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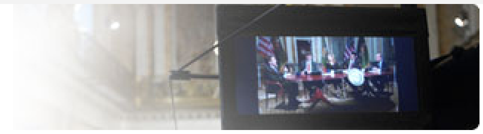

Statement by U.S. Governor at the European Bank for Reconstruction and Development’s Twentieth Annual Meeting of the Boards of Governors

5/19/2011

Remarks by Assistant Secretary Marisa Lago

As Prepared for Delivery

This year, EBRD Governors have the opportunity to support a historic moment in a region that does not fall within the bank’s geographic scope but does fall squarely within its fundamental mission. The changes we are currently witnessing in the Middle East and North Africa (MENA) call for the international community’s support, using the best tools at our disposal. With the twin goals of galvanizing MENA countries’ moves to multiparty democracies and supporting their efforts to spur economic growth that benefits all of their citizens, the EBRD is a powerful tool that we should draw upon. Of course, consideration of a change in the EBRD’s geographic mandate marks a pivotal moment for the Bank, and it will require a shared commitment by all of us as Governors of this vital institution.

Countries in the MENA region are rapidly emerging as new candidates for the next wave of the world’s transition economies. In this region, grass-roots led movements are creating historic opportunities to expand the circle of democratic societies. But the success of these emerging democracies is far from assured. The ability of these countries to sustain the positive momentum of change requires that they build stronger and more inclusive economies that improve people's lives. The issue before us today is how this European-focused institution can best use its substantial expertise and resources to support MENA's emerging democracies.

Given its very positive work in Central and Eastern Europe, we believe that the EBRD can play a significant role in supporting durable transitions in MENA. While direct parallels between the communist transitions and those facing MENA can be oversimplified, in both instances authoritarian political systems limited the freedoms of the citizens of these countries. And in both instances the economic systems were dominated by cronyism and state control that limited the regions' economic potential. These common elements in both cases suggest that the EBRD could play a strong role in facilitating the political and economic transitions in MENA in the years ahead.

In addition to the EBRD’s own expertise and capital, EBRD engagement in MENA would bring with it new relationships between countries that are just beginning the transition process and those, like Poland and the Czech Republic, that have achieved great success. The countries of Central and Eastern European can be a tremendous resource in terms of lessons learned. As shareholders in the EBRD, they can use the convening power of the bank to transfer this knowledge to MENA.

A new EBRD engagement in MENA should start with agreement among us that the EBRD’s fundamental membership criteria, expressed in Article 1, are applied without compromise. This will require us carefully to consider the mechanism by which we will admit new countries as EBRD "countries of operation". This mechanism should set clear standards in support of the EBRD’s political and transition mandates. Further, these standards should continue to be applied actively in these countries as a basis for the EBRD's on-going engagement.

Expanding EBRD activities to MENA will also require that we consider the broader impact on the institution. For example, we must consider the financial implications of such a change. We strongly support EBRD management's commitment that the move into MENA will not require any additional capital from shareholders, and more broadly, that all of the financial agreements in CRR-4, including country lending targets, be honored. At the same time, we must consider how new lending in MENA could affect the equitable distribution of the EBRD’s resources. We believe it will be important to guard against the risk that financing for large countries could crowd out smaller countries’ access to EBRD resources over time. We also believe that the composition of EBRD's Board of Directors will need rebalancing to ensure adequate representation of new countries of operation.

We recognize that any expansion of EBRD into MENA requires broad shareholder consultations and support. We look forward, in the coming months, to continuing to engage with other governors to support the EBRD’s embrace of MENA at such a critical time.

While much of our time at this annual meeting is being spent on a potential expansion of EBRD activities to MENA, we must not lose sight of the fact that there remains a clear and compelling need for EBRD’s continued robust engagement in its current region, where needs and challenges persist. For example, we believe that the further development of local currency and capital markets is a necessary anchor for the region’s economies, especially during turbulent times when foreign capital may be less available, and an excessive reliance on fx-denominated funding may be a source of significant economic vulnerabilities. Accordingly, we view the EBRD’s local capital markets initiative, as well as its parallel efforts to use local currency lending to finance projects, as essential parts of the Bank’s strategic reorientation.

A second imperative for the EBRD's current region is to reinvigorate its efforts to improve the business climate, particularly in the less advanced transition economies. These economies will continue to benefit from their integration with the global economy, but ensuring more stable growth in the future demands economic diversification. This will require private investment in new industries, businesses and job creation. We continue to look to EBRD to play its critical role in facilitating these investments, as well as working with public authorities to upgrade local infrastructure. However, these activities cannot be detached from the broader country business climate and anti-corruption reform process, the success of which boosts the effectiveness and sustainability of EBRD operations. Policy dialogue has been a fundamental component of the EBRD’s operations from its inception. In the high-growth and investment boom years preceding the global crisis, the role of policy dialogue diminished. The crisis has made it clearer than ever that good policies matter tremendously. We look forward to EBRD once again making robust policy dialogue a prominent part of its country engagement.