EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

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President's Press Briefing

Wednesday 9 May 2018

President: Suma Chakrabarti

Moderator: Anthony Williams

THE MODERATOR: Good evening, ladies and gentlemen. Thank you very much – and thank you also for your patience. President Chakrabarti will speak first and then hand over to Mr Fakhoury, Chairman of the Board of Governors, at this afternoon's very important session.

THE PRESIDENT: First, a big apology that we have kept you waiting; but we had a really interesting discussion, a very important discussion.

Let me say a big thank-you to start with to my dear friend Imad Fakhoury, and to Jordan for hosting our Annual Meeting in this wonderful location. I can only say, frankly, that Jordan has provided everything we could have wanted and much more. We are really grateful to you, Imad.

This afternoon we had a very good discussion with the EBRD Board of Governors – that is the overall governance body of the EBRD. First of all we discussed how the Bank is doing in its delivery in the current strategy period, which lasts to the end of 2020; and then what might follow in the years beyond that. This was not a decision-making session – and it is very important to emphasise that – but an opportunity to set out where we are delivering on the existing strategy, which finishes, as I say, at the end of 2020.

It was also a chance to tell Governors about what work we are doing, about our plans, and how we are going to fulfil the mission through to 2020. Very importantly, it was also a chance for us to listen to the thoughts of our shareholders. It is one of those wonderful occasions when management particularly can talk directly to our Governors. We heard a lot of praise from Governors for the EBRD's delivery over the current strategy period. We are almost half-way through the current strategy period. During 2017, as you probably all know by now, we had a very impressive impact on the ground, including a record delivery of transition impact, as we measure it, achieved through a record €9.7 billion of investment in our countries across three continents.

We also made very substantial profits, yet again, which are added to our reserves to be used for future lending.

Of course, we recognise, I recognise and the Governors recognise – and we are excited about this – that there is more to do. For example, in increasing the number of our equity investments in companies, it is an important way to promote change in companies and banks in the countries where we work. But there was also a recognition that the Bank is on the case. Interestingly, in the first four months of this year, equity investments have been going up, which is very good news. There is more to do.

There was also a recognition of the major international challenges in the years ahead. All our shareholders and all the multinational institutions have signed up to delivering the Sustainable Development Goals by 2030. They have also signed up to mitigating climate change. Every one of us is also concerned about the migration issue.

This very complex development agenda requires all of us, including the EBRD of course, to do more to meet those challenges. That was recognised in the discussion this afternoon.

It was also recognised that the EBRD has the right business model for the times, and the right expertise, with a focus on building sustainable markets and crowding in the private sector through market pricing and policy reform to try and improve the investment climate in our countries of operations. That is the way to bring in more and more private sector investors from around the world, and to excite domestic investors about how to deliver this wide development agenda.

It was recognised by all our shareholders that even with our record delivery of investment, we have the capital to do more.

Our current estimate – and these estimates will always be tested – is that we could invest around another €3 billion a year. The question that we have been examining, and want to look at further in the months ahead, is how to use it.

My sense of the interventions today – and Imad summed up beautifully in the end so he will give you his own sense, I am sure – is that the shareholders very much agreed with the idea of a phased, sequenced approach to exploring how we should do more with that capital, with our skill set and with our business model.

The first part of that – we are getting on with it right now and have already started work on this – is that we are going to spend a few months, through to the end of the year, examining in great detail what more we could do in our existing countries of operations.

Many of the shareholders said that this should not be for volume's sake. Quality is absolutely fundamental. I would want to stick very much to our model of investing in projects that are bankable and that really are additional. In other words, projects where commercial banks do not want to get involved because of the risk/reward ratios, and also projects that fundamentally achieve our mission of transition impact.

Nevertheless, I am quite hopeful, despite what I say about quality mattering more than quantity, that we will be able to do more in our countries of operations and use some of our capital in that way.

That forensic work on our existing regions will be completed by the end of this year. The business plan implications of that are to be fed into the 2019 business plan, and I am pretty hopeful that we will be able to start doing more in our existing regions as early as next year. That is very good news. For the last two years of the current strategy, it will be a major area of focus to try to deliver extra investment in our existing region.

After that, we are also considering the question of whether we can expand our countries of operations in the existing EBRD region – what we call SEMED. Already, there are countries within this region that are not members of the Bank and not yet countries of operations, like Algeria, Libya – one day Syria. These are countries that may be interested in us operating in their economies. We have reached out to them. And, with shareholder support, we want to try to engage them, and see whether they want to come on board. There is a lot we could do in these countries in this region.

We will report back to Governors on this work of doing more in our existing region at our next Annual Meeting in Sarajevo. We will also report back at that meeting on the first analysis, which will start early next year, about what remains of our capital capacity. So after we have done more in our existing region, how much more capital capacity is there? That is one big question.

Also, many shareholders were very interested to know what is happening with the international architecture. This is about how the development banks should work together. A G20 review will report on this October. There is a debate in the European sphere about the European development architecture, as to how the EIB, the EBRD and other banks work together. Just last week there was the publication of the European Union's multi-annual financial framework proposals. All of that needs to be brought together.

We agreed we need to do an analysis of that at the next Annual Meeting as well, and present that to our shareholders, and see where the EBRD fits into that. Only then, I think, we will have a discussion in Sarajevo about whether that analysis gives us a green light to go further, and think about whether or not we should add additional countries.

That work is going to take time. Because it is a development architecture issue, not just an EBRD-specific issue, it has to involve other multilateral development banks with which we already work very closely. They have already very much welcomed the idea of working with us on this strand of work going forward.

Frankly, decisions on whether to expand further geographically could not be taken before 2020 at the earliest. There is a lot of work to be done on this. This will not come before Governors until the Annual Meeting in 2020. This is a decision, obviously, for shareholders and not for me or the management. Shareholders will have the final say.

We need to do the pre-analysis first of the capital capacity, and also where we fit into the international development architecture. At Sarajevo, we will seek a green light to see whether we should do some further work on geography as well.

As you can see, it all takes time to get decisions made in the multi-national world, but the great thing about today's discussion – and I hope Imad felt the same – was the spirit of wanting evidence, information and exploration. People do not want to make decisions based on just hunch. And that is good. We will want evidence-based policy making, rather than policy-based evidence. I always think that is a good way forward. That is what we want to work on over the next 12 months or so. We will continue to engage very closely with our Governors during this period of further work.

The big message that I want to leave you with before Imad speaks is that the EBRD is recognised by Governors as doing a really, really good job – an outstanding job actually – in delivering our mandate. We are in high demand. We have new members, as you know – Lebanon. And we have also started work in West Bank and Gaza. India is just about to join. We have a rejuvenated relationship in Uzbekistan that is a large diverse economy in Central Asia, which we were out of for a long time. This is really good. There is demand out there for us to do more in these regions.

We need to do more in our existing region, building on that success. Next year, we are presenting the pre-analysis on capital capacity, and also looking at where we might fit into the international architecture debate. And we will take it from there in Sarajevo, with the green light from our Governors, I very much hope.

THE MODERATOR: President, thank you very much indeed. Minister Fakhoury, can I hear from you now, please?

MR FAKHOURY: It has been a privilege, as the Chair of the Board of Governors, to have concluded the meeting of the Board of Governors. We had a very clear consensus, endorsing the Bank and its current work by all members; great appreciation for the Bank's hard-working staff, leadership and the excellent management.

There was full consensus on the robust business model of the Bank and we were very pleased with the continued Bank's comparative advantage and focus on the private sector and the commercial approach, and the very strong performance we have seen in 2017. We have also had a good discussion on where we need to strengthen certain things, so that the Bank continues to perform as an IFI at the highest possible levels.

We reached a very good consensus after a very good, open, transparent debate across the Board, where almost every Governor expressed their views quite openly. This was an excellent debate, which built the final consensus on the importance of moving ahead with the Strategic Review and considering how the Bank can increase its activities within its current countries of operations. So that was an overwhelming consensus.

The second consensus was very much that the Bank should first consider any discussion on expansion within the existing SEMED region – the southern and eastern Mediterranean region – as the President has said.

We built a consensus on moving towards a pre-feasibility analysis, based on the capital capacity of the Bank, following the completion of the Strategic Review and assessing how the Bank fits within the wider international financial institutions. We will present that pre-feasibility analysis to next year's Annual Meeting in Sarajevo. At that point, a decision would be taken on whether or not to give the green light to a full feasibility study on the options and criteria for expanding the Bank's operations – which itself would only be presented at the 2020 Annual Meeting and decision-making process.

Jordan was honoured to host the Annual Meeting, as was I, in my capacity as the Governor for Jordan. This is the first time that the Annual Meeting has been held in one of the SEMED countries. It has been a great privilege to host the Annual Meeting and to host all of you at the lowest point on earth. But we have come out today in very high spirits due to these great achievements. We have given a clear road map and a big task to management to keep moving forward.

I think that Jordan, as one of the new countries that has come within SEMED, represents a true success story for EBRD. In about five years our investment portfolio from EBRD reached €1.3 billion. That is great transition impact, an acknowledgement of the very deep reforms that Jordan is making. And 87 per cent of that has been to the private sector. That demonstrates the comparative advantage of the EBRD and presents a clear case study for how the Bank is impacting countries such as Jordan in that regard.

We are very pleased that we are proceeding towards different decision points with an evidence-based approach. And I want to commend President Chakrabarti and his team on behalf of the Board of Governors for their great performance and great success. We invite you to continue. This evening and tomorrow we still have a lot of sessions – the investment forums by different countries.

Thank you all and, once again, we apologise for the delay. But it was a very lively, positive, open debate that the Board of Governors held.

THE MODERATOR: Chairman, thank you very much indeed.

Could we take your questions, please? There are microphones here. When you have the microphone, will you please say who you are and who you represent? Can we take the first question, please?

MS SHTYLEVA (Interfax News Agency): Could you tell us, are there any countries where you are going to squeeze operations? Maybe Ukraine? And what about Russia? Is there any appetite that maybe in a few years, you will revive operations there?

THE PRESIDENT: There was no discussion of squeezing any operations anywhere. It was much more about whether we can do more in our countries of operations. And of course, Ukraine is one of our largest countries of operations; but there are many others too.

There was not a discussion on Russia today at all. Obviously, the situation is unchanged and that is all I can say about it, really.

MS KLASA (FDI and *The Banker* magazine): In terms of the sort of second-tier countries that you are talking about, after the initial examination of your current countries of operations, how were those potential countries selected? These are incredibly challenging markets. You mentioned Algeria, Syria and Libya. Why select those and what would be the baseline required to enable those investments to begin?

THE PRESIDENT: There are two parts to that, if I may. First of all, these three countries qualify simply by being geographically in scope. So when we call it "southern and eastern Mediterranean," there is a definition which is in our Articles of Agreement. I will not go into it, but basically, those three countries would qualify simply by being in the right geography.

But you are right to ask the question. Let us suppose that each of them becomes a member, what would be the challenge operationally? It would be very different in different places. First of all, in the case of Syria I think that is not for now, obviously. I think that there would have to be a peace settlement. There would have to be some sort of way forward before anyone can really contemplate going forward. We had a very good discussion in Brussels at the Syria conference that the European Union and the UN organised. I was there. But it was very much about how we could help the countries in the region like Jordan cope – host communities and the refugees coming in. We have a very good story to tell, in fact. The 100th project that happened here was announced today and was part of that. In terms of thinking about Syria right now, we should really be thinking about how we can help Jordan, Lebanon and south eastern Turkey cope with the pressures on them.

In the case of Algeria and Libya, they qualify, as I say, geographically, but they have not yet even applied for membership. In the case of Libya, some years ago they did apply and the Governors did vote them through, but they could not complete the process because the civil war became too intense. So there is a question about re-starting the dialogue with Libya as the peace settlement holds. In the case of Algeria, we need to start a process of dialogue and discussion to see whether they would be interested.

I do not know those economies very well. One of the first things that would have to be done is obviously an analysis but I think anyone who knows anything about those economies – what little I know is they are not diversified; they are deeply dependent on oil and gas. EBRD has a number of economies like this, particularly in central Asia, and the Caucasus, so we would probably be thinking if we were to go to those countries what we can do to help with diversification and private sector development in particular. But that is for the future; the first thing is to see whether we can get them interested. We think we would have a good business model for them. The Governors all agreed that we had the right expertise and business model.

MR JONES (Reuters): You just mentioned that part of the process of potentially going into other countries would be that one of the requirements would be that you would have to work with other development banks. Can you give us a quick explanation of why that would have to be? Secondly, you talked about re-engaging in Uzbekistan. Are there still serious human rights worries there for you?

THE PRESIDENT: Let us start with Uzbekistan. It is undoubtedly true that Uzbekistan is on a journey, but the latest news about further prisoner releases in Uzbekistan is interesting. If you take the last year and a half, the political and economic situation in Uzbekistan has really improved, not just in terms of human rights but also in opening up discussion and consultation; you can now have debates on social media, on the streets, about the future development policy of this country. This was not allowed before. This is a complete change under the president who has come to power. He is also considering how to free up discussion in governorates, at local government level. Again, this was highly controlled by the centre in the past as well.

If you look at the economic reforms in Uzbekistan around the exchange rate and around other structural reforms they are undertaking, they are on a full-pelt journey towards liberalisation. It is a long way to go but compared to 18 months, two years ago, Uzbekistan is definitely going in the right direction. That is what allowed us in nine months last year to do €100 million plus of credit lines to get started. It is a very diversified economy and I think we can do a lot more in Uzbekistan.

We are about to approve a country strategy, this autumn, probably in October. I will go there in early September to try to sign off on the strategy, which will set out the way forward. It will be a mix of heavy private sector involvement but also trying to work with municipalities and others as well to try to provide better public services as well in Uzbekistan.

On work with other development banks, this is absolutely crucial. The important thing for everyone to realise, and I think the shareholders got it today in their discussion, is that multilateral banks are complements, not substitutes. We are quite different from each other actually. When we work really well together is when we bring complementary skills. I will give you the example of us coming to this region. The African Development Bank does not operate in Jordan but it operates in Egypt, Tunisia and Morocco, and we came in and the biggest cheerleader for our entry was the African Development Bank. It said, "We don't really have the private sector focus that you can bring but what we do have is deep country policy knowledge, knowledge of the political economy, and how these countries function."

In the initial years this relationship was brilliant in terms of working with their knowledge and our private sector skills coming in, and we have begun to co-finance projects together, Nador Port in Morocco is a good example of that. There are some examples, I hope, coming up in the next six months in Tunisia as well. That has been a sign of how we work very well together. Here we have worked with IFC for example, in Jordan. In central Asia we work very closely with the Asian Infrastructure Investment Bank, because it has a different model from ours. They have a very centralised Beijing-centred model, for now at least, because they are quite lean and they are not opening a huge number of country offices. As you know, because you know us quite well, our model is this matrix of heavy sector knowledge based in HQ in London, with these country teams that really know the local economy, and also do a lot of the policy dialogue as well. That mix has worked very well with AIIB's different model in central Asia, whether it is in Tajikistan or Kazakhstan, to give you two examples, and there will be many more projects with them.

Always think – and this is one of the things we will present in Sarajevo – where do we fit in? We fit in in a different way from other banks. We do quite a lot of policy work, but it is policy work based on the investment climate, whereas we rely on the IMF to do the macro stuff. But yes, we are linked, because when the IMF does a macro programme in any country in the SEMED region, they will ask us about conditionality in relation to investment climate, which it might then introduce into its programme. Take Egypt, where we work very closely together.

Those are the sort of linkages you see, and you are increasingly seeing that between the EBRD and the Washington institutions but also the other regional banks, and I think it is great. I think this is exactly a modernising approach to the architecture.

Last year was a record year for a co-financing with EIB, so we are much better friends than perhaps people realise and we are planning a top management retreat together later this year.

MR BUCKLEY (Financial Times): It is obviously a positive result that you have got consensus on looking to increase activities in existing countries of operations and also to look at new countries within SEMED. But the timetable you have set out seems to be a little bit more extended than what was envisaged perhaps some weeks ago, a couple of months ago, in terms of potential expansion beyond the existing geography if there is only going to be a pre-analysis during the coming year and only then moving to the stage of actually evaluating moving into new geographies. Are you disappointed by that, that it may take longer therefore to mobilise the extra lending capacity that may be available from the EBRD? Does this reflect that there was perhaps more caution from some shareholders than might have been envisaged?

THE PRESIDENT: First of all, the timetable is unchanged actually. Maybe there is a slight misunderstanding. This question of new geography, if the shareholders agree it, could never have been agreed before the 2020 Annual Meeting because that is when the shareholders will have to agree the strategy for 2021-25. What I think, Neil, following up what you might have read out there, is the question of how much analysis is required beforehand. There was certainly an openness to consider the subject but the requirement also to really look at things like how much capital you really think you are going to have left after you do more in your existing region. It is an important question, so I think they would like to spend a bit longer on that part of the study than perhaps we had thought initially. It is still the timetable; no change in that whatsoever. It will be in 2020, it will be for shareholders to decide at the Annual Meeting then. Sarajevo is a staging post to that. At Sarajevo in 2019, please all come. It is going to be a great event as well. It is going to be a discussion about showing how much more we are doing in the existing region, because we will have the results then of our work on that, and then the work on the capital capacity, the international architecture – Marc's question – and we will present on that and then they can decide whether to let us look at the expansion issue as well.

MS FITZGEORGE-PARKER: You mentioned the AIIB. I was wondering if there was any broader discussion of how the EBRD is going to interact and engage with, or otherwise, the Belt and Road Initiative.

THE PRESIDENT: There was not today, in the Governors' discussion. But there was a very good panel yesterday. My deputy appeared on a panel yesterday on the Belt and Road. There was another panel two weeks before that in Washington; and another in China before that, which our Secretary-General was there for. There are lots of panels on Belt and Road, is one thing we can all say! They are extremely useful, because the EBRD is engaging not just with China. This is not just about China. It is about engaging with a set of investment products and projects throughout Central Asia and beyond, because the Belt and Road obviously goes a bit further than that.

Through our relationship with the AIIB but also because China has been a shareholder now for two years, we have engaged quite closely with Chinese banks, with Chinese corporates, with the Chinese government, but also with the IMF and the other multilaterals, on the Belt and Road concept, and with think tanks too. I think this is a really important thing to engage with.

Some of the key issues that are coming up, as you probably know (but I will mention for other people) are questions about project quality. We all care about that. Everyone cares about that: making sure that the projects are of good quality; that they go through all the environmental and social due diligence – all of those things that we care about; and it’s also about making sure that some of these countries do not rack up too much public debt. Particularly focusing on the private sector, therefore – where we come in – makes a lot of sense. I think this is a really important thing.

If in the long term, through these initiatives, we can cut the costs of communications and transport between the Far East, all the way through Europe and into Africa, this must be good for development. So we should really be engaged.

THE MODERATOR: There is time for one or two more questions. The Chairman has a reception to host in a little while – about an hour ago! Are there any more questions for either the President or the Chairman? If no, then the only thing between you and the reception is filing your stories. Thank you, President. Thank you, Chairman. Thank you very much for coming.

THE PRESIDENT: Thank you very much. Thank you for your patience.

(The President’s press conference concluded at 7.45)