RUSSIAN FEDERATION

Statement by the Alternate Governor of the EBRD
for the Russian Federation, S.A. Storchak
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The European Bank for Reconstruction and Development has now been supporting its countries of operations in their transition to an open market economy and in the development of private and entrepreneurial initiative for a quarter of a century.

Today, 25 years after its establishment, the time has come to look back, to take stock of the work done and to map out the direction of the EBRD's future development.

Throughout the history of its operations and in accordance with its core mandate, the Bank has made a significant contribution to the development of a market economy in countries committed to multi-party pluralism and democracy, and has established a track record as a successful international financial institution with a unique business model.

Today, the management of the EBRD and its shareholders are facing a difficult challenge – how not to dissipate, in the unstable socioeconomic and political environment, the operational potential built up over the many years of its work, and how to assert its position as a strong and effective development institution.

However, we are now forced to conclude that, in the response to the new challenges facing the Bank, what we are seeing is a trend towards the erosion of the EBRD's mandate, which expresses itself in a shift of business emphasis towards areas which do not fully correspond to its core function.

In particular, the Bank is focusing increasingly on the development of the so-called "green economy" and the problems of climate change, on which it proposes to increase funding to 40% of total investment in the next few years; on promoting gender equality; on combatting the consequences of the migration crisis, and so on.

The efforts of the EBRD management to preserve business volume by implementing projects without "fresh money" involving client restructuring and refinancing of existing market debt or expenditure already incurred (retroactive financing), together with the Bank's attempts to compensate for diminishing business volumes by implementing a large number of projects which frequently do not comply with its basic mandate requirements, have had an adverse impact on the quality of its project portfolio and have endangered the EBRD's unique and successful business model.

As we have repeatedly noted in the past, these trends are at odds with the fundamental principles of the EBRD's operations and the long-term interests of the Bank and its shareholders. The current situation in the world economy, the shortage of investment and quality projects, adverse trends associated with the volatility of commodities markets – all of this has had a major impact on the pace of economic growth in the countries of our region and requires prompt and commensurate reaction on the part of the Bank. That is why we consider it essential for the EBRD to adhere to its core mandate in the coming years, devoting the maximum possible resources to supporting the private sector, developing small and medium-sized businesses, expanding the use of public-private partnerships, strengthening the stability of the financial sector and to other key areas of the Bank's operations that will help strengthen the foundations of open market economies in the EBRD's countries of operations and have long underpinned its outstanding reputation.

Unfortunately, the policy currently conducted by the Bank does not give proper attention to the creation of market institutions and sustainable development mechanisms in the EBRD's recipient countries, where the transition process remains incomplete, or is still at the early stages.

On the contrary, the Bank is continuing to operate actively in Central Europe and the Baltic region, whose countries have now reached the stage of "mature" market economies and are ready for graduation. Maintaining the level of investments in that region at an annual 16% in the years up to 2018, as the Bank is planning to do, is at odds with the earlier decisions concerning the need for those countries to gradually exit the group of the Bank's countries of operations, and calls into question the EBRD's intention and ability to implement its statutory objectives.

Moreover, in light of the financial, economic and political turbulence currently experienced by the Bank's regions of operations, it becomes especially important for it to ensure constructive dialogue and direct involvement of its countries of operations in the preparation and adoption of operational decisions, including by strengthening their voice and representation in the Bank's governance structure.

Nor does the EBRD's financial stability benefit from its management's policy of expanding the geographic reach of its operations, including into what is for the EBRD the non-traditional region of the Southern and Eastern Mediterranean, and of supporting temporary countries of operations – Greece and Cyprus. As we have repeatedly noted in the past, refocusing the EBRD's business activity on high-risk regions endangers the Bank's financial stability. Further evidence of this is the quality of its credit portfolio in the last few years, which is the worst since the 2008-09 crisis. Specifically, the percentage of non-performing loans in the Bank's 2015 operations portfolio was 5.9%, a figure that is expected to grow in the medium term (by 2018) to the record level of 7.5%. What is more, in the years 2013-15 the Bank's key operating performance indicator - the cost-to-income ratio - has deteriorated, rising from 23% to 31%, with a further increase to 33% in 2018 forecast.

To avoid negative consequences that could undermine the Bank's financial stability and jeopardise the retention of its top credit rating, we urge management to pursue a more balanced credit policy, carefully weighing the risks and potential impact of its decisions.

We consider the EBRD to be an organisation managed and mandated to work for the good of all its shareholders. Regrettably, we have from time to time observed attempts to impose one-sided political preferences, with adverse consequences not only for the Bank itself, but for all its members. A glaring instance of this policy is the decision, informally adopted by the Board of Directors, to suspend Bank operations in the Russian Federation which, until the sanction regime was introduced, was a key region of operations.

The adoption by the Bank of the so-called "political management" of Russian projects is in essence an interpretation of the anti-Russian sanctions applied by some shareholders of the EBRD. At the same time, in contrast to the sanctions of the EU and some countries aimed at Russian state companies and specific individuals, the EBRD has gone much further in its politicised approach and has suspended the preparation of all new operations in Russia in all sectors of the economy, regardless of the nature of the clients and the focus of the projects.

The Bank's discriminatory policy towards our country is also expressed in the tacit ban on cooperation with Russian sponsors in a number of the Bank's countries of operations, which is at variance with free market principles, that is with the basic principles of the EBRD's operations, and restricts its ability to implement its mandate.

The Bank's 2015 operational results confirm that its decision to suspend operations in the Russian Federation was financially damaging not only to the Bank itself but also to its shareholders.

Due to the suspension of its operations in Russia, the Bank is risking the loss of a significant proportion of its income, which could have been used to strengthen its capital base or to replenish its special funds used to finance specific tasks. At the same time, it is worth noting that even in 2015 the Bank's portfolio in Russia, which amounted to slightly more than 13% of the total, produced virtually one third (32%) of the EBRD's total income.

In conclusion, may I say that the further development of the EBRD will be impossible without cooperation with other international financial institutions. It seems to us that one aspect of the Bank's activities in the coming years could be cooperation with the New Development Bank and the Asian Infrastructure Investment Bank, where the EBRD could offer its expert support in the preparation of projects with a view to their subsequent joint implementation.