



Department of Finance
Canada

Ministère des Finances
Canada

2017

Canada at the European Bank for Reconstruction and Development

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

Canada

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Foreword by the Minister of Finance

In 2017, the Government of Canada announced its new Feminist International Assistance Policy that places the empowerment of women and girls at the heart of Canada's approach to building a more peaceful, inclusive and prosperous world. Eliminating barriers to equality and helping to create better opportunities for women and girls is the most effective way to address the root causes of poverty.

Canada looks to multilateral partners such as the European Bank for Reconstruction and Development (EBRD) to help realize its vision of an inclusive, sustainable, open and resilient global economy. Originally created in 1991 to foster transition towards democratic and market-oriented economies, the EBRD adopted a revised transition concept, in 2016, to formally recognize that successful market economies should be inclusive, notably providing women equal access to economic opportunities, as well as environmentally friendly, integrated, resilient, competitive and well-governed. We view our priorities as closely aligned with the updated transition concept and continue to value strongly our relationship and partnership with the EBRD.

It is in this spirit that I am pleased to present to Members of Parliament and all Canadians, *Canada at the European Bank for Reconstruction and Development 2017: Report on Operations Under the European Bank for Reconstruction and Development Agreement Act*.

This report details progress in advancing Canada's key objectives at the EBRD in 2017, and presents our forward-looking objectives for 2018. As Canada's Governor at the EBRD, I will encourage the Bank to:

1. Promote operations that advance gender equality and the empowerment of women and girls, and develop a strong base of evidence to support gender equality actions, building on the EBRD's Strategy for the Promotion of Gender Equality and its Economic Inclusion Strategy.
2. Work increasingly with other multilateral development banks as a system to develop innovative approaches on, for example, private capital mobilization and green economy transition, which could not otherwise be achieved by the EBRD or other organizations operating alone.
3. Prioritize resources to areas with the greatest need, notably Ukraine and countries in the Southern and Eastern Mediterranean region, while emphasizing the importance of continued domestic-led political, economic and institutional reforms as a condition for support.

Canada is deeply committed to promoting democratic, market-oriented economies in the context of freedom, the rule of law and human rights. In cooperation with other shareholders, our voice at the EBRD allows us to advance this goal.

The Honourable William F. Morneau, P.C., M.P.
Minister of Finance

Overview

Created in 1991, the European Bank for Reconstruction and Development (the EBRD or the Bank) is a project-oriented international financial institution that fosters transition towards democratic, market-oriented economies and promotes private and entrepreneurial initiatives in Central and Eastern Europe, Central Asia and the Southern and Eastern Mediterranean (SEMED) region. In pursuing this mission, the EBRD operates in countries that demonstrate a commitment to the fundamental principles of multiparty democracy, pluralism and market economics.¹

The Bank's 68 shareholders include 66 countries and two intergovernmental organizations (the European Union and the European Investment Bank). As of December 31, 2017, the Bank's assets totalled €56 billion, while liabilities amounted to €40 billion. A robust capital position has helped the Bank maintain strong investment levels in recent years, with annual lending averaging €9 billion in the last five years.²

Three core operating principles guide the Bank's activities: transition impact, additionality and sound banking practices. Delivering on transition impact requires the Bank to ensure that its projects are aligned with its mandate to foster transition towards democracy, pluralism and market-based economies. In 2016, the EBRD adopted a revised transition concept to recognize that, in addition to being competitive, successful market economies should be inclusive, environmentally friendly, integrated, resilient and well-governed. Upholding the principles of additionality and sound banking involves catalyzing additional flows of private sector financing, as well as ensuring good financial governance practices and the effective use of capital in its operations. In accordance with the Agreement Establishing the EBRD, the Bank is also committed to promoting environmentally and socially sustainable development practices. For more information on the EBRD's mandate and activities, see Annex 1.

As a founding member and the eighth largest shareholder in the Bank, Canada actively contributes to the development of EBRD policies while providing oversight of the Bank's financial activities. This is primarily achieved through Canada's seats on the Board of Governors and Board of Directors. At the Board of Directors, Canada leads a constituency that includes Morocco, Jordan and Tunisia. The EBRD's Annual Meeting also provides Canada with an opportunity to meaningfully engage in dialogue at the level of Governors with Bank management and other shareholders. For more information on Canada's role at the EBRD, see Annex 2.

Key objectives guide Canada's engagement with the Bank. Renewed annually, these objectives are informed by the Government of Canada's policy goals, a dedication to the EBRD's underlying transition mandate, and the general principles of good governance, accountability and institutional effectiveness. A discussion of the progress made on Canada's 2017 objectives, as well as Canada's forward-looking objectives for 2018, can be found in the section entitled "Canada's Objectives at the EBRD."

As one of the largest investors in its regions of operations, the EBRD actively works to enhance the effectiveness of its activities. By investing billions annually in its recipient countries, catalyzing additional resources from the private sector, engaging in policy dialogue and providing technical advice, the EBRD is able to enhance its transition impact each year.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 Annual investment refers to the amount of financing committed under signed agreements during the calendar year.

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

What Happened in 2017

In 2017, the EBRD achieved record levels of financing, investing €9.7 billion in 36 countries. The EBRD expanded operations in the SEMED region, welcoming Lebanon as a member and its newest country of operations, and receiving Governors' approval to invest in the West Bank and Gaza. Furthermore, the Bank made significant progress operationalizing the revised transition concept adopted in 2016, launching the Economic Inclusion Strategy and surpassing green investment targets.

As one of the Bank's founding members, Canada sees the EBRD as an important development partner and continues to strongly support the work of the Bank as it assists its recipient countries to build well-functioning market economies and create sustainable democratic institutions.

Expanded Operations in the Southern and Eastern Mediterranean Region

In 2017, Lebanon officially became a member and country of operations of the EBRD, with support from Canada. In December 2017, the EBRD Board of Directors approved the establishment of a Resident Office in Beirut, Lebanon. The EBRD began operations in Lebanon in 2018, and will focus on three strategic areas of engagement:

(1) strengthening private sector competitiveness; (2) promoting a sustainable energy sector; and (3) enhancing public service delivery and mobilizing private sector participation in infrastructure.

Lebanon, with a population of 4.5 million, is hosting over 1 million Syrian refugees, making it the country with the highest number of refugees per capita in the world. This has imposed major challenges on the Lebanese government. The EBRD will thus seek to provide support to host communities affected by the Syrian refugee crisis, by strengthening their capacity to respond to increased pressures on public services and infrastructure. This engagement will build on the Bank's broader programming to provide support to countries, such as Turkey and Jordan, severely impacted by the crisis.

Furthermore, in May 2017, the EBRD's Board of Governors provided their support for the Bank to extend its operations to the West Bank and Gaza,⁴ approving a €30 million net income allocation to the Trust Fund for the West Bank and Gaza, again with support from Canada. The EBRD began operations in the West Bank and Gaza in 2018, and will focus on: (1) supporting private sector led growth; (2) increasing access to finance for micro, small and medium enterprises; and (3) promoting a sustainable energy sector.

Launched the Economic Inclusion Strategy

In 2016, the EBRD adopted a revised transition concept to formally recognize that successful market economies should be inclusive, notably providing women equal access to economic opportunities, as well as environmentally friendly, integrated, resilient, competitive and well-governed. In 2017, the Bank launched its first Economic Inclusion Strategy (EIS), marking a significant step in operationalizing the revised transition concept.

The objective of the EIS is to accelerate the transition of EBRD countries of operations towards inclusive market economies by working with the private sector to promote equal access to economic opportunities. The EIS covers the period of 2017-2021 and focuses on the thematic priorities of access to employment and skills, entrepreneurship and access to finance, and access to services that enhance economic opportunities. The EIS targets groups that experience disproportionate barriers to economic opportunity, notably women, young labour market entrants and populations in less advanced regions within a country. In addition to operationalizing *inclusion* in the Bank's projects and policy dialogue, the EIS also focuses on assessing inclusion impacts to further strengthen the Bank's fact-based, impact-driven inclusion approach. The EIS seeks to have a systemic and lasting impact on the target groups that is greater than the aggregate impact of individual projects. The EIS complements the EBRD's Strategy for the Promotion of Gender Equality (2016-2020), which seeks to mainstream gender into its operations.

⁴ Since the West Bank and Gaza is not a sovereign state, it is not eligible for full membership at the Bank but is eligible for special programming to support development projects in the area. The EBRD finances operations in the West Bank and Gaza through trust funds.

Women in Business Program in Tajikistan

The EBRD's flagship *Women in Business* program provides women-led micro, small and medium enterprises (MSMEs) with access to financing and business advice. In 2017, the EBRD increased its support for women-led firms by increasing the number of partnerships with local banks participating in the program. In total, this program has reached more than 35,000 female entrepreneurs, providing finance of over €400 million in partnership with 30 financial institutions across 17 countries.

In September 2017, Tajikistan joined the *Women in Business* program. In Tajikistan, a lack of dedicated financing products, low financial literacy, less exposure to business opportunities, and lower access to knowledge networks create additional barriers for women-led businesses to flourish. As a result, women are 3.5 times more likely to secure financing from family and friends. The EBRD will provide up to US\$8 million to partner banks for on-lending to women-led MSMEs. The Bank will further support women entrepreneurs by increasing their access to mentoring, entrepreneurship skills development opportunities, and business experts.

Surpassed Green Economy Transition Targets

In 2015, in response to the global call for further action at the 2015 United Nations Climate Change Conference in Paris, the EBRD adopted a green economy transition (GET) approach as the key mechanism to scale up its climate financing activities, with the goal of reaching 40 per cent green investments as a share of total annual Bank investment by 2020. In 2017, the Bank surpassed its 2020 GET target, with green investments accounting for 43 per cent of annual investment, up from 33 per cent in 2016.

In 2017, the EBRD invested €4.1 billion in 186 green projects focused on, inter alia, energy efficiency, renewable energy and climate resilience, which will reduce carbon emissions by an estimated 6.3 million tonnes per year. In the area of green financing, the Bank launched the Green Bond Technical Cooperation Programme to accelerate the rate of issuance of green bonds and develop green capital markets in EBRD countries of operations. In parallel, the EBRD announced plans to invest US\$100 million in Emerging Green One, the world's largest green bond fund dedicated to emerging market investments. Emerging Green One is a joint initiative of the World Bank's International Finance Corporation and Amundi, Europe's largest asset manager.

Egypt Renewable Energy Framework

In June 2017, the EBRD approved a new US\$500 million framework for renewable energy in Egypt. Investments will be made in privately owned wind and solar projects, expected to reduce carbon emissions by more than 900,000 tonnes per year. The framework also helps renewable energy companies in Egypt incorporate gender considerations in their operations by ensuring that (1) women's energy needs are satisfied; and (2) diversity and inclusion policies and practices are in place to increase women's participation in the workforce and improve their career opportunities.

As part of this framework, the EBRD announced in October 2017 a US\$335 million financing package, alongside the Green Climate Fund, Islamic Development Bank, Islamic Corporation for the Development of the Private Sector, and FMO (the Dutch development bank), to support the construction of the Benban Solar Park, which will be the world's largest solar installation upon completion. The EBRD won, jointly with the International Finance Corporation, which led another consortium of investors in parallel, the 2017 Thomson Reuters Project Finance International Global Award for Multilateral Deal of the Year in recognition for their work on this project.

The EBRD's Financial Performance

EBRD financing reached a record level of €9.7 billion in 2017, up from €9.4 billion in 2016. Investments were made in 412 projects across 36 countries, up from 378 projects in 2016. In addition to investing its own funds, the EBRD mobilized an additional €1.1 billion in private capital in 2017 for development and transition projects. While the total amount of mobilized investment decreased from €1.7 billion in 2016, the number of projects that mobilized investment increased 19 per cent, from 64 projects in 2016 to 76 projects in 2017.

In 2017, total disbursements reached €6.2 billion, down from €7.8 billion in 2016 but consistent with average disbursement levels of the prior three years. The volume of non-performing loans fell to 3.9 per cent of total loans, down from 5.5 per cent in 2016. The Bank recorded a net profit of €772 million, down from €992 million in 2016, primarily due to lower unrealized fair value equity gains in 2017. Realized profits before impairment totalled €634 million in 2017, comparable to €649 million recorded in 2016. The Bank's reserves increased from €9.4 billion at the end of 2016 to €10.0 billion at the end of 2017.

EBRD Operational and Financial Highlights 2013–2017¹

(€ millions, except for number of projects and where otherwise indicated)

	2017	2016	2015	2014	2013
Number of projects	412	378	381	377	392
EBRD commitments	9,670	9,390	9,378	8,853	8,498
Mobilized investment ²	1,054	1,693	2,336	1,177	862
Total project financing³	38,439	25,470	30,303	20,769	20,527
Gross disbursement	6,200	7,800	6,500	6,500	5,900
Realized profit before impairment	634	649	949	927	1,169
Net profit/loss for the year before transfers of net income	772	992	802	(568)	1,012
Paid-in capital	6,211	6,207	6,202	6,202	6,202
Reserves and retained earnings	9,961	9,351	8,504	7,947	8,674
Total members' equity	16,172	15,558	14,706	14,149	14,876
Non-performing loans ratio	3.9%	5.5%	5.9%	5.6%	3.3%
Liquid assets/undisbursed investments plus one year debt service	91.6%	91.4%	92.5%	103.1%	93.5%

¹ In 2017, the EBRD adopted a change in accounting policy, resulting in past financial figures being restated. As such, the data provided may differ from financial figures in last year's report.

² Mobilized investment is the volume of commitments from entities other than the Bank made available to the client due to the Bank's direct involvement in mobilizing external financing during the year.

³ Total project financing is the total amount provided to a project, including both EBRD and non-EBRD finance, and is reported in the year in which the project first signs. Source: EBRD, *Annual Financial Report 2017*.

Finally, the EBRD continues to be in a strong position to carry out its mandate in the medium term, given its strong capitalization, high levels of liquidity and relatively low levels of non-performing loans. The Bank continues to be rated AAA or equivalent by all three major credit rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings).

The EBRD's Lending in 2017

The EBRD operates across a diverse geographic area stretching from Central and Eastern Europe to Central Asia and the SEMED region. Regional investment levels, in any given year, are affected by various factors, including the business climate in individual recipient countries and domestic political developments.

Turkey continued to receive the largest share of financing in 2017, with lending totalling €1.5 billion, accounting for roughly 16 per cent of total investments. Investment in Ukraine increased 27 per cent from 2016 levels to €740 million in 2017. Together, Turkey and Ukraine accounted for 28 per cent of the Bank's total loan portfolio as of December 31, 2017. Egypt, Azerbaijan, Romania and Tunisia received significantly more support, with lending growing by €669 million, €393 million, €345 million and €263 million, respectively, compared to 2016 levels. For Tunisia, this represents nearly a five-fold increase in lending. In 2015, Greece became an EBRD recipient country on a temporary basis until 2020. In 2017, Greece received €614 million in financing and was the fifth largest recipient of EBRD investment. The charts below illustrate the regional changes in the EBRD's investment flows from 2016 to 2017.

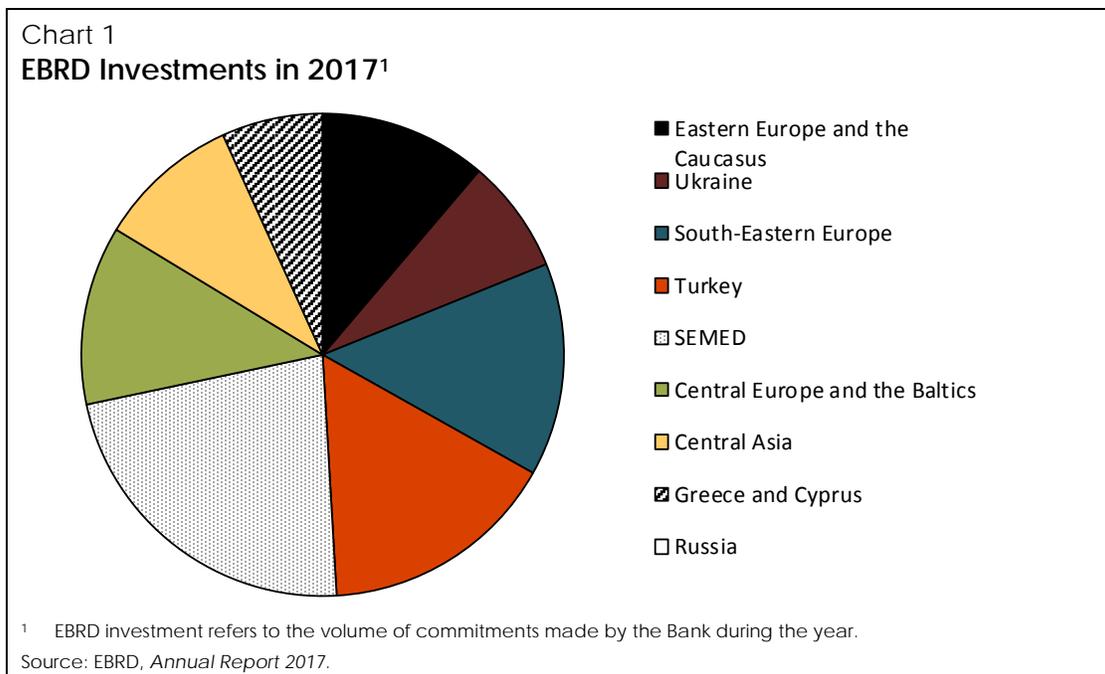
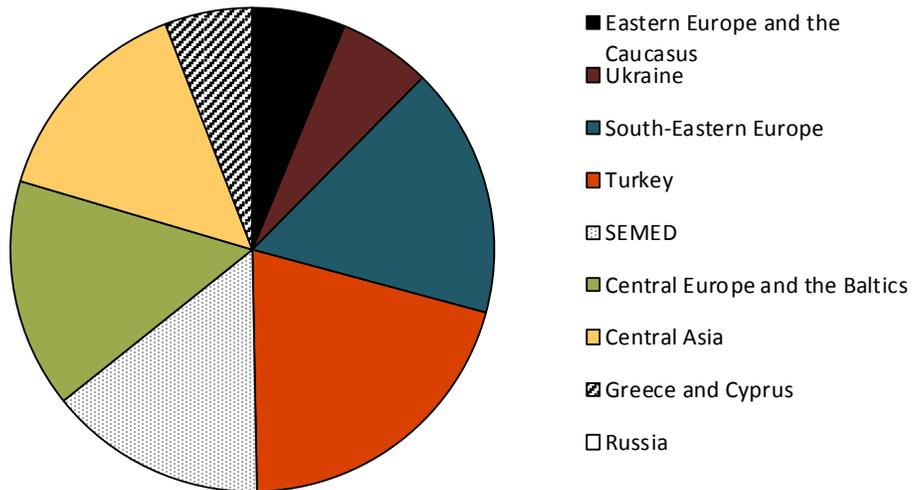


Chart 2
EBRD Investments in 2016¹



¹ EBRD investment refers to the volume of commitments made by the Bank during the year.
Source: EBRD, *Annual Report 2016*.

Canada's Objectives at the EBRD

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

As a major shareholder in the EBRD, Canada supports the Bank in accomplishing its mandate to foster effective political and economic transition in its countries of operations. In doing so, Canada works to ensure the EBRD also maintains prudent risk management systems and a healthy financial profile. In order to provide strategic direction for its engagement with the EBRD, Canada develops key objectives on an annual basis. These objectives are informed by Canada's commitment to the EBRD's underlying mandate, the Government's foreign policy and development agenda, and general principles of good governance, accountability and institutional effectiveness.

Progress on Canada's Objectives in 2017

In 2017, Canada's objectives were targeted to encourage the EBRD to prioritize its operations in countries with the greatest transition needs, notably in Ukraine and the SEMED region, and to support the Bank's updated transition mandate to build strong, inclusive and sustainable market economies. Canada's 2017 objectives at the EBRD are presented below along with an overview of progress made in achieving these objectives.

- 1. Prioritize resources to areas with the greatest need, notably Ukraine and countries in the Southern and Eastern Mediterranean region, while emphasizing the importance of continued domestic-led political, economic and institutional reforms as a condition for support.**

Support for Ukraine

The EBRD continued to invest heavily in Ukraine, with an active project portfolio of €4.1 billion as of December 31 2017. With outstanding loans in Ukraine representing 10.6 per cent of the Bank's total loan portfolio, the EBRD is the largest international financial investor in Ukraine. In 2017, the EBRD's work aimed to deliver positive transition impact and active support for reforms. The Bank committed €740 million in lending to new projects, a 27 per cent increase compared to 2016, reinforcing Ukraine's efforts to move towards an open and more inclusive, market-oriented economy. The corporate and infrastructure sectors accounted for 75 per cent of the Bank's investments in Ukraine in 2017. Over two-thirds of investments in Ukraine in 2017 supported green projects.

Ukraine Public Sector Energy Efficiency Framework

In December 2017, the EBRD approved a new €100 million framework for public sector energy efficiency in Ukraine. Under the framework, loans will be provided to municipal energy management companies to improve the energy efficiency of public buildings and street lighting infrastructure. The framework seeks to have a systemic impact on the public sector as a whole, helping municipalities address the challenges posed by rising energy prices and increasing energy security concerns.

Progress was made on the Chernobyl New Safe Confinement project, with construction now scheduled to be completed in 2018. The new protective structure, positioned over the destroyed Chernobyl nuclear reactor and the aging containment sarcophagus built following the 1986 nuclear accident, will have an estimated life of 100 years and will protect against the continued release of radioactive material from the reactor.

In addition, the EBRD opened its fourth regional office in Ukraine, in the southern city of Odessa. This office will focus primarily on providing expert advice for small and medium-sized enterprises, and complements the Bank's expanded reach in western and eastern Ukraine, with offices recently established in Lviv (December 2014) and Kharkiv (December 2016) respectively.



The EBRD provided a strong response to the crisis in Ukraine that started in late 2013. In response to Russia’s annexation of Crimea and subsequent role in destabilizing eastern and southern Ukraine, Canada and other key shareholders have actively opposed EBRD lending to new Russian projects since 2014. As a result, the Bank has not invested in new projects in Russia for almost four years; however, it receives interest and principal payments from its existing loan portfolio.

Canada continued to actively encourage the EBRD to further strengthen its involvement in Ukraine. In 2017, the Executive Director for Canada, Morocco, Jordan and Tunisia visited Ukraine to better understand the country’s economic priorities and maintain close dialogue with local authorities, civil society and the private sector. During this visit, the Executive Director was able to appreciate first-hand the impact of EBRD support, along with Canadian bilateral aid, and explored ways that the EBRD and Canada could work together to continue to provide support to Ukraine.

Furthermore, in October 2017, with the support of the office of the Executive Director for Canada, Morocco, Jordan and Tunisia at the EBRD, the Bank and the Government of Alberta signed a Memorandum of Understanding (MOU) aimed at strengthening Ukraine’s agribusiness sector. The MOU seeks to foster collaboration between the parties and leverage expertise from Alberta’s public sector to support the implementation of technical cooperation programs in Ukraine. The goal is to build the capacity of private and public sector stakeholders to prioritize governance and economic reforms, and improve the overall competitiveness and sustainability of the Ukrainian agribusiness sector.

Youth Inclusion in Ukraine’s Dairy Sector

In 2017, the EBRD partnered with a local non-governmental organization to design and implement an on-the-farm training and internship program to enable young veterinarians to gain the skills and hands-on experience needed to secure jobs in the farming sector. The program is also helping to address the unmet demand for qualified veterinarians in Ukraine’s agribusiness sector. Ten dairy farms participated in the program, with 94 per cent of students completing the internship and 23 per cent receiving offers of employment.

Through the Dairy Business Development program, the Canadian Cooperation Society for International Development (SOCODEVI) has committed to supporting this training and internship program for the next two years, alongside the Dnipro State University of Agriculture and Economics and Novomoskovsk College. SOCODEVI has led the Dairy Business Development program, which is designed to strengthen the competitiveness of and develop entrepreneurship in Ukraine’s dairy sector, since 2008. SOCODEVI’s Ukraine program is supported by the Government of Canada, which provided CAN\$19.7 million in financing in 2015.

Support for the Southern and Eastern Mediterranean Region

The EBRD expanded its reach to the SEMED region in 2011, which now consists of Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank and Gaza. The EBRD continues to play an important role in this region, providing investments and technical assistance in key areas such as infrastructure, renewable energy, governance and the financial sector, as well as supporting micro, small and medium-sized enterprises with an emphasis on empowering women entrepreneurs. The Bank also provides policy advice in key areas such as sustainable infrastructure, public-private partnerships, and capital markets development.

Canada has been a strong supporter of deepening investments in this region. In 2017, Canada supported Lebanon's bid to become a country of operations and the establishment of a Residence Office in Beirut. Canada also welcomed the Bank's engagement in the West Bank and Gaza. Support for transition in the SEMED region is particularly important to Canada given our shared constituency with Morocco, Jordan and Tunisia at the EBRD Board of Directors. In 2017, the Executive Director for Canada, Morocco, Jordan and Tunisia visited all three SEMED countries in the shared constituency to better understand their transition needs and learn about potential business opportunities, both for the EBRD and Canadian companies. He also led a delegation of EBRD Board members to Tunisia in October 2017 to help raise the profile of this country of operations within the Bank.

Canada supported the Bank's investments in the SEMED region, reaching a record level of investment of €2.2 billion in 2017, up from €1.4 billion in 2016. Throughout the region, the EBRD invested heavily in renewable energy and energy efficiency projects. Green economy transition (GET) investments in the SEMED region trebled, increasing from €0.4 billion in 2016 to €1.3 billion in 2017, and accounted for 60 per cent of the Bank's total investment in the region. The Bank invested €611 million in projects that promote gender equality in the region, an eight-fold increase compared to 2016. EBRD investments in infrastructure, primarily related to fresh water/sewage systems improvement and railway modernization, grew almost nine-fold compared to 2016, totalling €782 million.

Canada has also been a strong supporter of increasing the voice of the SEMED region within the EBRD. In November 2017, the EBRD held its second *SEMED Business Forum* since it began operations in the region in 2012. The Forum, held in Cairo, Egypt, convened over 800 participants from the public and private sectors and centred on the theme of *Investing for Sustainable Growth*. Of note, as part of the Bank's *Women in Business* program in Egypt, the EBRD announced a US\$20 million loan to QNB Alahli SAE for on-lending to local women-run businesses. The EBRD's *Women in Business* program provides women-led micro, small and medium enterprises with access to financing and business advice. The EBRD also strengthened its outreach in Morocco with the opening of a second office in the city of Tangier in order to target the local economy in the northwest of the country and thus promote regional inclusion and job creation.

Finally, the EBRD continues to provide support to countries that have been severely impacted by the Syrian refugee crisis, such as Jordan and Turkey. At the 2017 Annual Meeting, shareholders approved setting aside €50 million from the Bank's 2016 net income to support refugee-hosting countries in the SEMED region. As of February 2018, the EBRD has invested over €325 million, consisting of €215 million of investments and €110 million of grants (including co-investment grants and technical assistance), through its Refugee Response Plan.

Saïss Water Conservation Project in Morocco

Extreme water scarcity in Morocco is exacerbated by the impacts of climate change and unsustainable water management practices, and threatens agricultural production and the rural economy. In 2017, the EBRD provided a €120 million loan to the Saïss Water Conservation Project in Morocco to help preserve the Saïss aquifer and improve climate resilience. EBRD financing is supported by a co-financing grant of €32 million from the Green Climate Fund.

The project's objective is to transition from the use of groundwater, which is currently overexploited and leading to a reduction in reserves, to the use of surface water resources. The project will also promote more efficient water consumption practices by implementing best practices in irrigation techniques, including by promoting drip irrigation, as well as modern water demand management methods. Finally, the project will strengthen women's economic inclusion in the Saïss plain by helping female farmers adapt to climate change and promoting their access to economic opportunities in commercial agriculture.

2. Support the Bank's updated transition mandate to build strong, inclusive and sustainable market economies in its countries of operations, promoting the effective and efficient use of investment and policy instruments to deliver results.

The EBRD's revised transition concept, approved in 2016, updated the Bank's understanding of what constitutes a sustainable, well-functioning market economy. It noted that a well-functioning market economy should be more than just competitive; it should also be inclusive, environmentally friendly, integrated, resilient and well-governed.

The EBRD's updated transition concept aligns closely with Canada's new Feminist International Assistance Policy, announced in June 2017. Canada's policy centres on promoting *gender equality and the empowerment of women and girls* as a means to build a more peaceful, inclusive and prosperous world. The policy's priority areas focus on fostering *growth that works for everyone*, promoting *environment and climate action*, supporting *inclusive governance*, promoting *human dignity*, and strengthening global *peace and security*. As such, Canada sees the EBRD as an important and effective development partner, and is committed to supporting the Bank's efforts to, inter alia, empower women and girls and address climate change.

In 2017, the EBRD hit some notable milestones in the operationalization of its updated transition concept. The Bank's green investments accounted for 43 per cent of annual investment, surpassing its 2020 GET target of 40 per cent of annual investment. The Bank launched its Economic Inclusion Strategy, which is designed to accelerate the transition of EBRD countries of operations towards inclusive market economies by harnessing the power of the private sector to create equitable access to equal economic opportunity.

In addition to promoting gender equality within its countries of operations, the EBRD took concrete steps in 2017 to ensure the organization itself provides equal opportunities for women. Of note, the EBRD became EDGE certified, reinforcing the Bank's commitment to fostering a gender inclusive workplace. EDGE is the leading global certification system on gender equality. The EDGE approach provides measurable evidence on an organization's performance and benchmarks compared to set standards and peers. As a result, EDGE certified organizations have clear direction on how to foster more gender inclusive environments. Canada welcomes the Bank's engagement with EDGE, and continues to support its ongoing efforts to promote greater diversity and inclusion.

EBRD Support to Modernize Ukrainian Railways

In December 2017, the EBRD approved a €150 million loan to support the electrification and modernization of a railway line in southern Ukraine. The project is expected to result in substantial reductions in greenhouse gas emissions, estimated at over 140,000 tonnes per year. The project will promote greater integration, increasing capacity and improving efficiency of operations, and connecting industrial and agricultural areas in central Ukraine with key ports in the Odessa and Mykolaiv regions.

Canada's Objectives for 2018

Canada is an active shareholder with a strong interest in the EBRD. As such, Canada's objectives are meant to help ensure that the EBRD remains an effective, efficient and modern institution for the clients and countries it serves. These objectives will be reported on in next year's *Canada at the European Bank for Reconstruction and Development* report to Parliament.

- 1. Promote operations that advance gender equality and the empowerment of women and girls, and develop a strong base of evidence to support gender equality actions, building on the EBRD's Strategy for the Promotion of Gender Equality and its Economic Inclusion Strategy.**

In 2018, Canada will continue to work closely with the EBRD to reinforce the Bank's work to mainstream its Strategy for the Promotion of Gender Equality, which will increase women's economic empowerment and equality of opportunities in the countries where the Bank invests. Effectively addressing systemic gaps means building incentives into the Bank's instruments to ensure that a meaningful gender component is included in projects' structure. To support this approach, Canada will work closely with the EBRD to implement and measure the impact of this Strategy across Bank operations.

The Bank's plan to further disclose the importance it places on the promotion of gender equality, by tracking it at an institutional level via its Corporate Scorecard, will provide strong evidence to support gender equality actions. Canada will continue to support the tracking of additional parameters, such as the annual number and value of investments with either a gender component or focus, and ratios of "fully compliant" or "on track" Key Performance Indicators related to gender.

Canada will also look closely at the Performance Monitoring Framework, which establishes the metrics to measure success and the conceptual links outlining how activities will lead to specific results. The framework also outlines how these activities will contribute to promoting gender equality through the three operational approaches (improvements in access to finance, employment, and skills and services).

- 2. Work increasingly with other multilateral development banks as a system to develop innovative approaches on, for example, private capital mobilization and green economy transition, which could not otherwise be achieved by the EBRD or other organizations operating alone.**

Multilateral development banks (MDBs), including the EBRD, are key partners in advancing global development. MDBs provide access to financing; engage in knowledge-transfer; work with policy makers to create a stable and enabling environment for investment; and serve as an institutional response for addressing collective action problems. However, the global landscape has evolved significantly since MDBs were first established, as demonstrated by the growth of private capital as an important source of development finance, the rise of multipolarity, and the emergence of new global challenges that spill over across countries and even continents. Accomplishing truly transformative results will require MDBs to increasingly act together as a system, thereby achieving outcomes that would be beyond the ability of institutions acting alone.

Canada will encourage the EBRD, and other MDBs, to operate increasingly as a system to achieve development results that they could not achieve acting alone. In particular, shareholders have called on MDBs to increasingly become catalysts of private investment given they are uniquely positioned to mobilize private capital into emerging markets and developing economies. MDBs have influence with policy makers, deep experience in these markets and an ability to deploy technical assistance and funding structures on a commercial or concessional basis, and can offer financial instruments designed to de-risk investment opportunities for private investors. However, mobilizing the large volumes of private financing for development needed to achieve the Sustainable Development Goals will require a coordinated MDB effort. Given the EBRD's deep expertise in private sector financing, Canada will push the Bank to play an important role to help MDBs coordinate a system-wide approach to mobilizing private capital for development.

Similarly, Canada will encourage the EBRD to work with MDBs on a coordinated system-wide approach to tackling climate change and supporting the transition to low-carbon economies. The EBRD's response to the global call for climate action has been swift. In addition to significantly ramping up green investments, the Bank has designed and implemented innovative initiatives, such as the *Green Cities Framework* designed to help municipalities and private companies complete infrastructure projects with strong sustainability outcomes. Working together as a system, MDBs can share lessons learned and scale up leading practices. MDBs can also coordinate on country and regional plans to tackle climate change mitigation and adaptation.

3. Prioritize resources to areas with the greatest need, notably Ukraine and countries in the Southern and Eastern Mediterranean region, while emphasizing the importance of continued domestic-led political, economic and institutional reforms as a condition for support.

In 2018, Canada will continue to advocate that the EBRD sustain its crucial support to both Ukraine and the SEMED region by making investments which foster political and economic transitions, prioritized based on the greatest need and potential impact. Ukraine and the SEMED region continue to face significant pressures, and the current political and economic context in both regions demonstrates a clear case for transition support from the EBRD.

Alongside the EBRD and its international partners, Canada will continue to work towards transforming Chernobyl into a safe and secure site, including the completion and the formal handover of the New Safe Confinement project to Ukraine in 2018. Canada will continue to encourage EBRD investments in Ukraine and the facilitation of a comprehensive package of reforms to support the stabilization of the country.

Canada is committed to addressing the Syrian refugee crisis and is also counting on its development partners, including the EBRD, to implement measures to address this challenge. Canada recognizes the enormous pressure this has put on local governments and host communities, and welcomes the work that the EBRD has undertaken in Turkey and Jordan to address the ongoing refugee crisis.

Increased EBRD support for countries that host significant populations of refugees can provide much-needed support in areas such as domestic infrastructure. Canada will continue to support EBRD projects in these countries that demonstrate additionality and effectively crowd in private sector investment. Support for transition in the SEMED region is particularly important to Canada given our shared constituency with Morocco, Jordan and Tunisia at the EBRD Board of Directors. Canadian representatives at the Board work closely with Bank management and representatives of these countries to facilitate EBRD investment opportunities in these countries.

The EBRD launched operations in Lebanon in 2018. Canada will support the Bank's initiative to provide transition loans to Lebanon that will be utilized to deliver support to host communities affected by the Syrian refugee crisis. Specifically, the support will be used to strengthen the capacity of host communities to respond to increased pressure on public services and infrastructure. The EBRD also started its operations in the West Bank and Gaza in 2018. Canada was supportive of the Bank's first initiative, which provided support to the financial sector.

Annex 1

Background on the EBRD

Mandate and Role of the EBRD

The EBRD began operations in 1991. Its aims are to foster the transition towards open, market-oriented economies in Central and Eastern Europe, Central Asia and member countries in the Southern and Eastern Mediterranean region, and to promote private and entrepreneurial initiative in those countries that are committed to the fundamental principles of multiparty democracy, pluralism and market economics.⁵ 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 36 recipient countries in implementing economic reforms, taking into account the particular needs of countries at different stages in the transition process.

The Bank's overriding focus is the private sector, with a strong operational emphasis on enterprise restructuring, including the strengthening of financial institutions, and the development of the infrastructure needed to support the private sector. The EBRD's charter stipulates that not less than 60 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.

In promoting economic transition, the Bank acts as a catalyst for increased flows of financing to the private sector, as the external capital requirements of these countries cannot be fully met by official multilateral or bilateral sources of financing.

The EBRD differs from other regional development banks in several ways. Firstly, the Bank's overriding focus is on the private sector. Furthermore, the EBRD's mandate gives it an explicit focus on the promotion of democratic institutions in its countries of operations. The EBRD is the only international financial institution with this charter requirement. Finally, the EBRD does not have a dedicated concessional financing facility and poverty reduction is not part of its mandate. Nonetheless, the Bank's focus on private sector-led growth has a clear link to employment and poverty reduction.

The EBRD's Operations

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

Operational Priorities

The EBRD's medium term operational priorities centre around *re-energizing transition* in its countries of operations, many of which were profoundly affected by the global financial crisis. The Bank is focusing on:

1. **Strengthening the resilience of market-oriented reforms**, based on solid institutional foundations, good governance institutions, and social acceptance and inclusiveness.
2. **Promoting further regional and international integration**, as an effective mechanism to reinforce reform discipline and market efficiency.
3. **Addressing common global and regional challenges**, with a particular focus on climate change mitigation and adaptation.

⁵ Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development.

Project Finance

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

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

Eligibility

Eligible projects must be supported by a strong business case, benefit the local economy and the transition process of the host country, and comply with the EBRD's environmental, social and governance 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 financing facilitates or enhances the participation of private and/or foreign capital. The EBRD can finance private companies that are locally 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 its total amount of debt and equity financing for any single project to 35 per cent of total estimated project costs. In rare cases, such as when a project is in corporate recovery, the Bank may become the largest shareholder in order to protect the EBRD's investment.

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

Fees

EBRD loans are based on current market rates and are priced competitively in order to avoid crowding out private finance. The Bank offers both fixed, linked to a floating rate such as the London Interbank Offered Rate (LIBOR), and floating, with a cap or a collar, interest rates. In addition, the Bank may charge some fees and commissions, such as front-end commission, commitment fees, and prepayment, cancellation and late payment fees if necessary.

Policy Dialogue

The Bank uses its close relationship with governments in the region to promote policies that bolster the business environment, for example, removing legal, regulatory and institutional barriers to investment in sustainable energy projects, driving reforms to improve access to finance for micro, small and medium enterprises, and removing legal barriers to women's participation in the workforce. The EBRD engages in policy dialogue to support "top-down" policy-making geared towards fostering an enabling environment for investment and transitioning to well-functioning sustainable market economies. The EBRD also facilitates "bottom-up" evidence-based policy-making, applying lessons learned from projects to help remove systemic barriers to investment, inclusion and economic growth.

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 transition impact of EBRD projects by supporting structural and institutional changes, and it assists legal and regulatory reform, capacity-building, corporate governance and training.

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

The EBRD's Governance and Oversight

The highest authority in the Bank is the Board of Governors. The Board meets annually and approves the EBRD's *Annual Review*, 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 68 shareholders.

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

Board Committees

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

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

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, compliance and risk management teams. The Committee is currently chaired by the Director for Canada, Morocco, Jordan and Tunisia.

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 Director for Germany.

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 Public Information Policy and the Project Complaint Mechanism. Since 2007, the Committee has also been charged with overseeing the net income allocation process. As well, it is responsible for the Bank's Environmental and Social Policy and EBRD sector strategies. The Committee is currently chaired by the Director for Netherlands, Mongolia, FYR Macedonia, Armenia and China.

For More Information on the EBRD

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

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

Requests for information can be addressed to:

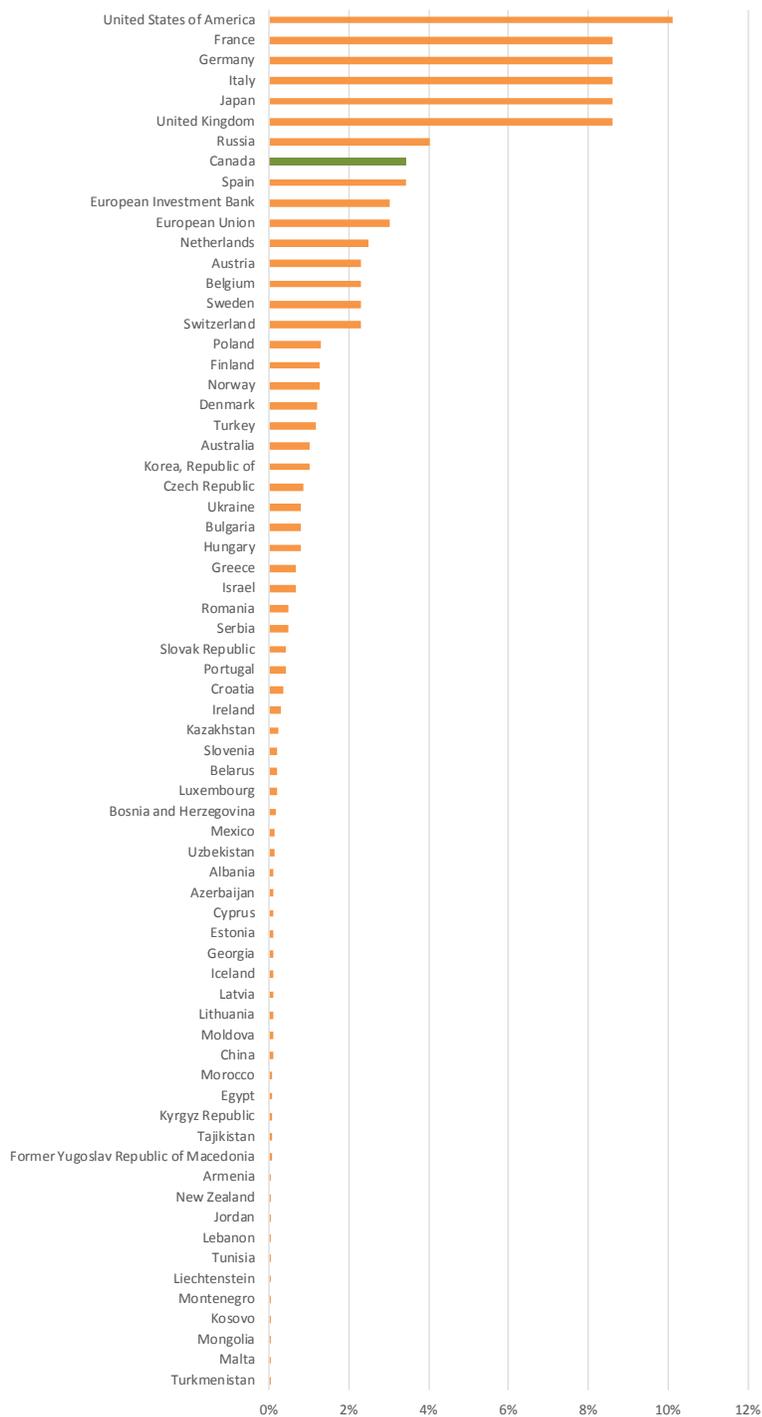
Publications Desk
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2JN
United Kingdom

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

The EBRD's Membership

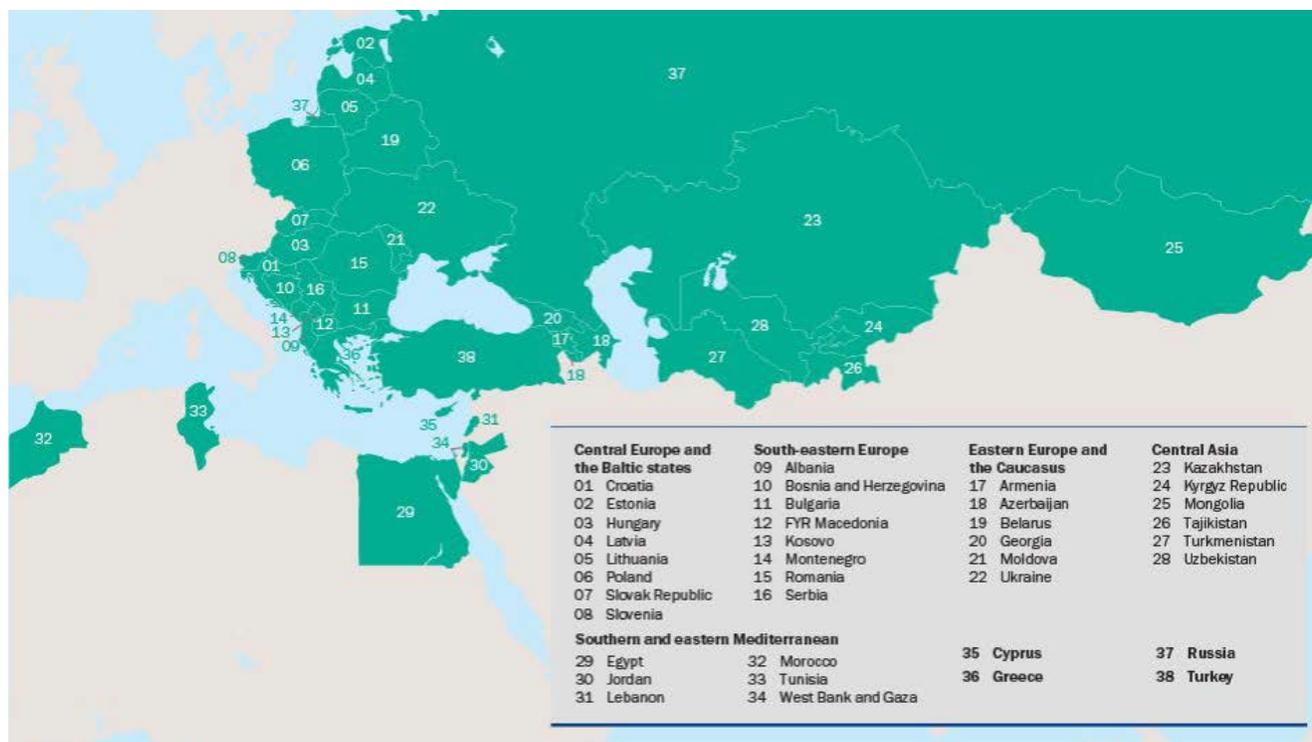
The EBRD's share capital is provided by member countries, with proportional voting rights. The chart below provides shareholdings as at December 31, 2017.

Shareholding as a Percentage of Authorized Capital Stock



Countries of Operations

The EBRD has 68 shareholders: 66 countries, as well as the European Union and the European Investment Bank. Lebanon joined the Bank in July 2017. The EBRD is active in 38 economies in Central and Eastern Europe, Central Asia and the Southern and Eastern Mediterranean region.



Source: EBRD

Annex 2

Canada and the EBRD

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

Canada's Contribution to Ordinary Capital Resources

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

Oversight and Representation

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

Canada's representation at the EBRD—The Honourable William F. Morneau, Minister of Finance, is the Canadian Governor and Ian Shugart, Deputy Minister of Foreign Affairs, is the Alternate Governor. Since November 2016, Canada has been represented on the EBRD Board of Directors by Douglas Nevison.

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

Canadian staff at the EBRD—Canadians are well represented on EBRD staff. At the end of 2017, there were 40 Canadians on the staff of the EBRD, representing 1.6 per cent of total positions.

Benefits of Membership

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

Furthermore, the EBRD is a valuable thought partner as Canada establishes its new development finance institution, FinDev Canada. A wholly owned subsidiary of Export Development Canada, FinDev Canada was created to invest in sustainable and inclusive private sector growth in order to advance Canada's international development priorities. Through ongoing dialogue with the EBRD, FinDev Canada is able to tap into and benefit from the Bank's knowledge, expertise and best practices on mobilizing private capital for development.

Finally, Canadian companies can seek financing for projects undertaken in the Bank's countries of operations. The Bank often relies on the procurement of goods and services from the private sector to implement transition projects. Canadian consultants were awarded 33 contracts valued at €0.8 million in 2017. Further, one EBRD investment was signed with a Canadian company in 2017, totalling approximately €100 million in EBRD finance, while a Canadian financial institution provided approximately €74 million in co-financing in support of this project. Canadian financial institutions also played an active role in managing the EBRD's Global bond issuances.