



Ministère des Finances
Canada

Department of Finance
Canada

Canada at the European Bank for Reconstruction and Development

2014

Report on Operations Under the *European Bank
for Reconstruction and Development Agreement Act*

Canada

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Foreword

by the Minister of Finance and the Canadian Governor at the EBRD

I am pleased to present to Members of Parliament and all Canadians, *Canada at the European Bank for Reconstruction and Development 2014: Report on Operations Under the European Bank for Reconstruction and Development Agreement Act*. This report summarizes the main developments at the European Bank for Reconstruction and Development (EBRD) in 2014 and outlines Canada's engagement with, and objectives for, this important institution.

Canada continued to demonstrate global leadership through its position as a founding member and major shareholder of the EBRD by promoting the general principles of good governance, accountability and institutional effectiveness. This report details progress on Canada's key objectives for the EBRD in 2014 and presents Canada's 2015 objectives:



1. Encourage the EBRD to prioritize resources to countries with the greatest need, notably Ukraine and the Southern and Eastern Mediterranean region, and ensure the EBRD emphasizes the importance of continued domestic-led political and economic liberalization reforms as a condition for support;
2. Engage in the upcoming Strategic and Capital Framework process, to promote a forward direction for the EBRD that is aligned with Canada's foreign policy and development priorities.

Despite a challenging environment, the EBRD accomplished much in 2014. Slow growth, market and currency volatility as well as serious geopolitical impediments complicated the Bank's efforts to foster transition. Russia's illegal annexation of Crimea and support for armed rebel groups led to significant instability in southern and eastern Ukraine. Canada, taking an early principled stance, led the Bank's Board of Directors in isolating Russia for its actions. At the same time, at the direction of the Board, the Bank came to Ukraine's aid, committing a substantial amount of support to help the country through this crisis. In addition to Ukraine, Canada continues to support the Bank's efforts in the Southern and Eastern Mediterranean region.

Canada is committed to promoting open, market-oriented economies in the context of freedom, democracy, the rule of law and human rights both at home and within the international community. Our shareholding in the EBRD allows Canada to advance these goals, alongside the Bank's 65 other shareholders.

The Honourable Joe Oliver, P.C., M.P.
Minister of Finance



Overview

The European Bank for Reconstruction and Development (the EBRD or the Bank) is a unique, project-oriented international financial institution created in 1991, whose purpose is to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiatives in Central and Eastern Europe, in Mongolia and in the Southern and Eastern Mediterranean region. In pursuing its mission, the EBRD operates only in countries that demonstrate a commitment to the fundamental principles of multiparty democracy, pluralism and market economics.¹ The Bank fosters market economies, while promoting innovation, growth and transparency.

The Bank's shareholders include 64 countries from across the globe and two intergovernmental organizations (the European Union and the European Investment Bank). As at December 31, 2014, the Bank's total assets reached €52 billion, while its liabilities amounted to €38 billion. A robust capital position has helped the Bank to maintain relatively stable annual investment² levels in its countries of operations in recent years, in the range of €8 billion-€9 billion per year.

Three core operational principles guide the Bank's activities: transition impact, additionality and sound banking. Delivering on transition impact requires the Bank to ensure that its projects are achieving their transition objectives. Upholding the principles of additionality and sound banking involves generating additional flows of private sector financing, as well as ensuring good financial governance and the effective use of capital in its operations. In accordance with the Agreement Establishing the EBRD, the Bank is also committed to promoting environmentally sound and sustainable development. For more information on the EBRD's mandate, activities and governance, see Annex 1.

As a founding member and the eighth largest shareholder of the Bank, Canada actively contributes to the development of the EBRD's policies and provides oversight of the Bank's financial activities. This is primarily achieved through Canada's seat on the Board of Governors as well as the Board of Directors (in a constituency that includes Jordan, Morocco and Tunisia), and through its participation in the work of various committees. The EBRD's Annual Meeting also provides Canada with an opportunity to meaningfully engage in dialogue with the Bank's 65 other shareholders. For more information on Canada's role at the EBRD, see Annexes 2 and 3.

Key objectives guide Canada's engagement with the Bank. Renewed annually, these objectives are informed by the Government's policy goals, a dedication to the EBRD's underlying transition mandate, and the general principles of good governance, accountability and institutional effectiveness. A discussion of the progress made on Canada's 2014 objectives, as well as Canada's objectives for 2015, are found below in the section entitled "Canada's Objectives at the EBRD."

¹ Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development. Where countries do not demonstrate a commitment to these principles, the Bank limits its activities accordingly.

² Annual investment refers to the amount of finance committed under signed agreements during the calendar year.



As the largest single investor in its regions of operations, the EBRD is an active international financial institution that continually works towards enhancing its activities. By investing billions annually in its recipient countries,³ and through the implementation of an expanded regional mandate, the EBRD is able to build on its transition progress each year. The section below details significant developments at the EBRD in 2014.

What Happened in 2014

In 2014, the EBRD increased its support for effective transition and recovery in the midst of turbulent global political and economic conditions. The Bank's total annual investment rose to almost €8.9 billion, a €355 million increase from €8.5 billion in 2013. These investments were made in 34 countries.

In March 2014, the Bank quickly and effectively responded to the crisis in Ukraine. Further, the EBRD's investments in the Southern and Eastern Mediterranean region surpassed €1.7 billion, two years after the Bank began regular operations in the region. Cyprus became a recipient country for a limited period of time, and the Bank has already made investments in the country. In August 2014, the EBRD received a formal request from Greece to become a recipient country for a limited period of time to support its structural economic reform. The Board of Governors approved this request at the beginning of 2015.

In 2014, Governors adopted the Medium Term Directions, which set high-level strategic objectives for the Bank. Moreover, the issue of country representation on the Board of Directors was discussed in 2014 and a decision on this will be made in 2015. The EBRD's performance reports indicate that its projects in 2014 achieved high levels of transition progress toward open, market-oriented economies.

Response to the Situation in Ukraine

Canada was the first country on the EBRD's Board of Directors to oppose all Russian projects. Canada's actions contributed to the Bank halting all new Russian projects.

Under the guidance of the Board of Directors, the EBRD came to Ukraine's assistance. The EBRD committed over €1.2 billion to public and private sector projects in Ukraine. The Bank's investments were aimed at easing the deteriorating economic situation and reinforcing reforms aimed at Ukraine's transition to an open, market-oriented economy. Consistent with the EBRD's country strategy for Ukraine, the Bank's operations targeted agribusiness, the energy sector, enterprises, infrastructure, the financial sector and capital markets. Ukraine also committed to an Anti-Corruption Initiative, which is an important action towards improving the investment climate.

³ Recipient countries include: (1) official countries of operations, which receive assistance through the Bank's traditional channels (Governors must pass an affirmative vote for a country to attain this status); and (2) potential countries of operations, which receive support through other EBRD mechanisms, such as Special Funds.



EBRD Ukraine Crisis Assistance

The Bank committed over €1 billion to projects in Ukraine and engaged in technical assistance and a program of extensive policy dialogue. The EBRD made investments in gas transport, road, municipal and agribusiness infrastructure, and in agribusiness production. Further, it increased trade finance to support financial institutions and facilitate international trade. Moreover, the Bank established a specialized facility for existing clients to address their needs for liquidity and working capital.

The EBRD's investments prioritized improving the investment climate and combatting corruption, stabilizing the banking sector, increasing energy security, expanding private sector competitiveness and upgrading municipal infrastructure.

Anti-corruption efforts in Ukraine have been bolstered by the Bank's technical assistance with the creation of the Business Ombudsman Institution.

Focus on the Southern and Eastern Mediterranean Region

In 2011, the EBRD's geographic reach was expanded to include the Southern and Eastern Mediterranean (SEMED) region. Jordan, Morocco and Tunisia were granted full country of operations status in 2013 by the EBRD's Board of Governors. Egypt remains a potential country of operations.

In 2014, the EBRD invested over €1 billion as part of its SEMED operations in the three recipient countries and in Egypt, more than double the funding provided in 2013. The Bank signed 34 operations in the region, which included 15 investments in Egypt, where support increased to €593 million from €151 million in 2013. Investments in Egypt are funded through the EBRD's SEMED Investment Special Fund. SEMED operations are focused on assisting financial institutions, developing infrastructure, supporting private businesses, and promoting sustainable and efficient energy.

Launch of the Medium Term Directions

The Bank's new Medium Term Directions (MTDs) were adopted by Governors in 2014. The MTDs set high-level strategic objectives for the Bank, which aim to re-energize transition in three priority areas: (1) building transition resilience, through strong policies, institutions and economic structures; (2) supporting market integration, to reinforce efficient markets and promote reform; and (3) addressing common global and regional challenges such as climate change and food security.



At the 2015 Annual Meeting in Tbilisi, Georgia, Governors will build on the MTDs by deciding on the Bank's future orientation and discussing the Strategic and Capital Framework, which will specify the high-level strategic framework for EBRD operations in 2016–2020.

Re-Energizing Transition: Investment Climate and Governance Initiative

In 2014, the Bank launched the Investment Climate and Governance Initiative (ICGI) as part of its efforts to re-energize transition beyond discrete projects and into broader systemic change. The ICGI was designed to strengthen the Bank's capacity to enhance the investment climate, promote good governance and address the stalling of transition in many of its countries of operations.

The ICGI approach combines existing tools and instruments—such as platforms for public-private dialogue, dispute resolution, reform of procurement systems, judicial capacity-building and corporate governance enhancements—with new instruments addressing issues such as business regulation, licensing and customs administration, transparency, freedom of information and business registration. The ICGI functions in a multi-stakeholder framework involving other international financial institutions, intergovernmental organizations, and domestic and international non-governmental organizations specializing in this field.

In 2014, ICGI country programs were developed for Albania, Moldova and Serbia. The specific interventions for each country were designed to build on the Bank's ongoing policy dialogue and technical cooperation work on the investment climate while also providing new, concrete reform initiatives.

The EBRD's Lending in 2014

The EBRD operates in diverse geographic areas stretching from Central Asia through Central and South-eastern Europe to the SEMED region. As such, the EBRD's investment flows do not accrue to the Bank's regions of operations in equal proportions. Regional investment levels are affected by various factors, including the business climate in individual recipient countries and domestic political developments that may hinder the EBRD's operations.

Eastern Europe and the Caucasus received the most support in 2014, mainly due to a significant increase in investment in Ukraine. The SEMED region saw significant investment, increasing over €500 million from 2013, with all countries in the region receiving more support. Lending to Central Asia and Turkey also increased. Due to its illegal actions in Ukraine and the subsequent guidance of the Board of Directors, lending decreased by over 66% in Russia. Support to Central Europe and the Baltics decreased. South-eastern Europe saw a similar level of investment as in 2013. The charts below illustrate the regional changes in the EBRD's investment flows from 2013 to 2014.



Chart 1: EBRD Investment¹ in 2014 (€ millions)

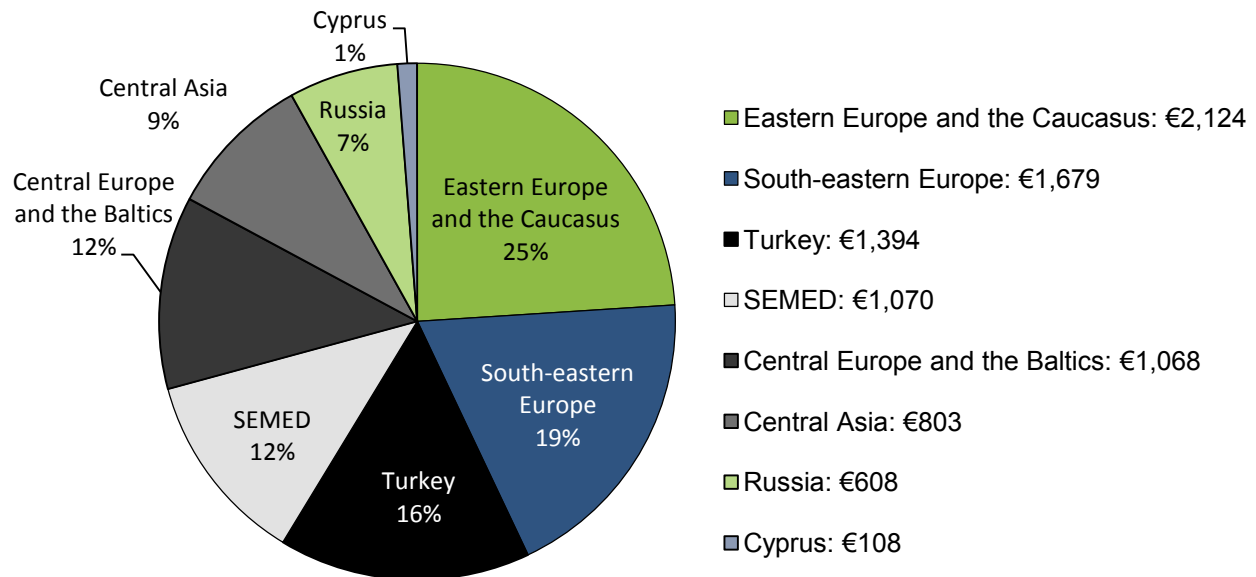
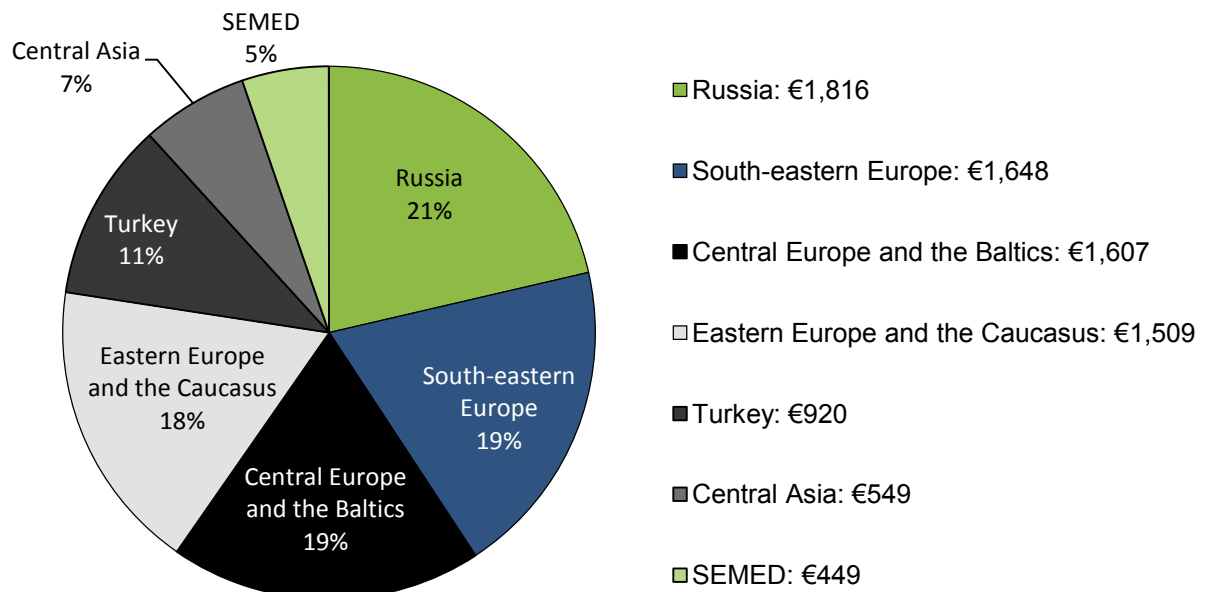


Chart 2: EBRD Investment¹ in 2013 (€ millions)



Note: Totals may not add due to rounding.

¹ EBRD investment refers to the volume of commitments made by the Bank during the year to finance investment operations, less cancellations or sales of such commitments within the same year.



The EBRD's Financial Performance

Bank investment totalled almost €8.9 billion in 2014, while disbursements reached €6.5 billion (€5.9 billion in 2013). The EBRD's projects attracted some €13.9 billion in external financing, with the EBRD directly mobilizing €865 million of syndicated loans (compared to €759 billion in 2013). In addition, the Bank's activities remained strongly supported by donor funding.

The Bank maintained a solid balance sheet in 2014 with a robust capital position and high levels of liquidity. In 2014, the EBRD realized profits of €927 million (€1.169 billion in 2013) before impairment. An unrealized net loss of €568 million was recorded, primarily due to a decline in the value of the Bank's equity investment portfolio. This was largely caused by the weakening of the Russian ruble, together with increased provisions on the Bank's loan book, which was affected by the economic deterioration in Ukraine. Operational and financial highlights are summarized below.

EBRD Operational and Financial Indicators, 2010–2014

(€ millions, except for number of projects)

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|--------|--------|--------|--------|--------|
| Number of projects | 377 | 392 | 393 | 380 | 386 |
| EBRD investment | 8,853 | 8,498 | 8,920 | 9,051 | 9,009 |
| Resources mobilized | 13,867 | 13,488 | 17,372 | 20,802 | 13,174 |
| Total project value | 20,769 | 20,527 | 24,871 | 29,479 | 22,039 |
| Gross disbursement | 6,500 | 5,900 | 6,000 | 6,700 | 6,000 |
| Realized profit before impairment | 927 | 1,169 | 1,007 | 866 | 927 |
| Net profit/loss for the year before transfers of net income | (568) | 1,012 | 1,021 | 173 | 1,377 |
| Paid-in capital | 6,202 | 6,202 | 6,202 | 6,199 | 6,197 |
| Reserves and retained earnings | 7,947 | 8,674 | 7,748 | 6,974 | 6,780 |
| Total members' equity | 14,180 | 14,876 | 13,950 | 13,173 | 12,977 |

Overall, the Bank's strong capitalization, high levels of liquidity, low levels of non-performing loans and low leverage reaffirm that the EBRD continues to be in a strong position to carry out its mandate in the medium term. The Bank continues to be rated AAA or equivalent with a stable outlook by all three major credit rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings). The EBRD's year-end financial statements will be made available on its website (<http://www.ebrd.com>).



Canada's Objectives at the EBRD

Canada actively contributes to the development of the EBRD's policies and provides oversight of the Bank's financial activities through its seats on the Board of Governors and the Board of Directors. Canada is also involved in the work of various committees, and has the opportunity to meaningfully engage in dialogue with the Bank's 65 other shareholders at the EBRD's Annual Meeting.

As part of its ongoing leadership and oversight role at the EBRD, Canada supports the Bank in delivering on its core transition mandate as effectively and efficiently as possible. In doing so, Canada works to ensure the institution's financial stability and its follow-through on commitments made as part of the fourth Capital Resources Review 2011–2015. Canada will take an active role in the discussion of the Strategic and Capital Framework, which will set the high-level strategic framework for the Bank's operations in 2016–2020.

To provide targeted direction for its engagement with the EBRD, Canada develops key objectives for the Bank on an annual basis. These objectives are informed by a commitment to the EBRD's underlying mandate, the Government's development and foreign policy goals, and the general principles of good governance, accountability and institutional effectiveness.

Progress on Canada's Objectives in 2014

In 2014, Canada's objectives were targeted at encouraging the EBRD to prioritize countries with the most transition needs, notably in the SEMED region. Further, Canada advocated for medium term planning that is focused on ensuring the greatest transition impact possible. Lastly, Canada supported the President's modernization agenda to make the Bank more effective and efficient. Canada's 2014 objectives at the EBRD and an overview of the progress made in achieving these objectives are presented below.

Objective 1: Encourage the EBRD to prioritize resources to countries with the greatest need, notably in the Southern and Eastern Mediterranean, and ensure the EBRD emphasizes the importance of continued domestic-led reforms as a condition for support.

Canada works to ensure that much of the EBRD's resources are devoted to countries where it can have the greatest transition impact. In this regard, SEMED is an important region. Although the region has progressed towards developing functioning democracies and market economies, the transition process is still nascent in the region and requires ongoing support from the EBRD.

Canada was pleased to see the Bank's investment in the SEMED region more than double in 2014. Recipient countries Jordan, Morocco and Tunisia all had investment increases. Jordan had the largest increase in funding from €60 million in 2013 to €138 million in 2014. The Bank also opened offices in Jordan, Tunisia and Egypt; an office is scheduled to open in Morocco in early 2015. Canada looks forward to further investment in the region and to the initial results of the EBRD's efforts, as it continues to build a presence and expertise in the region.



The EBRD Board of Governors has not granted full country of operations status to Egypt. This would have enabled the country to benefit from the Bank's entire toolkit of financing and technical assistance. The process was held back as a result of continued political instability in Egypt. Nevertheless, the EBRD's 2014 investment in the country increased substantially from 2013 levels, rising from €151 million to €593 million. Additionally, Canada continued to support Egypt's efforts to become a full country of operations at the EBRD by supporting a Governor's vote in May 2014 which extended the country's status as a potential country of operations. In late 2014, Canada supported a further net income allocation to the SEMED Investment Special Fund of €800 million for continued operations in Egypt. Efforts to make Libya an EBRD member and recipient country were stalled in 2014 due to internal challenges in the country. Canadian representatives at the EBRD continued to conduct significant outreach with officials in Jordan, Morocco and Tunisia and encouraged business development opportunities for the EBRD in those countries.

As a result of the crisis in Ukraine, Canada supported an increase in EBRD resources to the country. Canada was pleased to see a swift and flexible approach adopted by the Bank in the face of a fast-moving and complex crisis.

In 2014, Canada's Governor along with the other EBRD Governors approved additional Bank funding for the Chernobyl Shelter Fund for completion of the Chernobyl New Safe Confinement. The EBRD will provide an extra €350 million to help close a funding gap of €615 million.

Throughout the year, Canada continued to encourage the EBRD to support Canada's objective of emphasizing the importance of domestic-led reforms as a condition for support. On that basis, at the Board of Directors, Canada maintained its opposition to projects that could result in direct or indirect benefits to the Belarusian government due to the continued lack of reforms in the country.

Objective 2: Engage in the upcoming medium term planning process to promote a forward direction for the EBRD that is aligned with Canada's vision for the Bank, including by playing a leadership role on the graduation of advanced transition countries from the Bank's programming.

The medium term planning process led to the development of the Bank's Medium Term Directions, which set three high-level strategic objectives for the EBRD: (1) building transition resilience, through strong policies, institutions and economic structures; (2) supporting market integration, to reinforce efficient markets and promote reform; and (3) addressing common global and regional challenges such as climate change and food security. While the Medium Term Directions represented a good opportunity for the Bank to renew its mandate, Canada encouraged the EBRD to continue to implement its strategic objectives in line with the core transition mandate of the Bank.

Objective 3: Support the President's modernization agenda, notably as it relates to improving business planning, budget processes and human resource management.

Canada has been supportive of streamlining the Bank's medium term planning process and introducing greater efficiency in the implementation of its projects through the One Bank modernization process. Canada considers increased efficiency a top priority.

In 2014, good progress was made on the President's modernization agenda. The Bank formally articulated core values for the organization: professionalism, integrity, leadership, innovation, diversity and teamwork. In addition, the EBRD introduced the People Management Framework, which includes new tools to help senior staff maximize their leadership and people management skills.



Canada's Objectives for 2015

Canada's objectives for 2015 highlight the ongoing relevance of our 2014 goals. They are meant to further ensure that the EBRD remains an effective, efficient and modern institution in the geopolitical context in which the Bank operates. Canada's objectives for 2015 are listed below, and will be reported on in next year's *Canada at the European Bank for Reconstruction and Development* report to Parliament.

1. Encourage the EBRD to prioritize resources to countries with the greatest need, notably Ukraine and the Southern and Eastern Mediterranean region, and ensure the EBRD emphasizes the importance of continued domestic-led political and economic liberalization reforms as a condition for support;
2. Engage in the upcoming Strategic and Capital Framework process, to promote a forward direction for the EBRD that is aligned with Canada's foreign policy and development priorities.

Given the trade-offs required by the use of EBRD resources in advanced Eurozone countries, Canada will continue to advocate that the Bank prioritize investment in the SEMED region and Ukraine. Further, Canada will encourage broad discussions with respect to the Bank's future directions through the Strategic and Capital Framework process, which will be undertaken in 2015. In the context of those discussions, Canada will advocate that the Bank bring forward a comprehensive and transparent process for evaluating requests for recipient country status should they arise in the future. This would help to ensure fairness and consistency with the EBRD's transition mandate.



Annex 1

Background on the EBRD

Mandate and Role of the EBRD

The EBRD began operations in 1991. Its aims are to foster the transition towards open, market-oriented economies in Central and Eastern Europe, the successor states of the former Soviet Union, Mongolia and member countries in the Southern and Eastern Mediterranean region, and to promote private and entrepreneurial initiative in those countries that are committed to the fundamental principles of multiparty democracy, pluralism and market economics.⁴ Where countries are not committed to these principles, the Bank develops a strategy for limited involvement. To deliver on its mandate, the Bank focuses its activities on assisting its 35 recipient countries in implementing economic reforms, taking into account the particular needs of countries at different stages in the transition process.

The Bank's overriding focus is the private sector, with a strong operational emphasis on enterprise restructuring, including the strengthening of financial institutions, and the development of the infrastructure needed to support the private sector. The EBRD's charter stipulates that not less than 60% of its financing commitments should be directed either to private sector enterprises or to state-owned enterprises implementing a program to achieve private ownership and control. All of its financing projects have to demonstrate environmental sustainability, as per the Bank's Articles of Agreement. The Environmental and Social Policy is reviewed every three years to help ensure the Bank adopts best practices in all projects.

In promoting economic transition, the Bank acts as a catalyst for increased flows of financing to the private sector, as the capital requirements of these countries cannot be fully met by official multilateral or bilateral sources of financing, and many foreign private investors remain hesitant to invest in the region.

The EBRD differs from other regional development banks in several ways. Firstly, the Bank's overriding focus is on the private sector. Further, the EBRD's mandate gives it an explicit focus on the promotion of democratic institutions in its countries of operations. The EBRD is the only international financial institution with this charter requirement. Finally, the EBRD does not provide concessional financing and poverty reduction is not specifically part of its mandate. However, development of the private sector in its countries of operations should lead to increased employment and thus help reduce poverty.

⁴ Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development.



The EBRD's Operations

The EBRD's operations to advance the transition to a market economy are guided by three principles: transition impact, additionality and sound banking. Financing is provided for projects that expand and improve markets, help to build the institutions that underpin a market economy, and demonstrate and promote market-oriented skills and sound business practices. EBRD financing must also mobilize additional sources of financing and not displace them. Bank projects must be sound from a banking perspective, thus demonstrating to private investors that the region offers attractive returns. Adherence to sound banking principles also ensures the financial viability of the EBRD and hence its attractiveness as a co-investment partner for the private sector. Integrity is another important aspect of the Bank's due diligence in selecting projects.

Operational Priorities

The Bank's medium term operational priorities are premised on: the central importance of creating and strengthening institutions that ensure markets work well; the fundamental role that small businesses can play in creating dynamic, competitive and more equitable economies; and the key role the transition process plays in supporting the principles of multiparty democracy and pluralism.

To achieve these priorities the Bank focuses on:

- Developing market-based and commercially oriented infrastructure.
- Developing sound financial sectors linked to the needs of enterprises and households.
- Providing leadership for the development of lending to micro, small and medium-sized enterprises.
- Demonstrating, through selected examples, effective approaches to restructuring viable large enterprises.
- Diversifying the economic base and developing knowledge-based industries.
- Taking an active approach in its equity investments to improve corporate governance.
- Engaging governments in policy dialogue to strengthen institutions and improve the investment climate.
- Tackling energy efficiency, climate change and energy security.
- Promoting transparency and accountability in public sector management.
- Taking a regional approach where appropriate.
- Promoting sustainable development and environmental due diligence.

Project Finance

The EBRD offers a full array of financial products and services, including:

- Longer term loans.
- Equity investments.
- Quasi-equity instruments (subordinated loans, preferred stock, income notes).
- Guarantees and standby financing.
- Working capital and trade finance facilities.
- Risk management (intermediation of currency and interest rate swaps, provision of hedging facilities).



Eligibility

Eligible projects must be supported by a strong business case, benefit the economy and the transition process of the host country, and comply with the EBRD's environmental guidelines. Projects in all industries are eligible for EBRD financing, except those producing military equipment, tobacco and distilled alcohol. Although it is primarily a financier of private sector projects, the Bank may provide financing to state-owned companies, provided they are operating competitively and, in particular, that such financing facilitates or enhances the participation of private and/or foreign capital in such enterprises. The EBRD can finance private companies that are wholly locally owned or foreign owned, as well as joint ventures between foreign and local shareholders.

In order to ensure the participation of investors and lenders from the private sector, the EBRD generally limits the total amount of debt and equity financing for any single project to 30% of total estimated project costs. In rare cases, such as when a project is in corporate recovery, the Bank may become the largest shareholder in order to protect the EBRD's investment.

Smaller projects are financed both directly by the EBRD and through local financial intermediaries. By supporting local commercial banks, micro-finance organizations, equity funds and leasing facilities, the EBRD has helped finance a multitude of smaller projects.

Fees

The EBRD charges market rates for its private sector financing and provides uniform loan pricing for sovereigns of LIBOR (London Interbank Offered Rate) +100 basis points. In addition, fees vary according to the nature of the project and the amount and complexity of the work required of the EBRD.

Policy Dialogue

The Bank uses its close relationship with governments in the region to promote policies that bolster the business environment. The EBRD advises governments on promoting a sound investment climate and stronger institutional framework, which are important for the functioning of the private sector. This dialogue is typically supportive of projects in which the Bank invests. Specifically, the EBRD works with government officials to promote sound corporate governance, anti-corruption practices, fair and predictable taxation policies and transparent accounting standards. In addition, a dedicated legal team advocates for an effective legal and regulatory framework which is not directly tied to a project.

Technical Cooperation

Technical cooperation improves the preparation and implementation of the EBRD's investment projects and provides advisory services to private and public sector clients. It increases the impact of EBRD projects on the transition process by supporting structural and institutional changes, and it assists legal and regulatory reform, institution building, company management and training.

Technical cooperation is important to the Bank as it enhances investment effectiveness by ensuring thorough preparations and enables the EBRD to take on investment opportunities in higher-risk environments. Technical cooperation projects are managed by the EBRD and funded by the Bank's profits, governments and international institutions.



The EBRD's Governance and Oversight

The highest authority in the Bank is the Board of Governors. The Board meets annually and approves the EBRD's annual report, net income allocation and financial statements, the independent auditor's report, the election of the Chair and Vice-Chair for the next Annual Meeting, as well as other items requiring Governors' approval.

A Governor and an Alternate Governor represent each of the 66 shareholders.

The Board of Directors is responsible for the general operations of the Bank. It is composed of 23 members, with each representing either one member or a constituency of member countries. The Board helps to set the strategic and financial course for the Bank, in consultation with the Bank's management.

Board Committees

The Board of Directors has established four committees that are responsible for overseeing the activities of the Bank: the Board Steering Group, the Audit Committee, the Budget and Administrative Affairs Committee, and the Financial and Operations Policies Committee. This division of labour is consistent with good corporate governance practices and provides an appropriate system of checks, balances and incentives. In addition, the structure ensures a more effective discussion by the Board, once initiatives are ready for approval.

The Board Steering Group is responsible for the coordination of the Committees' work programs to avoid overlap and ensure timely completion. In addition to some administrative duties, the Chair of the Group is the main liaison between the Board and management. The Group is currently chaired by the Belgian Director.

The Audit Committee's primary objective is to ensure that the financial information reported by the Bank is complete, accurate, relevant and timely. The Committee oversees the integrity of the Bank's financial statements and the compliance of its accounting and reporting policies with the requirements set out in the International Financial Reporting System. It also reviews the EBRD's system of internal controls and its implementation, as well as the functions of the internal audit, evaluation and risk management teams. The Committee is currently chaired by the Greek Director.

The Budget and Administrative Affairs Committee is responsible for ensuring that the Bank's budgetary, staff and administrative resources are aligned with its strategic priorities. To this end, the Committee reviews the medium term resource framework, annual budgets and the business plan. It also oversees the Bank's human resources policies, including ethics and the Code of Conduct. The Committee is currently chaired by the Spanish Director.

The Financial and Operations Policies Committee oversees the Bank's financial and operational policies, including the annual borrowing plan prepared by the Treasury Department. The Committee is responsible for the transparency and accountability of the Bank's operations, as laid out in the 2006 Public Information Policy. Since 2007, the Committee has also been charged with overseeing the net income allocation process. As well, it is responsible for the Bank's Environmental and Social Policy and EBRD sector strategies. The Committee is currently chaired by the Norwegian Director.



For More Information on the EBRD

The Bank releases considerable information on its various activities. Bank publications include information guides (such as *Guide to EBRD Financing*), evaluation reports, special reports (such as the *Annual Report* and *Transition Report*), country strategies and assorted fact sheets.

Information can also be obtained on the Bank's website (<http://ebrd.com>).

Requests for information can be addressed to:

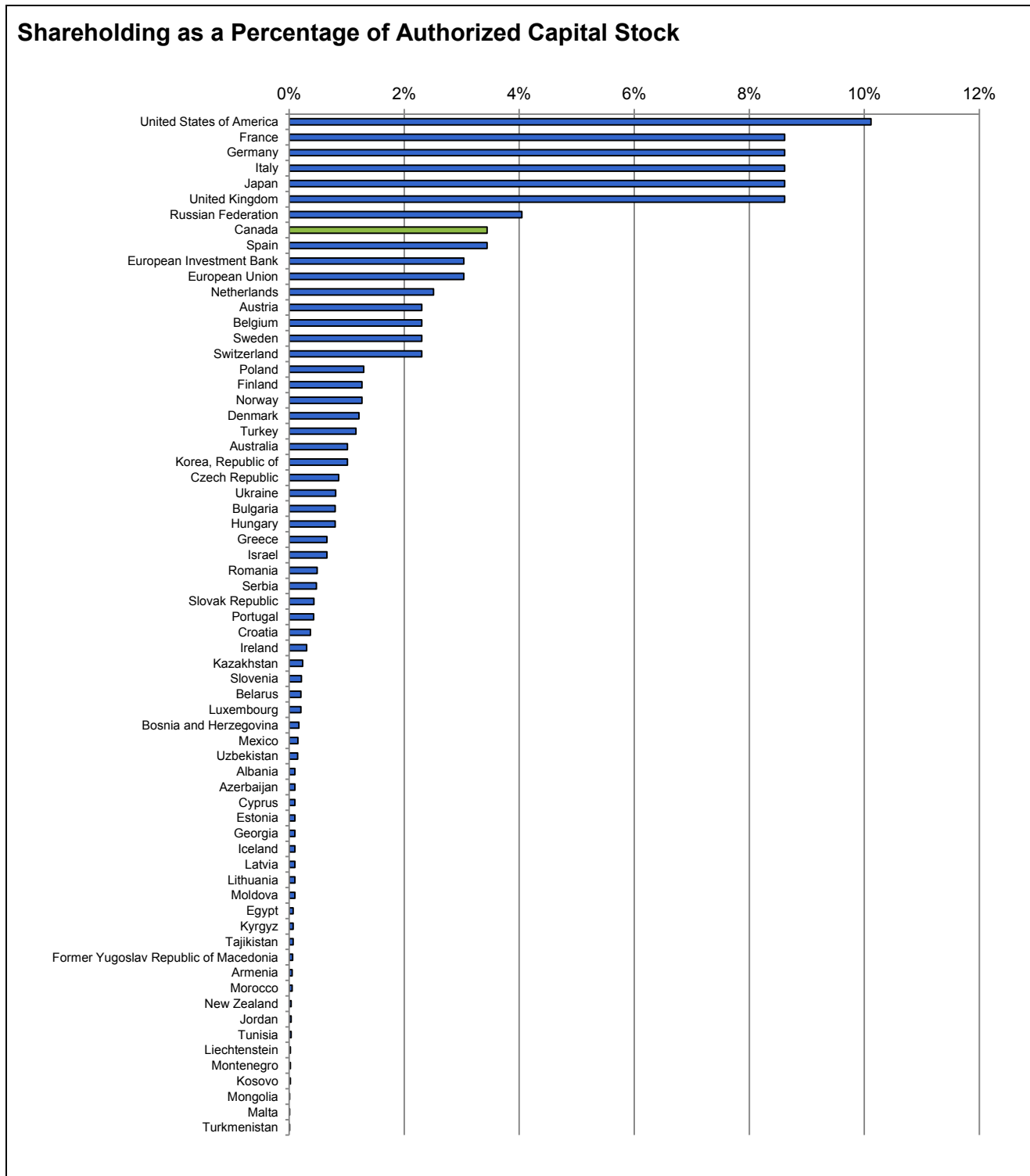
Publications Desk
European Bank for Reconstruction and Development
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Or to: Office of the Director for Canada, Jordan, Morocco and Tunisia
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The EBRD's Membership

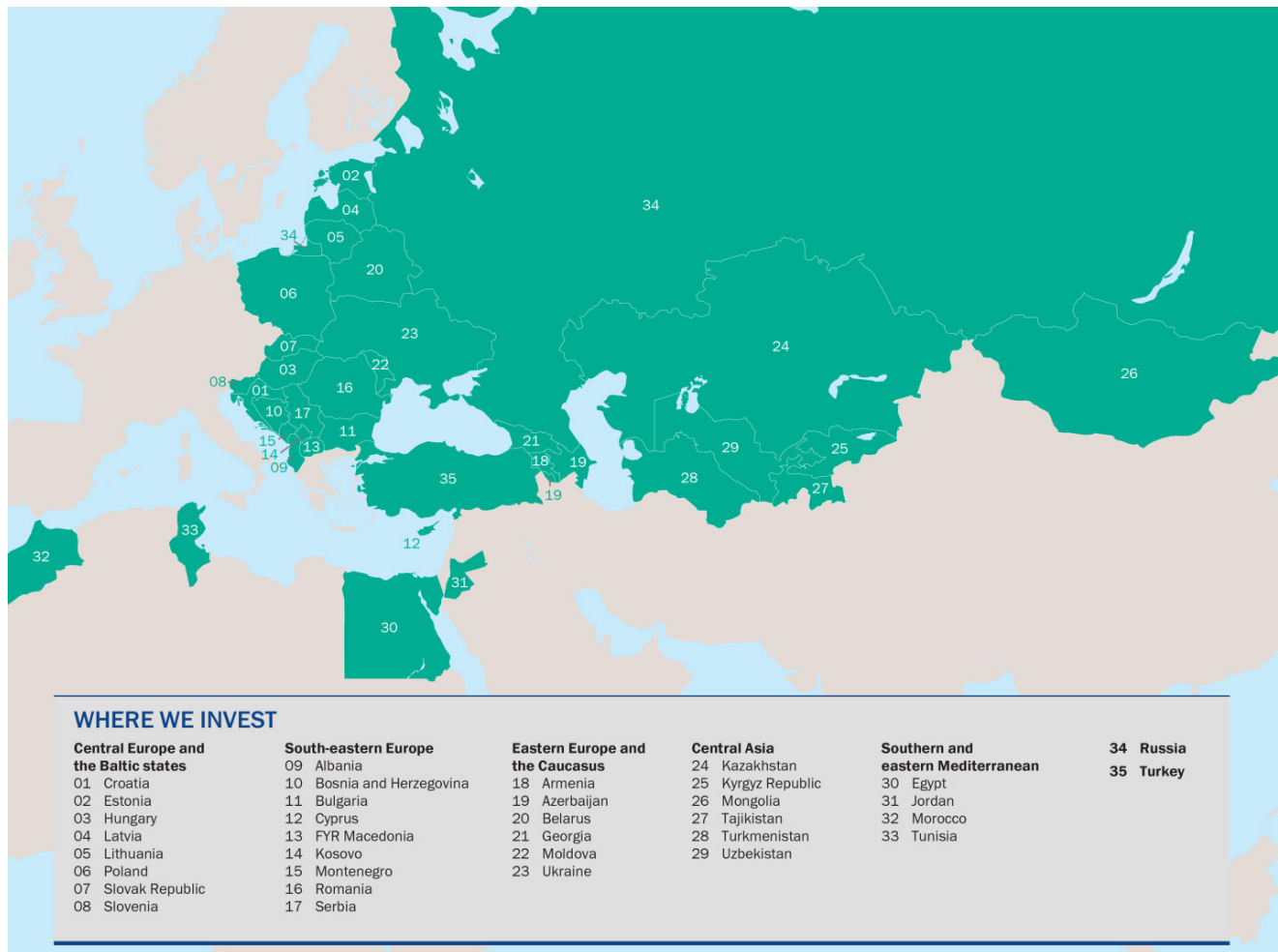
The EBRD's share capital is provided by member countries, with proportional voting rights. The chart below provides shareholdings as at December 31, 2014.





Countries of Operations

The EBRD has 66 shareholders: 64 countries, the European Union and the European Investment Bank. In 2014, the EBRD invested in more than 30 countries,⁵ including Egypt, which is a potential country of operations and therefore receives EBRD support from a special fund.



Source: EBRD, About the EBRD: We Invest in Changing Lives, March 2014.

⁵ Uzbekistan did not receive EBRD support in 2013 or 2014.



Annex 2

Canada and the EBRD

Canada's relationship with the EBRD is governed by the European Bank for Reconstruction and Development Agreement Act, which outlines Canada's responsibilities with respect to the EBRD. In particular, it requires the Minister of Finance to table in Parliament an annual report of operations at the EBRD for the previous calendar year by March 31 (or, if the House is not sitting, on any of the 30 days thereafter that it is sitting).

Canada's Contribution to Ordinary Capital Resources

Canada is the eighth largest shareholder of the EBRD, with its shares representing 3.4% of the institution's capital. This amounts to €1.02 billion of the Bank's capital, €213 million of which is paid-in capital, with the remaining shares being callable capital.

Oversight and Representation

The principal responsibility for oversight of the EBRD's key activities resides with the Department of Finance. The Department of Finance coordinates Canadian policy advice and manages Canada's strategic interests at the EBRD in consultation with the Department of Foreign Affairs, Trade and Development.

Canada's representation at the EBRD—The Honourable Joe Oliver, Minister of Finance, is the Canadian Governor and Mr. Daniel Jean, Deputy Minister of Foreign Affairs, is the Alternate Governor. As of January 7, 2013, Canada's resident representative on the EBRD Board of Directors is Ms. Claire Dansereau. Mr. Rob Stewart, former Assistant Deputy Minister of International Trade and Finance at the Department of Finance, represented Canada as the Temporary Alternate Governor at the 2014 EBRD Annual Meeting in May in Warsaw, Poland.

Canada's constituency at the EBRD—The Director for Canada represents Morocco, Jordan and Tunisia at the EBRD Board of Directors.

Canadian staff at the EBRD—Canadians are well represented on EBRD staff. At the end of 2014, there were 43 Canadians on the staff of the EBRD, representing 2.3% of total positions.

Benefits of Membership

Canada's membership in the EBRD, and its active participation in the discussion of policy and operational issues, is an important means to help shape economic and social development in the EBRD's countries of operations. Canada strongly supports the overriding objective of developing a strong private sector in its countries of operations by mobilizing financing for projects with a high transition impact and by providing advice and technical assistance to businesses and governments. The Bank provides Canada with a vehicle to contribute to development in transition countries that are not currently part of our bilateral development assistance programs. Canada's engagement helps to raise awareness among Canadian companies of opportunities presented by the EBRD.



Canadian companies can seek financing for projects undertaken in the Bank's countries of operations. The Bank often relies on the procurement of goods and services from the private sector to implement transition projects. Canadian consultants were awarded contracts valued at €1,199,083 in 2014. Further, one EBRD investment was signed with a Canadian company in 2014, totalling approximately €4 million. Finally, Canadian financial firms provided approximately €62 million in co-financing in support of three other EBRD projects.

Canadian Bilateral Assistance in EBRD Countries of Operations

In order to increase the effectiveness of its programming, the Government of Canada focuses its bilateral development assistance efforts on a limited number of countries. In the EBRD's region of operations, efforts are concentrated in Ukraine and Jordan, as development countries of focus, and in Egypt and Morocco, as development partner countries.

Ukraine—Ukraine was reaffirmed as one of Canada's 25 countries of focus for development programming in 2014. Since Ukraine's independence in 1991, Canada has contributed more than \$493 million in bilateral development assistance. In 2014, Prime Minister Stephen Harper announced that Canada was increasing bilateral development assistance to Ukraine, more than doubling the budget over historic levels. Canada is a leading development partner for Ukraine in judicial reform, agricultural reform, economic and financial sector reform and juvenile justice.

Since the onset of the crisis, Canada has expedited and increased support to Ukraine, including a \$200 million loan to help the Ukrainian government stabilize the economy, and over \$140 million in new bilateral development assistance projects to strengthen democracy, the rule of law and sustainable economic growth. Canada continues to stand with those Ukrainians who believe in freedom, democracy, human rights and the rule of law.

Jordan—In response to the influx of Syrian refugees into Jordan, Canada increased its development assistance in June 2013, from what had been an average of \$7 million per year to commitments totalling \$185 million over five years. An additional \$25 million was later committed to Jordan and Lebanon to build the resilience of communities and restore service delivery to pre-crisis levels. Canada's increased bilateral assistance for Jordan reinforces long term development objectives in education and support for sustainable economic growth.

As of 2014, Canada is also providing the following support to Jordan:

- \$48 million in security and stabilization assistance initiatives in Jordan, including material support such as vehicles and equipment, to the Jordanian Gendarmerie Forces, the Public Security Directorate and Civil Defence to effectively secure the Za'atari and Azraq refugee camps. In addition, Canada provided support to the Jordanian Armed Forces with equipment to assist their operations on the northern border.
- \$76.76 million in humanitarian assistance, which includes the provision of emergency shelter, psychological support, safe water and improved sanitation facilities through experienced humanitarian partners, such as CARE Canada, Oxfam-Québec and Handicap International.
- \$185 million in development assistance to strengthen government services and infrastructure stressed by the influx of Syrian refugees—specifically in health, education and the delivery of basic services, as well as to address Jordan's specific development challenges.



Egypt—Egypt is one of Canada’s development partner countries. Canada has disbursed a total of \$49.6 million in programming to Egypt from 2009 to 2014. This programming has focused on the promotion of sustainable economic growth by supporting small and medium-sized businesses and improving the employability of marginalized people.

Canada has also increased its planned financial allocations to support sustainable economic growth programming over the next five years. This assistance is intended to advance new priority initiatives to (1) support the growth and competitiveness of Egypt’s micro, small and medium enterprise sector, (2) align vocational training programs with local labour market needs, (3) support women’s economic empowerment through better access to employment and (4) advance economic growth. With these new commitments, Canada’s development assistance program in Egypt will increase from \$3.4 million that was disbursed in 2013–14 to an expected \$12.1 million in 2014–15.

As part of Canada’s comprehensive humanitarian response to the regional impact of the Syrian crisis, a special allocation was approved for \$20 million of development assistance for Egypt over two years.

Morocco—Morocco is one of Canada’s development partner countries. Since 2009, Canada has contributed over \$32 million in bilateral development assistance to Morocco. In 2013–14, the Department of Foreign Affairs, Trade and Development’s Morocco Development Program disbursed \$9 million. The Program’s main objective is to support the implementation of Moroccan reforms in priority sectors, including strengthening the government’s capacity to provide high quality education for young women and men and reinforcing their ability to respond to challenges related to youth employability. Programming results include strengthening educational reforms, such as the decentralization of the education system, defining a vocational training management framework based on the Canadian skills-based approach, and reinforcing the institutionalization of systemic gender equality approaches. The Program is now planning to intensify its effort in the sector of sustainable economic growth, while continuing to support education and vocational training reforms.

Multilateral and Civil Society Organizations

Other EBRD recipient countries benefit from the Government’s support to multilateral organizations, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and Gavi, the Vaccine Alliance, as well as from contributions to Canadian and international civil society partners.

In 2013–14, the development portfolio of the Department of Foreign Affairs, Trade and Development provided approximately \$39.6 million to 31 Canadian civil society organizations, implementing 44 projects in 11 EBRD recipient countries: Armenia, Azerbaijan, Egypt, Georgia, Jordan, the Kyrgyz Republic, Mongolia, Morocco, Tajikistan, Turkey and Ukraine. The most active Canadian partners, by number of projects and expenditure volumes, included Save the Children Canada, World Vision Canada, Aga Khan Foundation Canada and Oxfam-Québec. The majority of the funding was provided as humanitarian assistance to help Syrian refugees in neighbouring countries. The main sectors of programming in the EBRD’s recipient countries where these civil society organizations are active include humanitarian aid, democratic governance and education.



Canada Fund for Local Initiatives and Global Peace and Security Fund

Bilateral programming is also delivered through the Canada Fund for Local Initiatives (CFLI) and the Global Peace and Security Fund (GPSF).

The CFLI assists in financing small local projects in countries appearing on the Organisation for Economic Co-operation and Development's Development Assistance Committee List of Official Development Assistance Recipients, including 18 of the EBRD's countries of operations. CFLI projects are designed and implemented by local civil society organizations. In 2013–14, the CFLI funded 58 projects in the EBRD's countries of operations for a total value of \$1.25 million. Project themes included: supporting democratic transition, including expanded participation by women; protecting human rights and fundamental freedoms, including those of the lesbian, gay, bisexual and transgender communities; and preventing sexual violence and child, early and forced marriage.

Through the GPSF, over \$12.9 million was provided to 6 EBRD countries of operations in 2013–14. Initiatives supported a variety of areas, including security in Jordan, regional cooperation across Central Asia, independent media in Belarus, election observation in Ukraine, Tunisian constitutional reform, women's political participation in Tunisia and Jordan, and a rule of law project in Kosovo. In Ukraine, for example, \$400,000 was provided to deploy 20 Canadian observers, including Canadian parliamentarians, to observe the 2013 repeat December parliamentary elections in five districts, where the original results were considered fraudulent.



Annex 3

Governor's Statement at the 2014 Annual Meeting

**Statement by Mr. Rob Stewart,
former Assistant Deputy Minister, International Trade and Finance, Department of
Finance, and Temporary Alternate Governor for Canada in 2014,
at the EBRD Annual Meeting
Warsaw, Poland, May 15, 2014**

Canada would like to thank the Government of Poland for their hospitality in hosting the 23rd Annual Meeting of the European Bank for Reconstruction and Development. Over the past 25 years, Poland has been a leader in the region's transition to multiparty democracy and market systems. Canada is grateful for the opportunity to reflect upon this history in Warsaw.

Canada recognizes the unique role that the EBRD has played in helping to build capital markets, support foreign direct investment and foster growth of local small and medium-sized business in recipient countries. Despite facing a challenging economic and political environment, the EBRD concluded a successful year in 2013.

Last November the EBRD turned a page in its history, as Jordan, Morocco and Tunisia became official countries of operations at the Bank. Canada has been fully supportive of the Bank's expansion into the Southern and Eastern Mediterranean region. Given the significant transition needs in the region, Canada is pleased that investment levels there have been rising and we look forward to further increases. Canada also welcomes Libya's recent membership request and looks forward to considering, in due course, both Libya and Egypt as possible countries of operation.

Chief among the challenges facing the EBRD is the crisis in Ukraine. As a significant financial investor in the country, the EBRD plays an important role in supporting Ukraine's transition to an open, market-oriented economy, while reinforcing democratic progress over time. Canada is pleased that the EBRD has moved quickly to provide financing for projects in the country, given the current situation. In responding to the crisis in Ukraine, the Bank should work closely with other international financial institutions, including the International Monetary Fund and the World Bank Group, to ensure that support can be delivered efficiently, effectively and in a coordinated manner.

With the end of the fourth review period of the Bank's capital resources nearing in 2015, Canada welcomes the opportunity to help shape the EBRD's medium term directions. Further, we are supportive of streamlining the Bank's medium term planning process and introducing greater efficiency in implementation through the One Bank modernization process. Canada considers increased efficiency to be one of the highest priorities.

In order to address transition gaps effectively, it will be important for the EBRD to target its medium term strategy to the areas and countries of greatest need, where the environment for democratic transition is fertile, such as in Ukraine and the SEMED region. It is imperative that the medium term direction demonstrate a firm commitment to the timely graduation of advanced countries, and lead to real progress on the Bank's graduation target. As such, Canada welcomes the post-graduation operational approach and commends Estonia for developing the first Action Plan under this approach.



The recent requests for EBRD support from member and non-member countries alike are a testament to the widely recognized and positive impact of the EBRD's operations. Given increasing interest in EBRD support, including from the Southern and Eastern Mediterranean, it will be important to discourage future requests from advanced Eurozone countries. In Canada's view, discussions and agreement on how to treat such requests should they arise in the future would go a long way to ensure fairness and consistency with the EBRD's transition mandate. We must also recognize the trade-offs and need for prioritization in the use of EBRD resources when considering further requests.

Canada welcomes the level of Governor engagement on the medium term directions and new planning process to date. We look forward to continued involvement prior to the approval of the next multi-year planning document, expected in 2015. Canada also welcomes the ongoing review of the Board of Directors' composition, which is currently underway following the Governors' Resolution at last year's annual meeting in Istanbul.

Finally, in the years ahead the EBRD will have the opportunity to work with other Multilateral Development Banks to complement private sector efforts in facilitating infrastructure investment. Canada encourages the Bank to continue using its expertise and convening power to further mobilize resources and stakeholders in support of high-transition impact infrastructure investments in areas with the greatest need, including projects with public-private partnership components.

Canada extends its sincere thanks to President Chakrabarti, as well as EBRD staff, management and Directors. The last year has been a year of achievement for the EBRD, and for that, we are grateful for the hard work and efforts of the Bank team in London and abroad.

There is one last point, which cannot be ignored. As long as Russia continues to illegally occupy Ukraine, there can be no "business as usual". Canada continues to strongly condemn Russia's illegal occupation of Crimea and its ongoing efforts to destabilize southern and eastern Ukraine. These actions are a clear violation of Ukraine's sovereignty and territorial integrity. Russia must not continue to interfere in the affairs of a sovereign state. If this pattern persists, Russia will continue to face increased isolation from the international community and suffer further serious consequences as a result of its actions.

The Government of Canada has limited its bilateral engagement with Russia and has suspended, along with our G-7 partners, participation in the planned Sochi G-8 Summit. Canada has imposed a series of sanctions under the Special Economic Measures Act against Russian individuals who bear responsibility for the crisis in Crimea. Canada has indicated its readiness to intensify actions against Russia, in response to further Russian provocations. We ask that the EBRD and its members take note of Canada's actions and commitment to addressing this issue through appropriate international fora, including the EBRD.