

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

## **Annual Meeting of the Board of Governors**

### **Statement by**

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**President of the European Bank for Reconstruction and Development**

**London, 19 April 2004**

Prime Ministers, Governors, Ladies and Gentlemen,

I should like to speak in French to thank the Prime Minister of the United Kingdom and the Prime Minister of Luxembourg, who honour us with their presence at this meeting of the European Bank for Reconstruction and Development.

We have the great pleasure of meeting in London this year, the home of the Bank. We are grateful for the close relations we have with the authorities of the United Kingdom and of the City.

Welcome to you, Governors, and to all who are with us here today.

We meet at a great moment for the EBRD region. A few days from now, eight of the countries of the region will join the European Union. It is a remarkable achievement in the short 15 years since people joined to demand better than life under the totalitarian regimes of centrally planned economies. For the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, we salute the accomplishments and wish them well as they continue to work towards ever greater prosperity.

It is a moment, too, to reflect that, since the EBRD opened its doors 13 years ago, the countries of the region have come of age, each in its own way. Each of the 27 countries has, to varying degrees, made progress in the transition to a full market economy.

Across the region, economies are growing. Economic reform will bolster growth and stabilise economies. Investors are attracted by a better investment climate founded on openness, transparency and rule of law. The countries that implement rigorous law and fair regulation and combat corruption, are clearly the first to realise their vision of sustainable, strong economies.

But the EBRD has always had an even more ambitious vision.

Our shareholders founded a Bank that set the people of the region squarely at the centre of our mandate. After more than a decade, we see how important market economies are in bringing prosperity to the people of the region; and we see just as clearly that strong markets are not enough. Transition has meant progress but also hardship. The cost of complacency could be disillusionment and social and political tension.

The hard-learned lesson of our region is that long-term success will depend on a consensus around values, cohesion on priorities, a sense of shared progress. Progress will certainly mean that people feel their basic needs are met. In today's environment, it is natural to expect a longer, healthier life, the opportunity to learn, work and live decently. People today expect basic social services as well as the advantages of a more democratic society where they can be heard, and there is tolerance and transparency.

This is the basis of the Bank's policy dialogue with governments across the region, a dialogue that helps us all to understand and address the priorities for economic and social development. With your support, Governors, the Bank is constantly re-aligning its own approaches as it listens to governments, businesses and people of the region.

### **New directions**

The Bank's activity is aligned to the changing realities.

As Central Europe and the Baltic countries advance in their transition process from within the EU, the focus of the EBRD in accession countries is shifting. Our continuing commitment for these countries is to invest in the private sector and create jobs by supporting local enterprises and municipalities, developing the capability of financial institutions, and restructuring key industries.

At the same time, we have set an increasing priority on the countries that are less advanced, further south and east, to Russia, the Balkans, the Caucasus and central Asia. We support investments to strengthen the private sector and the competitiveness of economies.

### **Home-grown growth**

The Bank has traditionally supported foreign investors wishing to invest in the region. But now we see a growing willingness for investors from the region to invest within the region.

This potential for home-grown growth, through companies investing in their own or neighbouring countries, is becoming an important trend. The EBRD model has worked well for attracting foreign investment. Now the Bank is taking the model even further by using it to stimulate domestic investment.

This is a natural evolution of our mandate to finance the development of the real economy. The EBRD finances enterprises that will anchor growing economies. One of the sturdiest anchors is small and medium business. We finance close to half a million small, medium or micro companies through local banks. Those banks are now lending an average of five times the amount of our original credit line to the small businesses.

And the EBRD is evolving its investment priorities in other ways too. In many countries, major cities have begun to thrive, but there is disparity between the capitals and outlying regions.

The Bank is striking out into the rural areas and smaller towns where there is much need and many opportunities to invest in the agribusinesses, municipalities, manufacturing and small and large enterprises of the real economy.

In Russia, Ukraine, Romania and other countries, our policy dialogue and investment strategy will promote strategies so that small towns have more of the economic advantages of major cities.

As the countries that are joining the EU have proven, the people of the region stand to benefit from strong association with neighbouring countries. Cross-border trade and investment feeds both prosperity and stability. The EBRD uses its investments and opportunities for dialogue with governments to encourage such cross-border linkages. A 'silk road' across Central Asia, or power distribution across the Balkans make much more than physical ties for neighbouring countries. Open economies and regional cooperation will improve the investment climate and allow countries to unlock and develop their economic potential. And history proves that the ties of trade and investment serve to promote peace and stability.

### **Fostering poor-country progress**

Despite the progress, some countries are still lagging behind. Under an initiative dubbed the CIS-7, the international community singled out seven of the region's poorest countries for special attention: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan.

In these countries, the state is too indebted to borrow more, and there are no large foreign investors willing to invest. This year, the EBRD used our capacity to invest without sovereign guarantees to adapt our banking model to their particular needs. The EBRD Board endorsed an Action Plan for Early Transition Countries.

We will finance the kind of projects that we have found work best in these circumstances... small businesses, microfinance, investment to facilitate cross-border trade, small-scale infrastructure. The Bank is ready to take on the financial as well as reputational risk as we seek to invest more in countries at the earlier stages of transition. We will use adapted tools that streamline approval processes and, for example, make legal requirements easier by conducting more transactions under the terms of local law. There will be more Bank staff and resources devoted to these countries.

We cannot do this on our own. In order to strengthen the initiative, the Bank has invited donor countries to contribute to provide technical cooperation, and to help prepare and co-finance projects. But the EBRD takes the full burden of added risk on its own books.

The Bank is grateful for funding from donors, which is a critical part of preparing projects to make them sounder and to improve the investment environment. Donor funding has, for example, driven the efforts to upgrade or decommission unsafe nuclear facilities in the Nuclear Safety Programme managed by the EBRD. There have been equally important initiatives to protect the environment, for example in the donor-funded Northern Dimension Environmental Partnership for the Baltic region and northern Russia.

Donor funding is a recognised catalyst for investment. Donor collaboration will be an important underpinning of this latest initiative in the poorest countries, where projects are difficult to generate and require the kind of nurturing that donor money can support.

### **Drawing on the Bank's strength**

The initiative for poor countries is part of the EBRD's vision of a region that is growing, with few disparities between countries. This vision emerges from the strength of the institution itself.

In 2003 the EBRD had a good year. The Bank invested €3.7 billion in more projects – many of them quite small – more than we have ever done in a single year. Strong profits will be recycled back into new investments and bolster our ability to work, in particular, with the private sector. The Bank was able to attract more co-financing on projects than ever before, with €2.7 billion from private banks and other partners who co-invested alongside the EBRD.

Once again, the quality and adaptability of the staff was an important element in producing a strong business with good performance with high transition impact.

The EBRD has been strengthened, too, by several measures that improve the Bank's governance.

The Bank has restructured in order to manage risk more efficiently. Work is in progress to put in place a certification of internal control procedures. The Board brought the Bank in line with modern standards for the private sector by updating the oversight arrangements for the Board and its Audit Committee.

Accountability is enhanced by a new Independent Recourse Mechanism that will shortly take effect to provide an objective channel for public scrutiny of Bank projects.

We now invite the public to comment and offer suggestions before we publish country strategies. And the Bank has become more accessible through a more generous policy on translation of Bank policies into local languages of the region.

### **The Bank that listens**

These measures reflect a constant self-analysis to check that the EBRD is attuned to the needs of the region and the views of the populations of our 27 countries of operations. This year marked a new level of intensity in our efforts to listen before deciding.

For the first time, we held public meetings in Georgia and Azerbaijan, as well as Turkey, so that the views of local people could inform our decision to finance a pipeline across the Caucasus.

As part of updating the Bank's Environmental Policy, we held meetings with interested groups in four cities. This was in addition to many meetings and much correspondence through the year about the environmental and social aspects of planned or existing projects.

Monitoring and listening, meeting and dialogue have been at the heart of much of the EBRD's work again this year.

There have been positive political developments, including the unanimous agreement to invite Mongolia to become an EBRD country of operations. I hope that our shareholders will soon adopt the necessary changes to the Agreement Establishing the EBRD, so that the Bank can invest in Mongolia.

Governors, these are the challenges and I am grateful for your guidance and support.

In my four years as President, I have seen the progress of those countries that have embraced the principles of markets and democracy... transparency, openness, fairness.

It is a constant reminder of the mandate of this Bank, to nurture a full market economy within a fulsome democracy.

Market economies will only work well in the long term if progress is widely shared and people have a right to be heard.

Whether it is in the most, or in the least democratic environments, it is the voices of people that set the political agenda for the long term.

Thank you.