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Mobilising investments for Ukraine reconstruction: Strengthening the Team Europe approach

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The European Union (EU), its member states and financial institutions for development have been at the forefront of the international community efforts in supporting Ukraine's defence against the Russian aggression, providing humanitarian aid and supporting Ukraine's recovery and reconstruction efforts. This paper looks at the different ways of mobilising investments for Ukraine and argues for stronger Team Europe efforts in Ukraine aligned with the EU interests, from geostrategic, security, political and economic perspectives.

The overall EU support, estimated at around €53 billion, takes many forms, including a significant macro-financial assistance package worth €18 billion. The EU is also a pivot actor in the Multi-agency Donor Coordination Platform, and European financial institutions for development, including the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), have collectively already mobilised nearly €7 billion for Ukraine.

Yet, Ukraine's needs are gigantic and the EU should do more and more effectively, notably with the private sector. The EU should actively seek to strengthen its Team Europe approach in Ukraine, better harnessing its broad range of development, commercial, public and private institutions and initiatives to mobilise at-scale strategic public and private investments for the reconstruction of Ukraine. This should include adopting stronger coordination platforms and co-investment mechanisms, notably through the EIB and EBRD, combined with appropriate risk-mitigation mechanisms, including private reinsurance. Further, the EU support efforts should be aligned with the needs and priorities of Ukraine and the EU values, principles, standards and geostrategic, security and economic interests.

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Acknowledgements

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Acronyms

AFD	Agence Francaise de Development
BAG	Business Advisory Group
CEB	Council of Europe Development Bank
DG NEAR	Director-General for Neighbourhood and Enlargement Negotiations
DFC	Development Finance Corporation
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
ECA	Export credit agency
ECDPM	European Centre for Development Policy Management
EDFI	European Development Finance Institutions
EEAS	European External Action Service
EFAD	European Financial Architecture for Development
EFP	European Financing Partners
EFSD+	European Sustainable Development Fund Plus
EIB	European Investment Bank
ETTG	European Think Tank Group
EU	European Union
FDI	Foreign direct investment
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
JEFIC	Joint European Financiers for International Cooperation
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
MRII	Multi-Donor Resources for Institutions and Infrastructure
NDICI	Neighbourhood, Development and International Cooperation Instrument
PDB	Public development bank
RRF	Recovery and Resilience Facility
SURE TF	Support for Ukraine's Reconstruction and Economy Trust Fund
URA	Ukraine Reform Architecture
US	United States
USIAD	US Agency for International Development

Executive Summary

There is no single solution to support the recovery and reconstruction of Ukraine. But it must start now if Ukraine is to be able to sustain the Russian aggression over time. Europe is at the forefront of the support to Ukraine, including for its recovery. In the face of the gigantic tasks ahead and the tight budget constraints of the EU and its member states, new ways to mobilise financial resources must be identified. Focused attention must be dedicated to synergising EU efforts with multilateral and plurilateral endeavours, notably the G7, and harnessing public and private finance and initiatives. In doing so, the EU must also consider its geostrategic interests and objectives, including supporting the Ukrainian private sector and further developing economic ties with the European private sector. This will call for the mobilisation of international and European financial instruments and institutions for development, such as the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and European national public development banks (PDBs) and development finance institutions (DFIs), as well as the provision of significant risk mitigation mechanisms.

Beyond development instruments, harnessing European public export credit and investment promotion mechanisms, as well as private financiers and (re)insurers, will be critical to stimulate Ukrainian, European and international private investments for the reconstruction of Ukraine.

Building on a Team Europe approach, the EU could adopt stronger coordination platforms and co-investment mechanisms, notably through the EIB, and with the EBRD, European PDBs and DFIs, and European donors and their agencies, complemented by European export credit agencies (ECAs), trade and investment finance agencies. Such European initiatives, combined with appropriate risk-mitigation mechanisms, would usefully complement other much-needed international initiatives to support Ukraine, in which the EU is also a major actor.

The Team Europe approach will also contribute to the strengthening of the alignment of the recovery and reconstruction of Ukraine to the needs and priorities of Ukraine, and the EU values, principles and standards, including in terms of regulatory, technical, sustainability, green, inclusive and gender-sensitive ambitions, which will also be key for any Ukraine accession process to the EU. Last but not least, Team Europe's efforts in Ukraine should be aligned with the EU interests, from geostrategic, security, political and economic perspectives.

1. Government support and investments for Ukraine

The Russian war on Ukraine has led to the **significant mobilisation of support to Ukraine**, with Europe leading the international community in financial support, as illustrated in Figure 1 (Rakic and Psarras 2023; Trebesh et al. 2023). By early 2023, the overall assistance to Ukraine by the European Union and its Member States amounted to more than € 60 billion (European Council 2023).

Figure 1: Government support to Ukraine (commitments 24 Feb 2022 - 24 Feb 2023; € billion)

Figure.1a. Top 12 donor support by type of support

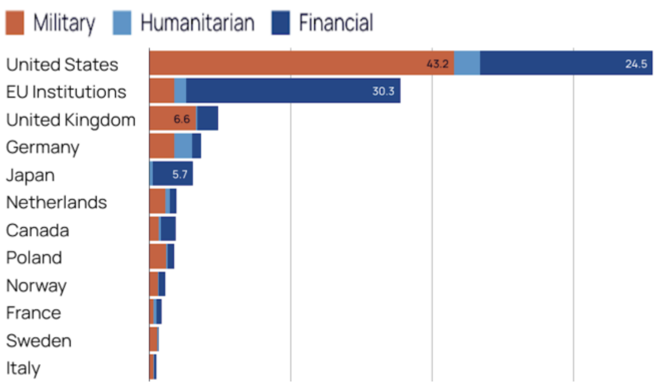
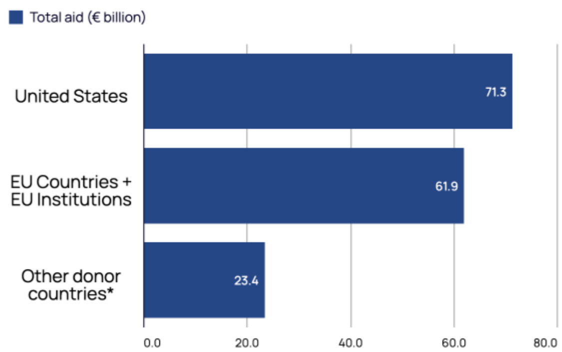


Figure 1b. Support by country group



Source: https://www.ifw-kiel.de/ukrainetracker (on 19 May 2023)

Yet, **the costs of the reconstruction and recovery of Ukraine will be much higher**. In its Rapid Damage and Needs Assessment, the Government of Ukraine, the World Bank Group, the European Commission, and the United Nations, jointly estimated Ukraine's rebuilding at €383 billion (World Bank 2023a). This is perhaps a conservative estimate, which is doomed to keep increasing as the war continues. The Government of Ukraine had previously assessed, in July 2022, the costs to be at least US$750 billion, while it could well reach over € 1 trillion (US$ 1.1 trillion), as suggested by Ukrainian President Volodymyr Zelensky, and the President of the European Investment Bank (EIB), Werner Hoyer (Meduza 2022; Euractiv 2022; Bloomberg 2022).

As a result, **the EU will have to continue to focus on providing support to Ukraine in the coming years at an unprecedented scale**, which, given the tight budgetary and fiscal constraints in the EU and its member states, will require also identifying more innovative ways. Additional European resources will also be needed to support developing countries facing the harsh consequences of poly-crises (e.g. COVID-19, climate change, higher inflation and interest rates, increased food and debt vulnerabilities), heightened by the consequences of the Russian war on Ukraine (Fattibene ed. 2023; Bilal et al. 2022; Wolf 2023; World Bank 2023b). The mid-term review of the EU multi-annual financial framework (i.e. 2021-2027 EU budget) will offer an opportunity to EU member states to opt to add resources to the EU budget, including for accession funds for Ukraine, Moldova and Georgia, in particular (IMF 2023). This may include new EU debt issuance, possibly along the principles of the EU Recovery and Resilience Facility (RRF) as part of a dedicated endeavour for Ukraine's recovery and reconstruction (Financial Times 2023; Rubio 2022). Other innovative mechanisms will also have to be put in place.

In this endeavour, **the EU should harness the potential of the European, international and Ukrainian private sectors**. And while the Russian invasion war is still raging, **the recovery of Ukraine already starts now**. In stimulating investment in Ukraine, it will thus be necessary to distinguish between (i) war times, which may, unfortunately, last long, focused on emergency and essential investments, such as basic utilities (water & sanitation, electricity) and key infrastructures (transport, housing, public buildings) and on allowing the survival of private business operations, and (ii) post-war reconstruction investments, for which massive public and private investments will be needed, as stressed again by the Ukraine Recovery Conference on 22-23 June 2023 in London. While there is often a misleading perception that during war times, only grants and emergency aid can prevail, it is essential to keep economic activities ongoing and **consider mechanisms to both stimulate public investments and mitigate risks to allow private sector involvement**.

The conditions for the international and, in particular, European private sector to significantly engage in Ukraine are many. These include, among others, ensuring the security and safety of private operators and operations; improving domestic governance by actively pursuing anti-corruption reforms, fostering the rule of law, improving government accountability and transparency; enhancing administrative capacity, including at the local level, pursuing effective decentralisation; establishing a conducive enabling business environment, undertaking regulatory reforms, enabling public-private partnerships, facilitating and protecting investments, facilitating access to land and infrastructure; ensuring a stable and transparent fiscal regime, and relaxing currency control and transfer restrictions; and engaging in sectoral reforms (Eisen et al. 2023; Ost-Ausschuss der Deutschen Wirtschaft 2022; Rudolph and Eisen 2023; USAID 2023a; Wilton Park 2022).

The participation of private financiers and companies in the reconstruction of Ukraine is thus highly dependent on public interventions. This also includes the provision of essential public infrastructure and other public goods, mainly depending on public investment. As noted by the International Monetary Fund (IMF), "**[t]he large reconstruction bill will require an increase in both public capex and private investment, including via FDI** [foreign direct investment]. Enabling this will depend critically on the absorptive capacity to undertake large-scale investment projects in both the public and private sectors. In the immediate post-war phase, reconstruction will likely require public investment to lead the way in initial repairs, the success of which could more quickly crowd in private investment." (IMF 2023, p.20). Yet, public-private joint endeavours and partnerships can help initiate more resilient recovery and reconstruction, already starting now, and to be boosted at the beginning of the post-war period.

The Government of Ukraine has expressed its commitment to significant reforms on numerous occasions. In his speech of 12 May 2023, Ukraine Minister Sergii Marchenko emphasised that "**Successful recovery of Ukraine will require multi-year participation and international coordination not only from the governments of the partner countries but also in cooperation with the private sector. The Government of Ukraine works to improve the conditions for attracting private investments, to create a "healthy" environment to encourage business to invest**. This will be underpinned by good governance, the rule of law and anti-corruption efforts. Ukraine is interested in private investments in defence, agriculture, IT, renewable energy, gas production and storage, logistics and construction" (Ministry of Finance of Ukraine 2023a).

The **multi-stakeholder international cooperation frameworks for the reconstruction of Ukraine, led by Ukrainian actors, must,** therefore, **strongly involve private sector and civil society actors** in support of a broad reform and recovery process in Ukraine.

2. Higher risks call for more risk mitigation mechanisms to support investments

One critical dimension to attract domestic and international business and investment for the recovery and reconstruction of Ukraine rests on the provision of a range of risk mitigation mechanisms. With heightened risks and uncertainty resulting from the Russian war in Ukraine, private insurers struggle to cope with the war context and its international consequences and assess the associated costs (S&P Global 2023).

So, **risk mitigation mechanisms**, including **guarantees by the public sector, are vital** to unleashing the potential of international and domestic businesses and financiers in Ukraine. It calls for a strong engagement of multilateral development banks (MDBs), as well as other public development banks (PDBs), development finance institutions (DFIs), and donor countries and their aid agencies to mobilise a range of tools, from concessional loans, blended finance, and a range of risk mitigation mechanisms such as partial guarantees (e.g. first loss coverage) and political risk guarantees. To be effective, **risk mitigation mechanisms often have to be coupled with technical assistance and capacity building**, notably to improve governance, anti-corruption endeavours and the business environment and to facilitate investments.

In their Statement on Ukraine of 19 May 2023, **G7 Leaders "recognise *the importance of the role of the private sector*** for Ukraine's recovery and reconstruction, including through trade and investment, **which *may be facilitated through insurance and other tools to manage risk***" (*emphasis added*, G7 2023).

The role of financial institutions for development

Significant efforts have already been made to support the Ukrainian private sector, by the World Bank Group's International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), European MDBs such as the European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB) (European Parliament 2023), and European national PDBs such as the German KfW. G7 DFIs,[1] together with the EBRD, agreed on 12 May 2023 on how to work together to support Ukraine's reconstruction by establishing the EBRD-G7 DFI **Ukraine Investment Platform**, which aims to promote co-financing among the EBRD and participating institutions, through strengthening cooperation and information exchange for the reconstruction assistance of Ukraine and other affected countries with a mainly private sector focus (DFC 2023). The purpose of such a platform is the effective and speedy delivery of support to Ukraine, avoiding duplication and simplifying processes for supporting private investments in Ukraine. A Memorandum of Understanding, providing a framework for collaboration when making co-investments in Ukraine, will be signed at the Ukraine Recovery Conference In London on 21 June 2023, bringing in new participants from the Association of bilateral European Development Finance Institutions (EDFI). The EBRD will play an important role as the lead promoting partner, agreeing to share, on a voluntary basis, part of its pipeline of bankable projects with partner DFIs, aligned to EBRD procedures to facilitate the co-investment process. Other DFIs will also be encouraged to propose operations for co-investment.

Cooperation among DFIs is important. **Beyond G7 DFIs, all the Association of European DFIs (EDFI) members would be well advised to accept the invitation to join the EBRD-G7-DFI-EDFI Ukraine Investment Platform**. Yet, to be truly impactful, DFIs must have an explicit mandate to operate in war-affected Ukraine, and be given appropriate risk coverage to engage in a conflict-affected country like Ukraine. Some DFIs, such as the Danish DFI IFU, are already very active in Ukraine, in spite of high exposure and significant potential losses (Development Today 2023a). Others,

[1] These include JBIC (Japan), JICA (Japan), CDP (Italy), FinDev Canada (Canada), Proparco (France), DFC (US), BII (UK) and DEG (Germany).

such as Swedfund and Finnfund, are slowly coming in (Development Today 2023b). But not all DFIs have a mandate to engage in Ukraine's recovery and reconstruction. For instance, Nordfund was recently prevented from joining a Nordic initiative to support Ukrainian SMEs in the Tech sector, having not received the green light from the Norwegian authorities (Development Today 2023b).

Shareholders of European DFIs, i.e. mainly European governments, should hurry to give a clear mandate to their DFIs to actively contribute to the rebuilding of Ukraine, based on their respective added value, including by joining the Ukraine Investment Platform. They should also **empower their DFI to engage** in **Ukraine,** which means having sufficient capacities and resources and benefiting from significant risk mitigation coverage (as discussed in Section 4 in the European context). Several donors have provided significant support to the EBRD, including in the form of guarantees. The proposal on an **EBRD paid-in capital increase**, discussed at the EBRD annual meeting in May 2023 and to be submitted to its shareholders for a final decision by the end of 2023, should allow the EBRD to operate at scale in Ukraine and neighbouring countries and absorb more risks on its balance sheet.

The EIB, as the EU bank very active in Ukraine through its external development branch EIB Global, **should also join the EBRD and G7 DFIs in the Ukraine Investment Platform** to support private investments. EIB Global and the EBRD, together with the French AFD group, German KfW Group, Italian CDP, and other European countries, could also help **bridge private sector operations by DFIs with sovereign and sub-sovereign operations by PDBs**, so as to create greater synergies among financial institutions for development in rebuilding Ukraine.

More broadly, **cooperation between the range of financial institutions for development (DFIs and PDBs) and other** development **actors should be strengthened**. This is particularly important in more complex environments and fragile and conflict-affected countries, such as Ukraine (Bilal and Karaki 2022, Ahairwe et al. 2022). Such cooperation can help develop a pipeline of bankable projects, strengthen the capacity of local actors, and improve the local ecosystems. It is also a means to share expertise, know-how and networks among development actors. As a result, it can allow the adoption of more comprehensive and coherent engagement in support of Ukraine (as discussed below and in Sections 3 and 4). Some donor countries are already doing so, as in the case of the US DFI International Development Finance Corporation (DFC) and the US Agency for International Development (USAID), which on 12 May 2023 signed an agreement with the Government of Ukraine to support attracting private investment in Ukraine (USAID 2023b). But broader and deeper international coordination and information exchange is needed, in a flexible and effective manner.

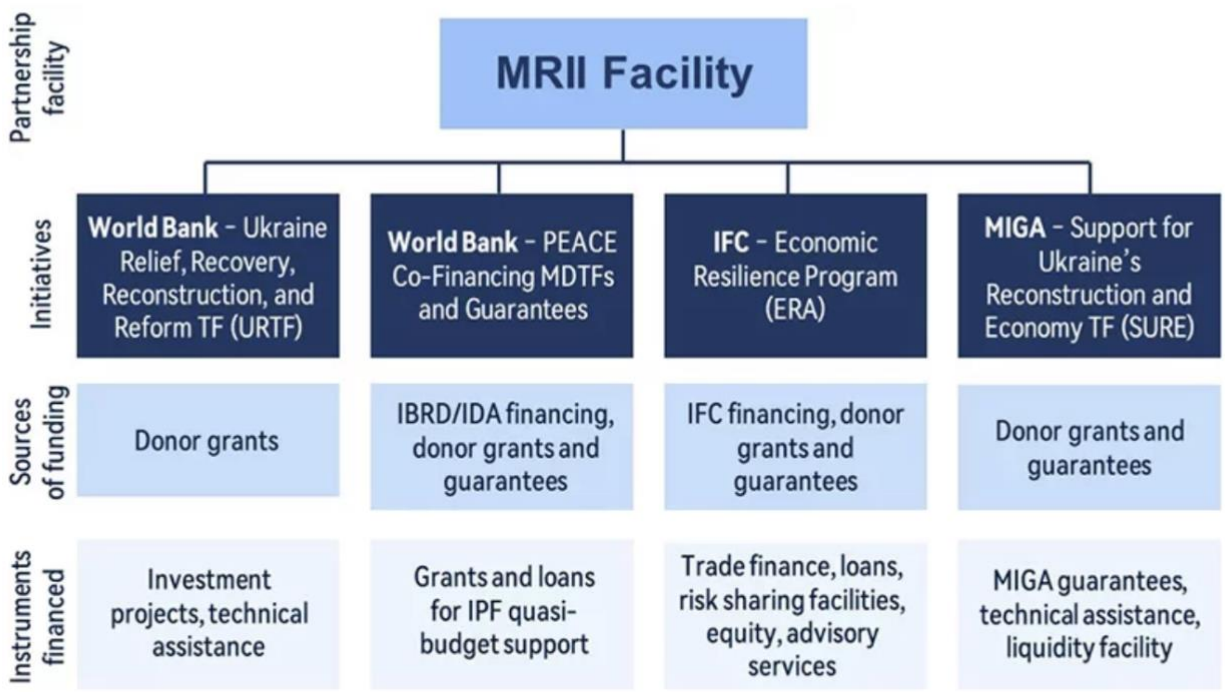
The Multi-agency Donor Coordination Platform, established in January 2023, provides the opportunity to do so. Its steering committee, which met for the third time on 26 May 2023, is co-chaired by the Minister of Finance of Ukraine Sergii Marchenko, US White House Deputy National Security Advisor for International Economics Michael Pyle, and Director-General for Neighbourhood and Enlargement Negotiations (DG NEAR) Gert Jan Koopman for the European Commission, and brings together high-level officials from the authorities of Ukraine, the EU, G7 countries, as well as partners from international financial institutions, notably the World Bank, the IMF, the EBRD and the EIB. The Platform is a useful mechanism for the strategic exchange of information and coordination. Effectively synergising the activities of EBRD-G7-DFI-EDFI Ukraine Investment Platform into the Multi-agency Donor Coordination Platform will be key, while remaining flexible and agile, avoiding bureaucratic coordination processes. Yet, **to be effective, platforms must be complemented by concrete coordination mechanisms promoting joint and complementary actions** by the parties. For donors-PDBs coordination, this is taking place mainly through the World Bank, the EBRD, the EIB and the Council of Europe Development Bank (CEB) so far. They organise regular meetings of the Operational Coordination Group which brings together international financial institutions (IFIs), DFIs, the Ukrainian government, the European Commission and other G7 representatives for operational discussions. Strengthening such a platform to bring along not only PDBs and DFIs but also private sector actors should be considered, notably on infrastructure and private sector-related issues. **Co-investment mechanisms**, involving donor support and the participation of development agencies, should be established. Moreover, blended finance and risk management require **better cooperation and complementarity between private operators, development financiers, and donors/public finance**. Harnessing the domestic and international private sector to such endeavours will be critical.

The role of risk mitigation mechanisms

For PDBs and DFIs to boost their engagement in Ukraine's recovery and reconstruction, more risk-sharing mechanisms must be provided. A range of risk mitigation mechanisms is required to cover (sovereign) political and war risks, commercial and credit risks (including those related to trade finance) and more standard risks. While this raises many challenges, **several risk mitigation mechanisms can be envisaged**, as discussed in recent papers (Janus et al. 2022; Staguhn and Bandura 2023; Suitkin 2023; USAID 2023c).

The establishment of **the Support for Ukraine's Reconstruction and Economy Trust Fund (SURE TF) at MIGA**, with Japan's initial anchor contribution, is a promising step in that direction. The fact that SURE is fully integrated into the World Bank Group's approach to supporting Ukraine, through **the Multi-Donor Resources for Institutions and Infrastructure (MRII) for Ukraine Facility**, should help foster "the mobilisation of financing and coordinating sources of support through guarantees, co- and parallel financing, and other financial instruments", as envisaged by the World Bank and illustrated in Figure 2 (World Bank 2023c).

Figure 2: Coordinated approach to financing and guarantee in MRII Facility



Source: World Bank (2023c)

While **the MRII Facility** primarily coordinates the World Bank Group action, it can also act **as a catalyst for donor-led efforts**. On guarantees, other donors can join **Japan** in contributing to the SURE TF. The agreement concluded on 21 February 2023 between **MIGA and the EBRD**, according to which MIGA could guarantee up to US$200 million in trade finance to support the cover risks under the EBRD Trade Facilitation Programme in Ukraine and other emerging countries, is an illustration of the potential synergy between international financing institutions through the World Bank.

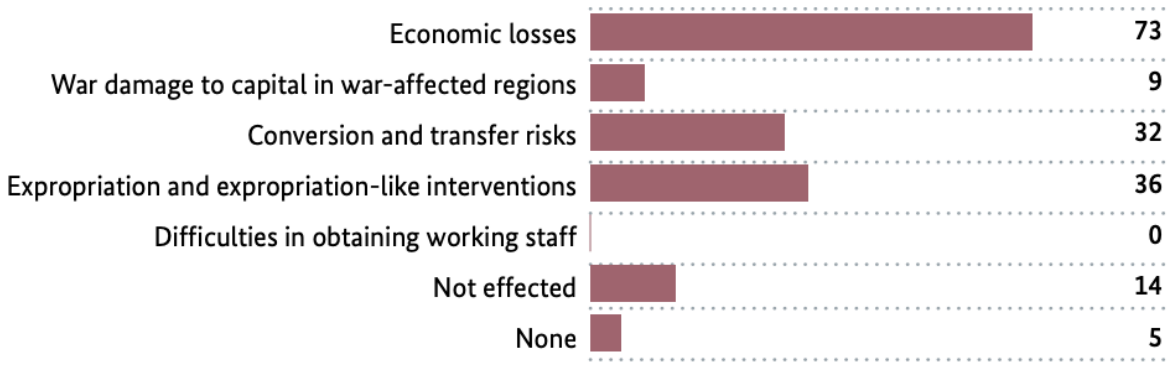
The **Government of Ukraine** has recognised the importance of risk mitigation mechanisms for the recovery and reconstruction process. It has extended its state-financed portfolio guarantees, notably to facilitate access to finance for micro, small and medium-sized enterprises (Cabinet of Ministers of Ukraine 2023; Ministry of Finance of Ukraine 2023b). But the financial means of the State of Ukraine are highly constrained. The Government is currently working with international financing institutions and primarily G7 countries, towards **the establishment of a War Risk Insurance Trust Fund**, which will include investment insurance for both domestic and international operators, with the objective to mobilise international reinsurers and support the private reinsurance market in Ukraine (Ministry of Economy of Ukraine 2023, Ministry of Finance of Ukraine 2023a, UKRINFORM 2023).

Two dimensions are worth stressing in the Ukraine approach to risks.

Next to MIGA and development finance, the first dimension relates to **non-development public instruments and actors**. This includes mobilising partner countries' export credit agencies (**ECAs**) such as the Germany Export Credit Guarantees Euler Hermes and the UK Export Finance, which still cover Ukraine (Ministry of Economy of Ukraine 2023). This is critical for allowing international trade and investment flows with Ukraine. In this regard, the Joint Statement Expressing Support for Ukraine by the Heads of G7 Export Credit Agencies on 22 January 2023 outlines good intentions: the "goal to deploy [G7 ECAs] unique financial or insurance toolkits to promote trade flows with Ukraine" and to "continue to participate in the wider dialogue with other ECAs and multilateral institutions, including within international fora such as the Berne Union, to find ways to enhance cooperation, share information and **leverage [G7 ECAs] collective platforms to bring visibility to and stimulate support for Ukraine**", together with other ECAs. The challenge is now to translate these good intentions into reality. While the War Risk Insurance Trust Fund proposed by Ukraine may be a catalyst, it will not be a substitute for the commitments by individual ECAs, and their respective government authorities to continue to operate in war-ridden Ukraine and seek to act collectively whenever relevant and possible.

Besides export credit guarantees, it is also important to help partially de-risk investments. PDBs and DFIs, together with MIGA and donor risk mitigation mechanisms, can usefully support domestic investment in Ukraine. **For international investment, investment promotion agencies and investment guarantees must be provided by Ukraine's main partners**. Without such risk mitigation mechanisms, international private investments will not flow to Ukraine. A recent survey conducted by PwC for the German government indicated that for 82% of policyholders of German investment guarantees, the war in Ukraine affected their business, principally in Ukraine, as well as Russia and Belarus, through different channels, as illustrated in Figure 3.

Figure 3: Impact of the Ukraine war on investments according to the guarantee survey in Germany (in percent, multiple answers possible)



Source: BMWK (2023)

The second dimension of the Ukraine approach worth emphasising is the aspiration to **mobilise the international private reinsurance market**. This might not be easy, given the current circumstances. It will require concerted efforts and possibly mechanisms between public guarantees and private reinsurers, building on the private reinsurance approach adopted by some ECAs, with additional public coverage. The EBRD is working with the European Commission and several bilateral donors on a pilot project to help restart the reinsurance market with a focus on war-related risks, which could pave the way to an ambitious public-private risk-mitigation framework for Ukraine.

The main point is that **next to public guarantees** and other risk mitigation mechanisms **provided by donors** and financial institutions for development, **other public non-development risk mitigation mechanisms, such as ECAs and investment promotion and guarantee institutions, must be mobilised at scale**. **Private (re)insurance mechanisms should also be harnessed.** In this respect, it is worth considering expanding the Multi-Agency Donor Coordinating Platform for Ukraine to include all relevant PDBs and DFIs, as well as non-development actors, such as ECAs, Investment promotion agencies, and key private actors/(re)insurers.

3. Stressing the European approach

The EU and its member states have been at the forefront of the international community efforts in supporting Ukraine's defence against Russian aggression, providing humanitarian aid and supporting Ukraine's recovery and reconstruction efforts (Figure 1 above), estimated by the European Commission at around €53 billion. The EU support takes many forms, including significant macro-financial assistance (€7.2 billion in 2022, with an overall MFA+ package worth €18 billion). The EU is a pivot actor in the Multi-agency Donor Coordination Platform, whose Secretariat is hosted by the European Commission in Brussels. The EU has a broad range of institutions and mechanisms it can mobilise for the reconstruction of Ukraine.

European financial institutions have been actively supporting Ukraine (and its neighbours). **The EBRD**, a lead institution in the region, committed to providing €3 billion of financing for Ukraine over 2022 and 2023, including **€1.7 billion deployed in 2022** and €200 million mobilised from partner financial institutions (EBRD 2023). The EBRD support to Ukraine targets five main areas: trade finance (including with MIGA, as noted above), energy security, vital infrastructure and the provision of liquidity to municipalities, food security, and the private sector. The EBRD's active involvement in Ukraine has been made possible thanks to the EBRD's willingness to stretch its risk appetite, a move supported by the significant provision of donor support, amounting to over €1 billion, including in the form of guarantees. As a result, – on average - half of the exposure was taken on the EBRD's balance sheet and half guaranteed by donors. The EBRD was arguably the first IFI to take on new exposure in Ukraine, reflecting its raison d'être and the long-term and deep nature of its engagement in the country. The IFC replicated this approach at the end of 2022. The EBRD also provided important policy engagement and reform support – including through the Ukraine Reform Architecture (URA) programme and the Business Ombudsman Council – to prepare the emergency response, advance the EU accession process and support the country's National Recovery Plan. Cooperation with donors and close coordination with international partners are key levers of the EBRD's engagement in general and have become particularly critical for its operations in Ukraine (Karaki and Bilal 2022a).

The EIB has not yet benefited much from direct EU member state donor support for its engagement in Ukraine. Relying instead on EU-level guarantees and subsidies, and its own resources, the EIB quickly repurposed and mobilised new investments (Rapaille 2023). Its first two packages for Ukraine, approved in March and July 2022, amounted to some €2.26 billion, with **€1.7 billion disbursed in 2022**, addressing urgent needs and the reconstruction of critical infrastructures. To help the EIB's capacity to continue financing critical rebuilding investments in Ukraine (and Moldova), the EIB's shareholders (composed of the EU member states) and the European Commission approved on 29 March 2023 **the 'EU for Ukraine' Initiative**, with the establishment of a new EIB trust fund, **the 'EU for Ukraine Fund'**, accompanied by a €100 million of EIB technical assistance. The EU for Ukraine Fund builds on the opportunities provided by **the Partnership Platform for Funds**, an EIB standardised framework for trust funds allowing joint initiatives between European (and possibly other international) donors and the EIB (Karaki and Bilal 2022b). This is an excellent initiative as it will allow European and other donors direct contributions to empower EIB's activities in Ukraine, through partial guarantees for EIB loans, and allow the EIB to provide concessional lending and impact finance. Italy's €100 million contribution to the Fund, announced on 26 April 2023, will also benefit the private sector in Ukraine and local municipalities and contribute to stimulating European investments in Ukraine. Other EU member states' contributions should follow if the Fund is to get any traction in Ukraine. Conceived as an interim solution, **the 'EU for Ukraine Fund'** could serve as an initial step towards a broader multi-donors and multi-financiers European initiative, as discussed below.

The **PDBs and DFIs of EU member states are also slowly being mobilised**. This is the case for instance of German's PDB KfW and DFI DEG, active in Ukraine, which, together with export finance and credit guarantees (by KfW IPEX-Bank and Euler Hermes) and investment guarantees provided notably by the Federal Ministry for Economic Affairs and Climate Action, Ministry of Finance and the Ministry of Economic Cooperation and Development, continue to support public and private investments in Ukraine and provide liquidity support to businesses. Following Russian aggression on Ukraine, KfW has almost doubled its commitments to Ukraine to reach a total volume of operations of over €1.2 billion (KfW 2023). Yet, risk mitigation mechanisms remain limited, covering mainly political risks and war risks, on a case-by-case basis, and subject to capital movement restrictions in Ukraine, so that the conversion and transfer risks and the risk of government payment bans or moratoriums (moratorium case) cannot be hedged.

Many EU member states, however, still have not provided an explicit mandate for their financial institutions for development, trade and investment promotion to operate in war-plagued Ukraine. Others have adopted inconsistent approaches. This is the case of France, where French PDB Agence Francaise de Development (AFD) has not yet been given a mandate to operate in Ukraine, while its DFI Proparco and technical development agency Expertise France, both also part of the AFD Group, have such a mandate. Yet, AFD has been instrumental in implementing the €300 million budgetary loans for Ukraine announced by the French government immediately after the start of the Russian war in Ukraine, and in the follow-up additional €100 million loans in late November 2022 (Ministère de l'Économie, des Finances et de la Souveraineté industrielle et numérique 2022).

A more decisive approach has to be taken by EU member states to empower their PDBs, DFIs, ECAs and investment promotion agencies to support public and private investments in Ukraine, including through comprehensive risk coverage.

At the EU level, following the strong support to Ukraine over the last year, the resources available for Ukraine under the 2021-2027 EU budget for development (the Neighbourhood, Development and International Cooperation Instrument, NDICI/Global Europe) have already been largely depleted. This includes part of the €3.182 billion rapid response mechanism and of the €9.53 billion for the flexible 'cushion' of unallocated funds set up for unforeseen circumstances. To mobilise investments, the EU could also draw on its External Action Guarantee under the European Sustainable Development Fund Plus (EFSD+). Part of the previous EFSD guarantees has been repurposed for Ukraine, notably by the EIB and the EBRD. But the proposals under the first tranche of EFSD+ guarantees have not targeted Ukraine and the EIB has only been able to use the EFSD+ for sovereign lending in Ukraine at a minimal scale because of limitations to the underlying guarantee budget. This is a missed opportunity. Repurposing some proposals with increased guarantee coverage could be an option. The allocation of the second tranche of the EFSD+ could also be an opportunity to provide more guarantees for PDBs and DFIs operations in Ukraine.

Yet, the EFSD+ is meant to support investment more globally in developing countries, and in particular, the most vulnerable and fragile ones, also greatly affected by multiple global crises and climate change. The mid-term review of the NDICI/Global Europe and, more broadly, of the EU seven-year budget could be an opportunity for additional contributions from the EU member states. But the process is likely to be slow and politically charged, with different appetites and incentives from different member states, rendering an additional budgetary package difficult to achieve, although necessary.

An alternative, politically easier to achieve, would be to build on **a Team Europe approach for the reconstruction and recovery of Ukraine**. This is currently partly the case **at the multilateral level**, with the World Bank's MRII Facility and with the Multi-agency Donor Coordination Platform hosted by the European Commission. Such efforts should continue, notably by strengthening the EU and its member states' coordination of positions and actions within these multilateral mechanisms and at the G7 level. The EU can also build on the strengthening of the European Financial Architecture for Development (EFAD) to enhance the cooperation between its PDBs, DFIs, development agencies and other development mechanisms (Bilal 2021, Bilal 2023).

A European internal coordination mechanism for Ukraine could be set up, regrouping key European development actors, namely the European Commission/European External Action Service (EEAS), the EBRD, the EIB, the Association of European DFIs (EDFI), the Joint European Financiers for International Cooperation (JEFIC) which brings together European PDBs (AECID from Spain - not formally speaking a PDB, AFD from France, BGK from Poland, CDP from Italy and KfW from Germany), and the Practitioner's Network for European Development Cooperation (PN) organisations. European trust funds and co-investment platforms could be set to operationalise some strategic dimensions of the European coordination mechanism. This could usefully build on the EU-EIB's 'EU for Ukraine' Initiative. The newly established 'EU for Ukraine Fund' is a trust fund for EIB operations only. To stimulate synergies and co-investment between various European development financiers, under a common guarantee and technical assistance pool of resources, the EIB trust fund for Ukraine could be opened to other interested JEFIC and EDFI members.

The EIB, as the EU Bank, is arguably a good host for such an EU EIB-EBRD-JEFIC-EDFI trust fund or co-investment platform and could be accommodated under its Partnership Platform for Funds framework and the EIB decision structures, which include all the EU member states and the European Commission. It could build on and expand the cooperation between the EIB and EBRD, notably in the context of the EU-Ukraine Solidarity Lanes new logistic corridors for Ukrainian exports and imports, with joint EIB-EBRD transport projects. In principle, the participation of development agencies members of the PN could also be envisaged in an EU multi-stakeholders investment platform for Ukraine. While the participation of the EIB and EBRD would be key, not all JEFIC or EDFI members would have to be involved, in case some members, and their respective governments, would not be willing to contribute to and participate in such a fund. A collective EU trust fund hosted by the EIB would have the advantage of being clearly EU-branded and allowing latecomers among the EU member states to join in when they wish to. It would also automatically follow the EU policy-first strategic priorities and EU standards and principles. Such a multi-stakeholders EU trust fund or platform could also be independently structured outside of the EIB, managed by an independent trustee, under a new structure, as long as it involves the key stakeholders and EU member states concerned.

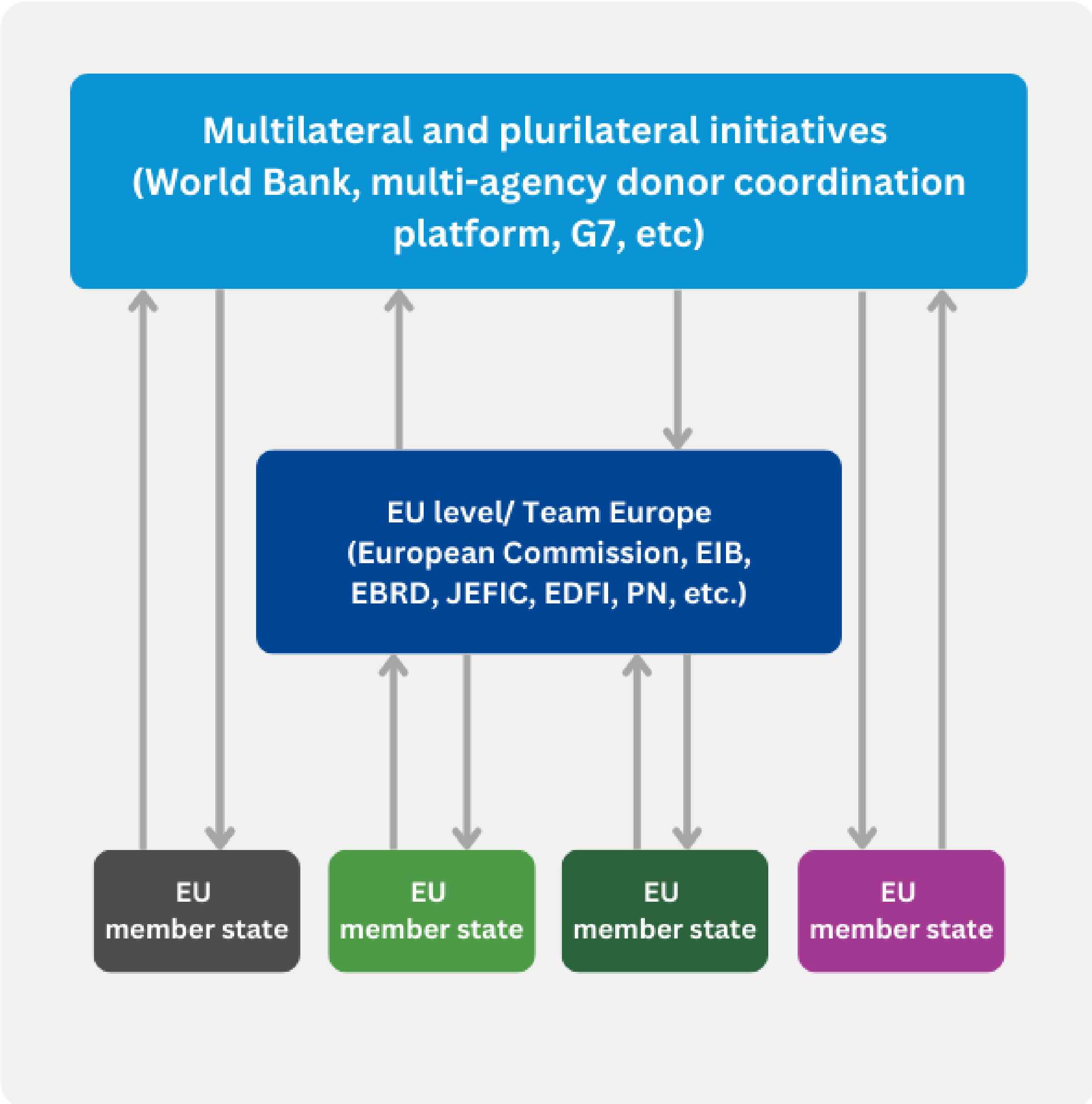
Existing co-investment mechanisms, such as the **European Financing Partners (EFP)** between the EIB and several EDFI members, could also have a **specific Ukraine window** to promote private sector investment support in Ukraine. To stimulate co-investment, the EIB should be authorised to also become a promoting partner, sharing its pipeline of projects with other interested DFIs. To operate in Ukraine, the **EFP Ukraine window** would need to benefit from risk mitigation mechanisms, which could be provided collectively by some willing EU member states. Co-investment with the EBRD should also be encouraged, building on the EBRD-EIB Framework Cooperation Agreement on mutual reliance, the EBRD-EDFI memorandum of understanding, the EBRD-G7-DFI-EDFI Ukraine Investment Platform and the EBRD-EIB joint endeavours in the EU-Ukraine Solidarity Lanes.

To effectively stimulate European private investments in Ukraine, the Team Europe approach would have to expand beyond development cooperation and development finance instruments. A **Team Europe approach for private investment** should seek to **harness European trade finance, export credits and investment guarantees and promotion mechanisms**. It should also seek to **build on European private-sector** initiatives and interests.

The **Global Gateway** agenda provides the right dynamics in that respect, with European considerations on how to best involve European businesses and financiers, including with the set up of the **Business Advisory Group (BAG)**, in the more geopolitical development-oriented external actions of the EU (Bilal 2022, Teevan et al. 2022). A specific **BAG for Ukraine** (or a similar endeavour) could be established by leading European business organisations interested in stimulating investment in Ukraine. This would not need to include all EU member states and focus instead on those with concrete initiatives. The considerations on an **EU export credit facility** coordinating and complementing European ECAs' and investment promotion agencies' activities, and the European Commission mapping exercise of financial tools supporting the EU member states' exports and selected tools of EU development cooperation, can serve to tailor concrete inputs towards a **Team Europe approach for European private investment in Ukraine** (Karaki et al. 2022). Financing structures, such as **syndicated trust funds**, could also be established **with the participation of private financiers** (including European institutional investors) together with the EIB and other European PDBs and DFIs. Additional considerations should be given to **harnessing European private (re)insurance companies** in support of Ukraine. All these initiatives could only take shape with significant engagement by concerned EU member states, notably in **providing adequate resources for appropriate risk mitigation mechanisms**.

The EU initiatives could more forcefully complement, and of course not substitute, other initiatives to support investments in Ukraine, conducted at the multilateral, plurilateral/G7, and EU member state levels, as illustrated in Figure 4.

Figure 4: Complementarity between international, Team Europe and bilateral initiatives for the reconstruction of Ukraine



Source: Author

Strengthening the Team Europe approach will be an essential pillar of the international effort for the recovery and reconstruction of Ukraine, with and for Ukraine. By harnessing its public and private potential and initiatives, the EU can collectively make a significant difference in mobilising sustainable investments at scale. The Team Europe approach will also contribute to the strengthening of the alignment of the recovery and reconstruction of Ukraine to the EU values, principles and standards, including in terms of regulatory, technical, sustainability, green, inclusive and gender-sensitive ambitions, which will also be needed for any Ukraine accession process to the EU.

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