

**The Bank's response to Compliance  
Challenges with the Political Principles in  
Article 1 in Countries of Operations**



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The political character of the Bank as set out in Article 1 of the Agreement Establishing the Bank (AEB) is one of its distinguishing features that sets it apart from other multilateral development banks (MDBs).

The application of these political principles is guided by the Bank's Procedures to Implement the Political Aspects of the Mandate of the EBRD (the Procedures) dated 14 February 2013 BDS12-280 [rev 3]), of which this addendum forms an integral part.

This addendum seeks to refine the Bank's approach to responding to compliance challenges with the political principles in Article 1 as outlined in Section IV of the Procedures.

### **Compliance statements**

As part of each Country Strategy, the Bank prepares a political assessment in accordance with the methodology set out in the Procedures. The assessments are robust, objective, detailed, nuanced, and frank analysis drawing from approved reference points (United Nations, Council of Europe, Organization for Security and Co-operation in Europe [OSCE], European Union, etc.). It has been the Bank's long-standing practice to include in Country Strategies, as part of the political assessment, a statement of 'compliance' with the political principles in Article 1. These statements have been, in practice, binary and have proved to be too simplistic to be credible in certain cases.

To strengthen the Bank's implementation of Article 1, an enhanced approach to compliance statements will be used going forward, replacing the practice of binary statements. The enhanced compliance statement is anchored in an explicit reference to the political principles in Article 1. The statement includes a succinct assessment of the country's current position and progress or reversals over the previous Country Strategy period. The compliance statements will continue to be part of the Executive Summary and Annex 1 (political assessment) of every Country Strategy.

### **Operational approach to challenges with the Article 1 political principles**

It is important for the Bank to adopt a flexible response to changing circumstances in its countries of Operations. The objective is two-fold:

- Demonstrating a firm commitment to the Bank's political character
- Maximising its impact and leverage

Accordingly, the Bank's response should consider the following principles:

- Consistency of approach
- Recognise nuances and variety of contexts
- Effective engagement with the authorities
- Preserve gains already attained
- Learn from and take into account the actions of international leading voices on democratic governance (e.g., OSCE, Council of Europe)
- Engage with key, local stakeholders in Countries of Operations (e.g., civil society)

The Bank can rely on a three-pronged “more for more” (and conversely, a “less for less”) approach available to respond in an agile fashion to important shifts in Countries of Operations’ political situation:

- Throughout the Bank’s engagement with a Country of Operations, it will **assess and monitor the political situation** of that country on a regular basis. Monitoring of risks and the ultimate beneficiaries of EBRD operations will also be important. Assessments are done as part of the country strategy process and the annual country strategy delivery reviews offer an opportunity for updates. Assessments can also be provided as part of specific political update sessions, deep-dive sessions or in the context of project updates, , at the request of the Board or at the initiative of Management.
- **The Bank will engage with key stakeholders**, including civil society organisations and align and coordinate views with key international partners.
- While recognising that the Bank’s activities in a Country of Operations cannot be turned on and off in an erratic manner, the Bank will consider **adjustments to new investment activities and policy engagement** as new trends materialise. The adjustment of new investment activities and policy engagements will consider a country’s specific historical, economic and political context. Possible levers for adjustment include:
  - Modifying public/private sector share
  - Intensifying/prioritizing policy engagement in the Bank’s areas of expertise
  - Enhancing conditionality at project level
  - Narrowing investments on activities with positive cross-border externalities
  - Managing overall business volume (increase or decrease).

The Bank’s approach as set out above will be without prejudice to the provisions of Article 8 of the AEB as further set out in Section IV of the Procedures, including Article 8.3 which provides for the Board of Directors to consider, where a Country of Operations is found to be non-compliant with the political principles of Article 1, whether access to the Bank’s resources should be suspended or otherwise modified, and make recommendations accordingly to the Board of Governors.