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

2002

Canada

Report on Operations Under the European Bank for Reconstruction and Development Agreement Act 2002

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Introduction

The European Bank for Reconstruction and Development (referred to in this document as the EBRD or the Bank) was established in 1991. Its aims are to foster the transition towards open, market-oriented economies in Central and Southeastern Europe, as well as in the successor states of the former Soviet Union, and to promote private and entrepreneurial initiative in those countries that are committed to the fundamental principles of multi-party democracy, pluralism and a market economy (see Annex 4 for a list of the EBRD's 27 countries of operations).

The EBRD differs from other regional development banks in four ways. First, its overriding focus is the private sector and support for the transition from central planning to stable market economies. Its 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. Second, it has a particular focus on the promotion of democratic institutions and human rights in its countries of operations. Third, it is explicitly committed under its Articles of Agreement to ensuring the environmental sustainability of all its projects. Fourth, the EBRD does not provide concessional financing.

The Bank seeks to help its 27 countries of operations to implement structural and sectoral economic reforms, taking into account the particular needs of countries at different stages in the transition process. In particular, its private sector activities focus mainly on enterprise restructuring, including the strengthening of financial institutions, and the development of infrastructure needed to support the private sector. The EBRD has 62 members: 60 countries, the European Union (EU) and the European Investment Bank (see Annex 4 for a list of members).

Canada is the eighth largest shareholder (tied with Spain), following the other Group of Seven (G-7) countries and Russia. Our formal participation is authorized under the European Bank for Reconstruction and Development Agreement Act, which was promulgated in February 1991. Article 7 of the Act states that:

> The Minister [of Finance] shall cause to be laid before each House of Parliament by March 31 of each year or, if that House is not then sitting, on any of the thirty days next thereafter that it is sitting, a report of operations for the previous calendar year, containing a general summary of all actions taken under the authority of this Act, including their sustainable development aspects within the meaning of Article 2 of the Agreement, and their human rights aspects.

This report responds to this requirement and reviews the activities and operations of the Bank for the year 2002.

Benefits of Membership

As a major trading nation, Canada has a stake in global peace and stability, which the successful integration of Central and Southeastern Europe and the former Soviet Union into the world economy and global institutions helps to promote. By fostering continued political and economic reform in the region, the EBRD is contributing to its integration into the world economy and to its stability.

The Minister of Finance is a Governor of the Bank and appoints a Director to its 23-member Board. This represesentation allows Canada to have high-level influence on decisions taken by the EBRD on investments in the region and on policies to move countries through the transition process. The EBRD also provides trade opportunities for the Canadian private sector, supporting a diversification of international markets for Canadian businesses.

The EBRD

- fosters the transition of former centrally planned economies of Central and Southeastern Europe and the successor states of the former Soviet Union towards market-oriented economies;
- promotes private entrepreneurial initiative by targeting at least 60 per cent of its resources to private sector projects, with the balance in support of commercially viable state sector projects that promote private sector development;
- operates only in countries committed to applying the principles of multi-party democracy, pluralism and market economics;
- promotes environmentally sound and sustainable development; and
- operates on a self-financing basis.

ROLE AND MANDATE OF THE EBRD

The EBRD's operations to advance the transition to a market economy are guided by three principles: maximizing transition impact, additionality and sound banking. Financing is provided for projects that expand and improve markets, help to build the institutions necessary for underpinning a market economy, and demonstrate and promote market-oriented skills and sound business practices. EBRD financing must also be additional to other sources of financing and not displace them, further ensuring that the Bank contributes to the transition process. Finally, 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 helps to ensure the financial viability of the EBRD and hence its attractiveness as a co-investment partner for the private sector.

In promoting economic transition in its countries of operations, the Bank acts as a catalyst for increased flows of financing to the private sector. The capital requirements of these countries cannot be fully met by official multilateral or bilateral sources of financing, and many foreign private investors remain hesitant to invest in the region, particularly the central Asian republics. By providing an umbrella under which wider funding for private sector investment can be assembled, the EBRD plays a catalytic role in mobilizing capital. In 2002, for every euro the EBRD invested, it mobilized an additional 1.2 euros from the private sector and other multilateral and bilateral agencies.[1]

Indeed, the projects of the Bank serve a dual purpose. They are intended not only to directly support the transition from a command to a market economy in countries of operations, but also to create a demonstration effect to attract foreign and domestic investors. Like the World Bank Group's International Finance Corporation, the Bank is required to operate on a strictly commercial basis and to attract companies through financially viable projects, not through subsidies.

[1] On December 31, 2002, one euro purchased 1.6568 Canadian dollars.

KEY ECONOMIC DEVELOPMENTS IN 2002

Real gross domestic product (GDP) growth in the majority of transition economies slowed in 2002. However, most countries in the region performed fairly well in comparison with other emerging markets, especially given the backdrop of a sluggish global economy. As in the previous two years, real GDP growth for the region as a whole was mainly driven by the Commonwealth of Independent States (CIS) and Southeastern Europe.[2]

The CIS continued to reap the benefits of high oil and gas prices in 2002. The region's largest economy, Russia, recorded an estimated real GDP growth rate of 4.3 per cent in 2002, its fourth year of sustained growth since its financial crisis in 1998. In Southeastern Europe growth in 2002 was slightly down from 2001, but improved regional cooperation and enhanced integration with the EU are indicative of a favourable outlook. Real GDP growth in Central Europe[3] slowed to just over 2 per cent in 2002, the lowest rate since economic recovery began in the region in 1994. This slowdown reflected in part weaker growth in the EU, the main market for the region's exports.

The following table ranks transition countries by their progress in moving to a market economy, based on a number of indicators.

[2] The CIS includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Southeastern Europe includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia (FYR Macedonia), Romania, and the Federal Republic of Yugoslavia (FR Yugoslavia), which became a member of the Bank in early 2001. Kosovo is a province of FR Yugoslavia.

[3] Includes the Czech Republic, Hungary, Poland, the Slovak Republic, Slovenia and the three Baltic States (Estonia, Latvia and Lithuania).

Progress in Transition in EBRD Countries of Operations

Countries	Population (millions, mid-2001)	Private sector share of GDP in %, mid-2001 (EBRD estimate)	Enterprises: Large-scale privatization	Enterprises: Small-scale privatization	Enterprises: Governance and enterprise restructuring	Market and trade: Price liberal-ization	Market and trade: Trade and foreign exchange system	Market and trade: Compe-tition policy	Financial institutions: Banking reform and interest rate liberalization	Financial institutions: Securities markets and non-bank financial institutions
Albania	3.4	75	2+	4	2	3	4+	2-	2+	2-
Armenia	3.8	70	3+	4-	2+	3	4	2	2+	2
Azerbaijan	8.1	60	2	4-	2	3	4-	2	2+	2-
Belarus	10.0	20	1	2	1	2	2+	2	2-	2
Bosnia and Herzegovina	4.3	45	2+	3	2-	3	3	1	2+	1
Bulgaria	8.1	70	4-	4-	2+	3	4+	2+	3+	2
Croatia	4.6	60	3	4+	3-	3	4+	2+	4-	2+
Czech Republic	10.3	80	4	4+	3+	3	4+	3	4-	3
Estonia	1.4	80	4	4+	3+	3	4+	3-	4-	3
FR Yugoslavia	8.6	40	2	3	2	3	3+	1	2+	1
FYR Macedonia	2.0	60	3	4	2+	3	4	2	3	2-
Georgia	5.4	65	3+	4	2	3+	4+	2	2+	2-
Hungary	10.0	80	4	4+	3+	3+	4+	3	4	4-
Kazakhstan	14.9	65	3	4	2	3	3+	2	3-	2+
Kyrgyzstan	4.7	60	3	4	2	3	4	2	2+	2
Latvia	2.4	70	3+	4+	3-	3	4+	2+	4-	2+
Lithuania	3.7	75	4-	4+	3	3	4+	3	3	3
Moldova	4.3	50	3	3+	2	3+	4+	2	2+	2
Poland	38.7	75	3+	4+	3+	3+	4+	3	3+	4-
Romania	22.3	65	3+	4-	2	3+	4	2+	3-	2
Russia	145.4	70	3+	4	2+	3	3	2+	2	2-
Slovak Republic	5.4	80	4	4+	3	3	4+	3	3+	2+
Slovenia	2.0	65	3	4+	3	3+	4+	3-	3+	3-
Tajikistan	6.2	50	2+	4-	2-	3	3+	2-	2-	1
Turkmenistan	5.4	25	1	2	1	2	1	1	1	1
Ukraine	49.3	65	3	4-	2	3	3	2+	2+	2
Uzbekistan	25.0	45	3-	3	2-	2	2-	2	2-	2

Note: The classification of transition indicators uses a scale from 1 to 4, where 1 implies little or no progress with reform and 4 implies a market economy. A rating of 4+ indicates the country has achieved standards and performance typical of advanced industrial economies.

Source: EBRD, 2002 *Transition Report*.

Russia

Russia was relatively unaffected by the global economic slowdown in 2002. Higher oil prices and prudent macroeconomic policies led to estimated real GDP growth of 4.3 per cent, down from 5.2 per cent in 2001. Higher-than-expected oil prices enabled the government to exceed its annual revenue target and to post a fiscal surplus for the third consecutive year (estimated at 1.8 per cent of GDP for 2002). The current account surplus shrank, but still remained large at 9 per cent of GDP (down from 11.2 per cent in 2001). This sizeable surplus and a reduction in capital flight allowed the central bank to increase its international reserves by US$11.4 billion during the year to US$47.9 billion. The central bank, however, lacked the instruments to sterilize such a large purchase of foreign exchange, which explains in part why year-end inflation, at 15.1 per cent, exceeded the government target of 14 per cent.

The Finance Ministry recently announced that its financial reserve fund ended 2002 at US$8 billion, nearly US$2 billion higher than planned. This fund, together with the projected US$20-billion current account surplus in 2003 and sizeable international reserves, should facilitate the service of Russia's external debt payment "hump" in 2003 (obligations are estimated at US$17 billion).

The key risk to Russia's economic outlook continues to be its dependence on international energy prices. Economic growth since the 1998 financial crisis has been mainly driven by the sharp real depreciation of the ruble and the upturn in oil prices, both of which contributed to a substantial increase in gross fixed investment in resource-based sectors.

In order to diversify its economy and reach a more sustainable growth path, Russia needs to attract more investment in the non-energy sector by implementing reforms aimed at improving the investment climate. Although authorities have made substantial efforts in implementing structural reforms in 2001 and 2002, their main challenge will be to maintain a similar pace in the face of the upcoming parliamentary elections in December 2003 and presidential elections in March 2004. Reforms that are vital to secure sustainable medium-term growth include financial sector reforms (reforming the banking sector, passing a law on deposit insurance and a law on currency regulation and currency controls), energy sector reform and the easing of the bureaucratic burden on the corporate sector.

Other CIS Countries

The other CIS countries also experienced slower economic growth in 2002, with the exception of countries rich in oil and gas resources, such as Kazakhstan. In Azerbaijan increased investment for the exploration and export of the country's hydrocarbon reserves also led to robust growth.

Real GDP growth in Ukraine is estimated to have slowed to 4.1 per cent in 2002, down from 9.1 per cent in 2001. This remained a fairly strong performance given that exports, which had been the main driver of the economic recovery of the two previous years, were hit by the global slowdown.

High growth rates in other CIS countries in recent years have been mainly driven by strong demand from the booming Russian economy and low capacity utilization, which allowed an increase in production without having to step up investment in fixed capital. Now that their room to manoeuvre in this regard is vanishing, CIS countries desperately need to increase domestic investment and attract foreign direct investment by improving their business environments.

Another challenge faced by Kyrgyzstan, Moldova, Tajikistan, Armenia and Georgia is that their debt levels remain very high despite various recent debt relief initiatives.

Central Europe

The economies of Central Europe showed considerable resilience in 2002, despite anemic growth in the EU. The growth rate of the whole region, however, did weaken slightly from the previous year.

With three quarters of exports destined to the EU, the Baltic States recorded a significant slowdown in 2002. Nonetheless, growth rates remained above those of other central European countries: real GDP rose 4.5 per cent in Latvia (down from 7.7 per cent in 2001), 5.2 per cent in Lithuania (down from 5.9 per cent) and 5.0 per cent in Estonia (same as 2001).

Poland continued its sluggish economic performance in 2002, with real GDP rising by an estimated 1.2 per cent (up from 1.0 per cent in 2001). This weak performance largely resulted from a combination of tight monetary policy and lax fiscal policy, which drove up interest rates. In the Czech Republic, real GDP growth was estimated at 2.5 per cent (down from 3.3 per cent in 2001), reflecting the economic damage from the floods in the summer of last year and reduced EU demand for the country's exports.

The governments of Hungary, the Czech Republic, the Slovak Republic and Poland continue to face significant challenges in terms of fiscal consolidation. They all ran substantial fiscal deficits in 2002. These deficits will need to be addressed in order to generate the fiscal room to manoeuvre that will be required to implement the EU's *acquis communautaire,* particularly given the expected deceleration in privatization revenues.

Accession to the European Union

Accession to the EU has been an important factor underlying economic and political reform efforts in Central Europe. At the Copenhagen Summit in December 2002, the EU reached agreement on a timetable for final accession for the first wave of candidate countries. The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia are now expected to become full members of the EU in May 2004. At the same time, a roadmap was articulated for the eventual accession of Bulgaria and Romania.

The EBRD, European Commission and World Bank have signed a memorandum of understanding (MOU) setting out the basic principles for collaboration in supporting projects that will assist all accession countries in meeting the requirements of the EU. In particular, the accession countries face specific requirements for investment in infrastructure to meet the requirements of the EU's *acquis communautaire,* or inventory of EU laws and standards. The EBRD actively supports projects where its mandate and EU accession requirements overlap. The imminent accession of the first wave of candidate countries has raised important issues concerning the operationalization of the interagency MOU and its interaction with the graduation policies of the World Bank and EBRD.

The EU has also offered the prospect of eventual EU membership for the countries of Southeastern Europe through the Stabilisation and Association Process. Under this process, the EU has started to negotiate Stabilisation and Association Agreements with democratic, reform-minded countries in the region. The Agreements offer the prospect of better trade access, increased assistance for education and institution building, cooperation in the areas of justice and home affairs, formal political relations with the EU and, one day, membership in the EU. It is hoped that the prospect of EU membership will spur reform efforts in Southeastern Europe as it has done in Central Europe. Thus far the EU has entered into or completed negotiations to establish agreements with FYR Macedonia, Albania, Croatia, Bosnia and Herzegovina, and FR Yugoslavia.

Southeastern Europe

The outlook for Southeastern Europe is better than at any time since the breakup of the former Yugoslavia. Given the unfavourable external environment, real GDP growth in the region was impressive in 2002, albeit slightly weaker than in 2001.

The two EU accession candidates, Bulgaria and Romania, posted strong macroeconomic performances. Bulgaria's real GDP growth for 2002 is estimated at 4.0 per cent, the same as in 2001, while Romania's growth for last year is estimated at 5.0 per cent, down slightly from 5.3 per cent in 2001. The commitment by the European Commission to support these two countries for EU accession in 2007 is also likely to attract substantial capital inflows in the medium term.

In FR Yugoslavia[4] the economic outlook continued to improve in 2002, following achievements in economic stabilization and reform since late 2000. It is hoped that a strong commitment to the new constitutional framework will bring more stability and foster an increase in external trade and foreign direct investment. For Bosnia and Herzegovina and FYR Macedonia, however, investor confidence remained low as political uncertainty and ethnic tensions persisted. It remains to be seen if the new governments elected in late 2002 will be able to implement much needed structural reforms and improve their countries' business climates.

[4] FR Yugoslavia became Serbia and Montenegro in February 2003.

Canada's Co-operation With the EBRD in Southeastern Europe

In response to the Kosovo crisis in 1999, the EBRD developed the South Eastern Europe Action Plan (SEEAP), which seeks to promote investment and to assist in the economic recovery of the region. Eligible countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FR Yugoslavia, FYR Macedonia and Romania.

Under the SEEAP, EBRD investments focus on developing commercial approaches to infrastructure (such as telecommunications, airports, and municipal and environmental infrastructure), small, medium and micro enterprises, and the financial sector. This focus reflects the transition challenges facing the region: crumbling infrastructure, a weak industrial asset base, mostly small, fragile banks and pervasive problems of poor governance.

In 2000 Canada created the Cooperation Fund for Southeastern Europe (CFSEE) in support of the SEEAP. In 2002 C$4 million was added to the C$6 million previously contributed, which is tied to the use of Canadian companies and consultants. One project was supported in 2002, bringing the total number of projects supported through the CFSEE to six, with a value of C$6.3 million. Three of these projects have targeted the transport sector, with the others focused on municipal infrastructure and capacity building.

In addition, Canada made an untied contribution of C$2 million to the Balkan Region Special Fund (BRSF) in 2000 to support priority investment projects in the region.

Canada's total contribution of C$12 million to the CFSEE and the BRSF is being used for technical assistance and co-financing related to project preparation and implementation, advisory services and capacity building. Our assistance has contributed to the efforts of both the EBRD and the international community in supporting the transition process and promoting stability in the region.

2002 *TRANSITION REPORT*

The *Transition Report* is an annual publication of the EBRD that charts the progress of transition from a centrally planned to a market economy in each of the Bank's 27 countries of operations. Agriculture and rural transition were chosen as the theme of the 2002 report. This reflects the fact that—even though over a third of the population of the region lives in rural areas—rural issues have not featured prominently during the first decade of transition. This has been to the detriment of the transition process in rural areas. In view of the importance of the farm sector, reforming agriculture, increasing farm productivity and promoting land reform remain the dominant rural transition challenges. At the same time, rural areas also need to diversify their economic activities by promoting non-farm activity through the development of linkages with markets, financial institutions and other firms.

The report notes that many transition economies have experienced significant and persistent declines in agricultural output since the start of transition. A number of factors are cited as having contributed to this trend. Not surprisingly, the better performers have tended to be those with better starting conditions. Countries that have liberalized and privatized their economies to the greatest extent (including through the promotion of individual or household ownership of farms) have seen positive responses in the agricultural sector. The method of implementing land privatization has also had a clear impact on productivity, with countries following a restitution principle enjoying higher productivity. This may have been because land restitution provided owners with more clearly defined property rights than other methods of land privatization.

The EBRD also finds that progress in agricultural reform is strongly linked to the "methods of political decision-making." The greatest progress in agricultural reform has been made in stable democracies in which there are high levels of political competition and an active civil society.

Another transition country trend identified in the report pertains to the shift in agricultural trade patterns. In particular, it notes a substantial rise in agricultural trade deficits. This was partly a function of the fact that the transition countries trade primarily in "temperate zone" products such as grains, milk, butter and livestock, which tend to be the most protected commodities in global trade.

2002 FINANCIAL RESULTS

The EBRD approved 102 projects in 2002, the same number as in the previous year. These commitments totalled €3.9 billion, up slightly from €3.7 billion in 2001. Cumulative commitments by the end of 2002 amounted to €21.6 billion. The level of disbursements, at €2.4 billion, was roughly the same as in 2001.

The EBRD earned a profit after provisions of €108.1 million, down from €157.2 million in 2001. In 2002 the Bank reviewed its provisioning and liquidity policies. This review confirmed the adequacy of existing policies. No significant changes were recommended.

The increasing access of the advanced transition countries to private capital and financial markets and the continued poor investment climate in many early and intermediate transition countries create a challenge for the Bank.[5] The Bank needs to continue to balance the requirement to follow sound banking principles with the need to provide transition assistance to countries where the investment climate is risky. The financial results for 2002 suggest that, so far, the Bank has managed to achieve this balance. The challenge over the coming year will be to maintain this balance in an environment of slow growth and geopolitical uncertainty.

[5] Advanced transition countries include Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia. Early and intermediate transition countries include the balance of the EBRD's countries of operations, excluding Russia: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FR Yugoslavia, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Russia is considered to be in a category of its own by the EBRD.

The EBRD's general administrative expenses in 2002 were £142 million, comparable to those for 2001, reflecting continuing budgetary discipline, effective cost controls and a proactive cost-recovery program.

Financial Highlights

- Profits after provisions fell to €108.1 million, down from €157.2 million in 2001.[1]
- Total provisions on banking assets were €1.21 billion at the end of 2002, virtually unchanged from the end of 2001.
- The Bank made a record €3.9 billion of new investments in 2002 in 102 operations, a slight increase over 2001. This amount—which was well in excess of the objective of €2.9 billion—was evenly divided among advanced transition countries, early and intermediate transition countries, and Russia, with an annual business volume of €1.3 billion for each region. The figure for Russia represents a significant increase, up from €822 million in 2001 and resulting in the Bank's largest-ever business volume in Russia. The annual business volume in the early and intermediate transition countries increased slightly from 2001 levels, including a 25-per-cent increase in commitments in Southeastern Europe.
- Gross disbursements, at €2.4 billion, were roughly the same as in 2001.
- The Bank mobilized €1.2 in additional financing for every euro that it invested in 2002, down significantly from €2.7 in 2001.
- The private sector share of annual business volume was 71 per cent, down from 76 per cent in 2001.
- Administrative expenses, denominated in pounds sterling (the currency in which most of the Bank's expenses accrue), were £142 million, up slightly from 2001 and somewhat below budget.
- Capital expenditures totalled £11.2 million in 2002, of which £10.6 million related to information technology.
- Reserves[2] at the end of 2002 were €661.1 million, up from €488.7 million at the end of 2001. This reflected the profit for the year and an increase in the fair value of the Bank's listed share investments. At the end of 2002 approximately €240 million of total reserves represented unrealized capital gains. This is down from €300 million at the end of 2001.

[1] This reflects a "fair value adjustment" of €38.3 million required under international financial reporting standards, but does not reflect the underlying performance of the Bank during the year. Provisions for losses are subtracted from operating income along with other expenses. For private sector projects, which make up the bulk of the EBRD portfolio, provisioning follows a risk-based approach. Management continually reviews the portfolio to ensure that the current value of loans and investments reflects management's best estimate of the recoverability of Bank assets.

[2] Reserves are Bank capital set aside to cover unexpected losses.

INSTITUTIONAL DEVELOPMENTS

Private Sector Development

A key part of the EBRD's work with the private sector is its support of micro, small and medium-sized enterprises (SMEs), which are important engines for job creation and growth, and therefore poverty reduction. Canada is a strong proponent of the private sector work of the Bank, recognizing that a strong private sector is key for the successful transition to a market economy. Canada views a strong SME sector as one means for developing a "constituency for reform" in the transition economies that can act as a counterweight to powerful vested interests that benefit from weak state governance.

The Bank's strategy for the SME sector is founded on three pillars: financing, improving the investment climate through policy dialogue, and developing business support networks for SMEs. The strategy explicitly recognizes that the poor investment climate, and not just limited access to financing, is a major impediment to the development of the sector. The strategy emphasizes the need to identify and promote the removal of the main obstacles to SME growth, as well as to encourage the development of strong business associations.

About 71 per cent of the EBRD's annual business volume in 2002 was in the private sector, down from about 76 per cent in 2001 and 78 per cent in 2000. Despite this decline, the ratio is well above the target of 60 per cent. In 2002 the EBRD continued to increase the number of credit lines for SMEs to financial intermediaries and expand its various small business programs throughout its countries of operations. Since the Bank's first small business program was established in 1994, more than 200,000 loans worth more than €1.5 billion have been disbursed. The EU/EBRD SME Finance Facility increased its funding for the loan and leasing aspects of the program to €575 million. By the end of 2002 the Bank had provided 36 credit lines to 31 financial intermediaries. As a result, over 12,300 loans worth €312 million have been extended to SMEs in the region, with an average loan size of €22,000. The repayment rate on these loans has been higher than 99 per cent. In 2002 the micro lending programs disbursed over €717 million through more than 144,000 micro and small loans.

Activities in the Financial Sector

Financial Sector Policy—The EBRD's financial sector policy takes a country-specific approach to financial sector development, focusing on the need to promote confidence and competition in an independent financial system. The EBRD seeks to strengthen confidence in the sector primarily by helping to improve local institutions' governance and business practices. It also tries to improve financial supervision and regulation, although its activities here are constrained by its investor role in the sector and potential concerns about conflict of interest. Nonetheless, as a reputable foreign investor in the sector, the EBRD offers important insights on supervisory and regulatory requirements, which it shares with other international financial institutions operating in the region and with governments. To address competition and independence, EBRD investments attempt to increase the diversity of institutions and services available (particularly to the private sector and SMEs), facilitate foreign direct investment and strengthen the commercial orientation of state-owned financial institutions, particularly in preparation for privatization.

In 2002 the EBRD committed financing to 36 financial sector operations, bringing total EBRD exposure to the financial sector region-wide to €7 billion. Financial sector operations represent about 30 per cent of the EBRD's portfolio.

Banking Sector Activities—In 2002 the EBRD signed new loans valued at €541 million to the banking sector and took €311 million in new equity positions in local banks. In most cases where the EBRD holds an equity stake in a local financial institution, it is represented on the supervisory board of the institution, where it promotes management accountability, good corporate governance, sound banking practices and appropriate environmental reviews and procedures. Participation in bank privatizations is a key factor behind equity investments in early and intermediate transition countries.

Non-Bank Financial Institutions—During 2002 the EBRD also stepped up its activities in the non-bank financial sector. A total of seven new transactions were signed in the sector during the year, with new commitments of €166 million. The EBRD is one of the largest financial investors in this sector, with investments in local asset management and mutual fund companies becoming increasingly important as voluntary pension sectors in the Bank's countries of operations develop. By the end of 2002 the Bank had investments in the non-bank financial sector in most of the countries in the region, where necessary institutional and regulatory regimes had been or were in the process of being introduced.

Environment

Support for the environment remained a key priority in 2002, reflecting the Bank's mandate to ensure sustainable long-term development in its countries of operations. This goal was bolstered by its participation at the World Summit on Sustainable Development held in Johannesburg in September 2002. Apart from the initiatives to specifically redress environmental weakness, many EBRD projects include environmental targets—for example, to reduce atmospheric emissions and industrial wastewater discharges, and promote waste recovery, recycling and clean technologies.

The EBRD contributes to international initiatives such as the "Environment for Europe" process, including the Environmental Action Plan for Central and Eastern Europe, the Danube River Basin Strategic Action Plan, and the Helsinki Commission and the Global Environment Facility, for which it is an executing agency. In 2002 six projects were approved for support under the recently created Northern Dimension Environmental Partnership (NDEP). The NDEP (which consists of Russia, the EU, the EBRD, the Nordic Investment

Bank and the European Investment Bank) provides donor funding to address severe environmental problems in northwest Russia, particularly in the areas of nuclear waste, water and wastewater treatment, and energy efficiency. Within the framework of its mandate, the EBRD supports relevant multilateral and regional agreements on the environment and sustainable development, including the Framework Convention on Climate Change and the measures agreed to in the Kyoto Protocol.

The EBRD applies environmental due diligence to all its investment and technical cooperation operations. Project sponsors are required by the Bank to undertake environmental impact assessments, analyses and audits that address potential environmental, health and safety, and socio-economic impacts of projects. Environmental impact assessments and analyses are conducted when potential impacts are significant. Environmental audits are performed post-approval. In some cases both an audit and an assessment/analysis are performed. The EBRD also requires local financial intermediaries, through which it channels funds to micro, small and medium-sized enterprises, to adopt appropriate environmental policies and procedures. In 2002 the EBRD conducted 49 environmental analyses, 4 environmental impact assessments and 40 environmental audits on projects approved by the Board of Directors.

Municipal and Environmental Infrastructure

EBRD investments in this sector focus on upgrading local facilities, such as municipal wastewater treatment plants, and on raising the service levels of municipal and local utility companies. Reducing costs and increasing the reliability of municipal services can stimulate the development of commercial and industrial enterprises. At the same time, greater access to clean water and sanitation services improves public health and increases public confidence in the transition process and ongoing reform efforts.

Over the last few years the EBRD has increasingly relied on municipal, as opposed to sovereign, guarantees in this sector, providing local governments with important new financial opportunities and responsibilities. The EBRD's operations policy for municipal and environmental infrastructure emphasizes private sector involvement, the development of appropriate regulatory structures and improvements in energy efficiency.

In 2002 the EBRD provided financing of more than €558 million to 16 projects designed to improve municipal infrastructure and promote energy efficiency. The Bank also completed the first part of a study on the potential for renewable energy projects in its countries of operations.

Energy Sector Investments

Most of the EBRD's countries of operations suffer from severe economic and environmental problems caused by polluting energy systems and inefficient energy pricing. Under the updated Energy Operations Policy the Bank promotes energy efficiency through its operations. One of the revised policy's key objectives is to improve environmental performance, including meeting climate change objectives and supporting renewable forms of energy.

In 2002 the Bank was particularly active in the energy sector, supporting, among other things, the promotion of energy efficiency and the modernization of Russia's power network. €560 million was committed to projects in the energy sector, bringing cumulative commitments in this sector to over €2.3 billion. In this area the Bank seeks to work with governments to develop electricity tariffs that reflect costs while taking into account customers' ability to pay.

The EBRD and Nuclear Safety

Through the Nuclear Safety Account (NSA), Canada and other G-7 countries have continued to work closely with the EBRD to improve nuclear safety in countries of Central and Southeastern Europe and in the former Soviet Union. The NSA is used primarily for making essential safety improvements to older-generation, Soviet-built reactors and to help Ukraine cope with the aftermath of Chernobyl. As of October 2002, pledges to the NSA totalled €273 million.

The Bank has continued to administer the US$768-million Chernobyl Shelter Fund for securing the sarcophagus around the Unit IV reactor in Ukraine (which was destroyed by nuclear accident). The G-7 nations, the EU and other countries have pledged US$716 million, of which Canada has pledged US$33 million.

Three International Decommissioning Support Funds created in 2000 are now operational. They were put in place to assist with the decommissioning of potentially unsafe nuclear reactors in Lithuania (Ignalina Units 1 and 2), the Slovak Republic (Bohunice VI Units 1 and 2) and Bulgaria (Kozluduy Units 1–4).

Significant progress was not made during 2002 regarding negotiations on an EBRD loan of US$215 million approved in principle to help Ukraine's nuclear operator for the completion of, and safety upgrades to, the Khmelnitsky Unit 2 and Rovno Unit 4 (K2R4) nuclear power plants. EBRD financing was conditional on the permanent closure of the older Chernobyl 3 reactor, which occurred on December 15, 2000, as well as several other financing conditions. By November 2001 Ukraine had met all the required conditions and the loan was scheduled to go before the EBRD Board of Directors for final approval on November 29, 2001. On November 28 Ukraine unexpectedly indicated that it wanted a last-minute renegotiation of some of the loan conditions. As a result, no decision was taken and any loan agreement now requires a full review of all terms and conditions. Detailed technical discussions between the EBRD and Ukraine have taken place since that time but a new agreement has not been reached.

Addressing Corruption and Poor Governance

The transition countries, like most emerging economies, face significant challenges in improving transparency and governance. As required by its statutes (Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development), the Bank reviews on an annual basis each country's progress towards multi-party democracy and pluralism. These principles—which Canada fully supports and encourages—contribute to transparency in public policy making and act as a check on corruption.

From this standpoint, the domestic policies of both Turkmenistan and Belarus were of particular concern in 2002 as they did not meet the requirements for normal Bank engagement as specified in Article 1 of the Bank's Articles of Agreement. As a result, the Bank included alternative lower lending scenarios in the 2002 country strategies for these countries. These scenarios linked the level and nature of the Bank's involvement to the extent of improvement in the economic and political situation. Without improvement in this area, these two countries risk continued exclusion from direct EBRD involvement with the state sector.

To a large degree, the EBRD seeks to enhance good governance and transparency in its countries of operations through the projects it undertakes. Equity investments have been an important tool in this regard. The Bank's participation on the boards of directors of companies in which it invests has been instrumental in improving the transparency of their accounting and business practices and their respect for minority shareholder rights. It is hoped that the success of these companies will demonstrate the importance of applying similar practices more broadly in the region. In addition, all Bank business partners are examined to ensure they meet the highest standards of business practice. The Bank now routinely seeks the services of forensic accountants and specialized firms to perform integrity checks on companies in which it might invest and their management and shareholders. For those doing business with the EBRD, the EBRD's public procurement rules underline the standards of ethics and conduct required during the procurement and execution of EBRD-financed projects.

The Bank's work in the area of legal transition also supports these goals. Under its Legal Transition Programme, the Bank has worked to improve the legal environment in its countries of operations by advancing legal reform in six areas: bankruptcy, company law/corporate governance, concessions, financial market regulation, secured transactions and telecommunications. In addition, the Bank has participated in international standard-setting efforts including the World Bank's Insolvency Initiative, which seeks to develop international principles of bankruptcy, and the Financial Stability Forum's efforts to coordinate the development and implementation of international financial standards. The Bank also initiated a project with the Russian Federal Commission for the Securities Market to develop a Corporate Governance Code and helped the CIS Inter-Parliamentary Assembly draft a model securities law. To promote transparency the EBRD publishes an annual survey of the extensiveness and effectiveness of various commercial laws in the region in its legal journal, *Law in Transition*.

Enhancing Institutional Transparency, Accountability and Governance

The EBRD's recently modernized Public Information Policy is based on the presumption that information about Bank activities should be made public in the absence of a compelling reason for confidentiality. The following documents are available to the public, with commercially sensitive information deleted as required: draft sectoral policies (for public comment); final sectoral policies; Board-approved country strategies following consultation with the country concerned; summaries of medium- and long-term operational strategies; executive summaries of environmental impact assessments for public and private sector projects; and reports on public sector projects (on a request basis). The Bank's policy requires management to report annually to the Board on the implementation of the Public Information Policy. These findings are made available on the Bank's Web site.

In 2002, in the context of its biannual Public Information Policy Review, the Bank proposed that the public be invited to submit comments for consideration in the preparation of country strategies. It was also proposed that country strategies be translated into the national language of the country in question. Decisions on these initiatives will be taken in 2003. Other transparency-enhancing initiatives proposed in 2002 included the preparation of an annual environmental report containing data on the Bank's environmental spending and achievements and on greenhouse gas emissions in countries of operations, and the release of Environmental Impact Assessments in local languages.

An Independent Recourse Mechanism, which would resolve complaints concerning Bank compliance with its own policies, was also proposed. This is in addition to the Manager of Outreach/NGO Relations, who serves as a point of contact between the Bank and the NGO (non-governmental organization) community. The EBRD usually evaluates its projects within two years after full disbursement to assess the extent to which the projects have met their objectives. In 2002 more than three-quarters of the Bank's evaluated projects received an "Excellent-Satisfactory" rating for "transition impact."

During the year the EBRD established a hotline to report allegations of fraud, corruption and other misconduct in the Bank's activities and projects.

As concern within the international community related to terrorism continued into 2002, the Bank adhered to internationally coordinated controls on the illegal use of funds. This included extensive checks on the integrity of potential clients and monitoring levels of corruption in countries of operations.

Canada welcomed these policy initiatives. In all international financial institutions (IFIs) in which it is a member, Canada has been at the forefront of efforts to enhance transparency and accountability.

Encouraging Partnerships

The EBRD is required by its founding agreement to involve outside sources of financing in its operations. By virtue of its guarantees to a project, the Bank can play a key role in attracting co-financiers that might not otherwise be willing to invest in the region. Co-financing has the benefit of increasing a country's access to international capital markets, promoting foreign direct investment and allowing appropriate risk sharing. The EBRD's main co-financing partners are commercial banks, government agencies, export credit agencies and other IFIs. In 2002 the EBRD worked with 41 commercial banks from 16 countries on 30 projects, for total co-financing of nearly €900 million.

The EBRD also works with donor countries to provide financing for institution building and technical cooperation. Such funding has played a significant role in promoting transition. Where possible, the EBRD also works with other IFIs in order to extend the impact of the Bank's financing and to benefit from complementarities with the other institutions. In 2002 the EBRD worked with other IFIs on 25 projects involving €612 million in co-financing. Key partners for the EBRD included the World Bank, the Asian Development Bank, the European Investment Bank and the International Finance Corporation.

Canada has encouraged this cooperation and coordination among multilateral development banks and is pleased with the efforts of the EBRD to work more closely with its sister institutions.

Human Resources/Changes in Senior Management

At end December 2002 the EBRD had regular staff of 907 at its Headquarters, down from 913 in 2001. Locally hired staff in the Bank's Resident Offices totalled 237, down from 247 in 2001. There are approximately twice as many male professional staff as female professional staff.

Johnny Åkerholm, a Finnish national, was appointed Secretary General in March 2003, replacing Antonio Maria Costa. In December Joachim Jahnke retired as Vice President, Evaluation, Operational and Environmental Support. He will be replaced in early 2003 by Fabrizio Saccomanni.

CANADIAN PRIORITIES IN 2002

Canada is a strong supporter of the Bank's medium-term operational priorities, which are premised on: the central importance of creating and strengthening those institutions that ensure markets work well; the key role that small businesses can play in creating dynamic, competitive and more equitable economies; and the relevance to the transition process of the Bank's mandate to support countries committed to and applying the principles of multi-party democracy and pluralism.

To achieve these priorities, Canada supports the Bank's focus on:

- promoting transparency and accountability in public sector management;
- developing sound financial sectors linked to the needs of enterprises and households;
- providing leadership for the development of micro lending and SMEs;
- developing market-based and commercially oriented infrastructure;
- demonstrating, through selected examples, effective approaches to restructuring viable large enterprises;
- taking an active approach in its equity investments to improve corporate governance;
- engaging governments in policy dialogue to strengthen institutions and improve the investment climate;
- taking a regional approach where appropriate; and
- promoting sustainable development and environmental due diligence.

The EBRD is the only multilateral financial institution that has an explicit requirement that its members be committed to and apply principles of multi-party democracy and pluralism. Canada fully supports this requirement and believes it is appropriate for the Bank to limit its participation in those countries not living up to the principles embodied in Article 1.

Promoting a multilateral rules-based trading system is also a key Canadian priority, and many of the Bank's activities work to support the integration of the transition countries into the world trading system.

The EBRD is committed to working closely and cooperatively with other IFIs and donors in the region. Canada strongly supports this approach. Coordination with other IFIs and donors is an important determinant of the EBRD's effectiveness in promoting the transition to a market economy. Further, the role of other IFIs in addressing poverty directly can complement the EBRD's work in the region.

MANAGING CANADA'S INTERESTS

Role of Governors—The highest authority in the Bank is the Board of Governors. A Governor and an Alternate Governor represent each member country. The Honourable John Manley, Deputy Prime Minister and Minister of Finance, is the Canadian Governor and Mr. Gaëtan Lavertu, Deputy Minister of Foreign Affairs, is the Alternate Governor.

Role of the Board of Directors—The Board of Directors, which is responsible for the general operations of the Bank, is composed of 23 members, of which 4 are non-European members. Canada is the third largest non-European shareholder, after the United States and Japan, and by virtue of its share has the right to elect its own Director. Canada also represents Morocco at the Bank. The Canadian Director is Scott Clark. The Minister (Economic/Commercial) at the Canadian High Commission in London, David Plunkett, is the non-resident Alternate Director and represents Canada in the absence of the Canadian Director.

Role of Canadian Government Departments—Within the Canadian government, responsibility for oversight of the EBRD's activities resides with the International Policy and Institutions Division of the Department of Finance. In consultation with the Department of Foreign Affairs and International Trade and the Canadian International Development Agency (CIDA), the Department of Finance regularly reviews the Bank's policy papers and proposed country strategies and provides advice to the Canadian Director.

Functions of the Canadian Director—In addition to participating in regular Board meetings, the Canadian Director was, until September 2002, a member of the Financial and Operations Policies Committee, which reviews financial policies, including the Bank's borrowing policy, general policies relating to operations, and procedures and reporting requirements. In September 2002 the Canadian Director joined the Audit Committee, which reviews items such as the budget, institutional performance reports and other issues affecting the financial performance of the Bank.

Positions Taken in 2002—The Canadian Director has frequently spoken to the Board on the importance of the Bank's charter requirement that member countries be committed to market reform and multi-party democracy. In 2002 Canada's Director spoke on the need to address issues related to graduation from Bank operations for those countries that will be acceding to the EU in the near term.

To ensure EBRD operations are additional (i.e. do not replace private sector investment) and contribute to the transition process, Canada continued to advocate increased Bank efforts to find sound projects in countries that are in the early and intermediate stages of transition, respect the principles of multi-party democracy and are making efforts at reform. In our view, only by focusing on quality projects will the Bank contribute to advancing transition in these countries. In the advanced transition countries, Canada has underlined the need for Bank financing to be additional, as the Bank's Articles of Agreement state that it should not displace financing available from the private sector on reasonable terms. Therefore we have urged the Bank to be increasingly focused and strategic in the advanced transition countries, where private sector financial and capital markets are increasingly active.

Canada has also been a strong proponent of greater EBRD transparency and shareholder accountability, believing that the Bank should be a model of behaviour for the region. Canada has also supported measures to strengthen internal governance at the Bank to ensure that all staff function at the highest standards of business integrity, as well as efforts to strengthen the budget process.

Canadian Staff at the EBRD—Canadians are well represented on EBRD staff. At the end of 2002 there were 23 Canadian professionals on the staff of the EBRD, representing 3.6 per cent of total professional positions, in line with Canada's 3.4-per-cent share of the institution's capital. It is noteworthy that a Canadian is Director of Communications and that a Canadian also heads the Procurement and Purchasing Department.

Canada's Voting Record

Canada and other shareholders typically raise concerns and questions about specific Bank operations before they get to the Board. As a result, decisions at the Board are generally taken by consensus. Directors may, however, abstain or vote against projects as determined by consultations with their constituencies. The Canadian Director abstained or voted against the folowing policies and projects in 2002:

- A €3.5-million capital increase in Unibanka, a commercial bank in the Slovak Republic, because of insufficient transition impact and additionality; a US$90-million loan to finance the Severstal-Arcelor joint venture in Russia, because of concerns with global overcapacity in the steel industry and with sound banking; and a US$25-million revolving facility for Daewoo Mangalia Heavy Industries, a ship-building company in Romania, because of concerns over sound banking and lack of transition impact.
- The Director for Canada voted against the Staff Compensation and Benefits Proposals for 2003 because of concerns that the Bank had not provided adequate justification for a 4.8-per-cent salary increase, which was in excess of inflation in the United Kingdom.

Canadian Commercial Interests

The EBRD offers a number of investment opportunities for Canadian businesses and financial institutions. A key task of the Canadian Office is to increase Canadian awareness of these investment opportunities, explain how the Bank's financing mechanisms work, and ensure that EBRD policies and procedures are followed in a transparent and fair manner.

To achieve these objectives, the Canadian Office provides EBRD market information and intelligence to Canadian firms and advises Canadian project sponsors on EBRD financing options. In addition, the office develops commercial co-financing opportunities with Export Development Canada and other Canadian financial institutions. Together with the Department of Foreign Affairs and International Trade and Industry Canada, the office also identifies EBRD procurement opportunities and, with CIDA, promotes Canadian technical cooperation activities and official co-financing with the EBRD.

In 2002 the EBRD's Board of Directors approved EBRD participation in one Canadian-sponsored transaction, for MobiFon in Romania. The aggregate size of this project is US$300 million, of which EBRD financial commitments are US$230 million. A description of the transaction is given in Annex 2. Additionally, the Board of Directors approved an equity increase in a Canadian-sponsored project in the Czech Republic (originally approved in 2000) to bring the Bank's shareholding to US$26.2 million from US$25 million, in TIW Czech N.V., a telecommunications provider owned by Telesystem International Wireless Inc. (Canada).

With respect to official co-financing and technical cooperation, in 2002 the EBRD committed approximately €2.1 million for projects in several countries of operations. Under the CIDA-EBRD Cooperation Fund for Southeastern Europe, Canada committed approximately €50,000 to finance the Macedonia portion of a regional civil aviation upgrading project. Through the Canadian Technical Cooperation Fund, Canada committed €1.82 million to finance projects in four countries of operations (Russia, Uzbekistan, Armenia and Lithuania) as well as two regional projects in a variety of sectors—municipal and environmental infrastructure, transport, energy, finance/business, community/social services, manufacturing and construction. In addition, through the TurnAround Management Programme, Canadian advisors were awarded contracts totalling €224,000 to assist with airport modernization in Russia and the retail sector in Ukraine. Looking forward, the EBRD hopes to increase the number of high-quality Canadian project sponsors with whom it invests to better align its official co-financing and technical cooperation needs with Canadian interests in the region, and to strengthen its partnership with Export Development Canada and other Canadian commercial co-financiers.

Promoting Canada's Interests

Members of the Canadian Office made a number of visits to Canada and the EBRD's countries of operations in 2002 to meet with business people, conduct seminars, speak at conferences and consult with government officials. This included the Conférence de Montréal, where the Canadian Director made a presentation on the role of the EBRD and opportunities for Canadian companies, and introduced representatives of Canadian companies to the Vice President, Finance of the EBRD. In addition, the Assistant to the Director accompanied the Prime Minister of Canada on the Canada-Russia business forum visit to Moscow.

Members of the Canadian Office met with approximately 80 Canadians during 2002, including business people, representatives of financial intermediaries, representatives from all levels of government, NGO representatives, consultants and academics.

Canada's commercial interests in the region were also promoted by:

- the Canadian Director and Assistant making presentations on opportunities for Canadian consulting companies to mobilize technical cooperation funds at the EBRD at federal and provincial government-sponsored forums in Toronto and Vancouver;
- the Canadian Office facilitating and sponsoring the EBRD's Environment Department's participation in Globe 2002, a premier environment conference held in Vancouver; and
- the Canadian Office facilitating EBRD participation at the Global Petroleum Show in Calgary, which targets Canadian oil and gas companies.

CHALLENGES AHEAD

In assisting its countries of operations over the second decade of transition, the EBRD will face significant challenges in expanding and managing its portfolio. In particular, the advanced transition countries, most notably those acceding to the EU, are increasingly able to obtain private sector financing. This suggests the need to focus the Bank's activities on those areas that represent real additionality and have sufficient transition impact to warrant the use of Bank resources.

In Russia, given the volatility of oil prices, priority will need to be given to promoting investment in a wide range of sectors, including the financial sector. In the early and intermediate transition economies, the challenge will be to find quality projects in a high-risk environment that is characterized by a lack of market-supporting institutions. The Bank must continue to work in close partnership with other international financial institutions. Expanded cooperation will also be necessary to develop high transition impact projects with explicit social and poverty alleviation benefits in order to strengthen the willingness of governments in some of the least advanced transition economies to move forward with politically difficult but essential reforms, particularly the restructuring or closure of large state-owned enterprises.

Good governance will continue to play a critical role in the future success of the region and, in this regard, the EBRD will need to find ways to conduct its business to promote its Article 1 commitment to the principles of multi-party democracy and pluralism. Attention to governance issues in Central Asia, in particular, which has intensified post September 11th, is expected to sharpen further as the Bank prepares to hold its Annual Meetings in Uzbekistan in May 2003. Canada will continue its vigorous support for Bank efforts to address issues related to the rule of law, human rights and democratic principles.

Good corporate governance will also figure prominently in the period ahead and the EBRD will need to continue to promote sound institutions, more efficient tax collection and improved legal and regulatory frameworks. It must ensure not only that appropriate legislation is developed, but also that it is properly implemented and enforced.

The first decade of transition has provided clear lessons for the future. Countries that have achieved more rapid and comprehensive reforms—particularly in liberalizing markets and trade, respecting government budget constraints and fostering the private sector by removing obstacles to the entry and exit of enterprises—have laid solid foundations for sustaining progress in reform. In these economies market-supporting institutions have tended to develop. These institutional frameworks—predictable fiscal and regulatory environments, secure property rights, an impartial judiciary and sound financial supervision and regulation—combined with appropriate macroeconomic policies, will lay the foundation for sustained rapid growth and increased access to international capital markets.

In contrast, in some countries in the Bank's region of operation, particularly those further east, progress in putting in place the institutions that underpin a market economy has been limited, and the process of liberalization and privatization is far from complete. As a result, economic growth remains vulnerable to external and internal shocks. In addition, the significant increase in poverty and inequality since the start of transition has eroded support for necessary reforms in many countries. Overcoming resistance to reform will be a challenge; it will require creating new employment opportunities and social fallback options for those displaced by structural change, and breaking the hold of powerful vested interests over the reform process.

Contacting the Office of the Director for Canada

The Canadian Director's office at the EBRD may be reached at:

Office of the Director for Canada and Morocco
European Bank for Reconstruction and Development
One Exchange Square, Room 8.15
London, EC2A 2JN
United Kingdom

Mr. C. Scott Clark, Director	Tel:	+44 20 7338 6457
Mr. David Plunkett, Alternate Director[1]	Tel:	+44 20 7338 6507
Ms. Julie Fujimura, Director's Assistant[2]	Tel:	+44 20 7338 6458
Ms. Sandy Ferguson, Director's Assistant[3]	Tel:	+44 20 7338 6509
Ms. Alicja Krivicky, Executive Secretary	Tel:	+44 20 7338 6507
	Fax:	+44 20 7338 6062
	Internet address:	krivicky@ebrd.com

[1] Resident at the Canadian High Commission in London.

[2] Responsible for policy matters.

[3] Responsible for business development and investor liaison.

For More Information on the EBRD

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

Information can also be obtained on the Bank's Web site:

http://www.ebrd.com/

Requests for information can be addressed to:

Publications Desk
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2JN
United Kingdom
(Fax: +44 20 7338 7544)

ANNEX 1

THE BANK'S FINANCIAL ACTIVITIES

The Bank's financial activities are divided into ordinary and special operations, depending on the source of funds. Ordinary operations are financed from the ordinary capital resources of the Bank, which comprise subscribed capital, market borrowings and income from loans and investments. Special operations are those financed by "special funds" for specially designated purposes that are typically outside the Bank's regular activities. Unlike other regional development banks, however, the EBRD does not operate a concessional or "soft" loan window.

Ordinary Capital Resources

At the end of 2002 the total authorized capital of the Bank was €20 billion. Canada has subscribed to 3.4 per cent—or €680 million (C$958 million)—of the Bank's authorized capital. Canadian contributions to the Bank's capital are made in US dollars (at a pre-determined euro/US$ exchange rate).

In 2002 Canada made its fifth purchase of shares under the first capital increase (which came into effect on April 3, 1997, and doubled the initial €10-billion capital base). Under the first capital increase 77.5 per cent of Canada's share is "callable," meaning that the Bank can request these resources in the unlikely event that it requires them to meet its financial obligations to bondholders; the balance, or 22.5 per cent, is "paid-in." Payments are being made in eight equal annual installments (40 per cent in cash and 60 per cent in non-interest-bearing demand notes encashed over five years). The table on the next page details Canadian payments to the Bank in US dollars.

Canada's contributions to the Bank's capital are non-budgetary expenditures because our shares in the Bank are considered an asset. Nonetheless, Canada's contributions to the Bank do increase the Government's borrowing requirements.

Canadian Payments to the EBRD

Year	Notes	Cash	Encashment of notes	Total cash outlay
		(in US dollars)		
1991	11,903,502	11,903,502	11,903,502	23,807,004
1992	11,903,502	11,903,502	3,967,834	15,871,336
1993	11,903,502	11,903,502	7,935,668	19,839,170
1994	11,903,502	11,903,502	11,903,502	23,807,004
1995	11,903,502	11,903,502	11,903,502	23,807,004
1996	–	–	7,935,668	7,935,668
1997	–	–	3,967,834	3,967,834
1998	7,287,198	4,858,132	1,457,440	6,315,572
1999	7,287,198	4,858,132	2,914,879	7,773,011
2000	7,287,198	4,858,132	4,372,319	9,230,451
2001	7,287,198	4,858,132	5,829,759	10,687,891
2002	7,287,198	4,858,132	7,287,198	12,145,331
Total	**95,953,500**	**83,808,170**	**81,379,105**	**165,187,276**

Market Borrowings

At the end of 2002 total outstanding debt was €13.4 billion with an average maturity of 8.7 years at an average cost of funds of LIBOR (London Inter-Bank Offered Rate) minus 33 basis points. Funds have been swapped into floating-rate instruments, primarily in US dollars, euros and Deutsche Marks.

Standard & Poor's has assigned the Bank an AAA long-term and A1+ short-term credit rating. Moody's Investors Service has similarly rated the EBRD long-term bonds AAA.

Special Funds

The EBRD administers a number of bilateral and multilateral technical assistance funds. Canada has contributed to the following special funds:

The Canadian Technical Cooperation Fund—The main purpose of this fund is to provide financing to hire Canadian consultants for EBRD projects. Canada has contributed C$12.65 million since the fund was established in 1992.

Chernobyl Shelter Fund—The main purpose of this fund is to secure the sarcophagus around the destroyed Unit IV nuclear reactor in Ukraine. The total estimated cost of this eight-year project is US$768 million, of which US$716 million has been pledged so far. Canada has pledged US$33 million, including US$0.8 million of bilateral assistance for ventilation stack repair.

Nuclear Safety Account (NSA)—This facility was established in 1993 to help finance the closure of the Chernobyl nuclear power plant and to improve safety conditions at nuclear power plants in countries of operations until the plants can be closed. The NSA complements other bilateral and multilateral nuclear safety technical assistance and functions in parallel with multilateral efforts to achieve broader energy sector reform in the region. Canada has contributed C$19.5 million to the total fund of €273 million.

Russia Small Business Fund (RSBF)—The purpose of this fund is to establish a facility for small business finance and micro lending in various regions of Russia. The RSBF was established in 1993 as a pilot project and became permanent in 1995. Canada has contributed C$11.3 million towards the US$300-million fund.

CIDA-EBRD Cooperation Fund for Southeastern Europe (CFSEE)—In support of the EBRD's South Eastern Europe Action Plan, Canada has contributed C$12 million for technical cooperation and co-financing activities in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Romania and FR Yugoslavia. In 2002 Canada added a further C$4 million to the $6 million it had already made available to the EBRD through the CFSEE for technical cooperation and co-financing tied to Canadian consultants and suppliers. The remaining C$2 million has been provided to the EBRD for untied co-financing of critical investment projects under the Bank's Balkan Region Special Fund.

TurnAround Management Programme—The TurnAround Management Programme was established in 1993 to match senior industrial advisors from market-driven economies with chief executives of selected firms in the region. The objective is to provide industrial management know-how and develop business skills so that these companies can become competitive and profitable. Canada made a contribution of C$550,000 to this program to be used to hire Canadian advisors.

Ukraine Micro Finance Bank (MFB)—In 2000 Canada entered into a contribution agreement with the EBRD to provide C$1.25 million for the provision of technical assistance related to the development of the MFB. Over three years Canada is assisting the MFB to develop a branch network throughout Ukraine, with special attention being paid to Slavutych, the community where many former employees of the Chernobyl nuclear power plant reside. As a greenfield operation specializing in financial services for the micro and small enterprise sector, the MFB is also serving as a demonstration bank for the Ukrainian commercial banking sector to show the commercial viability of micro and small enterprise lending.

Technical assistance in support of the Ukraine Micro, Small and Medium-Sized Enterprises Line of Credit II—Between 1999 and 2004 Canada will provide C$3 million for technical assistance services by qualified Canadian organizations to Ukrainian commercial banks receiving loans under the EBRD's Ukraine Micro, Small and Medium-Sized Enterprises Line of Credit II for on-lending to micro, small and medium-sized enterprises. The technical assistance will include risk- and loan-evaluation training.

ANNEX 2

EBRD—CANADIAN-SPONSORED PROJECT ACTIVITY IN 2002

Date of Board approval	Canadian company	Project country	Project name	Type of financing	Sector	EBRD commitment
July 2002	MobiFon S.A.	Romania	MobiFon Corporate Loan Facility	Senior loan	Telcom-informatics and media	US$230 million

ANNEX 3

DOING BUSINESS WITH THE EBRD

General inquiries about working with the EBRD should be directed to the Office of the Director for Canada or to the Bank's Communications Department in London (tel: +44 20 7338 6096; fax: +44 20 7448 6690).

Canadian Project Sponsors: Canadian companies interested in potentially sponsoring a project with the EBRD are requested to direct initial inquiries either to Project Inquiries in London (tel: +44 20 7338 6282 or +44 20 7338 6252; fax: +44 20 7338 6102) or to the Bank's resident office in the country of operation. Summaries of EBRD private sector operations can be obtained on the Bank's Web site at http://www.ebrd.com/.

Canadian Suppliers of Goods and Works: The EBRD makes available information on all stages of public sector project development, from the point a project has been identified by the Bank through to its approval. Procurement opportunities and co-financing notices, as well as contract awards information, can be accessed on the Bank's Web site free of charge (see address above).

Canadian Consultants: The EBRD's Web site contains technical cooperation notifications and invitations for expressions of interest for consultancy services pertaining to both public and private sector projects. The EBRD also makes use of the World Bank's electronic Data on Consultants (DACON) registration system. Although it is not required for consultants to register with DACON to be eligible for EBRD assignments, it is nonetheless advisable as it is a useful marketing tool. Requests for DACON registration packages should be sent directly to:

DACON Information Centre
World Bank
1818 H Street
Washington, DC 20433 USA

Individual Canadians: The EBRD maintains a recruitment section on its Web site, which provides information on specific employment competitions at the Bank as they become available. In general, applications for employment for both permanent positions and summer jobs should be sent to:

Franco Furno, Director for Human Resources
Human Resources Management Department
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2JN
United Kingdom

ANNEX 4

EBRD MEMBERSHIP AS AT DECEMBER 31, 2002

	Share of the Bank's capital		Share of the Bank's capital
	(%)		(%)
European Members		**Countries of Operations**	
Austria	2.28	Albania	0.10
Belgium	2.28	Armenia	0.05
Cyprus	0.10	Azerbaijan	0.10
Denmark	1.20	Belarus	0.20
Finland	1.25	Bosnia and Herzegovina	0.17
France	8.52	Bulgaria	0.79
Germany	8.52	Croatia	0.36
Greece	0.65	Czech Republic	0.85
Iceland	0.10	Estonia	0.10
Ireland	0.30	FR Yugoslavia	0.47
Israel	0.65	FYR Macedonia	0.07
Italy	8.52	Georgia	0.10
Liechtenstein	0.02	Hungary	0.79
Luxembourg	0.20	Kazakhstan	0.23
Malta	0.01	Kyrgyzstan	0.10
Netherlands	2.48	Latvia	0.10
Norway	1.25	Lithuania	0.10
Portugal	0.42	Moldova	0.10
Spain	3.40	Poland	1.28
Sweden	2.28	Romania	0.48
Switzerland	2.28	Russia	4.00
Turkey	1.15	Slovak Republic	0.43
United Kingdom	8.52	Slovenia	0.21
European Union	3.00	Tajikistan	0.10
European Investment Bank	3.00	Turkmenistan	0.01
		Ukraine	0.80
		Uzbekistan	0.21
Non-European Members			
Australia	0.50		
Canada	**3.40**		
Egypt	0.10		
Japan	8.52		
Korea, Republic of	1.00		
Mexico	0.15		
Mongolia	0.01		
Morocco	0.05		
New Zealand	0.05		
United States	10.00		