

## **Observer Status Policy**

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1. Reasons for the Bank to Establish Observer Status
2. Observer Status Candidates
3. Process for Conferring Observer Status

The Objective of this Policy is to formulate the rationale, the nature and key details for the establishment of Observer Status at the Black Sea Trade and Development Bank (BSTDB or the Bank).

## **1. Reasons for the Bank to Establish Observer Status**

The principal reason for the Bank to offer Observer Status is that doing so would contribute real value to the Bank's shareholders. Key considerations for the Bank in granting such status are (i) it would promote economic development and/ or regional cooperation in the Black Sea region, and (ii) it would strengthen the perception of the Bank's ownership structure and facilitate the transfer of resources (financial, technical, knowledge, etc). This would help to increase not only the access of the Bank to various forms of ad hoc funding (such as Special Funds) but furthermore it would contribute positively to the Bank's overall borrowing capacity.

Establishment of Observer Status represents a first step to generate interest in the Bank, providing a flexible mechanism that permits entities to become involved in the Black Sea region with a form of participation suitable to their interest.

There are a number of reasons for which Observer Status would be desirable for the Bank, contributing to the aforementioned considerations:

- Promotion of the notion of BSTDB as one among the pre-eminent financial institutions working for the Black Sea region. In addition to generating interest in the Black Sea region, it can help to increase awareness of the Bank, and improve lines of communication with external entities;
- The Bank needs the resources available from "Special Funds" as described in Articles 2,10, and 16 of the *Agreement Establishing the Black Sea Trade and Development Bank*. The funds are needed for numerous activities, including the preparation of operations, technical advice and assistance for studies. Observer Status can establish closer forms of affiliation with the donor community, thus helping to attract Special Funds;
- Similarly, development of Observer Status can improve prospects for co-financing of operations with multilateral and bilateral development financial institutions, donor entities, and other interested sources, an objective envisioned in the 'Methods of Operation' of Article 12(b) of the Establishing Agreement;
- As in other IFIs, establishment of Observer Status may contribute to greater openness and improved accountability;

- Observer Status may also facilitate Bank access to external financial institutions (private banks, export credit agencies, development financiers, etc.) and potential investors. By granting Observer Status, the Bank will (a) create greater awareness about its activities, (b) attract greater support, and (c) help “open doors” for the Bank to engage firms and financial institutions both from within and from outside the Black Sea region;
- The perception of the Bank’s ownership structure by the market may improve without alteration of its current shareholding arrangement. Having Observers connotes recognition of the institution, and external interest in Bank activities. It will facilitate BSTDB’s further rating improvements and additional capital market penetration;
- Achievement of networking benefits through improvement of access to various fora of interest to BSTDB, as well as through information exchange, knowledge sharing, and institutional coordination;
- Facilitate a uniform approach to operational requirements and procedures leading to stronger synergies among development financial institutions.

Costs to the Bank in offering Observer Status are minimal, and mainly of an administrative nature. For the benefit of external viewers and interested parties, the Bank may produce documentation introducing the initiative, describing what it entails, and explaining the procedures involved.

## **2. Observer Status Candidates**

Observer Status is intended primarily for (i) multilateral and national development financial institutions and (ii) for interested countries (sovereign entities). First and foremost, leading International Financial Institutions (IFIs) active in the Black Sea region are encouraged to apply for Observer Status with the Bank.

Development institutions of “donor” and BSTDB member countries operating in the region would be considered subject to assessment of the extent to which their receiving Observer Status would generate value added for BSTDB shareholders and help to realize the Bank’s development mandate and business objectives.

Although there would not be any ex-ante discrimination, preference would be shown for financial institutions that enjoy high creditworthiness, and by extension their participation could help strengthen further the Bank, (indirectly) reinforce the shareholders, and improve prospects for continued rating upgrades.

Neighboring states would also be considered, particularly in cases where this would contribute to greater fulfillment of the Bank’s regional cooperation and economic development mandates. This may include (but is not limited to) considerations of geographic continuity or facilitation of the execution of regional operations.

BSEC Observers are not required to be Observers with BSTDB; therefore, BSTDB Observers would not be required to be BSEC Observers, although BSEC Observer states may consider joining the bank as observers, as they have already indicated their interest in the region.

At the discretion of the Bank, Observer Status may include:

- Invitation to attend and participate in major BSTDB events such as (a) the 'opening session' of the BSTDB Board of Governors' (BoG) meetings (involving official declarations of the Governors), and (b) business conferences and events organized by BSTDB, and other relevant activities (e.g. promotional, information sharing or disseminating, coordinating, etc.);
- Encouragement to provide financing, either through Special Funds, or co-financing;
- Availability of a forum to exchange information on a regular basis, including the opportunity to propose ventures with BSTDB for items such as financing operations, special regional study proposals, strategy coordination, procedural harmonization and other ideas or recommendations linked to the promotion of the Black Sea region, regional integration, and economic development;
- Receive select external reports prepared by BSTDB, as well as Annual Reports.

Observer Status establishes the relationship with the Bank, but does not carry concrete obligations for the Observer to provide financing. In effect, the Observer is loosely tied to the Bank and expresses interest in activities in the Black Sea region, without necessarily being actively involved and without organizational or financial requirements/commitments for the Bank.

### **3. Process for Conferring Observer Status**

Applications would be examined on a case-by-case basis, taking into consideration the ability of the applicant to make practical and valuable contributions to the fulfillment of the mandate of the Bank and the development of the region and particularly as per above 1. "Reasons for the Bank to Establish Observer Status". Steps would include the following:

1. An application, expressing the applicant's interest in obtaining Observer Status would be submitted to the Bank, preferably accompanied by a brief note containing information on the applicant's mandate and activities in the Black Sea region.
2. BSTDB would agree with the applicant on the main areas and modes of cooperation under the Observer Status and appoint officials for regular contacts.

3. The application for Observer Status together with the agreed areas and modes of cooperation would be included in the agenda of the earliest possible meeting of the Board of Directors accompanied by the relevant recommendation of the Management.

4 The Board of Directors would recommend to the Board of Governors the granting of Observer Status under terms and conditions mutually agreed upon with the applicant.

5. The Board of Governors would make a decision, either at its next meeting or without a meeting (per Section 10 of the Rules of Procedure of the Board of Governors).

As a general rule, Observer Status would be granted for an unlimited period. The Board of Directors may periodically review the progress of cooperation with Observer institutions with a view of recommending appropriate action to the Management. The Observer Status may be terminated at any time upon the request of the Observer or by decision of the BSTDB Board of Governors upon the recommendation of the Board of Directors.

Review of each application by the Bank's senior management, the Board of Directors, and the Board of Governors, as well as periodic reviews of the status of cooperation with Observers, ensure that all relevant economic, technical, managerial, and political considerations are considered. The procedure provides the necessary flexibility to change direction if it is deemed necessary at some point in the future.