

Our position

Implementing the Ukraine Facility



AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled more than €3.7 trillion in 2022, directly supports more than 4.9 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

Executive summary

The Ukraine Facility represents a great opportunity to bolster Ukraine's resilience and economic growth as well as the European Union's commitment to this cause. To be successfully implemented, resources must be deployed in a fair and transparent manner. Open governance, including structured and regular incorporation of business feedback, is also needed to ensure the Facility meets economic and strategic objectives effectively. Additionally, EU stakeholders should start considering how they can provide clarity and strategic planning beyond the current term of the Facility and how the Multi-Annual Financial Framework can provide stability and confidence for long-term investments. Taken together this approach to the Facility's implementation can foster a conducive environment for business operations and sustainable economic growth in Ukraine.

Introduction

This year marks the second anniversary of the full-scale Russian invasion of Ukraine, an aggression that has violated international law, caused incredible suffering and upended the global security order. The adoption and deployment of the Ukraine Facility represents a significant milestone in the efforts to support Ukraine's resilience. This agreement signifies a strong commitment to fostering economic growth and stability in the region.

With a total capacity of EUR 50 billion until 2027, the Ukraine Facility is an important instrument to catalyse the reconstruction and modernisation effort in Ukraine. Nevertheless, public funding alone cannot meet Ukraine's needs. Recent estimates¹ show that the total cost of reconstruction and recovery in Ukraine is USD 486 billion over the next decade. Furthermore, in the decade preceding Russia's war of aggression, FDI in Ukraine averaged approximately USD 4 billion per year². This shows the significance of getting private sector funding to once again flow into the country at significant levels, and how decisive private investment will be for Ukraine's future.

American companies are committed to Ukraine's resilience. The United States' FDI position in Ukraine in the decade preceding Russia's war of aggression ranged between USD 500 million and USD 930 million per year³. Furthermore, since February 2022 over 162 US companies have joined our sister organisation, AmCham Ukraine, to advance the US business community's unwavering commitment to Ukraine.

Deployment

The success of the Ukraine Facility relies on **fair, non-discriminatory and transparent access** to its funds for all trustworthy partners irrespective of their home country and the prejudice that can be associated with their national industries.

¹ World Bank, "Updated Ukraine Recovery and Reconstruction Needs Assessment Released", 15 February 2024, <https://www.worldbank.org/en/news/press-release/2024/02/15/updated-ukraine-recovery-and-reconstruction-needs-assessment-released>

² Own calculations based on World Bank, "Foreign direct investment, net inflows (BoP, current US\$) – Ukraine", <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=UA>

³ Own calculations based on Statista, "Foreign direct investment position of the United States in Ukraine from 2000 to 2021", <https://www.statista.com/statistics/1293822/united-states-direct-investments-ukraine/>

The European and International Financial Institutions (IFIs) (eg International Finance Corporation, World Bank) as well as international commercial banks present in Ukraine have stepped up their financial support of the Ukrainian private sector since the early months of the war in 2022. They build on years of experience working with Ukrainian private lenders across the sectors and irrespective of the size and organisational structure.

The European Commission should treat fairly the IFIs and international commercial lenders active in Ukraine when decisions are made under the Facility.

Furthermore, American businesses emphasise the need for the Facility to **ease access to liquidity and to promote de-risking mechanisms**.

In March 2024, the National Bank of Ukraine set the benchmark interest rate at 13.5%. This is a stark contrast with the European Union and Ukraine's top trade partners. Even though this is felt by all businesses alike, it makes it particularly difficult for SMEs to access liquidity to fund their operations – let alone to grow them in the long run. Therefore, easing downstream access to liquidity for businesses in Ukraine should be one of the Facility's key targets.

For now, Ukraine has the highest possible risk level according to the OECD Country Risk Classification. The underlying reasons for this classification (eg destruction of infrastructures, continuous military operations in particular regions, deteriorated solvency of providers and buyers) hamper the acceleration of FDI in Ukraine to meet the needs of its reconstruction and modernisation (eg acquisition of cutting-edge and/or green technologies). De-risking mechanisms and instruments such as guarantees and private insurance are critical to unlocking access to stable, predictable and manageable funding resources.

Finally, **prioritising support to specific sectors of Ukraine's economy** is essential. This includes: fortifying rail and road crossing points on Ukraine-EU border; reinforcing internal highway and railway network, facilitating debris removal in order to allow reconstruction; rebuilding and modernisation of power generation and distribution network with emphasis on nuclear/renewables; expanding broadband /5G digital telecom infrastructure; demining and rehabilitation of agricultural land in frontline regions including new investments in irrigation infrastructure particularly in the South of the country, restoring agricultural production and assets including machinery and equipment

Governance

Setting the right path forward for the Facility should be underpinned by a **constant, open and transparent process** that involves representation of all trustworthy partners and allows for a **first-hand, live picture of what the business environment is like in Ukraine**.

For now, the governance framework for Pillar II: Ukraine Investment Framework, envisaged under article 28 of the Regulation establishing the Ukraine Facility does not clearly define a framework for public-private dialogue which could ensure proper feedback from international business community to the Commission and the International Financial Institutions (IFIs) on the effectiveness of Pillar II financial toolbox. The European Commission should continue its engagement with the private sector on Ukraine and establish a regular consultative mechanism through which the international business community, including the US companies, could offer feedback on how Pillar II toolbox is factored in their investment decisions in Ukraine while receiving a broader, coherent picture on deployment of Pillar II instruments by means of topping up the IFIs' existing or future projects in the country.

As far as the European Commission's own representation in this mechanism is concerned, extensive coordination between DG NEAR and the Directorates-General that have jurisdiction over industries that are key for Ukraine's reconstruction and modernisation will be key. This will give the European Commission a far more accurate picture of obstacles and parameters that drive private investment decisions downstream – which in turn call for Facility spending upstream.

Furthermore, **engaging in a structured dialogue with the private sector to promote EU funding tools and opportunities** will be critical to bring the benefits of the Facility to those that need it the most. Initiatives like information portals (eg EU4business) are a powerful instrument but they cannot bridge the gap as effectively as a direct dialogue with the private sector. In the short term, AmCham EU stands ready to support the European Commission's effort to set up such dialogue by leveraging its convening power and extensive footprint in Europe to bring together leading business forums (eg AmCham Ukraine, European Business Association) and global companies invested in Ukraine to discuss the opportunities that the Facility offers. In the medium term, a suitable cadence should be set for this dialogue to continue and to be enriched by the ongoing assessment of the Facility's impact on the ground as explained above.

Preparing for the future

American businesses acknowledge the full range schemes and policies in support of Ukraine. However, ultimately a decision to invest in Ukraine is a long-term commitment that goes beyond the lifespan of most of these instruments (2027 for the Ukraine Facility). According to the International Energy Agency, typical investment lifetimes can be up to 30 years for chemicals, 40 years for steel and cement plants⁴. Though shorter in duration, investments in other industries can be most daunting on businesses – especially SMEs.

As difficult as it may be, EU stakeholders should **set out the EU's next steps well beyond the current Multi-annual Financial Framework irrespective of the outcome of the accession talks**. This will give businesses sufficient visibility in the long run and the confidence to sustain their commitment to Ukraine.

Conclusion

In conclusion, the Ukraine Facility's implementation should be defined by fairness, feedback and foresight. Ensuring fair and transparent deployment of funds is crucial to maximise both impact and efficiency. Open governance structures that systematically incorporate regular business feedback are vital for aligning the Facility's objectives with practical market needs. Additionally, providing strategic clarity beyond the current term of the Facility and the Multi-Annual Financial Framework is essential to instil confidence among investors and stakeholders. Such a long-term vision will facilitate sustainable economic growth and stability in Ukraine, effectively supporting its development and fostering a robust and resilient economic partnership with the EU and other like-minded partners – an effort American business is committed to supporting.

⁴ International Energy Agency, "Aligning investment and innovation in heavy industries to accelerate the transition to net-zero emissions", 20 July 2020, <https://www.iea.org/commentaries/aligning-investment-and-innovation-in-heavy-industries-to-accelerate-the-transition-to-net-zero-emissions>