

## Background information for the BUDG exchange of views with the parliamentary committee on budgets of the Ukrainian Parliament

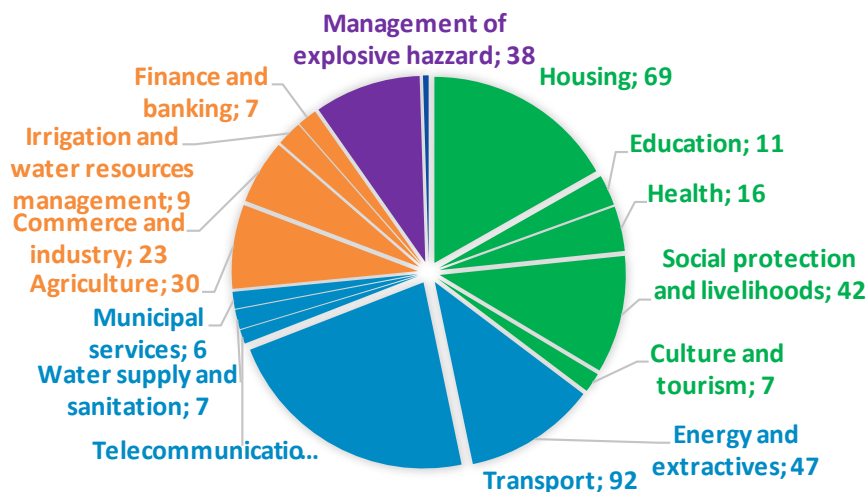
The Committee on Budgets (BUDG) will hold an exchange of views with the parliamentary committee on budgets of the Ukrainian Parliament, the Verkhovna Rada, on 31 August 2023. This briefing<sup>1</sup> provides background information about Ukraine's financing needs, options to finance the reconstruction 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 2023<sup>7</sup>

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

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

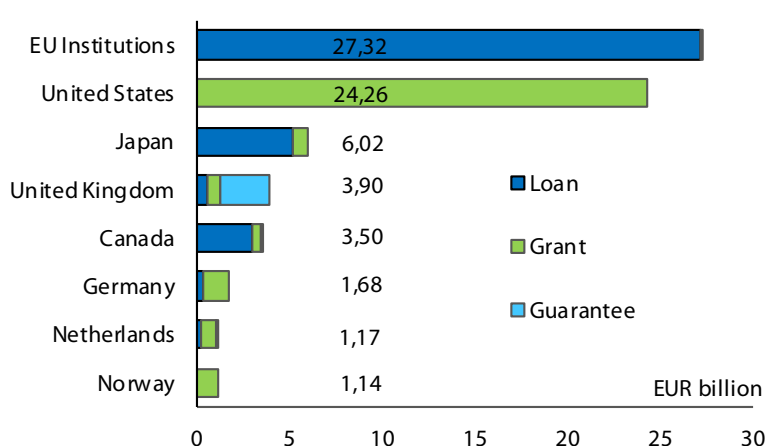
<sup>1</sup> This note was originally produced for the public hearing held on 26 April 2023 by the Committee on Budgets (BUDG).

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.<sup>2</sup>

For **immediate relief needs** the required sum was estimated at **USD 17 billion** in November 2022.<sup>3</sup> 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 membership<sup>4</sup>. **Estimates go as high as EUR or USD 1 trillion** (suggested by CEPA<sup>5</sup> and EIB president Werner Hoyer<sup>6</sup>) 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 2022<sup>7</sup>, and **USD 411 billion in March 2023** (see figure 1 for sectoral needs)<sup>8</sup>.

## 1.2 Current financing<sup>9</sup>

**Figure 2 - financial assistance by donor and type**



Source: Ukraine Support Tracker Data (published on 6 July 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 end-May 2023, donor countries have committed **EUR 73.49 billion as financial assistance** (excluding military aid<sup>10</sup>), consisting of EUR 37.58 billion loans, EUR 30.97 billion of grants, EUR 4.01 billion of guarantees and EUR 920 million of [central bank swaps](#) (see Figure 2 for donors above EUR 1 billion). A more than half of this (EUR 40.11 billion) has already been disbursed. The **largest contributors** are the EU (EUR 27.32 billion), the US (EUR 24.26 billion), followed by Japan, the UK, Canada, Germany, the Netherlands and Norway (adding up to EUR 17.41 billion). While the EU'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

<sup>2</sup> [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

<sup>3</sup> [Ukraine reconstruction: Progress in coordination and use of Russian assets](#), By Alexandra Brzozowski and János Allenbach-Ammann, Euractiv, 8.2.2023

<sup>4</sup> 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, European Parliament, February 2023

<sup>5</sup> [Rebuilding Ukraine: A Historic Plan for Congress](#), Timothy Ash and Polina Kurdyavko, Center for European Policy Analysis, CEPA, 25 January 2023

<sup>6</sup> [Ukraine reconstruction may cost \\$1.1 trillion](#), Ukraine Invest, 27 June 2022

<sup>7</sup> [Ukraine Rapid Damage and Needs Assessment](#), World Bank, Government of Ukraine, European Commission, August 2022

<sup>8</sup> [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

<sup>9</sup> [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

<sup>10</sup> Military aid of EUR 102.73 billion has been committed, however, this briefing focuses on recovery and reconstruction, and does not take it into account.

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.<sup>11</sup>

In a [Council breakdown of figures](#) somewhat different from those of the Ukraine Support Tracker, adding up economic assistance (EUR 38.3 billion), military support (EUR 21.2 billion), civil protection (EUR 670 million) and humanitarian aid (EUR 2.6 billion), the EU and its Member States together have provided support worth EUR 62.8 billion up to 28 June 2023.

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 March<sup>12</sup> and May 2022<sup>13</sup>. Additional MFA loan packages of EUR 9 billion ('exceptional MFA', 18 May 2022<sup>14</sup>) and EUR 18 billion ('[MFA+ instrument](#)', 9 November 2022<sup>15</sup>) 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.<sup>16</sup> Until August 2023, EUR 19.2 billion have been disbursed.<sup>17</sup> 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 headroom<sup>18</sup>.

The **EU Civil Protection Mechanism** (a disaster prevention, preparedness, and response instrument) committed around EUR 647 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 685 million for humanitarian aid programmes to help civilians affected by the war in Ukraine.<sup>19</sup>

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 1.7 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 has established the EU for Ukraine Fund for donors reaching EUR 400 million by July 2023<sup>20</sup>. It was also accompanied by a EUR 100 million dedicated technical assistance package.

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.<sup>21</sup>

As part of the mid-term review of the MFF 2021-27, the Commission proposed the establishment of a Ukraine Facility<sup>22</sup> to provide support (as loans, grants and guarantees) of EUR 50 billion over 2024-27. Annual amounts

<sup>11</sup> [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyl Filipchuk, Yehor Kiyan, ICPS, 2023

<sup>12</sup> [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

<sup>13</sup> [EU disburses €600 million in Macro-Financial Assistance to Ukraine](#), Commission Press release 20 May 2022

<sup>14</sup> [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](#)

<sup>15</sup> [Commission proposes stable and predictable support package for Ukraine for 2023 of up to €18 billion](#), Commission Press Release, 9 November 2022.

<sup>16</sup> Overview of MFA provided for Ukraine can be found [here](#)

<sup>17</sup> [Factsheet: EU solidarity with Ukraine](#), European Commission, 22 June 2023

<sup>18</sup> As described in the [Commission's proposal for the MFA+ regulation](#), COM(2022) 597, 9.11.2022

<sup>19</sup> [European Civil Protection and Humanitarian Aid Operations: Ukraine](#), Factsheet, European Commission

<sup>20</sup> [EU Member States pledge over €400 million to the EIB's Fund supporting Ukraine](#), EIB press release, 13 July 2023

<sup>21</sup> [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, European Parliament, February 2023

<sup>22</sup> [Ukraine Recovery Conference: President von der Leyen and Executive Vice-President Dombrovskis showcase strong EU support with new €50 billion Ukraine Facility and €800 million in agreements to mobilise investment for Ukraine's recovery](#), Commission Press release, 21 June 2023

would be defined based on Ukraine's needs and situation. Loans will be financed by borrowing on financial markets backed by the EU budget headroom. Grants and guarantees will be financed by the EU annual budget, through the "Ukraine Reserve", a new instrument (resources thereof are over and above the MFF expenditure ceilings). The responsible committees in the EP are the Committee on Foreign Affairs (AFET) and on Budgets (BUDG)<sup>23</sup>, that held [a first exchange of views](#) on the proposal, in a joint meeting, the 6 July 2023.

**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 Ukraine<sup>24</sup> in addition to the USD 2.7 billion approved in 2022<sup>25</sup>. The World Bank has mobilised over USD 34.3 billion in financial support (grants and loans from its own programmes and donor countries) to Ukraine, with USD 23 billion of it disbursed by 29 June 2023<sup>26</sup>.

### 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.<sup>27</sup> CEPR<sup>28</sup>, the German Marshall Fund<sup>29</sup> and others<sup>30</sup> 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.<sup>31</sup> 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.<sup>32</sup>

#### Loans

Besides grants, preferential rate loans are also essential, as Ukraine's credit rating (in the speculative grade by all rating agencies<sup>33</sup>) 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 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.<sup>34</sup>

<sup>23</sup> See [legislative observatory](#) for procedural details.

<sup>24</sup> [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

<sup>25</sup> A detailed account of IMF and World Bank Group assistance to Ukraine is included in: [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, European Parliament, February 2023

<sup>26</sup> [World Bank Financing Support Mobilization to Ukraine since February 24, 2022](#), World Bank brief, 29 June 2023

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

<sup>28</sup> [A Blueprint for the Reconstruction of Ukraine](#), Torbjörn Becker et al., CEPR, Rapid Response Economics / 1, 7 April 2022

<sup>29</sup> [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

<sup>30</sup> [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

<sup>31</sup> [Financing and governing the recovery, reconstruction, and modernization of Ukraine](#), Dave Skidmore, David Wessel, and Elijah Asdourian, Brookings, November 3, 2022

<sup>32</sup> [Innovative Finance Can Help Rebuild Ukraine](#), Marcus Fedder, Project Syndicate, 19 August 2022

<sup>33</sup> [World Government Bonds](#)

<sup>34</sup> [Ukraine: European multilateral banks need guarantees to play key role in funding reconstruction](#), by Alvis Lennkh-Yunus, Julian Zimmermann and Alessandra Poli, Scope Ratings GmbH, 16 November 2022



### 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)<sup>35</sup> 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.<sup>36</sup> 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).

### War insurance

The Commission announced at the London donor conference of June 2023 its support for a War Insurance Pilot Scheme by the EBRD<sup>37</sup> in order to facilitate the access of private investors to Ukraine by guarantees protecting their investments and insure international shipping and trade against war-related risks<sup>38</sup>.

### 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 mandate<sup>39</sup>. 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"<sup>40</sup>. 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 projects<sup>41</sup>.

### Debt relief

Ukraine's general government debt stood at 47.59% of GDP in 2021<sup>42</sup>. However the country's domestic product is rapidly shrinking (by 29.2% in 2022, according to the World Bank<sup>43</sup>) and the debt is skyrocketing due to the war, thus the Ukrainian government forecasted debt to GDP ratio to reach 106% in 2023<sup>44</sup>. 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 institutions<sup>45</sup>. 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.<sup>46</sup>

<sup>35</sup> [7 Things You Need to Know About SDR Allocations](#), International Monetary Fund

<sup>36</sup> [Rebuilding Ukraine: A Historic Plan for Congress](#), Timothy Ash and Polina Kurdyavko, Center for European Policy Analysis, CEPA, 25 January 2023

<sup>37</sup> [Ukraine Recovery Conference: President von der Leyen and Executive Vice-President Dombrovskis showcase strong EU support with new €50 billion Ukraine Facility and €800 million in agreements to mobilise investment for Ukraine's recovery](#), Commission Press release, 21 June 2023

<sup>38</sup> A [war insurance](#) scheme is provided by the Multilateral Investment Guarantee Agency of the World Bank (MIGA)

<sup>39</sup> [Blended Finance Principles Guidance](#), DCD/DAC(2020)42/FINAL, OECD, 17 September 2020

<sup>40</sup> [Guidelines on EU Blending Operations](#), Tools and Methods Series Guidelines No 5, European Commission, November 2015

<sup>41</sup> [European Fund for Sustainable Development Plus \(EFSD+\)](#), Commission webpage

<sup>42</sup> [General Government Debt](#), IMF

<sup>43</sup> [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

<sup>44</sup> [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyl Filipchuk, Yehor Kiyan, ICPS, 2023

<sup>45</sup> [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, European Parliament, February 2023

<sup>46</sup> [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 Ukraine<sup>47</sup>.

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 efforts<sup>48</sup>. (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)<sup>49</sup>.

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 regulation<sup>50</sup>. **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 2023<sup>51</sup> 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. 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.<sup>52</sup>

<sup>47</sup> See for example: [Will the Ukraine Crisis Mean EU Aid Is Pulled from the Rest of the World?](#) Center for Global Development, by Mikaela Gavas 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

<sup>48</sup> [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

<sup>49</sup> See more on SEAR in [EU external action and crisis response: is the EU budget fit for purpose?](#) Alix Delasnerie, European Parliament, March 2023

<sup>50</sup> [Regulation \(EU\) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance \(IPA III\)](#)

<sup>51</sup> [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

<sup>52</sup> [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

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 support to be channelled through existing EU programmes.

#### External Assigned Revenue<sup>53</sup>

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, and a precursor for a future "Rebuild Ukraine Facility".<sup>54</sup>

Another example is the REACT-EU pre financing of EUR 3.5 billion introduced under CARE+<sup>55</sup> (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.<sup>56</sup>

#### 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 billion<sup>57</sup>, while the frozen assets of individuals (mostly Russian and Belorussian oligarchs) add up to about EUR 70 billion<sup>58</sup> worldwide and EUR 30 billion in the EU. 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.<sup>59</sup> 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 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 Ukraine<sup>60</sup>. 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.<sup>61</sup>

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, violation of sanctions, war crimes) needs to be demonstrated. The proposed Directive on asset recovery and confiscation<sup>62</sup> would better enable national authorities to identify, freeze, confiscate and manage these assets and would also extend the scope of criminal activities considered. In

<sup>53</sup> Article 21(5) of the [Financial Regulation](#).

<sup>54</sup> [Budget 2023, Section III - Commission](#), Official Journal of the European Union L 58/311, 23.2.2023

<sup>55</sup> 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

<sup>56</sup> [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

<sup>57</sup> [Ukraine reconstruction: Progress in coordination and use of Russian assets](#), By Alexandra Brzozowski and János Allenbach-Ammann, Euractiv, 8.2.2023

<sup>58</sup> [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyl Filipchuk, Yehor Kiyan, ICPS, 2023

<sup>59</sup> [Using sanctioned Russian assets to rebuild Ukraine will not be easy](#), Camino Mortera-Martinez and Zach Meyers, CER Bulletin, issue 145, August/September 2022

<sup>60</sup> [Options paper by the European Commission on the use of frozen assets to support Ukraine's reconstruction](#), 30 November 2022

<sup>61</sup> [Frozen Russian Assets and the Reconstruction of Ukraine: Legal Options](#), Anton Moiseienko, International Lawyers Project, 22 Jul 2022

<sup>62</sup> [Proposal for a directive of the European Parliament and of the Council on asset recovery and confiscation](#), COM(2022) 245

its [opinion](#), the Parliament's Committee on Budgets suggest that crimes of aggression or the facilitation of aggression against Ukrainians should be included, as well as circumvention of Union's restrictive measures.

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 proceeds (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.<sup>63</sup>

Some experts suggest that the amount retrievable from private assets may not be worth the lengthy, expensive and uncertain legal processes.<sup>64</sup> 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.<sup>65</sup> The funds could be used for war reparation based on a ruling of an international tribunal or perhaps the stipulations of a peace treaty.<sup>66</sup> 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 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. Ukraine Facility) could be either voluntary or mandatory.<sup>67</sup> 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'.<sup>68</sup>

#### Drawing revenue from frozen assets

The Commission is also investigating the possibility of temporary active management of the frozen/immobilised Russian assets, such as investing them 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 property<sup>69</sup>. Legally, the owner of the frozen assets is entitled to the principal of their assets after 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 of immobilised assets would not be contrary to international law in case the economic situation of the owner does not change as a consequence. 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.<sup>70</sup>

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."

<sup>63</sup> [Rebuilding Ukraine: Initiatives, Approaches, Recommendations](#), Vasyl Filipchuk, Yehor Kiyan, ICPS, 2023

<sup>64</sup> [Using sanctioned Russian assets to rebuild Ukraine will not be easy](#), Camino Mortera-Martinez and Zach Meyers, CER Bulletin, issue 145, August/September 2022

<sup>65</sup> [Frozen Russian Assets and the Reconstruction of Ukraine: Legal Options](#), Anton Moiseienko, International Lawyers Project, 22 Jul 2022

<sup>66</sup> [Using sanctioned Russian assets to rebuild Ukraine will not be easy](#), Camino Mortera-Martinez and Zach Meyers, CER Bulletin, issue 145, August/September 2022

<sup>67</sup> [Options paper by the European Commission on the use of frozen assets to support Ukraine's reconstruction](#), 30 November 2022

<sup>68</sup> [Opinion of the Committee on Budgets on the proposal for a directive on Asset recovery and confiscation](#), BUDG\_AD(2023)739737

<sup>69</sup> [Options paper by the European Commission on the use of frozen assets to support Ukraine's reconstruction](#), 30 November 2022

<sup>70</sup> [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)



After a discussion at the European Council meeting of 29-30 June 2023, the Commission promised to come forward with a proposal that “will focus prudently on the windfall profits from the immobilised assets of the Russian Central Bank”<sup>71</sup>, which could bring an estimated EUR 3 billion a year<sup>72</sup>.

### 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 sales<sup>73</sup>. 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.<sup>74</sup>

Philip Zelikow and Simon Johnson suggest<sup>75</sup> 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 reconstruction<sup>76</sup>.

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 2022<sup>77</sup>, 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 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 examples<sup>78</sup>, 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

<sup>71</sup> [President von der Leyen attends European Council](#), Commission news article, 30 June 2023

<sup>72</sup> [EU leaders start work on handling Russian frozen assets with caution](#), Aurélie Pugnet, EURACTIV, 1 July 2023

<sup>73</sup> [Putin's Matryoshka: A War Reparations Facility for Rebuilding Ukraine](#), Lev Breydo, Columbia Journal of Transnational Law, (Forthcoming) 8 August 2022

<sup>74</sup> [Confiscating Russian sovereign assets to fund Ukraine's reconstruction: Mission impossible?](#), Eamonn Noonan, Anastasiia Chernova, EPRS, October 2022

<sup>75</sup> [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

<sup>76</sup> [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

<sup>77</sup> [Ukraine Relief and Reconstruction](#), Commission communication, COM(2022) 233, 18 May 2022

<sup>78</sup> [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

countries, encouraging other countries to participate. The G7, together with Ukraine should then appoint a strong recovery coordinator, 'an American, with a global stature'.<sup>79</sup>

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)<sup>80</sup>. A steering committee is 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 role<sup>81</sup>. 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.<sup>82</sup>

According to the Commission's press release<sup>83</sup>, 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. The website of the Platform was accessible online as of June 2023, until then information could only be obtained from indirect sources or from the press. At the time of writing, the website does not provide substantially more detailed information than what had been available in the different press releases. 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 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.<sup>84</sup> The **third meeting** of the Platform took place 26 May 2023, where the Steering Committee discussed next steps in the process aiming at closing funding gap between international contributions and priority needs of Ukraine. Private sector dynamics and business environment in Ukraine were also discussed, and Ukraine presented an update on implementation of its reform agenda. The **fourth meeting** took place (in person) on the margins of the [Ukraine Recovery Conference 2023 in London](#) (21-22 June 2023).<sup>85</sup> Progress on Ukraine's 2023 early recovery priorities were discussed (energy infrastructure, civilian demining, critical and social infrastructure, housing, and support to the private sector), along with updates on the development and implementation of Ukraine's reform agenda.

<sup>79</sup> [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

<sup>80</sup> [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)

<sup>81</sup> 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](#)

<sup>82</sup> [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)

<sup>83</sup> [Ukraine: Multi-agency Donor Coordination Platform for Ukraine kick-starts work](#), Press release, European Commission, 26 January 2023

<sup>84</sup> [Multi-agency Donor Coordination Platform ramps up efforts to help Ukraine address priority recovery needs in 2023](#), Commission press release: 5 April 2023

<sup>85</sup> [Third Steering Committee of the Multi-agency Donor Coordination Platform for Ukraine focuses on supporting Ukraine to achieve its 2023 priority needs](#), Commission News article, 27 May 2023, and [Readout of Third Meeting of the Ukraine Donor Coordination Platform Steering Committee](#), 26 May 2023

The Steering Committee also identified immediate next steps to be taken in order to better ensure coordination among donors (details are not provided).<sup>86</sup> The [fifth meeting](#) was held the 25 July 2023, where the Government of Ukraine presented the updated priority needs for early recovery in 2023 and the remaining gaps per sector, the Commission presented to the Steering Committee its proposal for the Ukraine Facility for the years 2024–2027. The importance of the Ukraine Plan, a basis for tapping into the new Facility was highlighted (Ukraine has already started to prepare it). Platform Members were informed about conditionalities linked to support provided by IMF and through MFA+, and that Ukraine has met the conditionalities that were due at the time of the meeting. Moreover, two of the seven steps identified in the June European Council decision granting candidate status to Ukraine have also been met. The next meeting is to take place in September.<sup>87</sup>

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

#### 1. 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.

#### 2. 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.

#### 3. 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.

#### 4. 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.

#### 5. Multi-stakeholder engagement

The recovery process has to facilitate collaboration between national and international actors, including from the private sector, civil society, academia and local government.

#### 6. 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.

#### 7. 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.

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 Ukraine<sup>88</sup>
- Many argue<sup>89</sup> 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.

<sup>86</sup> [Readout of Fourth Meeting of the Ukraine Donor Coordination Platform Steering Committee](#), 21 June 2023

<sup>87</sup> [5th Steering Committee of the Donor Coordination Platform for Ukraine reports on donor support for 2023 early recovery needs and brings discussions on the Ukraine Plan](#), Commission News article, 26 July 2023, and [Readout of Fifth Meeting of the Ukraine Donor Coordination Platform Steering Committee](#), 27 July 2023

<sup>88</sup> [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

<sup>89</sup> 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 Romanynshyn, 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

- 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.<sup>90</sup>
- 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.<sup>91</sup> Strict conditionalities should be applied to aid, the first tranche being dependent on implementing rule of law and judicial reforms.<sup>92</sup> The auditing of reconstruction spending should be conducted by internationally recognised auditing/accounting firm(s).<sup>93</sup>

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 29 resolutions](#) since the outbreak of the war<sup>94</sup>. In its resolution of 2 February 2023 on the preparation of the EU-Ukraine Summit<sup>95</sup>, 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 repeatedly 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. In its resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community, Parliament reiterated its support for the EU's intention to play a leading role, in particular through the Platform, but has **clearly pointed to the need for the European Parliament to be involved as an observer**.

Up until the publication of the mid-term review of the 2021-27 MFF it was **also unclear what would 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. In the context of the mid-term review of the MFF, the Commission proposes the Ukraine Facility described above.

<sup>90</sup> [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

<sup>91</sup> [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

<sup>92</sup> [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

<sup>93</sup> [Rebuilding Ukraine: Principles and policies](#), edited by Yuriy Gorodnichenko Ilona Sologoub, Beatrice Weder di Mauro, CEPR, 7 Dec 2022

<sup>94</sup> The most recent [resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) is not yet indicated on the website at the time of writing

<sup>95</sup> [European Parliament resolution of 2 February 2023 on the preparation of the EU-Ukraine Summit](#), P9\_TA(2023)0029