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The Ukraine Facility: Building on Team Europe and the European Investment Bank

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By San Bilal

Summary

The European Union (EU), its institutions and member states are united in supporting Ukraine following Russia's war of aggression, providing about €76 billion to Ukraine and its people to date. To continue to respond to Ukraine's mounting needs, and with the EU's budget under stretch, the European Commission proposed an additional financial package of €50 billion for 2024-2027, the Ukraine Facility, currently under negotiations with the Council and the European Parliament. It is important that they do not water down the laudable proposal by the European Commission, but seek to further improve it.

Specific attention should notably go to ensuring that the Ukraine Facility can help mobilise public investments, which are critical for the recovery and reconstruction of Ukraine. The European Investment Bank (EIB), as the EU Bank fully aligned to and promoting EU values, standards and interests, is uniquely placed to do so. In line with the European Fund for Sustainable Development Plus (EFSD+), the EIB should have a specific investment window in the Ukraine Facility. This would allow the EU to take advantage of the EIB's added value in public investments - EIB's core business, in a way that would also support Ukraine in the perspective of its accession to the EU. The EIB can also be instrumental in anchoring a Team Europe approach through the Ukraine Facility, partnering with other key European, international and local financiers and development actors, and the private sector, to support Ukraine's recovery and reconstruction through comprehensive public and private endeavours.

Introduction

The European Union (EU), its institutions and member states have been united in supporting Ukraine following Russia's war of aggression. Together, they have provided about € 76 billion to Ukraine and its people to date (see Table 1).

Table 1. EU support to Ukraine since the Russian aggression

€ 76 bn	**Total EU Solidarity Package for Ukraine as of September 2023, including:**
€ 38.8 bn	Financial, humanitarian and emergency budget support • €31 bn from the EU budget ◦ € 7.2 bn macro-financial assistance (MFA) in 2022 ◦ €18 bn support package (MFA+ with highly concessional loans) in 2023, with €12 bn already disbursed by September 2023 • €7.8 bn by EU member states
€ 20 bn	Military assistance • €5.6 bn under the European Peace Facility
€ 17 bn	Supporting people fleeing Ukraine (under the CARE initiatives - Cohesion's Action for Refugees in Europe and Flexible Assistance to Territories)

Source: *European Commission (2023a)*

Yet, as the war and its destructions continue, this will not suffice. The EU and its member states will have to not only sustain but increase their efforts during and after the war, including for the reconstruction and recovery of Ukraine. The current 2021-2027 long-term budget of the EU has been put to stretch, notably through the combined effect of COVID-19 and the war in Ukraine responses, further amplified by the current inflationary pressures. Most of the flexibility available, and in particular the so-called cushion for emerging challenges and priorities, has been used, leaving no margin under the ceiling of the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe) (Kowald and Pari 2023).

This was to be anticipated, with the European Commission already stressing in its Communication on Ukraine in May 2022 that “unforeseen needs created by [the] war in Europe are well beyond the means available in the current multiannual financial framework” (MFF) and that “new financing sources will have to be identified” (European Commission 2023b). This is precisely what the European Commission did in June 2023 with its proposal for the MFF revision, currently under consideration by the Council and European Parliament (European Commission 2023c, Financial Times 2023). It comes at the same time as the mid-term review of the MFF and NDICI and includes a proposed €50 million Ukraine Facility over the next four years, as recently discussed by my colleague Alexei Jones (European Commission 2023d, Jones 2023).

European diplomats are also considering the proposal by Josep Borrell, High Representative of the European Union for Foreign Affairs and Security Policy, for additional EU support of up to €20 billion on weapons, ammunition and other military aid for Ukraine over 2024-2027 (Financial Times 2023, Reuters 2023).

The proposed Ukraine Facility

With the Ukraine Facility, the European Commission proposed a much-needed additional financial package to support Ukraine's recovery and reconstruction. As outlined in Table 2, the aim is to help Ukraine's own reform and development plan (Pillar 1), stimulate (private) investments with public guarantees, and contribute to critical capacity building. The EU's ambition is to provide €50 billion in support for 2024-2027, with a third (€17 bn) in grants, and two-thirds (€33 billion) in loans.

Table 2. Proposed €50 billion Ukraine Facility

Pillar 1 Support for Ukraine Plan	Pillar 2 Ukraine Investment Framework	Pillar 3 Assistance programmes
€39 billion	€8 billion (to mobilise €17.8 bn)	€3 billion
Grants and loans to support reforms needed for the EU accession, for recovery, reconstruction and modernisation, and support to address urgent financial needs, based on the Ukraine Plan for the recovery, reconstruction and modernisation of the country.	De-risking mechanism ('Ukraine guarantee' of up to €8.9 bn, at an initial provisioning rate of 70%, distinct from the existing External Action Guarantee (EAG) under the EFSD+) and blended finance to mobilise investments in Ukraine's private sector, as well as support to the Ukrainian private sector.	Technical assistance and capacity-building, such as for reform expertise, for central, regional and municipal government and for civil society, comparable to the Instrument for Pre-Accession Assistance (e.g. EU acquis, structural reforms).

Source: European Commission (2023e and 2023f) and Peters (2023)

While the EU member states are confronted with tight budget constraints, the €50 billion Ukraine Facility proposal should not be watered down but should, on the contrary, help rally EU public and private efforts to effectively support Ukraine's recovery and reconstruction at scale. Providing support based on the Ukraine Plan for recovery and development, as conceived by the Ukrainians (Ministry of Economy of Ukraine 2023), and in line with reforms for Ukraine's accession to the EU, as envisaged in Pillar 1 of the Ukraine Facility, is a critical first step. Leveraging investments through guarantees, with a reasonable ratio of 1:2 (1 euro in guarantee mobilising 2 euros of investment), should contribute to unlocking international and domestic private potential for the reconstruction, with the help of European development financiers, as I argued recently (Bilal 2023).

Forgotten public lending to meet mounting needs?

Yet, Ukraine's recovery and reconstruction needs are enormous and could reach up to €1 trillion (Bilal 2023, Washington Post 2023). Even the more conservative estimate by the World Bank suggests that US$ 411 billion will be needed over the next ten years, with the biggest needs in the infrastructure sector, in particular in transport (accounting for 22% of total needs), housing (17%), energy and extractive (11%) (World Bank 2023).

While mobilising private investments at scale will be critical for Ukraine's recovery, as the World Bank and my recent report emphasised (Bilal 2023, World Bank 2023), public policies and interventions will remain central, notably in these three sectors where the needs are the most costly, as well as social sectors where public investments remain key. To be effective, EU support will have to unleash public support and investments as well as provide guarantees for public investments, including as an enabler for attracting and complementing private activities. The proposed Ukraine Facility seems to neglect part of that public lending dimension.

Unleashing the EIB potential

The current proposal on the Ukraine Facility, with its focus on budget support and macro-financial assistance, private investment mobilisation and technical assistance, fails to capitalise on the potential to mobilise public investments through public development banks, notably the European Investment Bank (EIB).

Like with its initial proposal on NDICI and the European Fund for Sustainable Development Plus (EFSD+) in 2018 (Bilal 2019, European Commission 2018), the European Commission proposes a fully open investment architecture for the Ukraine Facility that does not differentiate - and thus fails to capitalise on - the EIB's specific institutional role, potential and business model. After negotiations with the Council and the European Parliament, the approved NDICI Regulation (EU) 2021/947 provides for an exclusive guarantee for sovereign (and non-commercial sub-sovereign) operations by the EIB only ('Dedicated Investment Window 1'), which allows EIB Global, the external arm of the EIB, to develop a significant pipeline of public investment projects, its core business (EU 2021, Lundsgaarde et al. 2022).

The Ukraine Facility should be coherent with the rationale of the NDICI-Global Europe and EFSD+ and foresee a dedicated investment window for EIB sovereign operations in Ukraine, including for its activities at the local level with sub-sovereign operations, given the importance of decentralisation and local municipalities in the Ukraine reconstruction.

The EIB is not only the EU Bank, fully aligned to and promoting EU values and interests, but is also a key partner for other European, international and local financiers. In the perspective of Ukraine's accession to the EU, the EU Bank is thus uniquely placed to help finance public (and indeed private) investments fully in line with EU priorities, principles and standards. As it does in the EU, the EIB can help the Ukrainian authorities prepare and implement essential infrastructure investments co-financed with EU funds. The EIB should also be a natural anchor for a Team Europe approach, primordial in Ukraine.

EIB Global has already demonstrated its responsiveness and added value to the united EU Solidarity with Ukraine. The EIB's dedicated investment window EFSD+ allowed EIB Global to rapidly respond to the needs in Ukraine. Relying on EU budget guarantees and subsidies under the EFSD+, and its own resources, the EIB quickly repurposed and mobilised new investments, with its first two packages for Ukraine, approved in March and July 2022, amounting to some €2.26 billion (EIB 2023a, Rapaille 2023). The EFSD+ dedicated window became quickly operational (in May 2022), allowing the EIB rapid response (EIB 2022). In contrast, the operationalisation of the EFSD+ open window for non-sovereign activities is much slower, with no guarantee agreement yet signed (the first ones being expected later this year).

To help the EIB's capacity to continue financing critical rebuilding investments in Ukraine (and Moldova), the EIB's shareholders (composed solely of the EU member states) and the European Commission approved on 29 March 2023 the 'EU for Ukraine' Initiative, including the establishment of a new EIB trust fund, the 'EU for Ukraine Fund', for which several EU member states have pledged in total over €400 million (EIB 2023b, EIB 2023c). But this fund had always been conceived as a temporary bridging solution only. The EIB is also using €100 million of its own funds in a Ukraine Technical Assistance and Advisory Facility to help prepare and implement the investment it co-finances (EIB 2023b).

The Ukraine Facility should contribute to further empowering EIB's support to Ukraine's recovery and reconstruction. Concretely, this means that, like with the EFSD+, Pillar 2 of the Ukraine Facility should explicitly provide a dedicated investment window for the EIB sovereign lending in Ukraine. Pillar 3 could also contribute to the EIB's 'EU for Ukraine Fund', which would support the development and implementation of impactful projects.

Building bridges

Going forward, the Ukraine Facility could be instrumental in actively fostering the Team Europe approach in Ukraine (Bilal 2023). For Pillar 2, this means incentivising synergies and cooperation between European development finances, the EIB, the European Bank for Reconstruction and Development (EBRD), European development financial institutions (DFIs), and public development banks. This could be done with or along the lines of the EBRD-G7 DFI Ukraine Investment Platform (EBRD 2023, EDFI 2023). Some EU member states and their development institutions could also complement Pillar 2 (risk mitigation mechanism) and Pillar 3 (technical assistance) of the Ukraine Facility, building further bridges between these two pillars and synergies with the reform agenda of Pillar 1.

The Ukraine Facility, building on the structures included in the NDICI-Global Europe Regulation and provided it would include a dedicated mandate for the EIB, has the potential to foster the Team Europe approach in Ukraine and unlock the true potential of EIB Global and other European financiers to better support Ukraine's recovery and reconstruction through comprehensive public and private endeavours. Let's make it right, fast, together!

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