation	Finance	C/0	Loan	7 June	20 July	16.5	33.0
<b>Air Navigation System Upgrading</b> To help install radars and other navigation equipment	FYR Macedonia	Airports	B/0	Loan	20 June	4 October	11.5	19.1
<b>Baltic Shipyard</b> To help produce three bulk carriers and facilitate the restructuring of the shipyard	Russian Federation	Water transport	B/1	Loan	20 June	–	34.7	50.2
<b>Kyrgyz Republic Telecommunications</b> To promote modernisation, development and restructuring in the telecommunications sector	Kyrgyzstan	Telecoms	C/0	Loan	20 June	16 November	7.7	27.0
<b>Enterprise Support Project</b> To provide long-term finance to commercial banks for on-lending to private enterprises	Russian Federation	Finance	C/0	Loan	20 June	26 September	81.5	81.5
<b>Farm Frites Potato</b> To help in the construction of facilities for potato storage and processing	Poland	Food	B/0	Loan	4 July	5 October	7.9	27.9
<b>Hungarian Foreign Trade Bank</b> To increase the bank's capital base and enable its privatisation	Hungary	Finance	C/0	Shares	4 July	12 July	18.2	50.0
<b>Lithuanian Development Bank</b> To provide medium- and long-term funds to SMEs	Lithuania	Finance	C/0	Shares	4 July	16 August	0.9	5.0
<b>BNP-Dresdner Bank</b> Investment in a fully licensed bank to be created in Bulgaria	Bulgaria	Finance	C/0	Shares	18 July	28 September	1.6	7.8
<b>Daugava Hotel</b> To finance the extension, renovation and operation of this hotel in Riga	Latvia	Hotels	B/0	Loan	18 July	30 September	9.8	34.9
<b>Polish Special Restructuring Project</b> For investment in medium-sized enterprises, to promote stabilisation, restructuring, privatisation, financial sector reform and management development	Poland	Finance	C/0	Loan and shares	18 July	–	65.2	65.2
<b>PRISCO Maritime Limited</b> To help this shipping company buy four new product tankers built in Ukraine	Russian Federation	Water transport	B/0	Loan	18 July	10 October	36.7	122.9
<b>Schooner Capital/White Eagle Industries Equity Investment</b> To make investments in established Polish businesses, primarily through privatisation	Poland	Finance	C/0	Shares	18 July	26 September	24.2	81.5
<b>Tallinn Water Environment Project</b> For the improvement of water and waste-water services in the city of Tallinn	Estonia	Environment	B/0	Loan	18 July	15 September	23.4	46.5
<b>Urals Regional Venture Fund</b> To provide new equity capital and post-privatisation support for enterprises in the Urals region	Russian Federation	Finance	C/0	Loan	18 July	11 November	24.5	24.5
<b>Air Navigation Rehabilitation</b> Loan to assist with the replacement of civilian radar and other air navigation and telecommunication facilities	Croatia	Airports	B/0	Loan	23 August	21 September	17.9	21.4

## List of 1994 projects

	Country	Sector	ESC*	Type	Date approved	Signed	Bank funds approved ECU million	Total project investment ECU million
<b>Caresbac</b> Equity in a non-profit investment company providing financing for Bulgarian SMEs	Bulgaria	Finance	C/0	Shares	23 August	7 October	3.2	9.8
<b>Estonian Investment Bank</b> Equity as part of a capital increase for EstIB, which provides funds for the private sector	Estonia	Finance	C/0	Shares	23 August	26 October	1.5	4.5
<b>General Insurance Company</b> To provide non-life insurance services to local and foreign corporations in Bulgaria	Bulgaria	Insurance	C/0	Shares	23 August	25 November	0.8	3.9
<b>Mobile Telesystems/GSM/900</b> To finance a GSM 900 network enabling pan-European communications	Russian Federation	Telecoms	C/0	Loan and shares	23 August	–	33.7	336.8
<b>Slovene Special Restructuring Programme</b> To finance the stabilisation, restructuring and privatisation of around 15 enterprises via two local investment vehicles	Slovenia	Finance	C/0	Shares	23 August	–	30.0	30.0
<b>Tokobank Equity Investment</b> To enable this wholesale commercial bank to implement its strategic business plan, especially in primary banking	Russian Federation	Finance	C/0	Shares	6 September	29 September	28.9	28.9
<b>Wine Export Promotion</b> To Vininvest to improve the quality and packaging of Moldovan wines	Moldova	Food	B/1	Loan	6 September	3 October	24.5	40.5
<b>Hungarian Capital Fund</b> To finance the acquisition of controlling participations in enterprises in need of restructuring	Hungary	Finance	C/0	Shares	20 September	–	16.3	48.9
<b>Tesla Y.S., a.s.</b> For this producer of ceramic substrates for semiconductors to modernise an existing plant and introduce new technology	Czech Republic	Ceramics	B/1	Loan	20 September	25 September	6.0	10.6
<b>AS Hansapank</b> Credit line to allow this bank access to medium-term funds and so build its loan portfolio	Estonia	Finance	C/0	Loan	6 October	21 October	4.5	9.0
<b>Home Appliances JV</b> For a joint venture with Kramds-Simtel Industries, encouraging import substitution, export orientation and technology transfer	Kazakhstan	Electronics	B/1	Loan and shares	6 October	–	11.9	45.7
<b>OTP Bank</b> Revolving stand-by credit facility to provide access to medium-term funds	Hungary	Finance	C/0	Loan	6 October	2 November	81.5	81.5
<b>Banca Agricola Information Technology Loan</b> For investment in improved information technology by this part-privatised bank	Romania	Finance	C/0	Loan	18 October	9 December	9.8	16.3
<b>Export-Oriented Credit Line</b> To the Central Bank of Turkmenistan for on-lending to selected commercial banks to finance sub-loans to the private sector	Turkmenistan	Finance	C/0	Loan	18 October	24 November	28.5	28.5
<b>Far Eastern Shipping Company (FESCO)/ Roselau Shipping Company Limited</b> For the acquisition of three new container vessels built in the Szczecin shipyard, Poland	Russian Federation	Water transport	B/0	Loan	18 October	11 November	13.3	44.4



	Country	Sector	ESC*	Type	Date approved	Signed	Bank funds approved ECU million	Total project investment ECU million
<b>North Western Shipping Company Vessels</b> For the purchase of 10 river-sea vessels built in the Volgograd shipyard, Russia	Russian Federation	Water transport	B/0	Loan	18 October	–	27.0	46.7
<b>Papirnica Kolicevo d.o.o.</b> To finance the restructuring, capital expenditure and working capital of this paper company	Slovenia	Paper	B/1	Shares and loan	18 October	20 December	13.0	72.2
<b>Pioneer Investment Fund</b> Providing equity investment to private and privatising companies	Poland	Finance	C/0	Shares	18 October	12 December	6.1	40.8
<b>Revoz d.d.</b> For the modernisation and upgrading of a car manufacturing plant in Novo Mesto	Slovenia	Automotive	B/1	Loan	18 October	–	38.1	127.8
<b>St Petersburg Regional Venture Fund</b> Providing new equity capital and post-privatisation support for enterprises in the city and region	Russian Federation	Finance	C/0	Shares	18 October	16 December	24.5	24.5
<b>Slovenian Capital Development Fund</b> For investment in private sector and privatising companies	Slovenia	Finance	C/0	Shares	18 October	–	6.1	20.4
<b>Slovnaft a.s. Loan</b> To expand and modernise a retail petrol service station network	Slovak Republic	Petroleum	B/1	Loan	18 October	8 December	24.5	43.5
<b>Tatra Bank Credit Line</b> To finance medium- and long-term funding to SMEs	Slovak Republic	Finance	C/0	Loan	18 October	–	15.9	15.9
<b>Corfin Credit Line</b> To support this leasing company's activities in the vehicle, machinery and equipment sectors	Czech Republic	Finance	C/0	Loan	1 November	–	24.5	24.5
<b>Drin River Cascade Rehabilitation</b> To KESH for the rehabilitation and modernisation of Albania's main power plants	Albania	Energy generation	B/1	Loan	1 November	22 November	12.6	46.2
<b>First NIS Regional Fund</b> Investment in this newly established Fund	Regional	Finance	C/0	Shares	1 November	21 November	16.2	146.8
<b>National Investment Funds</b> To help provide equity and debt support to companies in the programme	Poland	Finance	C/0	Loan	1 November	–	44.4	44.4
<b>SME Line of Credit</b> For the development of the banking and private SME sectors	Belarus	Finance	C/0	Loan	1 November	22 November	24.5	24.5
<b>SME Line of Credit</b> For the development of the private enterprise sector and the banking system	Kyrgyzstan	Finance	C/0	Loan	1 November	–	8.6	8.6
<b>Technolen WF a.s.</b> For the upgrading of the company's capital asset base	Czech Republic	Textiles	B/1	Loan	1 November	–	8.9	15.8
<b>Road Project</b> To assist with the rehabilitation and improvement of the road transport infrastructure	Latvia	Road transport	B/0	Loan	1 November	14 December	8.5	21.9
<b>Banco Italo-Albanese</b> For this bank's development as the first commercial private bank in Albania	Albania	Finance	C/0	Shares	15 November	20 December	2.0	10.2

## List of 1994 projects

	Country	Sector	ESC*	Type	Date approved	Signed	Bank funds approved ECU million	Total project investment ECU million
<b>MOL - Zsana Underground Gas Storage</b> Debt facility to MOL, the Hungarian oil and gas company	Hungary	Energy transmission	A/1	Loan	15 November	30 December	44.8	69.3
<b>Regional Venture Fund in Far East and Eastern Siberia</b> To establish the Fund, for Russian companies in this region	Russian Federation	Finance	C/0	Shares	15 November	19 December	24.5	24.5
<b>Russian Technology Fund</b> To make equity and quasi-equity investments primarily in high-tech SMEs	Russian Federation	Finance	C/0	Shares	15 November	–	8.2	24.5
<b>Yerevan (Zvartnots) Air Cargo Terminal</b> To Zvartnots Airport to help improve the efficiency of air cargo handling and related civilian air cargo services	Armenia	Airports	B/1	Loan	15 November	29 November	18.6	24.1
<b>Banca de Credit Cooperatist S.A.</b> To finance investment projects of SMEs	Romania	Finance	C/0	Loan	29 November	12 December	16.3	16.3
<b>Central Business Center</b> For the development of a modern, mixed-use building in Budapest	Hungary	Real estate	B/0	Loan and shares	29 November	16 December	6.0	17.5
<b>Investicni a Postovni Banka a.s.</b> To provide export finance funding for this bank's clients	Czech Republic	Finance	C/0	Loan	29 November	–	40.8	40.8
<b>Kiev Vegetable Marketing Restructuring</b> For the establishment of a wholesale market and improving facilities at four vegetable bases, up to 60 retail shops and several horticultural farms	Ukraine	Wholesale	B/0	Loan	29 November	–	11.8	17.9
<b>Nittur Textile Company</b> To establish a yarn dye-house and a knitting factory for socks and knitwear	Turkmenistan	Textiles	B/1	Loan	29 November	–	8.2	21.7
<b>SME Line of Credit</b> For the development of private SMEs via on-lending through qualifying private banks	Ukraine	Finance	C/0	Loan	29 November	16 December	98.8	98.8
<b>Astop</b> To Asbuka Textiles for a spinning mill investment for the production of export-quality cotton yarn	Uzbekistan	Textiles	B/0	Loan	13 December	–	13.0	37.5
<b>Bank Przemyslowo-Handlowy w Krakowie SA</b> Stand-by share purchase commitment in this bank's privatisation	Poland	Finance	C/0	Shares	13 December	14 December	36.0	36.0
<b>Central European Telecommunications Agency Line</b> To private companies awarded concessions or licences to own and operate small and medium-sized telecommunications networks through CETAL	Czech Republic, Hungary and Poland	Telecoms	C/0	Loan	13 December	–	51.8	102.7
<b>Ceske Drahy - Czech Rail Corridor</b> For modernisation of the Czech Rail Corridor to internationally accepted performance and safety standards	Czech Republic	Rail transport	B/0	Loan	13 December	–	42.5	694.6
<b>Electricity Network Reconstruction</b> To Hrvatska Elektroprivreda, for restoration of power to areas affected by war, and extension of supply to Adriatic coast and islands	Croatia	Energy transmission	B/1	Loan	13 December	–	39.7	62.5
<b>Highway Reconstruction</b> To assist the Government of Croatia to complete a viable route improvement project and to finance road upgrading and pavement overlays on high-priority routes	Croatia	Road transport	A/0	Loan	13 December	–	37.5	195.2

	Country	Sector	ESC*	Type	Date approved	Signed	Bank funds approved ECU million	Total project investment ECU million
<b>Leventis Timisoara Bottling Plant</b> To assist the purchase of equipment for four soft drink and juice bottling lines	Romania	Food	B/1	Loan	13 December	-	7.7	18.3
<b>Macedonian Telecommunications</b> To Macedonian PTT for the development of the international, long-distance and local telephone network	FYR Macedonia	Telecoms	B/0	Loan	13 December	-	34.7	67.7
<b>Metalplast Spolka Z.o.o.</b> To catalyse the company's privatisation and finance its modernisation programme	Poland	Manufacturing	B/1	Shares	13 December	-	6.9	28.8
<b>Municipal Utilities Development Programme</b> For the rehabilitation and improvement of municipal water services in five cities	Romania	Environment	B/0	Loan	13 December	-	22.8	51.1
<b>Power Rehabilitation</b> To the Georgia Energy and Electrification State Enterprise (SAKENERGO) for the rehabilitation of a thermal and hydro power station, leading to greater thermal efficiency	Georgia	Energy generation	B/1	Loan	13 December	19 December	14.8	20.6
<b>Procter &amp; Gamble/Novomoskovsk Detergent Plant Project</b> Investment in a detergent plant	Russian Federation	Chemicals	B/1	Shares	13 December	-	13.9	40.8
<b>Railway Modernisation</b> To Polish state railways to assist with rehabilitation and modernisation of the main line corridor (Berlin)-Katowice-Warsaw	Poland	Rail transport	B/0	Loan	13 December	-	50.0	487.0
<b>SKB Banka Equity Investment</b> To help this bank realise its medium-term business plan of prudent market expansion and increased profitability	Slovenia	Finance	C/0	Shares	13 December	14 December	16.6	31.7
<b>Slovnaft a.s. Equity</b> To facilitate the company's continued privatisation and international public share offering	Slovak Republic	Petroleum	B/1	Shares	13 December	-	48.9	346.5
<b>Trade Facilitation Programme</b> To enable selected Russian banks to develop trade-related services	Russian Federation	Finance	C/0	Loan	13 December	-	81.5	81.5
<b>Yenikend Renewable Energy</b> To AZERENERJI to finance the completion of the Yenikend hydropower station and provide laboratory test equipment	Azerbaijan	Energy generation	B/0	Loan	13 December	21 December	43.4	61.2
<b>Projects approved in 1994</b>							<b>2,408.8</b>	<b>6,909.0</b>

Loans are calculated at exchange rates current on 31 December 1994.

Shares are converted to ECU at exchange rates current at the date of disbursement.

**\* Environmental screening categories:**

A, B and C refers to whether the project requires:

- a full environmental assessment (A)
- a partial environmental analysis (B)
- neither (C)

1 or 0 refers to whether the project:

- needs an environmental audit (1)
- does not need an environmental audit (0)

# Governors

## Governors and Alternate Governors 31 December 1994

Member	Governor	Alternate Governor	Chairman of the Board of Governors
Albania	Gjergj Konda	Elizabeth Gjoni	Pedro Solbes Mira
Armenia	Levon Barkhudarian	Bagrat Asatryan	
Australia	Ralph Willis	Michael Costello	
Austria	Ferdinand Lacina	Hans Dietmar Schweisgut	
Azerbaijan	Galib Agayev	Vagif K Ahmedov	
Belarus	Stanislav Bogdankevich	Nikolai Lisai	
Belgium	Philippe Maystadt	Grégoire Brouhns	
Bulgaria	–	Mileti Mladenov	
Canada	Paul Martin	Gordon Smith	
Croatia	Bozo Prka	Josip Kulišić	
Cyprus	Christodoulos Christodoulou	Michael Erotokritos	
Czech Republic	Ivan Kočárník	Josef Tošovský	
Denmark	Marianne Jelved	Jens Thomsen	
Egypt	Mahmoud Mohamed Mahmoud	Saad Alfarargi	
Estonia	Andres Lipstok	Madis Üürke	
Finland	Pertti Salolainen	Veikko Kantola	
FYR Macedonia	Jane Miljovski	Dzevdet Hajredini	
France	Edmond Alphandéry	Christian Noyer	
Georgia	Tengiz Geleishvili	Nodar Javakhishvili	
Germany	Theo Waigel	Gert Haller	
Greece	Yannos Papantoniou	George Kandalepas	
Hungary	László Békesi	György Szapáry	
Iceland	Sighvatur Björgvinsson	Finnur Sveinbjörnsson	
Ireland	Ruairi Quinn	Paddy Mullarkey	
Israel	Jacob A Frenkel	Ehud Kaufman	
Italy	Lamberto Dini	Mario Draghi	
Japan	Masayoshi Takemura	Yasuo Matsushita	
Kazakhstan	Mars Urkumbaev	Uraz A Djandosov	
Republic of Korea	Jae-Hyong Hong	Myung-Ho Kim	
Kyrgyzstan	Askar Sarygulov	Umar Toigonbaev	
Latvia	Andris Piebalgs	Janis Zvanitajs	
Liechtenstein	Egmond Frommelt	Roland Marxer	
Lithuania	Eduardas Vilkelis	A Karalius	
Luxembourg	Jacques Santer	Yves Mersch	
Malta	John Dalli	Francis J Vassallo	
Mexico	Guillermo Ortiz	José Sidaoui	
Moldova	Leonid Talmaci	Valeriu Chitan	
Morocco	Mourad Cherif	Abdelfettah Belmansour	
Netherlands	Gerrit Zalm	Hans van Mierlo	
New Zealand	Don McKinnon	John Collinge	
Norway	Sigbjørn Johnsen	Even Aas	
Poland	Hanna Gronkiewicz-Waltz	–	
Portugal	Eduardo de Almeida Catroga	Walter Waldemar Pego Marques	
Romania	Florin Georgescu	Mugur Isarescu	
Russian Federation	Tatiana Paramonova	Andrei Vavilov	
Slovak Republic	Sergej Kozlík	Vladimír Masár	
Slovenia	Mitja Gaspari	Andrej Kavcic	
Spain	Pedro Solbes Mira	Alfredo Pastor	
Sweden	Göran Persson	Svante Öberg	
Switzerland	Jean-Pascal Delamuraz	Silvio Arioli	
Tajikistan	–	Sharif Rahimov	
Turkey	Ayfer Yilmaz	M Bülent Özgün	
Turkmenistan	Hudaiberdy A Orazov	Amangeldy Bairamov	
Ukraine	Petro Hermanchuk	Victor Yushchenko	
United Kingdom	Kenneth Clarke	Baroness Chalker	
United States	Frank Newman (Acting)	Joan Spero	
Uzbekistan	Rustam S Azimov	Abdurafik Akhadov	
EC	Henning Christophersen	Giovanni Ravasio	
EIB	Brian Unwin	Wolfgang Roth	



# Directors

## Directors and Alternate Directors 31 December 1994

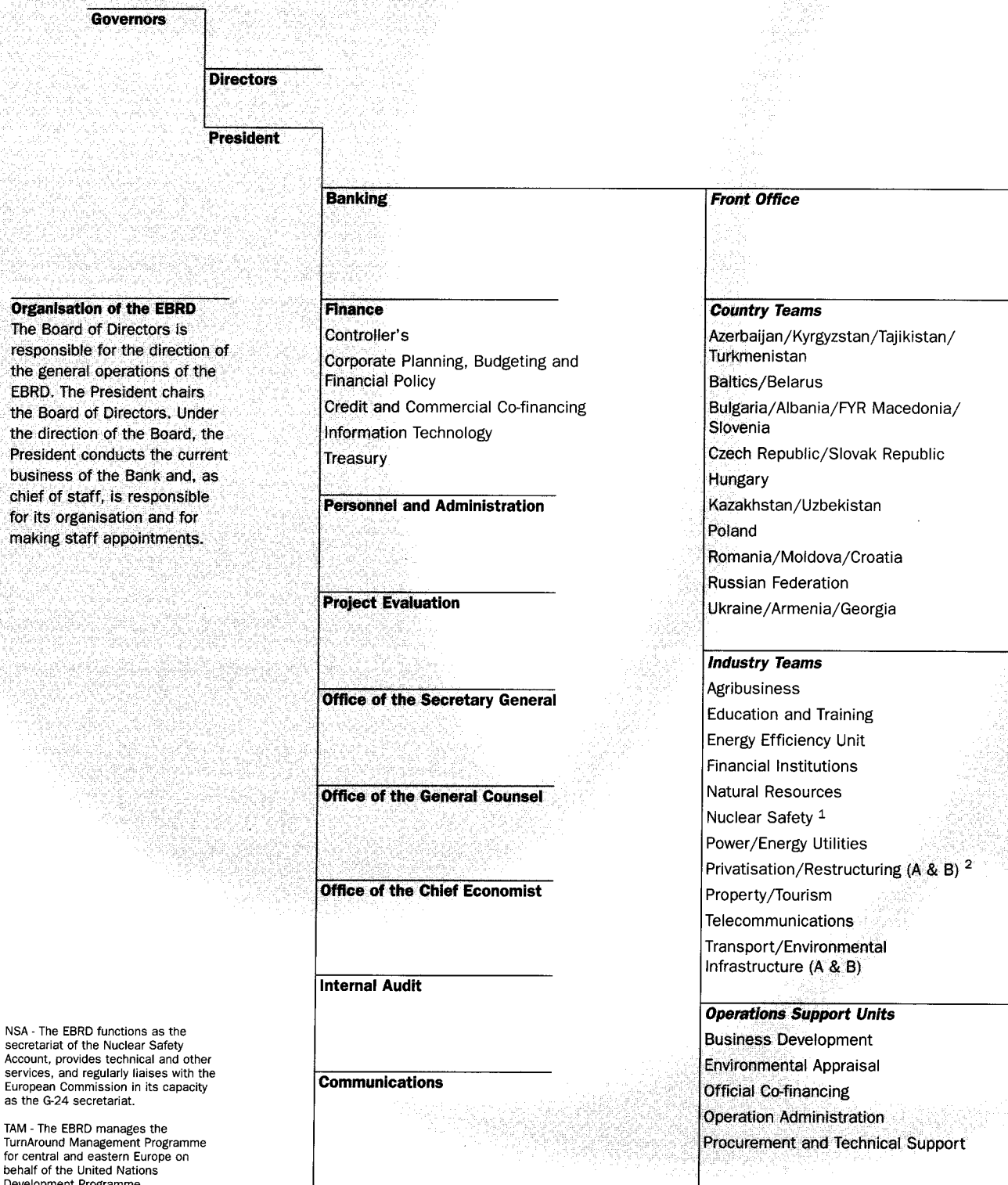
Directors	Alternate Directors	Constituencies	
John Coleman Claes de Neergaard Robert Graham-Harrison Johan Hilbers Brian Hillery <sup>3</sup>	David Horley Håkan Emsgård <sup>1</sup> Jon Cunliffe Kees Spaans <sup>2</sup> Asger Lund-Sørensen <sup>4</sup>	Canada/Morocco Sweden/Iceland/Estonia United Kingdom Netherlands Ireland/Denmark/Lithuania/ FYR Macedonia Bulgaria/Poland/Albania Norway/Finland/Latvia European Investment Bank Austria/Israel/Cyprus/ Malta/Kazakhstan Italy Hungary/Czech Republic/ Slovak Republic/Croatia France Australia/Korea/New Zealand/ Egypt Russian Federation/Belarus/ Tajikistan Switzerland/Turkey/Liechtenstein/ Uzbekistan/Kyrgyzstan/ Azerbaijan/Turkmenistan Ukraine/Romania/Moldova/ Georgia/Armenia United States of America Belgium/Luxembourg/Slovenia Japan Spain/Mexico European Community Greece/Portugal Germany	1 Håkan Emsgård succeeded Halldór Kristjánsson in August 2 Kees Spaans succeeded Paul Menkveld in August 3 Brian Hillery succeeded Asger Lund-Sørensen in May 4 Asger Lund-Sørensen succeeded Phelim Molloy in May 5 Plamen Ilchev exchanged with Jan Bielecki in April 6 Helge Kringstad succeeded Kari Nars in May 7 Rauli Suikkanen succeeded Erik Århus in May 8 Amos Rubin succeeded Mordechai Fraenkel in August 9 György Matolcsy exchanged with Tomáš Parížek in May 10 Alan Morris succeeded Jim Humphreys in June 11 Huhn-Gunn Ro succeeded Won-Young Yon in February 12 Selçuk Demiralp succeeded Ibrahim Berberoglu in August 13 James Scheuer succeeded Jeffrey Shafer in February 14 Bernard Snoy succeeded Guy Noppen in March
Plamen Ilchev <sup>5</sup> Helge Kringstad <sup>6</sup> Roger Lavelle Heiner Luschin	Jan Bielecki Rauli Suikkanen <sup>7</sup> Terry Brown Amos Rubin <sup>8</sup>		
Giuseppe Maresca György Matolcsy <sup>9</sup>	Maurizio Serra Tomáš Parížek		
Patrick Mordacq Alan Morris <sup>10</sup>	Didier Elbaum Huhn-Gunn Ro <sup>11</sup>		
Oleg Preksin	Serguei Ovseitchik		
Jacques Reverdin	Selçuk Demiralp <sup>12</sup>		
Oleksander Savchenko	Stanel Ghencea		
James Scheuer <sup>13</sup> Bernard Snoy <sup>14</sup> Kazumoto Suzuki José Luis Ugarte Antoine Van Goethem Stefanos Vavalidis Günter Winkelmann	Lee Jackson Ernest Muhlen Takashi Osanai Belen Cristino Peter Blackie Fernando Soares Carneiro Siegfried Borggreffe		

## Composition of Board of Directors' committees 31 December 1994

Audit Committee	Budget and Administrative Affairs Committee	Financial and Operations Policies Committee	
Stefanos Vavalidis (Chairman) Plamen Ilchev (Vice Chairman) Johan Hilbers Helge Kringstad Roger Lavelle Alan Morris Antoine Van Goethem	Bernard Snoy (Chairman) Günter Winkelmann (Vice Chairman) Brian Hillery Giuseppe Maresca György Matolcsy Patrick Mordacq James Scheuer Kazumoto Suzuki	Robert Graham-Harrison (Chairman) Oleg Preksin (Vice Chairman) John Coleman Claes de Neergaard Heiner Luschin Jacques Reverdin Oleksander Savchenko José Luis Ugarte	<p>The Audit Committee considers the appointment and scope of work of the External Auditors; and reviews financial statements and general accounting principles, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation.</p> <p>The Budget and Administrative Affairs Committee considers general budgetary policy, proposals, procedures and reports. It also considers personnel, administrative and organisational matters, and administrative matters relating to Directors and their staff.</p> <p>The Financial and Operations Policies Committee reviews financial policies including borrowing policy, general policies relating to operations, and procedures and reporting requirements.</p> <p>The Board Steering Group was established in July to improve coordination between the Board of Directors and management on arrangements and the setting of agendas for meetings of the Board, committees and workshops. The Group is convened under the chairmanship in 1994/95 of John Coleman, and comprises the chairmen and vice chairmen of the three Board Committees, the Secretary General and the Deputy Secretaries General.</p>

# Contact information

## Operational structure



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**Contacting the EBRD**

7 March 1995

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<b>President</b>	Jacques de Larosière
Personal Assistant	Philippe Richard

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**Banking****First Vice President's Office**

First Vice President	Ron Freeman
Deputy Vice Presidents	Thierry Baudon
	Guy de Selliers
	Joachim Jahnke
	Gavin Anderson
Senior Project Finance Adviser	Jean-Francois Maquet
Senior Operations Adviser	Achim von Heynitz
Senior Economic Adviser	Charles Vuylsteke
Senior PHARE Adviser	

**Country Teams**

Azerbaijan/Kyrgyzstan/ Tajikistan/Turkmenistan	<b>Team Director</b> Stijn Albregts
Baltics/Belarus	George Krivicky
Bulgaria/Albania/FYR Macedonia/ Slovenia	Olivier Descamps
Czech Republic/Slovak Republic	Jiri Huebner
Hungary	Gyuri Karady, Peter Reiniger
Kazakhstan/Uzbekistan	Rolf Westling (Acting)
Poland	Charles Wrangham
Romania/Moldova/Croatia	Josué Tanaka
Russian Federation	Guy de Selliers (Acting)
Ukraine/Armenia/Georgia	Mark Tomlinson

**Industry Teams**

Agribusiness	<b>Team Director</b> Hans Christian Jacobsen,
	Juan Miranda
Education and Training	Philippe Dewilde
Energy Efficiency Unit	Bernard Jamet
Financial Institutions	David Hexter
Natural Resources	Sergey Popov (Acting),
	Gunther Vowinkel (Acting)
Nuclear Safety	François Démarcq
Power/Energy Utilities	Ananda Covindassamy
Privatisation/Restructuring (A & B)	Sven Hegstad
Property/Tourism	Mario Salsano
Telecommunications	Clell Harral
Transport/Environmental Infrastructure (A)	Graham Smith
Transport/Environmental Infrastructure (B)	Roy Knighton

**Operations Support Units**

Business Development	<b>Head of Unit</b> Serge Desprat
Environmental Appraisal	Tim Murphy
Official Co-financing	Ulrich Kiermayr
Operation Administration	Lieve Reckers
Procurement & Technical Support	Bernard Gouveia
TurnAround Management Programme	Stuart MacIntire

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**Finance**

Vice President	Bart le Blanc
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**Controller's**

Controller	Christopher Holyoak
Director, Accounting, Reporting and Control	Nigel Kerby
Head of Operations	Simon Fowler

**Corporate Planning, Budgeting and  
Financial Policy**

Director	Aldo Graziani
Director, Financial Policy	Patricia Haas Cleveland
Head of Planning and Budgeting	Claus Biering

**Credit and Commercial Co-financing**

Director	Noreen Doyle
Head of Credit	Bob Harada
Head of Portfolio Review	Mike Williams
Syndications	Lorenz Jorgensen
ECA Co-financing Adviser	David Fisher

**Information Technology**

Director	Guy de Poerck
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**Treasury**

Treasurer	Mark Cutis
Director, Financial Risk Management	Marcus Fedder
Director, Funding	Louis de Montpellier

---

**Personnel and Administration**

Vice President	Miklós Németh
Director of Personnel	Sam Goldenberg
Director of Administration	Renaud Lagey

**Project Evaluation**

Vice President	Manfred Abelein
Director, Project Evaluation	Bill Stevenson

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**Office of the Secretary General**

Secretary General	Antonio Maria Costa
Deputy Secretary General	Daud Ilyas
Deputy Secretary General	Nigel Carter
Institutional Affairs & NGOs	Katrina Farrell

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**Office of the General Counsel**

General Counsel	Andre Newburg
Deputy General Counsel	John Taylor
Assistant General Counsel	Emmanuel Maurice
Assistant General Counsel	Liz Hunt

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**Office of the Chief Economist**

Chief Economist	Nicholas Stern
Deputy Chief Economist	Ricardo Lago
Director of Policy Studies	Mark Schankerman

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**Internal Audit**

Head of Internal Audit	Tarek Rouchdy
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**Communications**

Director of Communications	Barbara Clay
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