

**OPENING STATEMENT BY
THE PRESIDENT OF THE
EUROPEAN BANK FOR
RECONSTRUCTION AND
DEVELOPMENT**

**Opening Statement
Annual Meeting of the Board of Governors**

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President, Madame Prime Minister, Governors,

Welcome to the Annual Meeting of the EBRD, and welcome to Ukraine, which is host to our Meeting for the second time.

You, President Yushchenko, and the former prime minister, Mr. Yanukovich who is also here today, extended this invitation to hold the 2008 Meeting here, and the Board of the Bank enthusiastically accepted.

Ukraine is a great symbol of our region.

Many of us will compare what surrounds us today with just ten years ago when the Bank held its first Annual Meeting in Kiev.

Of course, the most profound difference is that there has been a peaceful revolution.

Some of the greatest proponents of democracy are here today, President Yushchenko and Prime Minister Tymoshenko.

We salute you for what you have done for your country and for the region. Ukraine today is a model of a market economy based on democratic process. And we thank you for welcoming us to Ukraine.

I would like to also make a special mention of President Kwasniewski who is here today and who is a figure of leadership well beyond Poland.

Wherever I go in Ukraine, I meet people with hopes and ambitions, and a sense that this country is making progress.

It seems a long time ago and a long distance covered in these 10 years.

Normally, I am not inclined to look back and dwell on the past.

But maybe today, under the circumstances – my personal circumstances -- you will forgive me.

And maybe you will understand that I shall look back about eight years...

When I became President of the Bank in 2000, it was a very different region.

After the collapse of communism, the countries were still reeling from the financial collapse of 1998.

It was a terrible time of poverty, corruption, and pessimism about life in a free market economy.

Many enterprises faced difficulties or bankruptcy.

The Bank proved it was a committed, long-term partner to its clients.

And it proved that it was creative in finding solutions – market solutions - for example using trade as a tool to re-build economies.

The Bank invented the Trade Facilitation Programme, financing thousands of companies to export their goods to new markets and opening up linkages across borders.

Now the region is very different.

There is a solid private sector in most countries.

There is much cross-border trade. And the EBRD is helping to increase cross-border investment.

A few years ago, foreign direct investment meant ‘Western investors’. Today we see much more investment between neighbouring countries within the region. And the Bank is now financing many domestic investors without any foreign partners.

That transformation has been accelerated for some countries by accession to the European Union, and for others, like Ukraine, transition is reinforced by membership in the World Trade Organisation.

A new middle class is emerging, and with that comes more ambition, and appetite for economic and political freedom.

Prospects are positive.

But of course, there must be a note of caution.

Financial markets around the world have been turbulent for months now, and there are risks even for this region, where economies are still strong and growing.

We are seeing more reluctance and tighter capital. Investors are hesitating.

Once again, difficult times are a reminder of the need for the EBRD as a committed investor, with high standards, even during turbulence.

As you know, transition is a bumpy road. There are many detractors and frequent setbacks. It takes hardship, and destruction of old systems in order to make the transition to new, sustainable economic and political systems.

But the Bank knows this, because its only job is to help countries through transition.

I have huge respect for the leaders of the region who are guiding the transition.

They must meet the expectations of the people. They have to promote reforms. Our duty is to support them by delivering concrete progress – transportation, electricity, drinking water and, above all, jobs... competitive jobs.

We can deliver best by understanding the needs of the people in the countries through intense dialogue with policymakers and close contact with clients.

This is how we work. But we sensed that we could push even further to challenge our perceptions by asking people in the region how they see transition.

In one of its most important pieces of research, the Bank conducted a major survey of people in all the countries.

Their views – that mainly show the values of an emerging middle class -- are important for guiding the Bank. And for policymakers and investors.

There are many ways to challenge our thinking and to draw on the vitality of the people who are living transition...

Through the kind of inspiring discussion with students I met at Shevchenko University in Kiev, or a year ago at Kazan University...

And we are wiser by reading the perceptions of bright writers from the region who have written essays about what transition has really meant to people's lives.

The EBRD is publishing their stories in a book edited by the Ukrainian author Andrey Kurkov.

And the modern Ukrainian artists who will perform at our closing reception tomorrow will also tell us something about their country's future.

Over the Bank's 17 years, we have listened a lot, and we have learned some lessons about how to deliver.

The first lesson is that *the model works and Bank is good at finding private sector solutions.*

The EBRD was founded as the bank of entrepreneurship.

In its first phase, the Bank's main approach was to privatize state enterprises.

Then the focus was on developing the private sector through foreign investment in companies, and later through regional and domestic investors.

And the Bank helped to build the private sector from the bottom-up, by financing local banks to on-lend to small businesses. Today, the EBRD has financed more than 3 million small and medium businesses, along with help from donors.

The Bank has commercialized traditional state responsibilities such as infrastructure, energy and municipal services... because market solutions make the most sustainable solutions. This Bank is an engine for entrepreneurship.

The second lesson we have learned is: *Progress is transferable.*

The most advanced countries of the region, the EU-8 will graduate from the EBRD in the next two years. And we are proud that the Czech Republic was able to graduate last year.

The early transition countries are creatively adopting some of the same methods of transition, to good effect. The EBRD has a crucial role in transferring that experience and knowledge from the most- to the least-advanced countries.

And we have learned another lesson: that *the Bank is best when it is innovative.* I can give you some examples.

- The most effective way to address global warming in the region was to make the business case for efficiency.

The EBRD now has extensive investment in energy efficiency – cutting the soviet-era waste in factories, businesses and homes.

- In the same way, the EBRD has helped make environmental protection and industrial safety part of the corporate culture of its clients, and part of their balance sheets.
- Food price inflation and food shortages are a problem for the region. But the region can also be part of the solution.
The Bank gathered policymakers and industry leaders together to find ways to put more land into efficient production. Since the soviet collapse, 20 million hectares of arable land are out of production and could be developed.

We can draw a final lesson from the past: *The EBRD works well in partnership.*

Partnerships with private sector companies and banks underpin all the work of the EBRD. That is why so many colleagues are based in countries of operation, close to their clients and policymakers.

And the Bank has strong partners among other multilateral bodies, who can benefit from our private sector expertise and deep knowledge of the region. The partnership that has grown between the EBRD and the EIB has brought huge value to the region because we complement each other's very different approaches.

The Management of the Bank focuses a lot on the new directions the EBRD could take to -- even better -- support countries in transition.

Indeed, it is our job to lead, to encourage innovation, best practice and the most sustainable approaches to transition.

We are not an institution that is in the business of giving advice, but just on this occasion I can offer some advice on a few areas that could be pursued.

Women, for example. There are many talented women on staff, and the Bank has a strong record of naming excellent women to sit on boards where we have equity stakes.

And the Bank supports women entrepreneurs through our small business and business assistance programmes.

But the Bank and the region can only benefit from finding new ways to encourage women into leadership roles in business.

Gender equality is a good example of how transition can often take societies backward before making progress for the future.

In the Bank, we have probably not thought enough about *new technologies*.

This emerged in the scenario planning that we conducted over the past two annual meetings with you – where participants set the need for investment and policies for hi-tech much higher than the Bank has.

The EBRD has supported *financial markets* in the region by lending in local currencies.

But with the support of governments, we can do much more to mobilize existing liquidity in order to use domestic currency to fund the massive investment needs in the private and public sectors.

Because we are in Kiev, I can confirm that the EBRD is willing to issue bonds in hryvnia and the same should be done in many countries.

But probably the most important advice for the Bank is to *never lose sight of the mandate*.

Our mission is to support transition to a market economy -- building competition, strong governance and a private sector that will be more efficient and sustainable than state enterprise.

The EBRD must encourage competitive banks and promote new industries.

And it must support the use of market solutions in the traditional state interests such as infrastructure and municipalities... always based on high standards of transparency and governance.

Excellent governance is all the more important as companies and funds from the region start investing internationally.

These are all matters for my successor.

Tomorrow, Governors, you will name a new President of the EBRD, someone who is respected and experienced, and someone I know will put all his energy and commitment into the management of this great institution.

He will face a period when there is risk of volatility that threatens the reforms that have already been achieved.

Inflation and economies are volatile in some countries and the results of the Bank always depend on the volatility of capital markets.

The new President undertakes a very great challenge: that of managing the success of the Bank.

Again in 2007, the EBRD did a record number of projects right across the region.

There was more transition impact; higher business volume than ever before; and once again the Bank reported strong profits.

The Bank is successful because it listens to people.

Bank staff are in constant contact with their clients and partners. Policy dialogue at all levels in all our countries of operation, drives our thinking and brings new perspectives.

Our shareholders and donors are not only a source of money and guardian of governance, but they feed ideas and help set the Bank's priorities.

There is a productive permanent dialogue with NGOs who have done a lot to help steer the Bank's investments and thinking. They watch our record on the environment, and with them we closely monitor progress on democracy and transparency in the region.

I am sure they agree that it was a positive signal when the inaugural statement of President Medvedev opened by calling human rights and civil and economic liberties the highest values of Russian society.

All of these elements make the EBRD a strong institution and drive success.

But with success and strength comes fragility. It is one of the paradoxes of the EBRD.

The EBRD is European in its scope of operations and much of its shareholding. But it is a fundamentally multilateral and is a far better institution because of its Japanese, American, Canadian, Korean and many other non-European shareholders.

The countries where the EBRD invests are also shareholders who vote on the investments and participate in setting the Bank's strategy. This is very important in the governance of the institution.

The Bank is profoundly entrepreneurial. It uses the tools of banking and operates in the private sector. Yet it is a public sector institution, motivated by public service - but that makes profits.

The paradox of the EBRD is most evident in the profits.

Governors, you will decide here the best use of the profits.

In order to ensure that the Bank can sustain a steady pace of activity, 80 percent of the '07 profits should be allocated to reserves, with a clear framework for use of the capital.

The Board of Directors set out a clear map to sustain the momentum of investment activity, within a framework that protects the Bank's capital past 2010 when the next review of resources will take place.

Beyond that, you have received a recommendation to put 10 percent of the profits in a Shareholder Special Fund to create a new technical cooperation account within the Bank, complementing funding from donors.

And the other 10 percent of the '07 profits will – by proposal of the Board of Directors – be contributed towards the people of the region by making a donation to the international effort for nuclear safety.

Rather than pay a dividend, Directors agreed to support the region in a way that is outside the Bank's normal scope of investment activity.

So 135 million euros will be donated to the Chernobyl nuclear safety account to clean up the world's worst nuclear accident.

Your decisions on the use of the profits and the effective use of the capital are the starting point for a strong future for the Bank.

That will be a matter for the coming months and years.

You can be assured, Governors, that that you have one important asset in contemplating a strong future for the Bank: a staff that is expert and dedicated.

Our colleagues know the region, know their clients, and use their skills and sensitivity to keep adapting. This certainly positions the Bank well for the future.

Countries across the region are making more and more progress towards transition, and this, too, strengthens the Bank itself.

As discussions through this past year have shown, countries of operation have developed a strong sense of how the Bank can help them.

They are clear about their wish to see the EBRD continue to adapt and re-focus so that it can continue to address a transition mandate that they see as far from over.

That mandate would certainly be reinforced by a warm welcome from shareholders for the prospect of Turkey becoming a country of operation.

This would, of course, support Turkey to develop its private sector, applying the proven EBRD model in the only remaining country in the Bank's geographical scope of Europe.

And in the context of the graduation of other countries, Turkey would reinforce the Bank for the longer term.

I have always been careful about mentioning the ‘longer term’ because it brings an immediate reaction from journalists.

The media does a lot for the EBRD by watching the Bank and reporting and helping to shape thinking. And it is journalists who do so much to promote progress in the region.

But at the mention of ‘longer term’, they immediately ask the question how long the EBRD will exist.

I don’t know.

But I do know that there are many countries that still have much progress to make in transition, and they need and want the Bank’s support.

I do know that the Bank has drawn on its widely respected success to take risks, be innovative and find new ways to fulfil its mission to help the people of the region.

And I do know that such results can be achieved because it has such fine governance.

I am grateful to have served a Board that is permanently present, that is focused only on the Bank’s work, and that brings together the countries of operation with the donor shareholders around the same board table.

That makes for a Board with a fundamental respect and understanding for the needs of the region – and that drives good decisions.

The answer to how long the Bank will be needed will come, I hope, from the people of the region themselves...

...From leaders, like those in Ukraine who have struggled with such devotion to make their democracy, and their economy work;

and other leaders in many parts of the region – from the new EU members to Kazakhstan and Mongolia -- who try to set the examples of transition.

And from many people who have faced terrible hardship as they try to build a better life for their children.

These are the people who will know when their transition is complete and the Bank is no longer needed.

I hope that time is soon.

But I know there is much to do and a great institution to help speed the progress – that is, the EBRD.

Thank you.