

**Marek Belka**

## **EBRD: Bank for Europe and its Neighbourhood**

**Dear Governor,**

I am honoured to have been nominated by the Republic of Poland as a candidate for the position of the President of the European Bank for Reconstruction and Development (EBRD), an institution which played a significant role in supporting my country in its efforts to build a market-oriented economy, an institution which has a unique, distinctive mandate – fostering economic transition, supporting private and entrepreneurial initiative, and promoting democratic values. As requested, I set out below my vision for the EBRD.

### **EBRD at 25 – looking to the past – a great vision**

In April 1991, the EBRD was established to help Central and Eastern European countries with the reconstruction of their economies. The foundation of the EBRD was a remarkable fact. The expectations of the “founding fathers” went far beyond the Bank’s written economic and political mandate. The EBRD was “the first post-cold war financial institution” which was to play an important role as a forum for East-West cooperation. At the inauguration ceremony, the French President, Francois Mitterrand, stated that the EBRD was a step towards the creation of a “great Europe”. Apparently, the Bank was seen as a tool for building a more democratic, stable, united and prosperous Europe. In helping to build democracy and market economies in former communist countries, the Bank supported the reshaping of the economic and political order of Europe. This was a great vision for the Bank, which guided its mandate and operational activities over the years.

### **EBRD at 25 – a new international context**

Over the years, the international environment in which the Bank operates has changed substantially. The transition and reconstruction of the Bank’s countries of operation advanced and changed the lives of people. The realisation of a dream about a more democratic, stable, united and prosperous Europe seemed to be on the horizon. Most European countries of operation joined the European Union. Some of them became advanced transition countries and were successfully converging to Western European standards of living. The Bank, equipped with the knowledge, experience and tools for delivering systemic change, expanded into Turkey and the SEMED region. The Bank was successful in delivering projects, policy reform dialogue and stimulating change in Europe, Central Asia and SEMED.

The Great Recession, which came in the aftermath of the crisis in the international financial markets, struck most of the EBRD's countries of operation. The Bank showed creativity and its crisis response helped many countries to weather the storm. It led to the evolution of new financial instruments, which helped to stabilize the weak financial markets and economies. The annual investments nearly doubled in the course of a few years.

At the same time, Western European countries struggled with the consequences of the downturn. The crisis unveiled some weaknesses of the euro, the lack of coordination of fiscal policies of the Eurozone member countries and the inadequate preparation of some countries for the euro adoption. Greece and Cyprus were hit the hardest by the crisis, but other countries of Southern Europe suffered as well. In 2015 the EBRD set up its presence in Greece and Cyprus, which became temporary countries of operation.

Two other events have shaken Europe and some of the European countries of operation in the last 2 years. These were the ongoing tensions in Eastern Europe and the mass migration waves as a consequence of the unfolding civil war in Syria and other conflicts in the region. Indeed, as a result of the sanctions imposed by the European Council, the EBRD is no longer doing new projects in Russia, which until recently was the biggest client for the Bank. Separately, in response to the refugee crisis the EBRD designed a package for refugee-hosting communities focused on Turkey and the Eastern Mediterranean with the aim of preventing outward migration and supporting integration of returning migrants.

Twenty-five years after the establishment of the EBRD, Europe and the European Neighbourhood (EU Eastern Neighbourhood, Central Asia and SEMED) are experiencing serious economic and political difficulties. The dream of the "founding fathers" of the EBRD about a democratic, more stable, united and prosperous Europe has now receded a bit further beyond the horizon. Economic and political unity of Europe seems to be threatened by various forces. Can the EBRD, by fostering transition in its countries of operation, help to create a more stable and united Europe?

### **Vision for the EBRD revisited**

The EBRD needs a vision that relates to current and future aspirations and would guide its mandate, strategies and operational activities. A vision which would rekindle the Bank's culture of creativity and innovation, which would entice the Board, Management and staff and inspire even more devoted engagement. A vision, which is an anchor for thoughts and a centre of gravity for actions.

The EBRD is European in its character and international in membership. It is the Bank for Europe and the European Neighbourhood. It is the Bank for promoting democratic values, fostering transition in countries of operation towards open, competitive, sustainable and inclusive market economies, and promoting private and entrepreneurial initiative. By fostering transition, the Bank helps Europe to be more stable and united. It is the vision of

the “founding fathers” adapted to the new international context and challenges we face today.

And in this context, the Bank should aim to strengthen cooperation with European institutions, particularly with the European Commission and the European Investment Bank. Against the prevailing financing constraints and potentially tough times ahead, it is critical to achieve synergies on joint operations, so such coordination needs to be further strengthened and developed.

Also, taking into account that capital inflows to the countries in need have fallen due to the crisis, it is right for the EBRD to help the countries mitigate difficulties in this respect. One way of addressing the issue is to assist the clients in developing local currency financial markets, as well as in crowding in more private financing through the involvement of new categories of investors, such as pension funds or insurance companies.

### **Rethinking the transition mandate**

Today, our knowledge of transition is far richer than it was 25 years ago. The original underlying idea was based on a transition from the state-owned command economy, characterized by monopolies and run by poor institutions, to an open, private, well-functioning, market-oriented economy. Privatization, de-monopolisation and price liberalisation were the main policies applied to achieve this goal and the very process of transformation had to be linear and fast. Now, we know that transition is a complex phenomenon. In a number of countries of operation there have been transition reversals, some countries are stuck in transition and in some cases the progress in transition has not been satisfactory. What counts is the sustainability of the process, which cannot be achieved by simple means. What is equally important is economic inclusiveness as the transition may generate sub-optimal social equilibria.

Institutions also matter. In fact, transition is a systemic change and institutions are the main part of the system. A sound institutional framework, which promotes free entrepreneurship and provides the market with solid legal foundations, is a prerequisite of successful transition. The absence of strong institutional foundations is the main reason for which some countries have got stuck in transition. This is why helping the countries of operation to build proper institutional and regulatory structures should be one of the key tasks of the EBRD. Policy reform dialogue based on and linked to the projects is rightly gaining a bigger role in the Bank.

A well-functioning market economy must be capable of efficiently addressing environmental and natural resource issues. The Green Economy Transition approach is an answer of the Bank to this problem. It is based on the former Sustainable Energy Initiative of the Bank. The Green Economy Transition investments of the EBRD will need to amount to 40% of total annual investments in the years ahead.

## **On EBRD strategies and some operational issues**

The Bank exerts its transition impact through project-based lending and project-linked policy reform dialogue. Its activities are focused mainly on the private sector. The Strategic and Capital Framework Document, Strategy Implementation Plan, country strategies, sector strategies and various programmes and initiatives are the main tools for the translation of the Bank's mandate into action. Country strategies deserve special attention as they are prepared in close cooperation with country authorities. They guide operations and provide indications for project generation, selection and assessment. There is now an ongoing discussion in the Bank on whether the country strategies should be complemented by country-sector strategies in order to make the Bank's impact even more effective.

Strategies give guidance but the Bank is a demand driven institution. In an unstable and uncertain political and economic environment the Bank has to be open to business opportunities and should be flexible. The generation and selection of projects is directed by 3 principles: sound banking, additionality, and transition impact. All of them should be satisfied in order for a project to be approved. These principles should also play a role as criteria for the graduation of a sector or a country from activities of the Bank. In other words, the graduation occurs when it is no longer possible to find investments that comply with these principles. In this sense, it is the market which determines graduation, provided the Bank has a deep knowledge about opportunities to invest in a specific country. On the other hand, the country strategy document, jointly agreed by the Bank and country authorities, should be the main instrument for decision-making on graduation. Now, shareholders expect that country strategies for some new EU member states will continue to set the path and indicate a plausible pace of graduation of these countries within the medium term.

On the other hand, the stability and development of the EBRD countries of operation can be achieved by making the most use of the experience of the more advanced transition countries from the past 25 years. This can be done through sharing experiences of experts who were in charge of carrying out these transition processes. Broader involvement of such experts can add valuable input to the Bank's policy dialogue in terms of promoting financial stability, trade development, infrastructure investment and strengthening the competitiveness of the private sector.

The Strategic and Capital Framework 2016-2020 rightly sets out high level orientations, reviews the Bank's capital capacity to pursue its priorities and sets a control framework for implementation. If elected I will lead the EBRD's Management and staff to deliver on the agreed strategic orientation and priorities envisaged in this strategic document of the Bank.



### **Countries of operation – a need for a greater voice**

The EBRD is the Bank for Europe and the European Neighbourhood. It is the Bank for countries of operation. It is also a forum for East-West-South cooperation. In light of the increasing importance of countries of operation, it is justifiable and necessary that they receive a greater voice influencing the decision-making process of the Board and the functioning of the Bank. This also includes more professional staff from these countries at different levels of EBRD management.

After 25 years the Bank is a mature institution. It is time to reap the benefits of past work and existing experience. We need to move the centre of gravity of thinking and decision-making towards the countries of operation, their needs and their ambitions. People from the region are a conduit and a symbol for such a change.

### **EBRD at 25 – election of the President**

The times are turbulent, the perspectives remain unclear, the risks are rising and the EBRD needs to be vigilant and ready to respond to any challenges that may arise. To that end, the Bank requires at its helm not just a smooth administrator, but a leader, a high-level decision maker with vast practical and hands-on knowledge how to tackle the most complex challenges of various kind: global, regional, local and internal ones.

The timing of the elections is symbolic. Twenty-five years have passed since the Bank's opening for business. Electing a representative of a country of operation as EBRD President will be a clear sign of recognizing our joint success: (i) the Bank as an institution which truly delivered, (ii) advanced countries which are ready to co-share the leadership and responsibility of the highest management level, and last but not least, (iii) the EBRD beneficiaries which are capable of contributing to the Bank's further development. This would be a testament to the true success of transition.

Considering this experience and understanding of the nature of transition and development, I believe I can lead the Bank to the benefit of its stakeholders and beneficiaries.



/Marek Belka/