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**MEMORANDUM**

**To:** Members of the Financial and Operations Policies Committee CS/FO/05-4

**From:** Acting Secretary General **Date:** 4 March 2005

**Subject:** **Third Capital Resources Review Work Programme**

Attached for information is the Third Capital Resources Review Work Programme, which will be discussed at the meeting of the Financial and Operations Policies Committee on 7 March 2005.

Questions relating to this document may be addressed to Noreen Doyle (Ext 6196), Steven Kaempfer (Ext 7700), Willem Buiter (Ext 6805) or Josué Tanaka (Ext 6364).

**Distribution**

President  
Executive Committee

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FOR RECONSTRUCTION AND DEVELOPMENT**

**CS/FO/05-4  
4 March 2005**

**THIRD CAPITAL RESOURCES REVIEW  
WORK PROGRAMME**

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### THIRD CAPITAL RESOURCES REVIEW Work Programme

Further to the discussions at the retreat in Sopwell House, this note summarises the main next steps for the preparation of the third Capital Resources Review (CRR). The following steps will provide over time answers to the numerous questions raised to date by Directors in both oral and written form:

- **Graduation.** Based on the oral presentation by the Chief Economist, this note would describe the features of the graduation process, refer to the key policy documents on this topic and identify specific sector/country segments where the Bank appears to have graduated.

Timing: First quarter 2005.

- **Transition gap analysis.** This document would provide a comprehensive assessment of current transition gaps by country and sector. As a major driver of the Bank's strategy and activity, the identification of transition gaps is an important component of the preparation of the third CRR.

Timing: FOPC during the second quarter 2005 before the Annual Meeting.

- **Profitability of smaller projects.** The potential further increase in the number of smaller projects raises several important issues. Accordingly, an analysis of operational, financial, risk and cost trends related to smaller projects is being made in the context of the 2004 Strategic Portfolio Review. This will provide an in-depth analysis of this topic which will be useful in deriving the financial and resource implications of a further shift to a potentially higher number of smaller projects in the context of the CRR.

Timing: FOPC discussion during the second quarter 2005 before the Annual Meeting.

- As in previous medium term planning reviews, a base case **portfolio development** projection will be defined for the period 2006 to 2010 for discussion and approval by the Board. The following topics would be covered:
  - assessment of CRR2 strategic implementation;
  - annual business volume indicative projections at individual geographic and sector segment taking account of transition gaps, foreign direct investment, additionality and IFI cooperation within each segment;
  - resulting portfolio development projections at individual geographic and sector segment including projected segment portfolio share trends;
  - assessment of potential single country concentration issue in Russia;
  - financial projections at Bank level focusing on the financial implications of a further shift of the portfolio towards the early and intermediate transition countries and Russia. An assessment of the implications of new IFRS rules and of the potential for allocation of net profits will also be undertaken; and

- capital utilisation projections based on the above portfolio development and financial projections.

Timing: FOPC discussion before summer recess.

- **Capital adequacy** analysis is a fundamental component of the CRR. Within the third CRR, the following capital adequacy topics are expected to be addressed:
  - capital adequacy tests using Basel II framework and Bank's Risk capital Model; and
  - further to the Capital Utilisation Review, consideration of options to provide a stable medium-term capital management framework including capital redenomination.

Timing: FOPC during the third quarter 2005

- The **Transition Impact Retrospective** provides a comprehensive assessment of the transition impact experience of the Bank to date. It identifies areas where the Bank has been particularly successful and lessons learned. As such this document provides a relevant background to the CRR strategic review.

Timing: Document distribution by third quarter 2005.

- The **resource implications** in terms of **staff, skills and costs** of the Bank's strategy for the third CRR period will be examined taking account of medium term operational and financial trends. This examination will include topics such as the staff and skills implications of managing a larger portfolio, of enhanced activity in small projects and countries and of operating in a higher risk environment. Productivity trends and potential resource redeployment implications across geographic and sector segments at both headquarters and resident office levels will also be addressed.

Timing: BAAC in third quarter 2005

In line with the objective to maintain close dialogue and consultation with the Board throughout the preparation of the third CRR, each of the above steps involves specific discussions with the Board either at Committee or full Board level. Building on the positive experience at Sopwell House, consideration could be given to a second 'off-site' meeting in the autumn of this year. This would provide the opportunity to discuss specifically capital adequacy and resource allocation matters, but also to address remaining points related to the third CRR previous to drafting.

As agreed, there will be a short update of the MTS 2005-2008 which will reflect the actual results achieved by the Bank in 2004. Accordingly, this update is targeted to be discussed together with the 2004 Strategic Portfolio Review during the second quarter of 2005.

The current objective is to distribute the third CRR document to the Board in December 2005 for consideration by the FOPC in January 2006 and Board review and approval in February. The third CRR together with the Report of Directors to the Board of Governors is intended to be sent to the Governors in February 2006 for their consideration at the Annual meeting in London in May 2006.