RUSSIAN FEDERATION

Statement from the EBRD Alternate Governor for the Russian Federation
S A Storchak

Annual Meeting of the Board of Governors
7–8 October 2020

Madam Chair of the Board of Governors, Ms Calviño, Governors and Alternate Governors, members of the Bank's Board of Directors, colleagues,

It is a real honour for me to greet you all on behalf of the Russian Federation, one of the Bank's major shareholders and, until relatively recently, the largest country of operations, whose results determined, to a significant degree, the Bank's financial sustainability.

The Bank's professional involvement in tackling the fallout from Covid-19 is an absolute strategic priority for the EBRD, whatever other tasks and objectives we might set it. All resources and capabilities must be deployed, however difficult this might be through having to make decisions online. On the whole, management are coping with this challenge by providing additional resources to systemically sustainable potential customers, agreeing to deferrals and restructuring, and facilitating the smooth running of the physical and social infrastructure of the countries of operations. This is all vitally important, timely, and undoubtedly in line with the expectations and requirements of the economies of the countries of operations.

That said, these efforts by the Bank cannot smooth over a certain "bias" in allocating resources to large and more advanced economies in the operational region. Looking ahead, we trust that the EBRD's focus on crisis response will largely pivot towards the most vulnerable shareholders for whom securing external financing under terms comparable to those offered by the Bank is not an option. We also believe that the

Bank should refrain from widely deploying resources to support financial institutions in the eurozone and public-sector infrastructure companies which can, in our view, obtain funding from the financial markets on particularly favourable terms.

The pandemic and the crisis it has triggered are creating an essentially new environment for the Bank to function in. In these conditions, we should forget all the stereotypes that influence the Bank's credit operations and other business. For example, Russia has been refused any solidarity. A major shareholder has been excluded from the crisis response measures on clearly inappropriate geopolitical grounds, as if Covid-19 were restricted by borders. We believe that both management and the Board of Directors are fully aware of the responsibility they have to future generations. The Bank's mission is to build bridges, not to drive greater wedges between economies and peoples.

Unfortunately, the strategic documents carefully avoid the question of the EBRD's return to Russia. However, we feel that the tactic of avoiding the subject of the Bank's future position in the largest economy in its region of operations is irrational both in terms of common sense and appropriate business planning. Blocking operations with Russian involvement inflicts direct damage on the EBRD's financial interests and its sustainability. The anti-Russian "political guidance" is harming the Bank's long-term interests (including its political interests), partly due to the "erosion" of its portfolio quality.

While giving credit to the EBRD's rapid response to tackling the crisis, it is just as important not to lose sight of a strategic "post-Covid" vision. In our view, this involves maintaining and developing the Bank's "core" mandate: supporting market reforms and privatisation; technical assistance; and policy dialogue with the authorities of the countries of operations on good governance and structural reform.

The current crisis shows that the EBRD's mission is far from over. There is major demand for expansion in the areas mentioned above, especially in the health sector.

One noticeable fact is that the crosscutting themes referred to for the forthcoming strategic planning period are (1) supporting the transition to a green, low carbon economy, (2) promoting equality of opportunity and (3) accelerating the digital transition. It would be difficult not to support these areas of action. They are arguably universal and pertinent as development priorities for the EBRD just as much as for its shareholders. We wholeheartedly support the EBRD's increased accountability towards observing green principles in its activities, as set out in the new Strategy. Russia's position is based on our firm national commitment to global climate goals.

However, we would like to warn the Bank against adopting a formalistic approach and imposing on the market and countries of operations financing solutions and schemes that are either unrealistic in the current conditions or only applicable in developed countries. Examples of such solutions include the restrictive attitude to supporting financing for hydrocarbons projects and plans to introduce a hydrocarbons tax on relevant supplies to the EU. The EBRD's task is to carry out its mandate in all its entirety without displacing its tasks on the green agenda. Furthermore, it remains an open question as to how the EBRD's green ambitions relate to its political mandate. Can the Bank adequately fulfil its declared green mission if it deliberately excludes certain territories or sectors from its operational mandate? Do the common, global climate challenges we face recognise geopolitical borders and barriers?

We have a similar view of the EBRD's prospects for expanding its mandate into African areas, particularly into sub-Saharan Africa. The intention of our European colleagues to increase the Bank's presence in Africa might be clear and easy to explain in a political sense; but in terms of the Bank's operational activity, this rationale is hardly appropriate. The EBRD does not have the necessary expertise to be additional to investments in the territories being considered. The pivot to Africa may prove to be unwise, given that there are major development institutions (international and national) in the region that have specific local expertise and tried-and-tested experience. It would be sensible to consider co-financing in this region; that would allow for less radical solutions, including the EBRD's involvement in the G20 Compact with Africa and other initiatives.

As part of the Bank fulfilling its mandate, we should pay particular attention to ensuring equitable and transparent access for suppliers and contractors from all shareholder countries to tenders and competitive bids relating to EBRD-financed projects. From the perspective of the Bank's clients' interests, sanctions or any other restrictions would seem inappropriate. For obvious reasons, we constantly monitor the statistics and results of relevant tenders and feel that the Bank should take additional measures to achieve a more representative and balanced picture in terms of the countries that winning bidders come from.

During the transition to the recovery and growth phase of our current agenda, we must return to the issue of graduation of the most advanced countries of operations. Shareholders have been discussing the need to inject some impetus into this process for many years; but the situation remains unchanged.

We support colleagues who maintain that graduation must be a voluntary process that a shareholder embarks on independently. But let us not forget the political and strategic dimension to this process. On the one hand, graduation is a success story for the Bank and the relevant economy. But on the other, it is a mark of respect to our institution's mandate from all participants in the process.

We cannot but welcome moves towards promoting technological development in the Bank's projects. Here, as with any other initiative, we should try to avoid insisting on applying "digital" standards that are not always appropriate. We know that the EBRD's strength has always been its ability to work locally and listen to its clients. We believe that the type of work involved in digital projects will take its rightful place among the range of the Bank's products and will benefit the countries of operations.

Tomorrow the Board of Governors will elect a new president of the Bank who is to lead the Bank into the "post-Covid" era. That means facing challenges which their predecessors did not encounter. All the candidates have presented their vision of the Bank's future. These programmes include many really important and interesting aspects. But, in our view, there is one key element missing: how will the candidates regard themselves at the end of their presidency?

We need to raise this point at the Annual Meeting because it has come to light that the outgoing president of the Bank has been appointed to important government positions – details of the specific terms of the appointments are unknown – in countries of operations, particularly in countries where the EBRD has been notably active in recent years. These "coincidences" may, of course, be complete chance. Mr Chakrabarti's qualities are well known and he has already been highly commended by shareholders. However, it would be wrong not to comment on this information. It is obviously up to the Board of Directors to make appropriate clarifications to the documents governing relations between the Bank and its president in this regard.

I would like to conclude by again wishing the Bank and its new leadership every success in implementing the new Strategy and delivering on all its tasks.