

COMMISSION
DES
COMMUNAUTÉS EUROPÉENNES

Secrétariat général

SEC(90) 13/2

This amended draft communication
from M. CHRISTOPHERSEN replaces
the previous version.
Only an English version is
currently available.

Bruxelles, le 4 janvier 1990

OJ 993 - point 11 a)

*return to EK
MAB*

441.2(3)

BANQUE POUR LA RECONSTRUCTION ET LE DÉVELOPPEMENT

(Communication de M. CHRISTOPHERSEN)

- Cette question est inscrite à l'ordre du jour de la 993ème réunion de la Commission, le jeudi 4 janvier 1990.

Destinataires : Membres de la Commission
MM. COSTA
KRENZLER
CIOFFI

THE BANK FOR RECONSTRUCTION AND DEVELOPMENT OF EUROPE
(BRDE)

D R A F T

Communication to the Commission

(by Mr Christophersen)

THE BRDE

The Bank for Reconstruction and Development of Europe

1. Introduction

The historic changes now taking place in Eastern Europe affect the European Community crucially, as well as Western democracies in general. Major efforts are called for in order to support these events.

The challenge has been taken up promptly and a particular role was assigned to the Commission at the "Arche" Summit of July 1989.

The President of the European Council presented a number of proposals at Strasbourg in December, one of which was for the establishment of a "Bank for Reconstruction and Development of Europe", as an integral part of the Western response to the need for large-scale action in support of the Eastern European economies.

The proposed institution was endorsed by the European Council in December, which called for detailed proposals to be prepared for mid-January.

The present communication sets out the main lines for a European Community position on the new bank's possible terms of reference, bearing in mind the necessity to design an instrument which will attract support from countries outside Europe (especially the US and Japan) as well as of the East European countries themselves.

It concentrates on those questions which are still open concerning the creation of the new bank, on the basis of three documents:

- i) the Conclusions of the Presidency in Strasbourg
- ii) a report on the Bank submitted by the French presidency, and
- iii) a draft set of statutes circulated by France in view of the Paris meeting of 15/16 January. The same document will be examined by a Council High Level Group on January 9.

2. The objectives of the Bank

According to the Strasbourg Conclusions the objectives shall be to promote investment in the productive sectors ("les investissements productifs et concurrentiels"). This, which is assumed to cover service activities, requires two qualifications:-

- The new bank should be able to finance infrastructures because:

adequate provision of such infrastructure is essential for a successful private sector, especially for private investment; and

- 3 -

Infrastructure in Eastern Europe is in a very poor state and the need for new investment is very high.

- The new bank could finance programmes as well as individual projects. In this case the purposes and conditionality of these programmes would have to be consistent with operations by the World Bank and IMF, with Community medium-term financial assistance to Hungary, with EIB lending and with Operation PHARE.

3. A development institution

In the view of those who initially proposed the Bank, it should have a leading role in co-ordinating the aid efforts of the international community.

The articulation of this possible role and its relationship with the present mandate of the Commission for the co-ordination of G-24 efforts is a matter of concern and hence discussion.

It is assumed that the Commission will continue to co-ordinate the aid effort in fulfilment of the mandate of the Paris Summit.

4. A concessional window

The French document suggests that the BRDE should be able to manage special funds for such things as technical assistance, health, education and training. The concessional aid should be given on an ad hoc basis, i.e. for specific programmes in specific countries. These might account for, perhaps, 1/10 of the Bank's total activity.

The concessional window could be financed by an endowed fund of the same time as the International Development Agency (IDA) in the World Bank group, replenished periodically and kept separately from the Bank's main market-type activities. Part of the BRDE profits will also be recycled through the concessional window.

While the IDA grants a considerable amount of concessional finance, it only finances the very poorest countries whose per capita income is considerably below that of the potential East European beneficiaries.

The criteria for application to this concessional window need to be precisely determined which will lead to a difficult appreciation of the various countries' situations.

5. East European beneficiary countries

A priori, East European beneficiaries should also be shareholders, which raises the delicate problem of so-called "democratic conditionality".

So far Poland and Hungary have gone some way towards making the necessary choices and would be eligible from the outset. Bulgaria, Czechoslovakia, DDR, Romania and Yugoslavia could also be considered to be ready.

The USSR is an important case which needs special consideration.

It must be recognised that for some countries the espousal of economic and political democracy is a fragile phenomenon. A provision should therefore be built into the Statutes permitting beneficiaries to be suspended if they renounce democracy and the market economy. A tough decision will have to be made about beneficiaries who may renege on their pro-democracy commitment.

6. Capitalisation

The document submitted by the French talks of ECU 15 billion in subscribed capital of which 20 % would be paid in over a period of from 3 to 5 years. The amount of activity would be limited by prudential ratios.

This could support lending of about ECU 3 billion a year for about five years. After this point new loans could only be made to the extent that earlier loans had been repaid, or if the capital of the bank was increased.

This level of lending is possible because the bank would fund itself on the capital markets whose guarantee of being repaid would depend on the fact that in case of need the 80 % unpaid element of the subscribed capital could be called.

ECU 3 billion of lending per year represents in terms of loans per capita per annum :

ECU 62 if limited to Poland and Hungary;
ECU 26 if limited to East Europe;
ECU 7 if limited to East Europe and USSR.

This compares with average EIB loans within the Community of ECU 28 per capita per annum in 1988, and structural fund contributions of 100 ECU in Objective 1 countries.

7. Shareholdings and maintenance of value

If the Community were to be in the majority, but only just, a possible share split could be as follows :

		<u>3</u>
12 Member States		43
of which the big four about 8 % each		
EC (inclusive of EIB)		8
		--
	Total EC share	51
EFTA		8
Japan and USA		16
Other OECD		7
Central and East Europe		18
of which USSR	8 %	
		--
	TOTAL	<u>100</u>

It would be preferable if the whole capital were both denominated and paid in ECUs.

If this is not possible for Central and East European countries because of their shortage of convertible currency, then they would have to pay in their local currency. In this case there would have to be a maintenance of value clause in the statutes so that those countries who have not paid in ECUs would have to pay in extra capital whenever their currency devalued.

8. The cost to the Community

Appropriate entries would need to be made in the Community budget : payments over the three or five years and a token entry to reflect the possibility that the unpaid element of the subscribed capital could in theory be called at any time. The budgetary implication for the EC (inclusive of the EIB) of the paid in capital is 48 MECUs per year over a 5 year period, namely $(15 \text{ BECUs} \times 20\% \times 3\%)/5 = 48 \text{ MECUs}$.

Depending on the speed at which the intergovernmental conference progresses provision could either be made in the 1991 budget or if necessary the provision should be made in a rectifying budget for 1990.

9. Procedure for creating the BRDE

The Conclusions of the presidency of the Strasbourg European Council call for negotiations to open in January 1990. The meeting was indeed called by President Mitterrand for January 15-16 in Paris.

It is necessary that the twelve Member States coordinate their position first. The Irish Presidency will therefore call a meeting of experts on Tuesday January 9 in Brussels. The meeting will be organized by the Council, and attended by the representatives of Finance/Treasury Ministers, assisted by financial experts.

This procedure will enable all 24 donor countries and the beneficiary countries to present their views at the full intergovernmental conference.