

Background information for the BUDG public hearing on

Financial impact of the war in Ukraine: current and future challenges for the EU budget

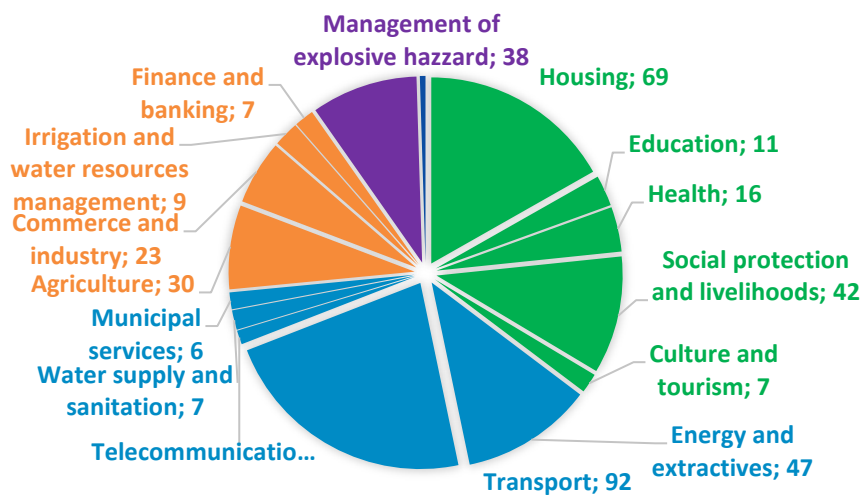
The Committee on Budgets (BUDG) held a public hearing on 26 April 2023, with the objective to explore the short and long term reconstruction needs of Ukraine and financing thereof. This briefing provided background information about Ukraine's financing needs, options to finance the reconstruction process and the possible role of the EU budget, as well as the governance architecture and the involvement of the European Parliament.

1. Financing of reconstruction and the role of the EU budget

1.1 Ukraine's financing needs

It is difficult to estimate the funds required as the destruction is still ongoing. We need to distinguish between short-term and long-term reconstruction needs. **Short-term 'relief' or 'recovery'** includes humanitarian aid, ensuring the financial viability of the Ukrainian state, and the provision of basic services as well as the repair of critical infrastructure. **Long-term reconstruction** by contrast, implies the rebuilding of the Ukrainian state and

Figure 1 - Reconstruction and recovery needs by sector (USD billion)



Source: Rapid Damage and Needs Assessment 2023⁷

economy once the war is over. This will take years to be accomplished, if not decades. There is general consensus that this process must be **firmly linked to Ukraine's EU accession process**, involve a comprehensive modernisation

of the Ukrainian state and economy ("build back better and smarter") and require a sustained global financing effort. Nevertheless, as long as the war continues Ukraine will not only require help with financing the rebuilding of vital infrastructure and maintaining state services, but also with reconstruction in the secure areas of the country. To achieve this, the timing and predictability of the financial aid is crucial, as USD 3.2-6 billion a month

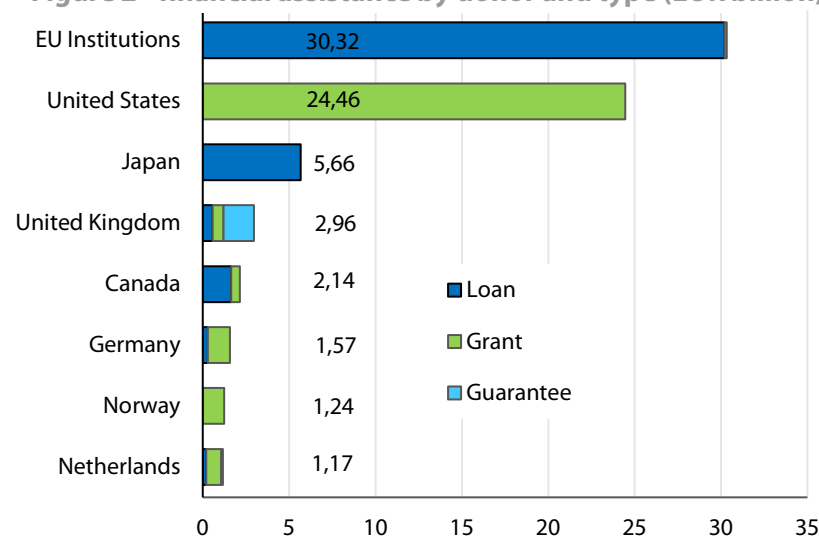


would be necessary to keep the state going. In case this financing is not available from external sources, the Ukrainian central bank needs to print money that would fuel inflation and lead to a currency crisis.¹

For **immediate relief needs** the required sum was estimated at **USD 17 billion** in November 2022.² However, most stakeholders and experts agree that the aim should not only be the physical rebuilding of destroyed infrastructure, but the reconstruction of a functioning and self-sufficient country suitable for EU membership³. **Estimates go as high as EUR or USD 1 trillion** (suggested by CEPA⁴ and EIB president Werner Hoyer⁵) to be disbursed over the period of up to a decade. The Ukrainian government calculated USD 750 billion in July 2022 for the durability, restoration and modernisation of the country. However, the Commission and the World Bank, together with the government of Ukraine (and the United Nations) estimated reconstruction and recovery needs at USD 349 billion in June 2022⁶, and **USD 411 billion in March 2023** (see figure 1 for sectoral needs)⁷.

1.2 Current financing⁸

Figure 2 - financial assistance by donor and type (EUR billion)



Source: Ukraine Support Tracker Data (published on 4 April 2023)

There are some **discrepancies among figures** from different sources, which may be due to methodological differences in what type of assistance is included. Humanitarian aid, financial and/or military assistance may or may not be included. The same goes for grants vs. loans, guarantees, swaps, in-kind aid, etc. Some count pledged sums, some only disbursements.

Ukraine received financial support from many sources, including bilateral assistance and multilateral aid from international financial institutions. **Bilateral support can be consulted on the [Ukraine Support Tracker](#) website**, together with some figures on multilateral donors.

By mid-February 2023, donor countries have committed **EUR 73.39 billion as financial assistance** (excluding military aid⁹), consisting of EUR 39.47 billion loans, EUR 30.22 billion of grants, EUR 2.77 billion of guarantees and EUR 930 million of [central bank swaps](#) (see Figure 2 for donors above EUR 1 billion). A little less than half of this (EUR 30.77 billion) has already been disbursed. The **largest contributors** are the EU (EUR 30.32 billion), the US

¹ [The EU Cannot Afford Not to Support Ukraine Financially](#), Torbjörn Becker, SCEEUS Guest Platform for Eastern Europe Policy No. 13, 1 March 2023 and [Financing Ukraine's Victory and Recovery: For the War and Beyond](#), Maria Repko, SCEEUS Guest Platform for Eastern Europe Policy No. 10, 17 November 2022

² [Ukraine reconstruction: Progress in coordination and use of Russian assets](#), By Alexandra Brzozowski and János Allenbach-Amman, Euractiv, 8.2.2023

³ A brief overview of the high level international process discussing assistance to Ukraine can be found on page 2 of [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, February 2023

⁴ [Rebuilding Ukraine: A Historic Plan for Congress](#), Timothy Ash and Polina Kurdyavko, Center for European Policy Analysis, CEPA, 25 January 2023

⁵ [Ukraine reconstruction may cost \\$1.1 trillion](#), Ukraine Invest, 27 June 2022

⁶ [Ukraine Rapid Damage and Needs Assessment](#), World Bank, Government of Ukraine, European Commission, August 2022

⁷ [Ukraine: Rapid Damage and Needs Assessment - February 2022 – February 2023](#), the World Bank, the Government of Ukraine, the European Union, the United Nations, 20 March 2023

⁸ [The Ukraine Support Tracker: Which countries help Ukraine and how?](#), Christoph Trebesch, Arianna Antezza, Katelyn Bushnell, Andre Frank, Pascal Frank, Lukas Franz, Ivan Kharitonov, Bharath Kumar, Ekaterina Rebinskaya & Stefan Schramm, Kiel Working Paper, No. 2218, 1-65., 2023

⁹ Military aid worth EUR 62.24 billion has also been committed, however, this briefing focuses on recovery and reconstruction, therefore military aid is not taken into account.

(EUR 24.46 billion), followed by Japan, the UK, Canada, Germany, Norway and the Netherlands (adding up to EUR 14.74 billion). While the EU's and Japan's commitments are nearly exclusively in the form of loans, the US and Norway are giving grants only (the others provide a mix).

According to the Ministry of Finance of Ukraine, the country received a total of USD 32.1 billion (of USD 57.7 billion committed) in 2022: around USD 12 billion from the US, around USD 8 billion from the EU, and nearly USD 6 billion from multilateral financial organisations (IMF, EIB and the World Bank). As for grants, the largest contributor is the US, as all of its support arrived in the form of grants, whereas Germany provided USD 1.26 billion and the EU USD 0.7 billion. However, these numbers include financial, humanitarian and military aid.¹⁰

In a [Council breakdown of figures](#) somewhat different from those of the Ukraine Support Tracker, adding up economic assistance (EUR 37.8 billion), military support (EUR 12 billion), civil protection (EUR 535 million) and humanitarian aid (EUR 1.7 billion), the EU and its Member States together have provided support worth EUR 50 billion.

The European Union's [Macro-Financial Assistance \(MFA\)](#) is a vehicle to support non-EU countries that face a balance of payment crisis via loans and grants. The Commission proposed [a new emergency MFA for Ukraine](#) of up to EUR 1.2 billion in concessional loans just before the start of the war. In response to the war, pay-outs were fast-tracked, with the two loan instalments of EUR 600 million disbursed in March¹¹ and May 2022¹². Additional MFA loan packages of EUR 9 billion ('exceptional MFA', 18 May 2022¹³) and EUR 18 billion ('MFA+ instrument', 9 November 2022¹⁴) were approved, increasing the entire MFA amount to Ukraine to EUR 28.2 billion since the invasion started and also introducing an interest rate subsidy covering interest costs of the loan.¹⁵ Until February 2023, EUR 10.2 billion have been disbursed.¹⁶ While the MFA loan packages adopted in 2022 were guaranteed through a mix of provisioning from the EU budget and bilateral guarantees from the Member States, the EUR 18 billion in MFA+ for 2023 are guaranteed through the 2021-2027 MFF headroom¹⁷.

The **EU Civil Protection Mechanism** (a disaster prevention, preparedness, and response instrument) committed around EUR 535 million of in-kind assistance and emergency operations to channel emergency items to Ukraine, in its largest mobilisation ever. Since February 2022, the European Commission has allocated EUR 630 million for humanitarian aid programmes to help civilians affected by the war in Ukraine.¹⁸

The **European Investment Bank (EIB)**, as part of the [EIB Ukraine Solidarity Urgent Response](#) for 2022-2023, pledged to provide EUR 2.26 billion to Ukraine, of which EUR 1.72 billion have been disbursed. In March 2022, the EIB announced an emergency solidarity loan backed by an EU guarantee (part of the Solidarity Urgent Response) for Ukraine of EUR 2 billion including the immediate provision of EUR 668 million as liquidity assistance. A second part of the Response amounts to EUR 1.59 billion, of which EUR 1.05 billion was disbursed in 2022 and EUR 540 million is earmarked for 2023. They also disbursed a humanitarian donation worth EUR 3.6 million. In addition to the support provided to Ukraine, a credit line and an advisory platform were created to support EU Member States neighbouring Ukraine in their efforts to meet displaced people's needs. On 29 March 2023, the Board of Directors of the EIB approved [the "EU for Ukraine Initiative"](#), a new temporary scheme which will enable continued EIB engagement in the country while the expected medium term EU support is put in place. As part of the initiative, the EIB will establish the EU for Ukraine Fund for donors, accompanied by a EUR 100 million dedicated technical assistance package.

¹⁰ [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyl Filipchuk, Yehor Kiyan, ICPS, 2023

¹¹ [EU disburses €300 million in emergency Macro-Financial Assistance to Ukraine](#) and [EU disburses additional €300 million in emergency Macro-Financial Assistance to Ukraine and adopts €120 million in grant support](#), Commission Daily News, 18 March 2022

¹² [EU disburses €600 million in Macro-Financial Assistance to Ukraine](#), Commission Press release 20 May 2022

¹³ [Ukraine: Commission presents plans for the Union's immediate response to address Ukraine's financing gap and the longer-term reconstruction](#), Commission Press release 18 May 2022 and subsequent [European Council endorsement](#)

¹⁴ [Commission proposes stable and predictable support package for Ukraine for 2023 of up to €18 billion](#), Commission Press Release, 9 November 2022.

¹⁵ Overview of MFA provided for Ukraine can be found [here](#)

¹⁶ [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, February 2023

¹⁷ As described in the [Commission's proposal for the MFA+ regulation](#), COM(2022) 597, 9.11.2022

¹⁸ [European Civil Protection and Humanitarian Aid Operations: Ukraine](#), Factsheet, European Commission

The **European Bank for Reconstruction and Development (EBRD)** has committed EUR 3 billion in 2022-23 of which 1.7 billion have been disbursed (in 2022). The EU budget provides for guarantees to the EBRD under the [European Fund for Sustainable Development Plus \(EFSD+\)](#) instrument: EU guarantees were used for three projects, totalling EUR 66.8 million.¹⁹

International financial institutions have participated in helping Ukraine. On 31 March 2023, the IMF approved loans of USD 15.6 billion in 48 months under the Extended Fund Facility (EFF) as part of a USD 115 billion total support package for Ukraine²⁰ in addition to the USD 2.7 billion approved in 2022²¹. The World Bank has mobilised over USD 20.6 billion in financial support (grants and loans from its own programmes and donor countries) to Ukraine, with USD 18 billion of it disbursed by March 2023²².

1.3 Possible financing methods

The World Bank suggests using different pathways to fund the reconstruction: grants (through World Bank and IMF), loans at below-market rates and loan guarantees.²³ CEPR²⁴, the German Marshall Fund²⁵ and others²⁶ put the emphasis on grants, to avoid the debt crushing the Ukrainian economy, as financing it from private investment may not be possible for some time.²⁷ Private investment is crucial, however, so the role of the international community would also be to lower the risk for private investors.

Grants

Most analysts suggest that preference should be given to grants in the reconstruction in order for Ukraine to avoid the debt trap. However, significant financing will be needed rapidly as soon as the war is over, to start reconstruction right away. A possible way to make such large sums (probably over hundred billion euros) available at once could be an International Finance Facility for the Reconstruction of Ukraine following the example of the World Bank's [International Finance Facility for Immunisation](#). The fund's financial base would consist of legally binding grants payments over a number of years by highly rated sovereign sponsors, which would grant the fund the highest credit rating. Therefore the fund could borrow large sums of money in the capital markets with different maturities to fund the reconstruction, while the donors' contributions over a longer period would enable the fund to pay back the loans. This way it is possible to frontload the reconstruction while distributing the budgetary burden on the donor states.²⁸

Loans

Besides grants, preferential rate loans are also essential, as Ukraine's credit rating (in the speculative grade by all rating agencies²⁹) does not allow it to borrow on the market. Loans from highly rated countries and international institutions can relieve pressure on the Ukrainian budget. There is significant potential in the global lending

¹⁹ [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, February 2023

²⁰ [IMF Executive Board Approves US\\$15.6 Billion under a New Extended Fund Facility \(EFF\) Arrangement for Ukraine as part of a US\\$115 Billion Overall Support Package](#), IMF Press release, 31 March 2023

²¹ A detailed account of IMF and World Bank Group assistance to Ukraine is included in: [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, February 2023

²² [World Bank Financing Support Mobilization to Ukraine since February 24, 2022](#), World Bank brief, 9 March 2023

²³ [Financing and governing the recovery, reconstruction, and modernization of Ukraine](#), Dave Skidmore, David Wessel, and Elijah Asdourian, Brookings, November 3, 2022

²⁴ [A Blueprint for the Reconstruction of Ukraine](#), Torbjörn Becker et al., CEPR, Rapid Response Economics / 1, 7 April 2022

²⁵ [Designing Ukraine's Recovery in the Spirit of the Marshall Plan](#), Ronja Ganster, Jacob Kirkegaard, Thomas Kleine-Brockhoff, and Bruce Stokes, German Marshall Fund of the United States, September 2022

²⁶ [The EU is leading Ukraine into a sovereign debt crisis](#), Eoin Drea, Politico, 23 January 2023; [Ukraine's debts to Western banks are destroying its social safety net](#), Elliot Dolan-Evans, Open Democracy, 17 November 2022

²⁷ [Financing and governing the recovery, reconstruction, and modernization of Ukraine](#), Dave Skidmore, David Wessel, and Elijah Asdourian, Brookings, November 3, 2022

²⁸ [Innovative Finance Can Help Rebuild Ukraine](#), Marcus Fedder, Project Syndicate, 19 August 2022

²⁹ [World Government Bonds](#)

capacity of multilateral development banks, which is around EUR 530 billion, with EIB and EBRD representing around EUR 194 billion, therefore there is still significant lending potential.³⁰

Budgetary guarantees

Another solution to allow Ukraine to borrow money with better terms is budgetary guarantees of highly rated countries or international organisations. CEPA suggests that the unallocated Special Drawing Rights (SDRs)³¹ of wealthy countries held by the IMF could be used as collateral for 'Ukraine bonds' to finance the reconstruction. This solution would hardly burden the donors' budgets, while improving the creditworthiness of Ukraine by relieving its debt.³² The EU budget has already provided for guarantees to the EBRD and EIB, as well as for the MFA packages agreed in 2022 (see section 1.2).

Blending

The OECD defines blended finance as the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries, where additional finance refers to commercial finance that does not primarily target development outcomes in developing countries, while development finance is public and private finance that is being deployed with a development mandate³³. The Commission defines blending as "the strategic use of a limited amount of grants to mobilise financing from partner financial institutions and the private sector to enhance the development impact of investment projects"³⁴. The European Fund for Sustainable Development Plus (EFSD+) forms part of the EU's [External Investment Plan](#) (under Global Europe – NDICI), and it provides world-wide coverage for blending, guarantees and other financial operations. Where projects have a public added value that is not monetarised and that cannot be addressed by guarantees, EFSD+ blending facilities will use grants and loans to support non-bankable investment projects³⁵.

Debt relief

Ukraine's general government debt stood at 47.59% of GDP in 2021³⁶. However the country's domestic product is rapidly shrinking (by 29.2% in 2022, according to the World Bank³⁷) and the debt is skyrocketing due to the war, thus the Ukrainian government forecasted debt to GDP ratio to reach 106% in 2023³⁸. It is estimated that in 2023, external debt servicing payments will amount to around EUR 3.4 billion, of which EUR 2.9 billion are owed to international financial institutions³⁹. In order for Ukraine not to start its post-war reconstruction already deeply indebted, a solution for debt relief is needed. To ease the burden in the short term, [a group of official bilateral creditor countries](#) have temporarily suspended debt service payments.

A possible solution suggested is the use of '[Brady bonds](#)' to replace existing Ukrainian sovereign debt or to cover reconstruction costs. The Ukrainian government would need to finance the interest payments while the principal repayments would be collateralised by [zero-coupon bonds](#) issued by entities with high credit rating. Ukraine would need to buy these bonds or donors could purchase them in lieu as a form of aid.⁴⁰

³⁰ [Ukraine: European multilateral banks need guarantees to play key role in funding reconstruction](#), by Alvise Lennkh-Yunus, Julian Zimmermann and Alessandra Poli, Scope Ratings GmbH, 16 November 2022

³¹ [7 Things You Need to Know About SDR Allocations](#), International Monetary Fund

³² [Rebuilding Ukraine: A Historic Plan for Congress](#), Timothy Ash and Polina Kurdyavko, Center for European Policy Analysis, CEPA, 25 January 2023

³³ [Blended Finance Principles Guidance](#), DCD/DAC(2020)42/FINAL, OECD, 17 September 2020

³⁴ [Guidelines on EU Blending Operations](#), Tools and Methods Series Guidelines No 5, European Commission, November 2015

³⁵ [European Fund for Sustainable Development Plus \(EFSD+\)](#), Commission webpage

³⁶ [General Government Debt](#), IMF

³⁷ [Ukraine: Rapid Damage and Needs Assessment - February 2022 – February 2023](#), the World Bank, the Government of Ukraine, the European Union, the United Nations, 20 March 2023

³⁸ [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyl Filipchuk, Yehor Kiyan, ICPS, 2023

³⁹ [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, February 2023

⁴⁰ [Innovative Finance Can Help Rebuild Ukraine](#), Marcus Fedder, Project Syndicate, 19 August 2022

1.4 Options to finance the reconstruction process

Current support provided to Ukraine comes mainly from the different programmes under **Heading 6 - Neighbourhood and the World**, in the form of grants, loans and guarantees. Total amounts available under this Heading under the 2021-2027 MFF amount to EUR 98.4 billion in 2018 prices. Already before the war in Ukraine, funds available under Heading 6 were insufficient and pressure has increased substantially ever since. **Humanitarian aid has been stretched to its limits**, also raising questions about how to maintain aid levels in other parts of the world, given ever increasing needs including a global food crisis fuelled by the war in Ukraine⁴¹.

In its resolution on upscaling the MFF, **the EP therefore stresses the shortcomings of the current MFF, insisting on the need for its revision**, and calling on the Commission to present an ambitious proposal later this year, primarily focused on the consequences of the war. Moreover, Parliament pointed out that the high levels of inflation are placing the MFF under severe strain, and it called on the Commission “to assess the scope for introducing a temporary adjustment mechanism to derogate from the 2 % automatic deflator in the event of inflation shocks”. Finally, Parliament also considers that **the Union should play a leading role in the reconstruction of Ukraine**, calling on the Commission to assess the role the EU budget should play in reconstruction efforts⁴². (Analysing in detail the budgetary impact of the war goes beyond the scope of this briefing; nevertheless, it has had without doubt an impact on EU policies and programmes. In cohesion policy and home affairs funds, additional flexibility has been introduced to help Member States welcome and accommodate the large influx of refugees. The reprioritisation of European defence policy is also a consequence of the conflict.)

However, **in the absence of a meaningful MFF revision**, a substantial contribution to the reconstruction process is difficult to imagine: so far, the approach in dealing with the war in Ukraine has mainly involved a reshuffling and repurposing of allocations, budgetary transfers between different budget lines and programmes and the full use of [budgetary flexibilities and special instruments](#), for example the Solidarity and Emergency Aid Reserve (SEAR)⁴³.

Under current circumstances, limited contributions could come from the NDICI-Global Europe programme, including EFSD+, which could be used to leverage investments from the private sector, backed up by the External Action Guarantee (EAG). Moreover, since June 2022, Ukraine is a candidate for EU accession. This status means, in principle, that support is provided under the [Pre-Accession Instrument \(IPA III\)](#), as is currently the case for the Western Balkans and Turkey. As the main purpose of IPA III is to promote pre-accession reforms, this would also allow to firmly anchor Ukraine’s reconstruction in its accession process. However, Ukraine cannot, at present, benefit from IPA III funding as it is not included in the list of beneficiary countries in Annex I of the regulation⁴⁴. **Providing IPA funding to Ukraine would therefore require amending the IPA III regulation**. In its resolution on the General budget of the European Union for the financial year 2023⁴⁵ Parliament called for Ukraine and Moldova to be included as soon as possible among the beneficiaries of IPA, and for an increase of the financial envelope of the programme.

In its resolution, Parliament also insists that **support to other candidate countries, particularly in the Western Balkans, should be maintained at its current level**. Overall, the increased needs in Ukraine should not divert money away from other geographical regions, in particular the Eastern and Southern Neighbourhood.

⁴¹ See for example: [Will the Ukraine Crisis Mean EU Aid Is Pulled from the Rest of the World?](#) Center for Global Development, by Mikaela Gavvas and Samuel Pleeck, 29 March 2022 or [What the EU budget can and cannot do in response to the war in Ukraine](#), Eulalia Rubio Jacques Delors Institute, April 2022

⁴² [European Parliament resolution of 15 December 2022 on upscaling the 2021-2027 multiannual financial framework: a resilient EU budget fit for new challenges](#) (2022/2046(INI)), P9_TA(2022)0450

⁴³ See more on SEAR in [EU external action and crisis response: is the EU budget fit for purpose?](#) Alix Delasnerie, Policy Department for Budgetary Affairs, March 2023

⁴⁴ [Regulation \(EU\) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance \(IPA III\)](#)

⁴⁵ [European Parliament resolution of 19 October 2022 on the Council position on the draft general budget of the European Union for the financial year 2023](#) (12108/2022 – C9-0306/2022 – 2022/0212(BUD)), P9_TA(2022)0366

Parliament also called on the Commission to present an ambitious plan for the accession negotiations and for Ukraine's rapid, gradual integration into the single market, EU policies and programmes.⁴⁶

Other options to contribute to the reconstruction in Ukraine include setting up a **mechanism outside of the EU Budget**, such as an [EU trust fund](#) (similar to the [EU Trust Fund for Africa \(EUTF\)](#)) or using external assigned revenue. However, in its resolution of 7 October 2021 on the implementation report on the EU Trust Funds and the Facility for Refugees in Turkey, the EP has made clear that it is not in favour of setting up new EU Trust Funds, for reasons of budgetary transparency, and prefers any support to be channelled through existing EU programmes⁴⁷.

External Assigned Revenue⁴⁸

Donors could contribute to the reconstruction process in Ukraine through voluntary contributions, channelled into the EU budget in the form of external assigned revenue. This could be used to top-up existing budget lines, a possibility already provided for by the Financial Regulation. The approach chosen for the current MFA+ support could serve as an example, for which new budget lines were set up in the context of the negotiations on the 2023 budget. Budget line 14 07 01 ("Ukraine MFA+ interest rate subsidy") was created to 'cover activities aiming at granting an interest rate subsidy related to the borrowing and lending' of the MFA+; Budget line 14 07 02 ("Ukraine MFA+ non-repayable support") was set up to allow 'Member states, as well as other interested countries and third parties' to make voluntary, additional, financial contributions to support 'Ukraine's reform agenda', or the 'rehabilitation of critical functions and infrastructure and relief for people in need'. This is a model which could serve as a blueprint for the reconstruction process, as well as a precursor for a future "Rebuild Ukraine Facility".⁴⁹

Another example is the REACT-EU pre financing of EUR 3.5 billion introduced under CARE+⁵⁰ (the second legislative change to ensure flexible cohesion policy support to help Member States handle the influx of Ukrainian refugees) that was paid in advance payments to Member States, financed from external assigned revenue under NextGenerationEU.⁵¹

Confiscation of Russian assets

In its [resolution on 16 February 2023](#), Parliament called for a 'legal regime allowing for the confiscation of Russian assets frozen by the EU and for their use to address the various consequences of Russia's aggression against Ukraine, including the reconstruction of the country and compensation for the victims of Russia's aggression'.

Frozen assets of the Russian Central Bank and entities under its control are worth around EUR 300 billion⁵², while the frozen assets of individuals (mostly Russian and Belorussian oligarchs) add up to about EUR 30 billion in the EU⁵³ and EUR 70 billion⁵⁴ worldwide. Although these assets could cover a significant proportion of the reconstruction costs, at present, no legal framework exists allowing their confiscation and handing over to Ukraine.⁵⁵ Under international law, Ukraine is entitled to full reparations from Russia for the damage the latter caused, possibly using its frozen assets. However, it is unlikely to happen, as Russia has acted in defiance of

⁴⁶ [European Parliament resolution of 16 February 2023 on one year of Russia's invasion and war of aggression against Ukraine \(2023/2558\(RSP\)\)](#), P9_TA(2023)0056

⁴⁷ [European Parliament resolution of 7 October 2021 on the implementation report on the EU Trust Funds and the Facility for Refugees in Turkey](#), P9_TA(2021)0411

⁴⁸ Article 21(5) of the [Financial Regulation](#).

⁴⁹ [Budget 2023, Section III - Commission](#), Official Journal of the European Union L 58/311, 23.2.2023

⁵⁰ Regulation (EU) 2022/613 of the European Parliament and of the Council of 12 April 2022 amending Regulations (EU) No 1303/2013 and (EU) No 223/2014 as regards increased pre-financing from REACT-EU resources and the establishment of a unit cost

⁵¹ [Background note on Financial support for the treatment and accompanying of Ukrainian refugees](#), Diána Haase, Sophie Eisenberger (trainee), Manuk Sahakyan (trainee), European Parliament, November 2022

⁵² [Ukraine reconstruction: Progress in coordination and use of Russian assets](#), By Alexandra Brzozowski and János Allenbach-Ammann, Euractiv, 8.2.2023

⁵³ [Using sanctioned Russian assets to rebuild Ukraine will not be easy](#), Camino Mortera-Martinez and Zach Meyers, CER Bulletin, issue 145, August/September 2022

⁵⁴ [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyl Filipchuk, Yehor Kiyan, ICPS, 2023

⁵⁵ [Using sanctioned Russian assets to rebuild Ukraine will not be easy](#), Camino Mortera-Martinez and Zach Meyers, CER Bulletin, issue 145, August/September 2022

international law, and the rulings of the International Court of Justice. The freezing of the assets means their owners cannot use them, but it does not permit their confiscation or handover to Ukraine⁵⁶. Also, state-owned property is shielded from enforcement by sovereign (or state) immunity rules. Indiscriminate confiscation of private property would give rise to constitutional and human rights concerns.⁵⁷

Being an oligarch and supporting Russia's war in Ukraine is not sufficient ground to confiscation, a clear link to criminal activity (e.g. terrorism, money laundering, corruption, violation of sanctions, war crimes, etc.) needs to be demonstrated. The proposed Directive on asset recovery and confiscation⁵⁸ would better enable national authorities to identify, freeze, confiscate and manage these assets and would also extend the scope of criminal activities considered. The Parliament's Committee on Budgets suggest that crimes of aggression or the facilitation of aggression against Ukraine should be included, as well as circumvention of Union's restrictive measures.⁵⁹

However, with the voluntary consent of the sanctioned person it can be possible to unfreeze assets and use the revenue to benefit Ukraine. A model could be the sale of Chelsea Football Club by Roman Abramovich and the unfreezing of the precedes (GBP 2.5 billion) in order for them to be donated to help the victims of the war. Nevertheless, conditions to participation in this scheme should apply.⁶⁰

Some experts suggest that the amount retrievable from private assets may not be worth the lengthy, expensive and uncertain legal processes.⁶¹ The foreign reserves of Russia may be worth the effort, however legal possibilities are far from clear. [Sovereign Immunity](#) protecting state-owned assets is customarily based on the concept of equality of sovereign actors and thus gives no jurisdiction to national courts over third countries. The legal possibilities for expropriation or confiscation of foreign assets differs from country to country, and attempts are made to find legitimate solutions.⁶² The funds could be used for war reparation based on a ruling of an international tribunal or perhaps the stipulations of a peace treaty.⁶³ Also, the political risks of confiscation of a sovereign state's assets are high: it can lead to retaliation by Russia, it can serve as a precedent for some governments to seize foreign assets, prevent some others from keeping their reserves in Western countries, and also support Russia's narrative of aggressive Western imperialism.

In case assets are confiscated in EU Members States, the transfer of funds serving the reconstruction of Ukraine could be set up in several different ways. A mandatory transfer to the EU budget as an Own Resource could be based on [Article 311 TFEU](#). Transfers as *assigned revenue* to an EU instrument for Ukraine's reconstruction (e.g. Rebuild Ukraine Facility) could be either voluntary or mandatory.⁶⁴ The BUDG Committee suggest that 'revenues should be made available in the form of external assigned revenue until the relevant Own Resources Decision enters into force'.⁶⁵

Active management of frozen assets

The Commission is also investigating the possibility of temporary active management of the frozen/immobilised Russian assets. This would mean investing the assets for a return, which could then be used to finance Ukraine's reconstruction. Such a solution could potentially both help Ukraine and respect state immunity and the owner's right to property⁶⁶. Legally, the owner of the frozen assets is entitled to the principal of their assets when they are unfrozen and any revenue generated (e.g. interest or returns) based on previous agreements, however no hypothetical return or unrealised profit is due. No explicit rules exist for immobilised assets. Active management

⁵⁶ [Options paper by the European Commission on the use of frozen assets to support Ukraine's reconstruction](#), 30 November 2022

⁵⁷ [Frozen Russian Assets and the Reconstruction of Ukraine: Legal Options](#), Anton Moiseienko, International Lawyers Project, 22 Jul 2022

⁵⁸ [Proposal for a directive of the European Parliament and of the Council on asset recovery and confiscation](#), COM(2022) 245

⁵⁹ [Opinion of the Committee on Budgets on the proposal for a directive on Asset recovery and confiscation](#), BUDG_AD(2023)739737

⁶⁰ [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyi Filipchuk, Yehor Kiyan, ICPS, 2023

⁶¹ [Using sanctioned Russian assets to rebuild Ukraine will not be easy](#), Camino Mortera-Martinez and Zach Meyers, CER Bulletin, issue 145, August/September 2022

⁶² [Frozen Russian Assets and the Reconstruction of Ukraine: Legal Options](#), Anton Moiseienko, International Lawyers Project, 22 Jul 2022

⁶³ [Using sanctioned Russian assets to rebuild Ukraine will not be easy](#), Camino Mortera-Martinez and Zach Meyers, CER Bulletin, issue 145, August/September 2022

⁶⁴ [Options paper by the European Commission on the use of frozen assets to support Ukraine's reconstruction](#), 30 November 2022

⁶⁵ [Opinion of the Committee on Budgets on the proposal for a directive on Asset recovery and confiscation](#), BUDG_AD(2023)739737

⁶⁶ [Options paper by the European Commission on the use of frozen assets to support Ukraine's reconstruction](#), 30 November 2022

of immobilised assets would not be contrary to international law in case the economic situation of the owner does not change as a consequence. Common Foreign and Security Policy objectives will need to justify the use of any revenues by the EU. The revenues resulting from active management of liquid assets is estimated at EUR 2.6 billion annually on average with a very low risk of losses (which the EU budget would bear), according to the Commission's first simulation.⁶⁷

On 16 February 2023, the Council established the [Ad Hoc Working Party on the use of frozen and immobilised assets to support Ukraine's reconstruction](#). The Working Party will carry out a legal, financial, economic and political analysis of the possibilities of using frozen Russian assets, under the leadership of the Swedish presidency. The work will be carried out in close cooperation with the [Freeze and Seize Task Force](#) established by the European Commission in March 2022.

In its [conclusions of 23 March 2023](#), the European Council reiterated, that "Together with partners, the European Union will continue to step up work towards the use of Russia's frozen and immobilised assets for Ukraine's reconstruction and for the purposes of reparation, in accordance with EU and international law."

Other solutions

In its [resolution on 16 February 2023](#), Parliament stated that 'once the war ends, Russia must be obliged to pay reparations imposed on it to ensure that it makes a substantial contribution to the reconstruction of Ukraine.' The [United Nations Compensation Commission](#), set up by the UN Security Council, awarded USD 52 billion in compensation to Kuwait after the Iraqi invasion funded by a levy on Iraqi oil sales⁶⁸. Some elements of this solution could be applied, however, such compensation decision is less likely against a permanent member of the Security Council. Neither can the confiscation of Afghan Central Bank funds by the US in 2022 serve as a precedent, as in that conflict the US was a direct party, while the countries freezing Russian state assets are not.⁶⁹

Philip Zelikow and Simon Johnson suggest⁷⁰ that instead of confiscation, frozen assets could be used as a lever to achieve concessions from Russia. When the Russian war on Ukraine finally ends, countries that have imposed sanctions could insist on a condition for unfreezing RCB assets and for ending sanctions: that the Russian government agrees to make reparations to Ukraine.

2. Governance architecture and involvement of Parliament

Governance of reconstruction and its good design (basically, how reconstruction and assistance is organised) depends on a good understanding of the scale of costs incurred as a result of the conflict, and can at times be more important than the specific projects chosen to be implemented. It is thus usually listed as an aspect of high importance that should guide reconstruction⁷¹.

The plans and reports issued since the outbreak of the war often underline that the **different donors must coordinate the administration of their reconstruction assistance**, to avoid overlaps and duplications and to ensure proper oversight. There is a general agreement among experts and policymakers that reconstruction of Ukraine needs to be part of a coordinated international effort given the scale of the challenges involved. Views differ, however, on the form such coordination should take in practice.

In its Communication on Ukraine Relief and Reconstruction of 18 May 2022⁷², the European Commission had proposed setting up a Ukraine reconstruction platform co-led by the Commission and the Ukrainian government 'in close partnership with the European Union and other key partners, such as G7 and G20 members and other

⁶⁷ [Non-paper on the generation of resources to support Ukraine from immobilised Russian assets](#), prepared by Commission services, in consultation with the EEAS, for the Council's Ad Hoc Working Party on Frozen Assets meeting of 28 March 2023 (published in Politico)

⁶⁸ [Putin's Matryoshka: A War Reparations Facility for Rebuilding Ukraine](#), Lev Breydo, Columbia Journal of Transnational Law, (Forthcoming) 8 August 2022

⁶⁹ [Confiscating Russian sovereign assets to fund Ukraine's reconstruction: Mission impossible?](#), Eamonn Noonan, Anastasiia Chernova, EPRS, October 2022

⁷⁰ [How Ukraine Can Build Back Better: Use the Kremlin's Seized Assets to Pay for Reconstruction](#), Philip Zelikow and Simon Johnson, Foreign Affairs, 19 April 2022

⁷¹ [Ukraine rapid damage and needs assessment](#), The World Bank, Government of Ukraine, European Commission, August 2022, and [UKRAINE Rapid Damage and Needs Assessment February 2022– February 2023](#), the World Bank, the Government of Ukraine, the European Union, the United Nations, March 2023

⁷² [Ukraine Relief and Reconstruction](#), Commission communication, COM(2022) 233, 18 May 2022

third countries, as well as international financial institutions and international organisations', **with the European Parliament and the Ukrainian Parliament in observer roles**. Initially, the ambitious purpose of this platform was to 'determine the priority areas selected for financing and the specific projects implementing those priorities', to 'coordinate the financing sources and their destination to optimise their use, including budgetary support to the Ukrainian state, investment support, guarantees for private sector investments', in line with the Ukrainian reconstruction plan.

Among other examples⁷³, the proposals of the German Marshall Fund of the United States, a U.S.-based think tank depart from those outlined by the Commission: they do not endorse a leadership by the Commission, "because Brussels has neither the necessary political nor the financial heft". Instead, recovery should be led by G7 countries, encouraging other countries to participate. The G7, together with Ukraine should then appoint a strong recovery coordinator, 'an American, with a global stature'.⁷⁴

However, what has emerged is the **Multi-agency Donor Coordination Platform** (also referred to as 'Financial Ramstein' by Ukraine), established at the virtual G7 Leaders' Meeting on 12 December 2022, as announced in the [G7 Leaders' Statement](#). The Platform is to provide for close coordination among international donors and international financial organisations (for short-term macro-financial assistance as well as longer-term assistance for reconstruction) and to ensure coherence, transparency and accountability of support and expertise provided to Ukraine. The aforementioned statement includes the setting up of a Secretariat and the designation of a senior government representative by each G7 member, to ensure oversight of the coordination efforts.

The structure and nature of this platform, **launched on 26 January 2023 during the first meeting of its steering committee**, is the outcome of a compromise reflecting discussions of several months about the leadership of the reconstruction process (it builds on the results of the Conferences in [Lugano](#), [Berlin](#) and [Paris](#)). The EU, the US and Ukraine have agreed on this structure for financial assistance, in which the three would have more or less equal weight, with political leadership of the G7 (US, Japan, Canada, the UK, Germany, France, and Italy)⁷⁵. A steering committee will be in charge of coordinating assistance, consisting of the US, Ukraine, and the European Commission (co-chaired by Mike Pyle, Deputy National Security Advisor for International Economics, Serhiy Marchenko, Ukrainian Minister of Finance and Gert Jan Koopman, Director-General of the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) of the European Commission), and will work in close consultation with Japan in its G7 Presidency role⁷⁶. The Secretariat is hosted by the European Commission in Brussels, with an office in Kyiv. Various donors are represented in the Secretariat: G7 countries, the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB). There are also claims that during negotiations on the structure the EU would have preferred a bigger Secretariat, but this was not accepted by the US.⁷⁷

According to the Commission's press release⁷⁸, this first meeting was attended by high-level officials from Ukraine, the EU, G7 countries, as well as financial institutions such as the EIB, the EBRD, the IMF and the World Bank, with the possibility for other donors to join the Platform later. At the time of writing there is no specific website set up for the Platform, information can only be obtained from indirect sources or from the press, **raising questions about whether the lack of transparency is temporary and about the way it should be improved in the future**, to ensure accountability and scrutiny. A **second meeting** of the Platform took place on April 5, again without the involvement of Parliament. During this meeting, Ukraine presented its priority needs for early

⁷³ [Rebuilding Ukraine: Principles and policies](#), edited by Yuriy Gorodnichenko Ilona Sologoub, Beatrice Weder di Mauro, CEPR, 7 Dec 2022 or [Financing and governing the recovery, reconstruction, and modernization of Ukraine](#), Dave Skidmore, David Wessel, and Elijah Asdourian, Brookings, November 3, 2022

⁷⁴ [Designing Ukraine's Recovery in the Spirit of the Marshall Plan](#), Ronja Ganster, Jacob Kirkegaard, Thomas Kleine-Brockhoff, and Bruce Stokes, German Marshall Fund of the United States, September 2022

⁷⁵ [Ukraine reconstruction: Progress in coordination and use of Russian assets](#), By Alexandra Brzozowski and János Allenbach-Ammann, Euractiv, 4 February 2023 (updated 8 February 2023)

⁷⁶ As mentioned in the [Readout of Inaugural Meeting of Ukraine Donor Coordination Platform Steering Committee](#) and in [Establishment of the Multi-agency Donor Coordination Platform for Ukraine](#) and also here: [First meeting of Ukraine Donor Coordination Platform Steering Committee took place](#)

⁷⁷ [Ukraine reconstruction: Progress in coordination and use of Russian assets](#), By Alexandra Brzozowski and János Allenbach-Ammann, Euractiv, 4 February 2023 (updated 8 February 2023)

⁷⁸ [Ukraine: Multi-agency Donor Coordination Platform for Ukraine kick-starts work](#), Press release, European Commission, 26 January 2023

recovery (energy infrastructure, humanitarian demining, critical and social infrastructure, housing and support to the private sector) in 2023 amounting to USD 14.1 billion, out of which USD 3.3 billion are made available by the Ukrainian government in its 2023 budget, leaving an additional USD 10.8 billion still to be covered. The next meeting is foreseen for May 2023⁷⁹.

Numerous analyses have been produced since the outbreak of the war, pointing to lessons learned from past reconstruction examples, and to important principles that should guide recovery and the governance structure and that could provide a starting point for scrutinising the future activities of the Platform. The **Lugano Principles included in the Lugano Declaration provide a conceptual framework for reconstruction** and can thus be a basis for oversight:

Figure 3 - Lugano Principles

<p>1. Partnership</p> <p>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.</p>	<p>5. Multi-stakeholder engagement</p> <p>The recovery process has to facilitate collaboration between national and international actors, including from the private sector, civil society, academia and local government.</p>
<p>2. Reform focus</p> <p>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.</p>	<p>6. Gender equality and inclusion</p> <p>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.</p>
<p>3. Transparency, accountability and rule of law</p> <p>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.</p>	<p>7. Sustainability</p> <p>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.</p>
<p>4. Democratic participation</p> <p>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.</p>	

Source: [Outcome Document of the Ukraine Recovery Conference URC2022: 'Lugano Declaration' \(Lugano, 4–5 July, 2022\)](#)

All the above principles are interrelated, but partnership, transparency and accountability, rule of law, democratic participation and multi-stakeholder engagement are among the most relevant points in terms of governance. On the basis of existing papers and analysis the following elements can complete the above seven points:

- From the Ukrainian side, the highest level of central government must provide for continuous leadership as well as for operational support. Project implementation inside the country should be done through a centralised structure, and most of the programmes and projects included in the plan should be devised and governed at national level, also to ensure full ownership of the process by Ukraine⁸⁰
- Many argue⁸¹ that it is important to involve local governments in planning and implementation, as well as civil society actors, to ensure that planning takes better account of local expertise and needs. To achieve this, strong intergovernmental, inter-sectoral, and inter-municipal coordination mechanisms are needed.
- The entity tasked to coordinate aid should have the authority to coordinate all reconstruction projects, even the ones that are bilaterally agreed between Ukraine and another supporting country, so that interrelated projects can be layered together and duplication of effort is avoided.⁸²

⁷⁹ [Multi-agency Donor Coordination Platform ramps up efforts to help Ukraine address priority recovery needs in 2023](#), Commission press release: 5 April 2023

⁸⁰ [Evaluation of Ukraine's National Recovery Draft Plan](#), Tetiana Bogdan, Michael Landesmann and Richard Grieveson, Policy Notes and Reports 61, The Vienna Institute for International Economic Studies, November 2022

⁸¹ The issue is raised among others in the RDNA, but see also in: [Rebuilding Ukraine: How the EU Should Support Ukraine's Reconstruction and Recovery](#), Julian Bergmann, Iulian Romanysyn, IDOS Policy Brief 6/2022; and in [Challenges and opportunities of LRAs' involvement in the reconstruction of Ukraine](#), study report for the Committee of the Regions, Tetiana Anakina, Paulina SalekLipcean and Halyna Kovalchuk (A.R.S. Progetti S.P.A.), 2022 and in [Rebuilding Ukraine by Reinforcing Regional and Municipal Governance](#), OECD, 2 December 2022

⁸² [The reconstruction of Ukraine: Historical lessons for postwar reconstruction of Ukraine](#), Stephen Lewarne, Nell Todd, Joniel Sung-Jin Cha, Joe Mariani, Stuart Williamson, Deloitte Insights, 10 October 2022

- Strong anti-corruption and anti-fraud protocols should be implemented, and the entity coordinating aid should act in partnership with the European Public Prosecutor's Office.⁸³ Strict conditionalities should be applied to aid, the first tranche being dependent on implementing rule of law and judicial reforms.⁸⁴ The auditing of reconstruction spending should be conducted by internationally recognised auditing/accounting firm(s).⁸⁵

Overall, full ownership of the process by Ukraine should be ensured and reconstruction should be anchored in the EU accession process, taking into account the '*build back better*' principle, and the necessary reforms in areas such as the rule of law and fighting corruption.

The [EP has adopted 25 resolutions](#) since the outbreak of the war. The EP's views on governance issues have not yet been expressed in great detail, but in its resolution of 2 February 2023 on the preparation of the EU-Ukraine Summit⁸⁶, the EP recalled that "the recovery package should be jointly led by the EU, international financial institutions and like-minded partners, with the substantial involvement of the G7", recommending that "Ukrainian local self-government representatives contribute to the design of recovery measures", and that a clear and transparent mechanism be established for involving Ukrainian civil society. The EP also called for the necessary EU budget capacity to support the recovery package.

Most importantly, **the current Platform does not foresee the involvement of Parliament(s) in the steering committee**, although an observer status was clearly included in the above mentioned Commission communication. Given the scale and possible long-term financial implications for the EU budget, involving the European Parliament is essential not only on the basis of its prerogatives as budgetary authority, but also to ensure proper scrutiny, democratic oversight, transparency and accountability - also in light of Ukraine's EU accession process.

At the time of writing **it is also unclear what will happen with the "Rebuild Ukraine Facility"** announced in the [Commission's communication from May 2022](#). Initially, this Facility was meant to serve as a legal basis to channel EU grants and loans to Ukraine, and to be embedded firmly in the EU budget. To date the Commission has not made any proposals for its establishment and whether or when these will be made remains unclear.

Disclaimer and copyright. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2023.

Administrator responsible: Diána HAASE, András SCHWARCZ Editorial assistant: Adrienn BORKA
Contact: Poldep-Budg@ep.europa.eu

This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

Print ISBN 978-92-848-0561-7 | doi:10.2861/734422 | QA-03-23-157-EN-C

PDF ISBN 978-92-848-0562-4 | doi:10.2861/413320 | QA-03-23-157-EN-N

⁸³ [Financing and governing the recovery, reconstruction, and modernization of Ukraine](#), Dave Skidmore, David Wessel, and Elijah Asdourian, Brookings, November 3, 2022 and [The reconstruction of Ukraine: Historical lessons for postwar reconstruction of Ukraine](#), Stephen Lewarne, Nell Todd, Joniel Sung-Jin Cha, Joe Mariani, Stuart Williamson, Deloitte Insights, 10 October 2022

⁸⁴ [Designing Ukraine's Recovery in the Spirit of the Marshall Plan](#), Ronja Ganster, Jacob Kirkegaard, Thomas Kleine-Brockhoff, and Bruce Stokes, German Marshall Fund of the United States, September 2022

⁸⁵ [Rebuilding Ukraine: Principles and policies](#), edited by Yuriy Gorodnichenko Ilona Sologoub, Beatrice Weder di Mauro, CEPR, 7 Dec 2022

⁸⁶ [European Parliament resolution of 2 February 2023 on the preparation of the EU-Ukraine Summit](#), P9_TA(2023)0029