



Department of Finance
Canada

Ministère des Finances
Canada

CANADA AT THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

2010

REPORT ON OPERATIONS UNDER THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT AGREEMENT ACT



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Foreword by the Minister of Finance

I am pleased to present *Canada at the European Bank for Reconstruction and Development 2010: Report on Operations Under the European Bank for Reconstruction and Development Agreement Act*. This report summarizes an extraordinary year in the history of the European Bank for Reconstruction and Development (EBRD) and Canada's ongoing commitment to effective, accountable and efficient international financial institutions.

In producing this report, the Government is providing Members of Parliament and all Canadians with a comprehensive account of Canada's role at the EBRD. The Government continues to focus on three fundamental objectives:

- Ensuring institutional effectiveness.
- Promoting good governance and accountability.
- Encouraging environmental sustainability and gender equality.

Nations around the world turn to international financial institutions like the EBRD during times of instability such as the recent financial crisis. This is why, for example, one of the key priorities at the Toronto Group of Twenty (G-20) summit in June 2010 was to strengthen international financial institutions in order to respond to the urgent needs of their borrowers.

This report provides a detailed account of the effects of the financial crisis on the EBRD's countries of operations and the Bank's key role in supporting these countries. It also describes the outcomes of the Bank's fourth Capital Resources Review, which was finalized this past year and has equipped the Bank with the mandate and resources required for its operations during 2011–2015.

As a fragile global recovery takes hold, it is important that the EBRD continue to play a central role in its countries of operations. As a major shareholder and member of the Board of Governors of the EBRD, Canada will maintain a high degree of engagement and support in the years to come.

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance



Overview

The European Bank for Reconstruction and Development (the EBRD or the Bank), which was created in 1991, is a unique, project-oriented institution that focuses on developing the private sector and strengthening market-supporting institutions in Central and Southeastern Europe, the successor states of the former Soviet Union, Mongolia and Turkey. In pursuing these objectives, the EBRD operates only in countries that are committed to the fundamental principles of multi-party democracy, pluralism and market economics.¹ For further information see the section entitled “Background on the EBRD.”

As a founding member and the eighth largest shareholder of the Bank, Canada actively contributes to the development of Bank policies and provides oversight of its financial activities. It does so primarily through its seat on both the Board of Governors and the Board of Directors (representing a constituency that includes Morocco) and its participation in the work of various committees. Canada’s priorities for the Bank are informed by a commitment to the Bank’s underlying mandate, Canadian government policy objectives, and input from civil society. These priorities are described in the section entitled “Canada’s Priorities and Desired Outcomes for 2011–2012.”

Canada has a vested interest in seeing that the EBRD remains a strong, effective and accountable institution. The development of open, market-oriented economies with strong democratic institutions is a critical component to peace, stability and prosperity in the region. Our membership in and financial support for the EBRD provide Canada with the opportunity to advance the transition process in the region.

The Bank’s operations are guided by four core principles: transition impact, additionality, sound banking and environmental sustainability. The EBRD’s activities foster the transition towards open and democratic market economies. The Bank should act as a catalyst for increased flows of financing to the private sector while adhering to principles of good financial governance and ensuring the effective use of capital. Finally, the Bank’s operations should be socially and environmentally sustainable.

The EBRD has a long history of implementing its strategic objectives through responsible investments, good governance and cooperation with other international financial institutions. 2010 proved to be no exception. During the financial crisis of 2008–2009, net capital flows in emerging Europe ranged from -4 per cent to -35 per cent of gross domestic product (GDP).² The EBRD responded by increasing the number of projects and the volume of investments in the region to record levels in 2010, to 386 and €9 billion respectively. In doing so, the EBRD played a critical role in mitigating the economic crisis and establishing a foundation for recovery.

Also in 2010, the Board of Governors approved the fourth Capital Resources Review (CRR4), establishing the Bank’s strategic objectives for 2011–2015. A central component of the agreement was the decision to provide the EBRD with a temporary capital increase of €10 billion (a 50-per-cent increase) to respond to the urgent demand for the Bank’s resources and expertise resulting from the crisis. The increase was consistent with a broader commitment by the G-20 Leaders to ensure that multilateral development banks “have sufficient resources to continue playing their role in overcoming the crisis.”³

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 International Monetary Fund, *Regional Economic Outlook: Europe, Building Confidence*, October 2010.

³ Declaration by G-20 Leaders, Washington, DC, November 15, 2008.



Additionally, CRR4 ensures that the Bank will continue to foster transition by strengthening its role in key areas such as: promoting the development of local currency capital markets; supporting micro, small and medium-sized enterprises; improving energy efficiency; and developing energy, municipal and transport infrastructure.

In 2010 the Bank also had a strong financial performance: after net losses in 2008 and 2009, the EBRD recorded a profit of over €1 billion in 2010. This positive financial performance took place in the context of a challenging operating environment and a still-fragile global economic recovery.

Looking ahead to 2011, this report makes clear that the EBRD is in a strong position to continue to foster transition towards open, democratic, market-oriented economies in its countries of operations.



What Happened in 2010

Recovery and Reform in the EBRD's Countries of Operations

The countries in which the EBRD invests were among those that were the hardest hit by the recent financial crisis. Many of the Bank's countries of operations were plunged into their worst recessions since the early 1990s. Signs of recovery began to appear over the course of 2010, albeit at a more sluggish pace than in other emerging markets. The pace of the recovery was also uneven within the region.

The crisis continues to weigh heavily on the region. Domestic demand did not begin to reverse its decline until mid-2010. Business confidence dropped sharply and remains low. As a result of a high level of non-performing loans, investment and credit growth in the region has been weak. Unemployment remains high, mitigated somewhat by a resumption of remittance flows.

Foreign financing, which had dried up quickly during the crisis, has begun to flow back into the region. The resumption of inflows has been gradual, however, in large part due to eurozone financial institutions facing higher capital adequacy rules, economic uncertainty over the stability of certain European Union (EU) economies, and the introduction of new regulatory and taxation initiatives targeted at the financial sector.

Fiscal consolidation continues to be a pressing need, particularly among the larger economies and those with pre-crisis fiscal surpluses (Azerbaijan, Kazakhstan, Poland, Russia, the Slovak Republic and Turkey) that implemented fiscal stimulus packages in 2009 and/or 2010. Other countries, notably the Baltic states and Montenegro, have already implemented fiscal adjustment packages to address large deficits resulting from the crisis. Although such measures are necessary for medium-term growth, they will likely cause a drag on the recovery in the short term.

More encouragingly, a recovery in net exports has helped some economies in the region return to modest growth, particularly exporters of commodities and heavy machinery and those with strong trade links to Germany. Central Asia is expected to grow more quickly as a result of stronger commodity prices, while the recovery in Southeastern Europe is projected to be more modest.

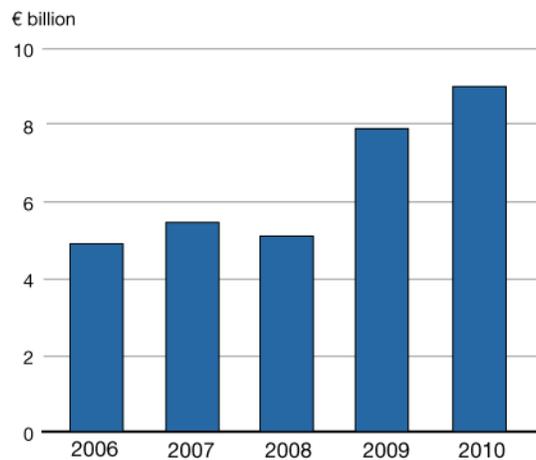
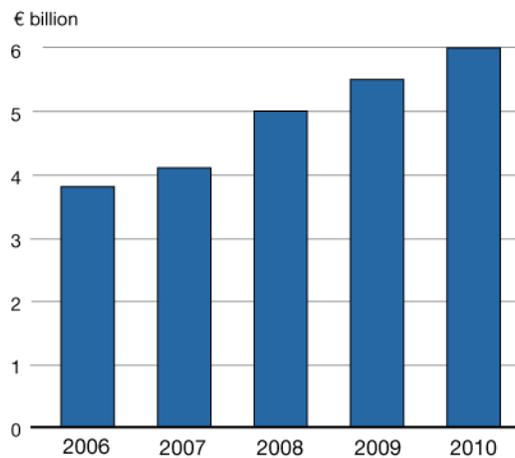
Despite positive signs, vulnerabilities remain both domestically—in the form of high levels of foreign-currency-denominated domestic debt, for example—and externally, notably through the sovereign debt problems facing certain EU countries, which could have spillover effects. Nevertheless, through prudent policymaking and the assistance of international institutions like the EBRD, the region is expected to make a steady recovery.

The EBRD's Response to the Crisis

Throughout 2010 the EBRD continued to provide a strong response to the financial crisis in the countries where it invests. Business volume was ramped up to finance a record number of projects (386, up from 311 in 2009) and increase overall commitments to record levels (€9.0 billion, up from €7.9 billion in 2009). The EBRD's annual disbursements also reached a record high of €6 billion in 2010.



Chart 1

EBRD Commitments, 2006–2010**Gross Annual Disbursements, 2006–2010**

Operational intensity has increased as the average size of new commitments has decreased. In particular, the number of projects valued at over €100 million has declined significantly, representing only 9 per cent of total projects by the third quarter of 2010 (compared to 35 per cent in 2009).

Geographically, the Bank continues to push east and south. In 2010, the number of projects in the Early Transition Countries⁴ rose to 114 from 83 in 2009, with investments valued at around €920 million. In the Western Balkans, another priority area, business volume rose 43 per cent to just over €1 billion. This geographic shift has increased the complexity of individual projects: activities are increasingly taking place in countries with more challenging operating environments and increased risk profiles.

In addition to facilitating short-run economic recovery, the Bank continues to work to ensure that growth is sustainable in the long run. Thus, investments under the EBRD's Sustainable Energy Initiative, which supports energy efficiency as well as the promotion of renewable energy sources, rose 64 per cent to €2.2 billion in 2010, accounting for nearly a quarter of total Bank financing.

Enterprises in the region require greater access to funding to help them emerge from the crisis. The Bank's financing of the corporate sector accounted for 25 per cent of total investments. The Bank also directed 34 per cent of overall financing to protecting the financial sector, including bank loans for on-lending to small and medium-sized enterprises.

Finally, the Bank returned to profit in 2010, netting a gain in excess of €1 billion following a net loss of €746 million in 2009. This positive performance took place despite a very challenging investment climate.

The EBRD plans to maintain a high level of investments in 2011. Specifically, it will seek to help promote more balanced economies by supporting economic diversification, particularly away from an excessive dependence on a limited number of raw materials or product lines. The EBRD will also continue to help develop local capital markets to reduce reliance on foreign currency funding.

⁴ Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.



The EBRD's Fourth Capital Resources Review

The Agreement Establishing the European Bank for Reconstruction and Development stipulates that the Board of Governors shall review the capital stock of the Bank at intervals of not more than five years. In response to the crisis and the G-20 commitment to ensure adequate resources were available for all multilateral development banks, the fourth Capital Resources Review (CRR4) was advanced by one year and finalized at the EBRD's Annual Meeting in May 2010 in Zagreb, Croatia.

A key outcome of CRR4 was the decision by the Board of Governors to temporarily increase the Bank's total authorized capital from €20 billion to €30 billion. The increase was approved primarily to provide the EBRD with more resources to respond to the urgent increase in regional demand due to the financial crisis. Canada played an instrumental role in proposing a compromise solution that was ultimately adopted and in helping to negotiate the successful resolution of the capital increase.

€1 billion of the increase consists of a reallocation of the Bank's reserves to paid-in shares. The remaining €9 billion consists of a temporary increase in callable shares, or guarantees against which the Bank can borrow on international capital markets. The temporary increase in callable shares will be reviewed every five years, starting in 2015, with the shares being redeemed as soon as the EBRD's financial situation allows.

The review also reiterated that the Bank will remain focused on its core competencies while expanding or strengthening components of its work to respond to the lessons of the financial crisis. One of the most important of these lessons is that private sector development requires institution building at the state level as well as in the private sector. Well-functioning market economies require high quality market-supporting institutions. EBRD member countries recognize that building these institutions is a long-term and complex process. They will support the Bank as it develops a strategic approach to institutional reform within its available resources and in a manner that is consistent with its project-oriented nature.

The strategic objectives of the Bank during the CRR4 period (2011–2015) are to:

- Achieve significant and resilient transition impact across its countries and sectors of operations, taking into account the implications of the crisis for the region and for the Bank.
- Continue to develop the “east and south” portfolio, paying particular attention to the Early Transition Countries and the Western Balkans while building up a new portfolio in Turkey.
- Promote the development of the corporate sector by supporting economic diversification and competitiveness, including fostering the region's agricultural and knowledge-based potential.
- Contribute actively to the stability and development of the financial sector in support of the real economy, including the build-up of local financial markets.
- Participate in the replacement, upgrading and development of the energy, municipal and transport infrastructure of the region.
- Improve energy efficiency and help to address the challenge posed by climate change by supporting the transition to a low carbon economy in the region.

The review also highlighted the importance of collaboration among international financial institutions, proposing that they develop guidelines for cooperation.



Canada and the EBRD

Canada's representation at the EBRD—The Honourable James M. Flaherty, Minister of Finance, is the Canadian Governor and Mr. Morris Rosenberg, Deputy Minister of Foreign Affairs, is the Alternate Governor. Canada's resident representative on the EBRD Board of Directors is Ms. Suzanne Hurtubise. Mr. Brian Parrott is the non-resident Alternate Director. The Honourable Ted Menzies, Minister of State (Finance), has represented Canada as the Temporary Alternate Governor at the EBRD's Annual Meetings in 2008, 2009 and 2010.

Our constituency at the EBRD—The Canadian Director also represents Morocco on the Board of Directors.

Canadian staff at the EBRD—Canadians are well represented on EBRD staff. At the end of 2010, there were 31 Canadian professionals on the staff of the EBRD, representing 2.9 per cent of total professional positions, just under Canada's 3.4-per-cent share of the institution's capital. Canadians fill the senior positions of Deputy Chief Compliance Officer, Director of Planning and Portfolio for Financial Institutions, and Director of the Early Transition Countries Initiative.

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 regional standards and regulations in the EBRD's 29 countries of operations. By supporting continued political and economic reform, Canada is contributing to the countries of operations' stability and integration into the world economy.

Canada shares with the Bank 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. Through its participation in the EBRD's Board of Directors and Board of Governors, Canada has been able to press for greater attention to governance issues in the Bank's operations. Moreover, Canada has been able to help shape the environmental and social safeguards that govern the EBRD's lending.

Given Canada's decision to focus its development assistance in fewer countries as per aid effectiveness principles, Ukraine was selected as the only country of focus in Europe. The Bank therefore provides Canada with a vehicle to reach transition countries that are not currently part of our bilateral development assistance programs.

Canada is interested in raising 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 consulting firms have been successful in winning EBRD-financed contracts. Canadian consultants were awarded 68 contracts in 2010 (up from 52 in 2009) valued at €1,306,265 (down from €2,293,097 in 2009). Canadian companies have also successfully invested in the countries of operations with the EBRD's assistance. In 2010, the EBRD provided loans and equity worth \$215 million to Canadian companies.



Role of Canadian Government Departments

The 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 Foreign Affairs and International Trade Canada and the Canadian International Development Agency.

Canada's Contribution to Ordinary Capital Resources

As noted earlier in the report, in May 2010 the Board of Governors voted to temporarily increase the Bank's total authorized capital from €20 billion to €30 billion. €1 billion of the increase consists of a reallocation of the Bank's reserves to paid-in shares. This reallocation took effect on May 14, 2010. As the shares were distributed among members based on existing shareholdings at the Bank, there is no impact on relative voting share.

The remaining €9 billion consists of a temporary increase in callable shares. The subscription to callable shares is expected to be finalized by mid-2011. Canada has indicated to the EBRD its intention to subscribe to its share of the callable capital and expects to complete the subscription in advance of the April 30, 2011 deadline.

Canada is the eighth largest shareholder of the EBRD, contributing 3.4 per cent of the institution's capital. Currently, this represents €714 million⁵ of the Bank's capital, which will increase to €1.02 billion once the subscription to callable shares is completed. €208 million of this amount is paid-in capital (the equivalent of 20 per cent of the total once the capital increase is finalized), with the remaining shares being callable capital.

Prior to 2010, Canada's paid-in capital was provided in a series of instalments of cash and non-interest-bearing demand notes, which were then encashed over a five-year period. Payments were made in eight equal annual instalments (40 per cent in cash and 60 per cent in non-interest-bearing demand notes encashed over five years). Canada made its last payment of the previous capital subscription to the EBRD in June 2009. No further paid-in capital payments are anticipated for the 2011–2015 period.

⁵ This is an increase of €34 million over 2009 (3.4 per cent of the €1-billion reallocation of reserves to paid-in capital).



Table 1
Canadian Payments at the EBRD

Year	Total cash payments in US\$ (includes note encashment and cash payments)	Total cash payments in C\$¹ (includes note encashment and cash payments)
1991	23,807,004	27,278,065
1992	15,871,336	19,177,335
1993	19,839,170	25,588,561
1994	23,807,004	32,517,987
1995	23,807,004	32,677,494
1996	7,935,668	10,821,077
1997	3,967,334	5,492,325
1998	6,315,572	9,366,645
1999	7,773,010	11,549,451
2000	9,230,449	13,709,085
2001	10,687,891	16,549,305
2002	12,145,331	19,072,539
2003	12,145,331	17,021,217
2004	12,145,331	15,807,394
2005	12,145,331	14,715,677
2006	5,829,759	6,611,492
2007	4,372,320	4,699,291
2008	2,914,880	3,107,304
2009	1,457,440	1,637,871

¹ Exchange rates are based on Bank of Canada annual noon exchange rate averages.



Canada's Contribution to Special Funds

In addition to a loan or equity investment, the EBRD often supports its clients with advice on project preparation and effective implementation. This advice is often paid for out of special funds, or Technical Cooperation Funds, which are set up by donor countries and international institutions and are managed by the Bank, or out of the Shareholder Special Fund. These funds mobilize investment capital and expertise in the EBRD's countries of operations by giving local business access to consultant experts. The consultants assist in the preparation of projects and strengthen local management know-how. They also develop environmental strategies and work to improve the legal framework in which businesses operate.

The Canadian International Development Agency (CIDA) has been a major contributor to the EBRD's Technical Cooperation Funds, contributing about €40 million since the EBRD was established in 1991. Canada's support has been channelled through its own regional funds and through multilateral donor initiatives.

CIDA's aid effectiveness agenda is to focus its assistance on fewer countries with greater needs. Therefore, the agency's regional program in Europe will conclude by 2012.

In 2010, Canada closed its bilateral funds and withdrew from the following multi-donor funds:

Early Transition Countries Multi-Donor Fund—This fund targets Bank programming in the EBRD's poorest countries of operations (Mongolia, Moldova, Azerbaijan, Armenia, Georgia, Tajikistan, the Kyrgyz Republic and Uzbekistan). It is the first EBRD funding mechanism to be classified as official development assistance by the Development Assistance Committee of the Organisation for Economic Co-operation and Development. Since 2004, Canada has contributed C\$1.7 million to this untied fund.

Western Balkans Multi-Donor Fund—This fund, which was established in 2006, is active in Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia (including Kosovo). It focuses on technical support to prepare and implement investments that are important for economic growth, regional cooperation and integration with the EU. Priority areas are energy, transport, the environment, private sector development and institution building. In 2009 this fund merged with EU and European Investment Bank funds to create the Western Balkans Infrastructure Fund to enable better coordination among donors.

Canadian Technical Cooperation Fund—The main purpose of this fund is to provide financing to hire consultants for EBRD projects across a wide range of sectors and EBRD countries of operations. Canada has transferred C\$21 million to the EBRD for technical cooperation since 1992. Canada's contribution was renewed in 2006. The fund has allowed for technical cooperation in Armenia, Georgia, Russia and Ukraine. The sectors of focus include the environment, private sector development and municipal governance. Canada also supported the Russia Small Business Fund (below) through its contribution to the Canadian Technical Cooperation Fund.

TurnAround Management Programme—The TurnAround Management Programme was established in 1993 to match senior industrial advisors from market-driven economies with chief executives of selected firms in the region that are in financial difficulty. The objective has been to provide management know-how and develop business skills so that these companies can become competitive and profitable. Canada has contributed C\$3 million to this fund.



Canada is also a donor to the following special funds:

Russia Small Business Fund (RSBF)—The RSBF was established in 1994 with the support of the G-7 countries and Switzerland to provide micro and small enterprises (MSEs) with financing to fit their particular requirements and to help strengthen the capacity of the Russian banking sector so that it can effectively lend to MSEs on a sustainable basis. The fund was established with a pledged contribution of US\$150 million from the EBRD and US\$141.7 million from donor countries, comprised of US\$71.0 million for co-investment and US\$70.7 million for technical cooperation programs.

Chernobyl Shelter Fund (CSF)—The main purpose of this fund, which was launched in 1995, is to secure the sarcophagus around the destroyed Unit IV nuclear reactor in Ukraine. The CSF finances the implementation of the Shelter Implementation Plan, which includes the construction of a permanent confinement facility, enhanced radiation monitoring, and general improvements to nuclear and worker safety. The CSF has experienced serious cost overruns: the combined cost of this project and the Nuclear Safety Account project (below) is now reported as €740 million. With international commemoration ceremonies of the 25th anniversary of the Chernobyl accident scheduled to take place in Kiev in April 2011, and in line with the G-8 Muskoka Summit declarations of commitment to Chernobyl, Canada is currently considering with G-8 partners ways to address this cost overrun. To date, Canada has made almost €35 million of a total of €854.6 million in donor contributions.

Nuclear Safety Account (NSA)—This facility was established in 1993 to help address nuclear safety issues in Central and Eastern Europe. Specifically, the NSA finances the decommissioning of old Soviet-style reactors including those at Chernobyl, where donors are funding the construction of an interim spent nuclear fuel storage facility and a liquid radioactive waste treatment facility. Canada has contributed almost €15.4 million to the total donor contribution fund of €319.9 million. As noted above, the NSA has experienced cost overruns. The Canadian government is presently considering, along with G-8 partners, how to address this cost overrun.

Northern Dimension Environmental Partnership (NDEP)—The NDEP was created in 2001 to fund the safe and secure management of the spent nuclear reactor fuel and other radioactive wastes generated by the dismantling of Russia's northern submarine fleet. The NDEP's focus on infrastructure is critically important as it fundamentally helps improve the dismantlement process by securing spent nuclear fuel and radioactive material at various sites and increasing storage capacity. By the end of 2006, the NDEP had secured investments of more than US\$1.5 billion for environmental projects. In 2003–04, Canada joined a number of other donors by contributing C\$32 million to the NDEP. Canada's Global Partnership Program is responsible for monitoring the NDEP.

Canada's Voting Record in 2010

Canada and other shareholders review and raise concerns and questions, as required, about specific Bank operations before they get to the Board of Directors. Decisions at the Board are generally taken by consensus. Directors occasionally abstain or vote against projects or policies when concerns remain for their constituency.



The Canadian Director supported the vast majority of projects approved by the Board in 2010. There were five exceptions, which were based on three main reasons:

Low transition impact. Helping to move a country closer to a full market economy (“transition impact”) is one of the EBRD’s core operating principles. As per Article 2 of the Agreement Establishing the European Bank for Reconstruction and Development, transition is fostered through various measures including: promoting the establishment, improvement and expansion of productive, competitive and private sector activity and the mobilization of capital and experienced management to this end; fostering productive investment, including in the service and financial sectors, and in related infrastructure where necessary to support private and entrepreneurial initiative; providing technical assistance; and supporting multinational projects and/or projects with more than one donor country. Concerns are raised whenever it is anticipated that an investment will not achieve an incremental transition impact on these terms. The Canadian Director abstained on one project and opposed another on these grounds.

1. An equity investment of up to €14 million in Meritum Bank in Poland to finance better access for micro, small and medium-sized enterprises to bank funding, support the bank’s restructuring process and mobilize additional capital from a new private equity investor in the region. The Canadian Director, along with many others, abstained because in advanced transition countries the EBRD should be selective about projects and focus only on those that provide the highest transition impact.
2. A material change to a previously approved project which included a loan of US\$79 million to EMSS in Ukraine. The change involved an expected change of control of the company from the private sector to the public sector. The Canadian Director did not support this project because of concerns about the change of ownership to a major state-owned company and the impact of this change on the transition impact of the loan.

Integrity concerns. The Canadian Director abstained on one project and opposed another due to concerns about the integrity of the client and the reputational risk this posed for the EBRD.

1. A loan of €150 million to MMBF Zrt to finance the completion and operation of the first underground gas storage facility in Hungary. The Canadian Director abstained due to the lack of transparency regarding the beneficial owners of the company.
2. An equity investment of up to the euro equivalent of US\$100 million in Kamaz, a Russian truck manufacturer, to support Daimler AG’s acquisition and subsequent increase of an equity stake in Kamaz. The Canadian Director opposed this project due to outstanding concerns regarding Kamaz business dealings in Iran.

Additionality. EBRD financing must mobilize additional sources of financing and not displace them. As per Article 13 of the Agreement Establishing the European Bank for Reconstruction and Development, the EBRD shall not undertake any financing when the applicant is able to obtain sufficient financing elsewhere on reasonable terms and conditions. The Canadian Director abstained on one project because the EBRD’s involvement was not sufficiently additional.

1. A loan of up to €300 million to Kaufland Poland, Kaufland Bulgaria, Lidl Romania and Lidl Bulgaria, members of the Schwarz Group of Germany, to fund the expansion of retail stores. The Canadian Director questioned whether the EBRD’s financing was additional in this transaction and abstained.



In addition, the Canadian Director abstained on one policy during 2010 regarding the use of offshore jurisdictions in EBRD projects. Canada is of the view that this policy was premature, given that the work of the Organisation for Economic Co-operation and Development's Global Forum on Transparency and Exchange of Information for Tax Purposes was not yet complete. Canada argued that the Bank's current practice of doing its own detailed due diligence for assessing offshore jurisdictions should be maintained until the Global Forum's Phase 2 reviews have been completed. The Bank should accept that a jurisdiction has effectively implemented the tax standards only when it has been found to be compliant or largely compliant after the Phase 2 review.

The Canadian Director also abstained on the 2011 compensation plan for the EBRD. Given the very difficult economic and fiscal situation in most of the Bank's shareholder countries, Canada could not support the compensation plan, which requested an increase in total compensation in excess of inflation in the United Kingdom.



Canada's Priorities and Desired Outcomes for 2011–2012

The Government of Canada is committed to promoting effective institutions, good governance and accountability both at home and in its relations with the international community. The Bank must be financially responsible in its investments and promote economic transition through all of its activities. It is also important that the EBRD is well governed and accountable to its members. It is therefore critical that the EBRD's governance structures represent its members and that its operations reflect the strategic mandate agreed to by those members. Finally, the Bank's activities should be socially and environmentally sustainable.

Presented below is a summary of actions identified in last year's report that have been completed or will be carried forward for 2011–2012. These priorities and desired outcomes are grouped under three broad objectives: (1) Institutional Effectiveness; (2) Governance and Accountability; and (3) Environmental Sustainability and Gender Equality.

1) Institutional Effectiveness

1.1—The EBRD should promote economic and democratic reforms

Outcome 1.1(a): A limited scope of activities in countries that have been slow in implementing Article 1

 *Good Progress*

Canada judges that the Bank employs a sufficiently calibrated approach to countries that have made less progress towards democratic reforms or during times of political uncertainty. The EBRD helped to support the Kyrgyz Republic in 2010 through its political upheaval. During the political and economic crisis in this country, the EBRD actively supported the private sector and its existing projects, but did not engage in new business. The Bank has also been using a selective approach in Uzbekistan: the Bank limits its activities to private sector operations and will not undertake any new public sector projects.

Outcome 1.1 (b): An effective approach for supporting transition in countries whose progress in implementing democratic reforms has slowed

 *Good Progress*

Canada is of the view that the Bank continues to make good progress in monitoring the political situations in its countries of operations, their progress towards multi-party democracy and pluralism, and their progress in instituting economic reforms. When the Bank observes that a country's progress towards democratic reform is waning, a detailed strategy for promoting transition is developed.

For example, a new country strategy for Belarus was adopted at the end of 2009. A selective approach was adopted in which the Bank engages only in sectors where the authorities demonstrate a clear commitment to reform. Specific criteria for engaging with public sector or state-owned entities were clearly described. In addition, political and economic benchmarks are assessed annually in the country strategy update. In the upcoming country strategy update for Belarus, progress against the benchmarks will be assessed and the Board will decide whether to further adjust the strategy.



As the EBRD's 2010 *Transition Report* makes clear, transition progress has slowed in the EBRD region as a result of the financial crisis (see summary in Annex 5). There are nevertheless very few examples of countries reversing their transition progress in 2010. This suggests that the work of the EBRD is helping countries maintain the momentum of reform. Additionally, the EBRD's ongoing work in critically examining, refining and expanding the list of transition indicators is another essential tool in effectively targeting projects that will foster transition.

Canadian Priorities Going Forward

Desired Outcome (Short-Term): A limited scope of activities in countries that have been slow in implementing Article 1.

Desired Outcome (Medium-Term): An effective approach for supporting transition in countries whose progress in implementing democratic reforms has slowed.

1.2—The EBRD should continuously strive to have a strong transition impact

Outcome 1.2(a): The development of a clearly articulated policy for post-graduation and the graduation of EU-7 countries

Some Progress

The EU-7⁶ countries were on the path to graduation from the Bank's regular operations during the CRR3 period (2006–2010), but the financial crisis threatened to set back the transition process and so graduation was delayed. Canada was supportive of the EBRD continuing to do business in the EU-7 during the crisis so as not to jeopardize the Bank's previous efforts to foster transition.

The Board of Governors reaffirmed in the CRR4 agreement that the Bank's EU-7 members should be expected to graduate during the CRR4 period (2011–2015), and that a post-graduation policy ought to be developed. Canada supports both of these initiatives. Management has indicated their commitment to work with the Board of Directors to develop a post-graduation policy over the course of 2011. Therefore, progress towards EU-7 graduation continues, albeit at a slower pace than Canada had expected.

Outcome 1.2(b): The disciplined and selective use of Bank capital in support of activities that are consistent with the EBRD's transition mandate

Good Progress

As the Bank's lending volumes increase to record levels, Canada will encourage the Bank to remain disciplined and selective in the use of its capital, and only support activities that are consistent with its transition mandate. Good progress has been made on this item over the past year. For instance, the Bank aims for a minimum of 80 per cent of projects to have a transition impact rating of good or better at project signing. In 2010, it was over 90 per cent.

⁶ Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.



In addition, CRR4 committed the Bank to continue the expansion of its operations into the Western Balkans (43 per cent increase in business volume) and the Early Transition Countries (114 projects in 2010, up from 83 in 2009). The EBRD is therefore dedicating a greater proportion of its resources to countries with more complex transition challenges.

Canadian Priorities Going Forward

Desired Outcome (Medium-Term): The development of a clearly articulated policy for post-graduation and the graduation of EU-7 countries.

Desired Outcome (Medium-Term): The disciplined and selective use of Bank capital in support of activities that are consistent with the EBRD's transition mandate.

1.3—The EBRD should cooperate with other international financial institutions (IFIs)

Outcome 1.3(a): Clear guidelines for co-financing with other IFIs

 *Good Progress*

The global crisis has proven to be an opportunity for the IFIs to work together in a coordinated and comprehensive manner. Canada is pleased with the Bank's approach to IFI collaboration during the crisis and would like to see it continue post-crisis. By identifying its core strengths relative to other IFIs, the EBRD can coordinate with other institutions to minimize overlap and make the most efficient use of resources.

In 2010, for instance, IFIs coordinated their approach for handling the crisis in the Kyrgyz Republic. The EBRD was called on to support the private sector in the country since it had the knowledge and expertise to do so. Additionally, in 2010 the European Investment Bank, the European Community and the EBRD signed an operational Memorandum of Understanding on future cooperation for lending outside the EU.

Outcome 1.3(b): The untying of all donor funds in accordance with CRR4 commitments

 *Good Progress*

Another key issue for Canada has been the untying of donor funds as it increases the effectiveness of technical cooperation and IFI collaboration, and promotes competition among suppliers. Around 40 per cent of the Bank's current technical cooperation funds (excluding the EBRD Shareholder Special Fund) are tied to some degree. This is administratively costly and does not always lead to optimum procurement outcomes.



Recognizing this, CRR4 committed to the following:

- In principle, no new tied funds will be accepted by the Bank as of January 2011. The stock of existing tied funds, including new contributions received in 2010, will be grandfathered on terms prevailing at the end of 2010.
- For donors who wish to continue to work with the Bank on the basis of tied funds during CRR4, exceptional transitional arrangements will be worked out in a consistent way, including full coverage of administrative costs.
- The Bank will adopt an open competitive selection process for all its grant-funded projects by the end of the CRR4 period.

Given the commitments outlined above, Canada is of the view that good progress is being made on the untying of donor funds.

Canadian Priorities Going Forward

Desired Outcome (Short-Term): Clear guidelines for co-financing with other IFIs.

Desired Outcome (Medium-Term): The untying of all donor funds in accordance with CRR4 commitments.

1.4—The EBRD should be a leader in promoting strong local capital markets

Good Progress

As a result of the CRR4 agreement, the EBRD has been tasked to help address the vulnerabilities resulting from foreign currency borrowing in its countries of operations. Canada supports this work as it demonstrates that the Bank is recognizing and reacting to a possible source of economic volatility in the region. High levels of foreign financing can pose a significant challenge in many countries of operations as they expose borrowers to foreign exchange risks and sudden capital flight. For many EBRD member countries, these downside risks were laid bare during the recent financial crisis. In other cases, however, such risks may be outweighed by other risks associated with the domestic currency, such as uncertainty over monetary policy and inflation.

Canada will encourage the Bank to work closely with stakeholders to develop proper procedures and guidelines for promoting local capital markets to ensure that domestic market risks are addressed through reform and effective market infrastructure (including the legal and regulatory framework, and payment and settlement systems).

In May 2010, the Bank launched the Local Currency and Local Capital Markets Initiative. It aims to support and complement the actions of many governments in the region which are helping to build up local sources of domestic funding and reduce the use of foreign exchange in the domestic financial system. In pursuing a comprehensive approach, the EBRD is working with other key stakeholders on the initiative to give it broad-based support. These include the International Monetary Fund, the European Commission, other investing international financial institutions, as well as key banks and private sector associations.



Based on the analysis in the 2010 *Transition Report*, the Bank mapped out policy steps that need to be taken in order to facilitate local funding. The analysis points out that no single set of policies applies across the region and that, just as the causes of foreign exchange lending vary from country to country, so must the remedies.

Also in 2010, the Bank developed the Early Transition Countries (ETC) Local Currency Loan Programme and ETC Local Currency Risk Sharing Special Fund, which were approved by the Board in early 2011. The Special Fund will be launched with an initial allocation from the Shareholder Special Fund and contributions from donor countries.

Canada is therefore of the view that the EBRD is making good progress in establishing itself as a leader in promoting strong local currency capital markets.

Canadian Priorities Going Forward

Desired Outcome (Medium-Term): The implementation of policies, strategies and tools for developing local currency lending and local capital markets, where appropriate.

2) Governance and Accountability

2.1—The EBRD should continuously strive for legitimacy, credibility and accountability

Outcome 2.1(a): The release of the transition impact ratings of the EBRD’s projects as part of its public project summary documents



Little Progress

Canada has historically encouraged the EBRD to release transition impact ratings of its projects as part of its public project summary documents. Given that the final transition impact rating is not available before the Board approves a project, it is not practical to include a provisional rating in the public document. Canada will continue to focus on ensuring transparency in all Bank policies, but will not continue to report on this item in future years.

Outcome 2.1(b): A transparent, open and merit-based process for the appointment of the President and senior management



Some Progress

The Government of Canada believes that greater transparency is a key component of good governance. While the vast majority of Bank staff are hired through open and competitive processes, Canada has continued to encourage the EBRD to incorporate a transparent, open and merit-based process for the appointment of senior management.



In 2010, the new Vice-President of Operational Policies was hired through a management-led process that culminated in a Board interview. Also in 2010, two other senior positions were staffed through open, competitive processes: the Chief Evaluator and the Director of Communications. These cases demonstrate real progress in the staffing of senior management.

Canada also believes that it is important to follow through on the commitment by G-20 Leaders to have the President of the EBRD, and the heads of all international financial institutions, selected through a transparent and merit-based process.⁷

Canadian Priorities Going Forward

Desired Outcome (Medium-Term): A transparent, open and merit-based process for the appointment of the President and senior management.

2.2—The EBRD should manage its finances prudently and sustainably

Outcome 2.2(a): A resolution to the general capital increase request that is low-cost to shareholders and temporary, while at the same time allowing the EBRD to fulfill its transition mandate with a prudent response to the economic and financial crisis

COMPLETED

Canada successfully advocated for a resolution to the Bank's general capital increase request that was low-cost and temporary, while at the same time allowing the EBRD to fulfill its transition mandate with a prudent response to the crisis. Canada also pushed for good financial governance and the effective use of the Bank's capital to be key elements of the CRR4 discussions. The final CRR4 agreement reflected these priorities.

Outcome 2.2(b): Good financial governance and effective use of the Bank's capital are at the centre of the strategy to implement the Bank's CRR4 commitments

Good Progress

Through its participation in the EBRD's Board of Directors, Canada has advocated that the Bank set clear priorities to ensure that its resources are used in the most efficient and effective manner. The 2011 budget was approved in December 2010 by the Board of Directors and was fully consistent with the priorities and financial projections set out in CRR4.

The preliminary financial results for 2010 show a net profit in excess of €1 billion. This positive result, which comes as the EBRD's region of operations begins to recover, is mainly due to an increase in the value of the Bank's equity holdings, lower loan loss provisions and strong growth in net interest income on loans, while administrative expenditures were kept under control.

⁷ Declaration by G-20 Leaders, Toronto, June 27, 2010.



Canadian Priorities Going Forward

Desired Outcome (Medium-Term): Good financial governance and effective use of the Bank's capital are at the centre of the strategy to implement the Bank's CRR4 commitments.

3) Environmental Sustainability and Gender Equality

3.1—The EBRD should mainstream gender considerations across all operations

Outcome 3.1(a): The implementation of the Gender Action Plan

COMPLETED

The Gender Action Plan was approved by the Board of Directors in January 2010.

Outcome 3.1(b): The ongoing examination of internal Bank practices and policies with respect to improving gender equality

Good Progress

Canada recognizes that gender equality is an important component of the development and transition processes, particularly better leveraging the untapped potential of women in emerging markets. For this reason, Canada works closely with the EBRD on this issue through various initiatives. Through consistent policy and project support, Canada has pushed the Bank to demonstrate its commitment to integrate gender equality in its work with countries of operations.

Canada is of the view that good progress is being made in improving gender equality. For instance, in March 2010, the EBRD dedicated €40,000 from the Shareholder Special Fund towards creating gender country profiles for each of the EBRD's countries of operations. This was aimed at supporting the EBRD's gender mainstreaming strategy as set out in the Gender Action Plan. It will also assist EBRD staff to ensure that the Bank is in compliance with the commitments in the Environmental and Social Policy as they relate to gender.

In June, the EBRD presented a Gender Equality Initiative for staff. The purpose of this document is to focus on mainstreaming the gender element within the organization of the Bank, focusing on human resources policies, practices and processes. The first step of the initiative was to take stock of the existing situation and formulate an action plan to make any necessary improvements. An analysis was carried out between January and May 2010 and the findings were presented in the document, together with a set of recommendations and an action plan.



Some further specific actions include:

- The Environment and Sustainability Department has continued to strengthen the gender component of environmental and social due diligence.
- Several pilot projects and initiatives were implemented and more have been launched. Significant progress has been made in the Municipal and Environmental Infrastructure sector, with one pilot project completed and three other projects in varying stages of implementation.
- Cooperation with other multilateral development banks (MDBs) has continued, with a specific initiative to harmonize gender mainstreaming performance reporting for all MDBs.

These actions demonstrate the EBRD's commitment to improving gender equality in the region.

Canadian Priorities Going Forward

Desired Outcome (Medium-Term): The ongoing examination of internal Bank practices and policies with respect to improving gender equality.

3.2—The EBRD should link private sector development and sustainable environmental considerations in a manner that is consistent with its transition mandate

Outcome 3.2(a): The implementation of the Environmental and Social Policy, the creation of good practice notes for clients, and internal training for Bank staff on the implications of the policy

Good Progress

The implementation of the Environmental and Social Policy is well underway. For each project proposal that the EBRD undertakes, Bank staff conduct an assessment of potentially adverse future environmental or social impacts. Where there is a significant potential for adverse effects (Category A), the Bank conducts an assessment of technical and financial alternatives, and makes the report available to the public both in English and in the relevant local language. The EBRD's portfolio included 46 Category A projects at the start of 2010, and 84 per cent of these were considered by the Bank to meet or exceed the EBRD's environmental and social requirements. Across the entire portfolio, 96 per cent of projects have fulfilled environmental and social reporting requirements within the last two years.

The Bank has introduced new training initiatives that include environmental and social components to the compulsory training for new banking staff. In addition, new guidance and learning tools have been made available to all EBRD staff. For instance, new guidelines published in 2010 require that corporate directors nominated by the EBRD receive training on gender and sustainability issues, thereby allowing them to raise these issues on the company boards on which they sit.

Overall, Canada is pleased with the EBRD's good progress on environmental and social considerations.



Outcome 3.2(b): The implementation of Phase 2 of the Sustainable Energy Initiative, ensuring that targets are met

Good Progress

Canada fully supports the EBRD’s efforts to ensure that its investment activities are fostering economic growth that is socially and environmentally sustainable. As part of the Bank’s progress in this area, the Sustainable Energy Initiative (SEI) was launched in 2006 to address the challenges of energy efficiency and climate change. Phase 1 of the initiative was completed in 2008, and in May 2008 the Board of Governors approved Phase 2 for the period 2009–11. The SEI’s Phase 2 objectives include:

- An EBRD SEI financing target range of €3 billion to €4 billion for a total project value of €9 billion to €15 billion.
- A carbon emissions reduction range of 25 million to 35 million tonnes per annum.
- A technical assistance grant funding target of €100 million and an investment grant funding target of €250 million.

The Bank invested €2.2 billion in energy efficiency and renewable energy activities across all sectors in 2010 (accounting for nearly a quarter of total EBRD investments for the year), with around €6 billion invested since the SEI was launched in 2006. Projects signed in 2010 are expected to achieve total carbon emission reductions of 11.4 million tonnes of CO₂ per annum once they are fully implemented.

Table 2
SEI Projects Signed in 2010

Category	2010 (SEI Phase 2)	
	Signed (€ million)	Number of projects
Industrial Energy Efficiency	445	41
Sustainable Energy Financing Facilities	452	30
Cleaner Energy Production	671	17
Renewable Energy	363	9
Municipal and Environmental Infrastructure	234	19
Total	2,165	116

The EBRD’s scorecard now includes an SEI measure which is calculated as the ratio of annual SEI volume to total annual business volume. The 2011 Budget and Business Plan aims for an SEI ratio of at least 22 per cent.

A Phase 3 of the SEI may be developed during the CRR4 period.

Canadian Priorities Going Forward

Desired Outcome (Short-Term): The implementation of the Environmental and Social Policy and Phase 2 of the Sustainable Energy Initiative.



Background on the EBRD

Mandate and Role of the EBRD

The EBRD began its operations in 1991. Its aims are to foster the transition towards open, market-oriented economies in Central and Southeastern Europe, the successor states of the former Soviet Union, Mongolia and Turkey and to promote private and entrepreneurial initiative in those countries that are committed to the fundamental principles of multi-party democracy, pluralism and market economics.⁸ 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 29 countries of operations 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 per cent 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 state-of-the-art 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, particularly the Central Asian republics.

The EBRD's operations to advance the transition to a market economy are guided by four principles: transition impact, additionality, sound banking and environmental sustainability. 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.

The Bank's medium-term operational priorities are premised on: the central importance of creating and strengthening those institutions that ensure markets work well; the key 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 multi-party democracy and pluralism.

⁸ Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development.



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.

The EBRD differs from other regional development banks in several ways:

- The Bank's overriding focus is on the private sector. Its charter stipulates that at least 60 per cent of its financing commitments, on both a portfolio-wide and country basis, should be directed either to private sector enterprises or to state-owned enterprises that are being privatized.
- The Bank'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.
- The EBRD does not provide concessional financing and poverty reduction is not specifically part of its mandate, although development of the private sector in its countries of operations should lead to increased employment and thus help reduce poverty. The Bank's work in financing micro, small and medium-sized enterprises is important in this regard, as is the work on gender equality.

How the EBRD Works

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.
- 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 per cent of total estimated project costs. However, in certain circumstances, and particularly in the current environment, where the syndications market is closed to most of the Bank's clients, the Bank provides a larger share of the project costs. In rare cases, such as when a project is in corporate recovery, the Bank may become the largest shareholder in order to turn the company around and sell it.

EBRD investments range from €5 million to €350 million. 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 over 1 million 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.

Funding of EBRD Activities

The EBRD's equity and quasi-equity investments are funded out of its net worth—the total of paid-in capital and retained earnings. Of the funding required for its lending operations, 100 per cent is borrowed in the international financial markets through public bond issues or private placements.

The EBRD's bond issues have been given AAA ratings by both Moody's Investors Service and Standard & Poor's.

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 allows thorough preparations for investments, more effective investments in general and investment opportunities in higher-risk environments in particular.

Technical cooperation projects are funded by governments and international institutions and are managed by the EBRD.

Project Cycle

The EBRD's bankers and their project leaders have the primary responsibility for ensuring a project's compliance with four principles: transition impact, additionality, sound banking and environmental sustainability. However, to ensure that projects continue to generate a significant transition impact, risk management and evaluation groups provide independent advice, lessons learned, and monitoring and review functions throughout the project cycle.

Project Cycle

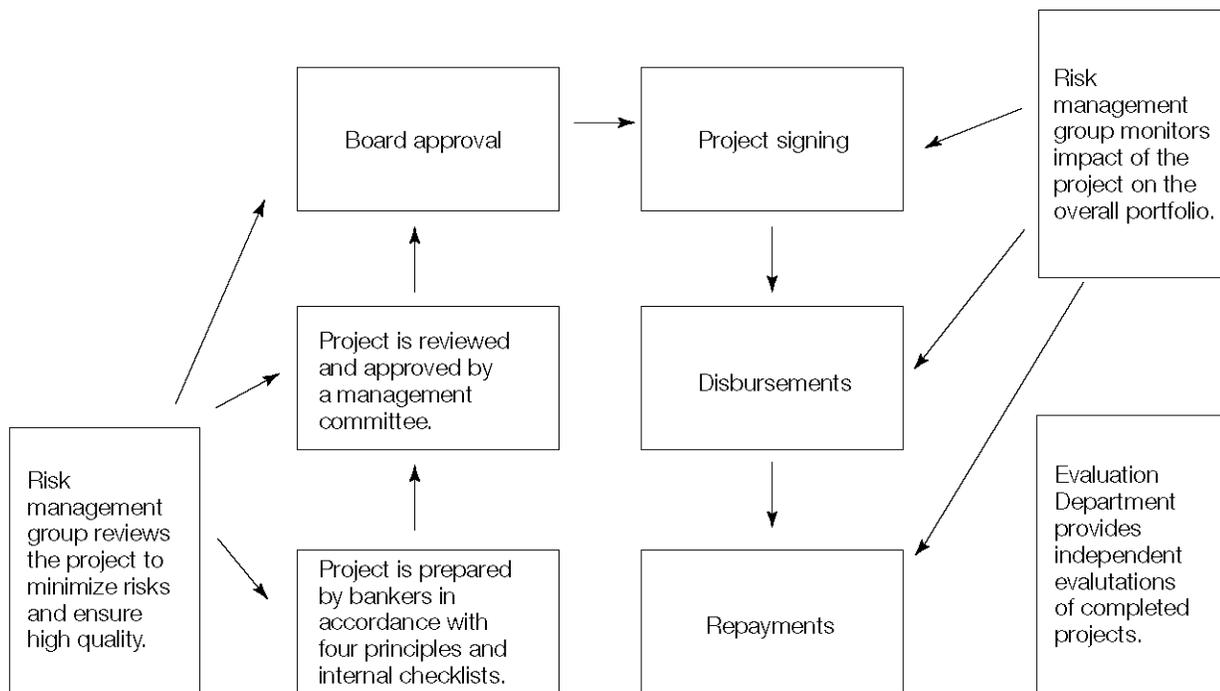




Table 3
The EBRD's Annual Investments 2006–2010

	2010	2009	2008	2007	2006
Number of projects	386	311	302	353	301
	(€ million)				
EBRD commitments	9,000	7,861	5,087	5,583	4,936
Resources mobilized	13,174	10,353	8,354	8,617	7,645
Total project value	22,039	18,087	12,889	13,809	12,014
Realized profit before impairment	927	849	849	973	1,691
Net profit/loss for the year before transfers of net income	1,377	-746	-602	1,884	2,389
Transfers in net income approved by the Board of Governors	-150	-165	-115	–	–
Net profit/loss for the year after transfers of net income	1,227	-911	-717	1,884	2,389
Paid-in capital	6,197	5,198	5,198	5,198	5,198
Reserves and retained earnings	6,780	6,317	6,552	8,676	6,974
Total members' equity	12,977	11,515	11,750	13,874	12,172

EBRD Governance and Oversight

The highest authority in the Bank is the Board of Governors. It meets annually and approves the institution'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 63 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 country or a constituency of member countries. The Board helps to set the strategic and financial course for the Bank, in consultation with 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 Austrian Director and the Vice-Chair is the Canadian 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 Swiss 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 Bulgarian Director. The Canadian Director is currently a member of the Committee.

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 renewal of the Bank's Environmental and Social Policy. The Committee is currently chaired by the Italian Director.

For More Information on the EBRD

The Bank releases considerable information on its various activities. Bank publications include information guides (such as *A 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 at www.ebrd.com.

Requests for information can be addressed to:

Publications Desk
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2JN
United Kingdom

Or to: Office of the Director for Canada and Morocco
canadaoffice@ebrd.com



Annex 1—Summary Table of Progress on Canada's Priorities at the EBRD

Presented below is a summary table that includes actions identified in last year's report that have been completed or will be carried forward for 2011–2012. These priorities and desired outcomes are grouped according to Canada's three broad objectives: (1) Institutional Effectiveness; (2) Governance and Accountability; and (3) Environmental Sustainability and Gender Equality. The table provides a colour-coded assessment of the EBRD's progress against Canada's existing priorities.

1) Institutional Effectiveness		
1.1 The EBRD should promote economic and democratic reforms (Article 1 & 2)		
Timeframe	Desired Outcome	Progress
Short-Term 2011	A limited scope of activities in countries that have been slow in implementing Article 1	Good
Medium-Term 2011–2012	An effective approach for supporting transition in countries whose progress in implementing democratic reforms has slowed	Good
1.2 The EBRD should continuously strive to have a strong transition impact		
Medium-Term 2011–2012	The development of a clearly articulated policy for post-graduation and the graduation of EU-7 countries	Some
Medium-Term 2011–2012	The disciplined and selective use of Bank capital in support of activities that are consistent with the EBRD's transition mandate	Good
1.3 The EBRD should cooperate with other international financial institutions (IFIs)		
Short-Term 2011	Clear guidelines for co-financing with other IFIs	Good
Medium-Term 2011–2012	The untying of all donor funds in accordance with fourth Capital Resources Review (CRR4) commitments	Good
1.4 The EBRD should be a leader in promoting strong local capital markets		
Medium-Term 2011–2012	The implementation of policies, strategies and tools for developing local currency lending and local capital markets, where appropriate	Good



2) Governance and Accountability

2.1 The EBRD should continuously strive for legitimacy, credibility and accountability		
Timeframe	Desired Outcome	Progress
2010	The release of the transition impact ratings of the EBRD's projects as part of its public project summary documents	Little
Medium-Term 2011–2012	A transparent, open and merit-based process for the appointment of the President and senior management	Some
2.2 The EBRD should manage its finances prudently and sustainably		
2010	A resolution to the general capital increase request that is low-cost to shareholders and temporary, while at the same time allowing the EBRD to fulfill its transition mandate with a prudent response to the economic and financial crisis	Completed
Medium-Term 2011–2012	Good financial governance and effective use of the Bank's capital are at the centre of the strategy to implement the Bank's CRR4 commitments	Good

3) Environmental Sustainability and Gender Equality

3.1 The EBRD should mainstream gender considerations across all operations		
Timeframe	Desired Outcome	Progress
2010	The implementation of the Gender Action Plan	Completed
Medium-Term 2011–2012	The ongoing examination of internal Bank practices and policies with respect to improving gender equality	Good
3.2 The EBRD should link private sector development and sustainable environmental considerations in a manner that is consistent with its transition mandate		
Short-Term 2011	The implementation of the Environmental and Social Policy, the creation of good practice notes for clients, and internal training for Bank staff on the implications of the policy	Good
Short-Term 2011	The implementation of Phase 2 of the Sustainable Energy Initiative, ensuring that targets are met	Good

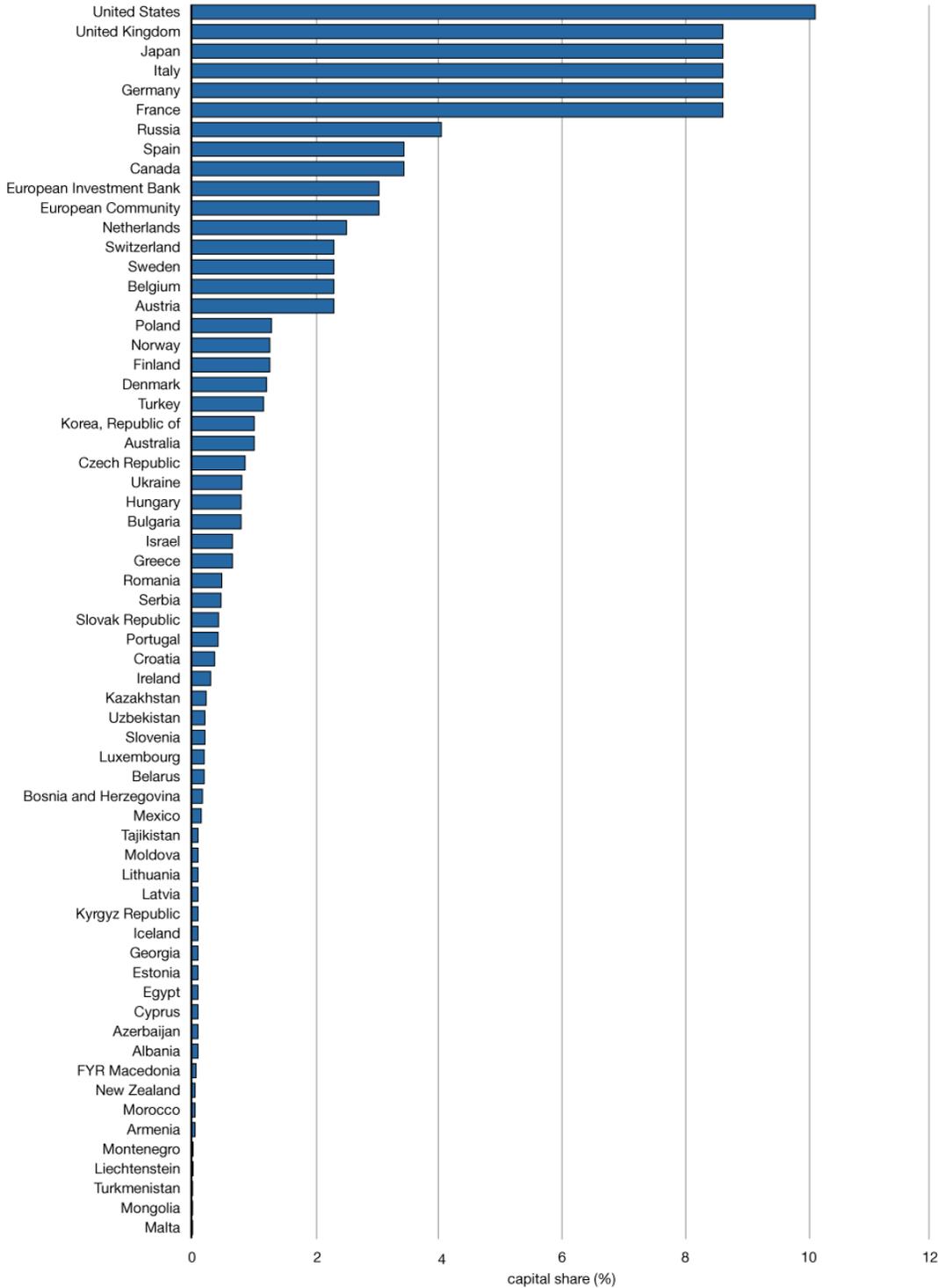


Annex 2—EBRD Membership

The EBRD’s share capital is provided by member countries, with proportional voting rights. The EBRD’s current authorized capital is €30 billion—Canada’s capital share is 3.4 per cent.

Chart 2

EBRD Membership





Annex 3—Countries of Operations

The EBRD has 63 shareholders: 61 countries, the European Community and the European Investment Bank. There were 29 countries of operations in 2010.

Where the EBRD operates

Central Europe and the Baltic states

- 01 Croatia
- 02 Czech Republic
- 03 Estonia
- 04 Hungary
- 05 Latvia
- 06 Lithuania
- 07 Poland
- 08 Slovak Republic
- 09 Slovenia

South-eastern Europe

- 10 Albania
- 11 Bosnia and Herzegovina
- 12 Bulgaria
- 13 FYR Macedonia
- 14 Montenegro
- 15 Romania
- 16 Serbia

Eastern Europe and the Caucasus

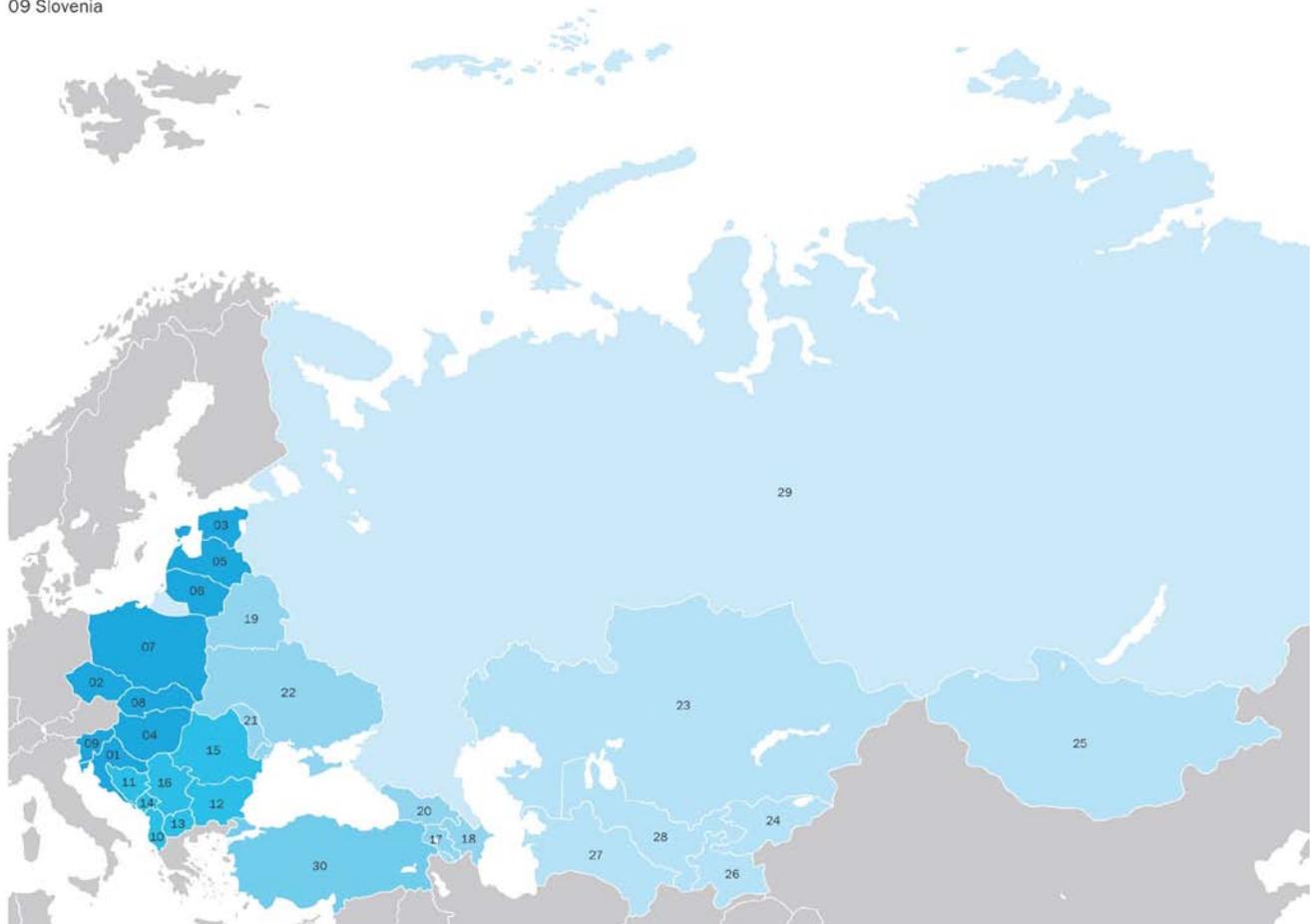
- 17 Armenia
- 18 Azerbaijan
- 19 Belarus
- 20 Georgia
- 21 Moldova
- 22 Ukraine

Central Asia

- 23 Kazakhstan
- 24 Kyrgyz Republic
- 25 Mongolia
- 26 Tajikistan
- 27 Turkmenistan
- 28 Uzbekistan

29 Russia

30 Turkey



As of the end of 2007, the EBRD no longer makes investments in the Czech Republic.
Source: EBRD



Annex 4—2010 Governor’s Speech

Statement by Ted Menzies, Temporary Alternate Governor for Canada, at the EBRD Annual Meeting

Zagreb, Croatia, May 15, 2010

I would like to thank the Government of Croatia and the City of Zagreb for graciously hosting the 19th Annual Meeting of the EBRD.

Canada, as a founding member of the European Bank for Reconstruction and Development, is a proud partner of this institution and believes strongly in the Bank’s core mission to foster transition towards market-oriented economies and to engage with countries that are committed to economic and democratic reforms.

Over the past year, the EBRD’s countries of operation faced significant challenges. The region as a whole has been impacted by the financial and economic crisis, though the situation differs from country to country, with some seeing early signs of improvement.

While the crisis has affected the speed of reform in the region, we are encouraged that it has not led to any strong backlash to the core principles of the EBRD of open and market-oriented economies.

Canada would like to congratulate the EBRD on its swift and effective response to the crisis, which has helped mitigate some of the effects of the crisis on its countries of operation.

In the past year, the Bank has successfully concluded its fourth Capital Resources Review (CRR4). Canada was pleased to engage in discussions with the Bank and other shareholders to help achieve consensus to provide temporary capital to support economic recovery in the region.

While the global economy is recovering, the situation remains fragile. We believe the Bank can continue to play a strategic role in supporting transition and recovery in the region. The temporary capital increase will give the Bank greater flexibility to promote transition during these next five years.

Way Forward

The Bank should remain focused on its existing priorities.

We support the Bank’s focus on its core competencies, targeting the private sector through project-based investments which are guided by the four principles of transition impact, additionality, sound banking, and environmental sustainability. As the Bank’s lending volume increases to record levels, Canada encourages the Bank to remain disciplined and selective in the use of its capital, and support activities with a strong transition impact.

The Bank played an important role leading to the graduation of the Czech Republic from the Bank’s operations in 2007. While recognizing the importance of EBRD activities in the EU-7 countries during the crisis, Canada encourages the Bank to launch an early process to establish timelines for graduation of the EU-7 countries and criteria for the Bank’s post-graduation engagement.



We encourage the Bank to continue its collaboration with other International Financial Institutions (IFIs) by developing clear guidelines for co-financing. By focusing on its core competencies and identifying its areas of strengths, the EBRD can coordinate its work with other institutions to minimize overlap and make the most efficient use of taxpayers' capital.

The financial crisis has highlighted the importance of greater use of local currency in financial transactions and the development of local capital markets, both to reduce unhedged foreign currency borrowing and to encourage domestic savings. We therefore encourage the Bank to work with stakeholders including regulators and central bankers, other IFIs and private sector players to develop and deepen local capital markets.

In closing, I would like to thank President Mirow, all EBRD staff and management, and the Board of Directors for a remarkable year of achievement.

In the upcoming year, the Bank will no doubt face a number of opportunities and challenges. Canada is confident that the EBRD will continue to play a very important role in the region and the EBRD can continue to count on Canada's support for its mission.

I look forward to meeting you all again in Astana in 2011.



Annex 5—Summary of Transition Report 2010: Recovery and Reform

The *Transition Report* is an annual report produced by the EBRD that charts the progress of transition towards a market economy in the Bank's countries of operations. The 2010 report examines how transition and reforms in the region have fared given the global financial and economic crisis. It covers the period up to October 2010.

Structural and Macroeconomic Impact of the Crisis

The countries in the EBRD region were among those that were the hardest hit by the recent financial crisis. Many of the Bank's countries of operations were plunged into their worst recessions since the early transition years. Over the course of the past year, however, the recovery has begun, albeit at a more sluggish pace than in other emerging markets. The pace of recovery is also uneven within the region.

The recovery was initially driven primarily by net exports. Exporters, particularly exporters of commodities and heavy machinery and those with strong links to Germany, benefitted from strong export markets. Beginning in the second quarter of 2010, however, import growth began to outpace export growth in several countries, reflecting a steady recovery in domestic demand.

Nevertheless, the legacy of the crisis and pre-crisis period weighs heavily on the region. The drop in domestic demand—which was most pronounced in the Baltic states and Southeastern Europe—did not begin to reverse itself until the second quarter of 2010. Unemployment remains high, although this is somewhat mitigated in certain economies by the resumption of remittance flows (the Caucasus, Central Asia and FYR Macedonia).

Business confidence weakened sharply during the crisis and has only recovered gradually. Investment growth has been slow and the level of non-performing loans has stabilized at high levels or continues to grow. As a result, bank balance sheets continue to be under stress and credit growth in the region has been weak. Private credit growth has been particularly feeble in the countries with large pre-crisis credit booms and weakly capitalized pre-crisis banking systems: the Baltic states, Southeastern Europe, Kazakhstan and Russia. By contrast, those economies with state-directed or state-subsidized lending (Armenia, Belarus and Serbia) have seen credit grow vigorously.

External financing, which had dropped as foreign (mainly eurozone) banks retrenched their lending during the financial crisis, has begun to gradually flow back to the region. While portfolio outflows during the crisis had been less severe than in other emerging Asian and Latin American economies, the resumption of inflows has also been less pronounced. Foreign lending by eurozone financial institutions is likely to continue to be sluggish in the face of higher capital adequacy rules being implemented over the medium term, ongoing economic fragility in certain EU economies, and the introduction of new regulatory and taxation initiatives targeted at the financial sector. These factors will be offset somewhat by the abundant liquidity resulting from continued monetary easing in several large advanced countries.

In 2010, many of the budgets of EBRD countries of operations included fiscal consolidation packages, notably the Baltic states and Montenegro. These measures were put in place to address the large fiscal deficits resulting from the financial crisis. By contrast, the larger economies and those with pre-crisis fiscal surpluses (Azerbaijan, Kazakhstan, Poland, Russia, the Slovak Republic and Turkey) implemented fiscal stimulus packages during 2009 and/or 2010 that are expected to be reversed gradually over the next few years. In many countries, however, fiscal adjustment is a pressing need and, though beneficial and necessary in the medium term, will likely cause a drag on growth in the short term.



After a sharp dip in 2009, inflation rates increased in the region in 2010 due to a number of factors, including: a spike in wheat prices between early June and mid-August, an increase in value-added or excise taxes on certain goods as part of fiscal consolidation packages, and an increase in global energy prices. Despite this, however, the EBRD calculates that core inflation in the region continues to shrink, suggesting that most of the above-mentioned factors are one-off in nature.

Overall, the EBRD estimates that real GDP in the region will grow by an average of about 4 per cent in both 2010 and 2011. Central Asia is expected to grow more quickly as a result of strong commodity prices, while the recovery in Southeastern Europe is likely to be more gradual. A slower recovery is also expected in countries that wind down their fiscal stimulus programs (e.g., Armenia and Belarus).

Vulnerabilities remain both domestically—in the form of high levels of foreign-currency-denominated domestic debt and populist pressure to undertake punitive regulatory and taxation measures—and externally, notably through the sovereign debt problems facing certain EU countries, which could have spillover effects. Nevertheless, through prudent policymaking and the assistance of international institutions like the EBRD, the region is expected to make a steady recovery.

Transition Progress

Each year, the EBRD tracks the reform developments of its countries of operations through a set of indicators. The Bank measures through numerical scores how well a country has fared in moving towards the standard of a well-functioning market economy. In part as a result of the financial crisis, the EBRD is currently in the process of refining and expanding its scoring indicators. In doing so, it is attempting to address criticisms that the traditional indicators presented a simplistic view that successful transition is mainly about removing the role of state and encouraging private markets wherever possible. In fact, the crisis revealed that the rapid growth of lending and the use of complex financial instruments can give a misleading impression of progress. The EBRD is therefore introducing a methodology to better evaluate the quality of market-enabling institutions that are required to manage the risks of a market transition.

As evident in the table below, 2010 was a year of reform stagnation (or slow reform at best): there was a low number of upgrades with only two countries (Poland and Tajikistan) receiving more than one upgrade. By contrast, the encouraging news is that despite the fallout from the financial crisis, there were only two downgrades: one each for Hungary and the Slovak Republic. Additionally, one of last year's downgrades—for large-scale privatization in Montenegro—has been partially reversed over the course of the past year. Table 4 lists the indicators for 2010.



Table 4
Transition Indicator Scores, 2010

Country	Population mid-2010 (million)	Private sector share of GDP (EBRD estimate, per cent)	Enterprises		
			Large-scale privatization	Small-scale privatization	Governance and enterprise restructuring
Albania	3.2	75	4-	4	2+
Armenia	3.2	75	4-	4	2+
Azerbaijan	8.4	75	2	4-	2
Belarus	9.7	30	2-	2+	2-
Bosnia and Herzegovina	3.8	60	3	3	2
Bulgaria	7.6	75	4	4	3-
Croatia	4.4	70	3+	4+	3
Estonia	1.3	80	4	4+	4-
FYR Macedonia	2.0	70	3+	4	3-
Georgia	4.5	75	4	4	2+
Hungary	10	80	4	4+	4-
Kazakhstan	15.7	65↓	3	4	2
Kyrgyz Republic	5.1	75	4-	4	2
Latvia	2.3	70	4-	4+	3
Lithuania	3.4	75	4	4+	3
Moldova	3.4	65	3	4	2
Mongolia	2.8	75	3+	4	2
Montenegro	0.7	65	3+↑	4-	2
Poland	38	75	4-↑	4+	4-
Romania	21.7	70	4-	4-	3-
Russia	142.2	65	3	4	2+
Serbia	9.9	60	3-	4-	2+
Slovak Republic	5.4	80	4	4+	4-
Slovenia	2.0	70	3	4+	3
Tajikistan	6.8	55	2+	4	2
Turkey	69.7	70	3+	4	3-
Turkmenistan	6.5	25	1	2+	1
Ukraine	46.6	60	3	4	2+
Uzbekistan	26.0	45	3-	3+	2-



Table 4
Transition Indicator Scores, 2010 (*cont'd*)

Country	Markets and trade			Financial institutions		Infrastructure
	Price liberalization	Trade and foreign exchange system	Competition policy	Banking reform and interest rate liberalization	Securities markets and non-bank financial institutions	Overall infrastructure reform
Albania	4+	4+	2	3	2-	2+
Armenia	4+	4+	2+	3-	2+	3-
Azerbaijan	4	4	2	2+	2-	2
Belarus	3+↑	2+	2	2+	2	1
Bosnia and Herzegovina	4	4	2	3	2-	3-↑
Bulgaria	4+	4+	3	4-	3	3
Croatia	4	4+	3	4	3	3
Estonia	4+	4+	4-	4	4-	3+
FYR Macedonia	4+	4+	2+	3	3-	3-
Georgia	4+	4+	2	3-	2-	3-
Hungary	4+	4+	3+	4-↓	4	4-
Kazakhstan	4	4-	2	3-	3-	3-
Kyrgyz Republic	4+	4+	2	2+	2	2-
Latvia	4+	4+	3+	4-	3	3
Lithuania	4+	4+	3+	4-	3+	3
Moldova	4	4+	2+	3	2	2+
Mongolia	4+	4+	2+	3-	2+	2+
Montenegro	4	4	2	3	2-	2+
Poland	4+	4+	3+	4-	4↑	3+
Romania	4+	4+	3↑	3	3	3+
Russia	4	3+	2+	3-	3	3-
Serbia	4	4	2+↑	3	2	2+
Slovak Republic	4+	4+	3+	4-	3-↓	3+
Slovenia	4	4+	3-	3+	3	3
Tajikistan	4↑	3+	2-	2+	1	2-↑
Turkey	4	4+	3-	3	3-	3-
Turkmenistan	3-	2	1	1	1	1
Ukraine	4	4	2+	3	3-	2+
Uzbekistan	3-	2	2-	2-	2	2-

Source: EBRD, *Transition Report*, 2010.



Developing Local Currency Finance

Although a driver of growth throughout the 2000s, foreign currency financing is facing renewed scepticism in the region as the downside risks were laid bare during the crisis. Despite this, the crisis has, if anything, increased reliance on foreign currency lending. This has highlighted the need to devote greater efforts towards developing local currency capital markets.

To help address these concerns, the EBRD is in the process of examining the conditions under which the development of local currency capital markets is possible and desirable. The 2010 *Transition Report* takes a step in this direction by looking at the possible causes of a high level of foreign currency lending, which in turn suggest actions that can be taken to mitigate the associated risks. Following is a brief overview of its findings.

At first glance, the reliance on foreign currency is perplexing. Although local interest rates are relatively high, loans denominated in domestic currencies should be protected from foreign exchange risk. It was this very same foreign exchange risk which caused so much pain during the crisis, when currencies in the region were devalued and the cost of servicing foreign-currency-denominated debts rose sharply. Why would borrowers take on this risk? There are four possible explanations:

- Imperfect markets: consumers do not want to pay the insurance premium of local currency because it is too high.
- Lack of supply: banks are unwilling or unable to take on the foreign exchange risk by providing local currency loans, so borrowers do so directly.
- Moral hazard: borrowers do not expect to pay the full price of devaluation.
- Risk: in a situation where domestic inflation is especially volatile, foreign-currency-denominated loans act as a hedge against inflation risk.

Based on the above, stronger regulation may not be sufficient—and may even be counterproductive—if the main problems are related to macroeconomic credibility. For instance, while most transition countries had fairly low inflation volatility in recent years, a much smaller number have an established history of inflation stabilization. Similarly, developing a credible monetary policy may be central to encouraging confidence in local currency capital markets.

Exchange rate variability is yet another factor, and here transition countries have a long way to go: according to the International Monetary Fund, as of 2008 only 11 out of 29 countries of operations have managed or independent floats. Borrowers in countries with more rigid exchange rates will feel protected from volatility and therefore be more inclined to borrow in foreign currencies.

Developing local currency capital markets is therefore a multi-layered process. At the macroeconomic level, establishing effective and credible monetary policy is paramount. Solid public finances and adherence to fiscal rules increase confidence in a domestic currency. Floating exchange rates also appear to be important, although countries unwilling to give up an exchange rate peg can manage risks through regulations that prevent unhedged corporations and households from over-borrowing and prudential regulations that secure liquidity buffers to soften the blow of external shocks.

Domestically, the development of bond markets is needed, particularly for bonds with longer maturities. This applies to both government and corporate bond markets, the latter being largely absent in the transition economies. The development of a reliable interest rate index is also a helpful tool for local investors.



More details regarding the specific regulatory proposals can be found in the *Transition Report*. It is nevertheless important to note that developing local currency capital markets is a long and complex process; there is no one-size-fits-all approach. Depending on a country's circumstances, large-scale foreign financing may still be the lesser of two evils. With the memory of the financial crisis still fresh, the challenge will be to capitalize on the renewed interest in local currency capital markets to build transition economies that are more resistant to external financial shocks.



Annex 6—CIDA Programming in EBRD Countries of Operations

In order to increase the effectiveness of its programming, the Canadian International Development Agency (CIDA) is focusing its efforts on a limited number of countries. In the EBRD region, efforts are therefore concentrated in Ukraine, which is one of CIDA's 20 countries of focus. CIDA also has limited bilateral programming in the Balkans (Bosnia and Herzegovina, Serbia, Montenegro and Albania), Tajikistan and Russia, mainly through the Canada Fund for Local Initiatives (CFLI). Responsibility for the CFLI is scheduled to transfer from CIDA to Foreign Affairs and International Trade Canada effective April 1, 2011.

Other EBRD countries of operations can benefit from CIDA support through contributions to multilateral funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, as well as other programs that allow Canadian partners to receive funding from CIDA to execute projects worldwide. For instance, CIDA currently supports a \$300,000 initiative through the Association of Canadian Community Colleges to enhance sustainable economic development in rural communities in Georgia through workforce development, retraining and professional education.

The highlights of CIDA's programming in EBRD countries of operations can be found below.

Ukraine—Since 1991, Canada has contributed more than \$362 million in bilateral official development assistance. The goal of CIDA's bilateral Ukraine Program is to improve economic opportunities for Ukrainians in a strengthened democracy. Current programming builds on past efforts and focuses on Ukraine's sustainable economic growth. This is being pursued through improvements to the business-enabling environment and by promoting entrepreneurship to increase the competitiveness of small and medium-sized enterprises, especially agricultural producers, in domestic and international markets. To accelerate economic development, CIDA will also be focusing on rule of law and improving accountability of public institutions.

Europe Regional Program—In May 2007, the Europe Regional Program was established to further refine CIDA's interventions, address ongoing transboundary issues in the region and meet the specific needs of the South Caucasus. Canada's twin objectives of democratic and economic reform have guided CIDA's programming direction. CIDA has supported initiatives aimed at facilitating the transition to a free market economy through the EBRD.