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European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development (EBRD), the first international financial institution of post-Cold War Europe, was founded in 1991 to ease the path of the former communist countries of Central and Eastern Europe (CEE) and the former Soviet Union from planned to free-market economies. Its geographic area has expanded over time and, today, the EBRD finances projects in 37 countries throughout Europe, the Middle East, and Central Asia. In October 2021, Algeria became the 73rd member of the EBRD (71 countries as well as the European Union and the European Investment Bank). The United States is a founding member of the EBRD and is the single largest shareholder with a 10% share of the Bank's capital. U.S. membership in the EBRD is authorized by P.L. 101-513, the *European Bank for Reconstruction and Development Act* (22 U.S.C. §290*l* et seq.).

The EBRD is headquartered in London, United Kingdom. The Bank was originally designed to function differently than other multilateral development banks in two key ways: first, it was given a political mandate to support democracy; and second, it was designed to support the development of the private sector in the former communist countries. Changes in Europe over the past two decades were viewed to make both mandates less pressing, leading the Bank to expand its membership. Russia's expanded war on Ukraine, some argue however, underscores the importance of the EBRD maintaining robust operations in Eastern and Central Europe. EBRD President Odile Renaud-Basso, former Director General of the French Treasury, was elected in October 2020 for a four-year term.

Political Mandate

Other multilateral development banks (MDBs) and the International Monetary Fund (IMF) have mandates to promote economic development and economic stability. The EBRD's mandate, in contrast, also includes political factors, specifically to foster democracies and free-market economies. Article 1 of the EBRD's Articles of Agreements states

> In contributing to economic progress and reconstruction, the purpose of the Bank shall be 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.

In contrast, the other major MDBs have Articles asserting their members' political independence, stating that the MDB shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned.

Membership

The EBRD's Articles of Agreement limit membership to European countries; non-European countries that are members of the IMF; the European Community (EC) (now the European Union [EU]); and the European Investment Bank (EIB). The Articles also require that EC members, the EC, and the EIB hold a majority of the institution's capital stock and a majority of the vote.

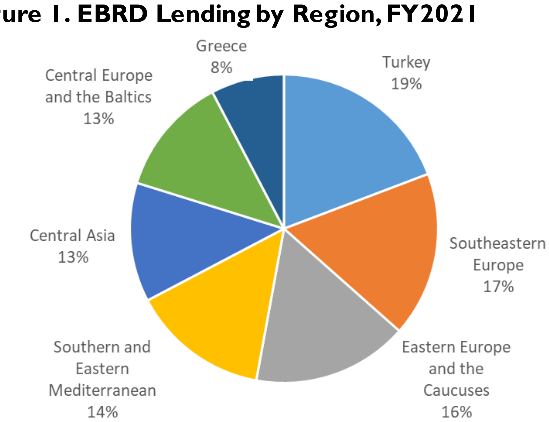
EBRD membership has grown in recent years as the Bank has expanded its geographic range. Libya became a member in July 2019, marking an expansion of the Bank's presence in the Mediterranean region. Other new members include Lebanon and the United Arab Emirates. At the beginning of 2016, China became a non-borrowing member of the EBRD, and contributes a small share (0.097%) of the Bank's capital.

Operations and Select Policy Issues

It has been over 10 years since the EBRD's last capital increase. In May 2010, the Board of Governors approved a request from the EBRD's president for a €10 billion ($11.05 billion) increase in authorized capital to €30 billion ($33.15 billion), a 50% rise from 2009 levels. Of the total authorized amount, €6.2 billion ($6.85 billion) is paid-in capital and €23.5 billion ($25.97 billion) is callable capital. The Bank's portfolio of operations increased from €48.4 billion ($50.74 billion) in 2020 to €50.2 billion ($52.64 billion by the end of 2021.

While the EBRD continues disbursements on older projects, as of 2021, the EBRD's exposure to Russia accounted for 2.9% of total EBRD operating assets, compared to around 26% in 2013. At the same time as it reduced its Russian exposure, the EBRD expanded its lending south into the Balkans, the Caucasus, and the Southeastern Mediterranean (**Figure 1**).

Figure 1. EBRD Lending by Region, FY2021



Source: EBRD 2021 Annual Review.

In April 2008, Turkey, a founding shareholder of the EBRD, applied to become a recipient country and now accounts for 19% of EBRD operations, despite its status as an upper-middle income country. Moving forward, the EBRD will likely need to develop a more robust strategy to "graduate" high-income member countries. To date, the Czech Republic is the only country that has graduated from EBRD borrowing.

Ukraine

Ukraine is one of the EBRD's largest borrowers, with cumulative lending of more than €16 billion (about $17.58 billion) in 511 projects since 1996, including more than €1 billion (about $1.2 billion) in 2021. Following Russia's expanded invasion of Ukraine in 2022, the EBRD announced a €2 billion (about $2.2 billion) support package for the Ukrainian private sector. According to the Bank, funding will be made available to support Ukrainian companies through several mechanisms, such as deferred loans, liquidity support, and trade finance. In October 2022, the EBRD committed to provide Ukraine up to €3 billion by the end of 2023.

The Biden Administration requested $500 million for the EBRD in the FY2022 Additional Ukraine Supplemental Appropriations Act, which became law on May 21, 2022 (P.L. 117-128). At the EBRD's May 2022 annual meeting, Acting U.S. Treasury Under Secretary for International Affairs, Andy Baukol, argued that the additional funding will "support EBRD interventions to counteract economic vulnerabilities caused by the war, including on the ground in Ukraine now and for reconstruction." In August 2022, the Biden Administration nominated Richard L. A. Weiner, a lawyer at Sidley Austin, to be the U.S executive director at the Bank. Mr. Weiner is awaiting a Senate Foreign Relations Committee hearing on his nomination.

Russia

For much of the EBRD's history, Russia was the Bank's largest borrower. However, the G-7 countries decided to oppose EBRD projects (as well as World Bank projects) in Russia following its annexation of Ukraine's Crimea region. Some analysts found EBRD's involvement in Russia controversial even before the crisis in Ukraine, questioning whether Russia had met the democracy and pluralism criteria for EBRD projects.

On April 4, 2022, EBRD members approved an operational suspension of Russia's access to EBRD resources. This required approval of members holding three-quarters of EBRD voting power and two-thirds of all members. Going further, a senior European official, for example, told Reuters that "there is on ongoing discussion to kick Russia out of all international financial institutions." Such actions, some argue, would have little benefit to Ukraine and could undermine the institutions' ability to operate constructively in Russia if there is a change of government in the future.

Expansion to Sub-Saharan Africa

In 2020, the Bank's membership agreed that in 2022 they would consider offering membership and lending services to sub-Saharan Africa (SSA), as well as Iraq. At the May 2022 annual meeting, members decided to prioritize the Bank's response to Russia's war on Ukraine and postpone expansion. Members agreed to a limited amendment underscoring their intention to expand to sub-Saharan Africa and agreed to revisit the issue by the 2023 annual meeting.

According to Devex, a news source, EBRD members stressed that "any limited and incremental expansion to sub-Saharan Africa and Iraq would not in itself impair the Bank's ability to support its existing countries of operations, compromise the Bank's triple-A credit rating, or lead to a request for additional capital contributions." Daniel Runde, a senior fellow at the Center for Strategic and International Studies, argues that the EBRD should not expand to Africa, and instead should refocus its attention on its original mandate, and "help Ukraine and other post-Soviet states diversify their economies away from Russia."

Private-Sector Focus

Other MDBs have traditionally focused their economic assistance on poverty alleviation and economic development lending. Thus, the bulk of MDB lending tends to be in infrastructure lending (construction, transportation projects, etc.) and the provision of social services (health and education, for example). The EBRD, on the other hand, makes project loans, equity investments, and guarantees primarily to the private sector. EBRD assistance is nonconcessional, and it does not have a concessional lending window. In 2021, private-sector lending accounted for 76% of total EBRD investment of €10.4 billion. Analysts at the UK's Overseas Development Institute write the expansion to SSA is "welcome news" and that the EBRD's "longstanding expertise in private sector development and green economy transition" would be beneficial for SSA.

Looking Ahead

Over the past 30 years, the EBRD has been viewed as an important component of U.S. foreign and economic policy in Eastern Europe and Central Asia. Russia's aggression in Ukraine has underscored for many policymakers the continuing importance of the EBRD's work in promoting multiparty democracy and market economies. Some questions Members of Congress may consider include

- Are EBRD resources sufficient?
- What is the relevance of its political mandate as the EBRD shifts its lending portfolio away from Russia and toward the Southeastern Mediterranean region?
- Does the political and economic environment within the EBRD's clientele continue to justify the EBRD's existence 30 years after the collapse of the Soviet Union and in light of the EBRD's withdrawal from Russia?
- What are the criteria used to gauge whether a country should graduate from the EBRD?

Martin A. Weiss, Specialist in International Trade and Finance

IF11419

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