

GREECE

**EBRD ANNUAL MEETING
KIEV, UKRAINE
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Statement by Stefanos Vavalidis
Head of Delegation for Greece
Temporary Alternate Governor

Mr Chairman, Mr President, Ladies and Gentlemen

Allow me first to express my thanks to Kiev for hosting the Bank's seventeenth Annual Meeting. It is good to be here again and to see the progress achieved in the past ten years. Greece highly values its historical ties with the Ukraine, and we are delighted that modern Athens is a sister city with Kiev.

We applaud the financial performance of the Bank and appreciate the fact that its success has afforded shareholders the option of receiving dividends. This milestone is a tangible indication of how far the Bank has progressed since its last Annual Meeting in Kiev. We endorse this year's income allocation decisions including the decision to contribute to international efforts for funding the completion of the new shelter for the Chernobyl nuclear power plant and nuclear spent fuel facility in the Ukraine, in fact, not too far from here.

Nevertheless we cannot but reflect on the process by which this year's decision regarding income allocation has been reached. The framework within which deliberations have taken place is centred on a fixed five year calendar for the Capital Resources Review and on the gearing ratio as the appropriate balance sheet determinant. The framework was certainly once appropriate. However, twenty years later, we must now ask whether the constraints that this framework imposes are in keeping with best strategic planning practice.

For example, should the Bank take important and far reaching policy decisions on an ad hoc basis without fully reviewing its strategic objectives – because inconveniently the timing is out of step with the next Capital Resources Review (CRR4). Conventional wisdom is that a perspective considerably beyond the five year horizon of the CRR is needed. And surely, there is a case for the view that capital requirements must spring from a full strategic appraisal rather than strategy being determined by capital adequacy.

As shareholders, the minimum we should require is the five year review as enshrined in the Articles. We feel, however, its importance should be de-emphasized in favour of a rolling and more dynamic strategic planning process which takes into account both short term markets as well as the Bank's longer term mandate. This would allow more flexibility in reacting to circumstances and opportunities as they arise. And anyway, practically speaking, a five yearly review is operationally outdated within two years of inception. This risks an inability or lack of willingness to tackle major decisions in the period of hiatus until the next review.

Regardless of the planning horizon chosen, concentration on the gearing ratio as the major determinant of the Bank's capital structure should be re-examined. We must remember that the gearing ratio is a concept first accepted over sixty years ago when multilateral development banks were first founded and enshrined in EBRD Articles some twenty years ago. No one would disagree with the continuing need for discipline in capital use or indeed a very conservative capital structure in order to maintain the solid AAA rating the Bank enjoys.

However, we urge management and the Board to be broader minded when taking a view on what constitutes a disciplined and conservative structure.

The EBRD is a unique and successful institution and has a well deserved reputation for dynamism in changing markets. It deserves the tools it needs to progress its mandate. Upcoming work on CRR4 should embrace a full long term strategic review. It would set the basis for income allocation in future years and bring clarity of purpose not only to shareholders and stakeholders but importantly to staff, without whom the Bank would have achieved nothing!

We support Turkey to become a new country of operations in agreement with the rest of the European Union. This allows Greece's neighbour in the Mediterranean basin to benefit from the unique expertise and business culture embodied in the Bank's approach. We also support further extensions of the Bank's geographical reach, particularly in the Mediterranean region, and to that extent would be willing to join in amending the Articles as required.

May I congratulate the Board, management and staff for their commitment to the Bank's mandate and their contribution to the Bank's achievements. We bid farewell to President Lemierre who has led successfully the Bank for eight years and welcome Dr Mirow. We wish them both well.