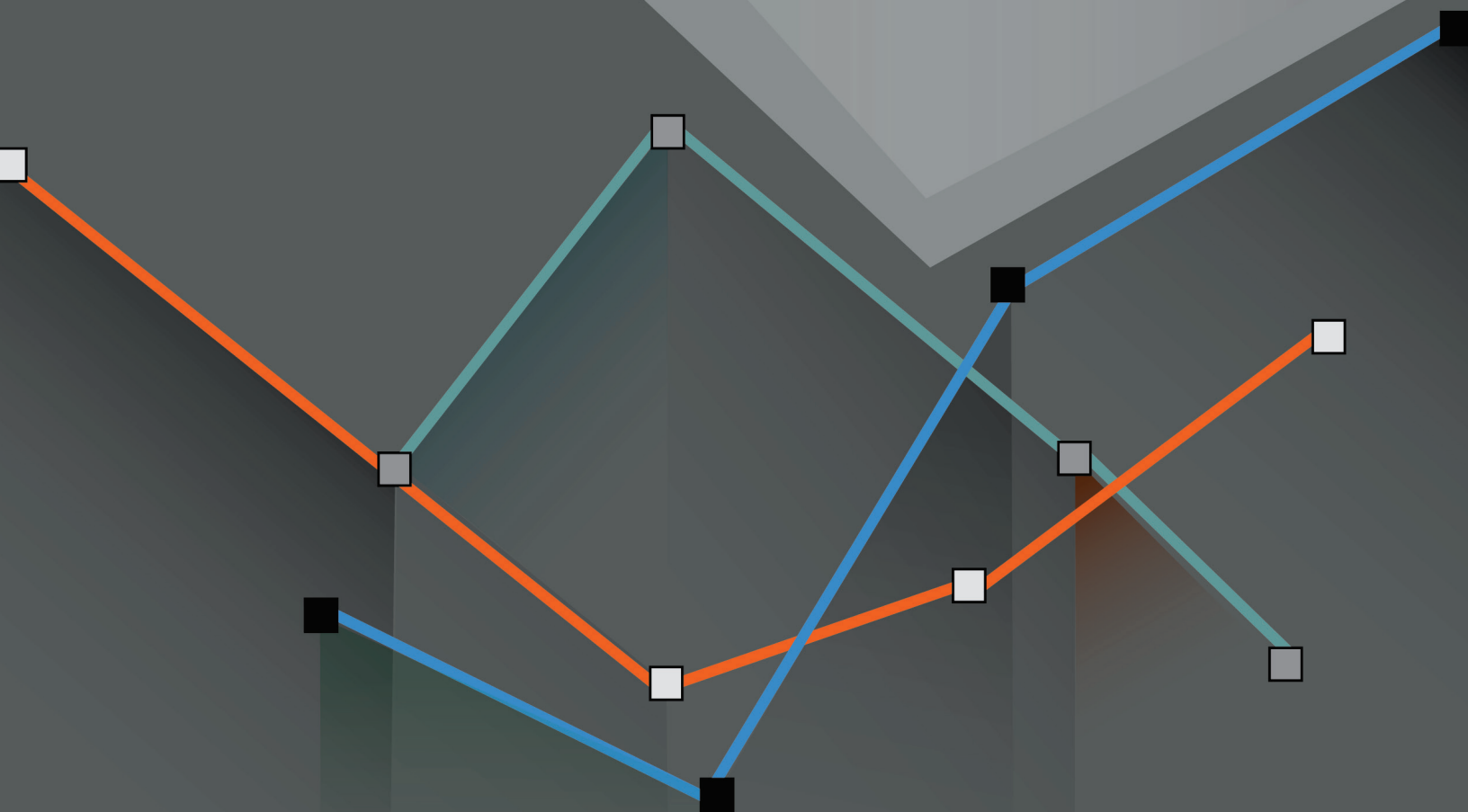


CANADA AT THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

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

2018



Canada

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Cat. No.: F1-29E-PDF
ISSN: 2369-0348

Foreword by the Minister of Finance

In 2018, Canada had the privilege of hosting the Group of Seven (G7). We made *Investing in Growth That Works for Everyone* a central pillar of our G7 Presidency. In Whistler (June 2018), G7 Ministers of Finance and Development discussed innovative mechanisms to leverage public resources and attract new partnerships and sources of finance for sustainable development. In particular, we discussed the promotion of women's full and equal economic participation, including supporting women entrepreneurs; innovative financing approaches to mobilize private capital for sustainable development; and building economic resilience against extreme weather events.

Canada relies on multilateral partners such as the European Bank for Reconstruction and Development (EBRD) to help foster growth that works for everyone. We strongly value our relationship and partnership with the EBRD, and view our priorities as closely aligned. The EBRD's focus on private sector operations demonstrates how public resources can be leveraged effectively to build successful market economies and catalyze private capital for development. The EBRD recognizes that successful market economies should be inclusive, as well as competitive, environmentally friendly, integrated, resilient and well-governed. Canada welcomes the EBRD's efforts to promote women's economic participation by increasing their access to finance and business support, employment and skills development opportunities, and services. The EBRD's approach supports our Feminist International Assistance Policy, which prioritizes the empowerment of women and girls as the key to building a more peaceful, inclusive and prosperous world.

It is with pleasure that I present to Members of Parliament and all Canadians, *Canada at the European Bank for Reconstruction and Development 2018: 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 2018, and presents our forward-looking objectives for 2019. As the EBRD works to define the strategic priorities that will guide its operations for the period 2021-25, Canada will promote a forward direction for the EBRD that is aligned with Canada's foreign policy and development priorities. 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 deliver outcomes which could not otherwise be achieved by the EBRD or other banks 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.**
- 4. Support the transition to low-carbon economies, including mobilizing private sector investments in high-quality infrastructure projects that support green and sustainable growth.**

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. Canada will continue to invest in growth that works for everyone, both at home and abroad.

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

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.² The Bank's 69 shareholders include 67 countries and two intergovernmental organizations (the European Union and the European Investment Bank). As of December 31, 2018, the Bank's assets totalled €61.9 billion, while liabilities amounted to €45.6 billion. A robust capital position has helped the Bank maintain strong investment levels in recent years, with annual lending averaging €9.4 billion in the last five years.³

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 2018 objectives, as well as Canada's forward-looking objectives for 2019, can be found in the section entitled "Canada's Objectives at the EBRD."

The 2018 *Report on Operations Under the European Bank for Reconstruction and Development Agreement Act* will be the last time the Canadian government tables a standalone report on the EBRD. Beginning next year, this information will be reflected in a consolidated report on Canada's international assistance, fulfilling a commitment made in Budget 2018 to increase transparency and accountability to Parliament and Canadians.

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 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.

³ Annual investment refers to the amount of financing committed under signed agreements during the calendar year.

What Happened in 2018

In 2018, the EBRD maintained strong levels of financing, investing €9.5 billion in 37 economies. As one of the Bank's founding members, Canada sees the EBRD as an important development partner and supports the work of the Bank as it assists its recipient countries to build well-functioning market economies. In addition to its core operations, the Bank undertook a number of new initiatives in 2018.

Launched a New Energy Strategy

In 2018, the EBRD launched a new Energy Strategy, for the period 2019-23. The new Energy Strategy focuses on decarbonization and the scaling up of renewable energy, and ends investments in coal, as well as upstream oil exploration and development.⁴ The strategy aligns with the EBRD's Green Economy Transition approach, launched in 2015 as the Bank's 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 investment by 2020. The strategy also promotes inclusion and gender equality in the energy sector, thereby aligning with the Bank's Economic Inclusion Strategy, launched in 2017, to accelerate the transition of EBRD countries of operations towards inclusive market economies.

Expanded Membership to India and Approved San Marino's Application

In March 2018, the EBRD Board of Governors voted unanimously in favour of India's membership application, leading to India becoming the 69th shareholder of the EBRD in July 2018. In November 2018, the EBRD Board of Governors also voted unanimously in favour of San Marino's membership application, paving the way for San Marino to become a shareholder of the Bank.

Extended Temporary Support to Greece

In 2015, the EBRD Board of Governors granted Greece recipient country status, on a temporary basis to 2020. In November 2018, the EBRD Board of Governors voted in support of extending operations in Greece to 2025 in order to continue to assist Greece with its economic recovery, including by providing a predictable environment for private investors. In the aftermath of the Greek government-debt crisis, the International Monetary Fund (IMF) and the European Union provided substantial financial support to Greece through various programs, starting in 2010 and concluding in 2018. Greece is now under post-program monitoring by the IMF. The EBRD's operations complement these broader economic stabilization efforts by supporting private sector-led growth. Since 2015, the EBRD has ramped up operations in Greece quickly. As of January 2019, the EBRD's cumulative investments reached €2.4 billion in 44 private sector projects. Operations have increased at a compound annual growth rate of 38 per cent since 2015, with Greece receiving €846 million in financing in 2018, making it the third largest recipient of EBRD investment last year. Private sector operations account for 100 per cent of the Bank's investments in Greece.

⁴ The Energy Strategy confirms that the Bank will no longer finance thermal coal mining or coal-fired electricity generation. The strategy will also stop funding any upstream oil exploration, and allows for investment in upstream oil development in *exceptional circumstances* where project proceeds exclusively target the reduction of greenhouse gas emissions or the reduction of gas flaring and fugitive emissions, from existing producing fields.

Launched the 2020-25 Strategic and Capital Framework Review Process

In 2018, the EBRD launched the Strategic and Capital Framework review process, which will define the high-level strategic orientations for the Bank's operations over the period 2020-25, assess the capital requirements needed to pursue the priorities, and outline the control framework for implementation. The EBRD's management and shareholders have begun to explore options to scale up and strengthen delivery within its existing countries of operations, while advancing transition and providing additionality, as well as extend activities to new countries of operations, while ensuring that multilateral development banks (MDBs) operate as a system, and consider returning some surplus capital to shareholders. The Strategic and Capital Framework 2020-25 will be finalized and submitted to the Board of Governors for approval in 2020.

The EBRD's Financial Performance

EBRD Annual Bank Investment totalled €9.5 billion in 2018, down slightly from €9.7 billion in 2017 but consistent with strong investment levels over the past four years. Investments were made in 395 projects,⁵ compared to 412 projects in 2017. In addition to investing its own funds, in 2018, the EBRD mobilized an additional €1.5 billion in external financing, including €1.1 billion from the private sector, for development and transition projects, up from €1.1 billion in 2017.

In 2018, total disbursements reached €7.2 billion, up from €6.2 billion in 2017. The volume of non-performing loans rose to 4.7 per cent of total loans, up from 3.9 per cent in 2017. The Bank recorded a net profit of €340 million, down from €772 million in 2017, primarily due to lower equity gains and a higher provisioning charge in 2018 compared to 2017, the bulk of which were unrealized factors. Realized profits before impairment totalled €606 million in 2018, comparable to €634 million recorded in 2017. The Bank's reserves totalled €10.1 billion at the end of 2018, up by €107 million compared to 2017.

EBRD Operational and Financial Highlights 2014–2018

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

	2018	2017	2016	2015	2014
Number of projects	395	412	378	381	377
EBRD commitments	9,547	9,670	9,390	9,378	8,853
Mobilized investment ¹	1,467	1,054	1,693	2,336	1,177
Total project financing²	32,570	38,439	25,470	30,303	20,796
Gross disbursement	7,200	6,200	7,800	6,500	6,500
Realized profit before impairment	606	634	649	949	927
Net profit/loss for the year before transfers of net income	340	772	992	802	(568)
Paid-in capital	6,215	6,211	6,207	6,202	6,202
Reserves and retained earnings	10,068	9,961	9,351	8,504	7,947
Total members' equity	16,283	16,172	15,558	14,706	14,149
Non-performing loans ratio	4.7%	3.9%	5.5%	5.9%	5.6%
Liquid assets/undisbursed investments plus one year debt service	96.5%	91.6%	91.4%	92.5%	103.1%

¹ Mobilized investment from other financing partners resulting from the Bank's direct involvement in enabling external financing.

² Total amount of financing provided to a project, including EBRD and non-EBRD finance.

Source: EBRD, Annual Financial Report 2018.

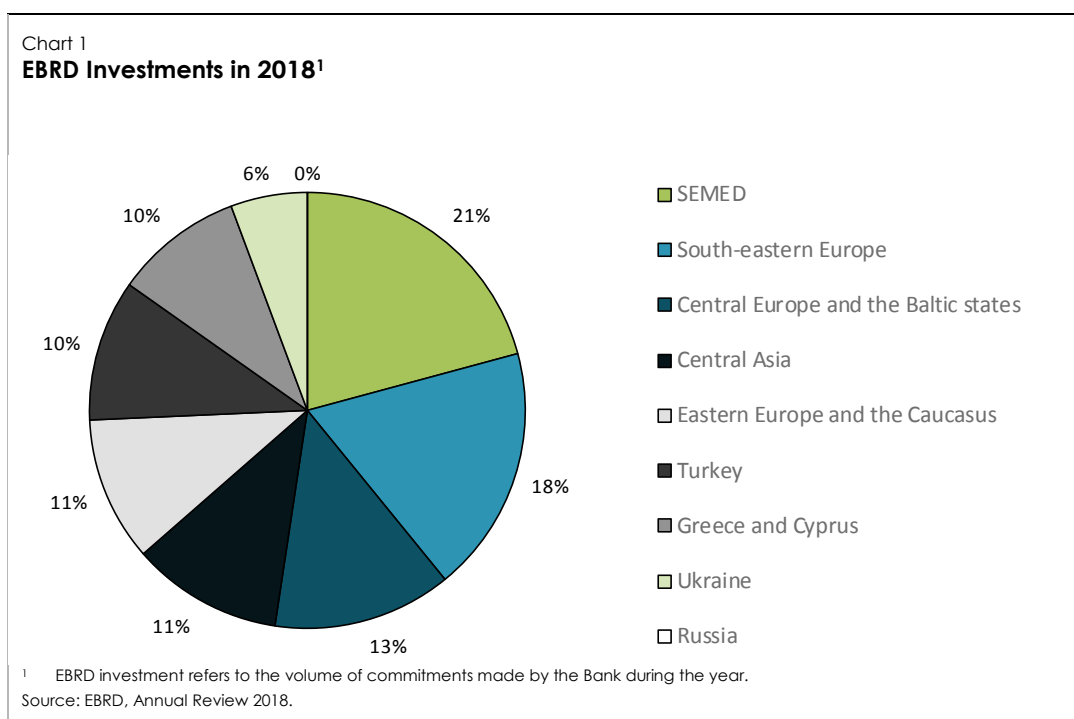
⁵ Does not include projects in the West Bank and Gaza, which are financed through a trust fund.

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 2018

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.

Egypt and Turkey received the largest shares of financing in 2018, with lending totalling €1.2 billion and €1.0 billion, accounting for roughly 12 per cent and 10.5 per cent of total investments, respectively. Greece received €846 million in financing, representing a 38 per cent increase compared to 2017, and was the third largest recipient of EBRD investment. Investment in Ukraine totalled €543 million in 2018, down from €740 million in 2017, making Ukraine the fifth largest recipient of EBRD investment. Together, Turkey and Ukraine accounted for 25 per cent of the Bank's total loan portfolio as of December 31, 2018. The chart below illustrates the regional composition of the EBRD's investment flows in 2018.



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 meaningfully engages in dialogue with the Bank's other shareholders during the EBRD Annual Meeting and throughout the year.

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 priorities, and general principles of good governance, accountability and institutional effectiveness.

Progress on Canada's Objectives in 2018

In 2018, Canada's objectives were focused on encouraging the EBRD to promote operations that advance gender equality and the empowerment of women and girls; work increasingly with other multilateral development banks as a system; and prioritize its operations in countries with the greatest transition needs, notably in Ukraine and the SEMED region. Canada's 2018 objectives at the EBRD are presented below along with an overview of progress made in achieving these objectives.

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, the Bank continued to implement its Economic Inclusion Strategy, which seeks 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. The Bank also continued to implement its Strategy for the Promotion of Gender Equality 2016-2020, which mainstreams gender objectives in the Bank's operations. The Strategy for the Promotion of Gender Equality promotes gender equality and women's economic empowerment by focusing on increasing women's access to: finance and business support; employment and skills development opportunities; and services. The EBRD is making targeted investments and engaging in policy dialogue to create opportunities for, and eliminate barriers to, women's economic participation. In 2018, approximately 8 per cent of projects had a specific gender focus or component, a 20 per cent increase compared to 2017.

Policy Engagement in Kazakhstan

Kazakhstan labour laws prohibit women from holding certain jobs, thereby limiting economic opportunities for women. In 2018, following long-term policy engagement with the EBRD, the government reduced by 25 per cent the number of professions that are banned for women, broadening women's access to well-paying jobs.

With strong support from Canada, the EBRD is strengthening its institutional capacity to mainstream gender considerations in its operations. Since 2016, the Bank has tracked gender equality metrics at an institutional level via its Corporate Scorecard and its Performance Monitoring Framework. Gender considerations have also been embedded in the Bank's project assessment to incentivize the identification and implementation of gender components within new project capacity-building. Specialized training of banking teams is also being undertaken to advance the development of gender considerations in priority sectors with high potential for gender impact (e.g., infrastructure, energy efficiency and climate change projects).

The Bank is also integrating gender in country diagnostics and strategies, as well as sector strategies. For example, the Strategy for Tunisia 2018-2023, approved by the Board of Directors in December 2018, targets increased gender equality in access to economic opportunities as a key outcome. Similarly, promoting inclusion and gender equality in the energy sector is an explicit objective of the new Energy Sector Strategy 2019-2023, which was also approved by the Board of Directors in December 2018.

Finally, in 2017, the EBRD became EDGE certified, reinforcing the Bank's commitment to fostering a gender inclusive workplace which provides equal opportunities for women. EDGE is a 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. In 2018, the EBRD implemented and promoted concrete measures, including mentoring/coaching, succession planning and flexible working arrangements, working towards meeting its aspirations to have equal gender representation in corporate leadership roles.

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.

In recent years, Canada has advocated for the EBRD, and other MDBs, to operate increasingly as a system to achieve outcomes that are beyond the ability of institutions acting alone. This philosophy was reflected in the G20 Eminent Persons Group on Global Financial Governance report *Making the Global Financial System Work for All* (October 2018). G20 Finance Ministers and Central Bank Governors established the Eminent Persons Group in April 2017, with the mandate to, inter alia, carry out an independent assessment of the international financial architecture and recommend reforms to strengthen sustainable development outcomes.

Notably, certain shareholders have called on MDBs to transition from being primarily providers of public funding to catalysts of private investment given they are uniquely positioned to mobilize private capital for development. Given the EBRD's deep expertise in private sector financing, Canada is encouraging the Bank to play an important role to help MDBs coordinate a system-wide approach to mobilizing private capital for development. In 2018, G20 Leaders endorsed the *Roadmap to Infrastructure as an Asset Class*, which outlines action areas needed to crowd in greater volumes of private capital in infrastructure. The EBRD made substantial contributions to joint MDB efforts to advance the G20 infrastructure agenda, especially relating to strengthening project preparation to increase the global pipeline of quality, bankable infrastructure projects.

Similarly, Canada is encouraging the EBRD to work with MDBs on a coordinated system-wide approach to tackle climate change and support the transition to low-carbon economies. In 2018, eight MDBs, including the EBRD, announced a joint approach to climate financing, aligned with the objectives of the Paris Agreement, and centred around practical work streams, including reporting, scaling up climate finance and capacity-building.

The EBRD's response to the global call for climate action has been swift. In 2015, the EBRD adopted a Green Economy Transition 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 2018, the Bank's green investments accounted for 36 per cent of annual investment, compared to 43 per cent in 2017 and 33 per cent in 2016. The EBRD also launched its new Energy Sector Strategy, which includes commitments to end investments in thermal coal mining or coal-fired electricity generation projects, focus on decarbonization of energy systems, and promote inclusion and gender equality in the energy sector.

Other important examples of EBRD collaboration with other MDBs include:

- A joint MDB statement committing to high standards for the prevention of sexual harassment, sexual exploitation and abuse, and gender-based violence both internal to the organizations and within MDB operations.

- The *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*.
 - A platform to enhance MDB collaboration on economic migration and forced displacement.
- 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.**

Support for Ukraine

With Canada's strong support, the EBRD continued to invest heavily in Ukraine, with an active project portfolio of €3.8 billion as of December 31 2018. With outstanding loans in Ukraine representing 9.4 per cent of the Bank's total loan portfolio, the EBRD is the largest international financial investor in Ukraine. The Bank committed €543 million in lending to new projects, making Ukraine the fifth largest recipient of EBRD investment in 2018. Over half of investments in Ukraine in 2018 supported green projects.

EBRD Support to Ukraine Railways

In July 2018, the EBRD approved a €150 million loan to Ukraine Railways to support the purchase of 6,500 general-purpose freight wagons. The project will contribute to the modernization of Ukraine's freight railways and promote greater regional and international integration. The project is expected to provide efficiency gains and contribute to reductions in carbon dioxide emissions of up to 80,000 tonnes per year.

Canada continued to actively encourage the EBRD to further strengthen its involvement in Ukraine. In October 2018, the Board of Directors approved a new strategy for Ukraine, for the period 2018-2023. The Bank will focus on five strategic priorities: (1) strengthening competitiveness and fostering good governance in the public sector; (2) promoting rule of law and enhancing the competitiveness of the private sector; (3) improving energy security; (4) enhancing resilience in the financial system; and (5) advancing integration with the European Union. The EBRD will continue to work closely with other international financial institutions operating in Ukraine, to support the country's efforts to transition towards a more open and inclusive market-oriented economy.

The Chernobyl New Safe Confinement project is in the final stages of testing and is expected to be operational in 2019. 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.

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 five years; however, it receives interest and principal payments and continues to maintain its investments when required.

Support for the Southern and Eastern Mediterranean Region

The EBRD expanded its reach to the SEMED region in 2011, which includes operations in 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 renewable energy, financial sector and infrastructure, 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 continued to support the Bank's investments in the SEMED region, reaching close to €2 billion in 2018, compared to €2.2 billion in 2017. In 2018, the EBRD began operations in Lebanon and committed €244 million in lending. Investments focused primarily on private sector competitiveness, sustainable energy and energy efficiency, and infrastructure. The EBRD also began operations in the West Bank and Gaza, with investments totalling €12.6 million. Investments focused primarily on private sector competitiveness, trade facilitation, and financing for micro, small and medium-sized enterprises, and were financed through dedicated trust funds.⁶ Investments in Egypt reached a record high, totalling €1.15 billion in 19 projects, making Egypt the largest recipient of EBRD investment in 2018. Investments focused primarily on infrastructure and energy projects, developing the agribusiness sector, and initiatives with financial institutions to expand trade opportunities and reach out to micro, small and medium-sized enterprises and under-served market segments in the country. In 2018, the EBRD provided strong support to small businesses in the SEMED region—offering advisory support to 586 small enterprises and making substantial investments in local currency (i.e., one third of total investments in the region). Throughout the region, the EBRD invested heavily in renewable energy and energy efficiency projects. Green Economy Transition investments in the SEMED region remained high at €805 million, albeit down from €1.3 billion in 2017, and accounted for 40 per cent of the Bank's total investment in the region.

Canada has been a strong supporter of deepening investments in this region. 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. Canada has also been a strong supporter of increasing the voice of the SEMED region within the EBRD. The 2018 Annual Meeting was held in Jordan, which was a significant milestone, being the EBRD's first Annual Meeting held in the SEMED region.

Finally, the EBRD continues to provide support to countries that have been severely impacted by the Syrian refugee crisis, such as Jordan, Lebanon and Turkey. At the 2018 Annual Meeting, shareholders approved setting aside €15 million from the Bank's 2017 net income to support refugee-hosting countries in the SEMED region. As of March 2019, the Bank has signed investments totalling €419 million under its Refugee Crisis Response Programme—€269 million of EBRD financing and €150 million of associated grants and technical cooperation.

EBRD Investment in Renewable Energy in Jordan

In November 2018, the EBRD approved a US\$265 million loan to Jordan's National Electric Power Company. The loan will finance infrastructure needed to improve the integration of renewable energy, including solar energy, into the national electricity network. The loan will also support corporate reforms and balance sheet restructuring.

⁶ 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.

Canada's Objectives for 2019

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. The EBRD has begun work to define the strategic priorities that will guide its operations for the period 2021-25. Canada will engage in the upcoming Strategic and Capital Framework process to promote a forward direction for the EBRD that is aligned with Canada's foreign policy and development priorities. In 2019, Canada will continue to advance four strategic objectives from past years, demonstrating our commitment to these important policy priorities. Canada 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.**

In 2019, Canada will continue to work closely with the EBRD to further mainstream gender in its operations and increase women's economic empowerment and equality of opportunities in the countries where the Bank invests. Canada encourages the Bank to explore areas where it can do more to promote operations that advance gender equality, and in particular, play a leadership role in sectors that have yet to fully embrace the transformative effects of gender mainstreaming, such as infrastructure, mining and energy.

- 2. Work increasingly with other multilateral development banks as a system, to deliver outcomes which could not otherwise be achieved by the EBRD or other banks operating alone.**

There is growing recognition that MDBs can have a greater impact by operating together as a system—as was highlighted in the G20 Eminent Persons Group on Global Financial Governance report *Making the Global Financial System Work for All* (October 2018). 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.

Given the EBRD's deep expertise in private sector financing, Canada will encourage 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 continue to work with MDBs on a coordinated system-wide approach to advancing gender equality and the empowerment of women and girls, building country platforms and promoting debt sustainability and transparency.

Finally, Canada is of the view that the EBRD should anchor its Strategic and Capital Framework in the broader context of MDBs as a system. We welcome a discussion in 2019 on the Bank's mandate and capital requirements. Given that the Bank has identified substantial surplus capital, we believe that all options should be on the table, including: (1) deepening work in existing countries of operations, while advancing transition and providing additionality; (2) expanding activities to new geographies, while ensuring MDBs operate as a system; and (3) potentially returning some capital to shareholders through a special dividend, which could be redeployed to other development priorities within the MDB system.

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.

As the EBRD delivers on its mandate and transition gaps narrow in its countries of operations, the Bank should focus its investments where it can achieve the greatest impact and demonstrate additionality. In 2019, 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 demonstrate a clear case for transition support from the EBRD. 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.

4. Support the transition to low-carbon economies, including mobilizing private sector investments in high-quality infrastructure projects that support green and sustainable growth.

Meeting the ambitious objectives of the Paris Agreement will require significant new resources from all development actors, including the private sector. The EBRD is implementing its Green Economy Transition approach as the key mechanism to scale up its climate financing activities. The Bank is on track to achieve its goal of reaching 40 per cent green investments as a share of total annual Bank investment by 2020. In 2019, Canada will continue to work closely with the EBRD to expand efforts to mobilize private financing for climate adaptation and mitigation. The private sector is particularly well suited to scaling up investments in green infrastructure. Given its private sector investment focus, the EBRD can play a catalytic role by taking steps to expand the pipeline of bankable green infrastructure projects; use guarantee instruments to reduce the risk profile of private infrastructure investments; and develop new financing vehicles to crowd in private funds. Canada will encourage the EBRD to continue to work with MDBs on a coordinated system-wide response to the global call for climate action, and the implementation of the *G20 Roadmap to Infrastructure as an Asset Class*.

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.⁷ Where countries are not committed to these principles, the Bank develops a strategy for limited involvement. To deliver on its mandate, the Bank invests in 38 economies, including assisting with the implementation of 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.

⁷ Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development.

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.

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 commissions, 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 69 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 the European Union.

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 Poland, Bulgaria and Albania.

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 Belgium, Slovenia and Luxembourg.

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:

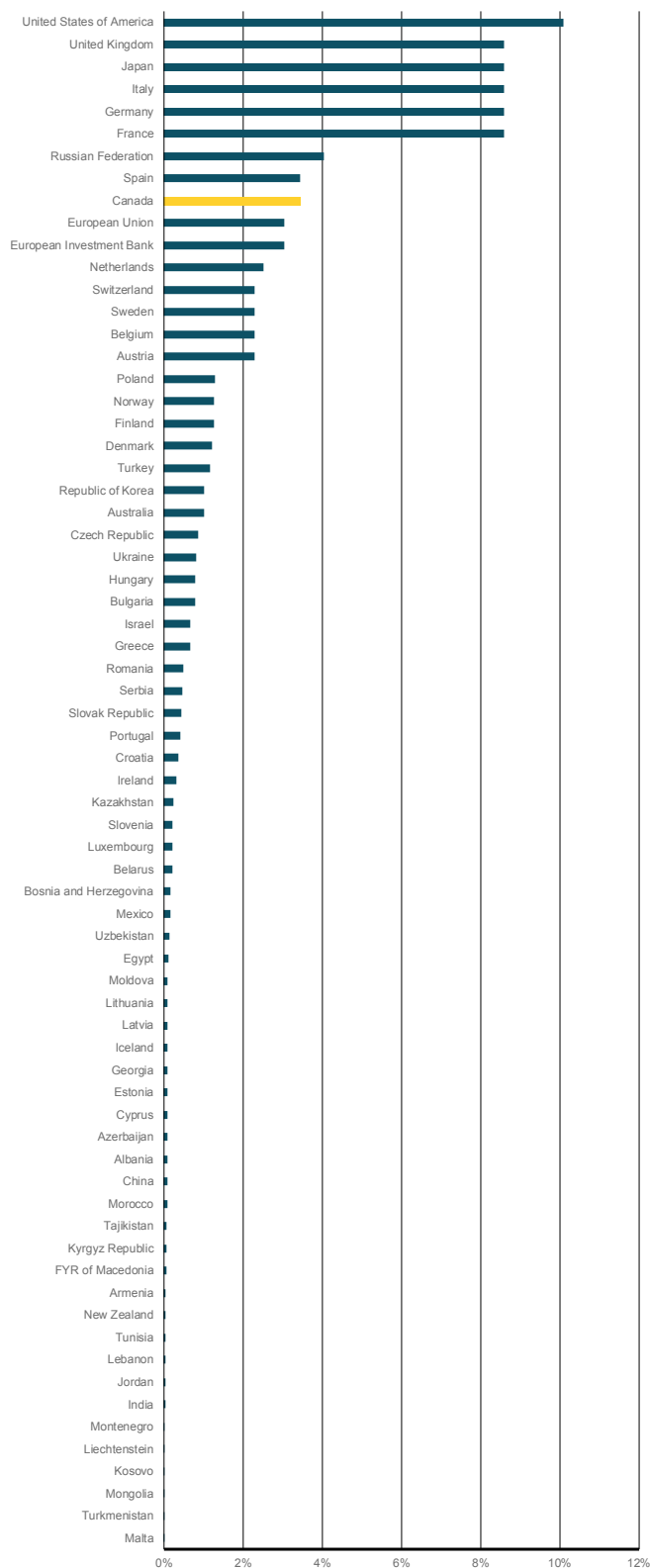
Publications Desk
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2JN
United Kingdom

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

The EBRD's Membership

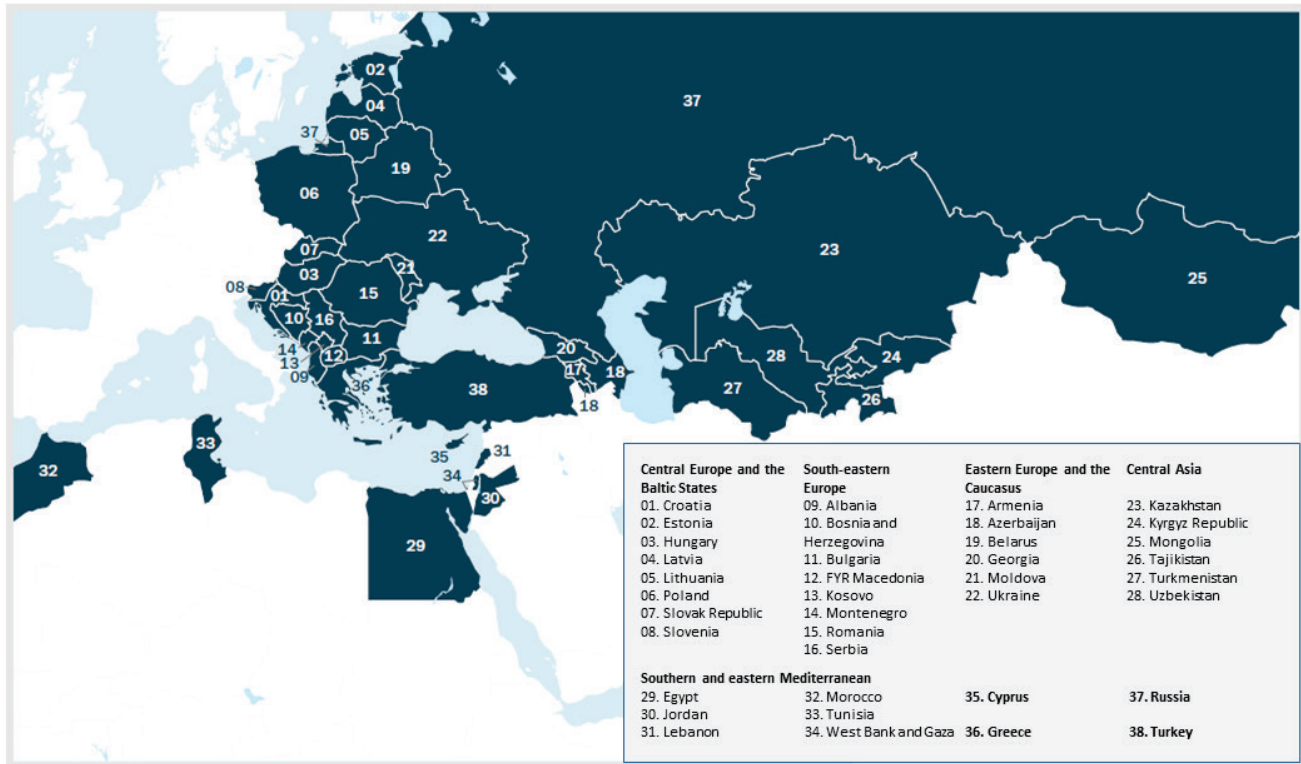
The EBRD's share capital is provided by member countries, with proportional voting rights. The chart below provides shareholdings as at December 31, 2018.

Shareholding as a Percentage of Authorized Capital Stock



Regions of Operations

The EBRD has 69 shareholders: 67 countries, as well as the European Union and the European Investment Bank. India joined the Bank in July 2018. 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.

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 2018, there were 36 Canadians on the staff of the EBRD, representing 1.05 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.

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 30 contracts valued at €0.9 million in 2018. Canadian financial institutions also played an active role in managing the EBRD's Global bond issuances.