

AUSTRALIA & NEW ZEALAND

AGM 2008

Mr President, Governors, Ladies and Gentlemen

It is my honour to speak on behalf of Australia and New Zealand. We thank the Government and people of Ukraine for their hospitality in hosting this meeting. We have strongly supported the EBRD's engagement in Ukraine, and we are pleased that the bank is able to hold its AGM here for the second time.

We congratulate the outgoing President Jean Lemierre on his achievements during his term and we wish him well in his future endeavours. We will offer his successor the same assurances of support.

The global financial crisis

This AGM convenes at a time of considerable financial uncertainty, perhaps even more so in the US and the UK than here in the Ukraine or other EBRD countries of operation. It is nonetheless a cause for concern to many of the EBRD's clients. In this uncertain climate, it is important that the bank's operations remain consistent with its mandate.

There is no question that raising capital today is more difficult than in previous years. However, providing liquidity is the job of a central bank, and not the job of a structural or transition bank like the EBRD. It was never the intention of the creators of the EBRD that it should become a lender of last resort in a generalised liquidity crisis.

We think the EBRD is best placed to assist countries in the context of the current financial turbulence by continuing to provide assistance to clients to establish functional domestic financial markets within modern regulatory arrangements. It should not be distracted from its central task by claims that it should now undertake a new role in the current crisis, and we should remember that the Bank has been most successful as an institution that supports and promotes transition.

Net income allocation

In 2007, the Bank has again delivered a considerable profit outcome. We thank the staff of the Bank for their efforts in achieving this strong result. For the second year in a row, significant profits have required the Bank to consider an allocation pursuant to the Agreement. We welcome the fact that the Executive Board responded to our call in last year's statement, and has actively engaged a more full examination of the issues and options.

We would like to comment on a number of issues surrounding the decision-making process, and the nature of the projects to which the funds are to be allocated.

The allocation of funds from the Strategic Reserve

The funds proposed to be allocated to the strategic reserve are in excess of the bank's requirements. They are truly surplus and described as such in EBRD Board documents. They are not needed to support the bank's intended activities for the next 2 years and so are to be allocated to a new Strategic Reserve (SR) in case the shareholders decide to utilise the funds in the decisions they take in the capital resources review (CRR4) for the period 2011 to 2015. They are the funds of shareholders, and under the Agreement can be returned to shareholders on a simple majority of shareholders. The Strategic Operations Framework (SOF), by making these facts plain, serves a useful purpose.

We do not, however, consider that funds allocated into the SR by Governors should then be able to be allocated out of the SR by the Board, as is outlined in the SOF. Given substantial amounts of funds will be held by the Reserve, we feel that it is important that there are appropriate accountability measures regarding their allocation.

Proposed allocation of 'other purposes' funds and soft financing

The funds to be spent on 'other purposes' are also surplus to requirements, which is why they can only be spent with the support of a two-thirds majority of shareholders. This year's proposed spending under 'other purposes' will open a new chapter for the bank. Although a window of soft financing is not unusual for many development banks, the EBRD was always intended to be different from other IFIs and provide funds only on a commercial basis; either lending money at market rates or investing equity with the intention of making a fair return. Investment grants are subsidies to projects that would not otherwise be supported by the market. It is important to ensure that the rationale for this additional funding is consistent with the bank's commercial mandate. There has been a successful bilateral donor programme but that expenditure has been managed and controlled by donors. The involvement of donors has been an excellent feature of that programme and we hope that the new arrangements will not undermine that programme.

With its soft window, investment grants, incentive payments, new donor activities and other developments, it is likely that in a few years this bank will be very different. Today those that graduate, like the Czechs, are seen as success stories able to stand on their own two feet. In the future it may be that the bank's transition mandate will be less important because joining rather than exiting the EBRD may become the objective. These shifts in the direction of the Bank should occur through conscious decisions by shareholders.

We are very pleased to see that progress is being made on the two vital Chernobyl projects. The international community has accepted responsibility to finalise the projects and we welcome this move. Australia and New Zealand have not been involved as donors because we have many responsibilities of our own and are actively engaged in delivering aid within the Asia Pacific region.

However, as shareholders of the EBRD we are concerned with the question of whether the EBRD is an appropriate source of funds for a project that has been, until

now, considered outside the bank's mandate. The G8 are already committed to finalising the two projects, and reconfirmed that determination only last June. We are therefore not convinced that the additionality of the EBRD's role is justified.

Equality of shareholders

Nearly all of the Chernobyl donors are shareholders in the EBRD, so the 'other purposes' funding looks like a distribution to all EBRD shareholder treasuries except to the few smaller ones that are non-European and non-G8 members. The difference with the proposed funding and a dividend — as supported by Australia and New Zealand — is that a dividend would have benefited EBRD shareholders equitably, where a distribution to the Chernobyl funds disproportionately benefits European and G8 donors. We note that had a dividend been paid, each shareholder would have had the discretion to forward that return on to the Chernobyl funds. In our view, all shareholders should be treated equally. This is the principle, as espoused in the Agreement, that should be considered in future years when we are certain that continuing large profits will ensure this issue is confronted again. Most importantly, the issue in this regard is not the money or the validity of the project to which it is being allocated, but the principle that shareholders should be allocating these funds and not the bank. For that reason, Australia will vote 'no' on the proposed allocation of net income.

Selection of the President

The departure of President Lemierre has raised the issue of the process for selecting the President of the bank.

Australia and New Zealand have been long standing advocates of improved selection processes for the heads of international financial institutions. This is not a reflection on our new President. We made this same point in recent discussions at the IMF. A better process with more emphasis on merit would, over time, improve the quality of international financial institutions and enhance the legitimacy with which IFI heads obtain their positions. This would also help to promote better process for other senior appointments within these organisations. The criteria for selection and the process for selection should be agreed in advance and should be transparent. These basic requirements were not met at the EBRD in choosing the next president.

For example, whilst we are aware of an informal agreement that the head of the EBRD be European, it is unreasonable that the choice should be made by eurozone finance ministers to the exclusion of other shareholders.

We strongly urge the EBRD, as we do other IFIs, to take the opportunities when they are presented to improve the governance processes surrounding senior appointments.

Conclusion

The EBRD's future direction has been a matter of much debate in recent times. The Chairman of Governors has circulated a wide-ranging paper on future directions, at our last AGM some Governors called for a strategic review, and various directors have championed a new mandate as well as extending the geographic reach of the

bank. If there is a desire for the Bank to extend its geographic reach and fundamentally alter its mandate in geographic and other ways, every shareholder must have the opportunity to put forward what it sees as the Bank's role and mandate, and then if appropriate reconsider the Bank's Articles of Agreement. We consider that the reality of a largely achieved mandate demonstrates the need for the independent strategic review. We called for such a review at last year's AGM and again urge shareholders and management to be open to an independent consideration of the Bank's future.

In closing, the EBRD has achieved a great deal in its 17 years. The transformation of Central and Eastern Europe is in part a testimony to efforts made by the Bank to assist willing governments and businesses to create new opportunities and better institutions. It is in this context of a job well done that the Australian Government intends to withdraw from the Bank from 2010, and more will be said about that in due course.

Thank you