



EUROPEAN COMMISSION

Brussels, 2.2.2011
COM(2011) 34 final

2011/0014 (COD)

C7-0038/11

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**concerning the subscription by the European Union to additional shares in the capital of
the European Bank for Reconstruction and Development (EBRD) as a result of the
decision to increase this capital**

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

The European Bank for Reconstruction and Development (EBRD) was established in 1990 to support the development of market economies from central Europe to central Asia following the widespread collapse of communist regimes. The European Union, together with the European Investment Bank (EIB) and 40 countries (including all EU Member states at that time), were founding members. The EBRD is currently owned by 61 countries, the EU and the EIB. The EBRD supports projects in 29 countries, primarily in the private sector, that cannot be fully financed by the market. The Bank promotes entrepreneurship and fosters transition towards open and democratic market economies.

The proposed decision is intended to permit the European Union to subscribe for additional callable shares in the EBRD in the framework of the capital increase decided by the EBRD Board of Governors on 14/15 May 2010. The decision will also authorise the Governor of the EBRD for the European Union to deposit the requisite instrument of subscription.

The European Union¹ became a member of the EBRD subsequent to Council Decision of 19 November 1990 on the conclusion of the Agreement establishing the EBRD (90/674/EEC). The initial capital of the EBRD was fixed at ECU 10 billion, of which the EU subscribed 3%.

In 1996, the Governors of the EBRD decided to double the authorised capital of the EBRD for which the EU subscribed an additional 30.000 shares of EUR 10.000 each, bringing the EU subscribed capital at EUR 600 million². The EU share in the EBRD total authorised capital was maintained unchanged. The EU subscription of additional shares followed Council Decision 97/135/EC adopted on 17 February 1997 providing that "the European Community should subscribe for extra shares as a result of the Decision to double the capital of the EBRD".

At the Annual Meeting of the Governors of the EBRD on 14/15 May 2010, the Board of Governors adopted two Resolutions providing for an increase in the authorised capital stock of the Bank of 50% from EUR 20 billion to EUR 30 billion. The capital enhancement of the Bank was a greed in response to the financial crisis and the recognised need by the Bank's shareholders to step up its activity to help promote and support recovery in its region. The capital increase comprises EUR 1 billion paid-in capital and EUR 9 billion of new callable capital.

According to Resolution 126 adopted by the Board of Governors, the paid-in shares have been funded through the incorporation of unrestricted reserves pro rata shareholders' actual shares in the Bank's subscribed capital. Following the first capital increase of the EBRD, EUR 19,794 million was subscribed instead of EUR 20,000 million authorised. Consequently, the EU share in the EBRD's subscribed capital is 3.031 %. The EU paid-in capital is therefore increased by EUR 30.31 million. The increase of the paid-in shares was effective on 14 May

¹ According to Council Decision 90/674/EEC of 19 November 1990, the EU is represented by the Commission in the EBRD.

² The EU subscribed capital in the EBRD was composed of EUR 157.5 million paid-in capital and EUR 442.5 million callable capital.

2010, the date of the adoption of Resolution 126. Consequently, no further action on the part of the shareholders is necessary for the issuance of the additional paid-in shares.

The subscription of callable shares amounting to a total of EUR 9 billion will become effective as soon as the individual shareholders have completed their internal procedures and deposited their instruments of subscription, as it was the case for the 1996 capital increase. The Bank would expect that the callable capital increase will become effective at the end of April 2011, but in any event not later than 31 December 2011. Resolution 128 (attached to the Decision) foresees that each member of the Bank is entitled to subscribe to a number of additional shares (rounded down), up to, but not exceeding, 42.857% of the number of shares the member owned prior to the Effective Date of the capital increase. For the EU, it means that the EU shall subscribe up to an additional 27,013 callable shares amounting to EUR 270.13 million taking into account the EU proportion of 3.031% in the subscribed capital.

The following table summarises how the EU shares will evolve following the new capital increase. It shows notably the existing paid-in shares before the 2010 capital increase, the capitalisation of reserves, the existing callable capital, the proposed callable capital increase and the total of subscribed capital after increase.

Existing and proposed EU subscribed capital (EUR million)

Paid-in shares			Callable capital			Total subscribed capital after increase
Existing (Pre May 2010)	Capitalisation of reserves in 2010	Total Existing	Existing (Pre May 2010)	Proposed increase	Total	
157.50	30.31	187.81 44	2.50	270.13 71	2.63	900.44

Resolution 128 also provides for a review mechanism that may allow a partial or total redemption of unused callable capital part of the increase which could be returned to shareholders after the end of the period 2010-2015, under specific conditions still to be agreed in 2015. If this were the case, this unused callable capital would no longer constitute a contingent liability for the shareholders in 2016.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

The EBRD fourth Capital Resources Review (CRR4) for the period 2011-2015, which was undertaken during the past year, reflected the need for the Bank to respond effectively to the crisis and to redirect its medium term strategy taking account of the significant impact the crisis is having on its region of operations. EBRD shareholders (which include all EU member states, the EIB and the Commission representing the EU) were actively involved in the process.

In this framework, the EBRD carried out an analysis of capital enhancement options, based on the need to comply with the Bank's statutory 'gearing ratio' and economic capital requirements, the maintenance of the Bank's Triple-A credit rating, as well as the effective and efficient use of shareholders' capital. The current decision on the EBRD capital enhancement reflects a compromise achieved among the Bank's shareholders.

The efforts undertaken by the EBRD to mitigate the impact of the crisis in all its countries of operations through the proposed capital increase will allow the Bank to sustain a high level of

activity and accompany the recovery in its region of operations, in cooperation with the EIB and other International Financial Institutions. It is expected that the capital increase would enable the EBRD to have an annual business volume of about EUR 9 billion for 2011 and 2012, and about EUR 8.5 billion until 2015. Therefore, it is appropriate for the EU to subscribe to those additional shares in order to promote the EU's objectives in the field of economic external relations and preserve its present voting power within the EBRD.

By its nature, this capital subscription would require no actual cash payments from the EU budget, unless very serious and unforeseen losses lead to an actual call of the Bank's capital beyond its paid-in portion.

Against this background and in accordance with the proportionality principle and past practice, the Commission proposes not to develop a formal impact assessment.

3. LEGAL ELEMENTS OF THE PROPOSAL

In the context of the 1996 capital increase, the participation of the EU was decided by Council Decision 97/135/EC³ providing that the European Community should subscribe for extra shares as a result of the decision to double the capital of the EBRD. Council Decision 97/135/EC was adopted under Article 235 of the Treaty.

EBRD's countries of operations are countries from Central and Eastern Europe⁴ and from Central Asia, with the largest share of activity being in countries outside the EU. The bulk of EBRD activity over the period covered by the CRR4 is expected to be in EU Candidates and Potential Candidates and other middle income countries, including Russia. Since the entry into force of the Treaty on the Functioning of the European Union, Article 212 provides the legal bases to the EU for carrying out economic, financial and technical cooperation measures, in particular assistance with third countries and is proposed as the legal basis for the present legislative proposal.

The proposal complies with the proportionality principle, as the EU participation in the EBRD's capital has proved to be an efficient means to contribute adequately to promote EU objectives and will serve to mitigate the impact of the crisis in EBRD's countries of operations and to sustain a high level of EBRD's activity.

4. BUDGETARY IMPLICATION

The modalities of participation do not foresee any cash payments by shareholders.

Considering that the EU share in EBRD subscribed capital equals to 3.031%, the EU would increase its subscribed capital by EUR 300.44 million, of which EUR 270.13 million as subscribed callable shares and EUR 30.31 million as paid-in shares through incorporation of

³ OJ L 52, 22.2.1997, p. 15.

⁴ Since their accession to the EU in 2004 and 2007, EBRD countries of operations include also some EU Member States: Poland, Romania, Bulgaria, Slovak Republic, Estonia, Slovenia, Hungary, Latvia, and Lithuania. While EBRD has been very active in the transition process, its role has been diminishing in these countries in the past years and will be further diminishing in the future. In particular, several countries are expected to engage in graduation by 2015.

unrestricted reserves of the EBRD. Depending on the future EBRD Governors' decision in 2015, part of the callable capital could be redeemed to shareholders.

As regards the callable part of the capital increase, its budgetary impact will be catered for by the budget line 01 03 01 02 "European Bank for Reconstruction and Development - Callable portion of subscribed capital", which has been established in the 2011 budget, so as to reflect the EU budget's liability deriving from the callable part of the EU participation in the EBRD's capital. The budget line should be endowed with a 'p.m.' reflecting the contingent nature of the call and a budgetary comment defining the size of the contingent liability. Although a call is considered to be highly unlikely, the budgetary line and its comment will reflect the financing needs which could arise in the event of a payment request by the EBRD relating to the callable part of the capital subscribed by the EU.

5. OPTIONAL ELEMENTS

Detailed explanation of the proposal

Article 1

Under the terms and conditions of Resolution 128 on capital increase in the form of additional subscription of callable capital, the authorised capital stock of the Bank shall be increased by 900,000 callable shares, each share having a par value of EUR 10,000 which shall be subject to redemption in accordance with the provisions of the above Resolution. The EU is entitled to subscribe up to 27,013 callable shares

Article 1 aims at authorising the EU to take part in the callable part of the EBRD capital increase by subscribing to the shares it is allowed to.

Article 2

According to the terms of the Resolution 128, each member of the EBRD shall deposit with the Bank an instrument of subscription whereby the member subscribes to the number of callable shares specified in such instrument. In addition, the member shall deposit a representation that the member has duly taken all legal and other internal action necessary to enable it to make such subscription.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

concerning the subscription by the European Union to additional shares in the capital of the European Bank for Reconstruction and Development (EBRD) as a result of the decision to increase this capital

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Pursuant to Article 4(3) of the Agreement establishing the EBRD, the Governors of the EBRD, at their annual meeting in Zagreb on 14/15 May 2010, decided in their Resolutions 126 and 128 to increase by EUR 10 billion the authorized capital stock of the EBRD in order to maintain enough capital to sustain over the medium term a reasonable level of activity in its countries of operations within statutory limits.
- (2) Prior to these Resolutions, the capital of the EBRD was fixed at EUR 20 billion of which the European Union subscribed 60 000 shares, each share having a par value of EUR 10 000.
- (3) Pursuant to Resolution 126 on increase in authorised capital stock, issuance of paid-in shares, and payment through reallocation of net income, the authorised capital stock of the EBRD is increased by 100 000 paid-in shares, and each member is issued a number of whole shares, rounded downwards, pro rata to their existing shareholding. The paid-in part of the capital increase will be paid through integration in the capital of part of the EBRD's unrestricted general reserves. All EBRD shareholders will automatically receive paid-in shares in proportion of their existing shareholding, without any further procedural steps to be taken by the shareholders themselves. Accordingly, the EU is issued 3 031 new shares, each share having a par value of EUR 10 000 increasing the number of paid-in shares of the EU to 63 031.
- (4) Pursuant to the terms and conditions of the Resolution 128 on increase in authorised capital stock, issuance and subscription of callable capital, and redemption, the authorised capital stock of the EBRD shall be increased by 900 000 callable shares, each share having a par value of EUR 10 000 which shall be subject to redemption in

accordance with the provisions of the above Resolution. Each member shall be entitled to subscribe, at par, a number of whole callable shares up to, but not in excess of, 42,857 per cent of the number of shares owned by such member immediately prior to the effective date of the capital increase. The EU is thus entitled to subscribe up to 27 013 callable shares. The effective date shall be on or before 30 April 2011, or such subsequent date not later than 31 December 2011 as may be determined by the Board of Directors of the EBRD.

- (5) Pursuant to the terms and conditions of the Resolution 128 on increase in authorised capital stock, issuance and subscription of callable capital, and redemption, the EBRD Board of Governors could decide in 2015 that part of unutilised callable capital could be redeemed under specific conditions to be agreed in 2015. Under Resolution 128, the EBRD Board of Governors resolved that such a redemption of callable shares would be automatic and applicable to all EBRD members who have subscribed to the callable shares authorised by this Resolution. In such a situation, the Commission would take note of the EBRD Governors' Resolution and implement it.
- (6) It is appropriate for the European Union to subscribe to those additional shares in order to achieve the European Union's objectives in the field of economic external relations and preserve its relative voting power within the EBRD.

HAVE ADOPTED THIS DECISION:

Article 1

The European Union shall subscribe 27 013 additional callable shares of EUR 10 000 each in the EBRD under the terms and conditions of Resolution 128 of the Board of Governors, the text of which is attached to this Decision.

Article 2

The Governor of the EBRD for the European Union shall deposit the requisite instrument of subscription on behalf of the Union.

Article 3

This Decision shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

ANNEX

RESOLUTION NO. 128

INCREASE IN AUTHORISED CAPITAL STOCK, ISSUANCE AND SUBSCRIPTION OF CALLABLE CAPITAL, AND REDEMPTION

THE BOARD OF GOVERNORS

Having received from the Board of Directors a Report on the Fourth Capital Resources Review (CRR4) for the period 2011-2015 (the CRR4 Period), which review was carried out in accordance with Article 5.3 of the Agreement Establishing the Bank (the Agreement);

Having considered such Report and fully endorsing its findings and recommendations, including its strategic objectives, the proposed €9 billion annual business volume envelope for 2011 and 2012 decreasing to €8.5 billion for the remainder of the CRR4 Period, and capital requirements analysis;

Having concluded that it is desirable and appropriate to increase the authorised capital stock by €9 billion of callable shares and to issue such shares, on terms that anticipate their redemption and the cancellation of the shares redeemed, to all members wishing to subscribe for them pro rata to their existing shareholding;

Agreeing with the observation in the Report that, having regard to the need of the Bank to preserve sufficient capital to support the projected operational activity over the next five years, it is envisaged that over such period any and all income of any year will be allocated to surplus, with the exception of potential allocations for the purpose of replenishing the EBRD Shareholder Special Fund; and

Exercising its powers under Article 24.1 of the Agreement, including to the extent necessary its power to exercise authority over any matter delegated or assigned to the Board of Directors under Article 24.2 of the Agreement;

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 900,000 callable shares, each share having a par value of €10,000, which shall be subject to redemption in accordance with paragraph 3.
- (b) Of the shares authorised by this Resolution, the number of whole callable shares, rounded downwards, up to, but not in excess of, 42.857 per cent⁵ of the

⁵ Following the increase in paid-in capital, the Bank's authorised capital stock will be €21 billion. The €9 billion increase is a 42.857% increase in the authorised capital; therefore, each shareholder will be

shares subscribed to by each member immediately prior to the Effective Date shall be made available for subscription by such members in accordance with paragraph 2 of this Resolution.

- (c) The callable 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 shall be entitled to subscribe, at par, a number of whole callable shares up to, but not in excess of, 42.857 per cent of the number of shares owned by such member immediately prior to the Effective Date. Each such subscription shall be on the terms and conditions set forth in this Resolution.
- (b) On or before 30 April 2011 or such subsequent date not later than 31 December 2011 as the Board of Directors may determine on or before 30 April 2011, each member 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 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.
- (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,

entitled to subscribe to up to 42.857% of their current shareholding at the time the increase is approved in order to maintain the shareholding composition.

sufficiently close to the aggregate amount of shares specified in the said paragraph 4(a).

3. Redemption

- (a) The callable shares authorised by this Resolution shall be redeemed by, and at no cost to, the Bank after the end of the CRR4 Period, subject to and as further provided for in the following provisions of this paragraph 3.
- (b) Subject to the remaining provisions of this paragraph 3, all or some of the callable shares shall be redeemed on the day immediately following the 2016 Annual Meeting with the number of the shares to be redeemed being calculated by applying an agreed formula (the Agreed Formula) based on the unutilised callable capital, if any, at the end of the CRR4 period relative to a statutory capital utilisation threshold of 87% at the end of the CRR4 Period. For calculation purposes, such unutilised callable capital, if any, shall be equal to an amount which is the lesser of €9,000,000,000 and $((87\% \text{ of } A) - B)$, where:
 - (i) A is the aggregate amount of the Bank's unimpaired subscribed capital, reserves and surpluses at the end of the CRR4 Period; and
 - (ii) B is the aggregate amount of the Bank's operating assets at the end of the CRR4 Period.

The number of shares, if any, to be redeemed pursuant to the Agreed Formula shall be equal to that amount divided by the par value of the shares (€10,000).⁶

- (c) Any redemption of shares made in accordance with this Resolution shall be subject to the condition that, following any redemption, all relevant provisions of the Agreement continue to be complied with (e.g., the ratios prescribed in Article 12 are met; no callable shares have been called to meet the Bank's liabilities (Articles 6.4 and 17 of the Agreement); and no decision to terminate the operations of the Bank has been made (Articles 41 and 42.2 of the Agreement).
- (d) In the period immediately leading up to the 2015 Annual Meeting:
 - (i) on the basis of known data in relation to 2011-14 as well as reasonable projections for 2015, the Bank's Management shall prepare an assessment of the Bank's financial position, and economic conditions expected to prevail up to the end of the CRR4 period, including in particular developments in economic output, investment, domestic banking systems and international capital markets, and shall thereafter hold appropriate consultations with the Board of Directors;
 - (ii) the President shall submit to the Board of Directors a draft report to the Board of Governors along with two draft resolutions as described below;

⁶ According to the Agreed Formula, the amount of unutilised callable capital would be zero if the Bank's operating assets are equal to or in excess of 87% of the unimpaired subscribed capital, reserves and surpluses.

- (iii) the first resolution shall identify the number of callable shares to be redeemed and be as follows: (x) if there is no unutilised callable capital applying the Agreed Formula, the resolution shall be a resolution to take note that, applying the Agreed Formula, no shares shall be redeemed; (y) if there is unutilised callable capital applying the Agreed Formula and the assessment of the Bank's financial position and the prevailing economic conditions is such that the Agreed Formula can be applied without adjustment, the resolution shall be a resolution to take note that a specified number of shares, being the maximum number of shares that may be redeemed applying the Agreed Formula, shall be redeemed; or (z) if there is unutilised callable capital applying the Agreed Formula and the assessment of the Bank's financial position and the prevailing economic conditions is such that the Agreed Formula should not be applied, the resolution shall be a resolution to redeem a number of shares, which shall, be less than the maximum number of callable shares that may be redeemed applying the Agreed Formula and may be zero;
- (iv) the second resolution shall provide for a process for the redemption of the callable shares that have not been redeemed in accordance with paragraph 3(e) or (f) after the end of the CRR4 Period;
- (v) notwithstanding any provision of the Rules of Procedure of the Board of Governors, and without prejudice to the powers of the Board of Governors pursuant to Article 24 of the Agreement, the matter concerning the redemption of the callable shares shall be included as an item in the agenda of the 2015 Annual Meeting of the Board of Governors, the report shall be submitted for consideration and the resolutions for approval by the Board of Governors;
- (e) at the 2015 Annual Meeting, the Board of Governors shall decide on the first resolution by a majority of the total voting power of the members voting, provided that if such first resolution is not approved by such majority, the number of callable shares to be redeemed, if any, shall be the maximum number of shares that may be redeemed applying the Agreed Formula, subject in all cases to the provisions of paragraph 3(f) below;
- (f) if the Bank's actual financial position and the then prevailing economic conditions at the end of CRR4 Period are materially different from those expected on the basis the projections previously provided to the Board of Directors in 2015 by the Bank's Management, a new resolution shall be submitted promptly to the Board of Governors, following a similar process, for approval by the same majority at or before the 2016 Annual Meeting.
- (g) upon the decision to redeem a specified number of callable shares becoming operative in accordance with paragraph 3(e) or 3(f) above, all members who have subscribed to the callable shares authorised by this Resolution shall surrender to the Bank part or all of their shares pro rata to their respective holdings of such shares and such redeemed callable shares shall be cancelled automatically and as of the date of the redemption, with the authorised capital of the Bank being reduced correspondingly without the need for a further resolution of the Board of Governors.

- (h) at the 2015 Annual Meeting, the Board of Governors shall decide on the second resolution by a majority of the total voting power of the members voting.

4. Effectiveness and Other Provisions

- (a) For the purposes of this Resolution, the Effective Date shall be the date on or before 30 April 2011, or such subsequent date not later than 31 December 2011 as may be determined by the Board of Directors, 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 450,000⁷ callable shares.
- (b) Subject to the provisions of this Resolution, the provisions of the Agreement shall apply *mutatis mutandis* to the callable shares authorised by, and to the subscriptions 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 14 May 2010)

⁷ Being 50% of the number of newly authorised callable shares

LEGISLATIVE FINANCIAL STATEMENT FOR PROPOSALS

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Decision of the European Parliament and of the Council concerning the subscription by the European Union to additional shares in the capital of the European Bank for Reconstruction and Development (EBRD) as a result of the decision to increase its capital.

1.2. Policy area(s) concerned in the ABM/ABB structure⁸

Title 01 – Economic and Financial Affairs

1.3. Nature of the proposal/initiative

- ☐ The proposal/initiative relates to **a new action**
- ☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action**⁹
- ☒ The proposal/initiative relates to **the extension of an existing action**
- ☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objectives

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

Objective "To promote prosperity beyond the EU"

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

Specific objective No.

2. Objective "To improve the EU profile, external representation and liaison with the EIB and EBRD, other international financial institutions, and relevant economic fora aiming at strengthening convergence between their strategies and operations and EU external priorities"

ABM/ABB activity(ies) concerned

Title 01.03 – International Economic and Financial Affairs

⁸ ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

⁹ As referred to in Article 49(6)(a) or (b) of the Financial Regulation.

1.4.3. *Expected result(s) and impact*

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

Through the EU's subscription to capital of the EBRD, the main objective is to efficiently represent EU interests in the governing bodies of the EBRD, and to ensure convergence between the EU external priorities and the EBRD's strategies and operations, as well as adequate coordination with other EU Directors and relevant EU bodies when important or politically sensitive projects or policy debates are taking place. Furthermore, the participation in the current capital increase will ensure that the EU share in the capital of the EBRD remains at least constant and is not diluted.

1.4.4. *Indicators of results and impact*

Specify the indicators for monitoring implementation of the proposal/initiative.

The attainment of objectives will be measured by the volume of EBRD financing operations by regions and by sectors, by the volume of EBRD financing operations co-financed with other IFIs and/or Commission programmes, as well as by other indicators in the context of ex-ante and ex-post assessments of EBRD financing operations.

1.5. **Grounds for the proposal/initiative**

1.5.1. *Requirement(s) to be met in the short or long term*

Article 5.3 of the Agreement Establishing the EBRD stipulates that the Board of Governors shall review the capital stock of the EBRD at intervals of not more than five years. The fourth Capital Resources Review (CRR4) for the period 2011-2015 reflected the need for the EBRD to respond effectively to the crisis within statutory limits and to redirect its medium term strategy taking account of the significant impact the crisis is having on its region of operations. In order to maintain enough capital to sustain over the medium term a reasonable level of activity, the EBRD Governors at their 2010 Annual Meeting decided to increase by EUR 10 billion the authorized capital stock of the EBRD.

The modalities of the EU participation in the capital increase of the EBRD do not foresee any disbursement:

Following the adoption of the Resolution 126 by the Governors, the paid-in part (EUR 1 billion) of the capital increase has been paid through integration in the capital of part of the EBRD's unrestricted general reserves. All EBRD shareholders automatically receive paid-in shares in proportion of their existing shareholding (equivalent to EUR 30.31 million for the EU), without any further procedural steps to be taken by the shareholders themselves.

The present proposal aims at increasing the callable portion of the EU subscribed capital. Following the adoption of the Resolution 128 by the Governors, the callable portion of EU subscribed capital will increase by EUR 270.13 million (27 013 shares of EUR 10 000 each).

EU subscription to those additional shares aims at preserving the EU voting power within the EBRD.

Members are expected to deposit instruments of subscription on or before 30 April 2011, or such subsequent date as the Board of Directors may determine but in any event not later than 31 December 2011.

1.5.2. *Added value of EU involvement*

The EBRD transition mandate is unique among International Financial Institutions (IFIs) in directing it to support systemic change rather than delivering development outcomes. This choice was based on the conviction that a democratic and pluralistic market economy is the form of social organisation best capable of achieving results that people care about: meaningful jobs, poverty reduction, higher incomes, high-quality services, a sustainable environment and gender equality. Twenty years of economic and political transition have produced impressive results for many of the countries in the EBRD region of operations, but the process of transition is far from over and has become more fragile. Experience has shown that transition to well-functioning markets is not a linear process, and the crisis has brought with it important insights into the resilience and sustainability of past transition achievements.

Between the fourth quarter of 2008 and the second quarter of 2009, the EBRD region underwent the steepest economic contraction since the early years of transition. The economic decline in late 2008 and the first half of 2009 was driven by severe and simultaneous shocks to exports, commodity prices and capital flows to the region. These shocks were aggravated by well-known vulnerabilities in many countries in the region, including high private external debt, excessive reliance of credit growth on external funding, and, in some cases, denomination of household and corporate debt in foreign currency.

The EBRD responded in a swift and determined manner to the needs of its countries of operations and clients during the crisis. In very adverse circumstances, the EBRD was able to play its counter-cyclical role fully and to offer a flexible and robust crisis-response, both quantitatively and qualitatively, in close cooperation with other IFIs. In particular, the EBRD was instrumental to further help the region sustain and strengthen its recovery, by financing mainly the private sector and leveraging its impact through equity and other innovative risk-sharing instruments. The EBRD played also a key role in supporting the financial sector and SMEs, but also energy efficiency and security, nuclear safety, as well as environmental and municipal infrastructure. The capital increase will allow the Bank to maintain enough capital to sustain over the medium term a reasonable level of activity.

1.5.3. *Lessons learned from similar experiences in the past*

EBRD shareholders (which include all EU member states, the EIB and the Commission representing the EU) were actively involved in the CRR4 process. Based on the capital requirements analysis and consultations with shareholders, the following points have been considered in deciding the capital increase:

- The EBRD should have the operational capacity to support its region of operations in the aftermath of the global financial crisis within the proposed annual business volume path;
- Any proposed capital enhancement method should seek to minimise the impact on the budgets of shareholders;

- The structure of a capital increase should reflect the temporary nature of crisis and post-crisis demands on the EBRD so that any unutilised callable capital would be redeemed and “returned” to shareholders after the end of the CRR4 period. The level of redemption will be calculated on the basis of an agreed formula (statutory capital utilisation test) but will also take account of the Bank’s financial situation and the economic environment prevailing at the end of the CRR4 period;
- The EBRD needs to maintain its Triple -A rating to be effective in implementing its mandate; and
- An increase in subscribed capital through capitalising part of the general reserve will be recognised by bondholders as further confirmation of shareholder support.

1.5.4. *Coherence and possible synergy with other relevant instruments*

The Commission systematically promotes close cooperation and joint initiatives with the EBRD, the EIB and other IFIs as efficient donor/IFI concerted actions are increasingly necessary to sustain recovery in a fragile and fiscally constrained economic environment. Close cooperation with the EBRD also underpins the achievement of EU objectives in the field of economic external relations activities.

Enhancing cooperation with IFIs is one of the Commission's priorities as inter alia stipulated in the overall policy framework laid down in the European consensus on development adopted in 2005, which stresses the need to improve aid co-ordination. In addition, new and more pressing existing challenges are to be addressed by the EU in the context of climate change and development financing. These stem respectively from the UN climate change conference in Copenhagen (2009), which has underlined the need to find solutions to finance the fight against climate change in developing countries, and the Lisbon Treaty (2009) which sets the reduction and the eradication of poverty as the primary objective of the Union’s development cooperation policy.

Against this background, the Commission supports, in particular, its cooperation with the EIB and the EBRD in the framework of tripartite (EC-EIB-EBRD) Memoranda of Understanding, as well as within grant and loan blending mechanisms, such as the Western Balkans Investment Framework and the Neighbourhood Investment Facility.

1.6. Duration and financial impact

☐ Proposal/initiative of **limited duration**

- ☐ Proposal/initiative in effect from [DD/MM]YYYY to [DD/MM]YYYY
- ☐ Financial impact from YYYY to YYYY

☒ Proposal/initiative of **unlimited duration**

- Implementation with a start-up period from April 2011 to December 2011,

1.7. Management mode(s) envisaged¹⁰

☒ **Centralised direct management** by the Commission

☐ **Centralised indirect management** with the delegation of implementation tasks to:

- ☐ executive agencies
- ☐ bodies set up by the Communities¹¹
- ☐ national public-sector bodies/bodies with public-service mission
- ☐ persons entrusted with the implementation of specific actions pursuant to Title V of the Treaty on European Union and identified in the relevant basic act within the meaning of Article 49 of the Financial Regulation

☐ **Shared management** with the Member States

☐ **Decentralised management** with third countries

☐ **Joint management** with international organisations (*to be specified*)

If more than one management mode is indicated, please provide details in the "Comments" section.

Comments

N/A

¹⁰ Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

¹¹ As referred to in Article 185 of the Financial Regulation.

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

EBRD Financing Operations will be managed in accordance with the EBRD's own rules and procedures, including appropriate audit, control and monitoring measures. As foreseen in the Agreement Establishing the EBRD, the Audit Committee of the EBRD, which is supported by external auditors, assists the EBRD Board of Directors and is responsible for verifying the regularity of the EBRD operations and accounts. The Board of Directors, where the EU, represented by the Commission, has a Director, submits the audited accounts for each financial year for approval of the Board of Governors at each annual meeting and approves the budget of the EBRD. The Board of Governors approves, after reviewing the auditor's report, the general balance sheet and the statement of profit and loss of the EBRD.

Furthermore, the Board of Directors establishes policies and takes decisions concerning loans, guarantees, investment in equity capital, borrowing by the EBRD, the furnishing of technical assistance and other operations of the EBRD in conformity with the general directions of the Board of Governors.

Finally, the Board of Directors has established three Board Committees to assist it in its work: the Audit Committee mentioned above, the Budget and Administrative Affairs Committee and the Financial and Operations Policies Committee. The EU Director (or his alternate) attends all these Boards Committees.

2.2. Management and control system

2.2.1. Risk(s) identified

In the framework of CRR4, the analysis of capital enhancement options was based on the need to comply with the EBRD's statutory 'gearing ratio', economic capital requirements arising from the application of the "Economic Capital Policy", the maintenance of the EBRD's Triple-A credit rating, as well as the effective and efficient use of shareholders' capital.

A risk for the EU budget relates to the callable nature of part of the capital. In accordance with the Agreement establishing it, the EBRD could request payment relating to whole or part of the callable part of the capital subscribed by the European Union if it is needed to meet its liabilities. The likelihood of this event is however judged very low.

2.2.2. Control method(s) envisaged

Article 5.3 of the Agreement Establishing the EBRD stipulates that the Board of Governors shall review the capital stock of the EBRD at intervals of not more than five years. The fifth Capital Resources Review (CRR5) for the period 2016-2020 shall be implemented at the end of the CRR4 period.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures.

The EBRD has an independent Office of the Chief Compliance Officer (OCCO), which is headed by a Chief Compliance Officer (CCO) reporting directly to the President, and annually, or as necessary, to the Audit Committee. The OCCO's mandate is to promote good governance and to ensure the highest standards of integrity are applied throughout all of the activities of the EBRD in accordance with international best practice. The responsibilities of the OCCO include dealing with issues of integrity due diligence, confidentiality, conflicts of interest, corporate governance, accountability, ethics, anti-money laundering, counter-terrorist financing and the prevention of fraudulent and corrupt practices. The OCCO is responsible for investigating allegations of fraud, corruption and misconduct. It also trains and advises, as necessary, EBRD staff members who are appointed as directors to the boards of companies in which the EBRD holds an equity interest. Financial and integrity due diligence are integrated into the Bank's normal approval of new business and the monitoring of its existing transactions. The EBRD publishes the OCCO's anti-corruption report on its web site.

Moreover, the OCCO has the specific responsibility for administering the EBRD's accountability mechanism, currently the Independent Recourse Mechanism soon to be replaced with the Project Complaint Mechanism, which assesses and reviews complaints about projects financed by the EBRD and provides, where warranted, a determination as to whether in approving a particular project, the EBRD acted in compliance with its relevant policies.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing expenditure budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Description.....]	DA/NDA ⁽¹²⁾	from EFTA ¹³ countries	from candidate countries ¹⁴	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
4	01.03.01.02 European Bank for Reconstruction and Development – Callable portion of subscribed capital	DA	NO NO NO			NO

¹² DA= Differentiated appropriations / DNA= Non-Differentiated Appropriations

¹³ EFTA: European Free Trade Association.

¹⁴ Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

The modalities of the EU participation in the capital increase of the EBRD do not foresee any operational expenditure.

Heading of multiannual financial framework:	5	" Administrative expenditure "
--	----------	--------------------------------

EUR million (to 3 decimal places)

		Year 2010	Year 2011	Year 2012	Year 2013	... enter as many years as necessary to show the duration of the impact (see point 1.6)			TOTAL
DG: ECFIN									
• Human resources		0.090	0.045	0.000	0.000				0.135
• Other administrative expenditure									
TOTAL DG ECFIN	Appropriations	0.090	0.045	0.000	0.000				0.135

TOTAL appropriations under HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.090	0.045	0.000	0.000				0.135
--	---	-------	-------	-------	-------	--	--	--	-------

EUR million (to 3 decimal places)

		Year 2010	Year 2011	Year 2012	Year 2013	... enter as many years as necessary to show the duration of the impact (see point 1.6)			TOTAL
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	0.090	0.045	0.000	0.000				0.135
	Payments	0.090	0.045	0.000	0.000				0.135

3.2.2. *Estimated impact on operational appropriations*

- ☒ The proposal/initiative does not require the use of operational appropriations

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

- ☐ The proposal/initiative does not require the use of administrative appropriations
- ☒ The proposal/initiative requires the use of administrative appropriations, as explained below:

EUR million (to 3 decimal places)

	Year 2010	Year 2011	Year 2012	Year 2013	... enter as many years as necessary to show the duration of the impact (see point 1.6)	TOTAL
--	--------------	--------------	--------------	--------------	---	--------------

HEADING 5 of the multiannual financial framework								
Human resources	0.090 0.	045 0.	000 0.	000				0.135
Other administrative expenditure								
Subtotal HEADING 5 of the multiannual financial framework	0.090 0.	045 0.	000 0.	000				0.135

Outside HEADING 5¹⁵ of the multiannual financial framework								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 5 of the multiannual financial framework								

TOTAL	0.090 0.	045 0.	000 0.	000				
--------------	----------	--------	--------	-----	--	--	--	--

¹⁵ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former "BA" lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

- ☐ The proposal/initiative does not require the use of human resources
- ☒ The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full amounts (or at most to one decimal place)

	Year 2010	Year 2011	Year 2012	Year 2013	... enter as many years as necessary to show the duration of the impact (see point 1.6)		
• Establishment plan posts (officials and temporary agents)							
XX 01 01 01 (Headquarters and Commission's Representation Offices)	1.0 0.	5	0	0			
XX 01 01 02 (Delegations)							
XX 01 05 01 (Indirect research)							
10 01 05 01 (Direct research)							
• External personnel (in Full Time Equivalent unit: FTE) ¹⁶							
XX 01 02 01 (CA, INT, SNE from the "global envelope")							
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)							
XX 01 04 yy ¹⁷	- at Headquarters ¹⁸						
	- in delegations						
XX 01 05 02 (CA, INT, SNE - Indirect research)							
10 01 05 02 (CA, INT, SNE - Direct research)							
Other budget lines (specify)							
TOTAL	1.0	0.5	0	0			

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG.

Description of tasks to be carried out:

Officials and temporary agents	<p>The main tasks arising from the EBRD capital increase are the following:</p> <p>- Preparation of legislative proposal;</p>
--------------------------------	---

¹⁶ CA= Contract Agent; INT= agency staff ("Intérimaire"); JED= "Jeune Expert en Délégation" (Young Experts in Delegations); LA= Local Agent; SNE= Seconded National Expert;

¹⁷ Under the ceiling for external personnel from operational appropriations (former "BA" lines).

¹⁸ Essentially for Structural Funds, European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF).

	<ul style="list-style-type: none"> - Follow up of the legislative procedure; - Administration of the annual budgetary procedure; - Annual reporting; - Relations with the Parliament and Council; - Relations and communication with EBRD management.
External personnel	

3.2.4. *Compatibility with the current multiannual financial framework*

- ☒ Proposal/initiative is compatible the current multiannual financial framework.
- The proposal is compatible with existing financial programming. The EBRD could nevertheless request, in accordance with the Agreement establishing it, payment relating to whole or part of the callable part of the capital subscribed by the European Union if it is needed to meet its liabilities. The likelihood of this event is however judged very low.

3.2.5. *Third-party contributions*

- ☒ The proposal/initiative does not provide for co-financing by third parties

3.3. **Estimated impact on revenue**

- ☒ Proposal/initiative has no financial impact on revenue.