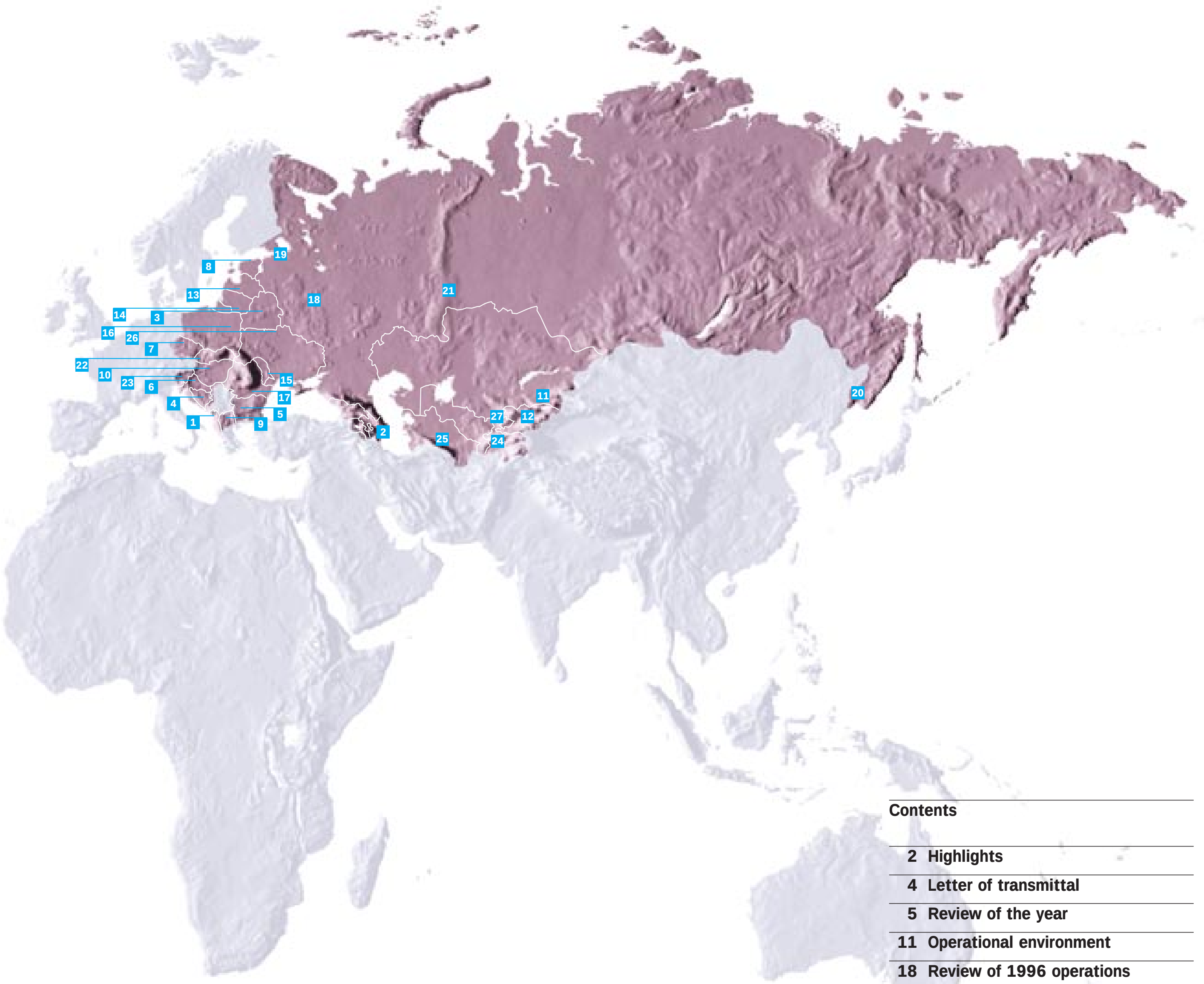
Annual report
1996

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 26 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 and national organisations. In all of its activities, the Bank promotes environmentally sound and sustainable development.



Countries of operations
at 31 December 1996

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

■ *EBRD local offices (see page 103 for addresses)*

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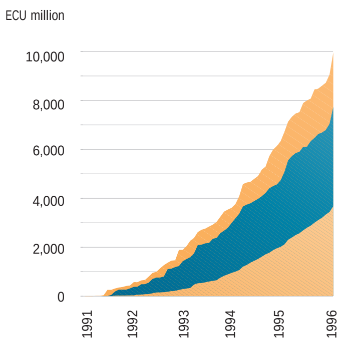
Highlights

Financial results

ECU million	1996	1995	1994	1993	1992
Operating income	243.7	241.2	170.7	191.3	100.0
Expenses and depreciation	146.4	158.3	145.8	147.5	96.2
Operating profit before provisions	97.3	82.9	24.9	43.8	3.8
Provisions for losses	92.4	75.4	23.9	39.7	9.9
Profit (loss) for the period	4.9	7.5	1.0	4.1	(6.1)
Authorised capital	10,000*	10,000	10,000	10,000	10,000
Paid-in capital	2,965	2,965	2,965	2,965	2,965
Capital instalments received (cumulative)	2,916	2,842	2,273	1,728	1,206
Total provisions and reserves	263	165	81	54	(8)
Total assets	10,964	8,728	7,528	7,036	4,929

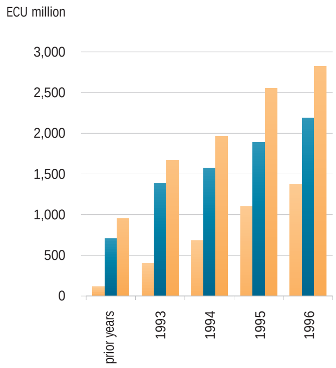
* In April 1996 the EBRD's Board of Governors agreed to double the Bank's capital base to ECU 20 billion (see pages 5-6).

Cumulative approvals, commitments and disbursements
at 31 December 1996*



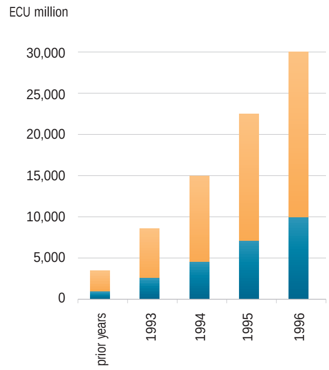
Approved
Committed
Disbursed

Annual approvals, commitments and disbursements
at 31 December 1996*



Approved
Committed
Disbursed

Cumulative funds to be mobilised
at 31 December 1996*



EBRD financing approved
Non-EBRD funds to be mobilised (including official co-financing)

* Based on revalued figures.

EBRD projects

Approvals: Projects that have been approved by the EBRD's Board of Directors. Approval does not always lead to signing.

Commitments: Projects that have been signed following approval by the Bank's Board of Directors.

Disbursements: Financing that has been disbursed following the signing of a project.

Revalued figures for years prior to 1996 reflect subsequent changes due to exchange rates, cancellations, syndications or restructuring.

Exchange rates

Non-ECU currencies have been converted, where appropriate, into ECU on the basis of the exchange rates current on 31 December 1996. (Approximate ECU exchange rates: DM 1.93, FFr 6.51, ¥141.29, £0.73, US$ 1.24.)

Operation counting

Operations may be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement. Totals in tables may not add due to rounding.

The region

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

Operational results

Reported figures[1]

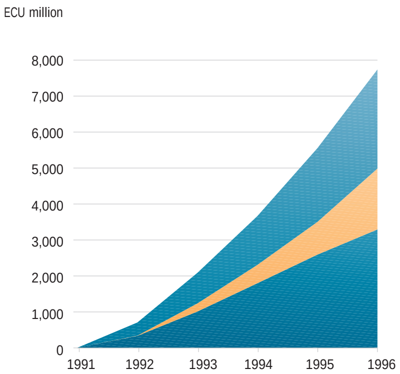
Number	1996	1995	1994	1993	1992
New projects approved	119	134	109	91	54
New projects committed	95	110	91	73	36
EBRD financing for year ECU million	**1996**	**1995**	**1994**	**1993**	**1992**
Approved	2,827	2,855	2,409	2,276	1,226
Committed	2,188	2,000	1,878	1,794	916
Signed RVFs[2]	24	164	59	0	0
Net disbursements	1,162	988	591	435	126
Resource mobilisation ECU million	**1996**	**1995**	**1994**	**1993**	**1992**
For approvals	4,673	6,084	4,501	5,439	3,724
For commitments	3,819	4,972	3,317	3,379	1,959

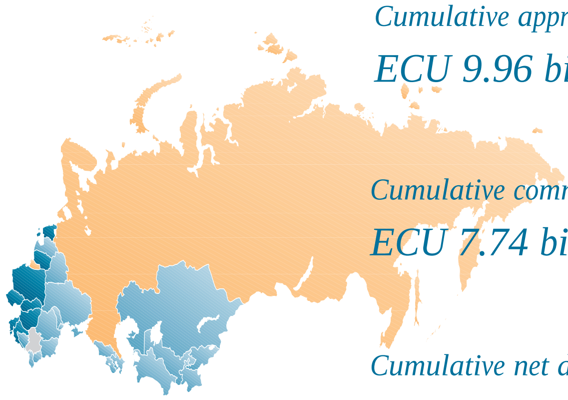
1 Individual figures for 1992-95 are as reported for those years. They do not reflect subsequent changes due, for example, to exchange rates, cancellations, syndications or restructuring.

2 Regional Venture Fund framework agreements.

Cumulative commitments by transition stage

at 31 December 1996





Cumulative approvals:

ECU 9.96 billion

Cumulative commitments:

ECU 7.74 billion

Cumulative net disbursements:

ECU 3.20 billion

Early / Intermediate: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakstan, Kyrgyzstan, Latvia, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Regional.

Advanced: Croatia, Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovak Republic, Slovenia.

Russian Federation

Transition stage

The EBRD classifies its countries of operations by their progress towards a market economy. The classification of stages of transition used throughout the *Annual Report* follows that of the *Transition Report* 1994, as the Bank currently uses this classification in its internal reporting. The classification used in the *Transition Report* 1996 differs from the 1994 classification in two respects: Latvia has been placed in the "advanced" category; and Armenia, Georgia, Kazakstan and Ukraine have been moved from the "early" to "intermediate" category. Future *Annual Reports* will embody later classifications.

The Russian Federation is treated separately. "Regional" projects are treated as intermediate.

Letter of transmittal

London, 11 March 1997

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 1996 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.

President

Jacques de Larosière

Directors	Alternate Directors
Jan Bielecki	Kalin Mitrev
Péter Bod	Tomás Parízek
Elisabeth Bukspan	Lucien Bernadine
John Coleman	Tom MacDonald
Staffan Crona	Håkan Emsgård
Robert Graham-Harrison	David Roe
Johan Hilbers	Kees Spaans
Brian Hillery	Asger Lund-Sørensen
Mikhail Jernov	Michail Tatianchenko
Helge Kringstad	Rauli Suikkanen
Roger Lavelle	Walter Cernoia
Heiner Luschin	Amos Rubin
Alan Morris	Huhn-Gunn Ro
Philippe Petit-Laurent	Vassili Lelakis
Yuri Poluneev	Maria Sultanoiu
Enzo Quattrociocche	Pasquale Terracciano
Jacques Reverdin	Selçuk Demìralp
Karen Shepherd	–
Bernard Snoy	Ernest Muhlen
Fernando Soares Carneiro	Stefanos Vavalidis
Kazuhito Tatebe	Takashi Osanai
Miguel Valle	Belén Cristino
Günter Winkelmann	Joachim Hacker

The tragic death in April 1996 of Lee Jackson, Director for the United States, deprived the Bank of an outstanding individual who had contributed tirelessly to the achievements of the EBRD. Lee Jackson participated in the full range of the Bank's activities, and his death in a plane crash, while on mission to Croatia and Bosnia and Herzegovina, has left all those who knew him with a great sense of loss.

Review of the year

Introduction

In 1996 the EBRD exceeded its operational objectives for the year, signing ECU 2.2 billion of new projects to bring the cumulative total of signed operations to over ECU 7.7 billion. These commitments demonstrate the Bank's important role in supporting and encouraging the transition process and the development of the private sector in the countries of central and eastern Europe and the former Soviet Union.

Operational objectives exceeded

The annual value of the EBRD's new projects increased for the fifth successive year in 1996. The Board approved 119 projects with a total EBRD financing of ECU 2.8 billion during the year. By the end of 1996, cumulative Board approvals totalled ECU 9.96 billion, almost 100 per cent of the Bank's initial capital.

The effectiveness of the Bank's management and operations was underlined by the decision of the EBRD's Governors, at the 1996 Annual Meeting, to double its capital base to ECU 20 billion. This will enable the Bank to continue to meet the demand for its services and eventually to achieve self-sustainability.

For the first time since its inauguration, the Bank now has commitments in each of its countries of operations following the signing of projects in Tajikistan and in Bosnia and Herzegovina, which became the Bank's newest member in June 1996.

The expansion of commitments in 1996 was achieved against a background of strict budgetary discipline, with no increase in the administrative budget for the third year running. Within this framework, the Bank has continued to implement the policy of deepening its involvement in the region by expanding its presence in its countries of operations to 27 local offices. These offices are fully involved in generating new projects and in monitoring the growing number of Bank operations.

The EBRD's net profit after provisions in 1996 was ECU 4.89 million, exceeding earlier projections. The contribution to gross income from Banking operations again increased, due to the substantial growth in fee and interest income as a result of the increase in operational disbursements. At the same time the Bank's Treasury continued to provide a steady flow of income in excess of performance benchmarks.

New policies established in 1996 included a policy on graduation of EBRD operations, and a policy on disclosure of information, which aims to increase transparency in response to public interest in the work of the Bank. Revisions were made to the Bank's environmental policy and procedures, and to the procurement policies and rules concerning utilities.

Capital increase

At the 1996 Annual Meeting in Sofia, shareholders unanimously approved a doubling of the EBRD's capital base to ECU 20 billion. The additional capital will enable the Bank to continue its existing work programme and support its manageable growth strategy. EBRD management will maintain its policy of ensuring efficiency in the generation of new projects, with strict management of its administrative costs. Consequently, the earnings from this enlarged capital base, generated through the Bank's treasury and investment operations, will enable the EBRD to continue to expand its portfolio while financing administrative costs and provisions on a self-sustaining basis.

EBRD's capital doubled to ECU 20 billion

The vote by Governors was the culmination of a two-year review of the capital resources needed to support the EBRD's future activities. This review focused on the Bank's operational effectiveness, financial viability, and successful implementation of its mandate and operational priorities.

The review acknowledged that the EBRD's portfolio continued to grow rapidly. The Bank's demonstration effect remained important, particularly in terms of pioneering new activities in private sector development. The Bank maintained its market-oriented approach by developing various forms of financing adapted to countries at different stages of transition. Similarly, it tailored projects to meet the specific requirements of clients and co-financiers in equity, wholesale instruments, commercial infrastructure, energy efficiency and the environment. Demand for EBRD financing varied in magnitude and composition depending on the country's stage of transition and its attractiveness to private sector investors.

Capital increase modalities

Authorised capital	Decision by Governors in April 1996 to increase EBRD capital from ECU 10 billion to ECU 20 billion.
Effectiveness	In accordance with Resolution No 59 of the Board of Governors, the Effective Date of the doubling of the authorised capital stock will be the date on which subscriptions for an aggregate of at least 494,188 shares (which is about 50 per cent of the capital increase) have been received by the Bank. The Resolution requires that effectiveness of this increase in authorised capital stock should occur on or before 15 April 1997.*
Paid-in shares	22.5 per cent of the proposed increase.
Payment for paid-in shares	In eight equal annual instalments, the first of which is to be paid by 15 April 1998.
Promissory notes and encashment	60 per cent of each instalment payment may be made in promissory notes or other obligations, to be encashed in five equal annual tranches.
Currency of payment for paid-in shares	Payment obligations settled in ECU, US dollars or Japanese yen on the basis of a fixed exchange rate.

* As of 11 March 1997, total subscriptions received represented 83.3 per cent of the subscriptions needed for effectiveness of the capital increase.

As EBRD operations increased in absolute terms in countries at early or intermediate stages of transition, the Bank reviewed its existing financial policies in 1996 and further strengthened its resolve to build reserves, raise commitment levels and control costs while continuing to increase productivity. A priority continued to be attention to best industry standards and maintenance of the highest level of corporate governance to ensure accountability and transparency.

The EBRD's medium-term strategy, re-examined annually, was developed in terms of manageable growth. This envisages annual new commitments increasing to ECU 2.6 billion by 2000, bringing the total portfolio to some ECU 15 billion by the end of that year. This strategy is designed to implement the Bank's operational priorities, which include:

- a concentration on private sector development
- the need to be active in all of its countries of operations
- the need to reach local private sector enterprises
- the importance of financial intermediaries
- a more active approach towards equity investment.

The EBRD's operations are also guided by the need to promote environmentally sound and sustainable development, including through increased energy efficiency. These priorities form part of the Bank's continuing promotion of restructuring, privatisation and infrastructure development, which is critical for increasing private sector activity and for regional integration.

Operational environment

The EBRD classifies its countries of operations by their progress towards a market economy. Most governments and central banks in eastern Europe began to implement tight fiscal and monetary policies between 1989 and 1991, while liberalising prices, trade and inward investment. The Baltic countries followed suit in 1992 soon after gaining independence. Most of the countries in eastern Europe and the Baltics have now implemented comprehensive privatisation schemes and initiated financial sector reforms. By 1994 a number of countries had reached the advanced stages of transition. These included the members of CEFTA (the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia), Croatia, Estonia and Lithuania. Between 1994 and 1996 an acceleration of structural reforms brought Latvia to advanced stages of transition.

Most CIS countries (which comprise the former Soviet Union with the exception of the Baltic states) have also tightened fiscal and monetary policies and liberalised markets. Three of these – Kyrgyzstan, Moldova and Russia – adopted structural reform and tentative stabilisation policies in 1992-93. Since 1994, markets have been liberalised, and financial policies tightened, in a number of other CIS countries, including Armenia, Georgia, Kazakstan, Ukraine and Uzbekistan. By the end of 1996 only Azerbaijan, Belarus, Tajikistan and Turkmenistan remained at the early stages of transition.

In 1996, developments in the region were more gradual than they were in the early 1990s, as the focus of operations shifted towards more challenging areas of institutional change, including the privatisation of large-scale enterprises, their restructuring, and the reform of financial institutions and markets. During 1996 there was also a slowdown in the rate of economic growth in central and eastern Europe and the Baltic states.

Growth prospects remain strong in the medium to long term for those countries that are most advanced in market-oriented reforms. In the CIS countries the situation is mixed. In the larger countries the initial appearance of positive growth is still awaited, whereas in the smaller countries there were increases in industrial output in the first half of 1996.

The EBRD rigorously applies the three criteria of sound banking principles, additionality (supporting rather than competing with the private sector) and transition impact in its project approval process. In particular, the Bank has set criteria to assess the effect that its projects have on the transition process. These criteria focus primarily on the contribution of individual projects to the development of competitive markets, and on the extent to which projects facilitate the development of new market skills, production techniques and efficient organisation. Applying these criteria helps the Bank comply with its mandate to advance the transition process in its countries of operations.

Progress in many of the Bank's countries of operations contributed to an increasingly difficult operating environment for the EBRD. As success in transition led to more competitive markets, the Bank's operational objectives grew more challenging. The EBRD was required to create imaginative and innovative responses to the demands for its services to maximise its impact on the transition process. At the same time it was required to maintain sound banking principles and to ensure that its resources did not compete with or displace the private sector.

Operational achievements

In 1996 the EBRD again exceeded its Board-approved target for new signed projects, committing almost ECU 2.2 billion. Cumulative signed commitments rose by 39 per cent in a single year to ECU 7.7 billion by the end of 1996. In the course of the year the Board of Directors approved 119 projects, resulting in a cumulative value of almost ECU 10 billion (up by 40 per cent from the end of 1995). The total volume of projects in the EBRD's forward pipeline also increased during 1996, as demand for Bank financing continued to grow.

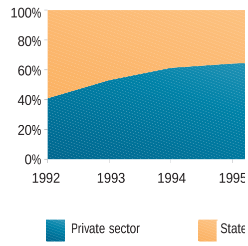
ECU 2.2 billion committed in 1996

The EBRD's rate of disbursement in 1996 progressed at a steady pace, and was faster than the rate of growth in commitments. Net disbursements in 1996 reached ECU 1.2 billion, 18 per cent higher than in 1995, and at the end of the year disbursements represented 41.4 per cent of cumulative commitments.

In 1996 the EBRD signed its first projects in Bosnia and Herzegovina (which became a member in June 1996) and in Tajikistan. The Bank is now fully operational in each of its 26 countries of operations. Guided by the priority of increasing the geographical spread of its activities, the Bank committed additional time and financing to countries at early stages of transition. Further details of the Bank's operations are provided on pages 18-40.

The EBRD's ability to generate significant investment from external co-financiers illustrates its effectiveness and impact on the transition process. In addition to ECU 2.2 billion from its own resources, the Bank was able to mobilise an additional ECU 3.8 billion in 1996 from third parties. The total amount of ECU 6 billion represents a significant contribution to the annual financing needs of the region for the development of market economies.

Growth of the EBRD's p sector activities



Private sector operations grew from 62 per cent of the signed portfolio at the end of 1995 to 66 per cent by the end of 1996, complying with the EBRD's mandate that not more than 40 per cent of its commitments shall be provided to the state sector. The EBRD aims to reach this 60/40 ratio in each country within five years of its first commitment in that country. Although this may not be achieved in every country within the timescale, management will prepare an action plan to achieve the ratio as soon as practicable.

Financial results

The EBRD's net profit after provisions was ECU 4.89 million, which was better than originally projected and reflects a number of prudential measures taken during the year. Total provisions and reserves now represent 8.03 per cent of disbursed loans and equity outstandings, highlighting the priority given by the Bank to building up reserves.

Net profit ECU 4.89 million

Operating profit before provisions for the year was ECU 97.34 million, compared with ECU 82.9 million in 1995. The fact that the profit from the sale of share investments was significantly below the 1995 level indicates the strengthening of the Bank's core business.

The contribution to gross income from Banking operations increased to nearly 50 per cent in 1996, compared with 35 per cent in 1995. This was due to the substantial growth in fee and interest income as a result of the increase in operational disbursements. At the same time the Bank's Treasury continued to provide a steady flow of income in excess of performance benchmarks.

The EBRD's total reported expenses, including depreciation, were well within the approved budget and lower than in 1995. Sterling-based expenses were contained due to continued tight budget constraints and an effective cost-recovery mechanism. The Bank's policy to hedge the sterling expenses into ECU had a better than anticipated impact on the reported ECU expenses in 1996, which were ECU 3.63 million lower than in 1995.

Depreciation in 1996 was lower than in the previous year, following the decision to accelerate depreciation in 1995 in order to reflect the actions taken to provide more effective use of the Bank's Headquarters.

Provisions of ECU 92.45 million were made in 1996, including ECU 20.02 million of specific provisions. The first project in Bosnia and Herzegovina was committed during the year, with a special prudential provision of ECU 4.61 million, recognising the exceptional operational environment in that country. The charge for the year is ECU 17.07 million greater than in 1995, demonstrating the significant growth of the committed and disbursed portfolio of loan and equity investments, with cumulative provisions increasing to ECU 235.37 million.

Membership

Membership of the Bank increased in 1996 with the addition of Bosnia and Herzegovina, which in June became the 60th member of the Bank and its 26th country of operations.

Bosnia and Herzegovina joins the Bank

The EBRD received a request from the Republic of Korea to increase its shareholding in the Bank from 0.65 per cent to 1 per cent of the Bank's capital. This request was reviewed by the Board of Directors in 1996 and will be considered by the Board of Governors during 1997.

Monitoring of Article 1

The purpose of the EBRD, as outlined in Article 1 of the Agreement Establishing the Bank, is to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in its countries of operations committed to and applying the principles of multiparty democracy, pluralism and market economics.

The economic aspects of Article 1 are central to the Bank's operational practices. Monitoring of adherence to the political principles embodied in Article 1 is integrated into the Bank's operations and reflected in its country strategy papers, which include an assessment of a country's commitment to Article 1. As part of its periodic review of the Bank's operations and lending strategies, the Board of Directors reviewed in 1996 the commitment by its countries of operations to Article 1, including their application of multiparty democracy and pluralism. In a few cases, the Board felt that progress was inadequate, and the President of the Bank was asked to convey the concerns of the Board of Directors to the relevant authorities.

The Bank's operations are also guided by contacts with governments and other institutions concerning questions arising from the monitoring process. In 1996 the EBRD worked, *inter alia*, in close cooperation with the European Union, the Organisation for Security and Cooperation in Europe, the Council of Europe and government officials from its member states.

Policy developments

A policy on the graduation of EBRD operations was approved in November 1996. As a country advances in structural reform, different responses and services are demanded from the Bank. To guide this movement of EBRD activities in a country, the policy sets out guidelines for graduation of projects and market segments. These are founded on the operating principles which the Bank has followed over the past years, including the need to apply sound banking principles, be additional to other lenders, have a positive impact on the transition process, promote environmentally sound development and diversify the risks in the Bank's portfolio. The application of these principles and guidelines implies that the graduation of operations is market-driven.

Graduation policy approved

A policy on disclosure of information, approved in April 1996, became effective in September. The policy includes new information initiatives to make the Bank's operations more transparent and to enhance understanding of the countries and sectors in which it operates. It will also increase public awareness of the information already available through the EBRD's extensive publications programme and its Business Information Centre. The policy is based on the principle that, whenever possible, information concerning the EBRD's activities is made available to the public in the absence of a compelling reason for confidentiality. Under the policy, the Bank provides information on projects before Board consideration, and will continue to meet individual requests for information whenever possible.

New disclosure of information policy

The EBRD's environmental policy and procedures, aimed at achieving high standards in all the Bank's operations, were revised in September. Under the policy, the Bank ensures, through its environmental appraisal process, that its projects are environmentally sound and that its operations wherever possible have a positive effect on the environment. The policy seeks to promote energy and resource efficiency, waste reduction, resource recovery and recycling, the use of cleaner technologies and the promotion of renewable resources. To facilitate the application of these policies, the Bank works closely with other international financial institutions, the European Union and bilateral donor organisations. EBRD operations will be structured to meet national and existing EU environmental standards or World Bank standards where EU standards do not exist. The EBRD ensures that its clients inform and consult with communities and organisations potentially affected by their proposed projects. This allows the public to express its views and concerns on issues related to the project, including location, choice of technology and timing, before a financing decision is made. To ensure that these policies are always respected, the EBRD's clients are obliged to follow the Bank's public consultation requirements, which sometimes exceed national requirements.

Environmental policy and procedures revised

The Bank's procurement policies and rules were revised in March 1996 to take account of public utilities moving towards majority private ownership or control.

Information initiatives

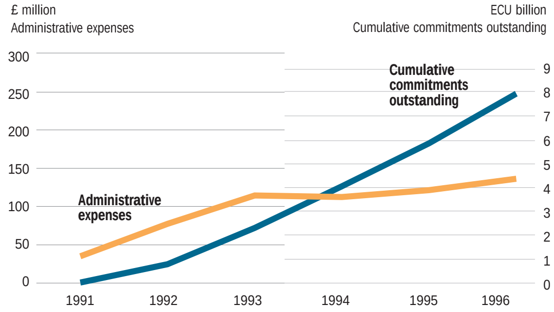
As part of the new policy on disclosure of information, the EBRD issues information about its public and private sector projects through project summary documents (PSDs). These are usually made available at least 30 days before the project's consideration by the Board of Directors, unless there are sound reasons for confidentiality. PSDs are available from the EBRD's Publications Desk and are posted on the Bank's Web site (see page 104), which was launched in September 1996. The Web site also provides a wide range of the Bank's publications and other material of general interest, such as press releases.

An information research service is provided by the EBRD's Business Information Centre (BIC) as part of the Bank's commitment to promoting investment. Since its launch in late 1995, the service has increased the number of its subscribers to 19, and its costs are fully recovered. The BIC also published in 1996 the first edition of the *EBRD Directory of business information sources on central and eastern Europe and the CIS*. Intended for investors, it lists details of over 1,500 sources of commercially available business information.

Management of resources

In 1996 the Bank ensured that there was no increase in the administrative expenditure budget for the third consecutive year. It continued to concentrate resources on operational activities and to pursue strict budget discipline; expenditure on overheads declined in cash terms in 1996. Productivity increased during the year as the Bank generated a higher value of new operations while monitoring 16 per cent more projects than in the previous year. The Bank continued to increase its yearly commitments in relation to its direct costs, and for every ECU of expenditure it generated ECU 42 in commitments.

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



Significant savings were achieved by sub-letting a second floor in the Bank's Headquarters and by reducing Board of Directors' staff and office space. Additional resources from reduced overheads and increased cost recovery were used to reinforce the Bank's operational activities in its countries of operations.

Resources were shifted from country to sector teams in the Bank's Headquarters, while the EBRD expanded its presence in its countries of operations to 27 local offices. Staff members at 31 December 1996 were: 766 regular staff, 128 contract staff, 145 locally hired staff in Resident Offices, and 75 Board of Directors' personnel. The Bank benefited from having regular staff drawn from 52 countries.

The Bank provides both formal and on-the-job training to help staff to learn and apply new skills. During 1996 training activity expanded significantly, both in the range of courses provided and the number of individuals trained. Some 220 in-house courses were organised during the year, and over 750 members of staff received training in 1996 compared with nearly 550 in 1995.

Particular attention has been focused on the importance of performance appraisals, educating both management and staff on the significance of appraisals as well as improving the process.

Future orientation

Important transition-related reforms continue to be implemented in most of the EBRD's countries of operations, although the transition process is not linear and there are risks of reversal in some countries. The Bank's future direction, as set out in its medium-term strategy for 1997-2000, reflects its response to the changing needs of individual countries, the increasing demand for its financing and the effective implementation of its strategy. It builds on the operational priorities endorsed by the Bank's shareholders in 1994 and the plans for manageable growth endorsed in the review of capital resources in 1996.

The economies of most central and east European countries are growing. The rate of output decline has gradually decreased in most CIS countries, and bottoming out of the economic crisis is likely to turn in the near future into recovery of output and employment. Investment demand is rising in many of the Bank's countries of operations and demand for EBRD financing alone is likely to exceed ECU 5 billion annually. The EBRD can help to support and generate the private investment flows, from both domestic and foreign sources, which remain at the heart of the transition process.

As the level of EBRD financing continues to grow, the Bank will continue to focus on full country coverage, including an emphasis on countries at the early and intermediate stages of transition. In response to changing needs, the Bank is likely to increase annual equity commitments and to expand wholesale operations, including financing to intermediaries for on-lending to small and medium-sized enterprises. The EBRD will continue to seek to increase the volume of foreign direct financing in the countries at early or intermediate stages of transition through the provision of EBRD co-financing of long maturities, subordinated loans and the assumption of specified event risk. These efforts to increase the total volume of investment in these countries will help to promote much-needed economic growth and to improve the climate for all investors. Ultimately, this will reduce the need for financing from international financial institutions or other public bodies.

The EBRD continues to support the countries at advanced stages of transition, in particular in sectors undergoing structural reforms. The Bank will continue to develop appropriate products to address these countries' needs.

Resident Offices in the EBRD's countries of operations continue to grow in importance by fostering operations with local businesses and by helping to promote the enhancement of productivity throughout the region. The Bank continues to strive for economy and flexibility by employing staff with appropriate skills and encouraging internal and external mobility.

The EBRD is on target for achieving sustainable profitability while implementing its operational priorities. A proactive approach to its portfolio and the build-up of reserves will be central to the Bank's commitment to be self-sustaining in the future. To meet the Bank's operational and financial objectives as well as increased monitoring requirements, a further enhancement of productivity will be pursued.

On target for achiev
sustainable profitabi

Operational environment

Market-oriented reform

The conditions for growth and investment in central and eastern Europe and the former Soviet Union have been transformed in the 1990s, as the former command economies have been replaced by market-oriented systems. The governments in the bulk of the region have comprehensively liberalised prices, external trade and currency arrangements, and have privatised small economic units. Many have also privatised a substantial share of their larger enterprises. In most countries of the region, at least half of GDP is now generated by the private sector. However, there has been some regression in particular sectors in certain countries. Transition is a long and difficult process, and some of the measures taken have created their own problems.

This section draws upon the EBRD's work in analysing the issues confronting the economies of the region, particularly information published in the Bank's *Transition Report* 1996.

Most of the governments and central banks in eastern Europe began to implement tight fiscal and monetary policies between 1989 and 1991, alongside comprehensive price and trade liberalisation and free rules of entry for new companies. This forced enterprises to adjust both to new competition and to a substantial reduction in their access to subsidised finance from state budgets and banks. The Baltic countries (Estonia, Latvia and Lithuania) followed suit in 1992 soon after gaining independence. Most of the countries in eastern Europe and the Baltics have subsequently implemented comprehensive privatisation schemes and initiated reforms in the financial sector.

Early reforms largely completed

Most CIS countries have also tightened fiscal and monetary policies and liberalised markets. Three of these – Kyrgyzstan, Moldova and Russia – adopted structural reform and tentative stabilisation policies in 1992-93. Russia was the first to liberalise prices and trade. Kyrgyzstan and Moldova were the first to embark on serious macroeconomic stabilisation. Since 1994, markets have been liberalised and financial policies tightened in most other CIS countries, namely Armenia, Georgia, Kazakstan, Ukraine and Uzbekistan. Only Azerbaijan, Belarus, Tajikistan and Turkmenistan now remain at the early stages of market-oriented reform.

Over the past 12 months further systemic changes in the region have been more gradual than they were in the early part of the 1990s (see table on page 12). This is largely because the focus of further reforms in much of the region has shifted from relatively "easy-to-implement" market liberalisation towards comparatively challenging institutional change, including the privatisation of large-scale enterprises and the reform of financial institutions and markets.

In those countries that have reached the more advanced stages of transition, the privatisation of utilities and transport has gained prominence in reform programmes, reflecting a trend also evident in many Western countries. The vast majority of countries at intermediate stages of transition have now begun to implement mass privatisation schemes.

Mass privatisation under way

Implementation of mass privatisation was already well advanced in Kyrgyzstan, Moldova and Russia by the middle of 1995. Since then, Albania, Armenia, Bulgaria, Georgia, Kazakstan, Romania and Ukraine have advanced with implementation of their voucher-based mass privatisation programmes.

The financial sector remains a critical area for EBRD activity throughout the region. Since the inception of its operations in 1991, the Bank identified the strengthening of local financial intermediaries as a major point of focus for its investment. Subsequent events have confirmed this decision and the need for EBRD assistance in this area of economic development, which continues to lag behind other areas of reform such as privatisation.

In 1996 a number of large banks became insolvent. This occurred in countries such as Bulgaria, Kyrgyzstan, Latvia and Russia, as well as in countries at the more advanced stages of transition, such as the Czech Republic and Lithuania. The collapses almost all resulted from a policy of bank loans or deposit schemes lacking sound banking principles. Common features were connected lending and depositing, and concentration of loans in particular sectors in pursuit of political goals. None of these failed banks were those which had received or were receiving EBRD assistance.

Financial sector remains critical

Transition in central and eastern Europe and the former Soviet Union, 1996*

		Enterprises			Markets and trade			Financial institutions		Legal reform
Countries	Private sector share of GDP in %, mid-'96 (rough EBRD estimate)	Large-scale privatisation	Small-scale privatisation	Enterprise restructuring	Price liberalisation	Trade & foreign exchange system	Competition policy	Banking reform & interest rate liberalisation	Securities markets & non-bank financial institutions	Extensiveness & effectiveness of legal rules on investment
Albania	75	2	4	2	3	4	2	2	2	3
Armenia	50	3	3	2	3	4	1	2	1	3
Azerbaijan	25	1	2	2	3	2	1	2	1	2
Belarus	15	1	2	2	3	2	2	1	2	1
Bulgaria	45	2	3	2	2	4	2	2	2	4
Croatia	50	3	4*	3	3	4	2	3	2	4
Czech Republic	75	4	4*	3	3	4*	3	3	3	4
Estonia	70	4	4*	3	3	4	3	3	2	4
FYR Macedonia	50	3	4	2	3	4	1	3	1	3
Georgia	50	3	4	2	3	3	2	2	1	2
Hungary	70	4	4*	3	3	4*	3	3	3	4
Kazakstan	40	3	3	2	3	4	2	2	2	2
Kyrgyzstan	50	3	4	2	3	4	2	2	2	2
Latvia	60	3	4	3	3	4	2	3	2	4
Lithuania	65	3	4	3	3	4	2	3	2	2
Moldova	40	3	3	2	3	4	2	2	2	3
Poland	60	3	4*	3	3	4*	3	3	3	4
Romania	60	3	3	2	3	3	1	3	2	3
Russian Federation	60	3	4	2	3	4	2	2	3	3
Slovak Republic	70	3	4*	3	3	4*	3	3	3	3
Slovenia	45	3	4*	3	3	4*	2	3	3	3
Tajikistan	20	2	2	1	3	2	1	1	1	2
Turkmenistan	20	1	1	1	2	1	1	1	1	1
Ukraine	40	2	3	2	3	3	2	2	2	3
Uzbekistan	40	3	3	2	3	2	2	2	2	3

* Taken from the EBRD's *Transition Report* 1996. The indicators are based on data available in early August 1996. The classification system for transition indicators is complex; for a full explanation see the *Transition Report*. Category 1 generally indicates little progress. Most advanced industrial economies would qualify for the 4* rating for almost all the transition indicators. The table assesses the status rather than the pace of change. For instance, Slovenia's score of 4* on small-scale privatisation, despite the absence of a comprehensive privatisation programme, reflects the fact that small-scale activity in Slovenia was largely private before transition began. Kyrgyzstan's score of 2 on banking reform reflects the fact that the financial sector is still not effective in mobilising considerable domestic financial resources.

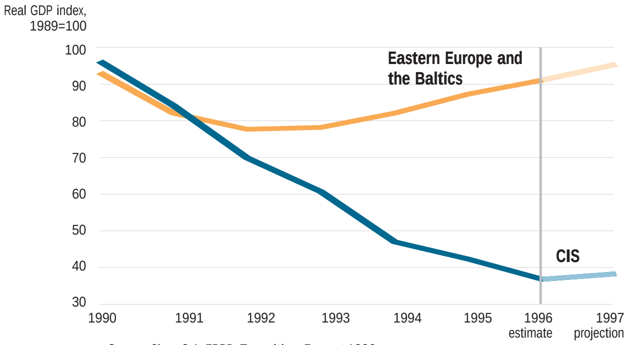
EBRD policy in its financial sector operations emphasises sound bank regulation, strict respect of banking principles for loans and deposit management, and full and prompt consolidation and disclosure according to international accounting and regulatory standards of the full range of financial operations. Experience to date demonstrates that the countries of operations that adhere to these principles are undergoing rapid growth in the local bank sector. Banks in such countries offer stability to depositors and a reasonable and reliable source of medium-term financing for the private industrial and commercial sectors.

Growth: recent developments and prospects

The past three years have seen strong economic growth in central and eastern Europe and a reduction in the pace of output decline in the CIS. Growth in eastern Europe and the Baltics remained strong during the first half of 1996, albeit at a slightly lower level than the 5 per cent achieved in 1995. Full-year estimates for 1996 point to significantly negative growth, however, in Bulgaria, which recorded positive growth in output in 1995.[1] It is likely that the slightly slower growth in eastern Europe in 1996 reflects primarily short-term factors, including a recent drop in western Europe's output growth and import demand, as well as fiscal contraction in a few east European countries. Growth prospects remain strong in the medium to long term for those countries of eastern Europe that have advanced the most in market-oriented reform.

1 It should be emphasised that the figures given here for growth in output rely almost exclusively on current official estimates from the national statistical offices in the region. It is widely recognised that official GDP estimates for many countries overstate the output decline that took place in the early years of transition (for a discussion of statistical issues, see "Selected economic indicators" in the *Transition Report* 1996 and Annex 11.1 of the *Transition Report* 1995).

Growth in eastern Europe, the Baltics and the CIS



Source: Chart 8.1, EBRD *Transition Report* 1996

The largest countries in the CIS still await the initial appearance of positive growth but six of the smaller CIS countries recorded increases in output in 1996 (compared with 1995). Despite earlier optimism among most forecasters, official data indicate that the pace of decline in Russia's real GDP failed to slow during 1996 from the annualised rate of about 4 per cent seen in 1995, while real GDP in Ukraine in 1996 was a full 8 per cent below the level one year earlier. However, at least in the case of Russia, both industrial production and oil output have recently flattened, indicating that the trough has been reached.

Medium-term growth developments are likely to be determined to a much greater extent by the organisation and use of resources, and by the level of high-quality investment in the workforce and infrastructure. In this regard, prospects remain bright. The countries in the region have an educated labour force and are moving towards greater macroeconomic stability (albeit with occasional setbacks in some countries, as hard-won gains in macroeconomic stabilisation have slipped away). In addition, most of the countries are moving decisively towards the establishment of market-oriented economic systems which encourage the increased savings levels needed for growth, and form a favourable environment for quality investment. These are factors that have produced high medium- to long-term growth in developing countries in other parts of the world, including some of the countries in South-East Asia. There is every reason to believe that these factors can produce the same results in eastern Europe, the Baltics and the CIS, provided that the policy framework adopted by the countries in the region will allow them the flexibility and time to do so.

Good prospects for medium-term growth

Foreign direct investment
(inflows recorded in the balance of payments)

	1994	1995 (revised)	1996* (estimate)	Cumulative FDI-inflows 1989-96	Cumulative FDI-inflows 1989-96 per capita	inf per c in 1
	(in US$ millions)		(in US$ millions)		(in US dolla	
Albania	53	70	95	295	92	
Bulgaria	105	98	150	450	54	
Croatia	98	81	300	564	118	
Czech Republic	750	2,525	1,200	6,606	642	
Estonia	214	204	70	707	459	
FYR Macedonia	24	14	n.a.	38	18	
Hungary	1,146	4,453	1,900	13,266	1,288	
Latvia	155	165	171	585	234	
Lithuania	60	55	80	308	83	
Poland	542	1,134	2,300	4,957	128	
Romania	341	367	555	1,434	63	
Slovak Republic	181	180	150	767	144	
Slovenia	128	176	160	731	366	
Eastern Europe and the Baltics	*3,798*	*9,522*	*7,131*	*30,708*	*266*	
Armenia	3	10	34	47	13	
Azerbaijan	22	275	601	918	123	
Belarus	10	7	18	110	11	
Georgia	8	6	40	54	10	
Kazakstan	635	723	930	2,761	165	
Kyrgyzstan	45	61	31	146	33	
Moldova	18	72	46	150	35	
Russian Federation	1,000	1,900	1,600	5,100	34	
Tajikistan	12	13	13	55	10	
Turkmenistan	100	100	129	444	111	
Ukraine	91	266	440	1,167	23	
Uzbekistan	85	120	55	342	15	
The Commonwealth of Independent States	*2,029*	*3,553*	*3,937*	*11,294*	*40*	
Total	**5,826**	**13,075**	**11,068**	**42,002**	**105**	

* Figures for 1996 may be adjusted as final data on the last quarter are obtained
n.a. = not available

Aggregate flows of foreign direct investment (FDI) into central and eastern Europe and the Baltics in 1996 were approximately 25 per cent lower than in 1995. This was particularly evident in Hungary and the Czech Republic, which undertook large-scale privatisations of the infrastructure sector in 1995, involving significant levels of foreign investment. The lower levels of FDI for 1996 do not, therefore, reflect a downward trend. In contrast, FDI into Poland increased substantially in 1996. This reflects a positive change in investors' perception of risk in the country, the attractiveness of the market, and the expectation that the trend will continue.

In the CIS there was a slight increase in FDI in 1996. In Russia, however, there was a significant decline, due partly to political uncertainty, lack of reform of the tax regime, and continuing uncertainty over the law which regulates investment into the oil and gas sector. In contrast, Russian blue-chip companies have increasingly been able to tap international equity and debt capital markets directly, without the need to form joint ventures, and portfolio investment has risen substantially. Investment is growing gradually in Kazakstan and spectacularly in Azerbaijan, reflecting the maturing of long-range investment plans in the oil and gas sector. The investment potential of Uzbekistan is far from being tapped.

Syndicated loans with maturities of over one year in the region reached US$ 9.9 million in 1996, double the 1995 figure, with US$ 2.6 million supported by IFIs or ECAs. Over two-thirds of the total amount went to countries at the advanced stages of transition. Newcomers to the syndicated loan market in 1996 were Croatia, Estonia, Lithuania and Kazakstan.

Social aspects of transition

As positive growth returns in much of the region, resulting from the transition-oriented reforms, it delivers improvements to aggregate income levels.

Nevertheless, in the short run growth may be associated with increasing inequality. The incidence of poverty has increased in a number of countries and the inequalities in the distribution of income and wealth have widened.[2] The substantial declines in output and rises in unemployment experienced by all the countries in the region explain part of the rise in poverty. Another cause was rapid inflation which drastically reduced the standard of living for various segments of the population, particularly for those dependent on unindexed, or partially indexed, income. These effects have been particularly serious in transition countries, given the absence of inflationary hedges and the lack of experience of the population in dealing with the problem. Likewise, the need to implement restrictive fiscal and monetary policies, at a time when output was shrinking and tax revenues falling, led to substantial cuts in public expenditure affecting social spending, the quality and quantity of public services, and the payment of salaries in the public sector. These problems have been less severe in those countries that have pressed ahead most firmly in their reforms.

To enable people to participate in the economy and society, the state has a role to play in ensuring adequate provision for health and education. It also needs to provide a social "safety net" to protect those who are unable to provide for themselves. Through its projects, the EBRD both increases real incomes and helps to advance the transition process, which will in turn lead to future growth. The Bank also confers with other IFIs which have mandates more directly connected with the social aspects of development.

Role of the EBRD

The EBRD promotes the transition of former centrally planned economies towards market-oriented economics. This entails bringing economic interactions onto a market basis and fostering private and entrepreneurial activity. As a result, the EBRD has placed great importance on the development of the private sector, which promotes market-oriented economic growth and, when combined with the right complementary policies, helps to alleviate poverty. As indicated by the President of the EBRD in the Per Jacobsson lecture in September 1996,[3] fostering an environment favourable to private sector investment, both local and foreign, involves maintaining macroeconomic stability and ensuring the provision of the necessary physical, institutional, legal and regulatory infrastructure which is a basic ingredient of a well-functioning market economy. It also involves working with the private sector to expand and improve local and foreign investment and private capital flows by combining the funds, independence and experience of the EBRD with the know-how, management capabilities and capital of the private sector.

[2] See *Transition Report* 1995 (Section 2.3), *World Development Report* 1996 (Chapter 4) and *Transition Report* 1996 (Annex 2.1).

[3] See Jacques de Larosière, "Financing development in a world of private capital flows: the challenge for MDBs in working with the private sector", Per Jacobsson lecture presented in Washington DC, 29 September 1996.

EBRD financing in countries at advanced stages of transition is characterised by a high level of co-financing, with an emphasis on providing equity and subordinated loans to private sector industrial and commercial companies, investment funds and banks. Financing of the state sector is mainly targeted at municipalities for investment in the environment. The willingness of foreign lenders and investors to provide their capital to private sector projects without any form of IFI or other special support is a particularly clear measure of a country's progress in transition. The EBRD seeks to encourage this willingness.

In countries at intermediate stages of transition, EBRD financing has a lower level of co-financing with private sector partners and concentrates more on financing, via non-recourse loans and equity and senior loans, to banks for financing small and medium-sized enterprises (SMEs) and other businesses. Public sector financing is aimed at investments in infrastructure by central government and municipalities.

Countries at early stages of transition are primarily recipients of sovereign-guaranteed EBRD loans for financing infrastructure and SMEs, with co-financing generally limited to national and international lending and investing agencies. This is supplemented by technical assistance funds. Private sector companies and banks receive EBRD senior loans and equity investments, both for joint ventures with foreign clients and for stand-alone locally financed companies.

By providing equity, loan financing and guarantees, the EBRD is working with private companies to form joint ventures and to promote private sector development. The forms of collaboration or partnership are numerous depending in each case on the nature of the project and the client's needs, involving purely local enterprises as well as international companies (see page 35). The EBRD is extending its methods of operations in this field by establishing framework agreements – known as multi-project facilities (MPFs) – with industrial partners. These agreements enable a large number of sub-projects to be financed in accordance with principles jointly agreed at the outset.

A further form of assistance is collaboration with banks to put in place the funding needed to implement projects. This frequently takes the form of co-financing, credit lines, equity finance or syndications. The EBRD also supports capital market development, for example, by promoting the availability of venture capital through equity funds, by improving the legal basis for share ownership, by helping to launch share privatisations, by improving accounting and registry procedures and by issuing bonds in local currencies. As a result of being "early in the game" or at "the cutting edge" and showing good management and professionalism, the EBRD provides a strong demonstration effect which attracts local and foreign co-financiers, thus multiplying the impact of EBRD financing.

Another area which the EBRD views as crucially important to the transition process is the promotion of commercially oriented infrastructure, which the Bank finances according to sound banking principles and based upon the adequacy of revenue, costs, market demands and an effective regulatory framework.

Impact on the transition process

The overall extent of the EBRD's effect on the transition process depends on both the quantity and quality of its projects. In terms of quantity the Bank plays a significant role both through its own funds and through its ability to mobilise co-financing from other sources. In 1996 alone, the EBRD mobilised an additional ECU 3.8 billion through its co-financing activities.

Since the transition involves bringing economic interactions onto a market basis and promoting private and entrepreneurial initiative, the EBRD analyses the quality of its impact on the transition process according to the following criteria: (i) the creation, expansion and improvement of markets; (ii) the establishment and strengthening of institutions, laws and policies that support the market (including private ownership); and (iii) the adoption of behaviour patterns and skills that have a market perspective. The overall impact of a project on the transition process is judged by combining these criteria with those embodied in the environmental analysis (see page 41) and the economic rate of return.

Essential to the transition is the formation of ***market-based transactions*** within and between enterprises, and financial and infrastructure sectors. Sustainable economic growth in the transition economies will require the development of market linkages that are consistent with private sector development. Privatisation of enterprises has an important role to play. The decentralisation of financial responsibility to enterprises through privatisation and restructuring can force them to be more competitive and market-oriented.

Financial markets are central to the creation of a competitive market environment. Working with and investing in local financial intermediaries to help strengthen them is a priority for the EBRD. Projects of this type already represent 30 per cent of the Bank's cumulative commitments.

International trade does much to promote the market environment by encouraging competition, stimulating the development of quality products and services, and promoting the expansion of markets and a more efficient use of resources. Working closely with local banks and with export credit agencies, the EBRD has developed trade facilitation programmes which aim to enhance trade flows within the region, as well as from and to the region. They involve local financial institutions that lack both the resources and the experience to provide trade financing on their own. The EBRD has signed trade financing programmes in Estonia, Hungary, Lithuania, Russia, Ukraine and Uzbekistan. These programmes are part of a wider effort to reduce barriers to international trade.

The ***institution-building*** role of the EBRD's operations was particularly evident in 1996. The Bank helps build institutions by investing in them, lending to them and providing them with guarantees, technical assistance and strategic partners, via twinning arrangements and direct partner investments. Specific conditions or undertakings agreed with borrowers and investee companies have helped to increase accountability and transparency both in the private and public sectors and to increase the borrower or investee's ability to attract funds from the broadest range of capital market participants without IFI support.

With the negotiation and signing of an emergency transport project in Bosnia and Herzegovina, the EBRD's focus on institution building has acquired a new dimension. As well as achieving the desired economic and financial objectives assigned to the project, the transaction promoted the strengthening of the country's public institutions and dialogue between the communities and parties involved. This demonstrated how the EBRD's actions at the project level can have much wider repercussions at the political level, while the responsible authorities demonstrated an unprecedented degree of cooperation in their signing of this project. The EBRD hopes that this augurs well for the country's future.

The process of transition involves setting new rules and finding new ways of operating. As well as the creation and improvement of markets and institutions, the above examples all embody the ***transfer of skills*** and the ***setting of standards***. Market participants are having to adapt to an unfamiliar system of private ownership and competition. However, it takes time to establish a healthy, stable and orderly business environment, and this time lag creates obstacles for those wishing to invest in the region. Good corporate governance, including protection of minority investors and sound management practices, clear and consistent accounting and auditing practices, sound purchasing and procurement practices, prevention of fraud and corrupt practices, and awareness of appropriate environmental due diligence are just some of the measures that the EBRD has promoted in the framework of its operations. More specifically, all loans and credit lines extended to banks and financial institutions throughout the region have been made subject to specific requirements aimed at combating money laundering.

EBRD promotes goo corporate governanc

The EBRD has clearly defined policies and procedures for addressing corrupt practices and money laundering in the context of its operations. These were endorsed by the Bank's Board of Directors in 1995 and reinforced through the appointment of staff with specific responsibilities for addressing money laundering. A staff training and awareness programme was introduced to highlight the problems of, and remedies for, corrupt practices and money laundering. The Bank's Code of Conduct prohibits the receipt by staff members of illegal or improper payments as well as other benefits, favours or gifts that might be offered as inducements to Bank staff. Any evidence of fraudulent or corrupt practice is grounds for dismissal.

In the field of procurement, the Bank's instructions to tenderers make effective provision against bribes and inducements offered in the course of the tender process. The EBRD also monitors international developments in the prevention of corruption and money laundering, and regularly participates in the work of the Council of Europe on dealing with corrupt practices. The Bank also follows closely the approach of other international financial institutions.

Fiscal issues such as tax collection constitute a separate class of obstacles. The EBRD encourages adherence to international standards of tax management via a focus on taxation of income as defined according to well-established practices. With the support of central banks in its countries of operations, the EBRD also seeks to reduce the use of barter in commercial transactions because of its distortive effects and encouragement to the most common forms of corporate fraud and tax-avoidance.

The EBRD's education and training programme helps institutions to deliver training and other services locally in support of the transition process and the Bank's activities. In 1996 over 20,000 company managers and bankers were assisted by bank training schools and business advisory centres. In addition, as a partner in the Joint Vienna Institute (JVI), the Bank chaired the Executive Board and delivered five seminars on practical enterprise management skills to 125 senior managers from EBRD client companies. The JVI is an international training institution founded by the BIS, EBRD, IBRD, IMF and OECD, and sponsored by the EC and various bilateral donors.

Legal transition

Drawing largely upon technical cooperation funds, the EBRD helps its countries of operations to develop a legal environment which supports promotion of private sector activities and transition towards market-oriented economics. By providing legal advice and assistance, the Bank allows investments to proceed that otherwise would have foundered as a result of legal impediments. The quality of the legal environment is thus improved for the benefit of the Bank's own investment operations as well as transactions in general.

In 1996, the Bank concentrated its legal transition initiatives in four key sectors. First, it continued to assist its countries of operations with the reform of secured transactions laws, using the Bank's Model Law on Secured Transactions as a benchmark. Specific assistance in this field was rendered to Azerbaijan, Hungary, Kyrgyzstan, Russia and the Slovak Republic. In 1996, Hungary became the first of the Bank's countries of operations to amend its laws to incorporate elements of the Model Law facilitating charges over movable property, thereby further encouraging the availability of credit in Hungary. As the pace of reform in this area accelerates, the EBRD will be available to provide legal assistance to its countries of operations on the establishment and operation of simple and effective pledge registries, thereby giving practical effect to pledge law reform. For example, the Bank recently undertook to assist Hungary with the introduction in early 1997 of a simple computerised registry for charges over movable property.

Second, the EBRD has increased its activity in the area of bankruptcy law reform. Bankruptcy law can be an effective instrument for ownership transfer of insolvent enterprises, and for the restructuring of those insolvent enterprises that are capable of recovery. During 1996, the Bank was more active in this sector. For example, the EBRD provided assistance to the National Bank of Azerbaijan in the development of a more effective bankruptcy law.

EBRD focuses on secured transaction bankruptcy and concession laws

Third, the EBRD has become more active in advising its countries of operations on the development of concession laws that will permit the issuance to private sector operators of concessions over public services in a more efficient and transparent manner. In 1996 the Bank assisted the Romanian Ministry of Transport to facilitate the issuing of concessions for private sector motorway development. The Bank also launched a programme to assist selected municipalities in the implementation of public-private partnerships for the provision of municipal services.

Fourth, as an active participant in the Foreign Investment Advisory Council for Russia, the EBRD has developed suggested "guidelines" on good corporate governance of Russian enterprises, an essential precondition to increased direct and portfolio equity investment in Russia. The Bank will continue to refine these guidelines for more general application in its countries of operations in 1997.

Drawing on its extensive experience and its unique mandate to work with both the private and public sectors to facilitate transition, and subject to the continued availability of external funding, the EBRD will continue to assist its countries of operations in the important process of legal transition where it considers that both the Bank's and the country's needs will be served.

Review of 1996 operations

Introduction

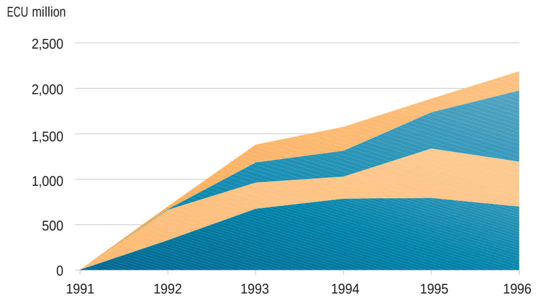
New signed commitments reached almost ECU 2.2 billion, exceeding the 1996 business plan. The additional 95 operations resulted in portfolio growth of 25 per cent by number and 30 per cent by value. During the year 119 new operations were approved for EBRD financing of ECU 2.8 billion.

The forward project pipeline increased by ECU 630 million to a year-end total of ECU 10.7 billion, with the increase concentrated mainly in countries at the intermediate and, to a lesser degree, the early stages of transition. In countries at advanced stages of transition the project pipeline decreased in 1996.

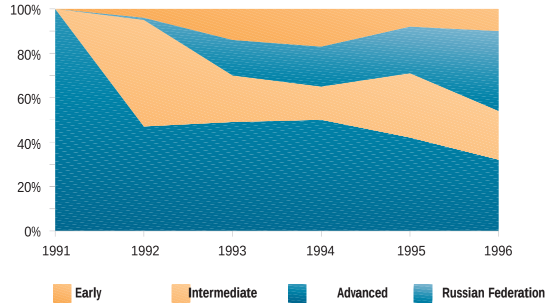
The average operation size of the cumulative portfolio was ECU 21 million, exceeding expectations. Overall, for every ECU invested by the EBRD, another ECU 2.1 was mobilised from other sources.

Continuing attention was given to implementation and monitoring to preserve the quality of the portfolio. At year-end, 342 operations were being monitored. After almost six years of investment activity, at the end of 1996 the Bank's non-performing assets amounted to less than 1 per cent of the portfolio of loan and equity investments. As the Bank's portfolio matures and more loans enter their repayment phase after a grace period, it is anticipated that non-performance will rise from this very low level.

Annual commitments by transition stage
at 31 December 1996



Share of annual commitments by transition stage
at 31 December 1996



Using 1994 transition classification scheme.

Country analysis

Cumulative commitments grew in all transition groups. Opportunities are growing particularly strongly in some of the countries at intermediate stages of transition, while the demand for the Bank's services is likely to grow more slowly in the countries at advanced stages of transition than in the past. In response to these changing opportunities, the Bank's activities will continue to shift, within a growing overall volume of activity. The EBRD will therefore need to develop projects in more challenging investment climates for a higher proportion of its portfolio.

Developing the geographical balance

By the end of 1996, the EBRD had signed investment projects in all of its 26 countries of operations, as well as numerous regional projects. First disbursements took place for projects in Turkmenistan. While the geographical spread of the EBRD's operations was in keeping with targets in 1996, the volume committed in Russia was more than expected and in countries at the early stages of transition it was less than expected.

As more investees and borrowers in countries at advanced stages of transition are able to attract the capital they require without support from international financial institutions, the EBRD will become correspondingly selective, focusing its financing on those undercapitalised sectors unable to find capital without support. These include equity and subordinated loan financing, municipal credits and financing of small and medium-sized enterprises (SMEs). As the EBRD's focus moves increasingly to countries at the early and intermediate stages of transition, the Bank is increasing both its commitment to these countries and its productivity. Improvements in the investment climate in countries at intermediate stages of transition are contributing to the increase in EBRD investments there. The Russian Federation has been particularly noteworthy in this regard. The Bank recognises, however, that there are still risks of reversal in the transition process.

The EBRD is mindful of the concentration of risk in certain countries and, where appropriate, takes a detailed review of underlying exposures to ensure that the risk concentrations are not detrimental to the health of its balance sheet.

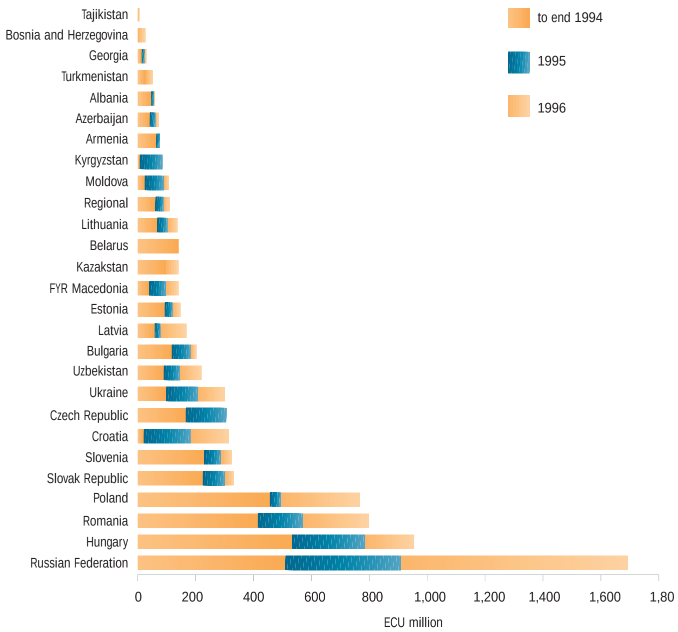
The country portfolio ratio

The EBRD is well within its mandate that, overall, not more than 40 per cent of its total commitments in its countries of operations may be in the public sector – the portfolio ratio. At year-end 1996, 66 per cent of the total portfolio was in the private sector. The ratio for individual countries is measured on a five-year cumulative basis starting with the year of the first commitment in that country. At year-end 1996, 17 countries were still below 60 per cent regarding the private sector share of the portfolio. It is proposed that during the five-year period for each country of operations, progress towards the achievement of the ratio will be kept under close review and the issue will be addressed in the country strategies. If towards the end of this period it becomes clear that the portfolio ratio for any individual country of operations will not be met, the Board, in the light of the circumstances of that country, will need to consider a timetable for the achievement of the ratio and what measures should be taken.

EBRD financing approved by country

	1996			Cumulative to 31 December 1996		
	Number	ECU million	%	Number	ECU million	%
Russian Federation	30	918	32	84	2,495	25
Hungary	7	133	5	47	1,072	11
Poland	8	234	8	49	934	9
Romania	9	252	9	30	831	8
Slovak Republic	5	94	3	19	440	4
Ukraine	3	115	4	18	411	4
Czech Republic	3	50	2	21	372	4
Croatia	8	157	6	15	339	3
Slovenia	2	36	1	16	326	3
Uzbekistan	4	123	4	10	308	3
Bulgaria	3	21	1	18	211	2
Kazakstan	2	73	3	3	172	2
Lithuania	4	40	1	12	170	2
Latvia	6	61	2	13	170	2
Belarus	0	0	0	6	164	2
Estonia	4	25	1	15	149	1
FYR Macedonia	2	42	1	9	147	1
Moldova	1	3	0	8	109	1
Kyrgyzstan	1	2	0	6	88	1
Azerbaijan	1	11	0	4	81	1
Armenia	0	0	0	3	77	1
Albania	1	3	0	8	61	1
Turkmenistan	0	0	0	2	53	1
Georgia	2	14	1	4	38	0
Bosnia and Herzegovina	1	27	1	1	27	0
Tajikistan	1	7	0	1	7	0
Regional	11	387	14	26	710	7
Total	**119**	**2,827**	**100**	**450**	**9,962**	**100**

Cumulative commitments by country by year
at 31 December 1996



Sectoral analysis

The financial institutions sector continued to be the largest of the portfolio by a wide margin. Of all signed projects in 1996, 29 per cent were wholesale operations and a further 7 per cent were direct operations for the financial institutions sector, representing a total of 36 per cent committed to financial institutions during the year.

Increasing attention was given in 1996 to financial institutions, transport (especially railways, ports and airports), energy and power generation (mainly involving efficiency upgrades and environmental remediation), manufacturing, energy efficiency, and municipal and environmental infrastructure.

Emphasis on infrastructure

There are indications of a shift in the composition of demand for the Bank's services towards restructuring of local companies. Projects in these areas tend to have a more complex structure and a longer payback period, particularly when not benefiting from the financial and other contributions of a strategic foreign investor. The EBRD is making a particular effort to identify the most promising candidates. The Russian Federation was a particularly prolific generator of such projects in 1996.

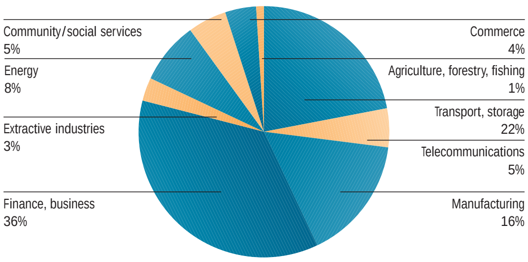
EBRD financing approved by sector[1]

	1996			Cumulative to 31 December 1996		
	Number	ECU million	%	Number	ECU million	%
Finance, business	55	906	32	183	3,295	33
Transport	12	486	17	57	1,836	18
Energy/power generation	10	447	16	37	1,295	13
Manufacturing	21	447	16	74	1,284	13
Telecommunications	4	142	5	29	863	9
Extractive industries	4	111	4	15	561	6
Commerce, tourism	4	135	5	17	259	3
Agriculture, forestry, fishing	3	23	1	19	229	2
Community/social services	6	130	5	15	185	2
CEALs, co-financing lines and RVFs[2]	0	0	0	4	152	2
Construction	0	0	0	1	4	0
Total	**119**	**2,827**	**100**	**450**	**9,962**	**100**

1 These aggregated sector groups do not match the sectors discussed in the following pages. For example, the finance, business sector includes service industry and does not equate with the financial institutions sector. Commerce, tourism includes wholesale and retail trade and does not equate with the property and tourism sector.

2 Central European Agency Lines, Regional Venture Funds.

EBRD commitments by sector 1996



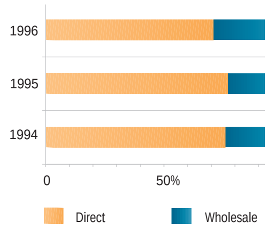
Product analysis

In 1996 the EBRD continued to adapt to its changing operational environment by evolving its product mix to meet its clients' needs, especially in the countries at early stages of transition. The Bank also responded to the changing requirements of the more advanced countries, developing a number of innovative products, such as energy efficiency credit lines and other co-financing schemes.

Approved EBRD loans increased during the year: up 33 per cent from 1995 to ECU 5.6 billion at the end of 1996. Fewer credit lines were approved than in 1995.

The equity share of approved projects was 19 per cent in 1996, down from 25 per cent in 1995. This was lower than expected due to a very low share of equity investments in Russia and a moderate level in the countries at the early and intermediate stages of transition. At year-end, equity investments stood at ECU 1.2 billion and 36 per cent of EBRD projects involved equity.

Wholesale commitments as a percentage of yearly commitments



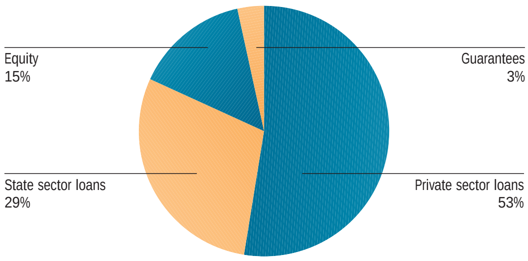
The Bank's use of guarantees and other off-balance-sheet items, which help encourage investors by isolating and transferring risks, particularly in countries at the intermediate stages of transition, continued to grow. From ECU 152 million at the end of 1995, guarantees rose to ECU 206 million at the end of 1996 for signed projects, an increase of over 35 per cent.

EBRD financing approved by type of facility

	1996			Cumulative to 31 December 1996		
	Number	ECU million	%	Number	ECU million	%
Private loans	63	1,635	58	201	4,956	50
State loans	14	585	21	85	2,610	26
Equity	39	526	19	151	1,994	20
Guarantees, etc*	3	81	3	14	401	4
Total	**119**	**2,827**	**100**	**450**	**9,962**	**100**

* Guarantees and other off-balance-sheet items.

EBRD commitments by product type 1996



Local offices

Further progress was made in 1996 in strengthening the Bank's local presence in its countries of operations. New Resident Offices were established in Baku (Azerbaijan), Chisinau (Moldova), Sarajevo (Bosnia and Herzegovina) and Zagreb (Croatia). A further Resident Office was opened in Skopje (FYR Macedonia) in February 1997. In Russia the EBRD's local presence was strengthened by the establishment of a Regional Office in Yekaterinburg. Initial local presence in Ashgabat (Turkmenistan) and Dushanbe (Tajikistan) was achieved by the appointment of local Mission Advisers. At the end of 1996 the Bank had a local presence through Resident/Regional Offices and Mission Advisers in 27 locations, covering all but two of its countries of operations (Armenia and Georgia). The EBRD intends to appoint Mission Advisers to Tbilisi and Yerevan in 1997.

Strengthening the local presence

The number of professional staff posted at local offices reached 97 by the end of 1996 compared with less than 30 three years earlier. Most importantly, the proportion of locally recruited professionals is now nearly 60 per cent, whereas in 1993 virtually all were expatriates. The Bank has also been successful in recruiting local support staff, bringing total staffing to 200 people.

Considerable effort was devoted during the year to improving the productivity and cost efficiency of Resident Offices by expanding their role in operational activities and in supporting other key Bank policies. In particular, project monitoring and supervision is now benefiting substantially from the Bank's local presence, and the Resident Offices are playing an increasingly important role in marketing and business development.

Financial institutions

Encouraging the emergence of financial institutions and strengthening their role remains a high priority for the EBRD. Financial institutions play a crucial part in the drive towards a market economy, with their ability to intermediate, channel funds to the real economy, ease trade and establish internationally acceptable standards of financial discipline. The EBRD continues to support the development of financial institutions through its various direct and wholesale products.

Almost ECU 2.3 billion committed to the financial sector

In 1996, 42 financial sector operations were signed, totalling ECU 783 million. Since its establishment, the EBRD has signed almost ECU 2.3 billion in the financial sector, representing 30 per cent of all its operations up to the end of 1996.

EBRD signed operations to financial institutions
Cumulative as at 31 December 1996

	Number of projects	ECU million	%
Wholesale operations			
Credit lines	49	939	41
Apex facilities	6	337	15
Stand-by and guarantee facilities	3	109	5
Trade finance	5	110	5
Agency lines	2	6	0
Standard equity funds	25	277	12
Early-stage equity investments	1	13	1
Special restructuring programmes (SRPs)	2	57	2
Multi-project facilities*	2	6	0
Total	**95**	**1,854**	**81**
Direct operations			
Equity investments in banks	33	237	10
Equity investments in insurance companies	5	4	0
Other types of equity investments	4	3	0
Loans to banks	8	174	8
Other types of loan	1	20	1
Business services	1	2	0
Total	**52**	**440**	**19**
Total financial institutions operations	**147**	**2,294**	**100**

* Multi-project facilities are counted at sub-project level.

Banking sector

The EBRD has continued to support financial sector consolidation and restructuring through loans, equity investments and trade facilitation agreements. Confirming its commitment to the strengthening of local bank financing for private sector enterprises, the EBRD signed loan agreements in 1996 with a wide variety of banks in its countries of operations. These ranged from an ECU 3.2 million loan to First Investment Bank in Bulgaria to an ECU 80.5 million credit line to Sberbank, Russia's leading retail bank. These loans will be used to provide SMEs with much-needed project financing.

The EBRD significantly expanded its financial sector operations in Russia in 1996. The Bank aims to strengthen the Russian private banking sector by continuing to participate with the World Bank in the Financial Institutions Development Programme and by lending directly to Russian banks which will then on-lend to the private sector, encouraging competition and the development of a market economy. In addition, the EBRD purchases equity stakes in Russian banks, thereby reinforcing their capital bases and improving corporate governance.

Major expansion of operations in Russia

Early in 1996, in addition to the Sberbank credit line, a stand-by credit facility of ECU 80.5 million was signed with Russia's leading bank for foreign trade, Vneshtorgbank. With the assistance of this facility, Vneshtorgbank can use its large existing base of short-term funding to extend loans that will satisfy its clients' demand for longer-term lending.

In November the EBRD approved a framework agreement which will make available an ECU 108.9 million credit line to six selected banks in Moscow. This funding will allow participating banks to increase the volume of their medium-term lending for investment projects in the country's capital. By the end of 1996, the first of the agreements was signed with International Moscow Bank in the amount of ECU 16.1 million. It is hoped to conclude agreements with the five remaining banks in 1997.

The EBRD further increased its operations with private sector Russian banks during 1996 by signing credit lines of ECU 24.2 million with Stolichny Bank of Savings and Industry & Construction Bank, and a credit line of ECU 8.1 million with Uralpromstroybank. A revolving credit facility of ECU 16.1 million was extended to Mezhcombank to provide pre-export financing for the bank's clients. An ECU 2 million investment in the Investment Bank of Kuban, which will be managed by the Cyprus Development Bank, represents the EBRD's first project in the Krasnodar region. Lastly, an ECU 40.3 million combined credit line and equity investment project was signed with Avtobank.

Significant progress has been made in increasing the EBRD's involvement in the Central Asian republics. In 1996 the EBRD signed its first project in Tajikistan, which has renewed its efforts towards reform after delays caused by civil war and political instability. Two banks, Tajikbankbusiness and Orienbank, will each receive separate loan and equity financing of ECU 3.5 million and ECU 3.2 million respectively. These operations will enable the two banks to strengthen their capital bases and support the needs of privatised small and medium-sized firms as well as state-owned enterprises undergoing privatisation. It is hoped that this project will stimulate and strengthen the financial sector in Tajikistan.

First EBRD project in Tajikistan

In Uzbekistan the EBRD acknowledged the success of the first Uzbekistan credit line for SMEs by signing a second agreement with the National Bank of Uzbekistan to provide a further ECU 24.2 million for on-lending to SMEs. Under the extended facility, the EBRD has also signed an agreement with a new bank, Asaka Bank, for ECU 12.1 million. These credit lines are designed to meet the needs of local businesses and to encourage competition and growth in the banking sector. The EBRD also cooperated with ABN AMRO, the National Bank of Uzbekistan and the International Finance Corporation to provide start-up capital for the founding of the ABN AMRO Bank in Tashkent. The new bank will offer high-grade banking services to cater for the growing number of foreign investors, joint ventures and local businesses and increase the level of competition in the Uzbek banking sector.

The EBRD has signed its second financial sector project in Kyrgyzstan by investing in the newly created DemirKyrgyz International Bank. The new bank will provide a full range of banking services, with a particular focus on international payments and trade financing services. The EBRD sees the establishment of the bank as a catalyst for the development of the sector, and the bank will benefit from the international management experience of its owners.

The EBRD's first credit line for the tourism sector was signed in 1996 when the Bank committed loan funds of ECU 25.9 million to the Croatian Bank for Reconstruction and Development, which will on-lend to private companies operating tourist facilities. It is hoped that the financing model developed in this transaction can be applied selectively in other countries in the region.

First credit line for tourism sector

Five other projects were signed in Croatia in 1996. Two loan agreements were signed with medium-sized Croatian banks: Trgovacka Banka and Alpe Jadran Banka. These banks will make EBRD funding available for longer-term financing to small and medium-sized businesses. In a third project, the EBRD has provided an ECU 12 million equity and convertible loan package to Varazdinska Banka, one of the largest banks in Croatia. The funds will be used to strengthen the bank's financial status and enable it to develop new products and services for the benefit of the growing private sector. The EBRD also invested ECU 3.1 million in Bank Austria Croatia d.d., a fully operational subsidiary of Bank Austria. This investment will broaden the scope of banking services available in the country and enhance competition in the banking sector at a time of increasing privatisation, restructuring and development. An extension to an existing credit line of ECU 10.4 million was signed with Dalmatinska Banka to meet the continuing demand for term financing by small and medium-sized Croatian enterprises.

The leading private bank in FYR Macedonia, Komercijalna Banka a.d. (KB), benefited in 1996 from a loan and investment package from the EBRD. With the ECU 2 million investment, the EBRD will become the bank's second-largest shareholder. The loan component of ECU 5.7 million will be used to develop KB's product range, strengthen its skills in areas such as credit, treasury and budgeting, and increase the efficiency of its operations.

A second tranche under the SME credit line in FYR Macedonia became available in 1996. One new bank, Export and Credit Bank, was accepted into the programme, while two new loans were made with Stopanska Banka and Export-Import Banka, enterprises already participating in the programme. The successful implementation of the ECU 20.7 million operation has extended the availability of term funding in FYR Macedonia and strengthened the participating banks' lending and operational capacity.

In Moldova the EBRD, together with the Swiss Government, is financing a micro-lending programme, aimed at supporting the lending capabilities of commercial banks. In 1996 the programme provided three banks with a total of ECU 2.2 million.

First two projects in Georgia's financial sector

The EBRD's first two projects in the financial sector in Georgia were signed in 1996. These projects also represent the Bank's first private sector activities in the country. In September the EBRD signed the founding documents of the International Black Sea Bank Georgia, along with the Commercial Bank of Greece and United Georgian Bank. The newly established bank will advance the range of financial services available to Georgian citizens and is expected to stimulate competition and economic growth.

In a second transaction in Georgia, a loan framework programme has been established to meet the needs of small and medium-sized enterprises. The EBRD has made available ECU 9.6 million to provide term finance for investment, working capital and trade finance to eligible private sector small and medium-sized enterprises. Initially three banks will benefit from the loan programme: TBC Bank, TbilCreditBank and TbilComBank. Additional banks may qualify for the remaining amount of the credit line.

In the Baltic region the EBRD signed medium-term loan agreements with a range of banks in 1996. These included Eesti Forekspank and AS Tallinna Pank in Estonia and the Lithuanian Development Bank, which received loans of ECU 6.2 million, ECU 6.2 million and ECU 5.3 million respectively. Hansapank – the largest bank in Estonia – received a term bank loan of ECU 6.2 million and a further ECU 6.2 million to provide long-term funding for housing purchase, enabling the bank to expand its services into the area of mortgage financing.

As part of its strategy of strengthening the capital base of leading private banks in Latvia, the EBRD has acquired significant minority shareholdings in three leading Latvian commercial banks: Latvijas Zemes Banka, Latvijas Unibanka and Rigas Komercbanka. These equity investments will facilitate the flow of capital to the corporate sector, expand the scope of services on offer to Latvian businesses and enhance competition in the Latvian banking market.

In countries at a more advanced stage of transition, such as Hungary, Poland and the Slovak Republic, the EBRD continues to support the financial sector. In Poland, for example, the EBRD has invested new capital in Kredyt Bank which will allow the bank to offer a wider portfolio of products and services, as well as increase its loans to small and medium-sized local businesses and implement its branch expansion plans.

Three new credit facilities were provided by the EBRD to banks in Hungary in 1996. A successful existing credit line of ECU 33.1 million to Kereskedelmi Bank, targeted at the agricultural sector, was extended by a further ECU 32.2 million. In December a subordinated loan agreement was signed with OTP Bank, the National Savings and Commercial Bank of Hungary. OTP is the country's third-largest bank and plays an important role in the banking system, acting as a financial intermediary to the enterprise sector. The ECU 40.3 million project will strengthen the bank and allow it to expand its business activities and, in particular, to serve its corporate clients more effectively. In a new initiative, the EBRD has cooperated with EC Phare to mobilise funding for private sector projects with environmental and energy efficiency benefits. This credit line, to be channelled through Budapest Bank, will make available EBRD funding of up to ECU 30 million, together with additional financing from Phare.

In the Slovak Republic the EBRD signed three banking operations in 1996. A second capital increase has been extended to Pol'nobanka, through which the bank will be able to strengthen its capital base, undertake additional lending to private enterprises and develop its capability as one of the Slovak Republic's foremost banks. The EBRD has also signed a subordinated loan agreement with Tatra Banka. By increasing Tatra Banka's supplementary capital, this leading private sector Slovak financial institution will be able to expand its lending operations for medium and long-term investment projects. Lastly, the EBRD has approved an ECU 14.9 million credit line with Priemyselna Banka in Kosice. Part of this credit line will support the bank's general lending activities while the remaining portion – of up to ECU 7.6 million – will be targeted at projects contributing to energy efficiency.

Trade facilitation programmes

The EBRD's trade facilitation programmes make an important contribution to the progress of transition, promoting market liberalisation and interaction between trading partners across the region and internationally. Through these programmes, the EBRD partially guarantees the obligations of local banks, thus increasing the confidence of foreign banks and reducing financial impediments to trade. Trade agreements are active in FYR Macedonia, Lithuania, Russia, Ukraine and Uzbekistan, and over ECU 80 million of guarantee funding has so far been utilised by the 12 participating banks.

In 1996 the EBRD continued to expand its programme, which now totals ECU 110 million of committed funds. In Russia four new banks – Avtobank, Commercial Bank Moscow Business World, Toribank and Petrovsky Bank – were added to the programme with EBRD commitments of ECU 20.1 million. In Lithuania two new trade facilitation agreements were signed, with Vilniaus Bankas for ECU 6.3 million and with Bankas Hermis for ECU 2.6 million.

ECU 110 million committed to trade facilitation

Private sector equity funds

The EBRD participates in private sector equity funds to expand the supply of equity finance available for small and medium-sized enterprises. The funds play an important role in introducing a wider range of financial products and services to the region, in promoting good corporate governance in investee companies, in involving local institutions, and in creating confidence in the business community, both locally and internationally. By the end of 1996, the Bank had made investments in 25 private equity funds and had committed ECU 277 million. Since their establishment, these funds have generated a further ECU 1,006 million from co-investors, producing in aggregate almost ECU 1.3 billion of new capital for private sector investment in central and eastern Europe.

ECU 277 million committed to equity funds

EBRD equity fund investments in 1996 included the Danube Fund, the Polish Enterprise Fund and an insurance sector fund (see Insurance sector on page 25). The Danube Fund will target small and medium-sized enterprises in Romania and Moldova. The EBRD has a 20 per cent holding in the fund, the first private sector investment company to include Moldova as one of its main target countries. As a core investor in the Polish Enterprise Fund, the EBRD will continue to support the most successful private investment group in Poland in terms of volume of funds invested to date.

Insurance sector

The development of modern and efficient insurance markets in its countries of operations is an increasingly important component of the EBRD's activities. To date, the EBRD's insurance sector strategy has concentrated on supporting young and promising private sector companies, with both reputable local and Western sponsors.

ECU 30 million committed to insurance sector

In 1996 the EBRD invested in two Czech subsidiaries of Winterthur under a multi-project facility: Winterthur Pojistovna (a composite insurance company) and Winterthur Penzijni Fond (a pension fund operation). The Bank also signed a co-investment agreement with New Europe Insurance Ventures, an innovative insurance sector fund which will focus on investing in unlisted equity of small companies operating in the insurance and insurance-related sectors in the EBRD's countries of operations. The Bank's insurance sector portfolio now includes eight equity investments with an overall committed amount of ECU 30.4 million.

Russia Small Business Fund

The Russia Small Business Fund (RSBF) continues to expand its activities and to encourage growth and development in the private sector. The full-scale programme, approved by the EBRD and its G-7 shareholders in August 1995, provides for financing of US$ 300 million, half of which is being made available by the EBRD and the balance through grant funding provided by the G-7 countries, Switzerland and the European Community. The Fund is now operational in ten cities, offering small and micro loans through local Russian banks. EBRD-funded experts work closely with local bank management to improve organisational procedures, analyse applications and monitor loans. Since the beginning of 1996, committed RSBF loan and equity finance has grown by a further ECU 63.2 million and disbursements to sub-borrowers increased 600 per cent. The 15 banks participating in the programme have cumulatively provided finance for upwards of 6,500 micro and small enterprise loans ranging from US$ 30 to US$ 125,000.

Privatisation and restructuring

Early-stage equity instruments

The equity financing instruments used by the EBRD to support privatisation and restructuring of medium-sized enterprises are called collectively "early-stage equity". In mature market economies, this term is often applied to seed or start-up capital for new businesses. The term is chosen here because the combination of equity capital and donor grants provided will usually be the first that the enterprises receive during or after privatisation. Donor grants finance fund management fees (including a local team of professionals), due diligence and post-investment consulting support costs.

Post-Privatisation Funds (PPFs) and Special Restructuring Programmes (SRPs) are two early-stage equity instruments developed by the EBRD. Generally, PPFs are designed to provide equity and management assistance predominantly to formerly state-owned firms that have been wholly or partially privatised by mass privatisation or individual auction schemes. PPFs seek minority stakes in enterprises, with the fund manager taking a proactive role in developing the enterprises through board representation and support to the enterprises' management. SRPs target enterprises requiring more comprehensive restructuring support before being viable for market introduction on acceptable commercial terms.

The first PPF was established in Russia in 1994 as a Regional Venture Fund (RVF). In 1996 the RVF programme was completed with the launch of the eleventh and final fund. All but one of the RVFs have now completed their start-up phase, established local offices, and developed a deal flow. Those which have been in operation more than 12-18 months have also started investing. By the end of 1996, the RVFs had signed 16 investments totalling ECU 17 million in a wide range of sectors, such as food, glass, clothing, forestry, construction materials and services.

Eleventh Venture F launched in Russia

In central Europe the first early-stage equity (ESE) fund was established in Slovenia in 1995 as the Slovene Special Restructuring Programme, a turnaround fund with a capital of ECU 30 million. The fund began operations in early 1996 and approved its first investment in October 1996 in the electrical components sector.

During 1996, operations began for another seven ESE funds in Hungary, Kazakstan, Latvia, Lithuania, Poland, Romania and the Slovak Republic. At the end of 1996 there were 19 ESE funds in operation. The EBRD's total capital commitment was ECU 437 million. Fund managers' co-investments and donor subordinated equity brought the total equity available for investments to ECU 505 million.

Development work in 1996 focused on central and southern Europe and the CIS countries, and an additional seven funds are expected to start operations during 1997. In addition, several sector-specific and restructuring funds are under development.

The donor grant funding provided by the European Community and other donors will continue to play a vital role in the success of ESE funds, allowing the EBRD to be the first investor in higher-risk countries and enterprises. Technical cooperation funds provided by donors reduce the equity risk by financing pre-investment assessment and due diligence as well as post-investment management assistance to the enterprises. In certain funds (such as the Slovak and Romanian PPFs and the Bosnia-Herzegovina Reconstruction Fund), donor funding is also provided as subordinated equity, thus providing an important mitigating element to the Bank's equity risks. Total technical cooperation grant funding for ESE operations was ECU 227 million at the end of 1996.

Fund	Donor
Black Earth RVF	European Community
Central Russia RVF	Germany
Far East and Eastern Siberia RVF	Japan
Lower Volga RVF	United States
North West RVF	Finland, Norway, Sweden
St Petersburg RVF	Germany
Smolensk RVF	European Community
Southern Russia RVF	France
Urals RVF	European Community
West Russia RVF	Italy
West Siberia RVF	European Community
GIMV Kazakstan PPF	European Community
Hungarian SRP	European Community
Latvian SRP	European Community/Nordic countries*
Lithuanian PPF	European Community/Nordic countries*
Polish SRP	European Community
Romanian PPF	European Community
Slovak PPF	European Community
Slovene SRP	European Community

* via The Baltic Technical Assistance Special Fund

The ESE funds benefit the recipient countries by transferring know-how and modern management information systems to enterprises, by strengthening whole industry sectors over wide geographical areas, and by reinforcing local financial institutions. The funds have also assisted in the transition process by helping to improve business ethics in the region, by setting standards of corporate behaviour in investee companies and the business community at large through the promotion of a fair and equal treatment of all shareholders, by good corporate governance, and by a commitment to environmental protection and workers' safety.

TAM Programme

The TurnAround Management (TAM) Programme's objective is to transfer to the chief executives and senior management of industrial enterprises the industrial management know-how and new business disciplines they require to expand their businesses in market-oriented economies.

The donor grant funding provided by the European Community, the Russian Privatization Center, the Council of Nordic Ministers, together with other significant bilateral donors, has enabled the TAM Programme to be involved with 270 industrial enterprises in 12 countries of the region. To date, 550 senior industrial advisors and specialists have been engaged by the EBRD TAM Programme to provide hands-on management advice and the market economy expertise now required by these companies.

The TAM Programme's methodology is a highly cost-effective way for delivering the practical assistance needed by the senior industrial management in the region in their transition phase. Additional donor funding for TAM is being made available to allow the Programme to expand its activities in other countries.

Retainer contract between the EC and the EBRD

The EBRD has continued to provide technical services, on a cost-recovery basis, to the EC's Phare programme and to its beneficiary countries. In response to Phare's requests, EBRD bankers have used their privatisation, restructuring and banking experience, to advise on the design and/or monitoring of Phare operations. Target areas have included the mass privatisation programmes in Bulgaria, post-privatisation enterprise restructuring and upgrading of the banking sector in the Slovak Republic, strengthening of the financial sector in Bulgaria, Croatia, Hungary and Romania, and regional investment companies in the Czech Republic, Poland and the Slovak Republic. Phare requested the EBRD to design and monitor three legal technical assistance projects in Romania concerning reform of pledge law, identification of other legal hurdles to investment, and preparation of a concession law.

By helping to advance the transition process, these advisory activities complement the operational activities of the EBRD and enhance the success of the projects of both Phare and the Bank.

Infrastructure

In its infrastructure projects the EBRD aims to be "additional" to the private sector and other IFIs by mobilising private capital and management where financial viability can be assured, by using the Bank's professional expertise in areas such as railway enterprise restructuring, by supporting public-private partnerships and by assisting privatisation through conversion of public sector loans into private equity.

Telecommunications

The EBRD has taken a lead role in support of the telecommunications sector and continues to mitigate risks and mobilise investment funds. In 1996 the Board approved four projects, representing an investment of ECU 142 million. At the end of 1996 the EBRD's portfolio of approved transactions stood at ECU 863 million or at 9 per cent of its total investment. In addition, the Bank has mobilised ECU 2.7 billion from mostly private sector sources.

Privatisation of national telecom operators

Privatising and modernising the telecommunications sector by attracting private investment and commercially minded management through strategic investors is recognised as the most efficient approach to develop the sector rapidly. The EBRD has been actively involved in the upgrading and privatisation process of some of the national operators through direct support and the preparation of investment financing. Furthermore, the Bank is committed to supporting accelerated growth in the more advanced countries where restructuring of the sector has successfully taken place and a new regulatory regime allows for competition in basic services.

Governments interested in the privatisation of their national telecommunications operator are assisted by the EBRD through technical cooperation programmes and legal and financial advisers, who help to implement public international competitive tenders and to select strategic investors. This guarantees foreign investment on the best available terms and commitment on the part of the investor to develop the sector in line with agreed objectives in terms of network expansion and quality of service, for example.

Due to the progress in transition in the western countries of the EBRD's region of operations, where political and economic stability as well as legal and regulatory transparency are developing rapidly, the Bank's role in financing telecommunications development is changing from medium-term debt financing to long-term funding, local currency financing and complex financial structures. In the east and south-east of the EBRD's region of operations, however, there has been an increased demand from the private sector for the Bank's involvement in mitigating political, legal and regulatory risks. Specifically, the EBRD is actively involved in the privatisation of the national operators in Moldova, Tajikistan and Turkmenistan.

In FYR Macedonia an investment programme has ensured the expansion and modernisation of the national network, and the sector has been fundamentally restructured through comprehensive assistance provided by the EBRD. A new telecommunications law and tariff policy have been developed and are now in force, while postal services have been separated from telecommunications services to pave the way for a future telecommunications privatisation.

At the centre of the EBRD's telecommunications activities are digitalisation of local telephone networks, new broadband networks offering combined transmission of cable television programmes and telephone services, and mobile communications networks. Examples of these projects are detailed below.

The Netia project comprises the design, construction and operation of local telecommunications networks in 10 licence territories in Poland. It is a greenfield project with major investors, and the EBRD holds 10 per cent of the shares. Total capital cost is ECU 307.6 million, with EBRD financing amounting to ECU 89.2 million.

The EBRD is supporting cable television/telephony investment in two countries. Modern technology allows for the immediate provision of basic services, with the option of offering enhanced services (low and high-speed data transmission, Internet access, local area networks, for example) at little additional costs once demand develops.

The EBRD is currently involved in the implementation of mobile networks. These can be quickly implemented and can provide rapid and high returns.

Transport

The EBRD made a significant contribution to the transport sector in 1996. Twelve projects were signed, committing ECU 475 million and mobilising a further ECU 1,463 million. At the end of 1996 the EBRD's investment in transport projects stood at ECU 1,475 million.

The EBRD signed its first port project in April 1996. An EBRD loan of ECU 43.1 million will finance measures to protect Aktau port from the rising level of the Caspian Sea. The loan is intended to improve operations at the port, to establish procedures for protecting the environment and to further commercialise the port's activities. A second port project – a private oil terminal at Giurgiulesti, Moldova – was signed in December, co-financed by Greek sponsors and banks.

First port project signed

Four new projects totalling a commitment of ECU 231 million were signed by the EBRD during the year to finance railway restructuring and modernisation. The Bank has extended an ECU 96.8 million loan to Russian Railways to demonstrate modern track maintenance techniques, to improve communications and management systems, and to implement a commercialisation plan. The Bank is also financing specialist tank wagons in Russia on a limited-recourse basis.

Railway modernisation projects were also signed in Poland to co-finance upgrading of the E20 Warsaw-Poznan-Kunowice mainline, Poland's prime rail link with the European Union, and in Romania for track maintenance and upgrading and rolling stock improvements as part of a restructuring plan. The two projects received EBRD loans of ECU 50 million and ECU 58.5 million respectively. The Romania project includes turn-key contracting for rolling stock improvements, adopting a similar structure to that being pioneered by the EBRD in Bulgaria.

Further commitments were made in 1996 to Romania's roads sector. The Bank approved an ECU 42.8 million loan to upgrade the Bucharest-Pitesti motorway and to institute tolling. It also helped the government prepare and tender an initial motorway concession, using the upgraded Bucharest-Pitesti asset as a contribution in kind. Another loan of ECU 69.2 million was provided by the EBRD to support the commercialisation and privatisation of periodic road maintenance, to restructure the National Administration of Roads and to improve a further 224km of national roads.

In Lithuania the EBRD committed ECU 18.7 million to improving the Via Baltica and other road projects, including by-passes, reconstruction of the East-West highway and street improvements (including bicycle lanes) in Kaunas.

In December the EBRD signed an emergency reconstruction project for the transport sector in Bosnia and Herzegovina as part of a coordinated international effort. The ECU 26.3 million EBRD loan will help to finance improvements to Sarajevo airport and the repair of roads and bridges on priority routes.

First project in Bosnia and Herzego

As well as monitoring its current projects, the EBRD conducted considerable preparatory work in 1996 on projects targeted for signing in 1997 and beyond. Particular efforts were devoted to: airport projects in Russia; railway projects in Estonia, Hungary, the Slovak Republic and Central Asia; the identification of port projects in Azerbaijan, Georgia, Latvia, Poland and Russia; projects to reform the road sector in Albania, Armenia, Azerbaijan, Turkmenistan and Ukraine; and potential motorway concessions/public-private partnerships in Croatia, Hungary, Poland and Romania.

Power and energy utilities

Further progress was made in 1996 in the reform of the gas and electric power and energy sector and its transition towards a market orientation. A notable step was the privatisation of power stations and distribution companies in Kazakstan and of gas/electricity distribution in Hungary. Interest is also beginning to grow in developing private ownership of demonopolised generation companies and in establishing independent power projects that are based on commercial financing structures with associated agreements for the sale of power and fuel supply. More countries are in the process of unbundling their power sectors by separating generation, transmission and distribution activities. Throughout the EBRD's region of operations the reform of electricity and heating tariffs – in the form of more cost-reflective tariffs, billing based on metered customer consumption, and improved cash collections and enforcement – continued from the low levels of the early 1990s. In some countries, such as Slovenia and Croatia, tariffs, billing and collections are already approaching west European standards.

Price-setting mechanisms in the region are increasingly independent of the government and are based on sound rules and principles. Industrial tariffs for the energy sector tend to be equal to, or in some cases exceed, Western levels, but tariff structures remain substantially weighted in favour of low-voltage users, notwithstanding the higher cost of serving such customers because of voltage step-down requirements. Tariff, billing and collection improvements have contributed significantly to stimulating the interest of private investors.

Problems with collecting payments from energy users continued in 1996. In some cases, this has caused the levels of unpaid accounts to grow to unsustainable levels for energy suppliers, and electricity utilities have some of the largest outstanding unpaid accounts to fuel suppliers. The EBRD has worked with other international financial institutions to encourage governments to resolve these problems and to enforce payment mechanisms.

The EBRD's projects in 1996 continued to focus on upgrading the power system, with the introduction of more efficient technology, the reduction of transmission and distribution losses, and the completion of conventional power plants. All of these projects provide low-cost efficiency and environmental improvements. By embarking on a second phase of operations in the energy sector in a number of countries, including Azerbaijan, Georgia, Moldova, Romania and Ukraine, the Bank is signalling its commitment to make further progress in reforming the sector.

Greater efficiency achieved

In Ukraine the EBRD extended a loan of ECU 91.2 million to one of the four thermal power generators, Donbasenergo, to finance the replacement of an old coal-fired boiler with a more efficient and less polluting unit. The new 210 megawatt boiler will burn a residue of coal washing (schlamm), replacing expensive local coal and imported gas and fuel oil. The boiler can burn low-quality coal efficiently and cleanly, and will be the first of its type to be installed in the Bank's countries of operations. It will also meet Ukrainian and European Union standards for air emissions.

In FYR Macedonia an EBRD loan of ECU 30.3 million is financing a privatisation programme for J.P. GA-MA, a state-owned utility responsible for importing and transporting natural gas to the country as well distributing gas in Skopje. The programme will transform J.P. GA-MA into a majority privately owned company and will open the capital of the company to international and local private investors. As soon as the company has a majority of private shareholders, the Bank can seek to refinance the project on a basis which permits the government of FYR Macedonia to lift its sovereign guarantee on the project in exchange for an acceptable security package. An ECU 3.6 million equity subscription to the capital of J.P. GA-MA has also been approved by the EBRD, and will take place as soon as the privatisation process of the gas utility company is completed.

In Latvia the EBRD extended a loan of ECU 26.2 million to Latvenergo, the state-owned electricity company, for the upgrading of two hydropower plants. The loan is part of an overall investment programme of ECU 61.5 million and is to be implemented over the next five years by Latvenergo, the provider of peak power in Latvia. The investment programme will also fund an upgrading of safety and environmental protection along the Daugava River. The Bank has also made progress in the preparation of its first project in Uzbekistan for improvements to the Sydarinskaya thermal power plant and the corporatisation of the utility.

Energy efficiency

Energy efficiency is of crucial importance to the transition process in all of the EBRD's countries of operations. From both an economic and environmental perspective, investments in energy efficiency are the most urgent priority in the energy sectors of these countries. The role of the EBRD's Energy Efficiency Team is to identify and develop energy-saving projects which will help to advance the transition towards market economies.

Despite the importance of improving energy efficiency, many companies, institutions and governments remain unwilling or unable to commit significant resources to actual project development. In contrast, the EBRD is committed to its role as an investor or lender in energy-saving projects which satisfy sound banking principles. One of the key priorities of the Energy Efficiency Team is to develop commercial mechanisms for implementing energy-saving projects, thus eliminating the need for and burden on sovereign credits. Among the most important of these are the energy service companies (ESCOs), which combine technical and financial resources to provide a complete energy efficiency service to their clients. The ESCOs make energy-saving investments in their clients' premises and are repaid from the realised energy savings.

In 1996 the EBRD signed multi-project facilities (MPFs) for two major ESCO investment programmes, one with Landis & Gyr (L&G), and the other with Compagnie Générale de Chauffe (CGC). These represent the first major investment programmes in ESCOs in the Bank's countries of operations. Under the programmes, the EBRD will provide equity and debt to ESCOs to be established by L&G and CGC over the next four years. The Bank's anticipated investment will be ECU 70 million under the L&G facility and ECU 41 million under the CGC facility. Total finance to be provided by the EBRD and its clients is expected to be approximately ECU 350 million.

First ESCO investment programme established

The first ESCO to be established under the MPFs was the Slovak company Thermotech, which was financed with CGC in November. The EBRD investment was ECU 3.6 million in both equity (35 per cent stake) and debt.

The EBRD also provides direct finance to fund larger-scale improvements to district heating or industrial energy efficiency and provides credit lines to local banks. In 1996 it successfully developed two new credit lines with banks in Hungary (Budapest Bank) and the Slovak Republic (Priemyselna Banka). In both cases it is anticipated that small and medium-sized energy efficiency projects will be financed with bilateral assistance provided from the EC's Phare programme. The total commitment by the EBRD for energy-saving under these credit lines is ECU 17.6 million.

The energy efficiency pipeline for 1997 includes projects in Bulgaria, Romania and Ukraine. In Ukraine the EBRD is working with the Government and the EC's Tacis programme to launch Ukraine's first ESCO. In Romania a major district heating improvement programme is anticipated and in Bulgaria the Bank is developing a demand-side management programme with the state electricity utility and a district heating improvement programme with the city of Sofia.

In Russia a number of projects are under development, including establishing new ESCOs, developing industrial energy efficiency projects and financing improvements in the district heating networks.

Municipal and environmental infrastructure

The EBRD's Municipal and Environmental Infrastructure Team completed its first full year of operations in 1996. During the year, the EBRD increased its financing commitments in the municipal and environmental infrastructure and services sector from ECU 87 million at the end of 1995 to ECU 213 million at the end of 1996, supporting projects involving total investments in excess of ECU 540 million.

The demand for financing in the municipal and environmental infrastructure sector is rapidly growing. Countries at a more advanced stage of transition are now channelling more resources into investments that will improve environmental conditions. For those countries seeking accession to the European Union, these investments will also allow them to make progress in meeting EU environmental standards. In addition, increased attention is being given to improving the provision of essential municipal services, such as district heating, water supply and urban transport, as the availability and quality of these services have a direct impact on living conditions and are critically needed to underpin economic development. Conservative estimates are that in the municipal and environmental infrastructure sector in the EBRD's countries of operations investment in excess of ECU 150 billion is needed to achieve basic levels of services.

Rapid growth in demand for financin

In 1996 the EBRD signed five financing commitments in the sector totalling ECU 126 million. It also signed a second framework agreement for a municipal services multi-project facility (MPF), bringing together in a single arrangement a number of otherwise unconnected Austrian companies involved in the financing and provision of municipal services. Under this MPF, the Bank signed its first private sector operation in the municipal and environmental infrastructure sector. It also expanded its operations into Croatia, Hungary, Latvia, Poland, the Slovak Republic and Ukraine. At the end of 1996, the EBRD was preparing or implementing municipal and environmental infrastructure projects in 16 of its countries of operations, covering over 85 municipalities and involving a population of over 23 million.

A loan of ECU 54.4 million was extended to the Croatian Bank for Reconstruction and Development to provide loans to municipal water utilities for the extension and improvement of sewerage and water services in towns along the Adriatic coast. This is the first time that the EBRD has used a financial intermediary for municipal lending. The loan will institutionalise the use of credit for municipal and environmental investments and will contribute to the establishment of a viable system of municipal infrastructure financing in Croatia. Further loans were signed for a regional environmental project in the Jiu Valley in Romania, for a water and environment investment project in Riga, Latvia, and for an environment and energy efficiency credit line in Hungary.

Projects initiated by the EBRD in 1996 included limited-recourse loans, municipal credit facilities, environment funds and private sector multi-project financing. With state guarantees becoming scarce, the Bank will have to rely increasingly on limited-recourse financing for its investments in the municipal and environmental sectors. This will require a particular focus on the assessment and management of underlying municipal and regulatory risk and a gradual change in the risk profile of municipal and environmental infrastructure financings.

The EBRD has extended its expertise in a number of areas in this sector, including municipal creditworthiness analysis, structuring municipal projects, dealing with public and private companies providing municipal services, municipal and environmental finance, and the assessment and management of municipal and regulatory risks. The capacity of the Bank to manage municipal risk has been a very important factor in mobilising support and interest from private investors and commercial banks for projects in the sector.

The EBRD has continued its close cooperation with bilateral and multilateral donors through the Project Preparation Committee (PPC) mechanism (see page 43). PPC officers work closely with the Bank to identify and develop environmental infrastructure projects and to mobilise co-financing from donor organisations participating in the PPC.

Donor funding has enabled the EBRD to finance environmental projects that, due to the nature of the sector, require extensive resources for their preparation and appraisal. In cases where donors have provided grants for investments, this has helped to improve the financial feasibility of projects and allowed the Bank to provide loans.

At the end of 1996 over 30 new projects were under consideration in the municipal and environmental infrastructure sector, with several at an advanced stage of development. With a pipeline of projects under development totalling over ECU 850 million in potential EBRD funding, the Bank's financial commitment to this sector in its countries of operations is expected to increase significantly.

Other key sectors

Natural resources

The EBRD continues to expand its financing of oil and gas projects, which are of great importance for its countries of operations. These consist of joint-venture projects with the participation of foreign oil and gas companies as well as direct loans to local companies in the oil and gas sector. The projects are helping to stem the decline in oil production, to introduce new Western techniques, and to promote environmental awareness.

Expansion of oil and gas projects

In the oil sector the EBRD has participated in financing projects with a total investment of over ECU 1.6 billion. The Bank has successfully syndicated part of its loan commitments to commercial banks and co-finances with other international financial institutions and/or export credit agencies.

The Russian Federation has been the largest source of EBRD-financed oil projects, limited, however, by uncertain tax, pipeline access and export laws and application measures. The EBRD is working closely with relevant Russian authorities to seek legal norms in the key industry on a basis consistent with the Russian Federation's reasonable tax revenue requirements from the oil sector.

In 1996 the EBRD extended to Geoilbent Ltd an ECU 44.3 million loan, which will be used to ensure the continued commercial development of the North Gubkinskoye and Prisklonovoye oil and gas fields in western Siberia, Russia. It is anticipated that over 300 new wells will be drilled, and production is expected to peak at 75,000 barrels of oil. The overall cost of the development is estimated at ECU 331.2 million. The facility is structured as a borrowing-base non-recourse loan, the first time such an approach has been used in Russia.

Another project in western Siberia was approved in 1996. The ECU 40.3 million loan to Chernogorneft, located in Nizhnevartovsk, will finance a drilling programme in the Samotlor oil field, enabling the company to increase oil recovery and to initiate an environmental action plan.

The EBRD expects to finance further oil projects in the Russian Federation as well as in Azerbaijan, Kazakstan, Turkmenistan, Uzbekistan and Ukraine.

The EBRD also increased its funding commitments in natural gas projects. It extended an ECU 80.5 million loan to Gazprom to help finance the replacement of gas compressor stations, improvements in the metering system, and the replacement of parts of the natural gas pipeline system. This will be a major step towards improving the Russian gas pipeline system and the reliability of supply to Western markets. Total project costs are ECU 241.6 million.

Major improvements to Russian gas pipeline system

The EBRD is working on several refinery projects. A loan of ECU 36.2 million was extended to the Achinsk refinery, located in Krasnoyarsk Krai, Russia, to finance the completion of distillation and coking units and related infrastructure development. Total project costs are ECU 74.8 million.

Following an oil spill in the Komi Republic in 1995, the EBRD and the World Bank have provided a loan of ECU 100 million via the Russian Federation to Komineft to finance the cleaning up of the affected area. Improvements have also been made to the Kharyaga/Usinsk pipeline in the region.

The EBRD remained extremely active during the year in the gold sector. In 1996 the Bank fully disbursed its ECU 38 million loan to the Omolon Gold Mining Company to finance the commercial development of the Kubaka gold deposit in the Magadan region of far-east Russia. The EBRD also committed a further ECU 12.1 million to finance additional developments in the company. The Kubaka project is the first large-scale development of a gold mine in Russia involving foreign investment. The first gold production is expected in the first quarter of 1997.

Other projects in the gold sector include an EBRD loan of ECU 8.1 million and an equity investment of ECU 6 million in Buryatzoloto, a Russian privatised gold mining company in the Republic of Buryatia, eastern Siberia. The financing will be used to fund upgrading and expansion work at the company's two mines, increasing its annual production to 75,000-90,000 ounces. This is the first time that the EBRD has invested in a locally managed and controlled mining company and provided a commodity-linked loan to a gold producer.

First loan to locally managed mining company

Agribusiness

The EBRD's agribusiness operations are concentrated in countries for which agriculture and agribusiness represent significant sectors of the economy and where the transition impact of the investments is expected to be greatest. These operations fall into five product categories: joint ventures and stand-alone projects for local companies; targeted financing facilities for local small and medium-sized enterprises; wholesale markets for improved food distribution; agricultural services companies; and multi-project facilities. During 1996 the Board approved facilities in all these categories, reaching a total of ECU 343 million. Some 12 projects involving ECU 216 million of this total were signed during the year.

The diversity of the EBRD's agribusiness portfolio was maintained during 1996. In the brewing sector, EBRD loans totalling ECU 32.4 million were signed for joint ventures with Carlsberg A/S and Podravka Prehrambena in Croatia, and with Carlsberg Israel and local investors in Romania. The construction of a new chocolate factory in Russia was assisted by an EBRD loan of ECU 36.2 million signed with a Russian subsidiary of Cadbury Schweppes plc. The EBRD also provided a loan of ECU 19.8 million to the Russian supermarket chain Perekrestok. Production of glass bottles for a range of beverages is to be financed by a loan of ECU 13.5 million signed with a Russian-Spanish joint-venture company (Faboyta-Anopino). In Bulgaria the Bank provided equity and debt financing totalling ECU 8.0 million to a local food processing company to assist with its restructuring process.

In 1996 the EBRD made an equity investment of ECU 13.0 million in Rolimpex, a newly privatised Polish company whose business is basic agricultural commodities and food processing, and also made an ECU 15.2 million investment in a leading Russian confectionery company. The Bank disposed of an equity investment in a Czech sugar factory after the successful completion of its programme of modernisation and expansion.

Financing via local banks continued to fund a wide range of small local projects in the agribusiness sector in Croatia, Hungary, Romania, the Slovak Republic and Ukraine.

The programme of finance for wholesale markets continued in 1996. In Minsk a wholesale market opened in August with EBRD funding of ECU 4.7 million and is now trading successfully. It is a joint venture between the City of Minsk and Atex, a local privately owned company. A loan of ECU 12.1 million for a market in Warsaw was signed at the end of 1996. Finance for markets in Azerbaijan, Croatia, Georgia and Moldova is planned for 1997.

The agricultural services company supported by the EBRD in Kyrgyzstan is operating successfully and has expanded its operations.

During 1997 attention will be particularly focused on developing agribusiness projects in Poland, Russia and Ukraine as well as in those countries where the EBRD considers that the effect on the transition process will be greatest. Projects will involve local companies, joint ventures and multinational companies, reflecting the mixture of business already established in the Bank's portfolio of agribusiness operations.

Property and tourism

Property markets in the EBRD's countries of operations developed at an uneven pace during 1996. As in 1995, development of larger projects was concentrated almost entirely in capital cities, with the greatest level of activity in Budapest, Moscow, Prague and Warsaw. The office sector continued to attract the greatest interest from property developers in 1996, although the growing need for modern shopping centres in the region, particularly in the countries at an advanced stage of transition, is attracting more interest from the property industry. In many countries, however, developers' activities are hampered by problems such as complex and often hostile tax environments, underdeveloped legal and regulatory frameworks, political uncertainties and corruption, and bureaucratic attitudes by authorities, especially at the local level. Scarcity of long-term, limited-recourse debt finance remains the principal obstacle to property and hotel development throughout the region.

Major office development in Wa

The EBRD considerably expanded its activities in the property sector during 1996 and continues to act primarily as a long-term lender. The largest project concluded during the year was the financing of the Warsaw Financial Center. This project is the largest office development undertaken to date in the Bank's countries of operations, and will provide 70,000 square metres of office space on 34 floors when completed. The EBRD co-arranged an ECU 42.6 million debt facility for the project, which will make a significant contribution to the transition process. The Bank's involvement has helped to attract over ECU 24.1 million in equity for the project from US institutional investors.

In the Russian Federation the EBRD arranged an ECU 22.2 million debt financing package for the refurbishment and reconstruction into modern office space of one of St Petersburg's most significant sites, Nevsky Prospekt 25. This loan followed an equity investment by the EBRD in the project company during 1994, and represents the largest limited-recourse debt-financing package ever assembled for a property development in the Russian Federation.

In Latvia, the EBRD arranged an ECU 11.1 million debt financing package in 1996 to develop Riga's first international-standard office building, the Valdemara Centre. This project, which is being undertaken as a joint venture between Sweden's Skanska International Building AB and the Riga City Council, will provide the city of Riga with over 10,000 square metres of office and retail space on a prime, city-centre site.

Hotel developments were limited in 1996, in part due to a shortage of finance, but also due to the uneven trading performance of existing hotels in the region. There is an increasing demand, however, for quality hotel accommodation in cities such as Baku, Bishkek, Bucharest, Kiev, Moscow and Sarajevo. In Bucharest this situation will be alleviated by the opening in mid-1997 of the EBRD-financed Hilton Athenee Palace.

The region's tourism sector faces a complex set of problems, which has made development in this sector uniquely difficult. In countries without an established tourism base, development has been slowed by skills shortages (both in the public and private sectors), infrastructure deficiencies and lack of appropriate government support. In countries with more developed tourism industries, years of under-investment and a loss of captive markets have created their own challenges. Government unwillingness and inability to restructure and privatise large state monopolies in the tourism sector has also stifled progress in many countries in the region.

Despite the difficult operational environment, the EBRD signed its first loan in the tourism sector during 1996, providing an ECU 25.9 million credit line to the Croatian Bank for Reconstruction and Development to help Croatia's tourism industry finance urgent upgrading and reconstruction work. The credit line will be available to private sector companies only, and was accompanied by a technical cooperation element to train Croatian bankers in assessing tourism sector projects. The transition impact of this project is expected to be substantial, as tourism is one of Croatia's main hard currency generators and a crucial source of employment.

First EBRD loan in the tourism sector

Manufacturing and distribution

In Hungary the EBRD participated in the privatisation of BorsodChem Rt, one of the largest manufacturers and processors of PVC in central and eastern Europe, subscribing for 1.5 million new shares. This will give the EBRD a 14.7 per cent stake, equal to an investment of ECU 15.1 million. The transaction represents the first time that the Bank has participated in the privatisation of a major Hungarian industrial company via the international capital markets. It also supports the EBRD's strategy of facilitating privatisations and financing the capital expenditure programmes of the newly privatised enterprises.

In Russia the EBRD extended an ECU 52.3 million loan to GAZ, an open joint-stock company and one of Russia's major car and truck manufacturers. It will finance the purchase and installation of new facilities for the Volga passenger car, including a body assembly plant and paint and trim facilities, and will allow GAZ to increase the quality and reliability of the car and the flexibility of its range. Russia's Avtobank is providing ECU 12 million to GAZ as part of a parallel financing facility with the EBRD.

The EBRD is assisting in the privatisation and development of cement and building material companies in central and eastern Europe by providing an ECU 72.5 million equity facility to Lafarge, an international building materials group. The first joint investment will finance the acquisition and upgrading of the Kujawy cement plant in Poland. By supporting Lafarge's planned investment programme in the region, the EBRD's multi-project facility will help the restructuring, privatisation and modernisation of essential parts of the building materials industry. The total project cost is ECU 116 million, of which the EBRD will contribute up to ECU 27.4 million to Lafarge.

An EBRD loan of ECU 18.3 million was extended to the Sakhalin Shipping Company (SASCO), Russia's third-largest dry bulk cargo shipping company, for the purchase of eight multi-purpose ships as part of its fleet modernisation programme. The EBRD is lender of record for the loan, ECU 16.1 million of which has been syndicated to two commercial banks, Société Générale and Banque Paribas (Suisse) S.A.

In Slovenia the EBRD helped a former state-owned enterprise to restructure its activities by providing term financing to the country's largest private sector company, Poslovni sistem Mercator d.d. (Mercator). This is the first instance of such a transaction and also the largest EBRD project in Slovenia's private sector. The loan will finance the construction of new supermarkets and hypermarkets, refurbish around 100 existing stores and restructure Mercator's retail and distribution activities. The EBRD arranged the ECU 95.1 million financing package jointly with Union Bank of Switzerland (UBS). The EBRD is providing ECU 31.1 million, with six international banks contributing the remaining ECU 41.5 million. The syndication of most of the loan reflects the quality of the company and the willingness of international banks to accept, for the first time, long-term exposure to private Slovenian companies.

The EBRD is committed to providing limited-recourse financing to Russian projects focused exclusively on the domestic market. In a project to improve Moscow's food distribution infrastructure the Bank extended an ECU 19.8 million loan for a high-quality food retail supermarket chain to the Russian Alfa Consortium. The borrower is ZAO Perekrestok, which already operates five supermarkets in Moscow; the loan will enable it to open six more to serve large residential communities.

Co-financing

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 Bank can support a wider range of projects.

Co-financing is an important aspect of EBRD philosophy for the following reasons:

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

The co-financing instruments available to the EBRD are manifold. The choice made for a given project depends greatly on the specific needs of the client, the stage of transition of the country and whether the project involves state or private sector support.

External finance originates from both commercial and official sources, and sometimes from a combination of the two. The main co-financing partners for the EBRD are:

- commercial banks: through lender of record arrangements (B loans and other participations in EBRD loans), assignments, bonds, parallel loans and credit lines
- export credit agencies (ECAs): through direct financing, and export credit and investment insurance guarantees
- international financial institutions: sovereign lending for economic and financial infrastructure, and private sector lending for larger projects
- bilateral financial institutions and government agencies: private sector loans, sovereign (including concessional) loans, and grants for economic and financial infrastructure.

In 1996, 52 operations were arranged with co-financing, of which 44 were in the private sector and eight were in the state sector. These arrangements together mobilised co-financing totalling ECU 854.1 million, of which ECU 615.3 million was for private sector projects and ECU 238.8 million was for projects in the state sector.

During the year the Bank increased the number of its co-financing partners and, for approved and signed projects, it was working with 283 companies or partners, from 47 countries, in 416 investments.

Commercial co-financing

In 1996 the EBRD mobilised commercial funds for 28 projects in 10 of its countries of operations. Furthermore, in some of the more challenging environments, the Bank enlisted partners to share risks in innovative structures. Banks from seven additional countries were added to the co-financing roster, increasing the total number of banks working with the EBRD to 105 from 25 countries.

The EBRD continued an active programme of working with ECAs, conducting bilateral meetings in London with 14 agencies.

In 1996 the EBRD closed two new projects with ECAs: Kansansay-Tekmen Wool Products in Uzbekistan with Turk Eximbank and Faboyata Anopino A.O. in Russia with CESCE. The Bank also made progress during the year with more than 20 projects that are expected to have a co-financing arrangement with one or more ECA.

Co-financing banks in 1996

ABN AMRO Bank	Netherlands	Industri & Skipsbanken AS	Norway
Alpha Credit Bank	Greece	ING Bank	Netherlands
Avto Bank	Russian Federation	International Moscow Bank	Russian Federation
Bank Austria	Austria	Kredietbank	Belgium
Bank Przemyslowa Handlowy SA	Poland	Long Term Credit Bank	Japan
Banque Indosuez	France	Mees Pierson	Netherlands
Banque Nationale de Paris	France	Merita Bank	Finland
Banque Paribas	France	Moscow Narodny Bank	United Kingdom
Bayerische Vereinsbank	Germany	National Bank of Greece	Greece
Christiania Bank	Norway	Nordbanken	Sweden
Citibank, NA	United States	Orszagos Takarekpenztar es Kereskedelmi Bank RT	Hungary
Commercial Bank of Greece	Greece	Rabobank Nederland	Netherlands
Credit Lyonnais	France	Raiffeisen Zentralbank Osterreich	Austria
Credit Suisse	Switzerland	Royal Bank of Scotland	United Kingdom
Creditanstalt-Bankverein	Austria	Russian Project Finance Bank	Russian Federation
De Nationale Investerings Bank NV	Netherlands	Slovenska Pol'nohospodarska Banka	Slovak Republic
Dresdner Bank	Germany	Société Générale	France
Finance Company Viking	Switzerland	Svenska Handelsbanken	Sweden
First Austrian	Austria	Union Bank of Switzerland	Switzerland
General Hellenic Bank	Greece	Westdeutsche Landesbank Girozentrale	Germany
Generale Bank	Belgium	Westland/Utrecht Hypotheekbank	Netherlands
ICO	Spain	Zagrebacka Banka	Croatia

Further development work, particularly in the area of implementation, was completed on the Export Credit Loan Arrangement Technique (ECLAT). In particular, detailed contract tendering procedures were established, including specific tender documents and a quantitative tender evaluation methodology. These procedures and documents were implemented for the Bulgarian railway project as well as for the Daugava hydro project in Latvia. As at the end of 1996, two ECLAT co-financings were in the tendering phase, and the Bank's pipeline included six additional projects which are expected to utilise the ECLAT.

ECLAT offers the client a mixture of EBRD financing and ECA/commercial bank funding for contracts awarded after international competitive bidding. It differs from direct ECA lending by allowing open procurement opportunities and streamlining administration.

Of the co-financings signed in 1996, several are noteworthy. In the AO Perekrestok transaction, the EBRD brought together a syndicate of international banks, including one Polish bank, to finance a Russian food retailer in the expansion of its franchise in Moscow. The banks demonstrated substantial confidence in both the management of the company and the Russian economy by committing themselves to a transaction involving an entirely Russian company serving a domestic market. The Bank closed its first B loan transaction in Moldova – for the Port of Giurgiulesti oil terminal – with three Greek banks as participants. For Cadbury ZAO, a Russian subsidiary of Cadbury Schweppes plc, the EBRD and a syndicate of international banks and MIGA structured a financing through which the international financial institutions and the syndicate reduce the political risk that would otherwise be borne by the Western client, Cadbury Schweppes plc. Also in Russia, the Bank arranged a syndicate to support the Kubaka gold project, sponsored by Cyprus Arnax. In Poland, the EBRD, with ABN AMRO Bank as joint arranger, put in place a syndicate of 11 international banks as B lenders and Nordic Investment Bank for a 10-year financing for Netia, to be used for the construction of a fixed line telephone network. Lastly, in Romania, the Bank arranged an A/B loan for the first time for United Romanian Breweries SRL.

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

In addition to its work in mobilising funds for new financings, the Bank has begun to explore the market for secondary sale of loans from its portfolio. On a pilot basis, the EBRD has offered participations in a limited number of the loans on its books. This market will be further explored during 1997.

With more of the EBRD's work focusing on the countries at intermediate or early stages of transition, the development of co-financing remains an important goal. The EBRD is encouraged by the number of banks and ECAs from outside its countries of operations that have joined in financing and is working to extend the list and the extent of financing commitment from each co-financing partner, especially into its countries of operations in the early and intermediate stages of transition.

Official co-financing

Co-financing with other international financial institutions was prominent in 1996. The European Investment Bank (EIB), the World Bank and the Nordic Investment Bank (NIB) co-financed with the EBRD five operations for an amount of ECU 78.1 million. These operations were in Latvia, Lithuania and Poland and were concentrated mainly in the power, transport, telecommunications and environment sectors.

Official co-financing partners in 1996 are listed in the table below. These institutions and agencies (excluding the EIB, the NIB and the World Bank) co-financed 35 operations, contributing an amount of ECU 266.1 million, mostly on a grant basis or at concessional terms. The operations covered 13 of the EBRD's countries of operations and focused on the following sectors: power, energy efficiency, small and medium-sized enterprises (credit lines, micro-lending and post-privatisation funds), transport and environment. In particular, co-financing with EC Phare accelerated in 1996, as eight operations were co-financed amounting to ECU 131.1 million, compared with ECU 51.0 million for four operations in 1995.

Official co-financing plays a crucial role in supporting EBRD investment in physical and financial infrastructure in its countries of operations. Because of its often concessionary terms, it can be particularly beneficial to the lower-income countries.

Official co-financing institutions and agencies (1996)

Baltic Investment Special Fund (BISF)	Nordic countries
Bundeskanzleramt	Austria
Deutsche Entwicklungs Gesellschaft (DEG)	Germany
European Commission (EC Phare)	Europe
Export-Import Bank of Japan (JEXIM)	Japan
Federal Office for Foreign Economic Affairs	Switzerland
FinnFund	Finland
International Cooperation and Development Fund (ICDF)	Taipei China
Ministero del Tesoro	Italy
Ministry of Finance	Austria
Ministry of Foreign Affairs	Norway
Moldova Special Fund	Switzerland
Overseas Economic Cooperation Fund (OECF)	Japan
Russia Small Business Fund (RSBF)	G-7 and Switzerland
Statens Naerings-og Distriktsutviklingsfond (SND)	Norway
SwedFund	Sweden
United States Agency for International Development (USAID)	USA
European Investment Bank (EIB)	Europe
Nordic Investment Bank (NIB)	Nordic countries
World Bank	Multilateral
World Bank – Trust Fund for Bosnia and Herzegovina	Multilateral

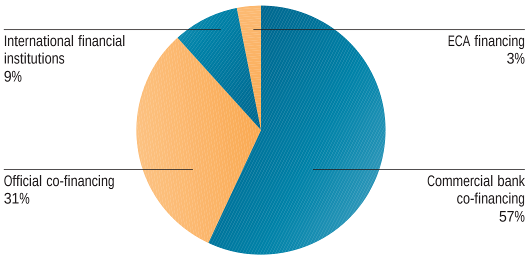
Romania was the biggest recipient in 1996 of official co-financing (ECU 95.5 million), while Bosnia and Herzegovina was the second-largest (ECU 45.9 million). The Governments of Austria and Italy signed grant agreements with the Bank to establish an investment cooperation fund from which Bank operations in Bosnia and Herzegovina can be co-financed.

In addition, many official co-financing partners/donors contributed to the EBRD's Technical Cooperation Funds Programme. In 1996 total resources mobilised for this purpose amounted to ECU 93.6 million. The section on technical cooperation funds (see page 46) lists all TC donors to EBRD operations and the extent of their commitments. Their contributions play a critical role in preparing necessary and successful projects by the EBRD.

Types of co-financing funds by value in 1996

	ECU million
A/B loans/participations	443.5
Parallel loans	139.6
Parallel loans/ECA guaranteed	7.2
ECA direct	19.3
Loans from international financial institutions	78.1
Equity	34.6
Grants	131.8
Total	**854.1**

Sources of co-financing funds by value in 1996



Co-financing support for private and state sector operations in 1996

	Number	Total project cost ECU million	EBRD finance ECU million	Co-financing ECU million	Co-financing %
Private sector	44	2,936	949	615.3	72
State sector	8	991	257	238.8	28
Total	**52**	**3,927**	**1,206**	**854.1**	**100**

Project evaluation

Assessing performance

Project evaluation is the process of assessing the performance of completed projects and programmes through systematic analysis of their outputs or outcomes against expected or planned results. It also involves the evaluation of categories of operations and patterns of experience. The project evaluation function seeks to measure the degree to which EBRD operations met a broad range of qualitative and quantitative objectives.

Project evaluation also seeks to determine whether there are significant lessons to be learned from its completed operations, and those of other international financial institutions.

A vital element of the evaluation process is the independence in which project evaluation activities are carried out, which secures the necessary objectivity and transparency. For this reason, it is conducted by a separate Project Evaluation Department (PED), with a Vice President who reports directly to the President of the Bank.

From the EBRD's inauguration in 1991 until the end of 1996, PED carried out 42 Operation Performance Evaluation Review (OPER) reports on private as well as public sector investment operations, comprising 66 per cent of investment operations ready for post-evaluation. In addition, PED has produced 21 reports comprising evaluations of large technical cooperation (TC) operations, TC-related special studies and mid-term evaluations of Bank operations. The Department also carries out Evaluation Progress Reviews (EPRs) on evaluated TC operations.

During 1996 the sample of operations ready for evaluation consisted for the first time of both projects for which an OPER report was produced by PED (15 operations) and projects (in total 21) where PED carried out a short assessment of the self-evaluation documents (Expanded Annual Monitoring Reports – XAMRs) prepared by the operational department of the Bank on operations for which no OPER report could be produced.

The outcomes of the 1993-95 Annual Evaluation Overview Reports (AEORs), as well as the performance of investment operations evaluated/assessed during 1996, point towards an overall satisfactory quality of the portfolio. The high percentage of projects classified by Project Evaluation in the highest rating categories was maintained during 1996.

High level of successful projects maintained

The performance classification of the evaluated operations is based on four strategic performance criteria: the Bank's additionality, as defined by the Agreement Establishing the EBRD and by subsequent, Board-approved, interpretive policy; the operation's transition impact, including environmental considerations; the company/project business performance; and the project's investment performance. The evaluation findings reflect the positive way in which the Bank has fulfilled its mandate since the start of the institution.

Apart from ensuring that PED identifies whether the Bank has functioned according to its mandate (accountability), it is essential that the project evaluation process also generates important lessons to be learned from past operations so that, through Bank-wide dissemination of these lessons, bankers are able to improve future operations (quality management). Therefore, a substantial amount of PED staff time is allocated to disseminating and interpreting evaluation findings through "lessons learned" workshops for Bank staff.

PED makes careful assessments of the transition impact (TI) of Bank investments in its OPER reports and uses the findings in the overall performance rating of each operation. In the 1994 and 1995 AEORs a system of immediate and long-term transition impact scoring was applied to all evaluated investment operations, using a standard set of transition impact indicators developed by the EBRD's Office of the Chief Economist. The analysis shows that there is a strong connection between company/project business performance and transition impact. The 1995 findings indicate that in cases where a company/project business performance is satisfactory or better, the TI rating is likely to be at least Medium. In this respect PED concluded that selecting economically viable projects with a strong client – taking into account sound banking principles – is a necessary condition for an adequate impact on the transition.

Lessons learned from investment operations

The lessons presented below are drawn from both positive and negative information gathered during the past four years. They are intended to help increase the overall quality of the future EBRD portfolio by enabling staff at all levels in the Bank to learn from both successful and unsuccessful operations.

Quality of operations at Concept Clearance and Initial Review stages. Most of the lessons learned relate to the screening and Initial Review stages of the project cycle, indicating that it is important for the Bank to focus on the quality of the work carried out in the first stages of the project cycle ("quality at entry").

Use of industry experts as a risk-mitigating factor. Many of the lessons learned concern the areas of market analysis/industry performance and project scope. An important lesson in this respect is that the use of technical expertise during key stages of the project cycle can reduce the EBRD's credit risk.

Importance of monitoring investment operations. In recent years, the EBRD has given increased attention to the monitoring of investment operations. There is evidence that this has improved their rate of success and this has also helped PED in carrying out its functions. To identify an early need for Bank intervention, monitoring must be based upon transparent early tracking of key performance indicators based on the expectations established at appraisal.

Lessons related to transition impact. As the transition impact of operations is a key feature of the EBRD's mandate, it is important to present some lessons that are based on the transition indicators for project assessment described in the *Transition Report* 1995.

(a) In its evaluation of operations, the EBRD discovered that those exploiting the benefits of forward linkages, i.e. other services in their distribution process, are likely to be profitable and contribute significantly to the transition process.

(b) Companies can have an important influence in their sector by enhancing a competitive environment; however, one must be aware that the competitive environment may affect the company's profitability.

(c) The EBRD's initiatives in establishing new or enhancing existing financial intermediaries promote the development of small and medium-sized enterprises, which until recently had no direct access to credit facilities.

(d) The evaluation process incorporates the review of training activities in investment operations. Evaluation shows that these activities can be an important factor in the project's success and are of an acceptable standard in most investment operations.

Lessons for technical cooperation operations

During the evaluation of technical cooperation (TC) operations and TC-related special studies, important lessons were identified that can guide the EBRD towards further improving the quality of the preparation and monitoring of its TC operations.

The impact of TC on follow-on investment operations. Evaluations suggest that the Bank's TC operations, particularly those related to project preparation, play a successful role in the preparation of specific follow-on investment operations, both in the public and the private sector. Successful TC operations have an impact well beyond that of the follow-on investments themselves if during the preparatory phase of the TC one focuses on the local counterparts taking ownership of the content and structure of the TC.

The need for well-defined TC objectives, targets and design. Studies show that TC projects succeed if they have well-defined objectives and tend to fail if they do not. There is a need for clarity on the content, framework and scope of TC operations, with the objectives being formulated with an operational perspective, that is with specific targets for effective implementation.

Bank monitoring and TC effectiveness. There is evidence that effective EBRD monitoring and management of TC operations can help to ensure swift and effective progress and in particular to generate early follow-on investments, know-how transfer and transition impact.

Procurement and contracting

The EBRD recognises that sound procurement is a vital part of project development and ensures that procurement issues and experiences from previous projects are fully taken into account as the operation develops through the various stages of the project cycle. The main principles concerning procurement are as follows:

- Competition is the foundation for good procurement practice.
- Procurement with Bank funds is governed by the EBRD's Procurement Policies and Rules.
- Concerns for economy and efficiency, quality of results, contractual protection and timely completion cover a project in its entirety.
- Firms and individuals from any country may offer goods, works and services for EBRD-financed projects regardless of whether the country is a member of the Bank.

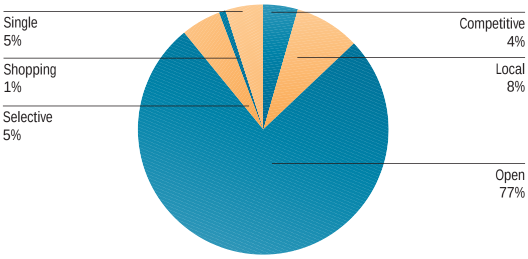
Procurement for public sector projects is undertaken by the EBRD's clients in accordance with specific rules set down by the Bank so that contract awards are fair and transparent and normally made on the basis of open competitive tenders. In 1996 the Bank funded 162 public procurement contracts to the value of ECU 330.2 million.

For private sector operations the focus is on identifying potential conflicts of interest and assessing the extent to which the purchasing policies and practices of the Bank's private sector clients use appropriate procurement methods which ensure a sound selection of goods and services at fair market prices.

The geographic spread of winning tenderers encompasses a total of 47 countries, including 18 countries of operations and 7 non-member countries. In 1996, suppliers from 35 countries were awarded contracts, including 16 of the EBRD's countries of operations. Open tendering was used for 76 per cent by value of contracts.

To ensure the widest possible awareness of EBRD-funded contracts, the Bank publishes General Procurement Notices, invitations to tender, contract award information and provides details of projects in the pipeline through its *Procurement Opportunities*, a monthly publication available by subscription. This information is also published in the *Official Journal of the European Communities* and *United Nations Development Weekly*.

Method of procurement for contracts awarded in the public sector in 1996 (by volume)



Definitions of procurement methods

Open tendering: procedures under which all interested suppliers or contractors are given adequate notice of purchase requirements and equal opportunity to submit a tender.

Local competitive tendering: tenders in accordance with national procedures acceptable to the EBRD in which foreign firms are allowed to participate.

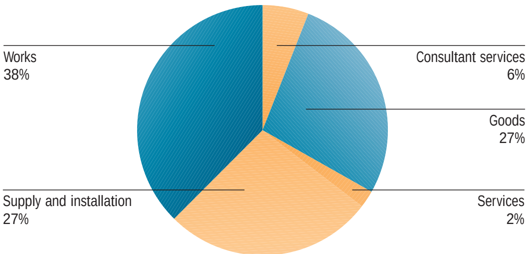
Selective tendering: procedures similar to those for open tenders except that the client preselects qualified firms which will be invited to submit tenders.

Single tendering: procedures applied in exceptional cases where a single firm is invited to submit its tender without prior public notification.

Competitive selection: the process of selecting a consultant from proposals received from a short list of firms.

Shopping: a simplified form of competitive purchasing that requires written quotations from at least three suppliers, including foreign firms where possible.

Contracts awarded by contractor and contract type in the public sector in 1996 (by volume)



Definitions of contract types

Works: contracts for civil construction works to an agreed design, e.g. roads and buildings, including specified plant, equipment fixtures and fittings to be incorporated in the structure.

Supply and installation: contract for the provision of plant and equipment where installation represents a substantial proportion of the value of the contract.

Supply of goods: contract for the provision of plant and equipment where installation and commissioning represents a small proportion of the contract value.

Consultancy: hiring of consultants to provide professional advice and perform specific tasks.

Services: services excluding consultancies, e.g. training and provision of transport.

The EBRD's Procurement Policies and Rules were revised in March 1996 to take account of public utilities moving towards majority private ownership where the Bank recognises that procurement based upon the utilities' own existing rules may be acceptable.

The Nuclear Safety Account (NSA) broke new ground by applying the Bank's open tendering procedures for equipment procurement in the nuclear sector, an area previously restricted to national suppliers. Procurement is limited, however, to goods and services produced in or supplied by the countries of contributors to the NSA (see page 44) or the Bank's countries of operations.

The table below shows the countries which had contracts awarded in public sector operations exceeding ECU 1 million from 1991 to 1996. The country of the winning tenderer is the country from which the tender was submitted; consequently the table may understate the participation of certain countries.

Analysis of public sector contracts by country of contractor

Country	1996 ECU million	1991-96 ECU million
Armenia	0.20	30.09
Australia	0.49	19.59
Austria	5.29	43.71
Belgium	2.80	7.18
Bulgaria	1.73	21.28
Canada	0.05	2.95
Croatia	5.19	33.95
Cyprus	0.37	19.55
Czech Republic	2.72	37.40
Denmark	10.50	18.33
Estonia	–	5.56
Finland	9.19	57.95
France	36.59	161.13
FYR Macedonia	12.00	38.81
Germany	41.82	204.77
Greece	–	3.21
Hungary	4.80	115.37
Ireland	0.09	7.26
Italy	23.19	183.63
Japan	4.59	20.36
Korea	–	23.58
Latvia	6.42	16.14
Lithuania	12.47	21.67
Netherlands	4.72	11.22
Norway	12.88	18.67
Poland	15.38	79.53
Romania	22.81	24.64
Russian Federation	13.58	116.27
Slovak Republic	13.68	45.85
Slovenia	9.62	89.12
South Africa	–	2.23
Spain	–	28.33
Sweden	5.16	27.02
Switzerland	0.08	16.94
Turkey	14.53	42.65
United Kingdom	21.57	89.41
United States	15.52	124.14
Others	0.18	2.26
Total	**330.20**	**1,811.76**

Environment

The EBRD is directed by its mandate to promote, in all its activities, environmentally sound and sustainable development. It recognises that safeguarding the environment is an integral part of sound business practice. Furthermore, in the ongoing transition process, the pursuit of economic growth and a healthy environment are inextricably linked.

The EBRD implements its environmental mandate through two principal activities. It undertakes environmental infrastructure and energy efficiency operations (see pages 30 and 31) and also applies environmental due diligence to all of its investment and technical cooperation operations. Environmental due diligence requirements vary depending on the nature and location of the project, the potential environmental liabilities or risks associated with past, current or future operations, worker health and safety considerations, and other issues. Investigations are normally undertaken early in the operation cycle in order to allow time to identify environmental concerns and opportunities, to plan mitigation and enhancement measures, and to obtain agreement on actions to be taken prior to Board approval. Environmental conditions, relating to mitigation and enhancement measures and monitoring, are incorporated into loan agreements.

Fifty-two environmental analyses, including five environmental impact assessments, and 25 environmental audits were conducted on projects approved by the Board of Directors in 1996. In some cases analyses and audits were both required.

To reflect operational experience and further enhance its mandate, revisions to the Bank's Environmental Policy and Procedures were approved by the Board in September 1996. Environmental Action Plans are now to be part of the EBRD's formal Environmental Procedures, while the additionality of EBRD operations will be enhanced by promoting energy and resource efficiency, waste recovery and recycling, and clean technologies. Environmental components are to be integrated into country and sector strategies. The provisions of the Bank's Disclosure of Information Policy have been incorporated into the Environmental Procedures.

Promotion of resource efficiency

EBRD operations will be structured to meet national and existing EU environmental standards, whichever is the more stringent, or national and World Bank standards where EU standards do not exist. If these standards cannot be met at the time of Board approval, operations will include a programme for achieving compliance with them. Where alternative approaches are required by an operation, as may be expected at the present time for most financial intermediaries, such approaches will in all cases be subject to Board consideration on a project-by-project basis.

Natural resources

Environmental audits and/or analyses are undertaken on existing natural resources operations to establish the current environmental status of the facilities. Environmental impact assessments and analyses are carried out to predict the impact 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 implementation and monitoring of mitigation and enhancement measures.

A number of operations involve existing facilities in sectors which traditionally have a high level of pollution; these often provide opportunities for significant environmental improvements. In 1996 the EBRD approved a loan to upgrade Geoilbent, a Russian oil production company located in North Gubkinsky in the west Siberia oil/gas region. The Bank required the preparation of an environmental impact assessment and an environmental audit. On the basis of the recommendations of the assessment and audit, a series of environmental protection measures were incorporated into the design of the project.

The North Gubkinsky field is located in a territory which is inhabited by an indigenous population – the Nenets. On the Bank's initiative, representatives of regional organisations took part in the public consultation process, and the environmental reports on the project were made available to the public. As a result of these consultations, contract agreements were prepared and are being implemented by Geoilbent. The company is providing aid such as food and medical supplies, and is preserving pastures and hunting grounds by excluding such areas from the field development zone. It has banned the use of the oilfield for game hunting, fishing or collecting wild plants and mushrooms.

Public consultation encouraged

In the oil sector, environmental protection measures are currently being implemented by the Achinsk oil refinery in the Krasnoyarsk region of Russia, which recently received an EBRD loan. The measures include the construction of an electrodialysis unit and a phenol neutralisation facility and improvements to the efficiency of waste-water treatment, based on the environmental investigations and analysis undertaken to meet the Bank's requirements. An Environmental Action Plan (EAP) has addressed the issues of environmental compliance and improvements. Specific measures to be undertaken concern the reduction of sulphur emissions, surface water containment, water treatment facilities, water balance and discharge, loading procedures, sulphur storage, waste disposal, and groundwater monitoring.

Food processing

In the food processing sector, the EBRD made a loan in 1996 to ROMPAK for the construction of a new yeast production facility in Romania. An environmental impact assessment was undertaken based on the findings of scoping (the identification of issues to be explored). Issues identified in the assessment related to waste-water management, air emissions, the handling and storage of raw materials, waste disposal, and future environmental management and organisation at the facility. The mitigation measures to address these issues were incorporated into an Environmental Action Plan and are being implemented.

Manufacturing

In the manufacturing sector, the EBRD's financing of new facilities can have significant environmental implications. In 1996 the Bank provided a loan to GAZ-Volga, located at Nizhniy Novgorod in Russia, to build a replacement painting facility at a car manufacturing plant with a capacity for producing 140,000-150,000 passenger cars a year. This will significantly contribute to the reduction of volatile organic compound (VOC) emissions at the facility. An environmental analysis and an environmental audit were conducted to identify environmental issues. These included atmospheric emissions from foundry and forging operations, waste-water discharge, hazardous waste storage, oil and chemical storage, and worker health and safety.

Energy

Electric power generation is a major source of air pollution in the EBRD's region of operations, particularly in those countries that rely on lignite, coal and oil shale as their primary energy source. Investment in modern, efficient energy production and transmission is therefore central to the EBRD's energy policy.

In 1996 the EBRD approved a loan for the Starobeshevo power modernisation project in eastern Ukraine. The Bank's financing supports the ongoing restructuring and commercialisation of the Ukraine power sector and the implementation of the investment plan leading to the closure of the Chernobyl nuclear power station as agreed between Ukraine and the G-7 countries. The project consists of replacing the existing boiler with a circulating fluidised bed boiler and will improve the efficiency with which the country's energy supplies are utilised. It will also reduce imports through the better utilisation of locally produced coal.

Improvements to Ukraine power sector

An environmental analysis and an environmental audit were conducted to establish that the project would have a net positive impact on the environment by utilising clean coal technology. The fluidised bed boiler was designed to meet European Union standards for air emissions even when burning low-quality coal and the residues from coal washing. An Environmental Action Plan incorporated measures to control air emissions and water discharge, and to improve oil and chemicals storage. A technical cooperation project was arranged to provide assistance to the Starobeshevo power plant to identify technical, environmental and managerial improvements at the station and to facilitate implementation of the Environmental Action Plan.

Mining

In 1996 the EBRD approved an investment in Buryatzoloto for the upgrading and expansion of two existing gold mines in the Republic of Buryatia in the Russian Federation. This investment will result in the introduction of improved environmental mitigation and management practices, including the clean-up of contamination associated with the now discontinued mercury amalgamation gold recovery process. A public participation programme, involving the indigenous Sayuts population and local non-governmental organisations, was carried out prior to the Bank's approval of the investment.

Transport

In the transport sector, environmental appraisal was carried out on a variety of highways, rail, air and port projects resulting in environmental improvements being incorporated in a number of operations. For example, the environmental assessment carried out on the Aktau port reconstruction project in Kazakstan resulted in the inclusion in the investment of a component for improving the port's causeway, which supports oil pipelines and oil cargo berths, and for relocating the pipes to address the potential risk of oil spillage. The study also identified the facilities needed at the port to deal with waste management and oil spills to meet the standards of MARPOL (the international convention for the prevention of pollution from ships). Provision for these has been included in the civil works contract.

The Via Baltica project in Lithuania, funded in part by the EBRD, involves improvements to the two main highway corridors in the country as well as to the street systems in the city of Kaunas. As a result of the environmental impact assessment carried out on the project, provision for a number of environmental mitigation measures, such as landscaping, animal underpasses and noise protection, will be included in civil works contracts. In addition, through co-financing from the EC Phare programme, 7 kilometres of bicycle lanes will be constructed in Kaunas.

Financial intermediaries

In 1996 nearly 36 per cent of the EBRD's financing was intermediated through financial institutions (FIs). All FIs are required to adopt and implement environmental procedures as an integral part of their credit investment appraisal and monitoring process. The Bank attaches considerable importance to assisting its financial intermediaries in complying with the environmental requirements that it places on them. For example, the Bank's environmental specialists have prepared model environmental procedures for different types of FIs, such as local banks and investment funds.

Specifically, the EBRD conducts environmental due diligence training for the staff of banks in the countries of operations under EC Phare and Tacis environmental due diligence framework contracts. This training programme has now entered its third year of operation. Consultants are retained under framework contracts to assist the management of client FIs in incorporating environmental procedures, in line with the model FI procedures of the EBRD, in the FI's credit investment appraisal procedures and to train FI staff in the practical use of these procedures. The consultants also brief FIs on the relevant regulatory framework and on the use of environmental experts.

Third year of traini programme

Other initiatives

The EBRD continued its programme of environmental technical cooperation work, including preparing investors' guidelines on environmental and health and safety requirements in the CIS countries and in some of the other countries of central and eastern Europe. The Bank's environmental specialists prepared, together with the banking teams, a new set of environmental guidelines for secondary market operations. A range of practical tools has been developed including environmental guidelines covering 78 industry sub-sectors for non-experts, such as credit officers in financial intermediaries.

The Project Preparation Committee (PPC), whose secretariat is located at the EBRD, was established in 1993 to help match donor co-financing for environmental projects with the market-based financing available from international financial institutions. The PPC's ninth plenary meeting was held at the EBRD's headquarters in October 1996, and focused on the co-financing of environmental investment in central and eastern Europe and the CIS. It also concentrated on the follow-up activities related to the decisions made at the "Environment for Europe" ministerial conference in Sofia in October 1995, such as green equity schemes and the further development of pilot projects for joint implementation.

The EBRD's Environmental Advisory Council (ENVAC), a forum of environmental experts from the Bank's countries of operations and OECD countries, continued to advise the President and staff on policy and strategy issues related to the Bank's environmental mandate; two formal meetings of ENVAC, chaired by the President, were held in 1996. Two editions of the Bank's bulletin *Environments in transition* were published during the year.

Nuclear Safety Account

The Nuclear Safety Account (NSA): a multilateral mechanism
At their Munich Summit in 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 (NPPs). 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 EBRD.

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 EBRD'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 administrator 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 1996, pledges to the NSA totalling ECU 257.4 million have been made by the European Community and 14 countries: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States of America.

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 440/230 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 conditions for the shutdown of the less safe reactors.

Ongoing projects
As of 31 December 1996, projects in Bulgaria, Lithuania, Russia and Ukraine have been approved by the Assembly of Contributors, and grant agreements have been signed by the interested governments, the utilities and the EBRD.

Bulgaria
An ECU 24 million project for Units 1-4 (VVER 440/230s) at Kozloduy Nuclear Power Plant (NPP) in Bulgaria was signed in June 1993, and is currently being implemented. It includes: measures for fire protection; in-service inspection of critical components; control room aids for operators; and an emergency feedwater system. Completion of the project is expected by December 1997. The Bulgarian government is committed to shutting down Units 1-2 and subsequently Units 3-4 when a set of investments in the power sub-sector has been completed.

Lithuania
An ECU 35 million project for Ignalina Nuclear Power Plant (two RBMK reactors) in Lithuania was signed in February 1994. This project encompasses the most urgent and feasible upgrades. Its scope includes new reactor trip signals, fire protection devices, a training simulator and environmental monitoring equipment. Completion is expected by December 1997. Ignalina NPP generates about 90 per cent of the country's electricity production.

The Lithuanian government has agreed that operation of the two units at the plant will not 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 relicensed by the Lithuanian Safety Authority (VATESI) on the basis of this analysis. The analysis is financed by the NSA at a cost of ECU 8.3 million. Final recommendations by the panel of experts to VATESI are expected to be issued in early 1997.

Russian Federation

Agreements were signed in June 1995 by the EBRD and the government of the Russian Federation, Leningrad NPP, Rosenergoatom (jointly with the Novovoronezh and Kola NPPs) and the Nuclear Safety Authority (Gosatomnadsor). The Russian government also agreed on a unilateral statement to ensure indemnification of suppliers.

Of the total grant, Leningrad NPP (four RBMK reactors) will receive ECU 30 million, and the joint project at Novovoronezh and Kola NPPs (four VVER 440/230s) will be granted ECU 45 million. These projects are currently being implemented and include: in-service inspection equipment; measures for fire protection; environmental monitoring equipment; and emergency feedwater systems.

A joint committee was set up to monitor the progress of the implementation of these agreements, and completion of both projects is expected by the end of 1998. They will assist Russia in implementing its safety upgrading programmes in the short term. Specific support is being given to the Nuclear Safety Authority in the form of a grant. A further area of cooperation is the preparation of a power sector strategy. The situation of all VVER 440/230s and the oldest RBMK nuclear units will be systematically re-examined by the Russian authorities to assess their safety and the economic need for their continued operation at improved levels of safety. Western and Russian experts will cooperate on these issues.

Ukraine

An ECU 118 million project for Chernobyl NPP was signed in November 1996. This project is part of the comprehensive programme to support Ukraine's decision to close Chernobyl NPP by the year 2000. This is in accordance with the Memorandum of Understanding between Ukraine and the G-7/European Union. The NSA project will address preparation for closure of Units 1, 2 and 3 through two decommissioning facilities (liquid radioactive waste treatment and interim spent fuel storage) as well as immediate safety measures at Unit 3 prior to closure.

Further activities of the NSA will be decided by the Assembly of Contributors in the framework of six-month work programmes.

Technical cooperation funds

Technical cooperation funds have an important role to play in supporting the EBRD operational objectives of sound banking, additionality and transition impact through:

- developing and maintaining a productive and quality investment pipeline
- assisting an efficient and effective project implementation
- supporting the development of institutional infrastructure directly relevant to the Bank's operations
- maintaining a balanced support for both the private and public sectors.

In 1996 the EBRD committed ECU 89.0 million to fund 301 technical cooperation operations, compared with ECU 99.3 million in 1995. Disbursements amounted to ECU 58.0 million, compared with ECU 57.9 million in the previous year. Since its establishment in 1991, the EBRD has committed ECU 397.6 million for 1,471 technical cooperation operations. Disbursements since 1991 amounted to ECU 210.7 million.

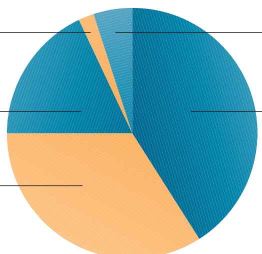
By type of activity in 1996 the Technical Cooperation Funds Programme (TCFP) supported project preparation (41 per cent), project implementation (34 per cent), advisory services (18 per cent), training (5 per cent) and sector studies (2 per cent).

Large amounts of technical cooperation (TC) funds were committed in 1996 for large-scale TC operations in support of the implementation of projects, such as Regional Venture Funds, Post Privatisation Funds and credit lines for small and medium-sized enterprises (SMEs). Another feature of 1996 was the start of the Bank's technical cooperation activities in Bosnia and Herzegovina.

TC is increasingly project related

An important indicator of success is the extent to which the TCFP has been able to generate Bank-approved and signed investments. During the year the EBRD signed loans and investments totalling ECU 692 million that were directly supported by technical cooperation operations. Since 1991 the TCFP has contributed ECU 101 million to generate 154 projects, for which EBRD financing of ECU 3.7 billion was committed.

Technical cooperation commitments 1991-96
by type of activity



Technical cooperation commitments by sector

	1996			Cumulative 1991-96		
	Number	ECU million	%	Number	ECU million	%
SMEs	58	35.4	44	184	124.8	31
Privatisation	70	21.2	22	168	62.4	16
Energy	23	4.8	5	199	45.8	12
Finance	31	7.4	8	201	41.5	10
Transport	19	6.7	7	133	36.8	9
Environment	24	5.1	5	128	26.0	7
Agribusiness	6	1.3	1	86	16.8	4
Telecommunications	17	2.1	2	95	15.0	4
Restructuring	0	0.0	0	105	12.7	3
Legal	18	1.8	2	69	7.3	2
Industry	22	1.4	1	56	4.1	1
Miscellaneous	11	1.2	1	38	2.9	1
Tourism	2	0.7	1	9	1.5	<1
Total	**301**	**89.0**	**100**	**1,471**	**397.6**	**100**

Technical cooperation commitments by recipient country

	1996			Cumulative 1991-96		
	Number	ECU million	%	Number	ECU million	%
Russian Federation	50	34.1	43	289	160.8	40
Romania	19	12.7	13	63	24.9	6
Kazakstan	5	1.2	1	33	14.3	4
Ukraine	23	3.5	4	82	13.8	3
Slovak Republic	13	8.0	8	46	12.3	3
Belarus	7	1.2	1	44	10.0	3
Hungary	3	0.6	1	52	9.6	2
Slovenia	5	0.3	<1	60	9.1	2
Lithuania	17	1.0	1	68	8.5	2
Latvia	24	1.5	2	72	8.2	2
Estonia	19	1.2	1	70	8.0	2
Poland	7	0.1	<1	55	7.0	2
Albania	6	1.0	1	56	6.7	2
Uzbekistan	2	1.1	1	22	5.9	1
Bulgaria	3	0.1	<1	23	5.6	1
Kyrgyzstan	3	0.2	<1	34	5.6	1
Moldova	4	1.5	2	24	5.2	1
Tajikistan	9	1.3	1	16	5.0	1
Czech Republic	1	<0.1	<1	26	4.3	1
Bosnia and Herzegovina	19	4.1	4	19	4.2	1
FYR Macedonia	4	0.8	1	29	3.8	1
Azerbaijan	8	1.9	2	19	3.6	1
Turkmenistan	2	0.6	1	13	3.3	1
Croatia	6	0.8	1	20	2.5	1
Georgia	5	0.5	<1	14	2.1	1
Armenia	4	0.9	1	14	2.1	1
Regional:						
Baltic states	2	<0.1	<1	35	5.4	1
Regional	31	8.7	9	173	46.0	12
Total	**301**	**89.0**	**100**	**1,471**	**397.6**	**100**

Technical Cooperation Fund Agreements

at 31 December 1996

Donor	Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
1991				
Norway (Environment and energy)	16 Apr	NOK	27.60	3.45
Japan	5 July	JPY	8,606.56	60.92
USA	30 July	USD	1.15	0.93
France (Foreign Affairs)	1 Aug	FRF	19.51	3.00
Sweden	13 Aug	SEK	55.00	6.43
Taipei China	16 Sept	USD	15.00	12.08
European Community[1]	15 Oct	ECU	156.39	156.39
Netherlands	20 Nov	NLG	19.18	8.85
United Kingdom[2]	25 Nov	GBP	4.75	6.50
Luxembourg	26 Nov	ECU	0.70	0.70
Austria	31 Dec	USD	5.00	4.03
1992				
Finland	13 Jan	FIM	18.52	3.21
Canada	24 Jan	CAD	8.30	4.88
France (Treasury)	26 Mar	FRF	40.46	6.22
Switzerland	31 Mar	CHF	8.50	5.07
Israel	14 Apr	ILS	1.04	0.26
Italy	14 Apr	ITL	9,000.00	4.74
Italy (Central European Initiative)	14 Apr	ITL	21,000.00	11.06
Turkey	17 June	TRL	10,000.00	0.08
Denmark	1 July	ECU	3.10	3.10
New Zealand	10 July	NZD	0.33	0.19
Spain	21 July	ESP	233.90	1.44
Portugal	20 Oct	PTE	80.00	0.41
Iceland	3 Dec	ECU	0.20	0.20
Germany	11 Dec	DEM	10.00	5.18
1993				
Republic of Korea	25 Apr	USD	0.60	0.48
Norway (General)	27 Apr	ECU	1.50	1.50
Ireland	17 Sept	ECU	0.66	0.66
1994				
United Kingdom-B[3]	14 Mar	GBP	2.28	3.12
United Kingdom-C[4]	25 Mar	GBP	2.81	3.84
USA (Evergreen)	3 June	USD	3.19	2.57
Finland, Norway, Sweden (RVF for North West Russia)[5]	5 July	USD	20.00	16.11
Belgium	27 Sept	BEF	30.00	0.76
USA (RVF for Lower Volga Region)	29 Sept	USD	20.00	16.11
Flanders	9 Nov	ECU	0.40	0.40
1995				
France (RVF for Southern Russia)	28 Feb	FRF	120.00	18.44
Wallonia	16 Mar	BEF	15.00	0.38
Greece	4 Apr	GRD	59.00	0.19
Italy (RVF for Western Russia)	6 June	USD	20.00	16.11
Netherlands (Dutch Environment)	22 June	NLG	0.40	0.19
European Community (TAM Phare Regional)	26 June	ECU	5.90	5.90
Denmark, Finland, Iceland, Norway, Sweden (TAM Nordic Council)	22 Sept	DKK	7.00	0.95
Germany KfW	27 Sept	DEM	13.00	6.74
1996				
FYR Macedonia (Financial Sector)	14 Feb	DEM	0.01	0.01
European Community (Slovak PPF)	3 Apr	ECU	8.00	8.00
European Community (Romanian PPF)	10 Oct	ECU	10.00	10.00
European Community (Polish SRP)	12 Dec	ECU	2.00	2.00
Total of Technical Cooperation Funds				**423.78**
Special Funds				
Baltic Technical Assistance Special Fund	14 Apr 1992	ECU	9.25	9.25
Russia Small Business Technical Cooperation Special Fund	18 Oct 1993	ECU	24.07	24.07
EBRD Technical Cooperation Special Fund	12 Sept 1995	ECU	0.25	0.25
Project-specific Funds			**24.15**	**24.15**
Total of Technical Cooperation Funds				423.78
Total of Special Funds				33.57
Total of Project-specific Funds				24.15
Total of all technical cooperation agreements				**481.5**

[1] The Agreement amount has been amended by the EBRD to reflect the annual revision of the facility by the EC. Included in the Agreement is ECU 2.7 million representing funds assigned to implementation projects.

[2] The activities of the UK Fund are in the Russian Federation.

[3] The activities of the UK-B Fund are in the countries of the former Soviet Union, excluding the Russian Federation.

[4] The activities of the UK-C Fund are in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic and Slovenia.

[5] The table lists all technical cooperation agreements that the EBRD manages directly and for which it has received contributions. Additional Regional Venture Funds are not administered by the EBRD: these are recorded as official co-financing (see page 37).

Technical Cooperation Funds replenished since the initial Agreement.

Technical cooperation funds

Funding for technical cooperation is provided by the EBRD's members through 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 1996 the EBRD signed four new Technical Cooperation Fund Agreements, bringing the total to 47. In addition, 20 existing Technical Cooperation Funds were replenished and six project-specific technical cooperation agreements were signed in 1996. Total grant resources for technical cooperation increased during 1996 by ECU 93.6 million to ECU 481.5 million. This represents an increase of almost 21 per cent compared with 1995.

21 per cent increase in TC funds

During 1996 the EBRD signed seven contribution agreements for the Technical Cooperation Special Fund (TCSF), namely with Finland, Ireland, Israel, Norway, Portugal, Switzerland and the UK. The TCSF is an untied facility funded through reimbursed technical cooperation funds previously allocated to private sector operations and/or through direct donor contributions. A first contribution of ECU 247,400 was made to the TCSF.

In April 1996 the European Commission and the EBRD agreed on new modalities of implementation of the technical cooperation agreement signed in 1991 (the Bangkok Facility) to streamline the procedures for use of the European Community TC funds. This revision aims to improve the efficiency and effectiveness of future cooperation between the two institutions.

Financial results and financial statements

Financial results

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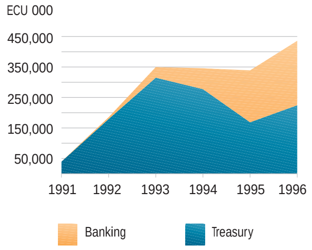
Financial results

Introduction

The EBRD's financial results for 1996 were better than originally expected. Income was higher, particularly from Banking operations. Costs were lower than budgeted and in ECU terms even lower than the previous year.

Income structure



Operating profit before provisions was therefore higher than in 1995. After prudent provisioning for risks in the growing portfolio, profit after provisions was ECU 4.9 million and total reserves were further strengthened.

Banking operations generated nearly 50 per cent of the EBRD's total income compared with 36 per cent in 1995. This strong growth was achieved despite a lower level of profit from the sale of share investments in 1996. Treasury also provided a stable source of income, with results better than established performance benchmarks despite volatile markets.

Continuing budget discipline, effective cost controls, a focus on cost recovery initiatives and the beneficial impact of the Bank's hedging policy for sterling expenses have contributed towards a reduction of ECU 3.6 million in reported expenses compared with 1995.

Depreciation of ECU 13.2 million is lower than in 1995 even though the charge again includes a number of additional prudential measures to accelerate the depreciation of some assets in line with their estimated future economic value to the Bank.

Provisions of ECU 92.5 million were made in 1996, including ECU 20.0 million of specific provisions. The total provision for the year is more than 22 per cent higher than in 1995, demonstrating the EBRD's continued prudent approach to providing for existing and anticipated risks at an early stage of the growing portfolio of committed and outstanding loan and equity investments.

Cumulative provisions and reserves of ECU 263.3 million represent 8.2 per cent of outstanding loans and equity.

Banking operations

Portfolio

During the year 95 projects with a value of ECU 2.2 billion were signed, compared with 110 projects with a value of ECU 2.0 billion in 1995. This achievement is in line with the Bank's strategy of manageable growth. Commitments at the end of 1996, net of repayments and cancellations, stood at ECU 7.3 billion.

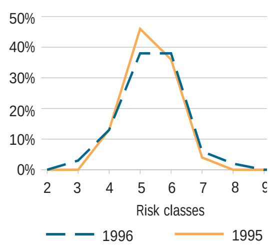
Project disbursements in the year were ECU 1.4 billion, which is 25 per cent higher than in 1995. Disbursements included ECU 198 million for share investments. The outstanding portfolio now comprises ECU 2.5 billion of loans, ECU 7.8 million of project-related debt securities and equity investments of ECU 679.1 million, which makes up more than one-fifth of the outstanding portfolio.

During the year ECU 208.1 million was received from loan repayments and share investment disposals.

Risks

The EBRD's loan and share investments are reviewed on an ongoing basis by the Bank's independent credit function, and credit risk ratings are assigned to individual operations ranging from 1 (low risk) to 10 (expected loss). In view of the markets in which it operates and its transition mandate, the Bank expects its operations normally to be in the range of risk categories 4 to 6. The average overall risk rating of new projects signed in 1996 was between 5 and 6. As a result, the weighted average risk rating of the signed portfolio moved slightly to the higher end of the range during the year. This is to be expected given the growing share of operations in countries in the early and intermediate stages of transition and a greater proportion of equity investments in the EBRD's portfolio.

Portfolio risk distribution



By the end of 1996, the vast majority of projects (more than 85 per cent) were in risk categories 4 to 6, with some projects moving to the better rated categories (1 to 3) and other projects being downgraded to classification 7 (special attention) or worse. With the portfolio beginning to mature and an increasing number of loans entering their repayment phase, it is anticipated that further problems will emerge. The graph above shows a wider distribution of projects over the risk categories in 1996 than that recorded in 1995.

Performance

Gross income from Banking operations increased significantly in both nominal and relative terms in 1996. Its share of total income now stands at nearly 50 per cent of the total gross income of the EBRD in the year. Interest earned on loans increased to ECU 152.0 million and accounts for 72 per cent of Banking operations gross income. The equity portfolio generated ECU 16.4 million from dividend income and the sale of share investments, compared with ECU 43.6 million in 1995. This reflects the variable pattern of income from the portfolio of share investments, particularly as a result of equity exits, the timing of which is primarily the result of the Bank's role as a facilitator of transition. Fee and commission income improved significantly in the year, in line with the growth in the portfolio.

An analysis of the contributions to the Bank's total performance shows that income from Banking operations of ECU 212 million (ECU 170 million in 1995) after deduction of interest expenses fully covers the total provisions charge of ECU 92 million made in the year.

After also covering the related direct expenses of the Banking department of approximately ECU 49 million, Banking operations made a further positive contribution to the Bank's reported profit.

Treasury operations

Portfolio

The value of assets under Treasury management increased during 1996 by ECU 1.5 billion to ECU 7.2 billion at 31 December 1996. Assets comprised ECU 5.5 billion of debt securities, ECU 0.9 billion of placements with credit institutions and ECU 0.8 billion of money market placements. In addition to these liquid assets, derivatives are carefully used as part of the Bank's strategic investment programme.

At year-end ECU 907.5 million or 12.6 per cent of the total investment portfolio was managed by 16 external asset managers. The externally managed portfolios comprise portfolios of ECU 523.4 million of ECU-denominated securities and ECU 384.1 million of US dollar-denominated securities. The funds are placed with independent managers in order to provide specialised services and investment techniques and to establish third-party performance benchmarks. These independent managers are required to comply with the same Investment Guidelines that the Bank applies to its internally managed funds.

Risks

The EBRD's investment strategy continues to be based on taking advantage of market opportunities within strict investment guidelines and reflects a low-risk appetite. It remained cautious throughout the year amid continuing volatility of interest rates in the relevant markets.

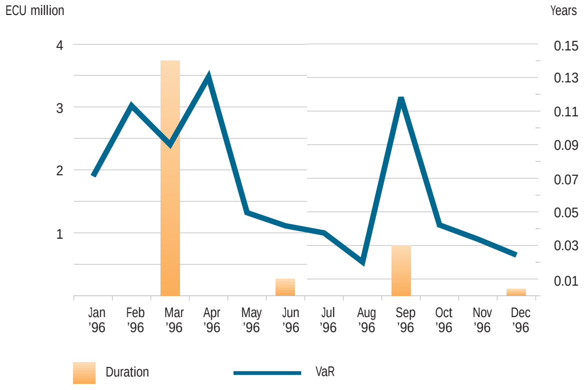
The credit quality of the Treasury portfolio remains high, with 89.4 per cent of the portfolio in AA- or better counterparties. The portfolio is spread across 23 countries. Except for slightly higher positions in the United States of America and Japan no more than 20 per cent of the exposure is to any one country.

During 1996, the EBRD expanded its risk measurement framework by adding a Value-at-Risk (VaR) measurement. VaR shows the possible impact of market changes on investment returns given a set of assumptions and based on financial historical data and correlations. Consistent with the Bank's foremost objective of capital preservation, the VaR figures are computed in terms of risk over and above the Bank's Libor-based benchmark for investments. A VaR of zero would indicate the absence of any foreign exchange risk or an interest rate exposure on its assets matching precisely that of its benchmark.

The EBRD pays particular attention to the fact that the market risk incurred should remain well within the boundaries of its appetite for risk, and VaR trends are closely monitored.

At 31 December 1996, the VaR of the EBRD's internally managed investment portfolio, calculated on a conservative basis by reference to a 99 per cent confidence level over a 10-day horizon, was ECU 647,000. This means that, with a 99 per cent confidence level, the value of the Bank's investment portfolio should not change by more than this amount during the following 10-day trading horizon. Over the year, the overall VaR of the investment portfolio evolved within a range of ECU 500,000 to ECU 3,500,000 as indicated in the graph on page 52. The portfolio duration was progressively shortened during the year to effectively zero by year-end.

Average duration and value-at-risk of investment portfolios*



* 99 per cent confidence level, 10 trading days, BIS data set

The graph demonstrates the importance of complementing duration measurement with VaR measurement. For example, comparisons of the positions at the end of the first quarter of 1996 with the situation at the end of the third quarter show that, while the duration of the portfolio was significantly reduced, the VaR hardly changed.

In general, the Bank's risk profile during 1996 was low although there have been some significant variations during the year. VaR numbers – even at the high end of the curve – should be interpreted against the background of the total portfolio of ECU 6.4 billion on average during the year and a conservative basis for the calculation. The VaR of externally managed funds has also been modest during the year and has not added significantly to the overall risk profile of the total portfolio.

Performance

Investments managed by the Bank's Treasury generated gross income for the year of ECU 224.6 million, an increase of more than a third over 1995. This was a result of managing higher volumes and a performance which exceeded expectations. These factors offset the significant reduction in base rates in almost all relevant markets. The accounting presentation of these results was enhanced in 1996 – in line with best practice – to bring together the complete results of the management of the marked to market portfolios, i.e. combining interest income, interest expense and the marked to market results.

The positive income contribution of the EBRD's Treasury operations to the Bank's total performance more than covered both the direct expenses of the Treasury department and overhead expenses of the Bank.

At the end of the year Treasury's investment return was 18 basis points over the three-month Libor benchmark.

Funding

Capital

With the adoption of Resolution No. 59, the Board of Governors agreed to increase the authorised share capital of the Bank to ECU 20 billion. To become effective, this increase requires members to deposit instruments of subscription for a total of 494,188 shares. At the end of the year, 11 members had deposited instruments of subscription with the Bank for 196,975 shares. A further 214,675 shares were subscribed by 11 March 1997.

At the end of 1996 paid-in capital received in cash and promissory notes totalled ECU 2.9 billion. During the year an amount of ECU 73.8 million relating to previously overdue subscriptions was received. In addition, encashments of promissory notes amounting to ECU 157.1 million were received. Outstanding overdue amounts of ECU 33.4 million from 11 members now represent only 1.1 per cent of paid-in subscribed capital. This is significantly below the 4 per cent overdue at the end of 1995.

Borrowing

The EBRD's borrowing policy is governed by the following principles. The policy seeks to provide long-term funds as needed to meet operational requirements. It also seeks to ensure maximum cost effectiveness for the Bank. Furthermore, the policy aims at maintaining a strong level of liquidity which allows flexibility in deciding on the most appropriate time to access the capital markets.

During the year, the Bank issued the equivalent of ECU 2.4 billion through 27 funding transactions with an average maturity of 7.0 years and an average cost of Libor minus 36 basis points.

After buy-backs of ECU 700.2 million and redemptions of ECU 584.8 million there was a net increase in borrowings during the year of ECU 1.1 billion. The outstanding borrowings of the Bank at the year-end had an average remaining maturity of 5.2 years at an average cost of Libor minus 37 basis points.

The EBRD's borrowing programme included several notable transactions during 1996, including: a Hungarian forint issue for on-lending to fund a local project; an inaugural issue in the Spanish Matador bond market; and a gold-linked borrowing transaction which was structured as a private deposit.

As part of its overall borrowing programme, the Bank also raised funds by means of short-term issuances for cash management purposes. The Bank issued the equivalent of ECU 732.6 million in 16 transactions during the year, at an average cost of Libor minus 36 basis points. The short-term borrowings amount outstanding at the end of the year were ECU 730.3 million.

Expenses

The EBRD's administrative costs for the year were significantly below budget and ECU 3.6 million lower than in 1995. Total expenses including depreciation for the year were, at ECU 146.4 million, nearly ECU 11.9 million lower than in 1995. This reflects the Bank's continuing commitment to budget discipline, effective cost controls and a proactive cost-recovery programme.

A significant part of the reduction in expenses was accounted for by the Bank's policy of entering into exchange rate contracts to ensure that the largely sterling-denominated expenses, when translated into ECU for reporting purposes, are not adversely affected by movements in ECU/sterling exchange rates. Although there was a small increase in expenses in sterling terms, expenses in ECU terms decreased in 1996, reflecting the significant benefit of the exchange rate protection policy.

Depreciation at ECU 13.2 million was ECU 8.3 million lower than in 1995 due to the various one-off prudential measures taken in 1995, which resulted in a higher-than-average charge for that year. In 1996 a smaller number of prudential measures were taken to accelerate depreciation of certain assets in view of their future economic value to the Bank.

Provisions

The EBRD's provisioning policy ensures that general provisions on private sector operations are taken at an early stage of exposure (half of the relevant provisions at signing of a project and half at disbursement). The level of general provisions is determined by the credit-risk rating of individual loans and equity investments, as determined by the Bank's independent credit function. In addition, the Bank makes a general provision based on total commitments, net of repayments, in order to provide against further possible losses in the overall portfolio.

In view of the exceptional circumstances in the operational environment in Bosnia and Herzegovina, the Bank has decided to make additional general provisions in respect of operations there.

In addition, the Bank continues with its policy of making specific provisions as required on a case-by-case basis.

The combination of the different elements of the provisioning policy results in a charge for the year of ECU 92.5 million, which is an increase of more than 22 per cent compared with 1995. The increase in total provisions reflects the continuing growth in the portfolio of operations and the related prudent increase in general portfolio risk provisions. Included in the charge for the year are new specific provisions of ECU 20.0 million, reflecting the maturing portfolio, with the total of such specific provisions reaching ECU 31.1 million by year-end.

As a result of this charge for 1996, total provisions have reached ECU 235.4 million which together with reserves now stand at 8.2 per cent of the outstanding disbursement portfolio of loans and equity investments.

Outlook for 1997

The EBRD is projected to continue on its path of sustainable profitability in 1997. The financial position will, however, remain vulnerable to the potential for negative developments in the portfolio and changes in interest rates.

The Bank's priority is to continue to build reserves and to take all necessary prudential provisions.

Additional reporting and disclosures
Through its reports and disclosures, the EBRD follows the reporting conventions of private sector financial institutions, in line with its policy to reflect best industry practice.

Principles of financial management and risk management
The financial policies of the EBRD follow the guiding principles of sound financial management building on the Agreement Establishing the Bank and providing the financial framework within which the Bank pursues its mandate.

The Bank's financial management aims to:

- pursue financial viability
- build up reserves and ensure sustainable profitability
- follow market and performance orientation in all its activities
- work within a comprehensive risk management framework
- ensure transparency and accountability at all levels and provide effective corporate governance.

The Bank seeks to identify, manage and mitigate the credit, market and operational risks to which it is exposed in all its operations. Given the relatively high credit risks in the Bank's ordinary operations, the Bank aims to minimise its exposure to other risks, particularly in its Treasury activities. The Bank utilises sophisticated instruments in accordance with best industry practice to assess and manage risk in order better to protect its assets, its net income and, ultimately, its capital.

The EBRD is exposed to credit risk in both its ordinary operations and its Treasury activities. Credit risk arises since borrowers and Treasury counterparties could default on their contractual obligations or the value of the Bank's investments could be impaired. The vast majority of credit risk is in the operations portfolio. The Bank's independent credit function seeks to ensure that any risks are correctly identified and appropriately managed and mitigated through a comprehensive and rigorous credit process, which is reviewed annually to determine its effectiveness and efficiency and to fine tune it, taking into account experience gained.

The EBRD's main market risk exposure is that movements of interest rates and foreign exchange rates may adversely affect positions taken by the Bank, particularly in its Treasury portfolio, and therefore may impair its net income. The Bank aims to limit and manage market risks to the extent possible in its portfolio of Treasury assets through active asset and liability management and management of foreign exchange exposures. Foreign exchange transactions are entered into only for the purposes of hedging, and no active positions are taken. Interest rate risks are managed through a combination of matching the interest rate profile of assets and liabilities and the use of derivative financial instruments.

Operational risk is determined by examining all aspects of risk-related exposure other than those falling within the scope of credit and market risk. In broad terms operational risk is the risk of loss that may occur through errors or omissions in the processing and settlement of transactions or in the reporting of financial results. This includes all instances of fraud or failures in controls. At a broader level, it includes a consideration of the whole control environment, including the business ethics and leadership of the Bank.

Within the Bank there are policies and procedures in place covering aspects of operational risk, such as:

- the Bank's Code of Conduct
- disaster recovery/contingency planning
- policy on public access and disclosure of information
- procedures regarding corrupt practices and money laundering
- procedures to be followed in the event of fraud or suspected fraud
- information security policy framework
- guidelines for management of operational risk in Treasury
- procurement policies.

These are, in addition to the Bank's high standards of business ethics and its established system of internal controls, checks and balances and segregation of duties, which protect the Bank from any initial exposure to operational risk.

Risk management enhancement programme
In 1996 the EBRD's overall approach to risk management was substantially strengthened through a further definition of the risk management responsibilities in the Treasury area and the formation of an independent Risk Control Unit. This unit focuses on risks incurred by the Bank in its Treasury-related activities and is responsible for the measurement, monitoring and reporting of market risk.

The Bank's framework for monitoring market risk was significantly expanded in 1996. Monitoring is based on a set of complementary tools that address each of the main categories of interest rate risk, such as yield curve risk, optionality risks and spread risk.

A VaR methodology has been implemented, as discussed above, and is in the process of being complemented with extensive stress testing. The Bank's VaR estimates are produced using a parametric methodology. The calculation of volatilities and correlations is based over a period of one year, with equally weighted data points as recommended by the BIS.

Use of derivatives
Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. Derivatives used by the Bank include interest rate and currency swaps, forward exchange contracts, futures, options and combinations of these products.

In the area of Treasury risk management, the EBRD has adopted the G-30 recommendations on the use of derivatives and is committed to following best industry practice. The Bank complies fully with all aspects relevant to end-users as defined by the G-30. It also has elected to comply with recommendations relating to market makers as it uses, as do market makers, derivatives for strategic positioning within clearly defined limits.

The interest rate risks arising from derivative instruments are combined with those deriving from all other instruments dependent on interest rates. Special care is devoted to those risks that are specific to the use of derivatives, through, for example, the monitoring of volatility risk for options, spread risk for swaps and basis risk for futures.

The EBRD has strict criteria for controlling the credit risk of counterparties in over-the-counter derivative transactions. Such transactions can be entered into only with AAA-rated corporates, or AA- or better rated banks and sovereign counterparties.

The EBRD is seeking to mitigate credit risks further through systematic recourse to a variety of credit enhancement techniques. Over-the-counter derivatives transactions are systematically documented with Master Agreements, providing for close-out netting, and the Bank has sought to expand the scope for applicability of this provision through documenting the widest possible range of instruments transacted with a given counterparty under a single ISDA-based Master Agreement.

Furthermore, the EBRD has expanded substantially its use of collateral agreements, with negotiations either finalised or under way with the vast majority of its derivatives banking counterparties.

Use of derivatives at year-end

The nominal principal amounts of derivative transactions outstanding at year-end, including credit derivatives entered into as part of the EBRD's Treasury investment activities of ECU 1.4 billion, totalled ECU 26.2 billion compared with ECU 17.7 billion in 1995.

Of the outstandings of ECU 24.8 billion, excluding the credit derivatives, more than 99 per cent, or ECU 24.6 billion, were in place for hedging purposes, compared with ECU 16.3 billion in 1995. The remainder, comprising interest rate contracts (primarily futures), represented strategic investment positions. These are subject to market risk and are fully accounted for in the marked to market valuation.

In the unlikely event of non-performance by all of its counterparties the Bank had, in respect of the outstandings of ECU 24.8 billion, a year-end exposure of ECU 652 million (ECU 558 million in 1995).

These amounts represent the gross replacement cost at market rates as at 31 December 1996 of all outstanding agreements in the event of all counterparties defaulting and do not allow for the effect of netting arrangements. The exposure after taking account of available netting arrangements would reduce to ECU 460 million. However, as stated above, the Bank is highly selective in its choice of counterparties and considers that non-performance does not represent a significant risk.

Full details, expressed as notional principal amounts, are set out in the following table:

Derivative instruments

ECU 000	Hedging	Strategic investment positions	Total
Exchange rate contracts			
Swaps	3,040,667	0	3,040,667
Forwards	1,610,168	0	1,610,168
Options	185,670	0	185,670
	4,836,505	**0**	**4,836,505**
Interest rate contracts			
Swaps	10,767,369	0	10,767,369
Options	1,247,043	0	1,247,043
Futures	7,777,539	150,767	7,928,306
	19,791,951	**150,767**	**19,942,718**
Total	**24,628,456**	**150,767**	**24,779,223**

Corporate governance

The EBRD is committed to effective corporate governance, with responsibilities and related controls throughout the Bank properly defined and delineated. Transparency and accountability are integral elements of the Bank's corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for and disseminated to each level of responsibility within the Bank, to enable the system of checks and balances on the Bank's activities to function effectively.

The EBRD's governing constitution is the Agreement Establishing the Bank which provides that the Bank will have a Board of Governors, a Board of Directors, a President, Vice Presidents, Officers and staff.

All the powers of the Bank are vested in the Board of Governors representing the EBRD's 60 shareholders. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors while retaining overall authority.

Board of Directors and Board Committees

The Board of Directors is responsible for the direction of the Bank's general operations and exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors. In particular, these include establishing the Bank's policies and taking decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, the furnishing of technical assistance, and other operations of the Bank. In addition, the Board of Directors is responsible for approving the budget of the Bank and submitting the annual audited accounts for approval by the Board of Governors at each Annual Meeting.

The Board of Directors has established three Board Committees to assist the work of the Board of Directors:

- The Audit Committee considers the appointment and scope of work of the external auditors and reviews financial statements, including Treasury performance and general accounting principles, Treasury risk management, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation.
- 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.
- The Financial and Operations Policies Committee reviews financial policies, including borrowing policy, general policies relating to Banking and Treasury operations and procedures and reporting requirements.

The President and the Executive Committee

The President is elected by the Board of Governors. The President is the legal representative of the Bank and, under the direction of the Board of Directors, the President conducts the current business of the Bank.

The Executive Committee is chaired by the President and is composed of members of the Bank's senior management. It meets weekly and considers all key aspects of the strategy, performance and financial soundness of the Bank.

Reporting

The Bank's corporate governance structure is supported by appropriate financial and management reporting. In its financial reporting the Bank aims at providing appropriate information on the risks and performance of its activities. It is the Bank's objective to observe best practice in the content of its public financial reports. In addition, the Bank has a comprehensive system of reporting to the Board of Directors, and detailed management information is available in order for management to monitor the implementation of business plans and the execution of budgets.

Compensation policy

The following statements describe the Bank's approach to compensation for employees.

The Bank has designed a market-oriented staff compensation policy, within the constraints of the EBRD's status as a multilateral institution, in order to meet the following objectives:

- to be competitive in order to attract and retain high-calibre employees;
- to take account of differing levels of responsibility;
- to be sufficiently flexible to respond rapidly to the market; and
- to motivate and encourage excellent performance.

To help meet these objectives, the Bank's shareholders have agreed that the Bank use market comparators for its staff compensation and that pay be driven by performance.

The bonus programme allocations are structured to recognise individual and team contributions to the Bank's overall performance. Bonus payments, although an important element of the total staff compensation package, are limited as a percentage of base salaries. In general, bonus payments even to outstanding performers do not exceed 25 per cent of base salaries.

The Bank's Board of Directors, the President and Vice Presidents are not eligible to participate in the bonus programme. Their remuneration is established by the Board of Governors, in the case of Directors and the President, and by the Board of Directors in the case of the Vice Presidents.

Status of the EBRD's activities

Profit and loss account

For the year ended 31 December 1996

	Note	**Year to 31 December 1996 ECU 000**	Year to 31 December 1995 (Restated) ECU 000
Interest and similar income			
From loans		**149,446**	90,898
From fixed-income debt securities		**160,329**	94,690
Other interest		**60,615**	56,208
Interest expenses and similar charges		**(192,371)**	(92,455)
Net interest income		**178,019**	149,341
Dividend income from share investments		**7,726**	5,773
Net fee and commission income	3	**46,049**	33,938
Financial operations	4		
Net profit on sale of share investments		**8,715**	37,895
Net profit on dealing activities		**3,963**	12,285
Foreign exchange		**(730)**	1,937
Operating income		**243,742**	241,169
General administrative expenses	5	**(133,187)**	(136,815)
Depreciation		**(13,213)**	(21,463)
Operating profit before provisions		**97,342**	82,891
Provisions for losses	6	**(92,454)**	(75,384)
Profit for the year		**4,888**	7,507

Statement of appropriation of profit

For the year ended 31 December 1996

	Note	**Year to 31 December 1996 ECU 000**	Year to 31 December 1995 ECU 000
At 1 January		**(39,653)**	(26,109)
Profit for the previous year		**7,507**	1,013
Set aside to the special reserve from the previous year	16	**(19,670)**	(14,557)
At 31 December		**(51,816)**	(39,653)

In accordance with the Agreement, it is intended that an amount of ECU 22.70 million being the qualifying fees and commissions earned in the year to 31 December 1996 will be appropriated in 1997 from the profit for the year to 31 December 1996 and set aside to the special reserve.

Balance sheet

At 31 December 1996

	Note	ECU 000	31 December 1996 ECU 000	ECU 000	31 December 1995 (Restated) ECU 000
Assets					
Placements and debt securities					
Placements with and advances to credit institutions		**942,001**		1,043,645	
Other money market placements and advances		**815,848**		190,734	
Debt securities	7	**5,450,558**		4,443,536	
			7,208,407		5,677,915
Other assets	8		**487,522**		613,939
Loans and share investments					
Loans	9	**2,460,740**		1,559,426	
Share investments	9	**619,737**		454,346	
			3,080,477		2,013,772
Property, plant and equipment	11		**51,994**		57,932
Promissory notes issued by members	15		**86,745**		241,338
Subscribed capital					
Due but not yet received			**27,447**		94,700
Called but not yet due			**21,622**		28,118
Total assets			**10,964,214**		8,727,714
Liabilities					
Borrowings					
Amounts owed to credit institutions		**1,404,504**		387,007	
Debts evidenced by certificates	12	**5,572,257**		4,315,328	
			6,976,761		4,702,335
Other liabilities	13		**872,484**		957,232
Provisions for general portfolio risks	6		**121,909**		83,425
Subscribed capital	14	**9,883,750**		9,883,750	
Callable capital		**(6,918,625)**		(6,918,625)	
Paid-in capital			**2,965,125**		2,965,125
Reserves	16		**23,047**		12,090
Profit for the period			**4,888**		7,507
Members' equity			**2,993,060**		2,984,722
Total liabilities and members' equity			**10,964,214**		8,727,714
Memorandum items					
Commitments	10		**4,056,451**		3,562,016

Statement of cash flows

For the year ended 31 December 1996

	ECU 000	Year to 31 December 1996 ECU 000	ECU 000	Year to 31 December 1995 (Restated) ECU 000
Cash flows from operating activities				
Operating profit for the year	**4,888**		7,507	
Adjustments for:				
Provisions for losses	**92,454**		75,384	
Depreciation	**13,213**		21,463	
Internal taxation	**3,578**		3,387	
Realised and unrealised losses on marked to market portfolio	**18,680**		4,590	
Realised gains on investment portfolio	**(1,501)**		(1,033)	
Realised gains on share investments	**(8,715)**		(37,895)	
Operating profit before changes in operating assets	**122,597**		73,403	
(Decrease)/increase in operating assets:				
Interest receivable and prepaid expenses	**(31,393)**		12,516	
Net decrease in marked to market portfolio	**1,705,620**		468,516	
Increase in operating liabilities:				
Interest payable and accrued expenses	**65,902**		16,648	
Net cash provided by operating activities		**1,862,726**		571,083
Cash flows from investing activities				
Proceeds from repayment of loans	**198,168**		94,595	
Proceeds from sale of share investments	**18,510**		101,781	
Proceeds from sale and redemption of investment securities	**2,670,090**		2,060,481	
Purchases of investment securities	**(5,331,291)**		(2,959,612)	
Funds for loans and share investments	**(1,328,638)**		(1,118,100)	
Purchase of property, plant and equipment	**(7,275)**		(7,697)	
Net cash used in investing activities		**(3,780,436)**		(1,828,552)
Cash flows from financing activities				
Capital subscriptions*	**228,214**		584,497	
Issue of debts evidenced by certificates	**2,004,534**		1,136,717	
Redemption of debts evidenced by certificates	**(750,300)**		(292,283)	
Net cash provided by financing activities		**1,482,448**		1,428,931
Net (decrease)/increase in cash and cash equivalents		**(435,262)**		171,462
Cash and cash equivalents 1 January		**788,607**		617,145
Cash and cash equivalents 31 December**		**353,345**		788,607

* *Capital subscriptions comprise:*	1996 ECU 000	1995 ECU 000
Paid-in capital received	**73,749**	569,027
Promissory notes issued by members	**154,593**	15,455
Conversion reserve	**(128)**	15
Capital subscriptions	**228,214**	584,497

** *Cash and cash equivalents comprise the following balance sheet amounts:*	1996 ECU 000	1995 ECU 000
Placements with and advances to credit institutions	**942,001**	1,043,645
Other money market placements and advances	**815,848**	70,934
Amounts owed to credit institutions	**(1,404,504)**	(325,972)
Cash and cash equivalents	**353,345**	788,607

Notes to the consolidated 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 1996 the Bank's shareholders comprised 58 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 ("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 in accordance with the Bank's Accounting Policies, which comply with International Accounting Standards (IAS) and the principles of the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions.

The Bank's balance sheet is stated in accordance with the historical cost convention with the exception of debt securities and related derivatives held for dealing purposes which are held at market prices. Financial assets and liabilities are included on the balance sheet when associated risks and rewards have been assumed.

ii Foreign currencies
In accordance with Article 35 of the Agreement, the Bank uses the European Currency Unit (ECU) as the unit of measure for the presentation of its financial statements.

Monetary assets and liabilities denominated in foreign currencies are translated into ECU at spot rates as at 31 December 1996. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the period are taken to the profit and loss account. Where foreign currency assets or liabilities have been hedged, the difference between the closing spot exchange rate and the hedged rate is included in "other assets" or "other liabilities".

iii Capital subscriptions
Under the Agreement, capital subscriptions by members shall be settled either in ECU, United States dollars or Japanese yen. Capital subscriptions in United States dollars or Japanese yen are settled at fixed exchange rates as defined in Article 6.3 of the Agreement.

Outstanding promissory notes held in United States dollars and Japanese yen at the balance sheet date are translated into ECU at market rates as at 31 December 1996 in accordance with the Bank's policy detailed in (ii) above. The differences between these ECU values and those determined by the fixed exchange rates are included in "other assets" or "other liabilities".

iv Debt securities
Debt securities intended to be held for the long term or to maturity are valued on an amortised cost basis. The amortised premium or discount on acquisition is recognised in interest income. Securities held for dealing purposes are marked to market and the resultant gain or loss is immediately taken to the profit and loss account and included, together with the interest income arising from and the interest expense of funding this portfolio, within "net profit on dealing activities".

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

Share investments in respect of which the Bank has entered into put and call options with creditworthy counterparties and which provide a guaranteed minimum return, have the risk characteristics associated with debt instruments and accordingly are classified and accounted for as loans.

The Bank has considered the definition of associates in both IAS 28 and the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions, in relation to its share investments. The Bank considers that, in general, even where 20 per cent or more of the equity is held, these share investments do not come within the definition of associates, since the Bank does not normally exert significant influence over the operations of the investee companies. Accordingly, such investments are also carried at cost less provisions. Details of the Bank's share investments that amount to or exceed 20 per cent of the investee share capital and where the historical cost exceeds ECU 10.00 million are provided in note 9.

vi Provisions for losses and general portfolio risks
Specific provisions are made against 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 in respect of losses on non-sovereign risk assets that are not specifically identified at year end are applied in two stages: at commitment and at disbursement. For Venture Funds the first stage provision is itself applied in two stages: at the signing of the framework agreement and then at the commitment of the individual sub-investment. Additional portfolio risks provisions are made in respect of losses which, although not specifically identified, are inherent in the portfolio of contractual commitments (including guarantees), loans, share investments and Venture Fund framework agreements. Provisions made, less any amounts released during the period, are charged to the profit and loss account. The Bank's provisions are detailed in note 6.

vii 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:	2 to 4 years

viii Interest, fees and commissions and dividends
Interest is recorded as income on an accruals basis. For loans on which the Bank has allowed interest and fee payments to be deferred or capitalised, income may however be recognised when received based on the underlying performance of the project. 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.

Front end fees are recorded as income when the agreement is signed or the loan becomes effective, whichever is the later date. Commitment fees and fees received in respect of services provided over a period of time are recorded as income over the period during which the commitment exists or the services are provided. Other fees and commissions are taken to income on a cash basis. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings.

Dividends are recognised when received.

ix 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 and transferred to the scheme's independent custodians. Contributions made to the defined benefit scheme equate to the current service costs as advised by qualified external actuaries.

x 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 parts of taxes or duties that represent charges for public utility services.

xi Government grants
Government grants relating to fixed asset expenditure considered as part of the initial establishment of the Bank are recognised in the profit and loss account on a straight line basis over the same period as that applied for depreciation purposes. Grants 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.

xii Derivative financial instruments
In the normal course of business the Bank is a party to contracts for derivative financial instruments including currency and interest rate swap agreements, futures, options and forward exchange rate contracts. These instruments are used to hedge interest rate risk and currency exposures associated with its assets and liabilities and anticipated future cash flows in foreign currencies and to recognise market views in investing the Bank's liquidity. The Bank also acts as an intermediate provider of these instruments to its clients, hedging itself against any related exposures by offsetting transactions with third parties. Derivative transactions which are treated in the accounts as hedges must eliminate or substantially reduce the risk of loss from the position being hedged, be designated as a hedge at inception and continue to be effective throughout the hedge period. Profits and losses arising from hedging instruments are recognised on the same basis as those arising on the items being hedged. Derivatives associated with the Bank's treasury investment dealing activities are marked to market with the associated gains and losses being immediately taken to the profit and loss account under "Financial operations". The Bank sets aside a provision on its swap portfolio allowing for credit risks, close-out costs and ongoing administration costs.

xiii Subsidiary company
The consolidated annual financial statements include the Bank's investment in The Minotaur Fund Limited, a mutual fund company incorporated with limited liability in Bermuda, in which the Bank owns 100 per cent of the shares. The investment is part of the Bank's external asset management strategy.

3 Net fee and commission income

The main components of net fee and commission income are as follows:	**1996 ECU 000**	1995 ECU 000
Front end fees	**21,311**	16,784
Commitment fees	**16,176**	12,752
Management fees	**2,120**	345
Other	**6,442**	4,057
Net fee and commission income	**46,049**	33,938

4 Financial operations

	1996 ECU 000	1995 ECU 000
Net profit on sale of share investments	**8,715**	37,895

The net profit on sale of share investments in 1996 reflects the disposal of investments in Estonia and Hungary and the partial disposal of investments in the Czech Republic, Hungary, Latvia and Poland. The profit in 1995 relates to the disposal of two investments in the Czech Republic and one in Hungary.

	1996 ECU 000	1995 ECU 000
Investment portfolio	**1,501**	1,033
Marked to market portfolio	**2,462**	11,252
Net profit on dealing activities	**3,963**	12,285

Net profit on dealing activities represents, in the case of the Bank's investment portfolio, the realised gains arising on disposal of debt securities in that portfolio. In the case of the marked to market portfolio, net profit includes both realised and unrealised gains or losses together with associated interest income and expense. In the 1995 financial statements such interest income and expense was included in the related interest lines of the profit and loss statement. Accordingly the comparative figures for 1995 have been restated in line with this presentation which illustrates the total return obtained from the Bank's dealing activities.

5 General administrative expenses

	1996 ECU 000	1995 ECU 000
Personnel costs (i) (ii)	**81,787**	78,081
Overhead expenses net of government grants (iii)	**51,400**	58,734
General administrative expenses	**133,187**	136,815

(i) The average numbers of staff included in personnel costs during the year were: regular staff of 756 (1995: 687), contract staff of 131 (comprising special contract staff of 111 and interns/short-term staff of 20), locally hired staff in Resident Offices of 138, and Board of Directors personnel of 78.

Staff numbers at 31 December 1996 were: regular staff of 766 (1995: 698), contract staff of 128 (comprising special contract staff of 113 and interns/short-term staff of 15), locally hired staff in Resident Offices of 145, and Board of Directors personnel of 75.

(ii) Personnel costs for the year include pension costs of ECU 10.65 million (1995: ECU 9.65 million).

(iii) During the year, government grants of ECU 2.15 million were taken to the profit and loss account (1995: ECU 2.15 million).

The Bank has entered into a series of option contracts to hedge the cost of sterling required for future general administrative expenses. Hedges are in place for approximately 75 per cent of the approved 1997 budget, 50 per cent of the estimated expenditure for 1998 and 25 per cent of that for 1999. At 31 December 1996 the market value of these options shows a gain of ECU 21.57 million, which in accordance with the Bank's accounting policy has been deferred and will be recognised in the respective years.

6 Provisions for losses and general portfolio risks

Profit and loss charges	Loans ECU 000	Ordinary equity ECU 000	Early stage equity ECU 000	Total loans and equity ECU 000	Guarantees and other ECU 000	**1996 Total ECU 000**	1995 Total ECU 000
Provision charge this year:							
General provisions on							
Outstanding disbursements	20,522	12,539	1,498	34,559	–	**34,559**	(6,698)
Outstanding commitments	11,026	6,509	6,735	24,270	–	**24,270**	35,323
Guarantees	–	–	–	–	698	**698**	610
Specific provisions	11,351	8,671	–	20,022	–	**20,022**	6,622
Portfolio risk	9,528	2,341	664	12,533	372	**12,905**	39,527
For the year ended 31 December 1996	**52,427**	**30,060**	**8,897**	**91,384**	**1,070**	**92,454**	75,384
For the year ended 31 December 1995	38,413	16,411	18,895	73,719	1,665		

Movement in provisions	Loans ECU 000	Ordinary equity ECU 000	Early stage equity ECU 000	Total loans and equity ECU 000	Guarantees and other ECU 000	Total ECU 000
At 1 January 1996	77,293	47,368	18,895	143,556	1,882	145,438
Provision charges this year	52,427	30,060	8,897	91,384	1,070	92,454
Foreign exchange adjustments this year	71	205	–	276	(4)	272
Release against loans written off	(2,799)	–	–	(2,799)	–	(2,799)
At 31 December 1996	**126,992**	**77,633**	**27,792**	**232,417**	**2,948**	**235,365**
Analysed between:						
General provisions on outstanding disbursements	39,265	41,314	1,695	82,274	78	**82,352**
Specific provisions	14,738	16,366	–	31,104	–	**31,104**
Provisions for losses deducted from assets	54,003	57,680	1,695	113,378	78	**113,456**
General provisions on outstanding commitments	24,615	11,419	23,559	59,593	–	**59,593**
General provisions on guarantees	–	–	–	–	1,308	**1,308**
Portfolio risk	48,374	8,534	2,538	59,446	1,562	**61,008**
Provisions for general portfolio risks	72,989	19,953	26,097	119,039	2,870	**121,909**
At 31 December 1996	**126,992**	**77,633**	**27,792**	**232,417**	**2,948**	**235,365**

Early stage equity refers to operations that facilitate the restructuring and subsequent privatisation of state-owned enterprises or the restructuring of recently privatised enterprises.

General provisions are based on a risk-rated approach for non-sovereign risk assets applied in two steps. An initial amount of 50 per cent of the provision is made at the time of commitment and the remaining 50 per cent at disbursement. In the case of Venture Fund framework agreements, which form part of early stage equity, the first 25 per cent is taken when the framework agreement is signed. The second 25 per cent is taken when the individual sub investment is signed and the remaining 50 per cent of the provision is again taken on disbursement. The provision based on commitments is included, together with a portfolio risk provision applied at a rate of 0.75 per cent against all commitments net of repayments, in "Provisions for general portfolio risks". General provisions made at disbursement together with specific provisions are shown as a deduction from the loans and share investments asset categories.

7 Debt securities

Analysis by issuer	**1996 Book value ECU 000**	1995 Book value ECU 000
Governments	**1,601,600**	2,657,719
Public bodies	**439,423**	684,244
Other borrowers	**3,409,535**	1,101,573
At 31 December	**5,450,558**	4,443,536
Analysis by portfolio		
Investment portfolio	**4,482,129**	2,285,454
Marked to market portfolio		
Internally managed funds	**125,054**	1,538,075
Externally managed funds	**843,375**	620,007
	968,429	2,158,082
At 31 December	**5,450,558**	4,443,536

8 Other assets

	1996 ECU 000	1995 ECU 000
Interest receivable	**154,732**	143,210
Treasury-related	**308,945**	453,274
Other	**23,845**	17,455
At 31 December	**487,522**	613,939

Certain transactions, which in prior years were stated as part of "Other assets", are now included in "Other money market placements and advances" to reflect better their economic substance. The comparative figures for 1995 have been restated in line with this presentation.

9 Loans and share investments

Outstanding disbursements:	Loans ECU 000	Ordinary equity ECU 000	Early stage equity ECU 000	Total share investments ECU 000
At 1 January 1996	1,584,895	489,989	819	490,808
Disbursements made this year	1,169,776	191,845	6,254	198,099
Repayments / disposals at cost	(198,168)	(9,795)	–	(9,795)
Foreign exchange adjustments	(38,961)	–	–	–
Written off	(2,799)	–	–	–
At 31 December 1996	**2,514,743**	**672,039**	**7,073**	**679,112**
Provisions as at 31 December 1996	(54,003)	(57,680)	(1,695)	(59,375)
Total net of provisions as at 31 December 1996	**2,460,740**	**614,359**	**5,378**	**619,737**
Committed but not yet disbursed:				
At 31 December 1996	**3,474,616**	**316,462**	**59,419**	**375,881**
At 31 December 1995	3,197,674	181,067	31,360	212,427

At 31 December 1996 the Bank had four loans amounting to ECU 10.17 million (1995: ECU 11.05 million) in non-accrual status due to overdue interest and principal repayments. Specific provisions amounting to ECU 6.36 million (1995: ECU 6.11 million) have been made against these loans.

Early stage equity includes Venture Funds where commitments are only recognised when individual sub-project agreements are signed. Venture Fund framework agreements net of signed sub-projects at 31 December 1996 amount to ECU 338.46 million (1995: ECU 217.68 million).

Listed below are all share investments where the Bank owned 20 per cent or more of the investee share capital at 31 December 1996 and where the Bank's total investment exceeded ECU 10.00 million. Significant shareholdings are normally only taken in anticipation of, wherever possible, subsequent external participation.

	% Ownership
Barum Continental	24.44
Budapest Bank	32.40
Framlington Russian Investment Fund	24.92
Polish Private Equity Funds	33.33
Schooner Capital	34.90
Wielkopolski Bank Kredytowy	23.88

10 Analysis of operational activity

Analysis by country

	Outstanding disbursements 1996 ECU 000	Outstanding disbursements 1995 ECU 000	**Committed but not yet disbursed 1996 ECU 000**	Committed but not yet disbursed 1995 ECU 000
Albania	**34,528**	28,314	**24,571**	29,026
Armenia	**35,425**	29,937	**40,964**	44,287
Azerbaijan	**8,045**	823	**64,388**	58,618
Belarus	**48,926**	25,581	**88,122**	113,115
Bosnia and Herzegovina	**–**	–	**26,343**	–
Bulgaria	**79,108**	55,625	**123,953**	130,871
Croatia	**117,939**	13,895	**194,207**	171,319
Czech Republic	**158,477**	157,062	**85,706**	218,634
Estonia	**66,362**	44,748	**55,211**	64,049
Former Yugoslav Republic of Macedonia	**55,552**	10,389	**86,259**	89,789
Georgia	**9,660**	3,021	**20,850**	19,811
Hungary	**507,804**	365,479	**336,288**	393,486
Kazakstan	**29,455**	17,914	**112,420**	89,107
Kyrgyzstan	**63,202**	21,559	**22,917**	61,830
Latvia	**59,654**	38,900	**101,211**	42,514
Lithuania	**58,739**	26,038	**74,815**	80,219
Moldova	**30,978**	8,215	**77,378**	81,836
Poland	**341,547**	293,231	**353,798**	261,720
Romania	**232,516**	175,886	**519,765**	385,392
Russian Federation	**634,028**	283,495	**995,021**	661,509
Slovak Republic	**241,155**	217,175	**34,791**	67,902
Slovenia	**149,566**	119,543	**166,031**	174,785
Tajikistan	**–**	–	**6,684**	–
Turkmenistan	**4,335**	–	**49,096**	27,288
Ukraine	**84,457**	38,582	**214,945**	176,587
Uzbekistan	**91,132**	69,853	**128,741**	72,904
Regional	**59,038**	38,609	**51,976**	45,418
At 31 December	**3,201,628**	2,083,874	**4,056,451**	3,562,016

Analysis by sector

Commerce and tourism	**53,438**	46,279	**146,983**	86,434
Community and social services	**20,523**	16,455	**127,370**	40,878
Construction	**2,576**	–	**1,240**	7,854
Energy/power generation	**243,547**	146,125	**659,201**	608,729
Extractive industries	**301,671**	207,204	**118,781**	226,158
Finance/business	**940,532**	545,896	**1,332,987**	1,081,636
Manufacturing	**463,766**	329,368	**344,592**	222,227
Primary industries	**137,493**	103,440	**18,797**	53,358
Telecommunications	**356,168**	293,348	**317,127**	391,391
Transport	**681,914**	395,759	**989,373**	843,351
At 31 December	**3,201,628**	2,083,874	**4,056,451**	3,562,016

11 Property, plant and equipment

	Property ECU 000	Plant and equipment ECU 000	Total ECU 000
Cost			
At 1 January 1996	66,201	38,428	104,629
Additions	983	6,296	7,279
Disposals	(4,793)	(2,250)	(7,043)
At 31 December 1996	**62,391**	**42,474**	**104,865**
Depreciation			
At 1 January 1996	16,660	30,037	46,697
Charge for the year	5,419	7,794	13,213
Disposals	(4,789)	(2,250)	(7,039)
At 31 December 1996	**17,290**	**35,581**	**52,871**
Net book value			
At 31 December 1996	**45,101**	**6,893**	**51,994**
At 31 December 1995	49,541	8,391	57,932

12 Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related swaps at 31 December 1996 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	**1996 Net currency obligations ECU 000**	1995 Net currency obligations ECU 000
Australian dollars	304,136	–	304,136	(304,136)	**–**	–
Belgian francs	100,558	–	100,558	(100,558)	**–**	–
Canadian dollars	228,190	(10,046)	218,144	(218,144)	**–**	–
Czech koruna	103,091	(45)	103,046	(73,637)	**29,409**	–
Deutsche marks	422,300	(2,183)	420,117	277,042	**697,159**	363,779
Dutch guilders	163,866	(19,877)	143,989	(143,989)	**–**	–
European currency units	775,000	(25,896)	749,104	42,370	**791,474**	375,068
French francs	130,626	(42,592)	88,034	–	**88,034**	87,347
Gold bullion	95,083	–	95,083	(95,083)	**–**	–
Greek drachmas	148,348	–	148,348	(148,348)	**–**	–
Hong Kong dollars	124,918	–	124,918	(124,918)	**–**	–
Hungarian forints	14,946	–	14,946	–	**14,946**	5,706
Italian lire	393,487	(4,403)	389,084	(269,546)	**119,538**	107,256
Japanese yen	1,590,404	–	1,590,404	(1,019,228)	**571,176**	655,128
New Zealand dollars	56,974	–	56,974	(56,974)	**–**	–
Portuguese escudos	25,719	–	25,719	(25,719)	**–**	–
South African rands	75,743	–	75,743	(75,743)	**–**	–
Sterling	39,847	–	39,847	–	**39,847**	24,909
Slovak koruna	18,834	–	18,834	(18,834)	**–**	–
Spanish pesetas	70,679	–	70,679	(70,679)	**–**	–
Swedish kronor	64,324	–	64,324	(64,324)	**–**	–
Swiss francs	5,929	–	5,929	(5,929)	**–**	–
United States dollars	724,547	(250)	724,297	2,496,377	**3,220,674**	2,696,135
At 31 December	**5,677,549**	**(105,292)**	**5,572,257**	**–**	**5,572,257**	4,315,328

In addition to public and private placements, included in the above table are 69 borrowings totalling ECU 2.977 billion arranged under the Bank's Euro Medium Term Note Programme and 23 borrowings totalling ECU 368.93 million arranged under the Bank's Commercial Paper Programme. During the year the Bank redeemed prior to maturity ECU 750.30 million of bonds and medium-term notes generating a net gain of ECU 4.22 million.

13 Other liabilities

	1996 ECU 000	1995 ECU 000
Interest payable	**141,227**	94,569
Treasury-related	**671,680**	797,811
Other	**59,577**	64,852
At 31 December	**872,484**	957,232

Certain transactions, which in prior years were stated as part of "Other liabilities", are now included in "Amounts owed to credit institutions" to reflect better their economic substance. The comparative figures for 1995 have been restated in line with this presentation.

14 Subscribed capital

	Number of shares	1996 Total ECU 000
Authorised share capital	**2,000,000**	**20,000,000**
Of which		
Subscriptions by members	988,375	9,883,750
Non-allocated shares	11,625	116,250
Not yet subscribed	1,000,000	10,000,000
	2,000,000	20,000,000

Each share has a par value of ECU 10,000. Under the Agreement, callable shares can be called only as and when required by the Bank to meet its liabilities.

The number of non-allocated shares originally provided for in the Agreement was 125 shares. By Resolution No. 15 of the Board of Governors, shares totalling 15,500, which were originally allocated for subscription by the former German Democratic Republic, were added to non-allocated shares. Of these, 1,000 shares were allocated to Albania in the final quarter of 1991 and 1,000 shares each were allocated to Estonia, Latvia and Lithuania in the first quarter of 1992.

By Resolutions Nos. 21, 27 and 37 of the Board of Governors, the 60,000 shares subscribed to by the former USSR were allocated to countries (other than the Baltic States) which previously formed part of the USSR.

By Resolutions Nos. 30, 31, 34, 35, 53 and 56 of the Board of Governors, 8,125 of the 12,800 shares subscribed to by the former Yugoslavia were allocated to Croatia (3,646 shares), Slovenia (2,098 shares), the Former Yugoslav Republic of Macedonia (691 shares) and Bosnia and Herzegovina (1,690 shares). The remaining 4,675 shares await allocation to countries of former Yugoslavia in due course.

By Resolution No. 59, adopted on 15 April 1996, the Board of Governors approved a doubling of the Bank's authorised share capital to ECU 20 billion, subject to the terms and conditions of that Resolution. Of the increase in authorised capital of ECU 10 billion, 22.5 per cent is payable in cash and the balance is callable under the terms of the Resolution.

At 31 December 1996, 11 members had deposited instruments of subscription with the Bank, subscribing to a total of 196,975 shares, representing 39.86 per cent of the level of subscriptions required before the capital increase becomes effective. Subsequent to the year end, a further 214,675 shares have been subscribed to by 12 members. Total received subscriptions at 11 March 1997 represent 83.30 per cent of the subscriptions needed for effectiveness of the capital increase.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of non-allocated shares, overdue subscriptions and restrictions of voting rights, is set out in the following table. 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 are proportionately reduced for so long as the obligation remains outstanding. Overdue encashments of promissory notes deposited by members are detailed in note 15.

Subscribed capital (continued)

Statement of capital subscriptions At 31 December 1996 Members	Shares (number)	Voting rights restricted votes*	Voting rights resulting votes	Total capital ECU 000	Callable capital ECU 000	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
Members of the European Union								
Austria	22,800	–	22,800	228,000	159,600	–	–	68,400
Belgium	22,800	–	22,800	228,000	159,600	–	–	68,400
Denmark	12,000	–	12,000	120,000	84,000	–	–	36,000
Finland	12,500	–	12,500	125,000	87,500	–	–	37,500
France	85,175	–	85,175	851,750	596,225	–	–	255,525
Germany	85,175	–	85,175	851,750	596,225	–	–	255,525
Greece	6,500	–	6,500	65,000	45,500	–	–	19,500
Ireland	3,000	–	3,000	30,000	21,000	–	–	9,000
Italy	85,175	–	85,175	851,750	596,225	–	–	255,525
Luxembourg	2,000	–	2,000	20,000	14,000	–	–	6,000
Netherlands	24,800	–	24,800	248,000	173,600	–	–	74,400
Portugal	4,200	–	4,200	42,000	29,400	–	–	12,600
Spain	34,000	–	34,000	340,000	238,000	–	–	102,000
Sweden	22,800	–	22,800	228,000	159,600	–	–	68,400
United Kingdom	85,175	–	85,175	851,750	596,225	–	–	255,525
European Community	30,000	–	30,000	300,000	210,000	–	–	90,000
European Investment Bank	30,000	–	30,000	300,000	210,000	–	–	90,000
Other European countries								
Cyprus	1,000	67	933	10,000	7,000	–	–	3,000
Iceland	1,000	67	933	10,000	7,000	–	–	3,000
Israel	6,500	–	6,500	65,000	45,500	–	–	19,500
Liechtenstein	200	–	200	2,000	1,400	–	–	600
Malta	100	–	100	1,000	700	–	–	300
Norway	12,500	–	12,500	125,000	87,500	–	–	37,500
Switzerland	22,800	–	22,800	228,000	159,600	–	–	68,400
Turkey	11,500	–	11,500	115,000	80,500	–	–	34,500
Countries of operations								
Albania	1,000	733	267	10,000	7,000	–	2,200	800
Armenia	500	–	500	5,000	3,500	–	–	1,500
Azerbaijan	1,000	700	300	10,000	7,000	–	1,500	1,500
Belarus	2,000	–	2,000	20,000	14,000	–	–	6,000
Bosnia and Herzegovina	1,690	–	1,690	16,900	11,830	3,042	–	2,028
Bulgaria	7,900	2,370	5,530	79,000	55,300	–	4,740	18,960
Croatia	3,646	–	3,646	36,460	25,520	4,256	–	6,684
Czech Republic	8,533	–	8,533	85,330	59,731	–	–	25,599
Estonia	1,000	–	1,000	10,000	7,000	–	–	3,000
Former Yugoslav Republic of Macedonia	691	–	691	6,910	4,840	708	–	1,362
Georgia	1,000	633	367	10,000	7,000	–	900	2,100
Hungary	7,900	–	7,900	79,000	55,300	–	–	23,700
Kazakstan	2,300	–	2,300	23,000	16,100	–	–	6,900
Kyrgyzstan	1,000	400	600	10,000	7,000	–	1,200	1,800
Latvia	1,000	–	1,000	10,000	7,000	–	–	3,000
Lithuania	1,000	–	1,000	10,000	7,000	–	–	3,000
Moldova	1,000	67	933	10,000	7,000	–	–	3,000
Poland	12,800	–	12,800	128,000	89,600	–	–	38,400
Romania	4,800	–	4,800	48,000	33,600	–	–	14,400
Russian Federation	40,000	–	40,000	400,000	280,000	–	–	120,000
Slovak Republic	4,267	–	4,267	42,670	29,869	–	–	12,801
Slovenia	2,098	–	2,098	20,980	14,680	2,400	–	3,900
Tajikistan	1,000	800	200	10,000	7,000	–	1,800	1,200
Turkmenistan	100	–	100	1,000	700	–	–	300
Ukraine	8,000	266	7,734	80,000	56,000	–	–	24,000
Uzbekistan	2,100	–	2,100	21,000	14,700	–	–	6,300
Unallocated shares reserved for countries previously forming part of Yugoslavia	4,675**	–	–	46,750	32,730	11,216	–	2,804
Non-European countries								
Australia	10,000	–	10,000	100,000	70,000	–	–	30,000
Canada	34,000	–	34,000	340,000	238,000	–	–	102,000
Egypt	1,000	–	1,000	10,000	7,000	–	–	3,000
Japan	85,175	–	85,175	851,750	596,225	–	–	255,525
Korea, Republic of	6,500	–	6,500	65,000	45,500	–	–	19,500
Mexico	3,000	–	3,000	30,000	21,000	–	–	9,000
Morocco	1,000	–	1,000	10,000	7,000	–	–	3,000
New Zealand	1,000	–	1,000	10,000	7,000	–	–	3,000
United States of America	100,000	5,040	94,960	1,000,000	700,000	–	15,107***	284,893
Capital subscribed by members	**988,375**	**11,143**	**972,557**	**9,883,750**	**6,918,625**	**21,622**	**27,447**	**2,916,056**
Non-allocated shares	11,625			116,250				
Authorised share capital	**1,000,000**			**10,000,000**				

* Voting rights not exercisable due to non-payment of amounts due in respect of the member's obligations in relation to paid-in shares.

** The voting rights attached to these shares have been suspended pending their reallocation. Total votes before restrictions amount to 983,700.

*** Scheduled payment dates for the full amount of these outstandings have now been confirmed by the United States of America with final remittance due in October 1998. ECU 1.70 million was received from the United States of America on 3 January 1997.

15 Promissory notes issued by member countries

Currency of issue	Total received ECU 000	Exchange gain/(loss) ECU 000	Amount drawn down ECU 000	**1996 Amount outstanding ECU 000**	1995 Amount outstanding ECU 000
European currency units	655,990	–	(601,566)	**54,424**	149,934
Japanese yen	127,762	6,411	(123,928)	**10,245**	32,862
United States dollars	358,509	(9,226)	(327,207)	**22,076**	58,542
At 31 December	**1,142,261**	**(2,815)**	**(1,052,701)**	**86,745**	241,338

Under the Agreement, payment for the paid-in shares of the original authorised Share Capital of ECU 10 billion 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 member 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 adopted a policy which provides for a fixed schedule of draw down of the promissory notes or other obligations issued in 1992 and later years. In accordance with this policy, each promissory note or other obligation is drawn down in three equal annual instalments.

Promissory notes or other obligations 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 1996.

Eight members are overdue in the encashment of their deposited promissory notes as follows:

Member	1991 Note ECU 000	1992 Note ECU 000	1993 Note ECU 000	1994 Note ECU 000	1995 Note ECU 000	**Total ECU 000**
Azerbaijan	94	188	282	–	–	**564**
Bulgaria	–	–	1,580	790	–	**2,370**
Cyprus	–	–	–	100	100	**200**
Georgia	–	188	283	283	188	**942**
Iceland	–	–	–	100	100	**200**
Moldova	–	–	–	94	94	**188**
Tajikistan	–	282	188	94	–	**564**
Ukraine	–	–	–	–	752	**752**
Total	94	658	2,333	1,461	1,234	**5,780**

In addition there is an outstanding encashment of ECU 1.40 million relating to shares previously held by the former Yugoslavia but not yet allocated.

The outstanding promissory note encashments detailed above are additional to the ECU 27.45 million capital due, but not yet received, detailed in the table to note 14. This includes non-receipt of promissory notes of value ECU 5.67 million.

16 Reserves

	Conversion reserve ECU 000	General reserve ECU 000	Special reserve ECU 000	Loss brought forward from prior years ECU 000	Total ECU 000
At 1 January 1996	7,397	12,705	31,641	(39,653)	12,090
Movement during the year	(128)	3,578	19,670	(12,163)	10,957
At 31 December 1996	**7,269**	**16,283**	**51,311**	**(51,816)**	**23,047**

The conversion reserve contains exchange rate differences arising on the conversion of share capital receipts in currencies other than ECU. 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, when encashed. Differences between the ECU amounts actually received and the amounts determined by the fixed exchange rates were taken to the conversion reserve. It is Bank policy to enter into forward foreign exchange rate contracts to fix the known 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 exchange rates were taken to the conversion reserve. Replacement foreign exchange contracts are entered into where scheduled receipts or encashment dates have not been met which may also require adjustments to the conversion reserve. At 31 December 1996 the market value of outstanding foreign exchange contracts relating to future capital subscriptions shows a gain of ECU 3.21 million, which in accordance with the Bank's accounting policy has not been recognised in these accounts.

The general reserve consists of internal tax paid in accordance with Article 53 of the Agreement which requires that 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.

The special reserve is maintained, in accordance with the Agreement, 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 qualifying fees and commissions received by the Bank 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.

The loss brought forward from prior years represents the accumulated losses after appropriations of qualifying fee and commission income to the special reserve.

17 Net currency position

	United States dollars ECU 000	Japanese yen ECU 000	Deutsche marks ECU 000	Italian lire ECU 000	Other currencies ECU 000	ECU ECU 000	**Total ECU 000**
Assets							
Placements with and advances to credit institutions	392,352	339,698	542	559	4,528	204,322	**942,001**
Other money market placements and advances	117,520	534,867	–	10,584	152,877	–	**815,848**
Debt securities	1,817,097	609,791	751,512	323,960	1,344,744	603,454	**5,450,558**
Other assets	104,902	37,552	30,049	34,636	130,993	149,390	**487,522**
Loans	1,556,129	–	595,182	2,788	76,812	229,829	**2,460,740**
Share investments	44,370	–	–	–	628,315	(52,948)	**619,737**
Property, plant and equipment	–	–	–	–	–	51,994	**51,994**
Promissory notes issued by members	22,076	10,245	–	–	–	54,424	**86,745**
Subscribed capital	22,707	–	–	–	–	26,362	**49,069**
Total assets	4,077,153	1,532,153	1,377,285	372,527	2,338,269	1,266,827	**10,964,214**
Liabilities							
Amounts owed to credit institutions	(496)	(627,875)	(3,132)	(11,640)	(649,051)	(112,310)	**(1,404,504)**
Debts evidenced by certificates	(724,297)	(1,590,404)	(420,117)	(389,084)	(1,699,251)	(749,104)	**(5,572,257)**
Other liabilities	(212,074)	(39,793)	(17,422)	(186,998)	(215,706)	(200,491)	**(872,484)**
Provisions for general portfolio risks	–	–	–	–	–	(121,909)	**(121,909)**
Total liabilities	(936,867)	(2,258,072)	(440,671)	(587,722)	(2,564,008)	(1,183,814)	**(7,971,154)**
Net assets	3,140,286	(725,919)	936,614	(215,195)	(225,739)	83,013	**2,993,060**
Derivative financial instruments							
Cross currency swaps	(2,573,930)	709,200	(389,692)	228,563	1,278,453	747,406	**–**
Forward exchange contracts	(598,734)	15,831	(553,189)	(56,896)	(409,453)	1,602,441	**–**
Currency position at 31 December 1996	**(32,378)**	**(888)**	**(6,267)**	**(43,528)**	**643,261**	**2,432,860**	**2,993,060**
Currency position at 31 December 1995	(41,636)	(22,501)	(12,817)	(37,987)	452,850	2,646,813	2,984,722

In addition to ECU, the above table separates only the principal currencies in which the Bank, after related swaps, raises funds. All other currencies are aggregated into "Other currencies".

The currency positions at 31 December 1996 include positions which arise as a result of the Bank's decision to fund certain share investments in non-ECU currencies. Such funding is derived from options entitling the Bank to realise its investments, within certain timeframes and at defined rates of return, in those currencies in which they are funded. The accounting of share investments requires all such assets to be recorded in ECU, thus creating a mismatch between the currency of the assets and the currency of the related liabilities.

18 Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank's commitment to maintaining a strong liquidity position is embodied in policies which require a minimum target liquidity ratio based on a multi-year context of 45 per cent of its next three years' net cash requirements with full coverage of all committed but undisbursed project financing together with a requirement that 40 per cent of its net Treasury investments mature within one year. This policy is implemented by maintaining liquidity in a target zone, above the required minimum level, of 90 per cent of the next three years' net cash requirements.

The table below provides an analysis of assets, liabilities and members' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest possible repayment date is shown while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the "maturity undefined" category.

	Up to & including 1 month ECU 000	Over 1 month and up to & including 3 months ECU 000	Over 3 months and up to & including 1 year ECU 000	Over 1 year and up to & including 5 years ECU 000	Over 5 years ECU 000	Maturity undefined ECU 000	**Total ECU 000**
Assets							
Placements with and advances to credit institutions	411,837	257,277	272,887	–	–	–	**942,001**
Other money market placements and advances	815,848	–	–	–	–	–	**815,848**
Debt securities	1,079,657	304,031	870,930	1,853,677	1,342,263	–	**5,450,558**
Other assets	233,113	18,380	93,933	49,120	20,031	72,945	**487,522**
Loans	43,208	96,247	334,415	1,169,474	856,661	(39,265)	**2,460,740**
Share investments	–	–	827	–	–	618,910	**619,737**
Property, plant and equipment	–	–	–	–	–	51,994	**51,994**
Promissory notes issued by members	5,780	–	78,494	1,069	–	1,402	**86,745**
Subscribed capital:							
Due but not yet received	–	1,703	11,701	1,703	–	12,340	**27,447**
Called but not yet due	–	–	4,696	5,710	–	11,216	**21,622**
Total assets	2,589,443	677,638	1,667,883	3,080,753	2,218,955	729,542	**10,964,214**
Liabilities							
Amounts owed to credit institutions	(1,243,889)	(33,215)	(7,077)	–	(120,323)	–	**(1,404,504)**
Debts evidenced by certificates	(254,673)	(354,161)	(936,804)	(2,645,997)	(1,380,622)	–	**(5,572,257)**
Other liabilities	(424,471)	(13,988)	(48,439)	(110,987)	(274,599)	–	**(872,484)**
Provisions for general portfolio risks	–	–	–	–	–	(121,909)	**(121,909)**
Members' equity	–	–	–	–	–	(2,993,060)	**(2,993,060)**
Total liabilities and members' equity	(1,923,033)	(401,364)	(992,320)	(2,756,984)	(1,775,544)	(3,114,969)	**(10,964,214)**
Liquidity risk at 31 December 1996	**666,410**	**276,274**	**675,563**	**323,769**	**443,411**	**(2,385,427)**	**–**
Cumulative liquidity risk at 31 December 1996	**666,410**	**942,684**	**1,618,247**	**1,942,016**	**2,385,427**	**–**	**–**
Cumulative liquidity risk at 31 December 1995	167,931	866,908	1,267,953	1,317,068	2,461,110	–	–

19 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Securities that comprise the Bank's marked to market portfolio are assumed to reprice within the "up to and including 1 month" category.

Repricing interval	Up to & including 1 month ECU 000	Over 1 month and up to & including 3 months ECU 000	Over 3 months and up to & including 1 year ECU 000	Over 1 year and up to & including 5 years ECU 000	Over 5 years ECU 000	Non-interest-bearing funds ECU 000	**Total ECU 000**
Assets							
Placements with and advances to credit institutions	411,838	257,277	272,886	–	–	–	**942,001**
Other money market placements and advances	815,848	–	–	–	–	–	**815,848**
Debt securities	2,482,739	932,641	454,137	992,689	588,352	–	**5,450,558**
Other assets	170,305	–	154,167	–	–	163,050	**487,522**
Loans	412,358	697,709	1,023,860	48,049	318,029	(39,265)	**2,460,740**
Non-interest-earning assets including subscribed capital called, not yet due	–	–	–	–	–	807,545	**807,545**
Total assets	4,293,088	1,887,627	1,905,050	1,040,738	906,381	931,330	**10,964,214**
Liabilities							
Amounts owed to credit institutions	(1,243,889)	(33,215)	(7,077)	–	(120,323)	–	**(1,404,504)**
Debts evidenced by certificates	(522,133)	(290,238)	(1,159,813)	(2,307,717)	(1,292,356)	–	**(5,572,257)**
Other liabilities	(622,323)	–	(141,227)	–	–	(108,934)	**(872,484)**
Provisions for general portfolio risks	–	–	–	–	–	(121,909)	**(121,909)**
Members' equity	–	–	–	–	–	(2,993,060)	**(2,993,060)**
Total liabilities and members' equity	(2,388,345)	(323,453)	(1,308,117)	(2,307,717)	(1,412,679)	(3,223,903)	**(10,964,214)**
Net assets	1,904,743	1,564,174	596,933	(1,266,979)	(506,298)	(2,292,573)	**–**
Off balance sheet instruments	320,018	(1,393,018)	(721,135)	1,287,837	506,298	–	**–**
Interest rate risk at 31 December 1996	**2,224,761**	**171,156**	**(124,202)**	**20,858**	**–**	**(2,292,573)**	**–**
Cumulative interest rate risk at 31 December 1996	**2,224,761**	**2,395,917**	**2,271,715**	**2,292,573**	**2,292,573**	**–**	**–**
Cumulative interest rate risk at 31 December 1995	1,971,972	2,545,457	2,261,720	2,262,838	2,264,579	–	–

The Bank's treasury assets and liabilities are actively managed and invested within authorised duration guidelines. At 31 December 1996 the overall duration was 0.01 years (1995: 0.38 years) with an average during the year of 0.05 years (1995: 0.24 years). Interest rate risks arising on the Bank's remaining assets and liabilities are monitored on a daily basis by measuring the change in their value for a one basis point change in interest rates. At 31 December 1996 the effect of a one basis point rise across interest rates in all currencies in which the Bank's treasury held positions would result in a loss of ECU 7,000.

20 Credit related information on certain Treasury financial instruments

At 31 December 1996 the Bank had, under the terms of certain credit derivative transactions entered into as part of its Treasury investment and funding activities, contingent liabilities for a maximum aggregate amount of ECU 1.400 billion (1995: nil). In addition, the Bank had a possible exposure of ECU 652.04 million (1995: ECU 557.87 million) in the event of non-performance by the counterparties to its swaps and OTC options agreements. These amounts represented the gross replacement cost at market rates as at 31 December 1996 of all outstanding agreements in the event of all counterparties defaulting and did not allow for the effect of netting arrangements. The exposure after taking account of available netting arrangements was ECU 460.47 million. However, the Bank is highly selective in its choice of counterparties and considers that non-performance does not represent a significant risk. Derivatives transactions are allowed with counterparties rated A- or better for transactions with a maturity of less than three months and AA- or better for transactions with a maturity of more than three months or with whom a collateralised security agreement has been signed.

21 Estimated realisable value information

Presented below is information on the estimated realisable values of the Bank's financial assets and liabilities. This represents the estimated approximate amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists for a particular instrument, quoted prices have been used. Where an active market does not exist, estimated values have been derived from internal pricing models based on discounted cash flow techniques.

The following should be noted in the presentation of estimated realisable values set out below:

(a) the value of short-term financial instruments, i.e. those maturing within one year, approximates to the value stated in the Bank's balance sheet.

(b) the value in respect of debt securities and debts evidenced by certificates incorporates the estimated realisable value of associated derivative instruments. Due to the fact that many of the Bank's issues of debts evidenced by certificates were private placements, information has been provided only for those issues in which the Bank has subsequently repurchased part of the issue.

(c) the balance sheet value of loans is stated net of provisions, which approximates to their estimated realisable value. Due to the fact that the Bank manages its interest rate risk on a portfolio basis, it is not possible to identify the specific derivative instruments which hedge the interest rate risk on the Bank's loan portfolio. Consequently, the stated amount of the loan portfolio does not allow for the estimated value of any associated hedging derivative instrument.

(d) the value of share investments that are traded on a recognised stock exchange is determined using quoted stock exchange prices adjusted for exchange rate movements. The Bank's quoted share investments are generally in markets which are relatively illiquid and volatile and the value presented below makes no additional allowance for this. In all other cases value is assumed to correspond with the Bank's historical cost, net of provisions, adjusted for exchange rate movements since the date of disbursement.

	Balance sheet value 1996 ECU 000	Estimated realisable value adjustment 1996 ECU 000	**Estimated realisable value 1996 ECU 000**
Assets			
Placements with and advances to credit institutions	942,001	–	**942,001**
Other money market placements and advances	815,848	–	**815,848**
Debt securities	5,450,558	1,661	**5,452,219**
	7,208,407	1,661	**7,210,068**
Loans	2,460,740	–	**2,460,740**
Share investments	619,737	123,763	**743,500**
Other non-financial assets	675,330	–	**675,330**
Total assets	10,964,214	125,424	**11,089,638**
Liabilities			
Amounts owed to credit institutions	(1,404,504)	–	**(1,404,504)**
Debts evidenced by certificates	(5,572,257)	10,076	**(5,562,181)**
	(6,976,761)	10,076	**(6,966,685)**
Other non-financial liabilities	(994,393)	–	**(994,393)**
Members' equity	(2,993,060)	–	**(2,993,060)**
Total liabilities and members' equity	(10,964,214)	10,076	**(10,954,138)**

22 Operating lease commitments

The Bank leases its headquarters building in London and buildings for certain of its Resident Offices in countries of operations. These are standard operating leases and include renewal options, periodic escalation clauses and are non-cancellable in the normal course of business without the Bank incurring substantial penalties. Some of the leases require the Bank to restore the leased premises to their original condition. In the case of the headquarters building, based on an estimate by the Bank's quantity surveyors, a reserve is built up on a monthly basis so as to accumulate funds over the period of the lease to cover the estimated full cost of restoration works. The costs associated with restoring the Resident Offices are not considered material and therefore no equivalent provision is made.

Minimum future lease payments under long-term non-cancellable operating leases are shown below.

	1996 **ECU 000**	1995 ECU 000
Payable within one year	**21,661**	19,159
Payable in one to five years	**81,836**	73,636
Payable in more than five years	**93,771**	100,438
At 31 December	**197,268**	193,233

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

At 31 December 1996 the Bank administered 47 cooperation fund agreements (1995: 43) for an aggregate of ECU 423.78 million (1995: ECU 347.91 million) which includes ECU 156.39 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 1996 totalled ECU 264.90 million. The total uncommitted balance of the funds at 31 December 1996 was ECU 81.23 million.

In addition, the Bank administered 51 project-specific cooperation agreements for an aggregate amount of ECU 24.14 million and two investment cooperation fund agreements for an aggregate amount of ECU 10.02 million.

The Ministry of Finance of Japan has deposited the Japanese yen equivalent of US$ 28.60 million with the Bank through a separate fund known as the EBRD–Japan Special Earmarked Fund. Such amount was, at the discretion of the Ministry of Finance of Japan, used from time to time to make contributions to the Special Funds created under the Russia Small Business programme. At 31 December 1996 US$ 25.40 million and US$ 3.20 million had been contributed from the EBRD–Japan Special Earmarked Fund to the Russia Small Business Investment Special Fund and the Russia Small Business Technical Cooperation Special Fund respectively.

Following a proposal by the G-7 countries 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 funding immediate safety improvement measures. At 31 December 1996, 15 contributors had made pledges up to a total amount of ECU 257.36 million, using the fixed exchange rates defined in the Rules of the NSA.

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 1996, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 57 to 73. 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 1996, 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 Community's Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Arthur Andersen

Arthur Andersen
London
11 March 1997

The Baltic Investment Special Fund

Profit and loss account

For the year ended 31 December 1996

	Note	**Year to 31 December 1996 ECU 000**	Year to 31 December 1995 ECU 000
Interest and similar income			
From loans		**865**	544
Other interest		**650**	1,157
Net fee and commission income		**35**	209
Foreign exchange		**(189)**	26
Other operating expenses	3	**(103)**	(3)
Transfer of interest income to the Baltic Technical Assistance Special Fund		**–**	(3,494)
Operating profit / (loss) before provisions		**1,258**	(1,561)
Provisions for losses	4	**(191)**	(571)
Profit / (loss) for the year		**1,067**	(2,132)

Statement of appropriation of (loss)/profit

For the year ended 31 December 1996

	Note	**Year to 31 December 1996 ECU 000**	Year to 31 December 1995 ECU 000
At 1 January		**1,870**	951
(Loss) / profit for the previous year		**(2,132)**	919
Set aside to the special reserve from previous year	9	**(146)**	–
At 31 December		**(408)**	1,870

No fees and commissions qualifying to be set aside to the special reserve were earned in the year to 31 December 1996. Therefore, there is no need, in accordance with the Agreement, to set aside an amount to the special reserve.

Balance sheet

At 31 December 1996

	Note	**ECU 000**	**31 December 1996 ECU 000**	ECU 000	31 December 1995 ECU 000
Assets					
Placements with credit institutions	5		**18,221**		14,620
Other assets			**537**		445
Loans and share investments					
Loans	6	**11,472**		11,321	
Share investments	6	**4,822**		4,119	
			16,294		15,440
Contributions due but not yet received	8		**30**		–
Contributions pledged but not yet due	8		**7,500**		–
Total assets			**42,582**		30,505
Liabilities					
Other liabilities			**39**		105
Provisions for general portfolio risks	4		**238**		662
Contributions	8		**41,500**		30,000
Reserves	9		**(262)**		1,870
Profit / (loss) for the year			**1,067**		(2,132)
Total liabilities and contributions			**42,582**		30,505
Memorandum items					
Commitments	10		**2,829**		8,946

Statement of cash flows

For the year ended 31 December 1996

	Year to 31 December 1996 ECU 000	Year to 31 December 1995 ECU 000
Cash flows from operating activities		
Operating profit / (loss) for the year	**1,067**	(2,132)
Adjustments to operating profit / (loss) to determine net cash provided / (used) by operating activities:		
Provisions for losses	**191**	571
Increase in interest receivable	**(92)**	(185)
(Increase) / decrease in other liabilities	**(66)**	105
Foreign exchange	**435**	2
Net cash provided / (used) by operating activities	**1,535**	(1,639)
Cash flows from investing activities		
Funds for loans and share investments	**(1,904)**	(10,756)
Net cash used in investing activities	**(1,904)**	(10,756)
Cash flows from financing activities		
Contributions	**3,970**	–
Net cash provided by financing activities	**3,970**	–
Net increase / (decrease) in cash and cash equivalents	**3,601**	(12,395)
Cash and cash equivalents 1 January	**14,620**	27,015
Cash and cash equivalents 31 December	**18,221**	14,620

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 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 Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania.

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
Monetary assets and liabilities denominated in currencies other than ECU are translated into ECU at spot rates as at 31 December 1996. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the profit and loss account.

iii Share investments
Share investments are carried at cost less provisions for any permanent diminution in value. Dividends are credited to income when received.

iv Provisions for losses and general portfolio risks
General provisions in respect of possible losses on non-sovereign risk assets are applied in two stages: at commitment and at disbursement. Specific provisions are made against 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. Additional portfolio risks provisions are made in respect of losses which, although not specifically identified, are inherent in the portfolio of contractual commitments, 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. The Fund 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.

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 those arising on 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 received.

4 Provisions for losses and general portfolio risks

Profit and loss charges	Loans ECU 000	Share investments ECU 000	**1996 Total ECU 000**	1995 Total ECU 000
Provision charge this year:				
General Provisions				
Outstanding disbursements	98	170	**268**	(91)
Outstanding commitments	(161)	(223)	**(384)**	477
Specific provisions	–	350	**350**	–
General risk	(38)	(5)	**(43)**	185
For the year ended 31 December 1996	**(101)**	**292**	**191**	571
For the year ended 31 December 1995	357	214		

Movement in provisions	Loans ECU 000	Share investments ECU 000	Total ECU 000
At 1 January 1996	417	518	935
Provision charges this year	(101)	292	191
Foreign exchange adjustments this year	–	2	2
At 31 December 1996	**316**	**812**	**1,128**
Analysed between:			
General provisions on outstanding disbursements	179	361	**540**
Specific provisions	–	350	**350**
Provision for losses deducted from assets	179	711	**890**
General provisions on outstanding commitments	35	63	**98**
Portfolio risk	102	38	**140**
Provision for general portfolio risks	137	101	**238**
At 31 December 1996	**316**	**812**	**1,128**

General provisions are based on a risk-rated approach for non-sovereign risk assets applied in two steps. An initial amount of 50 per cent of the provision is made at the time of commitment and the remaining 50 per cent at disbursement. The provision based on commitments is included, together with a portfolio risk provision applied at a rate of 0.75 per cent against gross commitments net of repayments, in "Provisions for general portfolio risks". General provisions made at disbursement are shown, together with specific provisions, as a deduction from the loans and share investments asset categories.

5 Placements with credit institutions

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

6 Loans and share investments

	Loans ECU 000	Share investments ECU 000	Total ECU 000
At 1 January 1996	11,403	4,310	15,713
Disbursements made this year	2,754	1,223	3,977
Repayments made this year	(2,073)	–	(2,073)
Foreign exchange adjustments	(433)	–	(433)
At 31 December 1996	**11,651**	**5,533**	**17,184**
Provisions as at 31 December 1996	(179)	(711)	(890)
Total net of provisions as at 31 December 1996	**11,472**	**4,822**	**16,294**

7 Analysis of operational activity

Analysis by country	**31 December 1996 ECU 000**	31 December 1995 ECU 000
Estonia	**11,063**	11,265
Latvia	**3,490**	3,039
Lithuania	**1,600**	900
Regional	**1,031**	509
	17,184	15,713

Analysis by currency		
Loans		
Deutsche marks	**9,168**	9,266
European currency units	**2,089**	500
United States dollars	**394**	1,637
	11,651	11,403
Share investments		
Deutsche marks	**1,401**	1,401
European currency units	**3,100**	2,400
United States dollars	**1,032**	509
	5,533	4,310
Maturity analysis of scheduled repayments of loans		
Over 1 year and up to and including 5 years	**9,758**	6,643
Over 5 years	**1,893**	4,760
	11,651	11,403

8 Contributions

Contributions pledged by the Nordic countries are set out below:	**1996 ECU 000**	1995 ECU 000
Contributions received		
Denmark	**7,140**	6,180
Finland	**7,384**	6,720
Iceland	**344**	300
Norway	**6,240**	5,490
Sweden	**12,862**	11,310
	33,970	30,000
Contributions due but not yet received		
Norway	**30**	–
Contributions pledged but not yet due		
Denmark	**1,800**	–
Finland	**1,245**	–
Iceland	**83**	–
Norway	**1,462**	–
Sweden	**2,910**	–
	7,500	–
	41,500	30,000

Total contributions	**ECU 000**	**%**
Denmark	**8,940**	**21.6**
Finland	**8,629**	**20.8**
Iceland	**427**	**1.0**
Norway	**7,732**	**18.6**
Sweden	**15,772**	**38.0**
	41,500	**100**

9 Reserve	Special reserve ECU 000	Loss brought forward from prior years ECU 000	**Total ECU 000**
At 1 January 1996	–	(408)	**(408)**
Movement during the year	146	–	**146**
At 31 December 1996	**146**	**(408)**	**(262)**

In accordance with the Agreement, a special reserve is maintained for meeting certain defined losses of the Fund. The special reserve has been established, in accordance with the Fund's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Fund associated with loans until the Board of Directors determines that the size of the special reserve is adequate.

10 Off balance sheet instruments	**31 December 1996 ECU 000**	31 December 1995 ECU 000
Commitments		
Undrawn formal loan commitments	**1,772**	7,408
Commitments to purchase shares	**1,057**	1,538
	2,829	8,946
Currency swaps	**6,439**	7,235

The nominal principal amounts of exchange rate swaps outstanding at the balance sheet date are not indicative of the related market exposure.

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 1996, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 74 to 78. 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 1996, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

Arthur Andersen
London
11 March 1997

The Baltic Technical Assistance Special Fund

Statement of movements in fund balance

For the year ended 31 December 1996

	Note	**Year to 31 December 1996 ECU 000**	Year to 31 December 1995 ECU 000
Balance brought forward		**5,143**	3,670
Contributions received	3	**330**	–
Interest and similar income		**167**	228
Transfer of interest income from the Baltic Investment Special Fund		**–**	3,494
		5,640	7,392
Disbursements	4	**(2,150)**	(2,246)
Other operating expenses	5	**(20)**	(3)
Balance of fund available		**3,470**	5,143

Balance sheet

At 31 December 1996

	Note	**31 December 1996 ECU 000**	31 December 1995 ECU 000
Assets			
Placements with credit institutions	6	**2,806**	4,461
Other assets		**673**	685
Total assets		**3,479**	5,146
Liabilities			
Unallocated fund balance		**897**	1,147
Allocated fund balance	4	**2,573**	3,996
		3,470	5,143
Other liabilities		**9**	3
Total liabilities		**3,479**	5,146

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 Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to promote the development of a market economic system in Estonia, Latvia and Lithuania ("the Baltic states"). In this respect, the 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 into ECU at exchange rates ruling 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

Contributions received during the year from the Nordic countries are set out below:	**1996 ECU 000**	1995 ECU 000
Denmark	**79**	–
Finland	**55**	–
Iceland	**4**	–
Norway	**64**	–
Sweden	**128**	–
	330	–

Contributions pledged but not yet due are as follows:	**31 December 1996 ECU 000**	31 December 1995 ECU 000
Denmark	**101**	–
Finland	**70**	–
Iceland	**4**	–
Norway	**82**	–
Sweden	**163**	–
	420	–

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
Projects in operation			
At 1 January 1996	6,634	2,638	3,996
Movements in the year	(1,009)	414	(1,423)
At 31 December 1996	**5,625**	**3,052**	**2,573**
Completed projects			
At 1 January 1996	1,166	1,166	–
Movements in the year	1,736	1,736	–
At 31 December 1996	**2,902**	**2,902**	**–**
Total projects			
At 1 January 1996	7,800	3,804	3,996
Movements in the year	727	2,150	(1,423)
At 31 December 1996	**8,527**	**5,954**	**2,573**

5 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 5 per cent of each contribution instalment received.

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 1996, and the related movements in the fund balance for the year then ended, on pages 79 to 80. 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 1996, and the movements in the Fund balance for the year then ended, on the basis set out in note 2.

Arthur Andersen
London
11 March 1997

The Russia Small Business Investment Special Fund

Profit and loss account

For the year ended 31 December 1996

	Note	**Year to 31 December 1996 ECU 000**	Year to 31 December 1995 ECU 000
Interest and similar income			
From loans		**888**	276
Other interest		**795**	440
Interest expenses and similar charges		**(151)**	(116)
Foreign exchange		**289**	(290)
Other operating expenses	3	**(726)**	(170)
Operating profit before provisions		**1,095**	140
Provisions for losses	4	**(4,768)**	(1,842)
Loss for the year		**(3,673)**	(1,702)

Balance sheet

At 31 December 1996

	Note	**ECU 000**	**31 December 1996 ECU 000**	ECU 000	31 December 1995 ECU 000
Assets					
Placements with credit institutions	5		**26,096**		9,732
Other assets			**370**		148
Loans and share investments					
Loans	6	**6,872**		2,752	
Share investments	6	**290**		56	
			7,162		2,808
Contributions pledged but not yet due	7		**5,976**		3,430
Total assets			**39,604**		16,118
Liabilities					
Other liabilities			**630**		139
Contributions	7		**45,688**		19,020
Reserves	8		**(3,041)**		(1,339)
Loss for the year			**(3,673)**		(1,702)
Total liabilities and contributions			**39,604**		16,118
Memorandum items					
Commitments	9		**42,544**		24,451

Statement of cash flows

For the year ended 31 December 1996

	Year to 31 December 1996 ECU 000	Year to 31 December 1995 ECU 000
Cash flows from operating activities		
Operating loss for the year	**(3,673)**	(1,702)
Adjustment to operating loss to determine net cash provided/(used) by operating activities:		
Provisions for losses	**4,768**	1,842
Increase in interest receivable	**(222)**	(97)
Increase/(decrease) in other liabilities	**339**	(113)
Foreign exchange	**(64)**	(24)
Net cash provided/(used) by operating activities	**1,148**	(94)
Cash flows from investing activities		
Funds for loans and share investments	**(8,906)**	(3,638)
Net cash used in investing activities	**(8,906)**	(3,638)
Cash flows from financing activities		
Contributions	**24,122**	5,041
Net cash provided by financing activities	**24,122**	5,041
Net increase in cash and cash equivalents	**16,364**	1,309
Cash and cash equivalents 1 January	**9,732**	8,423
Cash and cash equivalents 31 December	**26,096**	9,732

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 ("the Board") of the European Bank for Reconstruction and Development ("the Bank") at its meeting of 18 October 1993 and is administered, *inter alia*, under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. The Fund became operational in 1994 when commitments by donors totalled US$ 3 million and the pilot phase of the programme was further extended during that year. 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 full-scale phase of The Russia Small Business Fund Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to assist the development of small businesses in the private sector in Russia.

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
Monetary assets and liabilities denominated in currencies other than ECU are translated into ECU at spot rates as at 31 December 1996. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the profit and loss account.

iii Share investments
Share investments are carried at cost less provisions for any permanent diminution in value. Dividends are credited to income when received.

iv Provisions for losses
Specific provisions are made against 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. Additional general provisions are made in respect of losses which, although not specifically identified, are inherent in any portfolio of contractual commitments, loans and share investments. Provisions made, less any amounts released during the year, are charged to the profit and loss account.

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 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 3 per cent of each contribution instalment received.

4 Provisions for losses

Profit and loss charges	Loans ECU 000	Share investments ECU 000	Total loans and shares ECU 000	Guarantees ECU 000	**1996 Total ECU 000**	1995 Total ECU 000
Provision charge this year:						
General provisions						
Outstanding disbursements	4,003	234	4,237	–	**4,237**	1,842
Specific provisions	379	–	379	152	**531**	–
For the year ended 31 December 1996	**4,382**	**234**	**4,616**	**152**	**4,768**	1,842
For the year ended 31 December 1995	1,786	56	1,842	–		

Movement in provisions	Loans ECU 000	Share investments ECU 000	Total ECU 000
At 1 January 1996	2,751	56	2,807
Provision charges this year	4,382	234	4,616
Foreign exchange adjustments this year	117	–	117
Release against loans written off	(379)	–	(379)
At 31 December 1996	**6,871**	**290**	**7,161**

In accordance with Section 5.04 (i) of the Rules and Regulations of the Fund, the Fund will bear losses arising on investments financed by the Fund and parallel investments by the Bank up to a maximum aggregate amount of US$ 75 million. Thereafter losses will be borne equally by the Fund and the Bank. Consequently, a general provision of 50 per cent is made for both loans and share investments at disbursement.

5 Placements with credit institutions

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

6 Loans and share investments

	Loans ECU 000	Share investments ECU 000	Total ECU 000
At 1 January 1996	5,503	112	5,615
Disbursements made this year	9,905	468	10,373
Repayments made this year	(1,467)	–	(1,467)
Foreign exchange adjustments	181	–	181
Written off	(379)	–	(379)
At 31 December 1996	**13,743**	**580**	**14,323**
Provisions as at 31 December 1996	(6,871)	(290)	(7,161)
Total net of provisions as at 31 December 1996	**6,872**	**290**	**7,162**

Maturity analysis of scheduled repayments of loans	**1996 ECU 000**	1995 ECU 000
Up to and including 1 year	**1,142**	2,230
Over 1 year and up to and including 5 years	**12,601**	3,273
	13,743	5,503

All loans and share investments are for projects in Russia and are committed and disbursed in United States dollars.

7 Contributions

Contributions pledged from the donor countries are set out below:

Contributions received	**ECU 000**	**1996 ECU 000**	1995 ECU 000
Canada		**761**	761
France		**3,116**	820
Germany		**2,739**	2,739
Italy		**6,719**	1,930
Japan		**21,162**	4,703
Switzerland		**2,360**	–
United States of America	**5,031**		
Less: Transfer of contributions to The Russia Small Business Technical Cooperation Special Fund	**(2,176)**	**2,855**	4,637
		39,712	15,590
Contributions pledged but not yet due			
France		**2,255**	–
Germany		**3,721**	701
Switzerland		**–**	2,339
United States of America		**–**	390
		5,976	3,430
		45,688	19,020

8 Reserves

	Loss brought forward from prior years ECU 000
At 1 January 1996	(3,041)
Movement during the year	–
At 31 December 1996	**(3,041)**

9 Off balance sheet instruments

	31 December 1996 ECU 000	31 December 1995 ECU 000
Commitments		
Undrawn formal loan commitments	**19,248**	15,058
Commitments to purchase shares	**4,434**	1,832
Guarantees	**18,862**	7,561
	42,544	24,451

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 1996, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 81 to 84. 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 1996, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

Arthur Andersen

Arthur Andersen
London
11 March 1997

The Russia Small Business Technical Cooperation Special Fund

Statement of movements in fund balance

For the year ended 31 December 1996

	Note	**Year to 31 December 1996 ECU 000**	Year to 31 December 1995 ECU 000
Balance brought forward		**2,089**	3,886
Contributions received	3	**10,840**	2,962
Interest and similar income		**195**	175
Foreign exchange		**205**	(236)
Transfer of contributions from The Russia Small Business Investment Special Fund	4	**2,176**	–
		15,505	6,787
Disbursements	5	**(7,671)**	(4,605)
Other operating expenses	6	**(395)**	(93)
Balance of fund available		**7,439**	2,089

Balance sheet

At 31 December 1996

	Note	**31 December 1996 ECU 000**	31 December 1995 ECU 000
Assets			
Placements with credit institutions	7	**7,532**	2,086
Other assets		**22**	11
Total assets		**7,554**	2,097
Liabilities			
Unallocated fund balance		**1,424**	(505)
Allocated fund balance	5	**6,015**	2,594
		7,439	2,089
Other liabilities		**115**	8
Total liabilities		**7,554**	2,097

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 ("the Board") of the European Bank for Reconstruction and Development ("the Bank") at its meeting of 18 October 1993 and is administered, *inter alia,* 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 full-scale phase of The Russia Small Business Fund Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the full-scale phase, was approved by the Board on 1 April 1996.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to finance technical cooperation for the design and implementation of the pilot, extended pilot and full-scale 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 spot rates as at 31 December 1996. Transactions in currencies other than ECU, including disbursements, are translated into ECU at month-end exchange rates. Commitments are translated into ECU at spot rates as at 31 December 1996.

Exchange gains and losses arising from the translation of assets, liabilities and transactions during the year are taken to the statement of movements in fund balance.

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 during the year from the donors are set out below:	1996 ECU 000	1995 ECU 000
Canada	**1,157**	164
France	**948**	159
Germany	**1,329**	–
Italy	**1,208**	–
Japan	**2,588**	–
Switzerland	**–**	1,244
United Kingdom	**3,216**	645
United States of America	**394**	750
	10,840	2,962

Contributions pledged but not yet due are as follows:	31 December 1996 ECU 000	31 December 1995 ECU 000
France	**1,288**	156
Germany	**266**	–
United Kingdom	**821**	–
United States of America	**–**	390
	2,375	546

4 Transfer of contributions from The Russia Small Business Investment Special Fund

In accordance with the contribution agreement dated 29 September 1994 between the United States Agency for International Development (USAID) and the Bank, contributions of ECU 2.18 million were transferred to the Fund from The Russia Small Business Investment Special Fund.

5 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
Projects in operation			
At 1 January 1996	6,642	4,048	2,594
Movement in the year	10,955	7,534	3,421
At 31 December 1996	**17,597**	**11,582**	**6,015**
Completed projects			
At 1 January 1996	2,329	2,329	–
Movement in the year	137	137	–
At 31 December 1996	**2,466**	**2,466**	**–**
Total projects			
At 1 January 1996	8,971	6,377	2,594
Movement in the year	11,092	7,671	3,421
At 31 December 1996	**20,063**	**14,048**	**6,015**

6 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 3 per cent of each contribution instalment received.

7 Placements with credit institutions

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

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 1996, and the related movements in the fund balance for the year then ended, on pages 85 to 86. 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 1996, and the movements in the Fund balance for the year then ended, on the basis set out in note 2.

Arthur Andersen

Arthur Andersen
London
11 March 1997

The Moldova Micro Business Investment Special Fund

Profit and loss account

For the period 3 September 1996 to 31 December 1996

	Note	**Period to 31 December 1996 ECU 000**
Interest and similar income		
Other interest		**5**
Foreign exchange		**28**
Other operating expenses	3	**(1)**
Operating profit before provisions		**32**
Provisions for losses	4	**(13)**
Profit for the period		**19**

Balance sheet

At 31 December 1996

	Note	**31 December 1996 ECU 000**
Assets		
Placements with credit institutions	5	**1,263**
Other assets		**5**
Loans	6	**13**
Total assets		**1,281**
Liabilities		
Other liabilities		**1**
Contributions	7	**1,261**
Profit for the period		**19**
Total liabilities and contributions		**1,281**
Memorandum items		
Commitments	8	**1,060**

Statement of cash flows

For the period 3 September 1996 to 31 December 1996

	Period to 31 December 1996 ECU 000
Cash flows from operating activities	
Operating profit for the period	**19**
Adjustment to operating profit to determine net cash provided by operating activities:	
Provisions for losses	**13**
Increase in interest receivable	**(5)**
Increase in other liabilities	**1**
Net cash provided by operating activities	**28**
Cash flows from investing activities	
Funds for loans	**(26)**
Net cash used in investing activities	**(26)**
Cash flows from financing activities	
Contributions	**1,261**
Net cash provided by financing activities	**1,261**
Net increase in cash and cash equivalents	**1,263**
Cash and cash equivalents 31 December	**1,263**

Notes to the financial statements

1 Creation of the Special Fund

The Moldova Micro Business Investment Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 3 September 1996 ("the Fund Agreement") between the European Bank for Reconstruction and Development ("the Bank") and the Government of Switzerland (the "Swiss Government").

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to assist the development of businesses through support for micro-sized enterprises in Moldova.

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
Monetary assets and liabilities denominated in currencies other than ECU are translated into ECU at spot rates as at 31 December 1996. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the period are taken to the profit and loss account.

iii Provisions for losses
Specific provisions are made against identified loans representing a prudent estimate of that part of the outstanding balance that might not be recovered. Additional general provisions are made in respect of losses which, although not specifically identified, are inherent in any portfolio of contractual commitments, loans and share investments. Provisions made, less any amounts released during the period, are charged to the profit and loss account.

iv Interest
Interest is recorded as income on an accruals basis. The Fund 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.

3 Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund.

4 Provisions for losses

Profit and loss charges	Loans ECU 000	**1996 Total ECU 000**
Provision charge this period:		
General provisions		
Outstanding disbursements	13	13
For the period ended 31 December 1996	**13**	**13**
Movement in provisions		
Provision charges this period	13	13
At 31 December 1996	**13**	**13**

In accordance with the Rules and Regulations of the Fund, the Fund will bear losses arising on investments financed by the Fund and parallel investments by the Bank up to a maximum of 75 per cent of the Fund value. Thereafter losses will be borne equally by the Fund and the Bank. Consequently, a general provision of 50 per cent is made for loans at disbursement.

5 Placements with credit institutions

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

6 Loan investments

	Loans ECU 000	**Total ECU 000**
Disbursements made this period	26	26
At 31 December 1996	**26**	**26**
Provisions as at 31 December 1996	(13)	(13)
Total net of provisions as at 31 December 1996	**13**	**13**

Maturity analysis of scheduled repayments of loans	**1996 ECU 000**
Over 1 year and up to and including 5 years	**26**

All loans are for projects in Moldova and are committed and disbursed in United States dollars.

7 Contributions

Contributions payable per the Fund Agreement were received in full from the Swiss Government during the period.

8 Off balance sheet instruments

	1996 ECU 000
Commitments	
Undrawn formal loan commitments	1,005
Guarantees	55
At 31 December	**1,060**

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of The Moldova Micro Business Investment Special Fund as of 31 December 1996, and the related profit and loss account, and statement of cash flows for the period then ended, on pages 87 to 89. 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 1996, and of the results of its operations and its cash flows for the period then ended, in accordance with International Accounting Standards.

Arthur Andersen

Arthur Andersen
London
11 March 1997

The EBRD Technical Cooperation Special Fund

Statement of movements in fund balance

For the period 12 September 1995 to 31 December 1996

	Note	Period to 31 December 1996 ECU 000
Contributions received	3	**247**
Interest and similar income		**4**
		251
Other operating expenses	4	**(4)**
Balance of fund available		**247**

Balance sheet

At 31 December 1996

	Note	31 December 1996 ECU 000
Assets		
Placements with credit institutions	5	**249**
Total assets		**249**
Liabilities		
Unallocated fund balance	6	**247**
Other liabilities		**2**
Total liabilities		**249**

Notes to the financial statements

1 Creation of The EBRD Technical Cooperation Special Fund

The creation of The EBRD 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 12/13 September 1995 and is administered under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. The Fund became active in June 1996, following the receipt of the first contribution.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to serve as a facility for financing technical cooperation projects in the Bank's countries of operations.

2 Significant accounting policy

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.

3 Contributions received

Contributions of ECU 247,400 were received from the United Kingdom in June 1996.

4 Other operating expenses

Operating expenses include direct costs and a management fee payable to the Bank for operating the Fund. The management fee is set at a level such that it should not exceed interest income net of direct costs.

5 Placements with credit institutions

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

6 Unallocated fund balance

The unallocated fund balance represents uncommitted funds received.

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of The EBRD Technical Cooperation Special Fund as of 31 December 1996, and the related movements in the fund balance for the period then ended, on page 90. 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 1996, and the movements in the Fund balance for the period then ended, on the basis set out in note 2.

Arthur Andersen

Arthur Andersen
London
11 March 1997

Projects approved in 1996

At 31 December 1996

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Euromerchant Albania Fund Venture capital fund to invest in SMEs	Albania	Holding/other investments	C/0	Shares	20 December (24 September)	2.8	8.1
Air Navigation Systems Upgrading Upgrading of air navigation control system in Azerbaijan	Azerbaijan	Air navigation systems	B/0	Loan	21 December (17 December)	11.0	12.6
Emergency Transport Reconstruction Project Road reconstruction and improvements to airport	Bosnia and Herzegovina	Transport	C/0	Loan	5 December (10 September)	26.3	76.0
Equity Investment in Hrvatska Banka, Mostar For on-lending to local enterprises	Bosnia and Herzegovina	Banks	C/0	Shares	(3 December)	1.0	1.0
Astera OOD To support privatisation and modernisation of personal care products company	Bulgaria	Personal care	B/1	Loan	23 October (18 June)	8.1	14.3
Danone MPF - Serdika Capital Increase Subscription to Danone Serdika to increase capital base	Bulgaria	Food	C/0	Shares	11 October (24 September)	1.2	2.0
Storco To update and modernise a fruit and vegetable processing plant	Bulgaria	Food	B/1	Loan and shares	25 October (24 September)	8.0	28.5
First Investment Bank Limited A credit line for financing projects in the SME sector	Bulgaria	Banks	C/0	Loan and shares	23 October (22 October)	3.2	3.2
Panonska Pivovara d.o.o To finance upgrading of existing facility and construction of a new brewery	Croatia	Food	B/1	Loan	27 February (23 January)	17.1	62.9
Framework for SME Financing To develop SME financing, particularly for long-term operations	Croatia	Banks	C/0	Loan	(Framework 4 June)	20.7	20.7
Trgovacka Banka d.d.				Loan	11 July	5.2	5.2
Tourism Credit Line First long-term funding of Croatia's tourism industry	Croatia	Banks	C/0	Loan	26 June (4 June)	25.9	25.9
Varazdinska Banka For loans to the industrial sector to aid the privatisation process	Croatia	Banks	C/0	Loan and shares	1 October (10 September)	12.0	12.0
Alpe Jadran Banka Bank-to-bank loan for on-lending purposes	Croatia	Banks	C/0	Loan	19 November (24 September)	5.2	5.2
Bank Austria Croatia d.d. Investment in new commercial bank	Croatia	Banks	C/0	Shares	25 November (24 September)	3.1	11.8
Dalmatinska Banka Credit Line Extension To provide medium- to long-term funding to SME investment projects	Croatia	Banks	C/0	Loan	18 November (5 November)	10.4	10.4
Municipal Environmental Infrastructure Investment Programme Extension and improvement of water treatment plants	Croatia	Environment	A/0	Loan	9 December (19 November)	54.4	164.5
Hypo Banka Croatia Capitalisation of a new financial intermediary to increase competition in the banking sector	Croatia	Banks	C/0	Shares	21 February 97 (17 December)	2.7	10.8

Loans are calculated at exchange rates current on 31 December 1996.
Shares are converted to ECU at exchange rates current at the date of disbursement.

* Environmental screening categories:
The project requires:
A – a full environmental assessment
B – a partial environmental analysis
C – no environmental assessment or environmental analysis required
1 – an environmental audit
0 – no environmental audit

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Fornasari Textile Holdings To support expansion and improve environmental conditions at the facility	Czech Republic	Textiles	B/1	Loan	(8 May)	10.3	34.0
Czech PPF Wholesale equity operation involving high-risk equity	Czech Republic	Business services	C/0	Shares	(28 August)	28.2	80.5
Rema 1000 To establish grocery franchise chain	Czech Republic	Food	B/0	Loan	(3 December)	11.8	38.2
AS Hansapank Housing Loan Housing finance facility in form of bank-to-bank loan and corporate credit line	Estonia	Banks	C/0	Loan	8 March (20 February)	6.2	6.2
AS Hansapank Housing finance facility in form of bank-to-bank loan and corporate credit line	Estonia	Banks	C/0	Loan	8 March (20 February)	6.2	6.2
AS Tallinna Pank Credit Line To develop the bank's corporate loan portfolio	Estonia	Banks	C/0	Loan	11 June (4 June)	6.2	6.2
AS Eesti Forekspank Credit line for financing projects in the private enterprise sector	Estonia	Banks	C/0	Loan	26 July (16 July)	6.2	6.2
Komercijalna Banka a.d. To develop private sector by on-lending to local SMEs	FYR Macedonia	Banks	C/0	Loan and shares	26 March (23 January)	7.8	7.8
Gas Distribution Project To construct a low-pressure piped gas distribution system	FYR Macedonia	Energy	B/0	Loan and shares	28 December (17 December)	33.9	64.1
International Black Sea Bank Georgia Founding of Georgia's first international bank to provide commercial banking services	Georgia	Banks	C/0	Shares	11 September (30 July)	0.5	3.7
Absolute Bank Term Loan To provide medium-term credit resources for private sector enterprise	Georgia	Banks	C/0	Loan	(19 November)	4.0	4.0
SME Credit Line - Georgia For on-lending to private SMEs	Georgia	Banks	C/0	Loan	(Framework 3 December)	3.2	3.2
TBC Bank				Loan	12 December	2.4	2.4
TbilComBank				Loan	12 December	1.6	1.6
TbilCreditBank				Loan	12 December	2.4	2.4
Digitel 2002 Rt. For the development of telecoms networks in two regions north of Budapest	Hungary	Communi-cations	B/0	Loan and shares	16 April (2 April)	18.5	102.3
Szikra Lapnyomda Rt. To enable Szikra Lapnyomda to improve its colour printing facilities and productivity	Hungary	Printing and publishing	B/1	Loan and shares	12 September (18 June)	6.6	14.4
Goldsun II A fruit and vegetable freezing and processing operation	Hungary	Food	B/0	Shares	11 October (24 September)	1.1	1.1
Hungarian Equity Partners To establish a venture capital fund to invest in medium-sized enterprises	Hungary	Holding/other investments	C/0	Shares	(15 October)	6.8	36.2
General Purpose Credit Line for an EBRD-Phare Environment and Energy Efficiency Co-funding Scheme To finance viable private sector projects with environmental and energy efficiency benefits	Hungary	Banks	C/0	Loan	31 December (5 November)	30.0	47.5

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Hungarian SRP To support the restructuring and turnaround of viable under-performing companies	Hungary	Holding/other investments	C/0	Shares	(17 December)	30.0	30.4
OTP Subordinated Loan To improve capitalisation and expand business activities including private sector loans	Hungary	Banks	C/0	Loan	18 December (17 December)	40.3	40.3
Kazak Post Privatisation Fund Venture capital fund investing primarily in SMEs	Kazakstan	Holding/other investments	C/0	Shares	7 February (6 February)	30.0	30.0
Aktau Port Reconstruction Project (Phase I) To assist in the reconstruction of Kazakstan's only port	Kazakstan	Shipping	B/0	Loan	16 April (2 April)	43.1	59.6
Demirbank Kyrgyzstan To establish the first foreign-owned bank in the country	Kyrgyzstan	Banks	C/0	Loan and shares	7 November (4 June)	1.9	6.4
Special Restructuring Programme Fund established to invest in state-owned enterprises and facilitate privatisation	Latvia	Holding/other investments	C/0	Shares	4 March (20 February)	15.0	15.0
A/S Latvijas Zemes Banka (Equity Investment) To strengthen the bank's capital base and enable it to increase its operations in Latvia	Latvia	Banks	C/0	Shares	12 April (2 April)	1.8	2.2
A/S Latvijas Unibanka (Equity Investment) To assist in privatisation of the bank, strengthen capital base and corporate governance	Latvia	Banks	C/0	Shares	11 May (8 May)	7.7	8.1
Riga Water and Environment Project To reduce levels of raw sewage in the Daugava River and improve water supplies	Latvia	Environment	B/0	Loan	6 August (16 July)	18.1	97.5
SIA Vainionpaa Construction of modern full-scale saw mill in Taurkalne	Latvia	Lumber and wood	A/0	Loan	15 November (28 August)	7.2	21.8
Rigas Komercbanka Equity Investment To improve corporate governance and capitalisation of the bank	Latvia	Banks	C/0	Shares	20 November (22 October)	5.6	5.6
Valdemara Centre SIA To construct the first international-standard business centre in the Baltics	Latvia	Property	B/0	Loan	18 December (3 December)	5.4	15.7
Lithuanian Development Bank Credit Line To fund LDB's on-lending and investment activity for SMEs	Lithuania	Banks	C/0	Loan	2 April (9 January)	5.3	5.3
Lithuanian Development Bank Capital Increase To strengthen and broaden capital base	Lithuania	Banks	C/0	Shares	19 November (9 January)	0.7	5.0
Post Privatisation Fund Assistance to enable privatised companies to progress in post-transition market economy	Lithuania	Holding/other investments	C/0	Shares	30 March (20 February)	15.0	15.0
Via Baltica and Lithuania Road Project To create an improved road transport infrastructure	Lithuania	Roads	A/0	Loan	29 August (16 July)	18.7	94.3

Loans are calculated at exchange rates current on 31 December 1996.
Shares are converted to ECU at exchange rates current at the date of disbursement.

* Environmental screening categories:
The project requires:
A – a full environmental assessment
B – a partial environmental analysis
C – no environmental assessment or environmental analysis required
1 – an environmental audit
0 – no environmental audit

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
See also **Danube Holding Ltd**, listed under Romania below	Moldova						
Swiss-American Micro-Enterprise Programme To provide Moldova's micro-businesses with secure bank finance and micro credit	Moldova	Banks	C/0	Loan	(Framework 18 June)	0.5	0.8
Banca Mobias					3 September	0.5	0.8
Victoria Bank					3 September	0.5	0.8
Moldova Agroindbank					3 September	1.1	1.6
Netia SA To finance construction of 350,000-line local telecoms network in ten licensed areas	Poland	Communi-cations	B/0	Loan and guarantee	26 June (9 January)	77.2	307.6
				Shares	11 September (9 January)	12.0	
Kredyt Bank To help provide increased capital to the Polish banking sector	Poland	Banks	C/0	Shares	23 July (6 February)	4.0	6.4
				Guarantee	(6 February)	2.4	
KZP Additional loan to enable paper company to complete restructuring and invest further	Poland	Paper	B/1	Loan	30 April (20 February)	9.7	42.0
Warsaw Financial Center Financing construction of the largest private sector office development in the region to date	Poland	Property	B/0	Loan	23 September (2 April)	22.9	92.6
Rolimpex S.A. To support the final stages of privatisation	Poland	Food	B/0	Shares	3 July (2 July)	13.0	79.3
Rolimpex S.A. For on-lending to SMEs	Poland	Food	B/0	Loan	(Framework 2 July)	16.1	32.2
Polish Enterprise Fund To make equity and equity-related investments in private and privatising SMEs	Poland	Holding/other investments	C/0	Shares	11 December (15 October)	24.2	120.8
Warsaw Wholesale Market Construction of a new market to provide a modern infrastructure for trade in food products	Poland	Food	B/0	Loan	6 December (19 November)	12.1	31.0
Air Liquide - Huta Katowice On-site air separation plant for Huta Katowice	Poland	Gas prod. & distribution	B/1	Loan	(17 December)	13.5	30.7
Prompt S.A. For the expansion of the company's knitwear and other garment production capacity	Romania	Clothing	B/1	Loan and shares	19 June (2 April)	8.6	17.0
Railway Rehabilitation For rehabilitation of traction and rolling stock	Romania	Railways	B/0	Loan	23 July (2 April)	58.5	338.2
United Romanian Breweries To construct a new brewery and develop a modern distribution system	Romania	Food	B/0	Loan	8 October (23 April)	15.3	44.3
Danube Holding Ltd Fund to invest in SMEs in Romania and Moldova	Romania & Moldova	Holding/other investments	C/0	Shares	30 October (8 May)	4.8	24.2

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Post Privatisation Fund To invest in privatised and new private sector enterprises	Romania	Holding/other investments	C/0	Shares	10 October (2 July)	25.0	50.0
Energy Conservation and SME Credit Line To invest in general and energy conservation projects	Romania	Banks	C/0	Loan	18 December (16 July)	8.1	13.2
Bucharest-Pitesti Motorway Upgrading To finance the upgrading of 96 kilometres of highway to motorway standards	Romania	Roads	B/0	Loan	5 August (30 July)	42.8	83.3
Regional Water and Environment Project To provide Jiu Valley with a constant supply of drinking water	Romania	Water supply	B/0	Loan	5 August (30 July)	20.1	42.4
NAR Restructuring and Road Rehabilitation Project Support for commercialisation and privatisation of the National Roads Administration	Romania	Roads	B/0	Loan	20 November (5 November)	69.2	483.2
Achinsk Refinery Modernisation Project To modernise and improve its compliance with environmental objectives	Russian Federation	Petroleum	B/1	Loan	19 April (9 January)	36.2	74.8
Sakhalin Shipping Company For acquisition of vessels by SASCO subsidiaries	Russian Federation	Shipping	B/0	Loan	12 July (6 February)	18.3	65.2
SFAT/Transfat To part-finance rail tank wagons for transport of oil and other products	Russian Federation	Railways	B/1	Loan and shares	25 April (6 February)	25.8	57.1
Eutelsat Satellite Launch Guarantee to cover risk of non-performance of obligations for satellite launch	Russian Federation	Aerospace	B/1	Guarantee	12 April (5 March)	33.5	116.9
Investment Bank of Kuban Equity investment to capitalise IBK, enabling it to provide debt and equity finance to local enterprise	Russian Federation	Banks	C/0	Shares	8 November (5 March)	2.0	8.1
AOZT Perekrestok Establishing and financing of Russian supermarket chain	Russian Federation	Retail	B/0	Loan	15 November (19 March)	19.8	56.5
Nevsky Prospekt 25 To complete refurbishment and reconstruction of office space in St Petersburg	Russian Federation	Property	B/0	Loan	7 August (23 April)	5.9	22.2
Russian Railways Modernisation Project New track technology, data communications and transition to commercial operation	Russian Federation	Railways	B/0	Loan	28 June (23 April)	96.8	153.6
Stolichny Bank of Savings For the provision of medium-term finance to the private sector	Russian Federation	Banks	C/0	Loan	18 June (21 May)	24.2	24.2
North-West GSM To finance construction and operation of the GSM900 Cellular Network in St Petersburg	Russian Federation	Communi-cations	B/0	Loan and shares	10 December (16 July)	22.4	74.8

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* Environmental screening categories:
The project requires:
A – a full environmental assessment
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C – no environmental assessment or environmental analysis required
1 – an environmental audit
0 – no environmental audit

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Cadbury ZAO Financing of confectionery factory in Novgorod	Russian Federation	Food	B/0	Loan	28 November (30 July)	36.2	119.4
Faboyta Anopino Plus O.O.O. Loan to assist modernisation and expansion of glass manufacturing facility	Russian Federation	Glass products	B/1	Loan	7 October (30 July)	13.5	38.7
RVF - Black Earth Regional Venture Fund To help modernise and restructure new and recently privatised enterprises	Russian Federation	Miscella-neous	C/0	Shares	25 October (30 July)	24.0	24.0
Templeton Asset Management Company & Unit Investment Fund To manage domestic mutual funds	Russian Federation	Banks	C/0	Shares	23 December (30 July)	1.0	4.8
Templeton Value Fund First open-end domestic mutual fund managed by Templeton	Russian Federation	Banks	C/0	Shares	31 December (30 July)	8.1	40.3
Geoilbent West Siberian oil and gas field development	Russian Federation	Oil and gas	A/1	Loan	21 November (24 September)	44.3	331.2
Kubaka Gold Project Loan Increase An increase of the Bank's existing loan by US$ 15 million	Russian Federation	Metal mining	C/0	Loan	20 November (15 October)	12.1	40.3
Uralpromstroybank Credit Line For medium-term on-lending to private sector enterprises in the Russian Federation	Russian Federation	Banks	C/0	Loan	13 November (15 October)	8.1	8.1
Buryatzoloto Upgrading and expansion of gold mines in Siberia	Russian Federation	Metal mining	A/1	Loan and shares	19 December (5 November)	14.1	47.9
Industry & Construction Bank Credit Line To finance private sector SMEs	Russian Federation	Banks	C/0	Loan	17 December (19 November)	24.2	24.2
Moscow Credit Line To Moscow-based banks for on-lending to private sector projects	Russian Federation	Banks	C/0	Loan	(Framework 19 November)	92.6	92.6
International Moscow Bank				Loan	11 December	16.1	16.1
Avtobank - Credit Line/Equity Investment To provide medium and long-term funds for on-lending to private industrial enterprises	Russian Federation	Banks	C/0	Loan and shares	10 December (3 December)	40.3	40.3
Mezhcombank Revolving Facility For short-term pre-export finance on-lending to private sector enterprises	Russian Federation	Banks	C/0	Loan	13 December (3 December)	16.1	16.1
Tokobank - Credit Line Facility For on-lending to medium-term private sector investment projects	Russian Federation	Banks	C/0	Loan	(3 December)	16.1	16.1
Vena St Petersburg - Equity II Expansion of a privatised brewery in St Petersburg	Russian Federation	Food	B/1	Shares	18 December (3 December)	9.1	27.3
Athina-Volga JSC To support the expansion of the company's agro-processing production capacity	Russian Federation	Food	B/0	Loan	(17 December)	16.2	46.3

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Chernogorneft Infill drilling programme and environmental action plan for part of the Samotlor field	Russian Federation	Oil and gas	B/1	Loan	(17 December)	40.3	40.3
GAZ-Volga To improve the quality, design and manufacturing facilities for passenger cars	Russian Federation	Fabricated metal	B/1	Loan	6 January 97 (17 December)	52.3	202.4
Post Privatisation Support Loan To restructure, improve corporate governance standards and attract foreign capital	Russian Federation	Governments	C/0	Loan	(17 December)	22.9	22.9
Procter & Gamble / Novomoskovsk Detergent Plant Project (Rev) P & G acquiring majority ownership of a detergent plant	Russian Federation	Chemicals	B/1	Loan and shares	20 December (17 December)	13.7	40.3
Unified Gas Supply System Upgrade Introduction of metering/automation and mobile compressors for Gazprom	Russian Federation	Energy	B/1	Loan	6 January 97 (17 December)	80.5	241.6
Volgotanker Vessels Construction Project To acquire river-sea oil tankers and restructure long-term lease obligations	Russian Federation	Shipping	B/1	Loan	(17 December)	31.1	106.7
Skloobal a.s. To modernise smelting furnaces and aid privatisation	Slovak Republic	Stone, clay glass	C/1	Loan	(21 May)	11.9	44.4
Slovenske Lodenice a.s. To finance shipbuilding	Slovak Republic	Shipping	B/1	Loan	(21 May)	44.0	68.9
Tatra Banka Subordinated Debt Subordinated loan to a private sector bank	Slovak Republic	Banks	C/0	Loan	20 November (30 July)	13.0	13.0
Pol'nobanka II (Formerly Slovenska Pol'nohospodarska Banka) For IT and branch network investment to strengthen capital base	Slovak Republic	Banks	C/0	Shares	24 October (22 October)	3.0	15.1
PBK General Purpose and Energy Efficiency Credit Facility To expand lending operations and finance dedicated energy conservation projects	Slovak Republic	Banks	C/0	Loan	20 December (3 December)	14.9	18.8
Poslovni sistem Mercator Construction, refurbishment, modernisation of retail chain	Slovenia	Retail	B/0	Loan	19 December (22 October)	31.1	95.1
Yulon 2 dd. Second phase of expansion of nylon textile production	Slovenia	Textiles	B/1	Shares	18 December (19 November)	5.2	5.2

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	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Tajikistan Financial Institutions Initiatives To strengthen the financial position and intermediation capability of TBB and OB	Tajikistan	Banks	C/0	Loan and shares	19 December (3 December)	0.2	0.2
Orienbank				Loan	19 December	3.2	3.2
Tajikbankbusiness				Loan and shares	19 December	3.5	6.9
Ukrainian Wave Installation and initial operation of fixed wireless telephone service for Lviv	Ukraine	Communi-cations	B/0	Loan	(24 September)	12.1	32.2
Starobeshevo Power Modernisation To support the ongoing restructuring and commercialisation of the power sector	Ukraine	Energy	B/1	Loan	11 December (3 December)	91.2	131.4
Svitoch Confectionery Expansion and modernisation of chocolate production	Ukraine	Food	B/1	Loan and shares	(3 December)	11.8	16.6
Kasansay-Tekmen Wool Products To construct an integrated plant for woollen fabrics, knitting yarn and blankets	Uzbekistan	Textiles	B/0	Loan and shares	18 July (9 January)	21.8	63.6
ABN AMRO NB Uzbekistan To establish and capitalise the new bank, and to mobilise other funds	Uzbekistan	Banks	C/0	Shares	12 June (21 May)	0.8	8.1
UzDaewoo Bank A new joint-venture bank with Daewoo Group and KorAm Bank	Uzbekistan	Banks	C/0	Shares	17 December (24 September)	4.0	16.1
Uzbekistan SME II - NB for Foreign Economic Activity To provide term funds for the development of private enterprise	Uzbekistan	Banks	C/0	Loan	17 December (3 December)	24.2	24.2
Uzbekistan SME II Asaka Bank To provide term funds for the development of private enterprise	Uzbekistan	Banks	C/0	Loan	17 December (3 December)	12.1	12.1
Uzbekistan: SME Line of Credit II For on-lending to private sector companies undertaking investment projects	Uzbekistan	Banks	C/0	Loan	(3 December)	60.4	60.4
New Europe Insurance Ventures (NEIV) Fund Co-investment programme with Regional Fund	Regional	Insurance	C/0	Shares	23 October (23 January)	20.1	80.5
Landis & Gyr Multi-Project Facility Multi-project facility to support expansion of energy service companies	Regional	Energy	C/0	Loan and shares	18 December (2 April)	70.0	190.0
Municipal Services Multi-Project Facility: RWE Entsorgung Framework Agreement To finance investments in private provision of municipal and environmental services	Regional	Water supply	C/0	Loan and shares	(Framework 23 April)	33.7	103.6
CGC ESCO Multi-Project Facility Multi-project facility to finance energy service companies	Regional	Energy	C/0	Loan and shares	(Framework 30 July)	36.7	108.1
CGC Thermotech ESCO	Slovak Republic			Loan and shares	7 November	3.6	12.6
FGG Municipal Services Multi-Project Facility Encouraging private provision and financing of municipal and environmental services	Regional	Municipal and environment	C/0	Loan and shares	(Framework 30 July)	41.0	129.4
Heatco District Heating Project	Slovak Republic	Energy efficiency		Loan and shares	7 November	3.2	10.7

	Country	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Risk-sharing Agreement with EGAP Agreement with Czech Export Credit Agency (EGAP)	Regional	Banks	C/0	Loan	(15 October)	25.0	25.0
AIG Silk Road Fund To provide equity finance to private sector SMEs	Regional	Banks	C/0	Shares	(3 December)	12.1	80.5
Carlsberg MPF Equity Line For modernisation of existing breweries and limited new greenfield operations	Regional	Food	C/0	Loan	15 December (3 December)	75.0	200.0
Environmental Investment Fund To finance manufacturing, services and development in the infrastructure sector	Regional	Holding/other investments	C/0	Shares	(3 December)	8.0	40.0
Multi-Project Facility: Lafarge To acquire, modernise, construct and operate manufacturing facilities for building materials	Regional	Building materials	C/0	Shares	(Framework 3 December)	45.1	209.6
Kujawy and RMC	Poland			Shares	11 December	27.4	72.3
Honeywell Multi-Project Facility To establish energy service companies to implement energy efficiency projects	Regional	Energy	C/0	Shares	(Framework 17 December)	20.0	123.0
Total						**2,827.3**	**7,500.2**

Loans are calculated at exchange rates current on 31 December 1996.
Shares are converted to ECU at exchange rates current at the date of disbursement.

The totals may not add up to the sum of the component parts due to rounding.

* Environmental screening categories:
The project requires:
A – a full environmental assessment
B – a partial environmental analysis
C – no environmental assessment or environmental analysis required
1 – an environmental audit
0 – no environmental audit

Governors

Governors and Alternate Governors

31 December 1996

Member	Governor	Alternate Governor
Albania	Dylber Vrioni	Elizabeth Gjoni
Armenia	Levon Barkhudarian	Bagrat Asatryan
Australia	Peter Costello	Andrew Thomson
Austria	Viktor Klima	Hans Dietmar Schweisgut
Azerbaijan	Elman S Roustamov	Fuad Akhundov
Belarus	Pavel V Dyk	Nikolai P Zaichenko
Belgium	Philippe Maystadt	Grégoire Brouhns
Bosnia and Herzegovina	–	–
Bulgaria	Dimitar Kostov	Plamen Iltchev
Canada	Paul Martin	Gordon Smith
Croatia	Bozo Prka	Josip Kulisic
Cyprus	Christodoulos Christodoulou	Antonis Malaos
Czech Republic	Ivan Kocárník	Josef Tosovský
Denmark	Marianne Jelved	Michael Dithmer
Egypt	Ahmad Ahmad Goueli	Nawal Al Tatawi
Estonia	Mart Opmann	Enn Pant
Finland	Sauli Niinistö	Antti Hynninen
FYR Macedonia	Jane Miljovski	Taki Fiti
France	Jean Arthuis	Jean Lemierre
Georgia	Teimuraz Mamatsashvili	Konstantin Zaldastanishvili
Germany	Theo Waigel	Jürgen Stark
Greece	Yannos Papantoniou	Nicolaos Zahariadis
Hungary	Péter Medgyessy	György Surányi
Iceland	Finnur Ingólfsson	Halldór J Kristjánsson
Ireland	Ruairi Quinn	Paddy Mullarkey
Israel	Jacob A Frenkel	David Brodet
Italy	Carlo Azeglio Ciampi	Mario Draghi
Japan	Hiroshi Mitsuzuka	Yasuo Matsushita
Kazakstan	Umirzak Shukeev	Alexander S Pavlov
Republic of Korea	Seung-Soo Han	Kyung Shik Lee
Kyrgyzstan	Askar Sarygulov	Umar Toygonbaev
Latvia	Aivars Guntis Kreituss	Guntars Krasts
Liechtenstein	Egmond Frommelt	Roland Marxer
Lithuania	Algimantas Krizinauskas	Jonas Niaura
Luxembourg	Jean-Claude Juncker	Yves Mersch
Malta	Lino Spiteri	Francis J Vassallo
Mexico	Guillermo Ortíz Martínez	José Julián Sidaoui
Moldova	Valeriu Bobutac	Dumitru Ursu
Morocco	Mohamed Kabbaj	Abdelfettah Belmansour
Netherlands	Gerrit Zalm	Hans van Mierlo
New Zealand	Don McKinnon	John Collinge
Norway	Sigbjørn Johnsen	Even Aas
Poland	Hanna Gronkiewicz-Waltz	Krzysztof Kalicki
Portugal	António de Sousa Franco	Fernando Teixeira dos Santos
Romania	Florin Georgescu	Mugur Isarescu
Russian Federation	Sergey Dubinin	Andrei Vavilov
Slovak Republic	Sergej Kozlík	Vladimír Masár
Slovenia	Mitja Gaspari	Meta Bole
Spain	Rodrigo Rato	Cristóbal Montoro
Sweden	Erik Åsbrink	Svante Öberg
Switzerland	Jean-Pascal Delamuraz	Rudolf Ramsauer
Tajikistan	Murotali M Alimardonov	Sharif M Rahimov
Turkey	Mehmet Kaytaz	Cüneyt Sel
Turkmenistan	Hudaiberdy A Orazov	Alexander Grishin
Ukraine	Valentin M Koronevsky	Victor A Yushchenko
United Kingdom	Kenneth Clarke	Baroness Chalker
United States of America	Robert Rubin	Joan Spero
Uzbekistan	Rustam S Azimov	Abdurafik A Akhadov
European Community	Yves-Thibault de Silguy	Giovanni Ravasio
European Investment Bank	Sir Brian Unwin	Wolfgang Roth

All the powers of the EBRD are ve
the Board of Governors. The Boar
Governors has delegated many of
powers to the Board of Directors,
is responsible for the direction of
general operations of the Bank an
among other activities, establishe
policies and takes decisions conc
loans, equity investments and oth
operations in conformity with the g
directions of the Board of Governo

The President chairs the Board of
Directors. Under the direction of t
Board, the President conducts the
business of the Bank and, as chie
staff, is responsible for its organis
and for making staff appointments

Chairman of the Board of Governors
Ruairi Quinn, Ireland

Vice Chairmen of the Board of Governors
Jean-Pascal Delamuraz, Switze
Valentin M Koronevsky, Ukrain

Directors

Directors and Alternate Directors

31 December 1996

Directors	Alternate Directors	Constituencies
Jan Bielecki [1]	– [2]	Poland / Bulgaria / Albania
Péter Bod	Tomás Parízek	Hungary / Czech Republic / Slovak Republic / Croatia
Elisabeth Bukspan [3]	Didier Elbaum	France
John Coleman	Tom MacDonald [4]	Canada / Morocco
Staffan Crona	Håkan Emsgård	Sweden / Iceland / Estonia
Robert Graham-Harrison	David Roe	United Kingdom
Johan Hilbers	Kees Spaans	Netherlands
Brian Hillery	Asger Lund-Sørensen	Ireland / Denmark / Lithuania / Former Yugoslav Republic of Macedonia
Mikhail Jernov [5]	Serguei Ovseitchik	Russian Federation / Belarus / Tajikistan
Helge Kringstad	Rauli Suikkanen	Norway / Finland / Latvia
Roger Lavelle	Walter Cernoia [6]	European Investment Bank
Heiner Luschin	Amos Rubin	Austria / Israel / Cyprus / Malta / Kazakstan
Alan Morris	Huhn-Gunn Ro	Australia / Korea / New Zealand / Egypt
Philippe Petit-Laurent	Peter Blackie	European Community
Yuri Poluneev [7]	Maria Sultanoiu [8]	Ukraine / Romania / Moldova / Georgia / Armenia
Enzo Quattrociocche [9]	Pasquale Terracciano [10]	Italy
Jacques Reverdin	Selçuk Demìralp	Switzerland / Turkey / Liechtenstein / Uzbekistan / Kyrgyzstan / Azerbaijan / Turkmenistan
Karen Shepherd [11]	– [12]	United States of America
Bernard Snoy	Ernest Muhlen	Belgium / Luxembourg / Slovenia
Fernando Soares Carneiro	Stefanos Vavalidis	Portugal / Greece
Kazuhito Tatebe [13]	Takashi Osanai	Japan
Miguel Valle	Belén Cristino	Spain / Mexico
Günter Winkelmann	Joachim Hacker [14]	Germany

The EBRD's budget for each directorship provides for a redu in constituencies' personnel co 20 per cent compared with 19 number of countries are fundin directly the position of Alternat Director or Director's Assistant

1 Jan Bielecki exchanged with Plamen Iltchev in May
2 pending appointment of succes to Plamen Iltchev
3 Elisabeth Bukspan succeeded Patrick Mordacq in September
4 Tom MacDonald succeeded David Horley in November
5 Mikhail Jernov succeeded Oleg Preksin in June
6 Walter Cernoia succeeded Terry Brown in July
7 Yuri Poluneev succeeded Oleksander Savchenko in July
8 Maria Sultanoiu succeeded Stanel Ghencea in October
9 Enzo Quattrociocche succeede Giuseppe Maresca in January
10 Pasquale Terracciano succeede Maurizio Serra in September
11 Karen Shepherd succeeded Lee Jackson in November
12 pending appointment of succes to Matthew Hennesey
13 Kazuhito Tatebe succeeded Kazumoto Suzuki in July
14 Joachim Hacker succeeded Hans-Heinrich Wrede in Octobe

Composition of Board of Directors' Committees

31 December 1996

Audit Committee	Budget and Administrative Affairs Committee	Financial and Operations Policies Committee
Roger Lavelle (Chairman)	Enzo Quattrociocche (Chairman)	John Coleman (Chairman)
Helge Kringstad (Vice Chairman)	Philippe Petit-Laurent (Vice Chairman)	Staffan Crona (Vice Chairman)
Johan Hilbers	Péter Bod	Jan Bielecki
Heiner Luschin	Fernando Soares Carneiro	Elisabeth Bukspan
Bernard Snoy	Mikhail Jernov	Robert Graham-Harrison
Miguel Valle	Jacques Reverdin	Brian Hillery
Günter Winkelmann	Karen Shepherd	Alan Morris
	Kazuhito Tatebe	Yuri Poluneev

The Audit Committee considers th appointment and scope of work o external auditors; and reviews fina statements and general accountir principles, policy and work of the Auditor, expenditure authorisation systems, procurement policy and evaluation.

The Budget and Administrative Aff Committee considers general bud policy, proposals, procedures and reports. It also considers personn administrative and organisational matters, and administrative matte relating to Directors and their staf

The Financial and Operations Polic Committee reviews financial polici including borrowing policy, genera policies relating to operations, an procedures and reporting requirer

The Board Steering Group was established in 1994 to improve coordination between the Board o Directors and management on arrangements and the setting of a for meetings of the Board, Commi and workshops. The Group is con under the chairmanship in 1996/ Bernard Snoy and Vice Chairman Bielecki, and comprises the chairı vice chairmen of the three Board Committees, the Secretary Genera the Deputy Secretaries General.

Contacting the EBRD

11 March 1997

President

President	Jacques de Larosière

Banking

Front Office

First Vice President	Ron Freeman
Deputy Vice Presidents	Guy de Selliers
	David Hexter
	Jean-François Maquet
Director, New Products, Policies & Issues	Gavin Anderson
Director, Front Office	Achim von Heynitz
Director, Resident Office Adviser	Rolf Westling

Country Teams	**Team Director**
Azerbaijan/Kyrgyzstan/Tajikistan/Turkmenistan	Stijn Albregts
Baltics/Belarus	George Krivicky
Bulgaria/Albania/FYR Macedonia/Slovenia/Armenia/Georgia	Olivier Descamps
Czech/Slovak Republics	Jiri Huebner
Hungary	Gyuri Karady
Kazakstan/Uzbekistan	Junichi Maruyama
Poland	Alain Pilloux
Romania/Moldova/Croatia/Bosnia and Herzegovina	Josué Tanaka
Russian Federation	Reinhard Schmoelz
Ukraine	Josué Tanaka

Sector Teams	**Team Director**
Agribusiness	Hans Christian Jacobsen
Early Stage Equity	Sven Hegstad
Education and Training	Ken Pasternak
Energy Efficiency Unit	Bernard Jamet
Financial Institutions	David Hexter,
	Kurt Geiger,
	Pierre Mellinger,
	Dragica Pilipovic-Chaffey
Municipal and Environmental Infrastructure	Johan Bastin
Natural Resources	Sergey Popov (Acting)
	Gunther Vowinckel (Acting)
Power/Energy Utilities	Ananda Covindassamy
Property/Tourism	Marc Mogull
Special Energy Projects	Mark Tomlinson
Telecommunications	Peter Reiniger
Transport	Roy Knighton

Operations Support Units	**Head of Unit**
Environmental Appraisal	Tim Murphy
Operation Administration	Lieve Reckers
TurnAround Management Programme	Michael McAlister
EC Advisory Unit	Antonio Mendes

Finance

Vice President	Bart le Blanc
Deputy Vice President	Noreen Doyle

Budget, Financial Policy and Strategic Planning

Director	Patricia Haas Cleveland
Head of Business Planning and Budgeting	Claus Biering
Head of Financial Policy and Strategic Planning	Evelyn Cox

Controller's

Controller	Christopher Holyoak
Director and Deputy Controller	Nigel Kerby
Head of Operations	Peter Franklin

Credit and Commercial Co-financing

Director	Noreen Doyle
Head of Credit	Bob Harada
Head of Portfolio Review	Mike Williams
Syndications and Co-financing	Lorenz Jorgensen
Head of Special Assets	Charles Wrangham

Independent Risk Control Unit

Risk Controller	Jean-André Sorasio

Information Technology

Director	Guy de Poerck
Deputy Director, Head of Customer Services and Infrastructure Delivery Group	Simon Fowler
Head of Business Systems Delivery Group	Tim Goldstone

Treasury

Treasurer	Mark Cutis
Deputy Treasurer	Marcus Fedder
Director of Short Term Assets and Financing	Andrew Donaldson
Director of Strategic Funding	Ayesha Shah
Director of Trading and Risk Analytics	Jaakko Karki
Director of Risk Trading	George Hatjoullis

Personnel and Administration

Vice President	Miklós Németh
Director of Personnel	Franco Furno
Director of Administration	John McNess

Project Evaluation

Vice President	Joachim Jahnke

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Project Evaluation

Director	Fredrik Korfker

Procurement and Technical Support

Director	Robin Davidson

Nuclear Safety

Director	Manfred Banaschik

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Secretary General	Antonio Maria Costa
Deputy Secretary General	Daud Ilyas
Deputy Secretary General	Nigel Carter

Office of the General Counsel

General Counsel	John Taylor
Deputy General Counsel	Emmanuel Maurice
Assistant General Counsel	Norbert Seiler

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Deputy Chief Economist	Ricardo Lago
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Deputy Resident Representative:
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* Resident/Regional Offices and Mission Advisers

■ See page 1 for location map

Further information

Publications

General publications
The EBRD provides a range of publications, policy papers, summaries of country strategies and information sheets. Periodicals include: *Alternative sources of finance for small and medium-sized projects*; *Environments in transition* (the EBRD's environmental programme, including project updates); *Law in transition* (legal cooperation and training activities in the region). All free items are listed in the *Guide to publications* and are available from the Publications Desk at the EBRD:
(Tel: +44 171 338 7553;
Fax: +44 171 338 6139).
Many are also posted on the EBRD's Web site: http://www.ebrd.com

Transition Report
An annual publication examining the problems of transition, and the macroeconomic and legislative progress of the EBRD's countries of operations (published November, £25); also the *Transition Report Update* (published April, £15). Available from The Stationery Office Publications Centre, PO Box 276, London SW8 5DT, UK
(Tel: +44 171 873 8200).

Procurement Opportunities
Available monthly by annual paid subscription (£85). Publishes the EBRD project pipeline, listing all public sector projects including status and associated procurement notices, and technical cooperation projects. Available from EBRD Procurement Opportunities, Subscription Department, 82-84 Peckham Rye, London SE15 4HB, UK.

EBRD Directory of business information sources on central and eastern Europe and the CIS.
Compiled by the Bank's Business Information Centre (BIC), the Directory lists over 1,500 books, periodicals, newspapers, online and CD-ROM databases and Internet resources. Entries include contact details and a short description. Main listing by region and country, with indexes to source type and sector/activity. March. £149.

EBRD business information review
A quarterly newsletter covering economic perspectives and critical reviews of new developments in the provision of business information on central and eastern Europe and the CIS. The Review complements The EBRD Directory and provides a range of features, including concise overviews of economic developments and forecasts in the region, a compilation of major news stories from the previous quarter, and a review of online and CD-ROM databases covering the region, new Internet sources and new books and reports. It also contains details of forthcoming events relevant to those investing in the region, a regularly updated list of key contacts and occasional interviews with senior industry/government figures. Annual subscription £149.
The Directory and Review are available from Effective Technology Marketing Limited, PO Box 171, Grimsby DN35 0TP, UK
(Tel/fax: +44 1472 699027;
Email: sales@etmltd.demon.co.uk).

Subscription-based business information retrieval services

The EBRD's Business Information Centre (BIC) offers a business information retrieval service covering central and eastern Europe and the CIS. The BIC's research staff will locate and retrieve publicly available data on topics such as demographic/economic trends, markets and industries, privatisations and companies, acquisition of documents, and identification of trading partners. The subscription also covers access to the BIC for private study by staff from subscriber organisations, with borrowing rights to books and reports.
For further information contact the BIC (Tel: +44 171 338 6361;
Fax +44 171 338 6155;
Email: kroonr@ebrd.com).

Annual Meeting

The EBRD's Annual Meeting includes a business programme which is open to potential investors in the region. For details contact the Annual Meetings Management Unit
(Tel: +44 171 338 7319;
Fax: +44 171 338 7320).
The 1998 Annual Meeting is to be held in May in Kiev, Ukraine.

Abbreviations and acronyms

The Bank, EBRD The European Bank for Reconstruction and Development
BIS Bank for International Settlements
BOT Build-operate-transfer
CEAL Central European Agency Line
CEFTA Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia
CIS Commonwealth of Independent States
EC European Community
ECA Export credit agency
ECLAT Export Credit Loan Arrangement Technique
ECU European Currency Unit
EIB European Investment Bank
ESCO Energy service company
ESE Early-Stage Equity
ESP Enterprise Support Project
EU European Union
FIDP Financial Institutions Development Programme
FYR Macedonia Former Yugoslav Republic of Macedonia
G-7 Group of 7 (Canada, France, Germany, Italy, Japan, UK and USA)
IBRD International Bank for Reconstruction and Development
IFC International Finance Corporation
IFI International financial institution
IMF International Monetary Fund
ISDA International Swaps and Derivatives Association
JEXIM Export Import Bank of Japan
Libor London Interbank Offered Rate
MDB Multilateral development bank
MPF Multi-Project Facility
NSA Nuclear Safety Account
OECD Organisation for Economic Cooperation and Development
OECF Overseas Economic Cooperation Fund (Japan)
OPIC Overseas Private Investment Corporation
Phare Poland and Hungary: Aid for Economic Restructuring (EU)
PPF Post-Privatisation Fund
RSBF Russia Small Business 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
TC Technical cooperation
USAID US Agency for International Development

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