RUSSIAN FEDERATION

STATEMENT BY THE HEAD OF DELEGATION FOR THE RUSSIAN FEDERATION

Annual Meeting of the EBRD Board of Governors
Jordan, 9-10 May 2018

The Russian delegation would like to express its sincere gratitude to the Jordanian authorities for their warm welcome and for hosting the EBRD's 2018 flagship event.

As a responsible shareholder of the EBRD, the Russian Federation would like to stress the following.

In recent years, many of the qualitative measures of the EBRD's results have been on a downward trend in terms of operational work and planned targets:

- The reflows from the Bank's portfolio have gained momentum: in 2017 for instance, the Bank's clients made almost €1 billion of early repayments, while cancellations amounted to €1.2 billion. Profitability in equity and loan portfolios has been falling, so that banking assets have had to be partially replaced with treasury assets. The share of equity investments has also fallen: based on 2017 results, they were only 4.5 per cent of annual bank investment, compared with 12 to 14 per cent previously.

- For some years now, the Bank's operating activities have been planned at a significantly lower level than when its current five-year Strategy was being prepared. It had been assumed that activity would increase towards the end of 2020, and that the Bank's operating assets would potentially grow to €38.0 billion based on an annual business volume of up to €12.0 billion. However, the Bank's current projections plan for operating assets to reach €30.7 billion, assuming annual operations of up to €9.1 billion by 2020. Overall, EBRD operations will be €46 billion across the five-year Strategic and Capital Framework, compared to a projected €55 billion. In other words, the EBRD is not using its shareholders' capital as efficiently as it might; and it is not making sufficient efforts to bridge the gap between actual volumes and what was planned when the Strategy was prepared.

- These approaches also affect the banking portfolio: it has shrunk from €41.8 billion to €40.7 billion since the start of 2017, while operating assets are down from €29.7 billion to €28.2 billion.

- The Bank continues to evade its commitments on graduation, and we believe this will ultimately damage the EBRD’s reputation and effectiveness. A number of central and eastern European countries have already established their market economies and long since joined the EU. They have not only delayed the graduation process, but have even continued to expand their cooperation with the EBRD. For instance, Poland has successfully completed its market transition, partly due to the Bank’s work; but it is consistently one of the top five recipients of Bank funds. What makes this approach especially wrong is that amounts have been increasing at the expense of the Bank’s work in countries in the early stages of transition that genuinely need the EBRD’s resources.

- The Bank’s budgetary projections for the next three-year period triggered a revision at the end of 2017 of the Strategy’s control parameters by increasing the permissible limits for the cost-to-income ratio from 33 per cent to 50 per cent. We see this as unacceptable.

- Even more of the Bank’s projects are failing to comply with the principles of sound banking practice and are making straightforward losses for the EBRD. Diminishing profitability has to be compensated for by running more profit-seeking operations, but these simply lead the Bank even further away from delivering on its mandate.

- When measured against integrity and transparency requirements, the quality of the EBRD’s projects is sliding. This is an unavoidable consequence of the Bank concentrating its operations in high-risk regions.

Throughout the many years of successful work in its region of operations, the EBRD has proved itself to be an effective instrument of international efforts to promote democratic reform and support market transition, particularly through transforming former planned economies where market institutions have effectively never existed.

However, in recent years, disquieting tendencies have increasingly come to the fore. Through the efforts of management and several large shareholders, the EBRD’s mandate has started to erode. The main focus of its project work has shifted towards new countries and regions. The Bank is increasingly concentrating on global development issues that do not fit with its true purpose.

The Bank is clearly departing from its proven business model, which had been to support the establishment of market economies by delivering private sector projects designed to develop market mechanisms, commercialisation and privatisation, along with integrated support for institutional reforms. This has led to a failure of the sound banking principles that the EBRD had so far followed in all its operations. Those principles have allowed it to generate a steady income and maintain an outstanding financial profile.

We would like to remind colleagues and the management that the Bank's operational and financial downward trends are the direct consequence of the illegitimate "political guidance" of the Board of Directors in July 2014 on suspending new EBRD investments in Russia. We continue to insist that this unauthorised and legally unfounded decision, involving numerous violations of the Bank's founding document (Articles 8.3, 11.2(i), 13(i), 32.2 and 32.3 of the Agreement Establishing the EBRD), has damaged the mandate of the EBRD and the stability of its business model.

Russian objections were set out in detail at last year's meeting of the Board of Governors, in Cyprus. Regrettably, the Board of Governors proved unable to take legitimate and even-handed decisions in the interests of the EBRD. As a result, the Bank continues to be obliged to act as an instrument of national discrimination.

Our case demonstrated that, in practice, there are now no effective mechanisms in the Bank to protect the rights of its member states and to resolve shareholder disputes – the majority of shareholders have preferred simply to turn a blind eye to clear violations of the founding document, thus signalling to the management to continue the EBRD's anti-Russian policy.

What is more, the EBRD has neither reviewed nor updated its "political guidance". There are also no time limits on the suspension of Russian operations, nor are there any eligibility criteria for resuming normal work in Russia.

It must be clearly understood that it is the decision to stop work in Russia – once the Bank's largest country of operations that used to generate up to a third of the Bank's annual business and over half its revenues – which is the key to the EBRD's current problems of self-identification, its search for its place in the international financial architecture, and its operational and financial complications. No attempt to disguise the consequences of this step, or to replace their solution with a new agenda, will help solve the Bank's difficult search for a strategic focus.