



REPORT ON

OPERATIONS UNDER

THE EUROPEAN BANK

FOR RECONSTRUCTION

AND DEVELOPMENT

AGREEMENT ACT

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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,¹ 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 3 for a list of the EBRD's 27 countries of operations).

The EBRD differs from other multilateral 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, while all multilateral development banks are committed to ensuring the environmental sustainability of their projects, the EBRD is the only such institution where this commitment is explicitly written into its Articles of Agreement. 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 3 for a list of members).

Canada is the eighth largest shareholder (tied with Spain), following the other Group of Eight (G8) countries. Canada's 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 2005.

¹ In 2004, Governors voted to make Mongolia a country of operations, recognizing its close linkage with the former Soviet economy and its long history with a centrally planned economy. This process will be complete once all members formally accept Mongolia as a country of operations; this is expected to occur in 2006.

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 Canada's representative on the Board of Governors at the Bank and nominates a Director to its 23-member Board. This representation 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.

Details on Canada's financial contributions to the EBRD are provided in Annex 1.

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 2005, for every euro the EBRD invested, it mobilized an additional 1.5 euros from the private sector and other multilateral and bilateral agencies.²

The Bank's medium-term operational priorities are premised on: the key role that the private sector 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 the Bank focuses on:

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

² On December 31, 2005, one euro purchased 1.3803 Canadian dollars.

OPERATIONAL ENVIRONMENT IN 2005

The transition countries experienced strong macroeconomic performance in 2005 with an average growth rate of 5.3 per cent, down from 6.6 per cent in 2004. Growth in 2005 was supported by domestic demand and, to a lesser extent, net exports. Rapid expansion in domestic credit sustained consumption and investment, but in many instances it widened external imbalances.

Strong growth in domestic demand, which underpinned growth across the transition region, was fuelled by a rapid expansion in domestic credit to the private sector. Much of this expansion reflected the increase in financial services that accompanies economic development and convergence with the full-fledged financial systems of advanced economies. Cyclical factors and possibly temporary gains in asset valuations also played a role.

The transition countries made progress in structural and institutional reform in 2005. Market improvements in Central and Eastern Europe, following EU accession in May 2004, were driven largely by favourable market responses to recent progress in strengthening financial institutions.

Advances in some countries in the Commonwealth of Independent States (CIS),³ meanwhile, followed significant political change. There was, however, a slowdown in the pace of reform in much of Southeastern Europe.⁴ This reflected not only continuing political uncertainty but also a pre-EU-accession pause in reform by candidate countries. Russia was the only transition country to see some transition reversal, given the effective renationalization of large private companies in the oil and gas sector (e.g. Gazprom, selected Yukos Oil Company assets).

Russia

Russian economic growth is estimated to have slowed to 6.0 per cent in 2005 from 7.2 per cent in 2004 due to lower growth in oil extraction and exports and slow progress in structural reforms. Although high oil and gas prices helped boost the Russian economy, the economy remains overly reliant on these sectors and is therefore vulnerable to negative price shocks. The federal budget continued to benefit from high oil prices, registering a surplus of close to 7 per cent of gross domestic product (GDP). The Oil Stabilization Fund, which increased substantially to nearly US\$80 billion by end-2005, was used to prepay US\$15 billion of Paris Club debt. Further early debt repayments are planned for 2006. Inflation was 10.9 per cent in 2005, slightly below the revised target range of 11–11.5 per cent.

³ The CIS includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

⁴ Southeastern Europe includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia (FYR Macedonia), Romania, and Serbia and Montenegro.

Other CIS Countries

Growth in the other CIS countries remained strong in 2005 at 6.2 per cent, following growth of 7.9 per cent in 2004. Growth was supported by high commodity prices (particularly for oil and gas but also for metals and agricultural products) and strong domestic demand. Despite the moderation of growth, the outlook remains generally favourable due to the continued strength of oil prices. The most significant slowdown was in Ukraine, where growth fell to 4.0 per cent in 2005 from 12.1 per cent in 2004. This is due to a sharp drop in external demand for its steel and a decrease in investment given uncertainty over the business and political environment.

Central Europe⁵

In 2005, average growth in Central Europe fell to 4.2 per cent from 5.1 per cent in 2004, reflecting the curtailment of investment and export subsidies. In particular, growth in Poland slowed to 3.5 per cent from 5.4 per cent. The Czech Republic was the only country in the region to post higher growth in 2005 (5.0 per cent) than in 2004 (4.4 per cent). The Baltic countries continued to register strong growth in 2005, led by Latvia, which grew by 7.5 per cent.

Southeastern Europe

The maintenance of political stability, further progress with structural reforms and the prospect of EU accession for Bulgaria, Croatia and Romania continue to support growth. Bulgaria and Romania have set 2007 as their indicative date for accession, while Croatia does not have an indicative date, as it only began accession negotiations in October 2005. Average GDP growth in Southeastern Europe was 4.8 per cent in 2005, moderating from 6.5 per cent in 2004. Growth in Bulgaria (5.5 per cent), Croatia (3.5 per cent) and Romania (5.5 per cent) has been driven primarily by private consumption, fuelled by rapid credit growth with the further development of banking systems. Investment has been driven by EU-accession expectations, ongoing privatizations and lower inflation and, in the case of Romania, capital account liberalization leading to sharp reductions in interest rates.

⁵ Includes the Czech Republic, Hungary, Poland, the Slovak Republic, Slovenia and the three Baltic States (Estonia, Latvia and Lithuania).

TRANSITION REPORT FOR 2005

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. The *Transition Report* is recognized as the leading publication analyzing the progress of transition in the former Soviet bloc. The 2005 report focused on the theme of "Business in Transition", specifically examining the changes in transition countries' business environments. Drawing on the third round of the joint World Bank-EBRD Business Environment and Enterprise Performance Survey, the report argued that substantial progress has been achieved in Central Europe: markets have responded favourably to ongoing reforms. In the CIS, nascent political change has provided benefits to the private sector in a number of countries. In almost all areas of the transition region, the business environment has improved steadily as a whole; specifically, most countries have shown improvements in their approaches to regulation, taxation, the judiciary, and crime and corruption.

While the business environment has improved on average, barriers to business are still much greater in transition countries than in mature market economies. The survey notes that the costs of business regulation, poor-quality institutions, weak property rights and an unstable macroeconomic environment all remain major obstacles to businesses in transition countries. Dynamic firms such as private start-ups are the most severely affected. The report also shows that the business environment is not static for firms in any given country. Geographic analysis shows that firms in remote areas face more obstacles than do those in major cities. In addition, the type of ownership has substantial impacts on businesses: foreign-owned and new private firms tend to be more efficient than privatized and state-owned enterprises. The report also notes that the shortcomings in the business environment have hindered enterprise growth, but that other factors such as competition must be addressed in order to improve firms' overall level of efficiency and their responsiveness to change.

FINANCIAL RESULTS FOR 2005

In 2005, the EBRD realized a very strong financial performance with profits after provisions of €1.5 billion, far above last year's figure of €402 million.⁶ This particularly strong performance was due to profits from major equity exits as well as unrealized gains from the movement in the fair value of the Bank's associate share investments and high-risk equity funds, both of which are variable by nature. The EBRD continued to see a reduction in its impaired assets (non-performing loans) in 2005. At the end of 2005, the Bank had impaired loans totalling €35 million, compared to €86 million at the end of 2004.

⁶ The 2004 financial results have been restated in accordance with International Financial Reporting Standards requirements, reflecting accounting changes made by the Bank in 2005.

Progress in Transition in EBRD Countries of Operations

Countries	Population (millions, mid-2005)	Private sector share of GDP in %, mid-2005 (EBRD estimate)	Enterprises			Markets and trade			Financial institutions		Infra-structure reform
			Large-scale privatization	Small-scale privatization	Governance and enterprise restructuring	Price liberalization	Trade and foreign exchange system	Competition policy	Banking reform and interest rate liberalization	Securities markets and non-bank financial institutions	
Albania	3.2	75	3	4	2	4+	4+	2	3-	3-	2
Armenia	3.2	75	4-↑	4	2+	4+	4+	2+↑	3-↑	2	2+
Azerbaijan	8.3	60	2	4-	2+	4	4↑	2	2+	2-	2
Belarus	9.8	25	1	2+	1	3-	2+	2	2-	2	1+
Bosnia and Herzegovina	3.8	55↑	3-↑	3	2	4	4-	1	3-	2-	2+
Bulgaria	7.8	75	4	4-	3-	4+	4+	3-↑	4-	2+	3
Croatia	4.4	60	3+	4+	3	4	4+	2+	4	3-	3
Czech Republic	10.3	80	4	4+	3+	4+	4+	3	4↑	4-↑	3+
Estonia	1.4	80	4	4+	4-↑	4+	4+	3-	4	3+	3+
FYR Macedonia	2.0	65	3+	4	2+	4	4+	2	3-	2	2
Georgia	4.6	65	4-↑	4	2+↑	4+	4+	2	3-	2-	2+
Hungary	10.0	80	4	4+	4-↑	4+	4+	3	4	4↑	4-
Kazakhstan	15.1	65	3	4	2	4	3+	2	3	2+	2+
Kyrgyz Republic	5.1	75	4-	4	2	4+	4+	2	2+	2	2-
Latvia	2.3	70	4-	4+	3	4+	4+	3-	4-	3	3
Lithuania	3.4	75	4↑	4+	3	4+	4+	3	4-↑	3	3-
Moldova	3.4	60↑	3	3+	2↑	4-	4+	2	3-	2	2+↑
Poland	38.2	75	3+	4+	4-↑	4+	4+	3	4-↑	4-	3+
Romania	21.7	70	4-	4-	2+↑	4+	4+	2+	3	2	3+
Russia	144.9	65↓	3↓	4	2+	4	3+	2+	2+↑	3-	3-
Serbia and Montenegro	8.3	55↑	3-↑	3+	2+↑	4	4-	1	3-↑	2	2
Slovak Republic	5.4	80	4	4+	4-↑	4+	4+	3	4-	3-	3-
Slovenia	2.0	65	3	4+	3	4	4+	3-	3+	3-	3
Tajikistan	6.5	50	2+	4↑	2-	4-	3+	2-	2	1	1+
Turkmenistan	6.5	25	1	2	1	3-	1	1	1	1	1
Ukraine	47.3	65	3	4	2	4	3+↑	2+	3-↑	2+	2
Uzbekistan	26.0	45	3-	3	2-	3-	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. ↑ and ↓ arrows indicate change from the previous year. One arrow indicates a movement of one point (from 4 to 4+, for example).

Source: EBRD, 2005 *Transition Report*.

Financial Highlights

- The Bank recorded €4.3 billion of new operations in 2005, an increase of approximately €200 million from 2004. Of this amount, 58 per cent was approved for early and intermediate transition economies in the former Soviet Union and Southeastern Europe. Another 26 per cent went to Russia, and the remaining 16 per cent went to the advanced transition countries of Central Europe.⁷
- As the institution reports its financial results in euros, the appreciation of the US dollar in 2005 increased the euro value of EBRD operations, given that many of its operations, and especially those in CIS countries, are transacted in US dollars.
- Profits after provisions were €1.5 billion, the highest in the Bank's history and markedly higher than previous years. This record profit includes the volatile contribution made by unrealized gains from unsold share investments.
- Total provisions on banking assets were €352 million, down from €540 million at the end of 2004. This is due to an accounting change, following which the EBRD no longer places provisions on its equity holdings, as equity is marked-to-market.
- Gross disbursements, at €2.2 billion, were in line with normal levels but declined from 2004, a year that witnessed a 60-per-cent increase.
- The Bank mobilized €1.5 in additional financing for every euro that it invested in 2005, down from €2.1 in 2004. This is due to the large number of state infrastructure projects signed by the Bank, as well as the absence of large private natural resource transactions, which typically mobilize significant amounts of private investment.
- The private sector share of annual business volume was 76 per cent, down from the 86 per cent reported in 2004. This is primarily due to the large number of state infrastructure projects signed by the Bank in 2005.
- Administrative expenses were within budget at €224.6 million in 2005.
- Reserves⁸ at the end of 2005 were €4.7 billion, up sharply from €1.7 billion (restated) at the end of 2004, primarily reflecting large net profits for the year and an increase in the fair value of the Bank's non-associate share investments. €2.5 billion of the Bank's reserves represent unrealized gains from share investments and Treasury assets.

⁷ The advanced transition countries include Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia. The early transition countries are the Bank's seven poorest countries of operations: Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. The intermediate transition countries include the balance of the EBRD's countries of operations, excluding Russia. The EBRD considers Russia to be in a category of its own.

⁸ Reserves are Bank capital set aside to cover unexpected losses.

The EBRD approved 151 projects in 2005, up from 129 the previous year. Along with investments under frameworks, these commitments totalled €4.3 billion, up from €4.1 billion in 2004, surpassing the base case target of €3.8 billion. Net cumulative commitments by the end of 2005 amounted to €16.8 billion. The level of disbursements, at €2.2 billion, fell off sharply from 2004, reflecting a significant decrease in average disbursement size, but the level was nevertheless in line with previous years (2004 saw an increase of 60 per cent relative to 2003). As a result of decreasing disbursements and rising reflows, the latter particularly in more advanced transition countries, operating asset growth was checked, though the Bank's portfolio continued to grow. The geographic composition of business volume and reflows in 2005 resulted in the portfolio share of early and intermediate transition countries reaching 47 per cent by year-end. Guarantees increased to €229 million from €180 million at the end of 2004.

The overall financial performance for 2005 and growing reserves indicate that even as the Bank increases its emphasis on the early and intermediate transition countries—where the investment climate is particularly risky—it continues to follow sound banking principles.

INSTITUTIONAL DEVELOPMENTS

Early Transition Countries Initiative

2005 marked the first full year of the EBRD's Early Transition Countries (ETC) Initiative, and it was a successful year. The Initiative, which covers the seven ETCs (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan), aims to boost the EBRD's investment and impact in these countries by using a streamlined approach, developing new instruments to meet local needs (including smaller projects), mobilizing more investment and encouraging ongoing economic reform. Since the Initiative began, the number of new operations in ETCs has risen substantially, and the Bank's business volume, portfolio and project pipeline development have responded similarly. The number of operations financed in 2005 almost doubled from a year earlier, reaching 61, and the corresponding level of commitments was over 2.5 times higher, at around €250 million. (These figures exclude transactions in the oil and gas sector as well as under the EBRD's Trade Facilitation Programme.) Similar sizable increases were noted in the first, albeit incomplete, year of the Initiative.

Key to the Initiative's success is the ETC Multi-Donor (ETCMD) Fund, which was established as a key pillar of the Initiative and to which Canada contributed €500,000. The Fund—the first EBRD fund to which bilateral donors' contributions are classified as Official Development Assistance—supports project preparation, implementation and capacity-strengthening initiatives, enabling the Bank to make investments in these countries. Given the Bank and donors' positive experience with the overall Initiative, efforts and pledges to replenish the Fund began in 2005.

The Bank continues to work on refining its approach in ETCs in order to increase its reach and effectiveness. Reflecting the Bank's comparative advantages, however, the Initiative continues to emphasize private sector development, particularly in micro, small and medium-sized enterprises. It thus plays a key role in supporting activities that ensure sustainable solutions to poverty alleviation. The Initiative also promotes financing of smaller government infrastructure investments appropriate to local consumers' ability to pay for improvements in these services (e.g. water, heating). ETCMD Fund donors' push for greater emphasis on results-based management and gender equality in this Initiative should pave the way for a transformative impact on the Bank's overall operations.

To parallel the successful ETC Initiative, the Bank has indicated to donors that it is considering setting up a dedicated Western Balkans Fund. The decade-long isolation from international markets due to political developments in the Western Balkans, compounded by macroeconomic instability, has caused severe difficulties for the region's transition. Most enterprises are operating at very low levels of capacity, export business is poor and the very high unemployment rate is a key social and economic issue. Over the coming year, the Bank will assess with donors whether to proceed with this proposed Fund.

Private Sector Development

Fostering the development of strong private sectors in its countries of operations is an essential element of the EBRD's strategy for promoting the transition to a market economy. A strong small and medium-sized enterprise (SME) sector is an important means of 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 Articles stipulate that it commit at least 60 per cent of its portfolio to private sector activities, both globally and in individual countries. The global portfolio ratio requirement was first satisfied in 1994 and was 76 per cent in 2005.

A core part of the EBRD's work with the private sector is its support of micro, small and medium-sized enterprises (MSMEs), which are important engines for job creation and growth, and therefore poverty reduction. The Bank's strategy for the MSME sector is founded on three pillars: financing, improving the investment climate through policy dialogue and developing business support networks for MSMEs. 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 MSME growth, develop proper financial instruments for MSME support and encourage the development of strong business associations.

With a view to ensuring the Bank remains at the forefront of MSME financing, the Bank drafted a new strategy in 2005 and sought public input. The draft strategy proposes that the Bank's main delivery channel for MSME products continue to be its wide network of relationships with established financial institutions. The draft strategy envisages further expanding this network by working with non-bank financial institutions, as well as developing greenfield microfinance institutions. Looking ahead, the new strategy will be sensitive to the individual needs of each country of operations, taking into account their varying levels of transition, the strength of the private sector and existing MSME programs. The new strategy is expected to be adopted by the Board in early 2006.

In 2005, the EBRD continued its strong focus on supporting credit lines for MSMEs through financial intermediaries in its countries of operations. Since the Bank's first small business program was established in 1994, more than 1.26 million loans worth more than €6.9 billion have been disbursed to small and micro businesses. In 2005, the EBRD disbursed 480,000 loans for small and micro enterprises, totalling roughly €2.5 billion.

Financial Sector Activities

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 2005, the EBRD committed €1.4 billion in financing to financial sector operations, representing 34 per cent of the EBRD's business volume in 2005.

Banking Sector Activities—In 2005, the EBRD signed new loans valued at €796.7 million to the banking sector, and signed bank equity transactions worth €94.6 million. 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 2005, the EBRD continued its support of the non-bank financial sector. The EBRD is one of the largest financial investors in this sector in its countries of operations, 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. Through 2005, the Bank has maintained 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. The EBRD also committed €196.1 million to insurance companies, leasing companies and specialist mortgage lending institutions in 2005, mainly in advanced transition countries.

Capital Market Development—The EBRD's mandate includes fostering transition through measures to stimulate the development of local capital markets. One of the Bank's approaches to capital market development involves working with authorities to develop the legal framework for the issuing of long-term local currency bonds. Since 1999, the Bank has been working closely with the Russian authorities, including through the provision of extensive advice and technical assistance on the new Securities Market Law that was passed by the Duma in December 2003. This law permitted international issuers for the first time to raise funds in the domestic capital market. The EBRD also worked closely with Russia's National Currency Association (NCA) to develop a new and transparent money market index, the Moscow Prime Offered Rate (MosPrime Rate). This cooperation with Russian authorities and the NCA led to the launch of the first bond by an international issuer in the Russian domestic market, an EBRD five-year ruble bond issue on May 18, 2005. This bond is also the first floating-rate note made possible by the creation of the transparent and credible MosPrime benchmark rate to which it is indexed. The EBRD bond is listed on the government bond section of the Moscow Interbank Currency Exchange and has been approved for use in repo transactions with the Central Bank of Russia, enhancing their use as a liquidity management tool.

This path-breaking transaction has had a significant impact on the development of the Russian capital market by introducing a new asset class and by opening the door to other international issuers. In addition to making possible the issuance of floating-rate bonds by other international and domestic issuers, the newly established MosPrime Rate will provide a benchmark for the local market for bank loans, contributing to greater pricing transparency and consistency. The bond issue will also benefit the companies and businesses in Russia that are potential clients of the EBRD. Until now, the Bank's clients have been unable to access long-term ruble funds based on a reliable market-based rate, but rather have had to rely on hard currency borrowing to match the maturity of their funding and returns from their long-term investments. However, this has exposed some clients to foreign exchange risks to the extent that they are not hedged by revenues denominated in or linked to hard currencies such as the US dollar or euro. The proceeds from the EBRD's ruble bond will be used to provide long-term funding for companies that produce or provide services primarily for the Russian market, including small and medium-sized enterprises and municipalities, thereby allowing them to better manage their liabilities and avoid exchange rate risk.

As demand for ruble loans is strong, the Bank will look to revisit the Russian bond market in 2006, although new regulatory changes will need to be reversed prior to re-entry. The Bank is also working with the local authorities in a number of other countries (e.g. Bulgaria, Kazakhstan, Romania and Ukraine) with a view of issuing other local currency bonds in the next year or two.

Environment

Under its Articles of Agreement, the EBRD is explicitly committed to promoting environmentally sound and sustainable development in its activities. By investing in projects that reduce waste and pollution, the EBRD plays an important role in improving environmental standards in borrowing countries. The Bank's projects have focused on upgrading municipal wastewater plants and improving energy efficiency by upgrading power generation and distribution systems. The EBRD also assists borrowing countries to comply with EU environmental standards and works with commercial financial institutions in borrowing countries to increase the profile of environmental issues in their lending policies. The term "environment" is broadly defined in the Bank's Environmental Policy to include occupational health and safety, public health, labour and other social issues.

Apart from the initiatives to specifically redress environmental liability issues, many EBRD projects identify environmental opportunities, including 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, the Helsinki Commission and the Global Environment Facility, for which it is an executing agency. And 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 Northern Dimension Environmental Partnership (NDEP)⁹ 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. Canada became an official contributor to the NDEP Support Fund at the end of 2003 and has committed €20 million to the "nuclear window." Through this window, the first series of projects under the international effort to mitigate the legacy of the operation of nuclear-powered ships and submarines of the Northern Fleet in Russia are underway. Phase one of the Strategic Master Plan (SMP), priority identification, is completed.

⁹ NDEP members include Russia, the EBRD, the EU, the Nordic Investment Bank, Canada, Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden and the United Kingdom.

A Strategic Environmental Assessment of NDEP, the EBRD's first such assessment, was carried out in 2005 and it confirmed the priorities identified by the SMP. In 2005, the NDEP Assembly approved phase two of the SMP. In phase two, the Russian authorities, local experts and international consultants will form a Programme Development Team to develop an overall decommissioning programme, complete with complementary studies. An integrated programme, expected to be completed by April 2007, will serve as a tool for the Russian authorities to plan and manage long-term decommissioning activities in the region. In the interim, projects that have been identified as urgent are proceeding—the NDEP Assembly approved five such projects in 2005. These deal with improvement of storage conditions for (alpha) reactor cores in Andreeva Bay, physical protection in Gremikha Bay and installation of a radiation monitoring system in the Murmansk region. A prerequisite to project funding was also put in place in 2005. Specifically, the EBRD and the Energy Agency of Russian Federation (Rosatom) concluded an agreement on technical assistance that brings projects in the NDEP nuclear window under the cover of the Multilateral Nuclear Environmental Programme in Russia.

The EBRD applies environmental due diligence to all its investment and technical cooperation activities. 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 future impacts are significant. Environmental audits are performed to identify and assess potential past impacts and liabilities. 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.

The Bank's overarching Environmental Policy is scheduled to be reviewed in 2006. The Evaluation Department (EvD) is planning the review and subsequent revision process. While the EvD has focused on evaluation criteria, the Environmental Department (ED) has developed a system for monitoring the environmental performance of Bank projects. Implementation of an improved environmental monitoring and evaluation system is expected to take place through the course of 2006. Further, in 2005, the EvD undertook a special study that focused specifically on how the Bank achieves its environmental mandate through financial institutions. This study and other EvD findings will contribute to the ED's development of an updated Environmental Policy review. This broad approach is required to assess the Bank's and its clients' overall environmental performance, while examining the environmental change realized by individual projects.

Municipal and Environmental Infrastructure

EBRD investments in this sector focus on upgrading local utility services, such as water supply and wastewater treatment, urban transport, solid waste disposal and heating services. Modernizing service provision and its reliability stimulates the development of commercial and industrial enterprises, and provides a direct contribution to the global efforts to reduce harmful emissions. At the same time, better local services provide an immediate and tangible improvement to people's lives and also increase public confidence in the transition process and reform efforts.

The EBRD's approach in this sector supports: transition towards decentralization of service responsibilities to local or regional levels; commercialization of the operating companies providing local services, with local private sector participation where feasible/appropriate; and environmental improvement as a consequence of investments that conserve environmental resources and reduce pollution. In countries where a suitable overall legislative framework is evolving, the EBRD applies decentralized financing solutions with local (non-sovereign) government guarantees to promote adequate implementation legislation and a borrowing track record. In other countries, the Bank promotes structures that clarify ownership and corporate governance of local municipal services and support governments and donors in their efforts to establish effective, fair and transparent regulatory regimes that can attract long-term capital investment. In doing so, the Bank helps local governments introduce cost recovery and "user pay" concepts within the limits of affordability constraints and promotes transparency regarding transfers and subsidy payments.

In 2005, more than 90 per cent of EBRD local utility investments were committed without any recourse to financial guarantees by central governments, reinforcing the Bank's mandate in support of decentralization and local fiscal responsibility. Among these investments was the first non-sovereign utility transaction in an early transition country (Georgia), where the Bank is providing loan financing to Tbilisi's municipal transport company for the purchase of buses. The use of quality second-hand buses reduced the overall project costs significantly, making the service improvements affordable to the population.

The Bank's heightened interest in reducing emission levels of harmful greenhouse gases saw the extension of numerous district heating improvement loans to Romanian and Russian cities. These investments led to a 20-per-cent reduction of energy use on average, while at the same time ensuring continued heat supply to the affected population.

Investments to support improved water supply and wastewater treatment are continuing apace, with a number of major pollution hot spots removed. For example, in St. Petersburg the Bank's investment helped cut the outflow of untreated sewage by half following the October 2005 commissioning of a new treatment plant.

Energy Sector

Most of the EBRD's countries of operations suffer from severe economic and environmental problems caused by polluting energy systems and inefficient energy pricing. Thus, a key objective of the Bank's energy sector investments is to improve environmental performance, including meeting climate change objectives and supporting renewable forms of energy. The Bank is working on strengthening its impact in this area, and this push is supported by the call from G8 leaders at the 2005 Gleneagles Summit for international financial institutions (IFIs) to develop a framework to accelerate the shift to cleaner, more efficient energy production and use. The Bank is working with other IFIs to develop this framework, and in November it hosted a workshop to share its energy efficiency financing experience with other IFIs. The Bank is in the process of hiring a consultant who will review its activities in the field of climate change and make recommendations to broaden and improve its impact, thereby contributing to the formulation of the investment framework.

In addition to the Netherlands Emission Reduction Cooperation Fund, which was established in 2003, the Bank is currently developing a Multilateral Carbon Credit Fund (MCCF). The MCCF, which is expected to be launched in 2006, will be open to EBRD shareholders and private companies (though not to financial investors and traders). The MCCF will purchase project-based carbon credits as well as facilitate Green Investment Schemes (sovereign-to-sovereign sale of Assigned Amount Units). The Bank is currently discussing a possible partnership on this initiative with the European Investment Bank. The EBRD is also exploring the idea of a Sustainable Energy Cooperation Fund, which could fund energy audits and provide incentive payments in support of energy efficiency and renewable energy credit lines.

The Bank aims to promote best practices in other aspects of its energy investments as well, such as through the required adherence to the best international transparency and revenue management standards in extractive industry (e.g. oil, gas, coal) investments. In policy dialogue, the Bank encourages the adoption of the Extractive Industries Transparency Initiative (EITI)¹⁰ in countries of operations that have not yet done so.

The Bank began consultations in 2004 on a new Energy Operations Policy to update and consolidate its existing Energy Operations and Natural Resources Operations Policies. The requisite public consultations took place in 2005, and the new Policy is expected to go to the Board for approval in 2006. The new Policy is expected to put more emphasis on social and environmental issues, including energy efficiency and climate change. For example, it is expected to target increases in the financing of energy efficiency and renewable energy projects as well as require project sponsors to enhance environmental sustainability and adopt measures designed to benefit local stakeholders where practicable. The new Policy is also expected to introduce mandatory screening of all EBRD projects for energy efficiency potential, regardless of the sector the investment is in, and to enhance monitoring and reporting systems to track its energy efficiency investments.

¹⁰ The EITI is a voluntary initiative that supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining.

The EBRD and Nuclear Safety

Through the Nuclear Safety Account (NSA), 15 donors, including Canada and other G7 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. In 2005, the NSA fell short of the amount needed to complete its work. The shortfall is estimated at US\$150 million. To date, Canada has contributed approximately US\$13 million to the NSA.

The Bank has continued to administer the Chernobyl Shelter Fund for securing the sarcophagus around the Unit IV reactor in Ukraine (which was destroyed by a nuclear accident). In 2004, the conceptual design for the new shelter was completed and the overall cost estimated at approximately US\$1.1 billion. The G8 nations, the EU and other countries have so far contributed €645 million and pledged another €180 million in May 2005. Canada contributed US\$33 million and pledged another US\$7 million in 2005. The construction work on the stabilization of the sarcophagus started in 2004, and the proposals for the detailed design and construction of the new shelter are under evaluation, with the contract award planned for the first half of 2006. The project is expected to be completed by 2009.

Capital Resources Review

According to the Agreement establishing the Bank, the Board of Governors must review the Bank's capital adequacy at intervals of no more than five years. The exercise also sets out the medium-term strategy of the Bank, by defining how and where the Bank expects to operate in a manner that is consistent with its principles of transition impact, additionality and sound banking. Work on the third Capital Resources Review (CRR) began in 2005. Governors will consider the recommendations of management and the Board of Directors regarding the CRR and formally adopt it at the Bank's Annual Meeting in May 2006. More concretely, the third CRR will focus on the challenges of exiting from the eight borrowing countries that joined the EU in 2004 (EU8) as transition opportunities and the need for the Bank's financing recede, as well as renewing the Bank's business model to ensure it remains a key partner in countries where significant transition challenges remain.

The EBRD has already begun to grapple with the challenges posed by the EU8's transition success. Reflecting the region's transition progress, as well as the increased availability of commercial financing, new EBRD lending to the region continues to decline and reflows (such as early repayments) are increasing. As a result, the Bank's portfolio in the EU8 continues to shrink and has been reduced in terms of the Bank's overall portfolio. As long as the Bank's financing remains additional to address the limited transition challenges

remaining—notably financing for private sector SMEs and small and medium-sized municipalities—and projects meet the sound banking criteria, the Bank will continue to operate in the EU8. However, in the context of the third CRR and future business planning, the Bank must consider the implications of a natural withdrawal of EBRD programming in these countries.

The Bank's future lies to the south and east of the EU8. The third CRR exercise will set out how the Bank intends to continue to shift its operations towards the early and intermediate transition countries and Russia—where its impact on transition will be the greatest. This shift will concentrate the Bank's focus where the transition challenges remain the greatest and, correspondingly, where the transition and financial risks are the highest. The EBRD will continue to refine its business model to best address these challenges. The Bank's partnership with donors will continue to be an essential component of its success in fostering transition. Early in the third CRR period, the Bank should also be in a position, thanks to its strengthening reserves, to use some of its own resources to complement donor funds.

The Bank is gearing up to admit a new country of operations during the third CRR period. In January 2005, in the interest of reinforcing the Bank's transition activities, the EBRD's Board of Governors unanimously adopted a resolution aimed at admitting Mongolia as a country of operations. While Mongolia is neither a part of Central or Eastern Europe nor a former Soviet republic, it faces transition challenges similar to a number of former Soviet republics. For Mongolia to become a country of operations, all 62 of the EBRD's shareholders must accept the change in the Bank's Articles. At the end of December 2005, most shareholders had formally ratified Mongolia's admittance while the others, including Canada, expect to complete the process of acceptance by May 2006.

Another important aspect of the CRR is the Bank's Human Resources Strategy, which must ensure that the Bank is adequately staffed and has the appropriate skill mix to carry out its medium-term strategy. Given the geographical shift in the Bank's activities, this also requires adjustments to be made within the headquarter Resident Office (RO) staff allocation as well as RO consolidation. In the view of a number of member countries, including Canada, the process of RO consolidation should begin in 2007. The continued shift south and east will lead to projects that are on average smaller and more challenging due to the state of local business conditions. This implies that additional resources will be required to monitor projects to keep transition and financial performance on track. For these reasons, along with the expected increase in the number of overall projects, more resources will also be required for the Bank's internal control functions—internal audit, compliance, evaluation and risk management.

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, the Bank reviews annually each country's progress towards multi-party democracy, pluralism and a market economy. 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 Belarus, Turkmenistan and Uzbekistan continue to raise concerns as they are difficult to reconcile with the political and economic conditions set out in Article 1 of the Bank's Articles of Agreement. Lack of political and economic reform has already led the Bank to reduce its operations in Belarus and Turkmenistan. In 2005, the EBRD's new two-year strategy for Uzbekistan concluded that, despite limited economic progress, no political liberalization had taken place. As a result, the Bank decided to limit its investments in Uzbekistan to the private sector, provided the investment has no direct or indirect link to the government or government officials. The Bank will focus on providing support to micro, small and medium-sized enterprises, and will continue to support international trade through its Trade Facilitation Programme. The strategies for Belarus and Turkmenistan will be renewed in 2006, but unless the countries make political and economic progress, the Bank's investments will continue to exclude public sector investments.

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 routinely seeks the services of forensic accountants and specialized firms to perform integrity checks on companies in which it might invest and on their management and shareholders. For those doing business with the EBRD, the Bank's procurement policies and rules set 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. The EBRD's Legal Transition Programme helps create an investor-friendly, transparent and predictable legal environment to improve the investment climate in the Bank's countries of operations. The programme focuses on developing legal rules and establishing legal institutions as well as nurturing a culture that is essential for a vibrant market-oriented economy. Under this programme, the Bank has worked to improve the legal environment in its countries of operations by advancing reform in six areas: bankruptcy, company law/corporate governance, concessions, financial market regulation, secured

transactions and telecommunications. 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*. In 2005, this publication focused on “Banking Law in Transition.”

Enhancing Transparency, Accountability and Governance

The EBRD’s 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 website (www.ebrd.com). Further, to ensure that the Public Information Policy serves the Bank and the public well, the Policy includes a three-year review cycle. As the current Policy was approved in 2003, it will be reviewed and renewed in 2006.

To be accountable to its shareholders and stakeholders, the EBRD assesses its contribution to the process of transition in its countries of operations. The Bank contributes to the transition process through two channels: its portfolio of projects and policy dialogue and intellectual leadership on transition and related activities, which are often but not always linked to projects. When projects are developed, the Bank assesses their potential contribution to transition. In 2005, 85 per cent of the Bank’s approved projects received a transition impact potential rating of “good” or “excellent.” It also assesses the projects’ expected transition impact, that is, the risk-adjusted transition impact. Once a project begins, the Bank monitors the project with its Transition Impact Monitoring System; this measure helps keep bankers focused on, and working towards, the project’s transition objectives. In addition, the EBRD’s independent Evaluation Department evaluates the Bank’s projects, usually within two years after full disbursement, to assess the extent to which the projects have met their objectives. In the context of country and sector strategies, the Evaluation Department also assesses the extent to which both transition channels have contributed towards transition.

In 2005, the Bank’s Board of Directors initiated and engaged in several substantial institutional reforms to strengthen the Bank’s internal governance. First, following on the renewal of the Audit Committee’s terms of reference in 2004, a working group undertook a similar process of review and renewal of the terms of reference for the remaining two Board committees: the Budget and Administrative Affairs Committee and the Financial and Operations

Policies Committee. The changes reflect recent developments in corporate governance and evolving practices in other international financial institutions (IFIs). As well, the working procedures of the Board Steering Group and Board committees were updated, notably improving the transparency of the nomination process for Chairs and Vice-Chairs. 2005 also marked the first full year of the Audit Committee's new terms of reference. In discharging its new responsibilities, it reviewed the resources and work plans of the Bank's control functions—compliance, evaluation, internal audit and risk management—with a view to ensuring their effectiveness. Based on the Committee's assessment, additional funding for risk management was included in the Bank's 2006 budget. Finally, the Bank's evaluation function was given a new status, independent of management. The Evaluation Department now exclusively and directly responds to the Board of Directors, thus guaranteeing the independence of the function from operations and enhancing the Board's collective duty of accountability to the Bank's members and other stakeholders.

Canada has played a strong role in advancing these initiatives on internal governance. This is consistent with Canada's positions at other IFIs, where it has been a leader in efforts to increase transparency and accountability.

Encouraging Partnerships

The EBRD is required by its Articles of Agreement to involve outside sources of financing in its operations. The Bank plays a key role in attracting co-financiers that might not otherwise be willing to invest in the region. Co-financing with the EBRD increases a country's access to international capital markets and promotes foreign direct investment. The EBRD's main co-financing partners are commercial banks, government agencies, export credit agencies and other IFIs. In 2005, the EBRD worked in partnership with commercial banks and other private lenders to achieve a total commercial co-financing amount of €1.9 billion.

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. In 2005, total donor funding received was €78 million and is used to support project implementation as well as enhancements to the investment climate in the region. In 2005, €4.8 million of Canadian technical cooperation funding was used for EBRD commitments (projects identified and initiated). The only donors that committed more were the Early Transition Countries Multi-Donor (ETCMD) Fund, the European Commission and the European Agency for Reconstruction. Where possible, the EBRD also works with other IFIs in order to enhance the impact of the Bank's financing and to benefit from complementarities with the other institutions. In 2005, the EBRD worked with other IFIs on projects involving €326 million in co-financing. Key partners included the International Finance Corporation and the European Investment Bank. In addition, the EBRD mobilized €338 million from official co-financing and €42 million from export credit agencies. Total co-financing from all partners was €2.6 billion in 2005.

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. Significant improvements in donor harmonization and coordination have been achieved through the recently established ETCMD Fund.

Human Resources

At end of December 2005, the EBRD had regular staff of 969 at its headquarters, largely unchanged from 2004. Locally hired staff in the Bank's Resident Offices totalled 234, again similar to 2004. There are approximately twice as many male professional staff as female professional staff at headquarters, while it is evenly split among professionals in the Bank's Resident Offices.

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 James Michael Flaherty, Minister of Finance, is the Canadian Governor and Mr. Peter Harder, 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 four 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 Mr. Scott Clark. The Minister (Economic/Commercial) at the Canadian High Commission in London, Mr. 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 Canada. In consultation with Foreign Affairs Canada, International Trade Canada and the Canadian International Development Agency (CIDA), the Department of Finance Canada 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 is currently the Chairman of the Board of Directors' Audit Committee, which oversees the integrity of the Bank's financial statements, the soundness of the Bank's system of internal controls, the ability of the control functions to perform their duties independently, and the independence, qualifications and performance of the external auditor.

The Canadian Director was actively involved as a member of the Budget and Administrative Affairs Committee in 2005, until the Board Committees' memberships were renewed. The Canadian Director continues to participate actively in Budget and Administrative Affairs Committee meetings as well as those of the Financial and Operations Policies Committee.

Positions Taken in 2005—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 2005, Canada's Director spoke on the need to address issues related to the disregard for human rights and democratic principles, and actively supported the decision to restrict the Bank's operations in Uzbekistan. Canada's Director also spoke strongly on the need to rigorously apply the additionality test for projects in the new EU countries and stressed the importance of the Bank's goal of shifting operations to the south and east to early and intermediate transition economies.

To ensure EBRD operations are additional (i.e. do not displace financing available from the private sector on reasonable terms) 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. Only by focusing on quality projects will the Bank contribute to advancing transition in these countries. Canada has urged the Bank to be increasingly focused and strategic in the transition countries, where private sector financial and capital markets are increasingly active. The Canadian Director abstained from supporting several projects in 2005 due to a lack of additionality.

Canada has also been a strong proponent of greater EBRD transparency, accountability to shareholders and improved internal governance, believing that the Bank should be a model of behaviour for the region.

Canadian Staff at the EBRD—Canadians are well represented on EBRD staff. At the end of 2005, there were 24 Canadian professionals on the staff of the EBRD, representing 3.7 per cent of total professional positions at headquarters, in line with Canada's 3.4-per-cent share of the institution's capital. It is noteworthy that Canadians fill the following positions: Director of Communications, Director of the Procurement Department and Director of the Early Transition Countries Initiative.

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 in consultation with their constituencies. The Canadian Director abstained or voted against the following policies and projects in 2005:

- On the grounds of a lack of additionality: a US\$40-million equity investment in Novatek, Russia's largest independent gas producer; two loans totalling €50 million to Mittal Steel Company to be on-lent to its companies in Bosnia and Herzegovina and FYR Macedonia; a €90-million debt and risk-sharing extension to the EU/EBRD Municipal Finance Facility; a €10-million loan to Bucharest Municipality; and a €54-million (EBRD exposure cap) risk-sharing operation in favour of BRE Bank Hipoteczny SA, a provider of mortgage loans in Poland. The Canadian Director also questioned the incremental transition potential of the Novatek project, highlighted the issue of overcapacity in the global steel sector regarding the loans to Mittal, and expressed concern regarding the low transition potential and questionable banking arrangements regarding the EU/EBRD Facility.
- A US\$8-million loan to Bayteks Ticaret, a private textiles company in Uzbekistan, because the company sources raw material from the state-controlled cotton sector and thus, in his view, is inconsistent with the new strategy for Uzbekistan. In addition, he raised concerns about forced and child labour in Uzbekistan's cotton sector. In Canada's view, this violates the Bank's Environmental Policy and creates significant integrity risks for the Bank.

CANADIAN COMMERCIAL INTERESTS

The EBRD offers a number of investment opportunities for Canadian businesses and financial institutions. The objectives of the Canadian Office are 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 (EDC) and other Canadian financial institutions. Together with Foreign Affairs Canada, International Trade Canada 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 2005, there was one new investment in the region with Canadian involvement. The Bank is providing a €63-million loan to Elektrownia Patnow II, a power plant in Poland, to help finance the completion of a single 464 megawatt generating unit of replacement capacity, to replace obsolete technology with energy-efficient technology. The Bank's financing is complemented by commercial co-financing totalling €227 million, including a €42-million parallel loan from EDC. SNC Lavalin is the Canadian Engineering, Procurement and Construction contractor.

In 2005, 13 contracts totalling €3.45 million were awarded to Canadian consultants for project preparation, project implementation and investment climate reform support in the transportation, financial institutions, environment, natural resources and legal reform sectors. Eleven of these assignments were funded through five Canadian technical cooperation (TC) funds contributed by CIDA and two from Bank-funded budgets.

Under Canada's Phase IV EBRD Trust Fund, a one-year extension to the two year Insolvency Specialist Position resident in the Legal Transition Team at EBRD headquarters was approved and is expected to be contracted in early 2006. Under Canada's Phase V EBRD Trust Fund, one project was contracted for telecommunications regulatory support in the Kyrgyz Republic worth €199,845. Three new EBRD TC assignments were approved by CIDA and the Bank in 2005 covering state pension reform in Kazakhstan, investment and legal assistance for transit operations in Astana, Kazakhstan, and an EBRD gender mainstreaming study cost-shared with the UK Department for International Development. These contracts are expected to be tendered or finalized in early 2006.

In 2005, under the Canada South East Europe Fund Phase II, nine TC assignments worth €2.55 million were awarded to Canadian consultants. CIDA has identified its priorities in regional infrastructure, financial institutions, municipal and environmental industries, and environment and energy efficiency, and the assignments reflected these priorities. Three assignments were regional, covering several countries in Southeastern Europe, two were in Serbia and Montenegro, and there was one each in Albania, Bulgaria, FYR Macedonia and Romania.

In addition, Canada has a \$2.5-million fund commitment for the TurnAround Management (TAM) Programme, which provides funding for Canadian retired and semi-retired business executives to act as advisors to small and medium-sized enterprises in the region. In 2005, five assignments worth \$742,300 were awarded to Canadian advisors through the Canadian TAM fund, covering Armenia, Bosnia and Herzegovina and the Kyrgyz Republic. Five additional Canadian advisors were funded through other untied donor funds for TAM assignments.

Finally, the CIDA Ukraine SME Cooperation Fund expanded to include technical cooperation assistance to Ukrainian banks to expand their mortgage-lending activities.

On the commercial co-financing side, Canadians participated in nine transactions in 2005 for a total of €75 million. Cordiant Capital of Montréal has co-financed 22 transactions with the EBRD since 2002, ranking as the EBRD's ninth largest co-financing partner. In 2005, Cordiant participated in seven EBRD transactions: one in Georgia, one in Romania, three in Russia, one in Serbia and Montenegro and one with the Regional Trade Facilitation Program. In addition, EDC provided a €42-million parallel loan to the Elektrownia Patnow II power project, and Alconsult International provided €4.2 million for the Quadriga Private Equity Fund in Russia.

There are significant opportunities for suppliers in EBRD-financed public sector goods, works, supply and installation contracts. In 2005, a total of 122 public sector contracts were recorded for a value of €617 million, of which the EBRD financed €487 million. In 2005, two Canadian tenders were received though neither won a contract.

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 EDC 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 2005 to meet with business people, conduct seminars, speak at conferences and consult with government officials.

The following events in 2005 were supported by the Canadian Director's Office to promote Canada's interests:

- An outreach program to Kazakhstan, Poland, Russia and Serbia and Montenegro, brought together local companies in the region with Canadian firms to promote business opportunities. Partners in these events included the EBRD, EDC, Canadian Embassies, local business associations and senior-level government representatives. The Canadian Director and/or the Business Advisor participated in these events.
- On the Canadian outreach side, the Business Advisor participated in the annual CIDA/Canadian Manufacturers and Exporters International Development Days in Halifax. She also participated in a World Trade Centre Montréal business roundtable on doing business with the EBRD, and was joined by the EBRD's Director of Transportation and a member of the EBRD's Official Co-financing Unit. With the latter, she participated in the first Eastern Europe business forum sponsored by the Newfoundland International Trade Centre, EDC and the Newfoundland and Labrador Government in St. John's. Finally, the Canadian Office arranged to have a representative from the EBRD's Procurement Group participate in a workshop organized by the Alberta Government in Kananaskis, designed to help increase the success of Canadian tendering firms at the international financial institutions (IFIs).
- The EBRD's Lead Counsellor for Policy Studies and Sector Strategy from the Chief Economist's Office and the Canadian Policy Advisor travelled to Ottawa to present the key findings of the Bank's 2005 *Transition Report* on developments in the business and economic environments of the Bank's countries of operations to business, academics and government officials.
- The Canadian Director accompanied EBRD President Jean Lemierre to Ottawa to meet with Canadian officials, the first such visit by an EBRD President. President Lemierre met with the Minister of Finance, as well as senior Canadian government officials.
- Members of the Canadian Director's Office in London met with numerous Canadians in 2005, including business people, representatives of financial intermediaries, parliamentarians, representatives from all levels of government and non-governmental organizations, consultants and academics.

CHALLENGES AHEAD

There were many transition advancements across the region of Bank operations through 2005, particularly in the advanced transition economies of Central Europe as well as in Southeastern Europe. In addition, advanced transition economies obtained high levels of commercial financing, which resulted in another year of negative EBRD net loan disbursements to these countries, as well as a substantial drop in their share of the EBRD's financing. It is clear that the Bank's portfolio and activities will increasingly shift towards the early and intermediate transition countries and Russia, where transition challenges remain the greatest and the Bank's financing is required. The Bank's future is to the south and the east of the new EU member countries.

With this in mind, in 2005, Bank shareholders considered the institution's strategic direction in the context of its third Capital Resources Review. Work on the review will continue in 2006, and Bank Governors are expected to discuss and formally adopt it at the Bank's Annual Meeting in May 2006. The review will set out how the Bank will adapt its core banking business model to remain effective in addressing transition challenges in the increasingly complex business environment it faces. As well, it will set out how the Bank will reallocate resources efficiently and effectively to support the operational shift south and east. From a Canadian perspective, this should include consolidation of the Resident Offices in the new EU member countries, consistent with their expected market-driven graduation within the short to medium term.

The Bank's shift to early and intermediate transition countries in Southeastern Europe and the former Soviet Union is intensifying the Bank's exposure to more difficult business environments. The early and intermediate transition countries have weak institutional capacity (economic, financial and legal), which the Bank must continue to help improve through policy dialogue and the provision of technical assistance in cooperation with other stakeholders, including donor countries and other IFIs. Expanded cooperation with other IFIs will also be necessary to develop high-transition-impact projects 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. The Bank will also need to develop a strategy for handling increased financial risks in the medium term. The challenge going forward will be ensuring that the Bank remains focused on its core transition mandate and its operating principles of transition impact, additionality and sound banking.

An excellent example of how the Bank is meeting these challenges is its new Early Transition Countries Initiative. This Initiative provides a platform for increasing both the Bank's effectiveness and volume of activities in higher-risk markets, and enjoys the support of a multi-donor fund. It does so by streamlining its operations in early transition countries, creating new instruments to meet financing gaps and accepting more risk. The Bank will need to continue to innovate in the future while working in close partnership with other IFIs in order to address the transition gaps in these more challenging environments.

As the Bank shifts south and east, the importance of its policy dialogue role will increase. The need for strong corporate governance in all recipient countries will continue to figure as a key issue in the period ahead, and the EBRD will need to promote sound institutions, anti-corruption efforts, 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 need for the EBRD to observe its Article 1 requirement to operate only in countries committed to multi-party democracy and pluralism continues to be a challenge. While EBRD Governors have not declared any member to be in violation of the Article 1 requirement, the Board of Directors has limited operations in countries whose commitment is weak. This authority has been used in the cases of Belarus, Turkmenistan and Uzbekistan, where investments are restricted to private sector operations that can be insulated from government interference. The inclusion of Uzbekistan in this group as of July 2005 demonstrates that Article 1 principles are taken seriously by the Bank. The decision reflects the tragic events in Andijan, where hundreds of unarmed demonstrators were killed in an anti-government protest, as well as the fact that the Uzbek authorities have taken little initiative to reduce strong state control over the economy and media or to ease restrictions on opposition political parties and non-governmental organizations. Canada will continue to vigorously support Bank efforts to address issues related to the rule of law, human rights and democratic principles in all of the Bank's countries of operations.

Finally, good governance within the EBRD itself is also important. The EBRD, as a multilateral institution, is not regulated. Thus, the Bank must ensure that it adopts and maintains the highest industry standards. To this end, a number of improvements were made in 2005. The Bank introduced formal certification of internal financial controls, new terms of reference were established for the Board's committees, and the Audit Committee undertook a full review of the resource adequacy of the Bank's control functions (internal audit, compliance, evaluation and risk management). Further, evaluation at the Bank was improved as the Evaluation Department began to report directly to the Board, becoming independent from Bank management. This type of independence is considered increasingly essential to the effective operation of evaluation departments. Still, additional measures can be taken to strengthen the Bank's internal governance, ensuring that the institution's standards meet best corporate practice. In particular, the Bank needs to adopt a new Code of Conduct to replace its current one, and the role of internal audit and its organizational relationships need to be updated to reflect best practices. Work on both issues is currently underway with Board approvals to be made in 2006. Canada has played, and will continue to play, an active role in improving the Bank's internal governance.

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. Michelle Kaminski, Advisor ²	Tel: +44 20 7338 6458 E-mail: kaminskm@ebrd.com
Ms. Sandy Ferguson, Advisor ³	Tel: +44 20 7338 6509 E-mail: fergusos@ebrd.com
Ms. Alicja Krivicky, Executive Secretary	Tel: +44 20 7338 6507 E-mail: krivicka@ebrd.com Fax: +44 20 7338 6062

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 website at www.ebrd.com.

Requests for information can be addressed to:

Publications Desk
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2JN
United Kingdom
(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, and are financed by donors. Unlike other regional development banks, the EBRD does not operate a concessional or "soft" loan window.

Ordinary Capital Resources

At the end of 2005, the total authorized capital of the Bank was €20 billion. Canada has subscribed to 3.4 per cent—or €680 million (C\$956 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 2005, Canada made its eighth 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 following table 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 represent an asset. Nonetheless, Canada's paid-in contributions to the Bank do increase the Government's financing 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	–	–	3,967,334	3,967,334
1998	7,287,199	4,858,132	1,457,439	6,315,572
1999	7,287,199	4,858,132	2,914,878	7,773,010
2000	7,287,199	4,858,132	4,372,317	9,230,449
2001	7,287,199	4,858,132	5,829,759	10,687,891
2002	7,287,199	4,858,132	7,287,198	12,145,331
2003	7,287,199	4,858,132	7,287,199	12,145,331
2004	7,287,199	4,858,132	7,287,199	12,145,331
2005	7,287,199	4,858,132	7,287,199	12,145,331
Total	117,815,102	98,382,566	103,240,702	201,623,268

Market Borrowings

At the end of 2005, total EBRD borrowings stood at €12.5 billion with an average remaining life of 7.8 years at an average cost of funds of LIBOR (London Inter-Bank Offered Rate) minus 34 basis points. Funds have been swapped into floating-rate instruments, primarily in US dollars and euros.

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:

Canadian Technical Cooperation Fund—The main purpose of this fund is to provide financing to hire Canadian consultants for EBRD projects across a wide range of sectors and EBRD countries of operations. Canada has contributed \$12.65 million since the fund was established in 1992 and is currently completing Canada Phase V.

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 10-year project is roughly US\$1.1 billion, 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 \$19.5 million to the total fund of €280 million. Canada's contribution has been completely disbursed.

CIDA-EBRD Cooperation Fund for Southeastern Europe (CFSEE)—By 2002, Canada had contributed \$10 million in support of the EBRD's South Eastern Europe Action Plan, to be used for technical cooperation and co-financing activities. These funds, tied to Canadian consultants, were used in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Romania, and Serbia and Montenegro. In 2003, an additional \$6 million was added to the CFSEE, which focuses on CIDA priority sectors and countries of focus.

CIDA-EBRD Balkan Region Special Fund—In addition to the CFSEE, Canada has contributed \$2 million to the Balkan Region Special Fund to support post-conflict reconstruction efforts in the Balkan region.

TurnAround Management (TAM) Programme—The TAM 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. In 2003, Canada signed a new agreement with the TAM Programme to provide \$2.5 million over five years to be used to hire Canadians to work as advisors. This brought Canada's total contribution to the Programme to \$3.05 million.

Technical Assistance in Support of the Ukraine Micro, Small and Medium-Sized Enterprises Line of Credit II—Between 1999 and 2004, Canada provided \$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 has included risk- and loan-evaluation training.

Northern Dimension Environmental Partnership (NDEP)—The NDEP 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. Canada became an official contributor to the NDEP Support Fund at the end of 2003 and has contributed €20 million.

This made Canada the NDEP's sole non-European contributor. Canada earmarked its contribution for the facility's "nuclear window," which counts towards Canada's commitment to the G8 Global Partnership Program. To deal with nuclear waste, the NDEP provides full funding within an international cooperation framework designed to address the complex challenges of cleaning up the legacy of the former Soviet navy's Northern Fleet. In this regard, the NDEP Assembly completed a prioritization plan in 2004 that has been adopted by all contributors as the basis for projects in the nuclear window.

CIDA-EBRD Cooperation Fund for Central Asia and the South Caucasus—

This \$2-million fund was created in 2004 for work on project preparation and implementation activities in Central Asia and the South Caucasus. The fund targets agribusiness, natural resources and infrastructure financing (e.g. transport, telecommunications, municipal finance), and aims to strengthen institutional capacity development of local institutions working in private sector development and micro-lending institutions. Given CIDA's program focus, priority will be given to projects in Georgia and Tajikistan. This is the first Canadian bilateral fund at the EBRD that is untied (i.e. procurements are not limited to Canadians).

Early Transition Countries Multi-Donor Fund—This fund was launched in 2004. CIDA is one of 11 donors to the fund, which targets Bank programming to the seven poorest countries of the Commonwealth of Independent States region (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan). This fund is the first EBRD funding mechanism to be classified as Official Development Assistance by the Development Assistance Committee of the Organisation for Economic Co-operation and Development. Canada has contributed €500,000 to this untied fund.

ANNEX 2

DOING BUSINESS WITH THE EBRD

For general information, please refer to www.infoexport.gc.ca/ifinet or contact the Bank's Communications Department in London (tel: +44 20 7338 6096; fax: +44 20 7448 6690).

Further inquiries should be directed to the Office of the Director for Canada, Advisor for Business Development and Investor Relations, Ms. Sandy Ferguson (tel: +44 20 7338 6509; e-mail: fergusos@ebrd.com).

Canadian Project Sponsors: Canadian companies interested in potentially sponsoring a project with the EBRD are requested to direct initial inquiries either to the Office of the Director for Canada, to the 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 operations. Summaries of EBRD private sector operations can be obtained on the Bank's website at 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 website free of charge (see address above).

Canadian Consultants: The EBRD's website contains technical cooperation notifications and invitations for expressions of interest for consultancy services pertaining to both public and private sector projects. In 2005, the EBRD launched a web-based system in order to make the consultant selection process simpler and more efficient. Known as eSelection, the system enables subscribing consultants to be notified of consulting opportunities, express interest online, submit technical and financial proposals and monitor the selection process. eSelection is designed to be user-friendly while ensuring full compliance with Bank policies and procedures.

Consultants and suppliers can sign up for electronic notification of all EBRD procurement opportunities through EBRD Procurement Alert. Current procurement information can be found at www.ebrd.com/oppor/procure/index.htm.

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

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

ANNEX 3

EBRD MEMBERSHIP AS AT DECEMBER 31, 2005

	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	FYR Macedonia	0.07
Israel	0.65	Georgia	0.10
Italy	8.52	Hungary	0.79
Liechtenstein	0.02	Kazakhstan	0.23
Luxembourg	0.20	Kyrgyz Republic	0.10
Malta	0.01	Latvia	0.10
Netherlands	2.48	Lithuania	0.10
Norway	1.25	Moldova	0.10
Portugal	0.42	Poland	1.28
Spain	3.40	Romania	0.48
Sweden	2.28	Russia	4.00
Switzerland	2.28	Serbia and Montenegro	0.47
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		