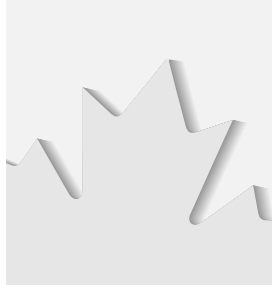


**Report on
operations under
the european bank
for reconstruction
and development
agreement act
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Prepared by:
International Trade and Finance Branch
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TABLE OF CONTENTS

Introduction	5
Operational Priorities	5
Key Developments in 1996.....	7
Transitional Impact of the Bank's Operations	13
Political Aspects of the Bank's Mandate	15
Environmental Aspects of the Bank's Mandate	15
Managing Canada's Interests.....	18
Challenges Ahead	21

Annexes

1. The Bank's Financial Activities	23
2. Contracts Awarded to Canadian Firms	25
3. How to Do Business with the EBRD	26
4. EBRD Membership.....	28



INTRODUCTION

The European Bank for Reconstruction and Development (EBRD) was established in 1991. Its aim is to foster the transition towards open, market-oriented economies in Central and Eastern Europe, as well as in the successor republics of the Soviet Union, and to promote private and entrepreneurial initiative in countries which are committed to the fundamental principles of multiparty democracy, pluralism and a market economy.

The Bank seeks to help its 26 countries of operation 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 activities focus on private sector development, including the strengthening of financial institutions and legal systems, and the development of infrastructure needed to support the private sector. The EBRD has 60 members (58 countries, the European Commission and the European Investment Bank).

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

"The Minister [of Finance] shall cause to be laid before each House of Parliament by March 31 of each year, or if that House is not then sitting, on any of the 30 days next thereafter that it is sitting, a report of operations for the previous year, containing a general summary of all actions, including their human rights aspects and sustainable development aspects, taken under the authority of this Act."

This report responds to this requirement and reviews the activities and operations of the Bank for the year 1996.

OPERATIONAL PRIORITIES

Although the Bank shares many characteristics with other multilateral development banks, it has certain unique features. One of these is the explicit link between its financing operations and civil and political rights in the countries of operation. This two-pronged mandate is enshrined in the Bank's founding charter and differentiates its purpose and character from that of other international financial institutions.

In promoting economic transformation in its countries of operation, the Bank's main role is to act 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 and bilateral sources of financing, and many foreign private investors remain hesitant to invest in the region. By providing an umbrella under which wider funding for private sector investment in Central and Eastern Europe can be assembled, the EBRD plays a catalytic role in mobilizing capital.

Financial Highlights

- *In 1996, the Bank achieved a net profit of ECU¹ 4.9 million (C\$8.3 million) after provisions, compared with ECU 7.5 million (C\$12.8 million) a year earlier. Operating profits before provisions of ECU 97 million (C\$165 million) were higher than the 1995 level of ECU 83 million (C\$141 million). Banking operations generated nearly 50 per cent of the Bank's total income compared with 36 per cent in 1995.*
- *Provisions against losses totalled ECU 92 million (C\$156 million) in 1996 reflecting the strong growth in commitments and disbursements. Provisions were charged on the basis of the established policy, which applies prudential requirements against the increased portfolio risks associated with the higher level of commitments.*
- *After six years of operation, the Bank has approved 518 projects worth ECU 10 billion (C\$17 billion). The Bank is fully operational in each of its 26 countries of operation after signing its first projects in Bosnia-Herzegovina (which became a member in June) and Tajikistan in 1996.*
- *The Bank expects the annual level of its commitments to rise steadily from ECU 2.2 billion (C\$3.7 billion) in 1996 to about ECU 2.5 billion (C\$4.2 billion) in 1999.*
- *Last year, 69 per cent of signed projects and 78 per cent of approved projects were in the private sector.*
- *Equity investments accounted for 20 per cent of the value of all approved projects, and the Bank used a series of credit lines to local banks and a number of new investment funds to better target small- and medium-sized companies.*
- *The significant expansion in the Bank's business which has taken place over the past four years has been achieved without any real increase in administrative costs.*

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

¹ The ECU is the standard unit of account for the EBRD's operations. It represents a weighted basket of 11 European currencies. At the end of 1996, the exchange rate was ECU 1 = C\$1.70.

Nevertheless, there remain many countries and sectors that continue to receive limited attention from investors. Fully three-fourths of the C\$41 billion of foreign direct investment in EBRD clients in 1989-1995 went to just four countries – the Czech Republic, Hungary, Poland and the Russian Federation. At one extreme, Albania received a scant C\$274 million in foreign direct investment over this period, compared to C\$15.6 billion invested in Hungary at the other extreme. Part of the EBRD's mission is to help foster investment across the region by signalling to investors those activities within its countries of operation which provide good potential for investment.

The Bank almost always acts with partners – such as banks, local and international companies – in financing a project loan and, typically, puts up no more than 35 per cent of the capital required. At the end of 1996, the EBRD had approved loans and investments totalling ECU 10 billion (C\$17 billion) which in turn supported projects with an overall value of ECU 30 billion (C\$51 billion). As the scale of these figures illustrate, the EBRD has now become a very important financial institution in this part of the world.

To fulfill its mandate, the Bank has undertaken a number of structural reforms. It has simplified networks, streamlined procedures and expanded partnerships with other institutions in financial and other sectors. Recently, the Bank has stepped up its merchant banking activities in the financial area, taking equity stakes in, and strengthening its relationships with, commercial banks, financial institutions and investment firms in many of its countries of operation. Such activities now account for 20 per cent of its business.

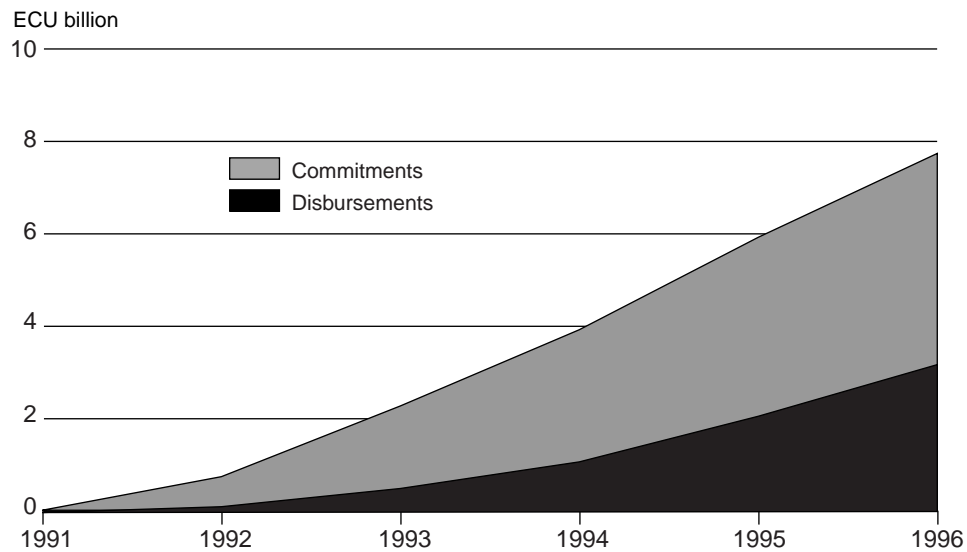
The Bank has also extended this approach to industrial sectors, by building "multiproject facilities" with various corporations. By initiating such "package deals", its financing is spread more effectively, enabling it to support many small projects, some of which might otherwise have been too small for the EBRD to undertake. In addition, the Bank works actively with local and regional banks, providing them with funds and guaranteeing their loans. In turn, this increases their financing for many small- and medium-sized enterprises (SMEs). In addition to the financing the EBRD provides to financial intermediaries for onward lending to SMEs, it is also developing a series of venture capital funds (there are now more than 20) to help address the critical needs of SMEs for more venture capital.

KEY DEVELOPMENTS IN 1996

In 1996, the Bank focused on developing more projects in more countries. It broadened its private sector emphasis and sharply increased its loan and equity investment portfolio. Its target of ECU 2.1 billion (C\$3.6 billion) in new commitments was exceeded as commitments reached ECU 2.2 billion (C\$3.7 billion) for 95 new projects. The cumulative total of signed projects at the end of 1996 stood at ECU 7.7 billion (C\$13.2 billion). Net disbursements also rose to ECU 1.2 billion (C\$2.0 billion), a substantial increase over the year before, and cumulative disbursements reached ECU 3.2 billion (C\$5.4 billion).

In the past year, the Bank continued to step up its geographic diversification, shifting the focus from the reform-minded states of Central Europe towards more challenging countries in Eastern Europe and the former Soviet Union. Commitments in five countries – the Czech Republic, Hungary, Poland, Romania and Slovakia – accounted for 32 per cent of the EBRD's signed commitments for loans and equity investments in 1996, compared to 50 per cent at the end of 1994.

EBRD Operational Indicators



At the end of 1996, the Bank had signed projects in all its 26 countries of operation; as well, it had signed 10 regional projects. First disbursements took place on projects in Bosnia-Herzegovina.

A country's financial sector is critical to the future development of its broader private sector and, as such, is a focus for Bank activities. The Bank is developing equity stakes in a number of financial institutions in its countries of operation with a view to improving the quality of their financial services and the degree of competition within their financial sectors. In 1996, the Bank signed 42 agreements to finance financial sector activities totalling ECU 783 million (C\$1.3 billion). The Bank also committed a further ECU 780 million (C\$1.3 billion) to the transport, telecommunications and energy sectors.

The Bank is seen as an attractive partner by the international banking community. To date, more than 100 international banks have participated in EBRD programs supporting private sector projects. The number of co-financing partners also increased in 1996. In the 416 investments in which it has participated, the Bank has worked with 283 companies from 47 countries.

The EBRD also organized more than 300 technical co-operation projects in 1996 worth ECU 89 million (C\$151 million), which facilitated investment and lending operations by providing much-needed financing for project preparation and implementation. Finally, four new Co-operation Fund Agreements were signed with bilateral donors, bringing the total to 47 agreements.

Increase in the Bank's Capital Stock

The April 1996 annual meeting of the Board of Governors in Sofia marked an historic moment for the EBRD, culminating in the approval of the doubling of the Bank's capital to ECU 20 billion (C\$34 billion). This represented a strong vote of confidence from shareholders in the Bank's management and a reaffirmation of the ideals which motivated the creation of the Bank five years earlier. The increase in capital is expected to provide sufficient resources to respond to growing demands in the Bank's countries of operation without further infusions of capital.

Canada deposited its instrument of subscription on November 29, 1996 and subscribed to 34,000 additional shares – i.e. 3.4 per cent of the total. This will require a total paid-in capital investment of US\$97.2 million (C\$133 million) over the 1998-2009 period. This capital does not affect the fiscal deficit since it is recoverable (as in the case of loans and investments). It does, however, increase Canada's borrowing requirements. Parliamentary appropriations will be sought in fiscal year 1998-99 when the first instalment becomes due.

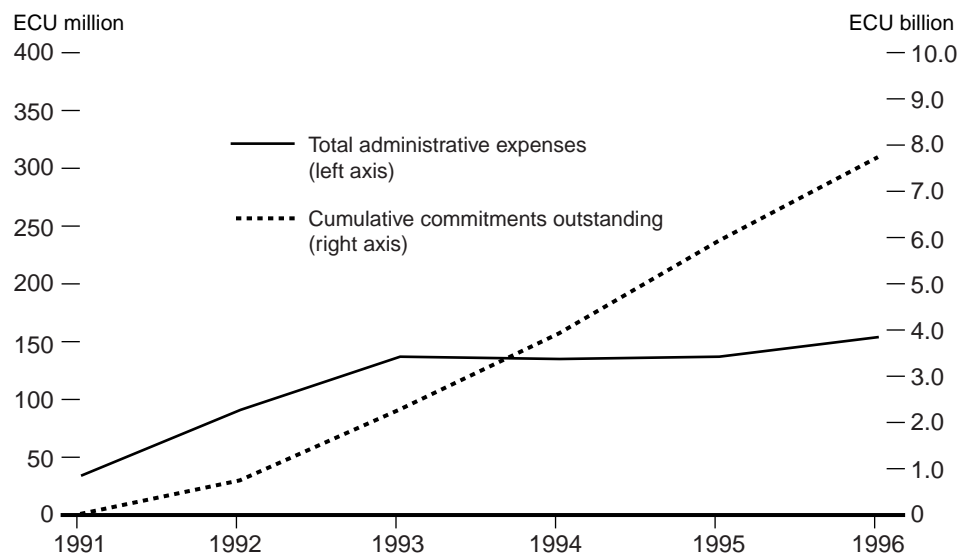
Administrative Efficiency and Cost Effectiveness

The EBRD has also made progress in extending its resident office network. At the end of the year, it had 24 local offices in 22 countries of operation. The number of employees in resident offices has grown from less than 30 professionals at the end of 1993 to nearly 100 at the end of 1996, with 60 per cent of the professional staff recruited locally. The resident offices are now moving from representational activities to more active involvement in day-to-day Bank operations.

At the same time, the Bank has been able to keep its budget under strict control. In 1996, the Bank's administrative spending was frozen in real terms. In part, this was achieved through cost-saving measures, such as the continued subletting of several floors of the headquarters building which has brought in additional rental income.

Productivity increased during the year with the value of projects in the process of implementation increasing by 16 per cent over the previous year while costs were kept under control. The Bank also continued to increase the level of its annual commitments in relation to its direct costs.

Productivity Gains



Reducing the Costs of the Board of Directors' Budget

Based on a decision by directors in 1995, the Bank implemented a 20.8 per cent reduction in Board personnel costs (effective June 1996) and a reduction of one-third in the space occupied by directors' offices. The Board of Directors' budget has been reduced from £14.4 million in 1995 to £11.5 million in 1997 – savings corresponding to 20.5 per cent of the 1995 budget.

It is also noteworthy that the Bank's overall administrative budget has been frozen in "real terms" since 1993. For a "growing" institution, this has posed a difficult challenge and is commendable. Moreover, a zero base budgeting initiative has recently been launched to achieve medium-term productivity improvements to help offset the increase in costs that is anticipated as the Bank's portfolio continues to grow.

Graduation Policy

A new graduation policy was approved in November 1996. The policy recognizes that, as a country advances along the path of transition, different responses and services are required from the Bank. The new policy sets specific guidelines for the graduation of projects, sectors and, eventually, country operations from the direct support of the Bank.

Project and sector graduation is already underway in a number of high transition economies as “blue chip” companies are now able to attract longer-term financing on market terms. Nevertheless, this improvement in creditworthiness has still to filter through to the majority of private companies. The Bank will shift its focus in high transition economies to transactions where its assistance is truly “additional” to other available financing and where it will have a high transition impact. Specifically, the Bank will move away from financing joint ventures with large foreign sponsors and away from state-guaranteed infrastructure projects towards supporting locally owned private sector companies in need of restructuring. The overall share of high transition economies in the Bank’s portfolio will decline.

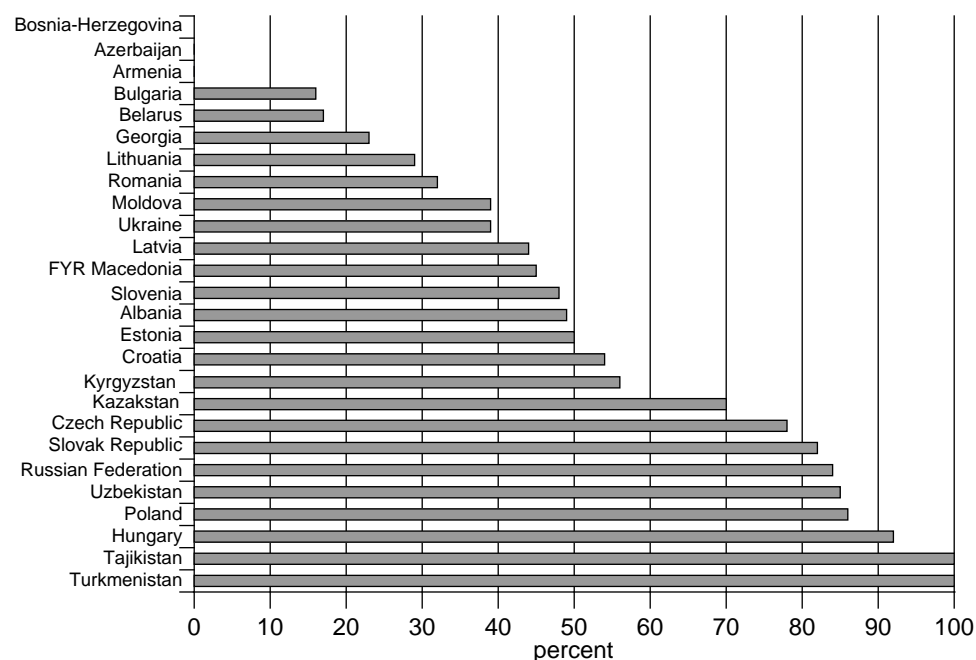
The Private Sector Focus of the Bank

The EBRD Agreement requires that the Bank achieve a 60:40 ratio (the so-called “portfolio ratio”) in its private-public sector activities, both globally and in individual countries.

The global portfolio ratio was broadly satisfied in 1996 with 66 per cent of the Bank’s total commitments linked to private sector activities. Progress in reaching the individual country ratios was mixed. It was reached in only nine of the Bank’s 26 countries of operation at the end of 1996. Three countries (Armenia, Azerbaijan and Bosnia-Herzegovina) have had no private sector commitments to date.

The deadline for meeting the portfolio ratio requirement in individual countries of operation (i.e. the fifth anniversary of the approval of the Bank’s first operation in that country) is nearing in a number of countries. The shortfall has been most evident in lower transition economies where the Bank has often been active in developing public infrastructure critical to the development of a strong private sector. Many lower and intermediate transition economies still have relatively small and immature private sectors.

Nevertheless, the portfolio ratio has also been problematic in a number of high transition economies where the private sector is dominated by companies which are often too small to be the focus of direct EBRD operations. In some cases, the Bank is reaching out to SMEs through a wholesale approach involving support for local financial intermediaries which then on-lend to companies too small to be considered for direct EBRD operations. The Bank’s challenge remains to expand and broaden its support for private sector operations.

Portfolio Ratio* – 1996

*Portfolio ratio is the private sector share of all cumulative commitments at the end of 1996.

Disclosure of Information

A more open policy on public disclosure of information was approved by directors in April 1996 and became effective in September. Canada has been a strong supporter of this initiative. The Bank's disclosure policy mirrors that of the World Bank in its public sector activities and the International Finance Corporation in its private sector activities. The EBRD now issues information about its public and private sector projects through project summary documents (PSDs). These are usually made available at least 30 days before the project's consideration by the Board of Directors, unless there are sound commercial reasons for confidentiality. PSDs are available from the EBRD's Publications Desk and are posted on the Bank's Web site (<http://www.ebrd.com>).

Information on Procurement Data

At the last annual meeting of the EBRD Board of Governors, Secretary of State Doug Peters asked the Bank to gather more comprehensive information and report regularly on procurement activities. After the Sofia meeting, the EBRD issued an informal report on procurement activities related to its public sector operations. The Canadian government is continuing to press the Bank to develop and provide better procurement information on its public and private sector projects. It is also encouraging Canadian companies to bid on EBRD projects and, through its Director's office, is trying to provide maximum support to Canadian suppliers and consultants.

TRANSITIONAL IMPACT OF THE BANK'S OPERATIONS

Each year, the Bank publishes a detailed *Transition Report* which reviews the process of transition in each of its countries of operation. The Report's key summary statistics are provided in Table 1. The Report shows that the legacies of central planning are not quickly overcome. Key tasks such as price and trade liberalization and the privatization of small-scale enterprises have been undertaken relatively quickly, but more lengthy and complex processes such as enterprise restructuring, the rehabilitation of infrastructure, and the building of strong financial and legal institutions are only now being addressed.

With more than five years' experience in many countries, the process of transition is now better understood. Most of the Commonwealth of Independent States, Romania and Albania have made substantial advances in the privatization of large state-owned enterprises. The preferred method of privatization in most countries has been a "mass" transfer of ownership.

In contrast, financial sector reform continues to lag behind price and trade liberalization and privatization. Moreover, Bulgaria, the Czech Republic, Kyrgyzstan, Latvia, Lithuania and Russia have witnessed a new spate of banking troubles over the past year.

The countries most advanced in market-oriented transition, notably the Czech Republic, Estonia and Hungary, have begun to privatize major utilities and transport. Hungary has achieved the most comprehensive privatization of utilities and been the most ambitious in introducing private sector finance and risk-taking in road construction.

Table 1

Progress in Transition in Central and Eastern Europe and the Former Soviet Union

Countries	Private sector share of GDP (%)	Enterprises			Markets and Trade			Financial Institutions		Legal Reform
		Large-scale privatization	Small-scale privatization	Enterprise restructuring	Price liberalization	Trade and foreign exchange system	Competition policy	Banking reform & interest rate liberalization	Securities markets & non-bank financial institutions	Extensiveness & effectiveness of legal rules on investment
Albania	75	2	4	2	3	4	2	2	2	3
Armenia	50	3	3	2	3	4	1	2	1	3
Azerbaijan	25	1	2	2	3	2	1	2	1	2
Belarus	15	1	2	2	3	2	2	1	2	1
Bulgaria	45	2	3	2	2	4	2	2	2	4
Croatia	50	3	4 ⁺	3	3	4	2	3	2	4
Czech Republic	75	4	4 ⁺	3	3	4 ⁺	3	3	3	4
Estonia	70	4	4 ⁺	3	3	4	3	3	2	4
FYR Macedonia	50	3	4	2	3	4	1	3	1	3
Georgia	50	3	4	2	3	3	2	2	1	2
Hungary	70	4	4 ⁺	3	3	4 ⁺	3	3	3	4
Kazakstan	40	3	3	2	3	4	2	2	2	2
Kyrgyzstan	50	3	4	2	3	4	2	2	2	2
Latvia	60	3	4	3	3	4	2	3	2	4
Lithuania	65	3	4	3	3	4	2	3	2	2
Moldova	40	3	3	2	3	4	2	2	2	3
Poland	60	3	4 ⁺	3	3	4 ⁺	3	3	3	4
Romania	60	3	3	2	3	3	1	3	2	3
Russian Federation	60	3	4	2	3	4	2	2	3	3
Slovak Republic	70	3	4 ⁺	3	3	4 ⁺	3	3	3	3
Slovenia	45	3	4 ⁺	3	3	4 ⁺	2	3	3	3
Tajikistan	20	2	2	1	3	2	1	1	1	2
Turkmenistan	20	1	1	1	2	1	1	1	1	1
Ukraine	40	2	3	2	3	3	2	2	2	3
Uzbekistan	40	3	3	2	3	2	2	2	2	3

Source: *Transition Report* (EBRD, November 1996).

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. Most advanced industrial economies would qualify for the 4⁺ rating for almost all the transition indicators.

POLITICAL ASPECTS OF THE BANK'S MANDATE

The Bank's Articles of Agreement link the successful transition of member countries to market-oriented economies with progress toward democracy and the rule of law. This is a key part of the Bank's mandate.

The Bank takes its political mandate seriously. For each country of operation, the Bank examines the political situation, relying on a team of counsellors who specialize in political analysis. These individuals work closely with the Council of Europe, the Organization for Security and Co-operation in Europe (OSCE) and the United Nations to reach their political assessments. During their examination of the Bank's "country strategies", the Board of Directors discusses appropriate follow-up activities in light of these evaluations. In certain cases, the Board has considered progress inadequate and has asked the President to convey formally its concerns to the national authorities.

The Bank has not yet faced a situation where the Board has decided to suspend operations on political grounds. However, in at least one case, the Bank has elaborated an operational strategy that foresees a scaling back of operations in response to a weakening of a government's commitment to market reform and multiparty democracy. Under such a strategy, the Bank ultimately would no longer fund public sector projects and would limit its activities only to those private sector projects which could be insulated from interventionist government policies.

ENVIRONMENTAL ASPECTS OF THE BANK'S MANDATE

The Bank is directed by its statutes to "promote in the full range of its activities environmentally sound and sustainable development". In recent years, the Bank has focused particular attention on environmental infrastructure and energy-saving projects.

The EBRD applies environmental due diligence to all of its investment and technical co-operation operations. Environmental due diligence requirements vary depending on the nature and location of the project, the potential environmental liabilities or risks associated with past, current or future operations, worker health and safety considerations, and other issues. Investigations are normally undertaken early in the operation cycle in order to allow time to identify environmental concerns, plan mitigation and enhancement measures, and obtain agreement on actions to be taken prior to Board approval. Environmental conditions, relating to mitigation and enhancement measures and project monitoring, are incorporated into loan agreements.

More than 50 environmental analyses, including five environmental impact assessments and 25 environmental audits, were conducted on projects approved by the Board of Directors in 1996. In some cases, analyses and audits were both required.

Revised Environmental Policy and Procedures

In September, the Board of Directors approved revisions to the EBRD's environmental policies and procedures. These revisions now require that the EBRD ensure that its borrowers fully consult with communities and organizations potentially affected by their proposed operations. Environmental action plans have been made part of the Bank's formal environmental procedures.

Furthermore, EBRD operations are now required to meet the more stringent of national and existing European Union (EU) environmental standards. In cases where there are no applicable EU standards, Bank operations will be structured to meet the more stringent of national or World Bank environmental standards. If such standards cannot be met at the time of Board of Directors' approval, the operation will include a program for achieving compliance. Where alternative approaches may be necessary, such as with operations involving financial intermediaries, these approaches will be subject to Board of Directors' consideration on a project-by-project basis.

The EBRD's new Municipal and Environmental Infrastructure Team completed its first full year of operations in 1996. During the year, commitments in this sector more than doubled to ECU 192 million (C\$326 million), supporting projects involving total investments in excess of ECU 500 million (C\$850 million). Countries at more advanced stages of transition, especially those seeking accession to the European Union, are now channelling more resources into investments to improve environmental conditions. In addition, increased attention is being given to improving the provision of essential municipal services, such as district heating, water supply and urban transport, as the availability and quality of these services are critical to underpinning economic development.

In 1996, the EBRD continued to focus on the upgrading of power systems, with the introduction of more efficient technology, the reduction of transmission and distribution losses, and the completion of more conventional power plants. Energy efficiency is of crucial importance to the transition

process in virtually every country of operation. From both an economic and environmental perspective, investments in energy efficiency are the most urgent priority in the energy sectors of these countries. The role of the EBRD's Energy Efficiency Team, established in 1995, is to identify and develop energy-saving projects to help advance the process of economic transition. Despite the importance of improving energy efficiency, many companies, institutions and governments remain unwilling or unable to commit significant resources to projects in this area.

The Energy Efficiency Team has developed commercial mechanisms for implementing energy-saving projects, thus eliminating the need for sovereign credits. Among the most important of these are the energy service companies (ESCOs), which combine technical and financial resources to provide a complete energy efficiency service to their clients. The ESCOs make energy-saving investments in their clients' premises and are repaid from the realized energy savings. In 1996, the EBRD signed multiproject facilities (MPFs) for two major ESCO investment programs, one of ECU 70 million (C\$119 million) with Landis & Gyr (L&G), and the other of ECU 41 million (C\$70 million) with Compagnie Générale de Chauffe (CGC). These represent the first major investment programs in ESCOs in the Bank's countries of operation.

The EBRD and Nuclear Safety

Canada and other G-7 countries have been working closely with the EBRD to improve nuclear safety in Central and Eastern European countries and the former Soviet Union. To facilitate this work, Canada has generously contributed to the Nuclear Safety Account (NSA) which the EBRD administers on behalf of the G-7 countries and other contributors. The NSA is used primarily for making essential safety improvements to older generation Soviet-built reactors as part of a comprehensive program for their early decommissioning.

Canada also supports the use of the EBRD's own resources to bring partly-completed Soviet-designed nuclear power plants up to Western safety standards. The EBRD applies strict conditions to this support. The completion of these plants must be part of a "least cost" solution to the country's future electricity requirements; the completed plants must fully comply with Western nuclear safety standards; and any resulting increase in nuclear power in upgraded facilities must be offset by the closure of other unsafe nuclear plants.

MANAGING CANADA'S INTERESTS

The highest authority in the Bank is the Board of Governors. Member countries are represented by a Governor and an Alternate Governor. The Honourable Paul Martin, Minister of Finance, is the Canadian Governor and Mr. Gordon Smith, Deputy Minister of Foreign Affairs, is the Alternate Governor.

The Board of Directors is responsible for the general operations of the Bank. The Board 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's constituency in the Bank also includes Morocco. The Canadian Director is Mr. John Coleman.

Within the Canadian government, responsibility for oversight of the EBRD's activities resides with the International Finance and Economic Analysis Division of the Department of Finance. In consultation with the Department of Foreign Affairs and International Trade, the Department of Finance regularly reviews the Bank's policy papers and proposed country programs and provides advice to the Canadian Director.

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 without a formal vote. Nevertheless, the Canadian Director formally opposed the Staff Compensation and Benefits Proposals in November 1996. The package assumed a real increase in staff salaries which was inconsistent with the message of restraint which multilateral institutions should be trying to convey in their countries of operation and was unjustifiable in comparison with member country government salaries.

On June 1, the Board of Directors instituted cost-cutting measures that saw the elimination of EBRD funding for one position in each of the directors' offices. In the case of the Canadian office, the position of Alternate Director is no longer funded by the Bank. To help the office cope with its growing workload (which includes assisting Canadian companies to pursue opportunities with the EBRD), the Department of Foreign Affairs and International Trade and the Canadian International Development Agency provided funding, on a two-year trial basis, for an Assistant's position. On September 9, John Kur joined the office under this arrangement. In November, Tom MacDonald was appointed "non-resident" Alternate Director.

Mr. MacDonald is Minister (Economic/Commercial) in the Canadian High Commission in London and will represent Canada at EBRD Board meetings when the Canadian Director is unable to attend.

From January until September, the Canadian Director was an active participant in the Board of Directors' Audit Committee which examines the Bank's financial and project evaluation reports. From September, he chaired the Board's Financial and Operations Policies Committee which prepares advice for the Board of Directors on most of the key policy issues facing the Bank. This committee was instrumental in developing the Bank's graduation policy which was approved by the Board in November.

Canada has continued to advocate increased EBRD activity in Ukraine and other countries in lower or intermediate stages of transition. Canada has supported the development within the Bank of a "wholesale" approach to activities under which the Bank channels financing to SMEs through lines of credit or equity investments in local banks and other financial intermediaries in its countries of operation.

Canada has also argued that the Bank cannot relax its efforts to expand private sector operations. The Canadian Director has frequently spoken to the Board about the need to achieve a 60:40 portfolio ratio in its activities in all countries of operation.

With respect to its own contributions to the EBRD, Canada played a leading role in securing an agreement in April 1996 to double the Bank's authorized capital. Following this agreement, Canada was one of the first shareholders to deposit its instrument of subscription. On the financial side, Canada actively promoted reductions in the cost of the Board of Directors and adoption of zero real growth budgets for 1996 and 1997.

Promoting Canada's Interests

Members of the Canadian office made five visits to Canada in 1996 to meet with business people, conduct seminars, speak at conferences and consult with government officials. In addition, the Director's Assistants accompanied Canadian trade delegations to Poland, Russia and Ukraine. The Director and Alternate Director also visited several of the Bank's countries of operation (Belarus, Bulgaria, the Czech Republic, Croatia, Poland and Russia) to further Canadian business interests in the region.

In addition, EBRD Vice-President Ron Freeman, together with John Coleman, Director for Canada, visited Montreal and Toronto in October. During their visit, they met with members of the Montreal and Toronto Chambers of Commerce and other business groups.

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³ Responsible for business development and investor liaison.

Canadian Commercial Activity at the EBRD

The EBRD offers a wide variety of opportunities for Canadian businesses. One of the tasks of the Canadian office is to make Canadian business people aware of these opportunities, explain how the Bank's financing and contracting works, and ensure that the Bank's stringent procurement policies and rules are upheld in its operations.

A growing area of opportunity is the Bank's private sector financing operations. There are currently a substantial number of projects involving Canadian companies that are making their way through the Bank's pipeline. Most of these are in areas of traditional Canadian strength – e.g., oil and gas, mining, telecommunications, infrastructure development and investment finance. Following its strong 1995 performance, Canadian companies were involved in one private sector deal in 1996.

- The EBRD approved a US\$10 million (C\$13 million) private sector loan and a US\$7.7 million (C\$11 million) equity financing for AO Buryatzoloto, a private Russian company with significant Canadian equity participation.

Canada has continued its strong track record in consultancy services. In 1996, the following contract was awarded to a Canadian company under an EBRD public sector project in Romania.

- Teleconsult Ltd. won a contract to provide Rom Telecom with C\$80 thousand in consultancy services.

Last year, in addition to the Teleconsult Ltd. award, Canadian consultants won consultancy contracts worth more than C\$1 million (about \$450,000 in contracts associated with EBRD private sector projects and \$650,000 in technical co-operation contracts associated with public sector projects).

Canadians are also well represented on the EBRD staff. At the end of 1996, Canadians accounted for 4.8 per cent of the Bank's professional positions, well above Canada's 3.4 per cent share of the institution's capital. It is noteworthy that Canadians lead the country teams for Hungary and the Baltics/Belarus and head the Bank's resident offices in Bratislava, Kiev, Minsk, Moscow and Sofia.

CHALLENGES AHEAD

The doubling of the EBRD's capital is expected to permit the institution to become commercially self-sustaining. EBRD management has assured shareholders that, with appropriate risk management policies, no further capital increases should be necessary. However, the Bank is not expected to reach its reserve target of 10 per cent for disbursed loans and 25 per cent for disbursed equity investments until around the year 2001. The challenge for the institution is to achieve, as quickly as possible, the reserve levels necessary to assure self-sustainability while at the same time expanding its operations in higher-risk transition economies.

The EBRD's newly adopted graduation policy is important to ensure that there will be sufficient resources for lower and intermediate transition economies. Governments in advanced countries can often borrow at lower rates than EBRD's sovereign lending rate which is a standard 100 basis points over interbank rates in the London market – i.e. the London Interbank Offered Rate (LIBOR). Thus, the EBRD is no longer being called upon to finance public sector infrastructure projects in many advanced countries. In these countries, the EBRD is now shifting its attention to the restructuring of higher-risk locally owned private enterprises. In addition, in virtually all countries of operation, the EBRD will need to continue to develop relationships with local financial institutions to on-lend in support of SMEs and will need to continue its efforts to attract greater commercial co-financing.

In conclusion, the Bank has now emerged as an important force promoting transition in Central and Eastern Europe and the countries of the former Soviet Union. In the coming years, the demand for its expertise and resources can be expected to continue to increase. In meeting this demand, the EBRD will need to ensure that its operations continue to satisfy the principles of sound banking, that its resources do not substitute for other available financing (i.e. are additional) and that it continues to intensify the process of transition.

For More Information on the EBRD

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

Requests for information can be addressed to:

Publications Desk

European Bank for Reconstruction and Development

One Exchange Square, London EC2A 2EH, United Kingdom

(Fax: 44-171-338-7544)

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

Ordinary Capital Resources

At the end of 1996, the total authorized capital of the Bank was ECU 10 billion (about C\$17 billion)¹. Canada has subscribed to 3.4 per cent – or ECU 340 million (about C\$578 million) – of the Bank's authorized capital². Contributions are made in either ECU, US dollars or Japanese yen. Canada's contribution was made in US dollars as shown in the Table below. Thirty per cent of this amount represents paid-in capital which is provided in equal annual instalments over five years, half in cash and half in promissory notes. While this represents a non-budgetary expenditure, it does increase the government's borrowing requirements. The remaining 70 per cent of authorized capital is "callable" – i.e. subject to call in the unlikely event that it is required to meet the Bank's financial obligations to bondholders. At the end of 1996, Canada had made the following payments in US dollars:

Year	Notes	Cash	Encashment of notes	Total cash outlay
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
Total	59,517,510	59,517,510	55,549,676	115,067,186

Payments associated with the recent capital increase will come due in 1998.

¹ The recent capital increase will not become effective until ratified by 50 per cent of members.

² This has a value of US\$396,783,400 at the agreed exchange rate of ECU1 = US\$1.16701.

Market Borrowings

The Bank borrowed new funds equivalent to ECU 1.1 billion (C\$1.9 billion) on international capital markets in 1996. Funds were swapped into floating rate instruments, primarily in US dollars, ECU and deutsche marks.

At the end of 1996, cumulative borrowings by the Bank totalled ECU 5.6 billion (C\$9.5 billion) with an average maturity period of 5.2 years at an average cost of funds of LIBOR minus 37 basis points.

Standard & Poor's has assigned the Bank an AAA long-term and A-1+ short-term credit rating. Moody's has similarly rated the EBRD long-term bonds AAA.

Special Operations

The EBRD administers a number of bilateral and multilateral concessional funds. Canada has contributed to the following Special Funds:

The Canada Technical Co-operation Fund – The main purpose of this fund is to provide financing to hire Canadian consultants for EBRD projects. Canada has contributed C\$5.8 million since it was established in 1992.

Nuclear Safety Account (NSA) – This facility was established to help finance the closure of the Chernobyl nuclear power plant and to improve safety conditions at nuclear power plants in countries of operation. The NSA functions in parallel with multilateral efforts to achieve broader energy sector reform in the region. Canada has contributed C\$19.5 million to the total fund of C\$438 million. The NSA was established in 1993.

Russia Small Business Fund (RSBF) – The purpose of this fund is to establish a facility for small business financing in Russia. Canada has contributed C\$3.9 million toward the C\$255 million fund. The RSBF was established in 1993.

ANNEX 2

Contracts Awarded to Firms Located in Canada¹

Award date	Company	Project country	Project name	Contract type	Value (ECU)
14 Sep 93	Harbison Fisher Canada Ltd.	Romania	Petroleum Pilot Modernization Project	Goods	1,634,307
26 Apr 94	Teleglobe CANTAT 3 Inc.	Ukraine	ITUR	Supply & Installation	190,402
25 Nov 94	Sumitomo Canada Ltd.	Russian Federation	Western Siberia Oil & Gas Rehabilitation Project	Goods	420,892
18 May 95	EXFO Electro-Optical Engineering Inc.	Slovak Republic	Slovak Telecom Project	Goods	356,312
5 Jul 95	Legrand International Ltd.	Russian Federation	Western Siberia Oil & Gas Rehabilitation Project	Goods	149,544
20 Oct 95	Pavement Management Systems Ltd.	Romania	European Roads Rehabilitation Project	Goods	148,920
17 Oct 96	Teleconsult Ltd.	Romania	Rom Telecom	Consultant Services	46,315
Total					2,946,692

Contracts Awarded to Canadian Firms Located Abroad²

Award date	Company	Project country	Project name	Contract type	Value (ECU)
1 Jul 93	Nortel Ltd. (U.K.) and Pirelli Construction Co. Ltd.	Bulgaria	Bulgaria Telecom	Supply & Installation	8,004,748
31 Mar 95	Nortel Ltd. (.UK.)	Ukraine	Ukraine ITUR	Supply & Installation	11,349,564
31 Mar 95	Nortel Ltd. (U.K.)	Ukraine	Ukraine ITUR	Supply	9,051,043
Total					28,405,355

¹ Contracts in public sector projects between January 1, 1993 and December 31, 1996.

² This is a non-exhaustive list, as there may be other EBRD-financed contracts or subcontracts awarded to Canadian firms located abroad.

ANNEX 3

How to Do Business with the EBRD

General inquiries about working with the EBRD should be directed to the Office of the Director for Canada or to the Bank's Communications Department in London (tel: 44-171-338-6096; fax: 44-171-448-6690).

Canadian Project Sponsors: Canadian companies interested in potentially sponsoring a project with the EBRD are requested to direct initial inquiries either to Project Inquiries (tel: 44-171-338-6282 or 44-171-338-6252; fax: 44-171-338-6102) in London or to the Bank's Resident Office in the country of operation. Summaries of EBRD private sector operations can be obtained on the Bank's Internet site: <http://www.ebrd.com>.

Canadian Suppliers of Goods and Works: In its monthly newsletter, *Procurement Opportunities*, 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 and co-financing notices and contract awards information is also published in the newsletter. *Procurement Opportunities* can be accessed on the Bank's Internet site (as addressed above), and a hard copy subscription can be obtained for £85 from:

EBRD Subscription Department (Procurement Opportunities)
82-84 Peckham Rye
London SE15 4HB
United Kingdom
Tel: 44-171-639-0333
Fax: 44-171-358-9568

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

DACON Information Centre
World Bank
1818 H Street
Washington, D.C. 20433 U.S.A.

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

Mr. Ernst Mahel, Senior Recruitment Advisor
Personnel Department
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2EH
United Kingdom

ANNEX 4**EBRD Membership – As at December 31, 1996**

	Share of the bank's capital (%)		Share of the bank's capital (%)
European Members		Countries of Operation	
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-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 of Macedonia	0.07
Israel	0.65	Georgia	0.10
Italy	8.52	Hungary	0.79
Liechtenstein	0.02	Kazakstan	0.23
Luxembourg	0.20	Kyrgyzstan	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	Russian Federation	4.00
Switzerland	2.28	Slovak Republic	0.43
Turkey	1.15	Slovenia	0.21
United Kingdom	8.52	Tajikistan	0.10
European Community	3.00	Turkmenistan	0.01
European Investment Bank	3.00	Ukraine	0.80
		Uzbekistan	0.21
Non-European Members			
Australia	1.00		
Canada	3.40		
Egypt	0.10		
Japan	8.52		
Korea	0.65		
Mexico	0.30		
Morocco	0.10		
New Zealand	0.10		
United States	10.00		