

# **RUSSIAN FEDERATION**

**STATEMENT BY THE HEAD OF THE DELEGATION  
OF THE RUSSIAN FEDERATION  
AT THE PLENARY SESSION OF THE ANNUAL MEETING OF THE  
BOARD OF GOVERNORS  
KIEV, 18 MAY 2008**

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Mr Chairman, Governors, Mr President, Ladies and Gentlemen,

I join in wishing the Board of Governors of the European Bank for Reconstruction and Development success in its work and in thanking the Ukrainian Government for its warm welcome.

This year, as in the past two years, the Russian Federation welcomes the impressive vigour in the Bank's development. In 2007, its net profit again exceeded €1 billion and the annual business volume, which rose to €5.6 billion, promises excellent financial results in the future.

During the entire past year the shareholders have been seriously thinking about the future development of the Bank. Let's stress that this re-thinking took place in the middle of the five-year strategy of the "Capital Resources Review-3". It has therefore become necessary to adjust it. Indeed, many of the strategic aims that were set have successfully been achieved, and a consensus among the Bank's shareholders is again needed on the way forward. Consequently, there is a need to identify practical arrangements and policies for moving ahead, new, efficient, operational tools.

Discussions and reflections about the future Bank's development have been going so far not quite smoothly. Within the discussions about Net Income Allocation, it has become clear that shareholder countries have differences in their assessment of the dynamic growth of the Bank's activities. Russia is convinced that only maintaining this dynamics fully complies with the Strategy "towards south and east". In these regions, the size of the countries themselves, the scope of their problems, and, at the same time, of opportunities for the Bank are greater than in Central Europe. We can understand that the concentration of one-third of the Bank's portfolio in Russia may cause some concern, particularly in countries where the Bank so far is insufficiently active. Such concerns could only be addressed through further growth of the whole portfolio, with particular attention being paid to Central Asia, Caucasus, Belarus and the Balkans. We would like to propose as a general approach that the growth of the Bank's Annual Business Volume should be kept comparable with the economic growth rates in the countries of operations. For this reason, we cannot support the Board of Directors' proposal for an artificial freezing of the Bank's volume of business at the 2007 level of €5.8 billion and for creating a strategic reserve. There are no objective reasons for artificially limiting the Bank in the implementation of its mandate. We are disappointed that the increase in reserves is not accompanied by a

growth in operations and also that the Management of the Bank has not proposed the balanced distribution of net income over all the areas envisaged by the Bank's statutes, in particular a moderate reinvestment with a view to further growth in the volume of operations and the allocation of net income to technical cooperation programmes and dividends.

The transition of countries from the post-socialist economy to a market economy – the reason why the Bank was established 17 years ago – is a process which has its own natural dynamic and timetable. It is demand from the Bank's clients, from the countries of operations, that must, in our view, guide the growth in the Bank's business. We see no trends of a reduction in this demand, except for a limited number of sectors in more advanced countries. Against this background the Board of Directors proposes to consider as priority not the most adequate response to this demand, which is the core Bank's mission, but "sustainability of the Bank" which, in our view, cannot be an objective in itself. Actually, the Bank is postponing for future addressing the problems, which can be attacked already today, thus strengthening economies and improving the life of people in its region of operations. We believe that this runs counter to the interests of all countries of operations and to the Bank's mandate. We consider our vote "against" the resolution on the net income allocation to be a constructive position. We express in this way Russia's commitment to the Bank, our expectation that the Bank can and should become even more efficient

This year, one more step, which could have a serious impact on the Bank's future development, is being debated. Turkey, a country with no socialist economy in its past development may become a country of operations. Russia pays great attention to the Turkish Government's intention to change Turkey's status in the EBRD, and well understand Turkey's desire to strengthen its national market institutions. We welcome that the Board of Directors proposes to undertake serious analysis of the impact of such possible decision on the future development strategy and on the nature of the Bank itself. We will carefully monitor the process of proposed analysis, counting that the eventually proposed decision will meet the interests both of the Bank and of its countries of operations.

We assess the Bank's work in Russia very positively. The Bank's Strategy for Russia has been at last harmonised with the Government's economic policy, and the structure of its operations has been brought closer to our own priorities. The Strategy remains up to date and only requires more consistent implementation. We are satisfied with practically all of the Bank's new approaches to its work in Russia. At the same time, despite the Bank's political commitment to support transport and energy and communications infrastructure, the practical results in this area have so far been insignificant. In 2007, such projects comprised only about €70 million, which is of course not in line with the scope of the tasks, particularly in view of the fact that activities in this sphere most fully comply with the Bank's transitional mandate. We also believe it necessary to find measures for substantial revitalization of the European Investment Bank's work in Russia, which has enormous experience of designing projects particularly in the sphere of infrastructure. The EBRD-EIB Memorandum of Cooperation, concluded with the participation from the European Commission more than two years ago, has not started yet to yield any results. It is clear that something should be changed in the mode of cooperation between these two institutions, and we count on that.

We associate the Bank's work in Russia mainly with the personal contribution of its President, Jean Lemierre. Mr Lemierre has always been open to new approaches to the Bank's work in our country and has supported and campaigned for reforms. We shall always be grateful to him for his deep engagement and commitment to Russia, and we hope, Mr Lemierre, that Russia has reciprocated. We thank you for eight years of successful cooperation.

The Bank's new leader inherits a Bank that has challenging and paramount tasks, has successfully achieved already a lot, and is, yet, somewhat controversial. To preserve all the best, while at the same time to resolve the accumulated problems and to find a renewed strategic focus is a complex and ambitious task. We wish the Bank's new leader success in carrying out this complex task and assure him that he can always rely on a constructive position of Russia on all issues of principle.

We live in a world of changes. In the final analysis, the success of any country, any institution and any leader is determined by their openness to changes, while maintaining their fidelity to core principles. This simple truth is particularly applicable at present to the European Bank for Reconstruction and Development. Its strategy, policies and leader are changing, and further changes dictated by life must take place within it. On behalf of the Government of the Russian Federation, I wish to express the hope that the Bank will successfully come through this critical period and that we shall, in the coming year, discuss the activities of a renewed Bank that has expanded its effective work in its region of operations and has made an even more notable contribution to the resolution of global issues.