EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

ANNUAL MEETING, SARAJEVO 2019

PRESIDENT’S PRESS CONFERENCE

Wednesday 08 May 2019

President: Suma Chakrabarti

Chairman of the Board of Governors: Jyrki Katainen
THE PRESIDENT: Welcome to this press conference. Let me make a few introductory remarks. I am happy to take your questions after that. First of all, a warm thanks to the authorities in Bosnia and Herzegovina for hosting us so wonderfully here in Sarajevo. These events are never easy to put on. They require a lot of intricate work and a lot of effort by the host country. It has gone very well. I also want to give my thanks to Chairman Katainen, our Chair of Governors, during this Annual Meeting as well.

We had a very good discussion this afternoon with Governors, who represent 69 shareholders of the EBRD. They praised the Bank’s performance during the last year. In 2018, our investment level was again at near record. We invested €9.5 billion last year, nearly 400 projects. It was also another year of very strong delivery, with huge impact on the ground in our countries of operations across three continents. One of the most notable achievements was that 36 per cent of all our investments last year was in the green economy. We have a target to get to 40 per cent by the end of 2020 and we are well on track to do that.

We also agreed with our shareholders back in last December that we will try to do even more in our existing countries of operations in the years ahead. Here, it is a game of both quantity and quality, and it is really important to emphasise both. This year, we hope therefore to invest more than €10 billion in our existing countries of operations for the first time ever. But it is very important to make sure that it is high-quality investment. No standards will be dropped at all, to make sure that we do that. We aim to go even higher in 2020 and 2021.

I am also very glad to say, as we sit here in Sarajevo, that amongst our investments last year, €1.1 billion was in this region, the Western Balkans; and €200 million of that €1.1 billion was invested here in Bosnia and Herzegovina.

The EBRD, I think you all probably know, has been a staunch supporter, promoter, friend of the Western Balkans region. We believe that this region has huge potential thanks to its natural resources – its renewables and mineral resources. Its strategic geographical location is increasingly seen as a bridge between Europe, Asia and the Middle East. It is obviously a very well-educated and skilled population and workforce, which it needs to hang on to much more, because emigration is one of the big challenges here.
The countries are united in their drive for further integration, and also on the route through to EU membership in due course, I hope – what is called the EU approximation process. That is, of course, the major engine of progress, because in order to qualify for membership one day these countries have to keep reforming and keep having to improve their standards and institutions to qualify for membership. Of course, macroeconomic stability is also going to be a very important part of that as well.

This afternoon – let me talk a bit about this discussion we had with our governors. The key point is that the Governors approved overwhelmingly – unanimously actually from all those who were there to vote – the next stage of preparation for our five-year planning period. This is due to start in 2021 and run to the end of 2025. That is the next planning period.

The Resolution that they approved asks the EBRD Board of Directors to present a new Strategic and Capital Framework for 2021 to 2025 to enable a decision by the Board of Governors at their 2020 Annual Meeting in London next May.

Specifically – and I am going to quote from the Resolution, as I see a number of Board Directors are here (no doubt to check that I do that). First, it asks them to ensure that none of the work-streams would lead to requiring additional capital contributions or compromise the AAA status of the Bank; and to make sure that any expansion is not at the expense of the Bank’s work in current countries of operations. Second, it reaffirms the EBRD’s strong commitment to current countries of operations, so as to try to enhance activity in order to maximise transition in these countries, in line with their evolving transition needs. Third, is to prepare for Bank engagement with potential new countries of operations in the southern and eastern Mediterranean region. We only started investing there in the second half of 2012. Fourth is to evaluate whether the Bank should hold an additional crisis buffer of capital beyond its current business and prudential needs, in order to respond to unanticipated financial events. Fifth is to analyse potential future options for limited and incremental expansion into new countries of operations beyond the geographic scope of the Bank’s mandate, as currently stipulated in Article 1, such as a select number of African and other countries that are closely integrated with the Bank’s present geographical scope. Sixth is to examine potential options to return capital to shareholders through redemption of any surplus capital identified, including through a distribution to members, based on an analysis of the Bank’s financial position and capital adequacy.
There is a huge amount of work to be done before we get to Governors approving the next strategy in a year’s time. There is a lot of work to be done particularly in the next nine or ten months. All of the work-streams are going to receive equal attention, and we look forward to engaging with Governors back in London in May of next year, when they all need to make a decision about the strategic direction of the Bank for the next five years.

That, I think, summarises essentially what was agreed in the Resolution today.

Let me stop there. I will be delighted to take any questions that you might have.

MR FUSTER (Neue Zuercher Zeitung): You mentioned in your remarks possible expansion of your activities in the region of sub-Saharan Africa. What are the next steps in this process? What is your answer to the argument that the EBRD is overstretching by expanding into this region?

THE PRESIDENT: Well, the question is really one for shareholders. The shareholders, not the management, determine the geographic scope of the Bank. The shareholders have determined on four separate occasions to expand the geography from the original geography, first by adding Mongolia and then by adding Turkey some ten years ago, as a country of operations. And then by adding four countries in what we call the southern and eastern Mediterranean: Morocco, Tunisia, Egypt and Jordan. More recently, Lebanon was added to that. Shareholders also asked us to use some of our net income to support investments in the West Bank. The most recent expansion of geography that the shareholders agreed on was for Greece and Cyprus for a limited time. As you know, the Greece mandate has now been extended by another five years to 2025.

In the end, it is shareholders who take the decision as to whether we have the right skill-set, the right business model, for each of these new geographies. They have taken the view that, yes, we have done a very good job and continue to do a very good job in the region where we first started; but that the business model has also proved its worth in other geographies.
They have so far taken the view that we have been successful in each of these expansions of geography that they have determined and asked us to take forward.

So it will be for shareholders to decide, Thomas. So as you do a study of other new countries: does the business model work in potential other countries too? That is something where we will just do the analysis; they will take the decision.

MR PETER SEMLER (Capital Intelligence Group): The question is on additional countries. Iraq made a request to join the EBRD. Is Iraq a country too far? Is this something that is being seriously considered by the EBRD as a new member country?

THE PRESIDENT: You are right. What Iraq has done is asked the question about membership at the moment. They have not asked the question about country of operations status, because they would not qualify in the current definition of our geographical scope. But it is also true that Iraq, I think, would in due course like to be considered for country of operations status. Again, that will have to be for shareholders to ask the question – the same question as for sub-Saharan Africa: would our business model work in somewhere like Iraq? That is a question the shareholders will no doubt ask us to study in due course.

Today, some shareholders did make that connection. But again, it is something that will have to be studied. There is no automaticity about this at all.

MR MATJAZ POPOVIC (Monitor, Montenegro): I want to ask if the EBRD has established technical assistance for the financial sector in Montenegro.

THE PRESIDENT: In the past we have given technical assistance, certainly to the financial sector, to the banking sector in Montenegro, at various points. To give you an example, one of the areas that I have been particularly keen that we do more on – and in the last few years we have, through the banking system – is lending to the SME sector in Montenegro in particular.
The SME sector throughout the Western Balkans is vital. There are very few very large firms, so the bulk of our work, when we work with corporates in this region, tends to be directly with SMEs. To do that, it is not feasible, given our resourcing, to do it directly all the time. Fundamentally, it is more efficient and more effective to work through the local banking system. For that to happen, the local banking system has to be capable of working out which SMEs are worth investing in and we try to help them build that capability through technical assistance, as you say.

QUESTION (Latvia, Today News): Mr Chakrabarti, what is your opinion about the garbage business, a monopoly with EBRD co-financing? And our domestic oligarch Andris Šķēle? It involves €680 million, and our competition council has prohibited this project. Is it a risk for the reputation of the EBRD or is it a normal project?

THE PRESIDENT: It is not a project I know anything about. It is not a risk, since I do not know about it. I am sure my vice presidents would have told me if we were involved in this. Not that I know of, no.

We had a very good discussion with the Latvian Minister Reirs. He was our Governor some years before when he was finance minister; he has come back into this role. He knows the EBRD very well. We talked about how we should engage with Latvia, going forward.

I think there are real opportunities now with this new administration, if they move forward on two things. Some policy changes, which would mean maybe a partial listing of some of the state enterprises, to allow us to move forward over time towards taking a stake in some of these corporates and making them function better, including on corporate governance. The other area would be providing some budgetary support on – take one of the things we are really good at – energy efficiency. Latvia needs a lot of investment in the energy efficiency area – residential buildings, public buildings – and we could do this. But we need some financial support to blend with our market-based loans to do that.

We had a really good discussion about that. He has invited me to Latvia again, which I am always pleased to go to. We will have a further discussion when I go there. But in the next six months I think we need to move forward, as the government has given a green signal that they can help us in these areas where there are still some transition gaps in Latvia.
MS IKA FERRER GOTIC (N1 TV, Official affiliate of CNN for the Western Balkans): I am going to stick to the Western Balkans, as this is the main topic of this Annual Meeting.

Mr Chakrabarti, I have a question for you. It has been a while since there have been concrete and specific investment talks such as these. I salute you for that. However, you will be well aware of the political rhetoric that the citizens of our region face every day. They are pretty sceptical when it comes to any investment or business corporation in the region. You mentioned migration, which is highest among young people. Unemployment is highest among young people as well. It is 60 per cent is Bosnia and Herzegovina.

What do you say to the citizens when they are so sceptical? What do you say to the political leaders of our region when it comes to those negative political stories, which stop everybody being optimistic, after such positive investment talks, where we come away with a concrete plan?

THE PRESIDENT: Thank you for that question. The Western Balkans has been a priority region, agreed by our shareholders in our current strategy period. In 2016, when the shareholders started this current strategy, this was one of the three priority regions. That was for good reasons, for the reasons you mention. The transition gaps are enormous. Creating an effective market is still very difficult in this region. But there is also a political dimension about the EU approximation process that these countries are embarked upon. They want to move in that direction. In order to do so, they have to make some fundamental reforms to institutions and policies. And they have to attract more investors as well.

Some of the countries also have a market size issue. Some of the markets are quite small. To attract major investors you quite often need to think regionally, not just in a single country way. Many of the projects that would be most viable – infrastructure, energy – have to be cross-border and regional.

So there is a known agenda. What we at the EBRD do – and I think this really describes the institution quite well – is that we are very practical. I do not like having Western Balkans summits where we just sign communiques with each other and say, “That’s very nice”. These leaders need to go back from these summits and meetings like this with concrete
projects that they can talk to their citizens about – “Here is what we are delivering for you because of our engagement with the EBRD” or any other entity.

We created these Western Balkans Investment Summits. They take place every two years in London. They started in 2014, 2016, 2018 and the next one is next February in London. We make sure that we are showing exactly what we are delivering. Let us take the case of Bosnia. I am enormously proud that we have had real engagement with the Bosnian authorities about the reforms that will be required. Difficult reforms, for example about fuel tax and things like that, which is tough to do in any country, including my own. But to do them in such a way that the revenue earned will be put into the maintenance budgets of the highway sector. So for the citizens it means you have filled a few potholes on the highways. Benefit. That is wonderful.

Those sorts of reforms are now leading to this year, when we will have a record year in Bosnia and Herzegovina of €400 million of investment. That’s double last year, because reform is happening more for more, and I am really proud of that. In the end, I am proud of it because my team did it but I am also proud of it because the Bosnian leadership can then say to their citizens, “This is what the engagement is delivering and this is what it makes your lives better.” In the end that is the best way to show concrete results. This is the region where we are investing more per capita than any of our other regions – and for good reason. This is a post-conflict region, so we had to invest a lot more.

There is a thing that we in EBRD need to focus on because there has been quite heavily public-sector-dominated investment for the last few years. I want the next period, as I was saying on stage this morning in the leaders’ panel, to shift it a bit more, to have a better balance between the private and public sectors, to do more private sector investment going forward, and do more on soft connectivity, not just infrastructure connectivity – digital, technology, labour market, reforms, things like that.

All of this can only happen if the leaderships of these countries continue to try to make progress in sorting out all the political issues. What has happened in North Macedonia with Greece is a great example of leadership with courage, so more of that is required.
AARON EGLITIS (Bloomberg News): Could you say how many countries in Africa would be studied for potential expansion? Is it all of sub-Saharan Africa or a smaller number of countries in Africa? Could you also say that you foresee more cooperation with other development banks, say the EIB or the African Development Bank?

THE PRESIDENT: First of all, we have just had the Resolution agreed today. The next step is to work with our Board of Directors on our work plan. The work plan would have to look at what sorts of countries we are talking about. I do not talk about particular countries. As I said to the Governors today, typologies are quite a good way to think of this. These are open questions that I do not yet know the answers to myself. I may have priors but I do not think I know the answer. Would the EBRD model work very well in a post-conflict country in sub-Saharan Africa? Would it work better in a country that has better institutions already, government institutions, a growing private sector, and is entering world markets? Would it work even better in a larger country in sub-Saharan Africa? All open questions, but to be debated. I think the choice of country, the typologies, has to be discussed with our Board of Directors first before we decide how to do this.

On the second question: absolutely. I think this is a really important point you are making about thinking where are we complementary, not duplicating other international institutions. In all the regions where we work at the moment, we have shown that complementarity. It was the African Development Bank that was one of the biggest cheerleaders for the EBRD to enter North Africa, because they said they did not really have the private sector skillset. They are very good at public sector skills, they have a good country network, but they do not have the private sector skillset, and that is why they asked us to come in. Donald Kaberuka, when he was Head of the African Development Bank, was a strong proponent of that. The African Development Bank has again said, “We would love you to study the odd possibility of coming and partnering with us,” but we have to do this properly, in a proper piece of work.

That goes for the EIB too, which is also involved in some countries in sub-Saharan Africa. But we already work with the EIB very strongly in our existing region. Our co-financing with EIB has been going up in recent years. That is a good thing. We have very strong engagement in certain countries. I would say in Romania. Increasingly in Ukraine, I see that as well. Here, in the Western Balkans, even more. Many of these infrastructure projects that I mentioned are co-financed with the EIB as well. I always say it is complementarity and
balance. They are my two principles when we engage in any country. It has got to be that going forward.

MARGARITA SHPILEVSKAIA (Russian News Agency): Good evening. I have a short question. Is there any prospect of resuming investment in Russian projects?

THE PRESIDENT: Thank you for that question. We have done great work in Russia. We continue to have a very important portfolio in Russia – I think about €1.8 billion is still in the portfolio in Russia. We have a very large office in Russia in Moscow that does both the portfolio monitoring in Russia and also works on new projects in Central Asia and the Caucasus. Russia is a very important country for us and it is a very important shareholder for the EBRD.

Do I think that the shareholders will change their guidance immediately or in the near future with regard to new investment by the EBRD in Russia? I would say it is pretty unlikely, looking at it. Let us be honest about it, it would require all the shareholders to get together and change the consensus. And it is a difficult consensus, I think, to change. However, it is up to the shareholders. It is not up to management. That is my perception and that is how I read the discussion among shareholders. But it will be up to them.

PETER SHELLINCK (European News Agency): Billions are going into infrastructure and a very wonderful job is also being done with SMEs. I think there is more and more attention going towards SMEs. However, the reflection in the field is that it is a bit expensive; it is not an easy ride for people to actually get supported on a financial basis. Should the EBRD consider reviewing its approach towards SMEs as far as financing is concerned? Second question is what about NGOs?
THE PRESIDENT: We do periodic reviews of our SMEs offer. I will not go into the euro language/parlance of our various platforms and things, but we basically have a number of different offers for the way we engage with SMEs. But the heart of what the EBRD is about is creating effective markets. Therefore, pricing market levels is very important to how we operate. That is not to say that we do not blend. In a number of areas where there are SMEs or others, we will use grant financing quite often, not really because we want to reduce the interest rate on the loan – that is not what we are doing; what we are saying is there are certain things that the loan cannot cover. For example, if you are trying to improve corporate governance in an SME, that is not something that the loan is going to attend to; you probably need some technical assistance with grant funding for that. We do receive quite a lot of donor support for doing exactly that, but that is the model we will apply.

If we are on-lending through a local bank, we like them to lend at market rates, because it is about creating effective markets. That is our model, and I think it has worked well. It is a high-risk business, SMEs. You can read countless World Bank studies of the SME world. Many SMEs fail, and for a Bank like us it is a question of getting the balance right between doing some direct lending to SMEs but actually trying to use, as I was saying earlier, the local banking system as much as possible, and build in capability to that banking system so they have a better sense of which SME is going to work out and which one is not doing the analysis properly as well. That is the approach we have taken. Overall, it is quite a successful approach. It gets continually reviewed as well.

On NGOs, we will have a very good session tomorrow, I think, with civil society. I am looking forward to it. Our engagement with NGOs has changed, in my view, for the better. What we have tried to do is engage earlier in strategic processes than we used to. This is a bit of a caricature, maybe, in the way I am going to put it, but I think ten years ago our approach might have been “end of the assembly line”. “Here is what we think and now what do you think?” I do not think that is a very profitable way of engaging with anyone, really. We try to engage with NGOs much earlier in country strategies, sector strategies and thematic strategies to involve them much earlier in the discussion and to take their input much earlier. I think that has led to a better relationship as well.
We have also responded to some of their thinking around, for example, project complaint mechanisms, and how accountability for that should be more independent of management. That has just been adopted by us as part of our new good governance policies. I think it is a growing relationship, I would say, and an area of new growth that I really welcome, given our mandate is the human rights dialogue that we have in many countries. When I go to some of these countries, I have a discussion with the NGO community there, and also sometimes with the community in London before I go, in case people cannot speak as freely locally as they would be able to in London. That does inform a lot of our thinking around political assessments and the trajectory of political change in these countries. The NGO, civil society, input has become more and more important to us – and a good thing too.

BEN HALL (Financial Times): The last Resolution I think you mentioned was about a review into returning capital to shareholders. Is that the first time you have ever conducted any such review, and does that suggest that some shareholders think your job is done, or that they do not want you to expand your activities?

THE PRESIDENT: No, Ben, this is actually a traditional analysis that is done when we embark on a new strategy period. It was done back in 2015, in the run-up to the Tbilisi Annual Meeting when we adopted the current strategy. We did this work and – to get technical – there is even a Resolution – 183 I think it is – which asks us to do this every time. In our Articles, we are always asked to look at our capital capacity before we do anything new. That is why it is called the Strategic and Capital Framework. We would look at this anyway. This is just, in a way, writing down what we need to do on capital anyway, as part of the process. I would not read anything more into it than that.

MR WILLIAMS: Are there any more questions? I have a feeling the next event cannot start until Suma Chakrabarti actually arrives at it, but if there is one more question I am very happy to take it.

THE PRESIDENT: And I am thirsty! Which is the next event. I am happy to take one more question, if anyone has anything burning. Are you sure?

MR WILLIAMS: If that is not the case?
THE PRESIDENT: Can I thank all of you for coming? It is a really good turnout from the media at this annual event. The next one in London will be very important because I hope we will be able to have a new strategy in front of our Governors for approval. I am sure many Governors will also want to give interviews in a year’s time on that as well.

Thank you all for coming; it is really appreciated. (Applause)

(The Press Conference ended at 18.59)