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The EBRD and the War in Ukraine: The Long Road to Reconstruction

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Key Points

- Russia's invasion of Ukraine in February 2022 weighed heavily on the European Bank for Reconstruction and Development (EBRD) since both countries are shareholders in which the Bank has invested for three decades.
- The EBRD cut off Russia's access to Bank resources in April 2022, but its shareholders remain divided over whether the country should be suspended.
- The EBRD's Resilience and Livelihoods Framework has pledged €2 billion in support for Ukraine and affected countries.
- Early estimates of the cost of Ukraine's recovery and reconstruction range from $349 billion to $750 billion, leaving the country in need of substantial external assistance.
- The EBRD is involved in international discussions over Ukraine's economic future and the Bank is likely to play an important role in the country's post-conflict development.

Introduction

The Russian Federation's invasion of Ukraine on 24 February 2022 posed unique challenges for the EBRD. Both countries have been shareholders of the Bank for three decades, during which the EBRD has invested close to €27 billion in Russia and €18 billion in Ukraine. Russia's actions not only put more than two hundred EBRD-backed projects in Ukraine at risk. They violated the Bank's founding principles, which commit shareholders to respect the rule of law and fundamental rights, while exposing political fissures within its governing structures.[1] Most European Union (EU) member states, which together with the EU and the European Investment Bank (EIB) account for 54 per cent of the EBRD's total capital, strongly condemned Russia and offered support to Ukraine. Belarus, an EBRD shareholder since 1992, actively supported Russia. Despite these divisions, the EBRD has been relatively forceful in its response to Russia and the Bank looks set to play a major role in financing the recovery and reconstruction of Ukraine.

Russia: Shunned but not Suspended

When Russia annexed Crimea in 2014, the EBRD's Board of Directors decided that no new investment projects in Russia would be approved for the time being (EBRD 2014). G7

[1] These principles are set out in the Preamble to the Agreement Establishing the European Bank for Reconstruction and Development. Article 1 offers a narrower definition.

members' condemnation of Russia's actions against Ukraine eight years later put pressure on the EBRD to go further, raising the possibility that Russia might be suspended, as permitted under the Agreement Establishing the EBRD. Instead, the Board of Directors decided in April 2022 to suspend Russia's access to EBRD resources with immediate effect (Porter 2022a). This means that no additional investment or technical assistance will be provided for ongoing projects, which were worth around €906 million at this point. The EBRD offices in Moscow were also closed. Belarus faced identical measures at this time over its support for Russia.

In March 2022, Russia withdrew from the Council of Europe after its rights of representation were suspended. However, the Russian government gave no indication at this time that it would quit the EBRD. Instead, Maxim Reshetnikov, Russia's Minister of Economic Development, delivered a statement at the EBRD's Annual Meeting in Marrakesh in May 2022, where he criticised a '"bloc" mentality within the Bank's management' and yet expressed hope for a 'return to constructive dialogue' (Reshetnikov 2022). This partially conciliatory mood was not shared by the majority of delegates who walked out of the auditorium as Sergey Verkashanskiy, EBRD Director for Russia, prepared to speak at the same meeting (Aris 2022). And yet, the fact that not all EU member state representatives left the room revealed that differences over how to respond to Russia were not limited to the EBRD.

Russia could eventually have its access to EBRD resources restored and be eligible once again for new investment projects, but this seems like a remote possibility. Neither does it seem likely, however, that shareholders will seek Russia's expulsion from the Bank any time soon. Although the European Commissioner for Development Jutta Urpilainen raised this possibility in May 2022, the EU lacked the votes to take such a step, which requires at least two-thirds of EBRD Governors representing at least two-thirds of total voting power to agree (Chadwick 2022).[2] This threshold was always going to be difficult to achieve given the closeness of shareholders such as Armenia and Hungary to Russia. But it was made more complicated by the Bank's decision to take in a number of non-European shareholders over the last decade. Some of these countries have taken a tough line against Russia, but India and China, for differing reasons, have not.

Ukraine: From Short-Term Support to Reconstruction and Recovery

How to respond to Russia was one of two major issues to confront the EBRD in February 2022. The other was how to help Ukraine. On the day of the invasion, EBRD President Odile Renaud-Basso wasted no time in offering her 'unwavering support' to Ukrainian authorities (Renaud-Basso 2022). The following month, EBRD Directors approved the Resilience and Livelihoods Framework, which pledged up to €2 billion for Ukraine and 'affected countries' (Porter 2022b). Funding for Ukraine included payments support, trade financing and liquidity assistance for businesses which struggled to keep operating under heavy shelling from Russian forces and a mass exodus of people.

Such support involved the repurposing of existing funding in some cases. For example, the EBRD had originally agreed to lend €150 million to Ukrainian Railways to upgrade and electrify part of the country's track (Bennett 2022). When the war started, one-third of this

[2] Article 38(1), Agreement Establishing the European Bank for Reconstruction and Development

loan was offered to help keep Ukraine's railways running, with the rest of the original financing remaining on hold. Such support was welcome but insufficient to address the acute challenges facing the country's railways. In the early days of the war, Ukrainian forces destroyed railway links with Russia in an attempt to disrupt supplies. Russian forces continuously bombed Ukrainian railway lines in the months that followed, in part, to hinder Western military supplies.

The war also affected numerous projects in which the EBRD had already invested. For example, the Bank had supported a number of waste disposal and transport projects in Mariupol under its Green Cities Programme. The industrial port town was virtually destroyed after weeks of intense fighting before finally falling under Russian control. The EBRD also warned that international efforts to secure the Chernobyl nuclear power station – which the Bank supported both as an investor and by managing more than €2 billion in contributions from forty-five countries and the European Commission – were in danger of 'ruin' (EBRD 2022). Although Russian forces eventually withdrew from Chernobyl, safety at the Zaporizhia nuclear power station, another past beneficiary of EBRD investment, remained a cause of acute concern.

The EBRD's Resilience and Livelihoods Framework offers short-term support to Ukraine. A key question for the long term is what role the EBRD might play in the country's reconstruction. In July 2022, the Bank was represented at the Ukraine Recovery Conference in Lugano, where it committed along with officials from the EU and the OECD and over forty countries present to support Ukraine 'throughout its path from early to long-term recovery'.[3] At this meeting, the Ukrainian government presented a draft Recovery and Development Plan which put the country's financing needs at $750 billion over the period 2023 and 2032.[4] Sweeping in its breadth and ambition, this plan sought not only to undo the direct and indirect damage done by the war but to build a tiger economy which could grow by 7 per cent per annum and reach the world's top twenty for human capital.

A Rapid Damage and Needs Assessment Report published by the Ukrainian government, the World Bank Group and the European Commission in September 2022 paints a more sober picture (World Bank, Government of Ukraine and European Commission 2022). As of 1 June, total damage was estimated at $97 billion, with more than two-thirds of this sum accounted for by housing and transport. The total economic losses incurred by Ukraine, linked for example to declining agricultural production or the cost of land decontamination, was estimated at $252 billion. Ukraine's total financing needs stood at $349 billion, the report concluded while warning that this figure would rise as the war went on.

A conference in Berlin on 25 October 2022 co-hosted by German Chancellor Olaf Scholz and European Commission President Ursula von der Leyen will seek greater clarity on Ukraine's financing needs, although funding pledges are not expected for now. If and when such pledges come, it seems likely that the EU and G7 will play a major role in helping to finance Ukraine's recovery and reconstruction, alongside the World Bank Group. It is highly probable too that the EBRD will be involved.

Despite its name, the EBRD has primarily focused on development rather than reconstruction over the last thirty years. This could change if and when conditions on the ground in Ukraine permit. In such circumstances, the Bank's extensive network of clients in Ukraine, expertise in mobilising private sector investment and experience working in post-conflict settings such as the Western Balkans are likely to give the EBRD a prominent role in any reconstruction package for Ukraine.

[3] 'Outcome Document of the Ukraine Recovery Conference URC2022 "Lugano Declaration"', Lugano, 4–5 July, 2022.

[4] Source https://recovery.gov.ua/en

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Further Information

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