COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL DECISION

providing that the European Community should subscribe for extra shares as a result of the decision to double the capital of the European Bank for Reconstruction and Development

(presented by the Commission)

Contents

Explanatory Memorandum

INTRODUCTION

The attached proposed decision is intended to permit the European Community to subscribe and pay for new shares in the European Bank for Reconstruction and Development.

The idea of the EBRD was first announced to the European Parliament on 25 October 1989 and its basic form was agreed by the European Council in Strasbourg on 8, 9 December 1989. It is therefore European in both origin and purpose and is the first and so far the only multilateral development bank of which the European Community as such is a member alongside the Member States [1].

The Community became a member of the Bank subsequent to Council Decision of 19 November 1990 on the conclusion of the Agreement establishing the European Bank for Reconstruction and Development (90/674/EEC).

As described in part I below the EBRD has efficiently fulfilled its role of encouraging the countries of central and eastern Europe and the former Soviet Union to pursue the objective of becoming open market economies. It has made 368 operations (loans, equity and operations) in 24 countries for a cumulative amount of 8 billion ECU; it has done this while maintaining rigorous budget discipline so that in the three years to 1995 general administrative expenses remained unchanged while new operations increased by a third.

This activity is a part of the total Union effort in favour of the region (see Part III), and has been accompanied by fruitful cooperation between the Bank and the Commission; not only financial (the Commission has just renewed and extended its agreement to put some Phare and Tacis funds at the disposal of the Bank to help with project development and implementation), but also political as the Community/Union has by negotiating Europe and Partnership and Cooperation Agreements set the framework for the Bank's activity.

To enable the Bank to continue its activity, the size of its capital must be increased. This activity must be continued, the needs of the Phare and Tacis countries of operations are very great and effective demand for finance is estimated as being at least 2.5 billion ECU a year. Such a level would allow a reasonable balance of operations between the various groups of countries. Thus on 15 April 1996 at their annual meeting in Sofia the governors decided to double the Bank's capital. A smaller increase would have been possible but governors took into account the fact that once the capital had been doubled the Bank would not need any further capital increase. The Bank will then have reached "cruising speed" and headroom for further operations would be made as existing loans etc. were repaid.

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1 In the other cases it is the Member States which are members but without the Community; e.g. World Bank Group and the regional MDBs such as the African, Asian and Inter-American Development Banks. This is also true for the Community's own bank the EIB.

This capital increase gives each shareholder the right to subscribe new shares in the Bank.

Once a shareholder has subscribed the shares they must then be paid for. At the time the Bank was created, 30 per cent of the nominal value of the shares was to be paid in over five years [2]. These payments ended in 1995. This time only 22,5 per cent of the capital increase will be paid in and this will be over eight years. The proportion of paid in capital was decided on the basis of need: on the one hand the institution is still young, does not have sufficient experience to be able to predict loan losses, and has not had time to build its reserves; on the other hand, a lower level of paid in is needed than at inception, one can note for example that other MDBs which have existed for many years have a much lower proportion of capital paid in than the EBRD will have. Thus, as detailed in the financial record, the total payment will be less than before (i.e. 67.5 MECU, which will effectively be taken from the Phare and Tacis budgets, compared with 90 MECU for the first capitalisation of the Bank) and it will be spread out over a longer time period. The Community will take advantage of the possibility available to all shareholders of further spreading out payments as set out in the financial record. This reflects good housekeeping and is consistent with sound and efficient financial management.

The attached decision therefore authorises the European Community to subscribe the new shares and to deposit an instrument of subscription therefore. This will incur obligatory budgetary expenditure as described in the financial record.

2 The Bank like all MDBs borrows the bulk of its funds on the capital markets, the remaining 70 per cent acts as a kind of guarantee for those who lend to the Bank. In effect the shareholders will only be called on to pay this 70 per cent if the assets of the Bank are insufficient to repay its creditors.

I. The Bank

a) Operations

The European Bank for Reconstruction and Development was inaugurated in London on 15 April 1991 with a mandate "to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics."[3]. Thirty-nine countries and two institutional members (the European Community and the European Investment Bank) became shareholders and contributed 10 billion ECU of capital to fulfil this mandate in eight of their number designated as being recipient countries. Five years later the governors of the Bank met in Sofia on 15 April 1996 and agreed to double the Bank's capital.

Between those two dates much has happened. One country, Albania, which had not decided to follow the path of transition by 1991, has now decided to do so and joined the Bank. Another country signatory to the original agreement in May 1990, the German Democratic Republic, had already ceased to exist by inauguration day. Three states, the Union of Soviet Socialist Republics, Czechoslovakia and Yugoslavia, divided into their constituent republics which thus gained or regained sovereign status. As a result, the Bank today has 60 members, 26 of which are countries of operation[4], the most recent of which to be admitted is Bosnia-Herzegovina[5].

The significance of belonging to the Bank is not only that countries become eligible for finance but that, as stated above, they are moving towards becoming open market-oriented economies and that they are committed to the principles of democracy.

Since 1994, the Bank's activities have been focused on:

- private sector development
- the need to be active in all countries of operations
- the need to reach local private enterprises
- the importance of financial intermediaries, and
- a more active approach towards equity investment.

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3 Article 1 of Agreement
4 the usual term for recipient countries.
5 Of the constituent states of the former Yugoslavia, only the Socialist Republic of Yugoslavia, that is Serbia and Montenegro, has not acceded to membership.

Between inauguration and 31 December 1995 the Board of directors has authorised 368 operations in 24 countries for a cumulative amount of 8 billion ECU (see table 1). The split by sector is given in table 2.

Over time, the Bank' activities have adapted as the countries of operation have evolved. The early operations were mainly in the State sector and a large proportion were in infrastructure: Now the bulk of new operations are in the private sector and though there is a good proportion of infrastructure projects still being financed, many of these (e.g. telecoms) are in the private sector too.

Table 1:
EBRD financing approved by country
1991-1995

	Number	**ECU Million**	%
Russian Federation	64	1,171	33.9
Hungary	44	1,063	13.5
Poland	50	818	10.4
Romania	21	582	7.4
Czech Republic	21	452	5.7
Slovak Republic	14	361	4.6
Slovenia	15	332	4.2
Ukraine	17	303	3.8
Kazakstan	3	203	2.6
Bulgaria	15	192	2.4
Croatia	7	185	2.3
Uzbekistan	7	176	2.2
Belarus	6	162	2.0
Lithuania	10	138	1.7
Estonia	11	134	1.7
FYR Macedonia	8	120	1.5
Latvia	9	112	1.4
Moldova	7	105	1.3
Kyrgyzstan	5	83	1.0
Armenia	3	74	0.9
Azerbaijan	3	68	0.8
Albania	7	58	0.7
Turkmenistan	2	52	0.6
Georgia	2	23	0.2
Regional	17	341	4.3
Total	**368**	**7,853**	**100**

Table 2:
EBRD financing approved by sector
1991-1995

	Number	**ECU Million**	%
Finance, Business	147	2,666	33.9
Transport	44	1,362	17.3
Telecommunications	29	935	11.9
Manufacturing	61	911	11.6
Energy/Power Generation	27	854	10.9
Extractive industries	12	503	6.4
Primary industries	16	216	2.7
CEALs, Co-financing Lines and RVFs [1]	7	176	2.2
Commerce, Tourism	14	134	1.7
Community/Social Services	10	81	1.0
Construction	2	16	0.2
Total	**368**	**7,853**	**100**

1 Central European Agency Lines, Regional Venture Funds.

The level of this activity means that it is expected that the maximum stock of outstanding financings[6] will be reached in the spring of 1997. If the Bank is not to cut back its activities it needs a capital increase.

6 This limit is fixed in the Article 12.1 of the Agreement as being equivalent to the unimpaired share capital of the Bank.

b) Financial management

It is bound by its Agreement to observe sound banking principles. This covers several facets: two are worth mentioning in more detail:

- Market pricing: The Bank applies market-based criteria in its pricing policy to non-sovereign borrowers. Its financial policies state that the pricing of investments in the private sector should be in line with market forces and reflect the market's perception of risks involved

  Market pricing is of critical importance to the Bank's contribution to the transition process. It also underpins the Bank's goal to be additional (this means that the Bank should not finance those projects which can obtain funding elsewhere on reasonable terms). Furthermore, market pricing is indispensable for attracting commercial banks and private investors to cofinance projects and thus, in general, for the mobilisation of external funds.

- Efficiency and budget discipline: The Bank is committed to pursuing its operational mandate while keeping costs under strict control. Consistent with this, the Bank has continued to improve its cost structure by a reduction in overheads and a shift to direct operating expenses.

  The Bank has undertaken to strive to maintain a balance of appropriate increases in resources and improvements in productivity to support the achievement of its institutional priorities.

  The following table shows the results: in the last three years operations have grown by a third while general administrative expenses have remained stable:

Table 3

				ECU	millions
	1991	**1992**	**1993**	**1994**	**1995**
Operations (commitments) [7]	21	728	1530	1649	2000
General administrative expenses	34.0	91.3	137.3	134.8	136.8
Profit / (Loss)	(7.1)	(6.1)	4.1	1.0	7.5

The Commission believes, therefore, that the Bank is sound and efficiently run.

[7] note: these data are based on commitments (i.e. signed contracts) and differ from those in tables 1 and 2 on authorisations, an earlier stage in procedures.

II. A note on the Governance of the Bank

Each of the 60 shareholders appoints a governor most of whom are finance ministers, while many of the rest are central bank governors. The shareholders are represented by 23 full-time resident directors. Some directors, including the European Community, represent only one shareholder, while small shareholders are grouped into constituencies so as to be able to share a director.

The Commission appoints the governor and alternate governor for the European Community[8]: at present they are Mr Yves-Thibault de Silguy, Commissioner responsible for economic and financial affairs, and Mr Giovanni Ravasio, Director-General for economic and financial affairs. The Commission has appointed Mr. Petit-Laurent as the director.

All the powers of the EBRD are vested in the Board of Governors. The Board of Governors has delegated many of its powers to the Board of Directors, which is the body responsible for the direction of the general operations of the Bank; among other activities, it establishes policies and takes decisions concerning loans, equity investments and other operations in conformity with the general directions of the Board of Governors.

The President, who since 1993 has been Mr Jacques de Larosière, chairs the Board of Directors. Under the direction of the Board, he conducts the current business of the Bank and, as chief of staff, is responsible for its organisation and for making staff appointments.

III. Activity in favour of countries of operation

Since 1989 when the Phare Regulation was adopted and 1991 for Tacis, the EU has maintained an active policy in favour of the countries of central and eastern Europe and the former Soviet Union. This policy, aimed at the economic transformation of these countries (and Accession for those with Europe Agreements), has been multifaceted: it covers technical assistance and other grant aid (Phare and Tacis), financial aid (macro-financial loan assistance, and EIB loans), and trade policy (Europe, and Partnership and Cooperation Agreements)[9].

As the countries in the region reform and become open market-based economies great demand for finance is generated to enable them to readapt their private and public capital stock to the new situation. Preparation for Accession to the Union will further accentuate this phenomenon.

The creation of the EBRD should be seen as both an extension and a multilateralisation of the EU effort, whereby other countries, including USA, Canada, Japan also contribute financially to achieving a common objective. This means that the costs borne by the Community and more generally by the Union, are shared with non-Union Members.

The Bank's activities should therefore be seen as part of a broad effort, within this, however, its role is significant accounting for about 40 per cent of MDB activity in the region, as table 4 shows:

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8 Council Decision 90/674/EEC of 19 Nov. 1990.

9 For further details see annual reports of Phare, Tacis, EIB. See also Report on the Implementation of Macro-Financial Assistance to Third Countries in 1994, European Economy, n° 2, 1995.

Table 4
MDB loans, Phare and Tacis grant aid, in the relevant countries [10] ***1991 - 1995***
(ECU millions)

	Phare Countries		**Tacis Countries**		**Total**	
	ECU	*%*	*ECU*	*%*	*ECU*	*%*
World Bank	4798.9	35.5	5679.3	63.7	10478.2	46.8
EBRD	5538.4	41	3230.3	36.3	8768.7	39.1
EIB	3164.0	23.4	0.0	0.0	3164.0	14.1
EU Phare + Tacis programmes	4858	-	2228	-	7086	-

It is worth noting that in many parts of the world more than one development bank is active at the same time. The Commission agrees with the Task Force on Multilateral Development Banks, which stated that where several MDBs operate in a single region effectively, doing so offers choice, sparks innovation, and serves to limit the scope for complacency[11]. In effect all three banks have their own characteristics:

- kind of security taken. The World Bank must either lend to a sovereign State or be guaranteed by one, the EIB when operating in the CEECs besides taking sovereign guarantees (or occasionally other first rate guarantees) is additionally guaranteed by the European Community, the EBRD may take sovereign guarantees but in the main does not do so;

- kind of finance offered: the World Bank and EIB make loans only, while the EBRD besides loans takes equity stakes (almost 25 per cent of outstandings);

- the size of operations: unlike the World Bank neither the EIB nor the EBRD make fast-disbursing programme-based loans, for both therefore the average size of operation is less than for the World Bank. Given its focus on the private sector, the EBRD makes smaller loans than either WB or EIB (see table 5).

- the geographical extent of operations: the World Bank and EBRD cover all countries in the region while EIB does not cover Tacis countries.

Table 5
Average size of MDB operations in Phare and Tacis countries

			ECU	millions
	1992	**1993**	**1994**	**1995**
World Bank	137.2	107.8	74.5	54.1
EBRD	22.7	25.0	22.1	21.3
EIB	53.3	49.0	45.6	50.3

10 MDB = multilateral development banks, i.e. excludes IMF and EU macro-financial assistance.

11 see § 19 "Serving a Changing World" - Report of the Development Committee Task Force on Multilateral Development Banks, Washington, March 1996.

Given the complementarity of the EBRD and the EU effort in favour of Phare and Tacis countries, it is normal that besides staff contacts and policy coordination, there is also a certain amount of cofinancing between the EU programmes and the Bank. In this context, one should note that in April the Bank and Commission signed a new cooperation agreement. This builds on experience since 1992 whereby the Community (Phare and Tacis) pays some of the Bank's project preparation and implementation costs. In all the Community has funded over a third of all the Bank's technical cooperation activities.

In sum, the Union's grant and financial effort in favour of the region is very great and the EBRD is an important element of that effort. It behoves the Community to do what is needed to enable it to continue its work.

* * * * *

IV. Conclusion

The Commission believes that there is a continuing and growing need for funds in the Bank's countries of operation, and that the Bank is fulfilling its mandate in helping to supply them. This belief is shared by other shareholders who voted unanimously to double the Bank's authorised capital.

The Commission therefore proposes that the European Community subscribe to the new shares of the European Bank for Reconstruction and Development, by adopting the proposed decision.

Proposal for a

COUNCIL DECISION

providing that the European Community should subscribe for extra shares as a result of the decision to double the capital of the European Bank for Reconstruction and Development

(96/../EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community;

Having regard to Council Decision 90/674/EEC[1] on the conclusion of the Agreement establishing the European Bank for Reconstruction and Development;

Having regard to the proposal from the Commission[2];

Having regard to the opinion of the European Parliament[3];

Whereas the initial capital of the Bank was fixed at 10 billion ECU of which the Community subscribed 3 percent;

Whereas the operations of the Bank may not exceed the limits set by the Agreement and which depend on the size of the Bank's capital; whereas the Bank is expected to reach this limit in 1997;

Whereas, pursuant to Article 4.3 of the Agreement, the Governors of the Bank, at their annual meeting in Sofia on 15 April 1996, decided to double the authorised capital stock of the Bank;

Whereas, pursuant to that Decision, the Community is entitled to subscribe an additional 30,000 shares of 10,000 ECU each;

HAS DECIDED AS FOLLOWS:

Article 1

The European Community shall subscribe an additional 30,000 shares of 10,000 ECU each in the European Bank for Reconstruction and Development under the terms and conditions of the Resolution given in the Annex.

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1 OJ No L 372, 31.12.90, p1
2 OJ No
3

Article 2

The President of the Council shall deposit the requisite instrument of subscription on behalf of the Community.

Article 3

This decision shall be published in the Official Journal of the European Communities.

Done ....

For the Council
The President

ANNEX

Text of the Resolution of the Governors of the Bank referred to in Article 1

RESOLUTION NO. 59

INCREASE IN AUTHORISED CAPITAL STOCK AND SUBSCRIPTIONS THERETO

WHEREAS:

The Board of Directors of the Bank, having undertaken a study of the Bank's future resource requirements in accordance with Resolution No. 50 of the Board of Governors, has submitted a Report thereon to the Board of Governors;

The Board of Governors, having considered such Report and its related appendices and attachments, fully endorses the findings and recommendations embodied therein and has concluded that it is necessary to increase the authorised capital stock of the Bank;

The Board of Directors has proposed that each member, and each prospective member pursuant to Board of Governors' Resolution No. 30, be authorised, subject to certain conditions, to subscribe shares of the newly-authorised capital in proportion to the aggregate number of shares such member has subscribed, or such prospective member may be authorised to subscribe pursuant to Board of Governors' Resolution No. 30;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES THAT:

The authorised capital stock of the Bank be increased and the shares of capital stock so increased be made available for subscription on the following terms and conditions:

1. **Increase in Authorised Capital Stock**

(a) The authorised capital stock of the Bank shall, on the Effective Date as defined in paragraph 4(a) of this Resolution, be increased by 1,000,000 shares, each share having a par value of 10,000 ECU.

(b) Of the shares authorised by this Resolution, the number of whole shares up to, but not in excess of, 100 per cent of the shares subscribed to by each member immediately prior to the Effective Date, or the shares that may be authorised for subscription by each prospective members pursuant to Resolution No. 30 of the Board of Governors, shall be made available for subscription by such members and prospective members in accordance with paragraph 2 of this Resolution.

(c) The shares authorised by this Resolution which shall not have been subscribed to in accordance with paragraph 2 of this Resolution shall be reserved for initial subscriptions by new members and for special increases in the subscriptions of individual members, as may be determined by the Board of Governors pursuant to paragraphs 2 and 4 of Article 5 of the Agreement Establishing the Bank.

2. **Subscriptions**

(a) Each member, and each prospective member referred in paragraph 1(b) above, shall be entitled to subscribe, at par, a number of whole shares up to, but not in excess of, 100 per cent of the number of shares subscribed to by such member immediately prior to the Effective Date, or 100 per cent of the number of shares that may be authorised for subscription by any such prospective member. Each such subscription shall be on the terms and conditions set forth in this Resolution, and in all events shall comprise paid-in and callable shares in such proportions that 22.5 per cent (as near as may be) of the shares subscribed shall be whole paid-in shares and the balance shall be callable shares.

(b) Each member, or prospective member referred to in paragraph 1(b) above, wishing to subscribe pursuant to this Resolution shall deposit with the Bank the following documents in a form acceptable to the Bank:

(i) an instrument of subscription whereby the member subscribes to the number of paid-in and callable shares specified in such instrument;

(ii) a representation that the member has duly taken all legislative and other internal action necessary to enable it to make such subscription; and

(iii) an undertaking that the member will furnish such information as the Bank may request concerning such action.

Such documents shall be deposited on or before 15 April 1997 or such subsequent date not later than 31 December 1997 as the Board of Directors may determine.

(c) Each instrument of subscription shall become effective and the subscription thereunder shall be deemed to have been made on the Effective Date, or on the date on which the Bank notifies the subscribing member that the documents deposited by such member pursuant to paragraph 2(b) of this Resolution are satisfactory to the Bank, whichever is the later.

(d) If documents satisfactory to the Bank providing for subscriptions in the aggregate amount of shares specified in paragraph 4(a) of this Resolution shall not have been deposited by the Effective Date, then the Board of Directors may, at its option, declare that the instruments of subscription already deposited by members and the subscriptions thereunder shall become effective immediately notwithstanding any other provision in this Resolution, provided that such action is considered by the Board of Directors to be in the best operational interests of the Bank, and provided further that the aggregate of instruments of subscription already deposited and expected to be deposited in the foreseeable future is, in the judgement of the Board of Directors, sufficiently close to the aggregate amount of shares specified in the said paragraph 4(a).

(e) Notwithstanding any other provision in this Resolution, no prospective member referred to in paragraph 1(b) above shall be entitled to subscribe to shares under this Resolution until such prospective member has become a member of the Bank pursuant to Resolution No. 30 and any other applicable Resolution or Resolutions of the Board of Governors.

3. **Payments for Paid-in Shares**

(a) Payment for the paid-in shares subscribed pursuant to this Resolution shall be made in eight equal annual instalments. The first instalment shall be paid on or before 15 April 1998, and the remaining instalments shall be paid not later than the respective anniversaries of the first payment date; provided that a member may, after consultation with the Bank, make payments on terms more favourable to the Bank than those stipulated in foregoing provisions of this paragraph.

(b) Sixty (60) per cent of payments of each instalment may be made by a subscribing member in promissory notes or other obligations issued by such member and denominated in ECU, in United States dollars or in Japanese Yen. Such note or obligations shall be non-negotiable, non-interest-bearing and encashable by the Bank at par value upon demand in equal annual tranches in accordance with an encashment programme determined by the Board of Directors.

(c) All payment obligations of a member in respect of subscription to shares in accordance with this Resolution shall be settled either in ECU, in United States dollars or in Japanese Yen on the basis of the average exchange rate of the relevant currency in terms of the ECU for the period from 16 October 1995 to 15 April 1996 inclusive.

4. **Effectiveness and Other Provisions**

(a) For the purposes of this Resolution, the Effective Date shall be the date, on or before 15 April 1997 or such subsequent date not later than 31 December 1997 as the Board of Directors may determine, on which documents satisfactory to the Bank have been deposited pursuant to paragraph 2(b) of this Resolution providing for subscriptions in an aggregate amount of at least 494, 188 shares.

(b) Subject to the provisions of this Resolution, the provisions of the Agreement Establishing the Bank shall apply mutatis mutandis to the increase in shares authorised by, and to the subscriptions and payments made under, this Resolution as if such shares were part of the initial capital stock of the Bank and such subscriptions and payments were initial subscriptions to and payments for such stock.

(Adopted 15 April 1996)

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Extract from the Report of the Board of Directors referred to in the first paragraph of the Resolution

... PROPOSAL FOR A CAPITAL INCREASE AND RECOMMENDATIONS

Proposed capital increase

Size and structure

The Bank's authorised capital stock as of 31 December 1995 was ten thousand million (10,000,000,000) ECU[4] divided into 1,000,000 shares of ECU 10,000 each. Of this capital stock, 988,375 shares amounting to ECU 9,883.75 million had been subscribed. Of the subscribed capital 296,513 shares amounting to ECU 2,965.13 million were paid-in shares and the remaining 691,862 shares amounting to ECU 6,918.62 million were callable shares.

To support the Bank's future operations consistent with its medium-term growth strategy, an increase in the Bank's capital stock of 100 per cent is proposed [5].

The Board of Directors considers that the paid-in shares should be equal to 22.5 per cent of the proposed increase and that the remaining 77.5 per cent should be in the form of callable shares.

Payments terms

Consideration has been given to payment terms which could result in lower annual cash outlays by members than the outlays for the Bank's initial paid-in shares, although the payment period would be extended.

In this regard, it is proposed that payment for the paid-in shares be made in eight equal annual instalments.

It is further proposed that 60 per cent of each instalment payment may be made in promissory notes or other obligations of members to be drawn down by the Bank in accordance with the principles set forth in Article 6.2 of the Agreement.

Subject to Article 6.2, the Board of Directors proposes that each promissory note or other obligation issued by a member in connection with an instalment payment be encashed in five equal tranches: the first such tranche is to be encashed in the year in which the note or other obligation is issued, and the remaining tranches in each of the subsequent years.

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4 Should the ECU, as determined by Council Regulation (EC) No 3320/94 of 22 December 1994, be converted to the Euro, the Bank would follow the decision by the European Council of 15-16 December 1995; conversion would be on 1:1 basis on the date the ECU ceased to exist, and the ECU obligations of shareholders would become Euro obligations.

5 The calculation of the number of additional shares to which each member would be entitled to subscribe under the proposed capital increase is based on the number of actual shares subscribed immediately prior to the proposed capital increase (including the shares earmarked for countries of former Yugoslavia pursuant to Board of Governors' Resolution No. 30).

Payments for the paid-in shares subscribed to by members under the proposed capital increase would be generally governed by the basic principles set forth in Article 6 and in the related explanatory notes in the accompanying Chairman's Report. Consistent with the Agreement, all payment obligations will be required to be settled either in ECU, in US dollars or in Japanese Yen on the basis of a fixed exchange rate as specified in the attached draft resolution of the Board of Governors. It is proposed that the exchange rate be fixed on the basis of the average exchange rate of the relevant currency in terms of the ECU for the period from 16 October 1995 to 15 April 1996 inclusive.

Summary framework

The framework of the proposed capital increase is set forth in the draft resolution of the Board of Governors which is attached and recommended for adoption. A summary of the key elements of the proposed increase is presented below.

The Bank's capital stock will continue to be reviewed at least every five years as required by Article 5.3 of the Agreement.

Authorised capital	*to increase from ECU 10 billion to ECU 20 billion, as described.*
Paid-in shares	*22.5 per cent of the proposed increase.*
Deposit of instruments of subscription	*to occur by 15 April 1997.*
Payment for paid-in shares	*in 8 equal annual instalments, the first of which is to be paid by 15 April 1998.*
Promissory notes and encashment	*60 per cent of each instalment payment may be made in promissory notes or other obligations, to be encashed in 5 equal annual tranches as described.*
Currency of payment for paid-in shares	*payment obligations shall be settled in ECU or in US dollars or Japanese Yen on the basis of a fixed exchange rate as described.*

FINANCIAL RECORD

1. INTITULÉ DE L'ACTION

deciding that the European Community should subscribe for extra shares as a result of the decision to double the capital of the European Bank for Reconstruction and Development (EBRD or the "Bank")

2. BUDGET LINE CONCERNED

Chapitre B7-51: Banque Européenne pour la Reconstruction et le Développement - Souscription de la Communauté au capital.

Article B7-510: Mise à disposition des parts libérées du capital souscrit.

Article B7-511: Partie appelable du capital souscrit.

Le financement de l'action sera assuré à partir des enveloppes financières indicatives de Phare (B7-50) et Tacis (B7-52).

3. REFERENCE (LEGAL BASIS)

Décision 90/674/CEE du Conseil du 19 novembre 1990 concernant la conclusion de l'accord portant création de la BERD (JO n° L 372 du 31.12.1990).

4. DESCRIPTION AND JUSTIFICATION FOR THE ACTION

4.1. Objectif général: European Community Subscription for new shares in EBRD.

4.2. Période couverte : 1998 to 2009.

5. CLASSIFICATION DE LA DÉPENSE

5.1. D.O.

5.2. C.D.

6. NATURE DE LA DÉPENSE

Payments for capital in EBRD.

7. EFFECT OF THE ACTION ON OPERATING APPROPRIATIONS

7.1. Méthode de calcul du coût total

30,000 shares of 10,000 ECU each are to be subscribed = 300 MECU. The payable portion is 22,5 per cent, giving a total cost of 67,500,000 ECU. This will be paid in as described in annex: see also § 7.3.1.

7.2. Ventilation par éléments de l'action

en Mio d'écus

Ventilation	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
Cash	3.3750	3.3750	3.3750	3.3750	3.3750	3.3750	3.3750	3.3750	27.0000
"obligation"	5.0625	5.0625	5.0625	5.0625	5.0625	5.0625	5.0625	5.0625	40.5000
Total	8.4375	8.4375	8.4375	8.4375	8.4375	8.4375	8.4375	8.4375	67.5000

7.3. Echéancier crédits d'engagement / crédits de paiement

7.3.1. Calendrier d'exécution de l'action proposée

en Mio d'écus

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Crédits d'engage-ment	33,7500	33,7500											67.5000
Crédits de paiement													
1998	4,3875	5,4000	6,4125	7,4250	4,0500	3,0375	2,0250	1,0125					33,7500
1999					4,3875	5,4000	6,4125	7,4250	4,0500	3,0375	2,0250	1,0125	33,7500
Total	4,3875	5,4000	6,4125	7,4250	8,4375	8,4375	8,4375	8,4375	4,0500	3,0375	2,0250	1,0125	67,5000

7.3.2. A note on payment

As detailed in annex and above, the payments of capital are to be made in eight instalments from 1998 to 2005. However, a portion of these payments can be made in "promissory notes or other obligations". These are "non-negotiable, non-interest-bearing and payable to the Bank at par value upon demand" [6]. The decision as to when the Bank will demand payment is taken by the board of directors and this has recommended (see annex) that payment for each note or obligation shall be made in five equal instalments (which in effect extends the total payment period to 2009); it was on this basis that the board of governors approved the capital increase.

Sound financial management dictates that the European Community should take advantage of the extended payments possibilities. The Community does not, however, have the ability to issue promissory notes:

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6 Article 6.2 of the Agreement.

The Commission will, therefore, write a letter at each of the eight capital payments giving the necessary undertakings, the Bank will accept this as an "other obligation" under its Article 6.2..

8. MESURES DE PRÉVENTION DES FRAUDES

The EBRD benefits from its own anti-fraud systems including a proper system of internal control, external and internal audit, and review by the audit committee of the board of directors.

9. ELÉMENTS D'ANALYSE COÛT-EFFICACITÉ

9.1. Objectifs spécifiques

Internally the EBRD has established a record of efficiency and budget discipline. In ECU terms, operations signed rose by one third between 1993 and 1995 while administrative costs have remained constant.

From the point of view of the Community budget, using the EBRD is cost-effective given that about 40 per cent of its capital is provided by non-EU members, and only 3 per cent is provided by the Community per se.

Target population: capital investment projects, whether private or public, in the countries of central and eastern Europe and the former Soviet Union.

9.2. Justification de l'action

The continuing investment needs of Phare and Tacis countries justify these payments to permit the EBRD to continue financing projects contributing to the transition to open market economies.

9.3. Suivi et évaluation de l'action

The Bank has an independent evaluation department which judges operations according to a series of criteria relevant to their transition impact, as well as according to sound banking principles.

Apart from these qualitative criteria the Commission is able to follow the number and value of new operations.

10. DÉPENSES ADMINISTRATIVES

No additional expenses.

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