

U.S. DEPARTMENT OF THE TREASURY

Press Center

**Under Secretary for International Affairs David H. McCormick Statement**

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At the Annual Meeting of the European Bank for Reconstruction and Development

Kiev, Ukraine - I am happy to be in Kiev for the 17th Annual General Meeting of the European Bank for Reconstruction and Development. On behalf of Secretary Paulson, I wish to thank our Ukrainian hosts, President Yushchenko and Prime Minister Tymoshenko, and the EBRD staff for all their work in organizing this meeting. I also join others in thanking President Lemierre for his dedicated service to the Bank.

In addition, I would like to extend a warm welcome to incoming EBRD President Thomas Mirow. With the region and the Bank at a crossroads, the EBRD requires thoughtful and effective leadership and the U.S. government is committed to working with you in a positive and constructive way.

Ukraine reflects much of the change that is occurring in the region. Since the EBRD met 10 years ago in Kiev, the Ukrainian people have seen their per capita incomes rise four-fold to over \$3,000 as a result of economic reforms, and the country has made significant strides in building a democratic political system. To support these endeavours, the United States has provided Ukraine \$3.9 billion in bilateral assistance. And we will continue to be a partner to Ukraine in the years ahead. In addition, Governors will approve an additional €135 million in shareholder funding out of the Bank's profit to support essential nuclear safety initiatives at Chernobyl.

Ukraine's progress illustrates the success in promoting the transition from command to market-driven economies. Since its inception, the Bank has committed almost \$57 billion of financing. The EBRD finances over 300 projects per year that support private enterprises and foster infrastructure development. In taking on risks private investors would not accept on their own, the Bank has profited enormously, with cumulative realized profits of roughly €4 billion over the past three years. The number of blossoming market economies across the region, the growth of the private sector, and the institution's own financial vitality highlight the EBRD's achievements.

As a consequence of this success, the Bank is rapidly approaching an important decision about its future strategic direction. The United States believes that, with the leadership of a new president, it is timely to address some of the questions facing the EBRD. One of the first questions we should contemplate is the geographic scope of the EBRD's operations. We must consider this issue within the context of the Bank's mandate or, if shareholders desire, within the context of changing the mandate.

Turkey's application to be a country of operation makes this issue all the more pertinent. Turkey is a successful democracy in Europe that might benefit greatly from the EBRD's support and assistance. We will work with other shareholders to give Turkey's application a serious and thorough review in the coming months.

Discussion of the EBRD's geographic scope and mandate go to the core of the institution and these issues should be considered in an open and transparent way that involves all shareholders.

We must also recognize the remaining challenges in the EBRD's existing countries of operation that will not graduate in 2010. In particular, we support the Bank's shift of resources to provide greater assistance to those post-communist countries that have yet to reap the full benefits of transition.

- In the Western Balkans, the Bank must continue assisting the process of economic integration. And we look forward to welcoming Kosovo as an independent country of operation.
- In the Early Transition Countries, the challenges are significant, but we note the considerable expansion in the number of operations in recent years. We hope effective utilization of the new Shareholder Special Fund will create further opportunities for growth.
- In Russia, where we have supported much of the Bank's activities, we are increasingly concerned about whether some projects are consistent with the Bank's mandate. Going forward, we encourage the Bank to focus on those projects that will contribute the most to transition and lead to genuinely private ownership and control of assets in Russia.
- In all countries, we believe the EBRD should work with local micro, small and medium enterprises to foster an entrepreneur-based economy. It should do so while continuing to respect core operating principles of sound banking and transition impact, while supplementing rather than replacing financing from private investors or other public institutions.

Another important strategic issue is EBRD's net income allocation. The EBRD's success has resulted in a comfortable reserve position and net income numbers that private sector firms would envy. While we support the Governor's net income allocation resolution, we

continue to believe that a small distribution would provide a strong and positive signal to investors of the opportunities for profit in this region. We expect that a dividend will be considered again next year.

The EBRD itself must also reflect best practices for governance and accountability. We look forward to working with others to review and improve the Bank's anti-corruption practices, both in the region and with respect to the Bank's own activities. We also welcome the Bank's new Environmental and Social Policy and continued improvements to its disclosure policies. And, we continue to believe the operations of the Board of Directors should be in line with best corporate practices.

The United States has been and remains a strong supporter of the EBRD. It is an effective institution – thanks largely to its highly dedicated and capable staff. We eagerly anticipate Mr. Mirow's leadership and vision of a Bank that retains a truly multilateral character, bringing together European and non-European shareholders. The United States will be an engaged and constructive partner with the Bank as it continues delivering results for the emerging economies of post-communist Eurasia.