



# **REBUILDING UKRAINE: INITIATIVES, APPROACHES, RECOMMENDATIONS**



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## **REBUILDING UKRAINE: INITIATIVES, APPROACHES, RECOMMENDATIONS**

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# INTRODUCTION

According to various estimates Ukraine's total losses resulting from Russian aggression at the end of 2022 constituted around 700 billion US dollars. This amount has been increasing every day of Russian attacks and bombardments targeting civilian infrastructure and killing innocent people. The international community recognizes the need to finance reconstruction of Ukraine. There have been many international conferences, expert studies and discussions on that. However, there is currently no consensus on sources or tools for Ukraine's rebuilding projects, no agreed overall concept of how the process will be conducted and implemented.

While the dialogue concerning the tools of financing is ongoing with a special attention being paid to the issue of establishment of an agency for the reconstruction of Ukraine or use of existing structures, including international financial institutions to collect and manage funds, the situation regarding the sources of financing is vastly more complicated. Using gold and foreign exchange reserves of the aggressor state is widely supported and morally just, but establishment of a proper legal basis is needed. Confiscation of funds from sanctioned entities and persons requires corresponding decisions of the EU, US, UK or Swiss judicial authorities. There must be either a new international legal instrument allowing confiscating and using sanctioned funds or a decision of the relevant judicial body or a voluntary agreement of parties involved. Therefore, it will take time and significant efforts given the complexity of the problem to start using sanctioned funds

for Ukraine's rebuilding. Meanwhile, needs of Ukraine for reconstruction are urgent and vital to keep country viable and able to withstand Russian continuing aggression. This necessitates an in-depth study of the issue as well as public and expert discussions to suggest appropriate decisions.

Over last months a number of valuable contributions have been published. In particular some important principles of how to deal with sanctioned assets and personalities were proposed by Yermak-McFaul expert group on sanctions<sup>1</sup>, including ideas of voluntary actions in this regard. The Centre for European Policy studies in the policy paper "The \$300 Billion Question – How to get Russia to Pay for Ukraine's Reconstruction"<sup>2</sup> made some good recommendations how to proceed with sanctioned state Russian funds. There are some other high-quality expert studies and ideas on how to deal with sanctioned assets and their confiscations for the need of rebuilding Ukraine<sup>3</sup>.

In this paper the International Center of Policy Studies examines existing international experience of post-war reconstruction with a special attention to good examples, which can be used by Ukraine. Existing initiatives regarding the reconstruction of Ukraine will be analyzed with a focus on new ideas and recommendations, which can be used in this process. The study intends to contribute to current expert discussions in Ukraine and among our partners on reconstruction of the country during and after the war.

1 [https://www.president.gov.ua/storage/j-files-storage/01/14/49/c80de07abecb56c5483cf72742e8e310\\_1654499082.pdf](https://www.president.gov.ua/storage/j-files-storage/01/14/49/c80de07abecb56c5483cf72742e8e310_1654499082.pdf) and [https://www.president.gov.ua/storage/j-files-storage/01/16/53/71b23f093432c3bc87591218a53e1b7b\\_1669288210.pdf](https://www.president.gov.ua/storage/j-files-storage/01/16/53/71b23f093432c3bc87591218a53e1b7b_1669288210.pdf)

2 <https://www.ceps.eu/wp-content/uploads/2022/12/The-300-Billion-Question-How-to-get-Russia-to-Pay-for-Ukraines-Reconstruction-2.pdf>

3 <https://www.lawfareblog.com/giving-russian-assets-ukraine-freezing-not-seizing>, [https://www.foreignaffairs.com/articles/ukraine/2022-04-19/how-ukraine-can-build-back-better?check\\_logged\\_in=1](https://www.foreignaffairs.com/articles/ukraine/2022-04-19/how-ukraine-can-build-back-better?check_logged_in=1) etc.

# HISTORICAL BACKGROUND AND APPROACHES TO POST-WAR RECONSTRUCTION

World history counts many cases of post-war reconstruction. These are several examples:

- The Economic Cooperation Administration (ECA) was established by the Economic Cooperation Act of 1948 and authorized on April 3, 1948, to administer the European Recovery Program (Marshall Plan). The purpose of the ECA was to provide material and financial assistance following the recovery plan for Europe to help it, through individual and concerted efforts, become independent of extraordinary foreign aid during the organization's operation. ECA promoted industrial and agricultural production, restoring and maintaining the stability of currencies, budgets, and finances, as well as the growth of international trade. The program allocated 13 billion dollars (\$200 billion in current prices).

Participating countries (and their dependent territories) comprised those that signed the Report of the Committee for European Economic Cooperation in Paris on September 22, 1947, as well as any other country, including any of the German occupation zones, any territory under international management and control, as well as the Free Territory of Trieste, committed to the joint program of European recovery.

Chaired by Paul G. Hoffman, former head of Studebaker, the ECA reported to the Department of State and the Department of Commerce. A significant part of the organization was also headed by big businessmen. The ECA had an office in the capital of each of the sixteen Marshall Plan countries. It was disbanded by the act of October 10, 1951 (65 Stat. 373), and its

functions were transferred to the Mutual Security Agency by Executive Order No. 10300 of November 1, 1951, which became effective on December 30, 1951.

- UN Korean Reconstruction Agency (UNKRA). On June 25, 1950, North Korea attacked South Korea. Soon after, the Joint Command intervened to restore peace and help the civilian population. To support the government in reconstruction, the General Assembly, by its resolution of December 1, 1950, established the United Nations Korean Reconstruction Agency (UNKRA). UNKRA was finally able to start its program 180 days after the cessation of hostilities, which prevented the Agency from fully operating due to security concerns. Efforts focused on industry, mining, agriculture, education, housing, and health to improve the economy and promote Korea's long-term growth. During the period of activity, UNKRA implemented 260 major projects<sup>4</sup>.
- Coalition Provisional Authority (CPA). As of March 2005, the United States, Iraq, and international donors have pledged or provided over \$60 billion for Iraq's security, governance, and reconstruction. The United States allocated about US \$24 billion (for fiscal years 2003 to 2005) mainly for security and reconstruction efforts. Of that amount, the US committed roughly \$18 billion and paid about \$9 billion. As of July 2004, approximately \$4.7 billion of the \$18.4 billion allocated in the fiscal year 2004 had been diverted from major power and water projects to security, economic development, and smaller, immediate-impact projects. From May 2003 to June 2004, the CPA controlled \$23 billion in Iraqi revenues and assets used

<sup>4</sup> <https://archives.un.org/content/united-nations-korean-reconstruction-agency-unkra>

primarily to finance the activities of the Iraqi government. The CPA devoted a smaller portion of those funds — about \$7 billion — to relief and reconstruction projects. Finally, international donors pledged US \$13.6 billion over four years (from 2004 to 2007) for reconstruction, including \$10 billion in loans and \$3.6 billion in grants. As of March 2005, Iraq had access to \$436 million in available loans. As of the same date, donors had contributed over \$1 billion to multilateral grant funds, which allocated about \$167 million to Iraq's elections and other efforts, such as education and health projects.

The U.S. effort to rebuild Iraq has taken many steps in the oil, electricity, water, and health sectors with some success. The United States completed projects in Iraq that helped restore services such as rehabilitating oil wells and refineries, increasing electricity generation capacity, restoring water treatment facilities, and restoring basic health services in Iraq. However, many projects were never completed, and the invested funds did not give the expected boost to the economy and the population's standard of living despite the creation of independent supervisory boards and active international control<sup>5</sup>.

- The European Agency for Reconstruction (EAR). The agency was established in February 2000 as the EU's primary task force for the reconstruction of Kosovo. It then expanded to include Serbia, Montenegro, and the former Yugoslav Republic of Macedonia.

Based on Commission decisions, the EAR was responsible for the implementation of most Community aid to the Republic of Montenegro, the Republic of Serbia (including Kosovo, as defined by UN Security Council Resolution No. 1244), and the former Yugoslav Republic of Macedonia (Community aid to other countries of the

Western Balkans, Croatia, Bosnia and Herzegovina, and Albania was carried out by Commission Delegations. In particular, in the first quarter of 2006, the Commission decided to accredit Croatian authorities for decentralized aid management).

Since 2000, the Agency has managed approximately € 2.86 billion of EU taxpayers' money across its four operational centers. The EAR worked in the areas of state and local government, justice and internal affairs, energy, infrastructure and transport, health care, entrepreneurship development, rural development, water and environment, civil society and mass media, and education.

The goals of the programs were: to support effective governance, institutional development, and the rule of law; to continue supporting the development of the market economy; further investment in critical physical infrastructure and environmental measures; to support social development and strengthening of civil society.

The European Agency for Reconstruction had the following tasks: collecting, analyzing, and transferring information to the Commission regarding damages, needs for reconstruction, and the return of refugees and displaced persons, as well as about the areas in need of urgent assistance; preparing draft programs for the reconstruction of three countries and the return of refugees and displaced persons; implementing assistance projects by drawing up technical terms of reference, preparing invitations to tenders, signing contracts, concluding financial agreements, awarding contracts, and evaluating and monitoring projects and payments.

The EAR had a Governing Board consisting of one representative from each member state, two representatives from the European Commission, and a non-voting observer from the European Investment

<sup>5</sup> [https://books.google.com.ua/books?id=c1L5j3qtHzQC&pg=PA35&lpg=PA35&dq=AGENCY+for+the+reconstruction+of+the+country&source=bl&ots=P28oX17IKI&sig=ACfU3U1au5HyZQ\\_IUzX9cyddlihl9Yxm4g&hl=ru&sa=X&ved=2ahUKewiPh4GegPb7AhUX6CoKHb3AA744WhDoAXoECBcQAw#v=onepage&q&f=false](https://books.google.com.ua/books?id=c1L5j3qtHzQC&pg=PA35&lpg=PA35&dq=AGENCY+for+the+reconstruction+of+the+country&source=bl&ots=P28oX17IKI&sig=ACfU3U1au5HyZQ_IUzX9cyddlihl9Yxm4g&hl=ru&sa=X&ved=2ahUKewiPh4GegPb7AhUX6CoKHb3AA744WhDoAXoECBcQAw#v=onepage&q&f=false)

Bank (EIB). The Council was headed by the Commission. The Board met at least every three months and was responsible for approving recommendations regarding project implementation conditions, adjustments to projects in implementation, and individual projects that were particularly sensitive. It also resolved the following issues: mechanisms for assessing project implementation; programs of other donors for possible implementation by the Agency; a multi-year contractual framework for Community assistance to the interim administration of Kosovo; the presence of observers on the Board; the creation of operational centers for the Agency.

The Board appointed the Director of the Agency for 30 months. He was responsible for preparation of the project for the annual activity program; organizing the work of the Board and informing the Board; day-to-day management of the Agency; budgetary and staff issues; preparation of reports; implementation of the Board's decisions. The Governing Board prepared a draft budget based on the Director's proposals, which was submitted to the Commission and added to the general EU budget. After the latter, the Board adopted the final budget of the Agency. The Director submitted a quarterly activity report to the European Parliament. He also submitted annual, detailed reports to the Commission, the Board, and the Audit Chamber.

Although the closure of any EU agency is rare, the EAR ceased operations in 2008 despite its considerable successes. Evidence found by experts indicated that the aid was politicized. Despite the EAR having some autonomy and independence, the organization's set-up guaranteed the Council and the EC direct control over how the Agency carried out its tasks to ensure that it served the EC's policy objectives. The EAR's potential was limited by the new paradigm

of combining aid with broader policy goals, leading to its termination. Therefore, an institutional framework involving excessive control did not ensure the survival of the EAR. Geopolitical changes also resulted in a new agenda for aid policy, contributing to the termination of the Agency<sup>6,7,8</sup>.

Ukraine has already its own history of reconstruction. A special state Agency on reconstruction and development of Ukraine was established in 1996 and contributed to Ukrainian reforms for next decades. A special Chernobyl Shelter fund was set up at the EBRD in 1997 to assist Ukraine in making the site of the temporary shelter over Chernobyl's destroyed reactor 4 stable and environmentally safe. The initiative for the establishment of the CSF was led by the G7 governments, the European Commission and Ukraine. It has sufficient national and international legal framework and successfully implemented its assignment. Initiatives to establish an international reconstruction agency for Donbass in 2015 were widely debated and some very good proposals were elaborated, but political uncertainty and institutional disagreements prevented this idea to be developed and implemented.

From international experience the example of European Agency for Reconstruction seems to be the closest to Ukrainian realities today. The above-mentioned historical examples proved that the reconstruction of countries after the war can be a success story achieving not only renewal but sometimes achievement of new quality of a social-economic model. However, recipes like the "Marshall Plan" may not be just copy-paste to Ukraine as they were developed and implemented under other historical conditions. Moreover, the listed cases related to the reconstruction of countries where the hostilities ended. In the case of Ukraine, the military actions have not yet ended, but the need for funds and reconstruction of the country is already urgent. Therefore, we need to develop a unique approach.

<sup>6</sup> <https://eur-lex.europa.eu/EN/legal-content/summary/european-agency-for-reconstruction.html>

<sup>7</sup> <https://ec.europa.eu/enlargement/archives/ear/home/default.htm>

<sup>8</sup> <https://hrcak.srce.hr/en/file/391113>

# INITIATIVES ON RECONSTRUCTION OF UKRAINE

Although the future restoration and reconstruction of Ukraine has been discussed since the beginning of the Russian invasion, a clear plan for what to do is yet to be elaborated. There are many discussions of ideas, amount of funds, particular projects, but they have not yet been able to present a consistent and comprehensive vision and detailed plan of the reconstruction, including on its practical dimensions – sourcing, administration, control etc. Despite Russian foreign currency reserves have been frozen and funds of Russian oligarchs sanctioned it is still not clear when and how they can be used. The only alternative up to now is assistance of partners in form of loans and grants, which cover current deficit of Ukrainian budgets. This cannot be the only source of funding and in any case will not be sufficient.

According to the Ukrainian government's estimates, the country requires 750 billion dollars for reconstruction. This figure was voiced by Denys Shmyhal at the conference in Lugano on July 5, 2022. It is still too early to talk about the thoughtfulness and realism of this amount. Ukraine plans to cover the sum via:

- *\$250-300 billion in grants for defense, critical emergency financing, reconstruction of housing and other facilities, the development of infrastructure as part of the EU, etc.*
- *\$200-300 billion in credit funds from partners, used to finance infrastructure modernization and energy projects, support the financial system, and co-finance private investments.*
- *\$250 billion through private investment in infrastructure projects, value-added sectors, and other commercially viable investments.*

However, these numbers may increase significantly as the war continues. Recently some experts already started to speak about

one trillion of US dollars, and it is not the final amount of funds needed to reconstruct the country.

Recovery plan of Ukraine covers three stages:

- *Durability. These are measures to restore the most important objects of critical infrastructure before the end of 2022. In particular, repairing boiler houses, energy networks, and housing, providing business support with a focus on small and medium-sized enterprises.*
- *Restoration - 2023-2025. This stage involves the majority of projects in the plan, including the reconstruction of social rather than critical objects and housing construction.*
- *Modernization - 2026-2032. Implementing additional measures for Ukraine's EU accession.*

However, so far, none of the above is specified and detailed.

In addition, the Ukraine Recovery Conference in Lugano produced seven principles, contained in the Lugano Declaration, signed by leaders of 40 countries:

- **Partnership.** The recovery process is led and driven by Ukraine and conducted in partnership with its international partners. The recovery effort has to be based on a sound and ongoing needs assessment process, aligned priorities, joint planning for results, accountability for financial flows, and effective coordination.
- **Reform focus.** The recovery process has to contribute to accelerating, deepening, broadening, and achieving Ukraine's reform efforts and resilience in line with Ukraine's European path.

- **Transparency, accountability, and rule of law.** The recovery process has to be transparent and accountable to the people of Ukraine. The rule of law must be systematically strengthened and corruption eradicated. All funding for recovery needs to be fair and transparent.
  - **Democratic participation.** The recovery process has to be a whole-of-society effort, rooted in democratic participation by the population, including those displaced or returning from abroad, local self-governance, and effective decentralization.
  - **Multi-stakeholder engagement.** The recovery process has to facilitate collaboration between national and international actors, including the private sector, civil society, academia, and local government.
  - **Gender equality and inclusion.** The recovery process has to be inclusive and ensure gender equality and respect for human rights, including economic, social and cultural rights. Recovery needs to benefit all, and no part of society should be left behind. Disparities need to be reduced.
  - **Sustainability.** The recovery process has to rebuild Ukraine in a sustainable manner aligned with the 2030 Agenda for sustainable development and the Paris Agreement, integrating social, economic and environmental dimensions including green transition<sup>9</sup>.
- Donor Coordination Platform. The G7 said it would create an inter-agency platform to coordinate aid to Ukraine and support its recovery and reconstruction, with high-level officials meeting as soon as possible in January. “Through this platform, we will coordinate existing mechanisms to provide ongoing short- and long-term support – with particular responsibility of the Finance Track for short-term financial support, coordinate further international funding and expertise, and encourage Ukraine’s reform agenda as well as private sector-led growth. We will also set up a Secretariat for the Platform. We will each designate a senior government representative to oversee the set-up of the platform and ongoing coordination efforts, and ask them to convene as soon as possible in January 2023,” they stated. The G7 leaders added that they would ask G7 finance ministers to meet shortly to discuss a joint approach to coordinated fiscal support in 2023, with the International Monetary Fund playing a central role.
  - The platform for the recovery of Ukraine. According to Denys Shmyhal, there are plans to create several Recovery Offices: in Washington, Brussels, London, and other cities, with the main office in Kyiv. It will consist of three levels: “High level” (state leaders); Joint coordination group (executive authorities and decision-makers from Ukraine, the US, the EU, Great Britain, Poland, and other countries); Focus groups by industry spheres. Ukraine has also initiated establishment of an Advisory Group, which shall include European politicians, and American and European economists. According to the Prime Minister, the Recovery Plan of Ukraine was written based on key principles that will allow for effective changes and reconstruction of the country.
  - The Agency for the Recovery of Ukraine after the War. The Agency’s main function should be to monitor and coordinate the implementation of the 10-year Recovery

It has been over half a year since the Lugano conference, yet there’s no apparent progress due to significant difference in approaches of main actors. Based on our information from different briefings the key issues have been administration of the process, sequencing of stages, issues of security, legal framework etc.

At the same time, many platforms for the recovery of Ukraine are in progress (at least on paper):

<sup>9</sup> <https://www.urc2022.com/conference-materials>



Plan. The Agency will not manage the funds directly. As a body of executive power, it shall deal with coordinating the work of executive authorities regarding the implementation of the Recovery Plan; developing proposals for the Recovery Plan and their subsequent submission to the National Council for consideration; maintaining the Recovery Plan website; conducting negotiations with foreign partners and MFIs on the financing of the Plan's activities.

- “Ukraine Reconstruction Platform”. Headed by the European Commission, an international coordination Platform will represent the European Union and the Ukrainian government. The platform shall bring together partners and organizations, including EU member states, other bilateral and multilateral partners, as well as international financial institutions. The Ukrainian Parliament and the European Parliament will participate as observers. With this, the Platform will act as a comprehensive, single point for all actions related to the reconstruction of Ukraine. While the responsibility for the reconstruction plan should rest with Ukraine, the Platform will be a strategic governing body that approves Ukraine's reconstruction plan and ensures that the provided support is consistent with it. Based on the Plan, the Platform should determine priority areas for funding and specific projects implementing these priorities and coordinate funding sources to optimize the use of funds, including budgetary support of Ukraine, investment support, and guarantees for private sector investments. For the effective development and implementation of the reconstruction plan, Ukraine will require administrative and technical assistance. The Platform should bring together the EU support and other initiatives of Ukraine's partners, such as the World Bank Trust Fund or the International Monetary Fund's managed account. It shall ensure a smooth division of work between different partners, avoiding replication and

promoting synergy, including through joint co-financing of specific projects.

Four primary areas of reconstruction:

- 1) Rebuilding the country, including infrastructure, health services, housing, and schools, as well as digital and energy sustainability per the latest European policies and standards;
  - 2) Continuing the modernization of Ukraine and its institutions to ensure good governance and respect for the rule of law. Providing administrative support and technical assistance, including at the regional and local levels;
  - 3) Implementing structural and regulatory agenda to deepen the economic and social integration of Ukraine and its people with the EU following its European path;
  - 4) Supporting the recovery of Ukraine's economy and society by promoting sustainable and inclusive economic competitiveness, sustainable trade and private sector development, all the while fostering the country's green and digital transition.
- The Development Bank of Ukraine, following the model of the German KfW (Reconstruction Credit Institute/Kreditanstalt für Wiederaufbau). The bank will act as an intermediary between investors, governments, financial organizations of different countries, and social reconstruction projects in Ukraine. The bank will direct the raised funds to investment projects aimed at the reconstruction of Ukraine. It is currently discussed to have 50% of international organizations' representatives as part of the supervisory body.

In addition to these initiatives, there are several others. In particular, there are discussions about something akin to the National Council with greater functions or an additional Ministry<sup>10,11</sup>.

<sup>10</sup><http://kyiv-heritage.com/sites/default/files/План%20Відновлення%20України%202022-07-04%2C%20з%20дод%20№%201-22%203077c.pdf>

<sup>11</sup> <https://www.kmu.gov.ua/storage/app/sites/1/recoveryrada/ua/european-integration.pdf>



The listed initiatives are characterized by different levels of depth. However, most of the ideas remain only on paper and have not started their fully fledged activities. In fact, all the reconstruction initiatives are done directly by foreign donors through existing channels of international assistance. There are different reasons why one year after the war started the reconstruction plans are far from being elaborated and started. The main reason is obviously security: while war continues and even areas advanced from the front line face every day bombardment and missile attacks it is difficult to imagine fully fledged reconstruction.

However, reconstruction in certain regions like Bucha, Irpin and other communities around Kyiv can be started already now as security conditions could allow to do it and need for reconstruction there is huge. The same goes about liberated areas of Kharkiv and Chernihiv regions.

While security risks remain an obstacle for reconstruction in areas close to the front line, time should not be lost in preparation of all the necessary political, legal, administrative and financial mechanism, so that immediately, when the security situation allows, the reconstruction will start.

# SOURCES OF FUNDING

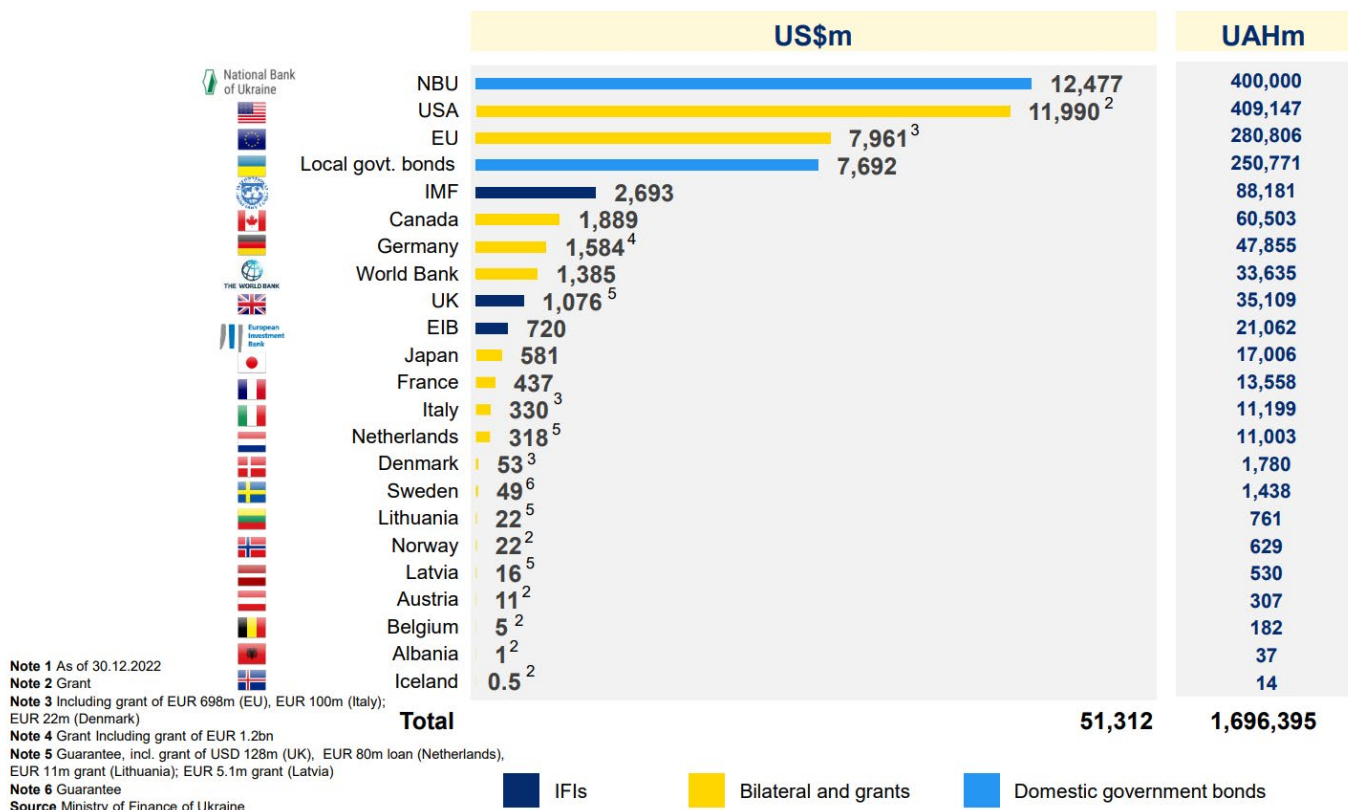
While the dialogue concerning the tools of reconstruction is ongoing, including the creation of an agency for the reconstruction of Ukraine or the use of existing financial organizations to collect and manage funds, the situation regarding the sources of financing is vastly more complicated. There are a number of factors to be taken into account. First of all, the amount of funds which all sides will be able to allocate is limited. There is a significant risk that the capabilities of the EU and the G7 countries will not be sufficient to meet all the needs of Ukraine’s reconstruction.

In this regard, 2022 proved indicative of limits of support provided to Ukraine. According to the information on sources of financing published by the Ukrainian Ministry of Finance for the period from February 24 to December 30, 2022, approximately \$51 billion was raised from various sources. This data might seem to be

impressive but in reality it was far from enough to cover all the critical needs of the Ukrainian budget. In fact, the largest source of income to the state budget was not the foreign aid but the emission of the national currency and state bonds. “Printing” hryvnia constituted almost 40% of all sources of financing, which creates risks of significant inflation in the future.

Foreign assistance could not cover even Ukrainian budget operational expenses, not to mention reconstruction and development. Despite of political declaration we believe that possibilities to provide support to Ukraine will not significantly increase and expectations that the Western partners will ensure granting all the funds needed for Ukraine might be misleading. Moreover, in 2023, due to nearing elections in key countries and regions of Ukraine’s partners, such as the US and the EU, there might be a change in political priorities. Populist sentiments

**Received budget financing (general fund) during the wartime split by sources<sup>1</sup>**



may increase, which might harm Ukraine's prospects of receiving the necessary amounts of aid. Accordingly, to minimize possible risks, approaches to financing Ukraine must be urgently transformed and diversified due to possible geopolitical changes.























Therefore, there is a need to search for additional sources of financing. Using frozen Russian foreign currency reserves without the appropriate legal basis is problematic and confiscation of funds from organizations and persons subject to sanctions requires corresponding decisions of the judicial authorities. It will demand significant amount of time and efforts with no certainty of results given the complexity of the issue. Institutional and legislative restrictions create difficulties for Ukraine to quickly receive confiscated assets of the Russian Federation. Although the US and Canada have made significant progress on legislative innovations to use the proceeds from the seized assets of sanctioned Russian oligarchs and companies to help Ukraine, it is yet to yield a concrete result. European countries

are also developing legal mechanisms to assist Ukraine. In addition to legislative obstacles, there are also difficulties with identifying and finding these assets (only a third of the \$300 billion was identified). Therefore, even after agreeing on all mechanisms to transfer Russian assets, their total amount may prove less than expected.

Another very important concern in this context is that much of the assistance provided is on a loan basis. Data from the Ukrainian Ministry of Finance indicates that approximately 60% of incoming funding was in the form of loans. Although the assistance includes preferential conditions, the cumulative growth of borrowings increases the economic risks of default. In turn, according to government forecasts, the public debt will reach 106% of GDP in 2023. This is a rather critical value, given that this indicator should not exceed the normative value of 60% of GDP.

One of the additional options (but not the least important) to remedy the situation remains the

### Committed and disbursed budget financing during the wartime<sup>1</sup>

US\$ m	Committed Total	Disbursed				Total	Share disbursed
		General fund		Special fund			
		Loans	Grants	Loans	Grants		
 EU	30,400	7,265	696	-	-	7,961	26%
 US	12,990	-	11,990	-	-	11,990	92%
 IMF	2,693	2,693	-	-	-	2,693	100%
 EIB	2,320	720	-	1,000	-	1,720	74%
 World Bank	2,275	1,385	-	-	-	1,385	61%
 Canada	1,889	1,889	-	-	-	1,889	100%
 Germany	1,584	324	1,260	-	-	1,584	100%
 UK	1,576	948	128	-	-	1,076	68%
 Japan	581	581	-	-	-	581	100%
 France	437	437	-	-	-	437	100%
 Italy	330	206	125	-	-	330	100%
 Netherlands	318	318	-	-	-	318	100%
 Spain	106	-	-	-	-	-	0%
 Denmark	53	30	23	-	-	53	100%
 Sweden	49	49	-	-	-	49	100%
 Lithuania	22	10	12	-	-	22	100%
 Norway	22	-	22	-	-	22	100%
 Latvia	16	10	5	-	-	16	100%
 Austria	11	-	11	-	-	11	100%
 Belgium	5	-	5	-	-	5	100%
 Albania	1	-	1	-	-	1	100%
 Iceland	0.5	-	0.5	-	-	0.5	100%
<b>Total</b>	<b>57,679</b>	<b>16,866</b>	<b>14,278</b>	<b>1,000</b>	<b>-</b>	<b>32,144</b>	<b>56%</b>

Note 1 As of 30.12.2022

Source Ministry of Finance of Ukraine, public information

search for private/foreign capital. President Zelensky and the Ukrainian government already called for funds from both international companies and individuals to contribute to Ukrainian reconstruction. According to the Prime Minister of Ukraine, private companies will have opportunities worth hundreds of billions of dollars in the course of implementing Ukraine's reconstruction projects. In this regard, preference will be given to those who are already investing in Ukraine and helping the Ukrainian economy. Denys Shmyhal emphasized that Ukraine plans to actively use elements of public-private partnership to reduce risks for private capital and give an additional impetus to investments in these industries (in particular, in the defense industry, the agricultural sector, IT, renewable energy, gas production and storage, nearshoring, titanium mining and processing, development of logistics, and construction). In addition, the government of Ukraine is focusing on incentives for the private sector to start resuming investments in the economy<sup>12</sup>. However, there are still no sufficient details.

Voluntary contributions can become a separate area for further examination as the fastest and most reliable means of financing the restoration of Ukraine. Resources of big corporations or rich individuals may be comparable to the budgets of some countries. Using such resources will relieve the pressure on taxpayers, allowing Ukraine to respond to the urgent needs of reconstruction and economic development.

Many private donors began to invest money from the beginning of the large-scale war to help Ukraine. In particular, the IKEA Foundation contributed \$22 million to the UN Refugee Agency. Other participants in this initiative include companies such as Adidas and Cisco, as well as famous actors. In general, the program received \$200 million in contributions. Google and Meta also announced the allocation of \$15 million each to Ukraine (although part of it was in the form of loans). But before reaching the necessary security conditions it would be naive to expect private investors or funds to

run to Ukraine to invest. Even after the end of the war it will take time for private Western investors to play an important role in Ukraine's reconstruction. Role of states and international financial institutions will remain vital.

Other potential contributions could come from sanctioned companies and individuals who do not support the actions of the Russian Federation, want to help Ukraine and give the funds without a court case. Currently, there are thousands of Russian entities and individuals under sanctions by Ukraine, EU, US, UK or other countries. In particular, Ukraine sanctioned 3600 persons, EU – 1247, UK – 1394, US – 1112 persons. Ukraine also sanctioned 1605 legal entities, EU – 364, UK – 18, US – 828 legal entities and companies. While EU and US declared that 300 billion euros are frozen of Russian central-bank reserves, there is no exact data of how many billions more euros were frozen on accounts of sanctioned Russian citizens. There were some data that in total Western allies have sanctioned assets of \$1.14 trillion. The United Kingdom declared it has frozen more than \$22 billion, the EU informed about 19 bln. euro of frozen private liquidity, US sources mentioned \$30 bln. So, we can be confident that there are around 300 billion euros of Russian central-bank reserves and up to 70 billion euros of Russian private funds sanctioned and frozen.

These are huge funds, which can cover significant part of Ukraine's reconstruction needs – up to half of the needs announced last year by the Ukrainian government. However, freezing and confiscating are not synonyms. There are significant obstacles to seize these funds and direct them to reconstruction of Ukraine. Legal obstacles concerning Russian state funds were mentioned above but can be settled with some legislative changes or a court decision on responsibility of Russia for the war and destruction of Ukraine. M.Emerson and S.Bockmans in their paper describing complexity of the problem outline a very attractive option: “full € 300 billion should be used for compensation for damages. ... [their

<sup>12</sup> <https://www.kmu.gov.ua/news/premier-ministr-prohrama-vidnovlennia-ukrainy-stane-naibilshym-proektom-vidbudovy-z-chasiv-druhoi-svitovoi-viiny>

disbursement] could be linked to a hypothetical peace agreement that would stipulate war reparations”. This option, as they mention, can be linked with the moment “once the sanctions are lifted”. But the key obstacle for this scenario is exactly to reach a peace agreement with the mentioned conditions imposed on Russia. Other option is creation of a special international judicial instrument – a court or a tribunal - which would adopt the necessary decision. This is also a long way to go but it seems a realistic option how to deal with frozen Russian state funds. As the mentioned authors state “a robust legal justification exists ... to derogate from the customary immunity of sovereign assets held in foreign jurisdictions”.

With private funds things are even more complicated. It happened to be relatively easy to sanction and freeze funds of people linked in one way or another to Russia. In order to seize these funds and use it for Ukrainian reconstruction European, British or American courts will have to receive evidence of crime conducted by sanctioned persons. This is difficult, and in many cases it might be impossible. While imposing sanctions and freezing assets is a political decision, confiscating these assets and use them must be based on judicial process with all the necessary elements. It is rather easy to imagine how many court cases of such type will be won by legal teams, who will easily prove that their clients never committed crimes and evidences to confiscate their billions are not sufficient. So, these funds might remain for indefinite period of time frozen and will not help reconstructing and rebuilding Ukraine.

There were also some new ideas how to help with the financing of the reconstruction of Ukraine. In February 2023 breaking news was that sanctioned Russian oligarch Roman Abramovich would be allowed to sell football club Chelsea for £2.3 billion and the received funds will be spent to help the victims of the war in Ukraine, including via humanitarian aid. The British Government agreed with this proposal and is reportedly awaiting the green light from the European Union. Once approved, the funds

are set to go to a foundation to support Ukrainian war victims following an agreement between the British Government and Abramovich. Mike Penrose, a former chief executive of the United Nations International Children’s Emergency Fund, has been charged with setting up the foundation.

This way of unfreezing sanctioned assets is not an invention of Abramovich. Yermak-McFaul expert group on sanctions in July-August 2022 already proposed similar idea of conditions needed to remove sanctions against personalities. These conditions basically are the following: a) formally condemned Russian invasion, b) do not pay taxes to Russian budget and in no way support Russia’s criminal war and c) substantially help Ukraine with financial contributions. Abramovich case does not really meet first and second criteria but it seems that his contribution to keep a negotiating channel between the sides open and support to exchange of prisoners of war influenced decision of British and EU authorities. Abramovich personally will remain in sanctions as well as his other assets and only funds spent to Ukraine will be unfrozen. Provided the European commission supported the proposal it will create a precedent of unfreezing of sanctioned assets in case if they are given to Ukraine as a voluntary contribution of the sanctioned person.

On one side it will open the way to direct frozen assets to Ukraine without delay now, when the need is so strong. On the other it will also send a strong message to Russian elite that in case if they change their position and condemn Putin and his criminal war as well as send their money to Ukraine there might be a way of flexibility from the countries who sanctioned them. It will help finally achieve a split in Russian elite. Up to date there have been no single case of serious and credible anti-Putin actions and this can help to establish incentives needed for this. Internal conflicts and struggle in Russian elite will trigger serious changes in this country, which might open a way to the quick end of the war and to Ukraine regaining of its territorial integrity in internationally recognised 1991

borders. However, the EU, UK and US must have a closer look at ideas of such voluntary contributions and check they are not automatic and do not create loopholes. They have to develop practical guidelines and be linked with plans and actions on reconstruction of Ukraine. If implemented, this can significantly contribute both to recovery of Ukraine and weakening of Putin`s criminal regime.

Practical guidelines how to proceed with voluntary contributions must be also agreed with Ukraine – both, with government and Ukrainian society. They can be implemented only based on wider consensus in the country and under politically, legally and morally acceptable terms. Ukrainian authorities have to be engaged into the process and launch a broad dialogue over this issue.

The head of the parliamentary fraction of the ‘Servant of People’ party, Davyd Arakhamia, suggested in September of 2022 that those Russian oligarchs who are running their businesses outside Russia could theoretically be listed into the so-called ‘Repentance Fund’. Another idea of that kind was suggested by the Head of National Agency on Corruption Prevention, Olexander Novikov<sup>13</sup>, who added that a contest of all partner countries should be required<sup>14</sup>. As “Abramovich precedent” might become reality already soon Western partners and Ukrainian authorities must without delay conduct all the necessary internal discussions and come to an agreed consensual decision concerning possibility of voluntary contributions of the sanctioned persons made for the interest of Ukraine.

Another element of managing voluntary contributions and in wider terms dealing with

funds for reconstruction is public control. Wrong practices and ethical risks can cause concerns, fears and negative reaction in society. In such a scenario, strict control over the use of such a resource is necessary; there should be no influence of asset owners with subsequent dispersal of such resources in the general fund for the reconstruction of Ukraine; the final beneficiary should not be a sanctioned individual or legal entity, but Ukraine as a whole. Accordingly, additional safeguards must be developed when transferring such funds to Ukraine’s account, in addition to those established by the Yermak-McFaul expert group. Otherwise, it will be necessary to completely refuse from such contributions. Therefore, this issue requires additional coverage, discussion, consensus and appropriate agreement in Ukrainian society.

To conclude, as there are significant problems and obstacles with the financing of Ukraine in the current circumstances the solution may be to promote greater attraction of voluntary contributions from companies and individuals from around the world. However, it certainly requires a comprehensive approach with all interested parties – Ukraine, the EU, the US, and the contributors – understanding their obligations and advantages, losses, and benefits from participating in an akin project. The decisions on voluntary contributions must have a transparent and sound legal basis, adhering to defined procedures and standards. It is necessary to create and adjust a system of voluntary contributions by, for example, concluding intergovernmental agreements or EU directive introducing a system of principles and incentives for making contributions for restoration of Ukraine.

<sup>13</sup> <https://forbes.ua/inside/fond-pokayannya-dlya-rosiyan-konfiskatsiya-aktiviv-medvedchuka-ta-shariya-pitannya-do-novinskogo-yaroslavskogo-ta-fridmana-intervyu-ochilnika-nazk-pro-ukrainski-sanktsii-09062022-6484>

<sup>14</sup> <https://forbes.ua/money/deputati-bez-zarplat-u-konvertakh-dolya-26-000-rosiyskikh-aktiviv-i-yak-vidbuvayutsya-peregovori-z-rf-velike-intervyu-davida-arakhamii-16092022-8388>

# RECOMMENDATIONS

On the basis of the best international experience and with a view of the current situation on preparation of plans for reconstruction of Ukraine the following recommendations can be examined.

Any reconstruction plan can be successful provided only if it is based on well prepared and elaborated phases of:

## a. Planning

- i. One of the primary tasks is to register and evaluate all damaged and destroyed objects. Even now, there is a visible discrepancy in the assessment of damages. A single methodology will allow planning future assistance correctly.
- ii. There should be a systemic SMART strategy for the country's recovery to avoid asymmetries and make Ukraine's development more orderly. In addition, the national and international communities should positively respond to the terms and objectives of the reconstruction plan. The strategic plan must be inclusive and developed with the participation of all interested parties.
- iii. The legislative field should be regulated to avoid perceived monopoly over funds, increase the country's attractiveness to investors, and make the public-private partnership more transparent.
- iv. The goals, spheres, and competences of the agency must be clearly defined and agreed with all the actors. Financial aid should be more predictable and planned, not postponed for the post-war period, functioning according to the "just-in-time" system during the war and in the post-war period. Accordingly, there is an additional need to coordinate donors and ensure prompter decisions. In particular, the Ramstein platform can act as one of the elements to optimize efforts.
- v. There should be clear answers to the following questions:
  1. What are the stages and terms of the project?
  2. How to minimize political influence?
  3. To what extent should the agency be independent of international or national institutions and authorities?
  4. Who and how will choose projects for reconstruction?
  5. Will the organization have direct access to the funds?
  6. Should the Agency combine a development bank and a sovereign fund?
  7. What are the tools and mechanisms of assistance?
  8. What will be the share of repayable and non-repayable aid to avoid an excessive debt burden?
  9. Will there be compensation mechanisms for donors?
  10. Where will repatriations/frozen assets from the Russian Federation be sent?
  11. How to avoid gaps in recovery?
  12. How to ensure further self-sufficiency of the country and inflow of investments?
  13. How to ensure integration prospects?
  14. What will be the exit from aid inflows of the donors?
- vi. It is also necessary to consider how to combine all funds into one to increase the effectiveness of supervision and minimize confusion, reduce the risks of duplication of functions among organizations and institutions.
- vii. Supporting local businesses. Providing fiscal incentives to revitalize the production





of goods and services, exports, and consumption, which currently have highly limited opportunities. This would save more jobs (increase tax revenue), as well as preserve businesses and human capital, which will be important for post-war recovery.

- viii. Avoiding the “nationalization of losses, privatization of profits” in public-private partnerships. Minimizing uncertainty, providing signals and guidelines regarding possible actions and steps of the authorities. A high level of uncertainty leads to significantly lower individual contributions. Accordingly, it’s worth concentrating on improving the ability to forecast the situation, creating a systemic and new model of the country’s reconstruction with the involvement of all interested parties.
- ix. Ensuring a clear focus of projects. Donors often choose projects that would allow them to secure funding for their goals, agenda, or image. This can lead to some projects not meeting the needs of wartime or post-war reconstruction. Therefore, coordination and planning of reconstruction processes are of crucial importance.

## **b. Organization**

- i. The most difficult question is what will be the most efficient structure of such an organization, with appropriate hierarchical levels, interconnections, and self-balancing mechanisms. Ensuring interaction with existing institutions, funds, organizations, and ministries remains problematic. What will be their role and hierarchy compared to the newly created agency? Additionally, there is an issue of balancing the regional and centralized model of reconstruction (centralization vs decentralization).
- ii. International and national balance. On the one hand, the national institution

is within the scope of the Ukrainian legal framework, which may carry certain risks (for example, concerning tenders for the agency). On the other hand, the international body may be far from the real-life needs of Ukraine and might give preference to non-Ukrainian implementors, not paying enough attention to smaller details.

- iii. An appropriate digital platform for the agency activities and reconstruction projects has to be developed.

## **c. Management**

- i. The agency and the whole reconstruction process must ensure efficiency and transparency. It must be based on the best international practices and avoid any shadow of suspicions of Ukrainian corrupt or bad practices. The management must be out of Ukrainian political and/or administrative control and/or influence, both formal and informal. Issue of whom should such an agency be subordinate - the Ukrainian government or the board of directors (from the World Bank, the IMF, etc.) – will be vital and ensure success or failure. However, a correct balance between foreign and Ukrainian representatives on all levels should be achieved. Ensuring the transparency of competition for the positions is important for both efficiency and credibility of the agency.
- ii. Minimizing the conflict of interests. Responsibilities and respective accountable bodies must be clearly defined, with guarantees provided.

## **d. Control**

- i. Accountability and transparency are necessary to ensure effective spending of funds, creating a favorable investment climate. It’s important to strengthen positive public opinion (taxpayers’) in donor countries regarding the



allocation of funds for the reconstruction of Ukraine. Ukraine should ensure public access to data on the use of funds, financial agreements, contracts, public procurement, partnerships, and concessions. Transparency can become a condition for expanding existing channels of international financing for the reconstruction of the country.

- ii. Practicing people-centricity. The reconstruction of the country must be inclusive and non-discriminatory with the participation of all stakeholders at different levels, in particular, targeting the most affected population and regions.
- iii. Integrating civil society institutions, think tanks, clusters, and platforms into the reconstruction process.
- iv. Maintaining sufficient informational support and exchange within the country and with the international community. It is also necessary to maintain a clear communication strategy with all stakeholders.
- v. Wider access to information for a better assessment of costs and benefits for the investor.
- vi. Creating a single specialized platform for recording investment objects, monitoring voluntary contributions, and strengthening competition among investors. Today, tracking either the amount or the direction of akin contributions is difficult.
- vii. The risks of growing corruption and speculations. In the post-war period, money typically flows like a river. Economic growth (statistically) is likely to be significant due to the zero base effect, and the country will demonstrate explosive development. This might attract speculative capital. Other funds will flow into the country. Local elites will likely attempt to receive a part of these financial flows. Therefore, during the current situation and in the post-war period, Ukraine and its partners must ensure control and transparency in the distribution of funds.
- viii. It's necessary to follow the principle "help reaches the recipient". In other words, corruption risks should be minimized with the involvement of the public sector, activists, and experts at the national and regional levels. In particular, this relates to the organizations that have experience in anti-corruption investigations, monitoring budgets and purchases, and investigating regional specifics of development.
- ix. Approving universal algorithms for the use of funds. Minimizing political pressure.
- x. Supporting the transparency of decision-making processes and constant dialogue with all stakeholders.
- xi. The costs and results of the country's reconstruction should be audited by one or more internationally recognized auditing/accounting firms.
- xii. Monitoring of results. As a result of the reconstruction, Ukraine should be better than before Russia's large-scale attack. The ultimate result is European integration.
- xiii. Ensuring uninterrupted and independent functioning of anti-corruption bodies, appointing responsible persons and their supervisors. Facilitating effective independent investigations. Strengthening institutional support of key processes.
- xiv. Allowing discussions about corruption risks and objective coverage of problems in various spheres in Ukraine.
- xv. Introducing high standards of integrity among partner countries in rebuilding Ukraine, promoting the codes of conduct among potential investors and local partners from Ukraine.

## CONCLUSIONS

There is no universal approach for reconstruction for every post-war country. The case of Ukraine has its own peculiarities and difficulties. Therefore, the reconstruction of Ukraine is one of the most complex topics related to the post-war settlement that's currently in discussion. It's worth noting that Ukraine shouldn't merely follow the examples of other countries during the war and post-war recovery period. It is important that the authorities make the right decisions not to repeat the mistakes that were made during reconstruction in other countries to avoid the abuse of power and to guarantee the sustainability of the support given to Ukraine.

Moreover, it appeared that despite a number of initiatives proposed to rebuild Ukraine, there is no sizable result since the 24th of February 2022. Even more, some critical points are not well elaborated. There is also limited financing, the predominance of aid in the form of loans, limited state policy and ignorance of the needs of small/medium businesses and the population. With the upcoming possible geopolitical changes, there is a need to search for additional sources of financing. It is advisable to focus on narrower issues of Ukraine's obtaining stable and large-scale financing during and after the war.

Voluntary contributions can become a separate area for further examination as the fastest and most reliable means of financing the restoration of Ukraine. Resources of big corporations or rich

individuals may be comparable to the budgets of some countries. Using such resources will relieve the pressure on taxpayers, allowing Ukraine to respond to the urgent needs of reconstruction and economic development. However, for it to be successful, reconstruction plan should be based on well prepared and elaborated phases of planning, organization, management, control that were fully described in this document.

As a result, the internal state of Ukraine, primarily the quality of democracy and the rule of law after the war, will be important factors in investments, including voluntary contributions and any international efforts aimed at rebuilding Ukraine. International partners need clarity regarding the reforming of the political and legal systems, Ukraine's future security and economic priorities, as well as the transparency of anti-corruption mechanisms.

In turn, Ukraine needs funds today - the sooner Ukraine receives the funds, the stronger it will be now and the less funding it will require for post-war reconstruction. There is a critical need to consider ways to obtain additional financing sources for the economy, in particular through the attraction of IFI funds, foreign and private capital, and the investors ready to invest in Ukraine (the authorities haven't been able to focus on this) while minimizing geopolitical risks.



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