Baltic Investment Programme

Twenty Years of Joint Nordic Financial and Technical Assistance to the Three Baltic Countries

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Ib Katznelson

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Content

Foreword.....	7
1. Introduction.....	13
2. 1990 and 1991: Years of Reports.....	15
3. The Idea of establishing New International Financial Institutions failed	21
4. Launching of the Baltic Investment Programme 1992–95 (BIP I).....	25
4.1 Tasks of the Nordic Investment Bank (NIB)	29
4.2 Tasks of the European Bank for Reconstruction and Development (EBRD).....	30
4.3 Tasks of the Nordic Project Fund (Nopef)	31
5. Extension of the Baltic Investment Programme 1995–98 (BIP II)	33
5.1 Technical assistance to the National Investment Banks	33
5.2 Participation at the Board of Directors in the National Investment Banks.....	34
5.3 EBRD's equity participation in the National Investment Banks	34
5.4 EBRD's Credit Lines to the National Investment Banks	35
5.5 NIB's Equity participation in the National Investment Banks.....	35
5.6 Technical assistance provided though the TurnAround Management Programme (TAM).....	35
5.7 Support for Pre-investment studies with the aim of promoting joint Baltic-Nordic ventures.....	36
5.8 Expanding the Baltic Investment Loan Scheme.....	36
5.9 Technical support for promoting investment in very small enterprises	37
5.10 Overview of the Baltic Investment Programme 1995–98 (BIP II).....	38
6. The Baltic Investment Programme beyond 1998 (BIP III)	39
7. Overview of the finances of BIP I, II and III	41
8. The Implementing Agencies use of their Resources	43
8.1 Nordic Investment Bank	43
8.2 European Bank for Reconstruction and Development	47
8.3 Nordic Project Fund.....	58
9. Important sub-programmes.....	61
9.1 The national investment bank	61
9.2 Estonian Investment Bank (EstIB).....	62
9.3 The Latvian Investment Bank (LIB).....	64
9.4 Lithuanian Development Bank (LDB)	66
9.5 TAM/BAS	68
9.6 Baltic Special Restructuring Programme (BSRP)	71
10. Concluding remarks: A general assessment of the Baltic Investment Programme	73
11. Sammanfattning	77
12. Appendix 1	81

Foreword

The development of Estonia, Latvia and Lithuania since their independence has been remarkable. After disintegrating their economies from the Soviet system they embarked on the process of changing from command economy to market based economy, building up new institutions and gradually creating a private business sector and having a sustainable financial sector. They are now active and respected members of international financial institutions.

What has been achieved is mainly by the effort of their governments and population.

The Nordic countries started already in 1990 trying to identify how they could assist the three Baltic countries on their road to a market oriented economy.

The result of a rather long process with various kind of analysis was a joint decision by the Nordic countries in cooperation with the Baltic countries to launch a Baltic Investment Programme. The programme has only been a minor player in the remarkable development of the countries. However, it has probably – not least in the period from 1992 to the end of the century – been an important catalyst in the development.

Via the programme the Baltic countries already from the beginning got a much more prominent role in the operations of the European Bank for Reconstruction and Development (EBRD) than the size of the countries would suggest.

The programme also allowed the Nordic Investment Bank (NIB) to extend its international operations to the Baltic countries, and the countries became even members of the bank in 2005.

As the Baltic Investment Programme should cover many aspects in the development of Estonia, Latvia and Lithuania, it implied involvement from three institutions: the NIB, the EBRD and the Nordic Project Fund (Nopef).

These institutions established a number of separate programmes, each of them with a specific purpose.

The Baltic Investment Programme was first launched for the period 1992–1995. It was then extended for another period, 1995–1998. In 1998 it was decided to let the programme come to a gradual end in

2003, the year before the three Baltic countries became members of the European Union.

Twenty years on the NIB and Nopef have totally concluded their operations financed by the programme. The same goes with a minor exception for the EBRD. The technical assistance has come to an end, and no more investments are made out of the resources of the programme. A couple of minor investments are still outstanding as the international economic and financial crisis has delayed the disinvestment.

The aim of the present report is to provide for the first time an overview of the somewhat complicated structure and finances of the programme: three implementing institutions, three phases of the programme and numerous sub-programmes, as well as going through some of the achievements and successes of the programme, but also some of the problems and setbacks. At the same time, the report is intended to serve as a basis for a formal decision by the Nordic Governments to finalize the programme and to dissolve the Nordic Baltic Investment Committee, which has been responsible for monitoring the programme.

The Nordic Council of Ministers for Economy and Finance were responsible for the overall decisions, and the Nordic Baltic Investment Committee monitored the programme.

The main purpose of the programme was to promote the development of small and medium sized enterprises in the private sector as an important vehicle for economic growth and employment, as well as assisting the development of a commercial financial sector by establishing a national investment banks in each of the three countries.

Three institutions implemented the Programme:

- The Nordic Investment Bank (NIB)
- The Nordic Project Fund (Nopef)
- The European Bank for Reconstruction and Development (EBRD)

The NIB received funds for taking equity in the national investment banks in the Baltic countries, as well as a 100 pct. guarantee from the Nordic countries for investments in the Baltic countries within a framework of € 60 mill.

The EBRD received funds for investment. These funds were to be co-financed by at least 100 pct. from the Bank's own resources.

All three institutions received funds for technical assistance.

The NIB primarily for setting up the national investment banks.

The Nopef primarily for joint ventures between Nordic and Baltic companies.

The EBRD used a major part of the resources for Business Advisory Service and Turnaround Management.

The report tells the story leading up to the agreement with the Baltic countries on the Baltic Investment Programme. It then goes on explaining the various phases in the development of the Programme, the tasks of the institution and the finances, how the institutions used the resources provided by the Programme. Some of the important sub-programmes are explained in more detail. Finally, in the last chapter an assessment of the Programme is given.

The graph below provides an overview of the structure of the Baltic Investment Programme.

Investment financed directly by Nordic resources

Technical assistance financed directly by Nordic resources

1. Introduction

The period of stagnation in the 1980ies brought the crisis of the Soviet system. The new Soviet leader Mikhail Gorbachev came to power in 1985 and responded with glasnost and perestroika. They were attempts to reform the Soviet system from above to avoid revolution from below. The reforms occasioned the reawakening of nationalism in the Baltic republics.

On 11 March 1990 the Lithuanian Supreme Soviet declared Lithuania's independence. On 30 March 1990, the Estonian Supreme Soviet made a declaration of independence, and on 4 May 1990, the Latvian Supreme Soviet made a similar declaration.

By mid-June the Soviets started negotiations with the Baltic republics. After the failed negotiations, the Soviets made a dramatic but failed attempt to break the deadlock and sent military troops to Lithuania and Latvia in January 1991. In August 1991, the hard-line members in Moscow attempted to take control of the Soviet Union. A day after the coup on 21 August, the Estonians proclaimed independence. The Latvian parliament made similar a declaration on the same day. The coup failed, but the collapse of the Soviet Union became unavoidable. The Soviet Union recognized the Baltics independence on 6 September 1991.

The development also re-awaked the interest by the Nordic countries in assisting the Baltic area and to consider ways to support the economic development in the Baltics.

The knowledge about the Baltic area, for many years a part of the Soviet Union, was very poor. Therefore, a number of studies and proposals were prepared in 1990 and 1991 by the Nordic countries in order to get an idea about where and how assistance was most needed and how co-operation with the Nordic countries in the economic and financial fields could be most helpful.

The Ministers for Finance and Economy of the Nordic countries reacted with great speed in order to find ways to help promoting the development of small and medium sized enterprises in the private sector. At the beginning of 1992 they presented a comprehensive programme, the Baltic Investment Programme containing substantial resources for technical assistance and financing based on already established and operating international financial institutions.

Based directly on the resources of the programme more than € 125 mill. was invested directly by the Nordic resources. As neither the Nordic Investment Bank nor the European Bank for Reconstruction and Development financed projects 100 pct., rather perhaps about 1/3, and the EBRD matched the Nordic money with more than 100 pct. of its own resources, the total amount invested on the basis of the programme may well have been in the order of magnitude of € 500 mill. Furthermore the Baltic countries – in particular during the first years of the existence of the EBRD – were in forefront of the newly established bank with a much higher part of the bank's operations than they proportionally could have expected to get their size taken into consideration.

Technical assistance of more than € 40 mill. were spent via the programme. The Business Advisory Service was designed and established under financing by the Baltic Investment Programme. The nascent Turn-Around Management programme received a major infusion of funds through the Baltic Investment Programme in its very early years.

The Business Advisory Service programme proved to be so successful that the Nordic Council of Ministers out of its budget provided the EBRD with funds for establishing a pilot Business Advisory Service Programme in St. Petersburg to find out if the design would work also outside the Baltic region. It did, and the programme was extended to all other EBRD's countries of operations. The programme is now an integrated part of the operations of the Bank.

Finally the Baltic countries became members and shareholders of the Nordic Investment Bank (which kept its name even after including the three non-Nordic countries) from the 1st of January 2005.

2. 1990 and 1991: Years of Reports

In June 1990 Finland suggested that the Nordic Investment Bank (NIB) should prepare a report on the economic situation and prospects for the development of the Baltic countries. A somewhat similar proposal was sent by the Nordic Council, an assembly of Nordic Parliamentarians, to the Nordic Council of Ministers at the end of August.

However, a joint meeting in November 1990 between the Nordic Ministers for Finance and Economy and the Ministers for General Nordic Cooperation decided that it would be more appropriate to embark on further studies after having seen the results of ongoing studies by the IMF and the European Commission.

The first report published was prepared by the Swedish Ministry of Foreign Affairs in cooperation with independent economists, "Economic Survey of the Baltic Republics," Stockholm 1991. The main purpose of the report was to give a description of the Baltic countries' economies. The general knowledge about their economies and the nature of the problems they were facing was indeed very meagre.

Box 1

Some conclusions of the report sponsored by the Swedish Ministry of Foreign Affairs

Whatever the longer term gains to be achieved from greater economic autonomy and reform, the short-term prospects are daunting. The economies will have to shift to a world market price footing. With the present composition of trade, this will lead to a very strained balance-of-payments situation. ... Estonia, Latvia and Lithuania have few natural resources; initial foreign reserves are minimal; and growth of new exports will depend on structural change in the economies.

The Baltic states do possess quite diverse economies – agriculture, food industry, forestry and wood industry, textiles and clothing industry, chemicals, manufacturing and electronics industry and an extensive transport infrastructure. However, the existing structure is adapted to the past requirements of the Soviet planned economy more than the future needs of trading in the world market.

The survey is intended to give an overview for a broad audience of interested partners – governments, international organisations, businesses, non-governmental organisations and interested individuals. It reviews the economic structure of the three countries, past developments, present reform and future potential.

Tauno Tiusanen prepared a report “The Baltic Area,” August 1991 for The Nordic Council of Ministers. The report focused on the economies of the Baltic countries as being integrated in the Soviet economic system and all the difficulties involved in dismantling this integration. Many of the points made could actually be made for most of the other areas in Soviet Union that later on got their independence.

In February 1991 the Nordic Ministers for Finance and Economy requested the Nordic Investment Bank to prepare a report on financing possibilities in the Baltic countries. Because of the events in Russia in August 1991, the Nordic Council of Ministers received a request from the Baltic countries that Nordic support for establishing mechanisms for financing investments were “urgent and of highest priority.”

The Nordic Investment Bank responded to the request from the Ministers and the request for urgency and a report was published on September 10, 1991, “Investment Needs and Financing Mechanisms in the Baltic Countries.”

This report contained the idea of setting up a Baltic Investment Bank (BIB).

Box 2

Some conclusions of the report by Tauno Tiusanen

In the early 1990s the Baltic Republics face a serious dilemma. On one hand, they refuse to sign a new union treaty with Moscow, even if liberal alternatives are offered, because signing that kind of a document would mean recognizing Soviet supremacy. The Baltic point of view is that these three countries have never been legally bound to the Soviet Union. On the other hand, the Baltic Republics have become integral parts of the Soviet economy in the post-war period. These three republics have relatively little chance for domestic development due to scarce natural resources and poor competitiveness of their industries. Thus, special difficulties are linked to economic independence.

At the same time, there is a far-reaching consensus in the Baltic area that a continuous link to the crisis-ridden Soviet economy with its disequilibria is a serious obstacle for economic development and to the enhancement of living standard in Baltic states, thus, demands towards economic independence seem justified and understandable.

Western type capital and money markets must be created, if a reasonable allocation of investments is to be enacted. These markets have been absent altogether under socialist conditions. An economic and also an ideological revolution is needed to accomplish this aim.

All national economies under transition seek Western direct investments. Risk capital investments are badly needed because they bring dynamism to the local economy and force local enterprises to compete. Therefore, it is understandable that legislation in respect of foreign direct investments is continuously liberalized in the economies under transition.

Western direct investors are looking for a "favourable investment climate." This means, among other things, low political risk, large and wealthy markets, a developed infrastructure in the host country, cheap labour, stable and convertible currency, and easy access to raw material.

From the point of view of Western economic decision makers economies under transition offer certain opportunities with relatively high risks. High risk is normally accepted when profit expectations are regarded as especially high. Winning new markets is normally regarded as an important incentive.

In all economies under transition, the Baltic countries included, it is essential that market orientation continue in order to encourage Western links. Cooperation in education, training and science are necessary precondition for successful transition.

The internal Nordic coordination was not excellent. At approximately the same time, the Nordic Council of Ministers for Trade requested the Management of the Nordic Investment Bank to prepare yet another report about investment plans and needs of the Baltic countries. However, it illustrates the eagerness of the Nordic countries to assist the Baltic countries in their endeavour to develop fast.

The Management of the Nordic Investment Bank involved a number of external experts in various sectors in preparing the report that was published in November 1991, "A Survey of Investment Plans and Needs in the Three Baltic Countries." It was an expert report and as such never discussed or approved by the Board of Directors of the Bank.

The objective of the report was to provide Nordic exporters and investors with background information about potential business opportunities; to get an indication of the investment plans and needs in each Baltic country; to compile a list of potential projects where possible with preliminary cost information; and to make recommendations on other relevant issues.

Box 3

Some findings of the report by the Management of the Nordic Investment Bank

The most important finding of the survey is that there are many investment possibilities in all economic sectors in the three Baltic countries. Nearly 300 are listed in the annex to this survey. Most have been clearly defined in terms of objectives, location and technical feasibility.

The proposed projects constitute a compendium of investment needs in each of the countries. However, in almost all cases, the financial and economic viability of the projects remains to be determined.

Nordic enterprises and investors already play a significant role in the three Baltic countries. In addition to joint-ventures, equipment supplies, markets and activities financed through tied or special purpose funds, there is a constant stream of requests for specific types of technical and other information.

However, all potential investors and businessmen must still have concerns about the investment climate in the Baltic countries. The reform of the banking systems is only just beginning and although some progress has been made in resolving questions of taxation, property ownership, investment protection and trade agreements, more needs to be done. How effective the implementation of the new legislation will be also remains to be seen. There is clearly a need for a financial mechanism which can support investments by enhancing both confidence and creditworthiness.

An annex provided a complete list of the projects reviewed with provisional cost information where available. The list of potential investment projects by sectors were in agriculture and food, forestry and forestry products, fisheries, small- and medium-scale enterprises, construction and building materials and tourism.

While the survey mainly could be seen as a kind of guidance for Nordic enterprises, it also focused on the need for technical assistance and development of financial mechanism in the Baltic countries.

3. The Idea of establishing New International Financial Institutions failed

The report “Investment Needs and Financing Mechanisms in the Baltic Countries” was more instrumental than the reports previously published. The main conclusion was that there was a need for creating a new financial mechanism. The concrete proposal was the establishment of a national investment bank in each of the three countries, supported by an umbrella-institution called the “Baltic Investment Bank” (BIB) under the aegis of the Nordic Investment Bank. The Main elements are shown in Box 4.

Box 4

Elements in the proposal for establishing a Baltic Investment Bank

It was suggested that the subscribed capital should be € 300 mill. 40 pct. should be paid in in equal instalments over a 5 year period and 60 pct. should be guarantee capital.

The Nordic countries (eventually with other interested countries) should contribute with 70 pct. of the capital, the Baltic countries with 20 pct. and the remaining 10 pct. should be reserved for other national or multinational institutions.

The Baltic Investment Bank should provide financing to independent national investment banks in each of the three Baltic countries. The Baltic Investment Bank should first and foremost assist in project evaluation and in providing foreign capital to projects.

The financial assistance could be in the form of:

- grants to the national investment banks
- direct lending to projects with guarantee from the national investment bank in the country concerned
- participation in the financing with equity capital
- joint financing with other lenders.

The activities should primarily be for small and medium sized companies, but could also be financing public projects (i.e. environmental projects) or administering a fund for specific purposes.

The idea of establishing a Baltic Investment Bank was immediately supported by the three Baltic Prime Ministers in a declaration of September 24, 1991. See appendix 1.

However, the proposal for establishing a new institution, the details of it and eventually any alternatives for financial assistance had not been properly analysed or discussed by the Nordic countries.

After further discussion of the proposal it was concluded that, even the urgency taken into consideration, it was important that no decisions were taken until more thorough discussions had taken place. In particular it was considered that the immediate need for technical assistance was very acute and that the mechanism suggested had underestimated the need for such assistance.

It was furthermore considered that the financial gearing suggested in the report was too high and underestimated the risks involved. This would in turn lead to a rating of the Baltic Investment Bank that would imply rather high costs. In this context it is interesting to note that the founders of the European Bank for Reconstruction and Development (EBRD) only suggested a gearing ratio of 1:1, whereas the gearing ratio of the BIB was suggested to be 1:2.

The financial architecture also needed further consideration. The EBRD had just been created with the purpose of assisting the former command economies in their transition to market economy. The Bank had rapidly built up competences that were of the same nature as those necessary for a Baltic Investment Bank. If a separate Baltic institution were to be established, it was essential that proper coordination with the newly established EBRD was carefully considered in order to avoid overlapping and waste of resources.

On that basis the Nordic Council of Ministers for Finance and Economy decided that alternative ways to assist the Baltic countries with financing should be considered. The Ministers were however fully aware that action – and even quick action – was needed and they were prepared to honour that challenge.

On the basis of a proposal by the Danish Minister for Economy, Mr. Anders Fogh Rasmussen, the Finnish Minister for Finance Mr. Jari Viinanen who chaired the Nordic Council of Ministers for Finance and Economy at their meeting on 12 November 1991, suggested that a Nordic Baltic Investment Committee (NBIC) be established with the task of preparing concrete proposals for Nordic assistance to the Baltic countries in the financial and economic sectors.

The Ministers issued a press release after their meeting, cf. box 5.

Box 5

Extract of the press release from the meeting of the Nordic Ministers for Finance and Economy the 12 of November 1991.

It is the opinion of the Nordic Ministers of Finance and Economic Affairs that assistance to the Baltic countries in the development of a financial system should have a high priority, as this is a necessary condition for establishing a market based economy. This implies assistance to the Baltic countries in their efforts to integrate in the international economic community, both through membership in relevant institutions and by access to markets as well as in the establishment of financial mechanisms for channelling capital to investments. However, in the very short run the need for technical assistance in the economic and financial field appears to be most acute, and the Nordic assistance should reflect this fact.

It is the view of the Nordic Ministers of finance and Economic Affairs that the means and methods for assisting the Baltic countries in their effort to establish financial mechanisms need to be explored further. It is the position of the Ministers that it is most effective to seek solutions to these problems within the existing institutions. The Ministers, therefore, wish to initiate a dialogue on cooperation concerning this issue with Nordic as well as international institutions, e.g. the EBRD and NIB. Thus, the Ministers have decided to establish a special Nordic group for Baltic-related issues in the economic and financial field. The group will analyze various proposals for support to the Baltic countries, including the proposal for a Baltic Investment Bank, and seek information about the needs and preferences of the recipient countries. The group will report directly to the Ministers.

The decision of not establishing a Baltic Investment Bank gave, however, rise to considerable frustration in the Baltic countries.

On behalf of the three Baltic countries Mr. Ants Kirikal, Deputy Director General, Estonian State Department for Foreign Economic Relations, Ms. Elena Ignatjeva, Expert, Department of foreign economic relations, Latvia and Mr. Vytautas Dudenas, President of Lithuanian Investment Bank sent the following letter 15 November 1991 to the Secretary General Mr. F. Clemet of the Nordic Council of Ministers:

“We would like to express our concern at the outcome of the meeting of the Nordic Council earlier this week regarding the Nordic support for the establishment of a Baltic investment bank.

We are especially disappointed at the decision not to approve the establishment of the Baltic Investment Bank immediately, but to delay the matter

pending a further review by a working group of Nordic Finance Ministers. We find the decision somewhat surprising in light of the support the BIB proposal had received from the Nordic Governments and international financial organizations at the meeting in Tallinn and on other occasions.

There are many benefits to the Baltic countries in the establishment of the Baltic Investment Bank. We set these out in the attached paper [not attached here], and we would be grateful if you would pass our concerns on to the relevant authorities in the Nordic countries.”

The frustration by the Baltic side was to a certain extent understandable as some members of Nordic institutions had gone very far indeed in promoting the idea to the Baltic governments without any contacts with the Nordic governments which were not aware of the scheme for the establishment of a new institution.

The three Baltic countries had already either established (however not or decided to establish national investment banks. It is unclear whether this was done in anticipation of the establishment of a Baltic Investment Bank or independently of it. In any case, these investment banks became so much in focus of the political mindset in the Baltic countries that they became an integrated and important part of the subsequent Baltic Investment Programme.

4. Launching of the Baltic Investment Programme 1992–95 (BIP I)

The Nordic Baltic Investment Committee (NBIC) set up by the Ministers worked during the next couple of months preparing a programme comprising funds for investment and technical assistance in the Baltic countries. In order to respond to the need for urgency the idea was to involve institutions that already had the necessary competence as executing institutions, to secure that substantial funds for technical assistance were involved and that there was a vehicle for cooperation between private Nordic enterprises and enterprises in the Baltic countries.

The Committee had discussions with the Nordic Investment Bank (NIB), the Nordic Project Fund (Nopef) and the European Bank for Reconstruction and Development (EBRD) about how these institutions in a meaningful way could be involved in a programme.

Based on the already produced reports the Committee agreed that priority should be given to enhance the development of the private sector in the Baltic countries by giving support to investments in small and medium sized enterprises in the three countries.

The programme elaborated by NBIC did not meet immediate approval by representatives from the Baltic countries. They had mainly two concerns. One was that there was no trust that the EBRD would focus its effort on the Baltic countries. The other was a feeling that the Baltic countries would not be involved to the same extent as was intended with the scheme for a Baltic Investment Bank.

At the end the representatives for the Baltic countries, however, felt that the precise form for the financial mechanism was of less importance if the programme could support the national investment banks, could provide sufficient financing for the development of the economies of the Baltic countries and if the Baltic countries were involved in developing the details of the programme. And last but not least, that the programme could be implemented without delay.

Actually the concern raised about the EBRD proved to be totally wrong. An important effect of the programme was that the EBRD from

the start of its existence had much more focus on the Baltic countries than the size of their economies normally would suggest, a point underlined during a meeting with the Nordic Ministers in Washington in 1995 by the President of the EBRD, de Larosière. The funds provided by the Baltic Investment Programme laid the foundation for the EBRD and other international investors for taking the risk of investing in the Baltic countries during a period with a high degree of financial and economic uncertainty.

The final details of the draft programme were settled in February 1992 after intense discussions with the Baltic Governments, and the programme was formally approved by the Nordic Council of Ministers for Finance and Economy in Helsinki on March 4, 1992. The programme had a couple of days earlier also been presented to the Nordic Prime Ministers who had endorsed it. The German chancellor Mr. Helmut Kohl, who was also in Helsinki, was briefed about the programme which he appreciated as well as promising German assistance when needed.

Formally the programme was subsequently presented to and discussed with the Baltic Ministers who had been invited to a joint meeting with their Nordic colleagues in Helsinki on the occasion of the annual meeting of the Nordic Council, an assembly of Parliamentarians.

At a press conference after the meeting between the Nordic and Baltic Ministers for Finance and Economy a joint declaration was signed.

The joint declaration contained some details about the investment programme. One core element in the joint declaration was the intention that the national investment banks in each of the three Baltic countries be cornerstones in channelling financing to local investment projects, and the Baltic countries committed themselves to consider favourably to place equity with these three banks in order to have the banks capitalised at a reasonable level.

The Joint Declaration was signed by Mr. Anders Fogh Rasmussen, Minister of Economic Affairs, Denmark; Mr. Iiro Viinanen, Minister of Finance, Finland; Mr. Fridrik Sophusson, Minister of Finance, Iceland; Mr. Sigbjørn Johnsen, Minister of Finance, Norway; Ms. Anne Wibble, Minister of Finance, Sweden; Mr. Rein Miller, Minister of Finance, Estonia; Mr. Elmars Silinch, Minister of Finance, Latvia; and Mr. Vytautas Dudėnas, on behalf of the Government of Lithuania, President of the Investment Bank of Lithuania.

A press release was issued after the meetings.

Box 6

Press release 4 March 1992

Comprehensive Nordic Investment Initiative for the Baltic Countries

More than DKK 750 mill. [appr. 100 mill. Euro] in capital for investments and technical assistance – this is the result of the Baltic Investment Programme approved by the Nordic Ministers of Economy and Finance after discussions with their Baltic colleagues at a meeting today.

In a decisive manner, the Nordic countries will contribute to developing a private sector consisting of small and medium-sized enterprises by making know-how and hard currency available to Estonia, Latvia and Lithuania.

"It is very important for us," the Ministers stress, "that also from the point of view of economics the Balts become masters in their own house. Consequently, in the Investment Programme we attach considerable importance to seeing the Investment Banks of the Baltic Republics being given a central position when investment capital is to be made available."

Already now, the Nordic Investment Bank is working closely with the Balts in building these Investment Banks. "These efforts are to be intensified," the Ministers state. "Therefore, we have made funds available for this purpose. We are also prepared to allocate a considerable amount as equity in the Banks when the Balts so desire."

The Baltic countries are about to become members of the international financial organisations. The Nordic initiative will complement the international capital channelled to the three Baltic countries via these institutions. The European Bank for Reconstruction and Development (EBRD) will, at a later stage, make a decision to double up the Nordic countries' capital infusion. A special Nordic-Baltic Fund will be established under EBRD for that purpose. Contributions to the fund are invited from other countries, too.

Obviously we should not forget in our efforts that Nordic enterprises have a natural position in relation to the launching of activities and investments in the Baltic area. This is why we have provided a considerable capital basis for on-lending in the Baltic countries. The Nordic Project Fund, which also forms part of the Investment Programme will, similarly, make a special effort to interest Nordic enterprises in being present in the Baltic Republics.

"We have had a good and thorough discussion with our Baltic colleagues on the Programme. They are looking forward to a swift implementation of the Investment programme. In the Joint Declaration that we have agreed to sign, we promise, among other things, to do our utmost to have the Programme implemented swiftly and successfully, and we invite the Balts to participate in the ongoing monitoring of the implementation of the Baltic Investment Programme," conclude the Ministers of Economy and Finance.

The main elements of the Baltic Investment Programme (BIP I) were as follows:

Table 1. Elements in the Baltic Investment Programme for the period 1992–95 (BIP I)

Institution	Resources for investment	Resources for technical assistance
Nordic Investment Bank	€ 30 mill. in form of a 100 pct. guarantee from the Nordic countries	€ 5 mill. for technical assistance for establishment and developing a national investment bank in each of the three countries
European Bank for Reconstruction and Development	€ 30 mill. paid in by the Nordic countries to a fund at the EBRD for investment in small and medium sized enterprises in the private sector. The Nordic money should be matched at least with 100 pct. of EBRD's own resources	€ 5 mill. for preparation of small and medium-sized investment projects and advice on privatisation
Nordic Project Fund	n/a	€ 5 mill. primarily for investment studies concerning joint ventures between Nordic and Baltic companies
Total	€ 90 mill. including contributions from EBRD's own resources	€ 15 mill.

The programme was established for a period until July 1, 1995. It was envisaged that an evaluation would be made at the end of the period on the basis of which decisions on a potential follow up of the investment programme would be taken.

A considerable number of details had to be worked out after the political decision had been taken.

- The Nordic Investment Bank's statutes needed to be changed in order for the Bank to invest in accordance with the new facility.
- The Nordic countries had to negotiate individual guarantee agreements with the Nordic Investment Bank. To the extent possible, individual formalities taken into consideration, the guarantees should be identical. After agreement reached on the drafts, appropriate – again according to the various national requirements – approvals by Parliaments were needed.
- The Nordic Investment Bank had to formulate guidelines for financing the new investment scheme.
- The Nordic Investment Bank had to formulate guidelines for using the funds for technical assistance.
- Contribution Agreements between the Nordic countries and the EBRD for the Baltic Investment Special Fund and for the Baltic Technical Assistance Special Fund had to be negotiated.

- For each of the two special funds with the EBRD, Rules and Regulations spelling out the details for instance about the use of the resources of the funds had to be negotiated and subsequently approved by the Board of the EBRD.
- The Board of Nopef should approve guidelines for the use of the funds allocated to Nopef.

Furthermore the national investment banks in the three Baltic countries, which were either established before the start of the programme or under establishment, should have:

- Banking license
- Statutes which were in compliance with the requirements necessary for channelling loans via the Baltic Investment Programme
- Business plans

In October 1992 all the formal arrangements in the Nordic Parliaments and in the institutions selected to implement the programme had been completed. Furthermore the Nordic Governments had made the necessary instalments for 1992.

The technical elements of the programme were already operational in the autumn of 1992, and the three Baltic investment banks had already received substantial technical support from the NIB in terms of purchase of office and data processing equipment, travel and accommodation expenses for staff for training and expenses for short-term consultants.

The technical assistance was closely coordinated with the EBRD and also with the EU-PHARE programme and with the German institution, Kreditanstalt für Wiederaufbau (KfW). The two latter operators had also contributed funds for technical assistance in the fields of accounting, the use of financial projections as a tool for project appraisal, environmental assessments, and the preparation of standard legal documents for the national investment banks.

4.1 Tasks of the Nordic Investment Bank (NIB)

It was decided that the three national investment banks, the Estonian Investment Bank, the Latvian Investment Bank and the Lithuanian Investment Bank, should become important instruments for the channelling of funds to local investment projects. The NIB was entrusted with the task of providing full-scale management and other kinds of institutional sup-

port to the three investment banks for the explicit purpose of enabling the banks to play an integral part in the Baltic Investment Programme.

For this purpose NIB was provided with funds for technical assistance of € 5 million for a three-year period.

The Nordic Baltic Investment Committee and the NIB agreed on the guidelines for the administration of the fund in August 1992.

Furthermore the NIB received a 100 pct. guarantee from the Nordic countries for lending and guarantees (in the following only referred to as lending/investment) for investment projects in small and medium companies in the private sector.

Loans could be provided up to the guaranteed amount including interest and expenditures during the three-year period that was the duration of the programme. If the guarantee was not fully used before 1 July 1995, financing should come to an end unless the guarantors decided otherwise.

The general lending guidelines for Baltic Investment loans (BIL) were approved by NIB's Board of Directors August 26, 1992.

The main criteria for lending was that

- the borrower should have the right qualifications and experiences
- a documented strategy had been developed
- the technical concept should be sustainable
- the project fulfilled environmental acceptable standards
- there was a balanced capital structure in the project
- the project was fully financed
- the project was bankable, and that
- the project contained a certain Nordic element.

4.2 Tasks of the European Bank for Reconstruction and Development (EBRD)

The EBRD received € 5 mill. for technical assistance with the purpose of identifying and preparing investment and privatisation in the Baltic countries. The resources could be used to pay for expenses incurred by the Bank and representatives nominated by the Bank in connection with equity investments made from the resources of the Investment Fund.

The resources of the fund for technical assistance might also be used to finance the preparation, establishment and operation of Business Advisory Services in the Baltic countries, or any one of them, if the gov-

ernments of the relevant Baltic countries agreed that such services should be established.

Actually this specific element turned out to be extremely important. The Business Advisory Programme developed within the Baltic Investment Programme ended up by being extended to all countries of operations of the EBRD and is now fully integrated in the Bank's operations, cf. chapter 9.5.

Both the Rules and Regulations for the Baltic Technical Assistance Special Fund and the Baltic Investment Special Fund at the EBRD were approved by the Board of the EBRD on April 6, 1992. The contribution agreements concerning the two funds between the Nordic countries and the EBRD were signed on April 14, 1992.

Concerning the Investment Fund of the amount of € 30 mill. it was decided that financing should be matched at least 100 pct. from EBRD's ordinary resources and that investment projects should be provided on sound commercial terms with no ties on the procurement.

It should also be deemed necessary to capitalise the national investment banks at a reasonable level. The Investment Fund could therefore also be used to place equity with these banks. This equity would however be placed only at the request of the three national investment banks and after consultation with NBIC.

Both the fund for technical assistance and the fund for investment were open to contributions from other countries and from multilateral institutions.

The specific agreements were approved by the Nordic countries the 14 April 1992.

4.3 Tasks of the Nordic Project Fund (Nopef)

The Nordic Project Fund was allocated € 5 mill. for technical assistance for pre-feasibility and feasibility studies of investment projects. The idea behind this scheme was that investment and establishment of subsidiaries or joint ventures by Nordic enterprises would be important in the transfer of modern industrial technology and skills to the Baltic countries.

Support could be given to a Nordic company or group of companies for development of a business plan for a defined project where Nordic/Baltic companies were involved, studies regarding privatisation, restructuring plans for exiting companies in the Baltic countries with Nordic cooperation and feasibility studies of joint ventures or investment projects.

Support could be given in the form of a conditional interest-free loan for a part of the pre-investment costs, which under certain circumstances could be changed to a grant.

If the respective cooperation would lead to a commercial agreement or operation or the project was implemented, further grants could be approved within a certain limit.

The Board of Nopef defined the rules for the programme at the end of June 1992.

5. Extension of the Baltic Investment Programme 1995–98 (BIP II)

The decision to make the programme running for a 3-year period only was motivated by the need to evaluate if the programme lived up to expectations, and if so in which way the programme should be extended.

The Baltic countries had made considerable progress in the transformation from command economy to market based economy during the first phase of their independence. However, despite important progress, project investments in the countries were still constrained by a number of factors. The institutional framework was inadequate, the economic environment unstable, know-how for developing bankable investment projects was lacking and the financial mechanisms for medium and long term financing were insufficient.

Taking into account that situation, as well as the progress and experience gained with the first phase of the Baltic Investment Programme, it was recommended that the programme be prolonged and some changes being made. The main changes were that even more focus should be put on technical assistance, additional funds were allocated for investments and that the Nordic Investment Bank got the possibility to take equity in the national investment banks.

The various elements in the extension of the programme are mentioned in chapter 5.1–5.9, and an overview of the elements is in chapter 5.10.

5.1 Technical assistance to the National Investment Banks

In 1995 it was acknowledged that the management team of the Investment Bank of Latvia had acquired basic knowledge of banking and banking management. The situation in the Lithuanian Development Bank was less advanced. Both institutions were still in need for comprehensive technical assistance. The Estonian Investment Bank, however, would only need ad-hoc assistance.

For the second phase of the Baltic Investment Programme the Nordic Investment Bank outlined a three-year technical assistance programme in order to address the problems facing the banks. For that purpose the NIB got extra € 3.25 mill. for technical assistance.

5.2 Participation at the Board of Directors in the National Investment Banks

The European Bank for Reconstruction and Development had through the programme received financial support for financing the cost of maintaining an active role at the Board of Directors of the three national investment banks. This activity was viewed as an important mechanism for technical assistance to the new institutions and further support was considered necessary. For that purpose the EBRD got extra € 0.75 mill. for technical assistance.

5.3 EBRD's equity participation in the National Investment Banks

Through the funds provided by the Baltic Investment Programme as well as EBRD's own resources, the EBRD had been able to participate as shareholder in the national investment banks. This participation was considered very important because it strengthened the credibility of the emerging financing institutions. As the activities of the investment banks were increasing, their capital base had to be expanded. It was considered important that the EBRD was able to maintain a strong equity position in the further development of the banks, in particular in the banks in Latvia and Lithuania. It was therefore decided for the second phase of the Baltic Investment Programme to allocate further funds, € 2.5 mill. for that purpose to the EBRD. If, however, the EBRD would find that there was enough equity provided by other sources, the funds could instead be utilised as credit lines to the investment banks.

5.4 EBRD's Credit Lines to the National Investment Banks

The EBRD had been an important supplier of credit as well as guarantees to the national investment banks. As the investment activities would increase, the need for credit would grow. The banks were not able to tap ordinary financial sources for funds. It was therefore considered important to secure that the EBRD could continue to play the role as a major source of credit for the three banks in order to make investment in SMEs possible. For that purpose the EBRD got € 9.0 mill.

It was also decided that reflow of funds, i.e. interest as well as amortisation received, that was paid into the investment fund in the first phase of the programme, could be reused in accordance with the aim of the programme.

5.5 NIB's Equity participation in the National Investment Banks

The Baltic countries as well as the national investment banks had expressed interest in having the NIB as shareholder in the banks. In a way this was a natural request as the NIB had been working so closely with the banks because of the technical assistance provided. It was also seen as an instrument for promoting further Nordic-Baltic economic integration. The NIB's participation would also give the national investment banks an increased Nordic profile and facilitate contacts between the banks and Nordic enterprises. Such contacts would also have a positive impact on the flow of know-how and capital to Baltic enterprises. For that purpose an equity fund of € 7.5 mill. was set up at the NIB.

5.6 Technical assistance provided through the TurnAround Management Programme (TAM)

The EBRD had via the Baltic Investment Programme been able to provide senior management assistance to 25 selected enterprises with the goal of turning them into profitable stand-alone private enterprises.

Some of the enterprises that had received assistance from this programme had, at a later stage, come up with projects to be financed by the national investment banks.

It was considered important to increase that activity further, which was also demonstrated by the fact that also the EU-Phare Programme promised to allocate € 1.5 mill. for that purpose.

5.7 Support for Pre-investment studies with the aim of promoting joint Baltic-Nordic ventures

The promotion of joint Nordic-Baltic ventures was viewed as a very effective instrument for providing know-how and investment capital. Moreover, the promotion of joint ventures was viewed very positively by the Baltic Governments as well as the national investment banks. Even if a balanced distribution of funds between the three Baltic countries was not intended in the Baltic Investment Programme, it was recommended that an extra effort should be made for promoting joint venture projects in Latvia and Lithuania. The Nordic Project Fund received € 5 mill. for that purpose.

5.8 Expanding the Baltic Investment Loan Scheme

As mentioned the national investment banks were not able to tap the domestic markets or/and the international commercial market for funds. They therefore had to rely on special financing sources such as the NIB, the EBRD and the EIB.

There was also a lack of confidence in the long run stability of exchange rates, which meant that lending for investments in the Baltic countries had mostly been in foreign currency, to projects that generated income in foreign currency. That obviously limited investment possibilities for Nordic as well as domestic enterprises.

The NIB had located a number of planned public sector infrastructure projects in such areas as telecommunication, transportation and energy. The NIB expected to be in a position to start lending to such projects in Estonia already during 1995 under one of the Bank's other facilities. However, Latvia and Lithuania would not qualify for such loans.

It was therefore decided that the investment scheme should be expanded with a further € 30 mill. framework guaranteed 100 pct. by the Nordic countries, aiming at continued refinancing of the investment banks, as and when needed. Furthermore there was a need to promote direct lending in co-financing with the investment banks and/or other external financing sources for private sector projects of Nordic interest

which in lending volume would be too large to be financed by the investment banks themselves. Finally it was made possible to co-finance a limited number of public infrastructure projects of Nordic interest in Latvia and Lithuania.

5.9 Technical support for promoting investment in very small enterprises

The Baltic countries had emphasised the importance of developing financial mechanisms for the very small enterprises. Such enterprises were viewed to have a high growth potential and could, if the institutional framework as well as the financing mechanisms improved, make a substantial contribution to the economic development of the three countries.

The national investment banks pointed out that they were unable to supply credit to the very small enterprises due to the relatively high costs this would imply. It might hamper the development of the national investment banks if they would go into smaller projects than they were able to handle efficiently.

It was therefore decided to allocate a specific amount, € 1 mill. for the purpose of supplying technical assistance for technical assistance in this area. How precisely this should be organised would be considered in a dialogue with the Baltic Governments and other multilateral financing institutions. Subsequently the EBRD suggested a concrete scheme for such an assistance and the € 1 mill. was allocated to the EBRD's fund for technical assistance.

5.10 Overview of the Baltic Investment Programme 1995–98 (BIP II)

The elements in the second phase are shown in table 2

Table 2. Elements in the Baltic Investment Programme II for the period 1995–98

Institution	Resources for investment	Resources for technical assistance
Nordic Investment Bank	Extra € 30 mill. guaranteed 100 pct. by the Nordic countries	Extra € 3.25 mill. for technical assistance to the national investment banks
Nordic Investment Bank	Establishment of an equity fund of € 7.5 mill. for taking equity in the national investment banks	
European Bank for Reconstruction and Development	Extra € 11.5 mill. paid in by the Nordic countries for taking equity in the national investment banks (€ 2.5 mill.) and for credit lines in the national investment banks (€ 9.0 mill.). The Nordic money should be matched at least with 100 pct. of EBRD's own resources.	Extra € 0.75 mill. for technical assistance
European Bank for Reconstruction and Development		€ 1.0 mill. for assistance for investment in small enterprises
Nordic Project Fund	n/a	€ 5 mill. for pre-investment studies concerning joint ventures between Nordic and Baltic companies
Total	€ 60.5 mill. including contributions from EBRD's own resources	€ 10 mill.

6. The Baltic Investment Programme beyond 1998 (BIP III)

The Nordic Baltic Investment Committee (NBIC) concluded in 1998 that the three national investment banks established in connection with the Baltic Investment Programme had, in accordance with original intentions, considerably contributed to the development of the financial sector in the Baltic countries. The sector had developed in such a manner that the national investment banks no longer should enjoy a special status in the Programme. It was therefore welcomed that the shares of the banks were (or were to be) sold to investors that had the capacity to maintain and develop the competitiveness of these banks.

Selling the shares in the investment banks called upon the need to amend the BIP II agreement with the EBRD abolishing the restrictions in terms of earmarking BIP-funds for capital investments in the investment banks. By that approximately € 7.5 mill. was made available for new investments. The unallocated resources in NIB's Equity Fund of approximately € 1.9 mill. should be transferred to Nopef.

Two major adjustments in the Programme were made:

- The provision of credit lines on affordable terms combined with technical assistance to commercial banks (in a pilot phase in Lithuania), with the aim that these banks may provide appropriate financial services (including loans) to the micro- and small business sector.
- The provision of additional BIP-resources to Nopef in order to make it possible for the institution to continue its operation within the Programme in light of the substantial increase in demand.

The decision was thus that the Programme should be terminated gradually as the various funds were fully used according to the plans set out. The reason for the possibility for the EBRD to continue investments until 2003 was that it was considered likely that at that time decisive decisions on the Baltic countries' membership of the European Union would be taken.

Table 3. Elements in the Baltic Investment Programme for the period after 1998 (BIP III)

Institution	€ mill.	Operations
NIB's Equity Fund for the national investment banks	1.9	No further investment can be made out of the Equity Fund. € 1.9 mill unused funds transferred to Nopef via approval by each of the Nordic countries according to national budget rules.
NIB's funds for technical assistance	0.1	The remaining money can be used in accordance with the purpose for the technical assistance funds.
NIB's scheme for Baltic Investment Loans (BIL)	3.0	The remaining headroom under the guarantee scheme by the Nordic countries can be used in accordance with the purpose for BIL.
EBRD's investment fund	20.5	Of the remaining money € 7.25 mill. can be used for a pilot project in Lithuania with the purpose of extending financial services to micro and small enterprises in the private sector. For the rest of the money the restrictions concerning the national investment banks is lifted and the remaining money can be used in accordance with the general purpose of the investment fund.
EBRD's fund for technical assistance	0.3	The remaining money can be used in accordance with the purpose for the technical assistance fund.
EBRD's resources for micro technical assistance	1.0	The remaining money can be used in accordance with the purpose for the technical assistance fund for this specific purpose.
Nopef	1.0	€ 0.1 mill. remaining funds plus € 1.9 mill. which was transferred from NIB's Equity Fund. The resources can be used in accordance with the purpose for the fund.
Total	n/a	No new paid in capital, but redirection of certain funds.

Concerning the guidelines for the different components after the termination of the Programme, it was decided that:

- The existing technical assistance facilities of the programme (Business Advisory Service and TurnAround Management Programme) should continue as long as funds from the Programme were available.
- Nopef's programme should proceed as long as funds from the programme were available. The unused resources of the allocation for equity investment by the NIB in the national investment banks, approximately € 1.9 mill. were transferred to Nopef.
- NIB's guarantee framework for investment within the programme should terminate at the end of 1999 in accordance with the original agreement.
- Operations within EBRD's Baltic Investment Special Fund could continue until 2003, after which repayments to the Nordic countries of non-invested resources would commence.

7. Overview of the finances of BIP I, II and III

In table 4 the total amounts allocated to the implementing agencies are shown.

Table 4. Total amounts allocated to the implementing agencies

Institution	€ mill.	€ mill.	Remarks
	Investment	Technical assistance	
NIB	65.60	8.25	€ 60 mill. in the form of guarantees from the Nordic countries for investments. € 7.5 mill. paid into an Equity Fund for taking equity in the national investment banks. The numbers for NIB's investment is excluding € 1.9 mill. which during BIP III was transferred to Nopef.
EBRD	41.50	6.75	€ 5.75 for various kind of technical assistance. € 1.0 mill. particularly for technical assistance for investments in micro enterprises.
Nopef		11.90	For pre-investment studies on joint ventures, including the € 1.9 mill. which was transferred during BIP III from the allocation to the NIB's Equity Fund.
Total	107.10	26.90	

In table 5 the total amount paid out by the Nordic countries for investment and technical assistance is shown as well as the amounts paid back to the Nordic countries at the gradual termination of the Programme, including the assets end 2011 of the outstanding EBRD investment.

Table 5. Contributions from and repayment to the Nordic countries

€ mill.	Total	For investments	For technical assistance
Paid in to NIB (1)	13.85	5.60	8.25
Paid back from NIB ⁽¹⁾	6.11	5.98	0.13
Paid in to EBRD	48.25	41.50	6.75
Paid back from EBRD ⁽²⁾	43.95	42.85	1.10
Paid in to Nopef	11.90	n/a	11.90
Paid back from Nopef	0.10	n/a	0.10
Total paid in	74.00	47.10	26.90
Total paid back	50.16	48.83	1.33

⁽¹⁾ Excluding the € 1.9 mill. which was transferred to Nopef.

⁽²⁾ Including assets end 2011

The NIB had a small profit on the equity investments in the Latvian Investment Bank and the Lithuanian Development Bank.

All lending from NIB's Baltic Investment Lending scheme based on a 100 pct. guarantee from the Nordic countries has been paid back to the NIB at the end of 2007, and the bank has not had to have recourse to the guarantee, and no losses have been taken. As the lending from NIB was a part of the normal lending of the bank, any interest payment from this lending was a part of NIB's normal income.

Most of the € 26.9 mill. allocated for technical assistances and promoting cooperation between Nordic and Baltic companies were spent, and the unused € 1.33 was paid back to the Nordic countries. However, the total amount for technical assistance was considerably higher than the amount paid in by the Nordic countries. The agreement with the EBRD provided for interest and capital gains from EBRD's investment fund to be transferred to EBRD's fund for technical assistance. According to that provision € 17 mill. was transferred and thereby bringing total technical assistance up to a total of about € 43 mill.

8. The Implementing Agencies use of their Resources

8.1 Nordic Investment Bank

The NIB had during the programme three main tasks:

1. Providing technical assistance to the three national investment banks for which in total € 8.25 mill. was provided in BIP I and II.
2. Baltic investment lending (BIL) to small and medium sized enterprises in the private sector in which Nordic interests were involved within a framework of € 60 mill. The Nordic countries guaranteed this lending 100 pct.
3. Administering an equity fund of € 7.50 mill. for taking equity in the National investment banks.

8.1.1 Technical Assistance

The NIB's task for technical assistance in the programme was to assist in establishing three viable financial institutions that could specialise in channelling long term capital to the SME sector in Estonia, Latvia and Lithuania.

The task implied assistance in all phases of the development of the banks. The assistance given was the following:

- Formal establishment of the banks, i.e.
 - a) drafting the statutes
 - b) all formalities concerning equity and legal documentation for it
 - c) building up the organisation of the institutions
 - d) establishing procedures concerning responsibilities and control mechanisms
 - e) formulate credit policies and financial guidelines
 - f) project analysis, accounting and IT-systems
 - g) documentation for lending and financing

- Institution building after the phase with the establishment of the institutions, i.e.
 - a) further development of guidelines and policies in all areas
 - b) risk management
 - c) information systems
 - d) project monitoring
 - e) developing the internal organisation and guidelines for managing
 - f) HR policies
- 3) Final phase
 - a) extending the skills of the staff
 - b) developing competence for key priority areas

External experts and advisors were recruited on ad hoc basis, but in the beginning NIB's own staff were also involved in the assistance. In a later phase advisors were posted to the banks.

The amounts spent were for Estonia € 2.1 mill., for Latvia € 2.8 mill. for Lithuania € 2.8 mill. and € 0.8 mill. were for costs not specifically allocated to one of the countries.

At the termination of the programme € 0.126 mill. were repaid to the Nordic countries.

8.1.2 *Baltic Investment Loans (BIL)*

The Baltic investment loans were a useful instrument complementing the technical assistance to the national investment banks in terms of preparing projects for lending. Much of the lending was done in consultation with the local banks. Gradually more of the workload was done directly by the investment banks as the NIB could benefit from their knowledge of the local markets, clients and legal issues.

In BIP I the NIB got a scheme in which they could lend within a framework of € 30 mill. based on a 100 pct. guarantee from the Nordic countries. Further € 30 mill. was added in BIP II. The NIB could use the scheme of the € 60 mill. until the end of 1999. The reason for the 100 pct. guarantee issued by the Nordic countries for the BIL-lending was that the credit risk for lending to the Baltic countries was substantially higher than NIB's other kind of lending.

The investment projects should primarily be projects in the private sector and it would also be preferable if there would be an element of transfer of know-how in the projects. One model for providing that could

be joint ventures. The investment should contribute to increase the competitiveness of Baltic companies and technical and general know-how.

Even if investment in the private sector should be the main focus, lending could also be to infrastructure projects to governments or with sovereign guarantee.

The lending could be either direct lending or lending via the national investment banks. However, lending via the national investment banks was a priority as the involvement of the banks would contribute to developing banking competence in the banks and get the NIB closer to the investor and thereby a better monitoring of the projects.

NIB could finance up to 50 pct. of the total costs of the project. For small projects NIB could finance up to 100 pct. of some elements.

The framework was revolving and new lending could be based on re-flows. During the programme in total 92 projects were approved, 76 of which materialised.

The cumulative amount approved by the end of 1999 was € 77.7 mill. and € 74.6 mill. were actually paid out. The lending to the three Baltic countries was more or less of the same order of magnitude to all three countries.

Table 6. Investments based on the Baltic Investment Loan Scheme

Invested in	€ mill.
Järvakandi Klaas AS	0.3
Kemivesi AS	0.3
Kunda Nordic Cement Co.	0.8
Latvian Mobile Telephone Company SIA	7.0
Merita Bank (Investment Bank of Latvia)	6.1
Stora Enso Packaging SIA	2.2
Viesnīca Ridzene, SIA	3.6
Ilsanta, UAB	1.9
Republic of Lithuania	4.9
Sampo Bankas, AB (Lithuanian Development Bank)	8.6
Haapsalu Uksetehas A.S.	0.6
RDS Hotelli AS	7.0
BSW Latvia Ltd	4.1
Pemco Kuras	3.1
KSC Klaipėda Stevedoring Company Bega	2.0
Sampo Pank, AS (Estonian Investment Bank)	16.5
Hansabanka, AS	0.3
Ramusis Pamarys, UAB	2.1
Kreenholmi Valduse AS	5.0
Total	76,4

A special feature of BIL was that in 1999 € 1 mill. was reserved for projects which involved female participation. The initiative for this scheme was taken by the NIB at a conference arranged by the Icelandic Government in cooperation with USA and the Nordic countries.

Lending should be on commercial terms for projects where women were a part of the decision making process, or projects promoting woman's position in business. The framework was fully used for 45 different projects in the three Baltic countries.

The lending was more or less equally distributed between Optiva Bank in Estonia, Hansabanka in Latvia and the Lithuanian Development Bank.

8.1.3 The Baltic Equity Fund

There was considerable interest from the Baltic countries and from the national investment banks that the NIB got even more involved in the development of the banks than providing only technical assistance. It was a specific request by them when discussing BIP II that it should be made possible for the NIB to take equity in the banks and be involved in the Board of Directors.

The equity participation was also complementing the technical assistance via NIB's participation in the work of the board of directors.

Investing in equity is for all practical purposes formally outside the mandate of NIB. That was the reason why an equity fund separated from NIB's ordinary resources had to be established. The Fund's statutes were approved in June 1996. During the period 1996–98 in total € 7.5 mill. was paid into the Fund by the Nordic countries.

On the request of the national investment banks in Estonia, Latvia and Lithuania the resources of the Fund could be invested in equity in these banks.

At the launch of the idea of establishing national investment banks, they were more or less considered as a kind of parallel to the Nordic Investment Bank. However it was very early during the process of the Baltic Investment Programme clear that the banks over time should be an integrated and sustainable player in the private financial sector when such a sector would come into existence. It was therefore decided that the NIB should aim at selling the equity in the national investment banks before the end of 1999 and at latest at the end of 2000.

The timing of integration of the Estonian national investment bank in the financial sector was such that the NIB decided not to take equity in the Estonian Investment Bank.

The NIB invested equity in the Latvian Investment Bank for € 2,3 mill. and sold it in 1999 with a small profit.

At the Lithuanian Development Bank the NIB invested € 3.2 mill. in equity and sold it in 2000 with a profit of € 0.3 mill.

All three national investment banks served their purpose at the beginning of the Baltic Investment Programme as they more or less were the only institutions which – because of substantial backing from the NIB, the EBRD and other players – could get access to foreign capital and which had staff with sufficient skill and competence to prepare projects for investment. As it was the intention, they all three ended up being fully integrated in the private financial sectors in the Baltic countries. For further details about the national investment banks cf. chapter 9.1–4.

8.2 European Bank for Reconstruction and Development

The EBRD received paid in money both for investment and technical assistance. The money for investment, € 41.5 mill. should be matched at least 100 pct. by EBRD's own resources. Hereof € 7.5 mill. could be used for a pilot project in Lithuania with the purpose of extending financial services to micro and small enterprises in the private sector, € 2.5 mill. should be earmarked to equity in the national investment banks and € 9.0 mill. for credit lines in these banks.

€ 6.75 mill. was paid in for technical assistance of which € 1.0 mill. was earmarked to technical assistance for investments in micro enterprises.

These restrictions taken into account, the EBRD's other operations were quite open, even if work with and assistance to the three national investment banks had a certain priority. The investment could be either in concrete projects or via credit lines. The funds for technical assistance could be used for a number of various projects with the aim of preparing SME-projects for investments, advice on privatisation and Business Advisory Service.

8.2.1 *The Baltic Investment Special Fund (BISF)*

The Baltic Special Investment Fund with the EBRD got € 30 mill. from BIP I and € 11.5 mill. from BIP II, in total € 41.5 mill., cf. table 7.

There were no specific restrictions in BIP I for the use of resources other than directly or indirectly to finance small and medium-sized enterprises or projects in Estonia, Latvia and Lithuania by way of equity investment, loans and guarantees for investment projects. From the way in which the start of the BIP was negotiated, it was clear that investment through the national investment banks should have a special focus.

Furthermore, when requested by the three national investment banks and after consultation with Nordic Baltic Investment Committee, the resources should also be available to finance equity investments in these banks with the purpose of having these banks capitalised at a reasonable level.

When discussing how to continue the Baltic Investment Programme after 1995, the Baltic Governments and the national investment banks were keen to get the EBRD even more involved as owner of the banks. Based on that it was decided that in BIP II € 2.5 mill. should be earmarked to equity in the national investment banks and € 9.0 mill. for credit lines in these banks.

In 1998, when the termination of the programme (BIP III) was decided, it was clear that due to privatisation processes for the national investment banks there was no need for taking more equity in the banks. Other sources for funding of the national investment banks had become available. It was therefore decided that the restrictions for use of the € 2.5 mill. and the € 9.0 mill. should be abolished so that the resources could be used for the general purpose of the investment fund.

Table 7. EBRD'S Baltic Investment Special Fund (BISF)

	€ mill.	Purpose/remarks
BIP I	30.0	
BIP II	11.5	€ 2.5 mill. for equity in the national investment banks, and € 9.0 mill. for credit lines in national investment banks
BIP III		A pilot project € 7.5 mill. was approved. Restriction from BIP II on allocation for equity in the national investment banks abolished. The investment fund could continue until 2003. After that available amounts in the fund should be paid back to the Nordic countries
Paid in	41.5	
Plus interest on loans and place- ment plus commitment fees	17.5	
Plus capital gains	2.9	
Total	61.9	
Less:		
Transfer of net income to the Fund for technical assistance (BTASF)	-17.0	
Other (administrative fees and charges)	-1.1	
Total available for investment	43.8	

As shown in table 7 a pilot project of € 7.5 mill. was approved. When the Nordic Baltic Investment Committee met with institutions, ministries and enterprises in the Baltic countries, it became clear that there was a considerable lack of financial service and technical support for micro-enterprises. It was therefore recommended that the EBRD should focus on this problem, both out of the Baltic Investment Special Fund and Baltic Technical Assistance Special Fund.

The pilot project for this purpose was originally set up in Lithuania and the programme was subsequently extended out of the EBRD's own resources to the two other countries.

The funds could be used to soften the loans from the EBRD to the local banks participating in the programme, and to build up the necessary expertise.

At the termination of the Fund the accumulative amount invested was € 51.5 mill. The EBRD invested out of its own resources in parallel far more than what was required according to the agreement with the EBRD (at least 100 pct. matching was required). The Fund was – as the fund for technical assistance – open to contributions from other sources. No such contributions came directly into the funds. However, substantial funds from other sources were co-invested with the resources of the investment fund and thereby fulfilling the same purpose as was intended by making the Fund open to contributions from other than Nordic sources. Equally other donors contributed to the programmes financed by the fund for technical assistance.

In the equity funds in which the BISF invested, there were many other investors investing as well. During the first many years of the independence of the Baltic countries, many investors and providers of credit lines were only prepared to invest if the EBRD joined in, which means that the investment programme had a considerable leverage.

The view expressed by the EBRD has been that money provided by BISF played a key role in encouraging the establishment of a number of private equity funds providing significant support in favour of SMEs across the Baltic countries. These equity funds have helped to create a sustainable private equity industry in the Baltics that did not exist before that. The equity fund operations, which BISF and the EBRD supported, also provided hands-on experience and training to a number of young, local fund-management teams who formed the base of the future private equity industry in the Baltics. The BISF-supported funds invested in more than 50 SMEs in industries including food processing, timber processing, manufacturing, distribution, services and IT.

Instead of direct EBRD financing of projects, the resources of the special fund have been channelled through local financial intermediaries (i.e. the national investment banks, commercial banks and equity funds), which provided the most effective mechanisms to reach SMEs in the region. Notable operations supported by resources of the BISF include:

- A large IT company in the Baltics, based in Estonia and operating subsidiaries in Latvia and Lithuania.
- A leading Baltic industrial machinery dealer operating from Latvia selling building and forestry equipment.
- A greenfield company that builds and operates a battery recycling plant converting used lead acid batteries back into lead. The plant is located in Estonia, and is the only such facility in the Baltics.

Table 8 gives an overview of the investments by the BISF and in the comments below some characteristics of the investments are explained. The table shows projects that have been prepared. However, not all projects were materialised, which explains why the total amount is somewhat bigger than the amount of € 51.5 mill. actually being committed.

Table 8. Prepared Investments by the Baltic Investment Special Fund

Invested in	€ mill.
Equity in Estonian Investment Bank	1.5
Equity in Latvian Investment Bank	1.4
Equity in Lithuanian Development Bank	1.6
Credit line to Estonian Investment Bank	4.0
Credit line to Lithuanian Development Bank	3.0
Credit line to Hansapank, Estonia	4.6
Credit line to Zemes Bank, Latvia	2.8
Credit line to AS Eesti Hoiupank, Estonia	3.7
Credit line to Deutsch Lettische Bank, Latvia	3.7
Credit line to Vilniaus Banka, Lithuania	1.0
Credit line AS Uhispank, Estonia	0.9
Baltic Venture Capital Fund	5.9
Baltic Small Equity fund A & B	3.8
Baltic Investment Fund I-III	10.1
Askembla Growth Fund	4.7
Total	52.7

The information on the following pages about the various funds and banks is primarily from Google-search. It does not give information about the funds/banks at the time when the investment was made. Such information is given in the files of the EBRD about the specific transaction. The information given here gives however a glimpse of the considerable development and consolidation that has taken place in the Baltic countries during the last 20 years, and not least the interest Nordic

banks have taken in the Baltic countries. This specifically turned out to be of great importance during the financial crisis since 2008.

Credit lines were approved to a number of commercial banks in the three countries. Almost € 17 mill. were allocated from the BISF to this purpose, and these funds had been matched and sometimes exceeded by financing from the EBRD's own resources. The banks involved allocated a substantial part of the credit lines to concrete projects.

Investments in the three National Investment Banks

The national investment banks played a specific role in the Baltic Investment Programme. Details about these banks are given in chapter 9.1–4.

Credit Lines to Commercial Banks

In Latvia and Lithuania it took some time to get the national investment banks up running. Therefore the EBRD started rather early in the programme to provide credit lines to some commercial banks. As the national investment banks had a high priority with the two governments they would have preferred that, as was the case in Estonia, the EBRD had started concentrating the SME-financing to the national investment banks until these two banks were well established.

However, it was considered by the EBRD that it was more important that lending to the real sector could begin as quickly as possible, not being delayed by the rather slow start up of the national investment banks in the two countries. The involvement of the commercial banks was also an important step to speed up the development in the countries.

Hansapank, Estonia

The Hansabank Group dates back to 1 July 1991 when *Hansapank* started operating as a branch of Tartu Kommertspank (Tartu Commercial Bank). Officially Hansapank launched independent operations on 10 January 1992. Hansabank, which is operating in all three Baltic countries, is owned by the FöreningsSparbanken/Swedbank, a Swedish bank. Following a decision taken by the Swedbank group in 2008, the Hansabank name was discontinued in 2009 with all operations rebranded under the Swedbank name.

Zemes Bank, Latvia

The Latvian Government founded the state-owned JSC “Mortgage and Land Bank of Latvia” (Mortgage Bank) in 1993.

The aims of the state-owned JSC “Mortgage and Land Bank of Latvia” and its legal status feature a certain similarity with the two state-owned banks functioning in Latvia before the World War II: “*Valsts Zemes ban-*

ka" (State Land Bank) and "*Latvijas Hipotēku banka*" (Mortgage Bank of Latvia). The major tasks of these two banks were to finance the agrarian reform and grant long-term mortgage loans, mainly for financing of construction works. Due to its business niche and contribution to Latvia's national economy the Mortgage Bank is to be considered the heir and successor of those two Latvian state-owned banks operating before the World War II.

Latvijas Hipoteku un zemes banka (Mortgage and Land Bank of Latvia, Hipoteku banka) is a fully state-owned development and retail bank, used by the government as a tool for implementing development projects related to its core mandate of lending to SMEs. Through its office network in the country, the bank also provides regular retail banking account services and mortgage lending on a commercial basis to individual customers and issues mortgage bonds.

Eesti Hoiupank, Estonia

Eesti Hoiupank (Estonian for Estonian Savings Bank) was an Estonian bank. Once the third largest bank in the country. Hoiupank merged into Hansapank, currently Swedbank's Estonian subsidiary, in 1998.

Deutsch Lettische Bank, Latvia

AS Hansabanka, one of the leading commercial banks in Latvia, was established on 8 May 1992 under the name of German-Latvian Bank (Deutsche-Lettische Bank). In June 1996, the German-Latvian Bank became a part of the Hansabank Group and its name was changed to Hansabank-Latvia. The change of shareholders of the bank was the first step towards international banking.

Vilniaus Banka, Lithuania

Vilniaus Banka was registered as a public company in November 1990. The Vilniaus Bank's legal name is now AB SEB bankas and it is a subsidiary of the Swedish SEB Group. It is a commercial bank in Lithuania which provides services to about one million customers all over Lithuania.

Uhispank, Estonia

In 1992 ten small banks merged. This was how Eesti Ühispank was created. It is now the second largest bank in Estonia and member of the international SEB Group.

From April 11 2005 the name was changed to SEB Eesti Ühispank. SEB Eesti Ühispank is a universal bank that provides its services to all customers in Estonia, private persons, corporate customers and the public sector. The bank offers all financial services available on the Estonian

market and leasing services in Russia and supports the customers of the SEB Group in investing their assets in Central and Eastern Europe. Being a member of the SEB Group, SEB Eesti Ühispank is more international than the local banks, yet at the same time it is more local than the international banks.

Baltic Venture Capital Fund (BVCF)

The pace of this part of the project was of course set by the private sector, and it took more than 2 years to attract private investment to the BVCF. When BVCF was finally established € 5.9 mill. was allocated from BISF. The total size of the fund would be some € 24 mill. The mobilisation of funding for the first closing was limited to Nordic investors.

Baltic Small Equity Fund

The Baltic Small Equity Fund (BSEF) is a venture capital firm that invests in small and medium size enterprises in Estonia, Latvia, and Lithuania. BSEF invests in growth-oriented companies and trustworthy entrepreneurs (Portfolio Companies), providing them with financial partnership and technical assistance. BSEF is not a bank. BSEF invests by acquiring newly issued shares from a Portfolio Company, becoming a partner in the business. BSEF does not typically offer loan financing. After investing, BSEF uses its experience and contacts with the goal of helping the business grow and profit. If successful, the shares of all the owners, including BSEF, grow in value. Thus, both BSEF and the entrepreneurs benefit from the participation of BSEF in the business.

Baltic Investment Funds I-III

The Baltic Investment Funds are some of the region's largest private equity funds. They invest their capital in medium and large companies in the Baltic countries.

The funds seek long-term capital growth opportunities in companies that are expanding, newly privatized or are capable of returning about 30 percent of the investments annually.

The companies should be market leaders in some field. They should have a good product, good export opportunities and strong management. The fund is looking for companies which need money for expansion or it is bringing a new product on the market and wants to leave after growth is established.

Askembla Growth Fund

The EBRD was the key investor in the Fund, supported by the investment of the fund manager. The main objective of the fund was to invest

(equity) into companies capable of generating substantial medium-term financial returns, but lacking turnaround expertise, credit and equity resources. Through active participation on the board level and supplying the investee companies with appropriate industry experts, sales growth and significant operating improvements has been achieved.

More than 20 million was invested into 8 companies in various industries (Food, IT, Textile) in the Baltic countries. All companies have been divested and the Fund is closed yielding good returns to investors.

8.2.2 Termination of the Baltic Investment Special Fund (BISF)

In 2006 the Nordic Baltic Investment Committee formally requested the EBRD to terminate the Fund. No further investment had been made from the Fund after 2003 as was decided in 1998 by the Nordic Ministers for Finance and Economy. The reason for terminating the fund was that resources in the Fund had become available for repayment to the Nordic countries.

Table 9. Contributions paid in and paid back to and from the Baltic Investment Special Fund

	€ mill.
Paid in from BIP I	30.0
Paid in from BIP II	11.5
Total paid in	41.5
Paid back in 2006	-34.5
Paid back in 2008	-4.4
Outstanding investment to be paid back when disinvested ⁽¹⁾	-4.0
Total paid back, including outstanding investment	42.9
Net result	1.4

⁽¹⁾ Assets end 2011

The distribution of the net assets available which have been paid back to the Nordic countries is € 38.9 mill. After the formal termination of the Fund there are still investments in Askembla Growth Fund, Baltic Investment Fund III and Baltic Small Equity Fund. The assets end 2011 are € 4 mill. As the operations and main objectives of these investments have been delayed because of the economic and financial crises, the exit from these funds has also been delayed and will take place only when it is deemed appropriate from a financial and operational point of view.

It was agreed with the Nordic Baltic Investment Committee and included in EBRD's termination document approved by their Board of Directors that the distribution of the remaining net assets of the BISF will be made at the initiative of the EBRD as and when a minimum of € 3

mill. (other than the final payment which may be a lesser amount) has been recovered and is available for repayment to the Nordic countries.

The distribution of the Nordic payments in the various phases of the Programme was based on the countries relative share of the sum of their GDP. The final distribution of the repayments to the Nordic countries will be made according to the weighted distribution of the paid in resources, cf. table 10.

Table 10. Distribution of future repayments to the Nordic countries

	Pct.
Denmark	21.542
Finland	20.793
Iceland	1.028
Norway	18.633
Sweden	38.005
Total	100.000

8.2.3 Baltic Technical Assistance Special Fund (BTASF)

Table 11 provide some details about how the funds for technical assistance have been used.

Table 11. EBRD'S Baltic Technical Assistance Special Fund

	€ mill.	Purpose/remarks
BIP I	5.00	To finance technical assistance for identification and preparation of investments and for privatisation projects. Expenses incurred in connection with equity investments made from BISF. Preparation and establishment of operation of a business advisory programme (BAS).
BIP II	0.75	€ 0.5 mill. to expand the number of enterprises assisted through the TurnAround Management Programme (TAM). € 0.25 mill. for active board participation in the national investment banks.
BIP III	1.00	To promote investments in small enterprises.
Paid in	6.75	
	17.00	Interest from BISF on loans and placements, plus front end and commitment fees transferred to BTASF.
	0.85	Other
Total	24.60	Available for technical assistance.
Paid back	1.10	
Total	23.50	Approved for various technical cooperation assignments.

Table 12. Use of the resources in the Baltic Technical Assistance Special Fund

Project	€ mill.
Board representation in the national investment banks	0.5
Subsidy funds for Business Advisory Services	8.9
TurnAround Management programmes	5.9
Screening of commercial banks and SMEs financing	0.5
Baltic Small Equity Fund	1.2
Baltic Micro Business Advisory Services Programme	1.8
Privatisation programmes SME, Diagnostic studies	1.9
Training SME feasibility studies	1.4
Other	1.4
Total	23.5

Board Representation in the National Investment Banks

The national investment banks played a specific role in the Baltic Investment Programme. Details about these banks are given in chapter 9.1–4.

Business Advisory Services and TurnAround Management Programmes (TAM/BAS)

The TAM/BAS programme played a very important role in the Baltic Investment Programme. Details about the programmes are given in chapter 9.5.

Screening of Commercial Banks and SME Financing

In order to prepare commercial banks as financial intermediaries for lending to small enterprises, funds were allocated to carry through a financial and organisational audit of a number banks. It was EBRD's intention that these banks should become "centres of excellence" in the private commercial banking and SME-financing sector, and serve as models for further development of this sector in the region.

Baltic Small Equity Fund

In BIP II it was decided to make a special effort to promote investments in very small enterprises. € 1 mill. was allocated for this purpose, but it was only after the start of BIP III it was decided – on a proposal by the EBRD – that the EBRD should administer such a fund.

Baltic Micro Business Advisory Services Programme

Due to a considerable lack of financial service and technical support for micro-enterprises, the EBRD had established a Micro BAS-Fund. This fund could also supplement the pilot project of € 7.5 mill. that was approved for extending financial services to micro and small enterprises in the private sector in Lithuania.

Diagnostic studies for the Privatisation of SMEs

A programme for diagnostic studies for the privatisation of SMEs was implemented in Estonia and Latvia. In view of how far the privatisation of SMEs in Lithuania had come, no similar programme was initiated in that country.

A number of the enterprises (12 enterprises in Latvia and 8 in Estonia) that had been identified through this programme, have in parallel received assistance through the TAM programme. A number of the enterprises feeded the project pipelines of the local financial intermediaries and investment funds, in particular those supported with BISF funds.

Additional funding was received from others donors, incl. EU-Phare, amounting to € 1,9 mill.

Training SME Feasibility Studies

Funds were allocated to hands-on training of staff in the credit departments of the Estonian Investment Bank, the Investment Bank of Latvia, and other selected private commercial banks to assist processing of SME private sector projects. A similar programme for commercial banks in Lithuania was planned.

8.2.4 Termination of the Baltic Technical Assistance Special Fund (BTASF)

In 2006 the Nordic Baltic Investment Committee formally requested the EBRD to terminate the Fund as all outstanding commitments had been financed, and the EBRD found that the money could no longer be spent in accordance with the provisions. At the time of termination about € 0.8 mill. were uncommitted.

Table 13. Contributions paid in and paid back to and from the Baltic Technical Assistance Special Fund

	€ mill.
Paid in from BIP I	5.0
Paid in from BIP II	0.8
Paid in from BIP III	1.0
Investment income transferred from BISF	17.0
Other income	2.0
Fees and other charges to EBRD and accountants	-1.2
Total	24.6
Less:	
Total committed/disbursed	-23.5
Paid back in 2006	-0.8
Paid back in 2008	-0.3
Balance when the Fund was finally closed	0.0

The € 0.8 mill. were then paid back to the Nordic countries in 2006. In 2008 all the remaining commitments had been closed and € 0.3 mill. was available for transfer back to the Nordic countries. This means that there is no outstanding issues concerning that Fund.

8.3 Nordic Project Fund

The funding for Nopef at the beginning of the 90'ies did not make it possible to launch a credible effort to foster cooperation between Nordic and Baltic companies. Therefore it was decided to include Nopef in the Baltic Investment Programme. In BIP I Nopef received € 5.0 mill. On the basis on an evaluation of Nopef's work with the programme it was decided in BIP II to allocate further € 5 mill. When it was realised that the NIB could not use all the money which was paid into the Equity Fund it was decided that Nopef's activities could benefit from an extra appropriation of € 1.9 mill. In total Nopef thus received € 11.9 mill. When all projects had come to an end € 0.1 mill. was paid back to the Nordic countries.

The support from Nopef was aimed at actively encourage industrial co-operation between companies in Nordic and Baltic countries and support the development of small and medium-sized enterprises.

The facility established with Nopef could be used to support pre-investment studies by Nordic enterprises in the Baltic countries as well as project identification and initiation in cooperation with Nordic industry and international institutions, and thereby supplement other elements in the Baltic Investment Programme.

Support could be given to a Nordic company or group of companies for the following activities concerning the development of small and medium-sized private companies in the Baltic countries:

- Development of a business plan for a defined project where Nordic/Baltic companies were involved.
- Development of cooperation contracts involving transfer of technology, licensing agreements and transfer of management and marketing know how.
- Studies regarding privatization of Baltic companies with Nordic cooperation.

- Development of restructuring plans for existing companies in the Baltic countries with Nordic cooperation.
- Feasibility studies of joint ventures or investment projects where Nordic/Baltic companies were involved.
- Contract negotiations.

These guidelines were, with only minor changes, also applied for the allocation of funds from BIP II. For BIP II Nopef would aim at a distribution of the support so that a balanced development between the Baltic countries was obtained. Emphasis would also be put on gender equality in the activities.

Most of the funds were allocated for supporting pre-investment studies that Nordic companies carried out regarding potential opportunities for business-to-business cooperation in the three Baltic countries. Support was given in the form of a conditional, interest-free loan that could cover up to 60 pct. of actual pre-investment costs. If the project would lead to a commercial agreement or operation, or if the project was implemented, the outstanding loan would be converted into a grant and the company concerned could apply for financing of the remaining 40 pct. of the pre-investment cost. In case the project was not realised, the conditional loan could be converted into a grant upon submission of a project report, describing the project concept, its main technical and financial features as well as the reasons for the failure of the project.

The basic idea behind the facility was the fact that the SMEs do not have the necessary resources for such an undertaking and, thus, without some support to the pre-investment cost, co-operation would most likely not be initiated.

Preference would be given to project proposals which were deemed to have a positive technological and industrial development effect, were preferably either hard currency earning or saving and where the Nordic partner had a strategic interest in the project as well as a record and reputation of good business experience in the respective field.

At the end of BIP I Nopef reported that it had spent about 10 pct. of the allocation on a number of identification studies:

In Estonia

- Metal and metalworking industries
- Building material industries
- Energy savings measures in the industry
- Textile industry

In Latvia

- Machinery and equipment producer to the food industry

In Lithuania

- Metal and metalworking industries
- Wood and wood processing industries

General

- Packaging material and packaging industries
- Building materials industries

All the project identification studies aimed at the initiation of business-to-business co-operation through the identification of potential partners in the Baltic countries. Through these studies contacts were made to a number of potential cooperation partners in the Baltic states as well as the Nordic countries. In this process several matches were achieved, which resulted in pre-investment studies with financial support from BIP. Nopef estimated that 40–50 pct. of the applications received during 1994 and the first month of 1995 were a direct result of the project identification studies.

According to the decision by the Nordic Ministers for Finance and Economy the activities from BIP came to an end in 2003 after which no new activities were approved under the scheme. All projects were concluded in 2006, and Nopef paid back to the Nordic countries the balance of € 0.1 mill.

In total 473 projects were approved and implemented via BIP. This led to 235 Nordic companies starting activities in the Baltic countries. As can be seen in table 14 there was a fairly even distribution of projects between the three Baltic countries.

Table 14. Overview of Nopef's activity

Number of projects in the Baltic countries		Number of projects generated from countries of application	
Estonia	159	Denmark	184
Lithuania	154	Sweden	130
Latvia	143	Finland	80
Baltics	17	Norway	57
		Iceland	11
		Baltics	11
Total	473	Total	473

9. Important sub-programmes

9.1 The national investment bank

The political importance on the part of the Baltic Governments of the pivotal role the national investment banks got in the Baltic Investment Programme is explained at the beginning of this report. However, it might be useful also to underline the more professional reasoning why it was considered important to establish such banks. In this respect it is important to take into consideration the situation twenty years ago with – after all – quite uncertain ideas by everyone as to how a transformation from command economy to a market based economy would go.

The basic reasoning behind the Baltic Investment Programme was:

- It was deemed essential to develop a private sector in order to foster the transition from command economy to market economy.
- In this respect the SME sector would be key.
- National mechanism for financing would be essential in this development.

On the basis of this it was considered that:

- Long term government support for specialized credit institutions was necessary.
- The national investment banks should be a specialized tool for long term credit.
- The national investment banks should have higher credit worthiness than other local sources of credit.
- A work sharing should develop between the commercial banks and the national investment banks.
- The process of transition was estimated to be long and gradually areas of competence could be developed within a stable framework.
- The legal infrastructure should develop in parallel with how the market developed.

However, the development turned out to be different from what was expected at the beginning of the 90'ies. New banks were established and in particular in Estonia the first wave of privatisation was fast, but the legal environment did not catch up with the general development in the country. The national investment banks could not in the long remain competitive with their too specialised products. The margins shrunk in the competition with the commercial banks and the investment banks lost market share and became less profitable.

The governments then gradually changed their focus and wanted the investment banks transformed into commercial banks.

9.2 Estonian Investment Bank (EstIB)

The *Estonian Investment Bank* was founded in June 1992. It was established as a special credit institute and was fully owned by the Estonian Central Bank. The subscribed share capital amounted to € 3 mill. The statutes and business plan of the bank formed a good basis for sound banking activities.

The Bank became fully operational when the EBRD in 1993, as the second shareholder, paid € 1.5 mill. financed by BISF as its share of the fully paid-up share capital of € 4.5 mill. The EBRD thereby owned 33 pct. and the Central Bank of Estonia 67 pct. of the shares.

In 1994 the bank decided to expand its capital base from € 4.5 mill. to € 9 mill. and invited Deutsche Investitions und Entwicklungsgesellschaft (DEG), The Finnish Fund for Industrial Cooperation (Finnfund) and Swedfund International AB to subscribe to the increased capital.

The bank's institution building was to a large extent completed by 1995, and the bank had advanced furthest among the three national investment banks with regard to both lending operations and development of its internal structures and systems.

The demand for loans with a long maturity was good in Estonia, and EstIB was for a long period the leading lender in Estonia for project financing with a long maturity.

Mid 1995 EstIB has financed 45 projects to an amount of € 27.9 mill. in projects totalling € 125 mill. The loan portfolio included several industrial sectors, whereof the largest share, 20 pct., was lending to the wood processing industry. The textile industry received 17 pct., followed by the chemical and metalworking industries, with 12 pct. respectively.

Investment loans amounted typically ranges between € 0.2 mill. and € 2 mill. with a loan average size of € 0.687 mill. EstIB's market share of total lending to private companies was 7.2 pct. in 1996.

In 1996 EstIB purchased 50 pct. in Tallinvest Asset Management Ltd. for the purpose of increasing services to clients and participate in capital markets development. The company was very active in managing investment funds for clients.

The bank had been able to attract financing resources amounting to over € 40 mill. The major funding sources were credit lines from multilateral institutions or external sources backed by government institutions.

Towards the end of 1996 the EBRD and the Central Bank were of the opinion that the time for selling their shares had come. At the autumn of 1997 all shareholders sold their shares to a consortium of the management of EstIB and representatives for the industry in Estonia and the banking sector in Estonia.

In order to expand its operations and to be attractive to a new strategic owner, EstiB tried to merge with other local banks. In the autumn of 1998 a merger was decided between EstIB and Foreksbank. However, Foreksbank had got into trouble as a result of the crisis in Russia. That was the reason why the Central Bank of Estonia acquired the majority of the shares in connection with the merger. It was also obvious that it was not necessary for NIB via the Equity Fund to get equity in EstIB.

When the Central Bank took over, the new capital structure of the bank was:

	Pct.
The Central Bank	58 pct.
Estonian companies	21 pct.
Oü Immerman	8 pct.
Übersee Bank	7 pct.
Foreksbank's small shareholders	6 pct.

In December 1998 the bank changed its name to Optiva Bank and the management of EstIB took over all the central management positions in the new bank.

In 1999 the Central Bank of Estonia as majority shareholder started the search for a strategic investor for Optiva Bank. The strategic investor was found in 2000 when Optiva Bank was taken over by a daughter company to the Finnish Sampo group. The name of the Bank was changed to Sampo Pank by January 1, 2001 and the bank became a daughter company of the Sampo-Leonia group.

However, the cooperation between Optiva Bank and NIB continued, in particular concerning lending, as NIB, when approving rather small Baltic investment loans, could benefit from the experience in the local market and analyses of projects by Optiva's staff.

9.3 The Latvian Investment Bank (LIB)

The *Latvian Investment Bank* was founded in July 1992, acting as subordinate to the Latvian Ministry of Finance. The subscribed capital was equal to about € 0.2 mill. In addition the government was planning to make a contribution in kind, in the form of a building. The bank had not yet started its activities in the autumn 1992.

The registered statutes satisfied neither the requirements that NIB, EBRD and other international financing institutions had laid down with regard to an independent creditworthy financial institution, nor the objectives of BIP. The NIB, KfW and EC-Phare helped the bank addressing this problem.

The development of the bank was also substantially delayed because of some irregularities connected with fraudulent attempt to raise funds for a cement plant in Latvia. The bank's reputation was seriously damaged by these irregularities. At the beginning of September 1992 the problems were resolved and the bank had been relieved from all financial obligations related to the fraud.

The formalities for the bank to operate as a normal investment bank satisfying the objectives of BIP was brought in order in April 1993 when legislation was put in place so that the bank could operate on satisfactory banking terms.

In October 1993 the Government was still the only owner of LIB with a share capital of appr. € 3 mill. However the Government planned to hold only 40 pct. of the shares, and the EBRD became a shareholder with an equity participation of EUR 2.8 mill. financed 50/50 from the BISF and EBRD's own funds.

In 1994 the lending activities commenced, and in May 1994 the bank increased its capital base from appr. € 5 mill. to appr. € 7.5 mill. The increased share capital was subscribed to by the EBRD. In July 1994 Finnfund and Swedfund joined the bank as new shareholders, each acquiring 10 pct. of the capital stock from the Government.

In mid 1995 the bank had approved 15 credits to an aggregate amount of € 4.3 mill., whereof € 2.6 mill. had been disbursed. The total investment tied to these projects were appr. € 11 mill.

The average loan size was € 0.6 mill.

In 1995 the demand for credit for bankable projects was still rather low. The limited foreign interest in industrial projects, difficulties with the privatisation as well as ample availability of good business opportunities in the trading and retail sector hampered the lending activities of the LIB. Moreover, the lack of skills in business administration and planning implied that projects presented by Latvian entrepreneurs, in most cases did not meet the lending criteria of the bank. Further, enterprises were for tax reasons hesitant to present correct information about their financial position, which obviously complicated the processing of credit applications.

There was another argument brought forward also. The bank was perceived as not sufficiently approachable for the business community and its credit policy was also criticised. The bank was well aware of this, but was probably still under some influence by the experience with the fraudulent event at the start of its existence.

A number of multilateral and national government institutions had made funds available for the bank's financing activities. Total funds available for lending amounted to over € 40 mill. However, the bank was only able to utilise a fraction of these funds.

In 1996 LIB took a small stake in the Riga Stock Exchange to be in a position to trade securities on its own and clients' account, and intended to establish a leasing subsidiary in 1997 possibly in joint-venture agreement with the Estonian Investment Bank and Merita Bank.

In 1997 the foreign investors in the bank decided to disinvest from the bank. The EBRD, Swedfund Financial Markets and DEG sold their shares to Finnfund which then had 66 pct. of the equity and the Latvian Government the remaining part. However, the Government had also announced that it was prepared to disinvest its shares.

The restructuring of the ownership continued, and the NIB made a consortium agreement with Finnfund and Merita Bank. As a result of this, the ownership structure at the end of 1998 was:

	Pct.
Merita Nordbanken	69.6 pct.
Finnfund	10.4 pct.
NIB	20 pct.
LIB's management	0.01 pct.

The NIB invested out of its Equity Fund € 2.273 mill. in LIB and disinvested with a small profit.

As majority owner of LIB, Merita Nordbanken was in charge of finding a more permanent solution to the development of LIB. The result of this process was that the other shareholders during the first quarter of 1999 sold their shares to Merita Nordbanken which then had 100 pct. of the shares, and the name of LIB was changed to Merita Bank, branch of Merita Nordbanken.

9.4 Lithuanian Development Bank (LDB)

The *Lithuanian Investment Bank* was established already in November 1991 with a capital of about € 0.2 mill. The bank was organised under the Ministry of Finance. The bank started its activities in 1992, mainly granting of micro-loans, channelling and administering short-term loans granted by the Ministry of Finance for large state-owned enterprises with liquidity problems, and restructuring and privatisation of non-profitable large and medium-size public-owned enterprises.

The registered statutes and the activities did not meet the requirements of an independent, creditworthy financing institution, and the bank did not have a banking license. It was considered necessary that the statutes of the bank – which had to be approved by the Lithuanian Parliament – be changed in order to qualify the bank for being an active participant in BIP.

For some domestic political reasons and resistance from the top management of the Lithuanian Investment Bank it proved impossible to change the statutes of the bank.

The Government therefore in August 1993 decided to dissolve Lithuanian Investment Bank and to establish a new investment bank, Lithuanian Development Bank according to internationally accepted principles for such an institution. The status of the new bank was confirmed by the Parliament in December 1993.

The bank was finally registered as a legal entity in April 1994 and the banking license was received at the end of 1994. The LDB could then only commence its operations at the beginning of 1995.

Primarily the NIB, but also the EBRD, spent considerable amount of effort to assist the difficult process of getting the new bank operative, and at the end of the BIP I in 1995 it was even considered that without a continuation of the technical assistance, there was a great risk that the resources invested through BIP would be lost.

The LDB was the one of the three national investment banks that demanded most technical assistance because of the lack of a good legal

structure. Also the later privatisation process was slow, partly because of a general slow privatisation process, not least within the banking sector. Many changes of Government and Ministers also had an impact on the slow development, as it was difficult for decisions about the bank to be taken.

The shareholders of the bank in 1995 were the Lithuanian Government and the EBRD. The total equity was € 5 mill.

The bank initiated discussions with DEG, the Norwegian Industrial and Development Fund (SND), the Finnfund and the Swedfund on possible equity participation.

The LDB approved its first loan in March 1994, amounting to about € 0.5 mill. The project pipeline comprised 13 projects (from 122 loan enquiries) amounting to a total of € 11.4 mill.

At the end of 1996, the total loan portfolio reached € 8.6 mill. LDB's main emphasis was medium and long term direct financing to projects meeting sound banking principles and internationally accepted criteria for project financing. LDB also tried to reach financing needs of small companies and small transactions (below € 0.2 mill.) via on-lending lines. This type of financing represented about 50 pct. of the total outstanding portfolio of LDB at the end of 1996.

In 1997 NIB invested € 2.0 mill. in equity in LDB. In 1998 the NIB acquired the equity from Swedfund Financial Markets AB of € 1.2 mill. as the Swedish Government wanted to redirect its development assistance. As a result NIB had the same share of the equity as the EBRD and the Lithuanian Government. However, in order to find a long term solution of the future of LDB, the NIB wanted to disinvest its shares, but no suitable buyer was identified.

The owner structure of LDB at the end of 1998 was:

	Pct.
Lithuanian Government	29.6 pct.
EBRD	29.6 pct.
NIB	29.6 pct.
DEG	11.1 pct.

In the spring of 1999 the EBRD started negotiations with the Government about swapping the equity in LDB against equity in another bank in Lithuania. This led to the Lithuanian Government having 59.26 pct. of the shares in LDB.

Various models for the future of the bank were considered. The aim was to find a strategic investor interested in acquiring 100 pct. of the shares.

The NIB was a central operator in most of the work establishing the right legal structure which could satisfy a strategic investor.

It was a rather slow process as the Government should sell its shares via the Lithuanian Privatisation Fund. In October 2000 negotiations began with the insurance company Sampo. Sampo had earlier on become majority owner of Optiva Bank in Estonia. A deal with Sampo was concluded in December 2000 when all shares were transferred to Sampo, and LDB had its name changed to Sampo Bankas.

The NIB continued supporting the management of LDB until Sampo took over.

The NIB ended up selling its shares with a profit. This was a good ending for the NIB and BIP as there had been considerably doubt as to whether LDB in the longer run could survive without being taken over by a strategic investor.

9.5 TAM/BAS

Business Advisory Service (BAS)

The notion of business advisory service is mentioned in only one sentence in the Contribution Agreement between the EBRD and the Nordic countries on establishing a Baltic Technical Assistance Special Fund. "The resources of the Fund can also be used to finance Business Advisory Services."

This was deliberately drafted so as to leave it completely to the EBRD to find out if such a scheme could be useful in preparing small and medium sized enterprises in the private sector for investment and business development in general, and also how – in case – such a scheme could best be developed and implemented.

At the outset the concept went through two concept versions, a first which was deemed unsatisfactory by the Bank using the traditional approach of business advisory service preparing business plans, and a second which is currently in place across the region in almost all EBRD countries of operation, and being further extended by the EBRD to countries in the Southern Mediterranean region (Egypt, Morocco, Tunisia and Jordan) based on supporting both SMEs and the local consulting industry in smaller quickly delivered and cheaper interventions.

Once the long gestation came to an end – in mid 1995 the scheme was still in an embryonic stage – it came into operation with considerably speed, quickly overtaking the EC business advisory programmes.

The BAS was initially designed to focus on small and medium sized enterprises within the private sector, and thereby, complement the EU-Phare programme that focused on smaller firms. The basic instrument was subsidies (50 pct) to local enterprises to cover the cost of hiring consultants (primarily local consultants) for business advisory services. Offices and funding facilities for running the programme were in 1995 set up in each of the three Baltic countries, with an overall co-ordination responsibility placed in the Vilnius facility.

The aim was, inter alia, also to support the development of private local consultants and key professional associations so that over time the SMEs needs could be met without external assistance.

The element of subsidies was very flexible. In difficult geographical regions and business sectors the subsidy could be higher, as well as lower for instance in the centre of the countries and expanding business sectors. And in the course of the programme subsidies were reduced, based on the development of the market. The programme came to an end in the Baltic countries in 2004 when it was considered that the consultancy market had matured.

A sum of € 3.5 mill. was originally allocated to the programme. The implementation of the programme was expected to take 5 years. The funds allocated would cover the costs of about 900 assignments.

However, further on the programme was expanded considerably and in total about € 9 mill. was allocated to the programme in the Baltic countries.

The EBRD stated, that if the project turned out to be successful, it could provide a model for replication in other countries of operations. The project was successful, and the EBRD got resources out of the budget of the Nordic Council of Ministers for a pilot project in St. Petersburg.

Since then, BAS has carried out over 10,000 projects with small enterprises in 25 countries by providing them with grants to support their engagement of local consultants for their development needs. BAS has further supported the development of local consulting markets through more than 450 market development activities in which consultants improve their skills and knowledge, so as to offer better services to small enterprises.

TurnAround Management Programme (TAM)

The TurnAround Management Programme was already in existence when the Baltic Investment Programme started. However, the BIP programme gave it a major infusion of life, reflected subsequently in its expansion in the region well beyond the Baltic States. The BIP programme gave the EBRD the funding which made it possible so to say to

“saturate” the market, which given the small size of the Baltic economies was possible.

The purpose of TAM was at the outset to provide senior management assistance to 25 selected enterprises with the goal of turning them into profitable stand-alone enterprises. In Estonia 9, in Latvia 11 and in Lithuania 5. These enterprises had some 15,000 employees. Each enterprise would get assistance from a team of senior private sector business leaders from Western economies, who work closely with the administration of the company, usually over a one year period.

An evaluation showed that this form of technical assistance was very effective, and TAM was also very positively received in the Baltic countries.

After the first phase, the programme was extended to support a considerable number of enterprises, and a number of enterprises that benefited from the programme, presented investment projects for financing from the national investment banks. In total, almost € 6 mill. was allocated to the TAM programme in the Baltic countries.

Since then, the programme has gone on to assist more than 1,830 enterprise CEOs in 30 countries with senior industrial advisors to help them to improve the operations and management of their companies.

Altogether the TAM/BAS Programme has received support from more than 20 bilateral and institutional donors with over € 170 mill. in funding.

EBRD's new strategy for small business support

Even if it is somewhat outside the scope of this report it might be worthwhile to mention that TAM/BAS – which from the outset was administered as a kind of appendix to the EBRD – now is fully integrated in the Bank's operations.

The new Strategic Plan for the period 2011–2015 seeks to bring the programmes fully in line with the Bank's objectives for that period and to better align them with the work of EBRD's Banking Department, while continuing to collaborate with donors in setting priorities. As part of this process, in January 2012, the TAM/BAS team was renamed as the Small Business Support (SBS) team and the TAM Programme was renamed as the Enterprise Growth Programme (EGP) to better reflect its objectives and clientele.

In the original strategy TAM was to offer autonomous and independent advisory assistance, delinked from investment projects. The new strategy does not change that. However, in the future EGP clients should also be companies which should qualify for EBRD support in terms of management capacity and commitment, business prospects, potential financial viability and transparency of information. EGP will strive to

better position companies for future growth and investment whether by EBRD or other intermediaries.

BAS has small enterprises as its clients, and so, has fewer opportunities than TAM for cross-referrals to the Banking Department for direct financing transactions. However, BAS will work more closely with the Bank's financial institutions' clients in the countries at the working level. To support collaboration and cross-fertilisation, BAS is also in the process of systematically collocating offices with the Bank's Resident Offices, which is completed in 10 countries to date.

9.6 Baltic Special Restructuring Programme (BSRP)

That programme made it possible for the EBRD to participate in the financing of enterprises, which were currently in danger of deterioration or collapse, but would have a long term potential to become viable and prosper if given assistance and restructured. The aim was to stabilise the enterprises through stabilisation financing and turn around expertise (equity investment in a selected group of enterprises combined with substantial technical expertise), so that, at a second stage, they could operate without support, qualify for funding under normal banking terms, and achieve privatisation.

Estonia had decided not to participate in this programme, as the Government had preferred to give priority to privatisation without restructuring.

A number of feasibility studies were completed and potential enterprises were identified, and a Swedish management team was selected.

For preparation and management costs of BSRP € 0.83 mill. had been allocated.

From BISF € 7.5 mill. was allocated in addition to technical assistance financed from BSTAF, and the EBRD was planning to provide € 22.5 mill. to the project. Due to delays in the implementation of the projects, funds from BISF was not utilised for this purpose. The EBRD intended then to use its own resources for the project which would then be redirected to post-privatised enterprises.

10. Concluding remarks:

A general assessment of the Baltic Investment Programme

As mentioned in the foreword the aim of this report is to provide a detailed overview of the somewhat complicated structure and finances of the Baltic Investment Programme in connection with its finalization. It is therefore not an evaluation, which would involve specific analyses of the numerous sub-programmes.

However, it is useful to make some overall assessments of the programme as an instrument for supporting the transition to market economy in the Baltic countries.

Again referring to the foreword, what has been achieved is mainly achieved by the efforts of the governments and populations in Estonia, Latvia and Lithuania. Even if the Baltic Investment Programme obviously was not a major force behind the development, it was catalytic in the process of developing a private sector for small and medium sized enterprises from the very beginning of the transition process.

It is worthwhile to consider whether the establishment of a Baltic Investment Bank (BIB) would have been a better vehicle in the transition process than the Baltic Investment Programme (BIP). As the Baltic Governments were very much involved in the process leading up to the final report about establishing such an international/regional bank, the Baltic Governments would probably have been more involved in BIB than appeared to be the case with BIP, which might have led to closer ties between the Nordic and the Baltic countries. Moreover, one can not exclude that such a government owned bank would have focused somewhat more on public projects than was the idea behind the BIP.

The many problems which quite naturally materialise in countries which have been under a command economic system for many years, created in particular in Lithuania, but to a certain extent also in Latvia and to a lesser extent in Estonia, situations where the countries views on how to operate a market based bank were quite different. Domestic policy problems also appeared to be a factor for the different development of the countries. In a joint Baltic BIB it would probably have been neces-

sary that the three countries worked and decided on the implementation in parallel, which at that time appeared not to be easy. This might have delayed the operational start of a BIB considerably. On the other hand, the virtue of BIP was that the arrangement of the programme was very flexible and easily could adapt to the different situation in the three countries. Furthermore, it became operational only few months after the approval, which would not have been feasible for the establishment of a brand new institution.

Furthermore, it might have been difficult for a small new regional bank, even if it was backed by the NIB, to obtain sufficient funding and at a reasonable price.

The part of the Programme involving the EBRD was at the outset problematic for the Baltic Governments. They had an expectation that they would get much lesser attention in the “big” newly established EBRD than in their “own” regional institution focusing only on their countries.

However, the very intense cooperation between the Nordic countries and the EBRD about the Baltic Investment Programme appeared to be very useful. The Nordic special funds were the very first special funds the EBRD got from donors, which from the outset gave the Programme a certain status of priority in the Bank. The funds were even untied which gave a kind of demonstration effect. Thus, already from the beginning the Baltic countries got a much more prominent role in the operations of the EBRD than the size of the countries would suggest.

Furthermore, the EBRD was very successful in attracting co-investors to projects and to get resources for technical assistance from other donors. The way in which the EBRD operated with the Nordic money attracted substantial financing from investors who would otherwise not have been willing to invest in the countries at that time.

The NIB was close to the Baltic countries from the very beginning. The 100 pct. guarantee scheme in the BIP enabled the NIB to extend its international operations to the Baltic countries, which would otherwise not have been possible as the Baltic countries were not internationally creditworthy. Estonia, Latvia and Lithuania even became members of the bank in 2005. The lending scheme also led to co-financing with Nordic and German development institutions, the IFC, the EIB and NEFCO plus of course the EBRD, and thereby drawing in the expertise of these institutions in the building up of competences in the companies in which investment was financed.

The NIB invested considerable effort in getting the national investment banks operational. That was not an easy task in countries without experience in market based banking. But the closeness of the NIB headquarter in Helsinki and the Baltic capitals appeared to be very good for a fruitful personal cooperation between the NIB staff, the authorities in the three countries and the staff of the national investment banks.

The involvement of two international financial institutions, the NIB and the EBRD in the same programme and with somewhat overlapping tasks was challenging for both institutions. An important factor for the challenges is probably the cultural difference between the two institutions, each of the cultures having its own virtues. The NIB, a Nordic institution, could be very flexible in its way of approaching the numerous issues which are involved in such a programme. The EBRD is a relatively strict rule based institution which is necessary for a multilateral bank with more than 60 shareholders and almost 30 countries of operation.

There is all reason to compliment and thank the staff on both sides for their devotion to assisting bringing the Baltic countries forward in their development.

What was difficult to judge at the beginning of the 1990'ies was that a private financial sector would develop so quickly. The involvement of in particular Nordic and German banks in the countries helped a lot in this respect.

One might therefore be tempted to suggest that the national investment banks should never have been established. However, it is worthwhile to note that they were all successfully merged into private financial institutions in the countries, providing the parent-banks with a well educated professional staff with excellent local knowledge. The sale of the national investment banks was even profitable in terms of getting the invested equity back.

It was quite clear to the Nordic Governments that there was a lack of resources for technical assistance in the BIB concept and that the timing of such assistance was crucial. Therefore, already from the start funds for technical assistance became an essential element in BIP with focus both on technical assistance in the three countries as such, but also in promoting cooperation between Nordic and Baltic enterprises via Nopef.

Even if substantial resources for technical assistance were paid into the programme, it proved not to be sufficient for providing what was deemed necessary.

Therefore, it was a further virtue of BIP that income from the investments made by the EBRD could be used for technical assistance. With only € 26.9 mill. paid in for technical assistance, further € 17 mill. was

added on this account. Almost € 15 mill. of the resources for technical assistance was allocated to the TAM/BAS operations. The success of this particular sub-programme speaks for itself. The devotion of the manager of that programme was also instrumental for its success.

11. Sammanfattning

En allmän bedömning av Baltiska investeringsprogrammet

Som nämndes i förordet är syftet med denna rapport att ge en detaljerad översikt av Baltiska investeringsprogrammets något komplicerade struktur och finanser i samband med dess avslutning. Det är således inte en utvärdering som inbegriper specifika analyser av de många delprogrammen.

Men det är på sin plats att göra en del övergripande bedömningar av programmet som ett instrument för att stödja övergången till marknadsekonomi i de baltiska länderna.

För att referera till förordet igen har det som har uppnåtts huvudsakligen åstadkommits tack vare regeringarnas och befolkningarnas ansträngningar i Estland, Lettland och Litauen. Även om Baltiska investeringsprogrammet uppenbarligen inte har varit en drivande kraft bakom utvecklingen har det fungerat som en katalysator i processen att utveckla en privat sektor för små och medelstora företag redan från början av övergångsprocessen.

Det finns skäl att fundera över om inte en baltisk investeringsbank (BIB) hade varit ett bättre instrument i övergångsprocessen än Baltiska investeringsprogrammet (BIP). Då de baltiska regeringarna var mycket engagerade i processen som ledde fram till slutrapporten om att inrätta en sådan internationell/regional bank, hade de baltiska regeringarna troligen varit mer engagerade i BIB än som verkade vara fallet med BIP, vilket kunde ha lett till närmare band mellan de nordiska och baltiska länderna. Man kan inte heller utesluta att en sådan statsägd bank skulle ha fokuserat lite mer på offentliga projekt än som var idén bakom BIP.

De många problem som helt naturligt uppstår i länder som i många år haft planekonomi skapade framför allt i Litauen, men också i viss utsträckning i Lettland och i mindre utsträckning i Estland, situationer där ländernas syn på hur man driver en marknadsbaserad bank skilde sig helt åt. Inrikespolitiska problem visade sig också vara en orsak till att länderna utvecklades olika. I en gemensam baltisk investeringsbank hade det troligen varit nödvändigt att de tre länderna arbetade på och beslutade om genomförandet parallellt, vilket inte verkade vara lätt vid den tidpunkten. Detta kan ha försenat den operativa starten av en baltisk investeringsbank avsevärt. Å andra sidan var fördelen med BIP att programmets arrangemang var mycket flexibelt och lätt kunde anpassas

till de olika situationerna i de tre länderna. Dessutom kunde det sätta i gång bara några få månader efter godkännandet, vilket inte hade varit möjligt om en helt ny institution hade inrättats.

Det kunde också ha varit svårt för en liten regional bank, även om den stöttades av Nordiska investeringsbanken (NIB), att få tillräcklig finansiering till ett rimligt pris.

Den del av programmet som involverade Europeiska banken för återuppbyggnad och utveckling (EBRD) var från början problematisk för de baltiska regeringarna. De förväntade sig att de skulle få mycket mindre uppmärksamhet i den "stora" nyinrättade EBRD än i sin "egen" regionala institution som bara hade fokus på de egna länderna.

Det mycket intensiva samarbetet mellan de nordiska länderna och EBRD om Baltiska investeringsprogrammet visade sig dock vara mycket användbart. De nordiska särskilda fonderna var de allra första särskilda fonderna som EBRD fick från givare, vilket redan från början gav programmet en viss prioriterad status i banken. Fonderna var också obundna vilket gav en sorts demonstrationseffekt. Alltså fick de baltiska länderna redan från början en mycket mer framträdande roll i EBRD:s verksamhet än som motiverades av ländernas storlek.

Vidare var EBRD mycket framgångsrik när det gällde att dra till sig medinvesteringar till projekt och att få resurser för tekniskt bistånd från andra givare. Det sätt på vilket EBRD handskades med de nordiska pengarna drog till sig omfattande finansiering från investeringssom annars inte hade velat investera i länderna vid den tidpunkten.

NIB arbetade nära de baltiska länderna redan från början. Tack vare den 100-procentiga garantin i BIP kunde NIB utvidga sin internationella verksamhet till de baltiska länderna, vilket inte annars hade varit möjligt eftersom de baltiska länderna inte var kreditvärdiga internationellt. Estland, Lettland och Litauen blev också medlemmar i banken år 2005. Utlåningssystemet ledde också till samfinansiering med nordiska och tyska utvecklingsinstitutioner – IFC (Internationella finansieringsbolaget), EIB (Europeiska investeringsbanken) och NEFCO (Nordiska Miljöfinansieringsbolaget) plus naturligtvis EBRD – och förde på detta sätt in expertis från dessa institutioner i uppbyggnaden av kompetens i de företag som fick investeringar finansierade.

NIB gjorde stora ansträngningar för att få de nationella investeringsbankerna att fungera. Det var ingen lätt uppgift i länder utan erfarenhet av marknadsbaserat bankväsen. Men närheten mellan Nordiska investeringsbankens huvudkontor i Helsingfors och de baltiska huvudstäderna verkade vara mycket gynnsam för ett fruktbart samarbete mellan per-

sonalen vid NIB, myndigheterna i de tre länderna och personalen vid de nationella investeringsbankerna.

Att två internationella finansinstitutioner, NIB och EBRD, var involverade i samma program och med uppgifter som delvis överlappade varandra innebar utmaningar för båda institutionerna. En viktig orsak till utmaningarna är troligen de kulturella olikheterna i de båda institutionerna, där båda kulturer hade sina fördelar. NIB, som är en nordisk institution, kunde vara mycket flexibel i sitt angreppssätt av det stora antal frågor som är aktuella i ett sådant program. EBRD är en ganska strikt regelstyrd institution vilket är nödvändigt för en multilateral bank med över 60 aktieägare och nästan 30 verksamhetsländer.

Det finns all anledning att gratulera och tacka personalen på båda sidor för att de så hängivet bidragit till att de baltiska länderna utvecklats positivt.

Det som var svårt att förutse i början av 1990-talet var att en privat finanssektor skulle utvecklas så snabbt. Att framför allt nordiska och tyska banker blev involverade i länderna hade stor betydelse i det här avseendet.

Det skulle därför vara frestande att säga att de nationella investeringsbankerna aldrig skulle ha inrättats. Man kan dock notera att de alla framgångsrikt slagits samman med privata finansiella institutioner i länderna och förser moderbankerna med välutbildad professionell personal med utmärkt lokalkännedom. Försäljningen av de nationella investeringsbankerna blev till och med lönsam i termer av att få tillbaka investerat kapital.

Det stod helt klart för de nordiska regeringarna att det fanns brist på resurser för tekniskt bistånd i BIB-konceptet och att timingen för sådant bistånd var avgörande. Därför blev fonder för tekniskt bistånd redan från början en viktig del i BIP med fokus på tekniskt bistånd som sådant i de tre länderna men också på att stimulera samarbete mellan nordiska och baltiska företag via Nordiska projektexportfonden (Nopef).

Även om det lades stora resurser på tekniskt bistånd i programmet visade det sig att det inte räckte för att tillhandahålla vad som ansågs nödvändigt.

Därför var det ytterligare en fördel med BIP att inkomster från investeringar gjorda av EBRD kunde användas för tekniskt bistånd. Med bara € 26,9 mn inbetalat för tekniskt bistånd lades ytterligare € 17 miljoner till på detta konto. Nästan € 15 mn av resurserna för tekniskt bistånd tilldelades TAM/BAS-verksamhet. Framgången för detta särskilda delprogram talar för sig själv. Hängivenheten hos programmets chef bidrog också till framgången.

12. Appendix 1

PROTOCOL

Prime Ministers of the Baltic Republics

Tallinn
September 24, 1991

As the official recognition of Baltic republics as sovereign states has been made by over 60 countries and they have been accepted as permanent members of the UN;

assuming the need of the Baltic states for a rapid integration into the world economic community and international financial systems;

pointing out the importance to develop economic cooperation between the Baltic states and the Nordic countries, the parties undersigned have agreed:

1. to appreciate the initiative of Nordic Council of Ministers to assist Baltic states to carry out their economic reforms;
2. to approve the proposal to establish the Baltic Investment Bank including the participation of the Baltic states subscribing to the capital of BIB in order to create a financial mechanism for the mobilizing and channelling international investment resources to these countries;
3. to request the Governments of Denmark, Finland, Iceland, Norway and Sweden as well as the Nordic Council of Ministers and the Nordic Council for their support to the BIB project to in able for the BIB to start it's activities as soon as possible, and further that the Nordic Investment Bank will act as implementing agent of the BIB;
4. to request the Nordic Investment Bank to prepare drafts for the articles of agreement and statutes of BIB as soon as possible, and to act as coordinator in preparing the establishment of BIB;
5. in order to commence the technical assistance and training programme, the parties involved designate national credit institutions which would collaborate with BIB and appoint person(s) authorised to assist in the establishment of BIB.

Signed by

Chairman of Council of Ministers of Latvian Republic: J. Godmanis

Prime Minister of Lithuanian Republic: G. Vagnorius

Chairman of Government of Estonian Republic: E. Savisaar

Baltic Investment Programme

The Baltic Investment Programme was first launched for the period 1992–1995. It was then extended for another period, 1995–1998. In 1998 it was decided to let the programme come to a gradual end in 2003, the year before the three Baltic countries became members of the European Union. The main purpose of the programme was to promote the development of small and medium sized enterprises in the private sector as an important vehicle for economic growth and employment, as well as assisting the development of a commercial financial sector by establishing a national investment banks in each of the three countries. The report tells the story leading up to the agreement with the Baltic countries on the Baltic Investment Programme. It then goes on explaining the various phases in the development of the Programme, the tasks of the institution and the finances, how the institutions used the resources provided by the Programme. Some of the important sub-programmes are explained in more detail. Finally, in the last chapter an assessment of the Programme is given.