

**OPENING STATEMENT BY  
THE PRESIDENT OF THE  
EUROPEAN BANK FOR  
RECONSTRUCTION AND  
DEVELOPMENT**

**Board of Governors' Opening Session**  
**EBRD Annual Meeting, Nicosia, Cyprus, 9.00**

**Wednesday 10 May 2017**

**Sir Suma Chakrabarti, EBRD President**

**1. Welcome and thanks**

President Anastasiades, Minister Georgiades, Chairman Gramegna, Governors, Ladies and Gentlemen.

A warm welcome to the 26<sup>th</sup> EBRD Annual Meeting. And let me also bid you welcome to the beautiful island of Cyprus.

We have just heard Chairman Gramegna thank the Cypriot authorities for all their help in organising this Meeting and the Business Forum that runs alongside.

I too would like to express our gratitude for the first-rate cooperation of our Cypriot colleagues and the significant efforts they have gone to with great grace to make the Annual Meeting and Business Forum the triumph I am sure they will be.

/ Each of our Annual Meetings is important in its own way ...

## 2. Cyprus

Each of our Annual Meetings is important in its own way. But, given its significance for the island of Cyprus - and for the broader region - this year's can genuinely be described as historic.

For one thing, we are gathered here at the exact midpoint of the temporary mandate our Governors granted us to work in Cyprus.

We are proud of the impact that our investments in Cyprus, worth more than €220 million, have had so far.

We participated in the recapitalisation of the two largest local private banks, Bank of Cyprus and Hellenic Bank, acquiring 5% stake in each, helping with their operational restructuring, corporate governance improvements, and putting in place a strategy to work out large non-performing loan portfolios.

We launched our trade finance programme here in 2015. By 2016 Cyprus was the third most active trade finance country of operations, facilitating almost 180 transactions worth about Euro 80 million to support trade with 24 countries in Europe, Africa, Middle East and Asia. And these transactions also set a benchmark of quality. Our TFP deal of the year has, in each of the last two years, been a Cyprus deal: last year for the export of construction services from Cyprus to Egypt; and this year, for the import of a floating dry dock from Ukraine to Cyprus.

/ We have financed an expansion of solar power ...

We have financed an expansion of solar power generation on the island by about 20 percent, including the largest photovoltaic plant in Cyprus to date, to be inaugurated on Thursday, right after the host country investment session.

Such impact would never have been possible without the dedication, efficiency and resolve of the Cypriot authorities and the private sector.

This Annual Meeting thus presents us with a timely opportunity to pay tribute to Cyprus' success in overcoming the financial crisis - and returning to the path of economic growth.

This is also the first time an Annual Meeting has been held in the eastern Mediterranean.

Cyprus is an important gateway to what is the EBRD's newest region of operations, what we call SEMED, and being here today underlines our enthusiastic commitment to this dynamic and diverse part of the world.

Our backing for economic integration across all our regions of operations is matched by our support for integration within the island of Cyprus itself.

We have worked hard to fulfil the mandate set by our Governors to deliver projects across the whole island, for the benefit of both Greek Cypriot and Turkish Cypriot communities.

/ The EBRD remains staunchly committed to promoting ...

The EBRD remains staunchly committed to promoting efforts towards unification.

I am also sure that our shareholders would be strongly supportive of the economy of a united Cyprus should the current negotiations on re-unification be successful, as we all must hope.

We also understand that a united Cyprus would confront transition challenges and have funding needs rather different from those today.

But these would be more than compensated for by exciting new opportunities – and the resulting boost to regional stability.

### **3. A strong and successful bank**

Ladies and Gentlemen, there is another reason why I believe this Annual Meeting is historic.

The fact that we are hosting it here, in a country of operations in which we have been investing for only three years, is testament to the EBRD's ability to inspire, to be rapidly responsive, and, most of all, to deliver.

Only a truly strong and successful Bank could point to our achievements in Cyprus in the short period we have been active here.

/ Only a truly strong and successful Bank could point to ...

Only a truly strong and successful Bank could point to the impact we have had across *all* the countries where we work, both last year and in the quarter of a century which preceded it.

And the number of those countries continues to grow.

The authorities in Lebanon are finalising the steps necessary to become an EBRD shareholder and we hope soon to welcome them as our fifth SEMED recipient country.

I should also mention here my recent visit to Uzbekistan and signing of a Memorandum of Understanding which marks the “new beginning” to our engagement with that country.

It is a pleasure to see representatives from Uzbekistan and Lebanon here with us today.

But it really should be no surprise that new countries want to join the EBRD family – and that we are renewing our engagement with some others.

Our business model, with its focus on private sector projects and commercial approaches, coupled with expertise in policy reform, is one that has been tried and tested in many different contexts.

And for all the fits and starts with which reforms proceed in the EBRD regions, their overall trajectory is clear – and cheering.

/ The findings of our latest Life in Transition Survey ...

The findings of our latest Life in Transition Survey, released at the end of last year, reveal that the 'happiness gap' between the transition region and western Europe has finally closed.

Respondents in the transition region were, in fact, more optimistic than their Western neighbours about their future.

But they are also more exercised than ever before about inequality.

Ladies and Gentlemen, the EBRD business model is needed now more than ever if the countries where we work are to enjoy inclusive growth that is both sustainable and can consolidate reforms.

You, our shareholders, have asked us to help deliver transition resilience and market integration and to address global and regional challenges through the Strategic and Capital Framework which informs our work up until 2020.

Our results for last year illustrate the considerable progress we are making towards realising all these goals.

We achieved high expected transition impact and a record portfolio transition impact, our measure of the progress towards effective market economies as a result of EBRD investments.

We delivered 378 projects worth €9.4 billion, matching the record set the previous year.

/ I would also single out the number of projects in Early ...

I would also single out the number of projects in Early Transition Countries, which reached 114.

Projects which were part of our new Green Economy Transition approach accounted for a third of total annual investment, bringing us closer to our target of 40 per cent by 2020.

The accord we signed last month with the Green Climate Fund, and the funding approvals which make us the largest single recipient of their resources, can be seen as a significant vote of confidence in EBRD's performance in this field.

The number of projects that help to implement the Strategy for the Promotion of Gender Equality approved last year also went up to 29 from 23 the year before.

And local Currency and Capital Market operations were also both up. We signed the equivalent of almost €1.6 billion in 93 local currency loan and bond transactions, the leader among all multilateral development banks by some distance.

I would also take this opportunity to express our gratitude for the generosity of our donors last year.

/ Their contributions to our work were up 24% to €444 million ...



Their contributions to our work were up by nearly a quarter to €444 million, another record, enabling us to move forward and have impact in countries, sectors and themes where a more blended financing approach is essential.

A heartfelt thank you to all our donors for your support.

All these figures speak of a Bank which, thanks to the quality of its business model and the professionalism of its staff, is delivering extraordinary results on the ground.

Only a truly strong and successful Bank could have deployed so fast in Cyprus – and elsewhere - and proved so agile and adaptable in the shifting environment.

And we are playing an increasingly central role in shaping the international development system.

As the development finance landscape continues to change, so do the needs and ambitions of recipient countries.

I strongly believe that the multilateral development bank system must also evolve. Not least by equipping itself to respond better and with more urgency to the challenges of achieving the Sustainable Development Goals and Financing for Development.

/ The 2030 deadline for achieving the Sustainable ...

The 2030 deadline for achieving the Sustainable Development Goals is not far away. With our unique business model and private sector focus, the EBRD is well placed to deliver for our countries of operations in many, many ways, among them by helping to mobilise much needed private finance.

We are also open and eager to share our business model, approaches and lessons learned with other members of the MDB community.

But, ladies and gentlemen, if the EBRD is to continue to be the strong and successful Bank our shareholders want and our countries of operations need, we must rise to three important challenges. These challenges are also opportunities for EBRD.

They are:

- to deliver even greater transition impact;
- to enhance our financial sustainability; and
- to improve the effectiveness and efficiency of everything we do

All three are as much opportunities as they are challenges.

We talked about these priorities last year, as you will recall.

We are moving quickly forward on each one. Let me tell you about our progress.

#### 4. Greater transition impact

The EBRD was founded 'to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative'.

The years since our creation have deepened, broadened and refined our understanding of what a successful market economy actually is and how to promote its development.

Our refreshed transition concept, which came into effect at the beginning of this year, defines what our objectives are whenever we invest in or offer advice to our clients and partners.

But, as I will make clear, we are *already* delivering considerable impact via the six individual transition qualities that we have now identified as key for a modern economy.

Our countries of operation have to be **more competitive** because greater competition means lower prices, more innovation, and better value for consumers, as well as more growth.

/ One example among many is the €1 billion we ...

One example among many is the €1 billion we have provided over the years directly ourselves and through local banks to 32,000 agricultural businesses in Turkey, a milestone we passed only a month ago.

Such investment has enhanced competitiveness, created employment and boosted growth across the whole country.

EBRD countries of operation also need to be **better governed** because good governance and the rule of law promote trust, fairness and cohesion, and the political legitimacy of the market economy. Good governance also encourages investment.

To that end, we and the European Union last year stepped up our support for reforms in Ukraine via the Ukraine Stabilisation and Sustainable Growth Multi-Donor Account, which we manage, and through the establishment of Reform Support Teams in key Ministries.

Our countries of operation must also be **greener** because a genuinely sustainable economy should protect natural resources and the environment in the interest of all, including our children and generations to come.

I am pleased to report therefore that, together with the AFD, the EIB and the EU, we recently launched the latest of our Green Economy Financing Facilities, our 24<sup>th</sup>, in Egypt.

/ This €140 million programme will provide loans ...

This €140 million programme will provide loans for energy efficiency and renewable energy investments by private companies via local banks, with the aim also of achieving energy security.

A modern market economy also needs to be **more inclusive** because growth should benefit entire societies, with no groups left behind.

Our new Economic Inclusion Strategy, launched at this Annual Meeting, will enhance our private-sector approach, focusing on access to skills and employment, on entrepreneurship and access to finance and services that create new economic opportunities for all, with particular attention to women, young labour market entrants and those living in disadvantaged regions.

And, depending on country circumstances, we will also explore the gradual expansion of our economic inclusion activities to other groups such as the ageing workforce, people with disability, refugees and minorities.

EBRD countries of operation also have to be **more resilient** because, with progress unfortunately vulnerable to reversals, sustainable economies need to withstand turbulence and shocks.

An excellent example of this is our and the EU's support for Jordan's extension of the use of renewable energy in its municipal services, a project all the more urgent because of the influx of refugees into the country.

/ And the last of our six new transition qualities ...

And the last of our six new transition qualities, the economies of our countries of operation need to be **more integrated**. Because integration, within and across borders, empowers both entrepreneurs and consumers.

More integration was one of the main benefits of our first ever project with the Asian Infrastructure Investment Bank, signed last summer, a €51 million upgrade of the motorway linking the capital of Tajikistan, Dushanbe, with neighbouring Uzbekistan.

Focusing relentlessly on those six qualities in our investments, policy and partnerships work is a challenge given the political and economic environment in some parts of our operational geography. But it is also an opportunity to maximise transition impact. An opportunity that we at the EBRD continue to take up with relish.

## **5. Financial sustainability**

The second area of challenge and opportunity for the EBRD is that of continuing to maintain our considerable financial strength.

The Bank's successful financial performance is, after all, a precondition for our primary goal of delivering transition impact.

Indeed, our net profit of €1 billion last year, some 25 percent up on 2015, is proof of our strength in this area.

/ And this pleasing trend continues with our profits ...

And this pleasing trend continues with our profits rising even more sharply in the first quarter of 2017.

As our shareholders, you expect the Bank to support the delivery of our mandate through the steady growth of its capital and the excellence of its financial management.

We share those goals.

An important endorsement of the quality of the EBRD's financial management is its credit rating.

All major international rating agencies have consistently and repeatedly reaffirmed our triple-A rating with a stable outlook, despite the headwinds that have buffeted our regions in recent years.

I am proud of this achievement and determined to safeguard it.

And we want to build on this achievement by proactively working to maintain the capital growth necessary to support the scale of our work.

That is why we initiated a comprehensive review of our income generation potential.

The reality is that – despite our performance last year - in each of the EBRD's principal areas of revenue generation, the external environment is difficult.

/ In the loan market, excess liquidity means that ...

In the loan market, excess liquidity means that commercial bank resources are plentiful and there is constant downward pressure on margins.

Also, in recent times, the combined effect of market valuations, relatively subdued economic growth and foreign exchange movements have suppressed returns on the EBRD's equity holdings - a traditional source of strength in supporting our capital growth – to below past levels.

And with global interest rates so low, the return from Treasury investment of our free capital has been negligible.

Together, these external pressures, ones also faced by other multilateral development banks, constrain our ability to generate more revenue.

But, we are not sitting on our hands and waiting for the financial weather to change. We are examining the scope for increasing income from keener pricing and fee levels, while balancing revenue concerns with the potential impact on clients and levels of business activity.

And we will be implementing the second phase of our Enhanced Equity Approach, building on work done over the last three years, with a focus firmly on increasing income generation.

In the short term, more can also be done to realise the full potential of skills and market knowledge of our Treasury operation.

/ And for the future, we are asking important long-term ...



And for the future, we are asking important long-term questions such as:

- Can we do more in capital markets?
- Are there more lessons to be learnt from investment banks?
- What are the implications for us of Fintech?

In answering these – and other – strategic questions over the next year, we will continue to deliver the strong financial performance that has been our hallmark.

## **6. Effectiveness and Efficiency**

Our third challenge, as well as our third main opportunity, is that of making the EBRD a leaner and even more effective organisation.

This builds on what we have achieved under the One Bank modernisation programme.

But we are now going much further. Over the past year, we have been looking hard at our systems and processes, at our use of technology, and of course at where we spend money.

We call this the Operational Effectiveness and Efficiency or OEE programme.

/ We do **not** call it a savings or a change programme ...

We do **not** call it a savings or a change programme, although it will deliver both such benefits.

We are focussed on both the effective delivery of our mission, making sure we spend our time on achieving greater transition impact, and the efficiency of our work, streamlining and simplifying as much as we can.

And since the start of this year, we have been implementing such initiatives as simplifying the country strategy process, introducing more specialisation into our banking teams by creating a Debt Management operation which will improve the quality of our portfolio, and embedding the six transition qualities I listed earlier in our day-to-day work.

We will be even more tightly focussed on choosing projects which create impact, and then measuring their outcomes.

We have gone through many of our business processes in Finance, Human Resources and other supporting functions line by line so as to simplify tasks and reduce duplication.

Underpinning much of this work is a major focus on technology.

We are in the middle of introducing new IT infrastructure, using the latest cloud-based systems and taking advantage of developments in areas like visualisation and search.

/ Some of the greatest benefits will be felt by our bankers ..

Some of the greatest benefits will be felt by our bankers, who currently use multiple systems and are often required to input information more than once.

OEE is being funded by the Invest to Save programme approved by the Board of Directors last year.

We will receive a return on our investment in about three years, and then build up to substantial total savings by 2020, including a considerable reduction in IT costs.

We are well on course to deliver our targets this year.

Related to that, we recently completed a voluntary severance programme in our Banking department, whereby more than 60 colleagues left, in large part because OEE means that we can re-prioritise work and change the grading mix.

Given that we are living, in effect, within a flat budget, OEE plays a very important role in ensuring we stay on track.

But much more than that, OEE is about creating value:-

Value for our staff, who will spend more time on what really matters, rather than internal processes.

Value to our clients, who will find it easier to work with us.

/ And all of that creating more value for our shareholders ...

And all of that creating more value for our shareholders.

If you are interested in finding out more about what we are doing on OEE, the staff responsible can brief Governors and their representatives in the café area throughout the Annual Meeting.

But overall our aim is to be, with the help of the OEE programme, the model of a modern and well managed multilateral development bank. And I trust you will agree that we are well in to that journey.

## **7. Our Vision**

Ladies and gentlemen, enhancing our effectiveness and efficiency will allow us to focus even more on delivering the Bank's mission.

The contracting parties who came together to establish the EBRD in the early 1990s believed that our region needed a multilateral financial institution of a new sort to serve as a 'unique structure of co-operation'.

They did so because they knew that, on their own, individual countries - even powerful ones - cannot deliver the results that are possible when they act in concert.

There can be few more eloquent examples of this truth than our work to help fund and coordinate the work to secure Chernobyl, site of the world's worst ever nuclear accident.

/ I was there for the ceremony last November ...

I was there for the ceremony last November to mark the moving into position of the extraordinary structure that is the New Safe Confinement.

As a feat of engineering, it is a modern miracle.

And the EBRD's contribution to the whole project, as well as that of the 45 donors involved, has been immense.

But there is a deeper symbolism to our common efforts to assist Ukraine in its efforts to deal with the consequences of that tragedy.

As the New York Times commented at the time, this was "a model....of what humanity can do in the face of a real danger that no one country.....could manage".

## **8. Conclusion**

There are many more dangers in today's volatile world that we can only address together.

Our role at Chernobyl is coming to an end.

But history will continue to confront us with new tests of our creativity, our common purpose, and our determination.

/ The EBRD is ready for those new trials. ...

The EBRD is ready for those new trials.

The challenges we face in maximising our impact and enjoying still more success are in fact opportunities.

Our vision, fixed as it is on our transition mandate, remains clear.

Our plan to deliver yet more impact, to enhance our financial sustainability and to improve the effectiveness and efficiency of everything we do is robust.

The results of our work on these three fronts are taking shape and there for all to see.

Taken together, they will secure the EBRD's status as a strong and successful bank. Working with drive, determination and skill to maximise value for our countries of operations and all our shareholders.

And, with your support, we will be empowered to do even greater things in the future.

Thank you very much.