

What will the Ukraine conflict mean for multilateral development finance?

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Key messages

Suspending Russia and Belarus as members of the World Bank and European Bank for Reconstruction and Development would be misguided for developmental, political and legal reasons.

The Ukraine crisis will tighten lending headroom at EBRD and the World Bank, accentuating the call to strengthen MDB capital, but it poses no danger to the long-term financial stability of either bank.

New Development Bank will face severe impacts from the crisis due to its exposure to Russia as a shareholder and borrower, while Asian Infrastructure Investment Bank will be much less impacted, at least in the short term.

The Black Sea Trade and Development Bank and the Russia-led International Investment Bank will also face considerable difficulties due to the conflict.

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Acronyms

AIIB	Asian Infrastructure Investment Bank
BIS	Bank for International Settlements
BSTDB	Black Sea Trade and Development Bank
EBRD	European Bank for Reconstruction and Development
EMDCs	Emerging market and developing countries
EU	European Union
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IIB	International Investment Bank
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
NDB	New Development Bank
S&P	Standard and Poor's
UN	United Nations

1 Introduction

The sudden re-calibration of geopolitics in the weeks since Russia launched its bloody invasion of Ukraine is a truly tectonic event that is reverberating through multilateral institutions.

The World Bank, the Bank for International Settlements (BIS) and the International Monetary Fund (IMF) have suspended activity in Russia. On 11 March, European Commission President Ursula von der Leyen announced that the European Union (EU) was working to suspend Russia's membership at “multilateral financial institutions, including the International Monetary Fund and the World Bank”—an unprecedented move.

The Global South has been more ambivalent. China and India have not joined economic sanctions, nor have a number of other countries across the developing world. Thirty-five countries abstained from voting against Russia at the UN General Assembly on 2 March, including Bangladesh, Bolivia, El Salvador, Pakistan, Senegal, South Africa, Sri Lanka and Vietnam. Despite this ambivalence, even South-led institutions like the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB) have announced a temporary halt to operations in Russia and Belarus.

It is too soon to know where this will all lead, with bullets still flying in Ukraine. Nonetheless it is worth considering how the conflict might affect multilateral development banks (MDBs)—critical institutions in international development cooperation.

2 Should Russia and Belarus lose their membership at the World Bank and EBRD?

The prospect of suspending or revoking the membership of Russia and Belarus from international institutions has been raised in the wake of the Ukraine invasion, most publicly by European Commission President Von der Leyen on 11 March. While these calls are understandable as an immediate gut reaction to the awful violence unleashed against Ukraine, the long-term purpose and effect of such a move is questionable.

EBRD

On 1 March, the EBRD board of directors recommended that the bank suspend all operations in Russia and Belarus in an open-ended fashion. The bank's governors are to vote on the issue within 30 days. Prospects for a successful vote on the issue remain uncertain, although the practical impact would be limited as Russia has already been shut out of new operations since it annexed the Crimea in 2014.

According to Art. 8.3 of the Articles of Agreement (EBRD 2013), an operational suspension requires three-quarters of EBRD voting power and two-thirds of members. Voting power is not an issue, as EBRD's governance is dominated by G7 countries and western Europe, but two-thirds support of all members could be more problematic. With 73 shareholders (71 countries plus the EU and European Investment Bank), 49 members must vote in favour. A rough vote count suggests that 46 members are realistic (U.S., Canada, Japan, EU, EIB, western Europe non-EU, Korea and Mexico), but the remaining three votes are less certain. India, Egypt, Jordan, Libya, Algeria and the Central Asian countries would likely abstain or vote against, while Russia and Belarus would vote against.

A next step to formally suspend Russia and Belarus as members has been discussed by some shareholders, although this would be a controversial and drastic step. According to Art. 38, a member can be suspended if it "fails to fulfil any of its obligations to the Bank".

Unusually among MDBs, EBRD's Art. 1 specifies a mandate for "multiparty democracy, pluralism and market economics," and Russia's invasion could be interpreted as violating that obligation. If the countries are suspended, and no other action is taken within a year, they would automatically lose membership entirely.

Expelling Russia and Belarus would serve no immediate purpose related to the Ukraine conflict, while undermining the ability of EBRD to play a constructive role in Russia or Belarus should there be a meaningful change of leadership in the future. A better option would be to formally suspend all activity in both countries for the foreseeable future, while keeping a limited country representation to keep dialogue channels when administrations change. This has been EBRD's approach in Russia since 2014, and was also used in Uzbekistan between 2007 and 2017.

This crisis could be an opportunity to re-think EBRD's purpose. It was created to facilitate the transition of former socialist countries to market economies—a mandate embedded in the neoliberal ethos dominant at the time. The world has changed dramatically in the intervening years. Whatever "transition" these countries were going to make is long since done, and EBRD deserves credit for its work in helping that happen. It may be time to re-think the broader purpose of EBRD in its original core countries for a new era, including abolishing Art. 1 and converting its mandate into apolitical support for economic and social development akin to the other regional MDBs.

One operational result of such a shift could be a loosening of EBRD's excessive focus on the private sector. EBRD has at times struggled to find developmentally additional private sector projects, and many borrower countries have substantial public investment needs that EBRD could support at a much greater scale than it does currently. This will certainly be the case with Ukraine reconstruction and would also make sense for many other countries in Eastern Europe, Central Asia and North Africa badly in need of public investment to support development and climate goals.

Another operational result may be a temporary delay in EBRD's long-mooted move into sub-Saharan Africa. The Ukraine conflict will trigger major economic difficulties in a number of Eastern European and Central Asian borrower countries (not least massive reconstruction needs in Ukraine itself), and EBRD will need its resources to face that. In light of the massive regional crisis in the heart of its core member countries, shareholders may want to hold off on a major shift in the bank's strategic focus.

World Bank

The possibility of suspending or expelling Russia and Belarus from the World Bank is under discussion among shareholders, although as with EBRD no formal moves have been made as of writing. Russia is a member of all four main operational wings of the World Bank – the public sector International Bank for Reconstruction and Development (IBRD), the private sector International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and as a donor in the concessional International Development Association (IDA). Belarus is a member of IBRD, IFC and MIGA.

World Bank statutes specify that a member can only be suspended or expelled if it fails to meet its “obligations” (World Bank 2012, Art. VI, 2). Unlike EBRD, the World Bank defines its purpose in purely economic and developmental terms (Art. 1) and has an explicitly apolitical mandate (Art. IV). Only one country has ever lost its World Bank membership (Czechoslovakia in 1953), because it was unable to pay its capital subscriptions.

It would be difficult to make the legal case that Russia’s invasion—egregious and shocking though it might be—violates its obligations as a World Bank member. World Bank governors may need to first pass a resolution (re-) defining “obligations” before going ahead with a second vote on membership suspension. Some major non-borrower countries (notably the U.S.) might be uneasy about opening Pandora’s box by defining obligations broadly, for fear it could later be used against them.

Should it come to a vote, the statutes require a majority of voting power plus a majority of member countries in favour. As at EBRD, the suspension would become permanent if no further action is taken within a year. Obtaining over half of member countries would not pose a problem but obtaining half of voting power could be more challenging. A number of major non-borrower shareholders who strongly condemn Russia’s actions in Ukraine may feel that expulsion from the World Bank is not the best path forward.

Instrumentalizing World Bank membership to punish Russia and Belarus would weaken the institution’s international legitimacy. The World Bank is already perceived by many emerging market and developing countries (EMDCs) as a tool controlled by the U.S. and G7. This was a key factor behind the creation of AIIB and NDB. Should the western powers use their voting strength to force an expulsion of Russia and Belarus over the likely objections of a number of EMDCs – including China and India, the two most populous nations on the planet – it could be a serious blow to the World Bank’s multilateral legitimacy.

Nor is it clear how such a move could play a constructive role in ending the Ukraine conflict. It would cut off communications with one of the world's most powerful nations, with vast resources, influence in many other countries and enough nuclear weapons to end civilization as we know it. Russia has not been the most cooperative global player on development and climate issues, often seeming to view them as zero-sum games (in contrast to the more productive approach of China). But it is nonetheless essential to keep them at the table, and the World Bank is one of the best forums for doing so. Putin and Lukaschenko will not be in power forever.

3 What is the conflict's financial impact on EBRD and the World Bank?

The conflict has potentially important ramifications for MDB finances, as noted in bulletins by Fitch on 15 March and Moody's on 21 March. With Russia and Belarus facing international sanctions, a daunting economic crisis and plunging currency, an external debt default, including to EBRD and the World Bank, is a possibility. And Ukraine will take years to dig itself out of the current crisis in the best of scenarios.

The major MDBs are already constrained in the wake of the Covid crisis, and a shock to their balance sheets could limit their ability to help face the global developmental ramifications of skyrocketing fuel and food prices, as well as Ukrainian reconstruction when the fighting finally ceases.

EBRD

EBRD has started no new operations in Russia since the annexation of Crimea in 2014, and its current portfolio is relatively modest (Table 1). As of end-January 2022, EBRD has equity holdings of €682 million and outstanding loans of €150 million in Russia, compared to €35 million in equity and €518 million in loans to Belarus. Its Ukraine portfolio is larger, with €263 million in equity investments and €2.16 billion in loans (7.2% of EBRD's loan portfolio).

Table 1 EBRD exposure to Russia, Belarus and Ukraine (as of 31 January 2022)

	Russia	Belarus	Ukraine
Outstanding loans	€150 mln	€518 mln	€2.16 bln
% of loan portfolio	0.5%	1.7%	7.2%
Equity investments	€682 mln	€35 mln	€263 mln
% of equity portfolio	15.4%	0.8%	5.9%

Source: EBRD Treasury.

Having to write off a large share of EBRD's loan portfolio in the three countries is a realistic possibility. The majority of EBRD's exposure is to the private sector, and many clients in Russia and Belarus will face difficulties in repaying due to economic turmoil as well as sanctions. The exposure to Ukraine's private sector is more problematic, due to the economic devastation facing the country due to the invasion. A substantial share will inevitably be written off. How many borrowers might be able to restructure their loans, or take out new financing in post-war reconstruction, is impossible to predict at this point.

EBRD may have better luck recouping loans to public sector borrowers – mainly municipal governments – in Belarus (about 20% of the country portfolio) and Ukraine (about one-third). Especially in the case of Ukraine, international aid to the country, including fresh lending by EBRD and other MDBs, can help these borrowers remain current, although repayment delays are almost certain.

Regardless of repayment, EBRD will probably place the entire portfolio of all three countries in what is called in accounting language "Stage 2", which would require a sharp increase in loan loss provision covering a large share of loan value. Depending on the specific projects involved, some loans may already have been placed in Stage 3 (requiring 100% provisioning) or even written off entirely. These resources will come out of shareholder equity, which will restrict future lending capacity in the absence of new capital contributions from shareholders.

Equity investments made by EBRD in Russia, Belarus and Ukraine will remain on its books. EBRD already backs up all equity investments with a much higher level of risk capital compared to loans (since equity investments are riskier than loans). The main impact on EBRD's balance sheet will be felt through a precipitous drop in market value, which will lead to a decline in annual net income for 2022. This will reduce or even eliminate EBRD's ability to build capital buffers through

net income in 2022, although this is offset to a degree by strong financial performance in 2021.

Overall, EBRD will face a financial hit from the conflict, and this will have implications for its development activities in other countries in the coming years. The exact scale is difficult to predict at this stage, but EBRD's currently solid capitalization levels give it breathing space. There is no chance that the crisis would even come close to threatening the bank's ability to meet financial obligations to its bond holders or continue disbursing on loan commitments already made to borrowers in other countries.

World Bank

The World Bank's IBRD has only two active projects in Russia that are both scheduled to finish this year, while Belarus has 13 active projects. All of these projects were halted as of 2 March. The total disbursed IBRD loan portfolio for Russia was \$178 million and \$1 billion for Belarus at end-2021—only 0.08% and 0.44% of IBRD's total portfolio, respectively (Table 2). IBRD's Ukraine portfolio is much larger, with 21 active projects and outstanding loans of \$6.8 billion at end-2021, or 3% of IBRD's portfolio.

Table 2 IBRD's exposure to Russia, Belarus and Ukraine (end-2021)

	Russia	Belarus	Ukraine
Active projects (#)	2	13	21
Active projects (total value)	\$160 mln	\$1.2 bln	\$4.5 bln
Outstanding loans	\$178 mln	\$1 mln	\$6.8 bln
% of loan portfolio	0.08%	0.45%	3.04%

Source: Active projects taken from IBRD "Projects and Operations" database. Outstanding loans at end-2021 supplied by World Bank.

Long-term arrears of IBRD's exposure to Russia and Belarus are realistic. Should Ukraine remain independent from Russia, it can expect substantial financial support from external donors, including future IBRD loan packages, meaning that the government is likely to continue current on its IBRD debt. Ukraine may be shifted to concessional lending from the World Bank's IDA window as a result of the war's devastation.

IBRD has a policy of never writing off loans, so a borrower country can never formally "default." Regardless of whether the three countries remain current on repayments or not, IBRD will have to sharply increase loan loss provisions due to the much higher risks. This will come out of shareholder equity, which reduces IBRD's already tight

lending headroom at a time when demands on IBRD lending continue to rise to face spiking fuel and food prices, Covid recovery, and emergency support to Ukraine. The scale of the impact on IBRD headroom will only become clear when the next quarterly financials are released.

The World Bank's private sector IFC has a small portfolio in all three countries totalling 1.3% of its global portfolio (Table 3). In light of its currently strong capitalization, loss provisioning or write-offs will not pose meaningful financial restrictions to IFC going forward.

Table 3 IFC Active Projects and Outstanding Portfolio

	Russia	Belarus	Ukraine
Active projects #	16	3	20
Active project total value (loan + equity)	\$534 million	\$153 million	\$500 million
Outstanding loans and guarantees	\$1 million	\$82 million	\$284 million
% of total loans and guarantees	0	0.2%	0.9%
Outstanding equity	\$213 million	\$1 million	\$23 million
% of total equity	1.8%	0	0.2%

Note: Active projects as of 18 March 2022; outstanding portfolio data as of 31 December 2021.

Source: IFC project database, FY22 Q2 interim financial statement, and data supplied by IFC.

The equity stakes in Russia and Belarus are likely to lose much of their value, leading to a mark-to-market loss for the IFC of up to \$214 million. IFC would likely retain ownership, and the equity could become a sellable asset at some point in the future, should Russia and Belarus continue as IFC members. Borrowers in both countries may continue to service their loans despite sanctions, although it will depend in part on how badly their sectors are hit by the economic downturn.

Ukraine's IFC portfolio faces considerable uncertainty. Private sector clients in the country cannot expect international aid packages to help them. Some loans may continue to be serviced even in the crisis, or be restructured, while others are likely to be written off completely. To give one small but harrowing example, it is hard to imagine that the \$14 million loan for a bus system in Mariupol in 2018 will ever be repaid, in light of the savage onslaught the city is under as this is being written.

4 How might the conflict impact other MDBs?

While the World Bank and EBRD have the highest profile, the Ukraine conflict will impact at least four other MDBs. Russia is a large shareholder and has outstanding loans at the world's two newest MDBs, the China-led AIIB and the NDB created by the BRICS nations. As well, two smaller MDBs operating in the region face substantial exposure to the conflict: Black Sea Trade and Development Bank (BSTDB) and International Investment Bank (IIB).

New Development Bank

The NDB was announced in 2014 as a tangible expression of EMDCs' desire to build an international finance system not dominated by the U.S. and G7. Five of the seven current member countries either opposed (Russia) or abstained (Bangladesh, China, India and South Africa) at the 2 March UN General Assembly vote against the invasion. Brazil voted in favor, but President Bolsonaro visited Russia just days before the invasion and has staked out a resolutely neutral position since. United Arab Emirates voted in favour of the General Assembly resolution, but abstained in an earlier key vote at the Security Council on 26 February.

Despite support from its fellow NDB members, Russia's invasion will have a serious negative impact on the bank. NDB's loan portfolio is highly concentrated in just five sovereign borrowers as of end-2021. Ironically, Russian intransigence was reportedly the main reason why NDB was not able to expand membership more quickly (Noguiera, 2021), which has left NDB in such a precarious position.

According to NDB's project website, 16 projects had been approved in Russia for a total value of \$4.8 billion, or about 16% of the \$29.7 billion approved by NDB as of end-2021. Up-to-date numbers are not available, but as of end-2020 Russia accounted for 15% of NDB's disbursed portfolio, or US\$991 million. Two projects were approved in 2021, including a fast-disbursing Covid response project for \$1 billion. Russia is almost certain to make every effort to stay current on its NDB loans due to its commitment as a founder and ally to other members, although accessing foreign exchange may be difficult due to sanctions.

Even if Russia continues to remain current on its loans, NDB will need to increase its loan buffers and will face pressure on its bond rating. Standard and Poor's (S&P) in particular penalizes MDBs with highly concentrated loan portfolios. NDB already faces the highest concentration penalty of any MDB rated by S&P (S&P 2021a, p. 168). The sharp downgrade of Russia's sovereign rating following the onset of the Ukraine conflict will substantially worsen that penalty and may lead NDB to restrict lending to other countries or potentially face a downgrade from its current AA+ rating.

The temporary loss of Russia as a potential project country will further limit the ability of NDB to diversify its project portfolio. According to the NDB project website, the bank approved no projects in South Africa and only one (for \$80 million) in India in 2021. Of the roughly \$4.3 billion in loans approved in 2021, over 50% were in China—a sign that NDB is facing serious challenges finding projects in all its member countries. The role of Russia as a major NDB shareholder could also work against efforts to establish itself as a reputable international institution and could further increase its already high dependence on borrowing in China's renminbi bond market.

Asian Infrastructure Investment Bank

The China-led AIIB has a far broader membership than NDB, including five of the G7 nations and 89 countries total around the world. It has co-financed numerous projects with the World Bank, EBRD and the Asian Development Bank and has undertaken a number of innovative transactions with major institutional investors. At the same time, the AIIB's top three shareholders are (in order) China, India and Russia. As Scott Morris recently pointed out, two-thirds of NATO members are also AIIB shareholders with a combined total of 23% of voting power, just short of the 25% needed to veto major votes.

Policy debates within the AIIB have been remarkably cooperative since the bank's 2016 launch despite the disparate views of shareholder countries (Humphrey 2020), but increasing geopolitical polarization resulting from the Ukraine conflict could have ramifications for AIIB governance. This would be especially true if China were to step away from its efforts to remain neutral and decisively side with Russia.

AIIB had lent to 31 different countries by November 2021, with \$30 billion in approved loans thus far (AIIB 2021). Of that, Russia accounted for two approved projects valuing \$800 million, or about 2.7% of overall AIIB approvals. Russia's current outstanding portfolio cannot be determined from AIIB's public information, which only lists regional (not country) concentrations, but it is clearly a small share of AIIB's total portfolio. Belarus has no approved projects with AIIB and

Ukraine is not a member. On 2 March AIIB has announced that “all activities relating to Russia and Belarus are on hold and under review.”

As with NDB, it is difficult to imagine Russia not repaying its loans to AIIB, in light of its major shareholding stake and growing dependence on China, although sanctions could complicate loan repayment. AIIB will need to increase loan provisions only marginally and is very well capitalized. The crisis will have minimal or no impact on AIIB’s outstanding portfolio, operational capacity or AAA bond rating.

AIIB President Jin Liqun has worked to build the bank’s reputation as an independent institution not under the thumb of China. This crisis will test whether AIIB can maintain that going forward. It seems likely that AIIB will continue on its current path toward becoming an integral member of the international development finance system, with high international credibility and strong access to capital markets. Should the conflict result in a major break between China and the west, all bets are off.

Black Sea Trade and Development Bank

Not as well known as its larger MDB siblings, the BSTDB was founded in 1999 and has 11 member countries. Russia and Ukraine are both members, as are Bulgaria, Greece and Romania (EU member states and NATO members) and Turkey (a NATO member). Russia is a joint-top shareholder along with Greece and Turkey, all with a 16.5% share, while Ukraine has a 13.5% stake. BSTDB’s loan portfolio was \$2 billion as of June 2021 (BSTDB 2021), with about 12% in Ukraine and 17% in Russia.

BSTDB’s mandate is to support economic development in the Black Sea region – the epicentre of the current conflict. The crisis comes at a time when BSTDB had been on an upward trajectory, with a growing loan portfolio and improved credit rating. In November 2021, S&P upgraded the bank’s bond rating to A, stating that “the upgrade reflects the institution’s confirmed policy relevance, illustrated by solid loan book growth over the past three years and a recent decision from shareholders to inject capital” (S&P 2021b).

BSTDB has limited itself to two brief statements since Russia’s invasion, the first to clarify that it is not the same as a Crimean-based bank of a similar name facing sanctions, and the second on 27 February expressing regret for the conflict, but with no operational announcements.

About 90% of BSTDB loans are to private sector clients, and four of its top six projects were in Russia (two for a total of €171 million) and Ukraine (two for €132 million) as of June 2021. The Russian firms are in the transport and energy sectors, respectively, and may remain

viable even with the coming economic downturn. The two Ukraine firms, however, are likely to be in more serious difficulties because of the conflict and are at risk of default.

Due to the ratings downgrade of Russia and Ukraine and potential loan losses, Moody's downgraded BSTDB two notches to Baa1 (still investment grade), and other rating agencies could follow suit. This is a blow to its growth plans and would hamper fund raising from US and European capital markets. Below-market borrowings from other development agencies (including KfW, China Ex-Im and Korea Development Bank, among others) are not likely to be affected. Loan loss provisioning will increase sharply, and a large share of the recent capital increase (€245 million paid in over 2023-2030) may be taken up offsetting the financial impact of the crisis.

Overall, the crisis will be a setback for BSTDB's efforts to build itself into a financially and developmentally relevant international institution in the Black Sea region. However, the strong links BSTDB has forged with bilateral aid agencies and other MDBs, as well as its growing reputation for good management, could mean the bank becomes an important channel to support post-conflict regional recovery.

International Investment Bank

The IIB is a curious institution, set up initially in 1970 to serve the Soviet bloc but in recent years attempting to transition into a more modern MDB focusing on eastern Europe. A key aspect of this transition has been efforts to fight the perception that it is a Russian bank, despite the fact that Russia is by far the dominant shareholder with 47% voting share of the nine member countries, far above the next largest shareholder Hungary (17%). Serbia was admitted as the 10th shareholder in 2021.

IIB has strenuously marketed itself as an EU-focused bank as part of its long-term strategy (IIB 2022), relocating its headquarters from Moscow to Budapest in 2019. Suspicions about the IIB serving as a tool of Moscow led the bank to publish an undated statement insisting that it was an independent multilateral institution and not a pawn of Moscow. Despite these suspicions, IIB's portfolio has grown steadily in recent years, from €664 million in 2017 to over €1 billion by June 2021, and received a strong bond rating (A- by Fitch and S&P and A3 by Moody's) by end-2021.

Russia's invasion has undermined IIB's years-long rebranding drive in a matter of days. On 9 March Fitch downgraded IIB's bond rating two notches to BBB, while Moody's dropped them four notches to Ba1 on 17 March. The Czech Republic, Romania, Slovakia and Bulgaria, which represent 35% of IIB's paid-in capital, announced that they

would withdraw from the bank. In Budapest, protests gathered outside IIB's headquarters on 1 March, chanting for Russians to go home.

The current crisis leaves IIB's future deeply uncertain. Should the eastern European member countries follow through with their announced withdrawal, IIB would be left with a disparate membership of Vietnam, Mongolia and Cuba along with Russia, Serbia and Hungary. IIB's marketing as a basically EU-focused MDB is shot, and it will need to start from scratch to find a new purpose and growth strategy, inevitably more closely tied to its dominant shareholder, Russia.

5 Conclusions

The analysis arrives at several main conclusions on how the Ukraine conflict will impact multilateral development finance.

A push to suspend or even expel Russia and Belarus as members of the World Bank and EBRD would be misguided for developmental, political and legal reasons. It would entrench perceptions that these MDBs are used by G7 nations for their political purposes, which would weaken their international standing, particularly among borrower countries. A better option is to suspend operations going forward at both banks, and maintain a minimal in-country presence to keep communication channels open for the future.

The financial impact of the crisis does not pose any serious threat to the long-term financial stability or credit rating of either the EBRD or World Bank Group. Nonetheless, loan write-offs, increased loan loss provisioning and market-to-market equity investment losses will tighten lending headroom of EBRD and the World Bank at a time of very pressing needs including long-term development targets, Covid recovery and Ukraine reconstruction, accentuating the call to strengthen MDB capital.

The New Development Bank backed by the BRICS nations will face severe financial and governance impacts from the crisis due to its substantial exposure to Russia as both a shareholder and borrower. Its AA+ bond rating could come under pressure, and the conflict will increase the urgent need to diversify its membership and loan portfolio. The China-led Asian Infrastructure Investment Bank will be much less impacted, at least in the near term, as it has a much more diversified loan portfolio with limited Russia exposure, and is in a stronger governance and financial position.

Two smaller MDBs, the Black Sea Trade and Development Bank (BSTDB) and the Russia-led International Investment Bank (IIB), will face considerable difficulties due to the conflict. Both have already been downgraded by rating agencies due to their exposure to Russia, Belarus and Ukraine, and IIB looks set to lose four EU member countries. BSTDB could play an important role in post-conflict reconstruction, in conjunction with other MDBs and bilateral aid agencies.

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